

First Year Economics

Chapter wise Important Short Questions

Chapter 1: Nature and Scope of Economics

1. Define Economics according to Adam Smith.

Ans: According to Adam Smith, *Economics is the study of wealth. He considered the Production, Consumption, Distribution and Exchange of wealth as the main subjects of economics.*

2. Define Economics according to Alfred Marshall.

Ans: According to Alfred Marshall, *Economics studies human behaviour, which is related to the ordinary business of life. It deals with that part of individual and collective human efforts which is closely related to the attainment or the use of material requisites of well-being. So, economics, on one hand, is the science of wealth, while on the other hand it is the study of an aspect of human life.*

3. Define Economics according to Prof. Robbins.

Ans: According to Prof. Robbins, *Economics is the science which studies human behaviour as a relationship between unlimited wants and scarce resources which have alternative uses.*

Example: A student has limited pocket money but has different wants, such as books, food, and entertainment.

4. What is meant by the economic problem?

Ans: The economic problem arises because human wants are unlimited, while resources to satisfy these wants are limited and have alternative uses.

Example: A person with Rs. 1,000 cannot buy everything he wants, so he must make a choice.

5. Write down any two merits of the definition presented by Alfred Marshall.

Ans: Two merits of Marshall's definition are:

1. It gives importance to human welfare.
2. It studies both wealth and human activities.

6. Write down any two merits of the definition presented by Prof. Robbins.

Ans: Two merits of Robbins' definition are:

1. It explains the problem of scarcity and choice.
2. It is applicable to both material and non-material wants.

7. What is meant by production of wealth?

Ans: Production of wealth means the creation or increase in the value of goods and services to satisfy human wants.

Example: A farmer produces wheat, which has economic value and satisfies human wants.

8. Define the deductive method.

Ans: The deductive method is a method of studying economics in which general principles are applied to particular situations.

Example: From the general law of demand, we can explain the demand for a particular product.

9. Define the inductive method.

Ans: The inductive method is a method in which specific facts and observations are used to develop general economic principles.

Example: Observing the buying behaviour of many consumers may help economists develop a general rule about demand.

10. Differentiate between positive and normative economics.

Ans: Positive economics deals with facts and explains what is. While Normative economics deals with opinions and explains what ought to be.

Example: "Pakistan's inflation rate has increased" is positive economics. "The government should reduce inflation" is normative economics.

11. Differentiate between microeconomics and macroeconomics.

Ans: Microeconomics studies individual units of the economy, such as a consumer, firm, or market. While, Macroeconomics studies the economy as a whole, such as national income, inflation, and unemployment.

12. What is meant by descriptive and applied economics?

Ans: Descriptive economics describes economic facts and activities as they actually occur. While applied economics applies economic theories and principles to solve practical economic problems.

Example: Studying unemployment is descriptive economics, while developing policies to reduce unemployment is applied economics.

13. Define economic laws and compare them with moral laws.

Ans: Economic laws explain the general relationship between economic variables, such as the law of demand. Economic laws are based on human behaviour and economic conditions, while moral laws are based on ethical values and principles.

14. How do you define wealth?

Ans: Wealth refers to all those economic goods and assets that have value and can satisfy human wants.

Example: Land, buildings, machinery, and money are forms of wealth.

15. Name the books of Adam Smith, Alfred Marshall, and Prof. Robbins and mention their years of publication.

Economist	Book	Year
Adam Smith	<i>The Wealth of Nations</i>	1776
Alfred Marshall	<i>Principles of Economics</i>	1890
Prof. Robbins	<i>An Essay on the Nature and Significance of Economic Science</i>	1932

Chapter 2: Consumer Behaviour and Its Analysis

1. What is meant by a consumer?

Ans: A consumer is a person who buys or uses goods and services to satisfy his or her wants.

Example: A student buying a notebook for study is a consumer.

2. What is meant by consumer behaviour?

Ans: Consumer behaviour refers to the way consumers make decisions about buying and using goods and services to satisfy their wants.

3. What are the ordinal and cardinal approaches?

Ans: The cardinal approach assumes that utility can be measured in numerical units.

The ordinal approach assumes that a consumer can only rank different combinations of goods according to preference.

