Factors

28 June 2023 21:07

Theory of Demand

Playstation | Gaming Laptop

↓

Business - Cost - 30,000 → Family Income

	Aman	Kanika	Aparna	Vanshika	Bhavya	
Desire	✓	X	X	✓	✓	Demand - 3 unit
+ Buying cap. ↓ Purchasing Power	✓	✓		✓	X	2 unit
+ Willing to pay	X	✓		X		0 unit
	—					Demand = 0

Effective Demand = Desire [Want]
+
Purchasing Power
+
Willingness to pay

→ How Demand is expressed?

-CCW a) Always expressed at a given price.

P	Qty.
₹10	100 unit
₹15	80 unit

b) Quantity Demanded is a Flow concept

Stock	Flow
Balance Sheet	Profit & Loss
as on...	for the year
↓	↓
Particular point of time	Period of time

As on... → Particular Point of time

for the year → Period of time

Ex- 100 units per day, per week, per month, per year.

→ At ₹20,000, Quantity Demanded is 10 units per Month.

At given price

Period of time.

* What Determines Demand.

Factors affecting Demand.

1. Price of the commodity -

(Other factors remaining constant)

P_x ↑ Q_x ↓

P_x ↓ Quantity Demand ↑

Inverse | Indirect Relation.

2. Price of Related commodities

- Substitute / Competitive
  - Tea
    - No change Price
    - Q_x ↓
    - → Jio: P_x - 555 (No change)
    - Airtel: 570 → 520
    - Q_x ↓
  - Coffee
    - P_c ↓
- Complementary
  - Badminton Racket - Price - ₹2200 (No change in Price)
    - Q_x ↓
    - → Car (No change in Price)
  - Shuttle - ₹900 → ₹1100 ↑
  - Petrol
    - ₹70/- litre ↓

→ Q_x of the commodity & price of

→ Q_x of the commodity & price of Sub. goods / goods

↓

Direct Relation

P_s ↑ Q_x ↑

P_s ↓ Q_x ↓

No change in Price

Q_x ↓

₹70/- litre ↓ ₹100/- litre

P_c ↑ Q_x ↓

P_c ↓ Q_x ↑

Inverse

3. Disposable Income of the consumer.

↓

Income remaining after all taxes

In General. Income ↑ Q_x ↑

Normal

Income ↑ Demand ↑

↓

Direct

Inferior

↓

T-shirt - ₹90

Income ↑ Demand ↓

Inverse | Indirect

Essential

Necessary

Salt, Sugar, Medicines

↑ Δ in Income

↑ Δ in QD

4. Tastes & Preferences

Favourable ↑ Demand ↑

Unfavourable ↓ Demand ↓

→ External effects

1] Demonstration effect:

→ James Duesenberry

→ Copy Consumption behaviour - Jealousy

→ If you Can buy, I can buy too.

└ Purchasing Power

2] Bandwagon effect → [FOMO]

→ Demand is increased because others are also consuming the same commodity.

→ Demand is increased because others are also consuming the same commodity.

→ Demand ↑ because people wish to be a part of a group.

3] Snob effect :-

- Desire to be exclusive ✓
- Demand ↓, because other people are consuming same comm.
- Disassociate themselves from 'common herd'

4) Veblen effect → Thorstein Veblen ✓

→ Public display of wealth & social status

→ Conspicuous Consumption

Show-off

→ Demand ↑

5] Customer Expectation *

Price | Income | Supply

1] Price

In future, ↑ Price - Current Demand ↑

↓ Price - Current Demand ↓

Imp

2] Income-

Future, ↑ Income - Current Demand ↑

↓ Income - Current Demand ↓

3] Supply

Future, ↓ supply - Current Demand ↑

↑ Supply - Current Demand ↓

Future, ↑ Supply - Current Demand ↓

↑ Supply - Current Demand ↓

Mango

6) Size of Population.

↑ Population ↑ Demand

- Age Distribution of population

↑ older age group – Medicines ↑
- Walking Stick ↑
- Spectacles ↑
- Health care ↑

↑ children - Toys ↑
Chocolate ↑
Stationery ↑

7) Level of National Income & Distribution.

↑ National Income ↑ Normal Goods

↓

Uneven Distribution - few Rich people
Majority poor people.

→ Propensity to consume of the Rich people will be less.

↓

Demand for consumer goods ↓ Luxury Goods ↑

Ω Ω – Ω. Govt school – Private school
Income. 20,000
└ 50,000

→ Even Distribution. Income ↑ Normal Goods ↑

8) Consumer Credit facility & Int rates

Credit facility Easily Available ↑ Demand ↑

Int Rates ↓ Demand ↑

9) Govt policy & Regulation.

↓

Taxation. Subsidies

Taxes ↑ Price ↑ Income ↓ Demand ↓

Subsidy ↓ Price ↑ Demand ↑

Taxation. Subsidies

Chinese Import duty (Tax) ↑ - Price ↑ Demand ↓

Subsidy ↓ Price ↑ Demand ↓

Income ↓ ∫ —

x ——x

MCQs

04 July 2023 21:48

4th July

Multiple Choice Questions

1) **In economics, demand is a**
   a) Flow concept
   b) Stock concept
   c) Wealth concept
   d) None of the above

2) **How are Apples and Oranges related when as result of rise in prices of Apples, demand of orange increases?**
   a) Substitute goods
   b) Complementary goods
   c) Normal goods
   d) Inferior goods

A P↑ O D↑
Sub.

Multiple Choice Questions

3) **If two goods are complementary then rise in the price of one results in:**
   a) Rise in demand for the other
   b) Fall in demand for the other
   c) Rise in demand for both
   d) None of these

4) **If the income of the people rises, demand for the inferior goods will**
   a) Increase
   b) Decrease
   c) Remain constant
   d) None of the above

Multiple Choice Questions

5) **If two goods are complementary then rise in the price of one results in:**
   a) Rise in demand for the other
   b) Fall in demand for the other
   c) Rise in demand for both
   d) None of these

6) **As the consumer's income increases , the demand for necessities of life will increase _____ to the increase in income**
   a) Less than proportionate
   b) More than proportionate
   c) Proportionate
   d) None of these

Essentials

Change in Demand < change in Inc.

Multiple Choice Questions

7) **In case the consumer expects a steep rise in price of Potatoes in future, his current demand for it will:**
   a) Remain same
   b) Fall
   c) Rise
   d) None of these

8) **The tendency of people to imitate the consumption pattern of other people is known as**
   a) Demonstration
   b) Bandwagon
   c) Prestige
   d) Veblen

copy

Multiple Choice Questions

9) **When the quantity of a commodity than an individual buyer demand falls in response to the growth of purchases by other buyers, such an effect**

a) Bandwagon
b) Snob
c) Veblen
d) Demonstration

10) **Some buyer's demand more of a certain commodities at a higher price, such an effect is called**

a) Bandwagon
b) Snob
c) Demonstration
d) Veblen

Law of Demand

05 July 2023 21:05

1] Demand function:

↓

Relationship b/w Independent & Dependent variable

$x = y + 5$ $\quad x = f(y)$

x → Dependent, y → value

Demand function:

$$Q_x = f[P_x, Y_c, P_R]$$

Q_x → Demand, Dependend; Y_c → Income, Independent

→ Relationship b/w Quantity demanded for a product & its determinant (Factors affecting demand)

→ Law of Demand:

↳ Prof. Alfred Marshall

" Amount demanded increases with a fall in price & diminishes with rise in price."

कम होना

↑ Price ↓ Demand

↓ Price ↑ Demand

- Inverse relationship b/w price & Quantity demanded.

Ceteris paribus.

Other factors constant

→ Demand Schedule

↳ Table showing quantities of a good that buyers would chose to purchase at diff. prices, per unit of time, ceteris paribus.

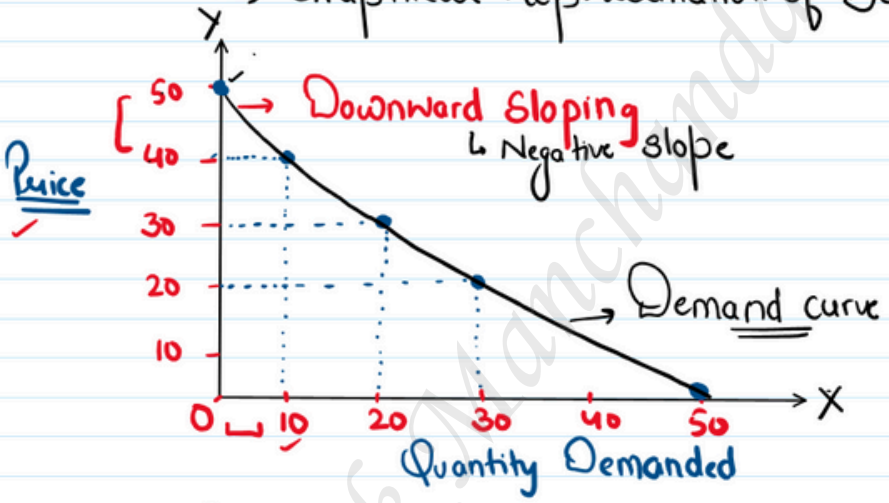
Individual Demand Schedule

	Price of chocolate	Quantity Demand

	Price of chocolate (₹)	Quantity Demand (per week)
A	50	0
B	40	10
C	30	20
D	20	30
E	0	50

→ **Demand Curve**

↳ Graphical representation of Demand schedule.



