Economics

**Chapter One: Microeconomics**

**1.1 Introduction to Economics**

**1.1.1 Definition of Economics**

Economics is the social science that studies how individuals, businesses, governments, and societies allocate scarce resources to satisfy unlimited wants and needs. It analyzes how decisions are made regarding production, distribution, and consumption of goods and services. Economics encompasses various fields such as microeconomics, which focuses on individual decision-making units like households and firms, and macroeconomics, which examines the broader aggregates such as national income, unemployment, and inflation.

**1.1.2 Basic Economic Concepts: Economic Resources, Human Wants, Scarcity and Choice, Opportunity Cost, Production Possibility Curves/Frontiers**

Economic Resources: Economic resources, also known as factors of production, are the inputs used to produce goods and services. They include land (natural resources), labor (human effort), capital (physical and human-made resources used in production), and entrepreneurship (the ability to combine the other resources to create goods and services).

Human Wants: Human wants are the desires for goods and services that people have, which are unlimited. These wants range from basic necessities like food, clothing, and shelter to more complex desires such as luxury items and entertainment.

Scarcity and Choice: Scarcity refers to the limited availability of resources relative to the unlimited wants and needs of society. Because resources are scarce, individuals, businesses, and governments must make choices about how to allocate them efficiently. This involves prioritizing among competing wants and needs.

Opportunity Cost: Opportunity cost is the value of the next best alternative forgone when a decision is made. It represents the cost of choosing one option over another. In other words, whenever a choice is made, the opportunity cost is the value of what is sacrificed.

Production Possibility Curves/Frontiers: A production possibility curve (PPC), also known as a production possibility frontier (PPF), illustrates the maximum output combinations of two goods or services that an economy can produce given its resources and technology. It shows the trade-offs between producing different goods or services. Points on the curve represent efficient use of resources, while points inside the curve indicate underutilization and points outside the curve are unattainable given current resources and technology.

**1.1.3 Scope of Economics: Micro and Macro Economics**

Microeconomics: Microeconomics focuses on the behavior of individual economic agents, such as households, firms, and industries, and the markets in which they operate. It examines how these agents make decisions regarding the allocation of resources, consumption, production, and pricing of goods and services. Key topics in microeconomics include supply and demand, market structures (such as perfect competition, monopoly, and oligopoly), consumer behavior, production costs, and factors influencing individual decision-making, such as utility maximization and profit maximization.

Macroeconomics: Macroeconomics, on the other hand, deals with the economy as a whole and examines aggregate phenomena such as national income, output, employment, inflation, and economic growth. It analyzes the overall performance of the economy and the factors that influence it, such as government policies, monetary and fiscal policies, international trade, and globalization. Macroeconomics aims to understand and address issues like unemployment, inflationary pressures, business cycles, and long-term economic growth. Key macroeconomic concepts include gross domestic product (GDP), inflation rate, unemployment rate, aggregate demand and supply, fiscal policy, monetary policy, and international trade.

Both microeconomics and macroeconomics are essential for understanding the functioning of economies and formulating effective economic policies. While microeconomics focuses on individual economic units and their interactions, macroeconomics provides a broader perspective by examining aggregate economic variables and their implications for the overall economy. Together, these two branches provide insights into different aspects of economic behavior and help policymakers, businesses, and individuals make informed decisions in various economic contexts.

**1.1.4 Methodology of Economics: Positive and Normative Economics, Scientific Methods, Economics as a Social Science**

The methodology of economics encompasses various approaches to studying economic phenomena, including positive and normative economics, scientific methods, and the recognition of economics as a social science.

Positive Economics: Positive economics focuses on describing and explaining economic phenomena as they are, without making value judgments or prescribing what ought to be. It aims to provide objective analysis based on empirical evidence and economic theories. Positive economics seeks to answer questions such as "What is the effect of a minimum wage increase on employment?" or "How does an increase in interest rates impact investment?" Positive statements can be tested and verified through observation and data analysis.

Normative Economics: Normative economics, on the other hand, involves value judgments and deals with questions of what ought to be or what economic policies should be pursued. It reflects subjective opinions about what is desirable or undesirable in economic outcomes. Normative statements often involve moral, ethical, or political considerations and cannot be tested or proven true or false in the same way as positive statements. Examples of normative questions include "Should the government increase taxes on the wealthy to reduce income inequality?" or "Is free trade beneficial for society?"

