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DEPTT. MEDIA STUDY AND MASS COMMUNICATION

SEMESTER: 2ND

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SUBJECT: ECONOMICS

Q1: (a)What effect will each of the following have on the demand for small automobiles such as the Mini Cooper and Smart car? (5 Marks)

a. Small automobiles become more fashionable.

b. The price of large automobiles rises (with the price of small autos remaining the same).

c. Income declines and small autos are an inferior good.

d. Consumers anticipate that the price of small autos will greatly come down in the near future.

e. The price of gasoline substantially drops.

(b) Explain the law of demand. Why does a demand curve slope downward? How is a market demand curve derived from individual demand curves? (5 Marks)

Q2: Define monetary policy and explain in detail the instruments of monetary policy? (10 Marks)

Q3: Explain the following. (10 Marks)

a) Deduction & induction method
b) Micro & Macroeconomics
c) Positive science & Normative science
d) Any of the four principles of economics

QUESTION NO.1 (ANS)

(A) Small auto mobile becomes more fashionable

Ans : When small auto mobiles such as mini-cooper and smart cars become more fashionable, Then their demand would be increase.

a **) The price of large mobile rises (with the price of small autos remaining same)**

Ans : When the price of large auto mobile rises then the demand for small automobiles would be increased.Price of small mobile is not large and its price remains same .

b **) Income declines and small auto are an inferior good**

Ans : The demand would decrease for small automobiles become income declines and small auto are an inferior goods.

C **) Consumers anticipate that the price of small autos will greatly come down in the near future**.

Ans : The demand would increase for small automobile because the price of small autos will greatly come down in the near future . **e) The price of gasoline substantially drops.**

Ans : The price of gasoline substantially drops then its demand would potentially decrease since gas is more affordable for larger vehicles.

QUESTION NO.1(B) ANS.

Law of Demand :

This law states that all the factors being constant , when the price of good is increased then its demand decreases, when the price of good decreases then its demand increases.

Causes of downward o sloping of demand curve .

- Law of diminishing the marginal utility .
- Substitutions effect .
- Income effect.
- New buyers.
- Old buyers .

Derivation of market demand curve from individual demand curve .

Ans : Market demand curve is the sum of all individual demand curves in a particular market

Lets we draw a Table to show that market demand is sum of individual demand .

Price	A's Demand	B's Demand	C's Demand	Market Demand
5	1	2	3	6
4	2	3	4	9
3	3	4	5	12
2	5	6	7	18

QUESTION . 2 (ANS)

Definition of Monetary Policy :

Monetary Policy is related to actions of central bank. If communicate to manage the money supply in the forms of credit, cash . checks and money .

Instrument of monetary policy

There are two types of monetary policy.

1:QUANTITATIVE

(a) Bank Rate:

Its means that the rate at which central bank lends the money to commercial banks by discounting bills of exchange.It is decided by central bank.

(b) Open Market Operations:

Open market operations are done when central bank deals with private banks of country.Central bank buy or sell securities from country’s private banks.

Whn securities are bought,it adds cash to the bank’s reservers.

(c) Variable Reserve Requirements:

In this instrument of monetary policy,two components are added.

i. The cash reserve rate (CRR)
   It is the portion of deposits with commercial banks that iit has to deposite to the RBI.

ii. The statutory liquidity ratio (SLR)
   It is the percent of total deposits that commercial banks have to keep in forms of cash reserves.

(d) Repo Rate:
It means central bank parks the funds to commercial banks for short time periods.

2:QUALITATIVE:

(a) Fixing Margin Requirements:
It is the part of a loan which a borrower has to raise in order to get finance for his purpose.

(b) Publicity:
Publicity is another method of selective credit control.Central
Bank finds that what is bad and what is good in the system,this is found by publicity.

(c) Credit Rationing:
Central bank fixes the amount which is granted.This method controls even bill discounting.This is helpful to lower the banks credit to unwanted sectors.

(d) Direction Action:
Through this method RBI take action against a bank.Central bank penalize a bank by changing some rate.

