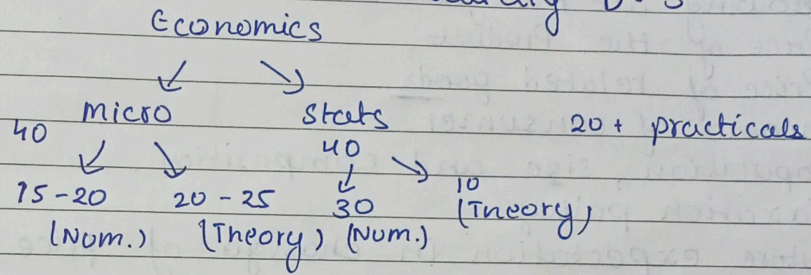


Economics

Micro economics

Scarcity $D > S$



Q What do you mean by economics?

economics is a discipline that deals with ^{scarcity} ~~scarcity~~ of resources, economic activity like production, consumption, saving and exchange.

Demand and ^{elasticity} ~~elasticity~~ of demand
~~scarcity~~

Q What do you mean by demand?

demand is a desire that fulfills following conditions.

- ⊙ Availability of product ✓
- ⊙ Ability to pay for a product ✓
- ⊙ Willing to pay for a product ✓
- ⊙ At a particular place & price. ✓

Q What are the factors that effect Demand of a commodity? commodity?

A) following are the factors:

1. Price of the Product.
2. Price of related goods.
3. income of consumer.
4. Population, size and composition.
5. Taxation policy.
6. Future expectation in change of price.
7. Seasonal changes.
8. Taste and Fashion.

Q What do you mean by law of demand?

A) Law of demand states that there is a negative relationship btw price of a product and its demand that is keeping other things as constant when price of a product increases its demand falls and visa versa.

Q What are the diff. kinds of demand?

A) demand can majorly be categorized into following

- Price demand - demand of a commodity that gets affected by the change in price of product is known as Price demand, there is a negative relation btw price and demand that can be seen through a diagram for an imaginary product 'A'.

