

J. K. SHAH CLASSES

SYJC - ECO - TEST - 01

NAME : _____
BRANCE : _____
BATCH : _____

TOTAL MARK : 30
Total time: 1 HR.30 minutes

SOLUTION

Ans.1. (A) Fill in the blanks using appropriate answer (04)

1. Decrease
2. Gossen's
3. Contracts
4. Negative

(B) Match the pairs (03)

1. Complementary
2. Geometric method
3. Inelastic demand

(C) State the Statement is true or false (03)

1. False
2. True
3. False

Ans. 2. (A) Distinguished between (Any Two) (04)

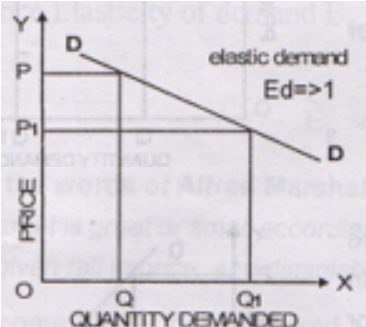
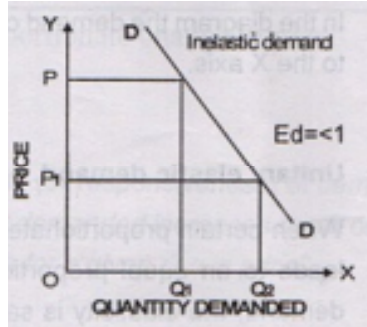
1. **Utility and Satisfaction**

Utility	Satisfaction
1. Meaning Utility means the capacity of a commodity to satisfy the human wants. For example, pen has the capacity to satisfy the want of writing. This want satisfying power is called utility.	Satisfaction is the amount of pleasure actually realised from the consumption of a commodity
2. Realisation Utility can be realised before consumption	Satisfaction of a commodity can be realised only after the consumption of a commodity
3. Nature Utility is the 'expected satisfaction' of a consumer from the consumption a commodity.	Satisfaction is the 'realised satisfaction'. It may be more or less than the consumer's expectation.
4. Source-Effect Utility is the source	Satisfaction is the effect.

2. Total utility and Marginal utility

Total utility	Marginal utility
1. Meaning Total utility means the sum total by consuming one more unit of utilities derived by the consumer from all the units of a commodity.	Marginal utility refers to the net addition made to the total utility, utility By consuming one more unit.
2. Maximum satisfaction Total utility remains maximum the time of maximum satisfaction	Marginal utility remains zero at the time of maximum satisfaction.
3. Positive / negative Though TU declines after maximum, it remains positive	MU diminishes sharply and turns negative later.
4. Formula Symbolically, $TU_n = MU_1 + MU_2 + \dots + MU_n$ Items – TU of (N – 1) items.	Symbolically, MU of 'N' th unit = TU of 'N'

3. Relatively elastic demand and Relatively inelastic demand

Elastic Demand (More elastic) (Relatively Elastic Demand)	Inelastic Demand (Less elastic) (Relative inelastic demand)
1. Meaning :	
Elastic demand refers to a situation when a lower proportionate change in price leads to a higher proportionate change in demand. Generally luxury goods like TV, Car etc. have elastic demand	Inelastic demand refers to a situation when a higher proportionate change in price leads to lower proportionate change in demand. Generally necessary goods like food and medicine have inelastic demand.
2. Flatter / Steeper Curve	
	
3. More than one / less than one	
In case of elastic demand, elasticity is said to be more than one	In case of inelastic demand, the elasticity is said to be less than One.
4. Elastic demand is indicated by demand curve DD which is flatter.	5. Inelastic demand is indicated by demand curve DD which is steeper.

(B) Give reason (Any Two)

(04)

1.
 - i) Utility refers to the want satisfying power of a commodity
 - ii) The concept of utility does not consider whether the commodity satisfies a good want or a bad want.
 - iii) A commodity can have utility even if it satisfies a bad or unethical want.
 - iv) For e.g: A gun has utility for a soldier as well as a terrorist.
 - v) Therefore, it is said that utility is ethically neutral.

2.
 - i) Utility refers to the want satisfying power of a commodity.
 - ii) If the want is intense and the commodity satisfies the want, then the utility of the commodity is higher.
 - iii) When the intensity of the want reduces, the utility of the commodity diminishes.
 - iv) For e.g:
 - a) The utility of notes is higher when exams are closer as the want for notes is intense.
 - b) The utility of the fan is high when the weather is warm outside as the want for the fan's breeze is high.
 - v) Thus, the utility depends on the urgency of the want.