→ **Slope** = $\frac{\text{Change in Y}}{\text{Change in X}} = \frac{-10}{10} = -1$ Negative

$= \frac{\Delta Y}{\Delta X} = \frac{\Delta \text{ Price}}{\Delta \text{ Demand}}$

↓

Inverse relation b/w price & Demand

* **Market Demand:**

↳ Quantity Demanded by all the buyers in the Market.

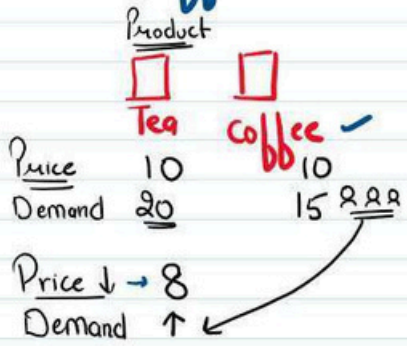
* **Rationale of Law of Demand:**

↳ Why Law of Demand works?

1) **Substitution effect**

Product

1) Substitution effect



a) Price falls ↓, Substitution effect is +ive (Favourable), it will cause demand to increase.

b) The Substitution effect will be stronger when:-

(i) Goods are closer substitute.
(ii) Lower cost of switching to substitute Goods.
(iii) Lower inconvenience while switching.

2) Income effect:

Chips - ₹10 ↓ ₹5 — ₹5 save ✓ - 2 packet → Income ↑

Adidas - 50·1. ..... 70·1.
T-shirt · ₹999
Lower · ₹1999
Cap - ₹499
After 50·1. Disc. 3500 → 2100 — 1400₹ ✓ - Income ↑ Purchasing Power ↑
T-shirt ✓

→ Fall in the price of comm. → ↑ in Real Income ↑ Purchasing Power → More Demand

3) Utility Max behaviour of customer:

Utility → Satisfaction

Buy 1 - MRP → T-shirt · ₹1000 ✓
Buy 2 · 30·1. off. T-shirt · ₹700 ✓

→ Customer has diminishing utility for each additional unit of a commodity &

→ Customer has diminishing utility for each additional unit of a commodity & willing to pay less for each add. unit.

4) Arrival of new customers -

Budget ₹50,000 — Current Price ₹60,000

Sale - 15 & 16 July

₹50,000 ✓
Ready to buy

P↓ - Arrival of new customers
Demand↑

5) Different uses: 2010-12

└ Milk = 20l. litre

2l

Chai

P↓ - More no. of uses - Demand↑

Milk ↓ 18l. litre

P↑ - Limited uses Demand↓

3l

Chai Kheer

x ——— x

Exceptions

06 July 2023 21:21

→ Exceptions to Law of Demand:

1. Conspicuous Goods: → Founded by Veblen

a) Articles of prestige value/ high prices are used by rich people as status symbols.

b) These goods are purch. only if their prices are high.

c) Ex- Diamond

2. Giffen Goods: – a) Inferior with no close Substitute.

↓
Sir Robert Giffen

b) Occupy a Substantial (place) in consumer budget

Ex- 8 Family - ₹400

	Bread	Poha
Price	20/-	100/-
	↓	↓
	10	2
	200	200
Price ↑25	12 ↑	1 ↓
	300	100

P↑. Demand↑ - Law of Demand✗

– Bread: even when its price increased, it was still the cheapest food article, people consumed more of it.

3) Consbicuous Necessities:

3) Conspicuous Necessities:

↳ Demonstration / Band wagon
- Even though some goods are not necessary, becomes necessity of life.

Price ↑
Demand ↑.

Ex- TV, washing Machine

*4) Future expectation about price

→ Prices are rising & it is expected that price will even higher in future ∴ Demand ↑

5) Incomplete Info. & Irrational Behaviour.

a) Law of Demand assumes consumers to be rational
b) However, customers may demand larger quantities event at higher prices because of incomplete info.
c) Sometimes, consumers make impulsive puchases without thinking abt prices.

6) Demand for necessities: - Irrespective of price change, demand for necessities will not change

Essential Goods

7) Speculative Goods:

↓
Stocks

Price ↑. Demand ↑

Price ↓ Demand ↓

Tata Motors ⇢ or bhi badega
↳ Demand ↑

Zomato ⇢ Demand ↓
⇢ or Ram

Movement/Shift

08 July 2023 16:18

→ Demand & Quantity Demanded.

Example:

P	Q
10	2
8	5
5	10

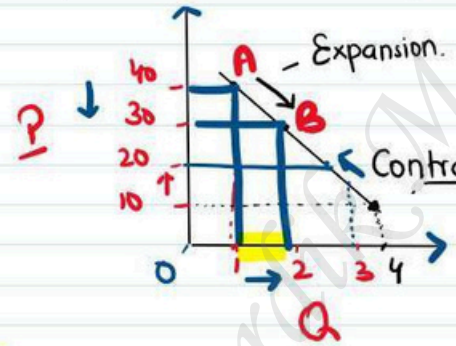
Chocolate

Demand - Represents the entire relationship b/w price & demand, taking into account various other factors. ← Overall desire of customer to purchase at various price

Quantity Demanded - Refers to specific quantity associated with a particular price.

* Expansion / Contraction of Demand.

↓ change in own Prices



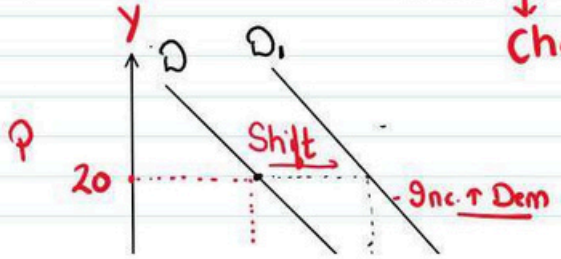
Movement

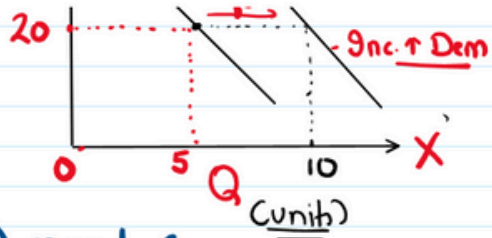
1) **Expansion** - ↓ own Price ↑ Quantity Demanded
→ Downward Movement on Demand

2) **Contraction** - ↑ own Price ↓ Q.D.
→ Upward Mov. on Demand curve.

* Increase / Decrease in Demand

↓ change in other factors





→ Shift in Demand Curve.

1. Income

↑ in Income —
- Normal goods — Rightward shift
- Inferior goods - Leftward shift

↓ in Income —
- Normal Goods — Leftward shift
- Inferior goods - Rightward shift

2. Substitute Goods

↑ price of Sub goods - Rightward shift
↓ price of Sub goods - Leftward shift

3. Complementary Goods :

↓ in price of Comp goods - Rightward shift
↑ in price of comp goods - Leftward shift

4. Customer Expectation :

Price ↑ in future - Rightward shift
Price ↓ in future - Leftward shift

5. Tast & preference

Change in favour of own goods - Rightward Shift
Change not in favour - Leftward shift

Change not in favour - Leftward shift

X ——— X

Elasticity of Demand

11 July 2023 21:06

→ **Elasticity of Demand**

↓

How much? - Magnitude

Price ↓ 10/- Demand ↑ kitni? - Elasticity

→ Responsiveness of quantity demand to change in one of the factors affecting demand.

→ Elasticity of demand tells you that how sensitive is the demand for the product to its factors.

→ Example:

	P_x (₹)	D_x unit
P	200 ↓	10 ↑
P_1	100	40

E_d = % change in Price = $\frac{P_1 - P}{P} \times 100$ → change in Price

$= \frac{P_1 - P}{P} \times 100$

$= \frac{100 - 200}{200} \times 100$

$= \frac{-100}{200} \times 100^{50} = -50\%$

↓ Decrease

Δ - Delta

Δ - Delta

→ % Change in Q.D = $\frac{40-10}{10} \times 100$ — Change = 30

= $\frac{30}{10} \times 100 = +300\%$

Inc.

$E_d = \frac{\% \Delta \text{ in Q.D.}}{\% \Delta \text{ in Price}} = \frac{300}{-50} = -6$ — Price elasticity of Demand

↓ Law of Demand

↓ By default

→

	Income of Consumers	Demand
↑	₹20,000	20
	₹30,000	40

Change - 20

E_d → Income elasticity of Demand = $\frac{\% \Delta \text{ in Q.D.}}{\% \Delta \text{ in Cons Income}}$

% Δ in Income = $\frac{+10,000}{20,000} \times 100 = 50\%$

% Δ in Q.D = $\frac{20}{20} \times 100 = 100\%$

$E_d = \frac{100}{50} = 2$

1] Price Elasticity of Demand — % Method

↳ Responsiveness of Q.D. of a goods to change in its price.

