# UOS (BE-2021)

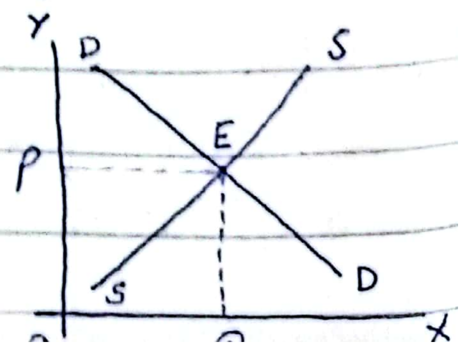
## Q.1

(i) Quantity demand:- The amount of a good that a consumer is willing and able to buy at a given price over a given period of time.

(ii) Quantity Supply:- The amount of a good that a firm is willing and able to sell at a given price over a given period of time.

(iii) Market Equilibrium:- Market equilibrium establishes at a point where demand and supply become equal to each other. It is denoted as:

$Q_d = Q_s$ (Point E)



(iv) Perfect Competition :- Perfect competition is a market structure characterized by the following key points:

1. Large number of buyers and sellers.
2. Free entry and exit.
3. Homogeneity of goods / commodity.
4. Complete information.
5. Mobility of factors of Production.

Factors :- (a) Land (b) Labour
(c) Capital (d) Organization

(v) Monopoly :- A specific situation of a market in which a single firm has complete authority to produce and sell of a commodity is called monopoly.

(vi) Normal goods :- Normal goods are those goods whose demand rises as people's income rise.

(vii) Inferior goods :- Inferior goods are those goods whose demand falls as people's incomes rise.

(viii) Price taker :- A person or firm with no power to be able to influence the market price.

(ix) Market economy :- A market economy is a system where businesses and individuals make economic decisions, like what to produce and how much to charge, based on supply and demand in a competitive market.

(x) Economy :- Economy means such organized set up of a country in which natural, human and artificial resources of a country are being utilized to produce goods and services.

(xi) Business strategy:- Business strategy is a collective decision or a planning process that helps entrepreneurs accomplish certain business goals.

In order to maintain operations, attract consumers, ensure a strong advantage in the market, and accomplish the firm's goals

Levels of business strategies are:

1. Corporate level strategy
2. Business level strategy
3. Functional level strategy

(xii) Cost leadership strategy:-

Businesses position themselves as a low-cost producer in the industry, offering products at lower price compared to competitors. The focus is on reducing costs through efficiency and economies of scale.

# Q.2

Write a comprehensive note on theory of demand?

Demand :- A specific quantity of commodity that purchased at a specific price is called demand. The concept of demand is based on :

(i) Will to purchase

(ii) Power to purchase

Law of demand :- Other things remaining same, when the price of a commodity increases its quantity demanded decreases and when the price of a commodity decreases its quantity demanded increases.

According to Alfred. Marshell :- Other things (remaining same, the quantity dema)" being equal with fall in price, the demand of the commodity is extended and with a rise in Price, demand is contracted.

The functional relationship between quantity demanded and the price of the commodity can be expressed as :

$$Q_d = f(P)$$

where $Q_d$ = Quantity demanded

$P$ = Price of the commodity

→ **Assumptions**

1. Constant Income :- The income of the consumer remains constant. If income of consumer increases, the quantity demanded of

consumer increases due to increase in purchasing power.

2. Constant Taste :- There is no change in the taste, habits and preferences of the consumer. By changing these factors, the demand of commodity changes.

3. Constant Prices of Substitutes :- There is no change in the prices of the substitutes. If the prices of substitutes decrease, the tendency of consumer changes towards substitutes.

4. Homogeneity :- All the units of commodity should be homogeneous. A consumer prefers superior units of a commodity.

5. Constant Circumstances :- It is assumed that circumstances are normal and there is no abnormal change in the circumstances.

→ **Explanation**

Regarding the assumptions, the standard demand equation is written as:

$$Q_d = a - bP$$

where 'a' and 'b' are parameters, while P and $Q_d$ are independent and dependent variables. The negative sign represents inverse relationship between P and $Q_d$.

