J. K. SHAH CLASSES
SYJC - ECONOMICS

QUESTION PAPER – SET 2   **Date: 18/07/2016**

Total Marks: 40   **Total time: 1 hour 30 minutes**

Solutions

Ans.1. (a)   Fill in the Blank:
- i)   Falls
- ii)   Same
- iii)   Qualitative
- iv)   Variation 'dd'

(b)   True or False :
- (i)   True
- ii)   False
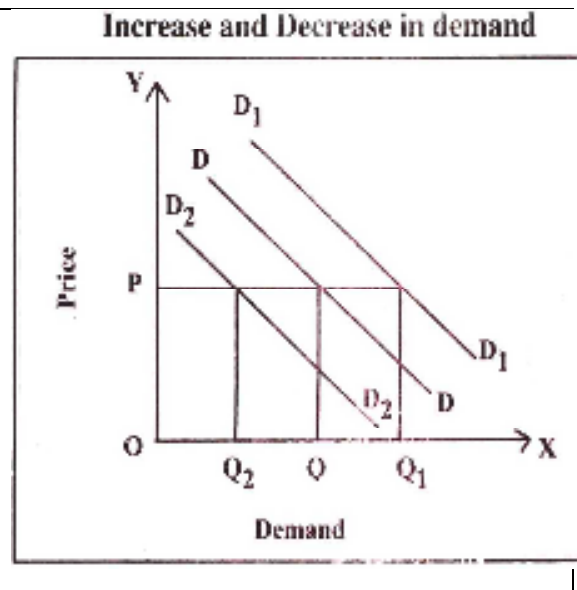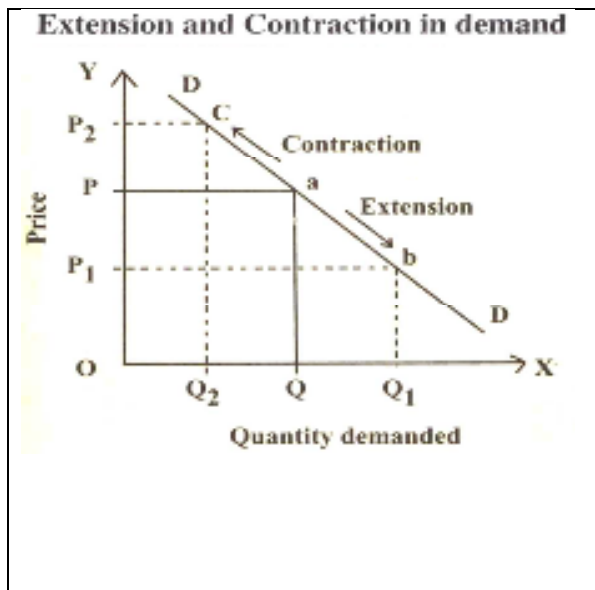- iii)   Flase
- iv)   True

(C)   Match the column :
- (i)   Inverse relation
- (ii)   Substitute goods
- (iii)   Indirect 'dd'
- (iv)   Joint 'dd;

Ans.2. (a)   Distinguish

i)   Expansion & Increase in Demand :

Expansion of Demand	Increasing in Demand
1.Variation and Changes in Demand Variation in Demand : There are many Factors determine demand. One of the Important factor price. When demand Changes due to changes in it is know As variation in demand. It is of 1) Expansion of demand 2) Contraction of demand	1. Change in Demand : Change in demand implies an Increase or decrease in demand. There are many other factor that affect Demand.
2. Meaning With fall in price more of a Commodity is bought there is expansion (or Extension) of demand, other things remaining it.	2 Meaning When more quantity of a commodity is demanded because of change in the factors determining demand other than price it is an increase in demand.
3. Extension and Contraction in Demand	3 Increase and Decrease in Demand

Extension and Contraction in demand

Increase and Decrease in demand

ii) Contraction & decrease in 'dd'

Contraction of Demand	Decrease in Demand
1. **Meaning** With a rise in price less of a commodity Is bought there is contraction of Demand.	1. **Meaning** When demand falls due changes in Factors other than price, it is know As decrease in demand.
2. Contraction in Demand Extension and Contraction in demand 	**2. Decrease in Demand** Increase and Decrease in demand

iii) Form utility and Service utility

Form utility	Service utility
1. **Meaning** When the utility is added by changing the form or structure of a commodity, it is called form utility.	Utility derived from the personal services of doctors, lawyers, engineers, teacher is termed as service utility.
2. **How?** Change in size or structure adds merits to the commodity. This leads to creation of utility, when a carpenter converts wooden logs into furniture, its form utility increases.	Services satisfies a particular purpose and thus adds utility. Doctor's service cure a patient.
3. **Determinant** Amount of utility determined by the type of change.	Amount of utility is determined by type of service.
4. **Tangible:** Form utility is tangible one can See it happening	Service utility is intangible one can only experience it.
5. **Creation** When the matter is converted in Product it creates formality	Specific service provision creates service utility.

(b) Give reason
(i) **i. Desire is only an 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.
ii. 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.
iii. 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.
iv. 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.

(ii) Increase in demand means change in demand due to factors other than price. When demand rises or falls due to change in price, all such points can be shown in the same demand curve. When demand changes due to other factors like income or population, such a change can be shown in a separate demand curve. In such cases, the demand curve shifts to the right.
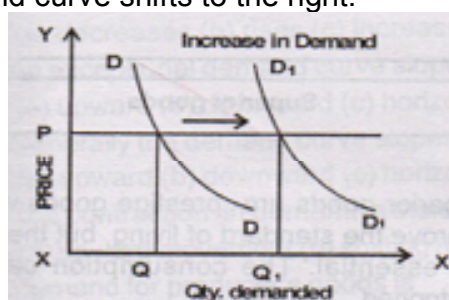
In the above diagram the original demand curve is DD. The point 'a' in the demand curve indicates that the consumer demand OQ quantity at OP price. However, when the income of the consumer increases, demand increases to 0Q1 quantity. It is not because of fall in price. It is due to change in other factors like income. The increase in income pushes up purchasing power and enables the consumer to buy more at the same price. This change is indicated at point 'b' in a separate demand curve D1D1. Thus when there is increase in demand, it is indicated by shifting of demand curve to the right.

