6. Applications of Elasticity of Demand & Supply To Economic Issues

Q:1 Explain Price Elasticity of Demand?

(A) **Price Elasticity of Demand :-** "Price Elasticity of Demand means degree of responsiveness of change in Quantity demanded due to change in Price."

$$Ep = \frac{\text{\% Change in Quantity Demanded}}{\text{\% change in Price.}} = \frac{\Delta Q/Q}{\Delta P/P}$$

(B) **Calculation of Price Elasticity of Demand :-**

Price Elasticity of Demand can be calculated by —

1) Point method or
2) Arc (mid-Point) method.

1. **Point Method :-** Under this method we can measure elasticity of demand at any point on the given demand Curve.

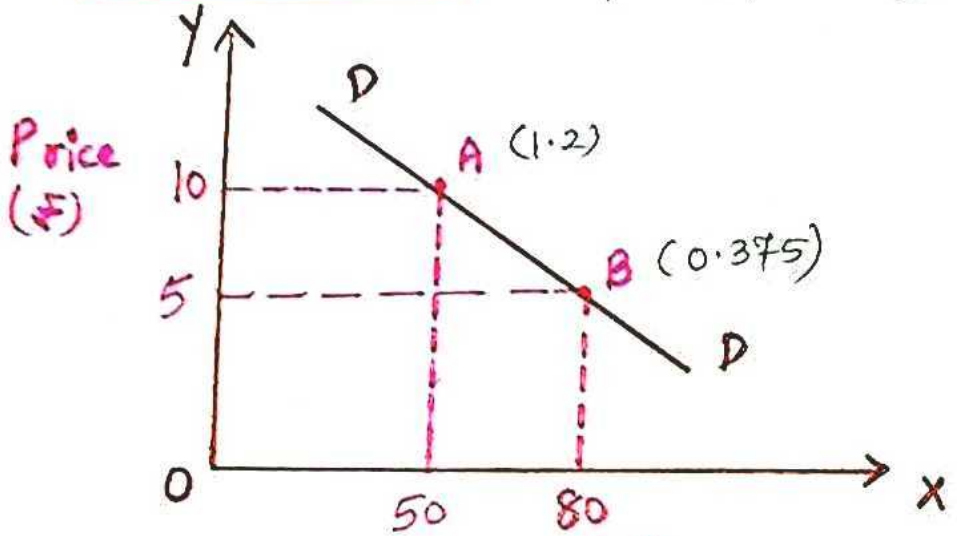
$$Ep = \frac{\Delta Q/Q}{\Delta P/P} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

Example :-

Point	Price (P)	Qty. Demanded (Q)
A	10	50
B	5	80

E_p at Point A = $\frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = \frac{30}{50} \times \frac{10}{5} = 1.2$

E_p at Point B = $\frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = \frac{30}{80} \times \frac{5}{5} = 0.375$



Elasticity of Demand is different at different Point on demand Curve. This difference arise due to different base-

2. Arc Method (Mid-Point Method) :- Under this method, Elasticity of Demand Can be measure between two Points on the Demand Curve.

$$E_p = \frac{\Delta Q}{\frac{1}{2}(Q_2 + Q_1)} \div \frac{\Delta P}{\frac{1}{2}(P_2 + P_1)}$$

$$E_p = \frac{\Delta Q}{\frac{1}{2}(Q_2 + Q_1)} \times \frac{\frac{1}{2}(P_2 + P_1)}{\Delta P}$$

$$E_p = \frac{30}{\frac{1}{2}(80 + 50)} \times \frac{\frac{1}{2}(5 + 10)}{5}$$

$$E_p = \frac{30}{65} \times \frac{7.5}{5} = \underline{\underline{0.69}}$$

Q_1 = Original Qty.
Q_2 = New Qty.
P_1 = Original Price
P_2 = New Price

This shows that one Percent change in Price brings about 0.69 % Change in Quantity Demanded.

Q:2 Explain the Relationship between Total Revenue and Price Elasticity of Demand ? OR Explain the Relationship between Price Elasticity and Total Revenue along a Linear Demand Curve ?

(A) Total Revenue (TR) :-

"Total Revenue is the total Sales Proceeds of a firm by selling a commodity at a given Price.

Total Revenue = Price x Quantity

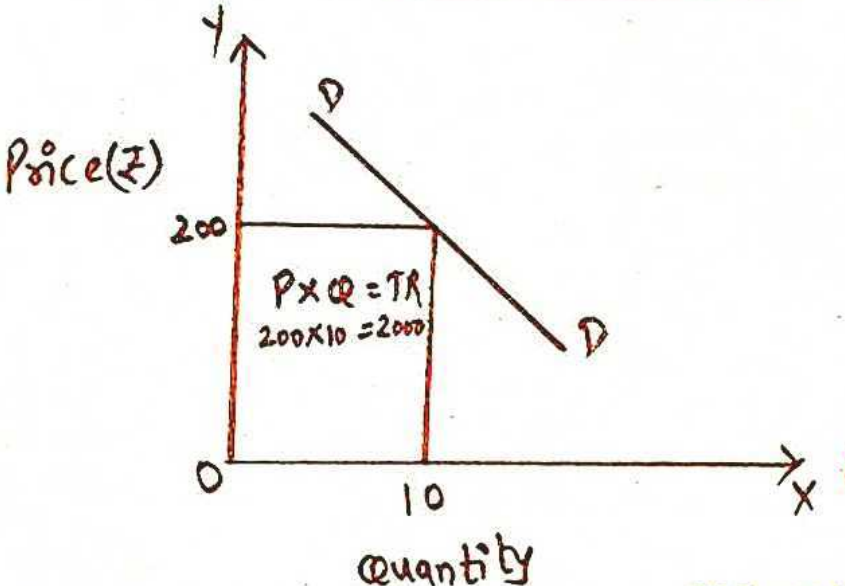
TR = P x Q

Example :- If a firm sells 10 units of a commodity at ₹200 Per unit.

TR = P x Q

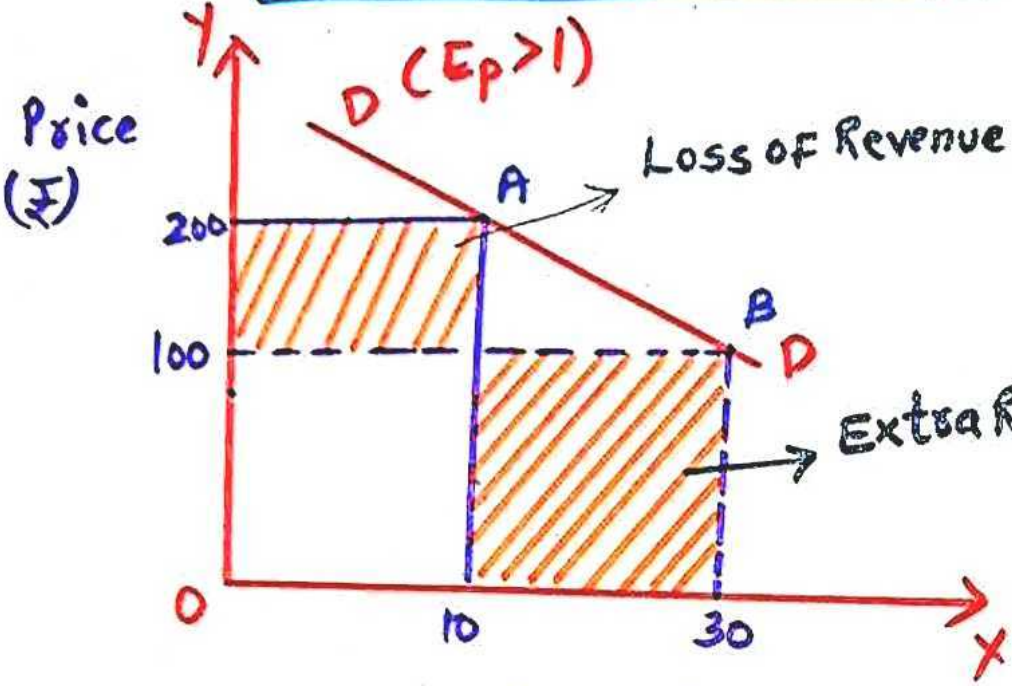
TR = ₹200 x 10 Units

TR = ₹2000



(B) Relationship between TR and Price Elasticity of Demand :-

1. **When Demand is Relatively Elastic (e > 1) :-** when Demand is Relatively elastic, then decline in Price will increase the Total Revenue and Vice Versa.