Example: A consumer may say that bundle *A* is preferred to bundle *B* without assigning numerical utility to either bundle.

4. Define utility.

Ans: Utility is the satisfaction that a consumer obtains from the consumption of a good or service.

Example: Drinking water gives utility to a thirsty person.

5. What is the relationship between total utility and marginal utility?

Ans: Total utility is the total satisfaction obtained from consuming all units of a good, while marginal utility is the additional satisfaction obtained from consuming one more unit. When marginal utility is positive, total utility increases. When marginal utility becomes zero, total utility is maximum.

6. Define the law of diminishing marginal utility.

Ans: The law of diminishing marginal utility states that as a consumer consumes more units of a good, the additional satisfaction from each successive unit generally decreases.

Example: The first glass of water gives more satisfaction than the second or third glass.

7. Define an indifference curve.

Ans: An indifference curve shows different combinations of two goods that provide the consumer with the same level of satisfaction.

8. Define the law of equi-marginal utility.

Ans: The law of equi-marginal utility states that a consumer gets maximum satisfaction when the marginal utility per unit of money spent is equal for all goods.

Example: A consumer distributes his income between tea and biscuits so that the last rupee spent on each gives equal satisfaction.

9. What is the practical importance of the law of diminishing marginal utility?

Ans: The law is useful in explaining:

1. Consumer behaviour.
2. The basis of the law of demand.
3. The distribution of income.
4. The importance of variety in consumption.

10. Write any two assumptions of the law of diminishing marginal utility.

Ans: Two assumptions are:

1. The units of the good should be similar in size and quality.
2. The consumer's income, tastes, and preferences should remain unchanged.

11. Write any two limitations of the law of diminishing marginal utility.

Ans: Two limitations are:

1. It may not apply to rare or highly desirable goods.
2. It is difficult to measure utility accurately.

12. Define marginal utility.

Ans: Marginal utility is the additional satisfaction obtained from consuming one additional unit of a good.

Formula:

$$MU = \text{Change in TU} \div \text{Change in Quantity}$$

13. Write the formula of the law of diminishing marginal utility.

Ans: The law can be expressed as:

$$MU_1 > MU_2 > MU_3 > MU_4$$

This means that marginal utility decreases as the quantity consumed increases.

14. Define price.

Ans: Price is the amount of money paid by a consumer to obtain a good or service.

Example: If a student pays Rs. 100 for a notebook, Rs. 100 is its price.

15. Define the marginal rate of substitution.

Ans: The marginal rate of substitution is the amount of one good that a consumer is willing to give up to obtain one additional unit of another good while keeping the same level of satisfaction.

Example: A consumer may give up 2 apples to obtain 1 additional orange while remaining equally satisfied.

Chapter 3: Basic Tools of Mathematics and Statistics in Economics

1. Define a function.

Ans: A function shows the relationship between two or more variables, where the value of one variable depends on another variable.

Example:

$$Q = f(P)$$

This means quantity demanded depends on price.

2. What is the difference between a variable and a constant?

Ans: A variable is a quantity whose value can change.

A constant is a quantity whose value remains fixed.

Example: In $Y = 5X + 10$, X and Y are variables, while 5 and 10 are constants.

3. Differentiate between dependent and independent variables with examples.

Ans: An independent variable is the variable that causes or explains a change.

A dependent variable is the variable whose value changes because of the independent variable.

Example: In $Q = f(P)$, price is the independent variable and quantity demanded is the dependent variable.

4. Define continuous and discontinuous variables.

Ans: A continuous variable can take any value within a given range.

Example: Height can be 5.5 feet, 5.55 feet, or 5.555 feet.

A discontinuous variable takes separate and countable values.

Example: The number of students in a class can be 40 or 41, but not 40.5.

5. What is meant by a linear equation?

Ans: A linear equation is an equation in which the highest power of the variable is one.

Example: $Y = 5 + 2X$

6. What is meant by data?

Ans: Data means facts, figures, and information collected for the purpose of analysis and study.

Example: Population, income, prices, and unemployment figures are economic data.

7. Define parameter.

Ans: A parameter is a numerical value that describes a characteristic of a population or a statistical model.

Example: The average income of the entire population can be considered a population parameter.