imaginary

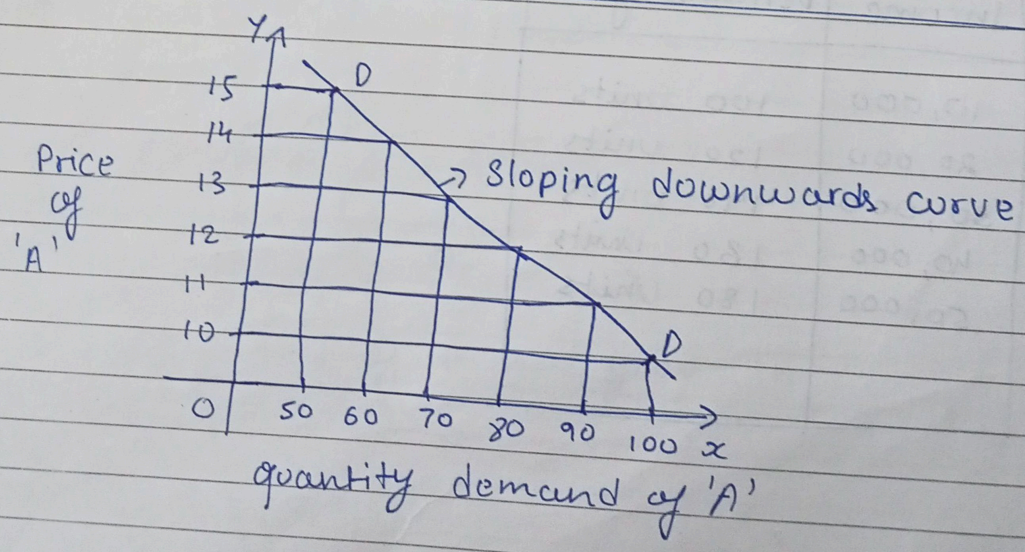
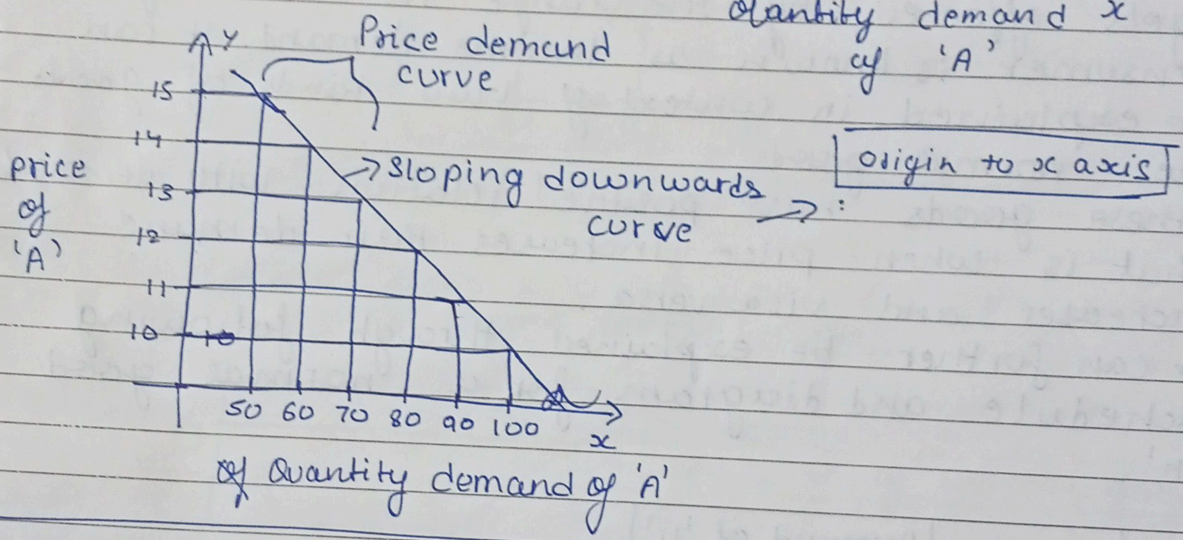
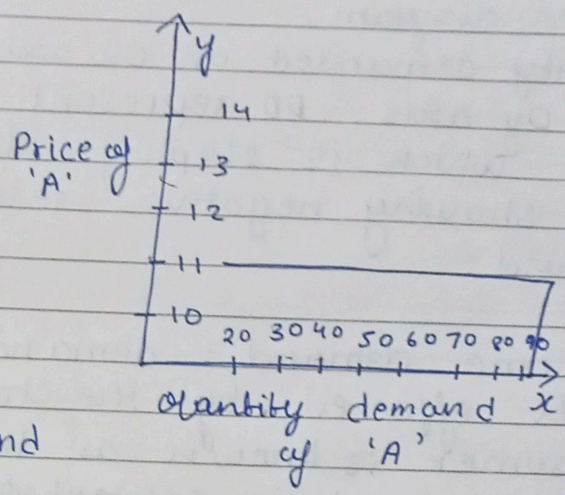
a)

Price of (a)
10
11
12
13
14
15

price of 'A'

a)

Price of (a)	Quantity demand of (a)
10	100
11	90
12	80
13	70
14	60
15	50



DATE _____
PAGE _____

In this diagram:
 quantity demanded on Ox axis and price shown on Oy axis. DD represent the price demand curve which is sloping downwards left to right showing negative relation btw price and demand.

- (B) income demand: demand of a commodity that gets effected by the change in income of consumer is known as income demand. It can be explained in context of two kinds of goods
- (1) one - normal goods
 these goods have positive relation with demand that is when price increases their demand increases and visa versa.
 It can further be explained through following schedule and diagram for a normal good 'n'.

