

- Nothing is free, someone has paid for it
- Fundamentally, everything is ^{relatively} scarce (at some point of time)
- We're bounded rational
- smoking: don't think rational always
- Economics is full of assumptions because human behavior is very complex
- Price \propto demand
 ↓
 cause effect

- Production Possibility
- Now days, role of private sector is greater than the govt. in the economic system.

- We have a market friendly system.
- US: economical system: Capitalism (Democracy)
 (presence of govt. is negligible & private sector work in market with sole purpose of money)

-India: ~~govt.~~ economical system: Mixed
 (Both govt. & private sectors are involved)

- It depends on society structure what type of things (comfort, luxury, etc.)

- Command type: govt. decides everything of economies

- Economic system: needed to solve the economic problems.

- Price \propto Supply

- Where supply & demand price meet: transaction occurs

Teacher's Signature

- Demand : by consumer
 - Supplier : by producer
 - Whenever they agree to accept their contradictory views, market transaction takes place.
 - Income & Demand
 - Substitutes demand no price effect karta h.
 - Secondly : Income
 - Then, we try to find its substitute.
 - Third thing : availability of substitute
 - Technological innovation can change the production possibility.
 - Law of diminishing returns : however much you try, the o/p won't ↑ after a certain point (saturation point)
 - Google : tech. company (multinational)
Product : Services
 - TCS, Tata Motors : Indian Multinationals
 - Registered but don't share in Private Ltd. companies
" & sell their share in Public
 - Now days, due to tech., 1st unit's cost is very much, but next one ~~hardly~~ costs as raw materials.
- Eg. pharma companies
Marginal cost for next unit is almost zero.

Teacher's Signature

→ Tech. companies have experienced exponential growth. whereas traditional " grow in an algebraic fashion
Tech. : chance of fading out is also very much.

→ Value of money decrease with time
difference \Rightarrow discount
b/w values

~~Technology~~

→ Market : 1) whether product is alike or different
2) no. of seller & consumer
3) can we make entry or exit in market easily.

Monopolistic : they think they've monopoly but they've competition.

→ where tech. change is more, competition is more.

→ when one party has complete info. & other parties has no info. \rightarrow market failure

Over supply or Under supply \rightarrow market failure

Mid sem : 30 %

End sem : 50 %

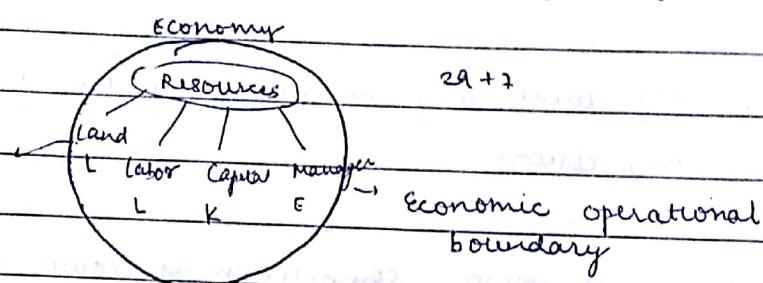
Quiz / Assignment : 20 %

Introduction

- Economics is - how you manage all your resources (in optimal way)
- One problem in every resource management :- Scarcity.
- Economics starts with 1st step, ie., scarcity.
- Every economy is facing such problem.

↓
place where goods & services are being produced & consumed

Indian economy : It is made up of economic agents
(like India is made up of citizens)



Economic agents :

1. Consumer / Household
2. Producer / Firm *(* Firm is also consumer sometimes, but its primary job is to produce)*
3. Government : A producer as well as a consumer
HP petroleum buys S/W

* These Economic agents do some work called Economic activities.

- | | | Activities |
|----------------|---|--|
| 1. Consumer | → | Consumption <i>(we buy only those goods which give some satisfaction to us/ have use associated to us)</i> |
| 2. Producer | → | Production (supply) |
| 3. Govt. (c/p) | → | Exchange (Transaction) <i>[process of buying and selling]</i> |

individual context : supply / Demand

overall : Prodⁿ / Consumⁿ

Teacher's Signature

- * Good pricing
- | | | |
|-------------------|---|-----------------------------|
| Price of L → Rent | ↓ | If scarce : value will be ↑ |
| L → Wage | | abundant : |
| K → Interest | | |
- award of E → Profit / Loss
- DATE: / / PAGE NO.:
- Index of Industrial Production : IIP ↑ \Rightarrow GDP ↑
 Prod' is gazed by IIP, GDP in broader way.
- Production :- They produce only what is in demand
- Govt. is also producing goods as well as services
 ↓ can touch ↓ can only be experienced
 (can use some goods to obtain the experience)
- Goods + services = Commodity
- 1) Commodity pricing : Price of a Commodity
- 2) Factor pricing : Price of factors of production
 ↓
 L L K E
- Resources : Factors of Production :-
- Land : Natural Resources (Resources over earth & under earth)
- labor : People who work.
- Capital : Resources which are man-made through which we can make another object / use it for some other thing.
- Entrepreneur : One who manages all the resources.
 (CEO Manager)
- system : defined process
 economic runs through a set of beliefs & rules :-
 economic system.
- Every economy has its own system.
- Throughout the world, 3 economic systems exist :
1. Capitalism / Capitalist economy : USA / Japan
 (1) (3)
 2. Socialism (Resources commonly & equally distributed : Cuba Teacher's Signature)

Communism

DATE : / /
PAGE NO. :

3. Mixed economic system : India

(Both govt. & private sector are involved)

decision for economy is taken by :  Capitalism

- or
- ↳ Individuals : → market (Demand & Supply)
(Private sector) Market is going to be free bird, govt's role is very limited.
 - ↳ Government : →

→ Socialism

→ It is hard to implement socialism, don't give economic success

→ Communism is fine version of socialism

→ Private sector only works with 1 motto : Profit

Capitalism : Only profit

Socialism : Only equality

Mixed eco. system : Welfare as well as profit

→ Economic system also includes Economic policies

Economic policies : by Monetary Authority / RBI

1. Monetary (Money management part) Price of Money ↓ ↑ (Rate of Interest)

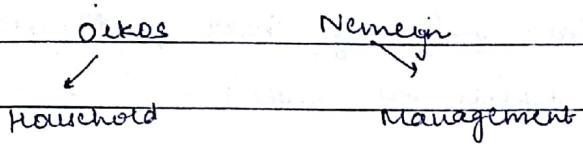
2. Fiscal policy (govt. expenses, govt. taxation)
concerns

* There could be trade policy also ⇒ International level pc.

Origin of economics :

Originated from Politics → Economics → Commerce → Management

literal meaning :



→ economics is also decision-making sense.

→ Resource : if not scarce : free

if scarce : Economic resource

→ Need : which is primary, intense, can't be postponed.

Want : . . . not " " , can . . .

→ Lost some Opportunity : Opportunity Cost (Trade off)
(made some choice)

→ Trade : import / export . Better off : good quality
and lower price
Trade can bring prosperity. It depends on policies.

→ whichever has price tag is scarce.

→ Jitna jyaada scarce, utna jyaada price

→ Every resource is relatively scarce.

slide ⇒ We are discussing scarce in terms of price tags

Teacher's Signature

Why study Economics?

- People respond to incentives - self interest.
 - But decisions are made at margin (Kaash mai yeh kar leta ---)
- You always compare marginal cost and marginal benefit.
 (Buy 2 get 1 free) [When you buy next prodⁿ unit, how it benefits & how it affects the costs)

~~11/11/18~~

- No free lunch: Every transⁿ comes with some money.
- Efficient market: One thing which is available to you will be available to everyone after some time.
 Market rewards everybody. Only thing, some people get access fast, and some after some time.
- Market rewards you when you pay. Sometimes, someone else pays for you.
- Trade-off: Opportunity cost
- Rationality is also bounded.
- Ceteris paribus: Economic analysis is made up of some assumptions. Price does affect the transⁿ.
 Assumptions are there to simplify economic phenomenon. Other variables but one-to-one. Otherwise, we won't be able to come to a result.
 If we allow all factors to change, it'll be hard to predict why one demand has changed.

Other reasons:-

- To understand society
- To understand current global affairs
- Single Brand Retail & Multi brand Retail

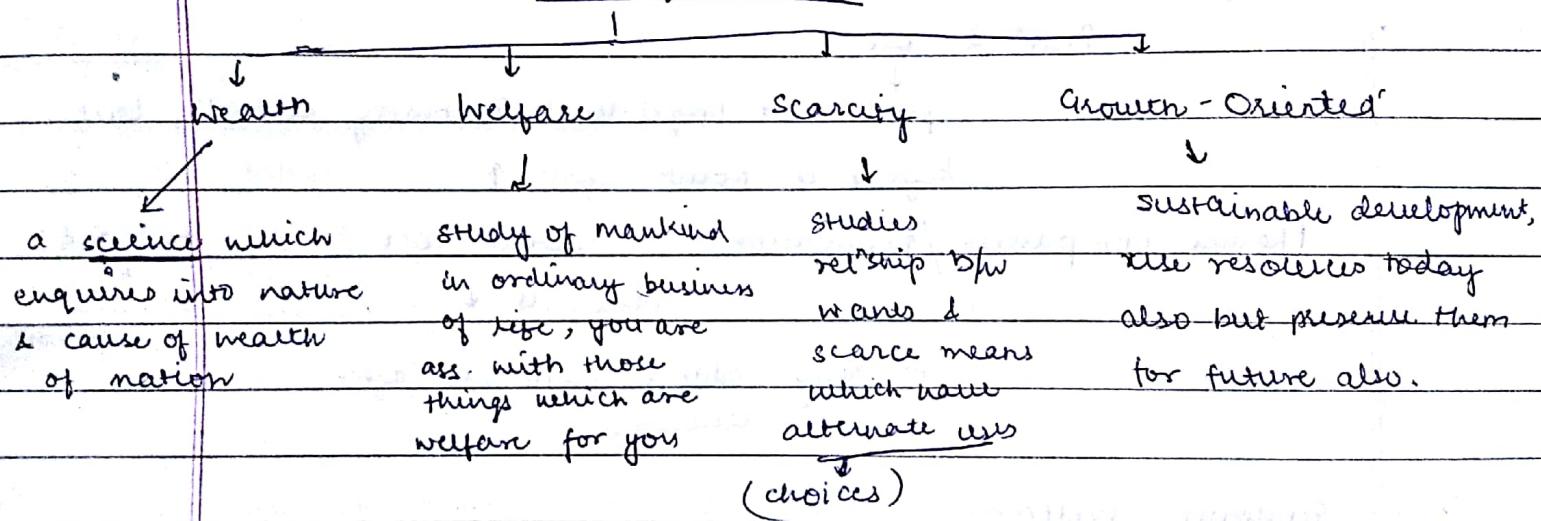
India & China: source of economy

Oil Pool Deficit: Oil was subsidised

(Cost was same, logs were given by govt. in last. Now, it is market driven)

- Indirect tax : don't realise how given tax, very small amount
- rupee depreciation : People are giving more money to buy 1 dollar
- Sunrise Sector : Energy (Renewable)
 - Key demand in future, & it don't create polⁿ, env.-friendly
- Govt. is more focusing on economic growth than growth of people ; unemployment
- Behavioral Economics : How to motivate people in achieving govt.'s goals.
- Eco. → hard to define in bounds, defⁿ changes with time

Def's of Economics



- Earlier, a country was considered powerful if it had more wealth
- Welfare : attainment of satisfacⁿ, well-being
Wealth is not associated with welfare.
- Watching a movie is an example of 'Consumption'. True

Scope of Eco.

- 1) Micro :- individual entities such as market, firms & households
 - Market in local area

Teacher's Signature

recession : for 6 months, compare with last 3 months in terms of data, then 6 months : growth rate comparison
if less, it is called recession. Economic performance ↓ continuously for 2 quarters.

