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Q1: (a) Discuss briefly the concept of opportunity cost in Economics.   
Ans : This concept of scarcity leads to the idea of opportunity cost. The opportunity cost of an

Action is what you must give up when you make that choice. Another way to say this is:

it is the value of the next best opportunity. Opportunity cost is a direct implication of

Scarcity. People have to choose between different alternatives when deciding how to

Spend their money and their time. Milton Friedman, who won the Nobel Prize for

Economics, is fond of saying "there is no such thing as a free lunch." What that means is

That in a world of scarcity, everything has an opportunity cost. There is always a trade-off

Involved in any decision you make.

The concept of opportunity cost is one of the most important ideas in economics.

Consider the question, “How much does it cost to go to college for a year?” We could

Add up the direct costs like tuition, books, school supplies, etc. These are examples of

Explicit costs, i.e., costs that require a money payment. However, these costs are small

Compared to the value of the time it takes to attend class, do homework, etc. The amount

That the student could have earned if she had worked rather than attended school is the

Implicit cost of attending college. Implicit costs are costs that do not require a money

Payment. The opportunity cost includes both explicit and implicit costs.

Explicit costs are costs that require a money payment.

Implicit costs are costs that do not require a money payment.

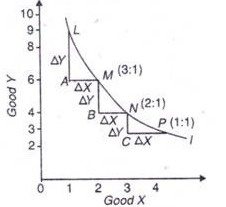
Opportunity cost includes both explicit and implicit costs.  
1. The opportunity cost for studying for exam is the leisure time that we forego while we study. The opportunity cost arises because individual faces choices. We have to sacrifice some activity to do the other. The next best activity that we sacrifice is the opportunity cost of whatever we do.  
2.   
  
  
  
  
  
  
B) Differentiate between positive and normative economics and identify each of the following statement as positive or normative.  
Ans: Positive economics describes the matter of the presence of a theory with proven facts and figures that needs to be taken into account before developing the theory. Whereas Normative economic is based on beliefs that are supported by valued judgement which is better for the nation's economic future as well as leads to social welfare.  
  
• There is an inverse relationship between wealth and demand for inferior goods. (Positive)

• Wealth tax should be implemented to reduce the disproportionate distribution of wealth. (Normative)

• Adopting protectionist policies results in shrinkage of the total global gross domestic product. (Normative)

• An increase in tax rate ultimately decreases total tax revenue. (Positive)

• Tariffs should be increased on imports from countries with poor human rights record. (Normative)

• Developing countries should adopt democracy as a system only when they population is educated and emancipated. (Positive)  
  
Q2: (a) Consider the following diagram and explain it in few points by stating the respective law.  
(b) What the concept of diminishing marginal rate of substitution is all about?   
Ans We use this measure referred to as the Marginal rate of substitution (MRS) to quantify the amount of one good that a consumer is willing to give up to obtain more of another. It measures the value that an individual places on 1 extra unit of a good in terms of another. This concept is mostly talked about in context of slope of indifference curves (locus of points where utility remains constant) in consumer theory.  
Let us take the case of two goods X and Y to understand this.  
MRS of good X for good Y is the maximum amount of Y that a person is willing to give up to obtain an additional unit of X.  
   
In the figure, MRS between good X and Y falls from 3 (between L and M) to 2 (between M and N) to 1 (between N and P). As we see, MRS of X for Y diminishes as we move down the indifference curve. This happens because as consumption of good X increases, the additional satisfaction that a consumer gets from more X will diminish. He’ll be willing to give up less and less of Y to obtain additional X.This phenomenon is referred to as diminishing MRS which says that as more and more of one good is consumed, people prefer to give up fewer and fewer units of the second one to get additional units of the first one.  
  
(c) Give any 2 characteristics of IC.   
Ans: 1. Indifference curves slop downward to the right  
this is an important and obvious feature of indifference curves. The sloping down indifference curve indicates that when the amount of one commodity in the combination is increased, the amount of the other commodity is reduced. This must be so if the level of satisfaction is to remain constant on the same indifference curve.  
2. Every indifference curve to the right represents a higher level of satisfaction  
every indifference curve to the right of the preceding curve indicates higher level of satisfaction and the curve to the left shows lesser satisfaction. This means that the indifference curve at a higher level from the axes shows greater satisfaction than an indifference curve at a lower level. This can be illustrated by having two indifference curves.  
  
Q3: (a) Differentiate between   
• Cardinal and ordinal approach  
Ans: Cardinal utility is the utility wherein the satisfaction derived by the consumers from the consumption of good or service can be measured numerically. Ordinal utility states that the satisfaction which a consumer derives from the consumption of product or service cannot be measured numerically.

• Marginal utility and total utility  
Ans: The aggregate of satisfaction that a consumer derives from the consumption of any particular goods or services whereas the amount of satisfaction derived by a consumer by additional consumption of a unit of any particular goods or services

• Cost and benefit  
In contrast, cost-effectiveness analysis compares two outcomes based on relative costs to see which of the two provides the best opportunities for success. The easy way to remember the difference is a benefit is a desired financial reward while effectiveness is the potential success of the program   
  
(b) What does the budget line show? In what cases it shift forward or backward?   
Ans: Budget line is a graphical representation of all possible combinations of two goods which can be purchased with given income and prices, such that the cost of each of these combinations is equal to the money income of the consumer. A budget line includes a consumer’s earnings and the rate of a commodity and these are the two important factors that shift the budget line. (Remaining)