Consumer's equilibrium, demand and elasticity of demand

16 marks

2003 - 04

Q1- What is meant by price elasticity of demand?(1)

Q2- Mention any three factors that affect the price elasticity of demand of a commodity. (3)

Q3- Distinguish between change in demand and change in quantity demanded of a commodity.(3)

Q4- Explain with the help of diagrams the effect of the following changes on the demand of a commodity (6)

(i) A fall in the price of complementary good.

(ii) A rise in the income of its buyer.

2004 – 05

Q5- Define demand by a consumer. (1)

Q6- Explain the law of demand with the help of a demand schedule. (3)

Q7- The price elasticity of demand for a good is (-) 2. 80 units of this good are bought at a price of Rs. 5 per unit. Calculate the price at which 112 units of it will be bought. (3)

Q8- The price elasticity of demand for a good is (-) 1. 72 units of this good are bought at a price of Rs4 per unit. At what price will 90 units be bought? Calculate. (3)

Q9- State six determinants of market demand. (3)

Q10- Briefly explain any three factors that shift the demand curve to the right. (3)

Q11- When the price of a commodity falls from Rs.20 per unit to Rs. 16 per unit, its quantity demanded rises from 1000 units to 1160 units. Calculate its price elasticity of demand. Is its demand inelastic? Give reasons for your answer. (4)

Q12- At a price of Rs.50 per unit, the quantity demanded of a commodity is 1000 units. When its falls by 10 percent, its quantity demanded rises to 1080 units. Calculate its price elasticity of demand. Is its demand inelastic? Give reasons for your answer. (4)

Q13- The price of a commodity is Rs.50 per unit and its quantity demanded is 500 units. Its price rises to Rs.60 per unit and quantity demanded falls by 90 units. Calculate its price elasticity of demand. Is its demand elastic? Give reasons for your answer.(4)

Q14- Differentiate between: (6)

(i) Normal good and inferior good, and

(ii) Complementary good and substitute good.

2005 – 06

Q15- Explain the effect of the following on the demand of a good (6)

(i) Change in the income of the consumer.

(ii) Change in the prices of the related goods.

Q16- Define price elasticity of demand. State any four factors that affect it. (6)

2006 -07

Q17- When a good is called a normal good.(1)

Q18- State any three factors that affect the price elasticity of demand of a commodity. (3)

Q19- Define market demand. State the factors that affect it.(6)

2007 -08

Q20 - What is a demand schedule? (1)

Q21- Price elasticity of demand of a good is (-) 1. At a given price the consumer buys 60 units of the good. How many units will the consumer buy if the price falls by 10 percent? (3)

Q22- Price elasticity of demand of a good is (-) 3. If the price rises from Rs.10 per unit to Rs.12 per unit, what is the percentage change in demand? (3)

Q23- Price elasticity of demand for a good is (-) 2. The consumer buys a certain quantity of this good at a price of Rs.8 per unit. When the price falls he buys 50 percent more quantity. What is the new price? (3)

Q24- Given the market price of a good, how does a consumer decide as to how many units of that good to buy? Explain. (3)

Q25- Explain the effect of the following on demand for a good: (6)

(i) Rise in income

(ii) Rise in prices of related goods.

2008 – 09

Q26– What is meant by inferior good in economics? (1)

Q27-Distinguish between demand by an individual and market demand with the help of a schedule. (3)

Q28- State the law of demand and show it with the help of a schedule. (3)

Q29- Explain the geometric method of measuring price elasticity of demand. (3)

Q30-Explain any two factors that affect the price elasticity of demand of a commodity.(3)

Q31– Explain the effect of the following on the market demand of a commodity – (6)

(a) Change in price of related goods.

(b) Change in the number of its buyers.

Q32- State the causes of an 'increase' in demand. Explain any two of them. (6)

Comp 2008 – 09

Q33- Define demand.

Q34- Explain the meaning of 'change in demand'. How does it affect the demand curve?

Q35- A 5% rise in price of a good leads to 20% fall in its demand. A consumer buys 80 units of the good at a price of Rs.10 per unit. How many units will the consumer buy when price changes to Rs.11? Calculate.(3)

Q36- Explain the effects of the following on demand for a good by a consumer:

(i) Fall in the prices of related goods.
(ii) Rise in the income of the consumer.

