ASSIGNMENT 02
INTRODUCTORY MICROECONOMICS
BA(H) ECONOMICS SEMESTER I

**DATE:** 5TH DECEMBER 2023

**Question 01:** The demand curve for metro rides for a female employee Vidhi is given by: **P = 50 - 1/3Q**

Where Q is the number of metro rides she takes per month and P is the cost of the metro ticket.

(a) Suppose the supply of metro services she avails is perfectly elastic at Rupees 30 per ride between two destinations. Find the equilibrium number of rides taken by Vidhi per month and the consumer surplus enjoyed by her.

(b) The government proposes to make metro rides free for all women. Calculate the new equilibrium rides and the consumer surplus she enjoys.

(c) If Rupees 30 represents the total cost per ride to the supplier of metro services, do you think the extra trips Vidhi takes is economically justified?

**Question 02:** Explain how and why a per unit tax creates dead weight losses in the market. Can the dead weight losses be avoided if the consumers and producers voluntarily donate the tax amount and the government repeals the tax in the market?

**Question 03:** Consider two countries Japan and Australia producing two goods T-shirts and brownies. Each country has one million workers. The following table gives the production of two goods per worker per day in each country:

|  | T-shirts | Brownies (in dozens) |
|---|---|---|
| JAPAN | 10 | 18 |
| AUSTRALIA | 10 | 10 |

(i)   Which country has absolute advantage in producing brownies?

(ii)  Draw the production possibility frontier of both countries.

(iii) By calculating opportunity cost, find which country has comparative advantage in T-shirts and brownie production?

(iv)  What should be the pattern of trade?

**Question 04:** Classify the following statements into Positive and Normative statements with reasons for your classification.

(i.)   The government should emphasise more on poverty reduction than on economic growth.

(ii.)  People would prefer a policy that lowered the level of unemployment to one that brought inflation down.

(iii.) Higher taxes discourage work effort.

(iv.)  A rapid growth rate of money is the cause of inflation.

(v.)  Government should raise the tax on tobacco as to discourage people from smoking.