Scientific Methods: Economics employs various scientific methods to study economic phenomena, including observation, experimentation, statistical analysis, and mathematical modeling. Economists collect data, formulate hypotheses, and test theories using empirical evidence. They also use mathematical and statistical tools to analyze relationships between variables and make predictions about economic behavior. Economic models, such as supply and demand models or macroeconomic models, are used to simplify complex economic systems and understand their underlying mechanisms.

Economics as a Social Science: Economics is considered a social science because it deals with human behavior and interactions within social structures. It examines how individuals, households, firms, and governments make decisions and interact in markets and economies. Like other social sciences, economics considers the influence of cultural, institutional, and historical factors on economic outcomes. It also recognizes the complexity and diversity of human behavior, which may not always conform to traditional economic models.

By combining positive and normative analysis, employing scientific methods, and recognizing economics as a social science, economists aim to provide a comprehensive understanding of economic phenomena and inform policy decisions to improve societal welfare.

**1.1.5 Economic Systems: Planned Economy, Free Market Economy, Mixed Economy**

Economic systems refer to the institutional arrangements and mechanisms through which societies allocate resources, produce goods and services, and distribute them among individuals and groups. The main types of economic systems are planned economies, free market economies, and mixed economies.

**Planned Economy (Command Economy)**

* In a planned economy, the government or a central authority makes most or all economic decisions. The government owns and controls the means of production, such as land, labor, and capital, and determines what goods and services are produced, how they are produced, and for whom they are produced.
* Planning authorities set production targets, allocate resources, and coordinate economic activities according to central plans and priorities. Prices may be set by the government rather than determined by supply and demand in markets.
* Examples of planned economies include the former Soviet Union, North Korea, and Cuba.

**Free Market Economy (Capitalist Economy)**

* In a free market economy, economic decisions are decentralized and made by individuals, households, and businesses operating in markets. The government's role is limited to enforcing property rights, contracts, and regulations to ensure competition and prevent market failures.
* Private ownership of resources and the means of production is predominant, and prices are determined by supply and demand in competitive markets. Individuals and firms pursue their self-interest, and the invisible hand of the market guides resource allocation and production decisions.
* Examples of free market economies include the United States, Hong Kong, and Singapore.

**Mixed Economy**

* A mixed economy combines elements of both planned and free market systems. In a mixed economy, the government intervenes in markets to achieve specific social or economic objectives, such as promoting social equity, ensuring economic stability, or correcting market failures.
* The degree of government intervention varies across mixed economies, with some allowing more extensive government involvement in economic activities than others. Governments may provide public goods and services, regulate industries, redistribute income through taxes and welfare programs, and engage in macroeconomic stabilization policies.
* Many modern economies, including those of the United Kingdom, Canada, and Germany, are considered mixed economies.

Each type of economic system has its advantages and disadvantages, and the choice of system depends on societal values, historical context, and policy objectives. While planned economies can achieve rapid industrialization and prioritize social welfare, they often suffer from inefficiency, lack of innovation, and bureaucratic inefficiencies. Free market economies, on the other hand, are characterized by efficiency, innovation, and consumer choice but may lead to income inequality, market failures, and social disparities. Mixed economies seek to combine the strengths of both systems while mitigating their weaknesses, aiming to achieve economic growth, social stability, and equitable outcomes.

**1.1.6 Consumers Sovereignty and its Limitations**

Consumer sovereignty is a concept in economics that asserts that consumers ultimately determine what goods and services are produced in an economy through their purchasing decisions. In other words, in a market economy, producers respond to consumer preferences and demand by producing the goods and services that consumers are willing and able to buy. Consumer sovereignty is a central tenet of free market economics and is often cited as one of the key advantages of market-based systems.

However, consumer sovereignty is not without limitations. Here are some key factors that can limit consumer sovereignty:

Income and Wealth Inequality: In societies with significant income and wealth inequality, consumer sovereignty may be limited by the purchasing power of different income groups. Wealthier consumers may have more influence over what goods and services are produced, while lower-income consumers may have less ability to shape market outcomes.

Information Asymmetry: In many markets, consumers do not have perfect information about the products they are buying, their quality, or the true costs associated with their production. This information asymmetry can limit consumer sovereignty by leading to suboptimal decisions and market outcomes.

