

Principles of Economics (English Medium) - ICOM Part 1 Economics English Medium Chapter 2 Short Questions Preparation

Q1. What is consumer's equilibrium ?

Ans 1: A consumer is in equilibrium at that point where the marginal utility of different commodities and their price ratio becomes equal.

Formula:

$$MUA/PA = MUB/PB = MUC/PC = \dots = MUZ/PZ.$$

Q2. Define transfer payments ?

Ans 1: Those payments which are paid without any economic services, Zakat, pensions, scholarships, pocket money are the examples of transfer payments.

Q3. Differentiate between value and price.

Ans 1: Value:

Power of a good or service to command other goods, services or money in voluntary exchange. For example one kg rice is exchangeable for two kg wheat. So two kg wheat having the value of one kg rice.

Price:

Price is the exchanging power of a good stated in terms of money. For example a pen is exchange for Rs. 50/, this amount is called the price of pen.

Q4. Define utility.

Ans 1: The power of a good or service which can satisfy human want is called utility. Hence utility mean the satisfaction, which a person derives from the consumption of any commodity. For example a person is thirsty and wants to drink water. it means water has utility for him.

Q5. Differentiate between private goods and public goods.

Ans 1: Private Goods:

Private goods are those goods which when consumed by one person reduce the supply available to others. If it is consumed by a single person, it reduces for others for example land, wheat, cloth etc.

Public Goods:

Public goods are those goods whose benefit are indivisible that is, when these are provided to some people, others cannot be excluded from using it. For example highways, national defence, public parks etc.

Q6. What is total utility ?

Ans 1: The utility which is derived from the consumption of all units of the commodity a time, is called total utility.

Q7. What is cardinal utility approach ?

Ans 1: Cardinal utility approach was presented by Alfred Marshall. According to this approach utility could be measured in numbers For example 10, 20, 30 etc.

Q8. Describe the relationship between total utility and marginal utility.

Ans 1: 1. When TU increases, MU is positive.
2. When TU is maximum, MU becomes zero.
3. When TU decreases, MU is negative.

Q9. What are economic wants and non-economic wants ?

Ans 1: Economic wants:

There are wants, which can be satisfied only by spending money. For example food, house, car, pen book etc.

Non-economic wants:

There are wants, which can be satisfied without any cost or struggle. For example air, friendship, sunlight etc.

Q10. Write any five characteristic of utility.

Ans 1: 1. Utility depends upon desire of human want.
2. Utility depends upon use.
3. Utility depends upon place.
4. Utility depends upon form
5. Utility depends upon ownership.