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2) Macro :- aggregate (entire economy)

↳ severe form of recession : depression.

→ Every social dimension has an economic dimension also.

→ From aeroplane, everything appears small : Micro

Coming to land, study larger aspect of

they look the same same thing : Macro

Micro :-

Theory of consumer behavior

Prod" & Cost :

↓
produce at larger level. Initially cost ↓, but beyond a point cost ↑

Pharma companies / innovation : Initial cost ↑ due to R&D, later, it ↓ Research & development

↳ only adding features after developing

Economic Welfare

Use resources s.t. neither you nor next gen" is hungry.

Macro :-

Income & Employment

Consum" & Investment → Risk capacity

Consum" & Income → Rate of Interest

Initially, Consum" ↑, Income ↓

Lastly

$$\text{Income} - \text{Consum"} = \underline{\text{Saving}}$$

Teacher's Signature

Scanned by CamScanner

→ For inflation, demand is not the solo cause

e.g.) worker strike \rightarrow wages \uparrow

cost is pushing price up: cost push

2) wheat prodⁿ \downarrow due to climatic condⁿ

credit card: higher consum^p irrespective of income.

→ general price level: inflation, deflation

→ growth is prerequisite for development

O/p $\uparrow \rightarrow$ growth \uparrow

→ international trade: export / import \Rightarrow currency exchange rate also affects
services which are in excess
IT services $\downarrow \uparrow$

These advantages may be acquired.

16/1/18

→ Micro is more concerned about the price variable
→ Macro " " " income.

• Theory of Income & Employment

Income $\downarrow \Rightarrow$ Employment \downarrow

• Rate of Interest $\downarrow \leftarrow$ Investment

\downarrow

Expected profit $\uparrow \Rightarrow$ Investment \uparrow

• Theory of business cycles

As our mood don't remain same, economy also

experiences diff. phases - growth, depression, etc., recession

Inflation

Cost push

Demand pull

Teacher's Signature

→ Rise in income is known as growth

✓
quantitative variable

development :- quantitative as well as qualitative

→ Micro : Slicing method : Just cut a part & examine it

→ micro : My behavior won't influence any other thing

Macro : My behavior will change other things
(If I don't buy, demand ↓)

→ Micro : Objective : allocation of resources

Macro : Full employment & growth
utilize land, labor, capital
completely

→ Quality of Analysis :

Micro : Simple & easy : Because we make assumptions
(observe change in 1 thing keeping
other variables const. \Rightarrow One-to-One)

slide 30

① Macro

② Micro (single Product)

③ I

④ A

⑤ I

⑥ A

slide 31

Supply : const

Demand : depends on price of ticket

Supply : can be affected if some seats are reserved for
BCCI officials.

Monopolistic : You've sole control. (Yes)

Teacher's Signature

→ At time of elections, there is a momentum in economy market

Logic of Economics

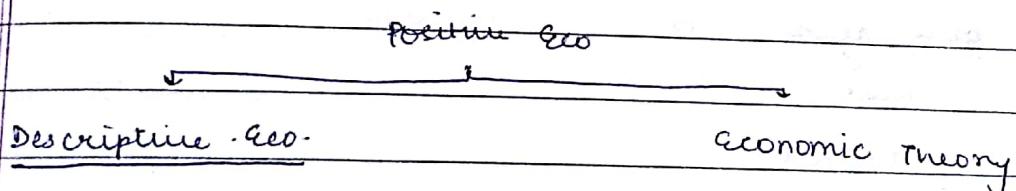
We assume price is independent variable & demand is dependent variable.

First, price will change, then demand will change.

- i) Positive science : give factual details as it is.
(away from value-judgement & emotions)
- ii) Normative science : sharing your own opinions (subjective)

Economics is +ve science.

Economic model : uses +ve facts



- jo bhi hum data (only) describe karte h
- Economy of Raj. : eg.
- Saha sing theory discuss ho
- Macro / Micro are eg. of this

Fallacies : Improper conclusion

- 1. Post-hoc fallacy
 - 2. Fallacy of Composition
- Black cat crossed. If something wrong occurred, & we assume 1st event caused 2nd event (become superstition)
- What is true for a part is also true for a whole.
eg. you meet a good person & assume that everyone is good over there (generalisation)

Teacher's Signature

- Fallacy of comp' : if everyone saves, it'll be bad for economy
- * A society which tries to save more will end up saving less.
Saving ↑ \Rightarrow I/p ↓ \Rightarrow Demand ↓ \Rightarrow O/p ↓ \Rightarrow saving ultimately ↓
- Laissez-faire : very little intervention of govt. in the economy
 ↳ Market economy / Capitalism
- Consolidation : weak merges into stronger in the market

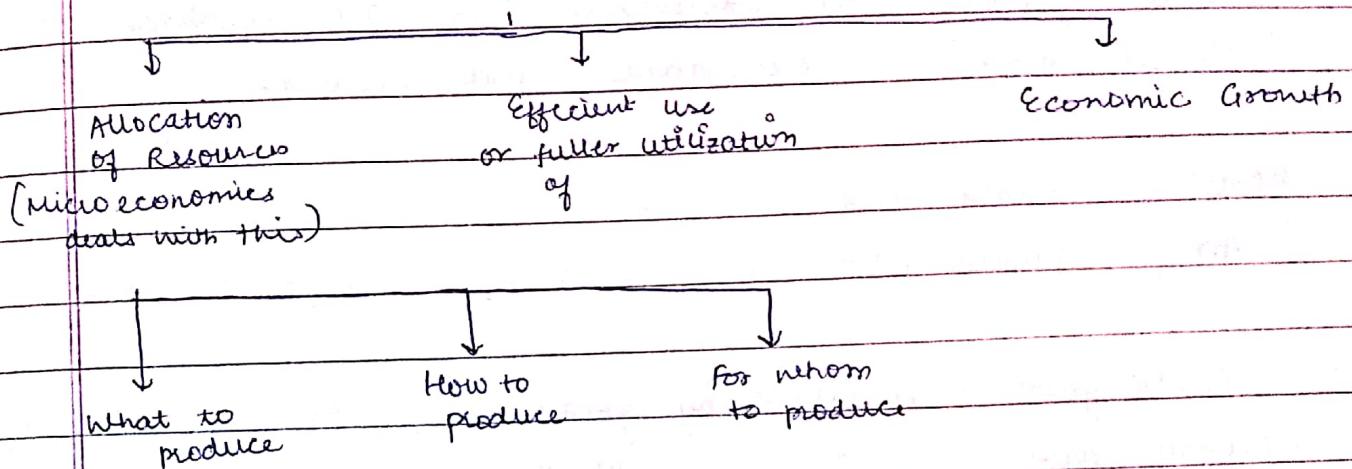
118 Factors of Production :-

- Acquiring land will take some time
- Have to give reward to
 - ↙ Land - Rent
 - Capital - Interest
 - Labor - Wages
- All these resources are limited.
- Today you try to satisfy them, tomorrow, they will again crop-up
- Resources are being scarce \rightarrow They have alternate uses which requires making choice which may cause economic problems

Resource \rightarrow Scarce \rightarrow Alternative \rightarrow choice \rightarrow Economic problems
use

- Resources are relatively scarcity.

- when you make a choice, other option is sacrificed \Rightarrow decision making
- the world is full of these chot economic problems. (common everywhere in world) \rightarrow named Basic / General Problem



→ 1st gen. Entrepreneur Eg.

2nd gen. Entrepreneur 1st gen. already in this field
Eg. Tata, Reliance, Aditya Birla Group

① What to produce

a) public goods v/s private goods

↓

enjoyed by all

Eg. Doordarshan, defence, police

park \rightarrow congestible public good

(if lot of people in park \rightarrow congestion occurs)

no-one is excluded \Rightarrow non-excludable property

simultaneously equally available to all \Rightarrow non-rivalry

(everyone can watch Doordarshan at same time)

Teacher's Signature

→ Go to mall, stock of jacket already sold out, you curse them : creates rivalry. \Rightarrow private goods

↓
pay for them and then enjoy
them

like to enjoy these things

Public good : non-excludable and non-rivalry

Private good : excludable and rivalry

Pollⁿ : public bad

Air : Public good

Public good : provided by govt.

private good : " " private sector

b) Necessity v/s luxury goods → derive pleasure out of them
Eg. SUV, sports car

Comfortable goods : which provide comfort
Eg. AC, Cooler, Generator

Necessity : basic needs

c) military v/s civilian goods

② How to produce ?

talks ~~by~~ of techniques of prodⁿ



depends on availability of resources

↳ Labour intensive v/s Capital intensive tech.



popⁿ ↑, advanced countries use this

popⁿ ↑, unemployment ↓

Eg. India

Should 'n' money Teacher's Signature

③ Whom - Rich v/s Poor

- Does society have more rich or more poor.
depends on distribution of wealth & income into society
- Services will flourish in poor areas.

Efficient use: used in optimal way for what they're meant to be
shouldn't be underutilized / wasted.

Economic Development or Growth of Resources : Prime Problem
↳ have to grow the resources
↳ country will grow, also, it'll be available for next gen".
↳ ↑ size of economy.
⇒ Sustainable development

Slide 53 Serum Institute: supply medicines to
↳ Not listed company ↳ contributes to UNICEF
Ltd.
Private company : shares not available in stock market

Slide 54 57 people = 70% pop of India

Typical employee : employee with lowest wage

Socialism : very difficult to allocate resources equally.
to make everyone equal.

Revised form of Socialism : Communism
socially ideology as well as political ideology

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Market Economies :

- o What to produce : depends on consumers.
- o How : determined by producer seeking profits
- o For whom : determined by purchasing power.
(Paisa hogta toh le kenge)

→ Doing for self-interest

command / Planned Economics : Korea, Vietnam,
↳ Regulated

→ Where private institution fails, govt. has to come forward.

Mixed Economy : India, Poland

- o What : partly by consumer partly by govt.
- o How : " producer " "
- o For whom : " purchasing power " "

Slide 60 : ① How

②

③ Whom

Merit goods : which should be produced 1st.

④ How

⑤ How

→ Availability of Resources will affect Production Possibility

Self Interest in the Social Interest

- A choice will be social interest if it leads to an outcome is best for society. But then, it's purely accidental.
- If we do after thinking, it'll be a well-thought process.
- efficiency : Using resources in optimized way
equality : Everyone gets equal share of resource
- Whatever choice you are making, it should result into efficiency & fair use of resources.

slide 63

- ① Free Market : Market without any control / with some control
- ② B.Tech. :- Taking education for yourself. If society also gets some benefit \Rightarrow social interest. But it'll be purely accidental because firstly, you look for your benefit. Social interest is byproduct of self interest.
- ③ Climate change, Terrorist : Some Common Problems

64/65

Slide 64 Examples

- ① Globalisation : Integration of your economic life with other economic lives. Possible due to tech., mobilisation, flow of money, etc. In self interest of consumer getting good at lower price from outer market. Because they have efficiency.

- MNC : Identify low cost region, produce there & sell in high-cost region.

3rd point

- choice you made for your self-interest hasn't promoted social interest. Unemployment of UK labor due to giving job to lower-wage labour in India.