2009 - 10

Q37- What is meant by normal good in economics?(1)

Q38- Explain any two causes of 'increase' in demand of a commodity.(3)

OR

Explain the inverse relationship between price and quantity demanded of a commodity.

Q39- Explain the effect of the following on the price elasticity of demand of a commodity.(3)
(i) Number of substitutes
(ii) Nature of the commodity

Q40- The price elasticity of demand of a commodity is (-)1.5. When its price falls by Rs.1 per unit its quantity demanded rises by 3 units. If the quantity demanded before the price change was units, what was the price at this demand? Calculate.(4)

Comp 2009 – 10

Q41. Explain, by giving an example, how is demand for a good affected when the price of its substitute good rises.(3)

Q42. What is law of demand? Prepare a demand schedule based on the law of demand.(3)

Q43. Explain the effect of rise in income of a consumer on his demand for a good.(3)

Q44. Explain, by giving an example, how is demand for a good affected when the price of its complementary good rises.(3)

Q45. Calculate price elasticity of demand by comparing expenditures.(4)

Price	Demand
9	8
8	9

Q46. Calculate price elasticity of demand by comparing expenditures:

Price	Demand
10	0
9	10

Q47. Calculate price elasticity of demand by comparing expenditures:

Price	Demand
0	10
1	5

2010-11

Q Define budget line.(1)

Q48. When price of a good is Rs.13 per unit, the consumers buys 11 units of that good. When price rises to Rs.15 per unit, the consumer continues to buy 11 units. Calculate price elasticity of demand.(3)

Q49. When price of a good is Rs.12 per unit, the consumers buys 24 units of that good. When price rises to Rs.14 per unit, the consumer continues to buy 20 units. Calculate price elasticity of demand.(3)

Q50. From the following data calculate elasticity of demand.(3)

PRICE	Q.D
9	100
9	150

Q. A consumer consumes only two goods X and Y. At a consumption level of these two goods, he finds that the ratio of marginal utility to price in case of X is higher than in case of Y. Explain the reaction of the consumer.(4)

Q. Explain the law of diminishing marginal utility with the help of a total utility schedule.(4)

Q. Explain how rise in income of a consumer affects the demand of a good. Give examples. (4)

Q. Explain the concepts of (i)marginal rate of substitution and (ii) budget line equation with the help of numerical examples.(6)

Q51. Explain how rise in income of a consumer affects the demand of a good. Give example.(4)

Q. Explain the conditions of consumer's equilibrium with the help of the Indifference Curve Analysis.(6)

Comp 2010-11

Q52.What causes an upward movement along a demand curve? (1)

Q53. Explain the effect of rise in income of the buyers of a commodity on its demand. (3)

Q54. Explain the effect of the following on price elasticity of demand of a good.(4)

(i) Number of substitutes of the good.

(ii) Proportion of income spent on the good.

OR

Give the meaning of price elasticity of demand. Explain the relationship between it and total expenditure.

Q55. How is the demand of a commodity affected by a fall in the prices of related goods?

2011-12

Q56. Give one reason for a shift in demand curve. (1)

Q57. (a) A consumer buys 10 units of a commodity at a price of Rs.10 per unit. He incurs an expenditure of Rs.200 on buying 20 units. Calculate price elasticity of demand by the percentage method. Comment upon the shape of demand curve based on this information. (4)

(b) A consumer buys 14 units of a good at price of Rs.8 per unit. At price Rs.7 per unit he spends Rs.98 on the good. Calculate price elasticity of demand by the percentage method. Comment upon the shape of demand curve based on this information.

© A consumer buys 8 units of a good at a price of Rs.7 per unit. When price rises to Rs.8 per unit he buys 7 units. Calculate price elasticity of demand through the expenditure approach. Comment upon the shape of demand curve based on this information.

