

ASSIGNMENT NO 1 NAME : HAFSA SAQIB

Q. No. 1: Differentiate between Microeconomics and Macroeconomics. Discuss the term individual economizing problem

ANS :Microeconomics and macroeconomics are two branches of economics that focus on different levels of analysis and provide insights into different aspects of the economy. Here's a differentiation between microeconomics and macroeconomics:

1 :Scope of Analysis:

- Microeconomics: Microeconomics deals with the behavior of individual economic agents such as households, firms, and consumers. It examines how individuals make economic decisions regarding resource allocation, production, consumption, and pricing.
- Macroeconomics: Macroeconomics, on the other hand, focuses on the economy as a whole. It analyzes aggregated economic variables such as national income, employment, inflation, and economic growth. Macroeconomics investigates the interrelationships among different sectors of the economy, such as government, household, and business sectors
- **2 Aggregation:**
- Microeconomics: Microeconomics studies economic phenomena at a micro-level, emphasizing individual economic units and their interactions. It examines how individual choices and behaviors influence market outcomes and resource allocation.
- Macroeconomics: Macroeconomics looks at the economy as a whole and examines aggregated variables across different sectors. It focuses on understanding the overall performance and behavior of the economy, including factors such as aggregate demand, aggregate supply, and overall price levels

Concerns:

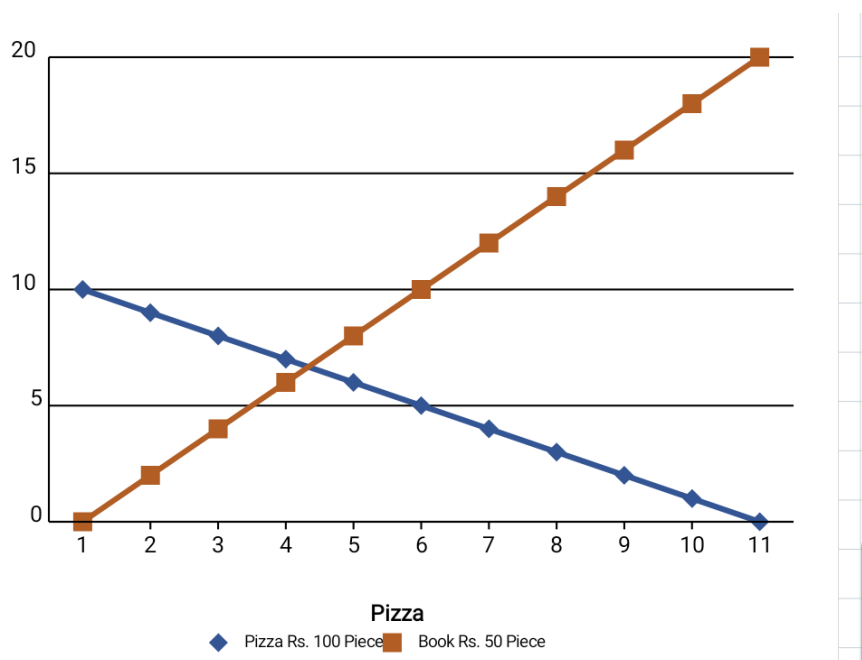
- Microeconomics: Microeconomics primarily concerns itself with issues such as price determination, market structures, consumer behavior, producer behavior, and the allocation of resources at the individual level. It helps understand the mechanics of supply and demand, market equilibrium, and factors influencing individual decision-making.
- Macroeconomics: Macroeconomics is concerned with broader economic issues such as economic growth, unemployment, inflation, fiscal and monetary policies, and the overall stability of the economy. It explores factors that affect the entire economy and how government policies can influence these factors.

Now, let's discuss the term "individual economizing problem." In economics, the individual economizing problem refers to the fundamental challenge faced by

individuals and households in allocating their limited resources to satisfy their unlimited wants and needs. This problem arises due to the scarcity of resources relative to the infinite desires of individuals. The individual economizing problem involves making choices and trade-offs in order to maximize utility or satisfaction given the constraints of limited income and available resources. Individuals must decide how to allocate their income between different goods and services, considering factors such as prices, personal preferences, and budget constraints. This decision-making process involves evaluating the costs and benefits of different choices and selecting the option that provides the greatest satisfaction or utility. For example, a person with a limited income must decide how much to spend on necessities like food, housing, and healthcare, as well as how much to allocate for discretionary items like entertainment or vacations. The individual must make trade-offs between competing goods and services based on their preferences.

Q. No. 2: The data is given regarding individual economizing problem where you have budget and the two different commodities are mention with price. You may have to plot on graph.

