Basics of Demand and Supply and Forms of Market Competition

The word 'Economics' originates from the Greek work 'Oikonomikos'.
(a) 'Oikos', which means 'House', and
(b) 'Nomos', which means 'Management'.

Thus, initially the term 'economics' was used for House Management.

Introduction

What is Economy?
- The state of a country or region in terms of the production and consumption of goods and services and the supply of money.
- Careful management of available resources.
- Institutional structure through which individuals in a society coordinate their diverse wants and desires. An economy consists of the economic system of a country.

What is Economics?
- Branch of knowledge concerned with the production, consumption, and transfer of wealth.
- It is a social science.
- The study of ways in which mankind organizes itself to tackle the basic problem of scarcity of resources.
- The study of alternate systems requisite to allocate available resources between competing ends.

Points to Note:
- The primary task of the discipline of economics is to study the working of an economy and the issues by it.
- Economic problems differ from economy to economy. Economic problems faced by a more efficient industrial economic system are expected to be different from the ones underdeveloped simple agricultural economy faces. For example,
  - in a simple economy, human beings are mainly confronted with the problems of poverty and economic insecurity and
  - in a developed industrial economy, the problems are mainly of distributive justice and economic instability

Economic Wants

The economic system comprises human being having variety of wants. These wants may be classified into basic two types:
- Economic Wants
  - Which can be satisfied by the consumption of goods and services (in terms of money)
- Non-Economic Wants
  - Which do not relate to consumption of goods and services (like love, relations etc.)

Most significant characteristics of economic wants:
- Even if satisfied, the wants have a tendency to re-emerge.
- With the passage of time, the wants tend to increase in number and in variety.

Note:
- The "means" available for satisfaction are insufficient or limited in comparison with the wants to be satisfied.
- This mismatch between the available resources and economic wants becomes a permanent problem for individual economic units and the society as a whole.

- As a result, every society and its component economic units, adopt a two-fold course of action, namely, the following:
    - to increase the availability of resources by their own efforts.
    - to maximize the use of available resources in best possible economical manner.
- This can be done by making best allocation of these resources in alternative uses.
- Alternative uses means satisfaction of the most pressing wants and exclusion of the less pressing ones.

Accordingly, the society creates a set of institutions like those of money and credit, markets, a system of sales and purchase, system of facilities relating to production, transport, storage etc. to arrive close to solutions.

What to study in Economics?

Economics can be defined as a study of an economic system in all its aspects - structure, working, performance, problems, and their solutions.

The meaning of the term, "study of an economy" includes:

(a) Alternative forms of an economy like capitalism, socialism and a mixed economy.
(b) Economic decisions and their implementation by –
    - Individual economic units like individuals, households and business units
    - Groups of economic units, institutions
    - Public Authorities
(c) Interrelationships between economic units and their groups.
(d) The performance of individual economic units, their groups, and the economy as a whole.
(e) Interrelationship between different economies.

Demand & Supply

Basic Concept

Demand & Supply → Most fundamental Concept of Economics
Determination of Price → Most Important part of eco theory
Market Mechanism → Determination of Price by Demand/Supply forces.

Behaviour → Demand

Market

Supply ← Behaviour

Consumer

Product + Price

Supplier

What consumer are willing to buy and for how much?

Max. satisfaction for minimum price

Equilibrium

Max. Profit

Utility

Utility → Directly related to Satisfaction.

Utility → Expected Capacity to Satisfy Want → different intensity (at diff. time in diff. situation)

Want → Unlimited

1. Resources are Scare. All wants can't be satisfied. Consumers have to choose from alternates.
2. Consumer buys only that product which gives him satisfaction means which has utility for him.

Vary with the intensity of want ← **Utility** → Subjective Matter

Utility → Does not depends upon the usefulness of goods

Subjective Matter → Depends upon person to person and even for the same person totally differ from time to time.

In economics we are neither concerned with the normative aspect of utility nor with the well-being of the consumer. We are only concerned with the satisfaction of the consumer.

