**Introduction to Economics**

**2017-2018, I Semester | Questions for QUIZ 1**

**Lecturer: Anar Rzayev, Altay Ismayilov, Tahmasib Alizada, Ahliman Abbasov**

**Topic 1. The principles of Economics**

1. What is the main problem of Economy and what is the solution to this problem?
2. What are the first three principles of Ten Principles of Economics? Explain briefly each of them.
3. What are the 4 to 6 principles of Ten Principles of Economics? Explain briefly each of them.
4. What are the 7 to 10 principles of Ten Principles of Economics? Explain briefly each of them.
5. What is the *Opportunity Cost?* Explain briefly and give examples.
6. Explain briefly with example the difference between *Marginal Cost* and *Marginal Benefit*.
7. Explain briefly the terms: *Market Failure* and *Market Power*. Give examples to both of them.

**Topic 2. Thinking like an economist**

1. What is inflation and what causes it? How are inflation and unemployment related in the short run?
2. Draw the Circular Flow Model and explain how it works.
3. Draw the *Production Possibilities Frontier*, give an example for this and explain.
4. Define *Positive and Normative Statements*. Give an example of each.
5. Explain the role of Economists in Policymaking. What can happen sometimes in case of disagreement among economists?

**Topic 3. Interdependence and gains from Trade**

1. What is the importance of participation of a country in International Trade? Discuss with examples.
2. Explain the terms *Absolute Advantage and Comparative Advantage*. What is the importance of these models? Give examples.
3. How trade expands the set of consumption possibilities? Show on a graph.
4. What is the role of *Comparative Advantage in International Trade?*
5. Explain the concepts of opportunity cost and comparative advantage.

**Topic 4. The market forces of Supply and Demand**

1. Explain Demand and demand law. Identify its determinants. Illustrate the graph.
2. Explain Supply and supply law. Identify its determinants. Illustrate the graph.
3. Demand and Supply together: Market equilibrium. Illustrate the graph. What happens when market not in Equilibrium?
4. Explain with graphs, shift in demand and supply curves separately.
5. Explain Market and competition. How to describe Perfectly Competitive Market?
6. Explain market and competition. How to describe monopoly, oligopoly and monopolistic competition?
7. Graphically illustrate and explain the causes of market surplus and market shortage.
8. Briefly explain how prices of related goods affect quantity demanded of a particular good.

**Topic 5. Elasticity and its Application**

1. Define the concept of price elasticity of demand and explain four determinants of the price elasticity of demand.
2. Define the concept of price elasticity of supply and explain the factors that affect the price elasticity of supply.
3. Explain with graphs the varieties of demand elasticity.
4. Explain with graphs the varieties of supply elasticity.
5. For each of the following pairs of goods, which good would you expect to have more elastic demand and why?
   1. Required textbooks or mystery novels
   2. Mozart’s recordings or classical music recordings in general
   3. Subway rides during the next 2 months or subway rides during the next 3 years
   4. Apple juice or water
6. Suppose that business travelers and vacationers have the following demand for airline tickets from Baku to London:

|  |  |  |
| --- | --- | --- |
| Price | Quantity Demanded  (Business travelers) | Quantity Demanded  (Vacationers) |
| $200 | 2400 | 1500 |
| $250 | 2200 | 1300 |
| $300 | 2000 | 1100 |

As the price of tickets rises from $250 to $300, what is the price elasticity of demand for (i) business travelers and (ii) vacationers? (Use the midpoint method in your calculations.)

1. Suppose that business travelers and vacationers have the following demand for bus tickets from London to Berlin:

|  |  |  |
| --- | --- | --- |
| Price | Quantity Demanded  (Business travelers) | Quantity Demanded  (Vacationers) |
| $50 | 1000 | 800 |
| $75 | 800 | 600 |
| $100 | 600 | 400 |

As the price of tickets rises from $75 to $100, what is the price elasticity of demand for (i) business travelers and (ii) vacationers? (Use the midpoint method in your calculations.)