3.
 - 1) **Desire is only as idea.**
Mere desire cannot become demand unless it becomes effective demand. A desire is simply an idea. It becomes effective demand when it is backed by ability and willingness of a person to pay.
 - 2) **Ability to pay**
The desire of a beggar to become the owner of a five star hotel will remain a mere desire for he lacks ability (Purchasing power) to buy the same.
 - 3) **Willingness to pay.**
The desire of a miser to buy a Maruti car may remain a desire as he is not willing to spend money.
 - 4) **Availability of the product.**
More than desire, what is important is the availability of the commodity. There can be no demand in the absence of availability, even if the consumer is willing and able to buy.

4.
 - 1) When the proportionate or percentage change in demand is less than the proportionate or percentage change in price, it is called as relatively inelastic demand.
 - 2) In short, when a change in price has less effect on the quantity demanded, then the demand for the product is relatively inelastic.
 - 3) A person who has a habit of consuming goods like tobacco, cigarettes, alcohol, guthka etc. will not reduce or postpone his consumption because of an increase in price. He is addicted to such goods.
 - 4) A change in price does have very less effect on demand of such goods.
 - 5) Therefore, demand for habitual goods is inelastic.

Ans.3. Define or explain the following (Any Two)

(02)

1) Possession Utility

Possession utility is created when the legal ownership and possession is transferred from one person to another (generally seller to buyer).

For Eg:

- i) The cakes in the Monginis cake shop have utility. However, the utility will increase when you place your order for the cake, pay the price and take possession of it .
- ii) The utility of a house will increase once the ownership is transferred from the seller to the buyer.

2) Derived Demand

Goods that are needed by the producers or manufacturers in order to produce finished goods for consumers are said to have derived demand. In short, goods that satisfy a want indirectly are said to have indirect or derived demand. For e.g. Demand for land, labour, capital, etc. are the examples of derived demand. All factors of productions have derived demand.

3) Demand Schedule

A demand schedule is a tabular representation of goods demanded by individual buyer(s) at different prices during a given period of time. A demand schedule can either be an individual demand schedule or a market demand schedule.

4) Expansion of demand

Expansion in demand is a form of variation in demand. Expansion in demand refers to a rise in demand for a commodity only due to a fall in price. All other factor remain constant and have no effect on demand for the commodity.

Q.4. Answer the following question (Any Two)

(08)

1) Factors Affecting Demand :

Demand is influenced by the following factors.

(1) PRICE OF THE COMMODITY

Out of all the factors which affect demand, price is the most important factor Price is the most influential factor which affects demand a lot. Generally is observed that when the price of a commodity rises, the demand for the commodity falls and when the price falls, the demand for the commodity rises. In simple words, higher the price. Lower the demand and lower the price, higher the demand.

(2) PRICE OF SUBSTITUES

The demand for a particular commodity may change if there is a change in the price of its substitute. If price of a commodity increases then consumers may prefer a chepar substitute of that commodity.

For eg : If the price of colgate toothpaste increases then the demand for colgate will fall and the demand for pepsodent / close-up/ Babool will increase.

(3) PRICE OF COMPLEMENTARY GOODS

Complementary goods refer to goods which are always used together or jointly for Eg. Car and petrol, TV and Settop box (Tata Sky), tea and sugar. If the price of one of the goods increase, then the demand for the other will fall and vice versa.

For Eg: If the price of sugar increase then demand for tea will fall (because sugar is used in making tea)

(4) FASHION

Fashion and trends change quickly. Products which are not in fashion or out of trend have less demand. Goods which are in fashion have higher demand.

For Eg: Ripped (cut) Jeans are more in demand as compared to regular Jeans

(5) AGE STRUCTURE AND SEX RATIO

The demand for goods useful to a particular age group will be high if major buyer in the market belong to that age group.

For eg: A country having large size of population in the age group of 2-10 years will demand more of children goods like toys, diapers, school-bags, books. etc. Similarly, demand for goods also depends on the sex ratio in the country.

For Eg: In India, the male population is higher as compared to the female population therefore, demand for products used by males like shaving cream. male clothes. men's perfume etc. will be more.

(6) CLIMATE

The demand for certain commodities will depend on climatic conditions.

For Eg: Sweaters have higher demand in winter.

