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- Govt. Supply. Exam September - 2020 question paper is given.

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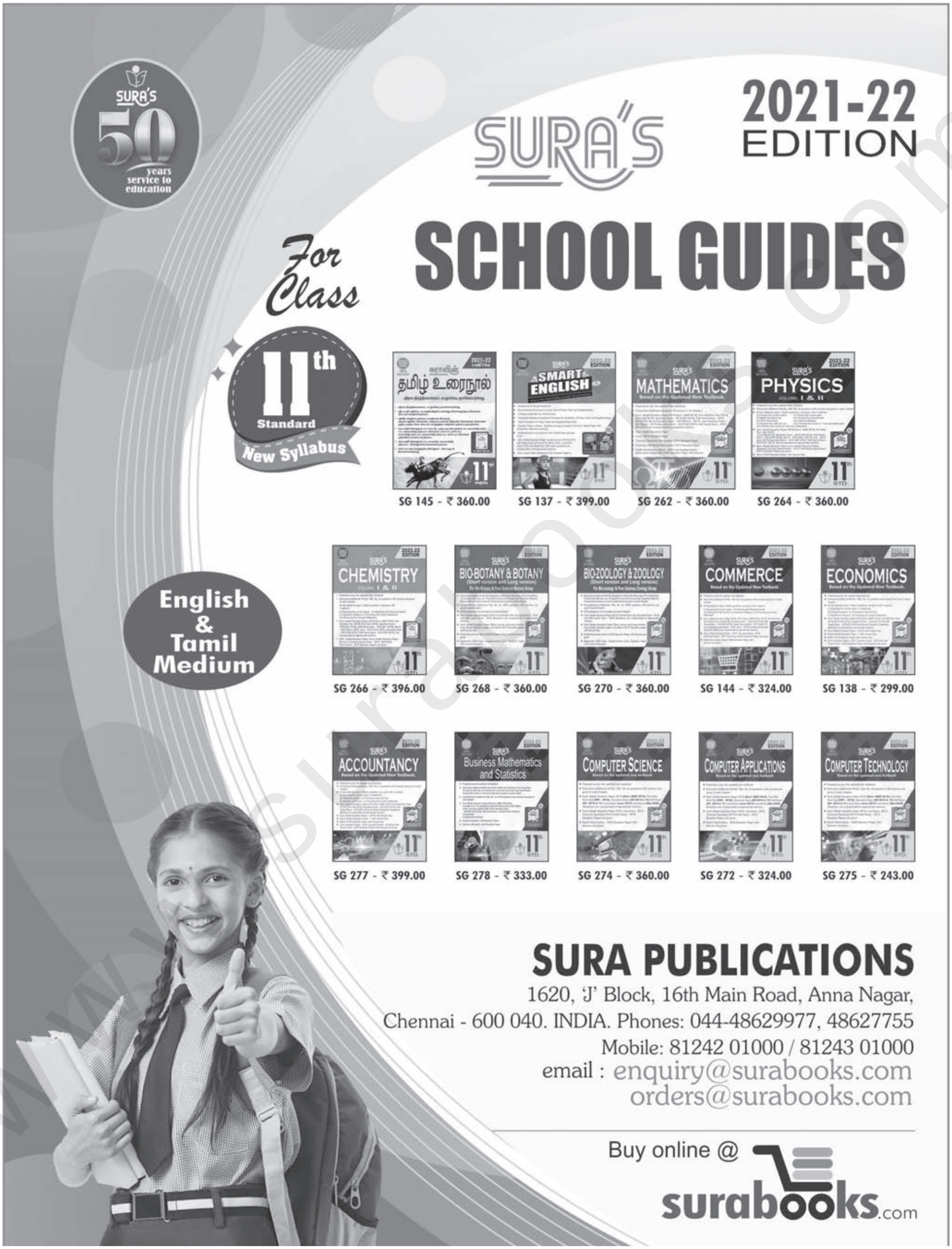
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1 INTRODUCTION TO MICRO-ECONOMICS

CHAPTER SNAPSHOT

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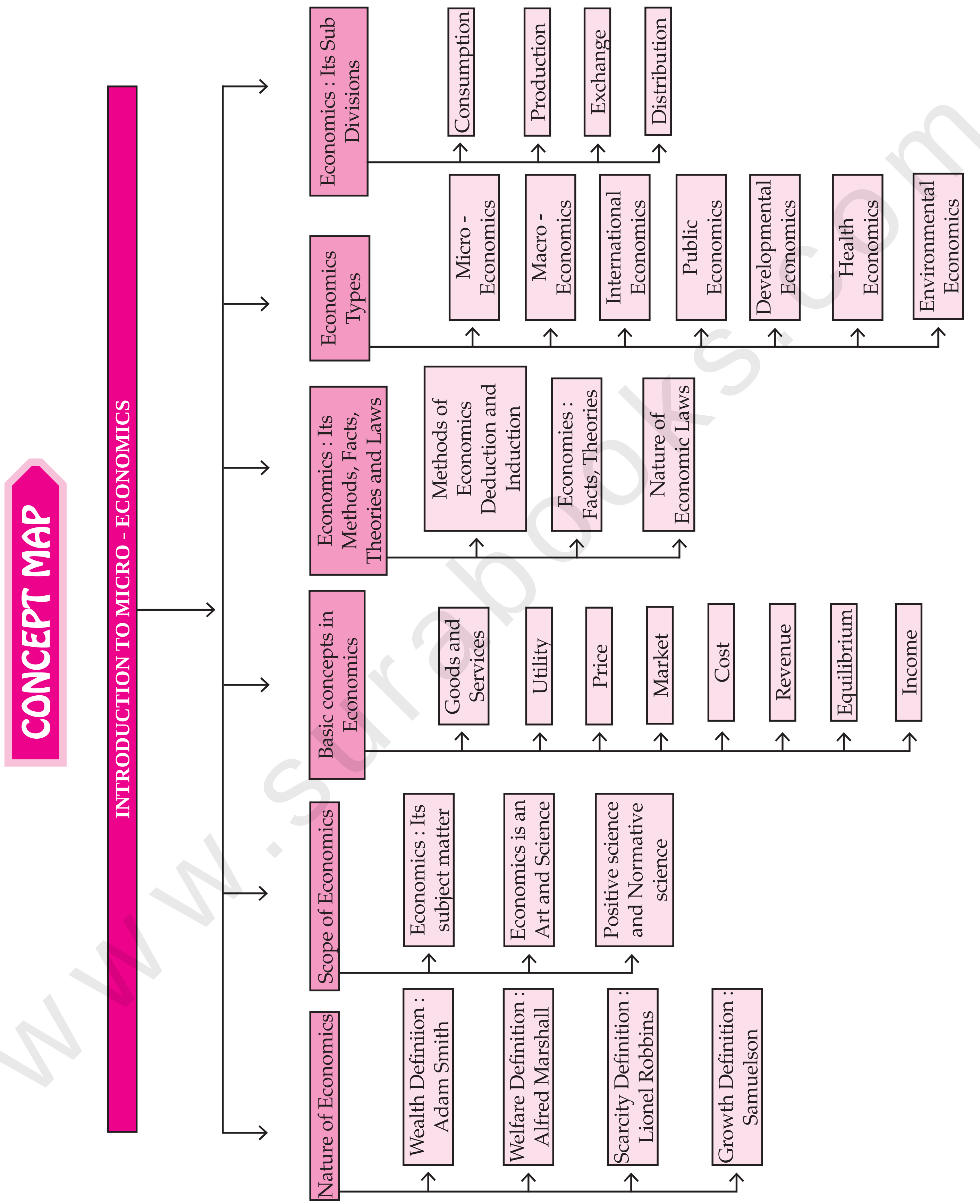
CONCEPT MAP
INTRODUCTION TO MICRO - ECONOMICS - ECONOMICS
Economics : Its Sub Divisions
Consumption
Production
Exchange
Distribution
Economics Types
Micro - Economics
Macro - Economics
International Economics
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Economics is an Art and Science
Positive science and Normative science
Nature of Economics
Wealth Definiion : Adam Smith
Welfare Definition : Alfred Marshall
Scarcity Definition : Lionel Robbins
Growth Definition : Samuelson

IMPORTANT TERMS

Nature of Economics	:	Nature of economics is understood by studying the various definition given by the notable economists.
Economics its subject matter	:	Economics focuses on the behaviour and interactions among economic agents, individuals and groups belonging to economic system.
Positive science	:	Positive science deals with 'What it is'.
Normative Science	:	Normative science responses to a question like 'what ought to be'.
Basic concepts in Economics	:	Economics also has concepts to explain its theories.
Goods and Services	:	In economics both goods and services satisfy human wants.
Free Goods	:	Resources that are not scarce are called free goods
Economic Goods	:	Goods which scarce are called economic goods.
Consumer Goods	:	Consumer goods directly satisfy human wants.
Capital Goods	:	Capital Goods help to produce consumer goods.
Perishable Goods	:	Perishable goods are short lived.
Durable Goods	:	Durable goods and semi-durable goods have a little longer life-time than the perishable goods.
Utility	:	In economics, Utility is the want-satisfying power of a commodity or a service.
Price	:	Price is the value of the goods expressed in terms of money.
Market	:	Market means a place where commodities are bought and sold.
Cost	:	Cost is the value of money incurred to produce or acquire a given quantum of goods.
Revenue	:	Revenue is income obtained from the sale of goods and services
Deductive Method	:	It consists in deriving conclusions from general truths, it takes few general principles and applies them to draw conclusions.
Inductive Method	:	It involves the process of reasoning from particular facts to general principle.
Consumption	:	Consumption deals with the satisfaction of human wants.
Production	:	Production is the process of transformation of inputs into output.
Exchange	:	Exchange is concerned with price determination in different market forms
Distribution	:	Distribution studies about the pricing of factors of production.
Micro Economics	:	Micro Economics is the study of the economic actions of small groups of individuals say households, firms or industries.
Macro economics	:	It is concerned with the economy as a whole.
Public Economics	:	Public finance is concerned with the income as revenue raising and expenditure incurring activities of the public authorities.
Health Economics	:	Health economics is on area of applied economics.

MUST KNOW DEFINITIONS

Definition of Deductive and Inductive Method	:	According to Alfred Marshall "Inductive and Deductive Methods are both needed for scientific thought as the right and left foot are both needed for walking"
Defination of free Goods	:	According to Milton Freidman, popularises a saying "There is no such thing as a free lunch".
Wealth Definition	:	Adam Smith (1723 - 1790), in his book "An Inquiry into the Nature and Causes of Wealth of Nations" (1776) defines "Economics as the science of wealth".
Definition of Economics	:	"Economics is everywhere, and understanding economics can help you make better decisions and lead a happier life" - Tyler Gowen.
Welfare Definition	:	Alfred Marshall defines Economics is a study of mankind in the Ordinary business of life it examines that part of individual and social actions which is most closely connected with the attainment and with the use of the material requisities of well being. Thus, it is on one side a study of wealth; and on the other and more important side, a part of the study of man."
Scarcity Definition	:	According to Lionel Robbins, "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."
Growth Definition	:	Prof. Paul Samuelson defines economics as "the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption, now and in the future among various people and groups of society."
Define Equilibrium	:	Prof. Stigler states that "equilibrium is a position from which there is no net tendency to move."

TEXTUAL QUESTIONS AND ANSWERS

Model Questions

PART - A

Multiple Choice Questions.

1. 'Economics is a study of mankind in the ordinary business of life' - It is the statement of. *[BEQ]*
(a) Adam Smith (b) Lionel Robbins
(c) Alfred Marshall (d) Samuelson
[Ans. (c) Alfred Marshall]

2. The basic problem studied in Economics is *[BEQ] [QY-2018]*
(a) Unlimited wants
(b) Unlimited means
(c) Scarcity
(d) Strategy to meet all our wants
[Ans. (c) Scarcity]

3. Microeconomics is concerned with *[Sep-2020] [First Mid-2018]*
(a) The economy as a whole
(b) Different sectors of an economy
(c) The study of individual economic units behaviour
(d) The interactions within the entire economy
[Ans. (c) The study of individual economic units behaviour]

4. Which of the following is a microeconomics statement? *[BEQ] [Govt. MQP-2018]*
(a) The real domestic output increased by 2.5 percent last year
(b) Unemployment was 9.8 percent of the labour force last year
(c) The price of wheat determines its demand
(d) The general price level increased by 4 percent last year
[Ans. (c) The price of wheat determines its demand]

5. Find the odd one out : *[BEQ] [Govt. MQP-2018; First Mid-2018; QY-2018]*
(a) "An inquiry into the nature and the causes of the Wealth of Nations".
(b) "Principles of Economics"
(c) "Nature and Significance of Economic Science"
(d) "Ceteris Paribus" **[Ans. (d) "Ceteris Paribus"]**

6. The equilibrium price is the price at which
(a) Everything is sold *[HY-2019]*
(b) Buyers spend their money
(c) Quantity demanded equals quantity supplied
(d) Excess demand is zero
[Ans. (c) Quantity demanded equals quantity supplied]

7. Author of "An Inquiry into the Nature and Causes of Wealth of Nations"
(a) Alfred Marshall (b) Adam Smith
(c) Lionel Robbins (d) Paul A Samuelson
[Ans. (b) Adam Smith]

8. "Economics studies human behaviour as a relationship between ends and scarce means which have alternative uses" is the definition of economics of
(a) Lionel Robbins (b) Adam Smith
(c) Alfred Marshall (d) Paul A Samuelson
[Ans. (a) Lionel Robbins]

9. Who is the Father of Economics? *[BEQ] [HY-2018; Mar-2020]*
(a) Max Muller (b) Adam Smith
(c) Karl Marx (d) Paul A Samuelson
[Ans. (b) Adam Smith]

10. "Economics is a science" The basis of this statement is _______. *[BEQ]*
(a) Relation between cause and effect
(b) Use of deductive method and inductive method for the formations of laws
(c) Experiments
(d) All of the above **[Ans. (d) All of the above]**

11. Utility means *[Mar. 19]*
(a) Equilibrium point at which demand and supply are equal
(b) Want - satisfying capacity of goods and services
(c) Total value of commodity.
(d) Desire for goods and services
[Ans. (b) Want - satisfying capacity of goods and services]

12. A market is *[QY-2019]*
(a) Only a place to buy things
(b) Only a place to sell things
(c) Only a place where prices adjust
(d) A system where persons buy and sell goods directly or indirectly
[Ans. (d) A system where persons buy and sell goods directly or indirectly]

13. Which one of the following is not a point in the Welfare Definition of Economics?
(a) Study of an ordinary man
(b) Economics does not focus on wealth alone
(c) Economics is the study of material welfare
(d) Economics deals with unlimited wants and limited means
[Ans. (d) Economics deals with unlimited wants and limited means]

14. Growth definition takes into account
(a) The problem of choice in the dynamic frame work of Economics.
(b) The problem of unlimited means in relation to wants
(c) The production and distribution of wealth
(d) The material welfare of human beings
[Ans. (a) The problem of choice in the dynamic frame work of Economics.]