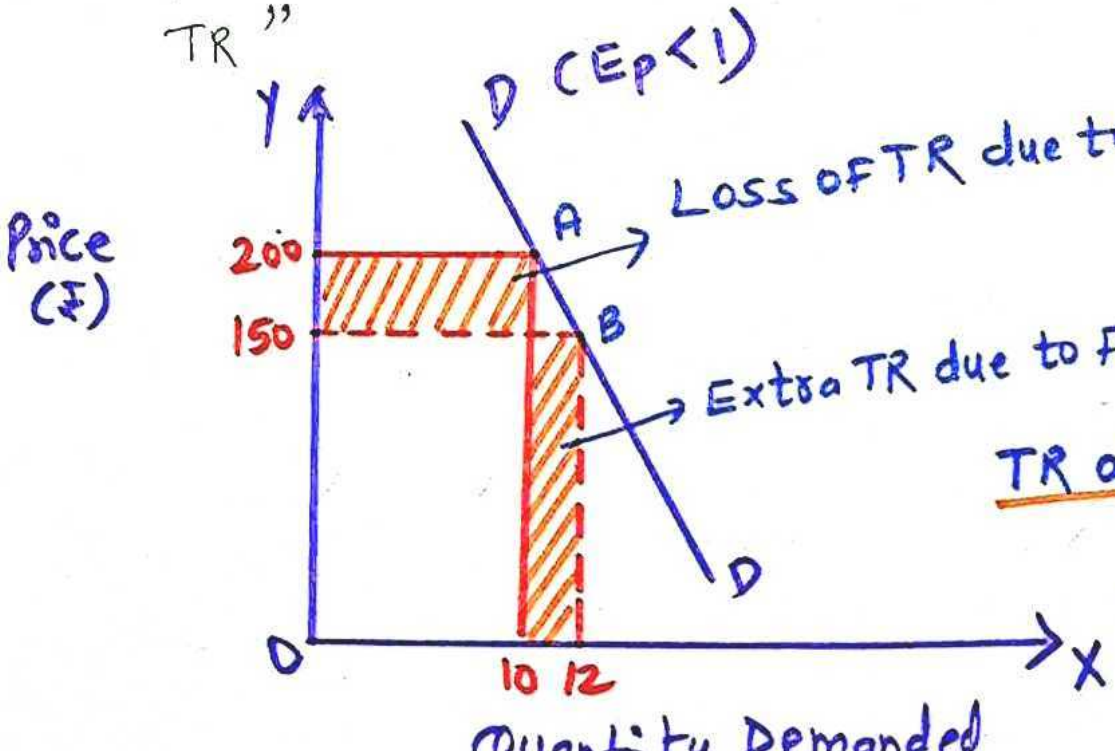
A = TR = 200×10 = 2000

B = TR = 100×30 = 3000

2. When Demand is Unitary Elastic (Ep=1) :- when demand is Unitary Elastic, then with decline or rise in Price Total Revenue remains Unchanged because decline or rise in Price Leads to exactly same change in Quantity demanded. Thus TR remain Unchanged.

3. When Demand is Relatively Inelastic (Ep<1) :-

" When Demand is Relatively inelastic, then Fall in Price will Reduce TR and Rise in Price will increase TR "



TR at A = 2000×10 = 2000

TR at B = P×Q = 150×12 = 1800

Thus we Observe—

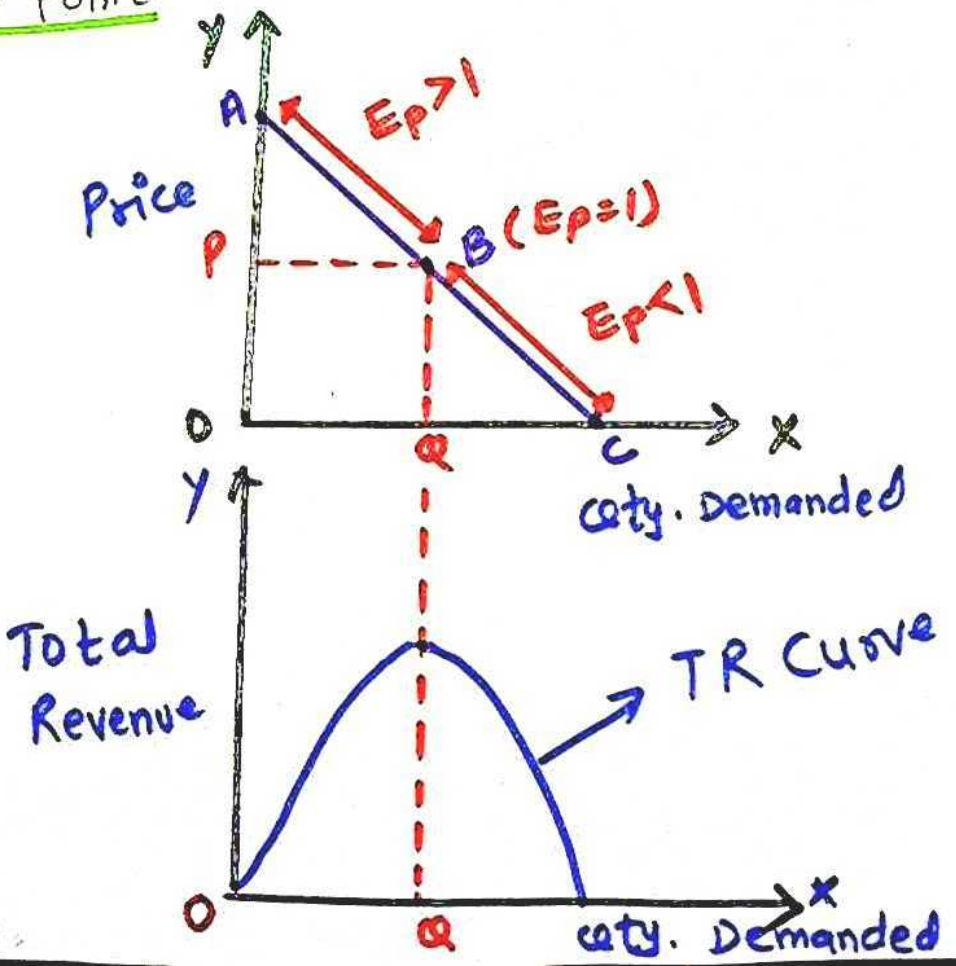
1) When Demand is elastic ($E_p > 1$), Price and TR move in Opposite Direction.
2) When Demand is Unitary Elastic ($E_p = 1$), TR remains Same (Unchanged) with change in Price.
3) When Demand is inelastic ($E_p < 1$), Price and TR move in Same Direction.

© Price Elasticity and TR along a Linear Demand Curve :-

When Demand Curve is linen then—

i) Price Elasticity of Demand above mid Point is Elastic.
ii) Price Elasticity of Demand is Unitary at mid-Point.
iii) Price Elasticity of Demand is Relatively inelastic below mid Point.

It is shown in following diagrams—



In the above figure we Observe that—

1) when Price Falls to P, then TR increases due to more Quantity demanded - OQ.
At Point P - TR is maximum.

2) when Price Falls from P, then TR also starts decreasing as demand is inelastic.

3) TR between AB (Ep > 1) is increasing.
TR at Point B is Maximum.
TR between BC (Ep < 1) is Decreasing.

(D) Factors affecting Price Elasticity of Demand

1. Nature OF Commodity :- Commodities may be Necessities or Luxuries. The Demand for Necessary goods and Services is inelastic

Example :- Food, Clothing, Housing, Education, Medicines etc.

The Demand for Comfortable and Luxury goods and Services is elastic.

Example :- T.V, A.C, Car, Mobile, Computer etc.

2. Availability of Substitutes :- Elasticity of Demand for goods and services depends upon the availability of Substitutes.

IF Commodity have Substitutes, the demand is more elastic (e.g) Tea and Coffee

IF Commodity have no close substitutes, the demand is inelastic (e.g) Salt, Onion etc.

3. Number of Uses :- Demand for a commodity having multi-purpose uses is Elastic.
e.g Coal, Electricity, water, milk etc.
Demand for commodity having specific use is inelastic
e.g Road Roller, Eraser, Sharpner etc.

4. Extent of Use :- The Demand for commodity having Multi-Purpose Use is Elastic. But it is also depend Upon its Extent of Use.
e.g Demand for Coal in Thermal Electricity plant is inelastic but in other uses it may be elastic.

5. Durability of goods :- The Demand for durable goods in Short Period is inelastic but in Long-Period it may be relatively elastic.
Example :- T.V, A.C, Car, Furniture mobile.

6. Proportion of Income Spent :- People spend a very small share of their income on goods like- Pen, Pencil, Newspaper, Tea, Coffee etc. Demand for these goods remain inelastic.