8. What is meant by primary and secondary data?

Ans: Primary data is collected directly by the researcher for a specific purpose.

Secondary data has already been collected by another person or organization and is used by the researcher.

Example: A survey conducted by a student is primary data, while data taken from the Pakistan Economic Survey is secondary data.

9. Name three sources of primary and secondary data.

Ans: Sources of primary data:

1. Personal interviews
2. Questionnaires
3. Direct observation

Sources of secondary data:

1. Pakistan Economic Survey
2. Pakistan Bureau of Statistics
3. State Bank of Pakistan

10. What is tabulation?

Ans: Tabulation is the systematic presentation of data in rows and columns to make it easy to understand and analyze.

Chapter 4: Demand

1. Define demand.

Ans: Demand is the quantity of a good or service that a consumer is willing and able to buy at a particular price during a given period of time.

Example: A consumer may be willing and able to buy 5 kg of sugar at Rs. 180 per kg.

2. What is the difference between demand and quantity demanded?

Ans: Demand refers to the whole relationship between price and the quantities a consumer is willing and able to buy. While quantity demanded refers to a specific quantity demanded at a particular price.

3. What is the law of demand?

Ans: The law of demand states that other things remaining constant, quantity demanded increases when price falls and decreases when price rises. Thus, there is an inverse relationship between price and quantity demanded.

4. State any three assumptions of the law of demand.

Ans: Any three assumptions are:

1. Consumer's income remains constant.
2. Consumer's tastes and preferences remain unchanged.
3. Prices of related goods remain unchanged.

5. State any two limitations of the law of demand.

Ans: Two limitations are:

1. The law may not apply to Giffen goods.
2. It may not apply to some luxury or prestige goods.

6. What is meant by elasticity of demand?

Ans: Elasticity of demand measures the degree of change in quantity demanded due to a change in one of its determinants, especially price.

7. Write down the formula of income elasticity of demand.

The formula is:

$$E_y = \text{Percentage Change in Quantity Demanded} \div \text{Percentage Change in Income}$$

8. What is meant by a rise in demand?

Ans: A rise in demand means an increase in the quantity demanded at the same price due to factors other than the price of the good.

Example: An increase in consumer income may increase the demand for cars.

9. What is meant by point and arc elasticity of demand?

Ans: Point elasticity measures elasticity at a specific point on a demand curve.

Arc elasticity measures elasticity between two points on a demand curve.

10. Define income elasticity of demand.

Ans: Income elasticity of demand measures the change in quantity demanded caused by a change in consumer income.

Formula:

$E_y = \text{Percentage Change in Quantity Demanded} \div \text{Percentage Change in Income}$

11. Differentiate between substitute and complementary goods.

Ans: Substitute goods are goods that can be used in place of each other.

Example: Tea and coffee.

Complementary goods are goods that are used together.

Example: Cars and petrol.

12. What are the factors affecting demand?

Ans: The main factors affecting demand are:

1. Price of the good
2. Consumer income
3. Tastes and preferences
4. Prices of related goods
5. Size of population
6. Expectations about future prices

13. What is meant by extension and contraction of demand?

Ans: Extension of demand means an increase in quantity demanded due to a fall in price, while contraction of demand means a decrease in quantity demanded due to a rise in price.

14. What is meant by rise and fall in demand?

Ans: A rise in demand means an increase in demand due to factors other than price. While a fall in demand means a decrease in demand due to factors other than price.

Example: An increase in income can cause a rise in demand for normal goods.

15. Write the mathematical equation of demand.

Ans: The mathematical equation of demand can be written as:

$$Q_d = a - bP$$

Where:

Q_d = Quantity demanded

P = Price

a = Constants

16. What is meant by a demand schedule?

Ans: A demand schedule is a table showing different quantities of a good demanded at different prices during a given period.

17. What is meant by individual demand?

Ans: Individual demand is the quantity of a good that a particular consumer is willing and able to buy at different prices during a given period.

18. Define market demand.

Ans: Market demand is the total quantity of a good demanded by all consumers in a market at different prices during a given period.

19. What is meant by movement along a demand curve?

Ans: Movement along a demand curve occurs due to a change in the price of the good, while other factors remain constant.

Ans: A fall in price causes extension of demand, while a rise in price causes contraction of demand.

