ECONOMICS

BOOKS - RADHA BHUGANA ECONOMICS (HINGLISH)

PRICE DETERMINATION

Example

1. Suppose the value of demand and supply curves of a commodity-X is given by the

following two equation simultaneously:

$$Q_d = 200 - 10p \qquad Q_s = 50 + 15p$$

(i) Find the equilibrium price and equilibrium quantity of commodity X.

(ii) Suppose that the price of a factor inputs used in producing the commodity has changed, resulting in the new supply curve given by the eqation

$$Q_s = 100 + 15p$$

Analyse the new equilibrium the new equilibrium price and new equilibrium quantity as against the original equilibrium price and equilibrium quantity.

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2. Suppose the demand and supply curves of a Commodity X is given by the following two equations simultaneously:

$Qd = 200 - p$, $Qs = 50 + 2p$

(i) Find the equilibrium price and equilibrium quantity.

(ii) Suppose that the price of a factor of production producing the commodity has changed, resulting in the new supply curve given by the equation:

Qs'=80+2p`

Analyse the new equilibrium price and new equilibrium quantity as against the original equilibrium price and equilibrium quantity.

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3. Suppose the demand and supply curve of commodity X in a perfectly competitive market are given by:

$$q^D = 700 - p$$

$$q^S = 500 + 3p \quad \text{for} \quad p \geq 15$$

$= 0 \quad \text{for} \quad 0 \leq p < 15$

Assume that the market consists of identical firms. Identify the reason behind the market supply of commodity X being zero at any price less than rupee 15. What will be the equilibrium price for this commodity? At equilibrium, what quantity of X will be produced?

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4. Suppose the demand and supply curves of salt are given by: $0 < p < 15$

$q^D = 1,000 - p$

$q^S = 700 + 2p$

(a) Find the equilibrium price and quantity.

(b) Now suppose that the price of an input used to produce salt has increased so that the new supply curve $q^S = 400 + 2p$. How does the equilibrium price and quantity change?

(c) Suppose the goverment has imposed at tax of rupee 3 per unit on sale of salt. How does it affect the equilibrium price and quantity?

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5. The market demand curve for commodity X is $q^D = 700 - p$. Now, let us allow for free entry and exit of the firms producing commodity X. Also assume the market consists of identical firms producing commodity X. Let the supply curve of a single firm be explained as:

$$q_t^S = 8 + 3p \quad \text{for} \quad p \geq 20$$

$$= 0 \quad \text{for} \quad 0 \leq p < 20$$

(a) What is the significance of p = 20?

(b) Calculate the equilibrium quantity and number of firms at the equilibrium price of rupee 20.

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6. Consider the following demand and supply function of the commodity :

$Q^D = 200 - P$, $Q^D = 120 + P$

(i) Calculate equilibrium price.

(ii) Calculate equilibrium quantity

(iii) Which situation arises when market price is Rs.25 ?

(iv) Which situation arises when market price is Rs.45 ?

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7. Consider the following demand and supply function of the commodity :

$$Q^D = 160 = 2P \quad , \qquad Q^S = -40 + 2P$$

(i) Find equilibrium price.

(ii) Find equilibrium quantity.

(iii) Which situation arises when market price is Rs.30 ?

(iv) Which situation arises when market price is Rs.60 ?

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Mcq

1. The price determined by the intersection of demand curve and supply curve is

A. controlled price

B. equilibrium price

C. fixed price

D. none of these

Answer: B

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2. Equilibrium price remains the same when

A. increase in demand = increase in supply

B. decrease in demand = decrease in supply

C. increase in demand when supply is perfectly elastic

D. all of these

Answer: D

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3. Due to increase in price of infuts, equilibrium price

A. rises

B. falls

C. remains constant

D. none of these

Answer: A

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4. If demand and supply curves do not intersect each other at any positive quantity, the industry is :

A. making profits

B. in perfect competition

C. not economically viable

D. all of these

Answer: C

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5. Equilibrium price rises due to :

A. favourable change in tastes

B. increase in income

C. increase in population

D. all of these

Answer: D

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6. Starting from initial market equilibrium, leftward shift in demand will result in

A. fall in price only

B. fall in price and quantity both

C. fall in quantity only

D. none of these

Answer: B

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7. Equilbrium price in perfect competition is determined by :

A. One group of firms

B. One individual firm

C. All the firms

D. none of these

Answer: C

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8. A firm in perfect competition earns ________ in the long run.

A. Normal profits

B. Super normal profits

C. Below normal profits

D. none of these

Answer: A

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Objective Type Question

1. Define market equilibrium.

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2. Define equilibrium price.

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3. Define viable industry.

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4. Define non-viable industry.

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5. What happens at equilibrium price.?

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6. What is equilibrium quantity ?

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7. Define excess supply.

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8. Define excess demand.

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9. What is meant by viable industry? Explain with the help of a diagram.

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10. What is a non-viable industry?

