

## Descriptive - Questions and Answers.

Q.1: Write down the meaning of economics and different definitions of economics given by different scientist.



Meaning of economics :-

Derived from Greek word 'oikonomicas'.  
with Oikos meaning household and  
Nomos meaning management.

Definitions of economics :-

1) Wealth definition of economics :-

Adam Smith - father of economics.

Book - Wealth of Nations.

def<sup>n</sup> :- An enquiry into the nature and causes of wealth of nations. Known as Economics.

2) Welfare definition of economics :-

Alfred Marshall - book - 'Principles of Economics'.

def<sup>n</sup> :- Economics is a study of man's action in the ordinary business of life it enquires how as get his income and how he uses it that it is on one side a study of wealth and on the other and more important side, a part of the study of man.

3) Scarcity def<sup>n</sup> of economics :-

Lionel Robbins - 'Nature and significance of economic science' (Publications).

defn. Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative use.

Growth definition of economics:-

John Maynard Keynes known as father of modern economics.

defn - The study of the administration of scarce resources and of the determinants of employment and income.

2. Discuss in brief the scope and importance of the economics:-

→ Scope of economics :- (Divisions of economics).

1) Subject matter of economics:-

1) Primitive view:-

2) Traditional view:-

3) ~~modern view~~. a) consumption.

b) production.

c) Exchange.

d) Distribution.

3) Modern view:-

a) micro-economics.

b) macro-economics.

2) Economics as a social science.

- 3) Economics is a science or an art.
- 4) Economics is positive or normative science.

Explanation :-

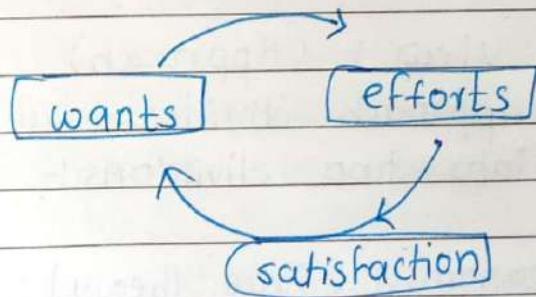
⇒ Subject matter of economics :-

It is discussed in three phases as follows:

1) Primitive view :-

1) In primitive society the connection bet' wants efforts and satisfaction is close and direct. ~~as~~ ~~the~~

2) A primitive man feels hungry, he picks up some fruits, eats it and is satisfied. Thus wants, efforts, satisfaction sum up the subject matter of economics.



2) Traditional view :- (Approach)

It considered economics as a science of wealth and divided it into four divisions:-

a) consumption :- It means the use of wealth to satisfy human wants. It also means destruction of utility or use of commodities and services to satisfy human wants.

### b) Production :-

Production means creation of utility or producing things for satisfying human wants. For production, the resources like land, labour, capital and organization are needed.

### c) Exchange :-

Goods are produced not only for self-consumption, but also for sales. They are sold to buyers in markets. The process of buying and selling known as exchange.

### d) Distribution :-

- Distribution refers to sharing of wealth that is produced among the different factors of production.
- It refers to personal distribution and functional distribution of income.

### 3) Modern view :- (Approach).

This approach divides subject matter of economics into two divisions:-

#### a) Micro-economics (Price theory) :-

- 1) The term 'micro-economics' is derived from the greek word 'micro' which means small or a millionth part.
- 2) It is an analysis of the behaviour of small decision making unit, such as a firm or an industry, or a consumer, etc.
- 3) Microeconomics studies the flow of economic resources or factors of production from the

household or resource owners to business firms and flow of goods and services from business firms to household.

4) It studies the behaviour of individual decision making unit with regard to fixation of price and output and its reactions to the changes in demand and supply conditions. hence, micro-economics is also called price theory.

b) Macro-economics :-

- 1) The term macro-economics is derived from the Greek word 'macro' which means 'large'.
- 2) macro-economics studies the behaviour of the economic system as a whole or all the decision making units put together.
- 3) macro-economics deals with the behaviour of aggregates like total employment, gross national product, gross domestic product, national income, general price level, so macro-economics is also known as income theory.
- 4) macro-economics looks to the nation's total economic activity to determine economic policy and promote economic progress.

## II) Economics as a social science.

- Economics is a study of a man who depends on society depends on him.
- Isolated individual - living in mountain can does not exchange any type of goods or services to society.
- Organized society : a man who is living in

organized society is exchanging his goods for those of others.

- Economics studies this type of man not the isolated individuals.

III) Economics is a science or an art.

Science:- Science is systemic body of knowledge. Science consists with laws, principles statement and theories which are universally accepted.

Art is skill:- an art lays formulate to guide people who want to achieve ascertain aim.

IV) Economics is positive or normative science:-

Positive economics:- is completely objective and explains causes and effects.

e.g. Physics and chemistry.

Normative economics:- say whether it is right things to happen. Normative science is as like ethics.

e.g. Normative economics explains causes of unequal distribution of wealth in world.

\* Importance of economics :-

A) Theoretical importance :-

- I) Informativeness.
- II) Mental training.
- III) Functioning of economic system.
- IV) Mutual dependence

v) Useful citizenship.

B) Practical importance:-

- 1) Professional value.
- 2) Useful to household.
- 3) Useful for labour leader.
- 4) Solving problems of poverty.

Explanation:-

A) Theoretical importance :-

i) informative:-

Economics teaches us many interesting and interactive facts about man's behavior.

ii) Mental training :-

It enables us to think clearly and judge correctly and thus affords useful mental exercise.

iii) Functioning of economic system :-

It helps to understand the functioning of complicated economic system of today.

iv) Mutual dependence:-

Economics teaches us the important lesson of the mutual dependence of man on man.

v) Useful citizenship :-

The study of economics makes us careful and intelligent citizen.

### B) Practical importance:-

1) Professional value :-

The study of economics is very useful in several professions.

2) Useful to household :-

A householder can prepare a family budget and put his household expenditure on rational basis.