20. Define cross elasticity of demand.

Ans: Cross elasticity of demand measures the change in demand for one good due to a change in the price of another related good.

Example: A rise in the price of coffee may increase the demand for tea.

Chapter 5: Supply

1. Define supply.

Ans: Supply is the quantity of a good that a producer is willing and able to offer for sale at a particular price during a given period.

2. Define the law of supply.

Ans: The law of supply states that other things remaining constant, quantity supplied increases when price rises and decreases when price falls. Thus, there is a direct relationship between price and quantity supplied.

3. What are the market period, short period, and long period supply?

Ans:

- ❖ *Market period:* A period in which supply cannot be increased significantly because there is not enough time to change production.
- ❖ *Short period:* A period in which some factors of production can be changed to increase supply.
- ❖ *Long period:* A period long enough for producers to change all factors of production and fully adjust supply.

4. Define the market supply curve.

Ans: The market supply curve shows the total quantity of a good supplied by all producers at different prices during a given period.

5. What are the factors affecting quantity supplied?

Ans: The main factors are:

1. Price of the good
2. Cost of production
3. Technology
4. Prices of related goods
5. Number of producers
6. Government taxes and subsidies

6. Write the equation of supply.

Ans: The mathematical equation of supply can be written as:

$$Q_s = a + bP$$

Where:

Q_s = Quantity supplied

P = Price

a = Constants

7. What is the practical importance of supply?

Ans: The study of supply helps producers to:

1. Decide the level of production.
2. Estimate the effect of price changes.
3. Make production and business decisions.

8. Differentiate between supply and stock.

Ans: Stock is the total quantity of a good available with a producer. While supply is the quantity of that stock which the producer is willing and able to sell at a particular price.

9. Write the formula for calculating elasticity of supply.

Ans: The formula is:

Elasticity of Supply = Percentage Change in Quantity Supplied ÷ Percentage Change in Price

10. Name any two assumptions and limitations of the law of supply.

Ans: Two assumptions:

1. Cost of production remains constant.

2. Technology remains unchanged.

Two limitations:

1. The law may not apply to perishable goods.
2. It may not apply to rare goods or goods with a fixed supply.

Chapter 6: Market Equilibrium

1. How can market equilibrium be achieved through demand and supply forces?

Ans: Market equilibrium is achieved when quantity demanded becomes equal to quantity supplied at a particular price. At this point, there is no tendency for the price to change.

2. What is a floor price?

Ans: A floor price is the minimum price fixed by the government for a good or service below which it cannot legally be sold.

Example: The government may set a minimum support price for certain agricultural products.

3. What is a ceiling price?

Ans: A ceiling price is the maximum price fixed by the government for a good or service above which it cannot legally be sold.

Example: The government may set a maximum price for essential food items.

4. What is market period price?

Ans: Market period price is the price determined by the forces of demand and supply during a very short period when the supply of a good cannot be changed.

5. What is reserve price?

Ans: Reserve price is the minimum price at which a seller is willing to sell a good or service.

Example: In an auction, a seller may set Rs. 10,000 as the minimum acceptable price.

6. What is the impact on equilibrium price and equilibrium quantity if supply changes while demand remains unchanged?

Ans: If supply increases, equilibrium price falls and equilibrium quantity increases.

If supply decreases, equilibrium price rises and equilibrium quantity decreases.

7. What is meant by market equilibrium?

Ans: Market equilibrium is a situation in which quantity demanded is equal to quantity supplied at a particular price. The price at this point is called the equilibrium price.

8. What is meant by a market?

Ans: A market is a place or system where buyers and sellers interact to exchange goods and services.

Example: A vegetable market is a place where buyers and sellers exchange vegetables.

9. Why is the demand curve negatively sloped?

Ans: The demand curve is negatively sloped because there is an inverse relationship between price and quantity demanded. When price falls, quantity demanded increases, and vice versa.

10. Why is the supply curve positively sloped?

Ans: The supply curve is positively sloped because there is a direct relationship between price and quantity supplied. When price rises, producers are generally willing to supply more, and when price falls, they supply less.

Chapter 7: Theory of Production

1. What is meant by production?

Ans: Production is the process of creating goods and services or increasing their usefulness to satisfy human wants.