Teacher's Signature

→ Market is not much efficient. Market doesn't know where to complete of info. (both buyer & producer) about each other

→ Market ^{works for} always self-interest

② Information - Age Economy

slide 68

③ No

④ No : aren't doing for Charity

→ Govt. : → too much tax b/c charita h : because it works for Social Interest

Profit :- self-Interest

Welfare :- ~~so~~ Social - Interest

Production Possibility Curve / Frontier

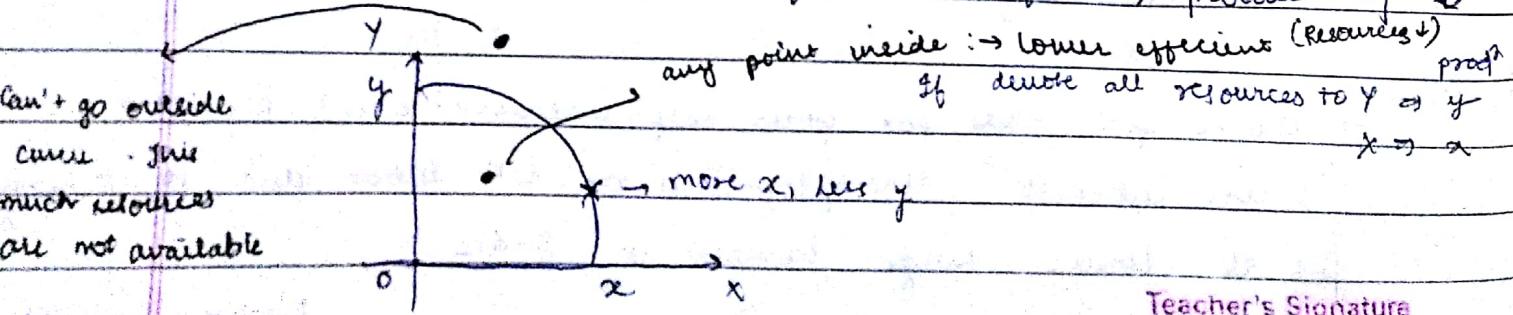
→ max^m quantity of goods (or combⁿ of goods) that can be efficiently produced by an economy, given its tech. knowledge & qty. of available i/p's.

Assump's:

④ → can drive car, can't ~~drive~~ fly a plane

Resource are not equally efficient in "prod" of all products

so, when resources are transferred, productivity ↓



Teacher's Signature

\Rightarrow we've to remain on curve

→ More of $y \Rightarrow$ More of x & vice-versa. — ①

Guns → military goods

Butter → Consumer goods

- 1.) slopes downwards \Rightarrow ①

- 2.) Concave shaped

1. Poor Nation to High Income Nation

↓ ↓
make choice b/w B → more of luxuries &
necessities & luxuries less of necessities

~~With rice in unc~~

Income \propto 1
Necessity

Income \propto luxury

2. Backward Society vs Urban Society

Private goods ↑

public n. & s.

$B \rightarrow$ more of public good Public goods:

as well as most of private goods entitled to have them even if you don't pay.

- *) For certain goods, there ~~are~~^{is} no market

Market can't fix price for clear air.

(cont.)

→ Urban : Environment as focus ↑

→ Poor Countries : treated as dumpyard

(can throw anything anywhere)

→ Advanced : choose to buy environmental friendly ,

Nature

~~costly~~ good even though it's more costly.

Teacher's Signature

3. Today's choices v/s Future Consequences

A₁ : using everything

A₂ : Using as well as investing for future

A₃ : " more "

B₁ : same post" as A₁

B₂ : consump" ↑ as well as investment ↑

B₃ : " ↑ ↑

Current consump" only decides future consump"

slide 80 :

① Take shift inside
capacity is not utilised.
~~post~~ is not go

② All agree no gaps inside shift
resources available ↓

③ shift outer : create demand for other sectors
toilet banana h → cement, tiles, sanitary, ...
demand ↑

* * Opportunity Cost

↳ The other alternative that you've sacrificed

↳ Hard to measure (quantify)

Marginal Analysis:

↳ Do we've to build 1 more additional unit or not.

↳ Net add" to total

↳ change in 1 unit will result in
+ve / -ve impact

Teacher's Signature

Slide 83

- (1) Land - Plant
- Labor - Technician, Manager
- Capital - Machinery

(2) Tala nano bana. rakhne h, toh Indira / truck nahi ban rha h

(3) Resources limited

Indira / truck can't be produced simultaneously

Slide 84

(1) Long hrs. of sunshine & sandy beaches,

(2) Land - Beach

Labor - Tour Operator

Capital - Office, Comp. jis se ticket book kara.

(3) Economic good - Package

(4) Free good - Sunshine

(5) Using for tourism, can't do for any other thing
going to beach, not for sight seeing (maybe)

Teacher's Signature

2. Demand - Supply

↳ based on Consumer Behavior

→ Utility : perceived value of satisfaction (beginning)

Satisfaction : realized (end-results)

• Nudging : you find various policies s.t. people's behavior align according to the policy.

would the behavior of people rather than forcing it

→ Utility : beginning point of consuming

Desire : Wishful thinking

Want :

To make a demand, we require desire, willingness ~~want~~,
ability to buy (to spent money)

Desire + willingness + Ability to Pay = Demand

⇒ Quantity demanded : have to give the quantity in (describe)
price and time frame.

We can't simply say there is a demand. We've to quantify it.

→ Demand of any product is affected by certain factors:

① Price of a commodity ($\propto \frac{1}{\text{Demand}}$) [For most of goods] (but not vice versa)

② Price of Related Goods: with same nature of good

↳ Substitute : Look for other version, if a product is costly.
Price of Tata Tea ↑, Demand of Red Rose ↑

↳ Complementary : Require each other. Without one, other won't func'.

(if price of laptop ↑, demand of OS will ↓)

Teacher's Signature

price → interplay b/w demand & supply

(→ reinforcement is necessary for demand)

DATE:	/ /
PAGE NO.:	

③ Income of the Consumer:

Income \propto Demand of Normal Goods
↓
Inferior Goods

secondary factor

④ Tastes & Preferences

⑤ Consumer Expectations:

Buy today because it may rise even more tomorrow

Even today, it is costly (Eg. Jewellery)

⑥ Advertisement Effects

⑦ Climate and weather cond's

⑧ Population: depends on the structure of pop'

↳ population growth

→ There's some diff. b/w factors affecting Individual Demand and Market Demand (Context is changed.)

→ Factors affecting Market Demand:

① Price

② Distn.

③ Sales technique:

fragrance products, demo of 4-wheeler, etc.

Slide 7

→ Price

→ (Automatic facilities)

→ Substitute

Complementary: → Look for price of petrol & diesel

→ Income

→ Climatic cond's (Hilly areas: Jeeps)

→ Pop'

→ Advertisement

Teacher's Signature

→ LED TVs

- Price
- Price of Related goods:
 - substitute: P_{sub}
 - complementary: STB, electricity
- Income
- Weather & Climatic Cond's.
(Though it can work anywhere in geographical area)
- Seasonal factors
(Shaadi, Diwali)

31-1-18

$$q_d = f(P, P_o, Y, T, C, PP^n, \dots)$$

↓ independent variable

① $q_d = f(P)$ → Price \rightarrow Change in quantity demanded (q_d)
all other factors: const.

OR

② $q_d = f(\bar{P}, P_o, Y, \dots)$ → Price = const

↓
Change in demand
all other factors will change
but only ↑ at a time
(not simultaneously)

Change in Price: ↕

Movement of Price

Upward

(affect demand
- very)

↑

contraction
of demand

Downward

(affect demand
+ very)

↑

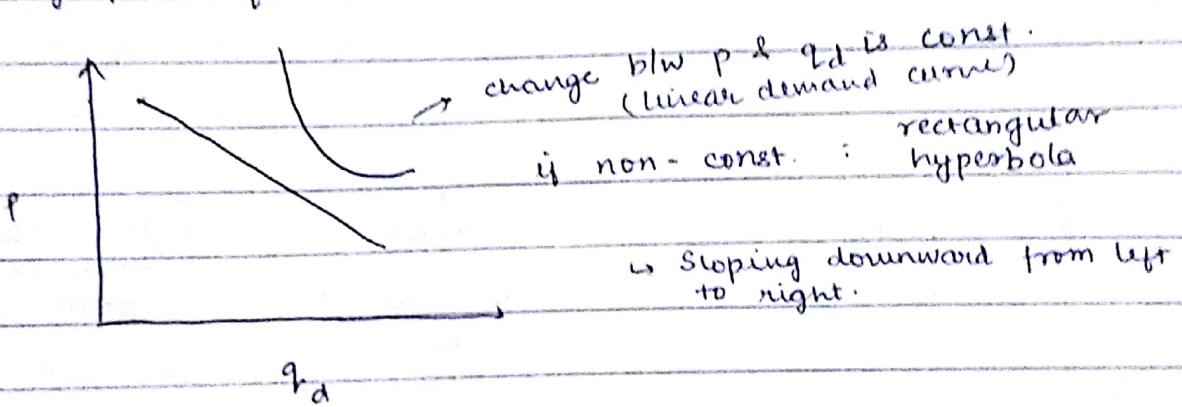
Expansion
of demand

Demand Schedule (Table):

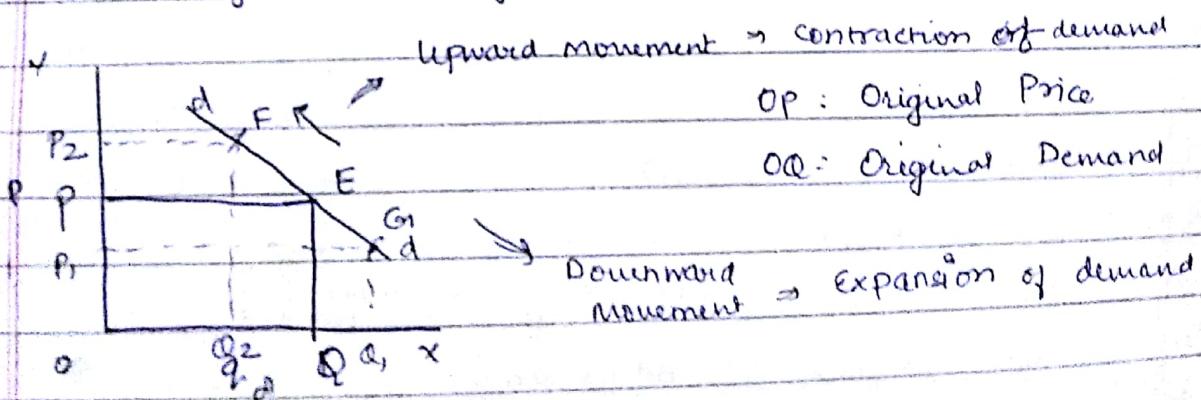
P	Q_d
5	1
4	2
3	3
2	4
1	5

$$P \propto \frac{1}{Q_d}$$

in graphical format : Demand Curve



→ B Only Price Changes



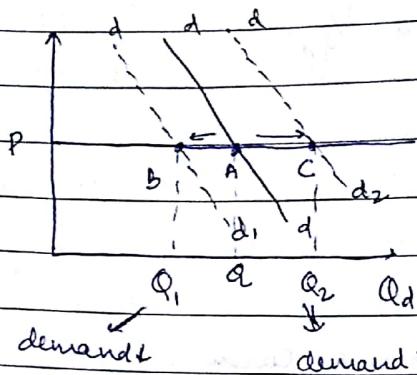
⇒ change in demand : \rightarrow Shift (towards left/right)
(factors other than Price affect demand)

Teacher's Signature

Increase in demand
↓

factors other than price

"change in Demand" graph :



Shift

Left
decrease
in demand

right
increase in
demand

[Price had
remained the
same]

Slide 11

(1) Movement (downwards)

(2)

(3) Shift (right)

(4) Movement (downwards)

(5) Shift (Right) : due to govt. policy

(6) Shift (left) [Eg.: News in newspaper against some brand]

(7) Shift (Right) → Advertisement

(8) Rise & fall : movement
increase & decrease : shift

rise = downward

(9) a. Shift : tea & coffee are substitutes

b. Shift

c. Shift

d. Shift

e. Movement

choose anything
but remain satisfied \Rightarrow you're
indifferent

DATE:	/ /
PAGE NO.:	

Normal goods : where income is involved.