$E_p = \frac{\% \Delta \text{ in Q.D}}{}$

↓ change in Unit price. ∪

$$E_p = \frac{\%\ \Delta \text{ in Q.D.}}{\%\ \Delta \text{ in Price}}$$

$$\%\ \Delta \text{ in QD} = \frac{Q_1 - Q_0}{Q_0} \times 100 \quad (Q_1 - Q_0 = \text{change})$$

$$= \left| \frac{\Delta Q}{Q_0} \times 100 \right|$$

$$\%\ \Delta \text{ in Price} = \frac{P_1 - P_0}{P_0} \times 100$$

$$\left| = \frac{\Delta P}{P_0} \times 100 \right|$$

$$E_p = \frac{\Delta Q}{Q_0} \times 100 \div \frac{\Delta P}{P_0} \times 100$$

$$\boxed{E_p = \frac{\Delta Q}{Q_0} \times \frac{P_0}{\Delta P}} = \frac{\Delta Q}{\Delta P} \times \frac{P_0}{Q_0}$$

⇒ Example: Price of a product reduces from 6 to 4 & Q.D increased from 10 to 15

$$E_p = \frac{5}{-2} \times \frac{6}{10} = -1.5$$

Example: $\%\ \Delta$ in Q.D = 25
$P_0 = 100 \quad P_1 = 80$

$$\%\ \Delta \text{ in Price} = \frac{-20}{100} \times 100 = -20\%$$

$$E_p = \frac{25}{-20} = -1.25$$

Ex- $E_p = 1$. At given price customers buy 60 units How many

Ex- $E_p = 1$. At given price customers buy 60 units. How many units will customers buy if price fall by 10%.

$$E_p = \frac{\% \Delta \text{ in Q.D.}}{\% \Delta \text{ in Price}}$$

$$-1 = \frac{\% \Delta \text{ in Q.D.}}{-10}$$

$$\% \Delta \text{ in Q.D} = 10$$

$$\frac{Q_1 - 60}{60} \times 100 = 10$$

$$Q - 60 = 6 \Rightarrow Q_1 = 66$$

Ex- Price of goods decreases from ₹100 to ₹60

$E_p = 1.5$ $Q_0 = 30$ Q_1?

$$-1.5 = \frac{\Delta Q}{-40} \times \frac{100}{30}$$

$$18 = \Delta Q$$

$$Q_1 - Q = 18$$

$$Q_1 - 30 = 18$$

$$Q = 48$$

Ex- Consumer buys $\overset{Q_0}{80}$ units at price of $\overset{P_0}{₹4}$ p.u.

$E_p = -4$. At what price $\underset{P_1}{\quad}$ will he buy $\underset{Q_1}{60 \text{ units}}$.

$$E_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$-4 = \frac{-20}{\Delta P} \times \frac{4}{80} \Rightarrow +4 = \frac{-8}{\Delta P \times 8}$$

$$\Delta P = \frac{1}{4} = 0.25$$

$$P_1 - P = 0.25$$

$$P_1 - 4 = 0.25$$

$$P_1 = 4.25$$ ✓

X——X

Interpretation of Elasticity

12 July 2023 14:28

Ex- $P_0 = ₹100$ $Q_0 = 50$.

$P_1 = ₹120$ $Q_1 = 40$

$$E_d = \frac{\Delta Q}{\Delta P} \times \frac{P_0}{Q_0} = \frac{-10}{20} \times \frac{100}{50} = -1$$

* Interpretation of Numerical value of elasticity.

Range

$$E_d = \frac{\% \Delta \text{ in } Q.D.}{\% \Delta \text{ in Price}} \rightarrow \frac{0}{n} \rightarrow \frac{n}{0} =$$

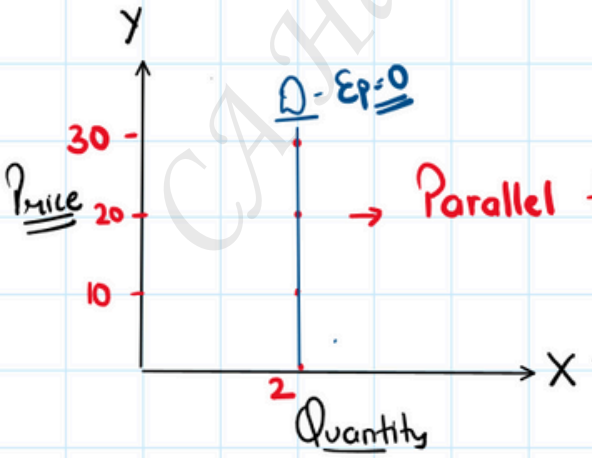
→ Varies from zero to Infinity = $0, \infty$

1] $E_p = 0$ - Perfectly Inelastic

$$E_p = \frac{\% \Delta \text{ in } Q.D.}{\% \Delta \text{ in Price}} \rightarrow \frac{0}{n}$$

a) When Q.D. does not respond at all to price chan

b) Extreme case of price insenstivity.



→ Parallel to Y axis.

2] $E_p < 1$ = Inelastic

$E_p = \%\Delta$ in Q.D.

2] $Ep < 1$ - Inelastic

$$Ep = \frac{\% \Delta \text{ in } QD.}{\% \Delta \text{ in Price}}$$

$\Rightarrow$ % Δ in Price > % Δ in Q.D.

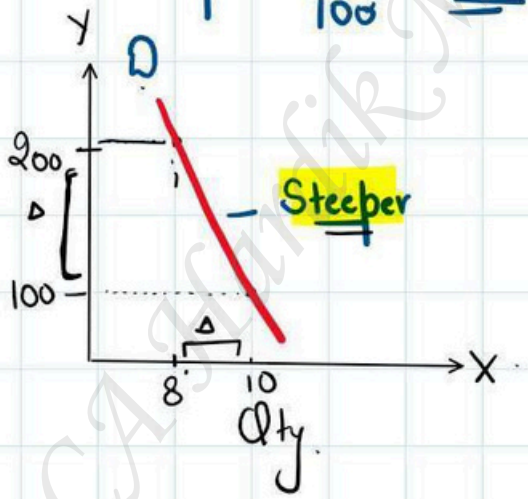
* Q.D is relatively insensitive to price changes.

	Q	P
Origin.	10	100
Change	8	200

% Δ in Price = 100% $\left[\frac{100}{100} \times 100\right]$

% Δ in Qty = 20% $\left[\frac{2}{10} \times 100\right]$

$$Ep = \frac{20}{100} : 0.2 \cdot \text{Inelastic}$$



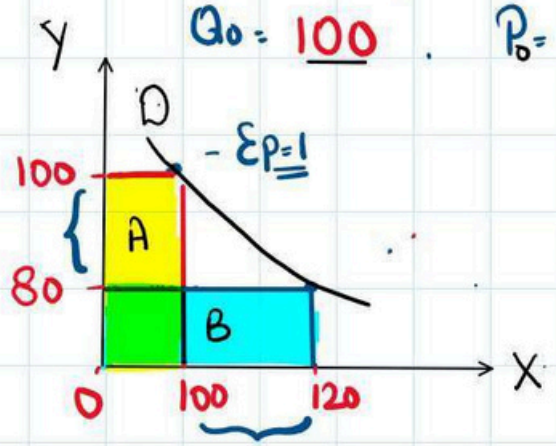
3] $Ep = 1$ - Unitary elastic

$$Ep = \frac{\% \Delta \text{ in } Q.D.}{\% \Delta \text{ in Price}}$$

% Δ in QD = % Δ in Price

$Q_1 = 120$ $P = 80$

$Q_0 = 100$ $P_0 = 100$



→ Demand curve is rectangular hyperbola.

↓

Area same

4) $E_p > 1$ - Elastic

$\% \Delta$ in Q.D > $\% \Delta$ in Price

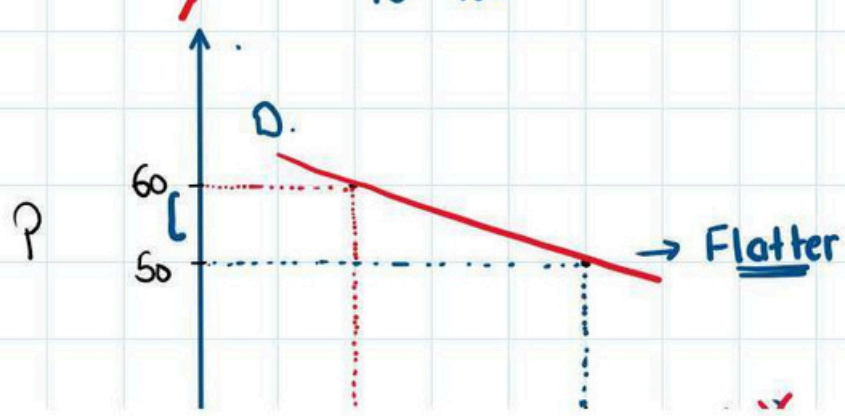
→ QD is relatively Sensitive to price changes.

