II. Very Short Answer Questions:

21. Define Utility.

- In Economics, utility is the want-satisfying power of a commodity or a service.
- It is in the goods and services for an individual consumer at a particular time and at a particular place.

22. Mention the classifications of wants.

- **Necessaries** : - For example, food, clothing and shelter.
- **Comforts** : - Example: TV, Fan, Refrigerator and Air conditioner.
- **Luxuries** : - Example: Jewelry, Diamonds and Cars.

23. Name the basic approaches to consumer behaviour.

The basic approaches to consumer behaviour are

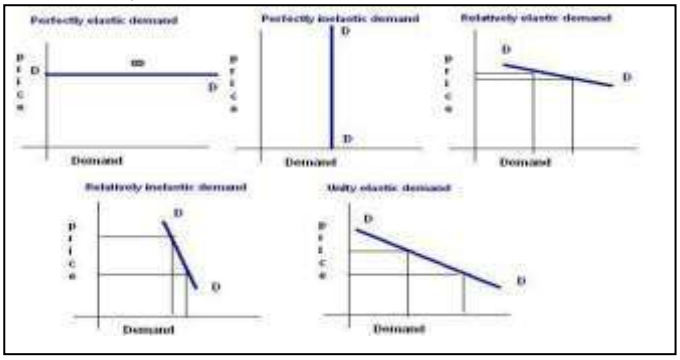
(i) Cardinal Approach

(ii) Ordinal Approach

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

The degrees of price elasticity of Demand are five as follow,

1. Perfectly Elastic Demand (Ep = ∞)
2. Perfectly Inelastic Demand (Ep =0)
3. Relatively Elastic Demand (Ep>1)
4. Relatively Inelastic Demand (Ep<1)
5. Unitary Elastic Demand (Ep =1)



25. . State the meaning of indifference curves.

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

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

26. Write the formula of consumers surplus.

Consumer's surplus = Potential price – Actual price

Consumer's Surplus = TU – (P x Q)

27. What are Giffen goods? Why?

- The Giffen good or **inferior good is an exception to the law of demand.**
- When the price of an **inferior good falls, the poor will buy less and vice versa.**

III. Short Answer Questions:

28. Describe the feature of human wants.

a. Wants are unlimited

Human wants are countless in number and various in kinds.

b. Wants become habits

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

c. Wants are Alternative

There are alternative ways to satisfy a particular want

d. Wants are Competitive

All our wants are not equally important.

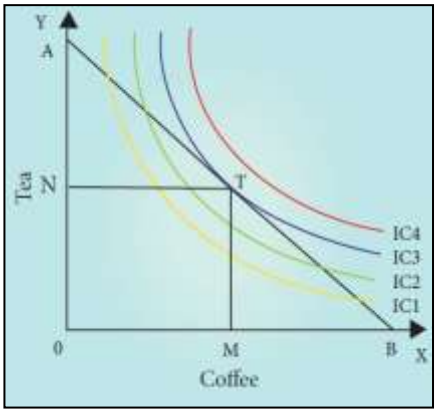
29. Mention the relationship between marginal utility and total utility.

	MARGINAL UTILITY	TOTAL UTILITY
1.	Marginal utility is the **addition made to the total utility** by consuming one more unit of commodity (MUn = TUn - TU n-1)	Total utility refer to the sum of utilities of all units of a commodity consumed (TU = $\sum MU$
2.	It declines	It increases
3.	It reaches zero	It reaches maximum
4.	It becomes negative	It declines

30. Explain the concept of consumer's equilibrium with a diagram.

Meaning ; Consumer will attain equilibrium when he gets maximum satisfaction from his expenditure on different goods is highest.

Consumer Equilibrium :MRSxy = Px / Py



➔ T is the point of equilibrium as budget line AB is tangent on indifference curve IC3 the upper IC which implies maximum possible level of satisfaction.

➔ At equilibrium point,

➔ The slope of IC refers to MRSXY and the slope of AB refers to ratio of price of X to price of Y ie Px/Py . Therefore MRSx,y = Px/Py.

31& 33. Explain the theory of "consumer's surplus" .

"The excess of price which a person would be willing to pay 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."

