

Programme Name : Generic Elective (BAH) Sem I

Course Name : Introductory Micro Economics

Semester Duration – July to November

QUESTION BANK

1. What is the difference between positive and normative statement? Give examples.
2. Explain how the binding price floor affects the market outcome.
3. How is the concept of efficiency related to the Production Possibility Frontier?
4. When my income was Rs 10000, I spent 40% of my income on food, when the income doubled I spent only 20% of my income on food. Calculate my income elasticity of demand for food?
5. It is observed that at the existing equilibrium demand is highly inelastic while the supply is highly elastic. If the buyers have to pay a tax of Rs T for each unit they buy, who will bear the high burden of tax, Buyer or the Seller? Explain with diagram
6. Does a change in consumers' tastes lead to a movement along the demand curve or a shift in the demand curve? Does a change in price lead to a movement along the demand curve or a shift in the demand curve?
7. You have the following information about good X and good Y:
Income elasticity of demand for good X is 3
Cross-price elasticity of demand for good X with respect to the price of good Y is 2.
Would an increase in income and a decrease in the price of good Y unambiguously decrease the demand for good X? Why or why not?
8. What is efficiency? Is it the only goal of economic policy makers?
9. Name two types of the market failure. Explain why each may cause market outcomes to be inefficient.
10. How do the elasticities of supply and demand affect the deadweight loss of a tax? Why do they have this effect?
11. Calculate the price elasticity of demand using the mid-point method from the following information.

Price	20	30
Quantity	90	60

- Would your result be different if instead you considered total revenue approach to calculate price elasticity of demand?
12. Draw a typical indifference curve for two goods that are
 - a) Perfect substitutes
 - b) Perfect compliments
 13. It was observed that when the price of coarse grain declined its quantity demanded also declined. Does this imply that coarse grain is necessarily an inferior good? Why or why not? Explain the concept of income and substitution effect.
 14. If the government wants to encourage people to save more, would a policy of higher interest rates always achieve this objective? Explain using the indifference curves.
 15. Why does the society face the trade – off between efficiency and equality?

16. What is natural monopoly? Explain with examples. Why a natural monopolist cannot be forced to charge a price equal to its marginal cost? Illustrate using diagrams.
17. Does a price ceiling always affect market outcome? If markets are usually a good way to organize economic activity, why does government put rent controls? How does it impact the tenants in short and long run?
18. Why did OPEC fail to keep prices of oil high in the long run whereas they had successfully increased the prices world-wide in the short run?
19. Let us assume that you are a benevolent social planner and you want to maximize the total welfare in the economy, critically compare the market outcome with any other allocation. Which one would you choose, why?
20. On an average a worker in Mojoland can produce one kg of chocolates in 20 minutes and one tanker in 60 minutes, while average worker in Adventureland can produce the two goods in 50 and 75 minutes respectively
 - a. Who has a comparative advantage in producing tanks?
 - b. Find the opportunity costs for the two goods for both the countries.
 - c. If both the countries specialize and trade, who should import tanks?
21. How does elasticity of supply and demand distribute the burden of taxation between buyers and sellers? Explain with the help of diagram. Who pays the luxury tax?
22. "Banning drugs will decrease drug related crime". Do you agree with the statement? Think like an economist and give an appropriate solution for the problem.
23. Let us assume that you are a benevolent social planner and you want to maximize the total welfare in the economy, critically compare the market outcome with any other allocation. Which one would you choose, why?
24. Consider the following events: Scientists reveal that consumption of apples reduces the risk of heart diseases, and at the same time, farmers find a new technique which makes production more productive. Illustrate and explain the change in equilibrium.
25. Explain the concept of Willingness to Pay and Willingness to Sell. Why would a benevolent social planner choose the market outcome as an efficient outcome?
26. Is trade always beneficial? Discuss in terms of redistribution of income within the country due to trade. What are the different arguments for restricting trade?
27. Illustrate and explain the substitution and income effect for an inferior commodity price of which has fallen.
28. Why is the Average Cost curve U shaped and why is it intersected by the Marginal Cost curve at the minimum point?
29. If a country is exporting a certain commodity will it benefit everyone within the country? Explain the redistribution with the help of a diagram.
30. How do wages affect labor supply, explain using income and substitution effect of the rise in income.
31. A) Does a competitive firm's price equal the minimum of average total cost in the short run, long run or both? Explain with diagrams.
 B) Under what condition does a firm exit?
 C) Under what condition does it shut down?