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SUGGESTED SOLUTION

SYJC

SUBJECT- ECONOMIC

Test Code - SYJ 6028 A

BRANCH - () (Date :)

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Ans.: 1

(A) **(03)**

1. Falls
2. Derived
3. Demand

(B) **(03)**

1. False
2. False
3. False

(C) **(02)**

1. Factors of production – Indirect demand
2. Law of Demand – Dr. Alfred Marshall

Ans.: 2

(A) **(03)**

1. Market demand schedule:

(i) Market demand (schedule) is a (tabular representation of the) sum of the total quantities of a commodity demanded by all buyers in a market at different prices during a given period of time.

(ii) Market demand (schedule) can be represented as follows :

Price (Rs.)	A's DD + B's DD + C's DD =	Market Demand
1	3 + 4 + 5 =	12
2	2 + 3 + 4 =	9
3	1 + 2 + 3 =	6

2. Derived demand

(i) Commodities and services satisfying human wants indirectly are said to have indirect demand.

(ii) The factors of production, viz. land, labour capital and entrepreneur have derived demand.

3. Demand :

(i) A desire which is backed by the ability to pay as well as the willingness to pay for a commodity is demand. Symbolically, Demand = Desire + Ability to pay + Willingness to pay.

(ii) Demand is that quantity of a commodity which a person is ready to buy at a particular price and during a specific period of time.

Ans.2

(B) **(03)**

All desires are not demand.

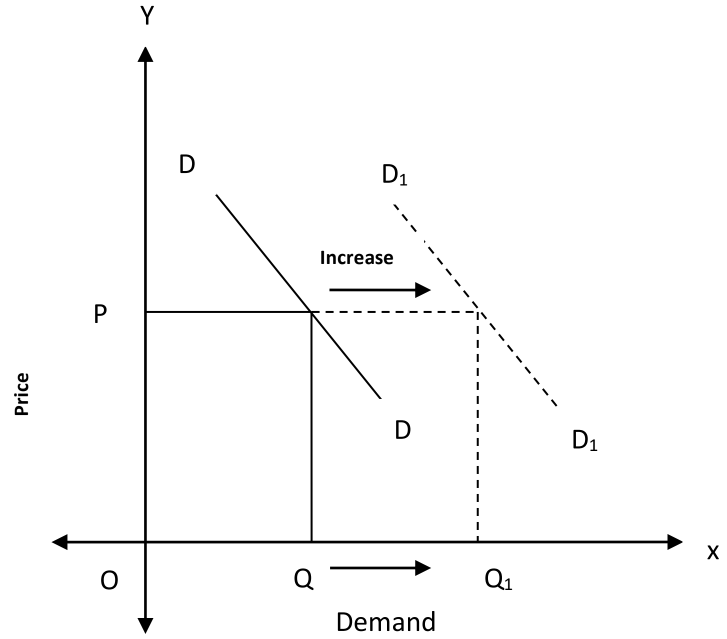
(i) Desire means an individual's wish to acquire a commodity. On the other hand, a desire which is backed by ability to pay as well as willingness to pay for a commodity is demand. Symbolically, Demand = Desire + Ability to pay + Willingness to pay.

(ii) All desire may not be backed by ability to pay and willingness to pay. Therefore, all desires are not demand.

Increase in demand indicates rightward shift in the demand curve.

(i) A rise in demand caused by favourable changes in other factors (For example, rise in income, habits, preferences, etc.) at same price is called increase in demand.

(ii) Increase in demand can be explained with the help of the following diagram :



From the above diagram it can be seen that due to favourable changes in other factors, at the same price, i.e. OP, demand rises from OQ to OQ_1. Therefore demand curve shifts from the left to the right, i.e. from DD to D_1 D_1.

Therefore, increase in demand indicates rightward shift in the demand curve.

Demand for factors of production is derived demand.

(i) Factors of production, viz. land, labour, capital and enterprise cannot satisfy any want directly, but are demanded to produce a variety of consumer goods and services.