7. Range of Prices :- The Demand For Commodity having Very high Price or Very Low Price is relatively inelastic.
Example- Salt - Very Low Priced.
Diamond - Very High Priced goods.

8. Consumer Income :- In Case of People having

High income, demand for many goods is inelastic. In case of people having Low income, demand for many goods is Relatively Elastic.

⑨ **Urgancy and Postponement :-** The demand for commodity which is Urgant in need have inelastic Demand.
But the demand for Commodity which can be delayed or Postponement is Relatively elastic.

⑩ **Habits and Customs :-** Customary goods and Habituated goods have inelastic Demand
e.g Cigarettes, Liquor, Tobacco etc.

⑪ **Recurring Demand :-** The Demand for Commodity having Recurring in nature is Relatively inelastic
e.g Food and Clothing.

⑫ **Complimentry Goods :-** The Demand for Complementry goods is mostly inelastic in nature.
e.g Car and Petrol, mobile and charger etc.

Q:3 Explain the Concept of Income Elasticity of Demand ?

Ⓐ **Introduction :-** The Concept of Income Elasticity of Demand is explained by Marshall to explain impact of income on Demand.

(B) Meaning :-

" Income Elasticity of Demand means degree of Responsiveness of Change in Quantity demanded due to Change in Income. "

(C) Formula :-

$$Ey = \frac{\% \text{ change in Qty. Demanded}}{\% \text{ change in Income.}}$$

(D) Types of Income Ed. :-

1. Positive Income Elasticity of Demand :-

"When Demand for Commodity increase due to increase in income is Known as Positive Income Ed. "

Example :- Income Ed. is Positive in case of Normal goods. Normal goods can be Necessary, Comforts or Luxury Goods.

2. Negative Income Ed. :-

" When Demand for Commodity decrease due to increase in income is Known as Negative Income Ed. "

Example :- Income Ed. is Negative in case of Inferior goods.

3. Zero Income Ed. :-

" When increase in income brings No Change in Quantity demanded is Known as Zero income Ed. "

Example :- Salt, Sugar, Petrol, Pins medicines, broom etc.

Q:4 Explain the Concept of Cross Elasticity of Demand ?

(A) **Introduction :-** The Concept of Cross Ed. is developed by Alfred Marshall to explain the Change in demand due to change in the Price of Other Related goods.

(B) **Meaning :-** " Cross Elasticity of Demand is a degree of Responsiveness of Change in Quantity demanded of 'X' due to change in the Price of 'Y' Commodity. "

(C) **Formula :-**

$$E_c = \frac{\% \text{ Change in Qty. demanded of X}}{\% \text{ Change in Price of Y}}$$

$$E_c = \frac{\Delta Q_x}{\Delta P_y}$$

X = Tea
Y = Coffee.

(D) **Types of Cross Ed :-**

1. **Positive Cross Ed. :-** In Case of Close-Substitutes, we Observe Positive Cross Ed.

Example :- Tea and COFFee, Colgate and Pepsodent
Coca-Cola and Pepsi.

2. **Negative Cross Ed. :-** In Case OF Complimentry goods we Observe Negative Cross Ed.

Example :- Car and Petrol, Pen and Ink, Coffee and Sugar etc.

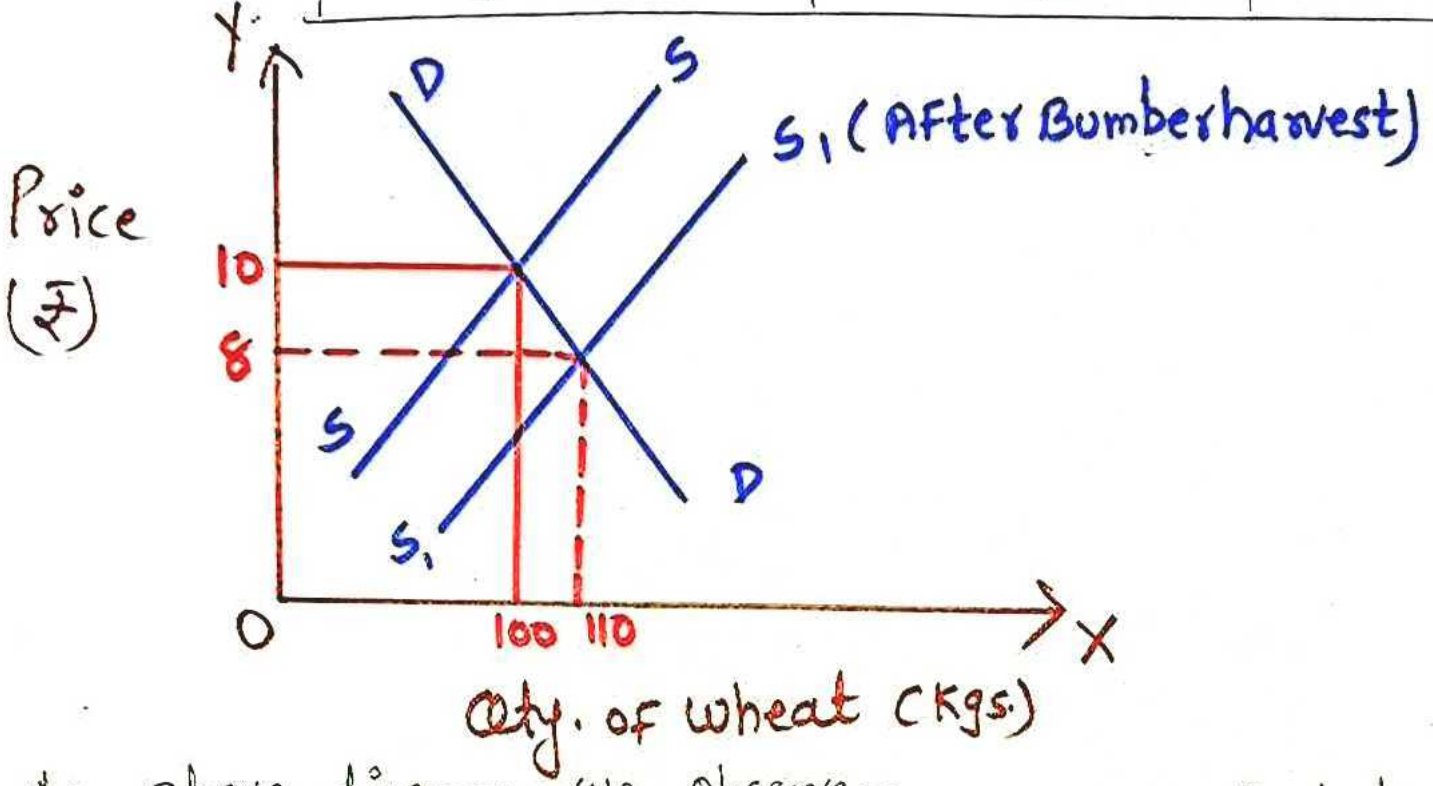
3. **Zero Cross Ed. :-** In Case of Unrelated goods, we Observe Zero Cross Elasticity of Demand.
Example :- Fabric and Electronics, Automobile and Cement etc.

Q:5 Explain the Paradox of Bumber Harvest ?

(A) **Paradox of Bumber Harvest :-** Paradox of Plenty in agriculture Shows that a Bumber Crop reaped by the farmers brings Smaller income to farmers. The farmers get Bumber Harvest due to good Monsoon, Good weather, New farm Technology. Introduction of New Hybrid etc. This increase in supply will lower the price of agricultural goods which reduce income of farmers.
Generally Demand for food grains | Agricultural goods is inelastic so Fall in Price of these goods bring Less Change in Quantity Demanded.
Under this Situation—
Increase in Revenue from selling more goods is Less than the Fall in Revenue due to selling at a Lower Price. This Paradox Can be easily explained in terms of Demand and supply.

Example

Price of wheat	Qty. Demanded	TR
₹ 10	100 Kgs	₹ 1000
₹ 8	110 Kgs.	₹ 880



An above diagram we observe-

1) DD is demand Curve for wheat which is inelastic. The Original Price of wheat is - ₹10 and the Quantity sold is 100 Kgs.

$\therefore TR = P \times Q$

$TR = 10 \times 100$

$TR = ₹ 1000$

2) Due to Bumber harvest supply Curve is shifted to Right side - S_1S_1. Excess supply of wheat reduce the Price of wheat = ₹8 and Quantity sold = 110 Kgs.

$\therefore TR = P \times Q$

$TR = 8 \times 110$

$TR = ₹ 880$

3) Thus bumber harvest will reduce the income of Farmers.

(B) Paradox of Government Policy for Farmers :-

When Government policy try to reduce the supply of Agricultural goods, it will increase the Price of agricultural goods which brings higher Incomes for Farmers.

