J. K. SHAH CLASSES

SYJC - ECONOMICS

QUESTION PAPER **Date: 25/09/2016**

Total Marks: 40 **Total time: 2 hour**

Solutions

Ans.1. (A) Fill in the Blank:

1) Ragner Frisch
2) Larger
3) Equilibrium
4) Monopolistic Competition

(B) Match the column :

(i) Father of Economics
(ii) Individual Unit
(iii) Aggregates
(iv) Principles of Economics

(C) True or False :

(i) True
(ii) True
(iii) False
(iv) True

Ans.2. Give Reasons/ explain the following statement:

(I) **1. Partial equilibrium suits micro analysis:** Micro economics deals with individual economic units. It does not deal with economy as a whole. Partial equilibrium is related to single variable or few variable and not to the whole economy. Thus partial equilibrium analysis is the counter part of micro economics.

2. Partial equilibrium is based on assumption of ceteris paribus: Partial equilibrium is based on the assumption of ceteris paribus. Micro economic theories also keep the assumption of other things remaining constant. Thus partial equilibrium is suitable for micro economic analysis.

3. Partial analysis is introduced by Marshall. Alfred Marshall is the leading economist popularised micro economics. The partial equilibrium analysis is profounded by Marshall to suit micro economic analysis.

4. Partial analysis focuses on the behaviour of individual units. Micro economic theories focus on a particular aspect of a particular issue at a particular time. The method of partial analysis is most suitable to make this analysis very effective.

(II) 1. Supply refers to the amount of good that a seller is able and willing to offer for sale at a particulars price during a given period of time.

2. There are various factors which affect the supply of a commodity.

3. If the infrastructure facilities like transport are favourable or good, the goods can be transported from one place to another quickly.

4. The goods can be delivered from place of production to place of consumption in less time.

5. Thus, supply increases due to speedy transport.

(III)

1. **Complete control.**

   Price discrimination refers to the policy of charging different prices from different customers for the same product or service. Monopoly being a single firm controlling the entire market, it is in a position to adopt the policy of discrimination.

2. **Price discriminating monopoly.**

   Monopoly that practises price discrimination is called discriminating monopoly. As the monopolist enjoys controll over two or more than two markets for the same product it is possbile for him to go for price discrimination.

3. **Difference in elasticity of demand.**

   When the monopolist finds difference in elasticity of demand in different areas he can adopt price discrimination. He can charge less price for the market having elastic demand and higher price for market having inelastic demand.

4. **Resale not possible.**

   Price discrimination is possible when the resale of a product or a service is not possible. For example a lone doctor in a particular region can charge higher fees from rich people and lower fees from the poor. This is because the poor person can not go for resale of doctor's service at a higher price to another person.

(IV)

1. **Severe competition.**

   All firms under monopolistic competition incur selling cost to promote sales. Due to severe competition, they have to spend money on selling cost. It helps them to promote sales without reducing price.

2. **Expansiion of market.**

   The firms under monopolistic competition divert a significant amount of funds towards sales promotion techniques such as advertisement, publicity, salesmanship, etc. to expand market. It helps them to search and find out new market. Selling cost covers such expenditure.

3. **To search new market.**

   Firms under monopolistic competition indulge in product differentiation to attract consumers. They offer same products with different designs, colours and size along with free gifts. Thus product differentiation leads to selling cost.

4. **Incentives.**

   Besides advertisement and publicity they also spend money on incentives to salesmen, margins to dealers, window display etc. Thus selling cost is inevitable under monopolistic competition.

(V)

1. **Complete control.**

   Monopolist is a single seller who controls the entire market individually. Therefore he can control the supply of goods.

2. **No close substitutes.**

   There is no close substitute for his product. In the absence of any rivalry, he has absolute control on market. He can expand and contract the supply as he wishes.

3. **Adequate resources.**

   Every monopolist is financially sound. He can mobilise adequate resources and adopt modern technology. This will enable him to increase production and expand supply at a reasonable price.

4. **Large scale production.**

   A monopolist can go for large scale production and have a huge stock of goods. He is equipped with modern transport system and will be able to bring goods to the market at short notice.

   Thus he enjoys absolute control on supply.

Ans.3. Do you agree with the following Statements:

(1) No. I disagree with the statement.

There are several factors than price determining market supply.

(1) Price of a commodity: Price is an important factor influencing the supply of a commodity. More is supplied at a higher price and less is supplied at a lower price.

(2) Cost of Production: If the factor price increases the cost of production also increases. Thus, supply decreases.

(3) State of Technology: Technological improvements reduce the cost of production, which leads to an increase in production and supply.

(4) Government Policy: Government Policies like taxation, subsidies, industrial policies, etc., may encourage or discourage production and supply, depending upon government policy measures.

