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21 E I

**First Term Test - Grade 12 - 2019**

Index No : .....

**Economics I**

**Two Hours**

**Important**

- ◆ Answer all the questions.
- ◆ Select the correct or most suitable answer. (A supplementary paper is provided to mark the correct answer)

01. Which of the following would be a positive statement?
  1. The resource availability of satisfying unlimited wants is limited.
  2. Unequal income distribution is unfair.
  3. Foreign aid should be obtained for the development of Sri Lanka.
  4. It is essential to have an equal resource distribution for each of the nation.
  5. The economic growth rate should be maintained at 10% in Sri Lanka.
02. Select the macro economic concept from the followings.
 

1. Marginal cost	2. Production cost of a firm	3. Full employment
4. Demand for a certain good	5. Resource scarcity	
03. An example for capital is,
 

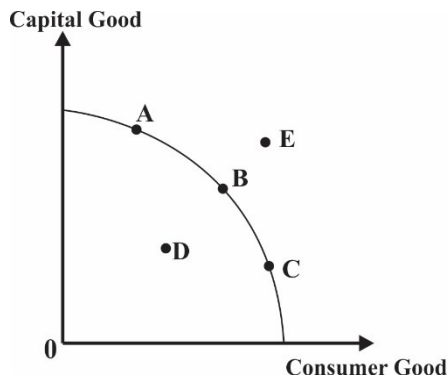
1. Natural forest	2. Phosphate deposit	3. An obtained loan from a bank.
4. Tea plantation	5. A note worths Rs.1000/=	
04. An economic resource means,
  1. Scarce resources which have a limited supply among production resources.
  2. All the resources that are produced by human being.
  3. Resources which are not produced but have an unlimited supply.
  4. Resources that an opportunity cost is not created.
  5. Production resources that supply is unlimited at zero price.
05. What would be an example for renewable resources ?
 

1. Cultivated land	2. Machineries and tools	3. Fuel
4. Dolomite	5. Fishing resources in the sea.	
06. An example for social overhead capital is,
 

1. Harbour and airport	2. Drainage system	3. Irrigation system
4. Roads	5. Water supply system	

07. The problem of what to produce in which quantity is the,
1. Resource allocation problem.
  2. Problem of production.
  3. Problem of income distribution.
  4. Problem of production efficiency.
  5. Problem of production techniques.
08. The main economic problem that is common to each economy is,
1. Chasing a large quantity of money on a little quantity of commodities.
  2. Insufficient resource availability for satisfying unlimited wants.
  3. Overutilization of scarce natural resources.
  4. Environmental pollution due to production.
  5. The inability of overcoming the poverty.
09. A basic feature in a market economy is,
1. Government property ownership.
  2. Function along with a planning process.
  3. aim at social welfare.
  4. Private property ownership.
  5. Unlimited role of the government.
10. When the free market is intervened by the government for social welfare, this economy is identified as a,
1. Planning economic system.
  2. Social market economic system.
  3. Socialist market economic system.
  4. Capitalistic economic system.
  5. Market economic system.
11. A main function of price in a market economy is,
1. Creating profits for entrepreneurs.
  2. Determining demand and supply.
  3. Rationing scarce resources among alternative uses.
  4. Stabilizing a reasonable income distribution.
  5. Determining commodity prices.
12. A condition which can be seen mostly in command economic system than in market economic system is,
1. Consumer sovereignty.
  2. Production efficiency.
  3. Competition.
  4. Considering private benefits.
  5. Reasonable income distribution.
13. Which of the following would not be a criteria in assessing the performance of an economic system ?
1. Novelties.
  2. External stability.
  3. Equal income distribution
  4. Economic freedom.
  5. Full employment.
14. Different economic systems which are classified based on resource ownership and property right are,
1. Market economic system and command economic system.
  2. Capital economic system and mixed economic system.
  3. Capitalistic economic system and socialistic economic system.
  4. Social market economic system and socialist market economic system.
  5. Planned economic system and mixed economic system.
15. According to economics "Goods" means,
1. Things produced bearing an opportunity cost.
  2. Things which have unlimited supply at zero price.
  3. Things that opportunity cost increases with an increase in production.
  4. Things that positive satisfaction or utility is brought.
  5. Things that opportunity cost is zero in the production.

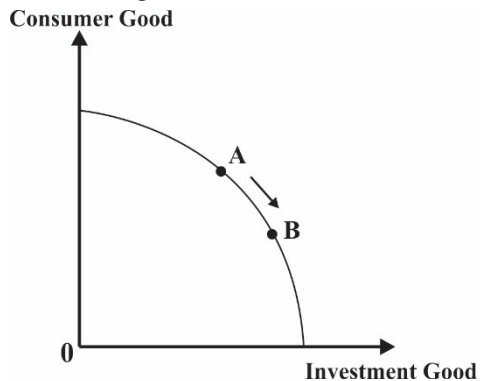
16. What would be considered from the following in making an accurate economic decision of choice?
1. When Marginal cost equals to marginal benefit.
  2. When Marginal benefit exceeds marginal cost.
  3. When Marginal cost exceeds marginal benefits.
  4. When marginal cost is zero.
  5. When opportunity cost is created due to a choice.
17. When there is a downward movement along the PPC of which X and Y goods are produced,
1. Opportunity cost gradually increases.
  2. Opportunity cost gradually decreases.
  3. Opportunity cost remains constant.
  4. The production of one good reduces.
  5. The opportunity cost would be zero.
18. Consider the following production possibility curve.