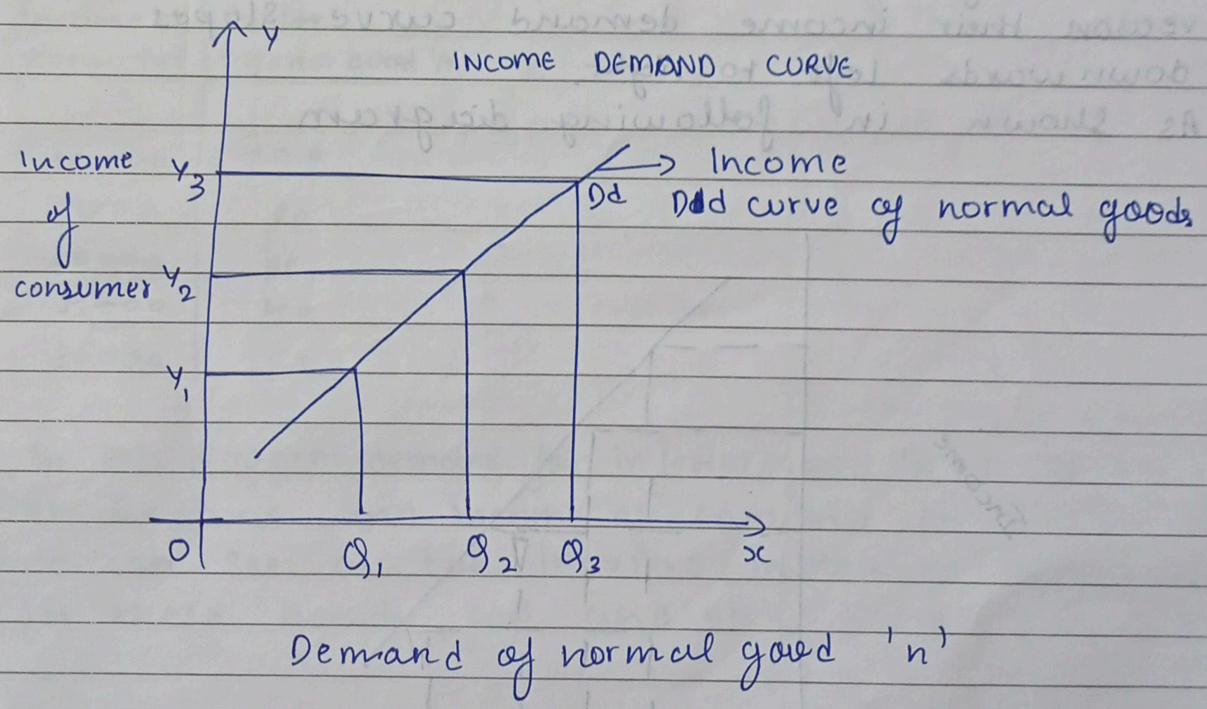
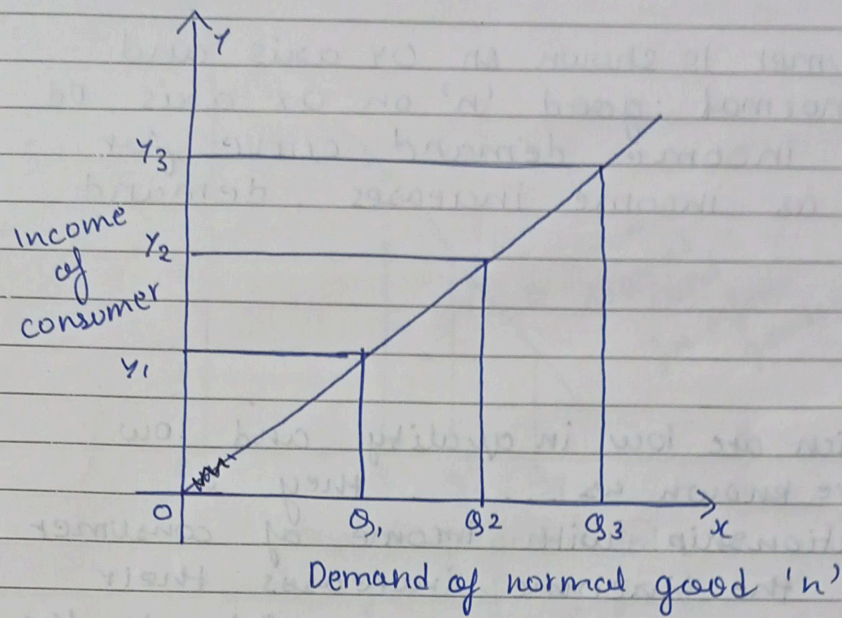
Income	Demand of 'n'
10,000	100 units
20,000	120 units
30,000	140 units
40,000	160 units
50,000	180 units

