# ECONOMICS

# BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

# PRICE DETERMINATION AND SIMPLE APPLICATIONS

## Hots

**1.** Explain the effect of increase in income of byers of a'normal' commodity on its equilbrium price.

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**2.** What will be the effect on equilibrium price and equilibrium quantity, when price of complementary goods increases?

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**3.** It is expected that replacement of all existing taxes on good X by the proposed single Goods and Services Tax (GST) will bring down overall tax on good X substantially. Explain its likely chain of effects on price and quantity of good X. Use diagram.

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**4.** Explain the effect on equilibrium price when price of inputs increases.

OR

The market for cars is in equilibrium. Suppose the price of almunium parts (used in cars) increases. Explain the effect of rise the price of aluminimum parts on the equilibrium price and quantity of cars. (Use diagram)

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**5.** Suppose the functions of demand and supply curves of a commodity are given by :

$q^D = 100 - p$

$q^S = 60 + p \quad \text{for} \quad p \geq 15$

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

(i) What does p=15 indicate ?

(ii) Find the equilibrium price and equilibrium quantity.

(iii) Whether the given commodity comes under the category of viable industry.

(iv) Calculate market demand and at price of rupee 16, there is excess demand.

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**6.** Mention the various cases in which equilibrium price remains same.

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**7.** 'Demand and supply are like two blades of a pair of scissors". Comment

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**8.** If market demand function is given as: $Q_{\text{MD}} = 25 - 2P$ and market supply as: $Q_{\text{MS}} = 3P$, then what will be the equilibrium price and equilibrium quantity?

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**9.** The are 10,000 identical individual buyers in the market for commodity X, each with a demand fucntion given by Qdx=12-2Px and 1,000 indentical producers of commodity X, each with a supply function given by Qsx=20Px.

(i) Find the market demand function and the market supply function for commodity X.

(ii) Obtain the equilibrium price and equilibrium quantity.

(iii) Suppose the government decides to collect a tax of rupee 2 per unit sold from each of the 1,000 sellers of commodity X. What effect will this have on the equilibrium price and quantity of commodity X?

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**10.** Market for a good is in equilibrium. There is simultaneous "decrease" both in demand and supply but there is no change in market price. Explain with help of a schedule how it is possible.

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**11.** Explain the effects of 'Maximum Price Ceiling's on the market of a good. Use diagram.

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**12.** what are the effects of 'price-floor' (Minimum Price Ceiling) on the market of a good? Use diagram.

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**13.** Why does the government of India fix 'support price' for some crops? Explain.

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**14.** Explain the meaning and need for 'Maximum Price Ceiling'.

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**15.** Government reduces the price of inputs used in the production of commodity X. Describe the chain of effects of this change in the market.

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**16.** Explain the meaning and need for 'Price Floor'.

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**17.** Explain 'black marketing' as a direct consequence of price ceiling.

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**18.** Explain the concept of 'buffer stock' as a tool of price floor.

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**19.** 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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**20.** Explain the meaning and implications of maximum price ceiling and minimum price ceiling.

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**21.** The equilibrium market wage rate is, rupee 14,000 per month. The government finding it low fixes minimum wage rate at rupee 18,000 per month. Examine the implications of this decision. Use diagram.

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## True And False

**1.** Excess supply leads to fall in equilibrium price.

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**2.** For a non-viable industry, supply curve lies above the demand curve.

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**3.** Change in supply will not change the equilibrium quantity in case of perfectly elastic demand.

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**4.** An increase in price of cottee will lead to rise in equilibrium price of tea.

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**5.** If both demand and supply increase simultaneously, the equilibrium price will also change.

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**6.** Equilibrium quantity and equilibrium price remain same even with increase or decrease in demand in case of perfectly inelastic supply.

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**7.** If income of the consumers rises then equilibrium price of the inferior commodity will also rise.

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**8.** A simultaneous increase in demand and supply for a given commodity will result in more of the commodity being purchased.

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**9.** With rise in price of inputs, equilibrium price of the commodity will increase.

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**10.** At a price higher than the equilibrium price, there is an excess demand.

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**11.** If productivity of a commodity improves due to technological upgradation, then equilibrium price tend to increase.