Market Power: In markets dominated by a few large firms or monopolies, consumer sovereignty may be limited by the market power of these producers. Monopolistic firms can manipulate prices, limit choice, and reduce consumer welfare by restricting competition and innovation.

Externalities: Externalities are unintended consequences of economic activities that affect third parties who are not directly involved in the transaction. Positive externalities, such as the benefits of education or vaccination, or negative externalities, such as pollution or congestion, can lead to market failures and limit consumer sovereignty by distorting prices and incentives.

Public Goods and Services: Certain goods and services, such as national defense, public infrastructure, and environmental protection, are not efficiently provided by the market due to their non-excludable and non-rivalrous nature. In such cases, consumer sovereignty may be limited, and government intervention may be necessary to ensure the provision of these public goods.

Cultural and Social Factors: Consumer preferences are influenced by cultural norms, social expectations, and advertising, which may not always reflect individual preferences or promote consumer welfare. In some cases, societal pressures or cultural biases may limit consumer sovereignty by shaping purchasing decisions.

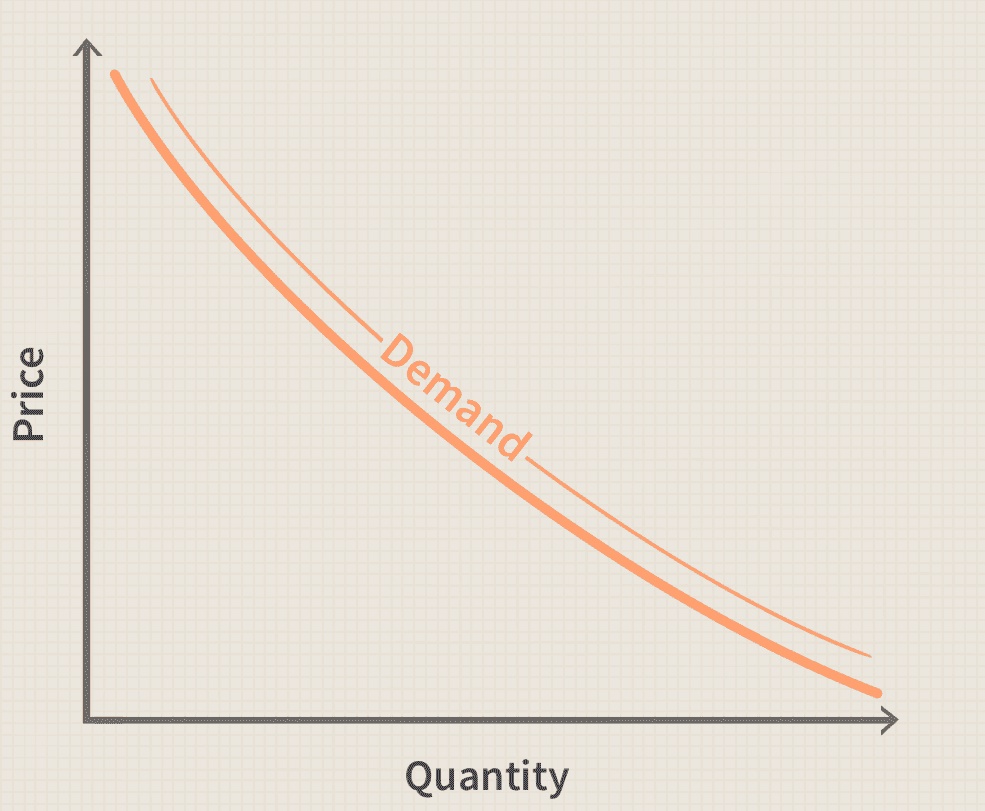
While consumer sovereignty is a powerful force in market economies, these limitations highlight the need for government regulation, consumer protection policies, and social interventions to address market failures, promote competition, and ensure that markets serve the broader interests of society.