But when Government policy try to increase the supply of Agricultural goods, it will reduce the Price of agricultural goods which reduce the income of Farmers. However this is good for Consumers because they pay Less for Food.

Q:6 Discuss the impact of Tax on Prices and Quantity ?

(A) Tax on Price and Quantity :-

Each Govt. Collect huge Revenue through Indirect Taxes to meet Public Expenditure.

while imposing the Tax on any goods and services, Policy-makers has to carefully take decision regarding Incidence of Tax.

(B) Incidence of Tax :-

1. According to Samuelson and Nordhans :-

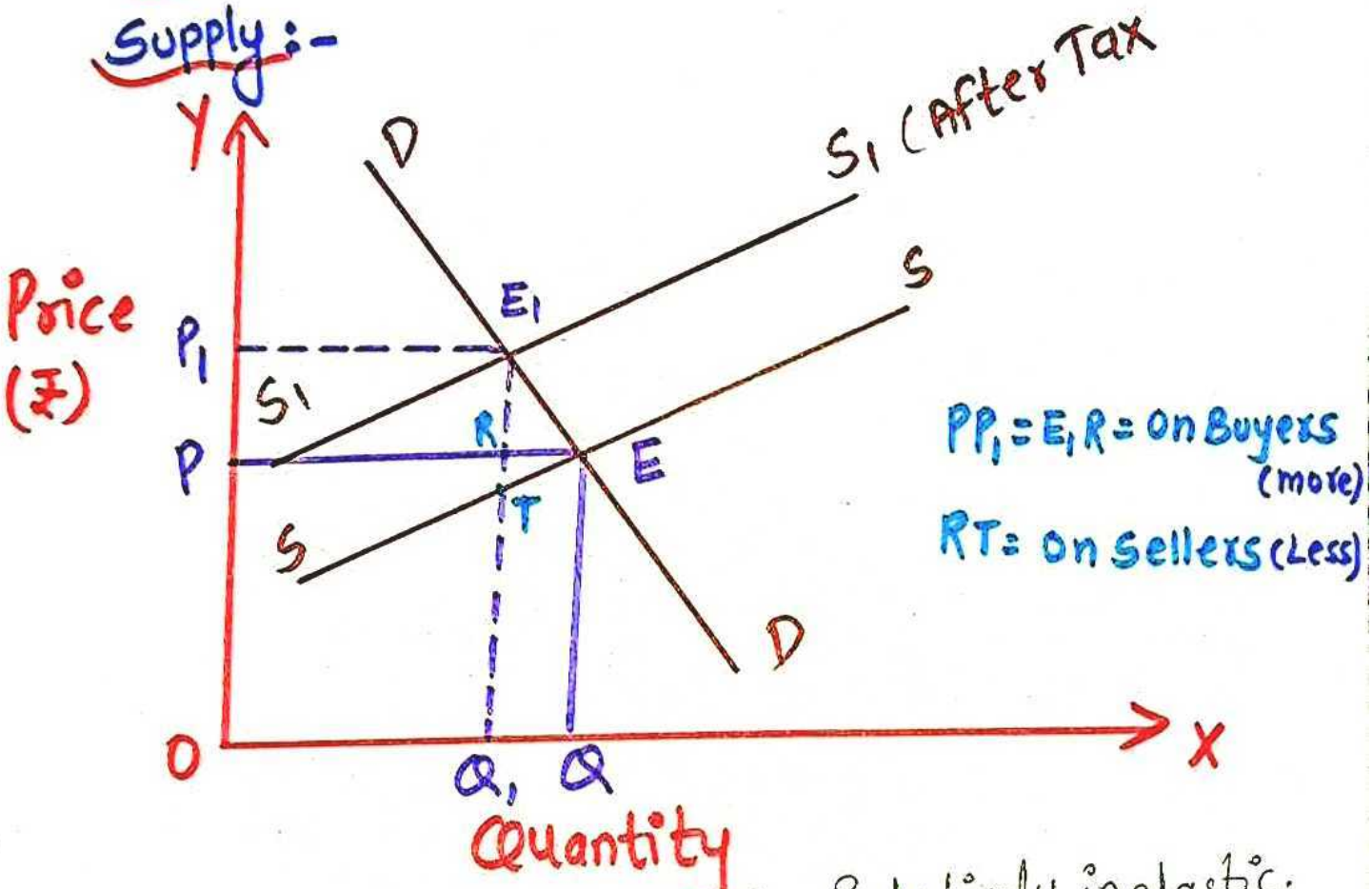
" Incidence of Tax means ultimate effect of

a Tax on the Real incomes of Producers and Consumers"

2. **According to N.G. Mankiw —**

"Incidence of Tax shows how the burden of Tax is shared between buyers and sellers"

© When Demand is Relatively inelastic than Supply :-



1) DD is Demand Curve which is Relatively inelastic. as compare to supply.
2. DD Curve intersect Supply Curve at Point - E. Here OQ output is sold at OP Price.
3) Due to imposition of Tax, Supply Curve is Shifted Upward - S_1S_1.

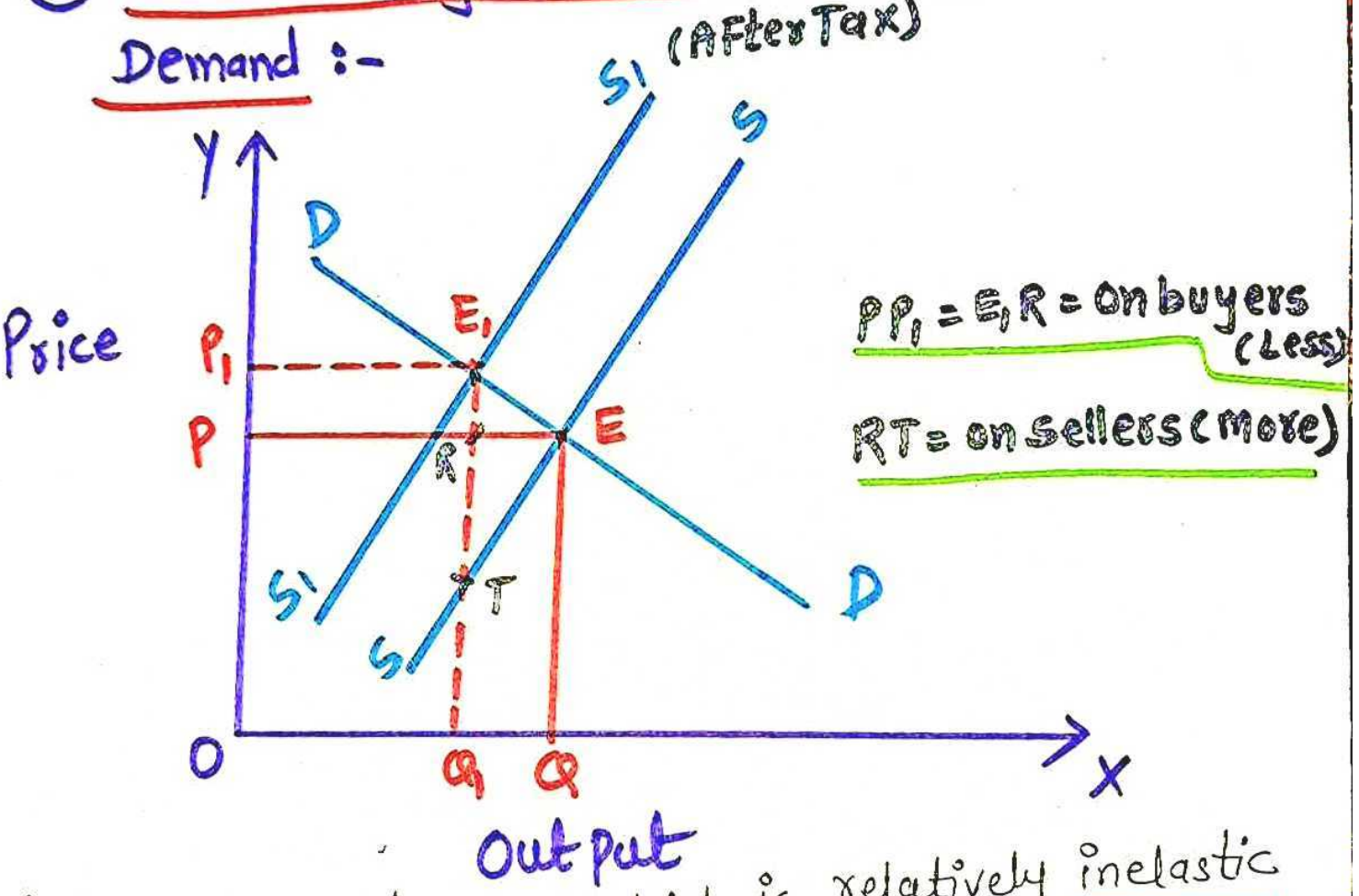
Here we get New Equilibrium - E_1 at higher Price - OP_1.

