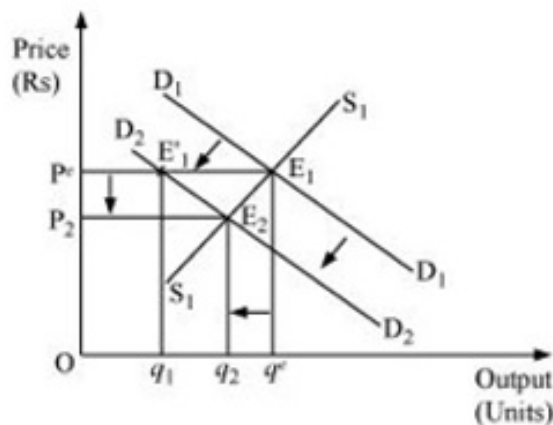




Q10. Using supply and demand curves, show how an increase in the price of shoes affects the price of a pair of socks and the number of pairs of socks bought and sold.

Ans: Shoes and socks both are complementary to each other and are used together. Therefore, the increase in shoe price will discourage the demand for socks. Therefore, due to the decrease in demand for socks, the demand curve for socks will shift leftwards parallelly from D_1D_1 to D_2D_2 . The supply remaining unchanged, at the equilibrium price P^e , there exists excess supply of socks, which reduces the price of socks and the new equilibrium will be at E_2 , with equilibrium price P_2 and equilibrium quantity q_2 .



***** END *****