(iii)
1. Marginal Utility is the additional utility derived by the consumer on consumption of an additional unit of the commodity. In short, it is additional utility derived from the last unit consumed.
2. The law of DMU states that "other thing being equal, the additional benefit which a person derives from the increase in the stock of a thing diminishes with every increase in the stock that he already has"
3. In simple words, as the consumers acquires or consumes more and more units of a commodity, the marginal utility derived from every successive unit goes on declining.
4. There is an inverse relationship between stock of a commodity and MU. Thus, MU diminishes with an increase in stock.

(C) Define following:
(i) Statement of law

According to Prof. Alfred Marshall, other things being equal, a consumer will distribute his money income on different goods in such a way the ratio of marginal utilities and their prices tends to be equal.

In other words, a consumer gets maximum total from spending his income, when the marginal derived from the last unit of money, spent on commodity tends to be equal.

If a consumer spends his given income on three consumer's equilibrium can be presented as follows:

$$MU_A/P_A = MU_B/P_B = MU_C/P_C$$

Where, MUA, MUB and MUC refer to marginal utility derived from commodities A, B and C, respectively. MUm = marginal utility of money spent.

It can be explained with the help of the above schedule.:

The above given schedule indicates marginal utility derived from commodities A, B, and C.

The price of commodity A= ₹ 2/-, commodity B = ₹ 3/- and commodity C= ₹ 4/-

Let us suppose that, an individual has limited income of ₹ 25/-. A consumer will equate MU of money spent on various commodities with price.

In this case, rational consumers will purchase-

4 units of commodity A

+ 3 units of commodity B

+ 2 units of commodity C

So he will spend-

Commodity	Units	Price	Amount spent (Units X axis)
A	4	2	₹ 8
B	3	3	₹ 9
C	2	4	₹ 8
		Total	₹ 25

According to the law, a consumer is in equilibrium when

$$MUA/PA = MUB/PB = MUC/PC = MU$$

In this case   12/2   =   18/3   = 24/4

∴   6   =   6   = 6

TU derived = TUA   24+ 20 + 16 + 12 = 72

TUB   30+ 24 + 18 = 72 units

TUC   32 + 24= 56 units

Total utility 200 units

Thus, a consumer obtains maximum TU from various commodities with limited income of ₹ 25/- . No other combination of commodities A, B, and C can give him more than 200 units of TU. Hence, the law of equi- marginal utility guides the consumer to get maximum satisfaction from the given income , while arranging his total expenditure therefore, the law has great practical significance.

(ii)   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 factors remain constant and have no effect on demand for the commodity.

(iii) Increase in demand

Increase in demand is a form of change in demand. When more quantity is demanded than before at the same price, it is called as increase in demand. Increase in demand takes place due to favorable changes in factors other than price like fashion, income, taxation policy, advertisement, tastes and habits etc. In this case, price remains constant and it has no effect on the demand for the commodity.

(iv) 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.

Ans.3. Long Answer

(i)   Relationship between total utility and marginal utility can be explained with the help of the following schedule and diagram:

Total Utility and Marginal Utility Schedule

Units of commodity	TU Units	Mu Units
1	8	8
2	14	6
3	18	4
4	20	2
5	20	0
6	18	-2

The above given schedule indicates MU and TU derived from each unit of a commodity.
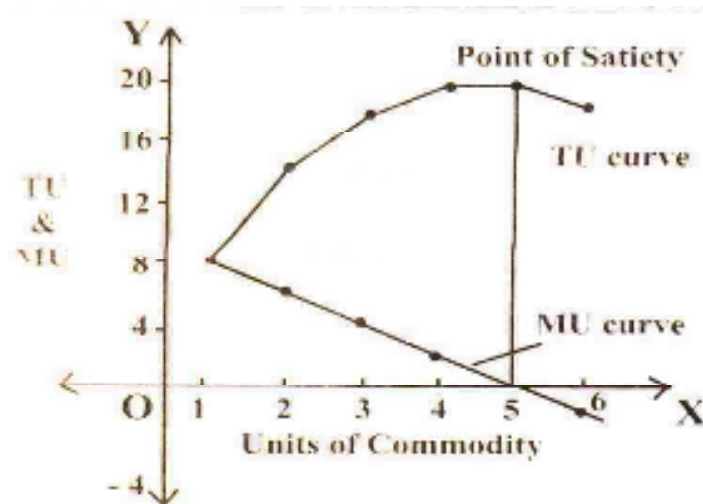
The above given schedule and diagram explain that:

1. Initially, total utility and marginal utility are equal (TU = MU)
2. From the consumption of second unit, total utility increases at a diminishing rate and marginal utility goes on decreasing. So TU curves curve slopes upward and MU slopes downward. (TU   , MU)
3. When total utility is maximum, marginal utility is zero. It indicates point of satiety (i.e., maximum satisfaction). At this point, TU curve reaches the highest level and MU curve touches the x- axis. (TU maximum, MU zero)
4. When total utility declines, marginal utility intersects the 'X' axis and becomes negative. It shows dissatisfaction of a consumer. In this case, TU curve starts falling and MU curve enters into the negative quadrant. (TU ,, MU negative)

     It is observed that total utility is always positive. but marginal utility may be positive, zero or even negative.