

Answer Key

(For Teacher's / Faculty Reference — MasterG.Net)

Section A — MCQs

1. (b) 2. (a) 3. (b) 4. (b) 5. (b) 6. (b) 7. (b) 8. (c) 9. (c) 10. (b)

Section B — Fill in the Blanks

11. price, time period, place | 12. downward | 13. unitary elastic (unity) | 14. Giffen | 15. positive

Section C — Very Short Answer (Key Points)

16. Demand = desire + willingness to pay + ability to pay, backed by purchasing power, at a given price, time and place; a mere desire lacks the "ability and willingness to pay" component.

17. Law of demand: other things being equal, quantity demanded falls as price rises, and rises as price falls. Assumption: "other things remaining constant" (ceteris paribus) — income, tastes, prices of related goods, etc. unchanged.

18. Change in quantity demanded is caused only by a change in the good's own price (movement along the curve); change in demand is caused by non-price factors like income or tastes (shift of the curve).

19. Price elasticity of demand measures the degree of responsiveness of quantity demanded to a change in price. $E_d = (\text{Percentage change in quantity demanded}) / (\text{Percentage change in price})$.

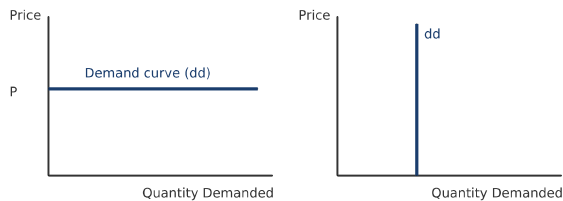
20. Income elasticity of demand measures the responsiveness of quantity demanded to a change in the consumer's income, other factors remaining constant. $E_y = (\text{Percentage change in quantity demanded}) / (\text{Percentage change in income})$.

Section D — Short Answer (Key Points)

21. Any three of: price of related goods (substitutes/complements), income of the consumer, tastes and preferences, population, and expectations regarding future prices.

22. $E_d = (\Delta Q/Q \times 100) / (\Delta P/P \times 100)$, simplified to $(\Delta Q/\Delta P) \times (P/Q)$. ΔQ = change in quantity demanded, ΔP = change in price, P and Q are original price and quantity.

23. Perfectly elastic demand: even a negligible change in price causes an infinite change in quantity demanded; curve is a horizontal straight line parallel to the X-axis. Perfectly inelastic demand: quantity demanded does not change at all with a change in price; curve is a vertical straight line parallel to the Y-axis.



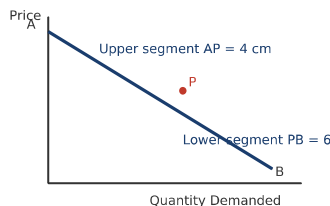
Perfectly Elastic Demand ($E_d = \infty$) Perfectly Inelastic Demand ($E_d = 0$)

24. Any three of: availability of substitutes, nature of the commodity (necessity vs luxury), proportion of income spent on the good, number of uses of the commodity, time period under consideration.

Section E — Numericals (Solutions)

25. $\Delta Q = 50$, $Q = 100 \rightarrow \% \Delta Q = 50\%$. $\Delta P = -4$, $P = 20 \rightarrow \% \Delta P = -20\%$. $E_d = 50/20 = 2.5$ (taking absolute value). Since $E_d > 1$, demand is relatively elastic.

26. E_d (point method) = Lower segment / Upper segment = $PB / AP = 6/4 = 1.5$. Since $E_d > 1$, demand is relatively elastic at point P.



Point Method: E_d at P = $PB / AP = 6 / 4 = 1.5$

Section F — Case Study (Solutions)

(i) Salt: $\Delta Q = -5$, $\% \Delta Q = -5\%$; $\Delta P = 2$, $\% \Delta P = 20\%$. $E_d = 5/20 = 0.25$ — demand is inelastic.

(ii) Chocolate: $\Delta Q = -40$, $\% \Delta Q = -40\%$; $\% \Delta P = 20\%$. $E_d = 40/20 = 2$ — demand is elastic.

(iii) Chocolate has more elastic demand ($E_d = 2 > 0.25$) because it is a comfort/luxury item with close substitutes, while salt is a daily necessity with negligible substitutes.

(iv) Any necessity with few substitutes and a small proportion of income spent on it (e.g., matchboxes, basic medicines) — accept any reasonable, well-justified example.