Test. Date :- 25th. March

Name :- Pradhum Wagh.
Sub. :- Economics.

Q.1. -
A] -

i) Micro Economics is a study of Individual economic unit.

ii) Indirect Demand is also known as derived demand.

iii) Under monopoly there is existence of single seller.

iv) Produced means of production is known as capital goods.

v) Budget is the estimate of the revenue and expenditure of the coming year.

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B] -

1. Micro economics : Slicing Method ::
Macro economics : Lumping Method.

2. Furniture from wood : Form utility ::
Study book : Knowledge utility.

3. Capital : Derived demand :: Umbrella : Derived demand.

4. Perfectly elastic demand : $Ed = \infty$ ::
Perfectly inelastic demand : $Ed = 0$.

5. Perfect competition : Free entry of & exist ::
Barriers to entry :

C] -

1) A) :- Micro economics has comparatively narrower scope.
R) :- Micro economics studies the behaviour of only individual economic units of economy.
→ 3) Both A) & R) are True & R) is the correct explanation of A).

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2) A> Macro economics is also known as income analysis.
R> Macro economics studies the income earned by particular individual or firm
→ 1) A> is true but R> is false.

3) A> Elasticity of demand explains that one variable is influenced by another variable
R> The ~~conc~~ concept of elasticity of demand explains the effect of price & changes in other factors on demand.
→

4) A> A change in price of one commodity affects the change in price of other commodity is cross elasticity.
R> Changes in consumers income leads to change in quantity demand.
→ A> is false but R> is true.

5) A> Tea & coffee have positive cross elasticity of demand.
R> ~~Beyond~~ ~~cer~~ As the price of coffee rises the demand for tea falls.
→ 1) A> is true but R> is falls.

6) Assertion (A> Labour supply curve bends downwards.
R> Beyond certain level workers prefer leisure than work.
→ 3) A> & R> are true & R> is the correct explanation

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Q.2 –
A) –

1. 1. As Gauri has collected information of a particular firm, this is the concept of micro-economics.
2. Micro-economics studies the behaviour of individual economic units.

2. 1. As salma has purchase a sweater for her father in the winter season, it represents the concept of 'time utility'.
2. Time utility means, 'A product has utility due to time', change in the time can result in the change in product's utility.

3. 1. As, Rahul paid wages to the workers in his factory & interest on the bank loan, this is the

B) -

1\. 1. Habitual goods means, the goods which we use on a large scale on daily basis.
2. As habitual goods are used on a large scale on daily basis, one cannot resist himself from not purchasing that particular good whatever the price may be.
3. Hence, demand for habitual goods is normally inelastic.

3\. 1. Macro-economics is the study of aggregate demand & supply. It doesn't deals with individual variables of micro-economics.
2. Macro-economic variable are the indicators or main signposts signaling the current trends in the economy.
3. Hence, macro-economy is concerned with macro-economic variables.

4\. 1. Fixed deposit is a type of time deposit, it varyies from 'Recurring deposit (RD)'.
2. One has to deposit a certain sum of money for a particular time period. He cannot withdraw the money before the maturity period.
3. Bank gets a huge amount to invest or provide as a loan to other needy

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people.
4. Hence, bank also provides high interest for the fixed deposit.

Q. 3. –
A> –

I. Metallic Money & Paper Money.

Metallic Money.	Paper Money.
Transactions.	
Metallic Money are suitable for small transactions.	Paper Money is suitable for large transactions.
Portability.	
Metallic money (coins), are comparatively less portable.	Paper money is comparatively more portable.
Durability.	
Metallic money is more durable.	Paper money is less durable.

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6). -

4. Central Bank & Commercial Bank.

Central Bank	Commercial Bank
Issue of currency.	
Central Bank enjoys the right to issue currency.	Commercial bank does not enjoy's the right to issue currency
Meaning.	
Central bank is the main & head bank of the country.	Commercial bank is a financial institute that accepts deposits & grants loans & advances.
Example.	
Reserve Bank of India (RBI).	HDFC, axis Bank, Kotak Bank, etc.