Q58. A consumer consumes only two goods X and Y and is in equilibrium. Price of X falls. Explain the reaction of the consumer through the utility analysis.(3)

Q.59 Explain the difference between (i) inferior goods and normal goods and (ii) cardinal utility and ordinal utility. Give example in each case.(6)

Q60. (a) Define a budget line. When can it shift to the right?(4)

(b) Define an indifference map. Why does indifference curve to the right show more utility? Explain. (4)

(c) What is budget set? Explain what can lead to change in budget set.(4)

2012-13

Q61. When is the demand for a good said to be perfectly inelastic? (1)

Q62. What does a rightward shift of demand curve indicate? (1)

Q63.(a) What is a budget line? Why is it downward sloping?(3)

(b) Explain the conditions of consumer's equilibrium under utility analysis.(3)

Q64. How is the demand for a good affected by a rise in the prices of other goods? Explain.(3)

Q65. (a)When the price of a commodity falls by 20 percent, its demand rises from 400 units to 500 units. Calculate its price elasticity of demand.(4)

(b) Price elasticity of demand of a good is – 0.75 . Calculate the percentage fall in its price that will result in 15 percent rise in its demand. (4)

Q66.Explain three properties of indifference curves. (6)

OR

Explain the conditions of consumer's equilibrium under indifference curve approach. (6)

2013-14

Q67. Define indifference curve. (1)

Q68. When the price of a good falls from Rs 10 to Rs 8 per unit, its demand rises from 20 units to 24 units. What can you say about price elasticity of demand of the good through the expenditure approach?(3)

Q69. A consumer consumes only two goods X and Y and is in equilibrium. Show that when the price of good X rises, the consumer buys less of good X. Use utility analysis.(4)

OR

Given the price of a good, how will a consumer decide as to how much quantity of that good to buy? Use utility analysis.

Q70. Give the meaning of inferior good and explain the same with the help of an example.(4)

Q71. Explain why is an indifference curve (a) downward sloping and (b) convex.

OR

Explain the concept of Marginal Rate of Substitution with the help of a numerical example. Also explain its behavior along an indifference curve.(6)

Q72. Give the meaning of ' inelastic demand'.(1)

Q73.When the price of a good rises from Rs10 to Rs12 per unit, its demand falls from 25 units to 20 units. What can you say about price elasticity of demand of the good through the expenditure approach? (3)

Q74. How does change in price of a substitute good affect the demand of the given good? Explain with the help of an example. (4)

Q75. What is meant by monotonic preferences? (1)

Q76.How does change in price of a complementary good affect the demand of the given good? Explain with the help of an example.(4)

2013-14 C

Q77.Define demand.(1)

Q78. A and B are complementary goods. Explain the effects of change in price of A on demand for B. (3)

Q79. Explain the distinction between the equations of budget line and budget constraint. (4)

Q80. The price elasticity of demand of a good is – 0.5. At a price ofRs.20 per unit its demand is 300 units. At what price will its demand increases by 10 percent? (4)

Q81. Explain the characteristics of indifference curves. (6)

OR

Explain the conditions of consumer's equilibrium using utility analysis.

2014-15

Q82. Define indifferenence curve.(1)

Q83.If due to fall in the price of good X, demand for good Y rises, the two goods are: (1)

(a) Substitutes.
(b) Complements
(c) Not related
(d) Competitive

Q84. If Marginal Rate of substitution is increasing throughout, the Indifference Curve will be: (1)

(a) Downward sloping convex
(b) Downward sloping concave
(c) Downward sloping straight line
(d) Upward sloping convex.

Q 85. Explain the significance of 'minus sign' attached to the measure of price elasticity of demand in case of a normal good, as compared to the 'plus sign' attached to the measure of price elasticity of supply. (3)

Q86.A consumer spends Rs 1000 on a good priced at Rs 10 per unit. When its price falls by 20 percent, the consumer spends Rs.800 on the good. Calculate the price elasticity of demand by the Percentage method. (4)

Q87. A consumer consumes only two goods X and Y, both priced at Rs.2 per unit. If the consumer chooses a combination of the two goods with Marginal Rate of Substitution equal to 2, is the consumer in equilibrium? Why or Why not? What will a rational consumer do in this situation? Explain. (6)

OR

A consumer consumes only two goods X and Y whose prices are Rs.5 and Rs 4 respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 4 and that of Y equal to 5, is the consumer in equilibrium? Why or why not? What will a rational consumer do in this situation? Use utility analysis.