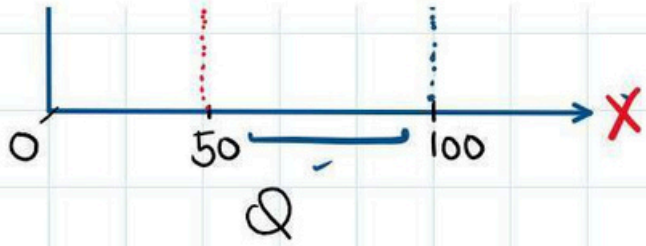
Ex-

$Q_0 = 100$ $P_0 = 50$

$Q_1 = 50$ $P_1 = 60$

$E_p = \frac{50}{10} \times \frac{50}{100} = 2.5 > 1$





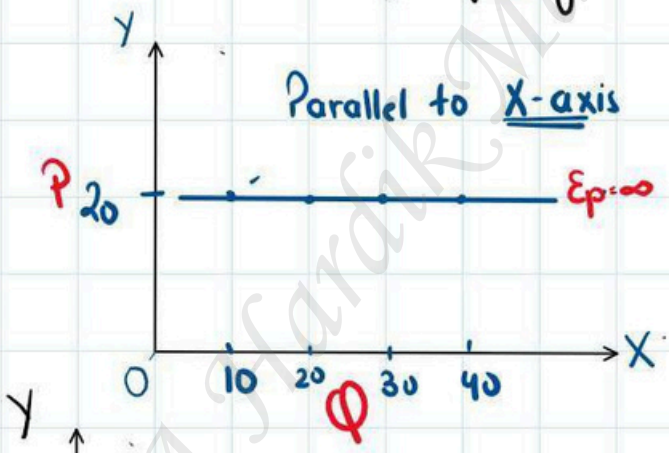
5) $E_p = \infty$ Perfectly Elastic

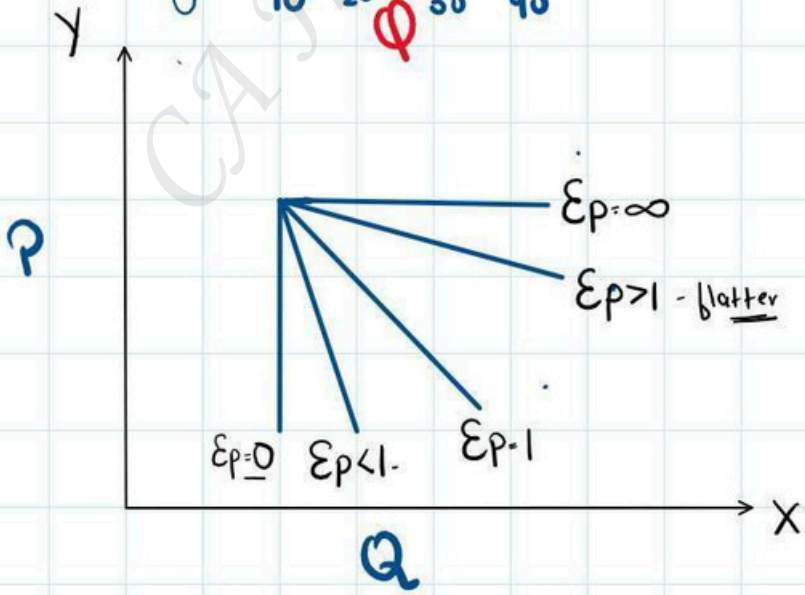
$E_p = \frac{\% \Delta \text{ in Q.D}}{\% \Delta \text{ in Price}} = 0$

$\% \Delta \text{ in Price} = 0$

→ Small change in price leads to change in Q.D.

→ Found in perfectly competitive Market.

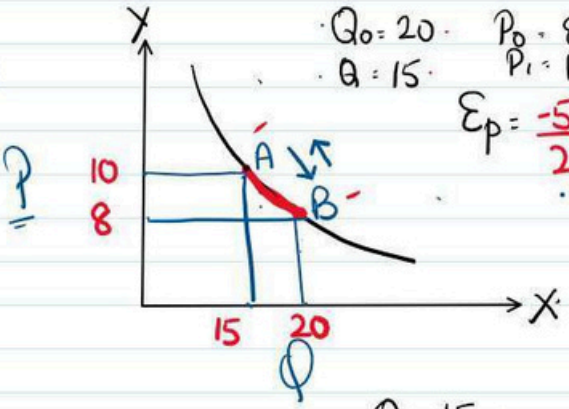




Arc & Geometric

13 July 2023 18:39

Example:



$Q_0 = 20$ $P_0 = 8$
$Q_1 = 15$ $P_1 = 10$ ✓

$E_p = \frac{-5}{2} \times \frac{8}{20} = -1$

$Q_0 = 15$ $P_0 = 10$
$Q_1 = 20$ $P_1 = 8$

$E_p = \frac{5}{-2} \times \frac{10}{15} = -1.67$

* ARC Elasticity

↳ To measure elasticity over some portion of demand curve rather than at a single point.

$$E_p = \frac{\Delta Q}{\Delta P} \times \left[\frac{\frac{P_0+P_1}{2}}{\frac{Q_0+Q_1}{2}}\right] = \left[\frac{\Delta Q}{\Delta P} \times \frac{P_0+P_1}{Q_0+Q_1}\right]$$

$$E_p = \frac{Q_1-Q_0}{P_1-P_0} \times \frac{P_0+P_1}{Q_0+Q_1}$$

$$= \left[\frac{Q_1-Q_0}{Q_0+Q_1} \times \frac{P_1+P_0}{P_1-P_0}\right]$$

Ex-

$$\frac{5}{35} \times \frac{18}{2} = 1.29$$

MCQ

1. Method

Suppose the price of movies seen at a theatre rises from Rs. 120 per person to Rs. 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? *(Use Arc elasticity Method)*

a) Rs. 0.5

4

a) Rs. 0.5
b) Rs. 0.8
c) Rs. 1
d) Rs. 1.2

$$E_p = \frac{100}{500} \times \frac{320}{80}$$

If the local pizzeria raises the price of a medium pizza from Rs. 60 to Rs. 100 ar quantity demanded falls from 700 pizza a night to 100 pizza a night, the price elasticity of demand for pizza is: *(Use Arc elasticity Method)*

a) Rs. 0.67
b) Rs. 1.5
c) Rs. 2.0
d) Rs. 3

$$\frac{600}{800} \times \frac{160}{40}$$

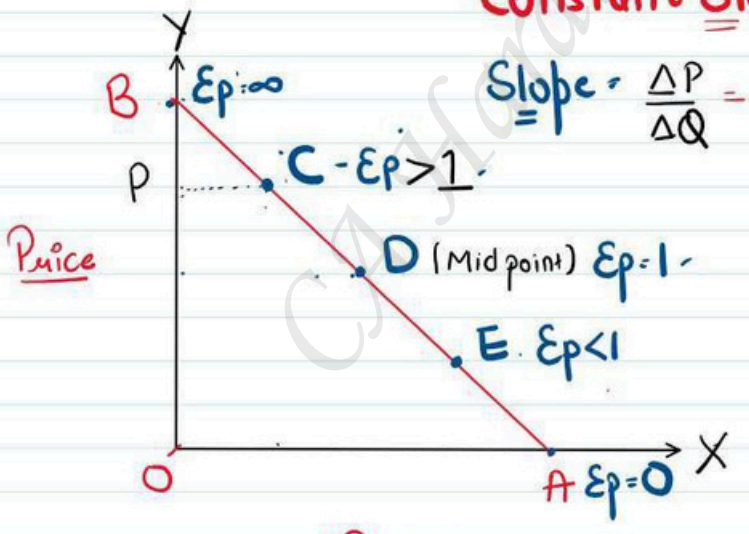
* Geometric Method

1] Linear Demand Curve ✓

↓

Constant Slope

Slope = $\frac{\Delta P}{\Delta Q}$ = Same



$$E_p = \frac{\Delta Q}{\Delta P} \times \frac{P \uparrow}{Q \downarrow}$$

$$E_p = \frac{\text{Lower Segment}}{\text{Upper Segment}}$$

Upper Segment

Point B = $\frac{AB}{0} = \infty$

Point C = $\frac{CA}{CB}$, CA > CB. $E_p > 1$

Point D (Mid-point) = $\frac{DA}{DB}$, DA = DB. $E_p = 1$

Point E = $\frac{EA}{EB}$, EA < EB, $E_p < 1$

Point A = $\frac{0}{AB}$. $E_p = 0$

x ——x—— x

Total Outlay Method

14 July 2023 21:06

* Total Outlay Method / Expenditure Method

- ✓ Expenditure = Price x Quantity
  or
- ✓ Revenue

Example: 1. Chocolate

a]

P		Q	Exp.
50	×	20	1000
40	×	25	1000

b]

P	Q	Exp
20	100	2000
25	80	2000

Change in Price → Exp. remains the same → Price effect = Qty eff. ⇒ Ep = 1

2] a]

P	Q	Exp.
↓ 50	100	5000
40	110	4400

Price ↓ Exp. ↓ Direct Relation

Price effect > Qty effect

Ep < 1

b)

P	Q	Exp
↑ 50	100	5000
60	90	5400

P ↑ Exp ↑ Direct relation

Ep < 1

3] a)

P	Q	Exp.
↓ 50	100	5000
40	150	6000

Price ↓ Exp ↑ Inverse relation

↓	50	100	5000	Exp ↑ relation
	40	150	6000	

P.E. - 100×10 = 1000

Q.E. - 50×40 = 2000

$Ep > 1$

b)

	P	Q	Exp	
↑	50	100	5000	Price ↑ Exp ↓ Inv. Relatio
	60	80	4800	

$Ep > 1$

Price	Inv. Relation blw price & Exp ⇑ Elastic	Demand ↗ No change in Exp unitary elastic	Direct relation blw ↑ Price & Exp Inelastic
Increase	Exp. Decrease	Exp - No change	Exp - Inc.
Decrease	Exp - Increase	Exp - No change	Exp - Dec.

MCQ

1. $Ep = 2$

$\% \Delta$ in Qty = -20 % Q↓

$P_0 = 10$ ✓

$P_1 = ?$ P↑ ✓

$\rightarrow \left[-2 = \frac{\% \Delta \text{ in Qty}}{\% \Delta \text{ in Price}}\right] \Rightarrow$ % Δ in Price = 10 %

10 + 1 = 11

$\left[\frac{P_1 - P_0}{P_0} \times 100 = 10\right]$

$P_1 = 11$

2) ↑ $P_0 = 100$ $Q_0 = 80$

$P_1 = 120$ $Q = 60$

1. Arc elasticity

$$E_p = \frac{20}{20} \times \left[\frac{220}{140}\right]$$

$$E_p = 1.57$$

2. Expenditure Method

Exp
8000 ↓
7200

Inverse – Elastic

$E_p > 1$

* Point Elasticity

Point Elasticity

17 July 2023 20:25

→ Point Elasticity

Ex- Cars

Selling price - ₹40,00,000
Price ↓ ₹39,99,000] ₹1000 ↓

* Used for measuring price elasticity where change in price is **infinitesimal**.
  ↳ very small change.