Consumer's surplus = Potential price – Actual price

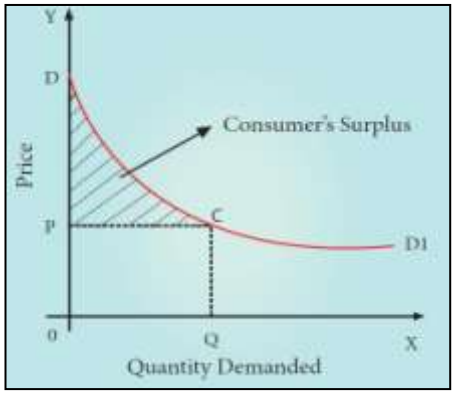
Consumer's Surplus = TU – (P x Q)

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

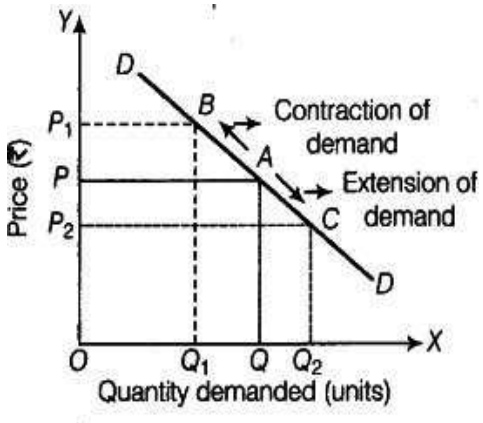
Assumptions

1. X axis shows the amount demanded and Y axis represents the price.
2. DD1 shows the utility which the consumer derives from the purchase of different amounts of commodity.
3. When price is OP, the amount demanded is OQ.
4. Hence, actual price is OPCQ (OP x OQ). Potential Price (Total Utility) is ODCQ.

   Therefore, Consumer' Surplus = ODCQ – OPCQ = PDC (the shaded area)



31. Distinguish between extension and contraction of demand.



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

32. What are the properties of indifference curves?

1. Indifference curve must have negative slope
2. Indifference Curves are convex to the origin
3. Indifference curve cannot intersect
4. Indifference curves do not touch the horizontal or vertical axis.

IV. Long Answer Questions:

34. Explain the law of demand and its exceptions.

Definition

According to Alfred Marshall, The Law of Demand said as "the quantity demanded increases with a fall in price and diminishes with a rise in price".

Assumptions of Law of Demand

1. The income of the consumer remains constant.
2. The taste, habit and preference of the consumer remain the same.
3. The prices of other related goods should not change.
4. There should be no substitutes for the commodity in study.

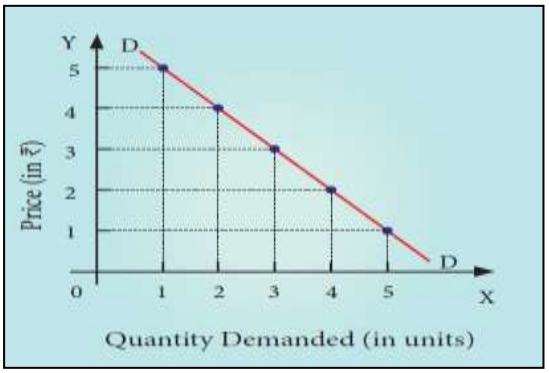


Table 2.4 Demand Schedule

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

Explanation

1. Quantity demanded and Y axis represents the price of the commodity.
2. DD is the demand curve, which has a negative slope.
3. Slope downward from left to right which indicates that when price falls, the demand expands and when price rises, the demand contracts.

Conclusion

Therefore, the law of demand states that **there is an inverse relationship between the price and the quantity demanded** of a commodity.

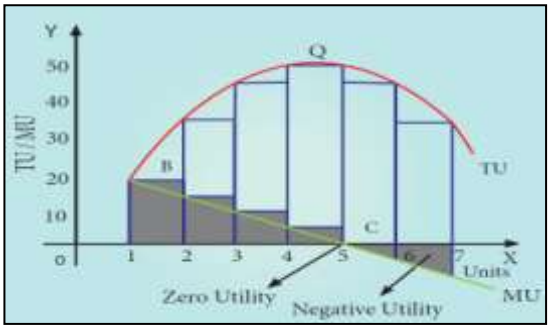
35. Elucidate the law of diminishing marginal utility with diagram.

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".

Assumption

1. Utility can be measured by cardinal number (Eg:1,2, 3..)
2. The marginal utility of money remains constant.
3. The consumer should be a rational consumer
4. The units of the commodity must be reasonable in size.
5. The commodity consumed should be homogeneous



Diminishing Marginal Utility

Units 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)

Explanation

1. Suppose a consumer wants to consume 7 apples one after another.

2. The utility from the first apple is 20. But the utility from the second apple will be less than that of the first (say 15), the third less than that of the second (say 10) and so on.