**1.2 Demand, Supply and Determine Equilibrium**

**1.2.1 Demand Analysis**

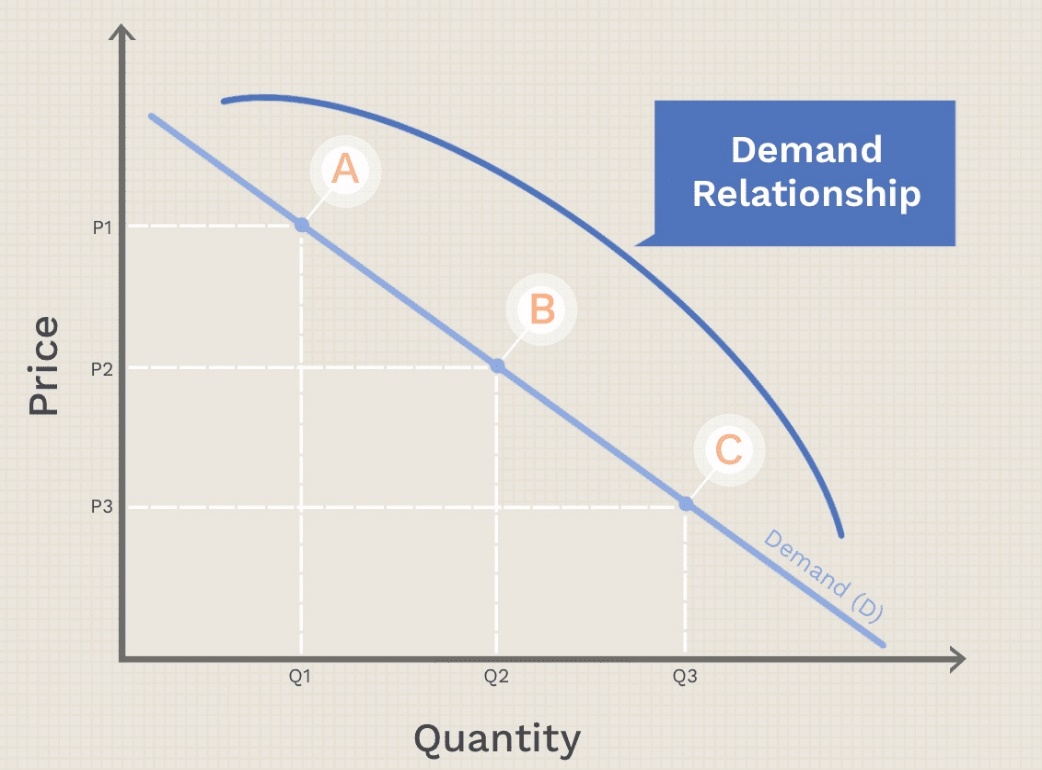
**1.2.1.1 Definition of Demand**

Demand in economics refers to the quantity of a good or service that consumers are willing and able to purchase at various prices during a specific period, ceteris paribus (all other factors being equal). It represents the relationship between the price of a product and the quantity demanded by consumers.



**1.2.1.2 Law of Demand**

The law of demand is a fundamental principle in economics that describes the inverse relationship between the price of a good or service and the quantity demanded by consumers, ceteris paribus (all other factors being equal). In other words, as the price of a product increases, the quantity demanded decreases, and as the price decreases, the quantity demanded increases, assuming that all other factors influencing demand remain constant.



By adding up all the units of a good that consumers are willing to buy at any given price, we can describe a market [demand curve](https://www.investopedia.com/terms/d/demand-curve.asp), which is always sloping downward, like the one shown in the chart below. Each point on the curve (A, B, C) reflects the quantity demanded (Q) at a given price (P). At point A, for example, the quantity demanded is low (Q1) and the price is high (P1). At higher prices, consumers demand less of the good, and at lower prices, they demand more.

Key aspects of the law of demand include:

Negative Slope: The law of demand is typically depicted graphically as a downward-sloping demand curve, where the horizontal axis represents the quantity demanded and the vertical axis represents the price of the product. The negative slope of the demand curve reflects the inverse relationship between price and quantity demanded.

Income and Substitution Effects: The negative slope of the demand curve can be explained by two main effects:

Income Effect: As the price of a product decreases, consumers' purchasing power increases, allowing them to buy more of the product with their existing income. Conversely, when the price increases, consumers' purchasing power decreases, leading to a reduction in quantity demanded.

Substitution Effect: When the price of a product decreases, it becomes relatively cheaper compared to alternative goods, leading consumers to substitute it for more expensive goods. This substitution effect contributes to an increase in quantity demanded at lower prices.