Q88. Define budget line. (1)

Q89. A consumer spends Rs 100 on a good priced at Rs4 per unit. When its price falls by 25 percent, the consumer spends Rs75 on the good. Calculate the price elasticity of demand by the Percentage method. (4)

Q90.Define Indifference Map. (1)

Q 91. A consumer spends Rs 400 on a good priced at Rs8 per unit. When its price rises by 25 percent, the consumer spends Rs500 on the good. Calculate the price elasticity of demand by the Percentage method. (4)

2015-16

Q92.When does 'change in demand' take place?(1)

Q93. A consumer consumes only two goods X and Y. Marginal utilities of X and Y are 3 and 4 respectively. Prices of X and Y are Rs4 per unit each. Is consumer in equilibrium? What will be futher reaction of the consumer? Give reasons.(3)

Q94.What will be the effect of 10 percent rise in price of a good on its demand if price elasticity of demand is (a) 0, (b)-1, (c) -2. (3)
Q95. Define demand. Name the factors affecting market demand. (4)
Q96. Explain three properties of indifference curves. (6)
Q97. When does " Change in quantity demanded " take place?(1)
Q98. A consumer consumes only two goods X and Y. Marginal utilities of X and Y are 4 and 3 respectively. Prices of X and Y are Rs3 per unit each. Is consumer in equilibrium? What will be futher reaction of the consumer? Give reasons.(3)
Q99. Define utility. Explain the Law of Diminishing Marginal Utility.(4)
Q100. A consumer consumes only two goods X and Y. Marginal utilities of X and Y is 3 . Prices of X and Y are Rs2 and Rs 1 respectively. Is consumer in equilibrium? What will be futher reaction of the consumer? Give reasons.(3)
101. Distinguish between individual's demand and market demand. Name the factors affecting demand for a good by an individual.(4)

Introduction – 4 marks

2003-04
Q1. What are the three central problems of an economy? Why do they arise? (4)
2004-05
Q2. Explain the problem of "how to produce" with the help of an example.(4)

OR

Explain the problem of "What to produce" with the help of a production possibility curve.
2005-06
Q3. Define microeconomics.
Q4. Explain the central problem of 'choice of technique'.(3)
2006-07
Q5. Explain the central problem of distribution of income. (3)
2007-08
Q6. Define "Marginal Rate of Transformation".(1)
Q7. Explain the central problem of the choice of products to be produced.(3)
2008-09
Q8. Give the meaning of opportunity cost. (1)
Q9. Why do problems related to allocation of resources in an economy arise? Explain. (3)

OR

Explain the problem of 'for whom to produce'.
2009-10

Q10. Explain the problem of ' how to produce'.(4)

OR

Distinguish between microeconomics and macroeconomics. Give examples.

2010-11 (set 1)

Q11. What is Planned economy? (1)

Q12. How is production possibility curve affected by unemployment in the economy? Explain.(3)

2010-11 (set 3)

Q13. Define macroeconomics.(1)

2011-12 (set1)

Q14. Define micro economics. (1)

Q15. Define production possibilities curve. Explain why it is downward sloping from left to right.(3)

(set2)

Q16. Explain the central problem of 'How to produce'. (3)

(set 3)

Q17. What is Opportunity Cost? Explain with the help of an example. (3)

2012-13(set 2)

Q18. Explain the meaning of Opportunity cost with the help of production possibility schedule. (4)

OR

With the help of suitable example explain the problem of ' for whom to produce'.

2013-14

Q19. The government has started promoting foreign capital. What is its economic value in the context of production possibilities frontier? (1)

Q20. Why is Production Possibilities Curve concave? Explain. (3)

2013 -14 C

Q21. Name the economic value achievable when attempts are made to increase resources in the Country. (1)

Q22. Why does the problem of 'How to produce' arise? Explain. (3)

2014-15

Q23. Giving reason comment on the shape of Production Possibilities Curve based on the following schedules : (3)

Good X(units)	0	1	2	3	4
Good Y(units)	30	27	21	12	0

Q24. What is likely to be the impact of 'Make in India' appeal to the foreign investors by the Prime Minister of India, on the production possibilities frontier of India? Explain.(3)

OR

What is likely to be the impact of efforts towards reducing unemployment on the production potential of the economy? Explain.

