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Course. Microeconomics

Assignment 1

**Answer # 1**

Change in the taste of consumer is one of the determinants of demand so the demand curve tends to shift either upwards or downward. If it increases demand it will be expressed by the upward shift of the entire demand curve, and if it decreases demand it will expressed by the downward shift of the entire demand curve.

Change in the price of the commodity while other things being constant will bring movement to demand curve either from higher point to lower point or from lower point to higher point along the same demand curve. If demand falls in response to rise in the price of a commodity while other thing remains constant it will be expressed by a movement from a lower point to higher point along the same demand curve, and it is called contraction of demand. If demand rises in response to fall in the price of a commodity while other things remains constant it will be expressed by a movement from a higher point to lower point along the same demand curve, and it is called extension in demand.

**Answer # 2**

Change in the prices of resources from which a company is producing something will lead the supply curve to shift either to the right side or left side ceteris paribus (Other determinants remains constant or unchanged). If the prices of resources falls a company will supply more of a commodity which leads to shift the supply curve to the right side. If the prices of a resources rises a company supplies decreases which leads to shift the supply curve to the left side.

Change in the producers’ technology will lead the supply curve to shift either to the right side or left side. Because improvement in the technology lower cost of production so the company can supply more, increase in supply will shift the supply curve to the right side, and if worsening of technology will increase the cost of production so the company will supply will decrease, decrease in supply will shift the supply curve to the left side.

**Answer # 3**

**Part A**

When the supply does not change with change in price, then supply for such a commodity is said to be perfectly inelastic.

In such a case, Es = 0 and the supply curve is a horizontal straight line parallel to the X-axis as shown in the above graph.

Quantity supplied remains same at 8000 units, whether the price is Rs. 40, Rs. 80, Rs.120, Rs. 160 or 200. As seen in the graph, quantity supplied remains the same with change in price. It must be noted that perfectly inelastic supply is an imaginary situation, because with decrease in the prices of resources, commodity supply is increased by the companies.

**Part B**

The equilibrium price is the price where the quantity demanded is equal to the quantity supplied. That quantity is known as the equilibrium quantity. As we can see in the graph the point at which the quantity demanded is equal to quantity supplied is Rs. 80, therefore, the equilibrium price is Rs. 80 and equilibrium quantity of tickets is 8000.

**Answer # 4**

1. A downward-sloping demand curve reflects

d. the law of demand.

2. What will happen in the rice market if buyers are expecting higher rice prices in the near future?

a. The demand for rice will increase.

3. Two goods are complements if a decrease in the price of one good

d. increases the demand for the other good.

4. A likely example of complementary goods for most people would be

c. hamburgers and French fries.

5. Economists in general

a. do not try to explain people’s tastes, but they do try to explain what happens when tastes change.