3) Useful for labour leader:-

A labour leader who knows economics is able to fight for the rights of labour more efficiently.

4) Solving problems of poverty :-

By application of principles of economics problems of poverty can be solved.

Q.3. Write down the difference betn positive and normative economics.

#### Positive economics

1) Positive economics concerned with 'what is'.

2) Positive economics describe economic behaviours without any value judgment.

#### Normative economics.

1) Normative economics concerned with 'what ought to be'.

2) Normative economics evaluate them with moral judgment.

3) Positive economics is objective.

3) Normative economics is normative subjective.

4) The statement, 'price rise as demand increase' is related to positive economics.

4) The statement, "Raising prices is a social evil" is related to normative economics.

(Q.4)

→ Write down the methods of economic investigation.

There are two methods of economic investigation that are used in economic theory:-

- 1) Deductive method.
- 2) Inductive method.

Explanation :-

1) Deductive method :-

- i) This method involves reasoning or inference from the general to the particular or from the universal to the individual.
- ii) It is also known as the abstract, analytical, hypothetical or a priori method.

Deduction involves four steps :-

- 1) Selecting the problems.
- 2) Formulating the assumptions.
- 3) Formulating the hypothesis through the process of logical reasoning whereby inference are drawn from
- 4) Verifying the hypothesis.

- 2) Inductive method:-
- This method is also known as concrete method, historical method or realistic method.
  - It involves reasoning from particulars to the general or from the individual to the universal.
  - This method derives economic generalisations on the basis of experiments and observation.
  - In this method detailed data are collected on certain economic phenomenon and effort is then made to arrive at certain generalization which follow from the observations collected.

Q.5. Write down in detail about goods and services:

→ Goods :- It is defined as anything that satisfies human wants or needs.

Characteristics of goods :-

- 1) They are tangible in nature.
- 2) They are material outcome of production.  
e.g. Foodgrains, Machinery, seeds, fertilizers etc.

Classification of goods :-

- 1) Based on supply:-
  - a) Free goods.
  - b) Economic goods.

- 2) Based on consumption :-

- a) Consumer goods.
  - b) Producer goods.

3) Based on durability:-

a) Monoperiod goods.

b) Polyperiod goods.

4) Based on transferability:-

a) External material transferable good.

eg. Land, Buildings etc.

b) External material non-transferable good.

eg. Degree certificate, PAN card etc.

c) External non-material transferable goods.

eg. Goodwill of a business.

d) External non-material, non-transferable goods

eg. Friendship, light.

e) Internal non-material Non-transferable goods:

Example. Intelligence Quotient, ability, cruelty etc.

### Explanation :-

i) Based on supply :-

The goods are categorized as economic goods and free goods based on the supply criteria.

a) Free goods :-

i) are those goods that exist in plenty that can be used as much as we like.

ii) They are gifts of nature and used without payment.

eg. Air, sunshine etc.

b) Economic goods :-

- i) The economic good are scarce and can be had only on payment.
- ii) They are limited and generally man-made & hence those can be available only on payment.
- iii) In economics, we are concerned with economic goods only. economic goods mean wealth.

2) Based on consumption :-

The goods are categorized as consumer good and producer goods.

a) Consumer goods :-

- i) consumer goods are those which create satisfaction directly.
- ii) These goods are used by consumer to satisfy their wants directly.
- iii) These goods are known as the goods of first order.

eg. Food, clothing, pen, ink, medicine etc.

b) Producer goods :-

- i) Producer goods are these goods which help us to produce other goods.
- ii) They give satisfaction indirectly by producing other goods which will create final satisfaction.
- iii) They are also termed as goods of second order.

eg. Machinery, tools etc.

### 3) Based on durability :-

This classification emphasized on the nature of the goods and their usage. uses.

#### a) Monoperiod goods :-

i) Those goods which can be used only once in the production and consumption process. known as monoperiod goods.

examples:- seeds, fertilizers, food etc.

#### b) Polyperiod goods :-

i) Are those goods which can be used repeatedly during the production and consumption process over several periods.

eg. Refrigerator, machinery, implements etc

# AnsweR.

Q.6. Write down in detail about utility.

→ Utility :-

Utility means the power of a commodity or service to satisfy a human want.

Characteristics of utility :-

- 1) Utility is subjective.
- 2) Utility varies with purpose.
- 3) Utility varies with time.
- 4) Utility varies with ownership.
- 5) Utility need not be synonymous with pleasure.
- 6) Utility does not mean satisfaction.

### Explanation :-

1) Utility is subjective:-

- i) Utility varies from person to person.
- ii) It depends on man's mind rather than on the things itself.  
eg. a) A blind man cannot see a picture and it has no utility for him.  
b) Cigarette has no utility for a non-smoker.

2) Utility varies with purpose:-

eg. Coconut oil is used as cooking oil or hair oil or as lubricant.

3) Utility varies with ~~not~~ time:-

The intensity of a person's desire for a commodity is different at various time periods, for eg. Labour requirement for paddy is peak during transplanting harvesting and threshing period than other operations taken up in paddy cultivation.

4) Utility varies with ownership:-

Ownership of a good creates greater utility from a good than when it is hired.

eg. Owning a tractor gives more utility than hiring it.

5) Utility need not be synonymous with pleasure:-

eg. A sick man has to consume medicines for getting cured. he does not get pleasure during the process.

6) Utility does not mean satisfaction :-

- utility is distinct from satisfaction.

- Satisfaction is what we get and the utility is the quality in a good which gives satisfaction.

Types of utility :-

- 1) Form utility.

- 2) place utility.

- 3) Time utility.

- 4) Possession utility.

Explanation :-

i) Form utility :-

The change in the form offers greater utility to the good than in its original form.

e.g. processing of paddy into rice gives superior price than paddy because of processing.

ii) Place utility :-

- The utility obtained by spatial movement of the goods is termed as place utility.

