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Sub : Principles of Economics [FST]

Mid Assignment.

Sec : H

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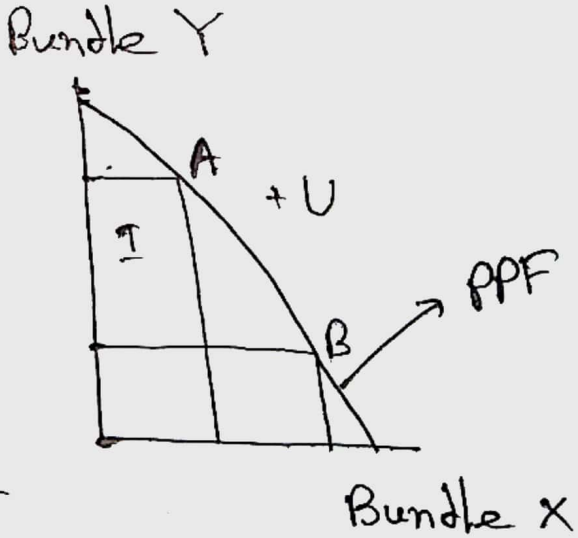
1. What is PPF? Draw a PPF and show the efficient, inefficient and unattainable point.

Ans : Production Possibilities frontier (PPF) shows the combination of goods and services these can be produced utilizing maximum amout of resources in a given period of time.

Efficient point : Any point on the PPF is efficient point. Because it utililizes maximum resources. Ex. point A and B.



Inefficient point : Any point below the PPF is inefficient point because it does not use all of the resources.

Unattainable point : Any point Beyond the PPF is unattainable point because there is not though necessary. Ex point (U)

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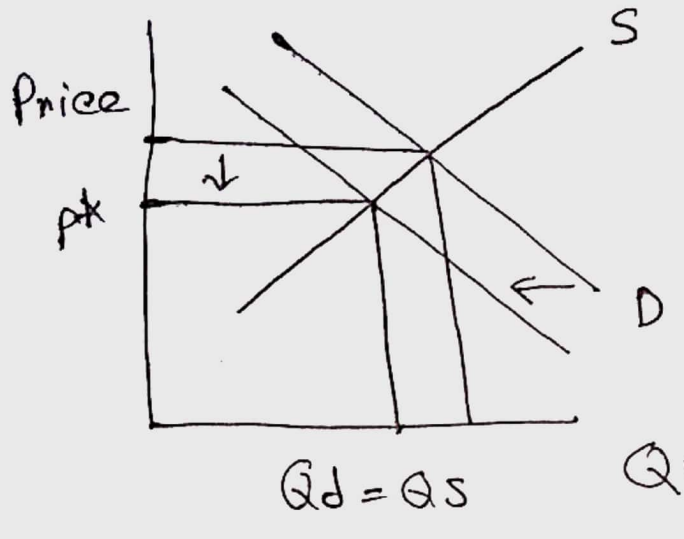
2. What will be the impact in price of car if price of oil is increased? Explain with diagram.

Ans:



i) If price for oil to car rises Demand for cars decrease.

ii) Hence price for car falls.

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3. Answer the following questions based on the following table. Explain the value of the price elasticity of demand.

Point	Price	Quantity Demand	Income
A	122	250	18500
B	199	150	11000

a) Calculate price elasticity of Demand when price moves from point A to Point B? Interpret the result.

b) Calculate price elasticity of Demand when price moves from point B to Point A? Interpret the result.

c) Calculate income elasticity of Demand when price moves from point B to Point A? Also explain the value you get.

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	Price	Quantity Demand
A	122	250
B	199	150

a) Elasticity Demand from A to B

$$PED = \frac{\Delta Qd}{\Delta P} \times \frac{P}{Qd}$$

$$= \frac{150 - 250}{199 - 122} \times \frac{122}{250}$$

$$= \frac{-100}{77} \times 0.488$$

$$= -0.63$$

b) Elasticity Demand from B to A

$$PED = \frac{250 - 150}{122 - 199} \times \frac{199}{150}$$

$$= -1.714$$

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Result analysis :

for (a) and (b) The value being negative shows that demand is inversely proportional to price. Since PED is less than 1, the demand for the good is inelastic.

c) Income elasticity of demand from point B to point A.

$$\therefore YED = \frac{\Delta Qd}{\Delta Y} \times \frac{Y}{Qd}$$

$$= \frac{250 - 150}{18500 - 11000} \times \frac{11000}{150}$$

$$= 0.98$$

Since the value is positive it shows that the good is a normal good. which means that as income rises the demand for the good rises.

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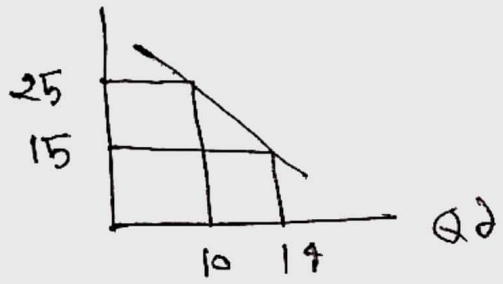
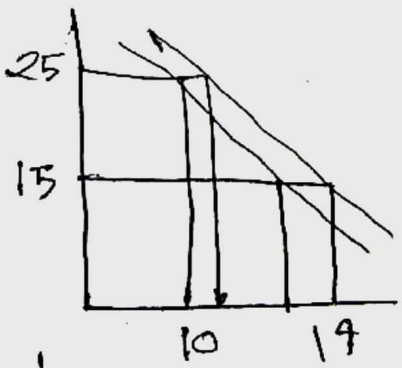
4. Distinguish between change in quantity demand and change in demand with diagram.

Ans: Change in quantity Demand:

Due to price change only there will be a shift in points on the demand curve, which is called change in quantity demand.



Change in Demand:



Previous income : 30k
Current income : 50k

Except price, if any others thing changes demand curve will be shifted.