**IQRA NATIONAL UNIVERSITY**

**MID TERM**

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**CLASS:** BBA 2nd SEM

**SUBJECT:** Micro Economics

**DATE:** 15 April 2020

**Q1. Explain any of the five principles of economics in your own words?**

**Ans:** The five principals of economics are as below.

1. **PEOPLE RESPOND TO INCENTIVES:** People make mistake while comparing cost and benefit but it was what their behavior that changes the difference of cost and benefit. For example, if a buyer buys a bag of apples whenever he goes for shopping, but due to too much expenses and sudden increase in the cost of bag of apples a customer suddenly changes his idea of buying the bag of apples to bananas because it is cheaper than the apples. So, the reason the customer go for bananas is because it is low in cost and cheaper than the apples. At the same time the
2. **TRADE CAN MAKE EVERYONE BETTER OFF:** Trade now a days had become a major aspect of improvising the countries economy. As trade have a beneficial effect on countries, it helps them to have a supreme reign over other trading countries that are doing around the world. for example, if a country has a good exporting or trading system, they will have more and more demand around the world. Now japan and America are the biggest trader around the world where they distribute their product, like auto mobiles, electronic goods etc.

Now according to recent America has more trade of products around the world than china and japan, this is boosting the other countries on trying to increase their trade so that they can compete equally with the America. Now these countries cannot lose or either win in fact all of the countries trade can make everyone better off. They will strategize on how to make each other better in trading, manufacture good products and better services. So, these will boost up other countries and they will do the same to be better.

1. **A COUNTRY’S STANDARD OF LIVING DEPENDS ON ITS ABILITY TO PRODUCE GOODS AND SERVICE:** As we know better a country standard is meant a lot on how the people in the country are living. For example, a guy in Pakistan if earns 1000 dollar per month, then the guy in America is earning more than him, because the standard of living of the people is also more and elite and well maintained in Pakistan. So, a country standard of living is very essential on its ability on producing products, goods and services. The difference between the production of goods and services in America and the production of products in Pakistan is different because of the difference of countries living standard and economy. The services are good, the product that are produced are better in America, than the production and quality of product in Pakistan.
2. **PEOPLE FACES TRADE OFF:** By this principle we come to know that ‘to get one thing we usually have to give up something we like. Making decision requires trade off one goal against another. For example, how a parent spends their family income. They can buy food, clothes of family vacation or they can save there some of the family income for retirement or the children’s college education. When they choose to spend on extra dollar on one of the goods, they have one less dollar to spend on some other goods
3. **PRICE RISES WHEN GOVERNAMENT PRINT TOO MUCH MONEY:**

When too much money is floating in the economy there will be higher demand for goods and services. This will cause firms to increase their prices in the long run causing inflection. High inflection imposes various costs on society. Keeping inflation at low level is a goal of economic policy makers around the world. The question arises what cause inflection. In almost all cause of high or persist inflection the culprit turns out to be the same growth in the quantity of money. When the government creates large quantities of the nation’s money the value of money falls.

**Q2: Suppose that when everyone wakes up tomorrow, they discover that the government has given them an additional amount of money equal to the amount they already had. Explain what effect this doubling of the money supply will likely have on the following:**

1. **The total amount spent on goods and service:** when the government has given additional amount of money which is equal to the amount of money they already had, it will affect the services and the total amount of money that is spend will increase, substantially.
2. **The quantity of goods and services purchased are if price is sticky:** When the purchase will be made and if the price of the product is sticky and rigid it will not change, it will certainly increase the amount of the quantity and services and double the goods and services from before.
3. **The prices of goods and services if prices can adjust:** if the prices of the goods and services will be adjusted the demand of the customer will certainly increase, because the prices and services are adjusted according to the needs and wants of the customer. When the demand will increase the supply of the services and product will increase.

Q3: **(a) Explain the law of demand. Why does a demand curve slope downward? How is a market demand curve derived from individual demand curves?**

**LAW OF DEMAND:** Law of the demand is one of the most fundamental concepts in economics. It works with the [law of supply](https://www.investopedia.com/terms/l/lawofsupply.asp) to explain how market economies allocate resources and determine the prices of goods and services that we observe in everyday transactions. The law of demand states that quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded

**DEMAND CURVE SLOPE IS DOWNWARDS:** The demand curve is going downwards because of the purchasing power of the customer. If the purchasing power of the customer is increased then they will be much able to afford high priced product the demand will be stable, but when they have less money, less purchasing power and are not be able to buy good products and have better services, the demand curve will start going downwards because the customers are unable to buy the product so they will no longer demand for the product or the services. They will try to find an alternative route to have that product. According to initial equilibrium when the demand will decrease the supply of the product will also decrease as the slope curve of the demand will also go downward

**MARKET DEMAND CURVE DERVIDED FROM INDIVIDUAL DEMAND CURVE:** In order to derive a market demand curve, we can simply add the products and goods that each consumer buys at each price. The prices 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.

**(B)** **What are the determinants of demand? What happens to the demand curve when any of these determinants change? Distinguish between a change in demand and a change in the quantity demanded, noting the cause(s) of each. What are the determinants of demand?**

**DETERMINANTS OF DEMAND ARE AS FOLLOW:**

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1. **INCOME:** Change in income affects demand directly in most cases. Increase in income of buyers will allow them to purchase more thus demand will be increased and decrease in income will restrict their purchases thus demand will be decreased. However, for some goods demand usually varies inversely with change in income. For example, if the income of consumers who could only buy used cars increases such that they are now able to buy new ones, they will buy new cars instead of old. Thus, demand for old cars will drop with increase in income
2. **TASTE:** Consumer tastes is another important determinant of demand. If consumer tastes change such that they now favor a product more, they will demand that product more and if their taste changes unfavorably they will demand lower quantity of that product.
3. **NUMBER OF BUYERS:** Mostly, change in number of buyers directly affects the quantity of a product demanded at each price. When buyers increase, demand is likely to increase and if buyers decrease, it will probably decrease. For example, increase in number of students will increase demand for books
4. **EXPECTATION:** Change in consumer expectations about a product may affect the quantity they demand. For example, if consumers expect that future price of a product A will increase, they will demand more to save money. Conversely, if they expect that future price will decrease, they will decrease demand and wait to benefit from lower future price

**What happens to the demand curve when any of these determinants change?**

Basically when the determinants of demand are changing it is cause to bring a change in demand curve suppose the same situation if the purchasing power or income of consumer is increasing so the consumer is going to buy more commodities and the same if the income is decreasing it will lead the consumer to buy less quantity of the commodity and also when the price of a commodity or service is lower so the consumer can afford it and the demand for the commodity or service will high also on the other hand if the price of the same commodity is increasing to another it will cause to buy the same commodity these are some effects on demand curve that is occurring due to changes in determinants

**Distinguish between a change in demand and a change in the quantity demanded, nothing the cause(s) of each.**

The difference between change in demand quantity and change in demand:

Change in demand quantity means change in quantity that is purchased due to price suppose if the price is high so the consumer would buy less quantity of products. And change in demand is basically means when changes are coming in demand due to some reasons without price suppose security conditions when the security conditions are not good so consumer can’t buy goods or due to any other reason the demand is increasing or decreasing.

**THE END**