15. Which theory is generally included under micro economics?
(a) Price Theory (b) Income Theory
(c) Employment Theory (d) Trade Theory
[Ans. (a) Price Theory]

16. ____ have exchange value and their ownership rights can be established and exchanged
(a) Goods (b) Services
(c) Markets (d) Revenue
[Ans. (a) Goods]

17. Identify the correct characteristics of utility *[BEQ]*
(a) It is equivalent to 'usefulness'
(b) It has moral significance
(c) It is same as pleasure
(d) It depends upon consumer's mental attitude
[Ans. (d) It depends upon consumer's mental attitude]

18. Who has given scarcity definition of economics? *[QY-2019]*
(a) Adam Smith (b) Marshall
(c) Robbins (d) Robertson
[Ans. (c) Robbins]

19. The process of reasoning from particular to general is *[First Mid-2018]*
(a) Deductive method (b) Inductive method
(c) Positive economics (d) Normative economics
[Ans. (b) Inductive method]

20. Total revenue is equal to total output sold multiplied by
(a) Price (b) Total cost
(c) Marginal revenue (d) Marginal cost
[Ans. (a) Price]

PART - B

Answer The Following Questions In One or Two Sentences.

21. What is meant by Economics? *[BEQ]* *[QY-2019; Sep-2020]*

Ans. **(i)** The word 'Economics' comes from the ancient greek **oikonomikos.**
(ii) The term 'Economics' means **"Management of households".**
(iii) The 'Political Economy' is renamed as economics.

22. Define Micro economics. *[HY-2019]*

Ans. **(i)** Micro economics is the study of the economic actions of small group of individuals say **households, firms, or industries.**
(ii) It studies how business firms operate under different market conditions and how the combined actions of buyers and sellers determine prices.

23. What are goods? *[Mar-2020]*

Ans. **(i)** In Economics, the term **'goods'** and **'services'** also implies, unless specified otherwise.
(ii) Goods are also called **'products', 'commodities', 'things'** etc.
(iii) Goods and services satisfies human wants.

24. Distinguish goods from services.
[BEQ] [First Mid-2018; QY-2018]

Ans.

S. No.	Goods	Services
1	Goods are produced	Services are performed
2	Goods are tangible and homogeneous in nature	Services are intangible and heterogeneous in nature
3	Goods are physical things and involves production	Services are more like a process

25. Name any two types of utility.

Ans. (i) Time Utility *[BEQ] [First Mid-2018; HY-2018]*

(ii) Place Utility

26. Define Positive economics.

Ans. (i) Positive science **deals with what it is.**

(ii) Which means analyses a problem **on the basis of facts** and examines its causes.

(iii) **For example :** at the time of a price increase, its causes are analysed.

27. Give the meaning of deductive method.

Ans. (i) Deductive method means **deriving conclusions from general truths.**

(ii) It takes few general principles and applies them to draw conclusions.

(iii) It is also called as **analytical** (or) **abstract method.**

PART - C

Answer The Following Questions In One Paragraph.

28. Explain the scarcity definition of Economics and assess it. *[BEQ] [First Mid-2018]*

Ans. Lionel Robbins published a book "An Essay on the Nature and Significance of Economic Science" in 1932. According to him, "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

Major features of Robbins' definition are :

(i) Human beings have **unlimited number of wants.**

(ii) Human wants are unlimited but supply is not sufficient so it become **scarcity.**

(iii) The scarcity of a commodity is to be considered only in relation to its demand.

(iv) The scarce means are capable of having alternative uses.

Criticism :

(i) Robbins **does not make any distinction between goods** conductive to human welfare and goods that are not.

(ii) In the production of rice and alcoholic drink, scarce resources are used.

(iii) Robbins' definition **doesn't cover the theory of economic growth** and **development.**

29. What are the crucial decisions involved in 'what to produce?' *[QY-2018]*

Ans. (i) Whether to produce **more food** or **more luxury goods.**

(ii) Whether to have **more agricultural goods** or **industrial goods.**

(iii) Whether to use more resources in **education** and **health or more in military services.**

(iv) Whether to have **more consumption goods or investment goods.**

(v) Whether to spend more on basic education or higher education

30. Explain different types of economic activities.
[HY-2018]

Ans. Economic activities are related to Production, Distribution, Exchange and Consumption of goods and services.

(i) **Consumption :** It serves as the **starting point of economic activity.**

(ii) **Production :** The primary aim of the economic activity is the **production of goods and services** make them available to consumer.

(iii) **Exchange :** "Human activities which are performed in **exchange for money**".

(iv) **Distribution :** The produced wealth has to be distributed among the **cooperating factors.**

31. What are the different features of services?

Ans. Four features of services are, *[Sep-2020]*

(i) **Intangible :** Intangible things are **not physical objects** but exist in connection to other things.
For Example : Brand Image, Goodwill etc.

(ii) **Heterogeneous :** A single type services **yields multiple experiences**

For Example : Music etc.

(iii) **Inseparable from their makers :** Services are **inextricably connected to their makers.**

For Example : Labour

(iv) **Perishable :** Services **cannot be stored as inventories like assets.**

For Example : Cricket Match.

32. What are the important features of utility?

Ans. (i) Utility is psychological *[Mar-2020]*

(ii) Utility is not equivalent to usefulness

(iii) Utility is personal and relative.

(iv) It is the function of the intensity of human want.

(v) Utility cannot be measured objectively.

(vi) Utility has no ethical or moral significance.

33. Distinguish between microeconomics and macro economics.

Ans. *[BEQ] [Govt. MQP-2018; First Mid-2018; Mar. 19; QY-2019]*

No.	Micro Economics	Macro Economics
1	It is that branch of economics which deals with the economic decision making of individual economic agents such as the producer, the consumer etc.	It is that branch of economics which deals with aggregates and averages of the entire economy. E.g., aggregate output, national income, aggregate savings and investments, etc.
2	It takes into account small components of the whole economy.	It takes into consideration the economy of the country as a whole.
3	It deals with the process of price determination in case of individual products and factors of production.	It deals with general price-level in any economy.
4	It is known as price theory.	It is also known as the income theory.
5	It is concerned with the optimization goals of individual consumers and producers.	It is concerned with the optimization of the growth process of the entire economy.

34. Compare positive economics and normative economics. *[BEQ] [HY-2019]*

Ans.

No.	Positive Economics	Normative Economics
1.	Positive science deals with 'What it is'.	Normative science concerned with 'What ought to be'.
2.	It analysis problem on the basis of facts and examines its causes	Here the conclusions and results are not based on facts, but no different considerations.
3.	Positive science would be looked into why and how?	Normative science it would be seen whether good or bad.
4.	**Example:** An increase in money supply implies a price rise in an economy.	Inflation is better than deflation.

PART - D

Answer the Following Questions in About a Page.

35. Compare and contrast various definitions of Economics. *[Govt. MQP-2018; QY-2018; Sep-2020]*

Ans. Marshall's Definition vs. Robbin's Definition

Marshall's Definition	Robbin's Definition
"Economics is the study of man in the ordinary business of life." It examines that part of individual and social action, which is most closely connected with the attainment and with the use of material requisites of well being.	"Economic is the science which studies human behaviour as a relationship between multiple ends and scarce means, which have alternative uses".

Similarities between Robbins & Marshall's Definition.

Human Behaviour :

(i) Both the definitions are concerned with human behaviour.

(ii) Marshall's and Robbin's definitions are concentrate on optimization.

(iii) According to Marshall, wealth is the basic source of maximisation of material welfare. Robbins is of the opinion that maximize our satisfaction by scarce resources.

Differences between Marshall's & Robbins Definition.

Economic activity - Material / Immaterial :

(i) Marshall believes in only material activities which promote material welfare.

(ii) Robbins believes in both material and immaterial activities to tackle the problem of choice.

Social Science / Natural Science :

(i) Marshall economics is a social science.

(ii) Robbins Economics is natural science like Physics, Chemistry etc.

Practical / Theoretical :

(i) Marshall's definition is practical in nature.

(ii) Robbins definition is theoretical in nature.

Welfare / Scarcity :

(i) Marshall's definition is based on human material welfare.

(ii) Robbins definition is based on scarcity resources.

36. Explain various Steps of Deductive and Inductive methods. *[QY-2019; HY-2019]*

Ans. These are two types of method.

(i) Deductive

(ii) Inductive

Steps of Deductive Method

(i) It consists in deriving conclusions from general truths. It takes few general principles and applies them to draw conclusions.

(ii) It is also named as analytical or abstract method.

(iii) The classical and neo-classical school of economist.

Deductive method of economic analysis

Step 1: The analyst must have a clear and precise idea of the problem to be inquired into.

Step 2: The analyst clearly defines the technical terms used in the analysis.

Step 3: Deduce hypothesis from the assumption's taken.

Step 4: Hypotheses should be verified through direct observation of events in the real world and through statistical methods. (eg.) There exists an inverse relationship between price and quantity.

Inductive method of economic analysis

(i) It involves the process of reasoning from the particular facts to general principle.

(ii) Inductive method, also called emprical method is adopted by the "Historical School of Economists".

Steps of Inductive method

Step 1: Data are collected about a certain economic phenomenon. These are systematically arranged and the general conclusions are drawn from them.

Step 2: By observing the data conclusion are easily drawn.

Step 3: Generalization of the data and then Hypothesis formulation.

Step 4: Verification of the hypothesis (eg.) Engel's law.

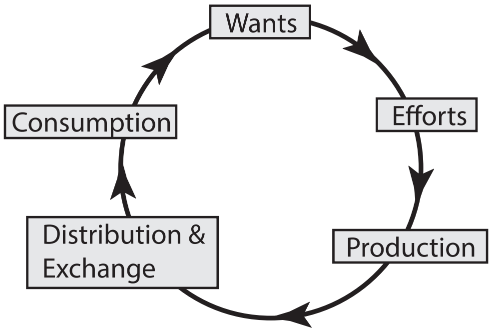
37. Elaborate the nature and scope of Economics.

Ans. **(I) Nature of Economics:** *[HY-2018; Mar-2020]*

1. A Law expresses a causal relation between **two or more than two phenomena.**
2. Marshall states that the Economic laws are **statement of tendencies** the laws function with cause and effect.
3. Economic laws are not as precise and certain as the laws in the physical sciences.
4. Economic **laws are not inviolable**
5. The use of the assumption **'other things remaining the same'**
6. Economics makes the **Economic laws hypothetical.**
7. Laws in economics are **more exact, precise** and **accurate** than the other social sciences.
8. Some economic laws are **simply truisms.**

(II) The scope of the subject of Economics refers to on the subject-matter of Economics.

1. All human activities related to wealth constitute the **subject-matter of Economics.**
2. Production, consumption and capital formation are called the basic economic activities of an economy.



3. The flow chart give the scope of economics.
4. Economics focuses on the behaviour and interactions among economic agents, individuals and groups belonging to an economic system.
5. Human activities not related to wealth (noneconomic activities) are not treated in Economics. For example, playing cricket for pleasure, mother's child care.

38. Explain basic problems of the economy with the help of production possibility curve.

[BEQ] [First Mid-2018; Mar. 19; QY-2019]

Ans. The problem of choice between relatively scarce commodities due to limited productive resources can be illustrated with the help of a **geometric device** is known as production possibility curve.