- If a commodity is transported from one place to another utility may increase.

e.g. Shimla apples are transported to all parts of the country thereby increasing the utility of apples.

iii) Time utility :-

- Storing the commodity or good at the times of surplus production and make them available during scarcity creates time utility.

e.g. During rainy season, water is stored up in reservoirs and it is used at a later time. This increases the utility of that stored water. So storage creates time utility.

#### 4) Possession utility:-

- The utility obtained due to possession or transfer of ownership of the commodity is called possession utility.
- Buying and selling creates possession utility.  
e.g. Agriculture land sold to real estate for plots would increase the utility for the same piece of land.

Q.7. Write in detail about wealth.

#### Wealth:-

Defn - It consists of all potentially exchangeable means of satisfying human wants.

- In economics wealth is synonymous with economic goods. In short wealth means anything which has value.

#### Characteristics of wealth:-

- 1) It should possess utility.
- 2) It must be scarce.
- 3) It must be transferable
- 4) It must be external to person.

## Classification of wealth or types of wealth :-

- 1) Individual wealth.
- 2) Social wealth.
- 3) Representative wealth.
- 4) National wealth.
- 5) Cosmopolitan wealth.
- 6) Negative wealth.

### Explanations :-

#### 1) Individual wealth :-

- It consists of all tangible and intangible possessions of the individuals besides loans due to them.

eg. Land, bonds, deposits are tangible possessions while, intangible possessions are copyrights, patents etc.

#### 2) Social wealth :-

It is the wealth, which is collectively used by all the people in a nation.

eg. Railways, Public parks, Government colleges etc.

#### 3) Representative wealth :-

It is that form of wealth in the form of title deeds.

#### 4) National wealth :-

It is an aggregate of all individual wealth and social wealth of the country inclusive of loans due to people and to the nation debts have to be deducted. eg. Rivers, mountains.

5) Cosmopolitan wealth :- It is wealth of the whole world. It is a sum total wealth of all nationals.

6) Negative wealth:- It refers to the exclusive debts owed by the individuals and the nation.

Q.8.

State and explain the law of diminishing marginal utility with suitable example. Enlist the exceptions to the law of diminishing marginal utility.



H.H. Gossen was the 1<sup>st</sup> to formulate this law in 1854.

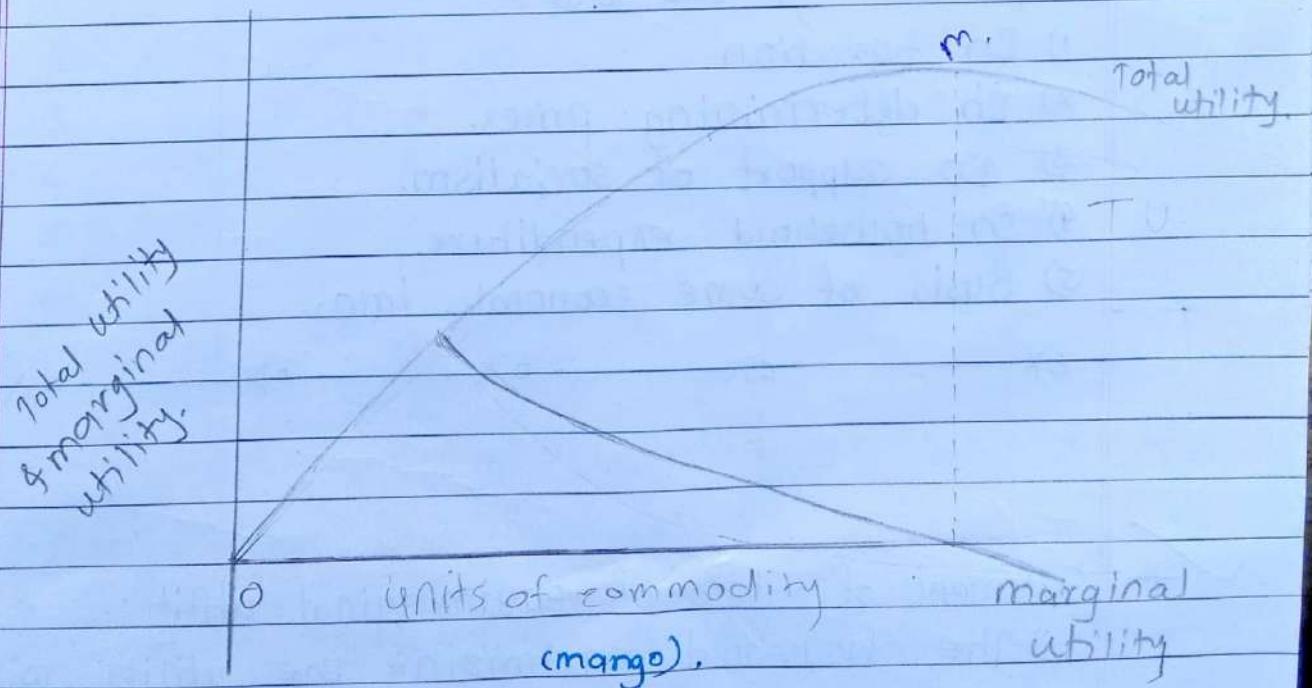
Statement:- The additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has.

Example:-

| Units of mango | Total utility (utils) | Marginal utility |
|----------------|-----------------------|------------------|
| 1              | 12                    | 12               |
| 2              | 22                    | 10               |
| 3              | 30                    | 8                |
| 4              | 36                    | 6                |
| 5              | 40                    | 4                |
| 6              | 41                    | 1                |
| 7              | 41                    | 0                |
| 8              | 39                    | -2               |
| 9              | 34                    | -5.              |

- Let us suppose that a consumer takes  $g$  units of mango one after another.
- The utility he gets from the second unit of mango will be lesser than the utility he gets from the first unit.
- thus, the marginal utility from successive units of mango will tend to decline.
- It could be observed from given table that the total utility increases at diminishing rate.
- When the marginal utility becomes negative, the total utility starts decreasing. as shown in above table.