Assumptions and Limitations: The law of demand is based on the ceteris paribus assumption, which means that it holds true only if all other factors influencing demand remain constant. In reality, various factors such as consumer preferences, income levels, prices of related goods, and external economic conditions can affect demand and potentially lead to exceptions to the law of demand.

Empirical Evidence: The law of demand is supported by empirical evidence from real-world markets and is observed across a wide range of goods and services. Economists and policymakers often rely on the law of demand to analyze consumer behavior, predict market responses to price changes, and formulate economic policies.

Overall, the law of demand is a fundamental concept in economics that provides valuable insights into consumer behavior and market dynamics. It highlights the importance of price elasticity of demand and the role of prices in allocating scarce resources efficiently in market economies.

**1.2.1.3 Exceptional Demand versus Market Demand**

"Exceptional demand" and "market demand" are terms used in economics to describe different aspects of the demand for goods and services:

**Exceptional Demand**

Exceptional demand refers to the demand for a particular good or service that is driven by unique or extraordinary circumstances, rather than the typical factors that influence demand. This type of demand often arises in response to unexpected events or changes in the external environment, such as natural disasters, emergencies, or sudden shifts in consumer preferences. Exceptional demand can lead to temporary spikes in the quantity demanded for specific products, often resulting in shortages or surpluses in the market. Examples of exceptional demand include increased demand for bottled water and emergency supplies during a hurricane, or higher demand for winter clothing during an unseasonably cold winter.

Exceptional demand refers to situations where the demand for a particular good or service deviates from the typical patterns observed under normal economic conditions. Here are some examples of exceptional demand:

**a) Giffen Paradox**

The Giffen paradox is a situation where an increase in the price of a good leads to an increase in demand for that good, contrary to the law of demand. This phenomenon occurs when the good in question is an inferior good, meaning that consumers buy more of it as their income decreases. The classic example often used to illustrate the Giffen paradox is the case of staple food items, such as rice or potatoes, in impoverished communities. When the price of these goods rises, consumers, who are already struggling to afford basic necessities, may be forced to allocate a larger portion of their limited income to purchasing these goods, leading to an increase in demand despite the higher price.

**b) Veblen Goods**

Veblen goods are luxury goods for which demand increases as their price increases, contrary to the law of demand. This phenomenon occurs because the higher price of the good is perceived as a signal of higher quality, status, or exclusivity, leading to increased demand among certain consumers. Examples of Veblen goods include luxury cars, designer clothing, and high-end jewelry. Consumers may purchase these goods not only for their intrinsic utility but also for their symbolic value and status-enhancing effects.

**c) Ignorance**

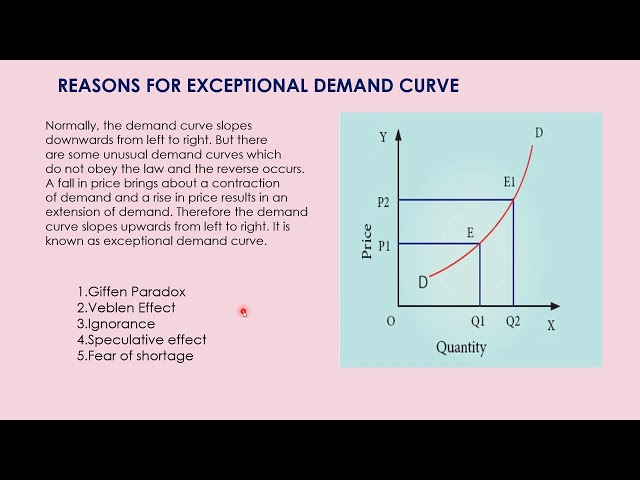
Ignorance-driven exceptional demand occurs when consumers lack complete information about the characteristics, qualities, or prices of goods or services. In such cases, consumers may demand products at prices that they perceive to be fair or reasonable, even if those prices do not accurately reflect the true value of the goods. This type of exceptional demand is more likely to occur in markets with imperfect information, limited transparency, or where consumers have limited access to alternative choices or substitutes.

**d) Speculation**

Speculative demand occurs when consumers purchase goods or assets with the expectation that their prices will increase in the future, allowing them to sell at a profit. Speculative demand can lead to price bubbles and asset booms, where demand exceeds fundamental values driven by expectations of future price increases. Speculative demand can be observed in various markets, including real estate, stocks, and cryptocurrencies, where investors may buy assets with the intention of selling them at higher prices in the future, rather than for their intrinsic utility or use value.