6. Revenue Expenditure & Capital Expenditure

Revenue Expenditure	Capital Expenditure
Meaning	
Revenue Expenditure means, current/ongoing expenses, that occurs daily.	Capital Expenditure are like one-time expenditure, that doesn't occurs daily.
Period.	
Revenue expenditures are short term expenses	capital expenditure are long term expenses
Example.	
Revenue expenditures includes the expenses required to meet daily operational cost of running business.	Capital expenditure includes, purchase of a fix assets.

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B) –

1. Giffen's Paradox:-

1. Giffen goods are also known as inferior goods.

2. Generally, if the income of a consumer increase, his demand for goods also increases, and vice-a-versa

3. But, incase of Giffen goods, when the income of a consumer increase, the demand for giffen goods decreases & vice-versa.

4. It is also an exception to the law of demand.

5. When price of giffen goods falls the demand for it also falls. It has a direct relationship of price & demand.

6. This is known as giffen paradox

2. Income elasticity of demand :-

1. Income elasticity of demand means, the proportionate change in the quantity demand by a consumer due to change in his income.

2. It helps us to identify whether the good is a neccessity or a luxury.

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3. Formula for calculating income elasticity of demand is,

' % change in quantity demanded / % change in the income '

4. Businesses uses the measures to help predict the impact of a business cycle on the sales.

5. There are 5 types of income elasticity of demand. i) High ii) Low. iii) zero, iv) unitary, v) Negative.

Q.4. -

I. 1. According to Alfred Marshall " other things remains constant, a quantity of a commodity is demanded more when is price is low and at a higher price, the quantity of a commodity is demanded less."

2. In simple words, higher the price, lower is the demand & lower the price, higher is the demand, being other things constant.

3. $Dx = F(Px)$, where, D = demand; x = Commodity
F = function & P = price of commodity.

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4. There are certain assumption to the law

i) Income remains constant :- It is assumed that during the law of demand there is no change in the income of the consumer.

ii) Price of substitute goods remains same :- If the price of substitute goods donot remain constant then it will affect the law of demand. Hence it is assumed that, the price of substitute goods remains constant.

iii) Price of complementry goods remains same :- It is assumed that the price of complementary goods remains constant during the law of demand.

iv) Taste & preferences remains unchanged :- If it changes then the law of demand won't work, hence it is assumed that there is no change in the taste & preferences during the law of the consumer.

v) No future expectations of the price :- If a consume does future ~~excep~~ predicture for a price of commodity then it will affect the law of demand.

vi) Size of population remains constant :- Population fluctuations can affect the law & hence,

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it is assumed that the size of population remains constant during the law.

~~vii) Constant taxation~~

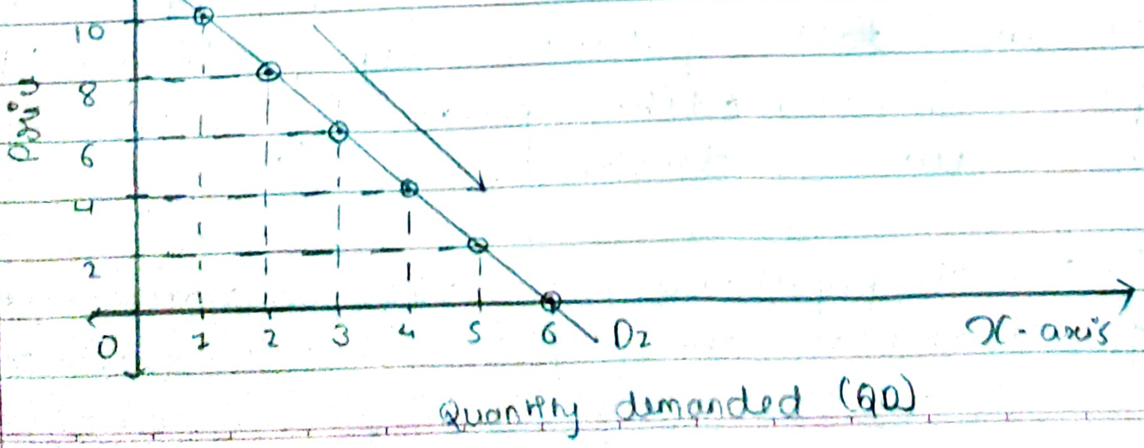
viii) Constant taxation policy :- It is assumed the the taxation policies are unchanged during the law.

