Chapter End Test

(2019-20)

Date : __________ Duration: 1:00 Hr. Max. Marks : 45	**Economics** **Topic :** Theory of Demand	XI

General instruction:

1. This paper consists of two Sections. Student has to attempt both sections.
2. Section – A is MCQ carry 1 mark each.
3. Section – B is subjective.

[Section – A]

1. A, B and C are three commodities, where A and B are complementary; whereas A and C are substitutes. With increase in price of commodity A:

(a) Demand of all the commodities A, B and C will fall.

(b) Demand of commodities A and B will fall, whereas demand of C will rise.

(c) Demand of commodities A and C will fall, whereas demand of B will rise.

(d) Demand of commodities B and C will fall, whereas demand of A will rise.

2. There will be a______________in the demand curve of cars with an increase in the price of petrol:

(a) Rightward shift (b) Upward movement

(c) Leftward shift (d) Downward movement

3. The demand curve for a commodity is generally drawn on the assumption that:

(a) Prices of substitute goods do not change

(b) Taste and preferences of the consumer remain the same

(c) Income of the consumers remains the same

(d) All of these

4. Expansion in demand leads to:

(a) Rightward shift in demand curve

(b) Downward movement along the demand curve

(c) Upward movement along the demand curve

(d) None of these

5. If change in price of good A affects the demand for good B, then:

(a) A is a substitute of goods B (b) A is a complement of good B

(c) Both (a) and (b) (d) Either (a) or (b)

6. An increase in real income of a consumer induces him to buy more of a commodity whose prices has fallen. This is known as:

(a) Inducement effect (b) Substitution effect

(c) Income effect (d) Utility effect

7. The demand function of a product X is given as: $D_X = 12 - 2P_X$, where P_X stands for price. The demand at price of `2 will be:

(a) 6 (b) 8 (c) 5 (d) 10

8. If there is no change in demand for commodity 'X' even after rise in its price, then demand is:

(a) Perfectly elastic (b) Perfectly inelastic (c) Less elastic (d) highly elastic

9. 'Increase in Supply' of a product is caused by:

(a) Improvement in technology (b) Fall in price of other goods

(c) Fall in prices of factors of production (d) All of these

10. The given supply schedule represent.

P_X	20	20
Supply	100	120

(a) Expansion in supply (b) Increase in supply

(c) Contraction in supply (d) Decrease in supply

11. Supply is said to be unitary elastic, when:

(a) Supply curve is a straight line passing through the origin

(b) Supply curve makes an intercept on the positive y-axis

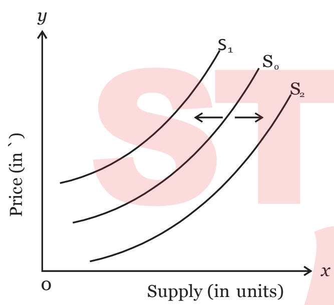
(c) Supply curve makes an intercept on the positive x-axis

(d) Supply curve is a horizontal straight line parallel to the x-axis

12. If quantity supplied increases by 60% due to a 50% increase in price, then elasticity of supply is:

(a) (–) 1.2 (b) (+) 1.2 (c) (–) 0.83 (d) (+) 0.83

13.



In the given figure, increase in cost of production of this commodity will lead to:

(a) Shift from S_0 to S_1 (b) Shift from S_0 to S_2

(c) Upward movement along to S_0 (d) No change at all

14. Which one of the following is not a determinant of individual supply?

(a) Price of given commodity (b) Taxation policy

(c) State of technology (d) Number of firms

15. In the long period, the supply for a commodity is:

(a) Perfectly elastic (b) Less elastic

(c) Highly elastic (d) Perfectly elastic

Section – B

1. When a good is called an 'inferior good'? **[1]**

2. Distinguish between change in quantity demand and change in demand. **[3]**

OR

State the 'law of supply'. What is meant by 'other things remaining the same'?

3. The coefficient of elasticity of supply of commodity X is 2. What quantity of the commodity will a seller supply at a price of `6 per unit, if he supplier 100 units at the price of 5 per unit? **[4]**

4. Why is there an inverse relation between the price of commodity and its quantity demand? **[6]**

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Hints/Solutions to Chapter End Test

(2019-20)

Date : _________ Duration: 1:00 Hr. Min. Marks : 30	**Economics** **Topic :** Theory of Demand	**XI**

[Section – A]

1.	(b)	**2.**	(c)	**3.**	(d)	**4.**	(b)	**5.**	(d)
6.	(c)	**7.**	(b)	**8.**	(b)	**9.**	(d)	**10.**	(b)
11.	(a)	**12.**	(b)	**13.**	(a)	**14.**	(d)	**15.**	(c)

[Section – B]

1. A good is said to be inferior when its demand increases due to the decrease in consumer's income and vice versa.

Ex: Demand of PC's fall due to increase in income as consumers shift to laptops. In this case PC's is inferior good.

2.

Basis	***Change quantity demand***	***Change in demand***
Meaning	When the quantity demanded changes due to a change in the price, keeping other factors constant, it is known as change in quantity demand.	When the demand changes due to change in any factor other than the own price of the commodity, if is termed as change in demand.
Effect on demand curve	It leads to a movement along the same demand curve, either upwards or downwards.	It leads to a shift in the demand curve either rightwards or leftwards.
Reason	If occurs due to an increase or a decrease in price of given commodity.	It occurs due to change in other factors, like change in prices of substitutes, change in price complementary goods etc.

OR

Law of supply states the direct relationship between price and quantity supplied. As price of the commodity rise, there is more quantity supplied of that commodity and vice versa.

'Other things remains constant' is meant for the following assumptions.

1. Price of other good is constant.
2. No change in state of technology.
3. Price of factor of production remain same.
4. No change in taxation policy.
5. Goals of producer remain same.

3. Original quantity (Q) = 100 units

Original price (P) = 5 per unit

Change in quantity = ΔQ

Change in price (ΔP) = `1

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

$$2 = \frac{\Delta Q}{1} \times \frac{5}{100}$$

$\Delta Q = 40$

New quantity = $Q + \Delta Q = 100 + 40 = 140$.

4. Downward slope of demand curve indicates that more is purchased in response to fall in price. Thus, there is inverse relationship between own price of a commodity and its quantity demanded. This may be explained in terms of the following factors:

(1) **Law of Diminishing Marginal Utility:** According to this law, as consumption of a commodity increases, marginal utility of each successive unit goes on diminishing to a consumer. Accordingly, for every additional unit to be purchased, the consumer is willing to pay less and less price.

(2) **Income Effect:** Income effect refers to change in quantity demanded when real income of the buyer changes owing to change in price of the commodity. With a fall in price, real income increases. Accordingly, demand for the commodity expands.

(3) **Substitution effect:** Substitution effect refers to substitution of one commodity for the other when it becomes relatively cheaper. Thus, when own price of X is substituted for Y. Tea and coffee are substitutes. With a fall in the price of tea, it is substituted in place of coffee. It is expansion of demand due to substitution effect.

(4) **Size of Consumer Group:** When price of a commodity falls, many more buyers can afford to buy it. Accordingly, demand expands.

(5) **Different Uses:** A good may have several uses. Milk, for example, is used for making curd, cheese and butter. If price of milk reduces it will be put to different uses. Accordingly, demand for milk expands.

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