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**Section ( B )**

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**Module Economics**

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**Answer 1 ( Part a )**

**Law of demand**

If all the other things are kept constant when the price increase the quantity demand decrease and vice versa.

**Demand curve slope downward**

Let imagine when the price was 5 the quantity demand was 100 as shown in point 0. When price increase to 10 the quantity demand falls to 80 as shown in point c. by joining all such points we get a downward sloping demand curve which shows the inverse relationship between price and quantity demand.

**Market demand curves derived from individual demand curve**

Simply add the quantities that each consumer buys at each price. The price on the vertical axis do not change, but the quantities on the horizontal axis are the sums of the consumers demand. Any factor that shifts any of the individual demand curves will shift the market demand curve.

**Answer 1 (Part b )**

**Determinants of demand**

* Tastes and preferences of the consumers
* Income of the people
* Changes in the price of the related goods
* The number of consumer in the market
* Changes in propensity to consumer
* Income distribution.

**Determinant changes**

When price changes quantity demanded will change. That is a movement along the same demand curve. A rise in a person’s income will lead to an increase in demand (shift demand curve to the right) a fall will lead to a decrease in demand for normal goods.

**Change in Demand**

Change in demand means in demand due to the factors of demand other than price.

* Change in demand has no price effect.
* Change in demand implies a change in demand curve.
* Change in demand will result in the shift in the demand curve.

**Change in Quantity Demanded**

Change in quantity demanded means change in the quantity purchased due to change in the price of a product.

* Change in quantity has price effect.
* Change in quantity does not change the demand curve.
* Change in quantity will result in movement of demand curve.

**Answer (2)**

1. **The total amount spent on goods and services**

Governments need to spend on goods and services to carry out a wide range of activities. Central and local governments as well as state-owned companies are also included in this matter. Most of that money is obtained through taxation. Public spending tends to have a huge impact on the economy. As governments purchase goods and services many companies produce profits, hire people and consume materials and inputs.

Indeed, higher public spending generally drives economic growth, at least in the short-term. In contrast, lower spending reduces economic growth. Other forms of spending are transfer payments to people like unemployment allowance and pensions. Economists often recommend that public spending should be limited to activities and functions that fit in the purest role of the government. These are actions that try to correct the so-called market failures and to provide public goods.

1. **The quantity of goods and services purchased if prices are sticky**

From an economic perspective, *price stickiness* represents inefficiency in the market. After all, when supply and demand change, the equilibrium price should change. Stickiness keeps that from happening, making it one of the most important and unresolved questions in macroeconomics. Reducing price stickiness benefits companies and consumers most when supply and demand are inelastic. As a result, understanding price stickiness is a crucial component of devising effective marketing strategies and making pricing decisions.

**(C)The price of goods and services if prices can adjust**

There is an inverse relationship between the supply and prices of goods and services when demand is unchanged. If there is an increase in supply for goods and services while demand remains the same, prices tend to fall to a lower equilibrium price and a higher equilibrium quantity of goods and services. If there is a decrease in supply of goods and services while demand remains the same, prices tend to rise to a higher equilibrium price and a lower quantity of goods and services.

The same inverse relationship holds for the demand for goods and services. However, when demand increases and supply remains the same, the higher demand leads to a higher equilibrium price and vice versa.

**Answer (3)**

**Five Principal of Economics**

**Principle 1: PEOPLE FACE TRADEOFFS:**

To get something one has to sacrifice other thing. For example, a country can spend its maximum resources for its defence but at the same time, it has to sacrifice the maximum spending for the country welfare. A society also faces tradeoffs between the Efficiency and Equity. The government generally tax rich people so that it can get the money from them and use it for the welfare of the poor people; this brings the equity but reduced the efficiency.

**Principles 2: THE COST OF SOMETHING IS WHAT YOU GIVE UP TO GET IT:**

Since we do tradeoffs, the people generally find out the cost and benefits that their action going to incur. For an action, one has to sacrifice something. For example: I have come here to do post-graduation but I had to sacrifice my server administrator job. A cost that given up to get something known as the opportunity cost. My opportunity cost is server administrator job, money, and time, which I had given up for the post-graduation.

**Principle 3: RATIONAL PEOPLE THINK AT THE MARGIN:**

One always does small changes in their plan of action to achieve maximum benefits from the process. This small change known as the marginal changes as it take place around edges. For example: A student who is enrolled for 1 year of education, if he/she add one more year to its study, they will be able to apply for permanent residency which incur as additional benefits but with this come the additional costs of college fees, time etc. Comparison of marginal benefits and marginal cost will be able to help you in taking the decision.

**Principle 4: PEOPLE RESPOND TO INCENTIVES:**

Behaviour of any person or firm changes according to the environmental variables like benefits or cost changes. For example: If the cost of the orange increases then the consumer will shift towards apples, as cost of orange is high.

**Principle 5: TRADE CAN MAKE EVERYONE BETTER OFF:**

Trade is taking place between the products that countries own not between the countries. Trading between parties makes goods cheaper. For example: Trade between country A and country B will help both the countries to get goods of one another and help them to expertise in what they are good at producing.