If this economy expects to achieve a higher economic growth,

1. C Point should be selected for the production.
2. The production should be changed from B to C.
3. "A" Point should be selected for the production.
4. The production should be changed from D to B.
5. The production should be changed from B to E.

19. The change in choice of a certain economy is depicted as below.



Which of the following would be irrelevant for the above change.

1. Economic growth increases rapidly.
2. Economic growth increases very slowly.
3. Present consumption level would be lower.
4. The future consumption level increases.
5. Consumption has to be sacrificed for the investment.

20. A recession is shown in a Production Possibility Curve,
1. By shifting the production possibility curve to left.
  2. By a point which is marked left of the production possibility curve.
  3. By an upward movement along the production possibility curve.
  4. A movement to a point further inside of its production possibility frontier.
  5. A movement from a point inside towards the production possibility frontier.

21. Certain data on the production of X and Y goods are as follows.

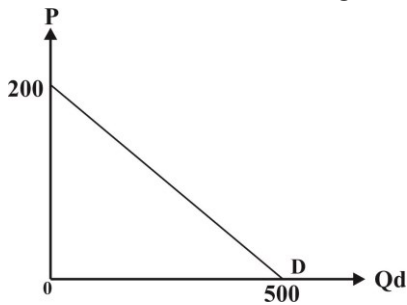
X good	Y good
0	250
10	230
20	200
30	130
40	0

What would be the opportunity cost of increasing the X production from 20 to 30 ?

1. 200 units of Y goods.
  2. 130 units of Y goods.
  3. 10 units of goods.
  4. 7 units of Y goods.
  5. 70 units of Y goods.
22. The situation which can be expected at each of the point along the production possibility curve is the,
1. Equal distribution of products.
  2. Price stability.
  3. Production efficiency.
  4. Economic efficiency.
  5. Resource allocation efficiency.
23. A factor which causes to shift the PPC rightward is,
1. Increase in resource productivity.
  2. Increase in employment level.
  3. Increase in unemployment.
  4. Increase in net migration.
  5. Increase in recession.
24. This would not be an assumption in deriving a production possibility curve.
1. Only 2 goods are produced.
  2. Fixed amount of resource stock.
  3. Fixed technology within the given time.
  4. All the resources are utilized to attain full employment and full production in the economy.
  5. Utilizing the advanced technology for resource utilization.
25. The Slope of the production possibility curve depicts the,
1. Marginal opportunity cost.
  2. Marginal cost.
  3. Production efficiency.
  4. Production inefficiency.
  5. Increase in resource productivity.
26. The law of demand means,
1. Increase or decrease in demand due to increase or decrease in price.
  2. Change in demand of a certain good due to change in other factors except to price.
  3. Increase or decrease in quantity demanded due to decrease or increase in the price of the good.
  4. Change in quantity demanded due to change in price of a good.
  5. Responding the consumer for other factors except to price.
27. A reason to increase the demand of a certain good is,
1. Increase in income if the good is inferior.
  2. Decrease in price of the concerned good.
  3. Increase in price of the concerned good.
  4. Increase in price of the substitute good.
  5. Increase in the price of complement good.
28. Sugar and jaggery are substitute goods. Assume, the sugar price is increased. What would be the conclusion which can be made related to the jaggery demand ?
1. Juggary demand increases.
  2. Juggary demand reduces.
  3. Jaggary demand curve shift to left.
  4. No any influence an jaggary.
  5. Jaggary quantity demand reduces.

29. Price demand elasticity of bread is -0.4. If the bread price is reduced by 50% by producers what would be the change in quantity demanded ?
1. Increased by 20%
  2. Decreased by 30%
  3. Increased by 30%
  4. Decreased by 20%
  5. Increased by 10%

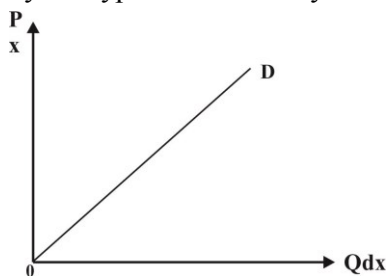
30. The demand curve of a certain good is given below.



The related demand equation is,

1.  $Qd = 500 - 200P$
2.  $Qd = 500 - 20P$
3.  $Qd = 500 - 2.5P$
4.  $Qd = 500 - 2P$
5.  $Qd = 500 - 0.4P$

31. Identify the type of commodity belonged to the given demand curve.

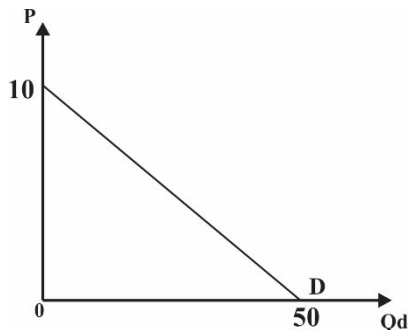


1. Substitute good.
2. Complement good.
3. Inferior good.
4. Giffen good.
5. Luxury good.

32. The income demand elasticity of a certain good is calculated as 2.5. Identify the type of this commodity.

1. Inferior good.
2. Essential good.
3. Luxury good.
4. Giffen good.
5. Substitute good.

33. The demand curve for pineapple in a market is given below.



Select the correct answer which shows the slope and the reciprocal slope of this curve.