(ii) For example, land is not demanded directly, but is demanded to satisfy a want, e.g. food grains. Thus, demand for factors of production is indirect in nature. Therefore, demand for factors of production is derived demand.

Ans. : 3

(A) **(03)**

Individual demand and Market demand

Point	Individual Demand	Market Demand
1. Meaning	Individual demand is the demand by a single consumer in a market for a given commodity at a given price and time.	Market demand is the demand by all consumers in a market for a given commodity at a given price and time.
2. Interrelation	Individual demand is always less than market demand.	Market demand is always greater than individual demand.

Increase in Demand and Decrease in Demand

Point	Increase in Demand	Decrease in Demand
1. Meaning	A rise in demand caused by favourable changes in other factors than price is called increase in demand.	A fall in demand caused by unfavourable changes in other factors other than price is called decrease in demand.

2. Causes	Increase in demand is caused by :	Decrease in demand is caused by :
	(i) Rise in income	(i) Fall in income
	(ii) Increased liking for a commodity	(ii) Decrease liking for a commodity
	(iii) Decrease in taxes	(iii) Increase in taxes

(B) **(03)**

Giffen's paradox

(i) Sir robert Giffen from England noticed that in the case of inferior quality products (Giffen goods), the Law of Demand does not hold good.

(ii) When the price of Giffen goods falls, buyers' real income gets increased. As its effect they demand more of superior quality goods.

(iii) For example, when the price of vanaspati ghee falls, (its demand remains less), the demand for pure ghee rises.

(iv) Thus, fall in prices of Giffen goods leads to fall in their demand. Therefore Giffen goods are considered as exception to the Law of Demand. Therefore, this phenomenon is known as Giffen's paradox.

Concept of demand

(i) A desire which is backed by the ability to pay as well as the willingness to pay for a commodity is demand.

(ii) Symbolically,

Demand = Desire + Ability to pay + Willingness to pay.

(iii) Demand is a relative concept and utility is the base of demand.

(iv) Demand is that quantity of a commodity which a person is ready to buy at a particular price and during a specific period of time. Thus, reference of price and time is necessary for demand.

Ans.: 4 **(06)**

A. Many/ various factors influence the demand for a commodity

Yes, I agree with this statement.

The determinants of market demand are as follows :

(1) **Price :** Price is one of the most important factors that affect market demand. Usually, larger quantity is demanded at a lower price and vice versa.

(2) **Income :** Income is yet another important factor that affects market demand. Income and demand are directly related to each other. Normally, demand rises with increasing income and vice versa.

(3) **Population :** Demand for various goods and services get affected by the size as well as the composition of population. An increase in population leads to an increase in market demand for a variety of goods and services.

(4) **Tastes, Habits and Fashion :** Some factors such as taste, habit of consumers, etc. also determine the market demand. For example, an increased liking for cold drinks, ice – creams, etc. increases their demand.

(5) **Prices of Substitutes :** Market demand also gets influenced by the prices of substitutes. If a substitute is available at a lower price, people demand the substitute good in greater quantities than the commodity in question. For example, if the price of tea falls, market demand for coffee tends to fall.

(6) **Prices of Complementary Goods :** Market demand also gets affected by the prices of complementary goods. If the price of a complementary goods rises, the demand of the commodity in question tends to fall. For example, if the price of petrol rises, market demand for cars tends to fall.

(7) **Distribution of income :** Market demand for various goods and services gets influenced by the distribution of national income. Unequal distribution of income and wealth leads to fall in market demand and vice versa.

(8) **Expectations about future prices :** Expectations about future prices also determines the market demand. For example, if consumers expect fall in the price of a particular commodity in the near future, they will demand less quantities of such commodity though its present price is comparatively less and vice versa.

(9) **Advertisements :** Nowadays**,** the market demand for goods and services gets highly influenced by advertisements and other promotional activities. For example, the goods which are advertised powerfully on radio, television and newspapers, etc. are demanded in greater quantities.

(10) **Taxation policy :** Government's taxation policy also affects demand. For example, a rise in tax level reduces the consumer's disposable income and it in turn decreases the demand for different goods and services and vice versa.