2015-16

Q25.Why do central problems of an economy arise? Explain the Central problem of " for whom to produce"? (6)

Q26. Draw a production possibility curve. What does a point below this curve indicate ? Explain.

OR

Explain the problem of ' What to produce' with the help of an example.

NOTES

ECONOMY: A system in which a man earns its living or
A system which provides people with the means to work and earn a living.

ECONOMICS : It is a science which studies human behavior as relationship between ends and scarce resources which have alternative uses.

MICRO ECONOMICS: The branch of economics which deals with the individuals is known as microeconomics. It is also known as price theory.

MACRO ECONOMICS: The branch of economics which deals with the aggregates of economic system is known as macro economics. It is also known as income theory.

Distinguish between Micro and Macro economics.

Microeconomics	Macroeconomics
The branch of economics which deals with the individuals is known as microeconomics.	The branch of economics which deals with the aggregates of economics system is known as macroeconomics.
It is known as price theory	It is known as income theory/ income analysis.
Its main tools are demand and supply.	Its main tools are aggregate demand and aggregate supply.

It is based on assumption other things being equal.	It is based on the assumption mutual interdependence among various economic variables.

SCARCITY: When demand is more than supply, then it is called as scarcity.

CHOICE: Selecting the best possible way of doing a job.

OPPORTUNITY COST: It is the value of the best alternative foregone.

Q.What is an economic problem? Why does is arises.
A. Economic problem is the problem of how to use our limited and scarce resources in order to get maximum satisfaction.
It arises due to following reasons:
1. Unlimited human wants: The wants of human beings are unlimited. As soon as one want gets satisfied many new wants come up. As a result of this, economic problem arise.
2. Limited Resources: The available resources are limited and scarce in comparison to the unlimited human wants. As a result of this, economic problem arises.
3. Means have alternate uses: Resources have alternate uses. The resources are not only limited but also have alternate (many) uses. As a result of this economic problem arises.

ECONOMISING OF RESOURCES: mean making the best possible use of the available resources.

Positive economics and normative economics or issues:
Positive economic studies the facts of life, i.e. it deals with things as they are positive economics deals with what are the economics problems and how are they actually solved. For example, India is an overpopulated country or prices are constantly rising.
Normative economic tells us what ought to be .Normative economics deals with what ought to be or how the economic problems should be solved. For
Example, India should not be overpopulated country or prices should not rise.

PROBLEMS OF AN ECONOMY:
There are three central problems:

1 - Allocation of resources: a) what to produce
b) How to produce
c) For whom to produce.

2 - Fuller utilization of resources.

3 - Economic efficiency.

4 - Economic Growth.

Allocation of resources : An economy has to reallocate scarce resource in such a way that serves the best needs of society. This problem relates to the production of commodities (What, how and for whom to produce).

What to produce

It is also known as choice of products. According to this problem an economy has to decide about what type of goods and in what quantities are to be produced with given resources and technology. An economy has limited resources and thus, cannot produce all the goods. More of one good or service usually means less of others. For eg.

(a) Whether it should produce consumer goods or capital goods

(b) Whether, it should produce more of consumer goods and less of capital goods and vice-versa.

How to produce

It is also called as choice of technique or choice of method of production. According to this problem an economy has to make a choice between technique of production i.e., it has to decide about the technique of production adopted by the production unit in the production of good and services with the given resources. There are two methods of production:

- Capital intensive method/ technique : there is more capital and less labour utilization.
- labour intensive method/technique : there is more labour and less capital utilization.

If labour intensive method provide employment opportunities ,then capital intensive method provide better and fast production. Availability of factors and their relative prices helps in determining in the technique to be used.

For whom to produce

This problem relates to the distribution of goods and services produced. Since resources are limited all goods and services needed by the people cannot be produced. Whatever is produced it cannot be in unlimited quantity. How should the produce of the economy be distributed among individuals in the economy? Who gets more and who gets less? This depends upon who earns how much. So it is a problem of distribution of income. To solve this problem taxation system is implemented in progressive method.

The problem can be categories under two main heads:

1. Personal distribution: It means how national income of an economy is distributed among different groups of people.
2. Functional distribution: It refers to distribution of national product among different factors of production.

