CBSE Test Paper-04

Class – 11 Economics (Forms of Market and Price Determination)

General Instruction:

- All questions are compulsory.
- Marks are given alongwith their questions.

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1. Suppose that the supply of cameras increases due to an increase in imports. Which of the following statements will most likely occur?
   a. The equilibrium price of cameras will increase.
   b. The equilibrium quantity of cameras exchanged will decrease.
   c. The equilibrium price of camera film will decrease.
   d. The equilibrium quantity of camera film exchanged will increase. (1)
2. Under which one of the following forms of market structure does a firm have no control over the price of its product?
   (a) Monopoly (b) Monopolistic competition (c) Oligopoly (d) Perfect competition (1)
3. For a non-viable industry where does the supply curve lie relative to demand curve? (2)
4. Giving reasons, state whether the following statements are true or false:
   a. In a state of equilibrium, quantity demanded will be less than the quantity supplied.
   b. If the demand for a commodity increases, its supply curve remaining the same, the market price of the commodity will rise. (2)
5. Give reasons for the following statements:
   a. A perfectly competitive firm is a price-taker.
   b. Product differentiation is a characteristic feature of a monopolistic competitive market. (3)
6. Explain the main features of barriers to the entry of firms. (3)
7. How is price determined under perfect competition? Explain briefly. (4)
8. Explain the concept of "buffer stock' as a tool of price floor. (4)
9. Market for a good is m equilibrium. There is simultaneous increase both in demand and supply of the good. Explain its effects on market price. (6)
10. Distinguish between collusive and non-collusive oligopoly. Explain how the oligopoly firms are interdependent in taking price and output decisions? (6)

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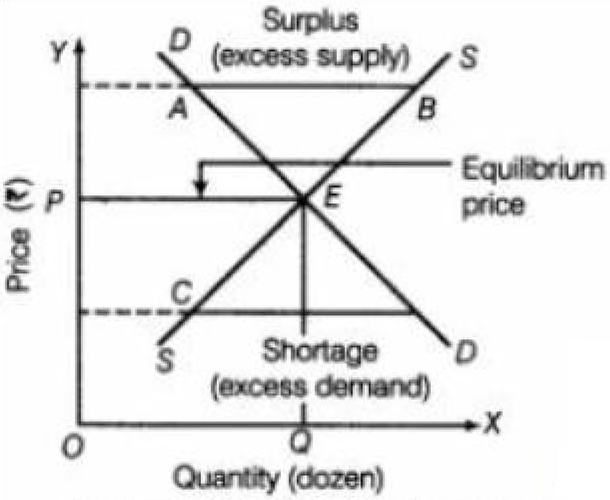
Answers

1. d. The equilibrium quantity of camera film exchanged will increase.
2. d. perfect competition.
3. Supply curve lies above the demand curve.
4. a. False: Market equilibrium is obtained when the quantity supplied of a commodity equals the quantity demanded. If the quantity demanded of a commodity is less than the quantity supplied, equilibrium price will fall.
   b. True: Increase in demand implies a rightward shift of the demand curve. New demand curve will intersect the given supply curve at a higher price. The equilibrium price will rise.
5. a. In a perfectly competitive market there are a large number of producers of a product. All of them produce a homogeneous product. Therefore, all the firms have to sell at the same price. This price is determined by industry demand and supply.
   b. In a monopolistic competitive market, there is a large number of producers. But each of these producers produces a product which is somewhat different from what others do. At least, the producers make all the attempts to influence the consumer with the idea that their product is better than the product of the rival producers.
6. The main reason why the number of firms is small is that there are barriers which prevent entry of firms into industry.
   Patents, large capital, control over the crucial raw material etc., prevent new firms from entering into industry.
   Only those who are able to cross these barriers are able to enter.
7. An equilibrium price is determined by the forces of market demand and market supply Considering market demand schedule on the one hand and market supply schedule on the other hand, we identify an equilibrium price as the one where market demand is equal to market supply i.e. where market demand curve and market supply curve intersect each other.
   Market Equilibrium Price(Schedule)

Price of commodity X (Rs.)	**Quantity supplied of commodity X (Dozen)**	**Quantity demanded of commodity Y (Dozen)**