Shown
mand
ft to
ice and

That
of
it can
of goods

a demand
end

ving
good

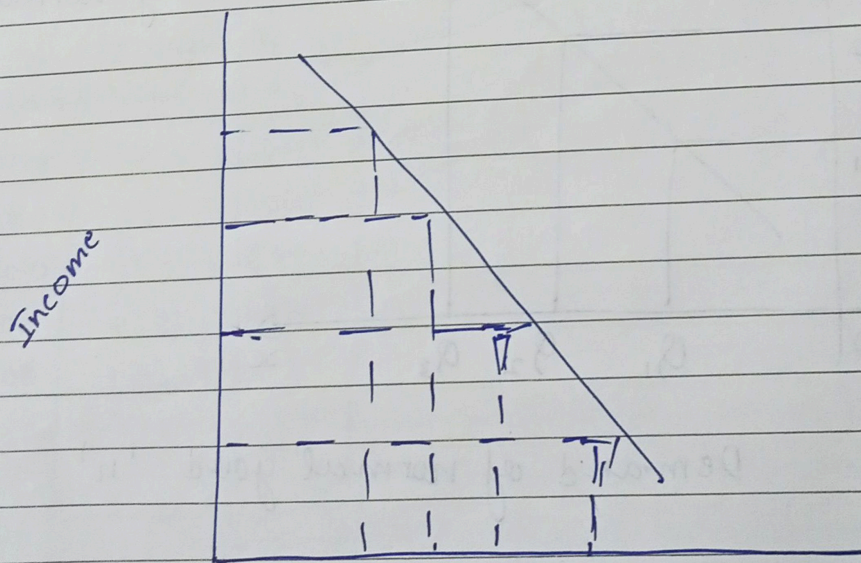


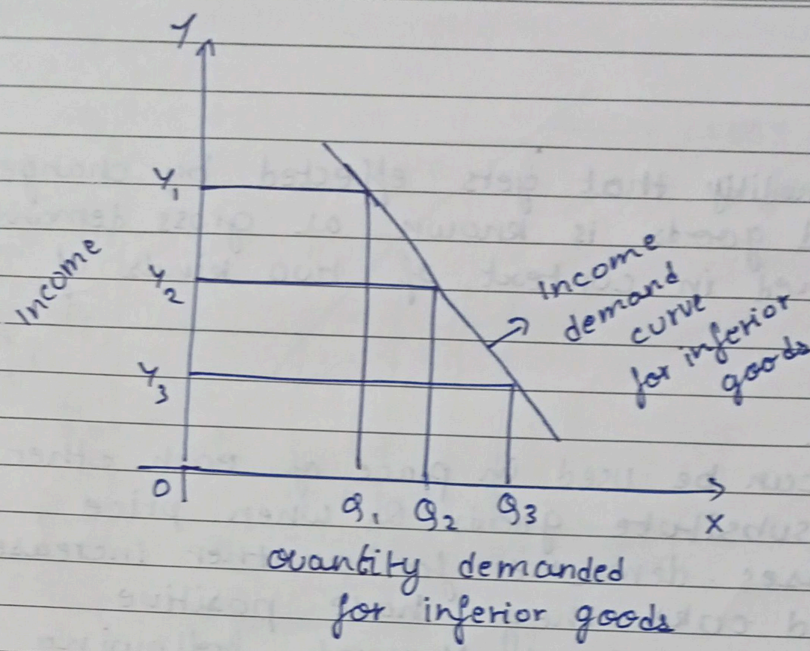


DATE _____
PAGE _____

In this diagram:
Income of consumer is shown on OY axis and demand for normal good 'n' on OX axis. Dd represents the income demand curve for normal goods as income increases, demand also increase

② inferior goods
Those goods which are low in quality and low in quantity are known as ... they a negative relationship with income of consumer that is as the income increases their demand falls and visa versa. This is the reason their income demand curve slopes down wards left to right.
As shown in following diagram





