

ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)

DEPARTMENT OF BUSINESS AND TECHNOLOGY MANAGEMENT

Semester Final Examination

Summer Semester, A. Y. 2023-2024

Course No. : BTM 4203

Time : 2 hours

Course Title : Microeconomics

Full Marks : 120

Answer all 4 (four) questions. All questions carry equal marks. Marks of each question and corresponding CO and PO are written in the right margin with brackets.

1. a) Why do economists make assumptions? Should an economic model describe reality exactly? 05 (CO1) (PO1)
- b) Describe the main components of the circular flow diagram. 10 (CO1) (PO1)
- c) Imagine a society that produces two goods: guns (military goods) and butter (consumer goods). 15 (CO2) (PO2)
 - i. Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape.
 - ii. Show a point that is impossible for the economy to achieve. Show a point that is feasible but inefficient.
 - iii. Explain the factors that can cause the Production Possibilities Frontier (PPF) to shift outward or inward.
2. a) What is willingness to pay, and how is it related to consumer surplus? What is producer surplus, and how is it shown on a supply curve? 15 (CO3) (PO2)
- b) Why is the equilibrium of supply and demand considered efficient for society, and what two main causes of market failure can prevent this efficiency? 15 (CO3) (PO2)
3. a) Using a supply-demand diagram, explain how the introduction of a tax affects consumer surplus, producer surplus, and total surplus. 10 (CO4) (PO3)
- b) Discuss how the elasticity of supply and demand influences the deadweight loss of a tax. 10 (CO3) (PO2)
- c) Explain the Laffer Curve. How does it show the relationship between the size of tax and tax revenue? 05 (CO4) (PO2)
- d) Discuss the trade-off policymakers' face between equity and efficiency when designing a tax system. 05 (CO3) (PO2)
4. a) Define comparative advantage and critically discuss how it guides a country's trade decisions. How do domestic prices and world prices influence these outcomes? 05 (CO3) (PO2)
- b) Analyze how opening to trade affects consumer and producer surplus. Are the gains from trade always fairly distributed? 10 (CO4) (PO2)
- c) Illustrate and explain the deadweight loss caused by a tariff. 10 (CO3) (PO2)
- d) Evaluate the main arguments for restricting imports and discuss economists' counterarguments. Are there scenarios where protectionist policies might be justified? 05 (CO4) (PO2)