UNIT-1 - Introduction -

1. What do you mean by demand?

Ans:- Demand for a commodity refers to the amount of that commodity which will be Purchased at a particular price during a given period of time. Demand might be satis-fied and so actual quantity is bought would be equal demand.

2. What do you mean by elasticity of demand?

Ans:- Price elasticity of demand measures the degree of responsiveness of quantity demand of a commodity due to change in its price.

3. What are the different types / degrees of Price classify of demand?

Ans:- Following are the different types of price elasticity of demand:-

- Inelastic demand - Demand is said to be relatively inelastic when the percentage change in demand is less than percen-tage change in price.
- Elastic demand - Demand is said to be elastic when the Percentage change in demand is more than Percentage Change in Price.
- Unitary Elastic demand - Demand is said to be unitary elastic when the Percentage change in demand is equal to the percentage change in Price.
- Perfectly Inelastic demand - Demand is Perfectly Inelastic when it doesnot change irrespective of the changes in prices.
- Perfectly Elastic demand - When the demand for a comm-odity reduces to zero with a very small increase in Price and increases to Infinity with a very small reduction in Price then demand is said to be per-fectly elastic demand.

4. What do you mean by joint demand?

Ans:- It refers to the demand for those goods which are always demanded jointly.

For Eg:- Car and Petrol.

5. What do you mean by composit demand?

Ans: It refers to the total demand for a commodity which can be used for various Purchases.

6. What do you mean by Direct demand?

Ans: It refers to the demand for commodities meant for final consumption.

7. What is Price Demand?

Ans: It refers to the demand for a commodity at a particular price.

8. What is Income Demand?

Ans: It refers to the demand for a commodity at various levels of consumers income.

9. What is Cross Demand?

Ans: It refers to the quantity demanded of a commodity due to change in the Price of other commodities.

10. What do you mean by Supply?

Ans: The term supply implies the various quantities of a commodity offer for sale by a Producer during a given period of time at various prices. like demand, Supply of a commodity is always related to price.

11. Distinguish between supply and Stock?

Ans: following are the difference between supply and stock

Supply	Stock
(i) By Supply we mean the amount of a commodity which is available in the market at a given Price.	(i) By Stock we mean the total volume of a commodity which can be brought into the market for its sales at short notice.
(ii) Supply and Stock is same for Perishable goods.	(ii) for durable goods stock is different for supply.

12. What do you mean by Elasticity of supply?

Ans: The Elasticity of supply is the degree of responsiveness of the change in supply to the change in Price of the comm-odity on the part of the seller.

13. What are the factors determining the price elasticity of demand for a commodity?

Ans: following are the factors determining price elasticity of demand for a commodity :-

• Availability of close Substitutes - If close substitutes of a commodity are easily available, its price elasticity of demand it likely to be high, bec-ause even a very small increase in price will make consumer to shift over to other goods in a big way.

• Nature of the commodity - An important determinant of Elasticity of demand for a commodity is the nature of the commodity itself. If the commodity is a necessity of life, its demand will not change much when its price changes. Hense, the elasticity of demand will be low.

• Proportionment total expenditure - If the amount spend on a commodity constitutes a very small portion of the total expenditure on all goods and services than the price elasticity it likely to be small.

• Habites - Habites also play a role in the determi-nation of Elasticities. for Eg:- If a person has developed the habit of smoking, he may not be able to reduce his consumption of cigarettes even when the Price of cigarettes goes up, his demand for cigarettes will than be inelastic.

• Number of uses - The demand for a commodity which can be put to several uses will be relatively elastic. for instance - coal can be used for cooking, heating, etc. when the price of coal rises the consumers can cut down some of the uses of coal restricte them self to the more urgent use only.

• Income of the Purchaser - The Elasticity of demand is also influence by the income of the consumer. If the consumer is rich, he will not bother much by small changes in price. A poor consumer on the other hand will give importance to small changes in price.