Income of consumer	Dd for inferior good 'A'
10,000	100
15000	80
20000	60
25000	40
30000	20

In this diagram demand for inferior good 'A' is shown on Ox axis and income of consumer on Oy axis. We can see as the income increases demand for these goods fall and visa versa.

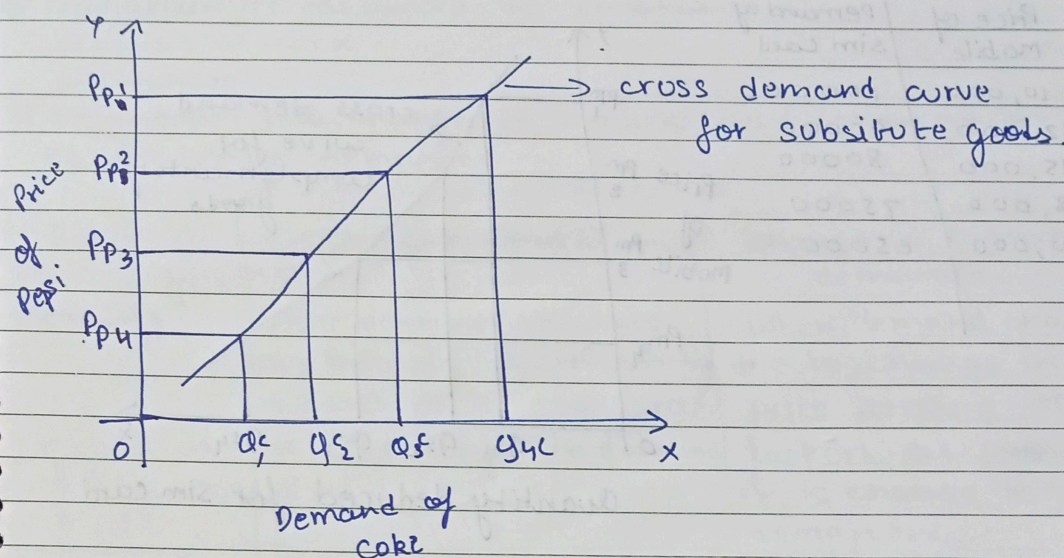
CROSS DEMAND

Demand of commodity that gets effected by change in price of related goods is known as cross demand. It can be explained in context of two kinds of goods.

1. Substitute Goods

Goods which can be used in place of each other is known as substitute goods. Or when price of one increases demand for another increase. For eg. Pepsi and coke they have positive relationship as explained through following schedule and diagram.