Consumer tends to buy till

Utility >= Price Payable

Law of Demand

Demand = Desire + Willingness + Ability

Law of Demand

- Demand increases with the decrease in price
- Demand shall be related to a time interval (like within a day, week etc.)

[Demand ↑ Price ↓] → Other factors like taste & income of customers, technology etc. being constant (Ceteris Paribus)

$$P \propto \frac{1}{\textbf{Quantity Demanded}}$$

Three ways of expressing demand →
- Demand Function
- Demand Schedule
- Demand Curve

Demand Function (Algebraic expression of demand behaviour or quantity demanded)

- **Generalised Form**
  $D_x = f(P_x, Y, T)$
- **Specific Form**
  $D_x = 2000 - 10P_x$

Demand Schedule (Tabular form of describing the relation b/w quantity & price)

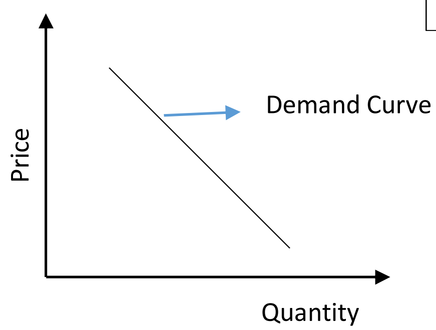
Individual Demand Schedule

Price (Rs.)	Quantity
10	6000
20	5000
30	4000

Market Demand Schedule

Price (Rs.)	Demand by A	Demand by B	Market Demand
10	6000	9000	15,000
20	5000	8000	13,000
30	4000	7000	11,000

Demand Curve (Graphical representation of demand schedule)



Slope of Demand Curve is negative.

Exceptions to the law of Demand

1. Expected change in the price of goods (Speculation)
2. Inferior goods/ Giffen goods
3. Ignorance
4. Conspicuous Goods/Articles of Snob Appeal (Expensive Article)/(Status Symbol)
5. Change in Fashion
6. Complementary Goods
7. Consumer's Psychology (Preconceived Notions)

Assumptions of Law of Demand

1. No Change in Consumer's Income
2. No Change in Consumer's Preferences
3. No Change in the Fashion
4. No Change in the Price of Related Goods
5. No Expectation of Future Price Changes or Shortages
6. No Change in Size, Age Composition and Sex Ratio of the Population
7. No Change in the Range of Goods Available to the Consumers
8. No Change in the Distribution of Income and Wealth of the Community
9. No Change in Government Policy
10. No Change in Weather Conditions

Determinant of Demand

1. Price of Commodity
2. Price of related goods
    a. Substitutes
    b. Complementary
3. Level of Income
4. Expected change in price

Law of Supply

Supply = Quantity suppliers are willing to provide at a certain price over a period of time

Law of Supply

- Supply increases with the increase in price
- Supply shall be related to a time interval (like within a day, week etc.)

[Supply ↑ Price ↑] → Other factors like technology, cost of production etc. being constant (Ceteris Paribus)

$P \propto$ **Quantity Supplied**

Three ways of expressing supply →
- Supply Function
- Supply Schedule
- Supply Curve

Supply Function (Algebraic expression of supplier behaviour)

- **Generalised Form**
  $S_x = f(P_x, C_x, T_x)$
- **Specific Form**
  $S_x = 2000 + 10P_x$

Supply Schedule (Tabular form of describing the relation b/w quantity & price)

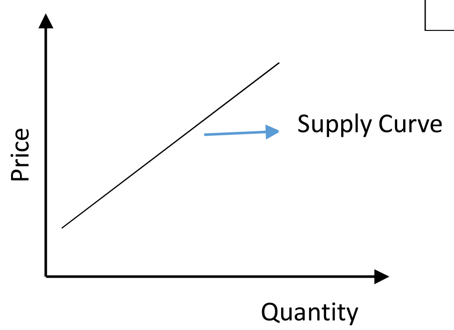
- **Individual Supply Schedule**

Price (Rs.)	Quantity
10	4000
20	5000
30	6000

- **Market Supply Schedule**

Price (Rs.)	Supply by A	Supply by B	Market Supply
10	4000	7000	11,000
20	5000	8000	13,000
30	6000	9000	15,000

Supply Curve (Graphical representation of supply schedule)



Slope of Supply Curve is positive.