Example: A farmer produces wheat, while a teacher provides educational services.

2. Define factors of production.

Ans: Factors of production are the resources used to produce goods and services. The four factors are land, labour, capital, and organization or entrepreneur.

3. Define land.

Ans: In economics, land means all natural resources used in production, such as soil, forests, rivers, minerals, and natural resources.

4. Define labour.

Ans: Labour means the physical or mental effort made by people in the production of goods and services.

Example: The work of a teacher, farmer, or factory worker is labour.

5. Define capital.

Ans: Capital refers to man-made resources used to produce goods and services, such as machinery, tools, buildings, and equipment.

6. Define organization or entrepreneur.

Ans: An entrepreneur is a person who organizes the factors of production, makes business decisions, bears risks, and manages the production process.

Example: A person who establishes and manages a factory is an entrepreneur.

7. Name any two characteristics of land.

Ans: Two characteristics of land are:

1. Its supply is fixed.
2. It is a natural resource.

8. Name any two factors influencing the productivity of land.

Ans: Two factors are:

1. Fertility of soil
2. Availability of irrigation

9. Name any two factors influencing the productivity of labour.

Ans: Two factors are:

1. Education and training
2. Health and physical fitness

10. Define the Malthusian theory of population.

Ans: According to Malthusian theory, population tends to grow faster than food production. If population growth is not controlled, it can lead to poverty and shortage of food.

11. Name the types of capital.

Ans: The main types of capital are:

1. Fixed capital
2. Circulating capital
3. Real capital
4. Financial capital

12. Name any two factors influencing the productivity of capital.

Ans: Two factors are:

1. Quality of machinery and equipment
2. Level of technology

13. What is meant by capital formation?

Ans: Capital formation means the increase in the stock of capital goods through saving and investment.

Example: Establishing a new factory or purchasing new machinery adds to capital formation.

14. What is the role of an organization or entrepreneur in the production process?

Ans: The entrepreneur:

1. Organizes factors of production.
2. Makes production and business decisions.
3. Bears business risks.
4. Introduces new ideas and methods.

15. Name the types of business organizations.

Ans: The main types are:

1. Sole proprietorship
2. Partnership
3. Joint stock company
4. Cooperative society
5. State enterprise

16. Define a joint stock company.

Ans: A joint stock company is a business organization in which capital is divided into shares owned by shareholders.

Example: A company such as a bank or manufacturing company may be organized as a joint stock company.

17. What is meant by state enterprises?

Ans: State enterprises are business organizations owned and controlled by the government to provide goods or services to the public.

Example: Pakistan Railways is a state-owned enterprise.

18. Name any two factors influencing the productivity of an organization or entrepreneur.

Ans: Two factors are:

1. Managerial ability
2. Knowledge and experience

19. What is meant by partnership in business?

Ans: Partnership is a form of business organization in which two or more persons agree to run a business and share its profits and losses.

20. Name any three roles of an organization or entrepreneur in innovation.

Ans: An entrepreneur plays the following roles:

1. Introduces new products.

2. Uses new production methods.
3. Introduces new markets or business ideas.

21. Define innovation.

Ans: Innovation means the introduction of a new or improved product, production method, or business idea.

Example: Introducing a new mobile payment system is an innovation.

22. What is the difference between invention and innovation?

Ans: Invention means creating something new for the first time. While innovation means applying a new or improved idea in practical use.

Example: Creating a new technology is an invention, while successfully using it in a product is innovation.

23. Name the four factors of production with their rewards.

Ans:

Factor	Reward
Land	Rent
Labour	Wages
Capital	Interest
Organization/Entrepreneur	Profit

Chapter 8: Scale of Production and Laws of Returns

1. What is meant by scale of production?

Ans: Scale of production refers to the size or level of production of a firm, based on the amount of resources and factors of production it uses.

2. What is the difference between a firm and an industry?

Ans: A firm is an individual business unit that produces goods or services. While an industry consists of all firms producing the same or similar goods.

Example: One textile factory is a firm, while all textile factories together form the textile industry.

3. Define the law of variable proportions.

Ans: The law of variable proportions states that when more units of a variable factor are added to fixed factors, total production first increases at an increasing rate, then at a decreasing rate, and may eventually decline.