Assumption :

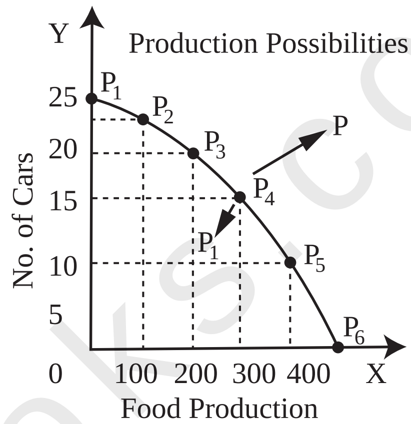
(i) The time period does not change.
(ii) Techniques of production are fixed.
(iii) There is full employment in the economy.
(iv) Resources of production are fully employed.
(v) The law of diminishing returns operates in business.
(vi) To draw this curve we take the help of production possibility schedule, as shown below.

Production Possibility Schedule :

Production Possibilities	Quantity of food production in tons	No. of Car Production
I	0	25
II	100	23
III	200	20
IV	300	15
V	400	8
VI	500	0

This schedule suggests that if all resources are thrown in to the production of food, a maximum of 500 tons of food can be produced, given the existing technology.

Diagramatic Representation of Production Possibility Curve



Explanation :

(i) The quantity of food is shown on X-axis and No. of Cars on the Y - axis.
(ii) The different six production possibilities are being shown as point P_1, P_2, P_3, P_4, P_5 & P_6.
(iii) The production possibility curve P_1 to P_6.
(iv) The locus of points of the different possibilities of production of two commodities which a firm or an economy can produce,with the help of given resources and the techniques of production.
(v) Points lying inside the curve like P_1 are attainable by the society but these points resources production are not fully exployed.
(vi) Shift of Production Possibility Curve the PPC shifts upward or downward due to.
- The change in the supply of productive resources.
- The change in the state of technology.
- This outward shift of the PPC is the features of economic growth.

GOVERNMENT EXAM QUESTIONS AND ANSWERS

PART - A

Multiple Choice Questions. 1 MARK

(i) Choose the Correct Option

1. 'Oikos' means *[First Mid-2018]*

(a) Police (b) Management
(c) Household (d) All the above

[Ans. (c) Household]

2. Which one is not the basic Economic problem.

(a) What to produce *[QY-2018]*
(b) How to produce
(c) For whom to produce
(d) Environmental economics

[Ans. (d) Environmental economics]

3. The process of reasoning from general to particular is *[HY-2018]*

(a) Deductive method (b) Inductive method
(c) Positive economics (d) Normative economics

[Ans. (a) Deductive method]

4. "Economics as the science of wealth" - It is the statement of *[Mar. 19]*

(a) Adam Smith (b) Lionel Robbins
(c) Alfred Marshall (d) Samuelson

[Ans. (a) Adam Smith]

5. The author of the book "Political Economy" was ________ . *[QY-2019]*

(a) Adam Smith (b) Marshall
(c) A.C. Pigou (d) F.A. Walker

[Ans. (b) Marshall]

6. Production is the process of ______ of input into output. *[First Mid-2018]*

(a) Consumption (b) distribution
(c) transformation (d) Public finance

[Ans. (c) transformation]

PART - B

Answer The Following Questions In One or Two Sentences. 2 MARKS

1. What are branches of Economics? *[Govt. MQP-2018]*

Ans. (i) Consumption
(ii) Production
(iii) Exchange
(iv) Distribution

2. What is market? (or) Write a brief note on the term market in economics. *[First Mid-2018]*

Ans. (i) Market means a **place or geographical area,** where buyers and sellers meet together.
(ii) Buyers and sellers who involve in the transaction of goods and services.

3. Defing Engels law. *[QY-2019]*

Ans. According to Engel's Law " The proportion of total expenditure incurred on food items declines as total expenditure (which is proxy for income) goes on increasing"

4. Name the kind of goods *[Mar-2020]*

Ans. (i) Free and Economic goods
(ii) Consumer and capital goods
(iii) Perishable and durable goods

PART - C

Answer The Following Questions In One Paragraph. 3 MARKS

1. State any three assumptions of production possibility curve. *[First Mid-2018]*

Ans. **Assumptions of production possibility curve:**
(i) The time period does not change. It remains the same throughout the curve.
(ii) Techniques of production are fixed.
(iii) There is full employment in the economy.

2. What are the importance of micro economics?

Ans. **Micro Economics :** *[QY-2018]*
(i) Understand the operation of an economy.
(ii) It provides tools for economic policies.
(iii) It examine the condition of economic welfare.
(iv) Efficient utilization of resources.
(v) Useful in international trade.
(vi) Useful in decision making

(1) Optimal resources allocation
(2) Basis for prediction
(3) Price determination.

PART - D

Answer The Following Questions in About a Page. 5 MARKS

1. Explain various divisions of Economics.
[First Mid-2018; QY-2019; Mar-2020]

Ans. Consumption, Production, Distribution, Exchange are the main divisions of economics.

Consumption :

(i) **Human wants** coming under consumption.
(ii) It serves as the starting point of economic activity.
(iii) Characteristics of human wants based on the **behaviour of the consumer, the diminishing utility and consumer surplus are dealt with.**

Production :

(i) It is the process of **transformation of inputs into output.**
(ii) This division covers the role of the factors of production.

Exchange :

(i) It is concerned with **price determination** in different market forms.
(ii) It covers **trade and commerce.**

Distribution :

(i) The produced wealth has to be distributed among the **co operating factors.**
(ii) Distribution studies about the pricing of factors of production.

2. Elucidate the basic economic problems.

Ans. **The Economic Problem** *[First Mid-2018]*

- Wants, desires, unlimited
- Resources: Scarce
  - Not Freely available
- Economic Choice
- Economics
  - How people use scarce resources to satisfy unlimited wants

What and how much to produce?

Every society must decide on what goods it will produce are and how much of these it will produce. In this process, the crucial decisions include:

a. Whether to produce more of food, clothing and housing or to have more luxury goods
b. Whether to have more agricultural goods or to have industrial goods and services
c. Whether to use more resources in education and health or to use more resources in military services
d. Whether to have more consumption goods or to have investment goods
e. Whether to spend more on basic education or higher education

How to Produce?

Every society has to decide whether it will use labour-intensive technology on capital intensive technology; that is whether to use more labour and less more machines and vice versa.

For whom to produce?

Every society must also decide how its produce be distributed among the different sections of the society. It must also decide who gets more and who gets less. It should also decide whether or not a minimum amount of consumption be ensured for everyone in the society.

3. Analyse the welfare definition of Alfred Marshall.
[First Mid-2018; Sep-2020]

Ans. **Welfare Definition : Alfred Marshall**

Alfred Marshall (1842-1924) in his book "Principles of Economics" (1890) defines Economics thus: **"Political Economy"** or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being. Thus, it is on one side a study of wealth; and on the other, and more important side, a part of the study of man."

The important features of Marshall's definition are:

a. Economics does not treat wealth as the be-all and end-all of economic activities. Man promotes **primarily welfare and not wealth.**
b. The science of Economics contains the concerns of ordinary people who are moved by love and not merely guided or directed by the desire to get **maximum monetary benefit.**
c. Economics is a social science. It studies people in the society **who influence one another.**

Criticism

a. Marshall regards only material things. He does not consider immaterial things, such as the services of a doctor, a teacher and so on. They also promote people's welfare.

b. In the theory of wages, Marshall ignores the amount of money that goes as reward for the services of 'immaterial' services.

c. Marshall's definition is based on the concept of welfare. But it is not clearly defined. Welfare varies from person to person, country to country and one period to another. Marshall clearly distinguishes between those things that are capable of promoting welfare of people and those things that are not.

d. However, welfare means happiness or comfortable living conditions of an individual or group of people.

4. Explain the merits of production possibility curve. *[QY-2018]*

Ans. **Merits of production possibility curve :**

- The problem of choice
- The Notion of Scarcity
- Solution of central problems

1. The problem of choice :

The problem of choice arise because of the given limited resources and unlimited wants, may relate to the allocation of resources between the goods for the higher income group and the lower income group and the goods for the defense and the civilians.

2. The Notion of Scarcity :

We can explain the notion of scarcity with the help of PPC. We know that every society possesses only a specific amount of resources, which can produce only limited amount of output even with the help of best technology, Economic scarcity of best fact of life.

3. Solution of central problems :

The central problems of an economy can be explained with the help of PPC. The solution of problem of what to produce involves the decision regarding the choice of location on the production possibility carves.

5. What are the types of Economics? *[HY-2019]*

Ans. **Micro - economics :** Micro Economics is the study of the economic actions of individual units say households, firms or industries. It studies how business firms operate under different market conditions and how the combined actions of buyers and sellers determine prices.

Macro - economics : Macro economics is the obverse of micro economics. It is concerned with the economy as a whole. It is the study of aggregates such as national output, inflation, unemployment and taxes.

International Economics : In the modern world, no country can grow in isolation. Every country is having links with the other countries through foreign capital, investment (foreign direct investment) and international trade.

Public Economics : Public finance is concerned with the income or revenue raising and expenditure incurring activities of the public authorities and with the adjustment of the one with the other. The scope of Public Finance covers Public expenditure, Public revenue, Public debt, Financial administration and federal Finance.

Developmental Economics : The Development Economics deals with features of developed nations, obstacles for development, Economic and Non-economic factors influencing development, various growth models and strategies.

Health Economics : Health Economics is an area of applied economics. It covers health indicators, preventive and curative measures, medical research and education, Rural Health Mission, Drug Price control, Neo natal care, Maternity and Child health, Budgetary allocation for health etc.

Environmental Economics : Depletion of natural resources stock and pollution result from rapid economic development. Hence the need for the study of Environmental Economics which analyse the inter relationship between economy and environment.

ADDITIONAL QUESTIONS AND ANSWERS

PART - A

Multiple Choice Questions. 1 MARK

(i) Choose the Correct Option

1. Who is the father of 'New Economics'? *[BEQ]*
(a) Max Muller (b) Adam Smith
(c) J.M. Keynes (d) Karl Marx
[Ans. (c) J.M. Keynes]

2. Macro Economics is concerned with
(a) The theory as a whole
(b) Different sectors of an economy
(c) The study of individual economic behaviour
(d) The interactions within the entire economy
[Ans. (a) The theory as a whole]

3. 'Nomos' means
(a) Polite (b) Management
(c) Household (d) None of these
[Ans. (b) Management]

4. Welfare means
(a) Happiness
(b) Comfortable living conditions of an individual
(c) Comfortable living conditions of group of people
(d) All of these **[Ans. (d) All of these]**

5. TR = *[BEQ]*
(a) P + Q (b) P – Q
(c) P ÷ Q (d) P × Q
[Ans. (d) P × Q]

6. Deductive method is also called as
(a) Analytical method (b) Abstract method
(c) Both 'a' and 'b' (d) None of these
[Ans. (c) Both 'a' and 'b']

7. Inductive Method is also called as *[BEQ]*
(a) Empirical Method (b) Analytical Method
(c) Abstract Method (d) All of these
[Ans. (a) Empirical Method]

8. Creations of utility or wealth is
(a) Production (b) Consumption
(c) Distribution (d) Public finance
[Ans. (a) Production]

9. General theory of 'Employment Interest and Money' published in
(a) 1930 (b) 1936 (c) 1988 (d) 1990
[Ans. (b) 1936]

10. 'The General theory of Employment, Interest and Money' published by *[BEQ]*
(a) Alfred Marshall (b) Adam Smith
(c) Robbins (d) J.M. Keynes
[Ans. (d) J.M. Keynes]

11. Micro Economics covers
(a) Value theory
(b) Theory of economic welfare
(c) Both 'a' and 'b'
(d) Income theory **[Ans. (c) Both 'a' and 'b']**

12. Micro means
(a) Small (b) Big
(c) Large (d) Aggregate
[Ans. (a) Small]

13. Macro means
(a) Tiny (b) Small
(c) Large (d) None of these
[Ans. (c) Large]

14. Which one of the following is capital goods.
(a) Machinery (b) T.V.
(c) Diamond (d) Table
[Ans. (a) Machinery]

15. Which one of the following statement not related to equilibrium
(a) Quantity demanded is equals to quantity supplied
(b) Demand line intersect supply line
(c) Price increases demand decreases
(d) Static equilibrium
[Ans. (c) Price increases demand decreases]

16. Which of the following is not a macro Economics statement?
(a) The general price level increased by 8% last year.
(b) The price of tomato declined last year.
(c) The real domestic output increased by 33% last year.
(d) Unemployment was 10% of the labour force last year.
[Ans. (b) The price of tomato declined last year]

(ii) Match List I with List II and Select the Correct Answer using the Codes given below

1.

	List I		List II
(A)	Adam Smith	(i)	Growth definition
(B)	Alfred Marshall	(ii)	Scarcity definition
(C)	Lionel Robbins	(iii)	Welfare definition
(D)	Samuelson	(iv)	Wealth definition

	A	B	C	D
(a)	iv	iii	ii	i
(b)	i	ii	iii	iv
(c)	ii	iii	iv	i
(d)	iii	iv	i	ii

[Ans. (a) A - iv; B - iii ; C - ii; D - i]

2.

	List I		List II
(A)	Consumption	(i)	'What it is'
(B)	Positive Science	(ii)	Price theory
(C)	Deductive method	(iii)	Starting point of economic activity
(D)	Micro	(iv)	Human Wants

	A	B	C	D
(a)	i	ii	iii	iv
(b)	iv	iii	ii	i
(c)	iii	i	iv	ii
(d)	ii	iv	i	iii

[Ans. (c) A - iii ; B - i ; C - iv ; D - ii]

3.

