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***Program: BBA***

***EXAM: microeconomics***

***Question no 1(a)***

***Answer::***

***Law of demand:***

The Law of Demand is, other things equal, as price falls the quantity demanded rises, and vice versa. As prices change because of a change in supply for a commodity, buyers will change the quantity they demand of that item. If the price drops, a larger quantity will be demanded. If the price rises, a lesser quantity will be demanded.

The demand curve slopes downward because of diminishing marginal utility, and the substitution and income effects. Because successive units of a good provide less additional utility than the previous units, buyers will only pay for these smaller amounts of utility if the price is lowered. When the price of a commodity decreases relative to that of substitutes, a buyer will substitute the now cheaper commodity for those whose prices have not changed. At the same time, the decreased price of the commodity under discussion will make the buyer wealthier in real terms. More can be bought of this commodity (as well as-of others whose prices have not changed). Thus, the substitution and income effects reinforce each other: More will be bought of a normal (or superior) commodity as its price decreases. On a graph with price on the vertical axis and quantity on the horizontal, this is shown as a demand curve sloping downward from left to right.

By adding the quantities demanded by all consumers at each of the various possible prices, it can get from the individual demand to market demand. In the graphical summing procedure, at each price we sum horizontally the individual quantities demanded to obtain the total quantity demanded at that price; then plot the price and the total quantity demanded as one point of the market demand curve. Thus the market demand curve is the horizontal summation of the individual demand curves of all consumers in the market

***End*** .

***Question no 1 (b)***

***Answer:***

The determinants of demand, as defined in the reading, are: consumers’ tastes (preferences), the number of buyers in the market, consumer incomes, the prices of related goods and consumer expectations. Additionally, it seems that the actual price of the good itself is a primary consideration but it effects the curve up and down rather than side to side. As a price increases the curve leads to movement up the curve and as it decreases it leads to movement down the curve.

When any of the determinants of demand change a change in the demand of the item will change. An increase in demand can be shown as a shift of the demand curve to the right and a decrease in demand will be shown as a shift in the curve to the left.

If there is increased demand from an increased market, increased desire for a good, higher competitor prices or the fear of a price increase the curve will shift to the right. If the reverse is true, the market is shrinking, the item is outdated, competitor prices are dropping or there is a predicted price reduction the demand will fall which will move the entire curve to the left.

***END***

***QUESTION NO 3***

***Answer::***

***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***: (Refer appendix (a)) 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.

***End***

***Question no 2***

***Answer::***

***TOTAL AMOUNT SPENT ON GOOD AND SERVICES***: the people who have high income so they will buy more and even more quantity of goods and services doesn’t matter how much the price is because they can afford the price so they are going to buy the good and services on large scale which will increase demand for good and services and the amount which has spent on goods and services they will not recovered completely because as we discussed about law of demand if demand is increasing for goods and services it will cause to reduce the price so this is the reason if the demand is increasing for goods and services it will bring downward the prices.

B.The quantity of goods and services if the prices are sticky:

The goods which as purchased it will be some difficult situation here suppose the products which has been purchased on high price before giving money to people by government so the product would not be as the same price after giving money to people now it would be purchasing on very low prices compare to before.

C.The prices of goods and services if prices can adjust:

The same situation again here if the demand is increasing it would lead to reduce the prices so here businesses. Should bring innovations and competitive goods and services to sell out the products and they should add more quality to their products to attract the consumer and collect higher prices compare to the competitors and simply here business can find out the power if the demand is increasing for o e commotion so the power of supplier is increasing they would sell the products on the prices which they would want.

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