4. What is meant by scale of production?

Ans: Scale of production refers to the size of production of a firm, such as small scale, medium scale, or large-scale production.

5. Define the law of diminishing returns to scale.

Ans: The law of diminishing returns to scale states that when all factors of production are increased in the same proportion, output increases by a smaller proportion.

6. Define the law of constant returns to scale.

Ans: The law of constant returns to scale states that when all factors of production are increased in the same proportion, output also increases in the same proportion.

7. Define the law of increasing returns to scale.

Ans: The law of increasing returns to scale states that when all factors of production are increased in the same proportion, output increases by a greater proportion.

8. Name a few factors affecting the scale of production.

Ans: Important factors include:

1. Availability of capital
2. Size of market
3. Availability of raw materials
4. Technology
5. Managerial ability

9. Differentiate between internal and external economies of scale.

Ans: Internal economies are advantages that arise within a firm when it increases its scale of production. While external economies are advantages that arise due to the growth of the whole industry.

Example: A firm's use of specialized machinery is an internal economy, while better infrastructure developed for an industrial area is an external economy.

10. What is meant by large scale production? Write any three of its merits.

Ans: Large scale production means producing goods on a large scale by using a large amount of capital, labour, and machinery.

Ans: Three merits are:

1. Lower cost per unit.
2. Greater use of modern technology.
3. Greater production and specialization.

11. Write down any three demerits of large-scale production.

Ans: Three demerits are:

1. Difficult management.

2. High risk of losses.
3. Less personal contact with workers and customers.

12. What is meant by small scale production? Write any three of its merits.

Ans: Small scale production means production carried out with relatively small amounts of capital, labour, and machinery.

Three merits are:

1. Easy management.
2. Requires less capital.
3. Quick decision making.

13. Write down any three demerits of small-scale production.

Ans: Three demerits are:

1. Higher cost per unit.
2. Limited use of modern technology.
3. Limited financial resources.

14. Define marginal product.

Ans: Marginal product is the additional output produced by using one additional unit of a variable factor, while other factors remain constant.

Formula:

$$\text{MP} = \text{Change in Total Product} \div \text{Change in Variable Factor}$$

15. Define total product.

Ans: Total product is the total quantity of output produced by a firm using a given amount of factors of production.

16. What is average product?

Ans: Average product is the output produced per unit of a variable factor.

Formula:

$$\text{AP} = \text{Total Product} \div \text{Units of Variable Factor}$$

Chapter 9: Cost of Production

1. What is meant by cost of production?

Ans: Cost of production is the total expenditure incurred by a producer in producing goods and services.

Example: The cost of raw materials, wages, electricity, and rent is part of the cost of production.

2. Differentiate between short run and long run in the production process.

Ans: Short run is a period in which at least one factor of production remains fixed. While long run is a period in which all factors of production can be changed.

3. Define total cost.

Ans: Total cost is the total expenditure incurred on producing a given quantity of output.

Formula:

$$TC = TFC + TVC$$

4. Define fixed cost.

Ans: Fixed cost is the cost that does not change with the level of output in the short run.

Example: Rent of a factory.

5. Define variable cost.

Ans: Variable cost is the cost that changes with the level of output.

Example: Cost of raw materials.

6. Define average cost.

Ans: Average cost is the cost per unit of output.

Formula:

$$AC = \text{Total Cost} \div \text{Total Output}$$

7. Define average fixed cost.

Ans: Average fixed cost is the fixed cost per unit of output.

Formula:

$$AFC = \text{Total Fixed Cost} \div \text{Total Output}$$

8. Define average variable cost.

Ans: Average variable cost is the variable cost per unit of output.

Formula:

$$AVC = \text{Total Variable Cost} \div \text{Total Output}$$

9. Define marginal cost.

Ans: Marginal cost is the additional cost of producing one additional unit of output.

Formula:

$$MC = \text{Change in Total Cost} \div \text{Change in Output}$$

10. Differentiate between implicit and explicit costs with examples.

Ans:

- ❖ Explicit cost is an actual monetary payment made by a firm.

Example: Wages paid to workers.

- ❖ Implicit cost is the cost of using the owner's own resources without making a direct monetary payment.

Example: Rent that the owner could have earned by renting out his own building.