Maths

$$E_p = -\frac{dq}{dp} \times \frac{p}{q} \rightarrow \frac{\Delta Q}{\Delta P} \times \frac{P}{q}$$

↓

Derivative of quantity with respect to price

For example: **Demand function:**

$$q = a - bp$$ (p - Price)

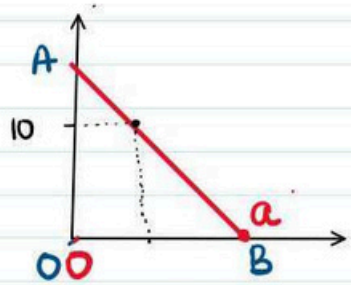
↓

Vertical intercept

↓

quantity demanded when price is zero.

b = slope



Price 0

Qty → price ↓

$q = 80 - 2p$. at price = ₹10

$= 80 - 2 \times 10$

$= 60$ ✓

→ dependent

$\rightarrow E_p = \frac{dq}{dp} \times \frac{p}{q}$

$= \frac{d[80-2p]}{dp} \times \frac{10}{60}$

$\left[\frac{d[80]}{dp} - \frac{d[2p]}{dp}\right] \times \frac{10}{60}$

$[0 - 2] \times \frac{1}{6}$

$E_p = \frac{-2}{6} = \frac{-1}{3} = -0.33$

Rules:

1. Derivative of constant w.r.t price = 0

$\frac{d[20]}{dp} = 0 \Rightarrow \frac{d[100]}{dp} = 0$

2. Derivate of price w.r.t price = 1

$\frac{dp}{dp} = 1$

Ex- Determine the price elasticity:

$q = 1200 - 10P$, price = ₹5 ✓

$\Rightarrow q = 1200 - 10 \times 5$

$= 1150$

$E_p = \frac{dq}{dp} \times \frac{p}{q}$

$= \frac{d[1200-10p]}{dp} \times \frac{5}{1150}$ ← (-10)

$= \left[\frac{d[1200]}{dp} - \frac{d[10p]}{dp}\right] \times \frac{5}{1150}$

$= 0 - 10\frac{dp}{dp}$

$= -10 \times \frac{5}{1150} = -0.0434$

$$= -10 \times \frac{5}{1150} = -0.0434$$

x ——— x

* Determinants of price elasticity of demand.

1] Availability of Substitutes:

a) Degree of Substitutability

b) Extent of availability of Sub.

→ Close or perfect Substitute: → highly elastic. $E_p > 1$.

As a commodity

Ex- Salt, petrol, Mobile phone

↓

No Substitute

↓ Inelastic

As a brand

Ex- Diff. Brands are available

→ Brands can have elastic demand.

2] Position of a commodity in the consumer budget.

→ Greater the proportion of Income spent on commodity

↓

Greater the elasticity & vice versa.

Ex- Salt, matchbox, etc. - highly inelastic.

- Admission fees, travelling, food, etc - elastic.

3) Nature of the need that commodity Satisfies:

3) Nature of the need that commodity Satisfies:

- Luxury → Ex- iPhone, playstation → Elastic → Possible to Postpone
- Necessity → Inelastic → Ex- Black pen, Calculator → Cannot be postponed.

4. No. of uses to which a commodity can be put

- More uses → Elastic → Ex- Price ↓ - people extend their consumption to other uses.
- Limited uses → Inelastic. → Ex- Pen

5. Time period – Times gives buyer an opportunity to find alternatives or substitute or change their habits

- More time to Adjust → More elastic
- Less time to adj → Inelastic.

6. Tied Demand: - Demand for those goods which are tied to other i

- Complementary → Tied → Inelastic
- normally inelastic. → Autonomous → Elastic

Inelastic Elastic

7. Price Range

8. Minor Complementary items:

सस्ता ✓

↳ cheap complementary items to be used together with an expensive product

↓

Inelastic.

Income Elasticity

19 July 2023 21:06

INCOME ELASTICITY

↓

Consumer

→ Degree of responsiveness of quantity demanded of a good to change in income of consumer.

$$E_i = \frac{\%\Delta \text{ in demand}}{\%\Delta \text{ in income}}$$

$$= \frac{\Delta Q}{\Delta Y} \times \frac{Y}{Q}$$

Example:

Income	Demand
10,000	20
15000	40

$$\%\Delta \text{ in demand} = \frac{Q_1 - Q}{Q} \times 100$$

$$= \frac{40-20}{20} \times 100 = 100\%$$

$$\%\Delta \text{ in Income} = \frac{5000}{10,000} \times 100 = 50\%$$

$$E_i = \frac{100}{50} = 2$$

imp

Example

Car type	Price	Qty.
New	650,000	400
old	60,000	4000 → Q_0

→ Income of consumer increased by 10%.
Sales of new car increased to 500.
Sales of old car decreased to 3850. → Q_1

E_i (New car) $= \frac{25}{10} = +2.5$ → Normal Goods

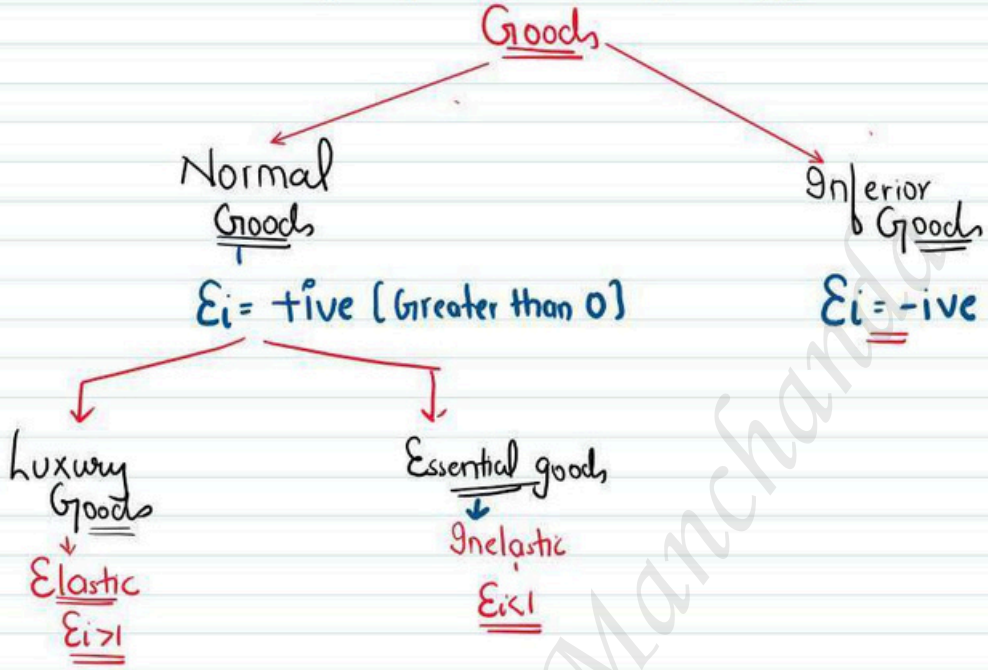
E_i (old car) $= \frac{-150}{400} \quad \frac{\%\Delta \text{ in Demand}}{-3.75} \quad -0.375$

$$E_i \text{ (Cold car)} = \frac{\frac{-150}{4000} \times 100}{10} = \frac{-3.75}{10} = -0.375$$

(% Δ in Demand)

→ Inferior

- Income elasticity depends on type of goods.



* Proportionate Method

There is a relationship b/w income elastic for good & proportion of income spent on it

1] Proportion of income spent remains same as income inc./dec.

Income		Amt Spent	Proportion of Income	Price	Qty.	
	10%					
% Δ in Income 100%	100,000	10,000		₹1000	10	% Δ in Qty 100%
	200,000 (10%)	20,000		₹1000	20	

$$E_i = 1$$

2] Proportion of income spent on good increases as income increases.

	Income		Amt spent	Price	Qty	
100%	100,000	10%	10,000	₹1000	10	300%
	200,000	20%	40,000	₹1000	40	

$E_i > 1$

3] Proportion of income spent on good decreases as income increases.

	Income		Amt spent	Price	Qty	
100%	100,000	10%	10,000	₹1000	10	60%
	200,000	8%	16,000	₹1000	16	

$E_i < 1$:

→ Essential goods

* Income elasticity is more in the long run than Short Run.
due to availability of more time for adjustments.