**e) Fear of Shortage**

Fear-driven exceptional demand occurs when consumers anticipate shortages of certain goods or services due to perceived or actual threats, such as natural disasters, political unrest, or supply chain disruptions. In response to these fears, consumers may rush to purchase essential items in anticipation of future shortages, leading to panic buying and stockpiling. This type of exceptional demand can exacerbate shortages, create artificial scarcity, and disrupt market equilibrium, as seen during events like hurricanes, pandemics, or economic crises. These examples illustrate how exceptional demand can arise under various circumstances, often deviating from the typical patterns predicted by standard economic models. Exceptional demand underscores the complexity of consumer behavior and the importance of considering psychological, sociological, and contextual factors in understanding market dynamics.



**Market Demand**

Market demand refers to the total quantity of a good or service that all consumers in the market are willing and able to purchase at various prices during a specific period.

It represents the aggregate of individual demands from all consumers in the market and is influenced by factors such as price, consumer income, preferences, and the prices of related goods.

Market demand is typically represented graphically as a demand curve, which shows the relationship between the price of the product and the quantity demanded by consumers, holding other factors constant.

Market demand provides insights into the overall behavior of consumers in the market and helps businesses and policymakers understand patterns of consumption and make decisions about pricing, production, and marketing strategies.

In summary, exceptional demand refers to temporary and extraordinary increases in the demand for specific goods or services, often driven by unique circumstances, while market demand represents the aggregate demand from all consumers in the market over a given period, reflecting the typical factors influencing consumption behavior.

**1.2.1.4 Individual Demand versus Market Demand**

Individual demand and market demand are two concepts used in economics to analyze the demand for goods and services:

**Individual Demand**

Individual demand refers to the quantity of a good or service that a single consumer is willing and able to purchase at various prices during a specific period.

It represents the demand curve for a particular consumer, showing how the quantity demanded changes in response to changes in price, assuming other factors remain constant.

Individual demand is influenced by factors such as the consumer's preferences, income, prices of related goods, and personal characteristics.

Each consumer in the market will have their own individual demand curve reflecting their unique preferences and circumstances.

**Market Demand**

Market demand refers to the total quantity of a good or service that all consumers in the market are willing and able to purchase at various prices during a specific period.

It represents the aggregate of individual demands from all consumers in the market, summing up the quantities demanded by each individual at different price levels.

Market demand is typically represented graphically as the horizontal summation of individual demand curves, showing the total quantity demanded at each price level in the market.

Market demand is influenced by factors affecting individual demand as well as factors such as population size, demographics, and market conditions.

In summary, individual demand focuses on the preferences and behavior of a single consumer, showing how their demand for a product changes with price, while market demand looks at the total demand from all consumers in the market, reflecting the aggregate behavior of consumers and providing insights into overall market behavior and trends.

**1.2.1.5 Factors Influencing Demand**

Several factors influence the demand for goods and services in an economy. Understanding these factors is essential for businesses, policymakers, and economists to predict consumer behavior and make informed decisions. Here are some of the key factors influencing demand:

Price of the Product: The most fundamental factor influencing demand is the price of the product itself. According to the law of demand, there is an inverse relationship between the price of a product and the quantity demanded, ceteris paribus. As the price of a product increases, the quantity demanded decreases, and vice versa.

Consumer Income: Consumer income is another significant determinant of demand. Generally, as consumers' income increases, their purchasing power increases, leading to higher demand for most goods and services, especially normal goods. Conversely, a decrease in income may lead to a decrease in demand, particularly for luxury goods.

Prices of Related Goods: The prices of related goods also influence demand. There are two types of related goods:

Substitute Goods: Goods that can be used as alternatives to each other. An increase in the price of one substitute good typically leads to an increase in demand for the other.

Complementary Goods: Goods that are consumed together. An increase in the price of one complementary good typically leads to a decrease in demand for the other.

Consumer Preferences and Tastes: Consumer preferences and tastes play a crucial role in determining demand. Changes in fashion trends, cultural influences, advertising, and marketing campaigns can all affect consumer preferences and, consequently, demand for certain products.