5	50	10
4	40	20
3	30	30 Equilibrium
2	20	40
1	10	50



Determination of equilibrium price

8. Government ensures price Floor/ minimum Support price with the tool called buffer stock.
   If government feels market price is lower than what it ought to be, it would purchase the commodity at higher price from the farmers, producers so as to maintain stock.
   Government maintain this buffer stock with itself and they real eased in case of shortage of the commodity in future.
9. There can be three situations in this respect which are as follows:
   i. **Increase in demand is greater than increase in supply** If the increase in demand is more than the increase in supply, both an equilibrium price and quantity will increase.
   From the figure, it is clear that the (rightward) shift in demand curve from DD to D_1D_1 is proportionately more than the (rightward) shift in supply curve from SS to SS1. The new equilibrium point is E1 Equilibrium price rises from OP to and an equilibrium quantity rises from OQ to OQ1 Increase in quantity is greater than increase in price.

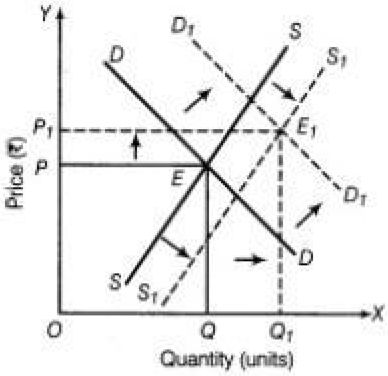
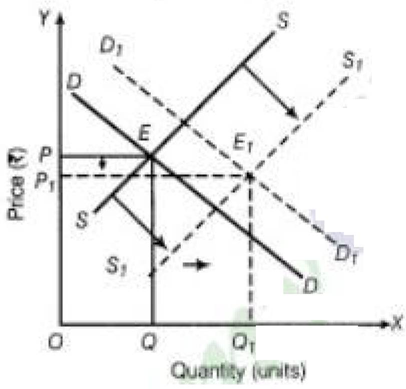


Diagram showing rise in equilibrium price and quantity

ii. **Increase in demand is equal to increase in supply** - When increase in demand is equal to an increase in supply, the price will remain the same and an equilibrium output will increase.

From the figure, it is clear that the (rightward) shift in demand curve from DD to D1D1, is proportionately equal to the (rightward) shift in supply curve from SS to SS1. The new equilibrium point is E1 Equilibrium price remains the same, but an equilibrium quantity rises from OQ toOQ1.



iii. **Increase in demand is lesser than increase in supply** - If an increase in demand is less than an increase in supply, an equilibrium price falls and an equilibrium quantity goes up.

From the figure, it is clear that the (rightward) shift in demand curve from DD to D1D1 is proportionately less than the (rightward) shift in supply curve from SS to S1S1. The new equilibrium point is E1 Equilibrium price falls from OP to OP1 and an equilibrium quantity rises from OQ to OQ1 Increase in quantity is greater than decrease in price.

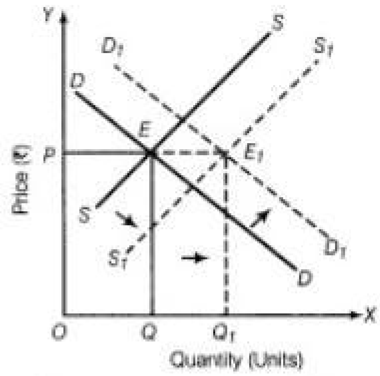


Diagram showing increase in equilibrium output

10. 1. Difference between collusive and non-collusive oligopoly

Basis	Collusive oligopoly	Non-collusive oligopoly
Meaning	Under this form, firms might decide to collude together and not to compete with each other.	In this form of oligopoly, firms do not collude but compete with each other.
Firms behave	Under collusive oligopoly, the firms would behave as a single monopoly	Under non-collusive oligopoly, the firms behave Independently.
Aim	This aims at maximizing their collective profits rather than their individual profit	This aims at maximizing its own profits and decides how much quantify to be produced assuming that the other firms would not change their quantity supplied.

2. Firms are interdependent in an oligopoly market
   Under oligopoly, there is a high degree of interdependence between the firms. Price and output policy of one firm has a significant impact on the price and output policy of the rival firms in the market as there are only few firms, which are large in size. When one firm lowers its price, the rival firms may also lower the price. And, when one firm raises the price, the rival firms may take its decision accordingly.

Note: While taking an action on price or output, a firm must take into account the possible reaction of the rival firms in the market.