- |    | Slope | Reciprocal slope |
|----|-------|------------------|
| 1. | 5     | 0.2              |
| 2. | 0.4   | 5                |
| 3. | 0.2   | 4                |
| 4. | 0.2   | 5                |
| 5. | 50    | 10               |

34. What would be the price elasticity of demand of a certain good at Rs. 20.00 when the demand equation is,  $Qd = 300 - 10P$

1.  $PED = 2$
2.  $PED = 0.5$
3.  $PED = 4.0$
4.  $PED = -0.5$
5.  $PED = -2$

35. The consumer expenditure of a certain good is maximized when the elasticity of that good would be,

1. elastic
2. unitary
3. inelastic
4. perfectly elastic
5. perfectly inelastic.

36. Assume the elasticity of mobile phone is elastic. How to change the consumer expenditure with an increase in price of mobile phone ?

1. Maximized.
2. Increases or decreases.
3. Remains constant.
4. Increases.
5. Reduces.

37. What would be the type of commodity and its income demand elasticity, When the quantity demanded of margarine is reduced from 200 to 180 due to increase in personal income from Rs. 20 000 to Rs.25 000.00?

	<b>Commodity Type</b>	<b>Elasticity</b>
1.	Normal good.	2.5
2.	Giffen good.	4.0
3.	Inferior good.	-0.4
4.	Essential good.	-2.5
5.	Luxury good.	-0.4

38. The income effect that affect to reduce the quantity demanded at a price increase of concerned good is,

1. Shifting the consumer towards the relatively low priced good.
2. Reduction of money income due to increase in commodity price.
3. Reduction of real income due to price increase of the commodity.
4. Increase in real income due to price increase of the commodity.
5. Assuming an increase in expected price of the good in future.

39. The reason for upward slope of the supply curve from left to right is,

1. Increase in revenue due to increase in price.
2. Decrease in income due to increase in price.
3. Decrease in cost due to increase in price.
4. Increase in consumer expectations due to increase in price.
5. Increase in marginal cost due to increase in output.

40. The supply curve of a certain good is given as below.

$Q_s = -200 + 5P$ . The minimum supply price of this good is,

1. Rs. 20
2. Rs. 30
3. Rs. 40
4. Rs. 50
5. Rs. 60

41. What would be the quantity supply at Rs. 40 when the supply equation is given as,  $Q_s = 500 + 10P$ .

1. Units 300
2. Units 50
3. Units 200
4. Units 500
5. Units 100

42. What would be the demand curve of the commodity that production revenue is reduced by 15% due to reduction of price by 25% by the firm.

1. Elastic
2. Inelastic
3. Perfectly inelastic
4. Perfectly elastic
5. Rectangular hyperbola.

43. Which of the following would be relevant for complementary goods.

1. Income elasticity is negative.
2. Cross price elasticity is inelastic.
3. Price elasticity of demand is positive.
4. Cross price elastic is positive.
5. Cross price elasticity is negative.

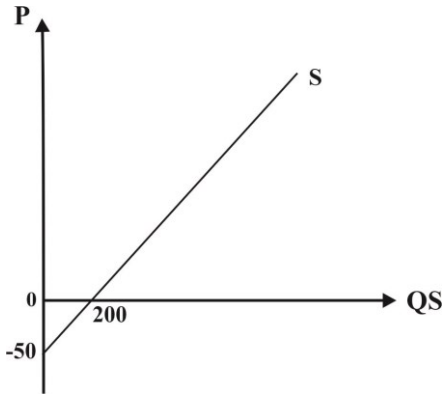
44. Which of the following would affect to increase the supply of a certain good ?

1. Decrease in imposed tax.
2. Decrease in given subsidy.
3. Increase in input price.
4. Decrease in number of producers.
5. Increase in price of the good.

45. The law of supply means,

1. Increase in supply due to increase in price.
2. The negative relationship between price and quantity supply.
3. Decrease in supply due to price reduction.
4. The positive relationship between price and quantity supplied.
5. Increase or decrease in supply due to increase or decrease of price.

46. The supply curve of a certain good is given below.



The supply equation of this firm is,

1.  $Qs = -20 + 4P$
2.  $Qs = 200 + 0.25P$
3.  $Qs = 200 + 4P$
4.  $Qs = -200 + 4P$
5.  $Qs = -20 + 0.25P$

47. The supply equations of 3 firms in a certain market are given below.

$$QSA = 20 + 2P$$

$$QSB = 30 + 2P$$

$$QSC = 50 + 2P$$

The market supply equation of this firm would be,

1.  $Qs = -100 + 4P$
2.  $Qs = 100 + 6P$
3.  $Qs = 200 + 2P$
4.  $Qs = 100 + 2P$
5.  $Qs = 70 + 6P$

48. What would be the conclusion which can be made on the X good, due to increase in number of buyers when the commodity price remains constant ?

1. Decrease in quantity supplied.
2. Increase in price of the good.
3. Shift the supply curve to left.
4. Remaining the quantity supply constant.
5. Increase in aggregate supply.

