THEORY OF DEMAND AND ITS ELASTICITY

TEST PAPER SET-2 FM: 25

1. Explain with an example, what kind of a commodity will have an inverse relationship between income and demand. [2]
2. Explain how the following phenomena are exceptions to the law of demand : [2]
   - Expectations regarding future price
   - Conspicuous consumption by a consumer
3. Calculate the quantity demanded of a commodity when its price increases from rupees 4 to rupees 6. The original quantity demanded was 40units and the price elasticity of demand is 0.5. [2]
4. Discuss four factors other than price, that affect demand of a commodity. [4]
5. Complete the demand schedule for commodity X. [2]

Price	quantity Demanded By A.	quantity Demanded By B.	Market demand
15	50	85	?
20	45	?	105
25	?	45	85
30	35	35	?

   Draw the market demand curve from the above schedule.
6. How is ex ante demand different from ex post demand? [2]
7. What is meant by income elasticity of demand? [2]
8. Draw diagrams to show the elasticity of demand when it is: [3]
   - Greater than one
   - Less than one
   - Unity
9. Discuss the effect of elasticity of demand on: [2]
   - A commodity which has many substitutes
   - A small part of individual's income spent on a commodity
10. What does zero elasticity of demand between two goods imply? Give an example to explain. [4]

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TEST PAPER SET-2 FM: 28

1. With the help of a suitable example explain the effect of a rise in the price on the demand for complementary goods. [2]
2. With the help of a suitable diagrams explain the difference between decrease in demand and contraction in demand. [2]
3. Explain in brief: Ceteris paribus assumption of the law of demand. [3]
4. Explain one exception to the law of demand. [2]
5. Define composite demand. Clearly explain any three determinants of demand in a market.[3]
6. With the help of a diagram show how a market demand curve can be obtained from individual demand curves. [3]

7. Price of a good rises by 2%. As a result, its supply rises by 4%. Find out the price elasticity of supply. [2]

8. The price of milk rises from Rs. 26 to Rs. 30 per liter and its demand falls from four liters per day to two liters per day. Calculate the elasticity of demand for milk. [2]
9. Define price elasticity of demand. Explain how the following factors determine price elasticity of demand : [5]

• Existence of substitute goods

• Nature of the commodity

• Proportion of expenditure incurred in a Household Budget

10. State whether the following statement is true or not: [1]

• The price elasticity of demand for commodities having close substitutes is relatively high.

11. A consumer purchased 10units of a commodity when its price was Rs. 5per unit. He purchases 12 units of the commodity when price falls to Rs. 4per unit. Calculate the price elasticity of demand for the commodity. [3]