1 Elasticity of Demand

Q.1) Define elasticity of demand.

Rate of change in demand due to change in price of a good is called elasticity of demand. It is denoted by Ed.

Q.2) Write the formula of elasticity of demand.

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

Q.3) What is arc elasticity of demand.

When there is major change in demand and price of a good and we have to measure elasticity between two distinct points of a demand curve is called arc elasticity of demand. It's formula is

$$Ed = \frac{Q_1 - Q_2}{Q_1 + Q_2} \div \frac{P_1 - P_2}{P_1 + P_2}$$

Q.4) Define point elasticity of demand.

When there is very minor changes in demand and price of a good and two points on demand curve are so close to each other. It is called point elasticity of demand and its formula is

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

Q.5) What is 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

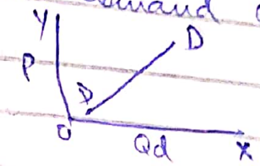
$$Ec = \frac{\Delta Qb}{\Delta Pa} \cdot \frac{Pa}{Qb}$$

Q.6) What do we mean by 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

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

Q.7) What is 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.



SUPPLY

Q.1) What is supply?
A specific quantity of a commodity that is sold at a specific price is called supply.

Q.2) Define supply function.
A mutual relationship between supply and price of a good is called supply function. i.e.
$Qs = f(P)$ (an increasing function)

Q.3) Differentiate between stock and supply.
Total quantity of a commodity that is kept by producer is called stock and a specific quantity that is provided by producer in market at a specific price is called supply.

Q.4) Define law of supply.
While other things remaining constant, quantity supplied increases due to rise in price of a good and supply decreases due to fall in price of a good.

Q.5) Write names of types of supply w.r.t. time period.
i- Fixed Supply
ii- Short period Supply.
iii- ... Supply.

Q.6) What is reserve price?

It is the minimum acceptable price at which the seller is willing to sell the commodity.

Q.7) Define composite supply.

Sometimes there are different sources of supply of a good. The sum total of supply from all the available resources, we get composite supply. e.g. meat from sheep, goat, chicken, fish etc.

Q.8) What do we mean by joint supply?

Some goods are jointly produced. Thus an increase in supply of a good results a rise in supply of the other good and vice versa. e.g. meat with wool.

Q.9) What is competitive supply?

Supply of some goods compete with each other when there are more than one uses. If supply is increased in one use, it's supply for the other use will become less. e.g. supply of electricity for domestic, commercial or industrial use.

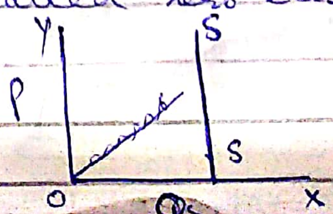
Q.10) Define elasticity of supply.

The rate of change in supply of a good due to change in its price is called elasticity of demand.

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

Q.11) What is zero elasticity of demand?

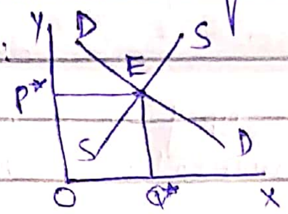
If there is no change in supply of a good due to change in price is called zero elasticity of demand. Its curve is



Q.12) What is market equilibrium or demand and supply equilibrium?

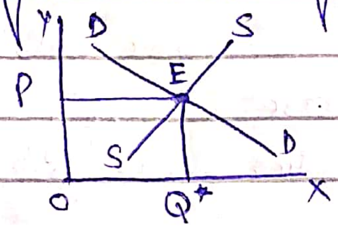
Market equilibrium establishes at a point where demand and supply become equal to each other. It is denoted as:

$Qd = Qs.$ (point E)



Q.13) What is equilibrium price?

The quantity at equilibrium point of market is known as equilibrium quantity. i.e. OQ^* in diagram.



Q.14) Define equilibrium price.

The price at equilibrium point of market is called equilibrium price. i.e. OP^*