Reasons for positive slope of supply curve

Objective of any Firm → Maximum profit (not only profit but maximum profit)

Assumptions of Law of Supply

1. No change in the state of technology
2. No change in the price of factors of production.
3. No change in the number of firms in the market.
4 No change in the goals of the firm.
5. No change in the seller's expectations regarding future prices.
b. No change in the tax and subsidy policy of the products.
7. No change in the price of other goods.

Exceptions to law of supply

(1) Expected change in the price
(2) Monopoly (seller may supply even at larger price)
(3) Competition (seller is forced to sell large even at smaller price)
(4) Perishable goods
(5) Legislation restrictions
(6) Agricultural products (price cannot be increased beyond certain limit)
(7) Artistic and Auction goods (limited quantity even if price shoot up)

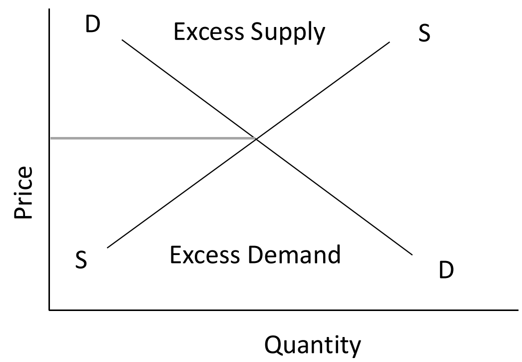
Determinants of supply

(1) Cost of the factors of production (land, capital, labour, R.M_)
(2) Change in technology (to make production economical)
(3) Price of related goods (substitutes)
(4) Size of market (number of firms – competitors)
(5) Taxes and subsidies
(6) Goal of a business firm (profit maximum or sales maximum)
(7) Natural factors (climate in case of agricultural product)
(8) Changes in Producer or Seller Expectations (Eg. Firm would hold supply if much high price is expected in future)

Equilibrium Price & Quantity

Equilibrium

- No inherent tendency to change
- Quantity demanded = Quantity supplied
- Stable Market



Law of demand and supply in a free market

1. Excess Demand -> Price will rise
2. Excess Supply -> Price will fall
3. Quantity Demanded = Quantity Supplied is the stage of equilibrium.

Concept of Elasticity

Elasticity = Relative change in dependent factor due to change in independent factor

- **Elasticity of Demand**
  - **Price Elasticity of Demand**
    - **Percentage Method**
    - **Total Expenditure Method**
    - **Graphic Method or Point Method**
  - **Cross Price Elasticity of Demand**
  - **Income Elasticity of Demand**
- **Elasticity of Supply**
  - **Price Elasticity of Supply**
    - **Percentage Method**
    - **Perfectly Elasticity (Infinity)**
    - **Perfectly Inelasticity (Zero)**
    - **Relatively Elasticity (>one)**
    - **Relatively Inelasticity (<one)**
    - **Unitary Elasticity (One)**

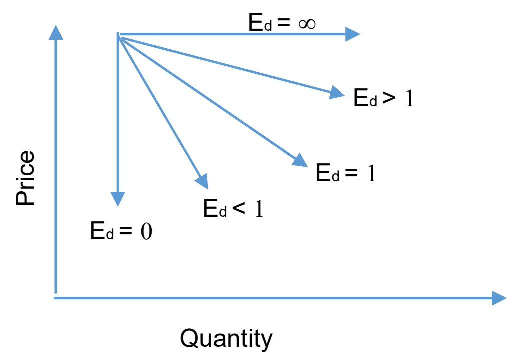
Price Elasticity of Demand

- Relative change in demand due to a change in price
- Degree of responsiveness of demand of a good to a change in its price
- Price elasticity of demand has a negative sign because of the negative relationship between price and demand.