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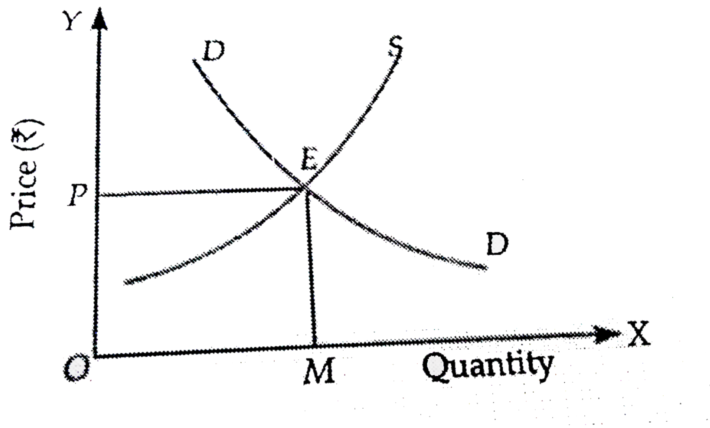
Conceptual Questions

1. Explain determination of equilibrium price in case of a viable industry.

Equilibrium price of a commodity is determined at a point, where quantity demanded is equal to quantity supplied. It is a position of rest. $e.g.$, OP is equilibrium price, as at this price $QD_x = QS_x$.



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Hots

1. 'Dimand and supply are like two blades of a pair of scissors". Discuss.

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2. The market demand curve for a commodity and the total cost for a monopoly firm producing the commodity is given by the schedule below :

Quantity	0	1	2	3	4	5	6	7	8
Price	52	44	37	31	26	22	19	16	10
Total Cost	10	60	90	100	102	105	109	115	125

Use the information to calculate the following :

(i) The MR and MC schedules.

(ii) The quantites for which MR and MC are equal.

(iii) The equilibrium quantity of output and the equilibrium price of the commodity.

(iv) The total revenue, total cost and profit in equilibrium.

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3. Make suitable schedules to show that there is (i) simultaneous increase and (ii) simultaneous decrease both in demand and supply but there is no change in market price.

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4. Economists say inconsistent things. They say "as price falls, demand rises but as demand rises, price rises". Defend or Refute.

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5. How is equilibrium reached if there is excess demand at a price lower than equilibrium price?

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6. How is equilibrium reached if there is excess supply at a price higher than equilibrium price ?

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7. The following headline appeared in the Hindustan Times on 2 August 2014 :

"Crop damaged in Himachal sent tomato prices roaring in Delhi."

Use a diagram and economic theory to analyse the statement.

Or

On 19 December 2013, the following news item was item was printed in the Economic Times :

Households in Southern India prefer to eat oranges for breakfast as banana plantations in Kerala have been destroyed and price of apples and grapes have also risen.

Use a diagram and economic theory to analyse the imapact of the rise in price of apples and grapes on the market or oranges,

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Value Based Questions

1. Equilibrium price of an essential medicine is too high. Explain what possible steps can be taken to bring down the equilibrium pirce but only through the market force. Also explain the series of changes that will occur in the market.

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2. If government reduces subsidy on LPG cylinders, how does it affect its market price ? What alternative energy sources can be used by the consumers?

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3. Demand of flasts in a particular society is rising causing rise in their prices. On the other hand law of demand states inverse relation between price and demand of a commodity.

Why is this contradiction ? Do economists say inconsistent things ?

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Necrt

1. Explain market equilibrium.

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2. When do we say there is excess demand for a commodity in the market?

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3. When do we say there is excess supply for a commodity in the market?

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4. What will happen if the price prevailing in the market is

(i) Above the equilibrium price ?

(ii) Below the equilibrium price ?

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5. Explain how price is determinde in a perfectly competitive market with fixed number of firms.

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6. How are equilibrium price and quantity affected when income of the consumers (a) increases?

(b) decreases?

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7. 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 pair of socks bought and sold.

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8. How will a change in price of coffee affect the equilibrium price of tea ? Explain the effect on equilibrium quantity also through a diagram.

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9. How do the equilibrium price and quantity of a commodity change when price of input used in its production changes ?

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10. If the price of a substitute (Y) of good X increases, what impact does it have on the equilibrium price and quantity of good X ?

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11. Explain with the help of a diagram the effect of a rightward shift of supply curve of a commodity on its equilibrium price and quantity.

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12. How are the equilibrium price and quantity affected when

(a) both demand and supply curves shifts in the same direction?

(b) demand and supply curves shifts in opposite directions?

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Vsatq

1. Define market equilibrium.

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2. For a non-viable industry, where does the supply curve lie in relation to demand curve ?

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3. Given meaning of equilibrium price of a good.

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4. How does a cost saving technology affect the price and quantity?

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5. Market for a good is in equilibrium. Demand for the good 'increases'. Explain the chain of effects of this change.

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6. What is equilibrium point?