- \rightarrow law of Demand doesn't work for necessary things.
 \hookrightarrow works for luxury goods

Why Demand curve slope downwards?

- Consumer Behavior
- ① Law of diminishing marginal utility
For 1st \Rightarrow product, you'll buy at higher price. For 2nd time,
you won't buy the product at same price. Because it
won't give you same satisfaction
- \hookrightarrow successive units of consumption will give you lesser & lesser
satisfaction
- \hookrightarrow More you've, less you'll want to have.
for 2nd unit, you quote lower price.
So, demand curve slope downwards

01-2-18

- ② Income Effect:
Rise in income : Actual no rise, due to price ↑,
 \Rightarrow demand curve will slope downwards
- ③ Substitution effect : Substitute when a product's price ↑ &
other remain unchanged.
Price of 1 has gone up, Other remains same : to be cheaper
- It is because
- ④ Entry & Exit of New Customers
whenever price ↑, you'll find entry of new customer
- Eg. JIO graph
- Entry : closer to x axis
- Exit : closer to y axis

Teacher's Signature

It is consequence of Price only

Price \rightarrow independent variable

$q_d \rightarrow$ dependent variable

⑤ various uses -

use it more \rightarrow when price ↓ (buying a good)

use it less \rightarrow when price ↑
(essential purpose only)

Eg. Electricity, sugar, milk

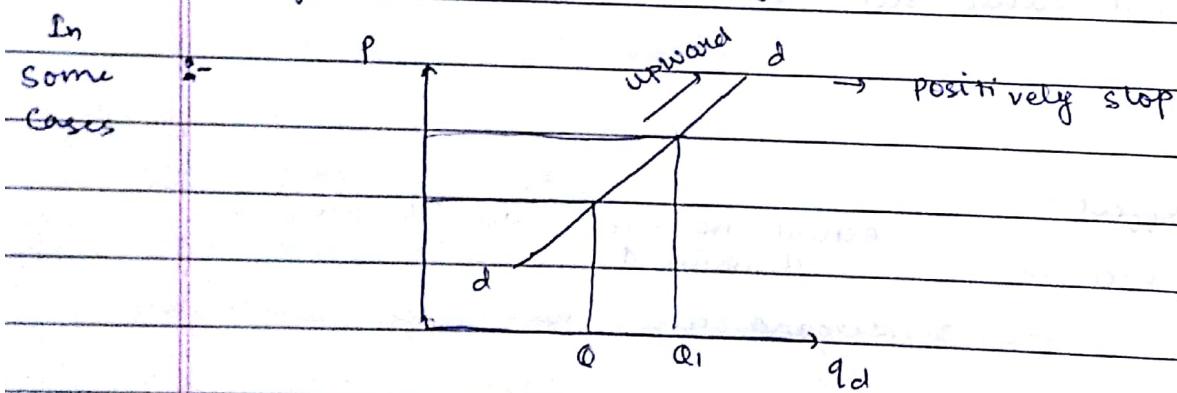
If it was a restricted use, then demand will be limited.

Eg. TV : has restricted use (in households \rightarrow for entertainments)

Plate / utensil : has limited use (not variety of use)

Bags

Watch : limited use



As price ↑, demand ↑

Exceptions of the Law

① Giffen / Inferior Good :

Ireland : Eat

Bread meat
people

As Price of Bread ↑, started buying ↑

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Scanned by CamScanner

Affin : There's an income effect, ^{not substitution effect}
dominant

Inferior : a substitution effect
dominant

DATE:	/ /
PAGE NO.:	

Bread doesn't have a substitute. so, their principal consumption is same.

Reason: Bread & meat are goods which a worker is consuming. ^{to complete dietary consum.}

Obvio, Price (Bread) \ll Price (Meat)

As Price (Bread) $\downarrow \Rightarrow$ ^{real} Price Income \uparrow
 \Downarrow spending power \uparrow

dietary requirement : fixed

Rather than buying more bread, I'll buy same amount of bread & from remaining income, I'll buy more meat

(Bread) Price \uparrow : To get dietary requirement \Downarrow

Buy more ^{paasi} bread.

Meat already ^{pasai} : Meat se nikalke bhi isme expensue daal denge.

↳ There's a proportional consumption of Meat & Bread.

Worker will try to eat bread first & then meat.

→ Inferior Good:

Ameer log : Dhaba food is treated as inferior

5 star hotel : superior good

As your income \uparrow , you'll start substituting for superior goods

→ All ciffin goods ~~can~~ be inferior goods but not vice-versa

being principal in consumption
spend majority of income in buying them, don't have much substitute

Bajra : Ciffin good \Rightarrow Inferior good
(wheat price \uparrow)

Inferior \nrightarrow Ciffin
not necessary in life

Teacher's Signature

* Meat isn't substitute of bread. It's spending additional money on buying goods which are not substitute.

DATE: / /
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↳ Income effect is visible in both cases

(2) Articles of Distinction :

Some goods are bought just for status symbol.

when price ↑ → you'll buy it more

because you want to be different

1) Veblen Effect : associated with social prestige
↳ jab tak mehenga se mehenga na ho, to tak lexa nahi h

* 2) Demonstration Effect : Apko padesi ke paas h = apko bhi wahi chahye

* 3) Snob effect / Snob Appeal : Iske pass jo hai wo mere paas nahi hona chahye & nice - versa.

Reason : You want to be unique

What I have in my possession shouldn't be owned by others

Eg. Perfume

Eg. Women don't want to wear same clothes.

③ Necessities of life : Some quantity is definitely going to be bought

Q → Q₁ : jo q_d ↑ ho raha h : consider it for masses for which it is necessary

Foodgrain : Necessity

Wheat : narrowing down → Giffin good

④ Future Expectations regarding change in price :

Eg. Chinese Olympics : Due to making stadium, etc. demand of steel ↑

Gulf War : Price of Oil ↑

→ If Trump declared war on North Korea :-

Price of Oil will ↑ (already ↑, it'll further)

→ You feel ki koi aur jyada badh sektा h.

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more you'll be buying at high price

④ Ignorance / Illusion : Buy with feeling it must be good.

Try to associate price with utility.

However, actual experience may be different.

due to Ignorance / Illusion, you end up buying ~~at~~ at high price.

⑤ Abnormal Conditions

e.g. War, Flood

Slide 20 : economic indicator slow down: \Rightarrow contraction of demand

Education, Marriage, Medical :- These are recession-free

These aren't hit by economic good

* It need by many people: \therefore demand will be affected.

1. Demand will \downarrow Otherwise, not

2. " demand from rich segment

3. Won't get affected $\left\{ \begin{array}{l} \text{Hum to nth knowledge par jo khared sketch wo} \\ \text{khared huge} \end{array} \right\}$

4. " "

5. Demand \downarrow

6. "

Slide 21

Demand

1. ↑ (substitute)
other brand of

2. Either, Coffee or Tea (substitute)

3.

4. Mobile, Price, Complementary, Income, Company, Ad, Pop", Taste, climatic

5. Ice cream : Seasonal Demand

6. It is exception

7. a) demand ↑

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- b) demand ↓
 - c) "
 - d) electronics & cosmetics aren't related with each other
 - e) demand ↑

6/218

→ Law of Demand gives direction of change of demand

Elasticity of Demand :

- tells about magnitude of the change
 - If price is changed by this much %, by how much % demand will change.

3 types of elasticity

1. Price Elasticity of Demand : Price of a commodity change, how demand will change.
 2. Income change : Income change, how much demand is changed.
 3. Price of complementary good change, how demand will change.

$$1) \text{ price} : \frac{\% \Delta \text{ in qd}}{\% \Delta \text{ in p}}$$

(5 degrees)

Eg. $\frac{10}{5} = 2$ years favourably
Demand is changing

Elastic demand
(>1)

2) Income : $\% \Delta$ in Q_d
(5 degrees) $\leftarrow \% \Delta$ in Q_d 4

$$\text{Eg. } \frac{2}{4} = 0.5 \Rightarrow \begin{matrix} \text{Demand changing} \\ \text{is - very} \end{matrix}$$

Inelastic demand

3) cross : % Δ in 9d of x
 (3 degrees) % Δ in p, u, v

Diff. degrees of

CE

↳ x & y could be for same good,
complement any

complementary unrelated good

d = Zero quantity demand

Eg. If No Change in a_d = Zero quantity demanded
 Change in p

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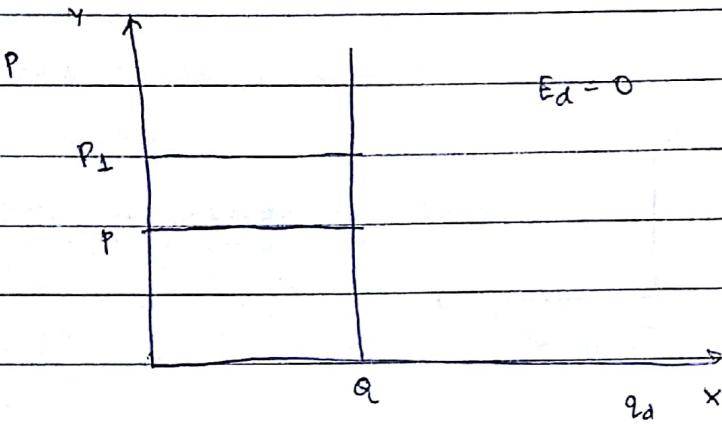
where we can't estimate the change : change in terms of ∞

→ There are 5 degrees in which q_d can change

1. Price Elasticity of Demand (PE_d) :-

① $PE_d = 0$

whatever the change in price, there is no change in q_d

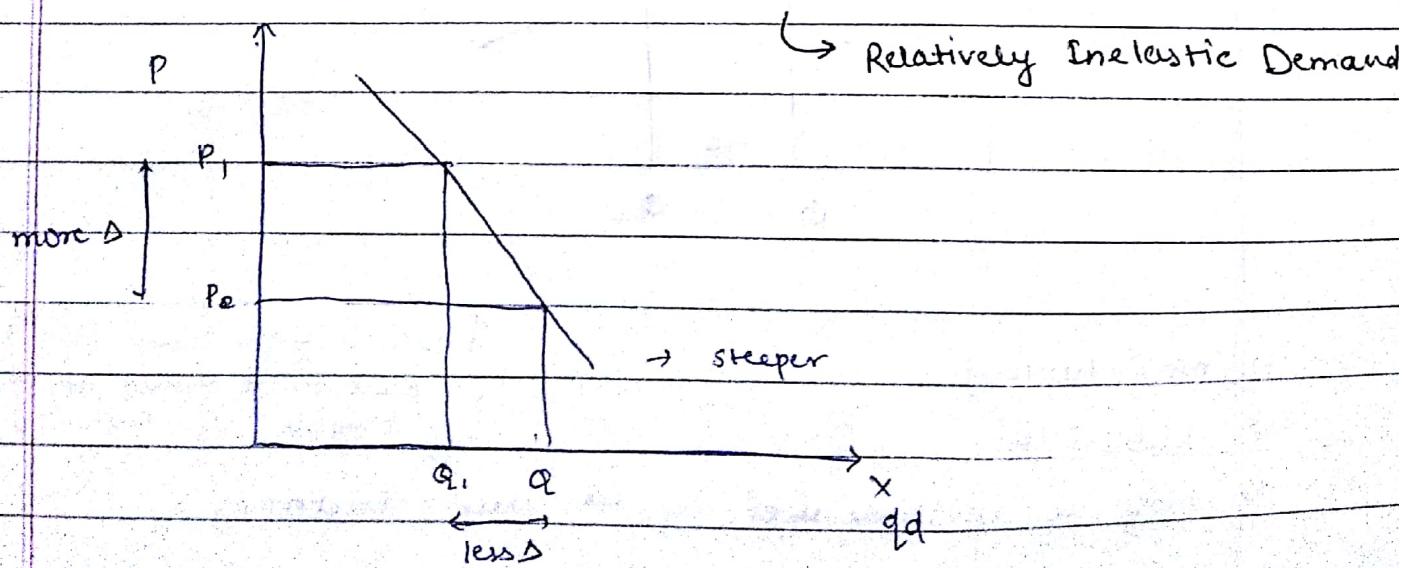


Another name : Perfectly Inelastic

Happens in case of necessities : Medicines, salt

b) More theoretical type of concept

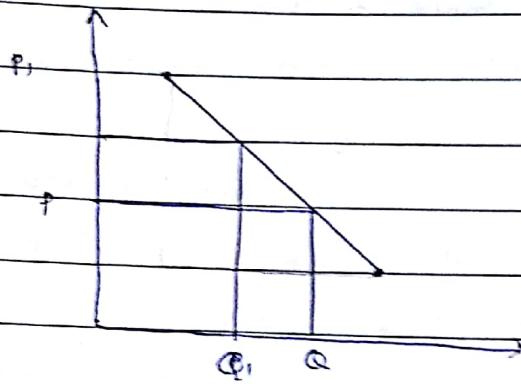
② $PE_d < 1 \Rightarrow$ More change in terms of P brings a small change in terms of q_d