$$E_d = \frac{\%\ \text{Change in quantity demanded}}{\%\ \text{Change in price}}$$

$$E_d = \frac{\dfrac{\text{Original Demand} - \text{Changed Demand}}{\text{Original Demand}} \times 100}{\dfrac{\text{Original Price} - \text{Changed Price}}{\text{Original Price}} \times 100}$$

<u>Perfectly elastic demand (Infinity)</u>
Very Small change in price leads to very large change in demand



<u>Perfectly inelastic demand (Zero)</u>
No change in demand due to change in price

<u>Relatively elastic demand (more than one)</u>
Small change in price leads to greater change in demand

<u>Relatively inelastic demand (less than 1)</u>
Greater change in price leads to smaller change in demand

<u>Unitary elastic demand</u>
Change in price is equal to change in demand

Methods of Measuring Price Elasticity of Demand

Percentage Method

$$\frac{\frac{\text{Original Demand} - \text{Changed Demand}}{\text{Original Demand}} \times 100}{\frac{\text{Original Price} - \text{Changed Price}}{\text{Original Price}} \times 100}$$

$$E_d = (\Delta D/D) / (\Delta P/P) = (\Delta D/\Delta P) \times (P/D)$$

Determinants of Price Elasticity of Demand

(a) Price Level: The demand is elastic for moderate priced goods but, the demand for very costly and very cheap goods is inelastic.
(b) Availability of Substitutes: If a good has close substitutes, the price elasticity of demand for a commodity will be very elastic as some other commodities can be used for it.
(c) Time Period: Demand elasticity of a good tends to increase in the long run as compare to short run because consumer needs time for adjustments.
(d) Proportion of Total Expenditure Spent on the Product: The extent of change in demand by the consumer is not significant in the case of those goods on which the consumer spends a very small proportion of his monthly budget.
(e) Habits: If individuals are habituated of some commodities the demand for such commodities will be usually inelastic, because they will use them even when their prices go up.
(f) Nature of the Commodities: The demand for necessities is inelastic and that for comforts and luxuries is elastic.
(g) Various Uses: A multiple-use good tends to have more elastic demand.
(h) Postponing Consumption: Usually the demand for commodities, the consumption of which can be postponed has elastic demand as the prices rise and are expected to fall again.

Cross Price Elasticity of Demand

The change in the demand of a one good due to a change in the price of another good is called 'cross price elasticity of demand'.

$$E_d = \frac{\text{\% Change in demand of one good}}{\text{\% Change in price of another}}$$

Income Elasticity of Demand

The change in the demand due to a change in the real income of consumer is called 'income elasticity of demand'

$$E_d = \frac{\text{\% Change in demand of one good}}{\text{\% Change in real income of consumer}}$$

Income elasticity of demand in case of Normal Goods

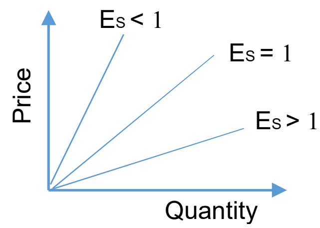
- Generally – Positive
- In case of necessary goods – Generally b/w 0 – 1
- In case of Luxury goods – Generally above 1

Income elasticity of demand in case of Inferior Goods

- Generally – Negative (Demand falls as income rises.)

Price Elasticity of Supply

Change in supply of a good due to change in price of that good.



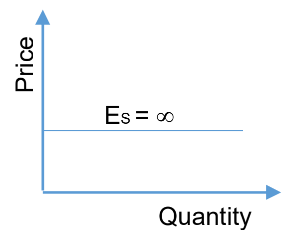
Perfectly elastic supply (Infinity)
Very Small change in price leads to very large change in Supply

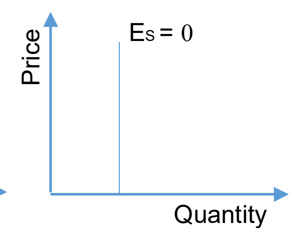
Perfectly inelastic supply (Zero)
No change in supply due to change in price