Price of Pepsi	Demand of Coke
10	100
11	120
12	140
13	150
14	160

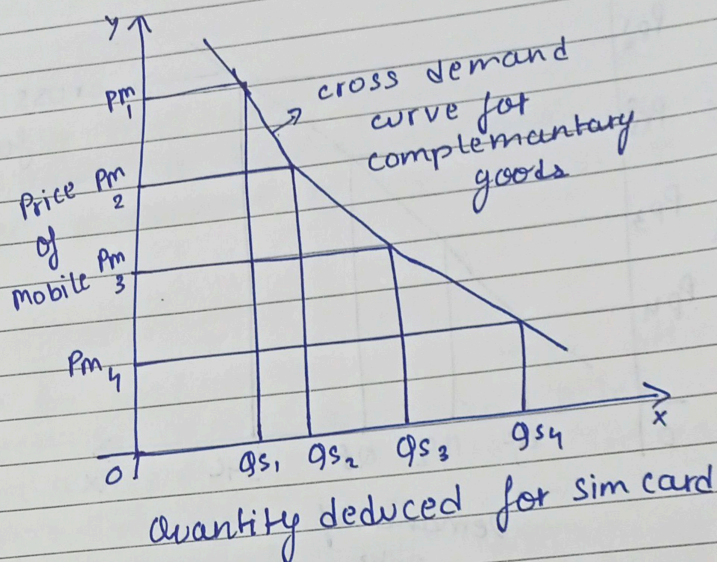


This diagram shows Price of pepsi on the OY axis and demand of coke on the OX axis. We can see that when the price of related goods increase the demand of other goods increase.

2. Complementary Goods

Those goods which can not be used without each other are known as complementary goods. They have negative relationship that is when price of one increase demand of other falls. For eg. Phone and sim card when price of phone increase demand for sim falls. Therefore the demand curve is sloping downwards left to right.

Price of mobile	Demand of sim card
10,000	100000
12,000	90000
15,000	80000
18,000	75000
20,000	65000



This diagram shows Price of mobiles on OY axis and Quantity demand of sim card on OX axis. We can see that when the price of mobile decreases the demand of complementary goods (sim card) also decreases. Therefore, the cross demand curve slopes downwards and have a negative relationship.

What are the assumptions behind law of demand?

While explaining law of demand we use a phrase keeping other things as constant that means other than price all other factors that can effect demand are assumed to be constant. And these are the assumptions:

- ① Price of related goods is constant
- ② Income of consumers is constant
- ③ Taste and preferences is assumed to be constant

(4) Population is assumed to constant.

_____ x _____ x

Differentiate

1) Differentiate btw change in demand and change in quantity demanded

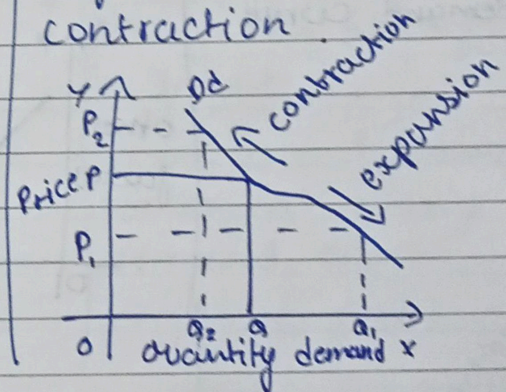
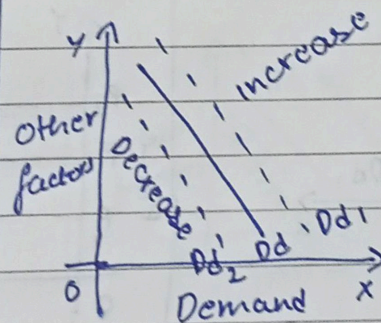
Basis	change in demand	change in quantity demanded
meaning ^①	When demand changes due to any factor affecting demand other than price it is change in demand	When demand changes due to change in price keeping other factors as constant it is change in quantity demanded.

(2) change called as

It is denoted by increase and decrease.