(7) TAXATION POLICY

If the government charges higher tax, then people have to pay more tax and they are left with little disposable income. As a result, their demand in general, will reduce. On the other hand, a lower tax rate will lead to an increase in demand.

(8) OVERALL POPULATION

If the size of the population is large, there will be high demand for various goods. A country will have a relatively low demand for various goods.

(9) REGULAR ADVERTISEMENT

Consumers get influenced by regular advertisement on television, in newspapers on radio etc. There is a higher demand for goods which are advertised strongly on various media.

For Eg: People get influenced when their favourite superstar or sportstar endorses a soap brand or watch brand.

(10) SPECULATION REGARDING PRICES

People generally speculate regarding price of goods in the future. This speculation affects their current demand. If people feel that the price of a commodity will fall in the future, they will postpone their demand to the future and demand less now.

For Eg: People expect the prices of “ Samsung Note II ” to fall in the future. As a result, they will demand more in the future and demand less now.

(11) INCOME

When the income of a person increases, he is able and willing to spend more. This leads to a general increase in demand. Similarly, a fall in income can lead to a decrease in demand.

(12) TASTES AND HABITS OF CONSUMERS

The taste and habits of consumers affect the demand for products. The taste of consumers keeps changing while habits tend to remain constant.

For Eg: Demand for Pizza, burger, Vada pav, chocolates, etc, depend on a person's taste. Demand for cigarettes, alcoholic beverages, paan etc is a matter of habit.

2) Factors Determining Elasticity of Demand :

Following are the factors which influence Elasticity of Demand

1. **Substitute Goods:** Availability of substitutes also determines Elasticity of Demand. The larger the number of substitutes for a commodity in the market, demand tends to be more elastic.
2. **Also determined by Price:** Goods, which are very highly priced or very low price demand is normally inelastic. e.g. Demand for match box is inelastic.
3. **Nature of commodities:** Commodities may be either necessities or luxuries. Normally, elasticity of demand for necessities is inelastic and for luxurious demand tends to be elastic.
4. **Durability:** The demand for durable goods is elastic, whereas the demand for perishable goods is inelastic.
5. **Complementary Goods:** By and large, demand for complementary goods is inelastic. Because complementary goods such as motor car and petrol are demanded jointly.
6. **Habits:** Habits influence Elasticity of Demand. The demand, which satisfies the habits, is normally inelastic. For instance, the demand for cigarettes is inelastic. Also consumption of essential goods cannot be postponed therefore demand for them is inelastic.
7. **Income of Consumer:** When income level is high demand is normally inelastic, and demand is elastic at a very low level of income.
8. **Proportion of Income Spent:** When proportion of income spent is large demand for goods tends to be inelastic. For instance, demand for food grains is inelastic.
9. **Uses of a Commodity:** When commodity can be put to several uses, its demand is elastic. The demand for electricity is elastic.
10. **Postponement Of Demand :** If the demand for a certain commodity can be postponed, then the demand for such commodity will be elastic.
For Eg : fridge, car, sofa, mobile etc.
If the demand for a certain commodity cannot be postponed, then the demand for such commodity will be inelastic
For Eg : medicines, academic books, etc.

3) Importance of the law of DMU

1. **To the consumer** - The law of diminishing marginal utility guides the consumer in planning their budget, so as to achieve maximum satisfaction" from the resources available.
 2. **To the producer**-The law is important to the producer in determining price and sales policy. It helps to maximise his profits.
 3. **To the monopolist** - The Law. of DMU is helpful to the monopolist to practice price discrimination, i.e., charging different prices to different consumers for the same product.
 4. **To the Government** - The law of diminishing marginal utility is useful to the government implement various economic policies f public distribution system, social justice. It helps to improve the welfare of the people the society.
 5. **To the finance minister** - The law diminishing marginal utility guides the finance minister to frame progressive taxation policy It helps to reduce economic inequality. The law is also useful to economic experts, bankers modern economists.
 6. **To understand paradox of value** - The law explains 'value paradox' by showing difference between value in use and value exchange. Value-in-use refers to usefulness a commodity. Whereas value-in-exchange means rate of exchange of one commodity terms of another.
Some commodities have high value-in-use but low exchange value, for example water. Whereas some commodities have low value in use but high exchange value due to its scarcity. For example diamonds. Higher TU determines greater value in use and higher MU denotes greater value in exchange of a commodity.
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