B. There are no exceptions to the Law of Demand.

No, I do not agree with this statement.

The following are the exceptions to the Law of Demand :

(i) **Giffen Goods :** Sir Robert Giffen from England noticed that in the case of inferior quality products (Giffen goods), the Law of Demand does not hold good. When the price of Giffen goods falls, buyers' real income gets increased. As its effect, buyers demand more of superior quality goods. Thus, a fall in the prices of Giffen goods leads to fall in their demand.

(ii) **Prestige Goods :** Diamonds, luxury cars, posh bungalows, etc. are considered as prestige goods. Such goods have a snob appeal. Therefore, prestige goods are demanded in greater quantities at higher prices and vice versa.

(iii) **Price Illusions or Consumer's Psychological bias :** Many consumers wrongly assume that high priced goods are of better quality. Due to this illusion, such buyres demand costlier goods in greater quantities.

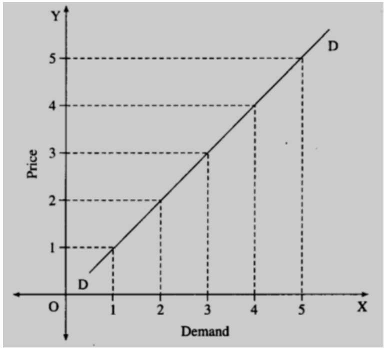
(iv) **Demonstration Effect :** Many low income group people have the tendency of imitating the consumption pattern of high income group. This effect is called demonstration effect. Due to this effect, people from low income group demand more of costlier products and services.

(v) **Ignorance :** Many times the buyers do not have a complete knowledge of a market. Due to such ignorance, they demand costlier goods in greater quantities.

(vi) **Speculation :** Some consumers anticipate a fall in the price of a commodity in the near future, so the demand for the commodity in question falls at the present price. Similarly, some consumers anticipate a rise in the price of the commodity in the near future, so the demand for the commodity in question rises at the present price.

(vii) **Habitual goods :** Certain goods like tobacco, cigarettes, etc. are consumed due to the habits. Therefore, demand of such goods remains constant even if their prices change.

In all the above cases, the Law of Demand becomes inapplicable. Therefore, they are considered as exceptions to the Law of Demand. The exceptions to the Law of Demand can be explained with the help of the following diagram:



In the above diagram Y – axis represents the price of a commodity and X – axis represents the demand of commodity x. From the above diagram it can be seen that the exceptional demand curve, i.e. DD slopes upwards from the left to the right. In exceptional cases the price and demand are directly related to each other. Therefore, the exceptional demand curve has a positive slope.

C. Price is the only determinant of demand.

No, I do not agree with this statement.

The determinants of market demand are as follows :

(1) Price : Price is one of the most important factors that affect market demand. Usually, larger quantity is demanded at a lower price and vice versa.

(2) **Income :** Income is yet another important factor that affects market demand. Income and demand are directly related to each other. Normally, demand rises with increasing income and vice versa.

(3) **Population :** Demand for various goods and services get affected by the size as well as the composition of population. An increase in population leads to an increase in market demand for a variety of goods and services.

(4) **Tastes, Habits and Fashion :** Some factors such as taste, habit of consumers, etc. also determine the market demand. For example, an increased liking for cold drinks, ice – creams, etc. increases their demand.

(5) **Prices of Substitutes :** Market demand also gets influenced by the prices of substitutes. If a substitute is available at a lower price, people demand the substitute good in greater quantities than the commodity in question. For example, if the price of tea falls, market demand for coffee tends to fall.

(6) **Prices of Complementary Goods :** Market demand also gets affected by the prices of complementary goods. If the price of a complementary goods rises, the demand of the commodity in question tends to fall. For example, if the price of petrol rises, market demand for cars tends to fall.

(7) **Distribution of income :** Market demand for various goods and services gets influenced by the distribution of national income. Unequal distribution of income and wealth leads to fall in market demand and vice versa.

(8) **Expectations about future prices :** Expectations about future prices also determines the market demand. For example, if consumers expect fall in the price of a particular commodity in the near future, they will demand less quantities of such commodity though its present price is comparatively less and vice versa.