49. The idea of "Price of the related good" in determining the supply is,

1. Price of other goods which can be produced by own resources.
2. Price of substitute goods and complementary goods.
3. Price of production factors.
4. Price of technological factors.
5. Price of goods of other producers.

50. A table with price and quantity supply of a certain good given below.

P	Qs
50	800
40	600
30	400

The supply equation related to this table is,

1.  $Qs = 400 + 20P$
2.  $Qs = -100 + 20P$
3.  $Qs = -200 + 20P$
4.  $Qs = 200 + 10P$
5.  $Qs = 100 + 20P$



**First Term Test - Grade 12 - 2019**

Index No : .....	<b>Economics II</b>	<b>Three Hours</b>
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**Important**

♦ Select at least two questions from each section and answer for five questions.

**Section A**

- 01). i. Explain the difference between positive statements and normative statements. (4 Marks)
- ii. Distinguish between needs and wants. (4 Marks)
- iii. Define "economic resources" and classify them. (5 Marks)
- iv. Mention the related production factor for following. (4 Marks)
  - 1. A phosphate deposit.                                 2. Catching fish by a fisherman.
  - 3. Tea plantation.   3. Coral reef
- v. What are the criteria used in classifying different economic systems? (3 Marks)
  
- 02). i. Discuss the difference between capital and human capital. (4 Marks)
- ii. What is meant by scarcity of resources ? Explain using a relevant production possibilities curve. (4 Marks)
- iii. Illustrate the increasing opportunity cost using a diagram. (4 Marks)
- iv. Name 4 main features in market economic system. (4 Marks)
- v. Explain, how to solve the "problem of production" in a market economic system. (4 Marks)
  
- 03). i. Name the basic economic problems in an economy. (3 Marks)
- ii. Explain situations that opportunity cost becomes zero. (3 Marks)
- iii. Using relevant diagrams, explain the productive efficiency and allocative efficiency. (6 Marks)
- iv. Distinguish economic systems based on the ownership of resources and property right. (4 Marks)
- v. What are the salient features in a mixed economic system. (4 Marks)



- 04). i. Distinguish between economic goods and non - economic goods. (4 Marks)  
 ii. Why "money" is not being considered as a capital in economics ? (4 Marks)  
 iii. Explain following situations using a relevant production possibilities curve.  
 (a) Increase in unemployment. (b) Economic growth.  
 (c) Economic recession. (d) Full employment. (4 Marks)  
 iv. How to differ labour from entrepreneurship? Explain. (4 Marks)  
 v. Name four main features in planned economic system. (4 Marks)

### Section B

- 05). i. What is meant by the "Law of demand" ? (3 Marks)  
 ii. Define private demand and market demand. (4 Marks)  
 iii. Assume, the demand for a certain good is reduced in a certain economy. Write down 5 reasons to reduce the demand. (5 Marks)  
 iv. Explain, Why does the quantity demand reduce with an increase in price of the concerned commodity? (4 Marks)  
 v. Define the common equation of demand related to the demand curve which slopes downward from left to right. (4 Marks)
- 06). i. What is meant by a "Giffen good"? Explain using a relevant diagram. (4 Marks)  
 ii. Discuss the difference between "change in quantity demand" and "change in demand". (4 Marks)  
 iii. Define the "Price elasticity of demand" and Write down its alternative calculation methods. (4 Marks)  
 iv. Mention the determinants of price elasticity of demand. (4 Marks)  
 v. What are the assumptions behind the law of demand? (4 Marks)
- 07). i.  $Qdx = 600 - 10P$  is the demand equation related to a demand curve of a good in a market.  
 (a) Derive the demand curve for the given demand equation. (2 Marks)  
 (b) Calculate the price elasticity of demand at Rs. 40.00 (2 Marks)  
 (c) If the above given equation is changed  $Qdx = 800 - 10P$ , mention 2 reasons affect on that. (2 Marks)  
 (d) Build up the demand table belonged to above equation. (2 Marks)  
 ii. Using relevant diagrams, illustrate the behavior of consumer expenditure due to price increase a an elastic and inelastic demand situations. (4 Marks)  
 iii. Classify commodities based on income elasticity of demand. (4 Marks)  
 iv. What can you say about the elasticity of a demand curve which moves downward with an equal slope. (4 Marks)
- 08). i. State non price factors other than its own price which influence the demand for a commodity. (4 Marks)  
 ii. Define the "Law of supply" (4 Marks)  
 iii. How to affect the "Law of increasing marginal cost" for the law of supply? Explain. (4 Marks)  
 iv. Mention 4 factors to reduce the supply of a certain good. (4 Marks)  
 v. Build up the supply table and supply curve related to  $Qs = +10P$  (4 Marks)

**First Term Test**  
**Economics – 12 - 2019 - Answer Sheet**

**Paper- I**

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1) 1	11) 3	21) 5	31) 4	41) 5
2) 3	12) 5	22) 3	32) 3	42) 2
3) 4	13) 1	23) 1	33) 4	43) 5
4) 1	14) 3	24) 5	34) 5	44) 1
5) 5	15) 4	25) 1	35) 2	45) 4
6) 2	16) 1	26) 3	36) 5	46) 3
7) 1	17) 4	27) 4	37) 3	47) 2
8) 2	18) 3	28) 1	38) 3	48) 5
9) 4	19) 2	29) 1	39) 5	49) 1
10) 2	20) 4	30) 3	40) 3	50) 3