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**12.** Excess supply of a commodity exists when its market price is greater than its equilibrium price.

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**13.** When equilibrium price of a good is less than its market price, there will be competition among the sellers.

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**14.** When equilibrium price is greater than market price, there will be excess supply in the market.

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## Guidelines To Ncert Questions

**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 determined In a perfectly competitive market with fixed number of firms.

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**6.** Suppose the price at which equilibrium Is attained Is above the minimum average cost of the firms constituting the market. Now If we allow for free entry and exit of firms, how will the market price adjust to it?

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**7.** How are equilibrium price and quantity affected when income of the consumers: (a) Increase, (b) Decrease

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**8.** 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-pairs of socks bought and sold.

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**9.** How wm a change in price of coffee affect the equilibrium price of tea? Explain the effect on equilibrium quantity aJso through a diagram.

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

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**11.** 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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**12.** 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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**13.** 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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**14.** 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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**15.** The market demand curve for 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 | [illegible] | 8 |
|---|---|---|---|---|---|---|---|---|---|
| Price | 52 | 44 | 37 | 31 | 26 | 22 | 19 | 16 | 13 |
| Total Cost | 10 | 60 | 90 | 100 | 102 | 105 | 109 | 115 | 125 |

Use the information to calculate the following:

(a) The MR and MC schedules,

The quantities for which the MR and MC are equal,

(c) The equilibrium quantity of output and the equilibirum price of the commodity,

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

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## Very Short Answer Type Questions

**1.** What is market equilibrium.

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**2.** Give the meaning of equilibrium market price of a good.

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**3.** What is meant by equilibrium quantity?

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**4.** What is equilibrium point?

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**5.** Give the meaning of excess demand for a product.

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**6.** At a price of rupee 5 per chocolate, the demand is 70 chocolates and the supply is 90 chocolates. What is likely to be its effect on the price of chocolates?

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

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**8.** How does a cost saving technology affect the price and quantity exchanged?

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**9.** What happens to the equilibrium price of a good when the demand for that good increases?

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**10.** Mention the situation in which an increase in demand will lead to rise in equilibrium quantity, but no change in equilibrium price.

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**11.** What will be the effect of a rightward shift ofthe supply curve on the equilibrium price and quantity transacted?

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**12.** How does an increase in the income affect the equilibrium price of a product?

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**13.** A severe drought results in a drastic fall in the output of wheat. Analyse how it will affect the market price of wheat.

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

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**15.** What will be the effect on equilibrium price and equilibrium quantity of telephone instruments, if China exports a large number of telephone Instruments to India.

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**16.** What happens to equilibrium price of a commodity If there is 'decrease' in its demand and 'Increase' in its supply?

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**17.** What happens to equilibrium price of a commodity if there is an 'increase' in its demand and 'decrease' in its supply?

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**18.** Mention two situations in which an increase in supply of a commodity will not affect its equilibrium price.

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**19.** Define Price Ceiling.

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**20.** What is meant by Price Floor?

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**21.** Out of 'Price Floor' and 'Price Ceiling', which concept is used by the government to control the prices of essential commodities?

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**22.** On what type of goods, Maximum Price Ceiling is normally imposed by the government?

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## Multiple Choise Questions

**1.** Which of the following statements about Price Ceiling is accurate ?

A. An effective Price Ceiling must be at a price below the equilibrium price.

B. Price Ceiling will increase the quantity of good supplied.

C. An effective Price Ceiling must be at a price more than the equilibrium price.

D. Price Ceiling will decrease the quantity demanded.

**Answer: (A)**

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**2.** When market demand is more than market supply, it refers to a situation of :

A. Excess Supply

B. Equilibrium Level

C. Excess Demand

D. None of these

**Answer: (c)**

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**3.** refers to the minimum price, fixed by the government, which is above the equilibrium price.

A. Price Floor

B. Minimum support price

C. Both (a) and (b)

D. Neither (a) nor (b)

**Answer: (c)**

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**4.** Equilibrium price is determined when :

A. Market Demand for a commodity is zero

B. Market Supply for a commodity is zero

C. Market Demand and Market Supply are equal

D. Market Demand is either more or less than Market supply

**Answer: (c)**

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**5.** Which of the following statements is correct in case of non-viable industry ?