5. Following is the graph of law of demand.

i) Schedule

Quantity Demanded	Price of commodity.
10	1
8	2
6	3
4	4
2	5
0	6

Scale,
on Y-axis 1 unit = 1 Q.D.
on X-axis 1 unit = 2 R.s



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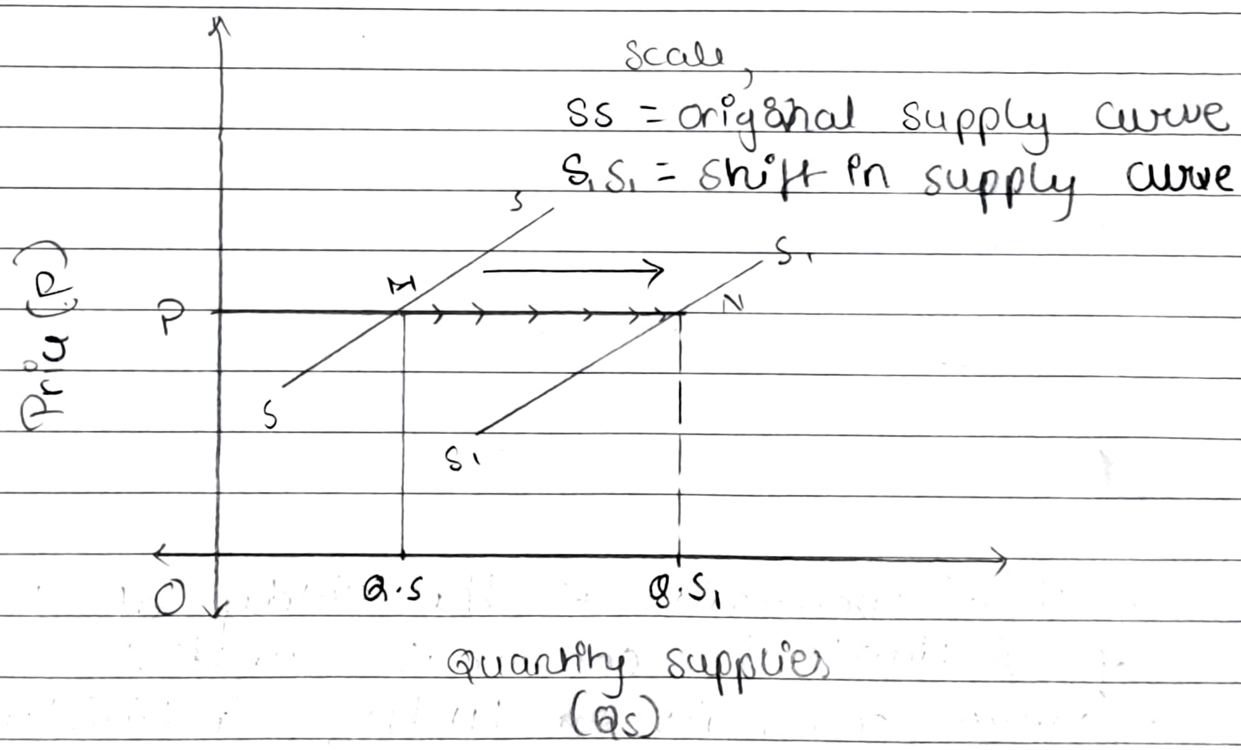
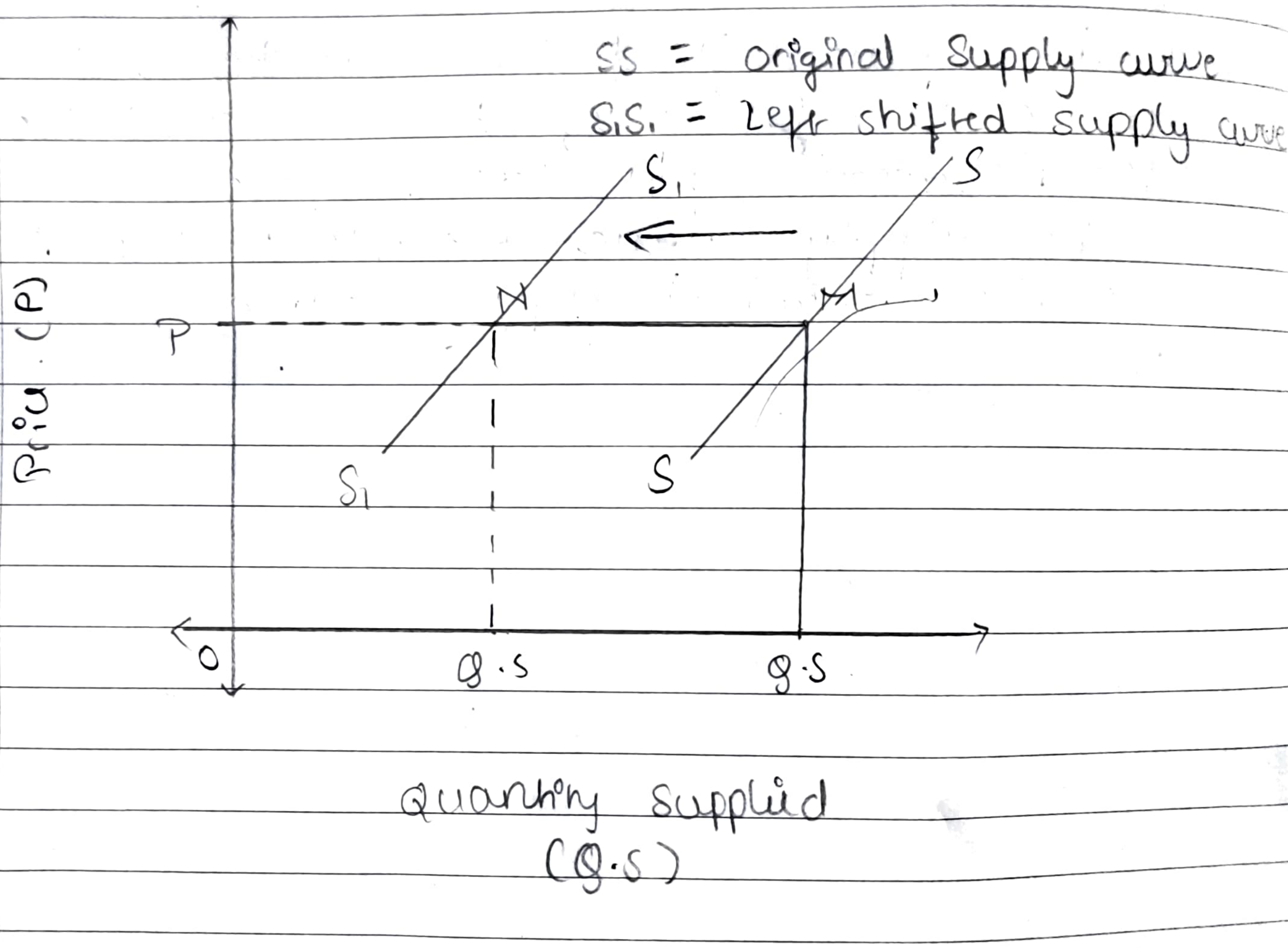
2. 1. Increase in supply refers to the rise in the supply due to changes in the favorable factors while price remains unchanged.
2. The favorable factors can be fall in the price of input, fall in tax rates, technological upgradation, etc.
3. The supply curve shifts to the right of the original supply curve.
4.