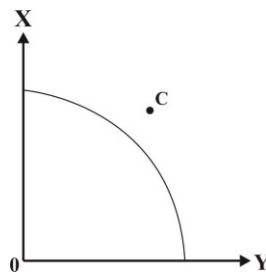
**Paper- II**

**Section A**

- 01). i. **Explain the difference between positive statements and normative statements.** (4 Marks)  
ii. **Distinguish between needs and wants.** (4 Marks)  
iii. **Define "economic resources" and classify them.** (5 Marks)  
iv. **Mention the related production factor for following.**  
1. **A phosphate deposit.** 2. **Catching fish by a fisherman.**  
3. **Tea plantation.** 3. **Coral reef** (4 Marks)  
v. **What are the criteria used in classifying different economic systems?** (3 Marks)
- 01). i. → Statements which answer the questions of what, what happened, what will happen and the statements that can be verified are called positive statements.  
- These are the scientific statements that accuracy can be tested with the use of real world facts. If the statement is verified through real world facts, it can be accepted or rejected. (2 Marks)  
→ Normative statements are the statements presented in relation to what should exist and what should happen in a society.  
- As normative statement are based on personal views, believes and traditions, they are mostly subjective.  
- It is difficult to test the accuracy of normative statements objectively using real world data. (2 Marks)
- ii. The minimum requirements of an individual for their survival are the needs.  
Ex : Food, Clothing, Housing.  
Alternative ways of fulfilling basic needs an the wants.  
Ex : If food is the need, rice, bread, string hoppers ect are the wants.  
- Needs are limited and wants are unlimited.  
- Needs are simple but wants are complicated. (4 Marks)
- iii. Resources with a limited supply against unlimited wants of a society or resources which are scarce in nature are called economic resources.  
As scarcity is considered, the main characteristic of economic resource is the opportunity cost in its consumption. (3 Marks)  
- Land, Labour, Capital, Entrepreneur (2 Marks)
- iv. (a) Land (b) Capital (c) Labour (d) Land (4 Marks)
- v. - Decision making and co - ordination mechanism. - Resource ownership and property right  
- Nature of incentives. (3 Marks)

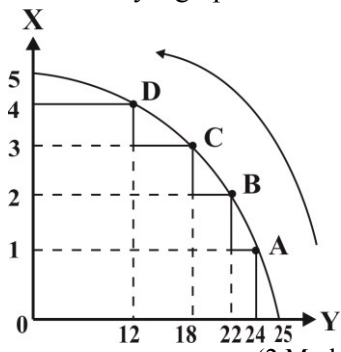
- 02). i. Discuss the difference between capital and human capital. (4 Marks)  
 ii. What is meant by scarcity of resources ? Explain using a relevant production possibilities curve. (4 Marks)  
 iii. Illustrate the increasing opportunity cost using a diagram. (4 Marks)  
 iv. Name 4 main features in market economic system. (4 Marks)  
 v. Explain, how to solve the "problem of production" in a market economic system. (4 Marks)

- 02). i. - Man made aids used in the process of production of goods and services are called capital.  
 Ex - Building, machinery Long term cultivations Infrastructural facilities (2 Marks)  
 - Skills and knowledge embodied in the labour force is the human capital.  
 - Skills of labour consists of education, training, research, experiences and favourable health which help to improve the productivity of labourers and professionals are called human capital. (2 Marks)
- ii. - The insufficient availability of resource relative to unlimited human wants is the resources scarcity. This doesn't mean that resources are not available.  
 - Scarcity is a common question for all the rich and poor countries.  
 - Due to unlimited human wants and limited resource availability, resource scarcity is arising and it can be depicted as follows. (3 Marks)



(1 Mark)

- iii. When moving along the production possibility curve by increasing the fixed amount of a certain good, the situation of increasing the amount of the marginal opportunity cost of forgone good is identified as increasing opportunity cost.  
 - it is shown by a graph below. (1 Mark)



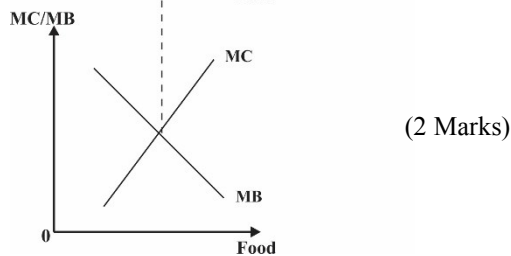
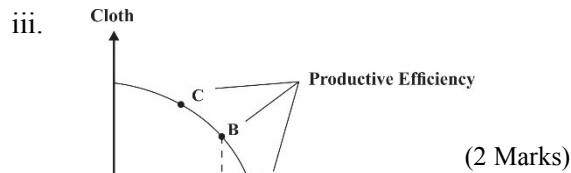
(2 Marks)

x	y	O.C.	x
0	25	<	1
1	24	<	2
2	22	<	4
3	18	<	6
4	12	<	12
	0	<	

- iv. - Private property ownership. - Consumer sovereignty - Incentives base on self - interest.  
 - Limited role of the government. - Free enterprise and free choice.  
 - market competition. - Price mechanisms (4 Marks for 4 factors)
- v. - As the production has to be carried out with the use of any production technique, the basic economic problem of how to produce is identified as " the problem of production "  
 - Using the least cost production technique market economy solves this problem. Price mechanism directs to select the efficient production techniques. (2 Marks)