QUESTION NO.3

(a) DEDUCTION AND INDUCTION METHOD

DEDUCTION (GERONAL TO SPECIFIC)

The Abstract and Analytical methods are second and third methods of dedective method .

In this method, we have to start cartain conclusions through logical reasoning . Few indispensable fact and after making certain assumptions. It has Three important stages .

1) Observation .

2) Logical reasoning .

3) Inference and Testing by means of further observation .

Facts and fingares and economic laws are tasted and verified by hypothesis which is provides by dedective reasoning .

INDUCTION METHOD (SPECIFIC TO GERONAL)

1) Empirical method is an another name of inductive method

2) The inductive method derives experience and observation which is based of economic generalization.

3) In induction method , the collected data and observations are derired by economic phenomena and genaralizations.

b) MICRO AND MACRO ARE TWO BRANCHES OF ICONOMICES

MICRO

Micro means small and individuals

a) It deals with the small patrts of economics .

b) It is also called price theory .

) Maximum satisfaction or benefit is the major ojective of economic.

EXAMPLE

Microeconomic would study how a company could lower its price to increase its product Demand in the market.

MACRO

Macro means large and collection of individuals.

a) It deals with large parts of economics .

b) It is also called aggregiate theory .

c) Attaning full employement of resources is main objective of macro .

EXAMPLE

Macroeconomics would look at how an increuse or decrease in not imports would affect a nation,s capital account.

C) POSITIVE SCIENCE & NORMATIVE SEIENCE

POSITIVE SCIENCE :

Positive economics is the study of economic reality and why the

Economy operates as it does .

a) It is based purely on facts rather then opinions .

b) A positive or pure science analyses cause and effect relationship between variable but it does not puss value judgement .

NORMATIVE SCIENCE

Normative scince the deals with how would ought to be.

a) In this type of economics opinion or a normative statements.

b) Normative economics is concerned with welfare ptoposition.

D : 4 PRINCIPAL

PRINCEPALE #1 PEOPLE FACE TRADEOFFS

1) (There is no such thing as a free lunch) This is the first lesson about marketing decision.

- People are divided in societies living these people in socities

They face different kinds of trade off

- In the between of (Guns and Butter) there is a classic trade off
- The for protection if shores from gunes (Foreign aggression) we spend more national defences .
  To raising our standered of living at home (butter)
  We spend less goods .
- Efficiency and equity are two factors which are faced by trade off society.
- Efficiancy : It means to gatting more from the provided as scares resources.
- EQUINTY : It means , Those benefits which are gotted from
  Resoures are divided among the society,s members.

Principal : 2 The Coste Of Something Is What You Give Up To Get It.

a) Trade-offs is faced by many peoples, making decisions are necessary to compare costs and benefits of course of action .

b) For example : decision go to college is get education and to try a batter job. But there is a questions,
What is cost .... To give Answer of this question we will add up to many we spend on tutions , baying , books, room and board .

C : The first problem is that we add some those coste of going college which is not really related to it . If we quit school , we will need a place and food to sleep and eat , the costs of rent and food expenses by living our own in greater than by the cost of room and bound at our school .

PRINCIPLE #3 PEOPLE RESPOND TO INCENTIVES

- People make dicisions by comparing costs and benefits by changing the costs , There behavior also changes . that peole respond to incentives by increasing the price of apple, people will eat more pears and fewer apples.
- So market for apples. Will be crucial to understanding how the economy works.

PRINCIPALE 4 : GOVERNMENTS CAN SOMETIMES IMPORE MARKET OUTCOMES .

a) Economic activities are organized by markets .

1 : To promote officieney and the promote equity , There are the board for government to interence in the economy .

2 : The invisible hand is allowded resource offiently by leading markets . Sometimes – inrisible hand does not work for various reasons.

3 : A term market failure is used to describe situation in which market fails. This term is used by Economics .

4 : Due to externality , market fails , An enternality is impact of one persons actions of bystander on well-being pollutions is the classic example of externality .