ST. LAWRENCE HIGH SCHOOL

A Jesuit Christian Minority Institution

Study Materials 03

Sub: Economics **Class: XII**
Chapter 02: Demand **F.M.: 45**
Topic: Price effect, Income effect, Substitution effect, Change in demand and quantity demanded **Date: 22/06/2020**

Short Answer questions **1x15 = 15**

Fill in the blanks:

1. Shifting of demand curve depends on _____________factors except price.
2. In case of an inferior good the substitution and income effects are _____________.
3. Income effect must be stronger than the substitution effect for _________goods.
4. With fall in price, if the demand for a good increases, then it reveals _________.
5. The difference between willingness to pay and actual pays is known as _________.
6. In case of change in demand only fixed factor is _________.
7. Change in demand refers to___________ of the demand curve.
8. Goods which are purchased less when income increases are called as________ goods.
9. In case of Giffen goods income effect is_____________.
10. Consumers real income increases when ___________of the commodity decreases.
11. Income effect must be _________than the substitution effect for Giffen goods.
12. Change in quantity demanded refers to___________ along the same demand curve.
13. In case of change in quantity demand only variable factor is _________.
14. The concept of consumers surplus was introduced by ___________.
15. All Giffen goods are ____________goods.

Answers:

1. Other.
2. Negative.
3. Giffen.
4. Price effect.
5. Consumers surplus.
6. Price.
7. Shift.
8. Inferior.
9. Negative.
10. Price.
11. Stronger.
12. Movement.
13. Price.
14. Marshall.
15. Inferior.

2 marks questions **2x10=20**

1. **Define price effect.**

Ans: Whenever price of any commodity changes then that change of price leads to change in the quantity demanded of that commodity. This is known as price effect.

2. **What do you mean by consumers surplus?**

Ans: It is the difference between consumer's willingness to pay and what he actually pays. For example, If a consumer's willingness to pay is Rs 100. But in the market he actually buys the commodity with Rs 80. Then consumer surplus is Rs 100-Rs 80= Rs 20.

3. **What do you mean by income effect?**

Ans: Whenever price of any commodity changes then it seems like that consumers real income increases. This is known as income effect.

4. **Mention any two reasons of change of demand.**

Ans: Two reasons of change of demand are:

a. Income of the consumer: When income changes then demand also changes.

b. Tastes and preferences of consumer: When tastes and preferences changes then demand also changes.

5. **What do you mean by substitution effect?**

Ans: Whenever price of any commodity changes then the consumer can substitute one good for another. This is known as substitution effect.

6. **Define inferior good.**

Ans: In the case of some commodities it may happen that as income increases, the quantity demanded decreases. These are known as inferior good.

7. **What do you mean by Giffen goods?**

Ans: When the income effect for any inferior good is stronger than the substitution effect, then a decline in price will lead to a decline in quantity demanded. This type of inferior good is known as Giffen good.

8. **What do you mean by change in demand?**

Ans: When all other determinants of demand are variable but only price of the commodity remains constant then it is known as change in demand. Here the entire demand curve shifts its position.

9. **What do you mean by change in quantity demanded?**

Ans: When all other determinants of demand are constant but only price of the commodity is variable then it is known as change in quantity demanded.

10. **What are the decompositions of price effect?**

Ans: Price effect is of two types. These are:

a. Income effect and

b. Substitution effect.

5 marks questions **5x2=10**

1. **Distinguish between change in demand and change in quantity demanded.**

   Ans: When all other determinants of demand are variable but only price of the commodity remains constant then it is known as change in demand. Here the entire demand curve shifts its position.

   When all other determinants of demand are constant but only price of the commodity is variable then it is known as change in quantity demanded. Here we move along the same demand curve.

   Graphical explanation of these twoi.

2. **What do you mean by consumer's surplus?**

   Ans: According to Prof. Marshall, It is the difference between consumer's willingness to pay and what he actually pays. For example, If a consumer's willingness to pay is Rs 100. But in the market he actually buys the commodity with Rs 80. Then consumer surplus is Rs 100-Rs 80= Rs 20.

   The price the consumer is willing to pay for any unit of a commodity is equal to marginal utility of that unit. Thus the difference between marginal utility and price of any unit is the consumer's surplus on that unit. Total consumers surplus is equal to total utility minus total expenditure. If price decreases consumer's surplus increases and vice-versa. The concept of consumer's surplus has some theoretical practical importance. It has also some limitations.

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