- 03). i. Name the basic economic problems in an economy. (3 Marks)  
 ii. Explain situations that opportunity cost becomes zero. (3 Marks)  
 iii. Using relevant diagrams, explain the productive efficiency and allocative efficiency. (6 Marks)  
 iv. Distinguish economic systems based on the ownership of resources and property right. (4 Marks)  
 v. What are the salient features in a mixed economic system? (4 Marks)

- 03). i. - What to produce is which quantity - How to produce - For whom to produce (3 Marks)  
 ii. - For free goods (example sunrays, air). - Absence of alternative uses. (3 Marks)  
 - When there are unemployed resources.



At B point, as  $MB = MC$  condition is satisfied both productive efficiency and allocative efficiency are satisfied.

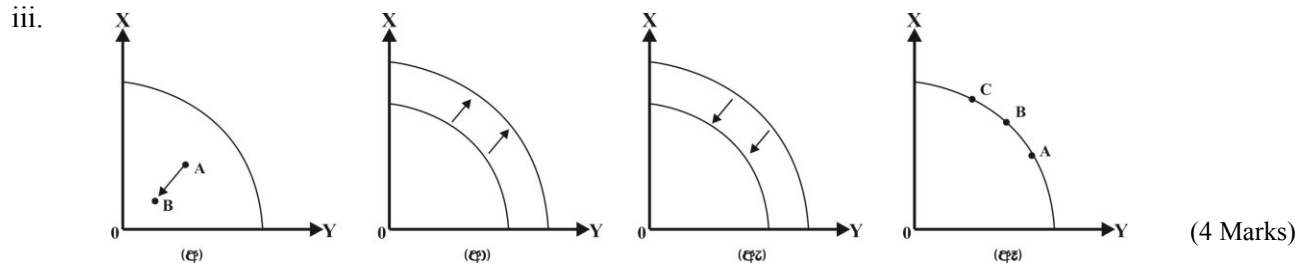
(2 Marks)

- iv. - Capitalistic economic system. – Resource ownership is with the private sector (4 Marks)  
 - Socialistic economic system – Resource ownership is with the public sector  
 v. - The main economic activators of the economy are consumer, producer, factor owner and government. (4 Marks for 4 factors)  
 - Self interest and the social welfare are the incentives.  
 - The resource ownership is with both private and public sectors.  
 - The role of the government is very significant.

- 04). i. Distinguish between economic goods and non - economic goods. (4 Marks)  
 ii. Why "money" is not being considered as a capital in economics ? (4 Marks)  
 iii. Explain following situations using a relevant production possibilities curve.  
 (a) Increase in unemployment. (b) Economic growth. (4 Marks)  
 (c) Economic recession. (d) Full employment.  
 iv. How to differ labour from entrepreneurship? Explain. (4 Marks)  
 v. Name four main features in planned economic system. (4 Marks)

- 04). i. - Goods with scarce supply are called economic goods. there is a resource cost and opportunity cost in economic goods. Ex : computers, Television. (2 Marks)  
 - Goods which have an unlimited supply at zero price are the non - economic goods. Ex : Solar power used to make solar panels. (2 Marks)

- ii. - Man made aids used in the production process is called capital. So this creates a production process. (1 Mark)
- But money is anything commonly accepted in doing transactions of an economy (1 Mark)
- In the production process although money is not used as an input, capital is used to produce goods as an input. (1 Mark)
- Money can be used for the purchase of assets used in the production. (1 Mark)



- iv. - Combining all factors of production within an economy, organizing production activities, operation and policy making which bearing risk in called entrepreneurship. (1 Mark)
- Ex : Maintaining a furniture shop by a person. (1 Mark)
- The mental and physical effort made by an individual in producing goods and services is the labour. (1 Mark)
- Ex : Catching fish by a fisherman. (1 Mark)
- Profit earned by the entrepreneur and salaries and wages are earned by the labour. (1 Mark)
- Entrepreneur bears risks in the production but laborer does not bear risk in production. (1 Mark)
- v. - Except labour all other resources are belonged to the government. (4 Marks)
- Basic economic questions are solved by the planning mechanism. (4 Marks for 4 factors)
- The incentive system is based on social welfare.
- As the main activators in the economy, government, central planning authority, production entrepreneur, Laborers and consumers are highlighted.