(5) Nature of Market: In a competitive market, the supply of goods would be more due to large number of sellers. But in monopoly, i.e., single seller market, supply would be less.

(6) Prices of other Goods: An increase in the prices of other goods makes them more profitable in comparison to a given commodity. As a result, the firm shifts its limited resources from production of a given commodity to the production of other goods. For example, an increase in the price of wheat will induce the farmer to use his land for the cultivation of wheat instead of rice. So supply of rice decreases.

(7) Infrastructure Facility: Infrastructure in the form of transport, communication, power, etc., influences the production process as well as supply. Shortage of these facilities decreases the supply.

(8) Exports and Imports: Exports reduce the supply of goods within the country. Whereas imports increase the supply of goods.

(9) Future Expectations: If the prices are expected to rise in the near future, the producer may withhold the stock. This will reduce the supply.

(10) Natural Conditions: The supply of agricultural products depends on the natural conditions. For example, a good monsoon and favourable climatic condition will produce a good harvest, so the supply of agricultural products will increase.

(2) Yes. I agree with statement.

1. Inverse relationship between labour supply and wage rate.

In mining industry, initially the rise in wage would induce the workers to offer more hours of work. But at a later stage when the wage rate rises further, the workers prefer to work for lesser hours. They want to have more leisure time. They are happy with whatever income they receive. Following table indicates the same.

Wage rate per hour (₹)	Hours of labour supply	Total Income (₹)
25	8	200
50	10	500
100	8	800

In the of above table, when the wage rate rises from ₹25 to ₹50 at the initial stage, the worker offers more hours of work (i.e) 10 hours . When the wage rate still rises to ₹100 later, worker is ready to work only for 8 hours and like to enjoy 2 hours leisure time. This shows the inverse relationship between wage rate and labour supply. Such a tendency goes against law of supply.

2. Backward sloping. Or supply curve of Labour.

In certain cases supply curve slopes backward instead of going upward.
In the diagram, the wage rate is measured in Y axis and supply of labour hours in X axis. The supply curve,

instead of going upward, turns backward after certain point (B). Such a behaviour goes against the law of supply (SS,). Law of supply is invalid in such ar7 exceptional curve. It is called backward sloping labour supply curve.

It means less labour is supplied when wage rate increases. Thus the supply curve shows the inverse relationship between price and quantity supplied.

3. **Jobs which are monotonous and uninteresting result in exceptional labour supply**.
   Backward sloping labour supply curve is a special phenomenon in labour market of mining industries. The work is so monotonous and boring that there is loss of personal interest. Finally they are demotivated to work. Under such circumstances, if the wage rate rises, they prefer to work less hours and take leisure time. Such a behaviour leads to inverse relationship and backward sloping labour supply curve.

(3) No. I disagree with the statement.

1. **Stock is the source of supply.**
   Stock is the total volume of a commodity which can be brought into market for sale at a short notice. No seller would prefer to sell the entire stock at the same time. Depending upon the market price, he may like to change the amount of supply. He may release a part of stock for sale and the rest is kept as stock. It is more true in case of durable goods.
2. **Supply is the amount offered out of stock.**
   Supply means the quantity which is offered for sales out of stock. Thus supply means the quantity which is actually brought into the market for sales. If the market price is high, larger quantities of durable goods are sold. If price is less, the sellers offer less quantity for sales.
3. **Supply is equal to stock in case of perishable goods.**
   In case of perishable goods like fruits, vegetables and fish, the supply would be equal to stock. The reason is that there is a risk of unsold good getting rotten. It would bring losses to the sellers. Therefore the stock of perishable goods is equal to supply.
   However, modern marketing make use of cold storage facility to store even perishable goods for sometime and sell later.
4. **Extent of market.**
   In case of perishable goods like fruit and vegetables the demand is mostly restricted to local area. Therefore the demand for such goods is more or less same. Demand being the same, seller never takes risk by keeping more stock than what is demanded.
5. **Stock and supply depends upon Reservation price.**
   Reservation price is the minimum price below which seller will refuse to sell any quantity of a product. In case of durable goods the reservation price is relatively higher. He will supply goods only when the market price is equal to reservation price.
   Higher the market price, lesser the stock and vice versa.
   Thus there is always a difference between stock and supply of durable goods.
   However in case of perishable goods, the seller keeps relatively lower price and dispose off all the stock.
6. **Infrastructure.**
   If the producer is able to build a large net work cold storage, he can keep stock of perishable goods. A strong system of transport also helps quick movement of goods

From one place to another place. In the absence of better infrastructure even durable goods cannot be stored and transported.