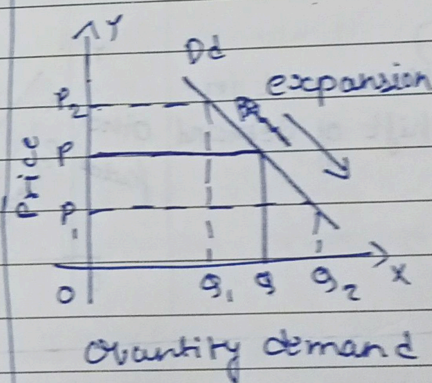
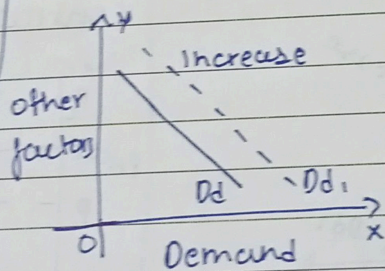
It is denoted by expansion and contraction

(3) Movement in shift of demand

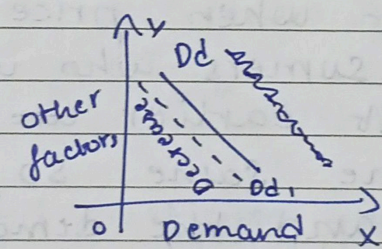
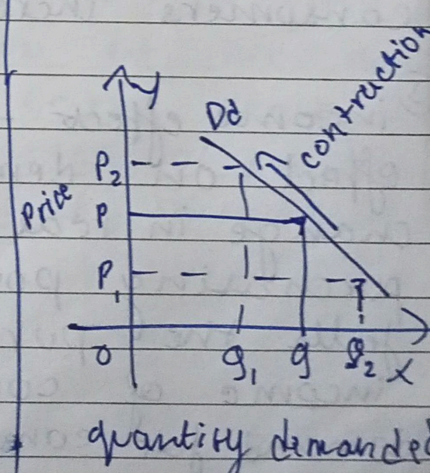


Q Differentiate btw expansion of demand and increase of demand.

Basis	Increase	expansion
Meaning	Any positive change in demand due to favorable change in factors effecting demand.	favorable change in demand due to fall in demand price.
Alternativly called as	It is also known as change in demand	It is also known as change in quantity demanded.
Shift or movement in demand curve	There is rightward shift in the demand curve.	There is a rightward movement along demand curve



Q Differentiate btw contraction of demand and Decrease of Demand.

BASIS	DECREASE INCREASE	CONTRACTION
meaning	Any negative change in demand due to ^{un} favourable change in factors effecting demand.	Favourable change in demand due to rise in price.
Alternatively called as	It is also known as change in demand	It is also known as change in quantity demanded.
Shift oblic Movement in demand curve	There is a leftwards shift in the demand curve. 	There is also known as change in quanti There is a leftward movement along demand curve 

Q What are the reasons behind law of demand or why does demand curve slope downwards from left to right?

Ans... law of demand states the negative relation b/w price and demand the reasons behind are same as follows: ①

Substitution effect - Substitution means using 1 commodity in place of other when it becomes relatively cheaper. When a price of a commodity falls its demand increases because of a fact that the product has become relatively cheaper than as compare to its substitute. For eg. when price of pepsi falls its demand inc. not only because its price has fallen but due to a fact that a substitute coke is available and its price has not changed.

② Number of consumers - when price of a product falls many new consumers who were not in a position to buy it earlier are now in position to buy the same. So, number of consumers increase and the demand increases.

③ Income effect - income effect refers to the effect on demand of a commodity due to change in real income of a consumer that is purchasing power. When price of a commodity falls the purchasing power that is real income of consumer increases as a result the demand for commodity increases.



DATE _____

PAGE _____

④ Number of uses of commodity - At times a commodity has different uses to which it can be put to increase of these kinds of goods when price of commodity rises consumers decrease or restrict its number of uses due to which its demand falls and vice versa.

⑤ Law of diminishing marginal utility - This law states that when a consumer keeps on consuming more and more units of a commodity the utility that he derives from the next consumption keeps on diminishing, that is why he is willing to pay lesser for next unit of a commodity or in other words he will buy more units only when it is available at cheaper price.

Q What are the exceptions of law of demand?