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7. Explain with the help of a diagram the effect of a rightward shift of supply curve of a commodity on its equilibrium price and quantity.

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8. Give the meaning of excess demand for a product.

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9. How does an increase in demand of a commodity affect its equilibrium price and equilibrium quantity? Explain with the help of a diagram.

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10. At a price of Rs.50 per chocolate, the demand is 700 chocolates and the supply is 900 chocolates. What is likely to be its effect on the price of chocolates?

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11. A severe drought results in a drastic fall in the output of cotton. Analyse how it will affect the market price of cotton.

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12. What happens to equilibrium price of a cmmodity if there is an 'increase' in its supply?

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13. How does an increase in input price affect the equilibrium price and quantity?

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14. What happens to equilibrium price of a commodiity if there is 'decrease' in its demand and 'increase' in its supply ?

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15. What will be the effect on equilibrium price and equilibrium quantity of electronic goods, if China exports a large number of electronic goods to India ?

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Satq

1. Define the following terms:

(a) Equilibrium

(b) Equilibrium price (c) Equilibrium quantity

(d) Market equilibrium.

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2. Explain with the help of a diagram the effect of a rightward shift of supply curve of a commodity on its equilibrium price and quantity.

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3. Explain the concept of non-viable industry with the help of an example.

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4. Briefly discuss the effect on equilibrium price and quantity, when decrease in supply is less than the decrease in demand.

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5. What is meant by viable industry? Explain with the help of a diagram.

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6. Explain the effect of a laftward shift of demand curve of a commodity on its equilibrium price with the help of a diagram.

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7. How will increase in the income of the buyers of an 'inderior good' affect its equilibrium pirce and equilibrium quantity ? Explain with the help of a diagram.

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8. What is equilibrium price? What happens to the equilibrium price of a commodity, when its demand increases ? Show with the help of a diagram.

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9. Explain, in brief, the effect of decrease in demand on equilibrium price and equilibrium quantity, when the supply is perfectly elastic.

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10. Explain the change that will take place in the market for a commodity if the prevailing market price is less than the equilibrium price.

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11. Whether Ture or False (Give reasons)

(a) When equilbrium price of a good is less than its market price there will be competition among sellers.

(b) Equilibrium price of an essentail medicine is too high. Explain what possible steps can be taken to bring down the equilibrium price but only through to market forces. Also explain the series of changes that will occur in the market.

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12. If the prevailing market price is above the equilibrium price, explain its chain of effects.

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Latq

1. How is equilibrium price of a commodity determined? Explain with the help of a demand and supply schedule

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2. If at a given price of a commodity, there is excess demand, how will the equilibrium price be reached? Explain by diagram.

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3. Explain with the help of a diagram the effect of a rightward shift of supply curve of a commodity on its equilibrium price and quantity.

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4. How does an increase in demand of a commodity affect its equilibrium price and equilibrium quantity? Explain with the help of a diagram.

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5. Explain the effect of a leftward shift of demand curve of a commodity on its equilibrium price with the help of a diagram.

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6. Market for a good is in equilibrium. Demand for the good 'increases'. Explain the chain of effects of this change.

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7. 'Equilibrium price does not change due to simultaneous shifts in demand and supply curves''. Explain.

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8. Market for a good is in equilibrium. There is 'increase' in supply of that good. Explain the chain of effects of this change. Use a numerical example.

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9. If equilibrium price of a good is greater than its market price, explain all the changes that will take place in the market. Use diagram.

OR

Explain the changes that will take place in the market when market price of a good is less than its equilibrium price. Use diagram.

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10. What is 'excess demand' for a good in a market ? Explain its chain of effect on the market for that good. Use diagram.

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11. Market for a good is in equilibrium. Supply of the good 'decreases'. Explain the chain of effects of this change on the market for the good. Use diagram.

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12. Market of a commodity is in equilibrium. Demand for the commodity "decreases". Explain the chain of effects of this change till the market again reaches equilibrium. Use diagram.

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13. Market for a good is in equilibrium. Demand for the good 'increases'. Explain the chain of effects of this change.

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14. Market for a good is in equilibrium. The supply of good decreases. Explain the chain of effects of this change.

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15. Market for a good is in equilibrium. Demand for the good 'increases'. Explain the chain of effects of this change.

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16. Good Y is a substitute of good X. The price of Y falls. Explain the chain of effects of this change in the market of X.

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17. Explain the chain of effects of excess supply of a good on its equilibrium price.

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18. X and Y are complementary goods. The price of Y falls. Explain the chain of effects of this change in the market of X.

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19. Explain the meaing of excess demand and excess supply with the help of a schedule. Explain their effect on equilibrium price.

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20. State whether the following statements are true or false. Give reasons for your answer.

(i) When equilibrium pirce is greater than market price, there will be excess supply in the market.

(ii) X and Y and complementary goods. A fall in the price of Y will result in a rise in price of X.

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