



## **[Frequently Asked Questions]**

### **Basic Concepts of Microeconomics**

<b>Subject:</b>	Business Economics
<b>Course:</b>	B. A. (Hons.), 1st Semester, Undergraduate
<b>Paper No. &amp; Title:</b>	Paper – 101 Microeconomics – I
<b>Unit No. &amp; Title:</b>	Unit – 1 Basic Concepts
<b>Lecture No. &amp; Title:</b>	Lecture – 1 Basic Concepts of Microeconomics

## **Frequently Asked Questions**

### **Q1. Differentiate between positive and normative economics using relevant illustration**

**A1.** Positive economics deals with the “what is” aspect of any theory. It is factual, testifiable and studies the cause-effect relationship between different economic variables. On the other hand, normative economics is more idealistic, and it deals with “what ought to be” aspect of the economic phenomenon. Normative economics involves value judgments and beliefs which are subjective in nature, hence it is not testifiable.

### **Q2. What are the steps one needs to remember while constructing a model?**

**A2.** To construct a model, firstly we need a proper theory that describes cause-effect relation between events. Then, we need to dissect the theory to determine the variables, parameters and constants in the relationship. Next step is to arrange the variables, parameters and constants in the form of an equation that describes the theory accurately.

### **Q3. What is opportunity cost?**

**A3.** Opportunity cost is defined as “value of the next best alternative sacrificed or forgone”. The concept helps to determine whether the current combination of resources is best or whether a re-allocation would be required to achieve economic optimality. It is extremely important in economics since economics deals with the problem of optimal allocation of scarce resources among unlimited needs with alternative uses.

### **Q4. What is meant by elasticity?**

**A4.** Elasticity implies the extent of responsiveness or change in any variable due to other variable. In economics, the concept of elasticity is used to understand the relationship between variables exhibiting causal relationship, like price and demand, price and supply, income and demand. There are three concepts of demand elasticity, namely a) Price Elasticity; b) Income Elasticity and c) Cross Elasticity.

**Q5. Describe total and average functions with illustration.**

**A5.** Total function represents the relationship between two or more variables in its original form, i.e. based on their theoretical formulation.  $C = a + bY$  is total consumption function. Average function shows the average or per unit value. Average function can be obtained by dividing the total function with the number of units.  $R/Q = P \cdot Q/Q$  is an Average Revenue Function, obtained by dividing total revenue by number of units of output sold.

**Q6. Describe marginal function with illustration.**

**A6.** Marginal function shows the change in total function due to change in the units. It is also called net function. Marginal function can be calculated by dividing the change in total function by the change in units. In simple terms,

$$\text{Marginal Function} = \frac{\Delta \text{ Total Function}}{\Delta \text{ Quantity/ unit}} \quad (\Delta = \text{change})$$