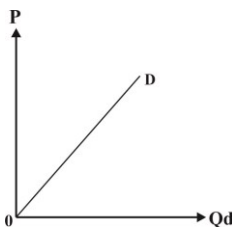
## Section B

- 05). i. What is meant by the "Law of demand" ? (3 Marks)
  - ii. Define private demand and market demand. (4 Marks)
  - iii. Assume, the demand for a certain good is reduced in a certain economy. Write down 5 reasons to reduce the demand. (5 Marks)
  - iv. Explain, Why does the quantity demand reduce with an increase in price of the concerned commodity? (4 Marks)
  - v. Define the common equation of demand related to the demand curve which slopes downward from left to right. (4 Marks)
- 05). i. In a certain period of time, when other factors affecting demand remain constant the inverse relationship between price and quantity demanded of a good is called the law of demand. (3 Marks)
  - ii. At a certain period of time, when other factors remain constant, various quantities ready to buy by a person at various prices of the concerned good is the individual demand. (2 Marks)
  - At a certain period of time, when other factors remain constant, various quantities ready to buy by sum of all individuals at various prices of the concerned good is the market demand. (2 Marks)
  - iii. - Decrease in price of substitute good. - Increase in price of complement good.
  - Increase in consumer income if the good is an inferior.
  - Decrease in consumer income if the good is normal or luxury.
  - Decrease in consumer taste. - Decrease in number of consumers. (5 Marks)
  - iv. When the price of a certain good increases. the quantity demand is reduced due to 2 main reasons as,
    1. Substitute effect of price change
    2. Income effect of price change
    - When other factors remain constant including the price of substitute goods.

- Due to the price increase of concerned good, quantity demand is reduced responding to the relative price increase of the concerned good in the substitute effect of the price change. (2 Marks)
  - When other factors remain constant including nominal income of consumers, decrease in quantity demanded due decrease in real income with a price increase of the concerned good is the income effect of a price change. (2 Marks)
- v.  $Qdx = a - bP$   
 $Qdx = x$  Quantity demand of X good.  
 $a$  = Quantity at zero price.  
 $-b$  = Slope of the demand curve that Qd is subjected /variance of the slope of the demand curve.  
 $b = \left(\frac{\Delta Q}{\Delta P}\right)$   
 $P$  = Price of the good. (4 Marks)

- 06). i. **What is meant by a "Giffen good"? Explain using a relevant diagram.** (4 Marks)  
 ii. **Discuss the difference between "change in quantity demand" and "change in demand".** (4 Marks)  
 iii. **Define the "Price elasticity of demand" and Write down its alternative calculation methods.** (4 Marks)  
 iv. **Mention the determinants of price elasticity of demand.** (4 Marks)  
 v. **What are the assumptions behind the law of demand?** (4 Marks)

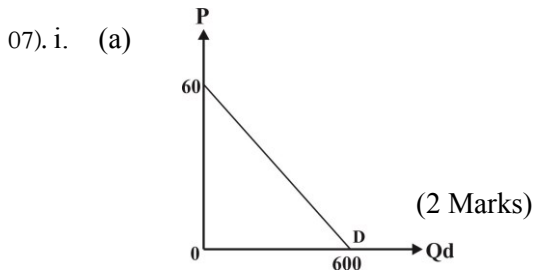
- 06). i. - Goods which show a positive relationship between price of the good concerned and quantity demanded when other demand determinants remain constant are the Giffen good.  
 - The price elasticity of demand of Giffen good would be positive.  
 - All the Giffen goods would be inferior but all the inferior goods would not be Giffen.  
 The demand curve of the Giffen good is positively sloped from left to right.



(Illustration 3 Marks)  
 (Diagram 1 Mark)

- ii. - When other factors remain constant, except the price of concerned good, change of quantity demanded in response to the increase or decrease of the price of the considering good is called change in quantity demanded.  
 - When other factors remain constant if the price of the concerned good is increased the quantity demanded is decreased and the point on the demand curve move upward along the demand curve. This is called as a contraction in demand.  
 - When other factors remain constant, if the price of concerned good is decreased, the quantity demanded increases and point on the demand curve moves downward along the demand curve. This is called as expansion in demand.
- iii. - Except price when other determinants of demand remain constant, measure the percentage change of quantity demanded in response to the percentage change of price is the price elasticity of demand.  
 - This can be measured related to  
 point price elasticity of demand  $EdP = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$  (1 Mark)  
 - Arc price elasticity of demand  $EdP = \frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$  (1 Mark)
- iv. - Number of substitutes available. - Alternative uses of goods. - Nature of the good.  
 - Definition of the good. - The time taken to adjust for the price change. (4 Marks)
- v. - Price and quantity demanded are considered at a certain time period.  
 - Other factors affecting demand remain constant except to price.  
 - Considers the demand of a normal good.  
 - Considers the behavior of rational buyers. (4 Marks)

- 07). i.  $Qdx = 600 - 10P$  is the demand equation related to a demand curve of a good in a market. (2 Marks)
- (a) Derive the demand curve for the given demand equation. (2 Marks)
  - (b) Calculate the price elasticity of demand at Rs. 40.00 (2 Marks)
  - (c) If the above given equation is changed  $Qdx = 800 - 10P$ , mention 2 reasons affect on that. (2 Marks)
  - (d) Build up the demand table belonged to above equation. (2 Marks)
- ii. Using relevant diagrams, illustrate the behavior of consumer expenditure due to price increase a an elastic and inelastic demand situations. (4 Marks)
- iii. Classify commodities based on income elasticity of demand. (4 Marks)
- iv. What can you say about the elasticity of a demand curve which moves downward with an equal slope. (4 Marks)