A. Supply curve lies above the demand curve

B. Supply curve lies below the demand curve

C. Supply curve and demand curve intersect each other

D. Supply curve coincide with the demand curve

**Answer: (a)**

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**6.** What would happen to be Market Equilibrium of a good if decrease in demand is equal to increase in supply.

A. Equilibrium quantity rises

B. Equilibrium price rises

C. Equilibrium quantity remains same

D. Equilibrium price remains same

**Answer: (c)**

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**7.** What will be the effect of increase in price of factor inputs on the equilibrium price and equilibrium quantity ?

A. Equilibrium price will rise and equilibrium quantity will fall

B. Both equilibrium price and quantity will fall

C. Equilibrium price will fall and equilibrium quantity will rise

D. Both equilibirum price and quantity will remain same

**Answer: (a)**

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**8.** Both equilibrium price and quantity rise when :

A. Increase in demand > Increase in supply

B. Decrease in supply when the demand is prefectly inelastic

C. Increase in supply when the demand is perfectly elastic

D. Decrease in demand $<$ Increase in supply

**Answer: (a)**

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**9.** In case of - an increase in demand will lead to rise in equilibrium quantity, but no change in equilibrium price.

A. Perfectly elastic supply

B. Perfectly inelastic suply

C. Highly elastic supply

D. Less elastic supply

**Answer: (a)**

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**10.** Equilibrium price remains the same when :

A. Increase in Demand = Increase in Supply

B. Increase in Demand $>$ Decrease in Supply

C. Decrease in demand $>$ increase in Supply

D. Increase in demand = Decrease in Supply

**Answer: (a)**

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**11.** What will be the effect on equilibrium price and equilibrium quantity when income increases in case of normal goods ?

A. Both equilibrium price and quantity falls

B. Both equilibrium price and quantity rises

C. Equilibrium price rises and equilibrium quantity falls

D. Equilibrium price falls and equilibrium quantity rises

**Answer: (b)**

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**12.** How does cost saving technology affect the equilibrium price and equilibrium quantity ?

A. Equilibrium price will fall and equilibrium quantity will fall

B. Equilibrium price will fall and equilibrium quantity will rise

C. Both equilibrium price and quantity will fall

D. Both equilibrium price and quantity will rise

**Answer: (b)**

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**13.** Price Floor can also be described as:

A. Minimum support price

B. Minimum price above the equilibrium price

C. Price at which quantity supplied exceeds the quantity demanded

D. All of these

**Answer: (d)**

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**14.** Equilibrium price falls and equilibrium quantity rises when:

A. Decrease in demand $<$ Decrease in supply

B. Increase in demand = Increase in supply

C. Decrease in demand $<$ Increase in supply

D. Decrease in demand = Increase in supply

**Answer: (c)**

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**15.** If increases in demand is greater than the increases in supply, then the equilibrium price:

A. Decreases

B. Increases

C. Does not change at all

D. Cannot be determined

**Answer: (b)**

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**16.** If decrease in supply is less than the decrease in demand, then:

A. Both equilibrium price and quantity increase.

B. Both equilibrium price and quantity decrease.

C. Equilibrium price increases and quantity decreases.

D. Equilibrium price increases and quantity increases.

**Answer: (b)**

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**17.** The individual demand and supply functions of a product are given as: $Dx=10-2Px, Sx=10+2Px$, where Px stands for price and Dx and Sx respectively stands for quantity demanded and quantity supplied. If there are

4,000 consumers and 1,000 firms in the market, then equilibrium price will be :

A. rupee 4

B. rupee 4.25

C. rupee 3

D. rupee 5

**Answer:**

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**18.** The individual demand and supply functions of a product are given as: Dx=10-2Px,Sx=20+2Px, where Px stands for price and Dx and Sx respectively stands for quantity demanded and quantity supplied. If there are 4,000 consuers and 1,000 firms in the market, then quantity demanded and supplied at the equilibrium price of rupay 2.