Relatively elastic supply (more than one)
Small change in price leads to greater change in supply

Relatively inelastic supply (less than 1)
Greater change in price leads to smaller change in supply

Unitary elastic supply
Change in price is equal to change in supply





$\dfrac{\text{Original Supply – Changed Supply}}{\text{Original Supply}}$ X 100
$\dfrac{\text{Original Price – Changed Price}}{\text{Original Price}}$ X 100

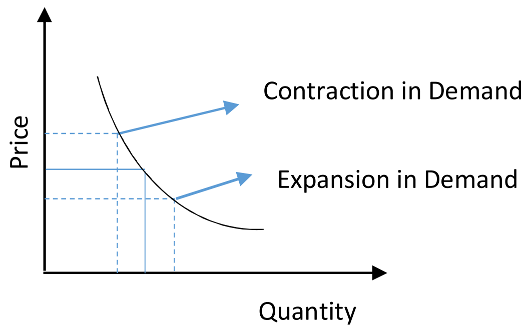
$E_d = (\Delta S/S) / (\Delta P/P) = (\Delta S/\Delta P) \times (P/S)$

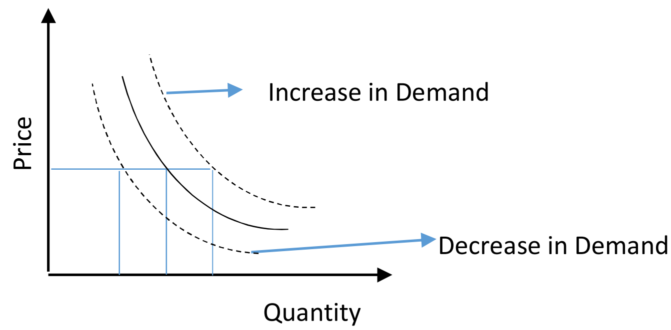
Determinants of Price Elasticity of Supply

(a) Time Period: If the price of a commodity rises and the producers have enough time to make adjustment in the level of output, the elasticity of supply will be more elastic. If the time period is short and the supply cannot be expanded after a price increase, the supply is relatively inelastic.
(b) Ability to Store Output: The goods which can be safely stored have relatively elastic supply over the goods which are perishable and cannot be stored.
(c) Factor Mobility: If the factors of production can be easily moved from one use to another, it will affect elasticity of supply. The higher the mobility of factors, the greater is the elasticity of supply of the good and vice versa.
(d) Cost Relationships: If costs rise rapidly as output is increased, then any increase in profitability caused by a rise in the price of the good is balanced by increased costs as supply increases. If this is so, supply will be relatively inelastic. On the other hand, if costs rise slowly as output increases, supply is likely to be relatively elastic.
(e) Excess Supply: When there is excess capacity and the producer can increase output easily to take advantage of the rising prices, the supply is more elastic. In case the production is already up to the maximum from the existing resources, the rising prices will not affect supply. The supply will be more inelastic.

Change in Demand

The 'location' of a demand curve (that is its distance from origin) is determined by factors other than its own price, while its slope is determined by its price.





Different kinds of Markets

- Perfect Competition
- Monopolistic
- Oligopoly
- Monopoly
- Duopoly

Perfect Competition

- Perfect Competition implies no rivalry among firms.
- A market structure where there is a perfect degree of competition and single price prevails.
- Buyer and sellers are price takers.
- Demand and supply is perfectly elastic
- Any firm can only decide to alter the quantity of its output without changing price of the product.

Main Features

(i) Homogeneous and undifferentiated products
- To the buyer, product supplied by one firm is a perfect substitute of that supplied by another.

(ii) Large Number of Sellers
- No individual firm can influence the total supply of the industry.
- No firm can affects the price of the product.
- Every firm in the industry is a price taker.
- A firm can sell any quantity of its own product at the going price.
- Demand for the product is perfectly elastic.