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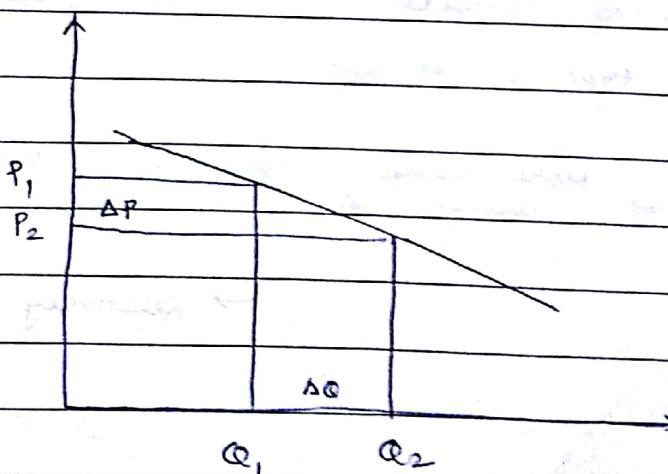
- ↳ Happens when
 - has less substitute
 - limited use
 - may be a necessity
- Even though P changed a lot, not that much change is observed

③) $PE_d = 1$: Unitary Elastic Demand



→ Rarest, more theoretical

④) $PE_d > 1$: Relatively Elastic Demand



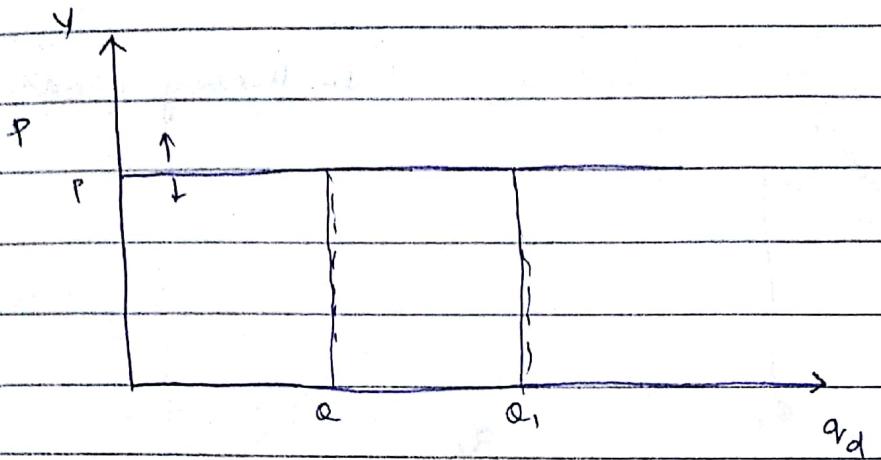
- ↳ more luxury
 - ↳ substitutes
 - ↳ may've multiple uses
- Milk, Electricity

{ when you wait for]
price to go down to
buy it e.g. T.V.

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$$⑤ PE_d = \infty$$

Perfectly Elastic Demand

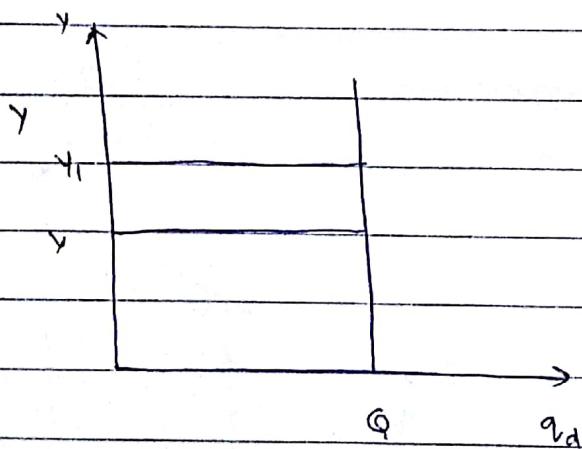


→ Theoretical type

2. Income Elasticity of Demand (γ_E_d)

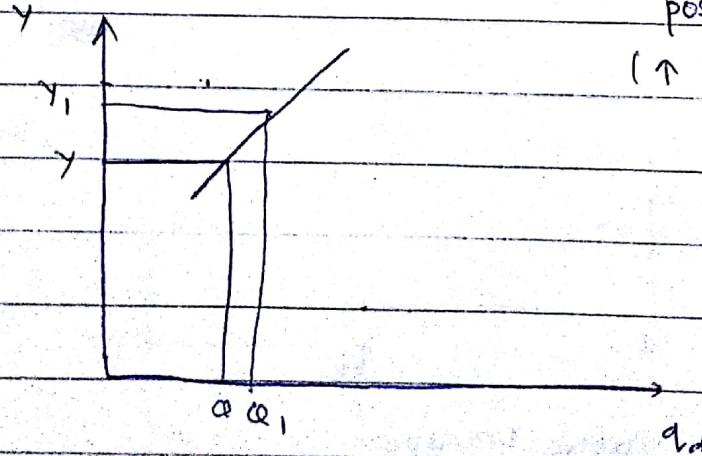
$$① \gamma_E_d = 0$$

income changed but demand doesn't change

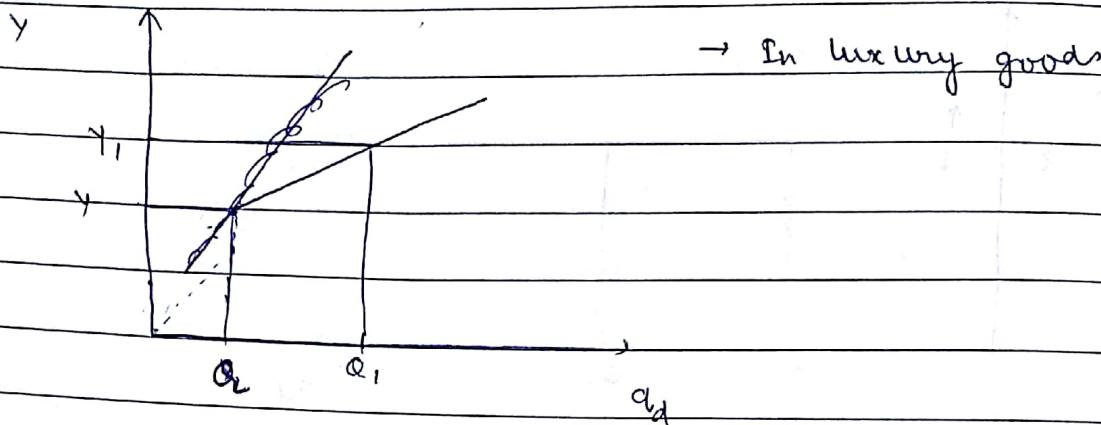


$$② \gamma_E_d < 1$$

positive slope
(↑ in income \Rightarrow ↑ in q_d)



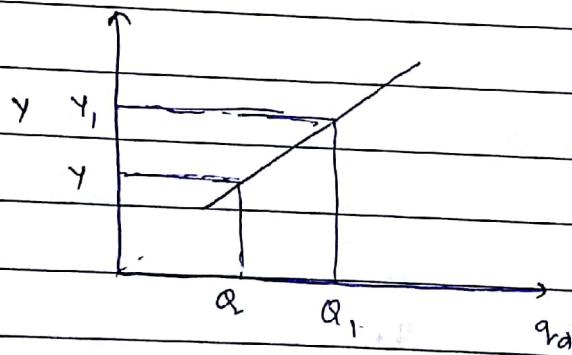
$$(3) Y_E_d > 1 \rightarrow \text{luxury goods}$$



\rightarrow In luxury goods

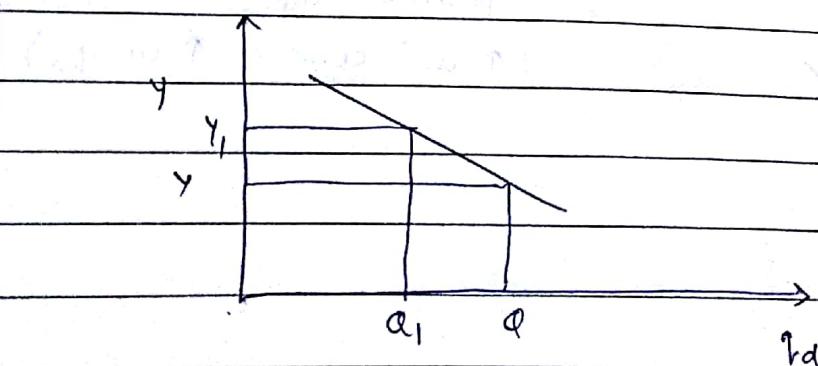
- ↳ Food : khali brand badhega : quantity humesha same hi rehti h. absolute expenditure will change only
Income \uparrow se Food ke quantity nhi badhti h. : Engel's law

$$(4) Y_E_d = 1$$



$$(5) Y_E_d = -ve$$

Income $\uparrow \Rightarrow$ Inferior goods
 \Downarrow Demand is

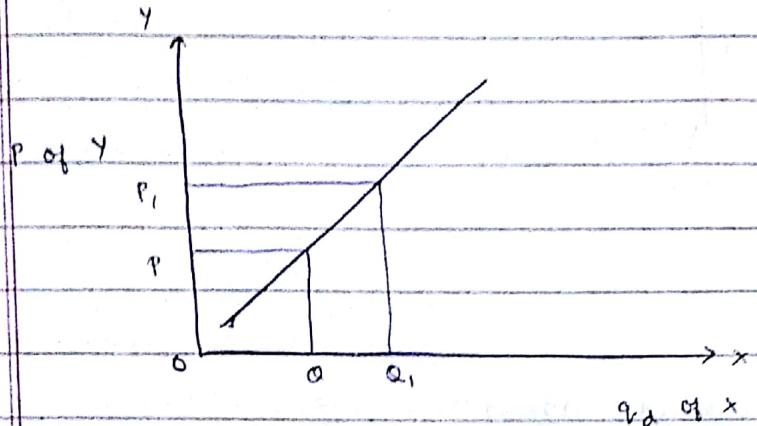


eg. Bajra, small potato, Public Transport

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3. Cross Elasticity of Demand (CED):