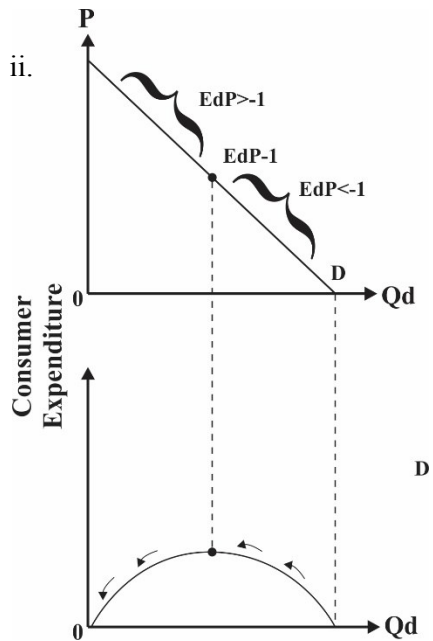
$Qd = 600 - 10P$   
 $= 600 - 10 \times 40$   
 $= 600 - 400$   
 $Qd = 200$

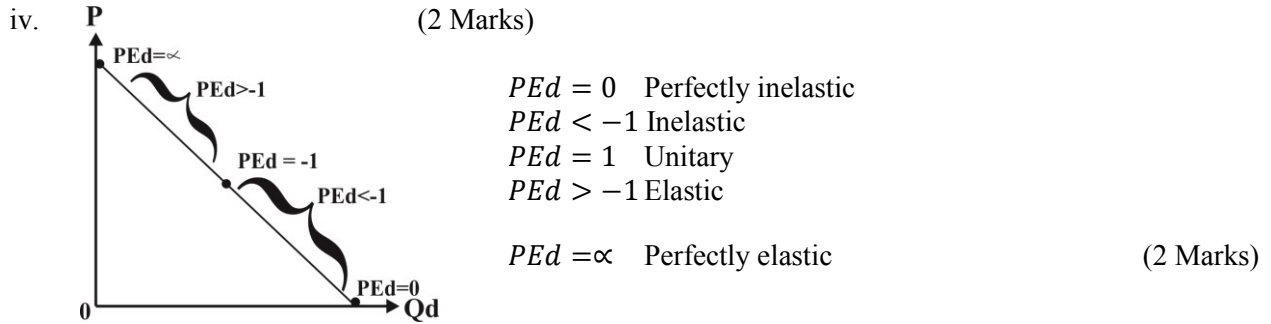
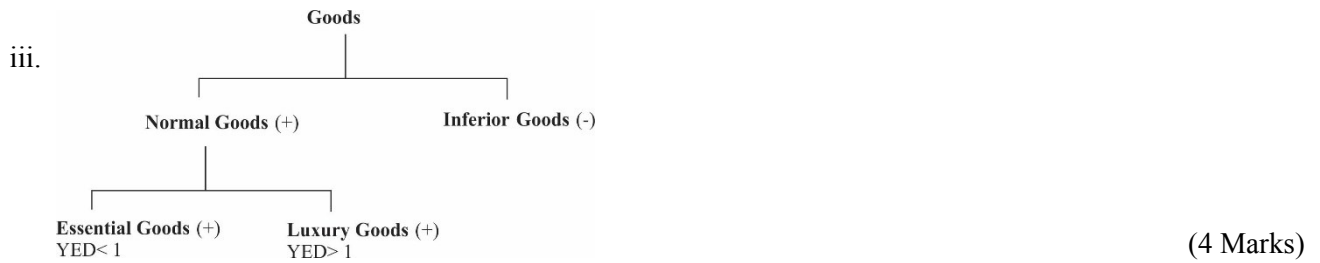
- (c) - Price reduction of complement goods. - Increase in income if the good is luxury / normal.
- Price increase of substitute goods. - Increase in consumer taste.
- Decrease in income if the good in an inferior. (2 marks for 2 factors)

(d)

P	Qdx
0	800
20	600
40	400
60	200
80	0

(4 Marks)



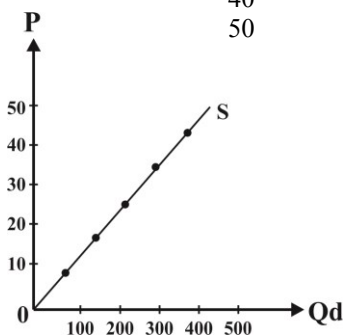


08. i. State non price factors other than its own price which influence the demand for a commodity. (4 Marks)  
 ii. Define the "Law of supply" (4 Marks)  
 iii. How to affect the "Law of increasing marginal cost" for the law of supply? Explain. (4 Marks)  
 iv. Mention 4 factors to reduce the supply of a certain good. (4 Marks)  
 v. Build up the supply table and supply curve related to  $Q_s = +10P$  (4 Marks)

08. i. - Input price - Producers expectations. - Technology (4 Marks)  
 - Price of related goods. - Government policies
- ii. The positive relationship exists between price of the concerned good and the quantity supplied when other determinants of supply remain constant at a certain period of time is the law of supply. (4 Marks)
- iii. When the production of a certain good is increased, increase in opportunity cost is known as the law of increasing marginal opportunity cost. When the production is increased as the marginal cost increased producers willing to increased the production only if price can be increased to cover up the increase cost. (4 Marks)
- iv. - Increase in input price. - Reducing transfers. - Imposing tax by the government. (4 Marks)  
 - Decrease in number of suppliers.
- v.

-P	Qs
0	0
10	100
20	200
30	300
40	400
50	500

(Accurate table 2 marks)



(Accurate diagram 2)