SUGGESTED SOLUTION

SYJC

SUBJECT- ECONOMICS

Test Code – SYJ 6096

BRANCH - () (Date :)

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Ans.1

(A) **(03)**

1. Individualistic
2. backward
3. large

(B) **(03)**

1. True
2. False
3. True

(C) **(02)**

1. Perfectly elastic supply – Horizontal supply curve
2. Perfectly inelastic supply – Vertical supply curve

Ans.2

(A) **(03)**

Resource allocation.

1) Resource allocation means **utilization of resources** for the production of various goods and services.
2) The study of microeconomics is **mainly confined to resource allocation**. Microeconomics explains **how relative prices** of commodities and factors of production **determine resource allocation.**

Economic efficiency.

1) Economic efficiency involves **efficiency in production**, **efficiency in consumption** as well as **efficiency in the direction** of production.
2) Microeconomics examines under what **conditions** the economic efficiency can be achieved.

Individual economic unit.

1) The smallest part of an economy such as individual households, firms, industries is considered as individual economic unit.
2) Microeconomics studies the economic behavior of an individual economic unit.

Ans.: 2

(B) **(03)**

i.

(1) Generally, in the case of durable goods, the entire stock of **goods may not be offered for sale by seller**.

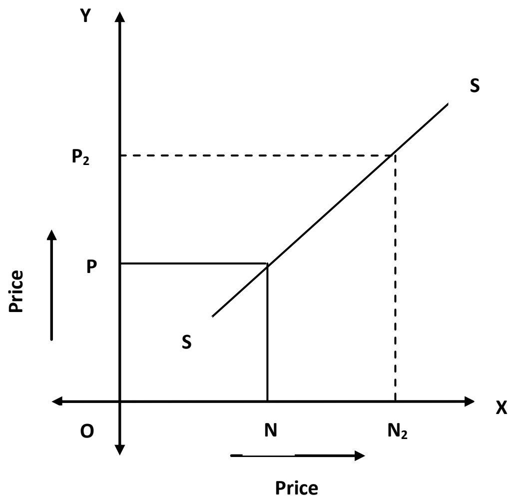
(2) If the **market price** of durable goods is **less**, some units of durable **goods are kept in the stock and only some units are supplied in the market**. For example, a carpenter may

produce 10 chairs and may supply only 5 chairs due to their less price in the market. Thus, stock can exceed supply.

ii.

(1) When the **proportionate change in the price** of a commodity brings about **greater than proportionate change in its quantity supplied**, the supply is said to be **more elastic**.

(2)



From the above diagram, it can be seen that if the proportionate change in the price of a commodity brings about greater than proportionate change in its quantity supplied, the value of the elasticity of supply tends to be greater than one. In such a case the supply curve is flatter in nature. Therefore, with a slight change in the price, if supply varies with a greater proportion then supply is said to be relatively elastic.

iii. **Agricultural goods :** Agricultural goods require suitable climatic conditions and sufficient period for growth. Therefore, the supply of agricultural goods cannot be increased overnight though their price rise. Therefore, in the case of agricultural goods the law is inapplicable. Therefore, agricultural goods are exception to the Law of Supply.

Ans.: 3

(03)

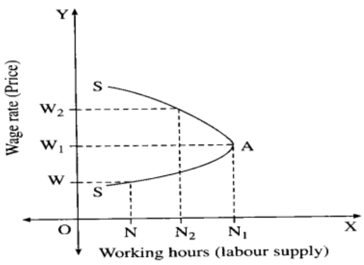
(A)

Point	Microeconomics	Macroeconomics
Meaning	According to Kenneth Boulding, "Microeconomics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities".	According to Kenneth Boulding, "Macroeconomics deals not with individual quantities as such but with the aggregates of these quantities, not with the individual incomes but with the national income, not with individual prices but with the price level, not with, individual output but with the national output".
Nature	Microeconomics is individualistic in nature.	Macroeconomics is aggregative in nature.

(B)

i. **(03)**

1) In the initial stages, labour supply increases as wage rate increase. However, at a later stage, workers would prefer leisure to work. They prefer to earn same amount of income by working for less hours.
2) Therefore, in the initial stages, the labor supply curve slopes upwards from the left to the right. However, in the later stage, the labour supply curve bends backward.



3) From the above diagram it can be seen that in the initial stages as wage rate rises from OW to OW_1 the supply of labours also rises from ON to ON_1. However, when the wage rate rises from OW_1 to OW_2 the supply of labours do not rise further; rather it is reduced from ON_1 to ON_2.
4) Thus, after the wage level OW_1, the supply curve slopes backwards from the point A towards Y – axis indicating that at higher prices fewer labour hours are supplied.

Therefore, the backward sloping supply curve shows the inverse relationship between supply of labour and wage rate.

ii. The method to measure price elasticity of supply are as follows :

(A) Percentage method :

(1) Percentage method of measuring elasticity of supply is also known as ratio method of measuring elasticity of supply.

(2) In this method, the elasticity of supply is measured by dividing the percentage change in the quantity supplied of a commodity by the percentage change in its price.

