What is law of demand and what are its key factors for it? ③

Law of Demand

The law of demand states that there is an inverse relationship between the price of a commodity and the quantity demanded. As price increases, demand increases and vice versa.

Key factors

a] Price of product

There is an inverse relationship between the product and quantity demanded. The demand for the product decreases with increase in its price, while other factors are constant.

b] Income

The income of a consumer affects his/her purchasing power, which, in turn, influences the demand for a product. Increase in the income of a consumer would automatically increase the demand for products by him/her.

c] Price of Related Goods

The demand for a specific product is influenced by the price of related goods to a greater extent.

d] Tastes and Preferences of Consumers.

It play a major role in influencing the individual and market demand of a product. The tastes and preferences of consumers are affected due to various factors, like, lifestyle, customs, common habits etc.

e] Consumer expectations

f] Effectiveness of advertisements.

g] Distribution of income

h] Population growth.

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2] Discuss atleast two exceptions ... demand
→ Two exceptions are as follows -

a] Griffen goods

These are inferior goods for which demand incr... as their price rise, due to a strong income effec... Consumers may buy more of these goods whe... their price increases because they can't afford better alternatives.

E.g. - During price hike, low-income individuals may consume more basic staples like bread, as they can no longer afford more expensive alternatives."

b] Veblen goods

These are luxury goods for which demand increa... with rising prices because higher prices make them more desirable as status symbols.

The higher the price, the greater the perceive... exclusively and social status, thus increasing demand.

3] What are different degrees for elastic demand. Expla... by giving suitable exple.

→ The different degrees of elastic demand and their explanations are :-

a] Perfectly Elastic Demand ($EP = \infty$)

A small change in price leads to an infinite change in quantity demanded. In this case, consumer... will only but at one price, and any change in price causes the demand to drop to zero.

e.g. - if multiple firms sell the same product at the same price, any slight increase in price by one firm may cause its demand to drop to zero.

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b] Perfectly Inelastic Demand <EP=0>

Quantity demanded remain constant regardless of price changes. Consumer will buy the same amount, no matter how much the price increases or decreases.

e.g:- Life-saving medicines such as insulin for diabetic patients, where demand remains constant even if prices rises.

c] Relatively Elastic Demand <EP>1>

The percentage change in demand is greater than the percentage change in price. Small changes in price result in significant changes in quantity demanded.

Eg:- Luxurious goods like cars or televisions. A small decrease in price can lead to large increase in demand.

d] Relatively In-elastic demand <E<1>

The percentage change in demand is less than the percentage change in price. A large price change results in only a small in demand.

eg:- Necessities such as salt, rice or kerosene. Even with a significant price increase, the demand remains relatively stable because they are essential items.

e] Unitary Elastic Demand <EP=1>

The percentage change in demand is exactly equal to the percentage change in price. A 1% change in price leads to a 1% change in demand.

eg:- This is mostly theoretical, but can be seen in some consumer goods where price changes lead to proportionate demand changes.

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4] What is utility in economics. How it is measured

Utility

It refers to the satisfaction or pleasure that consumer ~~device~~ derives from consuming a good or service. It is the want-satisfying power of a commodity, meaning how much benefit or satisfaction a person gets from consuming goods.

Measurement of Utility

a] Total Utility <TU>

This is the total amount of satisfaction gained from consuming all units of a commodity. It is sum of the utility derived from each unit.

b] Marginal Utility <MU>

This measures the additional satisfaction gained from consuming one more unit of a commodity. It is calculated as the change in total utility when consumption increases by one unit.

The Formula is

$$MU = \frac{\text{Change in total utility}}{\text{Change in quantity consumed}}.$$

5] Explain probability and marginality ?

Marginality in Economics

It refers to the additional satisfaction or benefit a consumer gains from consuming one more unit of a good or service. It is the extra utility derived from the consumption of additional unit.

$$MU = \frac{\text{Change in total utility}}{\text{Change in quantity consumed}}.$$

Probability in Economics

It is a mathematical concept that involves calculating the likelihood of an even occurring, it is often used in economics to evaluate risk and uncerteinity. For instance, economist might calculate the probability of market changes, demand fluctuation

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7] What is Market Structure?

→ Market Structure

It refers to the characteristics of a market that influence the behaviour of firms, the nature of competition, and pricing. It describes the organization of the market in terms of no. of buyers and sellers, the nature of the product, degree of competition, and ease of entry and exit for firms.

Types of Market Structure

a] Perfect Competition

A large number of buyers and sellers, with homogenous product and free entry and exit.

Ex

b] Monopoly

A single seller dominates the market with no close substitutes, and there are significant barriers to entry.

Ex

c] Monopolistic Competition

Many sellers offers differentiated products, and there is free entry and exit.

Ex

d] Oligopoly

A few dominant firms control the market, and they may sell either homogenous or differentiated products with entry being restricted.

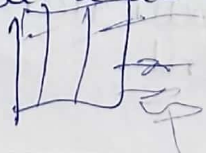
Ex

] What is law of variable proportion? How does it explain relationship between input and output production?

→ Law of Variable Proportion

This law explains how output changes as the quantity of one input is varied, while other inputs remain constant.

It shows that the quantity of one factor is increased, initially, the output increases at an increasing rate, then at a diminishing rate and finally, it may decrease.



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5] Discuss atleast two ...

It occurs in 3 stages :-

a] Increasing Returns to a Factor :
In the beginning, as more units of the variable factor are employed, the output increases at an increasing rate due to better utilization of fixed factor.

b] Diminishing Returns to Factor
After a certain point, the output increases at a diminishing rate as the variable factor continues to be added, because fixed factor becomes less effectively utilized.

c] Negative Returns to Factor
Beyond a certain point, adding more of the variable factor results in a decrease in total output as fixed factor becomes overcrowded and inefficient.

7] What is economic development and how does it differ from economic growth. Describe key ingredients.

→ a] Economic growth is the increase in a country's output of goods and services, measured by GDP, whereas Economic development refers to improvement in standards of living and economic welfare over a long period.

b] Economic growth focuses on increasing output, while Economic development emphasizes long-term changes like poverty reduction, health, educational

Key ingredients -

a] Human Resource
The skills, education and productivity of a country's workforce significantly impact both economic growth and development.

b] Capital Formation
The accumulation of physical and financial capital increases production capacity, boosting both growth and development.

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c] Technological Development

Advances in technology increases productivity which is crucial for economic growth and development.

d] Social and Political Factors

Stable governance, good institution and social conditions contribute to sustainable development beyond economic output.

What is inflation and what are its main causes? How it can be controlled?

Inflation

It is defined as sustained increase in global price levels of goods and services in an economy over a period of time.

It is measured as an annual percentage increase. This implies inflation, reflects a reduction in purchasing power per unit memory.

Causes of Inflation

a] Increase in public expenditure -

It leads to increase investment from govt. side which create number of employment opportunities in economy.

b] Deficit Financing -

When govt. expenditure increases w.r.t govt. expenditure, because of what money supply increases in an economy.

c] Speculation -

It creates excess of money supply in economy because of people increase their demand and inflation arises.

d] Decrease in import -

It decreases the supply of imported goods and thereby price of imported goods increases.

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