• Period of time - If the price of a product rises, Consumers will search for cheaper substitutes. The longer period they have, the more likely they are to find the one. Demand will therefore be more price elastic in the long run.

• Joint demand - Joint demand for a commodity also affect the price elasticity of demand. For example- If demand for car is inelastic, the demand for petrol will also be inelastic.

14. What are the factors determining supply?

Ans: Following are the factors determining supply:-

• Price of the commodity - Price is the most important factor influencing the supply of a commodity. As a general rule price of a commodity and its supply are directly related.

• Price of other goods - As resources have alternative uses, the quantity supply of a commodity depends not only on its price but also on the price of other commodities. In case of increase of the price of the other goods, the other goods become more profitable for the producer and so the producer shift his production.

• Nature of goods - The supply of every perishable goods is perfectly inelastic in a market period because the entire stock of such goods must be sold within a very short period what so ever may be the price.

• Natural Conditions - Supply of agricultural products and consumer products also depend on the natural environment and climatic condition. A change in the natural condition will cause a change in the supply.

• Transport conditions - Difficulties in transport may cause a temporary decrease in supply as because goods cannot be brought in time to market places.

• Cost of production - If there is a rise in the cost of production of a commodity, its supply will tend to decrease. Similarly, with the fall in cost of production the supply will increase.

15. What are the different types of elasticity of supply?

Ans: • Perfectly inelastic supply - When the supply for a commodity does not change as a result of change in its price, we say that the supply is perfectly inelastic.

• Relatively inelastic supply - When a large change in the price of a commodity cause a less than proportionate change in the quantity supplied, we can say that the supply is relatively inelastic.

• Unitary elastic supply. - When a proportionate change in price brings about an equal an proportionate change in the supply for a commodity, it is said to be unitary elastic supply.

• Relatively elastic supply - Supply is said to be relatively elastic when the percentage change in price is less than the percentage change in quantity supply of a commodity.

• Perfectly elastic supply - When a very small rise in the price causes the supply to fall to zero it is known as perfectly elastic supply.

16. What do you mean by normal goods?

Ans: Normal goods are those goods whose demand increases with an increase in the income of the consumers.

17. What do you mean by inferior goods?

Ans: Inferior goods are those goods whose demand decreases with an increase in the income of the household.

18. What is market demand?

Ans. Market demand is the total quantity of the commodity in the market which all the individual buyers are able and willing to pay different prices in given period of time.

19. Explain the law of demand?

Ans. The law of demand expresses the functional relationship between price and quantity demanded of a commodity. According to the law of demand, other things being equal or constant, if the price of a commodity ~~faces~~ falls the demand for it will rise and if the price of the commodity rises, in that case the demand of the commodity will fall.

According to the law of demand, demand function can be expressed as under:-

$$D_x = f(P_x, P_R, Y, T)$$

where, D_x = Demand of the commodity

P_x = Price of the commodity x

Y = Income of the consumer

T = Taste and preference of the consumer.

f = functional relationship.

P_R = Price of related commodities.

The above demand function states that demand for commodity x rises when its price falls and vice-versa provided price of related commodities, income of the consumer and taste and preference of the consumer remains constant.

The law of demand can be explained with the help of following demand curve and demand schedule

Demand Schedule

The table relating to price and quantity demanded is called demand schedule. Demand schedule is of two types

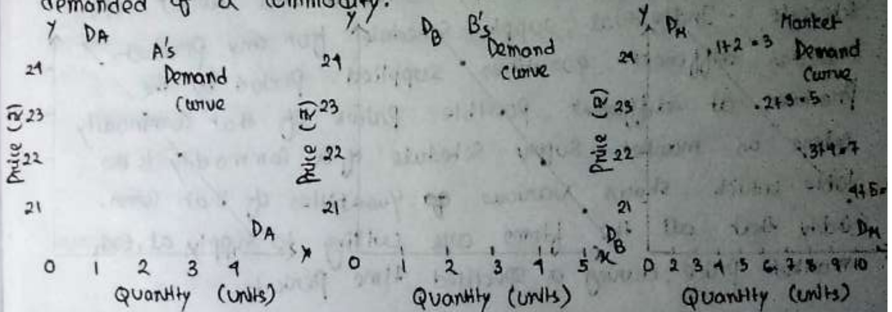
1. Individual demand schedule.
2. Market demand schedule.