Full utilization resources

This is the problem of how to achieve full employment resources. It is important that resources should not remain idle as it implies wastage of resources. The problem is to ensure full employment of all resources (especially labour).

Economic efficiency
This is the question of how to obtain efficiency in the utilization of resources and distribution of what has been produced. This is the problem of efficiency in production and distribution systems.

Economic growth
This is the question of whether the economy's capacity to produce goods and services is growing from year to year or is it remaining static. Economic growth is induced by saving and investment.

Market economy and centrally planned economy
On the basis of economic activities, economics can be broadly classified as:

- Market economy is the one in which the means of production are owned, controlled and operated by the private sector. This economy is also known as capitalist economy.
- Centrally planned economy refers to an economy in which means of production are owned, controlled and operated by the government.
  This economy is also known as socialist economy.

Basic	**Market economy**	**Centrally economy**
Meaning	It refers to an economy in which the means of production are owned, controlled and operated by the private sector.	It refers to an economy in which the means of production are owned, controlled and operated by the government.
Ownership	**All the means of production(land, labour, capital and enterprise) are private property.**	**Means of production are owned by the government in case of centrally planned economy.**
Decision making	**Decisions regarding consumption, production and investment are made independently in the market economy.**	**Decision making is done by the government only.**
Competition	**There exists stiff competition among the firms.**	**There does not exist any element of competition under centrally planned economy.**

Role of government	**Government does not play any role.**	**Government plays the complete role.**

PRODUCTION POSSIBILITY CURVE / FRONTIER : It is a curve or graphical presentation which shows all possible combinations in producing two goods that an economy can produce with given resources and technology.

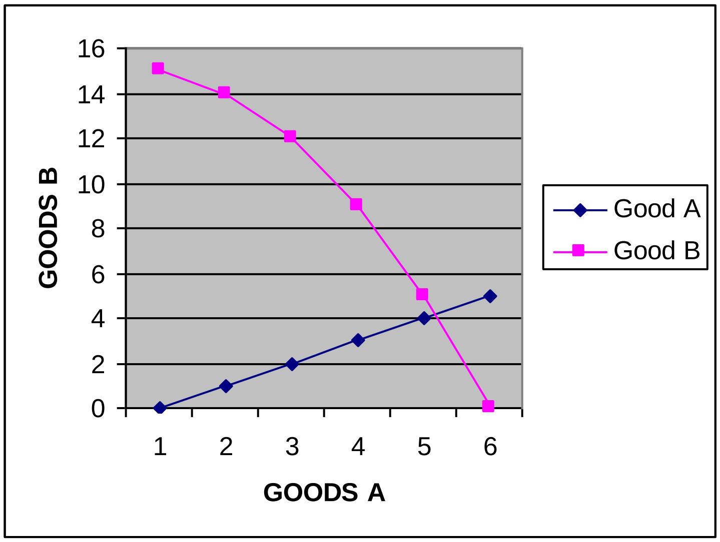
Assumptions of PPC:

The production possibility curve is based upon the following assumption –

1) An economy produces only two goods.
2) The resources are given or limited.
3) All the productive resources are fully employed.
4) Technique of production is given and does not change at all.

For e.g., Suppose an economy produces only two goods say Goods A and Good B with given resources & technology. The following schedule depicts the production possibilities of two goods.

Combinations	Good A	Good B
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0



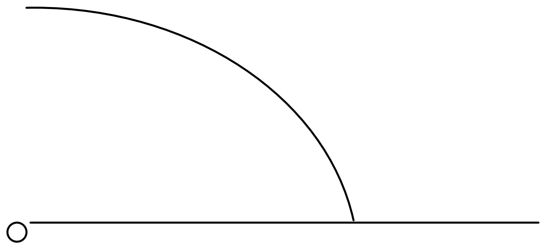
Characteristics of Production Possibility Curve:

1. Slopes downward from left to right : PPC slopes downward to the right which shows that economy scarifies the production of one commodity in order to have more quantity of the other. This ratio of more quantity of one in place of another is known as marginal rate of transformation (MRT).
2. Concave to the origin : PPC is concave to the origin because there applies law of increasing Opportunity Cost. The law of increasing opportunity cost quantity of another commodity.