(9) **Advertisements :** Nowadays**,** the market demand for goods and services gets highly influenced by advertisements and other promotional activities. For example, the goods which are advertised powerfully on radio, television and newspapers, etc. are demanded in greater quantities.

(10) **Taxation policy :** Government's taxation policy also affects demand. For example, a rise in tax level reduces the consumer's disposable income and it in turn decreases the demand for different goods and services and vice versa.

Ans.: 5 **(06)**

A. Law of demand

The Law of Demand can be stated and explained with the help of the following points :

(1) **Law of Demand :** The Law of Demand is one of the fundamental laws of consumption. It was propounded by Dr. Alfred Marshall in his famous book, 'Principles of Economics'. The Law of Demand explains the inverse relationship between the price and the quantity demanded.

(2) **Statement of Law :** "Other things being equal, the amount demanded rises with a fall in price; and diminishes with a rise in price."

(3) **Symbolical Representation :** The law of demand can be expressed symbolically as follows :

Dx = f(Px)

Where, Dx stands for demand for a commodity x,

f stands for function fo

Px stands for the price of the commodity x.

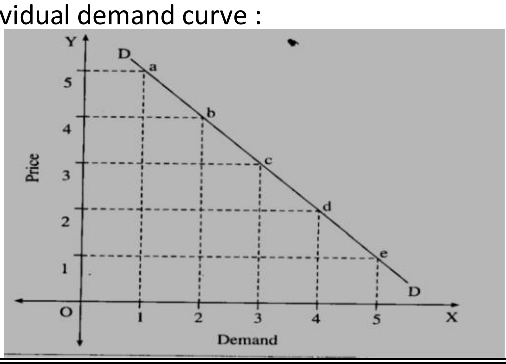
(4) **Individual Demand Schedule :** The Law of Demand can be explained with the help of the following individual demand schedule :

Price (Rs.) of commodity x	**Individual Demand of Commodity x (Per day in units)**
1	5
2	4
3	3
4	2
5	1

(5) **Explanation of Individual Demand Schedule :**

From the above individual demand schedule it can be observed that at a lesser price (Rs. 1) more units of commodity x are demanded (5 units). Similarly at a higher price (Rs. 5) less units of commodity x are demanded (1 unit). Thus, there exists an inverse relationship between the price and the quantity demanded.

(6) **Individual Demand Curve :** The Law of Demand can be explained with the help of the following diagram of the individual demand curve :



(7) Explanation of Individual Demand Curve : In the above diagram, Y – axis represents the price of the commodity x and X – axis represents demand of commodity x. From the above diagram it can be seen that the demand curve, i.e. DD slopes downwards from the left to the right. Price and demand are inversely related to each other. Therefore, the demand curve has negative slope.

B. Variation in Demand

There are many factors that determine demand. One of the important factor is price. When demand changes due to changes in price, it is known as variation in demand. It is of two types.

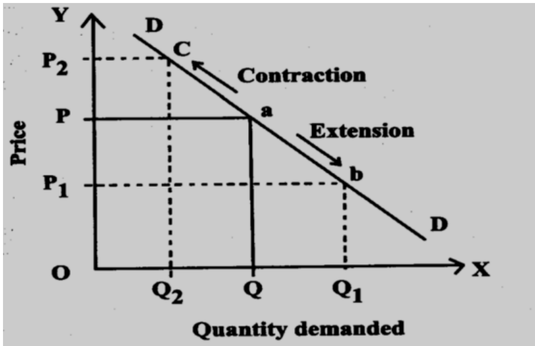
(1) Extension of demand
(2) Contraction of demand

Extension of demand – With a fall in price when more of a commodity is bought there is 'Extension'(or Expansion) of demand," other things remaining constant.

Contraction of demand – With a rise in price when less of a commodity is bought there is contraction of demand, other things remaining constant.

Extension and contraction of demand is shown by the movement along the same demand curve. This can be explained with the help of a diagram.