\* Total utility and marginal utility from the successive units of the commodity are plotted in the figure below.



Explain:-

- 1) The total utility curve starts at the origin as zero consumption of mango yields zero utility.

2) The total utility curve reaches at its maximum or a peak at M when Marginal utility is zero.

3) The marginal curve falls throughout the graph. A special point occurs on the X-axis. he gains no marginal utility from it. After this point marginal utility becomes negative.

Exceptions of the LDMU :-

- i) Dissimilar units.
- ii) very small units.
- iii) Too long an interval.
- iv) rare collection.
- v) Change in income, habits and tastes.

Importance of the law :-

- 1) In taxation.
- 2) In determining prices.
- 3) In support of socialism.
- 4) In household expenditure.
- 5) Basis of some economic laws.

OX ————— OX ————— OX ————— OX ————— OX



Statement of law of equimarginal utility:-

"The household maximizing the utility will so allocate the expenditure between commodities that the utility of the last penny spent on each item is equal".

## Q.9. Law of equimarginal utility :-

(State and explain the law of equimarginal utility with its limitations and practical importance).

→ Statement :-

If a person has a thing which can be put to several uses person will distribute it among these uses in such a way that it has the same marginal utility in all.

Tabular form.

| Units | Marginal unit of orange | Marginal utility of apple. |
|-------|-------------------------|----------------------------|
| 1     | 15                      | 12                         |
| 2     | 12                      | 9                          |
| 3     | 9                       | 5                          |
| 4     | 5                       | 3                          |
| 5     | 3                       | 0                          |
| 6     | 0                       | -3                         |
| 7     | -3                      | -6                         |
| 8     | -6                      | -9.                        |

Explanation:-

- Suppose apples and oranges are two commodities to be purchased and we have got only seven rupees to spend.
- one unit is for one rupee.
- If we spend 4 rupees on apple and 3 rupees on ~~one~~ oranges, the total utility will be 66.

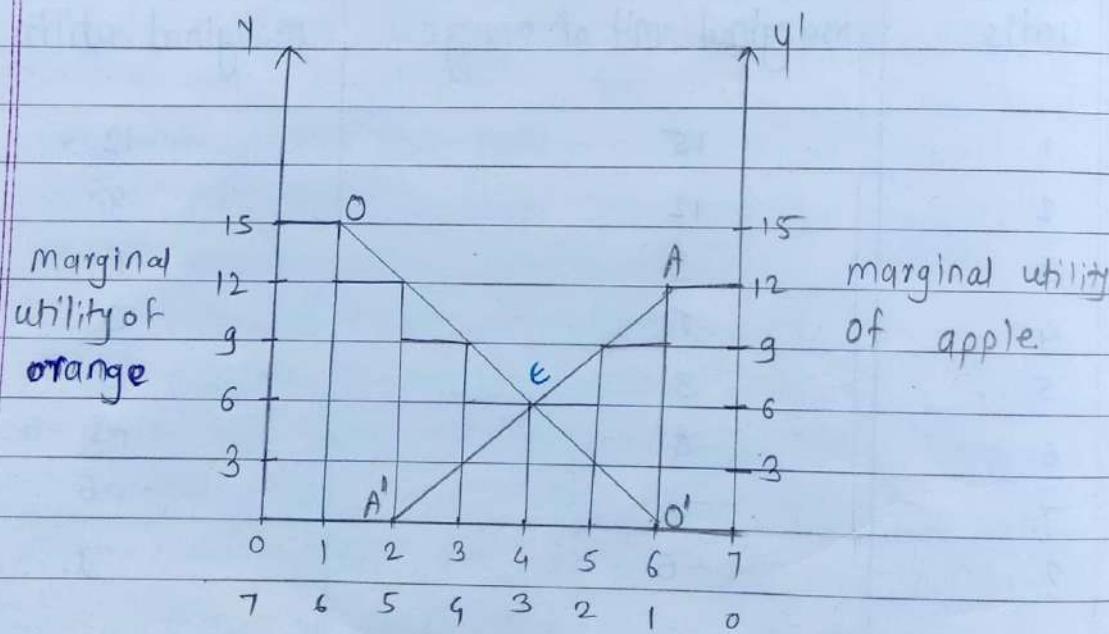
Apple :-  $12 + 9 + 6 + 3 = 30$  and  
 Oranges :-  $15 + 12 + 9 = 36$ .

- Instead of spending 4 rupees on apples if we spend 3 rupees on apples and 4 rupees on oranges the total utility will be 39.

$$\text{orange} - 15 + 12 + 9 + 6 = 42.$$

$$\text{Apple} - 12 + 9 + 6 = 27.$$

Thus, we come to the conclusion that we obtain maximum utilities by substituting some units of the more useful for the less useful commodities.



- On OY axis the marginal utility of orange is denoted and on OY' axis marginal utility of apple is denoted.

- OO' is the marginal utility curve of orange and AA' is the marginal utility of curve of apple.

- Point E is the point of equimarginal utility where marginal utility of orange and marginal utility of apple is equal.  
i.e. At the point E total utility derived is higher than any other point.

Limitations or exceptions of law of equimarginal utility:-

- I) Ignorance.
- II) Inefficient Organization.
- III) Unlimited resources.
- IV) Hold of custom and fashion.
- V) Frequent change in prices.

Explanation:-

I) Ignorance:- (अज्ञान, ज्ञानाचा अमाव)

i) If the consumer is ignorant or blindly follows custom or fashion, he will make wrong use of money.

ii) On account of his ignorance he may not know where the utility is greater and where less.

iii) Thus, ignorance may prevent him from making a use of money, hence his satisfaction may not be the maximum, because the marginal utilities from his expense cannot be equalized due to ignorance.

II) Inefficient Organization - अकार्यकाम संघटना.

iii) An incompetent organizer of business will fail to achieve the best results from the units of land, labour and Capital that he employs.

ii) This is so because he may not be able to divert expenditure to more profitable channels.