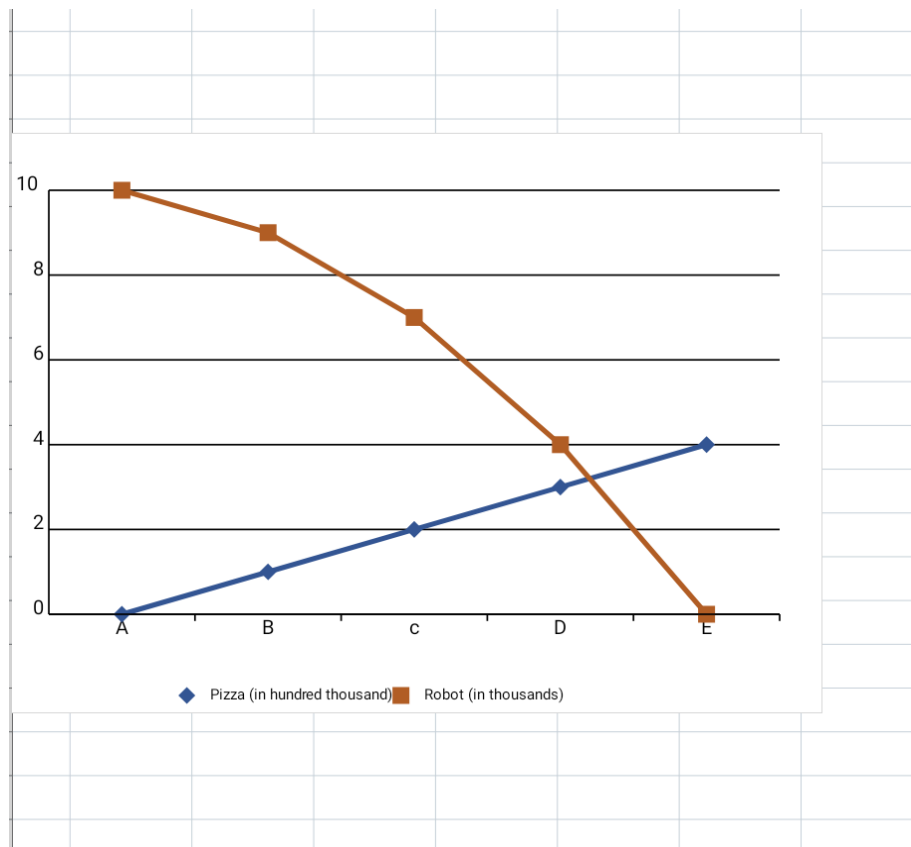
ANS:



Q. No. 3: Highlight the feature of society economizing problem and the data is given regarding society economizing problem, where you have budget and

the two different commodities are to be produce for the society. You may have to plot on graph.

ANS:



Q. No. 4: Discuss briefly the types of businesses and explain the circular flow system for the sake of businesses and households.

ANS:

There are various types of businesses, each with its own characteristics and purposes. Here are some common types of businesses:

1. Sole Proprietorship: A sole proprietorship is a business owned and operated by a single individual. The owner has complete control over the business and is personally liable for its debts.
2. Partnership: A partnership is a business structure in which two or more individuals share ownership and responsibilities. They contribute capital and share profits, losses, and decision-making.

3. Corporation: A corporation is a legal entity that exists separately from its owners. It is owned by shareholders, and its operations are managed by a board of directors. Corporations provide limited liability protection to their owners.

4. Limited Liability Company (LLC): An LLC is a hybrid business structure that combines the limited liability protection of a corporation with the flexibility and tax benefits of a partnership. Owners are called members and have limited personal liability for the company's debts.

5. Cooperative: A cooperative is an organization owned and operated by its members, who benefit from its products or services. It is based on the principles of democratic control and shared economic benefits.

Now let's discuss the circular flow system, which illustrates the flow of goods, services, and money between businesses and households in an economy:

1. Businesses produce goods and services to meet the needs and wants of households. They hire labor and other resources, such as raw materials and capital, to produce these goods and services.

2. Households provide labor and other resources to businesses in return for wages, salaries, rent, and profit.

3. Businesses sell the goods and services they produce to households, other businesses, or the government. They receive payments in the form of revenue for their products.

4. Households use their income to purchase goods and services from businesses. They also save money or invest it in businesses through financial markets.

5. Businesses use the revenue they receive from selling goods and services to pay for resources, such as labor, raw materials, and capital. They may also invest in research and development, new equipment, or expansion.

This circular flow of income, spending, and production continues as businesses and households interact with each other. It represents the interdependence between businesses and households in an economy, where businesses supply goods and services, and households provide the necessary resources and demand for those goods and services.

Q. No. 5: Define the term law of theory of demand with respect to the price and also discuss the determinants factors of demand with each determinant example.

ANS:

The law of demand is a fundamental concept in economics that describes the inverse relationship between the price of a good or service and the quantity demanded. According to the law of demand, all other factors being equal, as the price of a product increases, the quantity demanded decreases, and vice versa.