A. 20000

B. 22000

C. 21000

D. 24000

**Answer:**

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**19.** Which of the following situation does not lead to an increase in equilibrium price ?

A. An increase in demand without a change in supply

B. A decrease in supply accompanied by proportinately equal increase in demand.

C. A decrease in supply without a change in demand.

D. An increase in supply accompanied by proportionately equal decrease in demand.

**Answer: (b)**

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**20.** Suppose consumer taste shifts in favour of apples. As a result, equilibrium quantity will - and equilibrium price will -

A. Increase, decrease

B. Decrease, increase

C. Increase, increase

D. Decrease, decrease

**Answer: (c)**

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**21.** If the price of a commodity is below the equilibrium price, then quantity supplied is - than the quantity demanded. However, if the price is above in equilbirium price, then quantity supplied is - than the quantity demanded.

A. Less, more

B. Less, less

C. More, less

D. More, More

**Answer: (a)**

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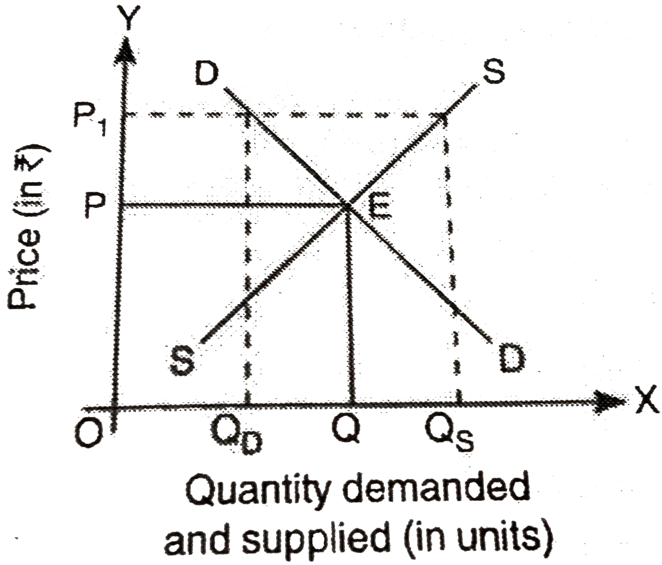
**22.** The following diagram depicts the situation of :




A. Excess Supply

B. Excess Demand

C. Equilibrium Condition

D. None of these

**Answer: (a)**

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**23.** Price Floor is the price fixed by the government, which is:

A. Equal to Equilibrium Price

B. Below the Equilibrium Price

C. Above the Equilibrium Price

D. None of these

**Answer: (c)**

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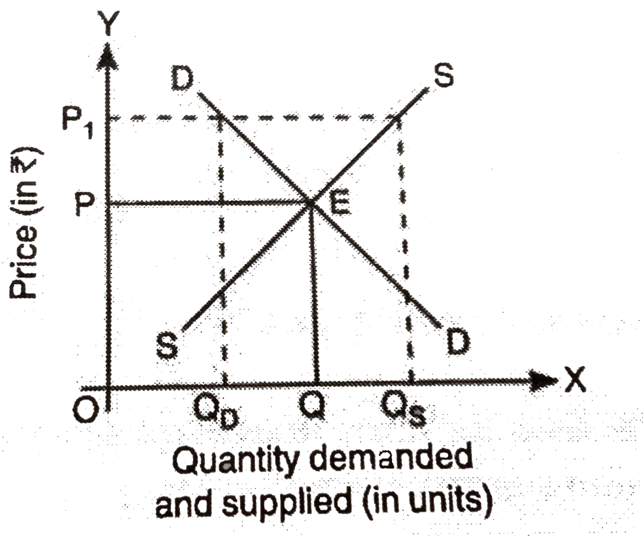
**24.** Government has fixed the price as $OP_1$, while the equilibrium price is OP as seen in the following diagram:




The price fixed by the government is known as:

A. Price Floor

B. Minimum support price

C. Price Ceiling

D. Both (a) and (b)

**Answer: (d)**

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**25.** Maximum Price Ceiling leads to a situation of:

