Victoria University of Bangladesh
Mid-Term Examination

Course Title : Micro Economics

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Ans to the Q. NO - 01

Graph A

In the graph above, the current price (P) and quantity (Q) are below the equilibrium point (E) of, indicating a situation where there is excess demand or a shortage.

As the price is set below the equilibrium point which is $30, the quantity demanded 600 exceeds the quantity supplied 200 at the rate of $30. This results in a shortage of available chocolate, as more people are willing to purchase at the lower price.

Graph B

In the graph, the supply curve represents the quantity of chocolate bars that producers are willing and able to sell at different prices, which the demand curve represents the quantity of chocolate bars that consumers are willing and able to buy at different price

The demand for chocolate bars has increased and the demand curve shifts from D1 to D2 to the right, indicating an increase in demand.

At the same time, the supply of chocolate bars remains unchanged. The initial equilibrium price (where supply equals demand) was \$1.20 per chocolate bar, and the initial equilibrium quantity was 300 chocolate bars.

With the increase in demand the demand curve shifts to the right, indicating a higher quantity demanded at each price level. This creates a new equilibrium point (D2) where the demand and supply curves intersect at a higher quantity of 600 and a higher price of $1.60.

This shift in demand results in both an increase in price and quantity of chocolate bars sold in the market. consumers are willing to pay a higher price due to increased demand, and producers are able to sell more chocolate bars at the higher price, leading to an increase in both price and quantity.

Ans to the Q. NO – 02

a) Society faces a short-run trade-off between inflation and unemployment.

Although a higher level of prices is, in the long run, the primary effect of increasing the quantity of money, the short-run story is more complex and more controversial, Most economists describe the shortrun effects of monetary injections as follows :–

- Increasing the amount of money in the economy stimulates the overall level of spending and thus the demand for goods and services.

- Higher demand may over time cause firms to raise their prices, but in the meantime, it also encourges them to increase the quantity of goods and services they produce and to hire more workers to produce those goods and survices.
- More hiring means lower unemployment.

This line of reasoning leads to one final economywide trade-off : a short-run trade-off between inflation and unemployment.

Although some economists still question these ideas, most accept that society faces a short run trade off between inflation and unemployment. This simply means that, over a period of a year or two, many economic policies push inflation and unemployment in opposite directions. policymakers face this trade, off regardless of whether inflation and unemployment both start out at high level (as they were in the early 1980s) at low levels (as they were in the late 1990s), or someplace in between. This short run trade-off plays a key role in the analysis of the business cycle the irregular and largely unpredictable fluctuations in economic activity, as measured by the production of goods and services or the number of people employed.

b)

One comparative advantage of the short-run tradeoff between inflation and unemployment is that it allows policymakers to use monetary and fiscal policy tools to address short-term economic challenges and stabilize the economy.

For example, during an

economic recession when unemployment is high, policymakers can use expansionary monetary policy, such as lowering interest rates, to encourage borrowing and spending, which can stimulate demand, increase production, and reduce unemployment. Additionally, such as increased govt. spending on infrastructure projects or unemployment benefits, can also stimulate demand and create jobs, further reducing unemployment.

On the other hand, during a period of high inflation, policymakers can use contractionary monetary policy, such as raising interest rates, to discourage borrowing and spending, which can help reduce demand, ease pressure on prices and control inflation. fiscal policy measures, such as reducing government spending or increasing taxes, can also help reduce demand and inflationary pressures by reducing overall spending in the economy.

The advantage of this tradeoff is that it provides policy-makers with flexibility to respond to short-term economic fluctuations and adjust policy measures accordingly. By managing the tradeoff between inflation and unemployment, policymakers can aim to achieve macroeconomic stability and promote sustainable economic growth in the short run.

c.)

Income elasticity of demand is a measure that indicates how sensitive the quantity demanded of a good or service is to changes in income. It is calculated as the percentage change in quantity demanded divided by the percentage change in income. It is typically denoted by the symbol "Ey" and can be expressed as a positive or negative value.