4) Incidence of Tax is -

$PP_1 = E_1R$ = on Buyer which is more.

$RT \rightarrow$ on Sellers which is Less.

(D) when Supply is Relatively inelastic than Demand :-



1) SS is Supply Curve which is relatively inelastic than Demand.

2) DD Curve intersect SS Curve at Point E.
Here OQ output is sold at OP Price.

3) Due to imposition of Tax, SS Curve is shifted Upward to S_1S_1. Here we get New Equilibrium - E_1

4) Incidence of Tax is -

$PP_1 = E_1R$ which is Less on buyers

$RT \rightarrow$ on sellers which is more.

Thus incidence of Tax is depends upon Relative elasticities of Demand and Supply.

i) A Tax is Shifted forward to consumers when demand is Relatively inelastic than supply.

ii) A Tax is shifted backward to Producers when supply is Relatively inelastic than Demand.

Q:7 Explain the Effects of Minimum Floor and Maximum Ceiling Pricing Control ?

(A) Introduction :- Beside Taxation and Subsidies government also Determine Maximum or Minimum Prices. It is done to Protect buyers and suppliers during difficult issues. Example :- During Energy Crisis government impose Price Control on Petrol to control inflation.

(B) Price Ceiling :- " Price Ceiling is the government imposed Maximum Level of Price that can be Charged by seller."

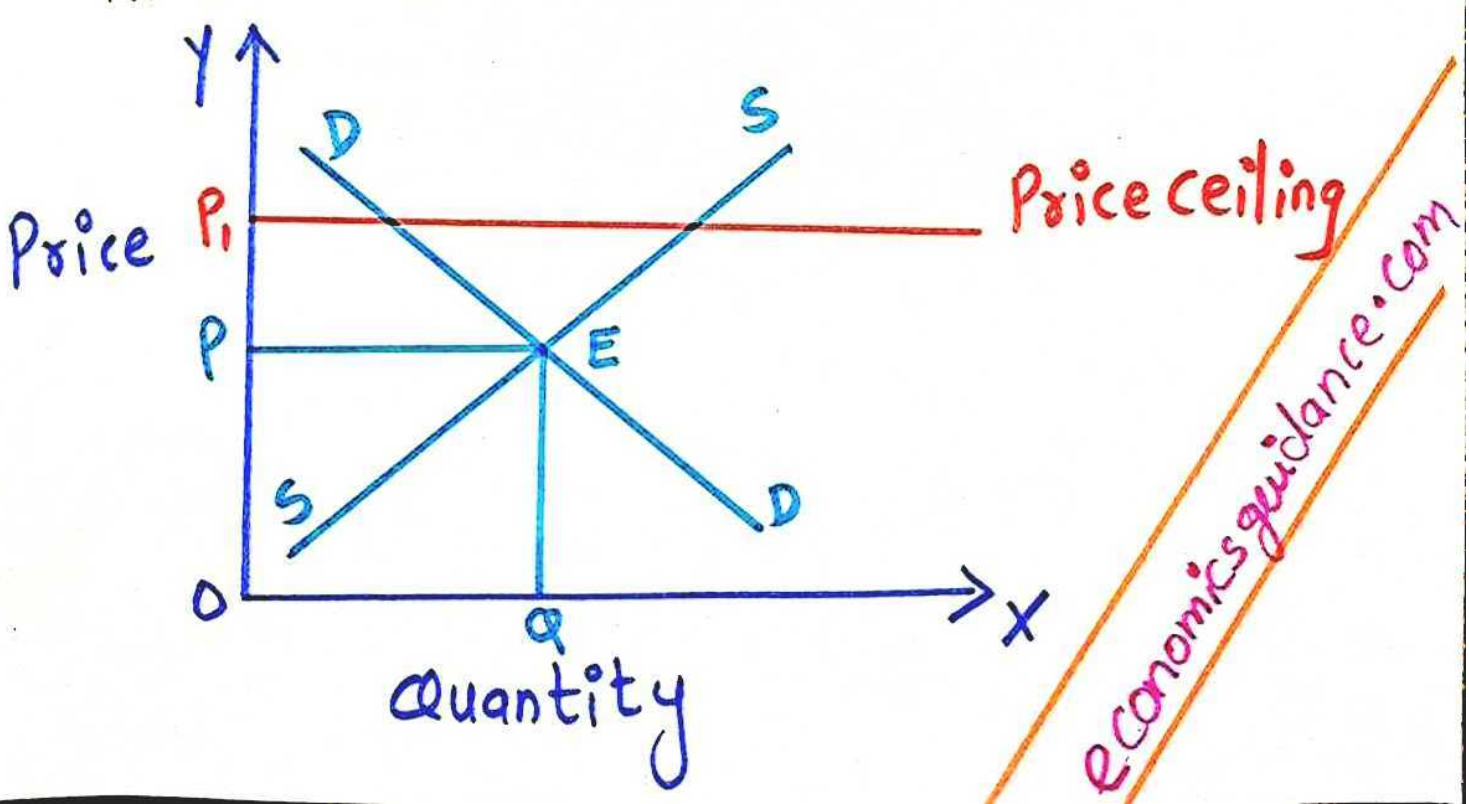
Generally, government fixes this maximum price much below the equilibrium Price to Protect welfare of Poor and weaker sections of economy.

© **Price Floors :-** " Price Floor is the government imposed Minimum Level of Price that can be charged by seller. "

(D) EFFects of Price-Ceiling on the Market :-

1. Price-ceiling that is not binding
2. Price-Ceiling that is binding.

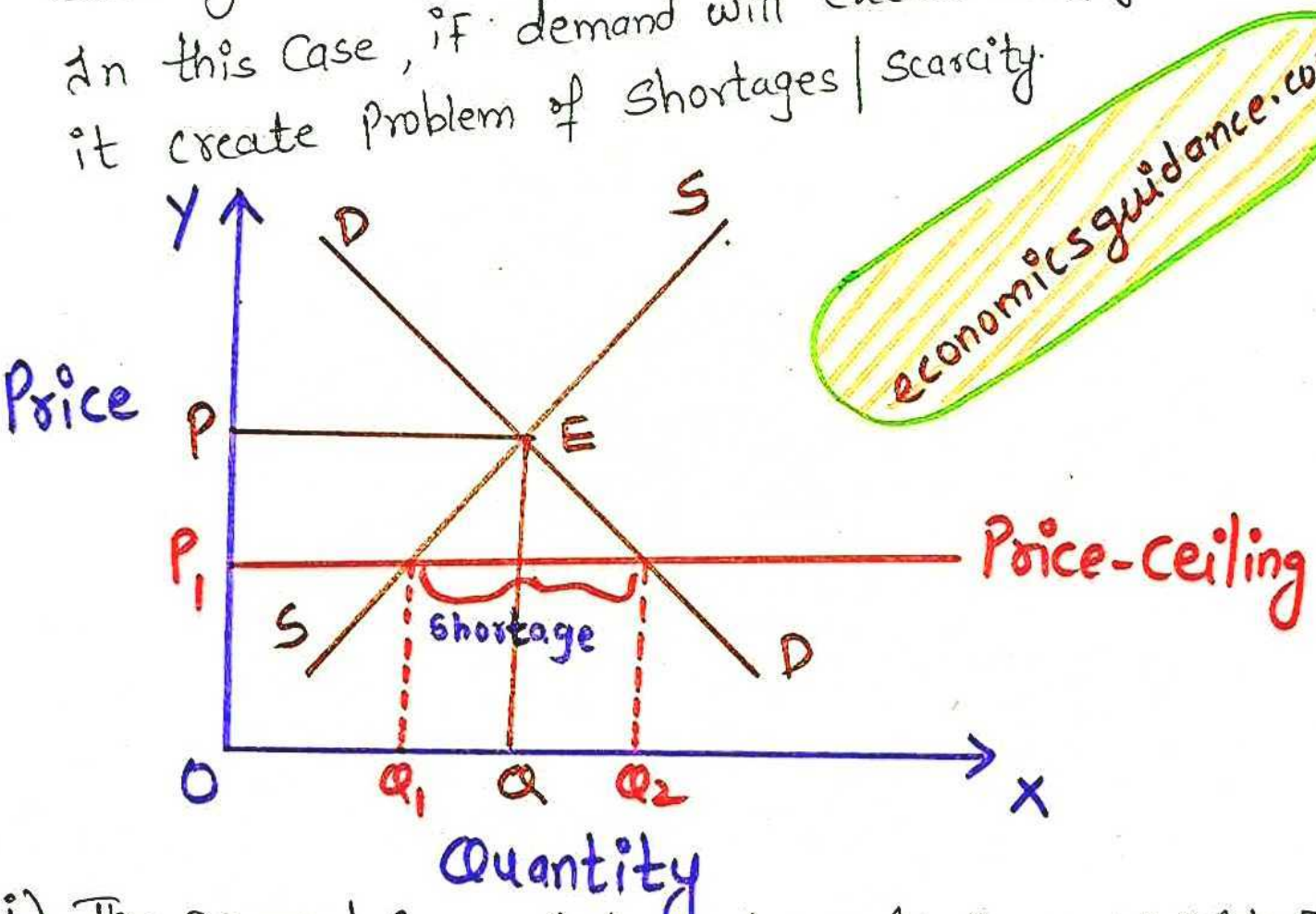
1. Price-Ceiling that is Not binding :- Under this case government fixes the Price above Market Price. Market Price which is determined by market forces of Demand and supply which is below Price-Ceiling So the Price-Ceiling is not binding. Here Price-Ceiling has no effect on Price and Quantity Sold shown in the diagram :—



i) Demand curve intersect supply curve at point E. It is called Equilibrium price - OP in the market.

