INDIAN SCHOOL AL WADI AL KABIR

Class: XI	**Department: Commerce**
	Topic: Consumer's Equilibrium and Demand

1. Higher indifference curve means:
    a. Consumer has more income
    b. Price of the goods have reduced
    c. Higher utility level
    d. All of the above

    A: c

2. Decreasing slope of indifference curve is explained by:
    a. Law of diminishing marginal returns
    b. Law of diminishing MRS
    c. Law of demand
    d. Law of constant MRS

    A: b

3. Budget line indicates:
    a. Price ratio
    b. Income ratio
    c. Cost ratio
    d. None of these

    A:b

4. In marginal utility theory, utility is:
    a. An ordinal concept
    b. A cardinal concept
    c. Both (a) and (b)
    d. None of the above

    A: b

5. If with rise in price of good Y , demand for good X rises, the two goods are;
    a. Substitutes
    b. Complements
    c. Not related
    d. Jointly demanded

    A: b

6. Indifference means:
   a. X is preferred to Y
   b. Y is preferred to X
   c. X and Y are equally preferred
   d. None of the above

   A: c

7. Saturation point means:
   a. TU is rising, and MU is falling
   b. TU is falling and MU is negative
   c. TU is maximum and MU is zero
   d. Falling MU curve

   A: c
8. Government reduces railway fare between two zones A & B .this will lead to ;
   a. downward movement on its demand curve
   b. rightward shift of its demand curve
   c. leftward shift of its demand curve
   d. upward movement on its demand curve

   A: b

9. Define the following
   a. Normal good
   b. Inferior good
   c. Substitute good
   d. Complementary good
   (Refer notes)

10. Total utility is maximum when

A .MU=1

b. MU=0

C. MU is positive

d. MU is negative

A: b

11. A demand curve shifts due to change in;

a.Tastes

b. Income

c. Price of the related goods

d. All the above

A: d

12. Spot the inferior good;

a. Wheat

b. Bajra

c. Rice

d. None of the above.

A: b

13. PED measure shows;

a. Response of price to change in demand

b. Response of demand to change in price

c. Degree of response of price to change in demand.

d. Degree of response of demand to change in price.

A: c

Questions:

14. Ceteries Paribus, if the government provides subsidies on electricity bills, what would be the likely change in the market demand of desert coolers?
    A: On account of subsidy provided on electricity bills, it will become relatively cheaper so demand for desert coolers increases.
15. Explain the conditions of equilibrium assuming that consumer consumes only two goods.

$$\frac{Mu\ (x)}{P\ (x)} = \frac{Mu\ (y)}{P\ (y)} = Mu\ (m)$$

16. A consumer consumes only two goods X and Y and is in equilibrium. Price of x falls. Explain the reaction of the consumer through the utility analysis.(refer notes)
17. Explain consumer's equilibrium with the help of indifference curve analysis. Use diagram.(refer notes)
18. What is meant by demand in economics? State the Law of Demand. Is there any exception to the law?
    (Refer notes for law of demand)
    Exception to the law:
    a. A Giffen good is considered to be an exception of law of demand. The unique features of a Giffen good results in quantity demanded increasing where there is an increase in price.
    b. Veblen goods, i.e: conspicuous Consumption, i.e: they are goods that people buy more of when or if the price increases. These goods tend to be status symbols and displays wealth eg: diamonds, Rolls Royce cars, Patek Phillipe watches.

19. Explain the inverse relationship between price and quantity demanded of a commodity.
    A: when the price of a good falls it has following two effects that lead a consumer to buy more of that commodity.
    a. Income effect:
       When the price of a commodity falls, the real income of the consumer increases. As a result, he can now buy more of a commodity. This is called income effect.
    b. Substitution effect:
       When price of a commodity falls, it becomes relatively cheaper than others. This induces the consumer to substitute the relatively cheaper commodity for the other good which is relatively expensive. This is called substitution effect.
       Thus, as a result of the combined operation of the income effect and substitution effect, the qnty demanded of a commodity increases with a fall in the price of the given commodity and vice versa, provided other things remaining the same.

20. Distinguish between a normal good and an inferior good. Give examples.(refer notes)
21. Explain the distinction between 'change in demand' and 'change in quantity demanded'(refer notes)
22. Explain how rise in income of a consumer affects the demand of a good. Give examples.
    A: the rise in the income of the consumer affects the demand of a good in the following ways:
    a. Normal goods:
       In case of any normal good, like wheat, rice, any increase in the income of the buyer increases his demand for that commodity - causing the demand curve to shift towards right. There exists direct relationship between income and demand for normal good.
    b. Inferior goods:
       In case of inferior goods, there is inverse relationship between the income of the buyer and his demand for inferior goods. With the increase in income the demand curve of inferior good like bajra shifts left wards (draw the graphs)

23. Explain two causes of 'decrease' in demand for a commodity.(refer notes)
24. Draw and explain the different types of price elasticity of demand.(refer notes)
25. Why is an indifference curve strictly convex? Explain.(refer notes)
26. Distinguish between budget set and budget line. Use diagram.(refer notes)
27. Why is demand for water inelastic?
    Because water is necessity for living, if price increases or decreases people will buy it.