### III) Unlimited Resources :-

- i) The law has obviously (स्पष्टपूर्ण) no place where the resources are unlimited, as for example in case with the free gifts of nature.
- ii) In such cases, there is no need of diverting expenditure from the direction to another.

### IV) Hold of custom & fashion :-

- i) A consumer may be in the strong clutches of custom or is inclined to be a slave of fashion.
- ii) In that case, he will not be able to derive maximum satisfaction out of his expenditure because he cannot give up consumption of such commodities.

### V) frequent change in prices:-

- i) frequent changes in prices of different goods render the observance of the law very difficult.
- ii) ~~This~~ The consumer may not be able to make necessary adjustments in his expenditure in a constantly price changing situation.

Importance of the law of equimarginal utility :-

- 1) Consumption.
- 2) Production.
- 3) Exchange.
- 4) Distribution.
- 5) Public finance.
- 6) Influences prices.

Explanation :-

1) Consumption :-

- Every person must try to spend his income in a manner which yield him the great satisfaction.
- This he will be able to do only if he spends his money in such a manner as to obtain equal satisfaction from the marginal units of money spent on the various commodities be purchases.

2) Production :-

- The producer has to use several factors of production, he wants maximum net profit.
- For this purpose, he must substitute one factor for another so as to secure the most economical combination.
- He will Substitute labour for machinery and vice-versa.
- So, that the marginal utility of the two is equalized.
- In this manner he will get most economical combination of the factor of production at his disposal.

### 3) Exchange:-

- The law also applies in exchange because exchange is nothing but the substitution of one for another.
- When we sell a commodity, say, sugar, we get money with this money we buy another commodity, say wheat.
- We have therefore really substituted sugar for wheat.

### 4) Distribution:-

- It is on the principle of marginal productivity that, the share of each factor of production (viz. land, labour, capital & organization) is determined.
- The use of each factor is pushed up to a point where its marginal product is equal to the marginal product of every other factor.
- This necessitates substituting one factor for another.

### 5) Public Finance:-

- The Govt. too is guided by this law in public expenditure.
- The public revenues are so spent so as to secure maximum welfare for the community.
- The govt. must cut down all wasteful expenditure or where the return is not proportionate concentrate its resources on more productive or more beneficial expenditure.

6) Influences prices:-

- The law influences prices.
- When a commodity becomes scarce and its price so as high, we substitute for it things which are less scarce.

Q. Define agriculture economics. write down the importance and its role in economic development.



Agriculture economics :-

The science in which the principles and methods of economics are applied to the special conditions of agricultural industry.

Importance of agriculture in economic development:-

- 1) Agricultural influence on national income.
- 2) Agriculture plays vital role in generating employment.
- 3) Agriculture makes provision for food for the ever increasing population.
- 4) Contribution to capital formation.
- 5) Supply of raw material to agro-based industries.
- 6) Market for industrial products.
- 7) Influence on internal and external trade and commerce.
- 8) Contribution in government budget.
- 9) Need of labour force.
- 10) Greater competitive advantages.

### Explanation:-

1) Agriculture influence on national income:-

- The contribution of agriculture during the first two decades towards the GDP ranged betn 48% to 60%.

- In the year 2001-2002 this contribution declined to only about 26%.

2) Agriculture plays vital role in generating employment:-

In India at least two-third of the working population earn their living through agricultural works.

3) Agriculture makes provision for food for the ever increasing population:-

Agriculture is the integral part of the world food system, having the foundation links betn crops and animal production system.

4) Contribution to capital formation:-

Agriculture be the largest industry in developing country like India, it can and must play an important role in pushing up the rate of capital formation.

5) Supply of raw material to agro-based industries:-

- Agriculture supplies raw materials to various agro-based industries like sugar, jute, cotton, textile and vanaspati industries.

- Food processing industries are similarly dependent on agriculture.

6) Market for industrial products :-

- Increase in rural purchasing power is very necessary for industrial development as two-thirds of Indian population live in village.

- After green revolution the purchasing power of the large farmers increased due to their enhanced income and negligible tax burden.

7) Influence on internal and external trade and commerce

i) Indian agriculture plays a vital role in internal and external trade of the country.

ii) Internal trade in food-grains and other agricultural products helps in the expansion of service sector.

8) Contribution in government budget:-

i) Right from the first five year plan agriculture is considered as the prime revenue collecting sector for both central and state budgets.

ii) However, the governments earn huge revenue from agriculture and its allied activities like cattle rearing, animal husbandry, poultry farming, fishing etc.

9) Need of labour force:-

A large number of skilled and unskilled labourers are required for the construction works and in other fields. This labour is supplied by Indian agriculture.

10) Greater competitive advantages:-

Indian agriculture has a cost advantages in several agricultural commodities in the export sector because of low labour costs and self-sufficiency in input supply.

Q.

State and explain the consumer surplus with suitable example and diagram and write its importance.



Marshall defines:-

Statement:- "Excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay is the economic measure of surplus satisfaction."

OR

Consumer surplus is the difference betn what the consumer is willing to pay and what he actually pays.