Expectations: Consumer expectations about future prices, income levels, and economic conditions can influence their current purchasing decisions. For example, if consumers expect the price of a product to increase in the future, they may increase their current demand to take advantage of lower prices.

Population and Demographics: Changes in population size, age distribution, and demographic factors such as household size, ethnicity, and geographic location can influence demand patterns. For instance, an aging population may lead to increased demand for healthcare services and retirement products.

Government Policies and Regulations: Government policies, such as taxation, subsidies, trade restrictions, and regulations, can impact demand for certain goods and services. For example, subsidies for electric vehicles may increase demand for them, while taxes on tobacco products may decrease demand for cigarettes.

Seasonal Factors and Weather Conditions: Seasonal factors and weather conditions can also influence demand for certain products. For instance, demand for winter clothing increases during colder months, while demand for ice cream rises during hot summer days.

By considering these factors, businesses can better understand consumer behavior and tailor their marketing strategies and pricing decisions accordingly. Similarly, policymakers can use this knowledge to design effective economic policies aimed at influencing aggregate demand and promoting economic stability and growth.

**1.2.1.6 Types of Demand**

Demand can be categorized into several types based on different criteria. Here are some common types of demand:

Individual Demand: Individual demand refers to the quantity of a good or service that a single consumer is willing and able to purchase at various prices during a specific period. It represents the demand curve for a particular consumer, showing how the quantity demanded changes in response to changes in price, assuming other factors remain constant.

Market Demand: Market demand refers to the total quantity of a good or service that all consumers in the market are willing and able to purchase at various prices during a specific period. It represents the aggregate of individual demands from all consumers in the market, summing up the quantities demanded by each individual at different price levels.

Derived Demand: Derived demand refers to the demand for a good or service that arises from the demand for another good or service. It occurs when the demand for one product is dependent on the demand for another product that it helps produce or complement. For example, the demand for steel is derived from the demand for automobiles and construction.

Effective Demand: Effective demand refers to the quantity of a good or service that consumers are both willing and able to buy at a given price level. It takes into account consumers' purchasing power, which depends on their income levels, credit availability, and other factors.

Composite Demand: Composite demand refers to the demand for a good or service that serves multiple purposes or has multiple uses. The same product can be demanded for different purposes by different consumers. For example, wheat can be demanded for making bread, animal feed, or ethanol production.

Joint Demand: Joint demand refers to the demand for two or more goods that are used together or complement each other. The demand for one product creates demand for the other products as well. For example, the demand for cars creates joint demand for gasoline, tires, and maintenance services.

Speculative Demand: Speculative demand refers to the demand for a good or service based on expectations of future price changes. Consumers may buy or hold assets with the expectation that their prices will increase in the future, allowing them to sell at a higher price and make a profit.

Understanding these different types of demand helps economists, businesses, and policymakers analyze consumer behavior, predict market trends, and make informed decisions about pricing, production, and marketing strategies.

**1.2.1.7 Movement along and Shifts of Demand Curves**

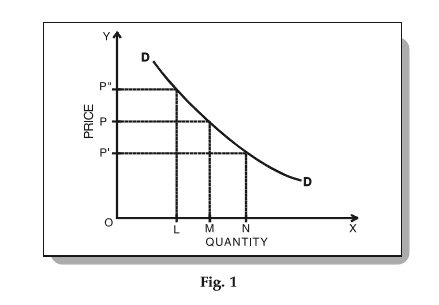
**Movement of the Demand Curve**

When there is a change in the quantity demanded of a particular [commodity](https://www.toppr.com/guides/economics/non-competitive-market/simple-monopoly-and-commodity-market/), because of a change in [price](https://www.toppr.com/guides/business-economics/determination-of-prices/intro-to-determination-of-prices/), with other factors remaining constant, there is a movement of the quantity demanded along the same [curve](https://www.toppr.com/guides/maths/basic-geometrical-ideas/curves/).

The important aspect to remember is that other factors like the consumer’s income and tastes along with the prices of other goods, etc. remain constant and only the price of the commodity changes.

In such a scenario, the change in price affects the quantity demanded but the demand follows the same curve as before the price changes. This is Movement of the Demand Curve. The movement can occur either in an upward or downward [direction](https://www.toppr.com/guides/reasoning-ability/data-sufficiency/direction-sense-test/) along the demand curve.