1. A price change causes the quantity demanded of a good to decrease by 40 percent, while the total revenue of that good increases by 20 percent. Is the demand curve elastic or inelastic? Explain.
2. A price change causes the quantity demanded of a good to decrease by 20 percent, while the total revenue of that good increases by 10 percent. Is the demand curve elastic or inelastic? Explain.
3. Explain the issue, how will an increase in price change total revenue, when demand is elastic?
4. Explain the relationship between total revenue and the price elasticity of demand. Illustrate graphs.
5. Suppose the price elasticity of demand for heating oil is 0.4 in the short run and 0.6 in the long run. If the price of heating oil rises from $2.00 to $2.40 per gallon, what happens to the quantity of heating oil demanded in the short run? In the long run? (Use the midpoint method in your calculations.)

**Questions for QUIZ 2**

**Topic 6. Supply, Demand and Goverment Policies**

1. Explain with graphs the price ceiling policy of government.
2. Explain with graphs the price floor policy of government.
3. Distinguish binding price ceiling and non-binding price ceiling and comment on the market outcome in both cases.
4. Distinguish binding price floor and non-binding price floor and comment on the market outcome in both cases.
5. Explain with graphs what are short-run and long-run effects of rent control.
6. Discuss with graphs minimum wage as an example for price floor.
7. How taxes on seller can influence to the market outcome? Illustrate a graph.
8. How taxes on buyers can influence to the market outcome? Illustrate a graph.

**Topic 7. Consumers, Producers and Efficienct of Markets**

1. Discuss the concept of consumer surplus briefly. Illustrate a graph.
2. Dicuss the concept of producer surplus briefly. Illustrate a graph.
3. How the Price affects Consumer Surplus? Explain and draw Graphs.
4. How the Price affects Producer Surplus? Explain and draw Graphs.
5. Draw the supply and demand curves for mobile telephone. In the equilibrium, show producer and consumer surplus. Explain why producing more mobile telephones would lower total surplus.

**FINAL (25)**

1. Explain graphically how market equilibrium will change if the government imposes a tax for buyers of a good.
2. If the government levies a $500 tax on luxury cars, will the price paid by consumers rise by more than $500, less than $500 or exactly $500. Why? Explain.
3. Graphically illustrate how the burden of a tax is divided between buyers and sellers and indicate the factor that determines it.
4. Discuss the notion “Deadweight loss”. Introducing graphs explain the relationship between deadweight loss and tax revenue.
5. Discuss taxing the food industry taking into the account the demand elasticity.
6. Distinguish costs of taxation to taxpayers and make a comment on an efficient tax system.
7. Explain with graph welfare with taxes and change in welfare.
8. Suppose that the residents of a town spend all of their income on cola, bread, and apples. In 2001 they buy 100 bottles of cola for $200, 50 breads for $75, and 500 apples for $50. In 2002 they buy 75 bottles of cola for $225, 50 breads for $120, and 500 apples for $100. If the base year is 2001, what is the CPI in both years? What is the inflation rate in 2002?
9. Seperately comment the components of GDP according to Y = C + I + G + NX.
10. What are the basic differences between GDP deflator and CPI?
11. Discuss the differences between Real and Nominal GDP by taking your own example.
12. What is Gross Domestic Product (GDP). Discuss the role of GDP for measuring the real Economic Development.
13. Explain how to calculate The Consumer Price Index (CPI).
14. Indicate the problems that make the consumer price index an imperfect measure of the cost of living.
15. Explain GDP deflator by introducing the way of measuring of this and show the calculation of inflation rate of one year related to another.
16. Explain with real example how interest rates affect to economy of a country.
17. How inflation rate can influence the living standarts of people? Discuss.
18. What is unemployment and show how to measure the Unemployment Rate.
19. Identify the concepts of unemployment rate and labor-force participation rate.
20. Discuss the role of Minimum Wage Law in the economy. Illustrate a graph.
21. Do you think that the Unions have an impact on the working conditions of workers? Justify your opinion.
22. Discuss the different types of Unemployment with examples.
23. Discuss the relationship between Structural Unemployment and skills that the workers have. Take your own examples.
24. Comment on the role of government to decrease unemployment rate in the country.
25. The Committee of Statistics announced that in December 2008, of all adult citizens, 2,900000 were employed, 1,100000 were unemployed, and 1,100000 were not in the labor force. How big was the labor force? What was the labor-force participation rate? What was the unemployment rate?