Following are the exceptions of :

high priced and prestige goods - there are certain goods which are demanded to be used as status symbol. For eg. luxury cars, diamonds etc. They are demanded for the sake of prestige so that demand is not affected by the change in price in fact higher the price, higher is the demand for such goods.

fear of shortage - if consumers expect fear of shortage.

DATE
PAGE

in near future they will start buying more and more of that goods even if the prices are rising. For eg. during corona period people started buying more and more of oxygen cylinders even at higher prices.

Ignorance - At times consumers buy costly products ignoring their price currently prevailing in the market, they are not available about increase or decrease in their prices. → aware

necessity Goods - Goods which are necessary for life are demanded irrespective of change in their price. For eg. salt, sugar, water are demanded even at higher prices.

impossibility to postpone demand - at times demand of certain goods which can not be postpone are demanded even at higher prices. For eg. demand for medicine.

Introduction to Micro economics

Q① what do you mean by economics ?

economics is a science that deals with the way that a society chooses to use its limited resources having alternative uses to produce goods and services to satisfy unlimited wants in other words economics is all about making choices in the presence of scarcity. It studies human behaviour as a relationship btw resources and end results.

~~Q②~~ ^{Q②} what do you mean by economic problem ?

economic problem is a problem of choice involving limited resources unlimited wants and resources having alternative uses. Reasons for economic problem are:

1// scarcity of resources

The resources in economy are limited like land oil water etc. Therefore economy cannot produce all what it wants.

2// Alternative uses

Resources are not only scarce but they have alternative uses to which they can be put to. For eg. a land can be used for various purposes like agriculture school, hospital, mall etc. The problem is to choose the use to which it can be put to.

3// Unlimited wants

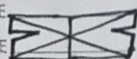
* Human wants are unlimited and they can never be fully satisfied as soon as one want is satisfied the another one emerges and out of limited resources all wants cannot be fully satisfied.

Q3 What are the central problems of an economy?

Central problems are the questions that arise due to scarcity of resources these problems include:

- 1// What to produce
- 2// How to produce
- 3// For whom to produce

What to Produce? - This problem is related to selection of goods and services to be produced and quantity to be produced of each commodity as we know every economy has limited resources so it can not produce all goods and services that means if it decides to produce more of one commodity it will be able to produce less of another. For eg. on a ~~piece~~^{piece} of land if rice and wheat both can be produced we have to decide what quantity of each to be produced



ever

How To Produce - This problem is related to selection of technique to be used for production as there are 2 ~~techniques~~ techniques; labour intensive and capital intensive. One uses more of labour and another uses more of technology so the economy has to decide which technique to be used.

For whom to Produce -

ve

This problem refers to selection of class of people for whom goods are to be produced. That is whether should we produce more for rich or for poor, we should produce more consumer goods or producer goods. Since economy cannot ~~Since economy cannot~~ produce for all sections it has

to

ty
ces

Q4) what do you mean by micro and macro economics?? Differentiate btw the two.

e

d

Micro economics - The term micro has been derived from a greek word mikros which means small and micro economics is that part of economic theory that studies the behaviour of individual units of a economy like individual output, demand supply etc.

DATE _____
PAGE _____

macro economics - The term macro has been derived from a Greek word makros which means large so macro economic is that part of theory which studies the behaviour of aggregates of economy like national income, national output, employment level etc.

examples

Basis	Micro Eco.	Macro Eco
1) meaning	It is that part of economic theory that studies the behaviour of individual economy	It is that part of economic theory that studies the behaviour of aggregates of economy.
2) Tools	demand and supply	aggregate demand and aggregate supply
3) Basic objective	main objective is to determine the price	main objective is to determine level of income and employment
4) Aggrigation	It involves limited degree of aggrigation	involves high degree of aggrigation
5) other name	It is also known as price theory	also know as income and imployment theory



DATE _____

PAGE _____

examples

individual income,
demand, supplynational income,
aggregate demand
aggregate supply