	List I		List II
(A)	The classical era	(i)	Samuelson
(B)	The Neo classical era	(ii)	Robbins
(C)	The new age	(iii)	Marshall
(D)	The Modern age	(iv)	Adamsmith

	A	B	C	D
(a)	ii	iii	i	iv
(b)	iv	iii	ii	i
(c)	i	ii	iii	iv
(d)	iii	ii	i	iv

[Ans. (b) A - iv ; B - iii ; C - ii ; D - i]

4.

	List I		List II
(A)	Production	(i)	Knowledge Utility
(B)	Utility	(ii)	T.V.
(C)	Equilibrium	(iii)	Quantity demand is equal to quantity supply
(D)	Consumer goods	(iv)	Subject matter of economics

	A	B	C	D
(a)	ii	iv	i	iii
(b)	iv	iii	ii	i
(c)	iv	i	iii	ii
(d)	i	iv	ii	iii

[Ans. (c) A - iv ; B - i; C - iii; D - ii]

5.

	List I		List II
(A)	Wealth of Nation	(i)	Different possibilities of production
(B)	Macro Economics	(ii)	Empirical method
(C)	Production possibility curve	(iii)	General theory
(D)	Inductive method	(iv)	1776

	A	B	C	D
(a)	iv	ii	i	iii
(b)	iv	iii	ii	i
(c)	i	ii	iii	iv
(d)	iv	iii	i	ii

[Ans. (d) A - iv ; B - iii ; C - i ; D - ii]

6.

	List I		List II
(A)	1723	(i)	Principles of economics
(B)	1842	(ii)	An essay on the nature and significance of economic science
(C)	1932	(iii)	Adamsmith birth
(D)	1890	(iv)	Alfred Marshall birth

	A	B	C	D
(a)	ii	iii	i	iv
(b)	iii	iv	ii	i
(c)	iv	i	ii	iii
(d)	iii	iv	i	ii

[Ans. (b) A - iii ; B - iv ; C - ii ; D - i]

(iii) Choose the correct option and fill in the blanks.

1. The term or word 'Economics' comes from ____ language

(a) Latin (b) Ancient Greek
(c) Spanish (d) British

[Ans. (b) Ancient Greek]

2. Economics is a ____ science

(a) Social (b) Moral
(c) Physical (d) Natural

[Ans. (a) Social]

3. Environmental economics is a study of inter disciplinary tools for the problems of ____
(a) Ecology (b) Economy
(c) Environment (d) All of these
[Ans. (d) All of these]

4. ____ science deals with 'What it is'
(a) Normative (b) Positive
(c) Negative (d) None of these
[Ans. (b) Positive]

5. ____ are transferable
(a) Goods (b) Products
(c) Commodities (d) All of these
[Ans. (d) All of these]

6. Capital goods also called as ____ goods.
(a) Consumer (b) Producer's
(c) Free goods (d) None of these
[Ans. (b) Producer's]

7. ____ utility derived by having knowledge of a particular thing.
(a) Place (b) Time
(c) Knowledge (d) Service
[Ans. (c) Knowledge]

8. ____ means using up of goods and services.
(a) Production (b) Consumption
(c) Distribution (d) Exchange
[Ans. (b) Consumption]

9. _______ studies about the pricing of factors of production.
(a) Production (b) Exchange
(c) Distribution (d) Consumption
[Ans. (c) Distribution]

10. The scope of ___ covers public expenditure, public revenue, public debt and financial administration.
(a) Federal finance (b) Public finance
(c) Government (d) None of these
[Ans. (b) Public finance]

11. 'Political Economy' is renamed as 'Economics' in the late 19th century by ______
(a) Robbins (b) Samuelson
(c) Adam Smith (d) Alfred Marshall
[Ans. (c) Adam Smith]

12. Samuelson's Growth definition representing the _________
(a) Alfred Marshall (b) Adam Smith
(c) Lionel Robbins (d) Samuelson
[Ans. (a) Alfred Marshall]

13. _________ favours the introduction of 'division of labour' to increase quantum of output.
(a) Old age (b) Modern age
(c) Both (d) None of these
[Ans. Adam Smith]

14. A.C. Pigou, Alfred Marshall and others regard Economics as an _________
(a) Art (b) Science
(c) Maths (d) Social **[Ans. (a) Art]**

15. A single type of service yields multiple experiences _________
(a) Homogeneous (b) Heterogeneous
(c) Both (d) None of these
[Ans. (b) Heterogeneous]

16. _________ is income obtained from the sale of goods and services.
(a) Rent (b) Household
(c) Revenue (d) None of these
[Ans. (c) Revenue]

(iv) Pick the Odd one Out.

1. (a) Production (b) Consumption
(c) Distribution (d) Place utility
[Ans. (d) Place utility]

Reason: Place utility is a types of utility. Other three are divisions of economics.

2. (a) Place utility (b) Time utility
(c) Possession utility (d) Deductive method
[Ans. (d) Deductive method]

Reason: Deductive method consists in deriving conclusions from general truths; it takes few general principles and applies them to draw conclusions. Other three are types of utility.

(v) Choose the Incorrect Pairs

1. (a) Possession utility - Types of utility
(b) Inductive method - Methods of analysis
(c) Scarcity definition - Lionel Robbins
(d) Marshall - Wealth of nation
[Ans. (d) Marshall - Wealth of nation]

2. (a) Perishable goods - Fruits and flowers
(b) Intangible - Physical object
(c) Money income - Nominal Income
(d) Inductive method - Historical school
[Ans:(b) Intangible - Physical object]

(vi) Choose the Correct Pairs

1. (a) Macro Economics - Aggregate output
(b) Micro Economics - National income
(c) Distribution - Creations of utillity
(d) Production possibility curve - Economic Activity

[Ans: (a) Macro Economics - Aggregate output]

2. (a) Price - Value of the raw material
(b) General theory of Employment, Interest and Money - Marshall
(c) Exchange - Division of labour
(d) Service utility - Utility from the doctor

[Ans:(d) Service utility - Utility from the doctor]

(vii) Consider the following statement.

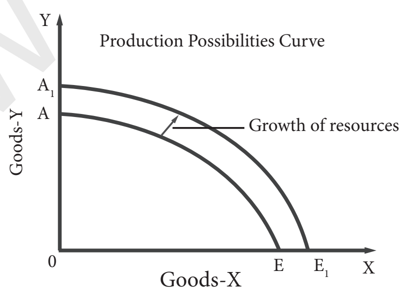
1. **Assertion (A) :** Economic goods have money value.
Reason (R) : Economic goods are scarce in supply.
(a) Both A and R are true and R is the correct explanation of A.
(b) Both A and R are true and R is not the correct explanation of A.
(c) A is true but R is false.
(d) A is false but R is true.

[Ans. (a) Both A and R are true and R is the correct explanation of A]

2. **Assertion (A) :** "Economics is a study of Mankind in the ordinary business of life."
Reason (R) : "Economics is a Social Science"
(a) Both A and R are true and R is not the correct explanation of A.
(b) Both A and R are true and R is the correct explanation of A.
(c) A is true but R is false.
(d) A is false but R is true.

[Ans. (b) Both A and R are true and R is the correct explanation of A]

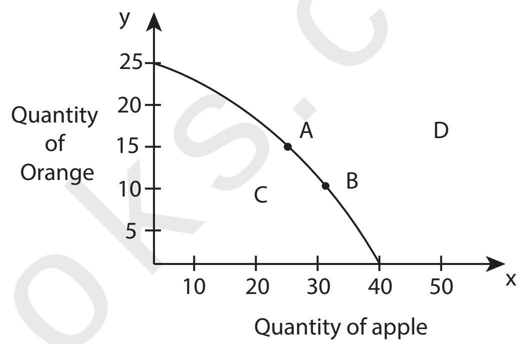
(viii) True or False:

1.


Shift of production possibility curve due to
(i) Change in the supply of productive resources.
(ii) Constant production.
(a) (i) is true (ii) is false
(b) Both (i) and (ii) are true
(c) (i) is false (ii) is true
(d) Both (i) and (ii) are false

[Ans:(a) (i) is true (ii) is false.]

2. **Consider the PPf diagram below.**



Given the PPf illustrated, what is the opportunity cost of moving from A to B?
(a) 5 Orange (b) 10 Apple
(c) 5/10 Apple (d) 10/5 Orange

[Ans:(d) 10/5 Orange]

PART - B

Answer The Following Questions In One or Two Sentences. 2 MARKS

1. **What are the various books available in the titles of economics?**

Ans. (i) Introductory Economics
(ii) Economics an Introduction
(iii) Basic Economics
(iv) Elements of Economics
(v) Elementary Economics
(vi) Fundamentals of Economics etc.

2. **State four definitions of economics** *[BEQ]*

Ans. (i) Smith's Wealth Definition, representing the Classical stage.
(ii) Marshall's Welfare Defination, representing the Neo-Classical stage.
(iii) Robbin's Scarcity Definition, representing the New age, and
(iv) Samuelson's Growth Definition, representing the Modern age

3. Who criticized Adam Smith's Wealth definition?

Ans. (i) Ruskin and Carlyle criticized economics as a **'Dismal science', 'Pig science'** etc.

(ii) As it teaches selfishness which is against ethics.

4. What are the major features of Robbins definitions? *[BEQ]*

Ans. (i) Ends refers to wants. Human beings have **unlimited wants.**

(ii) Means are limited.

(iii) The scarce means **time and money are utilized** in alternative uses.

5. Distinguish between free goods and economic goods.

Ans.

Sl. No.	Economic Goods	Free Goods
1	Goods which scarce are called economic goods.	Goods that are not scarce are called free goods.
2	Example: Chair, Table etc.	Example : Air and Sunshine.

6. Distinguish between consumer goods and capital goods.

Ans.

No.	Consumer Goods	Capital Goods
1	Consumer goods directly satisfy human wants	Goods do not satisfy consumer directly are called capital goods.
2	Example : T.V.	Example : Machines

8. What are the classification of services?

Ans. (i) Intangible

(ii) Heterogeneous

(iii) Inseparable from their makers

(iv) Perishable

9. What are the methods of analysis?

Ans. (i) Inductive method and

(ii) Deductive method

PART - C

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH. 3 MARKS

1. What are the important features of Marshall's Welfare definition? *[BEQ]*

Ans. (i) Man promotes primarily welfare and not wealth.

(ii) The science of economics contains the concerns of ordinary people who are directed by the desired to get maximum monetary benefit.

(iii) Economics is a social science. It studies about people in the society who influence one another.

2. Examine the major implications of samuelson growth definition.

Ans. (i) Samuelson states that the means are scarce so such means **could be put to alternative uses.**

(ii) He makes his definition dynamic by including the element of time.

(iii) His definition is applicable only in a barter economy, where money is not used.

(iv) Samuelson treats economics as a social science, where as Robbins regards science of individual behaviour.

3. Distinguish between particular equilibrium and general equilibrium.

Ans. **Particular Equilibrium :**

An equilibrium pertains to a single variable may be called particular equilibrium.

General Equilibrium :

An equilibrium relates to numerous variables or even the economy as a whole is called general equilibrium.

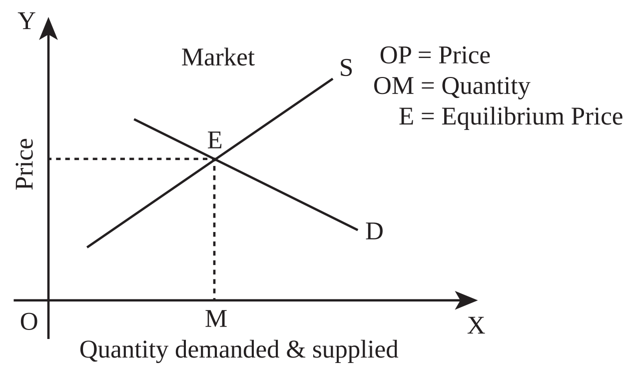
PART - D

ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE. 5 MARKS

1. Explain the stable equilibrium with the help of diagram.

Ans. (i) Prof. Stigler states that "equilibrium is a position from which **there is no net tendency to move**".

(ii) Its referred to as **disequilibrium.**



(iii) Consumer's equilibrium occurs when he gets **maximum satisfaction.**

(iv) The equilibrium of the producer occurs when he get **maximum profit.**

(v) Thus static equilibrium is based on given and **constant prices, quantities, income, technology, population etc.**

(vi) Equilibrium = Demand equal to supply

(vii) Equilibrium means state of rest or balance.

2. Examine Adam Smith's Definition of Economics.

Ans. **(i)** Adam Smith (1723 - 1790) in his book "An Inquiry into Nature and Causes of Wealth of Nations" (1776) defines **"Economics as the science of Wealth".**

(ii) He explains how a nation's **wealth is created** and **increased.**

(iii) He considers that the individual in the society wants to promote his own gain and led by an **"invisible hand".**

(iv) He status that every man is motivated by his **self interest.**

(v) Severe competition in factories and the society help in bettering the product.

Criticism :

(i) Economics consists of wealth - getting activities and wealth - spending activities.

(ii) He ignore human welfare as an essential part of economics.

(iii) Smith gives his definition when religious and spiritual values are held high.