Cross-Price Elasticity

20 July 2023 21:01

→ Cross-Price Elasticity

Related goods

- Substitute Goods
- Complementary Goods

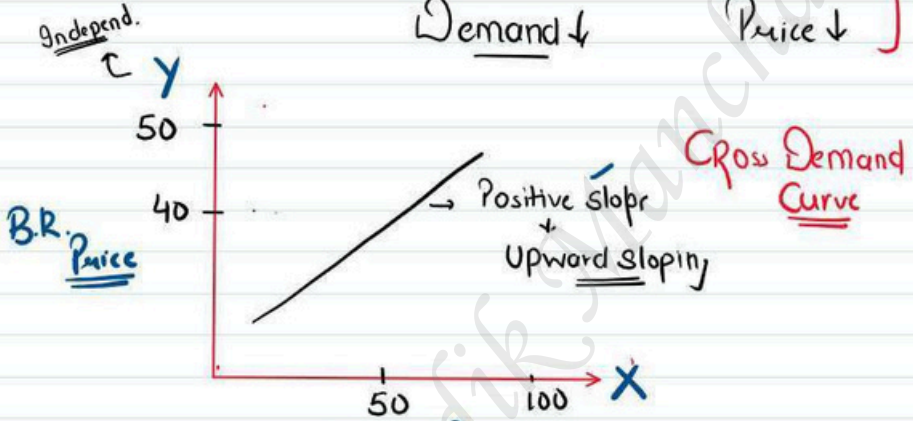
a] Substitute Goods

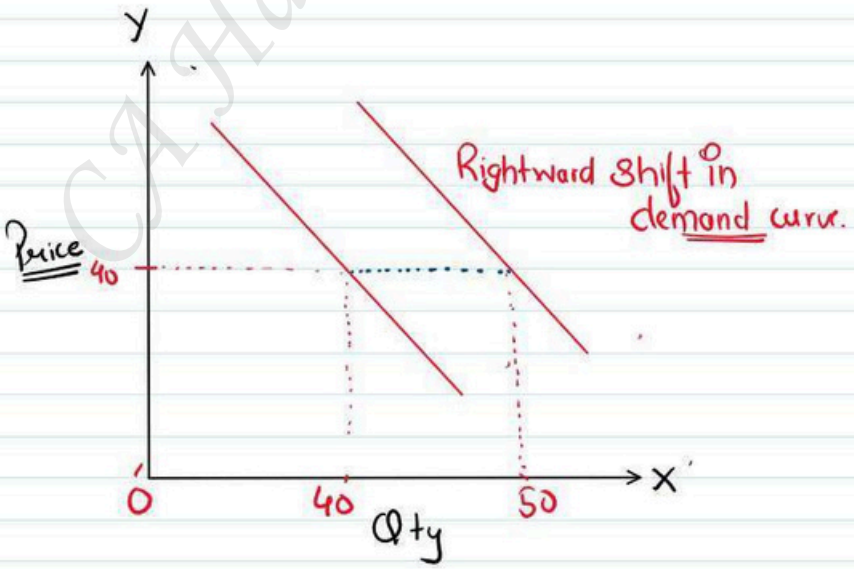
Mcd Burger — Burger King

Demand ↑ — Price ↑

Demand ↓ — Price ↓

Direct Relation





* Greater the cross elasticity, Closer is the Substitute

* Greater the cross elasticity, Closer is the Substitute

a. Perfect Substitute - cross price elasticity is infinite ✓

Slice & Mazza

1 ℓ 40 40] 1.Δ
41

E_c = 1. Δ in Q_x / 1. Δ in Price of y

→ Huge change
- Small chang

b. Close Substitute: cross price elastice - Positive & large. ✓

c. Not close Substitute: Cross price elasticity - Positive & small

Ex- Ice-tea & cold-coffee

d. Totally unrelated - Zero

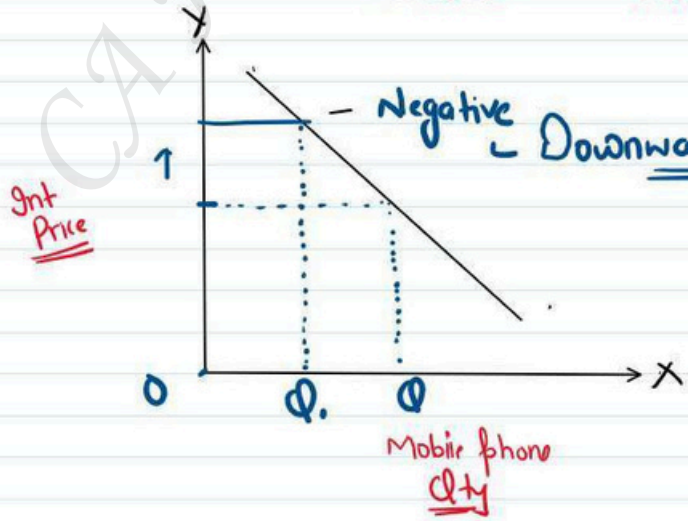
b) Complementary Goods

Depend. Indep

Mobile Phone Internet

Demand ↓ Price ↑] Inverse relation

Demand ↑ Price ↓



* Size of cross-price elasticity b/w 2 complements tells us how strongly complementary they are.

a) Elasticity slightly below zero - weak complements.

b) Elasticity very high - Strong complements

→ **Elasticity**- Cross price elasticity of demand b/w 2 goods measures the effect of change in one good price on demand of other good.

Importance of sign

+ive — Subs. Goods

-ive — Comp. Goods

$$E_c = \frac{\%\ \Delta \text{ in } Q_x}{\%\ \Delta \text{ in } P_y}$$

$$= \frac{\Delta Q_x}{\Delta P_y} \times \frac{P_y}{Q_x}$$

Ex- 2 brands of notebook.

Imperial Royal

When price of imperial rises by 10%, demand for Royal increase by 15%.

E_c for Royal - $\frac{15}{10} = 1.5$

- 0 V 10

Ex- Cross price elasticity b/w X & Y = -0.8

If price of good Y rises by 20% & Original quant demand of X is 100 units. Calculate new quant of X.

$$E_c = \frac{\%\Delta \text{in } Q_x}{\%\Delta \text{in } P_y}$$

$$-0.8 = \frac{\%\Delta \text{in } Q_x}{20} \Rightarrow \%\Delta \text{in } Q_x = -16\%$$

$$\frac{Q_1 - Q}{Q} \times 100 = -16$$

$$\frac{Q_1 - 100}{100} \times 100 = -16$$

$$Q_1 = -16 + 100$$

$$= 84$$

Ex- Price of 1 kg Tea = ₹30
Qty dem. = 5 kg

If the price of coffee rises from ₹25 to ₹35/kg, quantity demand of tea rises from 5kg to 8 kg.

$$E_c \text{ for tea} = \frac{\Delta Q_T}{\Delta P_C} \times \frac{P_C}{Q_T}$$

$$= \frac{3}{10} \times \frac{25}{5} = +1.5$$

→ Advertisement Elasticity

↳ Responsiveness of goods demanded to change in firms spending on advertisement

$$E_a = \frac{\%\Delta \text{in } Q_D}{\%\Delta \text{ in spending on Adv.}}$$

a) Adv. elasticity of demand is positive.

a) Adv. elasticity of demand is positive.

x ——— x

MCQs

1) Slope of demand curve = -0.5 ($\frac{\Delta P}{\Delta Q}$)

E_d will be _____ if initial price is ₹20 & initial quantity is 50 units.

a) 0.2

b) 0.6

~~c) 0.8~~

d) None

$$E_d = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$= \frac{1}{-0.5} \times \frac{20}{50} = -0.8$$

2] When price of good 'x' goes up by 10%, its demand fall from 800 unit to 600 unit. What is E_p of X?

~~a)~~ -2.5 with flatter demand curve

~~b)~~ 2.5 " " " "

c) -2.5 with steeper demand curve

~~d)~~ 2.5 " " " "

$\therefore$ Δm Qty $= \frac{-200}{800} \times 100 = -25\%$

$E_p = \frac{25}{10}$

x ——— x

Demand Forecasting

24 July 2023 21:05

→ Demand Forecasting

⇒ Art & Science of predicting the probable demand for a product at some future period on the basis of certain past behaviour & trends at present.

→ Not simple guessing.

→ Usefulness:

1] Budgetary planning & cost control.
2] Efficient Production
3] Process Selection
4] Capacity Planning
5] Facility layout
6] Inventory Management
7] Cap. Investment can be aligned to demand expectations
8] Necessary info. for suitable pricing & advertisement strategies.

10,000 unit
Cost →
RM
labour
+ Profit
= Price

→ No forecasting is completely full proof & correct.

* Scope of Forecasting.

→ Demand forecasting can be at national level or International

→ Demand forecasting can be at national level or International level.

→ It can be confined to a given product supplied by a small business in a local area

→ Necessary trade-off has to be struck b/w cost of forecasting & the benefits from such forecasting.

* Types of forecasting

On the basis of Size / volume

a) Firm - forecasting the demand for a particular firm's product
Ex- Demand for Ambuja cement.

b) Industry - Demand for the industry's product as a whole.
Ex- Demand for Cement in India.

c) Macro level - General economic environment prevailing in the economy
- Aggregate Demand.

On the basis of time

a) Short-term
- 6 month - 1 year
- Generally used in Tactical dec

b) Long term
- 2 to 5 year
- Generally used in Strategic dec

* Demand Distinctions

a) Producer Goods & Consumer Goods.

→ Producer Goods - used for production of other goods.
Ex- Machines & Eq.

Producer Consumer

Ex- Machines & Eq.

Producer Consumer

→ Consumer Goods. used for final consumption.
Ex- Readymade clothes.

b) Durable & Non-Durable Goods

Non-Durable Goods- Cannot be consumed more than once.
Ex- Raw Material, fuel, etc

- **Comsumer**
  Ex- Bread, food items
- **Producer**
  Ex- Raw Material, fuel

Durable Goods: Do not quickly wear out, can be used more than one
Ex- Calculator, Mobile phone, clothes.

- **Consumer**
  Ex- Books, Mobile phone, Utensils
- **Producer**
  Ex- Machines, Tractor, etc.

c) Derived Demand & Autonomous demand

- **Derived demand-** Demand for commodity arises because of the demand for some other commodity.

Ex-

	Parent Product
Internet recharge	Mobile Phones
Phone cover	Mobile Phones
Cement	Building

Complementary

- **Autonomous Demand.** - Demand for the product is independent of demand for the other goods.

Autonomous Demand - Demand for the product is independent of demand for the other goods.

* This distinction is purely arbitrary & it is very diff. to find out which product is entirely independent

Imp In general, demand for producer goods is **Derived demand.**

d) Demand for firm's product & Industry demand

Demand of a particular firm.