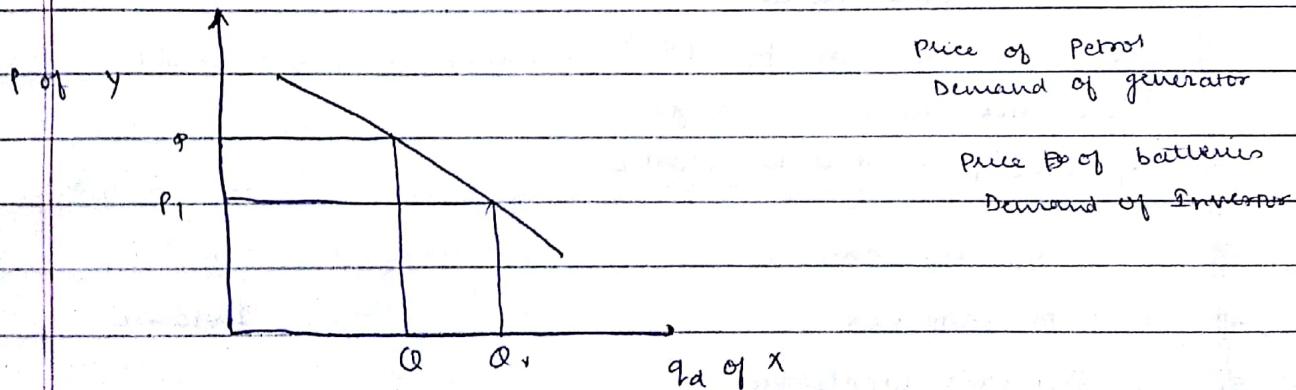
1. $CED > 0$: Substitute goods ($X \& Y$)



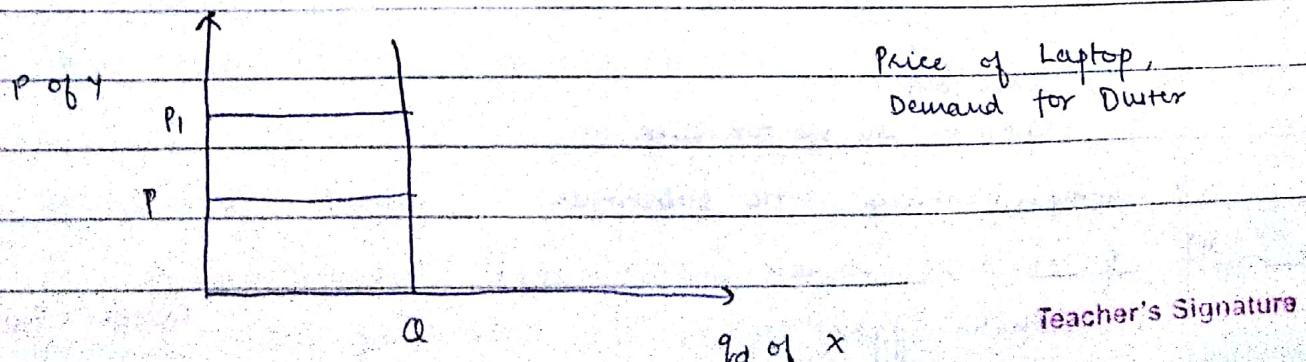
Price of Nescafe ↑, Demand of Brie ↑

→ Price of 1 brings change in demand of another positively

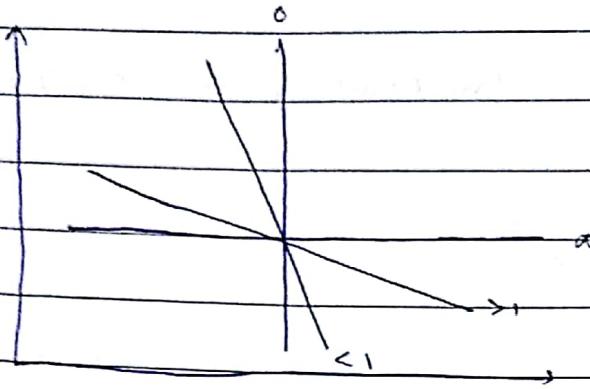
2. $CED < 0$: Complementary goods



3. $CED = 0$: Unrelated goods



→ Price Elasticity of Demand (Composite diagram)



Slide 13

Demand (Price)

Elastic

(> 1)

Inelastic

(< 1)

1) necessity : (< 1) q_d remain same

In elastic

2) substitute find karne

In elastic

Ka time hi nahi h : (< 1)

(It'll take time to change)

If time ↑ → it'll be elastic

3) q_d is same

4) can't be postponed

In elastic

5) Eg. Post card, Candle, etc.

Even though price is doubled, you won't mind
frac of income spent on them is

Very small

6) either too high or too low

In elastic

junko nahi

lagta hi nahi, wo toh kya hi

7) Complementary : no substitute

8) If can't be changed
alcohol, cigarettes.

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Slide 15

1. Inelastic
2. "
3. Elastic
4. In " Rich class
5. Elastic

→ Diamond - Water Paradox :

Water : great ^{use} value

Exchange value very low because of its abundance

Diamond : less use value

Exchange value very high because of its scarcity.

Slide 16

1. Income ↑ , clothing ↑

Slide 23 Importance of Elasticity (Specifically, Prices)

- 1.
2. Factor Price = Pehle jana waalo ko jyaada paise milte the, ab python.

↳ Particular people are in scarce, demand will be ⁱⁿ elastic
they'll be paid more

↳ In abundance, - elastic
they'll be paid less

alcohol & tobacco pe tax ↑

because of habit : inelastic

even high tax : then also people will buy it.

→ Paradox of Poverty :

If bumper harvest : still remain farmer → price ↓
but 9d : same

Because your food basket is inelastic demand teacher's Signature

But if a company produces more, it can become rich

Slide 24

1.

- a) + ve
- b) - ve
- c) = 0

2

> 1

income ↑ by 1%.

q_d ↑ by 0.45%

Demand of food & textile = $C^2 d = 0$ (Unrelated)

Methods of Measurement

1. Percentage

2. Expenditure (Price × Qty) / Old value $Q \rightarrow$ old value

3. Geometrical / Point Method

$$1. \% : = \frac{\% \Delta \text{ in } q_d}{\% \Delta \text{ in Price}} = \frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

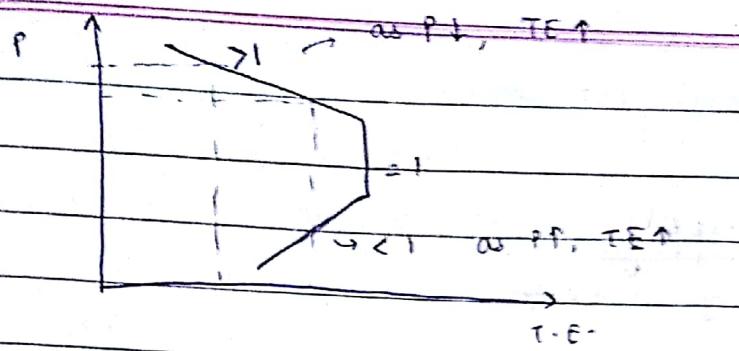
$$= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$2. T.E. = P \times Q$$

If $P \uparrow \uparrow = \rightarrow T.E. \uparrow +$ [we have to check how change in price is affecting total expenditure]

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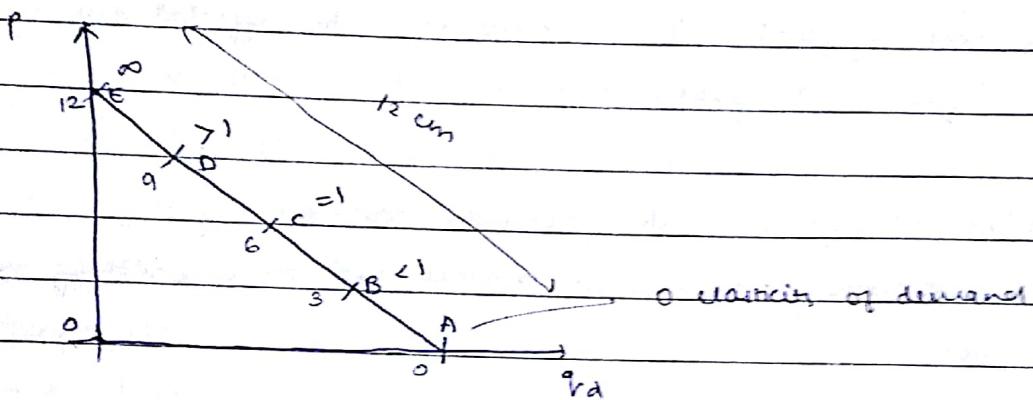
slide 29



[Just relate b/w
P & TE]

3.

E_d = Lower part of demand curve
Upper part of demand curve



$$(E_d)_A = \frac{0}{12} = 0 \quad (E_d)_B = \frac{3}{9} < 1$$

$$(E_d)_C = \frac{6}{6} = 1 \quad (E_d)_D = \frac{9}{3} > 1$$

$$(E_d)_E = \infty$$

slide 31

$$E_d = 1.5$$

Car luxury

Price ↑ → Demand will ↓ (Wait karenge log)

$$\text{Revenue} - \text{Cost} = \text{Profit}$$

Slide 33 give higher price for adults
smaller " " child

Supply

7/2/18 Factors Affecting Supply

→ Goal : Goal for govt. services :- For welfare of people

Mercedes → don't take care of cost-minimization

(It can earn well even if it sells a few commodities)

→ If cost of prod" ↑, supply will be affected due to this.
(factors of prod")

→ With change in tech., supply can be affected.

If something is new in market, its price initially will be more

→ Future Expectations :-

Whether price is going to be ↑ or ↓ future or not.

supply ↓ today & supply ↑ when price ↑

→ Price & Supply go hand in hand.

→ Price of Other Commodity

(then football)

1) Substitute : If price of Volleyball ↑, then we'll focus more on its supply (not football)

2) Complementary goods : If you are producing s/w, you know someone else is going to produce h/w & supply is affected

→ Farmer has to sell crops just after harvest even though he knows price will ↑ in future due to need of money, no warehouse to store crops.

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→ Govt. policies

Eg. If govt. announce new policies, initially company can't cope up with it \Rightarrow supply will \downarrow .

→ WTO allows quantitative restrictions (till 90's) so that national producers are not affected.

But now, these restrictions have been waved off.

slide - 4

1. Indians can deliver at lower price
substitute
2. If ask for higher salary, they can shift to other countries
3. Tech. : ~~Price~~ Price of Internet \downarrow
4. Price of factors of prodⁿ
5. Competitor
6. Govt. Policies :

Special Economic Zones : Have to work only for clients in abroad

if do for clients in India only : have to give ~~Q~~ Import Duty
 \hookrightarrow model derived from China.

slide - 5

corn & soybean aren't comp. substitute goods [So, not b]

(a)

Supply Funcⁿ :

$$S = f(P)$$

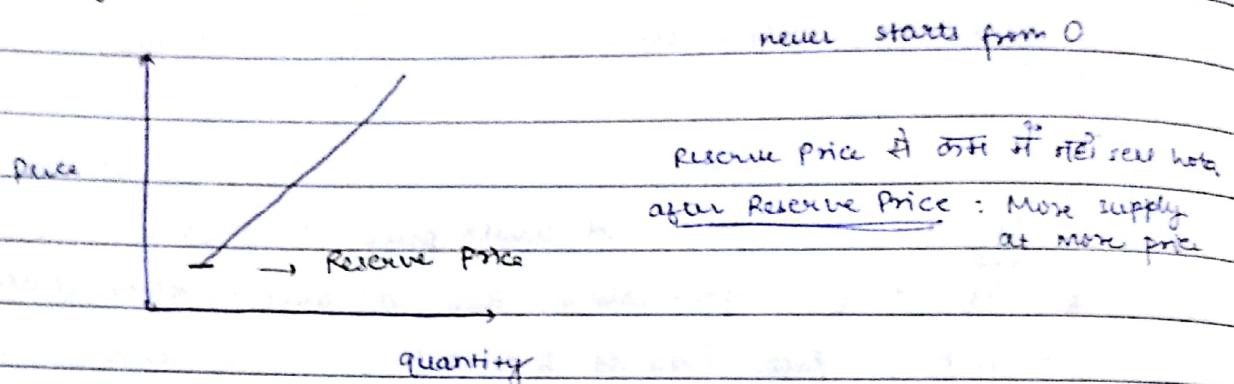
→ Price & Supply

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Supply Schedule

- * Individual
- * Market

Supply curve :-



① Law of diminishing marginal productivity :

After some point of time, efficiency of labor or resource can't additional prod" will come along with additional price.