Extension and Contraction in demand



As shown above 'DD' is the demand curve. A downward movement on the demand curve from point a to be shows "extension of demand" and the upward movement from point a to c shows "contraction of demand".

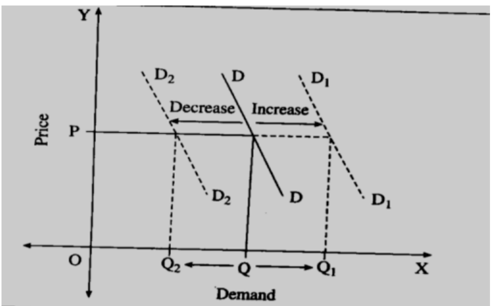
C. Change in demand

(1) Meaning : Price remaining constant, a rise or fall in demand due to the change in the other factors, is called change in demand. Change in demand is of the following two types :

(2) Increase in Demand : Price remaining constant, a rise in demand due to changes in other factors, is called increase in demand.

(3) Decrease in Demand : Price remaining constant, a fall in the demand due to changes in other factors is called decrease in demand.

(4) Diagram : Change in demand can be explained with the help of the following diagram :



From the above diagram it can be seen that price remaining equal, i.e. Op due to favourable changes in other factors, demand rises from OQ to OQ_1. This rise in demand is called as increase in demand. In increase in demand, demand curve shifts to the right of the original demand curve. Similarly, due to unfavourable changes in other factors. Similarly, due to unfavourable changes in other factors, demand falls from OQ to OQ_2. This fall in demand is called decrease in demand. In decrease in demand, the demand curve shifts to the left of the original demand curve.

Ans.: 6 **(08)**

A. Law of Demand

The following are the assumptions to the Law of Demand.

(1) No Change in Population : Due to a rise in the size of population, the demand for all goods and services tends to rise at their constant prices. In such a situation, the Law of Demand becomes inapplicable. Therefore, to prove the validity of the law. It is assumed that the size and the composition of population remain constant.
(2) No change in the Income of the Consumer : If there is rise in the income of a consumer, demand for different goods and services tends to rise even at a higher prices. In that case, the law becomes inapplicable. Therefore, to prove the law, it is assumed that there is no change in consumer's income.
(3) No Change in Tastes and Habits : If consumer's liking for a particular commodity increases, then the demand for such a commodity tends to rise even at a higher price and vice versa. In such circumstances, the Law of Demand does not hold good. Therefore, to maintain the validity of the law, it is assumed that there is no change in tastes, habits, preferences of the consumer.
(4) No Expectations regarding Future Price : If a consumer anticipates a fall in price of the commodity in the near future, the demand for the commodity in question falls at the present price and vice versa. Therefore, the law assumes that consumers do not have any expectations regarding rise or fall in the price of a commodity in the near future.
(5) No change in Prices of Substitute Goods : Due to the availability of cheaper substitute goods, the demand for a commodity in question tends to fall at its existing price and vice versa. Therefore, the law assumes that there is no change in the prices of substitute goods of a commodity in question.
(6) No Change in Prices of Complementary Goods : If the prices of complementary goods rise, the demand for a commodity in question tends to fall at its existing price and vice versa. Therefore, the law assumes that there is no change in the prices of complementary goods of a commodity in question.
(7) No change in Government Policy : Rise in the taxes leads to decrease in the disposable income of the consumer. This in turn decreases the demand for goods and services at their current prices and vice versa. Therefore, to prove the law, it is assumed that there is no change in government's taxation policy.

B. Market Demand

The determinants of market demand are as follows :

(1) Price : Price is one of the most important factors that affect market demand. Usually, larger quantity is demanded at a lower price and vice versa.
(2) Income : Income is yet another important factor that affects market demand. Income and demand are directly related to each other. Normally, demand rises with increasing income and vice versa.
(3) Population : Demand for various goods and services get affected by the size as well as the composition of population. An increase in population leads to an increase in market demand for a variety of goods and services.

(4) **Tastes, Habits and Fashion :** Some factors such as taste, habit of consumers, etc. also determine the market demand. For example, an increased liking for cold drinks, ice – creams, etc. increases their demand.

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