(iii) Large Number of Buyer
- Competition between the buyers for available supply.
- Any single buyer can't affect the total demand in the market.
- Any single buyer can't affect the price of the product.
- Every Individual buyer is a price taker.

- Supply for the product is perfectly elastic.

(iv) Full Knowledge of Market
- It is assumed that every buyer and seller has full knowledge of the prevailing price of the product.

(v) Economic Rationality
- It is assumed that every buyer and seller is rational and motivated by his own economic interest in his decisions to buy or sell.

(vi) No Indirect Cost
- like transaction costs, transportation cost, advertisements cost

(vii) Free Entry and Exit:
- Buyer or seller may leave the market any time they want.

Monopoly

- Single firm industry
- Single seller
- No close substitute
- New firms cannot enter the industry due to legal and other hurdles
- Monopolist is free to fix a price of his choice.

-ive slope of demand

To increase his sales, price shall be reduced to induce
– existing buyers to buy more
– new buyers to enter the market

He can refuse to sell his product for a price below the one decided by him. However, he cannot determine the demand for his product. He cannot force the buyers to buy his product at a price of his choice. A buyer will buy it only if its price does not exceed its marginal utility to him.

Monopolistic

Main Features

- Large number of sellers and buyers
  - The demand and supply conditions of these sellers are inter-dependent.
  - The demand curve for the product of an individual seller is downward sloping (less price more demand)
  - But demand is not perfectly elastic due to large number of buyers
- Each seller produce a differentiated product (difference may be of quality or may be of trade mark, brand name, color, packing etc.).
- Each seller is a monopolist of his differentiated product.
  - Product differentiation may or may not real
  - It helps firm to tell the buyers that the combination of 'product quality' and price offered by it is better than similar combinations offered by its competing firms.
  - Thus, under monopolist market, firm is not a price taker.
  - It can sell more at less price. It may increase price without losing all its customers.
  - Thus demand curve of each firm in monopolistic competition corresponds to that for the 'industry' as a whole, with the difference that it is comparatively more elastic.
- Buyers compare prices with quality which creates intense competition between suppliers for a share in the market.
- It is not possible to determine the average revenue curve of the 'industry' as a whole due to differentiated product. Infact, it is difficult to even define the industry.
- Firms operate within a given technological range. No firm is able to compete out its rival by producing a 'better quality' product at a lower average cost.
- Existing firms can leave the industry (more correctly 'group of firms'), new firms can enter the industry. Thus no firm incurs a loss and no firm is able to earn abnormal profit.
- Firms aim is not to maximize sales proceeds or market share, but to maximise the profit.
- It is assumed that all firms have identical cost and demand conditions.

- In monopolistic competition, the products of firms are close substitutes of each other. As a result, they have high positive cross elasticities.
- Differentiated product leads to selling expenses like marketing expenses, show room expense, discounts and incentives to dealers
- Selling expenses
  - create demand
  - try to shift demand curve to right
  - may be informative and educative for spreading knowledge of product in the market
  - neutralize the impact of rival firms
  - Impact of selling expenses on demand for an item follows the law of variable proportions.
  - The average selling cost curve (ASC curve) assumes a U-shape. However, given the selling budget of the firm, the average selling cost curve will be a rectangular hyperbola. It will be similar to the average fixed cost curve of the firm.

Oligopoly

Main Features

- Few sellers (firms) in the market (may be 3-5 firms)
- Large numbers of buyers
- Firms either compete with each other or collaborate together
- Firms set market price and consumers are only price takers
- It is difficult for new firms to establish themselves

Duopoly

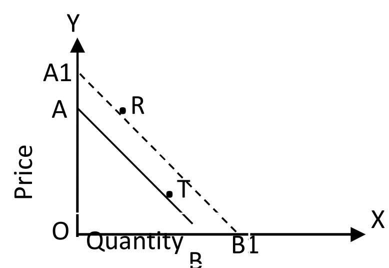
Main Features

- Only 2 sellers (firms) in the market
- Few other firms exist with virtually no market share
- Large numbers of buyers
- Firms set market price and consumers are only price takers
- It is difficult for new firms to establish themselves

Previous Attempt Questions

1. With a fall in the price of a commodity:-
   a. Demand for the commodity increases
   b. Demand for the commodity decreases
   c. Quantity demanded of the commodity contracts
   d. Quantity demanded of the commodity expands.

