

## 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 40 units 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]