

Questions Bank for Introductory Microeconomics

1. How is the concept of efficiency related to the production possibility frontier?
2. Why do people face trade faceoff? Explain using Example.
3. What is the difference between a positive and a normative economics?
4. Explain the concept of change in quantity demanded and change in demand?
5. Distinguish between a substitute and a complement of a good. What will happen to the equilibrium price and quantity of commodity X when both the price of substitute and the price of its complement rise simultaneously? Illustrate all the possible changes using suitable diagrams.
6. The market demand and supply curves of a commodity are given by $Q^d = 90 - 6P$ and $Q^s = -20 + 4P$ respectively. Find the elasticity of demand and elasticity of supply at equilibrium.
7. Why the members of the organization of petroleum Exporting countries could successfully increase the price of oil by reducing its supply in the short-run but failed to keep it high in the long-run? Illustrate using diagrams.
8. What would be the effect of a price ceiling of (i) Rs 50 and (ii) Rs 80, in a market with the following demand and supply curves: $Q^D = 1000 - 5P$ & $Q^S = 5P$
9. The demand and supply equation for cricket balls are given by $Q^d = 500 - 8P$ & $Q^s = -10 + 2P$ respectively.
 - (i) Find the equilibrium price and quantity of cricket balls.
 - (ii) Assume that now the government imposes a tax of Rs 10 per unit on the buyers of the cricket balls. Find the price paid by the buyers, received by the sellers and the quantity sold and purchased in the market after tax. Who is bearing the largest burden of the tax, buyers or the sellers.
10. Explain how the binding price floor affect the market outcome.
11. Why does society face the trade-off between efficiency and equality? Explain.
12. Explain how the deadweight loss of a tax related to the elasticities of demand and supply?
13. Explain the relationship between size of the tax and tax revenue using Laffer curve. What happens to deadweight loss when the size of the tax increases? If the Deadweight loss of taxation becomes equal to total surplus, how much will be the tax revenue.

14. What will be the shape of Indifference curve between two goods when the goods are
(a) Perfect substitutes; (b) Perfect complements. Explain the reason for these shapes.
15. Explain why two indifference curves don't intersect each other.
16. Assume that initially Jack has to choose between 50 hours of leisure or Rs 10000 of consumption per week.
 - (i) What is his hourly wage rate?
 - (ii) Show his optimal choice if he decides to consume Rs 6000 per week
 - (iii) Illustrate using diagrams the change in hours of leisure and consumption if his wage rate increases by Rs 50 per hour and his substitution dominates over income effect.
17. Why the economies and diseconomies of scale may arise in long-run?
18. Do you agree with statement. Average cost always arises whenever marginal cost is rising? Why or why not? Explain.
19. Why the economic cost of a firm may be higher than its accounting costs?
20. Why a firm in a perfectly competitive market faces a horizontal demand curve when the market demand curve is negatively sloped?
21. Explain why would a firm sometimes continue to produce in the short-run even if it is incurring losses?
22. Why are average and marginal revenue curves of a firm horizontal in a perfectly competitive market?
23. Why does monopoly's price exceed the marginal cost at the profit maximizing level of output?
24. What is natural monopoly? Explain using examples. Why a natural monopolist cannot be forced to charge a price equal to its marginal costs? Illustrate using diagrams.
25. What is derived demand? Give an example to explain it.
26. Derive demand curve of a labour for a firm in a perfectly competitive labour market (the commodity is also perfectly competitive) using the value of marginal product of labour force.