Central problems and production possibility curve:

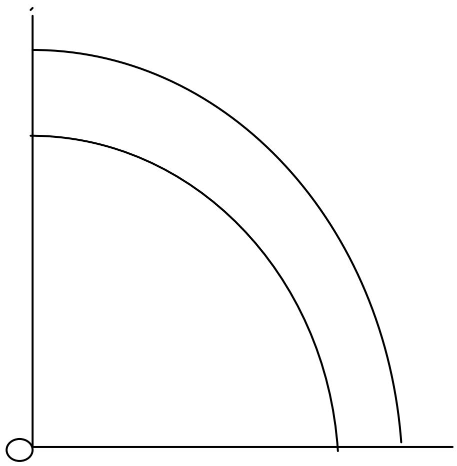
PPC is a graphic technique that helps in explaining central problems of an economy.

1. What and how much to produce: PPC helps in determining what and how much quantity of commodities should be produced.With the given resources and the state of technology, and economy can produce any combinations of goods between A,B,C,D,& E. If society chooses combinations like A,B,C, it means society decides to produce more of wheat and less of cloth. But if we choose combination E&F, it tends to produce more of cloth.
2. Problem of fuller and efficient use of resources: PPC helps in efficient utilization of society's given resources. Any point falling on AF is efficient utilization of resources and any combination below this curve would mean unemployment or under utilization of resources as shown it point K in the diagram.



In this figure at point K, less quantity of both are produced which means resources are underutilized.

3. Problem of scarcity: This can also be highlighted through PPC. For example if economy needs combination 'U' in the diagram, it needs more of cloth and wheat. It lies beyond PP frontier and economy is unable to produce it with given resources. It is an indicator of scarcity of resources as per requirement of the economy.
4. Problem of growth of resources: PPC also helps in measuring economic growth of the economy. Growth of resources is indicating through rightward shift of production possibility curve. It is explained through adjacent diagram.

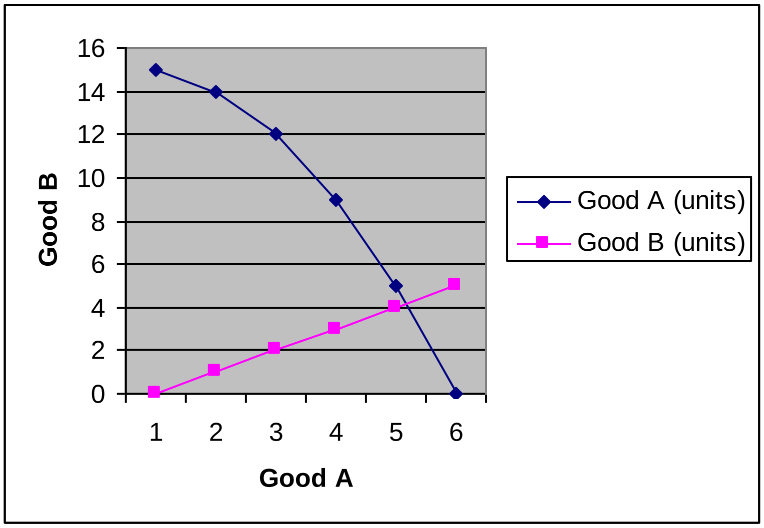


Shapes of PPC:

Combination	Good A (units)	Good B (units)	MOC
A	15	0	-
B	14	1	1:1
C	12	2	2:1
D	9	3	3:1
E	5	4	4:1

F	0	5	5:1

a) Generally production possibility curve is concave to the origin. It is due to the increasing marginal opportunity cost.(MRT)



b) PPC can be a straight line also. When MRT is constant.

Combination	Good A (units)	Good B (units)	MOC
A	10	0	-
B	8	1	2:1
C	6	2	2:1
D	4	3	2:1
E	2	4	2:1
F	0	5	2:1

c) PPC may also be convex to the origin. When there is a decreasing MRT.

Combination	Good A (units)	Good B (units)	MOC
A	10	0	-
B	6	1	4:1
C	3	2	3:1
D	1	3	2:1
E	0	4	1:1