That price will be added in cost of product \Rightarrow More supply at higher price

② Change in stock :

Supply \rightarrow stock

\downarrow
part of supply

③ Profit / Loss

\hookrightarrow + incentive to supply more

④

Profit in market : entry of \leftrightarrow firm

Loss \rightarrow make exit

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Exceptions :

Future Expectations :

① Subsidy : In crops we like govt. subsidy due to which distortion h.

+

Other crops will be sacrificed. Their price'll ↑

↑

② Agricultural goods

③ Perishable good : No storage facilities \Rightarrow supply is affected

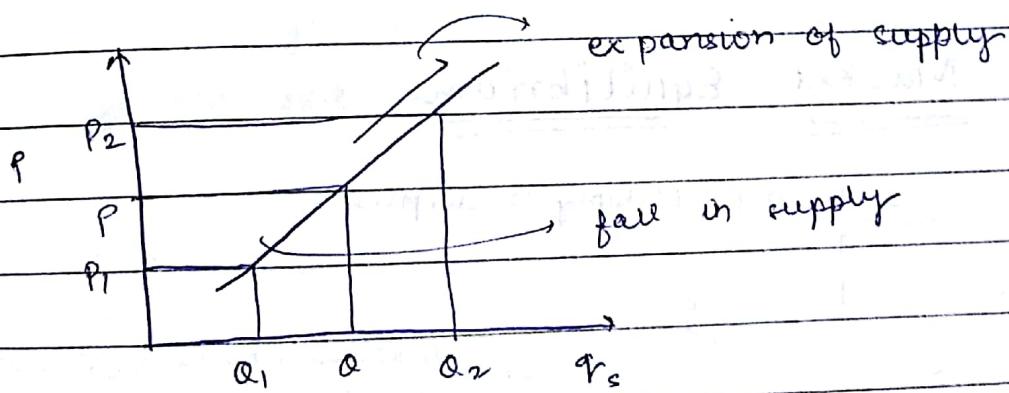
④ Goods of auction : Land, ...

⑤ Rare Goods :

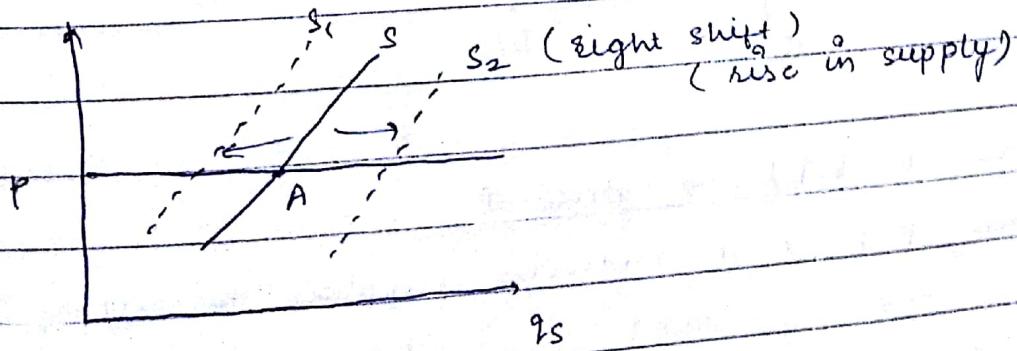
⑥ Backward Countries :

Internal rigidity \Rightarrow movement of goods become less.

Change in supply v/s change in quantity supplied.



→ Anything changes other than supply



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8/2/18

Slide - 18

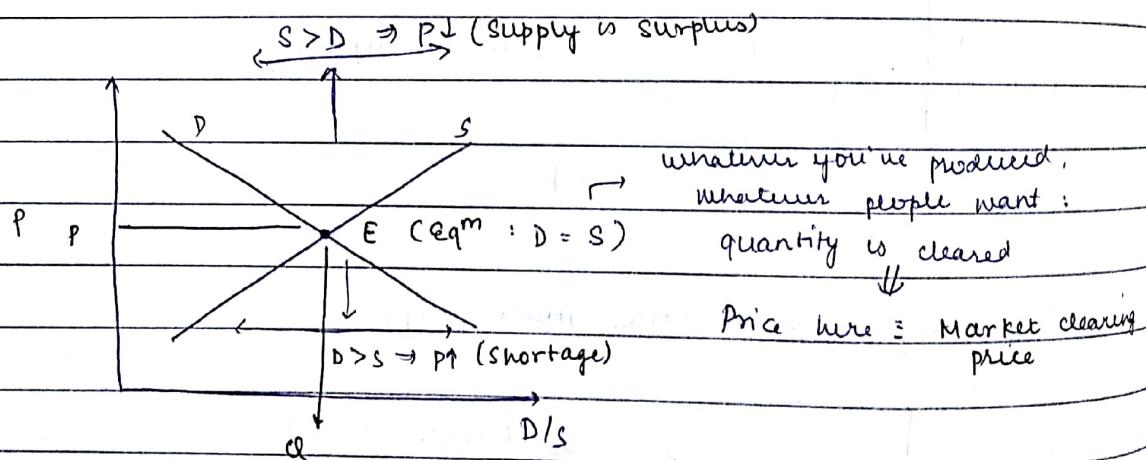
- ① i/p price ↑ → supply ↑
 market price of steel (not aluminum)
 ↓
 raw material

- ② a) supply ↑
 b) supply is not affected by income ✗
 c) ✓ Overall supply ↑ ⇒ left shift
 d) ✗ supply ↑

Slide 22

- ① Price involved ⇒ movement
 ② shift
 ③ shift
 ④ shift : policy decision (Right shift)

Market Equilibrium



- 1) above E (↑) ⇒ price ↑

when $P \uparrow \rightarrow$ it motivates supplier to supply ↑ but
 don't -- & consumer demand ↓

$$\Rightarrow S > D \Rightarrow P \downarrow$$

So, @ P will come down, it'll come down again and attain eq^m again.

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Market sets very high price \Rightarrow consumer are adversely affected
 ~ low ~ \Rightarrow producer ~ ~

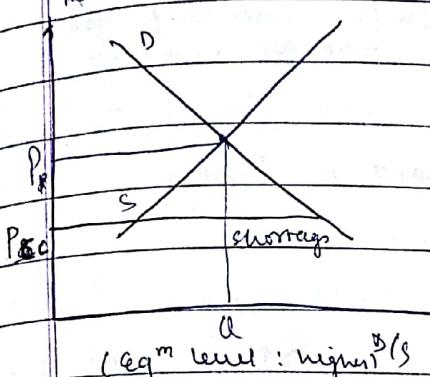
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2) below E (\downarrow) $\Rightarrow P \uparrow$
 $\Rightarrow D > S \Rightarrow P \uparrow$: shortage

Again, if P will go up till it attains eqm again.
Market Price

ceiling Price Floor Price

NOTE



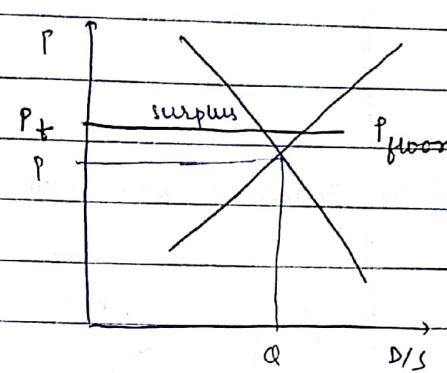
(eqm level: higher)

Govt. thinks P is more. artificially controlled price

It sets a $P > P_c$ (ceiling

price) ki isse jyaada

nhii set kar & kte price



(eqm level: lower)

Market is setting low
level price \Rightarrow Producers
are adversely affected.

Govt. sets up a floor

price

at $P = P_c$:

$D > S$

Producers find an incentive

\Rightarrow Consumers are getting

benefitted. But due to

to produce more

\Rightarrow Surplus

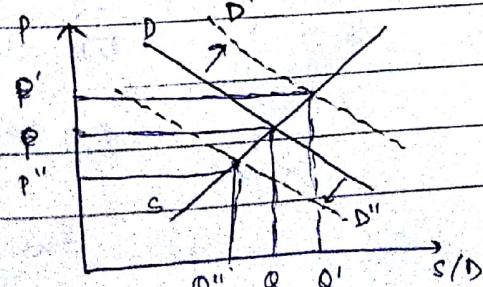
shortage \Rightarrow result into Black

market

Changes in eqm :

1) change in demand (keeping S conet.)

(shift)



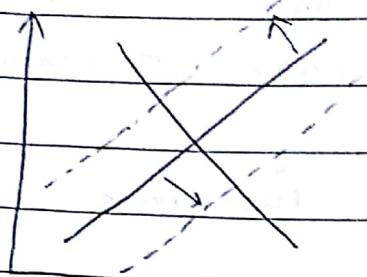
Right shift in Demand

Left shift: S same, E point ↓

lower eqm price & qty

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2) change in supply (shift)



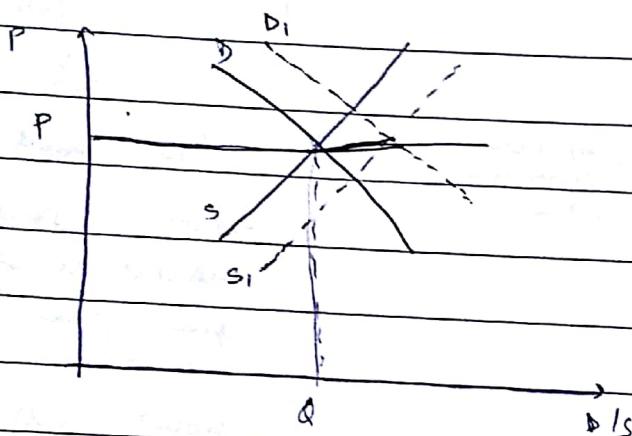
$S \uparrow \Rightarrow P \downarrow$

Right shift

Rise in price of substitute good

Left shift : Bad crop, govt took all incentives

3) simultaneous Change in both Demand & Supply



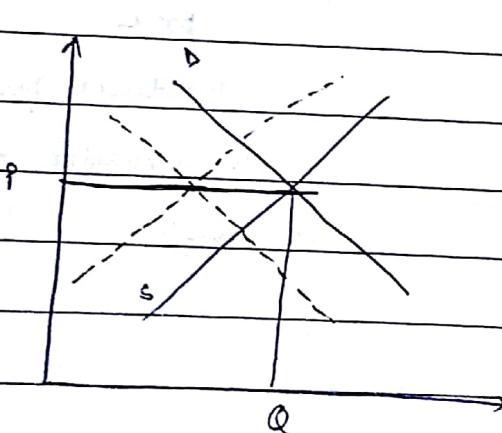
$D \uparrow$ as well as $S \uparrow$



P: same revenue

Q has increased

(Equal change in D & S)



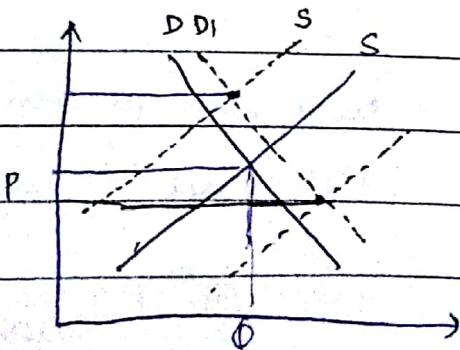
$D \downarrow$ as well as $S \downarrow$