7. Seasonal demand.

Some goods enjoy seasonal demand. During festival seasons, the demand increases and the difference between stock and supply would be least. During slack seasons, the demand declines and the difference between stock and supply would widen. In case of crackers the demand is seasonal. During Diwali the production and stock would be maximum. Once the season is over the production declines and the stock would be minimum.

(4) Yes. I agree.

(1) One man show.

Monopoly is the market where a single seller enjoys complete control over supply of the commodity. As there is no rivalry, the monopolist need not bather about the actions of other sellers. Being the only seller in the market, to enjoys domination and fixes the price as per his own calculation.

(2) Absence of substitutes.

Monopolist faces no competition and there are no substitutes for his product. In the absence of substitutes, he is the only producer to supply the product to the consumers. All consumers have no option but to approach the monopolist for consumption of that particular product. This makes the position of monopolist more comfortable to decide the market price.

(3) Infrastructure.

The monopolist enjoys a strong net work of infrastructure including transport, communication and storage. He can invest generously to bring new technology. Thus he is in a better position to expand or contract his capacity to produce and supply. Therefore he will be able to fix the price in a manner he likes.

(4) Discrimininiting monopoly.

It is a type of monopoly in which the monopolist is in a position to charge different prices for same product. He will be able to charge the higher price from those who are economically stronger and a lower price from poor section.

(5) Changes in elasticity of demand.

A monopolist will be in a position to exploit a elasticity of demand at different market. He charges higher prices in markets where the demand is inelastic. At the same time he will charge lower prices in those markets where the demand is elastic.

(6) Control on supply.

Monopolist enjoys complete control on supply of the product. Due to strong financial background, he will be able to mobilise sufficient resources at short notice and expand supply. By controlling supply, he will be able to control price.

(5) No I disagree with this statement.

Perfect competition and monopolistic competition are not one and the same. They are different from each other.

1. Meaning :

Perfect competition is a market where large number of sellers selling identical units of the same commodity. The number of sellers and buyers are so large that no single firm or buyer can influence the price. The demand and supply forces operate freely without interference of any external forces. Monopolistic competition is the market where there are many sellers selling same but differentiated products to a large number of buyers. It is the mixture of the features of monopoly and perfect competition.

2. **Homogeneous &heterogeneous products.**

In a perfectly competitive market, the product is homogeneous in character. There is no product differentiation by the sellers. All the units sold are identical.
Product differentiation is the vital feature of monopolistic competition. Products are differentiated on the basis of brand name, shape, colour, design, quantity and quality.

3. **Price takers and price makers.**
Under perfect competition, sellers are price takers and not price makers. All buyers follow uniform price.
Sellers are price makers under monopolistic competition. Different buyers pay different prices for the same product.

4. **Idealistic and realistic markets.**
Perfect competition is an ideal market which hardly exists.
Monopolistic competition is the real market which exists practically.
e.g. Firms manufacturing Tooth Pastes.TV. Sets, Shoes, represent monopolistic competition.

5. **Relationship with monopoly.**
Perfect competition and monopoly are contradictory to each other. Monopolistic competition is the blending of perfect competition and monopoly.

6. **Average revenue and marginal revenue :**
Average Revenue and Marginal Revenue curves are one and the same and parallel under perfect competition, i.e. AR = MR.
AR and MR are different and downward sloping under monopolistic competition. MR remains below AR. MR<AR.

7. **Demand curve.**
In case of perfect competition demand curve remains a horizontal straight line parallel to x axis. In case of monopolistic competion, the demand curve is downward sloping.

8. **Selling cost**. Selling cost is inevitable under monopolistic competition. In the face of tough competition, the sellers of monopolistic competition spend a significant portion of their revenue towards advertisement, publicity, salesmanship etc.
There is no selling cost under perfect competition.

9. **Perfect knowledge of market.**
In perfect competition market both buyers and sellers have perfect knowledge regarding price structure and availability of substitute.
In monopolistic competition there are various products possessing same features. There are different brands of the same product which are sold in different prices. It is difficult to have perfect knowledge. In fact sellers adopt campaigns and advertisements to spread knowledge of price structure.

Ans .4. Define or explain the Following concepts :

(1) Micro Economics
The term "Micro Economics" was first used by <u>Swedish </u>Economist, Ragnar Frisch in 1933. It is derived from the **Greet** work "Mikros" which means 'small'. Micro Economics was developed and popularized by Dr. Alfred MarshalL Prof. K.E Boulding defined Micro Economics as "Micro Economics is the study of particular

firms, particular households, individual prices, wages, incomes, individual industries and particular commodities".

(2) Total cost

Total cost is the total amount incurred by a firm on the factors of production required for the production of goods and services. Total cost is the sum total of total fixed cost (TFC) and total variable cost (TVC). Total Cost (TC) = Total Fixed Cost (TFC) + Total Variable Cost (TVC)

(3) Market

'Market' can also be defined as an arrangement where buyers and sellers come in contact with each other directly or indirectly, to sell and buy goods. In all types of market, the number of buyers is large but the number of sellers keeps changing.