ii) Here government impose price-ceiling above Equilibrium - OP level i.e at OP_1 level. This Price-ceiling have no effect on Price and Quantity Sold.

2. **Price-ceiling that is binding** :- Under this Case government fixes the price below Market Price. In this Case, if demand will exceed supply then it create problem of Shortages | scarcity.



i) The Demand Curve intersect supply Curve at point-E. Here market enjoys equilibrium at Price-OP.

ii). Suppose government impose price-ceiling below Equilibrium at Price - OP_1.

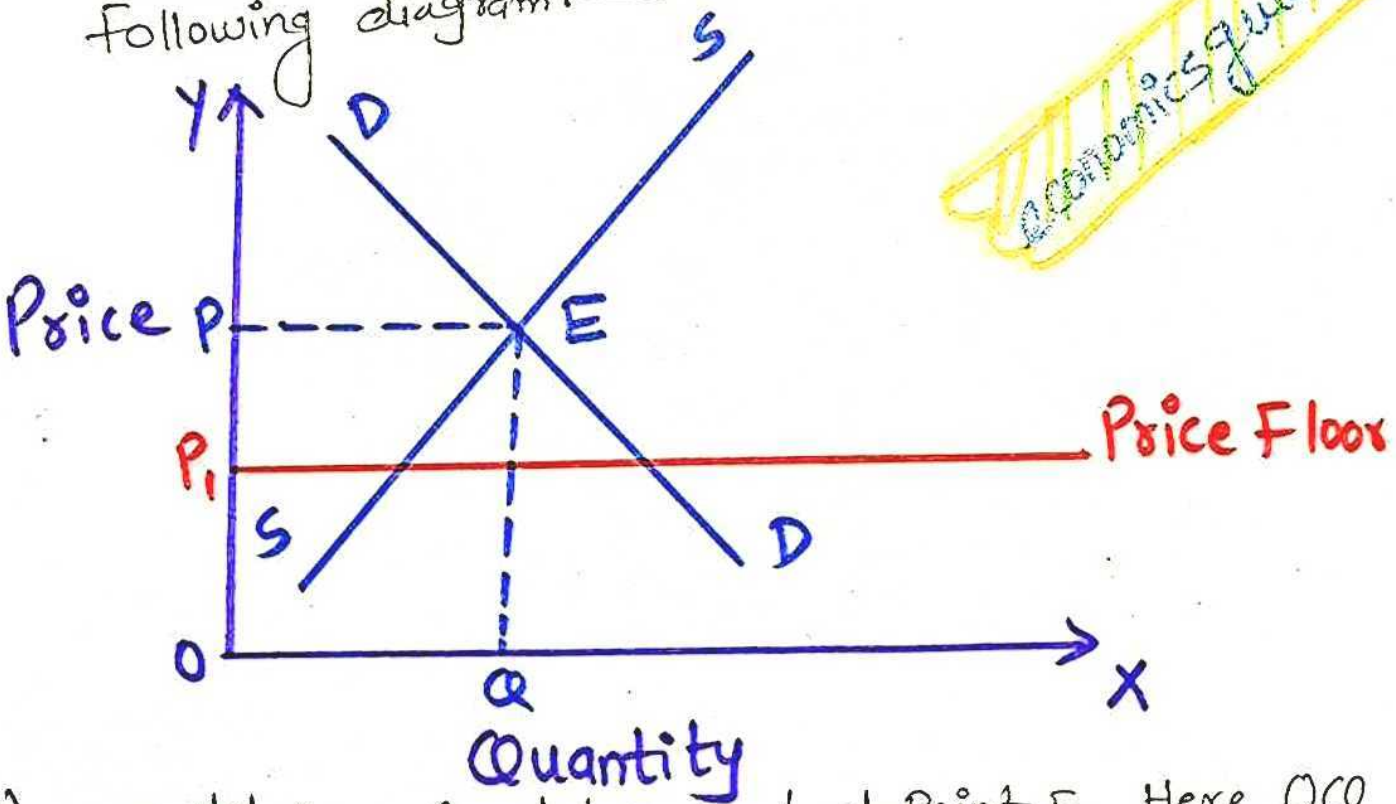
Here Quantity supply = OQ_1
Quantity Demanded - OQ_2

Demand is greater than supply which create shortage in the market.

(E) Effects of Price Floor on the Market :-

1. A Price Floor that is not binding
2. A Price Floor that is binding.

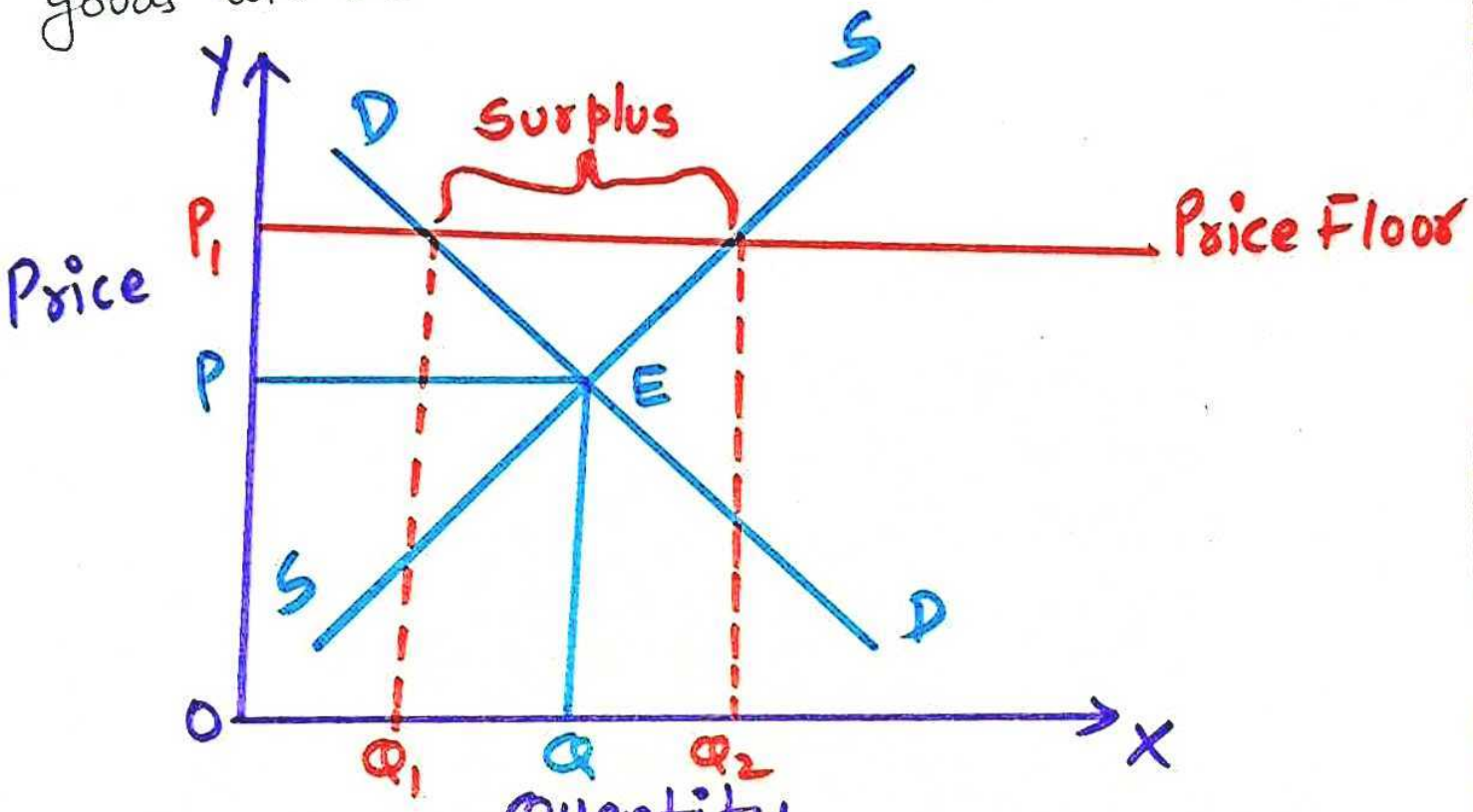
1. A Price Floor that is Not Binding :- when the government fixes Price Floor below the Equilibrium Price, then Price Floor is not binding. In this case, Price Floor has no effect on the market because market Price is above Floor Price shown in following diagram :—



i) Equilibrium is determined at Point E, Here OQ output is sold at OP Price.

ii) When government impose (fixes) a Price Floor at Price OP_1 it do not have any affect on market.