A. Excess Demand

B. Excess Supply

C. Ether (a) or (b)

D. Neither (a) nor (b)

**Answer: (a)**

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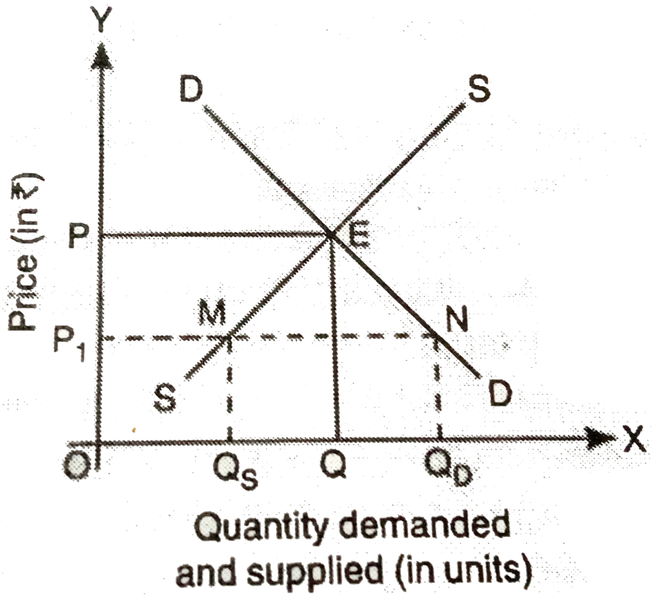
**26.** The following diagram represents the situation of:




A. Price Floor

B. Price Ceiling

C. Either (a) or (b)

D. Neither (a) nor (b)

**Answer: (b)**

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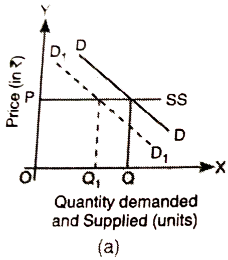
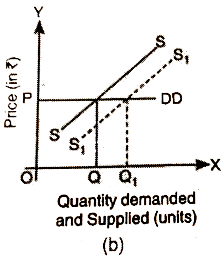
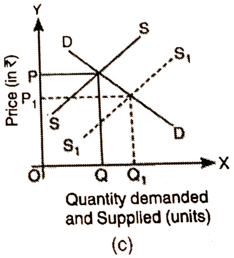
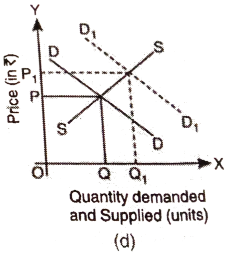
**27.** Choose the correct option, when supply increases and demand is prefectly elastic:

A. 


B. 

C. 


D. 


**Answer: (b)**

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**28.** When actual price of a commodity is less than equilibrium price, its price:

A. Starts risisng

B. starts falling

C. starts fluctuating

D. remains constant

**Answer: (a)**

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**29.** In a commodity market, excess demand exists when:

A. market price is greater than equilibrium price

B. equilibrium price is greater than market price

C. equilibrium price is not equal to market price

D. government fixes the price

**Answer: (b)**

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## Short Answer Type Questions

**1.** Define the following terms: (a) Equilibrium, (b) Equilibrium price, (c) Equilibrium quantity, (d) Market equilibrium.

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**2.** Explain the process of price determination under perfect competition with the help of a schedule and a diagram.

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

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

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**5.** Explain the chain of effects of an increase in supply of a commodity on its equilibrium price.

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**6.** Explain the chain effects on demand, supply and price of a commodity caused by a leftward shift of a demand curve. Use diagram.

OR

A product market is in equilibrium. Suppose the demand for the product decreases. What changes will take place in the market? Use diagram.

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

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**8.** Discuss the effect on equilibrium price and equilibrium quantity, when: (a) Supply is perfectly elastic and demand increases (b) Demand is perfectly inelastic and supply decreases

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**9.** Explain the changes 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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**10.** How is the equilibrium price of a commodity affected by a rise in the prices of its substitutes? Explain the chain of effects.

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**11.** Cigarette smoking is injurious to health. How can the government reduce its consumption but only through the normal market forces. Explain the chain of effects of government's action.