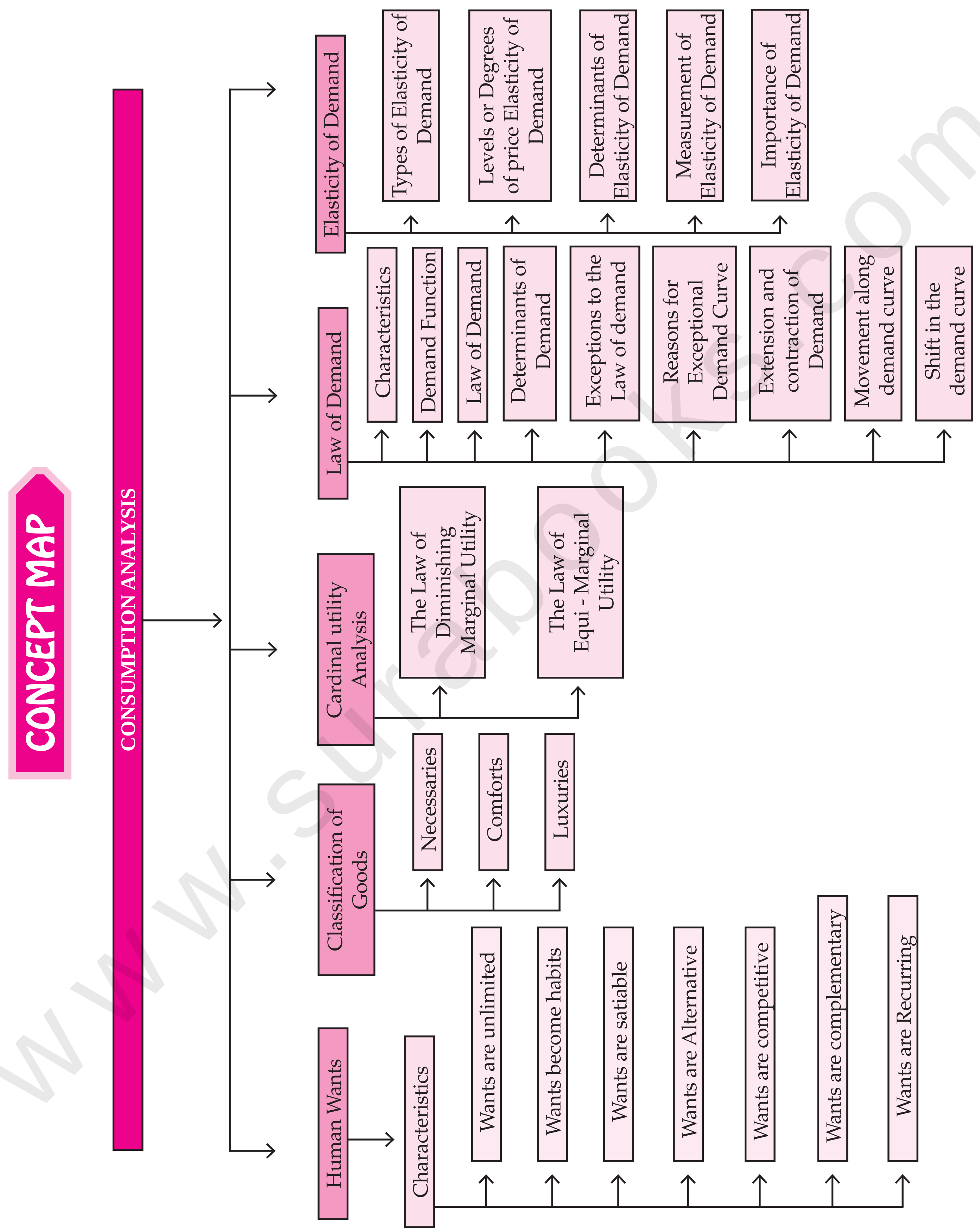
(iv) Ruskin and Carlyle criticized economics as a 'dismal science'. 'pig science' etc.

❖ ❖ ❖

2 CONSUMPTION ANALYSIS

CHAPTER SNAPSHOT

Consumption Analysis
2.1 Introduction
2.2 Human Wants
2.3 Characteristics of Human wants
2.4 Classification of Goods
2.5 Cardinal Utility Analysis
2.5.1. The Law of Diminishing Marginal Utility(DMU)
2.6 The Law of Equi - Marginal utility
2.7 Consumer's Surplus
2.8 Law of Demand
2.8.1 Characteristics of Demand
2.8.2 Demand Function
2.8.3 Law of Demand
2.8.4 Determinants of Demand
2.8.5 Exceptions to the law of demand
2.8.6 Reasons for Exceptional Demand Curve
2.8.7 Extension and Contraction of Demand
2.8.8 Movement along Demand Curve
2.8.9 Shift in the Demand Curve
2.9 Elasticity of Demand
2.9.1 Types of Elasticity of Demand
2.9.2 Levels or Degrees of Price Elasticity of Demand
2.9.3 Determinants of Elasticity of Demand
2.9.4 Measurement of Elasticity of Demand
2.9.5 Importance of Elasticity of Demand
2.10 Ordinal Analysis
2.11 An Indifference Curve
2.12 An Indifference Map
2.13 Diminishing Marginal Rate of Substitution
2.14 Properties of the Indifference curves
2.15 Price line or Budget line
2.16 Consumer Equilibrium
2.17 Conclusion


CONCEPT MAP
CONSUMPTION ANALYSIS
Elasticity of Demand
Types of Elasticity of Demand
Levels or Degrees of price Elasticity of Demand
Determinants of Elasticity of Demand
Measurement of Elasticity of Demand
Importance of Elasticity of Demand
Law of Demand
Characteristics
Demand Function
Law of Demand
Determinants of Demand
Exceptions to the Law of demand
Reasons for Exceptional Demand Curve
Extension and contraction of Demand
Movement along demand curve
Shift in the demand curve
Cardinal utility Analysis
The Law of Diminishing Marginal Utility
The Law of Equi - Marginal Utility
Classification of Goods
Necessaries
Comforts
Luxuries
Human Wants
Characteristics
Wants are unlimited
Wants become habits
Wants are satiable
Wants are Alternative
Wants are competitive
Wants are complementary
Wants are Recurring

IMPORTANT TERMS

Characteristics of wants	:	Man is a bundle of desires. There is no limits to human wants. If one set of wants are fulfilled, immediately another set of want would be felt.
Classification of wants	:	Wants are classified into three categories. viz necessories, comforts and luxuries.
Utility	:	"Utility" means 'usefulness', In economics utility is defined as the power of a commodity or a service to satisfy human wants.
Law of Diminishing Marginal Utility	:	The Law of diminishing marginal utility explains an ordinary experience of a consumer.
Law of Equi-Marginal Utility	:	The law of equi-marginal utility explains the behaviour of a consumer when he consumes more than one commodity.
Cardinal Utility Analysis	:	It involves the use of measurable (cardinal) utility to study consumer behaviour. It is otherwise known as Marginal (or) Marshallian Utility Analysis.
Ordinal Utility Analysis	:	Ordinal Utility approach means that the utility can eb ranked qualitatively.
Marginal Utility	:	Marginal Utility is the addition made to the total utility by consuming one more unit of a commodity. $\boxed{MU_n = TU_n - TU_{n-1}}$
Total Utility	:	Total Utility refers to the sum of utilities of all units of a commodity consumed.
Average Utility	:	Average Utility is nothing but utility derived by per unit of consumption $\boxed{AU = \frac{TU}{Q}}$
Indifference Map	:	Indifference Map is a group of indifference curves for two commodities showing different levels of satisfaction.
Budget Line	:	It represents the various amounts the consumer can buy with his income; it is also known as the price - ratio line or simply the price line.
Consumer Equilibrium	:	The consumer gets the maximum possible satisfaction from his given income is called consumer equilibrium.
Revealed Preference	:	Revealed Preference theory regards utilities to be merely comparable and not quantifiable.
Law of Demand	:	The law of demand states that there is a negative (or) inverse relationship between the price and quantity demanded of a commodity over a period of time.
Demand	:	Demand for a commodity refers to backed by ability to pay and willingness to buy it.
Exception to the law of demand	:	There are certain peculiar cases in which the law of demand will not hold good. In those cases, more will be (demanded at higher price) less will be demanded at lower price.
Giffen Paradox	:	Sir Robert Giffen discovered that the poor people will demand more of inferior goods if their prices rise and demand less if their prices fall.

Elasticity of Demand	:	The concept of elasticity of demand measures the rate of change in demand.
Indifference Curve Approach	:	An indifference curve is the locus of different combination of two commodities giving the same level of satisfaction.
Budget Line	:	Budget line is a line showing difference combinations of two goods which a consumer can attain at his given income and market price of the goods.
Demand Schedule	:	The tabular presentation of price and quantity demand is called the demand schedule.

MUST KNOW DEFINITIONS

Law of Diminishing Marginal Utility	:	According to Marshall "The additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has".
Law of Equi-Marginal Utility	:	In the words of Prof. Marshall, "If a person has a thing which can be put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all".
Consumer's Surplus	:	Marshall defines consumer's surplus as follows : "The excess of price which a person would be willing to play rather than go without the thing, over that which he actually does pay is the economic measure of this surplus of satisfaction. It may be called consumer's surplus.
Define Utility	:	According to Prof. Waugh "Utility is the power of commodity to satisfy human wants".
Define Revealed Preference Theory	:	Samuelson is revealed preference theory as "Behaviourist Ordinalist". The description "Behaviourist Ordinalist".
Define Elasticity of Demand	:	According to Alfred Marshall "the elasticity (or responsiveness) of demand in a Market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for given rise in price".

TEXTUAL QUESTIONS AND ANSWERS

Model Questions

PART - A

Multiple Choice Questions

1. Pick the odd one out *[BEQ] [First Mid-2018; HY-2018]*
(a) Luxuries (b) Comforts *[Sep-2020]*
(c) Necessaries (d) Agricultural goods
[Ans. (d) Agricultural goods]

2. Choice is always constrained or limited by the ____ of our resources.
(a) Scarcity (b) Supply
(c) Demand (d) Abundance
[Ans. (a) Scarcity]

3. The chief exponent of the Cardinal utility approach was *[Govt. MQP-2018; QY-2018]*
(a) J.R. Hicks (b) R.G.D. Allen
(c) Marshall (d) Stigler
[Ans. (c) Marshall]

4. Marginal Utility is measured by using the formula of *[BEQ] [First Mid-2018; Mar-2020]*
(a) $TU_n - TU_{n-1}$ (b) $TUn - TU_{n+1}$
(c) $TU_n + TU_{n+1}$ (d) $TU_n - TU_{n+1}$
[Ans. (a) $TU_n - TU_{n-1}$]

5. When marginal utility reaches zero, the total utility will be *[QY-2019; Sep-2020]*
(a) Minimum (b) Maximum
(c) Zero (d) Negative
[Ans. (b) Maximum]

6. Gossen's first law is known as
(a) Law of equi-marginal utility
(b) Law of diminishing marginal utility
(c) Law of demand
(d) Law of Diminishing returns
[Ans. (b) Law of diminishing marginal utility]

7. The basis for the law of demand is related to
(a) Law of diminishing marginal utility
(b) Law of supply
(c) Law of equi-marginal utility
(d) Gossen's Law
[Ans. (a) Law of diminishing marginal utility]

8. The concept of consumer's surplus is associated with *[BEQ]*
(a) Adam Smith (b) Marshall
(c) Robbins (d) Ricardo
[Ans. (b) Marshall]

9. Given potential price is Rs. 250 and the actual price is Rs. 200 find the consumer surplus.
(a) 375 (b) 175 *[First Mid-2018]*
(c) 200 (d) 50
[Ans. (d) 50]

10. Indifference curve approach is based on *[QY-2018]*
(a) Ordinal approach
(b) Cardinal approach
(c) Subjective approach
(d) Psychological approach
[Ans. (a) Ordinal approach]

11. The concept of elasticity of demand was introduced by *[BEQ] [QY-2019; HY-2019]*
(a) Ferguson (b) Keynes
(c) Adam Smith (d) Marshall
[Ans. (d) Marshall]

12. Increase in demand is caused by
(a) Increase in tax *[First Mid-2018; QY-2018]*
(b) Higher subsidy
(c) Increase in interest rate
(d) Decline in population
[Ans. (b) Higher subsidy]

13. The movement on or along the given demand curve is known as ____
(a) extension and contraction of demand
(b) shifts in the demand
(c) increase and decrease in demand
(d) all the above
[Ans. (a) extension and contraction of demand]

14. In case of relatively more elastic demand the shape of the curve is
(a) Horizontal (b) Vertical
(c) Steeper (d) Flatter
[Ans. (d) Flatter]

15. A consumer is in equilibrium when marginal utilities from two goods are

(a) Minimum (b) Inverse
(c) Equal (d) Increasing

[Ans. (c) Equal]

16. Indifference curve was first introduced by *[BEQ]*

(a) Hicks (b) Allen
(c) Keynes (d) Edgeworth

[Ans. (d) Edgeworth]

17. Elasticity of demand is equal to one indicates

(a) Unitary Elastic Demand
(b) Perfectly Elastic Demand
(c) Perfectly Inelastic Demand
(d) Relatively Elastic Demand

[Ans. (a) Unitary Elastic Demand]

18. The locus of the points which gives same level of satisfaction is associated with

(a) Indifference Curves (b) Cardinal Analysis
(c) Law of Demand (d) Law of Supply

[Ans. (a) Indifference Curves]

19. Ordinal Utility can be measured by *[HY-2019]*

(a) Ranking (b) Numbering
(c) Wording (d) None of these

[Ans. (a) Ranking]

20. The indifference curve are

[BEQ] [First Mid-2018; QY-2019]

(a) vertical (b) horizontal
(c) positive sloped (d) negatively sloped

[Ans. (d) negatively sloped]

PART - B

Answer The Following Questions In One or Two Sentences.