2. A Price Floor that is binding :- when the government fixes Price Floor above the market Prices this will give Rise to Surplus because supply of goods will be more than its demand at the Price Floor.



i) Equilibrium is determined in the market, where OQ output is sold at price OP.

ii) When government impose Price Floor above Equilibrium Price then—

Demand for Commodity = OQ_1

Supply of Commodity = OQ_2.

∴ Surplus Quantity in market = Q_1Q_2.

Thus a Price Floor which is binding create Surplus Output in the market.

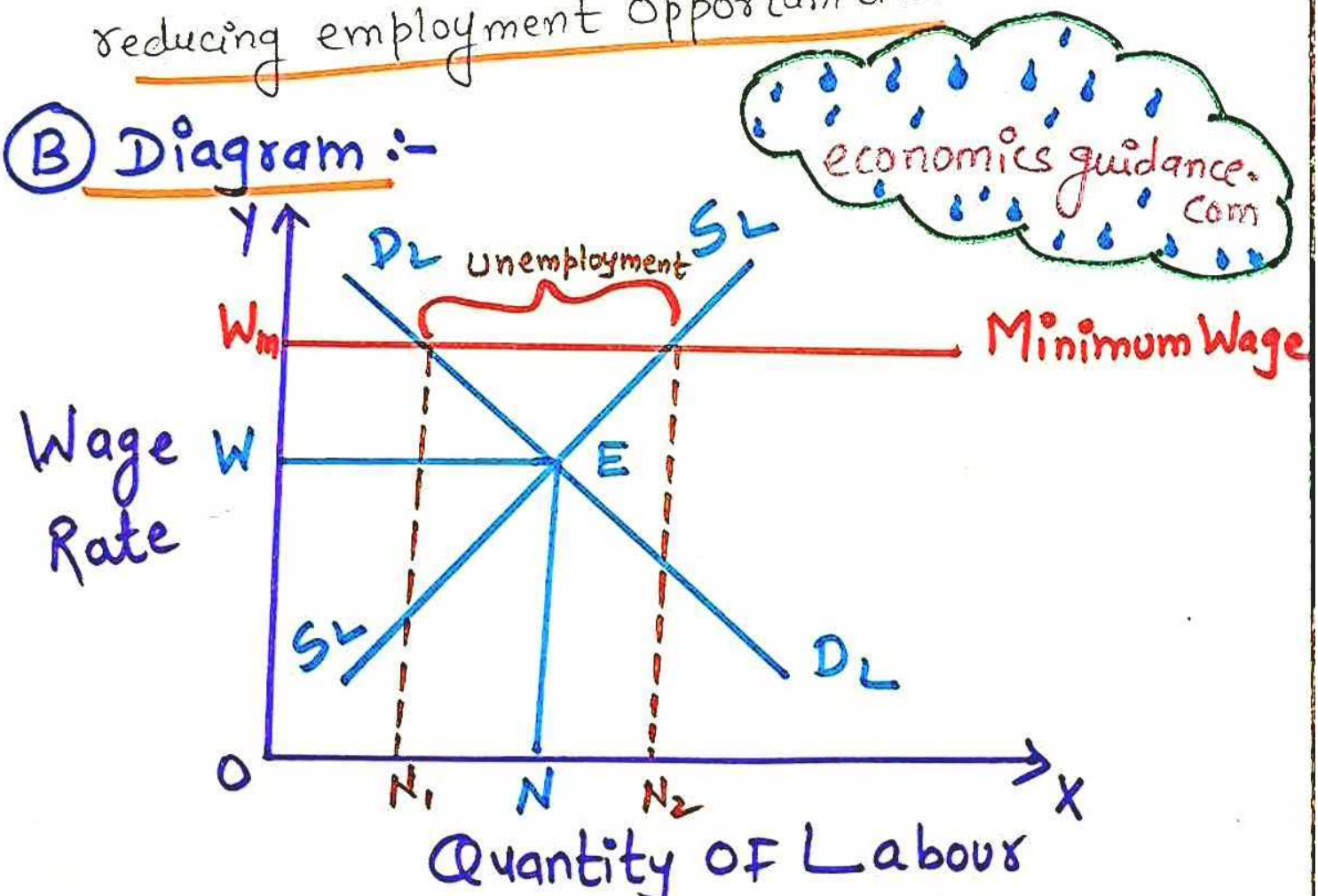
Q:8 Explain the Minimum wage Controversy?

(A) Minimum Wage Controversy :- Generally Skilled and experienced workers get better wages but Unskilled workers donot get even minimum wages. So Government has to pass Minimum wage Act; which Provide Minimum wages to workers.

According to few economists, an increase in Minimum wages will create Problem of Unemployment.

According to another economists, minimum wages Can be increase by moderate amount without reducing employment opportunities.

(B) Diagram :-



1) D_L Curve is the Demand For Labours Curve. It is sloping Downward from Left to Right. firms need

more workers at Lower wages.

2) S_L is Supply of Labour Curve which is sloping Upward from Left to Right.
Economy supply more Labours at higher wages.

3) Economy enjoys Equilibrium at Point E. Here ON Labours are working at OW wages.

4) If the government fix a minimum wage of OW_m which is above Equilibrium Wage Rate.
Here Demand for Labours = ON_1 (Reduced)
Supply of Labours = ON_2 (Increased)
Unemployment = N_1N_2 Labours.

Thus, Minimum wage Rate Policy increase the income of People who are working at Lower wage rate. But this Policy will not affect on the Skilled workers who are working at above minimum wage Rate.

Q:9 Write a Short Note on — Administrated Price Control.

(A) Administrated Price Control :-

" When the Prices are fixed by Government rather than Free play of market forces of Demand and supply is called Administrated Prices."

Example:- The Government of India is administrating the Prices of Petrol, diesel, fertilizers etc.

In India, government appoint Commission to give advise about regulation of Prices.

(B) Objectives of Administrated Prices :-

1. **To Protect interest of weaker sections of the Society :-** Government Provide basic necessaries of life to economically weaker section through Public Distribution System.
Example - Foodgrains, Sugar, Kerosene, Oil etc. through Fair-Price (Ration) Shop.

2. **To Discourage the Consumption of Few Commodities :-** Government of India has been increasing the Price of Petrol and Petroleum Product to discourage the Consumption of these goods.

3. **To Control Inflation :-** Government fix the Price of Certain goods to control inflation in the economy.
Example :- Prices of Drugs and Vaccine is fixed by government during Covid-19 to Protect Poor People.

4) **Efficient Allocation of Resources :-** The government may use Administrated Price Controls for better and efficient allocation of Scarce resources

5. **To achieve Goal of Equality :-** Government

may adopt Administrated Price to supply essential goods on a No Profit No Loss basis to bring equality and improve economic welfare.

© Pricing of Petroleum Products in India :-

India is working Under Administered Pricing Mechanism (APM) for Petroleum Products like- Petrol, diesel, Kerosene and LPG. All these Petroleum goods are sold at Subsidised Prices and the government decided to move away from Administrated Prices and to determine the Prices by market forces.

From 1st April, 2002 the APM was abolished Nowadays, Oil companies are fixing the Price of all Petroleum Products based on an International Parity Pricing Formula.

In India, Retail Prices of Petrol and diesel are Very high in India, South Asia and Other developing Asian Countries. Government impose heavy taxes on Petrol, diesel and Petroleum Products by central and State Government.

Thus - i) Administrated Prices are Fixed by Govt.
ii) They are Regulatory in nature.
iii) They are Statutory in nature.
iv) They are Part of Pricing Policy.
v) They are Corrective Measures.