11. Define opportunity cost.

Ans: Opportunity cost is the value of the next best alternative that is sacrificed when a choice is made.

Example: If a student chooses to study instead of working for Rs. 1,000, the Rs. 1,000 is the opportunity cost of studying.

12. Give two examples of fixed cost.

Ans: Two examples are:

1. Factory rent
2. Insurance charges

13. Give two examples of variable cost.

Ans: Two examples are:

1. Cost of raw materials
2. Wages paid to daily workers

Chapter 10: Revenue Analysis

1. Define total revenue.

Ans: Total revenue is the total income received by a firm from selling its output.

Formula:

$$TR = \text{Price} \times \text{Quantity Sold}$$

2. Define average revenue.

Ans: Average revenue is the revenue earned by a firm per unit of output sold.

Formula:

$$AR = \text{Total Revenue} \div \text{Quantity Sold}$$

3. Define marginal revenue.

Ans: Marginal revenue is the additional revenue earned from selling one additional unit of output.

Formula:

$MR = \text{Change in Total Revenue} \div \text{Change in Quantity Sold}$

4. Define perfect competition.

Ans: Perfect competition is a market structure in which there are many buyers and sellers selling identical products, and no individual firm can influence the market price.

Example: Agricultural markets are often used as an example of a market close to perfect competition.

5. Define monopoly.

Ans: Monopoly is a market structure in which there is only one major seller of a product or service and there are no close substitutes.

Example: A single electricity provider in a particular market can be considered a monopoly.

6. What is the trend of average revenue in monopoly?

Ans: Under monopoly, the average revenue curve slopes downward from left to right because the monopolist must generally reduce price to sell more units.

7. What is the trend of average revenue in perfect competition?

Ans: Under perfect competition, average revenue remains constant at the market price. Therefore, the average revenue curve is a horizontal straight line.

8. What is meant by firm equilibrium?

Ans: Firm equilibrium is the position where a firm earns maximum profit and has no tendency to change its level of output.

9. What are the conditions of firm equilibrium?

Ans: The two main conditions are:

1. $MR = MC$ (Necessary).
2. MC must be rising at the point where it cuts MR (Sufficient).

10. Name the assumptions or characteristics of perfect competition.

Ans: Important characteristics are:

1. Large number of buyers and sellers.
2. Homogeneous products.
3. Free entry and exit of firms.
4. Perfect knowledge of market conditions.
5. Firms are price takers.

Chapter 11: Market

1. Define market.

Ans: A market is a place or system where buyers and sellers interact to buy and sell goods and services.

Example: A vegetable market is a market where buyers and sellers exchange vegetables.

2. What is the importance of a market?

Ans: A market is important because it:

1. Facilitates buying and selling.
2. Helps determine prices.
3. Connects buyers with sellers.
4. Promotes the distribution of goods and services.

3. Name the types of market.

Ans: Markets can be classified into:

1. Perfect competition
2. Monopoly
3. Monopolistic competition
4. Oligopoly

4. What is normal price?

Ans: Normal price is the long run price at which the forces of demand and supply are in equilibrium.

5. Differentiate between perishable and durable goods.

Ans:

- ❖ Perishable goods are goods that lose their quality or value quickly.

Example: Milk, fruits, and vegetables.

- ❖ Durable goods are goods that can be used for a long period.

Example: Furniture, refrigerators, and cars.

6. What is meant by stock exchange market?

Ans: A stock exchange market is an organized market where shares, securities, and other financial assets are bought and sold.

Example: Pakistan Stock Exchange is the main stock exchange of Pakistan.

7. Define imperfect competition.

Ans: Imperfect competition is a market structure in which individual firms have some control over the price of their products because of product differences, limited competition, or other market conditions.

8. What is a perfect competition market?

Ans: A perfect competition market is a market in which there are many buyers and sellers, products are identical, and individual firms cannot influence the market price.

9. What is meant by monopolistic competition?

Ans: Monopolistic competition is a market structure in which many firms sell similar but differentiated products and each firm has some control over its price.

Example: Different brands of toothpaste or restaurants.

10. Define duopoly.

Ans: Duopoly is a market structure in which two major firms control the supply of a particular product or service.