3. Finally, the utility from the fifth apple becomes zero and the utilities from sixth and seventh apples are negative.

Criticisms

1. Utility cannot be measured numerically.

2. This law is based on the unrealistic assumptions.

3. This law is not applicable

36. Explain the law of Equi-marginal utility.

Meaning

The law of equi-marginal utility states that the consumer will distribute his money income between the goods in such a way that the utility derived from the last rupee spend on each good is equal.

- In other words, consumer is in equilibrium position when marginal utility of money expenditure on each goods is the same.

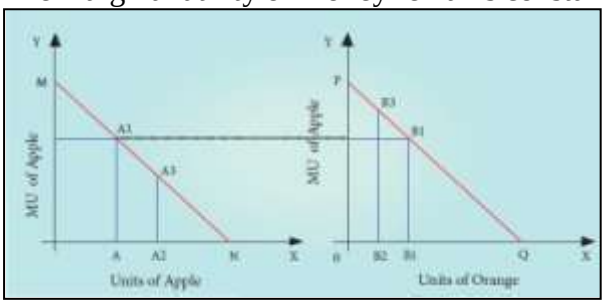
Equi-marginal = $\frac{MU_A}{P_A} = \frac{MU_O}{P_O} = K$

Assumption

1. The consumer is rational in the sense that he wants to get maximum satisfaction.

2. The utility of each commodity is measurable in cardinal numbers.

3. The marginal utility of money remains constant. law of Equi-marginal utility.



Explanation

1. X axis represents the amount of money spent and Y axis represents the marginal utilities of Apple and Orange respectively.
2. If the consumer spends □6 on Apple and □5 on Orange, the marginal utilities of both are equal i.e.,AA**1**=BB**1** (4=4).
3. Hence, he gets maximum utility.

37. What are the methods of measuring Elasticity of demand?

Methods of measuring Elasticity of Demand:

✶ The Percentage Method

✶ Total Outlay Method

✶ Point or Geometrical Elasticity

1. The Percentage Method

$$e_p = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

It is also known as ratio method, when we measure the ratio as:

$e_p = \frac{\%\Delta Q}{\%\Delta P}$ where, $\%\Delta Q$= percentage change in demand

$\%\Delta P$ = Percentage change in price

2. Total Outlay Method

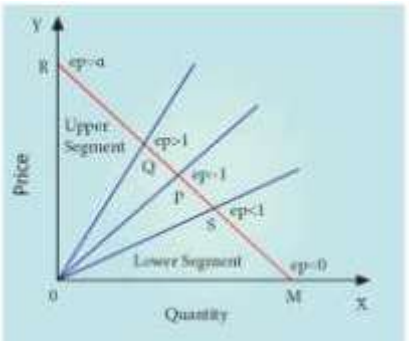
This examines the change in total outlay of the consumer or total revenue of the firm.

Total Revenue = (Price x Quantity Sold) TR = (P x 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	

3. Point or Geometrical Elasticity

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



Where '**ep**' stands for point elasticity, 'L' stands for the lower segment and 'U' for the upper segment.

Ep = L / U

$$\textit{Point Elasticity} = \frac{\text{Lower segment of the demand curve below the given point}}{\textit{Upper segment of t e demand curve above the given point}}$$

Chapter 3

II. Very Short Answer Questions:

21. Classify the factors of production.

Land, Labour - *'primary factors of production'*.

Capital and Organisation - *'secondary factors of production'.*

22. Define Labour. Labour refers to any work undertaken for securing an income or reward.

According to Marshall, labour represents services provided by the factor labour, which helps in yielding an income to the owner of the labour-power.

23. State the production function.

According to George J. Stigler, "Production function is the relationship between inputs of productive services per unit of time and outputs of product per unit of time."

P r o d u c t i o n function may be expressed as: **Q = f (N, L, K, T)**

Where, Q = Quantity of output, N = Land; L = Labour; K = Capital; and T = Technology.

24. Define Marginal Product of a factor.

It is the addition or the increment made to the total product when one more unit of the variable input is employed.

25. What is Iso-cost line?

The iso-cost line illustrates all the possible combinations of two factors that can be used at given costs and for a given producer's budget.

26. What are conditions for producer's equilibrium?

- ❖ The iso-cost line must be tangent to iso-quant curve.
- ❖ At point of tangency, the iso-quant curve must be convex to the origin.

27. What are the reasons for upward sloping supply curve?

- ➢ As the price of the commodity increases, the quantum supplied of the commodity also increases.
- ➢ Thus the supply curve has a positive slope (upward slop) from left to right.