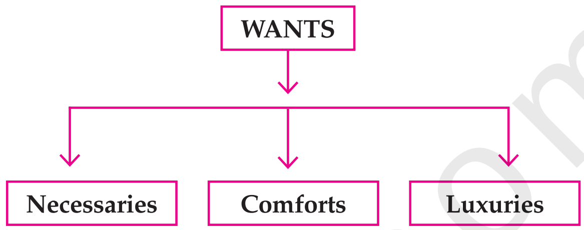
21. Define Utility. *[BEQ] [QY-2018; Sep-2020]*

Ans. (i) Utility, the simple meaning of **'utility is usefulness'.**

(ii) In Economics utility is the capacity of a commodity to **satisfy human wants.**

22. Mention the classifications of wants.

Ans. Goods (or) wants are broadly classified into three categories. They are,



23. Name the basic approaches to consumer behaviour.

Ans. The basic approaches to consumer behaviour are

(i) Cardinal Approach
(ii) Ordinal Approach

24. What are the degrees of price elasticity of demand?

Ans. (i) Perfectly Elastic Demand (Ep = ∞) *[HY-2019]*

(ii) Perfectly Inelastic Demand (Ep = 0)
(iii) Relatively Elastic Demand (Ep > 1)
(iv) Relatively Inelastic Demand (Ep < 1)
(v) Unitary Elastic Demand (Ep = 1)

25. State the meaning of indifference curves.

[First Mid-2018; Mar-2020]

Ans. 1. An indifference curve is the **locus of all combinations of commodities** from which the consumer derives the **same level of satisfaction.**

2. It is also called **"Iso- Utility Curve"** or **"Equal Satisfaction Curve".**

26. Write the formula of consumers surplus.

Ans. Consumer surplus = what a person is willing to pay – what he actually pay.

(OR)

Consumer's surplus = Potential price – Actual price.

Mathematically,

Consumer's surplus = TU – (P × Q)

TU = Total Utility, P = Price and Q = Quantity of the Commodity

27. What are Giffen goods? Why it is called like that?

[BEQ] [First Mid-2018; QY-2019]

Ans. (i) The Giffen good or inferior good is an **exception to the law of demand.**

(ii) A Giffen goods is typically an inferior product that does not have easily available substitutes.

(iii) The unique characteristic that an increase in price actually increases the **quantity of the good** that is demanded.

PART - C

Answer The Following Questions In One Paragraph.

28. Describe the feature of human wants. *[Mar. 19]*

Ans. (i) Wants are Unlimited
(ii) Wants become Habits
(iii) Wants are Satiable
(iv) Wants are Alternative
(v) Wants are Competitive
(vi) Wants are Complementary
(vii) Wants are Recurring
(viii) Wants vary with time, place and person.

29. Mention the relationship between marginal utility and total utility.
[BEQ] [First Mid-2018; HY-2018; QY-2019; Sep-2020]

Ans. (i) Total utility refers to the **sum of utility of all units of a commodity consumed.**

(ii) Marginal utility is the addition made to the total utility by consuming one more unit of a commodity.

$MU_n = TU_n = TU_{n-1}$

Relationship between marginal utility and total utility

Marginal utility	Total utility
Marginal utility declines.	Total utility increases.
Marginal utility Reaches zero	Total utility Reaches maximum
Marginal utility becomes negative	Total utility declines.

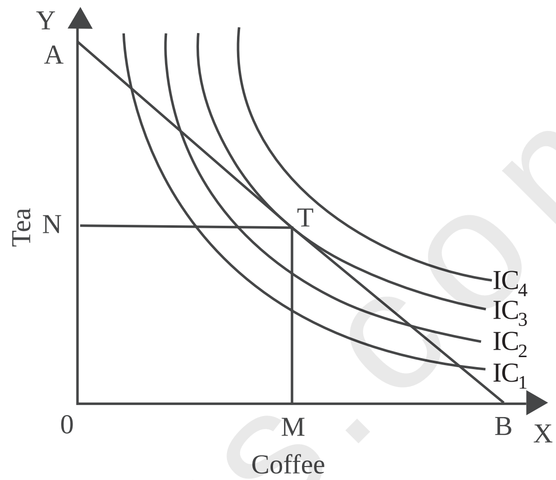
30. Explain the concept of consumer's equilibrium with a diagram. *[BEQ] [First Mid-2018]*

Ans. (i) The consumer reaches equilibrium at the point where the **budget line is tangent on the indifference curve.**

Consumer Equilibrium = $MRS_{xy} = P_x/P_y$

(ii) 'T' is the point of equilibrium as budget line AB is tangent on indifference curve IC_3 the upper most.

Consumer Equilibrium



31. Explain the theory of "Consumer's surplus" *[First Mid-2018; Mar-2020]*

Ans. Consumer surplus was originally introduced by classical economists and later modified by Jevons and Jule Dupit, the French Engineer Economist in 1844. But a most refined form of the concept of Consumer Surplus was given by Alfred Marshall.

Definition : *[Mar. 19]*

According to Alfred Marshall "The excess of a price which a person would be willing to pay a thing rather than go without the thing, over that which be actually does pay is the economic measure of this surplus satisfaction. This may be called as consumer's surplus.

Assumptions :

(i) Utility can be measured
(ii) Marginal Utility of money remain constant.
(iii) Taste, income and character of consumer does not change.

Measurement :

Consumer's surplus = Potential Price – Actual Price
Consumer surplus = TU – (P × Q)

32. Distinguish between extension and contraction of demand. *[QY-2019; HY-2019]*

Ans. (i) The changes in the **quantity demanded for a commodity due to the change** in its price alone are called 'Extension and Contraction of Demand".

(ii) In other words, **buying more at a lower price and less at a higher price** is known as "Extension and Contraction of Demand"

33. What are the properties of indifference curves? *[QY-2018]*

Ans. (i) Indifference curve must have **negative slope.**

(ii) Indifference curves are **convex to the origin.**

(iii) Indifference curve **cannot intersect**

(iv) Indifference curve **do not touch the horizontal** or **vertical axis.**

34. Briefly explain the concept of consumer's equilibrium.

Ans. (i) The consumer reaches equilibrium at the point where the budget line is **tangent on the indifference curve.**

(ii) T is the point of equilibrium as budget line AB is tangent on indifference curve IC_3 the upper most.

(iii) IC which implies **maximum possible level of satisfaction.**

(iv) At equilibrium point, the slope of IC refers to MRS_{xy} and the slope of BL refers to ratio of price of X to price of Y ie Px / Py

(v) Therefore $MRS_{xy} = P_x / P_y$

PART - D

Answer The Following Questions in About a Page.

35. Explain the law of demand and its exceptions. *[Govt. MQP-2018; First Mid-2018; QY-2018, 2019; HY-2018; Mar. 19]*

Ans. **Law of Demand :**

The Law of Demand was first stated by Augustin Cournot in 1838. Later it was refined and elaborated by Alfred Marshall.

Definitions

The Law of Demand says as "the quantity demanded increases with a fall in price and diminishes with a rise in price".

Assumptions :-

(i) The income of the consumer remains constant.

(ii) The taste, habit and preference of the consumer remain the same.

(iii) The price of other related goods should not change.

(iv) No substitute for the commodity.

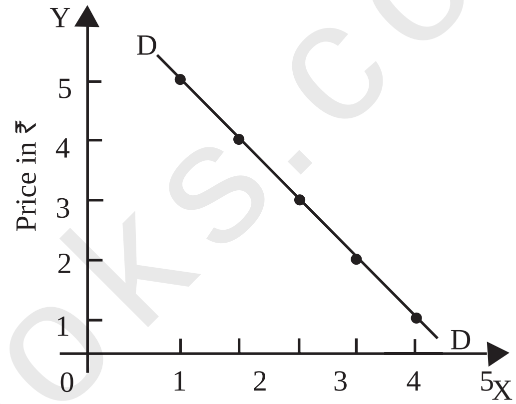
(v) Demand for the commodity must be continuous.

(vi) No change in the quality of the commodity.

If there is change in one of these above assumptions the law will not operate.

Table 2.4 Demand Schedule

Price	Quantity Demanded
5	1
4	2
3	3
2	4
1	5



Quantity Demanded (in units)

Explanation :-

(i) The law of demand explains the relationship between the price of a commodity and the quantity demanded of it.

(ii) This law states that quantity demanded of a commodity expands with fall in price and contracts with rise in price.

(iii) The law of demand states that there is an inverse relationship between the price and the quantity demanded of a commodity.

(iv) X axis represents the quantity demanded and Y axis represents the price.

(v) DD is the demand curve, which has negative slope i.e., slope downward from left to right.

Exception to the law of demand :

(i) Normally, the demand curve slopes downwards from left to right. But there are some unusual demand curves do not obey the law and reserve occurs.

(ii) A fall in price brings a contraction of demand and a rise in price brings an extension of demand.

(iii) Therefore the demand curve slopes upwards from left to right.

(iv) It is known as exceptional demand curve.

36. Elucidate the law of diminishing marginal utility with diagram. *[QY-2019]*

Ans. **(i)** H.H. Gossen, and Austrian Economist was the first to formulate this law in Economics in 1854.

(ii) Jevons called this law as "Gossen's first law of consumption".

Definition :-

Marshall states the law as "the additional benefit which a person derives from a given increase of his stock of a thing, diminishes with every increase in the stock that he already has".

Assumptions :-

(i) The marginal utility of money remains constant.

(ii) The consumer should be rational and his aim is to attain maximum satisfaction with minimum expenditure.

(iii) The units of the commodity must be reasonable in size.

(iv) Uniform in character like weight, quality, taste, colour etc.

(v) Goods must be made continuously at a given period of time.

(vi) No change in the taste, habits, preferences, fashions, income and character etc.

Explanation :-

The law of Diminishing Marginal utility states that if a consumer continues to consume more and more units of the same commodity, its marginal utility diminishes.

Illustrations :-

(i) Suppose a consumer wants to consume 7 apples one after another.

(ii) The utility from the first apple is 20.

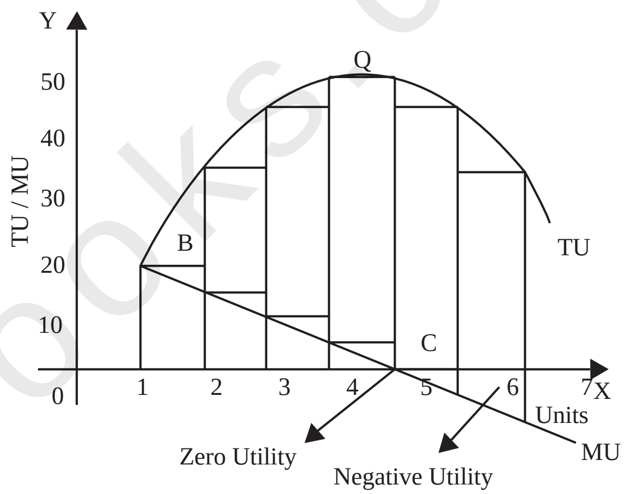
(iii) The second apple will be less than that of first (say 15), the third less than that of second (say 10) and so on, finally the utility from the fifth apple becomes zero.

(iv) Utility from sixth and seventh apple are negative (or) disutility (or) disliking.

(v) This tendency is called the "The law of Diminishing marginal Utility".

Table 2.1

Number of Apple	Total Utility	Marginal Utility
1	20	20
2	35	15 (35 – 20)
3	45	10 (45 – 35)
4	50	5 (50 – 45)
5	50	0 (50 – 50)
6	45	–5 (45 – 50)
7	35	–10 (35 – 45)



(vi) When marginal utility becomes zero, the total utility is maximum and when marginal utility becomes negative, the total utility diminishes.

37. Explain the law of Equi - marginal utility. *[BEQ] [QY-2018; Mar-2020]*

Ans. **(i)** The law of diminishing marginal utility extended and is called **"Law of equi - marginal utility".**

(ii) It is also called **'Law of substitution' 'Law of consumers equilibrium', 'Gossen Second Law'** and **'Law of maximum satisfaction'.**

Definition :-

Marshall defined as "If a person has a thing which can put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all."

Assumptions :-

(i) The consumer is rational so he wants to get maximum satisfaction.

(ii) The utility is measurable.

(iii) Money remains constant.

(iv) The income of the consumer is given.

(v) There is perfect competition in the market.

(vi) The prices of the commodities are given.

(vii) The Law of diminishing marginal utility operates.

Explanation :-

(i) Consumer wants to spend his limited income on Apple and Orange.

(ii) He is said to be in equilibrium, only when he gets maximum satisfaction with his limited income.

(iii) $\frac{\text{Marginal Utility of Apple}}{\text{Price of Apple}} = \frac{\text{Marginal Utility of Orange}}{\text{Price of Orange}} = K$

$$\boxed{\text{ie } \frac{MU_A}{P_A} = \frac{MU_O}{P_O} = K}$$

(iv) He wants to spend his entire income on Apple and Orange.