Formula :-

Consumer surplus = total utility - total amount spent.

| Units of mango | marginal utility<br>(price willing to Pay) | market price (Rs)      | Consumer's Surplus.      |
|----------------|--|------------------------|--------------------------|
| 1              | 20   | 5                      | 15                       |
| 2              | 15   | 5                      | 10                       |
| 3              | 10   | 5                      | 0.5                      |
| 4              | 0.5  | 5                      | 0.0                      |
| Units - 4      | Total utility = 50                         | Total money spend = 20 | Consumer's Surplus = 30. |

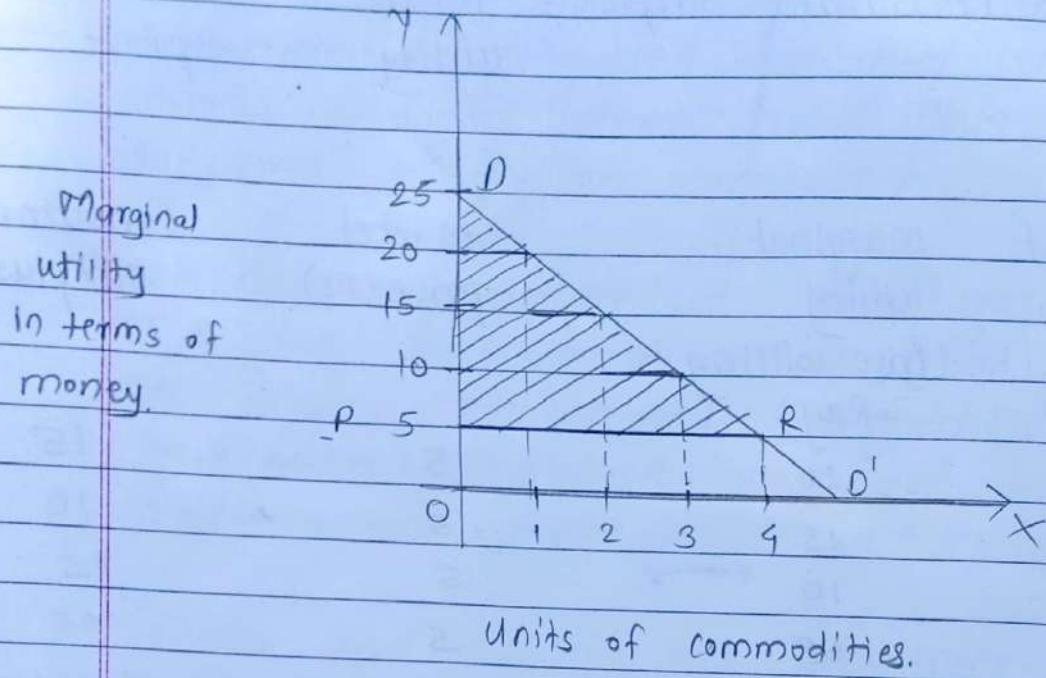
- In the above table price of mango is 5 per unit.

- Marginal utility derives from the first unit of mangoes is 20 and hence consumer Surplus is 15 and so on.

- The consumer will purchase as many as 4 mangoes where marginal utility equal to price.

- Thus he purchase 4 mangoes and gets consumer surplus =  $50 - 20$   
 $= \underline{\underline{30}}$ .

## Diagrammatic presentation :-



### Explanation:-

- Along  $Ox$  axis units of commodity are measured and along  $y$ -axis marginal utility in terms of money is measured.
- $DD'$  is demand curve.
- At price  $OP$ , the total amount paid for  $OQ$  units of commodity (mango) is  $OP \times OQ$  and in graph area represented as  $OQRP$ .
- But the actual amount the consumer is willing to pay for  $OQ$  units is  $OQRD$ .
- The consumer surplus therefore is  $OQRD - OQRP = PRD$  (shaded area).

Importance of consumer surplus :-

- 1) In public finance.
- 2) To businessmen.
- 3) Comparing advantages of different places.
- 4) Distinction between value in use and value in exchange.
- 5) Measuring benefits from international trade.

Explanation:-

- 1) In public finance:-  
Useful for finance minister in imposing taxes and fixing their rates.
- 2) To businessmen:-  
He can raise prices of those articles in which there is a large consumer surplus.
- 3) Comparing advantages of different places:-  
People will enjoy large consumer surplus in a place where there are greater amenities available at cheaper rates.
- 4) Distinction betn value in use and value in exchange  
Necessaries and cheap things yield large consumer Surplus. They have great value in use but less value in exchange.
- 5) Measuring benefits from international trade :-  
With the availability of imported goods which are cheaper the consumer get surplus of satisfaction.

Q. Write down the assumption of consumer's surplus.



- 1) Marginal utility of money for the consumer is assumed to be the same throughout the process of exchange.
- 2) Commodity does not have substitutes.
- 3) In the market at the given point of time, there are no differences of income, taste, preferences and fashions among the consumers.
- 4) Each commodity is considered independent of others.

Q. Write down difficulties in measuring consumer's Surplus.



- 1) The cardinal measurement of utility is difficult because it is close to impossible for a consumer to say that the first unit of commodity gave him 10 units of satisfaction and the second unit of commodity gave him 5 units of satisfaction.
- 2) Marginal utility for the same commodity is different to different consumers. Marginal utility for a particular commodity varies from person to person depending upon their income, taste and preferences.
- 3) Existence of substitutes : In the real world a number of substitutes for a commodity exist, thus making the work of measuring consumer's Surplus a complicated task.

4) Marginal utility of money is not constant:

- Marshall based his concept of consumer's surplus on the simplifying assumption that the marginal utility of money is constant.

- As the consumer buys more and more units of a commodity  $x$ , the amount of money with him diminished, in this case, the marginal utility of money is bound to increases rather than remain constant.

5) Lack of awareness of price :- It is not possible for a consumer to be aware of the entire demand schedule.

\* Demand :-  
Defn) Demand is the amount of commodity for which a consumer has the willingness and also the ability to pay.

meaning:- the various quantities of given commodity or services which consumer would buy in given market in a given period of time at various prices or various income or at various prices of related goods

Types of demands :-

- 1) Price demand.
- 2) Income demand.
- 3) Cross demand.
- 4) Complementary demand.
- 5) Derived demand.

Explanation :-

1) Price demand :-

- Price demand refers to various quantities of a commodity that consumers demand per unit of time at different prices, assuming that their incomes, taste and preferences and prices of related goods remain constant

- The law of demand explains to price demand

Individual demand:- The demand for the commodity of the individual consumer is called individual demand.

Market demand :- (Industry demand) :-  
 The total demand for all the consumers combined for the commodity or services are called industry demand.

Individual seller demand :-

The total demand for the product of an individual firm at various prices is known as firms demand or individual sellers demand.