(equal change in both)



P: const., Q ↓

→ Demand has a change, Supply hasn't so no change

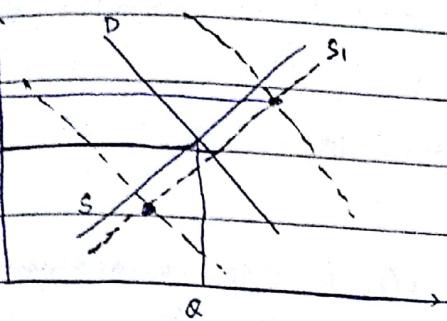


As $D_1 \uparrow$, $S \uparrow$ (left) $\Rightarrow P \uparrow$ $Q \downarrow$

$D_1 \uparrow$, $S \uparrow$ (right) $\Rightarrow P \downarrow$ $Q \uparrow$

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$\Delta D \uparrow\uparrow, \Delta S \uparrow$



$S_1 \uparrow$ (right), $D_1 \uparrow\uparrow$ (right) $\Rightarrow P \uparrow$

$S_1 \uparrow$ (right), $D_1 \uparrow\uparrow$ (left) $\Rightarrow P \downarrow$

slide 12 \Rightarrow Scenario 1

Scenario 2

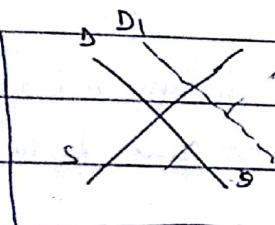
If i/p price $\downarrow \Rightarrow$ more entries in market

supply of slw \uparrow : demand \uparrow

Slide 14 a) $S \downarrow, D \uparrow [P \uparrow]$

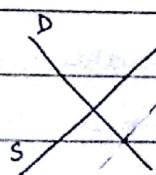
b) $S \uparrow, D \downarrow [\because P \uparrow]$

slide 15



④

Slide 16



4) ✗ eqm won't arise

2) ✗ Barley is inferior

3) ✓ \Leftrightarrow buy more as income \uparrow
invest more money in Barley

Slide 18

a) Income $\uparrow \Rightarrow$ Buy \uparrow } Normal good
Price $\downarrow \Rightarrow$ " }

Income $\downarrow \Rightarrow$ demand left

(4) No. of seats: fixed X
(Supply same)

Aws. \rightarrow (2)

Teacher's Signature

Production Analysis (How to produce)

→ Prodⁿ funcⁿ:

i/p → land, labor, producer, capital

o/p :

Prodⁿ funcⁿ: ^{funcⁿ} relation b/w i/p & o/p under a tech.
Transformation of i/p into o/p.

↳ Why produce? → Because it has some utility to the people
+ perceived satisfaction

→ Graph: ^{combn}

Graph: Initially, prodⁿ rises fastly. But, later it comes to saturation point of utilization (overall prodⁿ is still rising)

Factors affecting Prodⁿ Funcⁿ

→ Labor: variable i/p (change karne me time nhirega h)

Land : fixed a (change karne me time lagta h)

→ Time

1) Short Run : variable i/p will be variable only,
fixed ~ fixed ~

2) Long run : all i/p can be variable
depends on industry to industry

→ Tech. :

1) Process Innovation = New method of doing same job (process) (existing product)

2) Product : coming out with new product

① some of factors will be fixed & other will be variable

i) law of diminishing Return : (law of variable proportion)

जि प बढ़ते हैं, एक प्रति के बाद O/P और बन्द हो जाता है.

vary 1/p in fixed proportion, O/p changes in another prop?

3 factors in Prodⁿ:

→ Total (TP)

→ Avg. (AP)

→ Marginal: add 1 more, $\Delta O/P = ?$ (MP)

$$\rightarrow (MP)_i = (TP)_i - (TP)_{i-1}$$

$$(AP)_i = (TP)_i / \text{no. of workers}$$

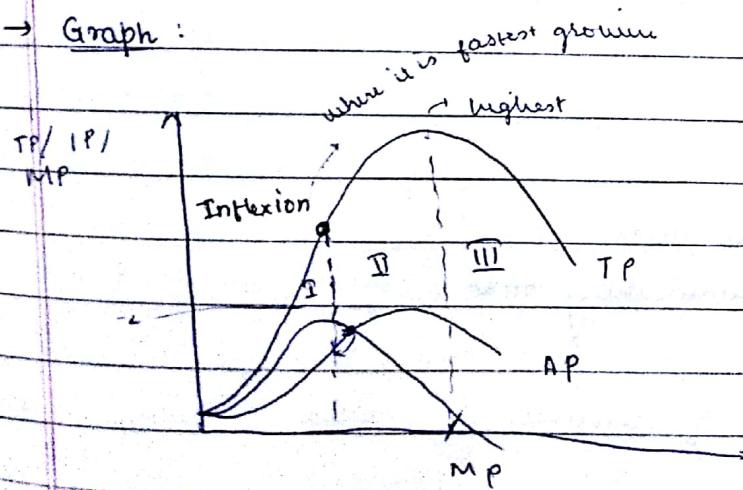
Ist stage: Increasing Return Stage

2nd : AP ↓ MP ↓ TP: max : Constant Return
(whenever TP: max, MP=0)

⇒ 3rd : Decreasing Return Stage (AP)

102/18

→ Graph:



I: ↑ return

II: constant return

Infexion: Before it, O/P ↑

at fast space. After the point,
it'll still ↑ but not

with same pac

f : All 3 have started from 0 & AP initially MP rises very fast, get its maxima & even starts decreasing.

MP rises $>$ AP

junction : Intersection of both MP & AP

→ Where TP reaches to saturation, MP = 0

stages

Stage - I : Irrational



- ↳ Because no producer wants to be here (There's still a possibility to go further \rightarrow more wants to stop here)
- ↳ Indivisible fixed factors
- Don't have enough money to buy car. But can't say mjhé abhi engine de do, baaki parts baad me le lunga.
- ↳ Resource can't be broken down into parts
- ↳ In totality, if labor $\uparrow \Rightarrow$ prodⁿ \uparrow
- ↳ Division of labor & specialization
- ↳ Efficiency $\uparrow \Rightarrow$ Return also \uparrow

Stage - II : Rational

- ↳ Every body want to be here
- TP rising but at diminishing rate
- ↳ AP $>$ MP:

Optimum utilization of resources.

Stage - III : Irrational

- ↳ Employing excess variable factor with fixed variable.

Eg. More people in govt. services \Rightarrow kaam utha hi kuch ko nikaal de.

Indian agriculture \Rightarrow Labour Intensive

e.g.: farmers: land is fixed, + member + prod" &
disguised unemployed: actually employed but they've nothing to do

Even if we bring tech. \rightarrow more unemployment

\rightarrow privatisation of govt. organisations :- people fear because they already know that they are being extra

law of Variable Proportion and capacity Planning

\rightarrow Team size : decided by what & how much o/p I want to 've.

slide 20

- \rightarrow Contractor basis pe employment : (hire & fire)
- ↳ avoid seasonal fluctuations
- ↳ won't ask for their rights
- ↳ won't overpower the management

slide 20

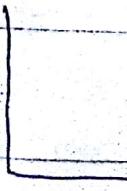
- a. long run
- b. short run
- c. long run
- d. long run

i/p ko kya galdi change kar skte h? \rightarrow decides long run
or short run

slide 21

input & output

curved



Teacher's Signature

Slide 22 When one more worker is hired, prod' rises to 100₄

→ Const. Return
(change = 2)

Returns to Scale

- ↳ With 4 labors → 1 Machine
- 8 labors → 2 Machines
- ↳ Scale : make equal changes in i/p to get desired o/p.

* Tech. can always ↑ prodn

↳ Enterprise is fixed

Causes of 1st stage :

1. Indivisibility of factors → benefits only enjoyed by you,
3. Internal economies : not by any other external person
- Something available to all : External economies
- borrow money : people have faith in you.

Economies of scale: benefit of expanding business

- Anything with expansion that brings down the price : Economies of scale
- " up : Dis-economies

Causes of 2nd Stage :

- Rise of diseconomies
- External: labor cost ↑, labor congestion ↑ → same job me time ↑

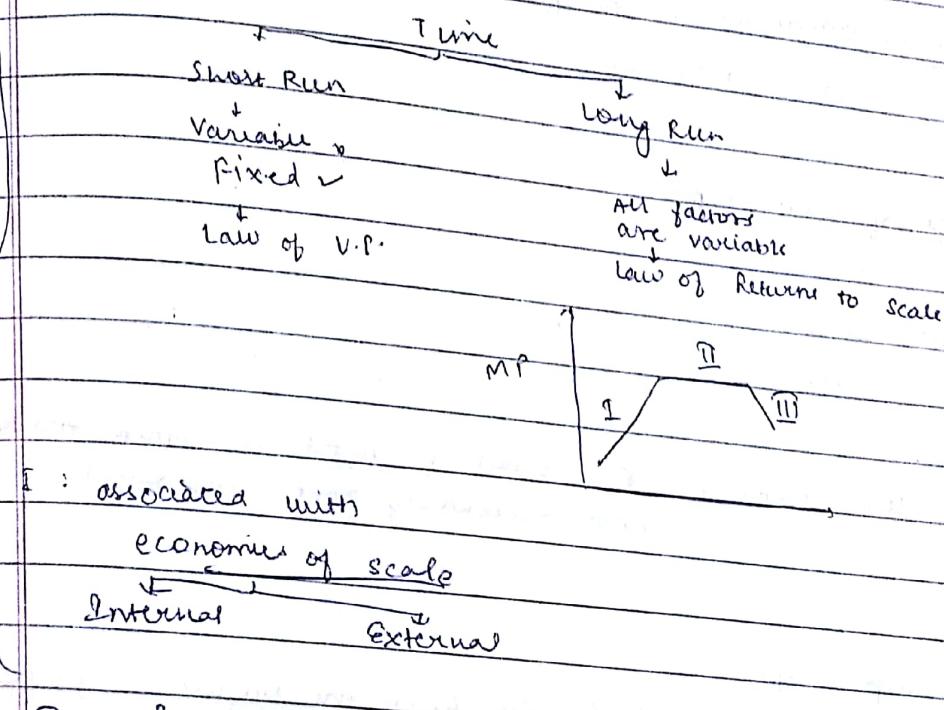
NPA : Non Prodⁿ Assets
↳ check

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causes of 3rd stage :

Forms of Internal Economies

Yesterday's summary :



III : diseconomies

- ① Labor economies : Everyone knows what they're supposed to do & gets specialised in that job only. \Rightarrow Productivity \uparrow
- ② Price per unit \downarrow
- ③ As organisation becomes \uparrow , ^{info} include more products \Rightarrow to diversify the o/p

Forms of External Economies

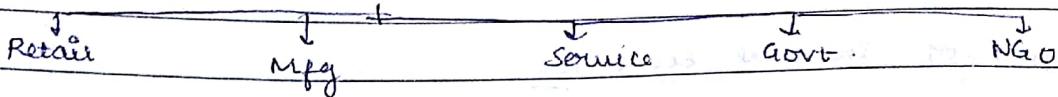
- ④ You're producing final product which requires multiple i/p.
But you're not producing from all the i/p's.
You solely focus on your part.

e.g. Prodⁿ is splitted into parts vertically.
Clothes :- One takes care of yarn, another of color, etc.

Teacher's Signature

Types of Business Organisations

make an effort ↓
to grow ↓ any entity having
some system



- 1st More advantage : jo pehle aayega market me, they've some advantage

Forms of Ownership:

- ① Private sector
- ② Public sector
- ③ Joint sector

* Public Ltd. Company : One which is listed in stocks market
(not necessarily govt. company)

- Partnership : upto 20
- Joint Hindu : head of family heads the business & passes to next gener."
- Joint stock : listed in stocks market
- co-operative : support each other