

① Elasticity of demand is percentage change in quantity of good to that of Price.

TYPES

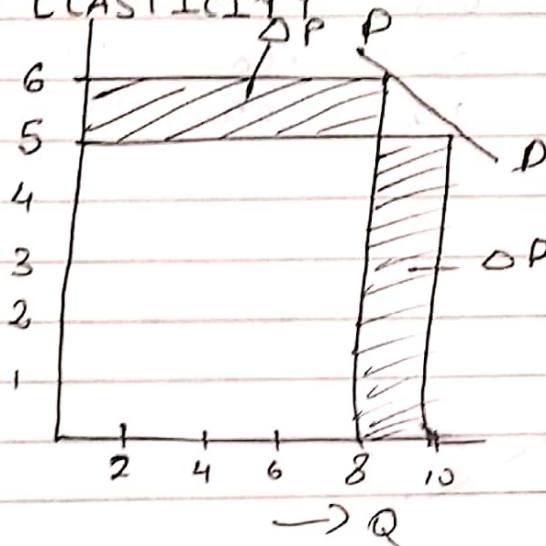
- UNITARY ELASTICITY

Q BP

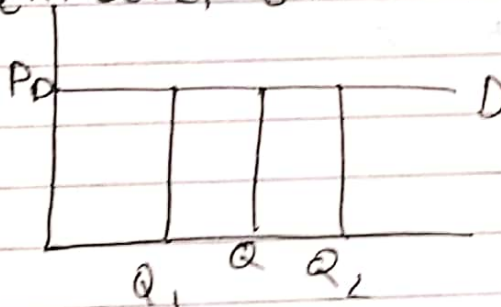
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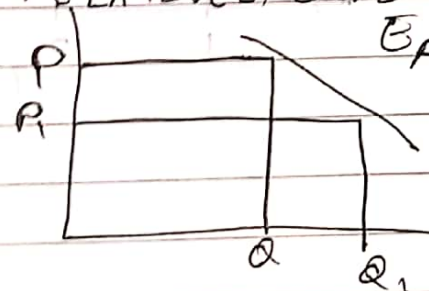
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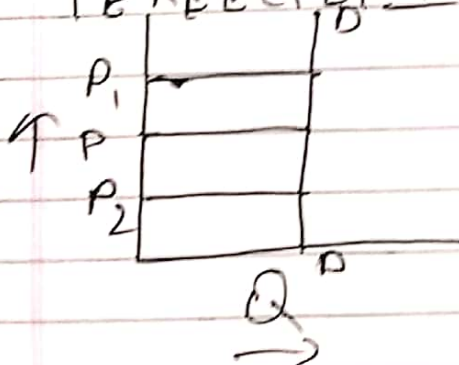
- PERFECTLY ELASTICITY



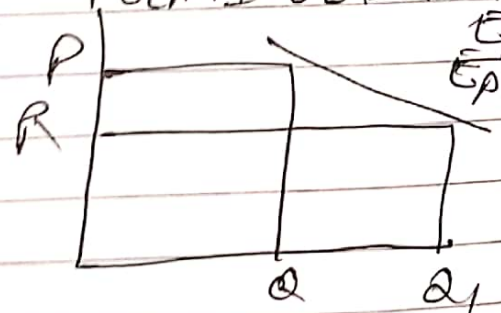
- RELATIVELY ELASTIC ($E_D > 1$)



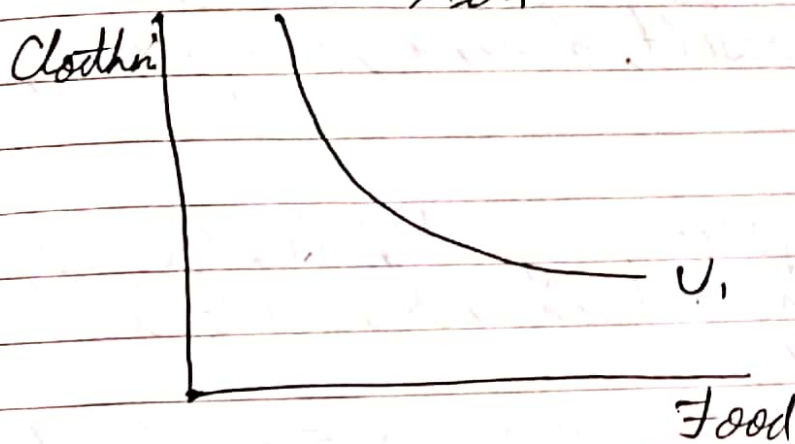
- PERFECTLY INELASTIC



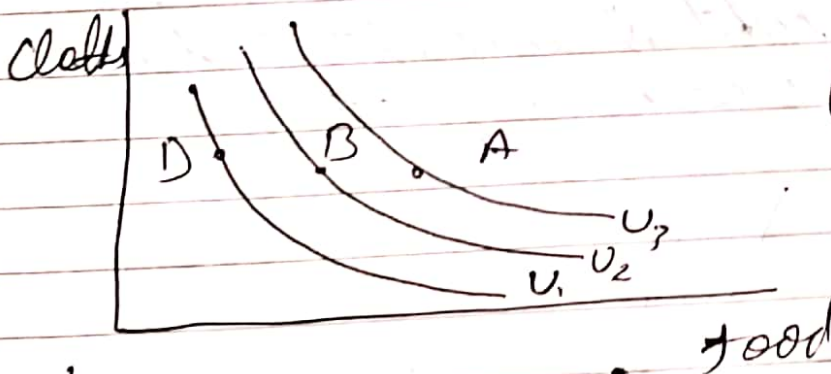
- RELATIVELY INELASTIC ($E_D < 1$)



② Indifference Curve: Curve representing all combination of market baskets that provide a consumer with same level of satisfaction.



Indifference Maps: Graph containing a set of indifference curves showing the market basket among which a consumer is indifferent.



[U_3 preferred to U_2
preferred to U_1]

3. Giffen goods are the products that people consume more of as the price increases. Since income effect is $-ve$, Giffen goods must be inferior good. But, for a Giffen good, $-ve$ income effect is more stronger than $-ve$ substitution effect. As a result, demand for a Giffen good \uparrow as price \uparrow

4. (2) True, As the price of a good falls, the budget line pivots outwards and consumer is able to move to a higher indifference curve.

(3) True, Since Engel curve has $+ve$ gradient, i.e., as income \uparrow quantity of demand \uparrow .

5. If indifference curves U_1 and U_2 intersect one at the assumption of consumer theory is violated. According to diagram, the consumer should be indifferent among market basket A, B and D. Yet, B should be preferred to D, because B has more of both goods.