(v) The price of an Apple and Orange is Rs. 1 each.

Table

Apple			Orange	
Units of commodities	Total utility	Marginal utility	Total utility	Marginal utility
1	25	25	30	30
2	45	20	41	11
3	63	18	49	8
4	78	15	(54)	5
5	88	10	58	4
6	92	4	61	3

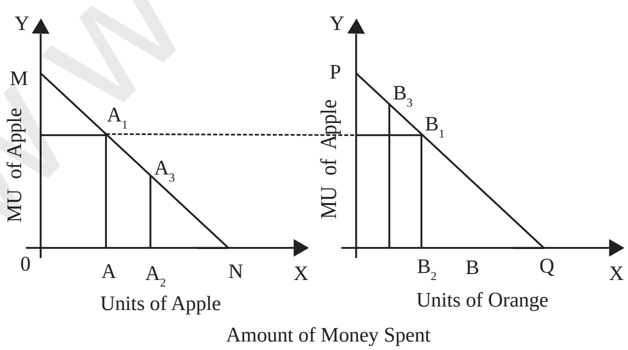


Diagram Explanation

(vi) If the consumer wants to attain maximum utility he should buy 6 units of Apples and 5 units of Oranges.

ie $\frac{4}{1} = \frac{4}{1}$

(vii) X - axis represent amount of money spent and Y - axis represent Marginal Utilities of Apple and Orange.

38. What are the methods of measuring elasticity of demand? *[BEQ] [QY-2018; HY-2019]*

Ans. There are four methods of measuring price elasticity of demand.

(i) The Percentage Method :-

(1) $\boxed{EP = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}}$

(2) This method is also known as **ratio method.**

(3) $EP = \frac{\%\Delta Q}{\%\Delta P}$ = %ΔQ = percentage change in demand

%ΔP = percentage change in price

(ii) Total Outlay Method :-

(1) Marshall suggested that **demand is elastic** or **inelastic** is to examine the change in total outlay of the consumer.

(2) Total Revenue = Price × Quantity

(3) TR = P × Q

Price	Quantity Demanded	Total outlay	Elasticity
150	3	450	} e > 1
125	4	500	} e = 1
100	5	500	} e < 1
75	6	450	

(iii) Point (or) Geometrical Elasticity :-

(1) The point elasticity of linear demand curve is shown by the ratio of the segments of the line to the **right and left of the particular point.**

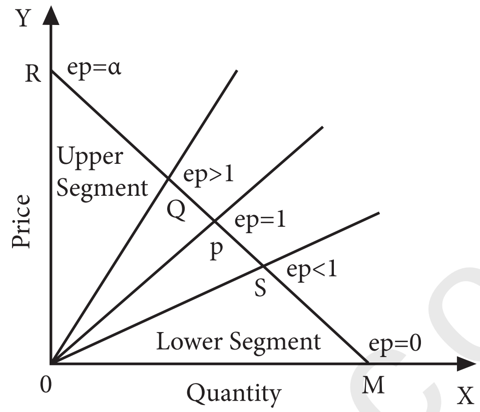
(2) The demand curve is a straight line, it is said to be linear.

(3) The demand for a commodity can be elastic in one price and in elastic in another.

(4) Point elasticity = $\dfrac{\text{Lower segment of the demand curve below the given point}}{\text{Upper segment of the demand curve above the given point}}$

$ep = \dfrac{L}{U}$ L = Lower Segment

U = Upper Segment



GOVERNMENT EXAM QUESTIONS AND ANSWERS

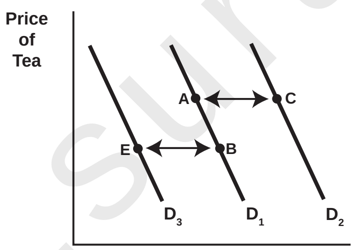
PART - A

Multiple Choice Questions. 1 MARK

(i) Choose the Correct Option

1. The diagram below illustrates 3 possible demand curves for Tea. *[Govt. MQP-2018]*

Suppose that Tea and Coffee are substitutes. If the price of Coffee increases, which of the following movements will represent the effect of this in the market for Tea?



(a) A to C.
(b) A to B.
(c) B to A.
(d) B to E. **[Ans. (a) A to C.]**

2. Given potential price is Rs.375 and the actual price is Rs.200. Find the consumer surplus. *[Govt. MQP-2018]*

(a) 375 (b) 175 (c) 200 (d) 50

[Ans. (b) 175]

3. Given potential price is Rs. 350 and the actual price is Rs. 250 find the consumer surplus. *[HY-2018]*

(a) 375 (b) 175
(c) 200 (d) 100 **[Ans. (d) 100]**

4. Given the consumer's surplus is ₹75 and the actual price is ₹372, find the potential price. *[Mar. 19]*

(a) 447 (b) 50 (c) 375 (d) 474

[Ans. (a) 447]

5. The law of Diminishing Marginal utility is otherwise known as ________. *[QY-2019]*

a) Law of demand
b) Law of Indifference curve
c) Gossen's first law of consumption
d) Law of Substitution

[Ans. (c) Gossen's first law of consumption]

6. The indifference curves are : *[Mar-2020]*

(a) negatively sloped (b) vertical
(c) horizontal (d) positively sloped

[Ans. (a) negatively sloped]

PART - B

Answer The Following Questions In One or Two Sentences. 2 MARKS

1. The price of a commodity falls from ₹.50 to ₹.30, resulting in an increase in the purchase of the commodity from 200 units to 220 units. Calculate the price elasticity of demand. *[Govt. MQP-2018]*

Ans.

Formula for calculating price elasticity of demand } $= \dfrac{\Delta Q}{Q} \times \dfrac{P}{\Delta P}$

$= \dfrac{\Delta Q}{\Delta P} \times \dfrac{P}{Q}$

$$Q = 200 \qquad \Delta Q = 20 \qquad (220 - 200)$$
$$P = 50 \qquad \Delta P = 20 \qquad (50 - 30)$$

$$EP = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$= \frac{\cancel{20}^{1}}{\cancel{20}} \times \frac{\cancel{50}^{1}}{\cancel{200}^{4}}$$

$$\therefore EP = 0.25$$

2. Write the criticism of the law of Equi-Marginal Utility. *[First Mid-2018]*

Ans. **Criticisms**

(i) In practise, utility cannot be measured, only be felt.

(ii) This law cannot be applied to durable goods.

3. State the meaning of Elasticity of demand. *[Mar-2020]*

Ans. **Elasticity of Demand:** The Law of Demand explains the direction of change in demand due to change in the price. It fails to explain the rate of change in demand due to a given change in price. Elasticity of demand explains the rate of change in quantity demanded due to a given change in price.

PART - C

Answer The Following Questions In One Paragraph. 3 MARKS

1. Name the importance of elasticity of demand. *[First Mid-2018]*

Ans. **Importance of elasticity of demand :**

(i) Price fixation (ii) Production

(iii) Distibution

(iv) International trade (v) Public Finance

(vi) Nationalization

PART - D

Answer The Following Questions in About a Page. 5 MARKS

1. Describe the feature of human wants. *[Govt. MQP-2018]*

Ans. (i) **Wants are unlimited :**

(1) Human wants are countless in number and various in kinds. When one want is satisfied another want crops up.

(2) Human wants multiply with the growth of civilization and development.

(ii) **Wants become habits :**

(1) Wants become habits; for example, when a man starts reading news paper in the morning, it becomes a habit.

(2) Same is the case with drinking tea or chewing pans.

(iii) **Wants are Satiable :**

(1) Though we cannot satisfy all our wants, at the same time we can satisfy particular wants at a given time.

(2) When one feels hungry, he takes food and that want is satisfied.

(iv) **Wants are Alternative :**

There are alternative ways to satisfy a particular want eg. Idly, dosa or chappathi.

(v) **Wants are Competitive :**

(1) All our wants are not equally important. So, there is competition among wants.

(2) Hence, we have to choose more urgent wants than less urgent wants.

(vi) **Wants are Complementary :**

(1) Sometimes, satisfaction of a particular want requires the use of more than one commodity.

(2) Example: Car and Petrol, Ink and Pen.

2. A consumer's total utility of apples consumed per day is given below. Derive the marginal utility schedule. Also find out the quantity of apples the consumer will purchase in his equilibrium given that marginal utility of a rupee for him is ₹8. Price of the apple is ₹2 per unit. *[Govt. MQP-2018]*

Quantity of apple	Total Utility
1	20
2	38
3	54
4	68
5	80
6	90

Solution :

$$\boxed{Mu_n = Tu_n - Tu_{n-1}}$$

Quantity of Apples	Total Utility	Marginal Utility
1	20	20
2	38	(38–20)=18

3	54	(54–38)=16
4	68	(68–54)=14
5	80	(80–68)=12
6	90	(90–80)=10

Marginal Utility of Apples

	1,	2,	3,	4,	5,	6
Price of Apple is ₹ 2.	2	2	2	2	2	2
	2	4	6	8	10	12

When the consumer consumes 4 units of apples he derives maximum satisfaction for ₹ 8. When the consumer consumes 4th units of Apple.

Illustration :

(i) This law can be illustrated with the help of table.

(ii) Let us assume that the consumer has a given income of ₹ 8/- He wants to spend this entire income (ie. ₹ 8) on Apple. The price of an Apple is ₹ 2/- each.

(iii) If the consumer wants to attain Maximum Utility he can use the following formula.

$$\frac{\text{Marginal Utility of Apple}}{\text{Price of Apple}}$$

Marginal Utility of rupee is ₹ 8

Price of Apple is ₹ 2

$$= \frac{\cancel{8}^{4}}{\cancel{2}_{1}}$$

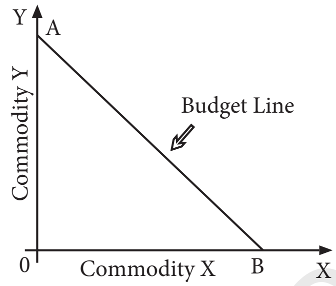
∴ 4 units of Apple

Therefore he should buy 4 units of apple to attain maximum utility.

4. Explain the Price line or Budget line and consumer equilibrium with diagram. ***[Sep-2020]***

Ans. **Price line or Budget line :**

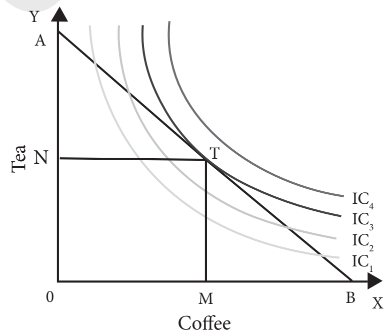
Demand for a good depends upon (i) preference for that good and (ii) purchasing power. The preference pattern is represented by set of indifference curves. The purchasing power depends on his money income and price of the goods. The money income and price level are represented by budget line. The budget line is a downward sloping straight line connecting X axis and Y axis as follows.



BA is the budget line with a given income (C). C/OA is the price of commodity Y and C/OB is the price of commodity X. The budget line is the line joining various combinations of the two goods which the consumer can buy at given prices and income.

Consumer Equilibrium :

The consumer reaches equilibrium at the point where the budget line is tangent on the indifference curve. T is the point of equilibrium as budget line AB is tangent on indifference curve IC_3 the upper IC which implies maximum possible level of satisfaction.



At equilibrium point, the slope of IC refers to MRS_{XY} and the slope of BL (Budget Line) refers to ratio of price of X to price of Y ie P_x/P_y . Therefore $MRS_{x,y} = P_x/P_y$.