Ex- Demand for mobile phone by Lava.

↓

10,000 unit

Total demand for the product of a particular industry

Ex- Total demand of Mobile phones

↓

Total demand - 100,000 unit

Market share: $\frac{10,000}{100,000} \times 100 = 10\%$

e) Short-Run Demand & Long-Run Demand

Short-Run Demand - Demand with its immediate reaction in product price, income fluctuations, etc.

Long-Run Demand - Demand which exists over a long period.
- Demand which will ultimately exist as a result of change in price, income, after enough time is allowed to let the market adjust.

x ——— x

1. Factors affecting Demand for Non-Durable Consumer Goods
↓
Food.

a) Price — own
— Related Goods

b) Disposable Income.

c) Demography - Characteristics of population

Ex- Chocolate/ Ice-cream
↓
No. of children

Ex- Petrol, fuel
↓
No. of car

* 2. Factors affecting Demand for Durable consumer goods
↓
Laptop, Mobile phones.

a. A customer can postpone the replacement of durable goods
↓
It depends upon factors like Social Status, level of income, obsolescence, etc

b. The goods requires special facilities for their use.

Ex- Roads for automobiles
Electricity for AC/refrigerators
Internet for Mobile phone.

C. Influenced by family characteristics.
↓
Income of the family, Size of family, etc.

d. Replacement of demand

↳ Great the current holding of durable goods, greater will be the replacement demand.

e. Influenced by prices & credit facilities.

3. Factors affecting Demand for producer goods.

↓ Derived demand

It depends upon the:

a) Rate of profitability of user industry (consumer goods)

b) Size of Market of user industries.

Hence, data required for estimating demand:

a] Growth prospect of user industries.

b] Norms of consumption of producer goods per unit of installed capacity

Ex- Mach 1 - Max. capac - 1000 unit per day ✓

As per current demand, - 200 unit per day.

↓ Demand for user goods ↑

Demand forecast - 800 units per day

Other Imp point

1. Change in price of substitutable & complement factors.
2. Advances in technology
3. If firms are optimistic about selling higher output in future, → More Investment in producer goods

X——X

Theory of Demand - Complete ✓

MCQs

26 July 2023 21:54

MCQs_26th July

Multiple Choice Questions

66) **Goods which have fewer substitutes are**
a) Less elastic
b) Unit elastic
c) More elastic
d) Perfectly elastic

67) **Demand for electricity is elastic because**
a) It is very expensive
b) It has a number of close substitutes
c) It has alternative uses
d) None of the above

Multiple Choice Questions

68) **A demand curve parallel to Y-axis implies**
a) Ed = 0
b) Ed=1
c) Ed<1
d) Ed>1

69) **Price elasticity of Demand for addictive products like Cigarettes and alcohol would be**
a) Greater than 1
b) Less than 1
c) Infinity
d) One

Multiple Choice Questions

~~70)~~ **A demand curve parallel to Y-axis implies**
a) Ed = 0
b) Ed=1
c) Ed<1
d) Ed>1

71) **What is the new quantity demanded when price elasticity is 1 and price changes from Rs. 15 to Rs. 10 and the original quantity demanded was 10 units?**
a) 15 units
b) 20 units
c) 8 units
d) ~~12 units~~ None of the above

$-1 = \frac{\Delta Q}{-5} \times \frac{15}{10}$ $\quad \Delta Q = \frac{-5 \times 10}{15}$

Multiple Choice Questions

~~72)~~ **A demand curve parallel to Y-axis implies**
a) Ed = 0
b) Ed=1
c) Ed<1
d) Ed>1

Price effect

73) **If the demand for a product is inelastic, an increase in its price will cause the Total Expenditure of the Consumers to:**
a) Remain the same
b) Increase
c) Decrease
d) Any of these

Multiple Choice Questions

74) **Ceteris paribus, what would be the impact on foreign exchange earnings for a given falling export prices, if the demand for the country's exports is inelastic?**

a) Foreign Exchange Earnings decrease
b) Foreign Exchange Earnings increase
c) No effect on Foreign Exchange earnings
d) None of the above

75) **Goods having Income elasticity > 1 are considered as**

a) Luxury goods
b) Necessities
c) Normal goods
d) Inferior goods

Multiple Choice Questions

76) **If Income Elasticity < 1, it means that proportion of Income spent on goods , as income of the Consumers increases:**

a) Increases
b) Decreases
c) Remains constant
d) None of the above

77) **If the co-efficient of cross elasticity of demand for X & Y is 2, it means that X and Y are:**

a) Complementary goods
b) Substitute goods
c) Inferior goods
d) Normal goods

Multiple Choice Questions

78) **Which type of forecasting is done while taking tactical decisions?**
a) Long-run forecasting
b) Short-run forecasting
c) Macro-level forecasting
d) None of the above

79) **The demand for which type of goods is likely to be derived demand?**
a) Consumer goods
b) Non-durable consumer goods
c) Non-durable producer goods
d) Durable goods

Derived

Multiple Choice Questions

80) **Demand which arises on its own out of innate desire of the consumer to consume?**
a) Derived demand
b) Autonomous demand
c) Short-run demand
d) Long-run demand

81) **The goods which cannot be consumed more than once is known as**
a) Durable goods
b) Non-durable
c) Producer goods
d) None of the above

Multiple Choice Questions

82) **Demand which arises on its own out of innate desire of the consumer to consumer?**
- a) Derived demand
- b) Autonomous demand
- c) Short-run demand
- d) Long-run demand

83) **The goods which cannot be consumed more than once is known as**
- a) Durable goods
- b) Non-durable
- c) Producer goods
- d) None of the above

Mentoring Sessions – Zoom | Google Meet

1. Personal problem
2. Strategy | Planning

Groups – 20-30

Weekends

MCQs

18 July 2023 20:06

MCQs_18th July

Multiple Choice Questions

23) **In the case of a straight line demand curve meeting the two axis, the price elasticity of demand at the mid-point of the line would be:**

a) 0
b) 1
c) 1.5
d) 2

Geometric

24) **Identify the factor which generally keeps the price-elasticity of demand for a good low:**

a) Variety of uses for that good — Elastic
b) Very low price of a commodity — Inelastic
c) Close substitute for that good — Elast
d) High proportion of the consumers' income spent on it.

Multiple Choice Questions

25) **If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:**

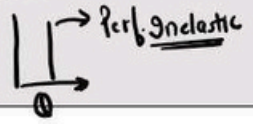
a) Remain the same
b) Increase
c) Decrease
d) Any of these

Expenditure Method
Price effect > Qty eff ⇒ $E_p \leq 1$
Price & Exp - Direct

26) **If regardless of change in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:**

a) Horizontal
b) Vertical
c) Positively sloped
d) Negatively sloped

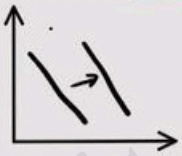
↳ perfectly Inelastic



Multiple Choice Questions

27) **Suppose the price of Pepsi increases, we will expect the demand curve of Coca cola to:**

a) Shift towards left since these are substitutes
b) Shift towards right since these are substitutes
c) Remains at the same level
d) Any of these



28) **Given the following four possibilities, which one results in an increase in total consumer expenditure?**

a) Demand is unitary elastic and price falls
b) Demand is elastic and price rises
c) Demand is inelastic and price falls
d) Demand is inelastic and price rises

Multiple Choice Questions

29) **If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?**

a) Quantity demanded will fall by a relatively large amount
b) Quantity demanded will fall by a relatively small amount
c) Quantity demanded will rise in the short run, but fall in the long run
d) Quantity demanded will fall in the short run, but rise in the long run

30) **Point elasticity is useful for which of the following situations?**

a) The bookstore is considering doubling the price of notebooks
b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent
c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by Rs. 100
d) None of the above

Multiple Choice Questions

31) **A decrease in price will result in increase in total revenue if:**
a) The % change in quantity demanded is less than the % change in price.
b) The % change in quantity demanded is more than the % change in price.
c) Demand is inelastic
d) The consumer is operating along a demand curve at a point at which the price is very low and the quantity demanded is very high

32) **Demand for a good will tend to more elastic if it exhibits which of the following characteristics?**
a) It represents a small part of consumers' income
b) The good has many substitute available
c) It is a necessity
d) There is little time for the consumer to adjust the price change

Multiple Choice Questions

33) **If the demand for a product is independent of the demand for other goods, it is called**
a) Tied demand
b) Autonomous demand
c) Derived demand
d) None of these

34) **Coefficient of price elasticity of demand ranges from __ to __**
a) One; infinity
b) Zero; infinity
c) Zero; one
d) None of the above

Multiple Choice Questions

35) **Elasticity is greater than unity for:**
- a) Necessaries
- b) Luxuries
- c) Complementary goods
- d) None of these

36) **Demand is _____ in the longer period than in the short period**
- a) Less elastic
- b) Perfectly elastic
- c) Perfectly inelastic
- d) More elastic

Multiple Choice Questions

37) **On straight line demand curve, the elasticity of demand at a point where it meets the price axis**
- a) 1
- b) 2
- c) 0
- d) Infinite

38) **Demand is _____ in the longer period than in the short period**
- a) Less elastic
- b) Perfectly elastic
- c) Perfectly inelastic
- d) More elastic

Multiple Choice Questions

39) **The exact and price co-efficient of elasticity cannot be found by _____ method**

a) Proportionate method - % Method →
b) Geometric method
c) Arc elasticity
d) All of the above

Price elasticity X=X

MCQs

12 July 2023 18:54

MCQs_12th July

Multiple Choice Questions

11) ____ is a tabular presentation showing different quantities demanded by buyers at different level of prices in a given period.
a) Supply schedule
b) Demand schedule
c) Production schedule
d) Cost schedule