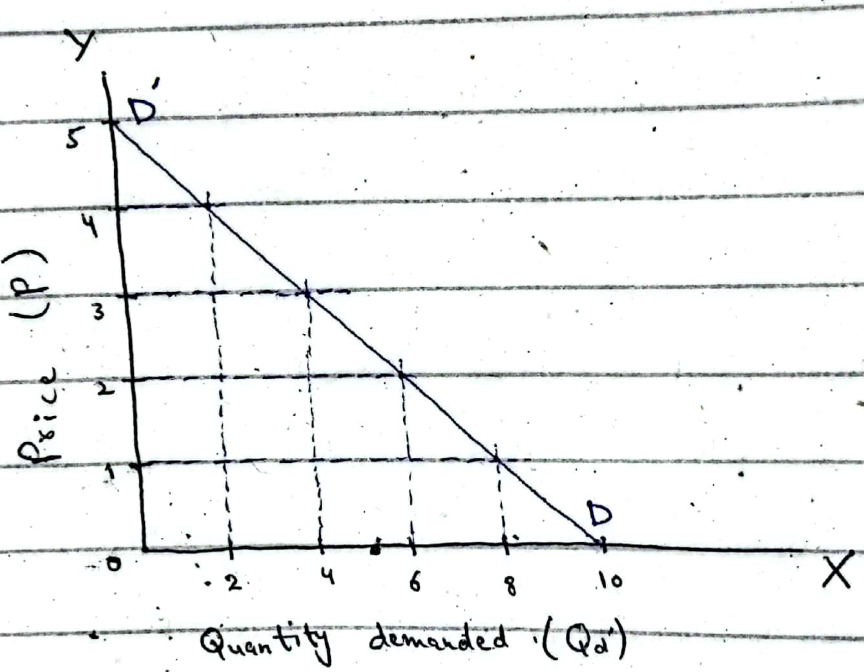
The demand function is explained with the help of following example:

$$Q_d = 10 - 2P$$

By assuming different values of P, we can calculate the different values of $Q_d$ as shown below:

| Price (P) | Quantity demanded ($Q_d$) |
|---|---|
| 0 | 10 |
| 1 | 8 |
| 2 | 6 |
| 3 | 4 |
| 4 | 2 |
| 5 | 0 |

The law of demand can be illustrated through the demand schedule as shown in the demand curve DD' in the following diagram:




→ <u>Limitations / Exceptions of Law of demand</u>

1. Change in Income :- If the income of consumer has gone up, he may be willing to buy more inspite of the rise in price of a commodity due to increase in purchasing power.

2. Change in Taste :- If the consumer's taste has undergone a change inspite of the price of a commodity falls. Then more may not be demanded.

3. Change in the Prices of Substitutes :- Due to the change in the prices of substitutes, the law of demand may not hold good. If the price of substitutes decreases, consumers divert their purchases towards this substitutes and the demand of original commodity decreases.

4. Discovery of Substitutes :- The discovery of cheap substitutes may decrease the demand of a commodity without the change in its price.

5. Natural Calamities :- The law of demand does not hold good in the time of natural calamities like war, floods, earthquake etc.

Aggregate demand :- Aggregate demand is the total level of spending on the country's products by consumers, by the government, by firms on investment and by people residing abroad.

Elasticity of demand / Price elasticity :-
The price elasticity is a measure of responsiveness in quantity demanded in corresponding to the change in price of a commodity.
It is written as:

$$E_p = \frac{\text{Proportionate change in quantity demanded}}{\text{Proportionate change in price}}$$

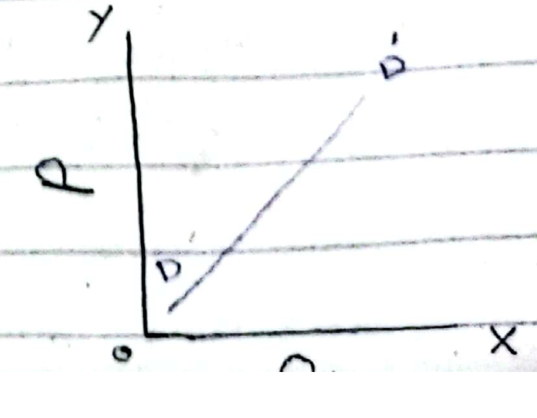
Cross elasticity of demand :- The rate of change in demand of 'b' commodity due to change in price of 'a' commodity is called cross elasticity of demand. It is measured by :