2. A consumer changes his purchase of a commodity from point T on AB curve to point R on the A1 B1 curve. This represents.—



   a. A contraction in demand b. An expansion in demand
   c. An increase in demand d. A decrease in demand

3. A consumer would be in equilibrium if he does not has to pay any price for the commodity consumed at the level of consumption where….
   a. Total utility is maximum b. Marginal utility is zero
   c. He has reached at the point of full satisfaction
   d. All of the above.

4. Which of the following statements is wrong?
   a. With increase in the level of income, demand for all types of commodities increases.
   b. With the increase in the level of income, demand for luxuries and comforts increases.
   c. With the increase in level of income, demand for interior goods falls.
   d. With increase in level of income, demand for necessities almost remains unchanged.

5. With an increase in the supply of commodity, equilibrium price will not fall if:-
   a. Demand also decreases b. Demand also increases
   c. Demand increases in the same proportion in which supply has increased.
   d. Demand falls in the same proportion in which supply has increased.

6. Any change in demand will leave the equilibrium quantity unaffected if:-
   a. Supply increases
   b. Supply decreases
   c. Supply curve is perfectly elastic
   d. Supply curve is perfectly inelastic

7. If with an increase in the price of a commodity, quantity demanded of the rises, it must be a –
   a. Normal good b. Abnormal good

c. Giffen good
d. Necessity

8. Match the following:

X.	Fall in quantity demanded of a Commodity with increase in income	(i)	Complementary goods
Y.	A rise in quantity demanded of a Commodity due to a fall in its price	(ii)	Decrease in Demand
Z.	A fall in quantity demanded of a Commodity due to a fall in the price Of substitute good	(iii)	Expansion in demand
W.	If price of diesel falls, demand for Diesel-run cars will increase	(iv)	Inferior good

The correct option is;
a. X(iv) ; Y (iii); Z (ii); W (i)
b. X (iii); Y (Y) (ii); Z (i); W (iv)
c. X (ii); Y (i); Z (iii); W (iv)
d. None of the above

9. With a fall in the price of a commodity – X demand for commodity-Y also falls. This best represents—
a. An exception to the law of demand
b. Universal application of the law of supply
c. Relationship between two goods that are substitutes for each other
d. A market economy where pricing decisions are difficult to make.

10. A functional relationship is given as follows:
Qn = f (Pn)
Where Qn stands for quantity demanded of commodity –N and Pn stands for the price of commodity-N. The law of demand states that other variables remain constant; there is an inverse relationship between price of a commodity and its quantity demanded. It means that if—
a. The price of a commodity goes up, quantity demanded of its substitute will fall
b. The demand for a commodity goes up, its price will also go up
c. The price of a commodity falls, its quantity demanded will rise.
d. None of the above

11. Cross elasticity of demand for Commodity-X and Commodity-Y is (-) 0.5. It means that –
a. Commodity-X and Commodity-Y are not related
b. An increase in price of Commodity-Y are related
c. Commodity-X and Commodity-y are substitute goods
d. None of the above

12. When Ed > 1, it means :-
a. Perfectly inelastic demand
b. Perfectly elastic demand
c. Relatively elastic demand
d. Relatively inelastic demand

13. When Ed<1, it means:-
a. Perfectly inelastic demand
b. Perfectly elastic demand

c. Relatively elastic demand
d. Relatively inelastic demand

14. If the price falls by 5%, the quantity supplied, falls by the same 5%. Which type of elasticity is this?
a. Unitary Elasticity of Supply
b. Unitary Elasticity of Demand
c. Relatively Elasticity of Supply
d. Relatively Inelasticity of Supply

15. Which type of goods are related to the exceptions to law of demand?
a. Giffen Goods
b. Substitute Goods
c. Complimentary Goods
d. Both a and b