(4) Selling cost

Selling cost refers to the cost incurred by a firm to Increase the sales of its product. Selling cost Includes advertising the product over TV, radio, in newspaper, incentives to sales staff, free gifts, etc. It Is an unavoidable feature of monopolistic competition.

(5) Equilibrium Price

Under perfect competition, there Is a single ruling market price which is called as equilibrium price. This equilibrium price Is determined by the free market forces of demand and supply. Equilibrium price Is basically the price at which demand and supply Is the same.

Ans.5. Distinguish between:

(1) Relatively Elastic Supply Relatively Inelastic Supply.

Relatively Elastic Supply	Relatively Inelastic Supply
1. Meaning	
When a smaller proportionate change in price brings about a larger proportional change in quantity supply it is called relatively elastic supply.	When a larger proportionate change in price brings about a smaller proportionate change in supply, it is called relatively inelastic supply.
2. Measurement of Es.	
In case of elastic supply, the elasticity is said to be more than one(>1).	In case of inelastic supply, the elasticity is said to be less than one(<1).
3. Supply curve	
In case of elastic supply, the supply curve appears to be flatter.	In case of relatively inelastic supply, the supply curve appears to be steeper.

(2) Natural monopoly and social monopoly

Meaning.	
When a seller controls the ownership of natural resources. It is called natural monopoly.	When the government controls the sole ownership and supply of goods or services it is called public monopoly.
Objective.	
Profit motive is the objective of natural monopoly.	Public welfare is the objective of public monopoly.
Example.	
Control on minerals or oil is an example of natural monopoly. Rhodesia's virtual monopoly in the supply of chrome is a case of natural monopoly.	Railways run by government of India is an example of public monopoly.

(3) Perfect competition and Monopolistic competition

Perfect competition	Monopolistic competition
1. Meaning. Perfect competition is a market where large number of sellers selling identical units of the same commodity at uniform price. Every seller has large number of substitutes for his commodity.	Monopolistic competition is a market where few sellers sell same but differentiated product.
2. Product differentiation. There is no product differentiation by the sellers.	Product differentiation is the vital feature of monopolistic competition.
3. Price determination. Price is determined by industry. Firms and buyers are price takers and not price makers.	Sellers are price makers. Different buyers pay different prices for the same product.
4. Selling cost: Under Perfect Competition Seller Need not incur any selling cost	Under monopolistic competition the seller has to spenton selling, Ad & Publicity.

(4) Extension and Contraction of Supply.

Extension in Supply	Contraction in Supply
1. Meaning.	
Extension refers to a rise in supply only due to a rise in price. Other things remain the same.	Contraction refers to a fall in supply only due to a fall in price. Other things remain the same.
2. Schedule.	

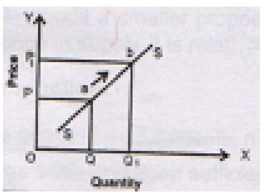
Extension in Supply – Schedule

Price (₹)	Qty. Supplied
5	100
10	200

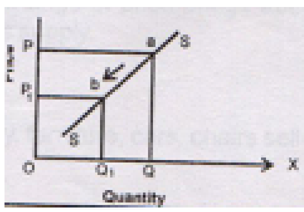
Contraction in Supply – Schedule

Price (₹)	Qty. Supplied
10	200
5	100

When price rises to 10 quantity supplied rises to 100.



When price falls to 5, the supply contracts to 100.



Extension in supply in indicated by Upward movement in supply curve.

Contraction in supply is indicated by Downward movement of supply curve.

(5) Natural Monopoly and legal Monopoly

Meaning. When a seller controls the ownership of natural resources. It is called natural monopoly.	Monopoly that is legally recognized by the government is called legal monopoly.
Objective. Profit motive is the objective of natural monopoly.	Safety and security are the main objectives.
Example. Control on minerals or oil is an example of natural monopoly. Rhodesia's virtual monopoly in the supply of chrome is a case of natural monopoly.	The patent rights enjoyed by inventors, copyrights of authors and composers are the examples of legal monopoly.

(6) Perfect competition and Monopoly

Perfect Competition	Monopoly
Meaning. Perfect competition is a market where large number of sellers selling identical units of the same commodity at uniform price.	Monopoly is a market where there is only one seller controlling the entire supply.
Entry and exit. Under perfect competition there is free entry and exit of all the firms.	Under monopoly the entry of new firms is strictly prohibited.
Price determination. No individual seller can influence the price under perfect competition.	Under monopoly, the seller can determine the price
He is a price taker	He is a price taker

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