We know that if all other factors remain constant, then an increase in the price of a commodity decreases its demand. Also, a decrease in the price increases the [demand](https://www.toppr.com/guides/business-economics/theory-of-demand/meaning-and-determinants-of-demand/). So, what happens to the demand curve?



In Fig. 1 above, we can see that when the price of a commodity is OP, its demand is OM (provided other factors are constant). Now, let’s look at the effect of an increase and decrease in price on the demand:

When the price increases from OP to OP”, the quantity demanded falls to OL. Also, the demand curve moves UPWARD.

When the price decreases from OP to OP’, the quantity demanded rises to ON. Also, the demand curve moves DOWNWARD.

Therefore, we can see that a change in price, with other factors remaining constant moves the demand curve either up or down.

**Shifts of the Demand Curve**

When there is a change in the quantity demanded of a particular commodity, at each possible price, due to a change in one or more other factors, the demand curve [shifts](https://www.toppr.com/guides/economics/market-equilibrium/shifts-in-demand-and-supply/). The important aspect to remember is that other factors like the consumer’s income and tastes along with the prices of other goods, etc., which were expected to remain constant, changed.

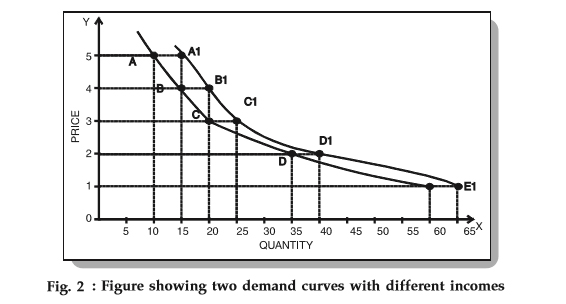
In such a scenario, the change in price, along with a change in one/more other factors, affects the [quantity demanded](https://www.toppr.com/guides/fundamentals-of-economics-and-management/equilibrium/change-in-equilibrium-price-due-to-shift-in-demand/). Therefore, the demand follows a different curve for every price change.

This is the Shift of the Demand Curve. The demand curve can shift either to the left or the right, depending on the factors affecting it.

Let’s look at an example which captures the effect of a change in consumer’s income on the quantity demanded.

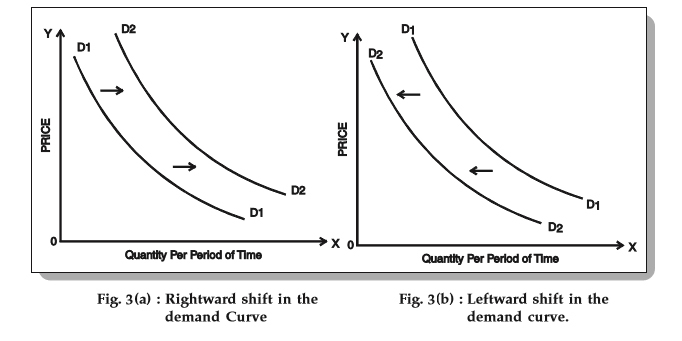
|  |  |  |
| --- | --- | --- |
| Price (Rs.) | Quantity demanded when the average household income is Rs. 4000 | Quantity demanded when the average household income is Rs. 5000 |
| 5 | 10 (A) | 15 (A1) |
| 4 | 15 (B) | 20 (B1) |
| 3 | 20 (C) | 25 (C1) |
| 2 | 35 (D) | 40 (D1) |
| 1 | 60 (E) | 65 (E1) |

The demanded quantities are plotted as demand curves DD and D’D’ as shown below:



From Fig. 2 above, we can clearly see that if the income changes, then a change in price shifts the demand curve. In this case, the shift is to the right which indicates that there is an increase in the desire to purchase the commodity at all prices.

Hence, we can conclude that with an increase in income the demand curve shifts to the right. On the other hand, if the income falls, then the demand curve will shift to the left decreasing the desire to purchase the commodity.



**1.2.1.8 Elasticity of Demand**

**1.2.1.9 Types of Elasticity: Price, Income and Cross Elasticity**

**1.2.1.10 Measurement of Elasticity: Point and Arc Elasticity**

**1.2.1.11 Factors Influencing Elasticity Demand**

**1.2.1.12 Application of Elasticity of Demand**