16. When consumers real income increases, price of which type of goods falls down?
a. Luxurious Goods
b. Giffen Goods
c. Normal Goods
d. Inferior Goods

17. In elasticity of demand, what does elasticity means?
a. Eagerness
b. Willingness
c. Responsiveness
d. Both a and b

18. What is the relationship between Demand and Supply
a. Direct Relation
b. Inverse Relation
c. No relation
d. None of these

19. When elasticity of demand is Zero, i.e. Ed=0, it is ________________ ?
a. Perfectly Inelastic Demand
b. Unitary elastic Demand
c. Perfectly elastic Demand
d. Inelastic Demand

20. If the demand of blankets increases from 4600 to 5700 and price decreases from 220 to 190. Find elasticity of demand
a. 2.25
b. 1.50
c. 1.75
d. 1.85

21. If the real income of the person rises, then demand of which type of goods increases-
a. Normal
b. Inferior
c. Conspicuous
d. None of the above

22. When the price of coffee falls, the demand for Tea will?
a. Rise
b. Fall
c. Remains unchanged
d. Any of the above

23. Interior goods have _______ and luxury goods have ___________ .
a. Negative income elasticity, Income elasticity greater than 1
b. Income elasticity greater than 1, Negative income elasticity
c. Positive income elasticity, negative income elasticity
d. Can’t say

24. Which of the following pair of goods in an example of substitutes?
    a. Pen and Ink
    b. Gas and Kerosene
    c. Shirt and Trousers
    d. Tea and Sugar

25. In which type of price elasticity of supply, a very insignificant change in price leads to infinite change in quantity.
    a. Relatively elastic
    b. Perfectly inelastic
    c. Relatively inelastic
    d. Perfectly elastic

26. In Case Good X and Good Y are substitutes, what will be the impact on Good X for increase in price of Good Y?
    a. Demand for good X will decrease
    b. Demand for good X will increase
    c. Market price of good X will decrease

27. In case of two complimentary goods a rise in the price of one commodity will induce:
    a. An upward shift in demand for the other commodity
    b. A rise in the price of the other commodity
    c. No shift in the demand for the other commodity
    d. A downward shift in demand for the other commodity

28. A manufacturer supplies goods in such a way that if the price rises by 10% more. This supply is best described as:
    a. Inelastic
    b. Unit-inelastic
    c. Unit-elastic
    d. Relatively elastic.

29. If 20% change in price of a commodity does not result into any change in the Quantity demanded, which type of price elasticity of demand will be in this case?
    a. Unitary elastic
    b. Relatively elastic
    c. Perfectly elastic
    d. Perfectly elastic

30. What will be the elasticity if there is a change in price and no change in quantity supplied?
    a. Perfectly inelastic
    b. Perfectly elastic
    c. Unitary elastic
    d. Elastic

31. What would be effect on equilibrium price and equilibrium quantity bought and sold in a free market when there is increase in supply?
    a. Fall in equilibrium quantity bought and sold and fall in equilibrium
    b. Fall in equilibrium price and rise in equilibrium quantity bought and sold
    c. Rise in equilibrium price and equilibrium quantity bought and sold
    d. No effect

32. Ceteris Paribus, which of the following events would cause an upward movement along the supply curve of tomatoes?
    a. There is an advancement in technology that reduces the cost of production of tomatoes
    b. The number of sellers of tomatoes increase
    c. The price of tomatoes rise
    d. The price of fertilizers decreases and fertilizers is an input in the production of tomatoes.

33. If at a higher more quantity is demanded, situation can be termed as:
    a. Exception to law of demand
    b. Contraction of demand
    c. Decrease of demand
    d. None is applicable.

34. In case of normal goods, what will be the income elasticity of demand?
    a. Infinite
    b. Zero
    c. Positive
    d. Negative

35. In case of Giffen goods, demand curve will slope:
    a. Downward to the right
    b. Upward to the right
    c. Horizontal
    d. Vertical