(3) The formula used for the measurement of the elasticity of supply is as follows :

$$E_s = \frac{Proportionate\ change\ in\ the\ quantity\ supplied}{Proportionate\ change\ in\ the\ price}$$

Symbolically,

$E_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ Where,

(i) ΔQ = Change in the quantity supplied i.e. $Q_1 - Q$.
i.e. New Supply – Original Supply,

(ii) ΔP = Change in the price, i.e. $P_1 - P$,

i.e. New Price – Original Price

(iii) P = Original Price and

(iv) Q = Original Supply

(4) Percentage method can be explained with the help of the following example :

	Price (Rs.)	Supply (Per day in units)
Original	08	100
New	10	125

$E_S = \frac{(125-100)}{(10-08)} \times \frac{8}{100} = \frac{25}{02} \times \frac{08}{100} = 1$

As the numerical value of the elasticity of supply is 1, the supply is unitary elastic in this example. The elasticity of supply is always positive as there exists the direct relationship between the price and the supply.

Ans.: 4 **(06)**

I.

(1) According to **Kenneth Boulding**, "Microeconomics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities".

(2) Thus, microeconomics is a study of economic activity of households as consumption units and individual firms and industries as production units. Microeconomics also studies price determination of goods and services and the factors of production.

(3) According to **Maurice Dobb**, "Microeconomics is in fact a microscopic study of the economy."

(4) From the above definitions it is clear that microeconomics is that branch of economics that studies a particular segment of the economy in detail.

II.

(1) **Economic questions related to production:**
Microeconomics deals with the questions related to production such as what to be produced, how much to be produced, who should produce, how should be produced, etc.

(2) **Economic questions related to distribution:**
Microeconomics deals with the question related to distribution of goods such as how the goods and services are to be distributed among people in society.

(3) **Economic questions related to efficiency:** Microeconomics deals with the economic questions related to efficiency in production, efficiency in consumption as well as efficiency in the direction of production.

(4) **Economic questions related to welfare:** Microeconomics questions related to efficient allocation of resources and thereby the welfare of people in society.

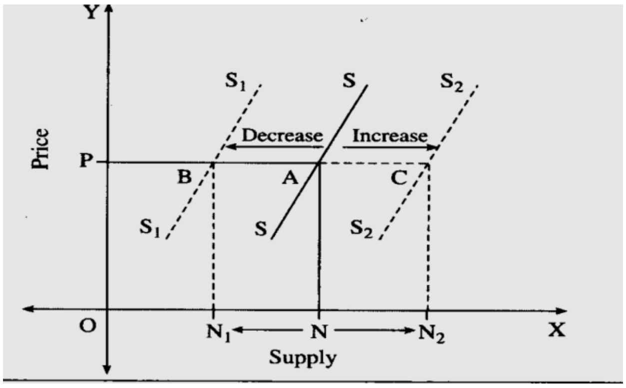
III. The change in the supply can be explained with the help of the following points :

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

(2) **Increase in Supply :** Price remaining constant, a rise in supply due to favourable changes in the other factors, is called increase in supply.

(3) **Decrease in Supply :** Price remaining constant, a fall in the supply due to unfavourable changes in the other factors is called decrease in supply.

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



From the above diagram, it can be seen that at constant price, i.e. OP supply rises from ON to ON_2 due to the favourable changes in the other factors such as use of modern machinery, fall in the production cost, etc. The distance NN_2 indicates increase in supply. In the increase in supply, the equilibrium point shifts on a new supply curve, which is to the right of the original supply curve.

Similarly, at the original price, i.e. OP supply falls from ON to ON_1. Due to the unfavourable changes in other factors such as use of outdated machinery, rise in the production cost, etc. The distance NN_1 indicates decrease in supply. In the decrease in supply, the equilibrium point shifts on a new supply curve, which is to the left of the original supply curve.

Ans.: 5 (06)

I. **<u>Microeconomics is known as income theory.</u>**

No, I do not agree with this statement.

Reasons :

(1) Income theory lies within the scope of **macroeconomics**.
(2) Microeconomics explains how the prices of a variety of goods and services are determined. Thus, theories of demand, production and cost fall within the scope of microeconomic.
(3) Microeconomics also explains how the **prices of factors of production**, viz. land, labour, capital and entrepreneur are determined. Thus theories of rent, wages, interest and profit falls within the scope of microeconomics.
Therefore, microeconomics is not known as income theory but is known as price theory.

II. **Yes, I agree with this statement.**

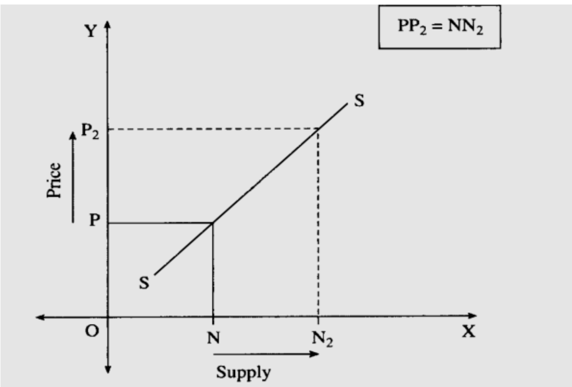
(1) Supply curve has positive slopes as there is a direct relationship between the price and the supply.

