

DEPARTMENT OF ECONOMICS

Model questions on Introductory Microeconomics

1. What are the central economic problems of an economy?
2. What is the major difference between Microeconomics and Macroeconomics?
3. What is the basic difference between positive and normative economics?
4. What is opportunity cost?
5. What is meant by market failure?
6. What are the features of a market economy?
7. What is meant by the tragedy of the commons?
8. Draw a graph to show a negative production externality.
9. Which of the following statements is true about specialization and trade?
 - i) A country should specialize in and export the good for which it has absolute advantage.
 - ii) A country should specialize in and import the good for which it has comparative advantage.
 - iii) A country should specialize in and import the good for which it has absolute advantage.
 - iv) A country should specialize in and export the good for which they have comparative advantage.
 - v) A country should specialize in and export a good for which they have both comparative and absolute advantage.
10. Which of the following best captures the idea of absolute advantage for these two agents?
 - i) One agent has higher opportunity costs of one good and the other agent has higher opportunity costs of the other good.
 - ii) An agent is able to produce more of a good or service than another economic agent given the same resources.
 - iii) Both agents have identical opportunity costs.
 - iv) One agent is able to produce less of a good or service than another economic agent.
 - v) One agent has a lower opportunity cost of one good, and another agent has a lower opportunity cost of a different good.
11. How can two countries benefit from trade?
12. What do you mean by gains from trade?
13. What is the difference between movement along and shift of the demand curve?
14. How do you determine equilibrium price in a competitive market?
15. Explain the concept of “invisible hand”.
16. Distinguish between public and private goods.
17. What do you mean by common property resources?

18. What is utility analysis? How consumer equilibrium can be achieved with the help of utility analysis?
19. Explain the relationship between total utility and marginal utility.
20. What do you mean by marginal rate of substitution?
21. How can you derive demand curves from indifference curve?
22. What is an Engel curve?
23. What is an inferior good?
24. What are properties of an indifference curve?
25. How can you derive a demand curve from a Price consumption curve?
26. What do you mean by Income Consumption curve?
27. What is difference between Hick's and Slutsky substitution effect?