$$E_c = \frac{\Delta Q_b}{\Delta P_a} \cdot \frac{P_a}{Q_b}$$

Income elasticity of demand :- The rate of change in demand of a commodity due to change in income of consumer is called income elasticity of demand. It is measured by :

$$E_y = \frac{\Delta Q}{\Delta Y} \cdot \frac{Y}{Q}$$

Exceptional demand curve :- When demand increases due to rise in price of a commodity and decreases due to fall in price. The resultant curve is called exceptional demand curve.



UOS (BE-2020)

Q.1

(i) Business Ethics :- Business ethics in economics means doing business in a fair, honest, and responsible way. It involves making decisions that consider what's right and just, while also thinking about how these decisions effect everyone involved. The values and principles that shape business behaviour.

(ii) Business Economics :- Business economics is a field of applied economics that studies the financial, organizational, market related and environmental issues faced by corporations. It includes subjects such as concept of scarcity, product factors, distribution and consumption.

(iii) SME :- SME stands for small and medium size enterprises. In economics, SMEs refer to businesses that are smaller in size and typically have fewer employes and lower annual revenue compared to large corporations.

(iv) Law of demand :- "Other things remaining same, when the price of a commodity increases its quantity demanded decreases and when the price of a commodity decreases its quantity demanded increases."

$$Q_d = f(P)$$

Law of supply :- "Other things remaining same, if the price of a commodity increases its quantity supplied increases and if the price of a commodity decreases, quantity supplied also decreases".

$$Q_s = f(P)$$

(v) Sunk Cost :- A cost of acquiring an asset, whether tangible (e.g. plant) or intangible (e.g. reputation), which cannot be recouped by selling that asset or redeploying it to some other use. In simple words, costs that cannot be recouped (e.g. by transferring assets to other uses).

(vi) Subsidy :- A subsidy in economics is a financial help provided by the govt. to specific industries or individuals, aiming to encourage production or consumption of certain goods or services. The govt. might do this by giving money directly, lowering taxes, or offering other kinds of support.

(vii) Production:- Production is the transformation of inputs into outputs by firms in order to earn profit (or meet some other objective).

(viii) Monopoly:- A specific situation of a market in which a single firm has complete authority to produce and sell of a commodity is called monopoly.

(ix) Social Cost:- The social cost comprised of the private cost faced by the firm(s) from the production of any good or service plus any externalities of production (positive or negative).

(x) Industry:- Industry means a specific type of economic activity where goods or services are produced with in a particular section of the economy we categorize industries based on what they make or provide. In simple words, industry is a group of firms producing a particular product or service.

(xi) Cross elasticity of demand :- The rate of change in demand of 'b' commodity due to change in price of 'a' commodity is called cross elasticity of demand. It is measured by :

$$E_c = \frac{\Delta Q_b}{\Delta P_a} \cdot \frac{P_a}{Q_b}$$

(xii) Market :- The interaction between buyers and sellers, is called market. It is like a place or system where people buy and sell goods. It's where goods and services are traded, and prices are determined by how much people want something and how much of its availability.

(xiii) Externalities :- Costs or benefits of production or consumption experienced by society but not by the producers or consumers themselves. Sometimes referred to as 'spillover' or 'third-party' costs or benefits.

(xiv) GDP :- GDP stands for "Gross Domestic Product". It is the value of output produced within the country over a 12-month period.

GNP :- GNP stands for "Gross national product". It is the value of output produced (and incomes received) by ~~firms~~ residents of that country from the ownership of resources, wherever those resources are located. In other words:

GNP = GDP + net property income from abroad

(xv) Demand Forecasting:- It is the process of using predictive analysis of historical data to estimate and predict customers' future demand for a product or service. Demand forecasting helps the business make better-informed supply decisions that estimate the total sales and revenue for a future period of time.

(xvi) Household Consumption:- It refers to the total amount of goods and services that individuals and families buy and use to satisfy their needs and wants. It includes expenditures on items like food, clothing, housing and other everyday goods and services.