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Unit II
Consumer Equilibrium and Demand

QUESTION SET–I

Define the following concepts:

1. Demand and quantity demanded
2. Marginal utility and total utility
3. Indifference curve.
4. Budget line/Price line
5. Consumer's equilibrium
6. Law of diminishing marginal utility
7. Law of demand
8. Price elasticity of demand.
9. Individual demand schedule & market demand . schedule.
10. Demand curve
11. Demand function
12. Substitute goods and complementary goods.
13. Normal goods, inferior goods, and giffen goods
14. Extension and contraction of demand
15. Increase and decrease in demand.
16. Movement along the demand curve and shift in demand curve.

QUESTION SET–II

Defend or refute the following statements. Write 'yes' or 'no' with reason:

1. Demand for a commodity can exist independent of its price.
2. Quantity demanded is a specific amount of a commodity that the consumer is ready to buy against a specific price, while demand is not.
3. Demand for a commodity refers to the entire demand schedule.
4. It is quantity demanded (and not demand for a commodity) that changes with respect to its own price.
5. Marginal utility of each unit of a commodity adds up to total utility.
6. Total utility will increase even when marginal utility decreases.
7. Total utility is maximum when marginal utility starts declining.
8. Increase in demand refers to extension of demand
9. Decrease in demand refers to contraction of demand.
10. In case of inferior goods, law of demand fails.
11. Giffen goods must be inferior goods, while inferior goods, may or may not be giffen goods.
12. In case of substitute goods, a fall in price of Good-X causes a fall in demand for Good-Y.
13. In case of complementary goods, a rise in price of Good-X causes a rise in demand for Good-Y
14. Indifference curve is not convex to the origin.
15. MRS (marginal rate of substitution) along an indifference curve tends to diminish.
16. All attainable combinations of Good-X and Good-Y are below the budget line of a consumer.
17. A consumer strikes his equilibrium when: MUX/ PX= MUM.
18. A consumer strikes his equilibrium when: MUX/PX =MUY /PY= MUM
19. A consumer strikes his equilibrium when: MRS = PX/PY.
20. A situation when MRS > PX/ PYis better than when MRS = PX /PY.
21. A situation when PX/PY > MUX/ MUYis better than when PX/PY = MUX/ MUY

QUESTION SET–III

Write your comment on each of the following statements in a sentence or two

1. MU must diminish as more and more standard units of a commodity are continuously consumed.
2. Cross price effect occurs in case of substitute goods, and not in case of complementary goods.
3. In an indifference curve map, higher IC always points to higher level of satisfaction.
4. Changes in income causes a shift in demand curve, while change in price does not.
5. Even when PX remains constant, QX may increase or decrease.
6. Elasticity of demand refers to change in quantity consequent upon change in price of the commodity.
7. When total expenditure on the commodity remains constant, price elasticity of demand also remains constant, no matter what the change in price is.
8. Elasticity of demand (with respect to price of the commodity) is constant along a straight line demand curve.
9. If price elasticity of demand is zero, it means expenditure on the commodity does not change with change in price of the commodity.
10. A commodity showing high elasticity of demand often has a large number of close substitutes in the market.
11. Elasticity of demand tends to be high over a short period of time than the long period.
12. Complementary goods often exhibit low elasticity of demand.
13. Luxuries of life often exhibit low elasticity of demand.
14. Higher the price level, higher should be the elasticity of demand.
15. A horizontal straight line demand curve shows zero elasticity of demand.
16. A vertical straight line demand curve shows that demand rises to infinity even when price remains constant.
17. Price elasticity of demand is identical with slope of demand curve.
18. From a point of intersection, a flatter demand curve shows greater elasticity of demand than a steeper demand curve.
19. In case of normal goods, income effect is positive, while in case of inferior goods, it is negative
20. In case of giffen goods, income effect is always greater than the substitution effect.

QUESTION SET–IV

Complete the following sentences:

1. When price of the commodity increases, demand for the commodity ______________________
2. When demand for the commodity increases, demand curve curve______________________
3. When demand curve shifts, price of the commodity__________________________________
4. In case of normal goods, there is a positive relationship between________________________
5. Moving along an indifference curve, we find that MRS tends to_________________________
6. Moving along a price line, we find that price ratio (PX/PY) remains_______________________
7. In case of IC analysis, a consumer strikes his equilibrium when________________________
8. In case of utility analysis (and one-commodity case) a consumer strikes his equilibrium when
____
9. In case of utility analysis (2-commodity case) a consumer strikes his equilibrium when
____.
10. Demand curve slopes downward because of the law of_____________________________
11. Downward sloping demand curve shows the law of_________________________________
12. Convexity of IC to the origin shows____
13. Elasticity of demand (with respect to price of the commodity) shows__________________
14. Law of demand fails in situations of (*i*) ____
ii) ____and (*iii*) __________________________ .
15. Demand curve shifts to the right because of (*i*) _________________________________, (*ii*)
____, and (*iii*) ___________________________.
16. When price of tea increases, demand for sugar will tend to ___________________________
17. Even when price of the concerned commodity remains constant, people tend to buy less of it, because(*i*) _________________________, (*ii*) __________________________, and

(*iii*) ________________________________

18. If demand curve is a rectangular hyperbola, elasticity of demand = ____________________

19. At the mid-point of straight line downward sloping demand curve, elasticity of demand = ___________________________________ .

20. In case of a perfectly elastic demand, demand curve for the concerned commodity is____ .

21. In case of a perfectly inelastic demand, demand curve for the concerned commodity is ____ .

HOTS (Higher Order Thinking Skills) **Write 'true' or 'false' with a reason**

1. If 5% increase in PX causes 5% increase in expenditure on Good-X, elasticity of demand = 1
2. If 5% increase in PX is accompanied with constant expenditure on the commodity, elasticity of demand.
3. When slope of demand curve = 0, price elasticity of demand = infinity.
4. A consumer consumes only two goods X and Y and is equilibrium Price of X falls.Explain the reaction of consumer through the utility analysis.
5. Ms Pratima was hungry ,hence she decided to eat bananas However after eating 2 bananas,she suddenly realized that now she is enjoying less.Hence she decided to eat rest of the bananas later on .Identify the reason behind the above case.Also state the underlying assumptions.
6. What price a consumer is willing to pay for a commodity in state of equilibrium?