Price of Ice cream (₹)	Demand of Consumer A	Demand of Consumer B	Market Demand
21	4	5	9
22	3	4	7
23	2	3	5
24	1	2	3

The above table shows two individual demand schedules of consumer A and B and a market demand schedule. All these schedule show that as the price of ice cream goes on rising, quantity demanded goes on falling.

Demand Curve.

A demand curve is the graphical representation of the relationship between the price and quantity demanded of a commodity. It can be obtained by joining all points that reflect the various combinations of price and quantity demanded of a commodity.



Conclusion: The study of demand schedule and demand curve clearly shows that price of a commodity and its quantity demanded are inversely related, prices of related goods, income of the consumer, taste and preference remains unchanged.

* 20. Explain the law of supply?

Ans. According to the law of supply other things being equal, the quantity supplied of a commodity rises directly with its price. In other words when price of a commodity rises, quan[tity] supplied increases and vice-versa, other things being equal.

Assumptions of the law. The law of supply will work under the following assumptions:

① There is no change in the price of related goods.

② There is no change in the state of technology.

③ There is no change in the goods of the firm.

④ Prices of factors of production do not change.

Explanation of the law: The law of supply can be explained with the help of following supply schedule and a supply curve.

ⓐ Supply Schedule : A supply schedule is a tabular statement showing various quantities which producers are willing to produce and sell at various alternative prices during a given period of time. It states the relationship between the price of a commodity and the quantity that would be supplied. Supply schedule is of two types namely individual supply schedule and market supply schedule - Individual supply schedule for any product indicates different quantities supplied period by the producer at different possible prices of that commodity where as market supply schedule of a commodity is the table which shows various quantities of that commodity that all the firms are willing to supply at each market price during a specified time period.

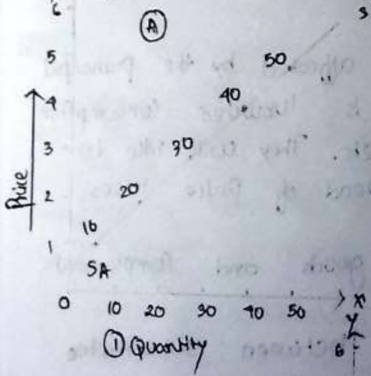
Price of Product x	Quantity supplied of firm A	Quantity supplied by firm B	Market Supply
2	10	20	30
3	20	30	50
4	30	40	70
5	40	50	90
6	50	60	110

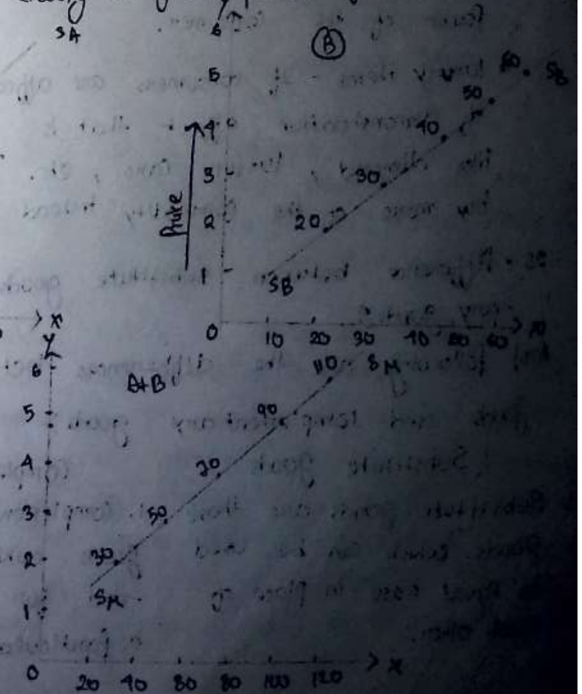
Hence we have assumed only two firms A and B and one particular commodity namely product x. At price of ₹2 firm A supplies 10 units and firm B supplies 20 units and the total market supply was 30 units. As the price of the product rises, the market supply also gradually rises.

