**Micro Economics**

**April 2025 Examination**

**1. ABC Manufacturing produces a popular brand of smartphones and is planning to launch a new model in a highly competitive market. To decide on the pricing strategy, the management wants to understand how the demand for their smartphones will change if they alter the price. They also wish to explore how different types of products may react differently to price changes.**

**In the context of ABC Manufacturing’s scenario, explain the concept of price elasticity of demand. Discuss the various types of price elasticity of demand and how this understanding can help the company determine an effective pricing strategy for their new smartphone model. (10 Marks)**

**Ans 1.**

**Introduction**

Pricing strategy is one of the most critical decisions for any company launching a new product, especially in a highly competitive market such as smartphones. ABC Manufacturing, which plans to introduce a new smartphone model, must consider how changes in price will influence consumer demand. This relationship between price and quantity demanded is explained by the concept of price elasticity of demand (PED). Understanding PED allows firms to anticipate market reactions, optimize pricing strategies, and maximize revenue. Smartphones, like many consumer electronics, exhibit varied demand sensitivities based on factors such as brand loyalty, availability of substitutes, and consumer preferences. By analyzing PED, ABC Manufacturing

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**2. Explain the concepts of Total Utility and Marginal Utility with appropriate illustrations and their real-life applications. Given the data, compute the Marginal Utility for each unit of the good consumed, and analyze how it changes as consumption increases. (10 Marks)**

|  |  |  |
| --- | --- | --- |
| **Unit Consumed** | **Total Utility** | **Marginal Utility** |
| **0** | **0** |  |
| **1** | **15** |  |
| **2** | **27** |  |
| **3** | **36** |  |
| **4** | **42** |  |
| **5** | **45** |  |

**Ans 2.**

**Introduction**

Utility is a fundamental concept in microeconomics that helps explain consumer behavior regarding satisfaction derived from consuming goods and services. When individuals make consumption decisions, they seek to maximize their satisfaction or utility. Total Utility (TU) refers to the overall satisfaction gained from consuming a certain quantity of a good, while Marginal Utility (MU) represents the additional satisfaction obtained from consuming one more unit of the good. The law of diminishing marginal utility states that as consumption increases, the marginal utility of each additional unit decreases. Understanding these concepts helps

**3a. Mr. Arjun, an economics student, is preparing a project comparing different types of economies. While researching, he learns about the capitalist, socialist, and mixed economic systems and their unique features. However, he is particularly interested in understanding the role of government in a capitalist or free enterprise system and a socialist system.**

**In the context of Mr. Arjun’s research, elaborate on the three types of economies and the role of the government in each economy. (5 Marks)**

### **Ans 3a.**

#### **Introduction**

Economic systems define how resources are allocated, how production is organized, and how goods and services are distributed in a society. There are three primary types of economies: capitalist (free market), socialist (command economy), and mixed economy. Each system varies in terms of government intervention, ownership of resources, and decision-making processes. Mr. Arjun's research focuses on understanding the role of government in these economies. While capitalism promotes private ownership and minimal state interference, socialism emphasizes government control and public welfare. The mixed economy blends both, striking a balance between market

**3b. Calculate the price elasticity of supply (PES) from the given data and interpret the result.**

|  |  |
| --- | --- |
| **Price (Rs)** | **Quantity Supplied (Units)** |
| **100** | **40** |
| **120** | **50** |

**(5 Marks)**

### **Ans 3b.**

### **Introduction**

The **Price Elasticity of Supply (PES)** measures how the quantity supplied of a good responds to a change in its price. It helps businesses and policymakers understand how quickly producers can adjust supply when market prices fluctuate. If supply is highly elastic, producers can respond rapidly to price changes. Conversely, inelastic supply means production adjustments take time. PES is influenced by factors like production capacity, availability of raw materials, and storage fe