2) Income demand :-

- The income demand refers to various quantities of goods and services, which would be purchased by the consumers at various levels of income, other things here we assume remaining the same.

- other things here we assume that the prices of the commodity or services as well as the prices of the inter-related goods and the tastes and desires of consumers do not change.

3) Cross demand :-

- cross demand means the quantities of a good or service which will be purchased with reference to changes in the price not of this good but of other related goods.

For example - a change in price of tea will affect demand for coffee.

- Also known as complementary demand or joint demand.

#### 4) Derived demand:-

The demand for a factor of production that results from the demand for the final form of the commodity which it helps to produce.

e.g. a consumer buys bread. To bake the bread, bakers have to buy flour, their derived demand for flour is met by flour mills. The flour mills in turn, buy wheat; their derived demand goes back to the farmers who grow the wheat, the farmers in turn, have a derived demand for seeds, fertilizers, tractors etc, to cultivate wheat.

Q. State the law of demand and discuss the factors determining demand.

OR

State and explain the law of demand. Discuss the factors affecting change in demand.



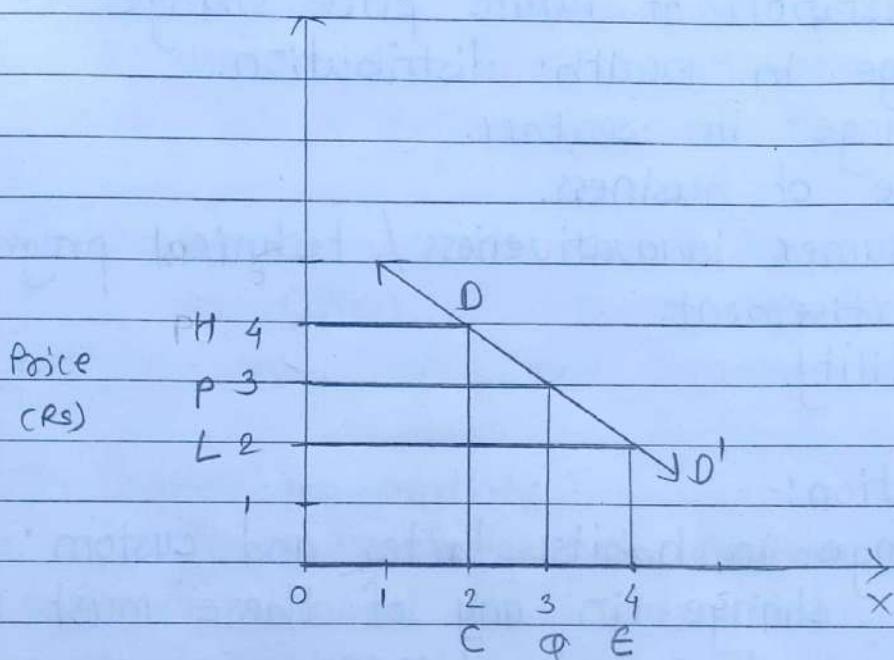
Statement:-

"As price increases (decreases) consumers will purchase less (more) of the specific commodity. Demand varies inversely with price."

Example or Explanation or demand curve:-

Price per unit. Units of quantity demanded.

|      |       |
|------|-------|
| 4 OH | 2 OC  |
| 3 OP | 3 OG. |
| 2 OL | 4 OE. |



Units of commodity.

- In the above diagram, prevailing price is OP whereas, quantity demanded is OG.
- when price is OH, it means higher the price quantity demand would be OC which is less than OG.
- It shows contraction in demand.
- On the contrary, when price is OL, at the lower price the quantity demanded will be OE.
- Hence, Previous quantity OG is less than OE.
- It shows extension in demand.

## Determinants of demand :-

- 1) change in habits, taste and custom :-
- 2) change in real income
- 3) Discovery of cheap substitute.
- 4) change in number of consumers.
- 5) expectation of future price changes.
- 6) change in wealth distribution.
- 7) change in weather.
- 8) state of business.
- 9) Consumer innovativeness / technical progress.
- 10) Advertisement.
- 11) utility.

### Explanation:-

1) change in habits, tastes and custom :-  
change in any of these must bring about a change in demand. In place of low price cereals people prefer processed foods ready to consume products.

### 2) change in real income :-

As income increases, other things being equal, the demand for a commodity also increases. Comfort and luxurious goods belongs to this category.

### 3) Discovery of cheap substitute :-

Dairy farmers use plastic products in place of metal products, the demand for plastic

product is increased.

4) change in number of consumers :-

Larger the population more will be demand for certain goods like food grain and pulses etc.

5) expectation of future price changes :-

A person will increase or decrease his demand with future expectation of rise or fall in price.

6) change in wealth distribution :-

Distribution of income affects consumption pattern and hence the demand for various goods.

7) Change in weather :-

Demand changes as weather changes. e.g. During summer demand for cold drinks and in winter demand for woolen cloths is increased.

8) state of business :-

During boom, demand will expand and during depression demand will contract.

9) Consumer innovativeness / technical progress.

With the new discoveries the old things are replaced with the new ones.

10) Advertisement :-

A clear and persistent campaign of advertisement may create a new type of demand.

ii) Utility :-

utility of commodity to the consumer is mainspring of demand.

Q. Define elasticity of demand. state the different types of elasticity of demand. Explain the factors influencing elasticity of demand.



Elasticity of demand :-

Elasticity of demand refers to the sensitiveness or responsiveness of demand to changes in price.

Types of elasticity of demand :-

- 1) Price elasticity of demand.
- 2) Income elasticity of demand.
- 3) Cross elasticity of demand;

Degrees of elasticity of demand :-

- 1) Perfectly inelastic demand.
- 2) Perfectly elastic demand.
- 3) Unitary elastic demand.
- 4) Relatively elastic demand.
- 5) Relatively inelastic demand.