Supply Curve : A supply curve is the graphical representation of the relationship between price of a commodity and the quantity supply assuming all other factors influencing are held constant. It is obtained by joing all price quantity supplied combinations. Like supply schedule, supply curve is also of two types namely individual supply curve and market supply curve.

Individual supply curve : It shows various quantities of a given commodity which an individual producer is willing to supply at different prices during a period of time.

Market supply curve: Market supply curve is the curve which shows various quantities of a commodity which all the producers are willing to produce and sell at different prices during a given period of time.





21. What are the assumptions of law of demand?

Ans: Following are the assumptions of law of demand:-

- Taste and preference of the customer remain unchange.
- There is no change in the income of the consumer.
- Prices of the related goods donot change.
- Consumer donot expect any change in the price of the commodity in the near future.

22. What are exceptions of law of demand?

Ans: Following are the exceptions of the law of demand:-

- War - If a shortage is feared in anticipation of war, people may start buying for building stock for hoarding when the prices will rise.
- Depression - During a depression the prices of commodities are very low and the demand for them is also less. This is because of lack of purchasing power of the consumer.
- Luxury items - If consumers are affected by the principal of demonstration affect that is luxurious consumption like diamond, luxury cars, etc. They will like to buy more of the commodity instead of price rises.

23 Difference between substitute goods and complementary goods?

Ans: Following are the differences between substitute goods and complementary goods:-

Substitute goods	Complementary goods.
1. Substitute goods are those goods which can be used in equal ease in place of each other.	1. Complementary goods are those goods which are jointly demanded for the satisfication of a particular want.
2. Substitute goods are competitive in nature.	2. Complementary goods are not competitive in nature.
3. Substitute goods have elastic demand.	3. Complementary goods have inelastic demand.

24. What are the exceptions to the law of supply?

Ans: Following are the exceptions to the law of supply:-

- The taste and preference of the consumer must remain constant for supply to increase.
- Whether conditions effect the supply of commodity particularly agricultural commodity.
- The law of supply is not applicable in case of antique items.

25. What is demand function?

Ans: Demand function expresses the functional relationship between quantity demanded of a commodity and the determinants of demand that is, the factor which influence the demand for a commodity.

26. Why does demand curve slops downward from left to right?

Ans: The demand curve has a negative slop. The reasons for this also clarify the working of the law of demand. The following are the main reasons of the downward sloping of the demand curve:-

- Law of diminishing marginal utility - According to this law when a consumer buys more units of a commodity, the marginal utility of that commodity continuous to decline. There for the consumer will buy more units of that commodity only when the price falls. This proves that the demand will be more at a low price and less at a higher price. That is why the demand curve is downward sloping.

- Habit of the consumer - There are persons of different income group in every society but the majority is in low income group. The downward sloping demand curve depend upon this group so, ordinary people will buy more commodity at a low price and less commodity at a high price.
- Price effect - Every commodity has its specific customer for the use of the products. When the price falls, new customer start consuming it and as a result its demand increases. On the other hand with the increase in price of the product among many customer will either reduce or stop its consumption. As a result the demand will be reduced. This is due to price effect and thus demand curve slops downward.
- Substitution effect - With the fall in price of a commodity, the price of its substitutes remaining the same, the consumer will buy more of this commodity rather than the substitutes.