5. Decrease in supply refers to the decrease in the supply due to changes in the unfavourable factors, while price remains unchanged.
6. Unfavourable factors such as, rise in the tax rates, rise in the input price, technological degradation, etc.

7. Supply curve shifts to the left of the original supply curve.

8.



3. 1. Micro economics is the study of behaviour of individual economic units.

2. Micro economics includes, individual demand & individual supply of a particular firm / household.

3. According to Maurice Dobb :- "Micro-economics is in fact a micro-scopic study of economics.

4. Following are the importantance of Micro economics.

5.

Importance of Micro Economy.

1. Price determination
2. Free Market Economy.
3. Foreign trade.
4. Economic Model Building
5. Buisiness decisions.
6. Useful to Government.
7. Basis of welfare Economics.

i) Price determination :- Micro economics helps to understand, how the prices of different & various products are determined.

ii) Free market economy :- Micro economy helps in understanding the working of free market economy.

iii) Foreign trade :- It helps to understand various aspects of foreign trade such as tariff, currency exchange, etc.

iv) Economic Model Building :- It helps in understanding various complex economic decisions with the suitable help of economic ~~do~~ models.

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Q.5. -

1) 1. I disagree with the following statements, price isn't the only determinant / affect the demand of a commodity.
2. It is true that price affects the demand of a commodity but it isn't the only factor that affects the demand.
3. There are more 4 factors that affects the demand of a commodity.

4) Income :- Income of a consume decides his purchasing power, if the income is low, then his demand will also be less and if his income is high his purchasing power i.e. demand will also be high.

5) Price of substitute goods :- If the price of substitute good rises then the demand of other goods also rises. The relation between price & demand of the substitute goods is direct.

6) Price of complementory goods :- If the price rises the demand of complementory good will decrease. It has indirect relation between price & demand of complementory goods.

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7. other factors :- Other factors such as climatic conditions, changes in technology government policies, etc. also affects the demand.

3. 1. In agreed with the following statement, as price & supply has direct relationship
2. Supply is a flow concept.
3. Supplier will supply more quantity at a higher price for making more profit.
4. At lower price the supplier won't supply, because he won't get much financial benefit by supplying more on lower price, hence he will supply less on lower price.

Q.6. -

1. 1. According to Alfred Marshall, " Other things remains constant, the additional benefit derived from an increase in the stock of things, diminishes with every increase in the stock that he already has.

2. Assumption to the Law.

i) Rationality :- It is assumed that the person / consumer should be rational.

ii) Cardinal measure :- It is assumed that the value of marginal utility should be measured cardinally.

iii) Homogeneity :- All units of commodity should have, same taste, size, shape & colour.