Explanation :-

1) Price elasticity of demand :-

- The concept of price elasticity of demand is commonly used in economic literature.
- Price elasticity of demand is the 'degree'

of responsiveness of quantity demanded of a good to a change in its price.

- It is the ratio of proportionate change in quantity demanded of a commodity to a given proportionate change in its price.
- Price elasticity of demand ( $E_p$ ) is thus given by:

$$E_p = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in price}}$$

### 2) Income elasticity of demand :-

- The degree of change or responsiveness of quantity demanded of good to a change in the income of a consumer is called income elasticity of demand.

- Income elasticity of demand can be defined as the ratio of percentage change in the quantity of good purchased, per unit of time to percentage change in the income of a consumer.

$$E_y = \frac{\text{Percentage change in demand.}}{\text{Percentage change in income}}$$

### (3) Cross elasticity of demand :-

The concept of cross elasticity of demand is used for measuring the responsiveness of quantity demanded of a good to change in the price

of related goods.

- Cross elasticity of demand is defined as the percentage change in the demand of one good as a result of the percentage change in the price of another good.

$$E_{xy} = \frac{\% \text{ change quantity demanded of good } X}{\% \text{ change in price of good } Y}$$

Factors influencing elasticity of demand:-

- 1) For necessities.
- 2) For luxuries.
- 3) Proportion of total expenditure.
- 4) Existence of substitutes.
- 5) Alternative use (several use).
- 6) Possibility of postponement.
- 7) Range of prices.
- 8) Joint demand.
- 9) Market imperfections.
- 10) Technological factors.
- 11) Time period.

Explanation:-

i) For Necessaries:-

- less elastic or comparatively inelastic.
- whatever may be the price, demand for necessary goods remains same  
e.g. matchbox, salt with high value in use.

2) for luxuries :-

- More elastic. A little fall in price stimulates the demand and little rise discourages it.  
eg. gold, luxury cars.

3) Proportion of total expenditure :-

Inelastic. when very small proportion of income spent demand is inelastic. eg. Newspaper.

4) Existence in substitutes:-

- Elastic for commodities having substitutes.  
- If price of any one of commodity falls, it will be purchased in large quantities.

eg. Tea and coffee, Sunflower oil and groundnut oil.

5) Alternative use (Several use) :-

Elastic. The demand for those ~~white~~ goods which can be put to several uses is elastic.

- With fall in price, such a commodity tends to be put to less urgent user.

eg. Regularly electricity is used in production of industrial goods, transport, lighting etc but cheap electricity can be used for cooking also.

6) Possibility of postponement:-

Elastic. when we postpone buying a commodity, the demand is elastic. The consumer would prefer to buy the goods when they are cheap. eg. Television; cars, ornaments.

### 1) Range of prices :-

Inelastic. When price for a commodity is too high or too low, demand will be comparatively inelastic.

e.g. Salt, matches - low price.

Diamonds, luxurious cars - very high price

### \* Practical importance of the elasticity of demand :-

- 1) Importance in taxation policy:-
- 2) Price discrimination by monopolist.
- 3) Importance to businessmen.
- 4) Help to trade unions.
- 5) Use in international trade.
- 6) Determination of rate of foreign exchange.
- 7) Guideline to the producers.
- 8) Use in ~~in~~ Factor pricing.

#### Explanation :-

##### 1) Importance in taxation policy :-

- when a finance minister levies a tax on a certain commodity, he has to see whether the demand for that commodity is elastic or inelastic.

- If the demand is inelastic, he can increase the tax and thus can collect larger revenue.

##### 2) Price discrimination by monopolist :

If the monopolist finds that the demand for his commodities is inelastic, he will at

once fix the price at a higher level in order to maximize his net profit.

- In case of elastic demand, he will lower the price in order to increase his sales and derive the maximum net profit.

### 3) Importance to businessmen:-

When the demand of good is elastic, they increases sale by lowering its price. In case the demand is inelastic, they charge higher price for a commodity.

### 4) Help to trade unions:-

- The trade unions can raise the wages of the labour in an industry where the demand of the product is relatively inelastic.

- On the other hand, if the demand for product is relatively elastic, the trade unions cannot press for higher wages.

### 5) Use in international trade:- The terms of trade b/w two countries are based on the elasticity of demand of the traded goods.

### 6) Determination of rate of foreign exchange:-

The rate of foreign exchange is also considered on the elasticity of imports and exports of a country.

### 7) Guideline to the producers:- The concept of elasticity provides a guideline to the producers

For the amount ~~of~~ to be spent on advertisement  
If the demand for a commodity is elastic  
the producers shall have to spend large sums  
of money on advertisements for increasing the  
sales.

### 8) use in factor pricing :-

The factors of production which have inelastic  
demand can obtain a higher price in the  
market than those which have elastic demand.  
This concept explains the reason of variation  
in factor pricing.

## \* Objectives \*

|          |  |
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| Page No. |  |
| Date     |  |

Q.1) Want :-

It is defined as having a strong desire for something.

2) Demand :-

The demand means the various quantities of a good that would be purchased per unit of time at different prices in a given market

OR

The desire back up by Demand is the amount of a commodity for which a consumer has the willingness and also the ability to buy.

3) Utility :- The want satisfying quality in a good is called utility.

4) Cost :- Total amount of money spent towards total unit purchase.

5) Price :- When value is express in terms of money.

6) Wealth :- Anything which has value is called as wealth.

7) Capital :- A part of human when which are used to create future wealth.

8) income :-

income is money that an individual or business receives in exchange for providing a good or service or through investing capital.

9) Welfare :-

it means governmental provision of economic assistance to persons in need to alive on welfare.

10) Total utility :-

Total utility is the amount of utility derived from the consumption of all the units at the disposal of the consumer.

11) Marginal utility :-

Marginal utility is the utility derived from the additional unit of a commodity.

12) Agricultural economics :-

It is defined as application of principles of economics for solving agricultural problems and to maximize agricultural production.

13) Service :-

Service would be performance of any duty or work for another or professional activity.