(2) The supply curve rises upward from left to right with rise in price.

Ans.: 6 **(08)**

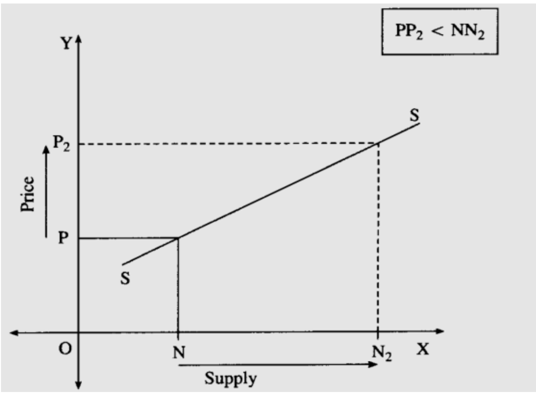
The various types of price elasticity of supply are as follows :

(1) Unitary Elastic Supply : When the proportionate change in the price of a commodity brings about exactly equal proportionate change in its quantity supplied, the supply is said to be unitary elastic. The numerical value of unitary elastic supply is one. For example, if the price of a commodity rises by 50 per cent, its supply also rises by 50 per cent.



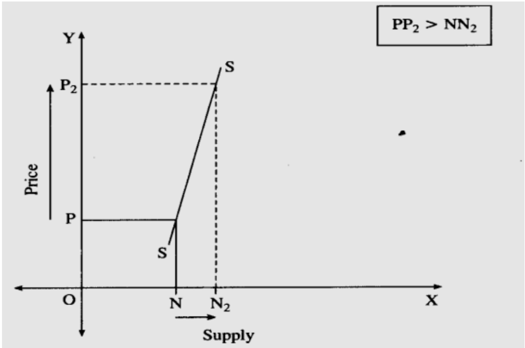
In the case of unitary elastic supply, the supply curve is rectangular hyperbola.

(2) Relatively Elastic Supply : When the proportionate change in the price of a commodity brings about greater than proportionate change in its quantity supplied, the supply is said to be relatively elastic. The numerical value of relatively elastic supply is greater than one. For example, if the price of a commodity rises by 50 per cent, its supply rises by 75 per cent.



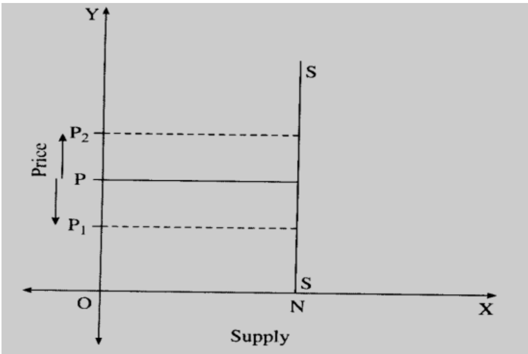
In the case of relatively elastic supply, the supply curve is a flatter line.

(3) Relatively Inelastic Supply : When the proportionate change in the price of a commodity brings about less than proportionate change in its quantity supplied, the supply is said to be relatively inelastic. The numerical value of relatively inelastic supply is lesser than one. For example, if the price of a commodity rises by 50 per cent, its supply rises only by 25 per cent.



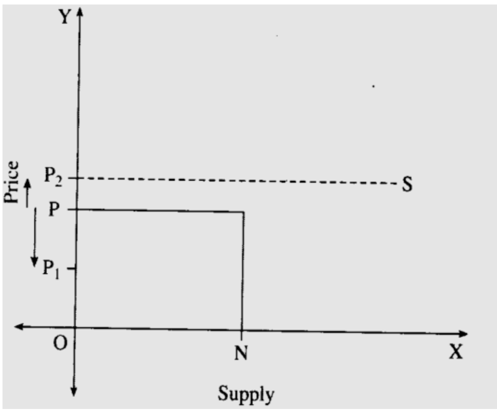
In the case of relatively inelastic supply, the supply curve is a steeper line.

(4) Perfectly Inelastic Supply : When the proportionate change in price of a commodity brings no (zero) proportionate change in its quantity supplied, the supply is said to be perfectly inelastic. The numerical value of perfectly inelastic supply is zero. For example, if the price of a commodity falls by 50 per cent, its supply rises by zero per cent.



In the case of perfectly inelastic supply, the supply curve is a vertical straight line, parallel to Y – axis.

(5) Perfectly Elastic Supply : When a proportionate change in the price of a commodity brings infinite (unlimited) proportionate change in the quantity supplied, the supply is said to be perfectly elastic. The numerical value of perfectly elastic supply is ∞.



From the above diagram, it can be seen that at a slight higher price the supply rises up to infinity and at a slight lower price the supply falls up to zero. In the case of perfectly elastic supply., the supply curve is a horizontal straight line, parallel to X – axis.