

# Semester spring 2011

## Assignment no 1

## ECO402

Total Marks: 15

### Question no 1:

- a. If a consumer has certain amount of money and he has to spend on two goods apple and strawberries. This individual completely prefers strawberries than apple. How we will see this particular situation in the consumer equilibrium theory?
- b. Support your answer with the help of graph.

(Marks: 2+3)

### Question no 2:

Keeping in view the given data for the construction of road from the year 2000 to year 2005, calculate the nominal price for the road construction in each year.

### Note:

Calculate the nominal price for each year by taking year 2000 as a base year.

Year	CPI	Real price of college Education
2000	45.5	5550
2001	53.3	6350
2002	62.1	7530
2003	70.9	8590
2004	87.5	9130
2005	99.3	9950

(Marks: 2+2+2+2+2)

### Important Note:

- Calculate to the point where calculation is being required. **NO** need to write irrelevant material or extra interpretation.
- Draw equilibrium condition in Levis jeans market by yourself. Do **NOT** copy from any source. **NO** need to write irrelevant material.
- Graphs are very important in Economics course. This assignment will enhance your skill of drawing graphs. A complete procedure of "How to draw graphs in MS-Word" is uploaded on announcement page of LMS. Get help from that uploaded file to solve part D of this assignment.

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### Important Tips

1. This Assignment can be best attempted from the knowledge acquired after watching video lecture no. 1 to lecture no 10 and reading handouts as well as recommended text book.
2. Video lectures can be downloaded for free from [www.youtube.com/vu](http://www.youtube.com/vu).

### Schedule

Opening Date and Time

April, 13, 2011 At 12:01 A.M. (Mid-Night)

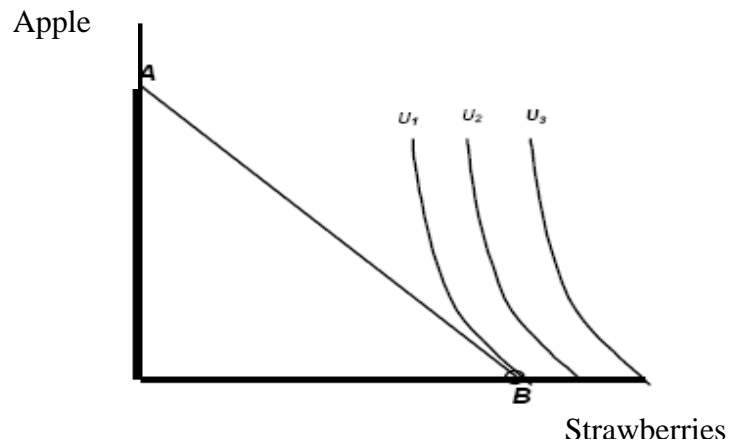
Due Date and Time

April, 18, 2011 At 11:59 P.M. (Mid-Night)

**Note:** Only in the case of Assignment, *24 Hrs extra / grace period* after the above mentioned due date is usually available to overcome uploading difficulties which may be faced by the students on last date. This extra time should only be used to meet the emergencies and above mentioned due dates should always be treated as final to avoid any inconvenience.

### Solution 1:

We will see this particular situation with the help of corner solution. Because consumer buy in extremes in this situation. He competently prefers apple over strawberries.



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Solution 2:

**Nominal price =  $\text{CPI}_{\text{current year}} / \text{CPI}_{\text{base year}} * \text{Real Price}$**

Year	CPI	Real price of college Education	Nominal price
2000	45.5	5550	5550
2001	53.3	6350	7438.57
2002	62.1	7530	10277.1
2003	70.9	8590	13385.3
2004	87.5	9130	17557.7
2005	99.3	9950	21715.05