The determinants of demand are factors other than price that influence the quantity of a good or service that consumers are willing and able to purchase. These determinants can include:

1. **Income:** The income of consumers has a significant impact on their purchasing power and, thus, on their demand for goods and services. For normal goods, as income increases, demand also increases. For example, if a person's income rises, they may be more willing to buy a luxury car. On the other hand, for inferior goods, as income increases, demand decreases. For instance, if a person's income rises, they might switch from consuming low-quality instant noodles to higher-quality meals.
2. **Price of related goods:** The prices of related goods can affect the demand for a particular product. There are two types of related goods:
 - a. **Substitute goods:** These are goods that can be used as alternatives to each other. When the price of a substitute good decreases, the demand for the original product decreases. For example, if the price of coffee increases, people may switch to tea as a substitute, resulting in a decrease in the demand for coffee.
 - b. **Complementary goods:** These are goods that are typically used together. When the price of a complementary good decreases, the demand for the original product increases. For instance, if the price of ice cream decreases, the demand for cones (a complementary good) may increase.
3. **Taste and preferences:** Consumer preferences and tastes play a vital role in determining demand. If a product becomes more fashionable or desirable, its demand may increase, even if there are no changes in price or income. For

example, if a celebrity endorses a particular brand of sneakers, it may lead to an increase in demand for those sneakers.

4. Expectations of future price changes: Consumers often consider their expectations of future price changes when making purchasing decisions. If consumers anticipate that the price of a product will increase in the future, they may increase their current demand to avoid paying a higher price later. Conversely, if they expect a price decrease in the future, they may delay their purchase, leading to a decrease in current demand.

5. Population and demographics: The size and characteristics of the population can influence demand. For example, an increase in the number of young families may lead to a higher demand for baby products and childcare services.

6. Government policies: Government policies such as taxes, subsidies, regulations, and trade restrictions can impact the demand for certain goods and services. For instance, a tax on sugary drinks may decrease the demand for those beverages.

These determinants of demand interact with each other and affect the overall demand for a product or service. Understanding these factors helps economists and businesses analyze and predict changes in demand and adjust their strategies accordingly.

Q. No. 6: Define the term law of theory of supply with respect to the price and also discuss the determinants factors of supply with each determinant example.

ANS:

The law of supply is an economic principle that describes the relationship between the price of a good or service and the quantity of that good or service that suppliers are willing and able to produce and offer for sale in a given market, during a specific period. According to the law of supply, there is a positive correlation between price and quantity supplied, meaning that as the price of a product increases, the quantity supplied also increases, all else being equal. Conversely, as the price decreases, the quantity supplied decreases.

Determinants of supply refer to the various factors that influence the quantity of a good or service that producers are willing to supply at different prices. These determinants can include:

1. Resource prices: The prices of inputs used in the production process affect the cost of production and, consequently, the supply of a product. For example, if the price of labor increases, it may result in higher production costs and lower supply.

2. Technological advancements: Technological progress can increase production efficiency, reduce costs, and enhance the supply of goods and services. For instance, the adoption of automated machinery can streamline production processes, leading to increased supply.

3. Prices of related goods: The prices of goods that are substitutes or complements in production can impact supply. If the price of a substitute good increases, producers may switch to producing that good, reducing the supply of the original product. Conversely, if the price of a complementary good increases, it may lead to a decrease in the supply of the original product.

4. Producer expectations: Expectations about future changes in prices or market conditions can influence current supply. If producers anticipate a future increase in the price of a product, they may reduce the supply in the present and hold onto inventory to sell at a higher price later.

5. Number of sellers: The number of firms or producers in a market can affect supply. When new firms enter the market, the overall supply increases, while the exit of firms can decrease supply.

6. Government policies and regulations: Government interventions such as taxes, subsidies, and regulations can impact the cost of production and supply. For example, a subsidy provided to producers may lower their costs, leading to increased supply.

7. Natural conditions: Factors like weather conditions, natural disasters, and environmental factors can affect the supply of certain goods. For instance, adverse weather conditions may reduce crop yields and decrease the supply of agricultural products.

These determinants, along with others, interact to shape the supply curve, which illustrates the relationship between the price of a product and the quantity supplied by producers. By understanding these determinants, economists can analyze and predict changes in supply under different market conditions

Q. No. 7: Discuss the law of diminishing marginal utility. Also plot on the paper as graph to show the total utility and marginal utility curve with the given below data.

(1) Tacos Consumed Per Meal	(2) Total Utility, Utils	(3) Marginal Utility, Utils
0	0	10
1	10	8
2	18	6
3	24	4
4	28	2
5	30	0
6	30	0
7	28	-2