12) If the demand for 'A' increases as price of 'B' increases, the two goods are:
a) Normal goods
b) Complementary goods
c) Substitute goods - Direct
d) Superior goods

Multiple Choice Questions

13) In case the customer expects a steep rise in price of Potatoes in future, his current demand for it will
a) Remain same
b) Fall
c) Rise
d) None of the above

14) If the demand for petrol remains unchanged with rise in its price, it means petrol is a
a) Normal good
b) Necessity
c) Luxury good
d) Giffen good

Multiple Choice Questions

15) **Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:**

a) Equal to one
b) Greater than one
c) Less than one $E_p < 1$
d) Zero

16) **If regardless of changes in price the quantity demanded of a good remains unchanged, then the demand curve for the good will be:**

a) Horizontal
b) Vertical — Parall to Y axis, Perf. Inelastic
c) Positively sloped
d) Negatively sloped

Multiple Choice Questions

17) **The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates the demand for hot dogs is:**

a) Elastic - $E_p > 1$ — 25 > 22
b) Inelastic
c) Unitarily elastic
d) Perfectly elastic

18) **Suppose the demand for meals at a medium priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:**

a) Large fall in quantity demanded — Price
b) Large fall in demand
c) Small fall in quantity demanded
d) Small fall in demand

Multiple Choice Questions

19) A consumer buys 220 units of a good at a price of Rs. 10 per unit. Suppose price elasticity of demand is 10. At what price will he/she buy 120 units?

a) Rs. 9.5
b) Rs. 10.5
c) Rs. 12
d) None of the above

$E_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$-10 = \frac{-100}{\Delta P} \times \frac{10}{220}$

$\Delta P = \frac{100 \times 10}{10 \times 220} = \frac{10}{22} = 0.45$

$P = 10.45$

10.45

20) We made the demand curve, and its shape is fairly flat. Elasticity of demand will be:

a) Ep = 1
b) Ep > 1
c) Ep < 1
d) Ep = 0

MCQs

21 July 2023 21:02

MCQs_21st July

Multiple Choice Questions

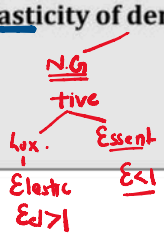
39) **Contraction of demand is the result of**
a) Decrease in the number of consumers
b) Increase in the price of goods concerned
c) Increase in the price of other goods
d) Decrease in the income of purchasers

40) **In the case of inferior good, the income elasticity of demand is:**
a) positive
b) zero
c) Negative
d) infinite

Multiple Choice Questions

41) **All of the following are determinants of demand except:**
a) Tastes & preferences
b) Quantity supplied
c) Income of the consumer
d) Price of related goods

42) **If a good is a luxury, its income elasticity of demand is**
a) Positive and less than 1
b) Negative but greater than 1
c) Positive and greater than 1
d) Zero



Multiple Choice Questions

43) **If the quantity demanded of X increases by 5% when the price of Y increases by 20%, the cross price elasticity of demand between X & Y is:**

a) -0.25
b) 0.25
c) -4
d) 4

44) **When the numerical value of cross elasticity between two goods is very high, it means:**

a) The goods are perfect complements and therefore have to be used together.
b) The goods are perfect substitutes and can be used with ease in place of one another
c) There is a high degree of substitutability between the goods
d) The goods are neutral and therefore cannot be considered as substitutes.

Multiple Choice Questions

45) **Which of the following is an incorrect statement?**

a) When goods are substitutes, a fall in the price of one leads to a fall in the quantity demanded of its substitutes
b) When commodities are complements, a fall in the price of one will cause the demand of the other to rise
c) As the income of the consumer increases, the demand for the commodity increases always & vice versa
d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases.

Multiple Choice Questions

46) **In the case of Giffen good, the demand curve will usually be:**
a) Horizontal
b) Downward sloping to the right
c) Vertical
d) Upward sloping to the right

47) **When the income increases the money spent on necessaries of life may not increase in the same proportion. This means**
a) Income elasticity of demand is zero
b) Income elasticity of demand is one
c) Income elasticity of demand is greater than one
d) Income elasticity of demand is less than one

Multiple Choice Questions

48) **The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are**
a) Normal goods
b) Complements
c) Substitutes
d) Inferior goods

49) **When total demand for a commodity whose price has fallen increases, it is due to**
a) Income effect
b) Substitution effect
c) Complementary effect
d) Price effect

Multiple Choice Questions

50) **The demand function is given as Q= 100 - 10P. Find the elasticity using point method when price is Rs. 5**

a) 2
b) -2
c) 1
d) -1

$E_p = \frac{dq}{dp} \times \frac{P}{Q} = -10 \times \frac{5}{50} = -1$

51) **No matter what the price of coffee is, Arjun always spend a total of exactly Rs. 100 per week on coffee. The statement implies that:**

a) Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
b) Arjun has elastic demand for coffee
c) Arjun's demand for coffee is relatively less elastic
d) Arjun's demand for coffee is unit elastic

Multiple Choice Questions

52) **A firm learns that the own price elasticity of a product it manufactures is 3.5. What should be the correct action for the firm if it wishes to raise its total revenue?**

a) Lower the price because demand for the good is elastic
b) Raise the price because demand for the product is elastic
c) Raise the price because demand is elastic
d) We need information in order to answer this question.

53) **At higher prices people demand more of a certain goods not for their worth but for their prestige value- This is called**

a) Veblen effect
b) Giffens paradox
c) Speculative effect
d) None of the above

Multiple Choice Questions

54) **If the price of air-conditioner increases from Rs. 30,000 to Rs. 30,010 and resultant change in demand is negligible, we use the measure of _____ to measure price elasticity**

a) Point elasticity of demand since it is a small change
b) Arc elasticity of demand since it is a small change
c) Price elasticity based on average price method
d) Any of the above

55) **The cross elasticity between personal computers and software is:**

a) Positive
b) Zero
c) Negative
d) One

Multiple Choice Questions

56) **The cross elasticity between Bread & DVDs is:**

a) Positive
b) Negative
c) Zero
d) One

57) **Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:**

a) Private school education is highly wanted by rich
b) Private school education is a necessity
c) Private school education is a luxury
d) We should have more private schools

Multiple Choice Questions

P ↑ R ↑ - Inelastic % ΔQD < % ΔP

58) **If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is:**

a) The % increase in ticket rates will be always equal to the % decrease in tickets sold

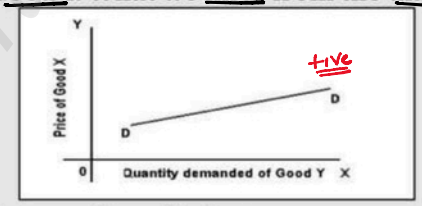
b) The % increase in ticket rates will be always greater than the % decrease in tickets sold

c) The % increase in ticket rates will be less than the % decrease in tickets sold

d) a) and c) are true

Multiple Choice Questions

59) **The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is:**



a) Good X and Good Y are perfect substitutes - ∞

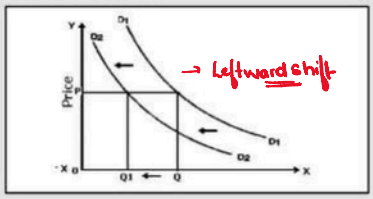
b) Good X and Good Y are prefect complements

c) Good X and Good Y are remote substitutes – Ed < 1 - Steeper

d) Good X and Good Y are close substitutes - Ed > 1, flatter

Multiple Choice Questions

60) **The diagram given below shows:**



a) A change in demand which may be caused by a rise in income and the good is a normal good - Rightward shift

b) A shift of demand curve caused by a fall in price of complement good - Rightward shift

c) A change in demand which is caused by a rise in income and the good is an inferior good

d) A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good. - Rightward

Multiple Choice Questions

61) **The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?**

a) A fall in the price of a substitute with the price of the good unchanged. - Leftward

b) A fall in the nominal income of the consumer and a fall in the price of the normal good

c) A fall in the price of a complementary good with the price of the normal good unchanged

d) A fall in the price of the normal good, other things remaining the same.

Shift ✗
Movment - Expansion

Multiple Choice Questions

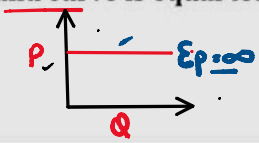
62) **The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?**

City	%Increase In Income	% change in demand for Good X	% change in demand for Good Y
A	12	6.5	- 2.3
B	9	5.6	1.6

a) Both goods are normal goods in both cities A and B
b) Good X is a normal good in both cities; Good Y is an inferior good in city A
c) Good X is a normal good in both cities; Good Y is an inferior good in city B
d) Need more information

Multiple Choice Questions

63) **Slope of perfectly elastic demand curve is equal to:**
a) 0
b) 1
c) 2
d) Infinity



64) **As the demand curve becomes flatter and flatter, the elasticity of demand becomes**
a) higher
b) lower
c) Equal to infinity
d) Equal to zero

Multiple Choice Questions

65) A consumer buy 80 units of a commodity at Rs. 4 per unit. When the price falls, he buy 100 units. If Ed = -1, the new price will be:

a) Rs. 3.5
b) Rs. 3
c) Rs. 2.5
d) Rs. 2

$-1 = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$-1 = \frac{20}{\Delta P} \times \frac{4}{80}$

$-1 = \frac{1}{\Delta P}$

$\Delta P = -1$

$P_1 - P = -1$

$P_1 - 4 = -1$

$P_1 = -1 + 4$

$= 3$