Q:10 Choose the Correct answer and Rewrite the Statements :—

1. Price elasticity of demand is defined as The Percentage Change in Quantity demanded resulting from one % Change in Price.

a) the Change in Quantity demanded resulting from one Percentage Change in Price.

b) The Percentage Change in Price resulting from one unit Change in Quantity demanded.

c) The Percentage Change in Quantity demanded resulting from One Percentage Change in Price.

d) The Change in the Price of a good divided by the resulting Change in its Quantity demanded.

2. The Price elasticity of Demand for a Product Particular brand of Chocolate is estimated to be 2. If Quantity demanded has increased by 10%, Price must have Fallen by 5 Percent

a) Fallen by 5 Percent b) Risen by 5 Percent

c) Fallen by 10 Percent d) Risen by 10 Percent.

3. Along any Straight-line negatively sloping demand Curve the Price elasticity Varies, but the slope remains the Same.

a) the Price elasticity and slope both will Vary.

b) the Price elasticity Varies, but the slope remains the same.

c) the slope Varies, but the Price elasticity remains the same.

d) the Price elasticity and slope remain the same.

4) A Price elasticity of 1 means that the Relative Changes in Price and Quantity are Same.

a) the demand Curve is Vertical
b) the demand Curve is Horizontal
c) the relative Changes in Price and Quantity are equal.
d) expenditure on the good would increase if Price is reduced.

5) which of the following will not be a determinant of the Price elasticity of demand for a Commodity ? the Cost of Producing of Commodity.

a) Availability of Substitute for the good.
b) The range of Price Change
c) the Cost of Producing of Commodity.
d) The Length of time Period of which of demand Curve Pertains.

6) If TR increase due to a Fall in the Price of the Product, then. Price elasticity is greater than one.

a) Price elasticity is equal to one.
b) Price elasticity is Less than one.
c) Price elasticity is zero.
d) Price elasticity is greater than one.

7) If a rise in Price increases TR, the Producer is Operating on the Segment below the mid-Point of the Demand Curve.

a) the Segment below the mid-Point of the demand Curve.
b) the Segment above the mid-Point of the demand Curve.
c) the mid-Point of the demand Curve.
d) the Y-intercept of the demand Curve.

8) When demand is relatively inelastic, Price and Total revenue changes take place in the Same direction.
a) Same b) Opposite c) Negative.

9) When TR is increasing with every Fall in Price, the Price elasticity of demand is greater than one.
a) equal to one b) greater than one
c) Less than one d) equal to zero.

10) Cross elasticity of demand for Complementary goods is Negative
a) Negative b) Positive c) Zero d) one.

11) The reason for the Paradox of bumper harvest is that demand for Food item is inelastic
a) elastic b) inelastic c) Unitary elastic

12) Any government Policy leading to reduction in the supply of Farm Products is beneficial for whom?
Farmers
a) Consumers b) Farmers c) Government.

13) The incidence of Tax on a good is more on buyers when demand is inelastic relative to supply
a) inelastic b) elastic c) more elastic

14) The important Factor determining the incidence of tax is relative elasticities of demand and supply.
a) Demand b) Supply c) demand and supply.

15) When the Price Ceiling is below the equilibrium Price it is **binding**

a) binding b) not binding c) having no effect.

16) Minimum wage is an example of **Price Floor**

a) Price ceiling b) Price Floor c) Firm's Policy.

Q:11 State Whether the Following Statements are True or false, giving reasons for yours answers :—

(1) Elasticity of Demand measures the absolute change in one Variable caused due to the absolute change in another Variable.

Ans:- False. Reasons Q:1 - A Part.

(2). Using arc method ensures that Price elasticity is the same regardless of the direction of movement on the Demand Curve.

Ans:- True Reasons Q:1 - B Part - 2nd Point

(3) The elasticity of Demand may differ at different Points on the same demand Curve.

Ans: True. Reasons :- Q:1 - B Part - 1st Point.

(4) When the demand For Product is perfectly elastic, the elasticity Co-efficient is 0.

Ans: False

Reasons :- 1) " when slight Change in Price brings infinite change in Quantity demanded is called Perfectly Elastic Demand "

2) Example :- $E_p = \frac{40\% \text{ rise in demand}}{1\% \text{ fall in Price}} = \frac{40}{1} = 40$ $E_p = \infty$

3. Here Demand Curve is Horizontal straight line

(5) Unitary elasticity is represented by a demand curve that is a rectangular hyperbola.

True

Reasons:- i) When Change in Price brings exactly same Change in Quantity demanded is called Unitary Elastic Demand.

ii) Here $E_p = 1$. It is also called bisector demand Curve because it divide entire area into Two equal Parts.

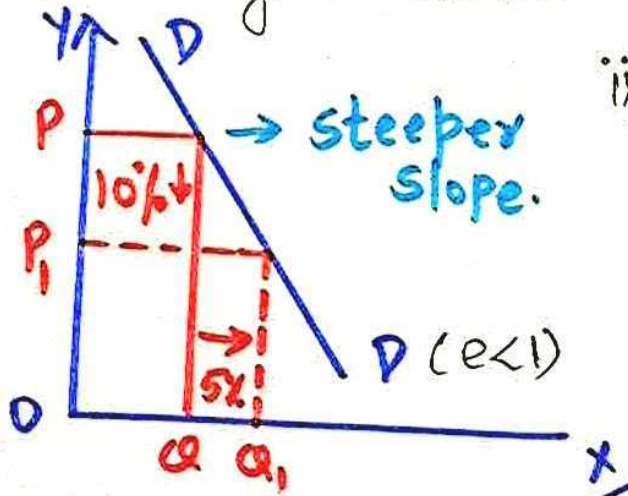
iii) Here Demand Curve is Rectangular hyperbola because any Point on Demand Curve is equal to Unity.

(6) Relatively inelastic Demand is represented by a Vertical Demand Curve.

Ans:- False.

Reasons:- i) When Change in Price brings Lessthan Proportionate Change in Quantity demanded is called Relatively inelastic Demand.

ii)



→ steeper slope.

iii) DD is Relatively inelastic demand Curve which has Steeper slope.

7) When Demand is elastic, Price and TR move in the Same Direction.

Ans:- False. Reasons:- Q:2 B Part - 1st Point

8) When demand is Unitary elastic, TR remains Unchanged even as the Price is Changed.

Ans:- True. Reasons: Q:2- B Part - 2nd Point.

(9) Price elasticity of Demand for necessary Commodities is Less than One.

Ans:- True

Reasons:- i) When Change in Price brings Less than Proportionate Change in Quantity demanded is Called Relatively in elastic demand "

ii) Here $Ep < 1$. This demand Curve have steeper slope.

iii) Generally in case of necessary goods, Price Elasticity is Less than one.

iv) Example - Salt, Sugar, Medicine Books, Petrol etc.

(10) The Larger and Closer the Substitutes available, Lower will be the Price elasticity of demand for a Commodity

Ans:- False Reasons:- Q:2 - D Part - 2nd Point

(11) In the Short-Run, demand by and Large remain inelastic

Ans:- True

Reasons:- i) In Short-Period mostly demand remains inelastic but in Long-Run, demand becomes elastic.

ii) In Short-period Consumers do not get information about the availability of Substitutes.

iii) But in Long-Run Consumer gets aware about Various substitutes available in the market.

(12) Income elasticity of Demand for normal goods is be Negative.

Ans:- False. Reasons:- Q:3- D-Part -1st Point

(13) Cross Elasticity of Demand for Substitutes is Positive.

Ans: True. Q:4 - D Part - 1st Point.

(14) A Bumber harvest increases Farm out put as well as farmers income.

Ans:- False. Reasons: Q:5- A Part.

(15) According to the paradox of government policy, the Policy Leading to reduction in Supply of Farm Products may raise the income of the farming.

Ans:- True. Reasons Q:5 - B Part.

(16) A Tax is shifted forward if the demand is inelastic relative to supply.

Ans:- True. Reasons: Q:6 - C Part

(17) When Price Ceiling is above the equilibrium Price it is binding.

Ans:- False. Reasons:- Q:7 - D Part - 1st Point

(18) If the Price Ceiling is below the equilibrium Price, it is binding and give rise to excess supply.

Ans:- False. Reasons:- Q:7 - D Part - 2nt Point

(19) If Price Floor is above the equilibrium Price, it give rise to Surplus

Ans:- True. Reasons:- Q:7 E Part - 2nd Point

(20) The Policy of Minimum wage increases Unemployment.

Ans:- True. Reasons :- Q:8- A Part.

(21) Administrated Price Policy was Used in India With respect to Petroleum Products.

Ans:- True. Reasons :- Q:9 - C Part