Chapter 12: Distribution of Rewards of Factors of Production

12.1 Rent

1. Define rent.

Ans: Rent is the reward paid for the use of land or other natural resources.

2. Differentiate between net rent and gross rent.

Ans:

- ❖ Net rent is the payment received by the owner of land after deducting the costs of maintaining the land.
- ❖ Gross rent includes net rent plus other payments such as interest on capital invested in land and management charges.

3. Define rate of interest.

Ans: The rate of interest is the percentage payment made for the use of borrowed capital for a specific period of time.

Example: If Rs. 10,000 is borrowed at 10 percent annual interest, the interest is Rs. 1,000 per year.

4. Define differential rent.

Ans: Differential rent is the extra rent earned from more fertile or more productive land compared with less productive land.

5. Define scarcity rent.

Ans: Scarcity rent is the rent earned by a factor because its supply is limited in relation to its demand.

6. Define quasi rent.

Ans: Quasi rent is the temporary surplus earned by man-made factors of production, such as machinery, when their supply cannot be increased in the short run.

7. Define the Ricardian theory of rent.

Ans: According to Ricardo, rent arises because land differs in fertility and location and its supply is limited. The more productive land earns a surplus called rent.

8. State any two assumptions of the Ricardian theory of rent.

Ans: Two assumptions are:

1. Land differs in fertility and location.
2. The supply of land is fixed.

9. State any two limitations of the Ricardian theory of rent.

Ans: Two limitations are:

1. It mainly focuses on land and does not fully explain rent of other factors.
2. Land is not completely fixed in productivity because its productivity can be improved through investment and technology.

10. Define the modern theory of rent.

Ans: According to the modern theory, rent is the surplus payment earned by any factor of production when its actual earnings are greater than its transfer earnings.

12.2 Wages

11. Define wages.

Ans: Wages are the reward paid to labour for its services.

Example: The salary paid to a teacher is a form of wages.

12. Name any two determinants of real wages.

Ans: Two important determinants are:

1. Purchasing power of money.
2. Prices of goods and services.

12.3 Marginal Productivity

13. Define marginal productivity theory.

Ans: The marginal productivity theory states that a factor of production is rewarded according to its marginal contribution to production, under competitive conditions.

14. State any two assumptions of marginal productivity theory.

Ans: Two assumptions are:

1. Factors of production are perfectly mobile.
2. There is perfect competition in the market.

12.4 Interest

15. Name the types of interest.

Ans: The main types of interest are:

1. Gross interest
2. Net interest

16. Differentiate between net interest and gross interest.

Ans:

- ❖ Net interest is the payment made only for the use of capital.
- ❖ Gross interest includes net interest plus payments for risk, management, and other services related to lending.

12.5 Liquidity Preference

17. Define liquidity preference theory.

Ans: Liquidity preference theory, presented by J. M. Keynes, states that the rate of interest is determined by the demand for money and the supply of money.

18. What is meant by demand for money?

Ans: Demand for money means the desire of people to hold money in cash or in a highly liquid form rather than other assets.

19. Differentiate between transaction, precautionary, and speculative demand for money.

Ans:

- ❖ Transaction demand: Money held to meet regular day to day payments.

Example: Money kept for buying food and paying bills.

- ❖ Precautionary demand: Money held to meet unexpected expenses.

Example: Money kept for sudden medical expenses.

- ❖ Speculative demand: Money held to take advantage of expected changes in interest rates or asset prices.

Example: Holding cash while waiting for an expected fall in bond prices.

12.6 Profit

20. Define profit.

Ans: Profit is the reward earned by an entrepreneur for organizing production and bearing business risks.

Formula:

Profit = Total Revenue – Total Cost

21. Differentiate between net profit and gross profit.

Ans: Gross profit is the surplus remaining after deducting the direct costs of production from total revenue. While net profit is the amount remaining after deducting all business expenses from total revenue.

22. Define Prof. Knight's theory of profit.

Ans: According to Prof. Knight, profit is the reward for bearing uncertainty and risks in business. Entrepreneurs receive profit because business outcomes cannot always be predicted.

23. What is the difference between profit and interest?

Ans: Interest is the reward for supplying capital. While profit is the reward of the entrepreneur for organizing production and bearing business uncertainty and risk.