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**12.** Market for an essential item of consumption is in equilibrium, but the equilibrium price is too high for the common man. What can the government do to bring down if market price but only through the normal market forces? Explain the chain of effect of the government's action.

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**13.** Discuss the meaning of Prrce Ceiling and Price Floor.

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**14.** Explain the effects of a 'Price Ceiling'.

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**15.** Explain the effects of a 'Price Floor'.

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**16.** What is maximum price ceiling? Explain its implications.

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**17.** What is minimum price ceiling? Explain Its implications.

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**18.** Explain the chain effects, if the prevailing market price is below the equilibrium price.

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**19.** If the prevailing market price is above the equilibrium price, explain its chain of affects.

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**20.** Explain the chain of effects of 'increase' in demand of a good.

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## Long Answer Type Questions

**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.** If there is excess supply at a given price, then how will the equilibrium price be reached? Explain by diagram.

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**4.** 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.

OR

Market for a good is in equilibrium. Supply of the good 'increases'. Explain the chatn of effects of this change.

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**5.** Discuss the effect of change in supply on equilibrium price and equilibrium quantity, when demand is perlectly inelastic.

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**6.** Market for a good is in equilibrium. There is an 'increase' in demand for this good. Explain the chain of effects of this change. Use diagram.

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**7.** How is the equilibrium price and equilibrium quantity of a normal commodity affected by an increase in the income of its buyers? Explain with the help of a diagram.

OR

x is a normal good for its consumers. Their income increases. Explain its chain of effects on equlltbrium price, demand and supply of X. (use diagram)

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**8.** Explain the effect on equilibrium price and equilibrium quantity in the following cases:

(a) Demand curve shifts to the left,

(b) Supply increases when the demand is perfectly elastic,

(c) Both demand and supply increase in same ratio.

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**9.** Market for a good is in equilibrium. What is the effect on equilibrium price and quantity if both market demand and market supply of the good increase in the same proportion? Use diagram.

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10. There is a simultaneous 'decrease' in demand and supply of a commodity. When will it result in:

(a) No change in equilibrium price, (b) A fall in equilibrium price Use Diagram.

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**11.** When will (a) simultaneous increases and (b) simultaneous decreases in both demand and supply not affect the equilibrium price? Explain with the help of diagrams.

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

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**13.** If the demand and supply of a commodity both increase, the equilibrium price may not change, may increase, may decrease." Explain by using diagrams.

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**14.** Market for a good is in equilibrium. There is simultaneous "Increase" both in demand and supply of the good. Explain its effect on market price.

OR

Suppose there is a sudden increase in birth rate. The increase in population has raised the demand for shirts. At the same time, due to fall in price of cotton, the supply of shirts have also increased. How will it affect the equilibrium price and equilibrium quantity of shirts?

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**15.** Market for a good is in equilibrium. There is simultaneous "decrease" both in demand and supply of the good. Explain its effect on market price.

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**16.** Market for a good is in equilibrium. Explain the chain of reactions In the market If the price is: (i) higher than equilibrium price, and (ii) lower than equilibrium price.

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**17.** Market for a good is in equilibrium. There is simultaneous "increase" both in demand and supply but there is no change in price. Explain how is it possible. Use a schedule.

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**18.** Discuss the concept of "Price Ceiling" with the help of diagram.

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**19.** 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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**20.** Briefly discuss the meaning of "Price Floor" with the help of diagram.

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**21.** Market for a product is in equilibrium. Supply of the product 'decreases'. Explain the chain of effects of this change till the market again reaches equilibrium. Use diagram.

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

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**23.** The market for commodity A is in equilibrium. The price of its inputs rises. Explain its chain of effects on equilibrium price, quantity demanded and supplied with the help of a diagram.

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**24.** 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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**25.** 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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**26.** Explain the meaning of excess demand and excess supply with the help of a schedule. Explain their effect on equilibrium price.

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**27.** Define Price Floor. What is the common purpose of fixation of floor price by the government? Explain any one likely consequence of this nature of intervention by the government.

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**28.** Define Price Ceiling. What is the common purpose for the price ceiling imposed by the government? Explain any one likely consequence of this nature of intervention by the government in the price determination process.

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