

# **ADC/B.COM. PART-I**

## **PAPER-VI:**

### **ECONOMIC ANALYSIS AND POLICY**

#### **OBJECTIVES:**

The objective of the course is to extend the knowledge of the basic microeconomic and macroeconomic principles that will provide the foundation for future studies in economics.

- To give an insight into how economic models can help us think about important real world phenomena, like reasons behind the rise and fall of prices and wages, how firms earn profits and why they go out of business.
- To develop an understanding of economic theories and its relevance to the real world
- To make students understand the working pattern of the market economy, and ancillary concepts/mechanism
- To understand that how nations/countries are working under different economic systems.

#### **OUTLINE**

### **MICROECONOMICS**

#### **1. INTRODUCTION DEFINITIONS:**

- a. Nature, Scope and Importance Economics
- b. Definitions of Economics under various School of Thoughts;
- c. Distinction Between Microeconomics and Macroeconomics
- d. Concept of Scarcity, choice and wealth in Economics.
- e. Economic & Non-economic Goods,
- f. Positive Economics Vs Normative Economics

#### **2. CONSUMER BEHAVIOUR:**

- a. Utility Analysis (Cardinal Approach),
  - i. Marginal Utility
  - ii. Law of Diminishing Marginal Utility
  - iii. Law of Equi-Marginal Utility,
  - iv. Consumer Equilibrium
- b. Ordinal Approach of Consumer Behavior,
  - i. Indifference Curves,
  - ii. Features of Indifference Curves,
  - iii. Budget Line,
  - iv. Consumer Equilibrium,
    1. Income Effect
    2. Substitution Effect
    3. Price Effect as a combination of Income and Substitution Effect
    4. Decomposition of Price Effect into income & substitution effects (all approaches)
    5. Marshallian and Hicksian Demand Curves (normal, inferior and Giffen goods)
  - v. Comparison between two approaches

#### **3. THEORY OF DEMAND**

- a. Concepts of Demand

- i. Demand function and Law of Demand.
  - b. Changes in Demand (Shift in Demand versus Movement along Demand Curve).
    - i. Factors effecting demand
  - c. Determinants of Elasticity of Demand.
  - d. Elasticity of Demand and its Measurements.
    - i. Price, Income and Cross Price Elasticity.
    - ii. Application / Practical Importance of concept of Elastic for Managers,
  - e. Consumer's Surplus.
- 4. THEORY OF SUPPLY**
- a. Concept of Supply and Stock;
  - b. Law of supply.
  - c. Changes in Supply (shift and Movement of Supply Curve).
    - i. Factors effecting supply
  - d. Producer's surplus.
  - e. Elasticity of Supply and its measurement,
- 5. MARKET EQUILIBRIUM:**
- a. Price and Market equilibrium.
  - b. Effects of Changes in Market Forces of Demand and Supply on Market Equilibrium
- 6. THEORY OF PRODUCTION:**
- a. Concept of Factor of Production.
  - b. Production Possibility Curve,
  - c. Producer Equilibrium
    - i. Producer's Objective
    - ii. Technology Constraints
    - iii. Iso-Quant
    - iv. Iso-Cost
    - v. Producer Equilibrium
  - d. Law of Variable Proportions.
  - e. Laws of Returns to Scale and their application.
  - f. Costs function:
    - i. Costs over Time Period; Fixed, Variable, Total, Average; short run and long run  
Marginal Cost and Opportunity Costs.
    - ii. Cost Minimization in Short and Long run
  - g. Revenue Function
  - h. Short-Run and Long run Profit Maximization
- 7. MARKET CONDITIONS AND MECHANISMS:**
- a. Concept of Markets and its types
    - i. Perfect Competition,
    - ii. Monopoly,
    - iii. Monopolistic Competition
    - iv. Oligopoly
  - b. Perfectly Competitive Markets: Analysis and Application
    - i. Short Period Analysis (equilibrium cases, supply curve of firm)
    - ii. Long Period Analysis (equilibrium of firm, supply curve of industry)
  - c. Monopoly Markets: Analysis and Application
    - i. Short Period Analysis (equilibrium cases, why no supply curve of firm)
    - ii. Long Period Analysis (equilibrium of firm, sub-optimum, optimum and super-optimum cases)
    - iii. Price Discrimination (concept, need, possibility, forms and degrees of price discrimination)