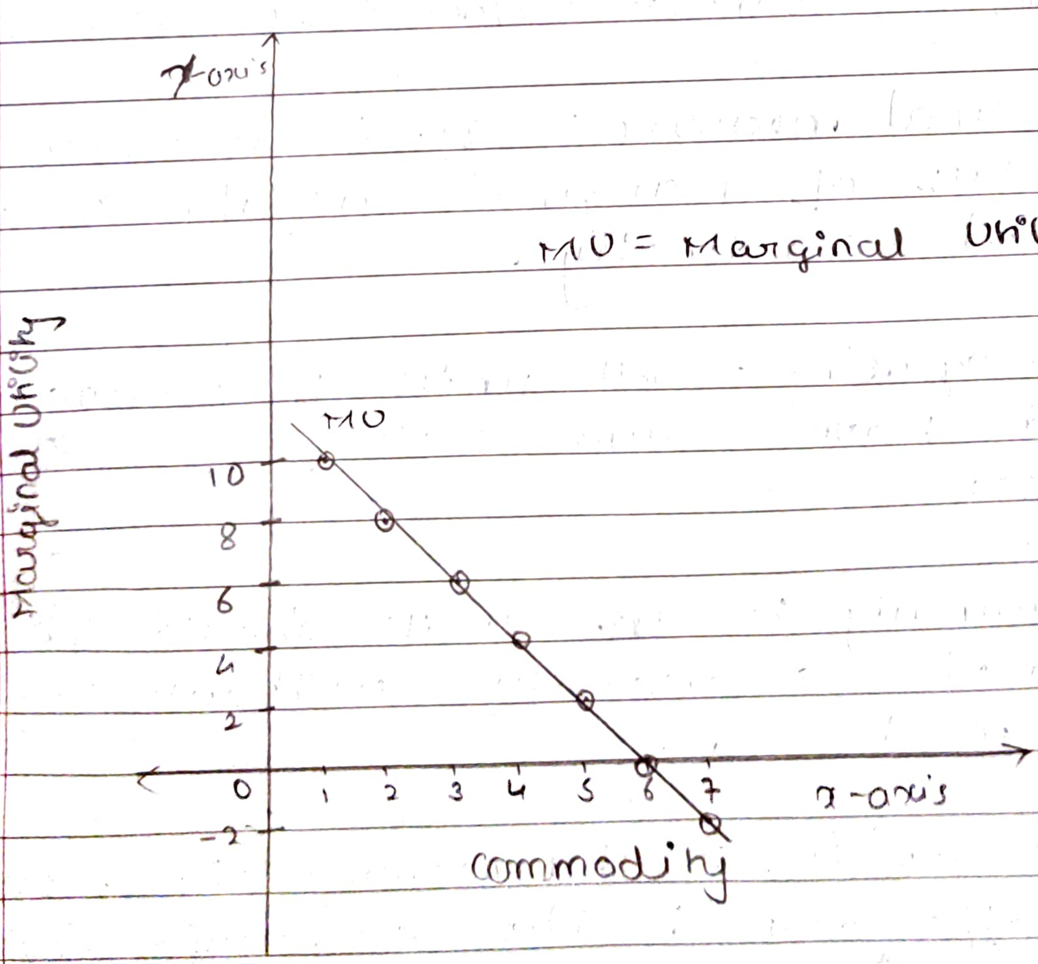
iv) Continuity :- The units should be consumed successively without any gap in between.

v) Reasonability :- The commodity should be affordable to the consumer during the law.

3. Schedule.

Units	Marginal Utility.
1.	10.
2.	8
3.	6
4	4
5	2
6	0
7	-2

MU = Marginal Utility Curve.



4. On x-axis, there are commodities, on y-axis there is MU.
5. As we can see MU decreases ~~as~~ with every increase in the additional unit consumed.
6. on 6th commodity MU is zero it is the point of satiety.
7. on 7th commodity consumed, the MU becomes negative that means vomating.

2. 1. Perfect competition is an ideal and imaginary concept of market rather than an actual market.
2. Acc. to Mrs. Joan Robinson," Perfect competition says, when the demand for the output of each producer is perfectly eslastic.

3. Following are the determinants of perfect competition.

Determinants of Perfect competition

1. Large no. of sellers & buyers.
2. Homogeneous goods.
3. Free entry & exist.
4. Single price.
5. Perfect knowledge of market
6. Perfect mobility of factors of production.
7. Absence of Transport cost.
8. No government intervention.

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4. Large no. of seller & buyers :- As mentioned, earlier, each seller form a negligible part in the total market. Hence no one can influence the prices of the products. Buyers are also large. They also cannot influence the prices.

5. Homogeneous product :- Every seller sells the same product in the market & every buyer buys the same product.

6. Free entry & exist :- There are no barriers to the entry and exist of firms, anyone can come & go as they please.

7 Single price :- Every sellers sells the product at same price & every buyer purchase the product at same price.

8. Perfect knowledge about market :- The buyer & seller have perfect knowledge about the market, conditions.

9. Perfect mobility of factors of production :- There is perfect mobility of factors of production under perfect competition.

10. ~~Ad~~ Absence of transport cost :- There is no transport cost ~~of~~ for the product in perfect competition.

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11. No government intervention :- Laissez faire policy is an important feature of perfect competion. It means no government interruption.