ADDITIONAL QUESTIONS AND ANSWERS

PART - A

Multiple Choice Questions. 1 MARK

(i) Choose the Correct Option

1. Utility analysis was developed by *[BEQ]*
(a) Alfred Marshall and Adam Smith
(b) Alfred Marshall and Prof. J.R. Hicks
(c) Alfred Marshall and A.C. Pigou
(d) Alfred Marshall and J.K. Easthan
[Ans. (c) Alfred Marshall and A.C. Pigou]

2. According to the law of diminishing marginal utility, the utility from the consumption of each additional unit starts
(a) increasing (b) diminishing
(c) multiplying (d) none of these
[Ans. (b) diminishing]

3. Equi - Marginal Utility means equal marginal utilities derived from the consumption of more than
(a) four goods (b) three goods
(c) two goods (d) one good
[Ans. (c) two goods]

4. The concept of consumers surplus was introduced by
(a) Alfred Marshall (b) J.R. Hicks
(c) A.C. Pigon (d) J.K. Easthan
[Ans. (a) Alfred Marshall]

5. The Indifference curve analysis was presented by
(a) Alfred Marshall (b) J.R. Hicks
(c) A.C. Pigon (d) J.K. Easthan
[Ans. (b) J.R. Hicks]

6. The foundation for various other economic law is
(a) Law of diminishing marginal utility
(b) Law of equi-marginal utility
(c) Consumer surplus
(d) None of these
[Ans. (a) Law of diminishing marginal utility]

7. Supply curve is
(a) an upward sloping curve
(b) a downward sloping curve
(c) a horizontal straight line
(d) a vertical line
[Ans. (a) an upward sloping curve]

8. The term 'ceteris paribus' means
(a) Speculation
(b) Other things remaining constant
(c) Veblen effect
(d) Antoine Augustin cournot.
[Ans. (b) Other things remaining constant]

9. A change in the quantity supplied is response to a change in the price is called
(a) Elasticity of supply (b) Elasticity of demand
(c) Concept of Elasticity
(d) Unitary Elastic of supply
[Ans. (a) Elasticity of supply]

10. Human wants have the capacity to get satisfied only
(a) Temporarily (b) Wants
(c) Comforts (d) None of these
[Ans. (a) Temporarily]

11. In Marshallian analysis, it is assumed that utility can be measured quantitatively in terms of units These units are called *[BEQ]*
(a) Utils (b) Utility
(c) Luxuries (d) Comforts
[Ans. (a) Utils]

12. Law of diminishing Marginal Utility assumes the marginal utility of money to be
(a) Increasing (b) Decreasing
(c) Constant (d) None of these
[Ans. (c) Constant]

13. A consumer buys two commodities *x* and *y* he would be in equilibrium when *[BEQ]*
(a) $\frac{MUx}{Px} = \frac{MUy}{Py}$ (b) $\frac{MUx}{MUy} = MUm$
(c) $\frac{MUx}{Px} = \frac{MUy}{Px}$ (d) $\frac{Px}{Py} = MUm$
[Ans. (a) $\frac{MUx}{Px} = \frac{MUy}{Py}$]

14. Higher Indifference curve indicates
(a) Higher level of satisfaction
(b) Higher cost (c) Lower cost
(d) Lower level of satisfaction
[Ans. (a) Higher level of satisfaction]

15. The point of intersection of demand and supply curves is known as
(a) Equilibrium (b) Disequilibrium
(c) Partially equilibrium (d) General equilibrium
[Ans. (a) Equilibrium]

16. Human wants are classified in to
(a) Necessaries and Luxuries
(b) Luxuries and Comforts
(c) Necessaries and Comforts
(d) Necessaries, Comforts and Luxuries
[Ans. (d) Necessaries, Comforts and Luxuries]

17. The Segment of a demand curve between two points is called
(a) Straight line (b) Point
(c) Arc (d) percentage
[Ans. (c) Arc]

18. Given potential price is 500 and actual price is 320. Find the consumer surplus.
(a) 180 (b) 150
(c) 320 (d) 820 **[Ans. (a) 180]**

(ii) Match List I with List II and Select the Correct Answer using the Codes given below.

1.

	List I		List II
(A)	Characteristics of Human wants	(i)	Necessaries
(B)	Classification of wants	(ii)	Law of equi-marginal utility
(C)	Single commodity mode	(iii)	Unlimited
(D)	Gossen's second law	(iv)	Law of diminishing marginal utility

	A	B	C	D
(a)	iv	iii	ii	i
(b)	i	ii	iii	iv
(c)	iii	i	iv	ii
(d)	iii	iv	ii	i

***Ans.* (c) A - (iii) ; B - (i) ; C - (iv) ; D - (ii)**

2.

	List I		List II
(A)	Gossen's first law	(i)	Price and demand have direct relation
(B)	Potential price–actual price	(ii)	Law of diminishing marginal utility
(C)	Law of demand	(iii)	Consumer's surplus
(D)	Giffen Effect	(iv)	Inverse relationship between price and quantity demanded

	A	B	C	D
(a)	ii	iii	iv	i
(b)	ii	iii	i	iv
(c)	i	iv	iii	ii
(d)	iv	iii	ii	i

***Ans.* (a) A - (ii) ; B - (iii) ; C - (iv) ; D - (i)**

3.

	List I		List II
(A)	Exceptions to the law of demand	(i)	Inelastic demand
(B)	Elasticity demand	(ii)	Veblen effect
(C)	$E_p < 1$	(iii)	$E_p = \dfrac{\text{Lower segment of the demand curve}}{\text{Upper segment of the demand curve}}$
(D)	Point method	(iv)	Alfred marshall

	A	B	C	D
(a)	i	ii	iii	iv
(b)	ii	iv	i	iii
(c)	iv	iii	ii	i
(d)	iii	i	iv	ii

***Ans.* (b) A - (ii); B - (iv); C - (i) ; D - (iii)**

4.

	List I		List II
(A)	Utility is measurable	(i)	Marginal rate of substitution
(B)	Ordinal analysis	(ii)	Types of Elasticity demand
(C)	Indifference curve	(iii)	Law of diminishing marginal utility
(D)	Income Elasticity demand	(iv)	J.R.Hicks and R.G.D. Allen.

	A	B	C	D
(a)	iv	iii	ii	i
(b)	iii	ii	i	iv
(c)	iv	i	iii	ii
(d)	iii	iv	i	ii

Ans. (d) A - (iii); B - (iv); C - (i); D - (ii)

(iii) Choose the correct option and fill in the blanks.

1. **_______ is the other name given for Marshallian utility analysis.** *[BEQ]*
(a) Total utility
(b) Cardinal utility analysis
(c) Marginal utility
(d) All of these **[Ans. (b) Cardinal utility analysis]**

2. **The _______ principle is quite useful in explaining the "water diamond paradox"**
(a) Equi - marginal (b) Marginal utility
(c) Utility (d) Total utility
[Ans. (a) Equi-marginal]

3. **__ of the following constitute 'demand' in economics.**
(a) A desire to buy (b) A decision to buy
(c) The purchasing power (d) All the above
[Ans. (d) All the above]

4. **Giffen's goods are classified in to ____ and ____ goods.**
(a) Superior (b) Inferior
(c) Both 'a' and 'b' (d) None
[Ans. (c) Both 'a' and 'b']

5. **There are ____ kinds of price elasticity of demand.**
(a) Two (b) Three (c) Four (d) Five
[Ans. (d) Five]

6. **____ is a powerful factor that influence demand.**
(a) Expenses (b) Price
(c) Income (d) Commodity
[Ans. (b) Price]

7. **____ does P*x* denotes.**
(a) Demand of a commodity
(b) Quantity of the demand
(c) Price of a commodity
(d) All the above **[Ans. (c) Price of a commodity]**

8. **If the co-efficient elasticity is equal to zero it represents ____ supply.**
(a) Perfectly elastic (b) Unitary inelastic
(c) Relatively elastic (d) Perfectly inelastic
[Ans. (d) Perfectly inelastic]

(iv) Pick the Odd one Out.

1. (a) Advertising Elasticity of demand.
(b) Cross elasticity of demand.
(c) Price elasticity of demand.
(d) Relatively elastic demand.
[Ans. (d) Relatively elastic demand]

Reason: Relatively elastic demand is degrees of price elasticity demand. Other three are types of elasticity of demand.

2. (a) Total outlay method.
(b) Percentage method.
(c) Inductive method.
(d) Point method **[Ans. (c) Inductive method]**

Reason: Inductive method, also called *empirical method*, is adopted by the "Historical School of Economists". Other three are measurement of elasticity of demand.

3. (a) Taste (b) Taxation
(c) Consumer's surplus (d) Advertisement
[Ans. (c) Consumer's surplus]

Reason: Consumer Surplus is the difference between the potential price and actual price. Other three are determinants of demand.

4. (a) Marshall
(b) F.W. Edgeworth
(c) Vilfredo parefo
(d) J.R Hicks and R.G.D. Allen **[Ans. (a) Marshall]**

Reason: The concept of elasticity of demand was introduced by Marshall. But other three are criticised the cardinal utility approach.

(v) Choose the Correct Pairs

1.

(a)	Total revenue	-	Price × Quantity sold
(b)	Consumer's surplus	-	J.R. Hicks and R.G.D Allen
(c)	Types of price elasticity of demand	-	Production
(d)	Percentage method	-	$E_p = \dfrac{\text{Lower segment of the demand curve}}{\text{Upper segment of the demand curve}}$

[Ans. (a) Total revenue - Price × Quantity sold]

(vi) Consider the following statement.

1. **Assertion (A) :** Demand curve slope downward.
Reason (R) : Due to law of diminishing Marginal utility.
(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true and R is not the correct explanation of A
(c) A is true but R is false
(d) A is false but R is true
[Ans. (a) Both A and R are true and R is the correct explanation of A]

2. **Assertion (A) :** Indifference curve slope downwards from left to right.
Reason (R) : Group of indifference curve is known as indifference map.
(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true and R is not the correct explanation of A
(c) A is true but R is false
(d) A is false but R is true
[Ans. (b) Both A and R are true and R is not the correct explanation of A]

3. **Assertion (A) :** Indifference curves are convex to the origin.
Reason (R) : The convexity of the indifference curves implies due to MRS.
(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true and R is not the correct explanation of A
(c) A is true but R is false
(d) A is false but R is true
[Ans. (a) Both A and R are true and R is the correct explanation of A]

4. **Assertion (A) :** Law of demand explain there is inverse relationship between price and quantity demanded.
Reason (R) : Other thing remains the same, when price increases quantity demanded decreases.
(a) Both A and R are true and R is the correct explanation of A.
(b) Both A and R are true and R is not the correct explanation of A.
(c) A is true but R is false.
(d) A is false but R is true.
[Ans. (a) Both A and R are true and R is the correct explanation of A]

PART - B

Answer The Following Questions In One or Two Sentences. 2 MARKS

1. Define total utility.

Ans. It is the sum total of the marginal utilities obtained from the consumption of successive units of a commodity.
$TU = MU_1 + MU_2 + MU_3 + ... + MU_n$ or ΣMU

2. Define budget line. ***[BEQ]***

Ans. Budget line is a line showing different combinations of two goods which a consumer can attain at his given Income and Market price of the goods.

3. What do you mean by indifference map?

Ans. Indifference map refers to a set of indifference curves corresponding to **different income levels of satisfaction.**

4. Define budget set. ***[BEQ]***

Ans. It refers to attainable combinations of a set of two goods at given prices of goods and income of the consumer.

5. What is market demand?

Ans. Market demand means the **total quantity of a commodity** that all its buyers are willing to purchase at different prices over a given period of time.

6. When the demand is elastic?

Ans. The demand is elastic when percentage change in quantity demanded is greater than percentage change in its price.

PART - C

Answer The Following Questions In One Paragraph. 3 MARKS

1. What are the assumptions of consumer's surplus? ***[BEQ]***

Ans. (i) Cardinal utility of a commodity is measured in **money terms.**
(ii) Marshall assumes that there is definite relationship between **expected satisfaction** (utility) and **realized satisfaction** (actual).
(iii) Marginal utility of **money is constant.**
(iv) Absence of differences in **income, taste, fashion** etc.
(v) Independent goods and independent utilities.
(vi) Demand for a commodity depends on its price alone, it includes other determinants of demand.

2. Explain the relationship between price elasticity of demand and slope of a linear demand curve.

Ans. The slope of a linear demand curve is given as $\frac{\Delta p}{\Delta q}$

(i) While price elasticity of demand is given as

$$\text{Ed} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} \qquad .....(1)$$

(ii) Hence, we can write above equation

(iii) (1) as $\text{Ed} = \frac{1}{\text{Slope of Demand Curve}} \times \frac{P}{Q}$

(or)

$$\text{Ed} = \frac{1}{\frac{P}{Q}} \times \frac{P}{Q} \qquad .....(ii)$$

(iv) The above equation states that there exist an inverse relationship between slope of a linear demand curve and Price elasticity of demand.

3. Write the classification of wants. ***[BEQ]***

***Ans.* (i) Necessaries :**

Goods which are indispensable for the human being to exist in the world are called "necessaries" (for example: food)

(ii) Comforts :

Goods which are not indispensable for life but to make our life easy, convenient and comfortable are called "comforts". (for example: TV)

(iii) Luxuries :

Goods which are not very essential but are very costly are known as "Luxuries". (for example: Jewellery, Diamonds.

PART - D

Answer The Following Questions in About a Page 5 MARKS

1. Explain the condition of consumer's equilibrium using indifference curve analysis.

***Ans.* (i)** In terms of indifference curve analysis, the consumer achieves his optimum choice when he strikes a balance between what he wishes to buy and what he can buy.

(ii) According to indifference curve analysis, a consumer is in equilibrium at a point, where the slope of the indifference curve is equal to the slope of budget line.

(iii) Condition of consumer's Equilibrium

$$\boxed{MRS_{xy} = \frac{Px}{Py}}$$

(iv) Here, MRS_{xy} = Marginal Rate of substitution between good x and y

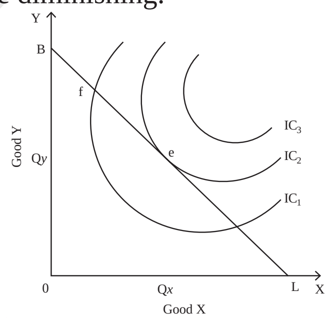
(v) $\frac{Px}{Py}$ = Price Ratio between good x and good y

(vi) $MRS_{xy} = \frac{\Delta Y}{\Delta X}$ = Slope of indifference curve.

(vii) At the point of equality between

$MRS_{xy} = \frac{Px}{Py}$ = Indifference curve must be convex to the origin.

(viii) It implies that at the point of equilibrium, MRS must be diminishing.



Explanation :

(i) In the above diagram BL - is Budget line.

(ii) IC_1, IC_2, IC_3 = set of indifference curves.

(iii) Consumer is equilibrium at point 'e'. At this point, BL is tangent to IC_2 signifying that

$$\boxed{MRS_{xy} = \frac{Px}{Py}}$$

(iv) Consumer will not be in equilibrium at point f and g because they belong to lower IC.

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