- d. Monopolistic Competition: Analysis and Application
  - i. Short Period Analysis (equilibrium cases)
  - ii. Long Period Analysis (equilibrium of firm)
- e. Oligopoly: Analysis and Application
  - i. Models
- f. Price Control, Price Ceiling and Price Floor.

## **MACROECONOMICS**

### **1. NATIONAL INCOME**

- a. Definition, concepts and its significance.
- b. Methods of computing National Income.
- c. DETERMINANTS OF NATIONAL INCOME.
- d. Circular flow of income,
- e. Nominal versus Real income,

### **2. DETERMINATION OF INCOME & EMPLOYMENT**

- i. Consumption and consumption function, its determinants,
- ii. Keynesian psychological law of consumption.
- iii. Saving, propensity to save and factors determining saving.
- iv. Investment-Meaning, kinds and its determinants – MEC and rate of interest.
- v. Meaning of Full Employment.
- vi. Kinds of un-employment.
- vii. Determination of Equilibrium level of National Income.
- viii. Keynesian theory of Income and Employment.
- ix. Inflationary and Deflationary gap.
- x. Multiplier Doctrine, Acceleration Principle and Interaction of Multiplier and Acceleration.

### **3. TRADE/BUSINESS CYCLES**

- a. Basic Concepts

### **4. MONETARY POLICY AND FISCAL POLICY**

- a. Objectives
- b. Functions
- c. Tools

### **5. INTERNATIONAL TRADE**

- a. Domestic Trade and International Trade
- b. Theory of Comparative Cost
- c. Theory of tariff
- d. Balance of trade
- e. Balance of Payments
- f. Terms of Trade

### **6. FOREIGN EXCHANGE**

- a. Types of Exchange rate
- b. Factors effecting exchange rate

## ECONOMIC SYSTEMS

### 1. ECONOMIC SYSTEMS

- a. Definition.
- b. Central Problems of an Economy
- c. Different Economic Systems
  - i. Capitalism
    1. Definition and properties
    2. Their merits and de-merits and Criticism.
  - ii. Socialism
    1. Definition and properties
    2. Their merits and de-merits and Criticism.
  - iii. Mixed Economy
    1. Definition and properties
    2. Their merits and de-merits and Criticism.
  - iv. Islamic Economic System
    1. Definition and properties
    2. Their merits and de-merits and Criticism.
  - v. Comparative Study of Different Economic Systems.

### RECOMMENDED BOOKS:

1. Abdul Haleem Khawja Economic Theory, A.H. Publishers, 22 – A1 – Fazal Market Urdu Bazar, Lahore. (latest year)
2. Khurhsid Siddiqui Economic System of Islam, Karachi. Urdu Bazar,2002.
3. M. Saeed Nasir A Text Book of Economis, ILMI Kitab Khana Urdu Bazar Lahore (latest year)
4. Mc Connell Brue *Economics* (Principles, Problems and policies). New York: McGraw Hill Comp. (latest edition)
5. Parkin, Michael. *Economics*, Edition Wesley International Inc. (latest edition)
6. Pindyck, Robert and Rubinfeld, Daniel; *Microeconomics* Pearson (latest edition)
7. Samulson and Nordrons. *Economics*, 18th Edition, (or latest available)
8. Instructor notes: Available at Photocopy shop, Department of Economics, University of Karachi.

- Note:**
1. Latest edition of books are recommended.
  2. Duration of course will be 20 weeks.
  3. Total 20 lectures of two hours duration will be delivered.