Price Determination - R & U - V S - Info & Con

Q.1. Give the meaning of equilibrium price.

Or

Define equilibrium price.

Ans. The price which equates market demand of a commodity with its market supply is the equilibrium price.

Equilibrium Price: Market Demand = Market Supply

Q.2. What is meant by equilibrium quantity?

Ans. When the market demand for a commodity is equal to market supply of that commodity, the amount demanded and supplied at the equilibrium price is called equilibrium quantity.

Q.3. What is market period?

Ans. Market period is a very short period during which supply of a commodity can be increased only up to the extent of its existing stock. Increase in supply through increase in production is not possible.

Q.4. What is short period?

Ans. Short period is the period of time during which supply can be changed only by changing the application of variable factors, fixed factors remaining constant.

Q.5. What is long period?

Ans. Long period is the period of time during which the supply of a commodity can be increased by varying all factors of production. All factors are variable factors in the long run.

Q.6. What is meant by economic viability of an industry?

Ans. Economic viability of an industry refers to the situation when demand and supply curves of the industry meet at some positive level of output.

Q.7. What is meant by economic non-viability of an industry?

Ans. Economic non-viability of an industry refers to the situation when demand and supply curves do not intersect each other at any positive level of output. In such a situation, supply curve lies above the demand curve.

Q.8. Who determines price under perfect competition?

Ans. Price under perfect competition is determined by the forces of market demand and market supply.

Q.9. How is equilibrium price affected by increase in demand?

Ans. In a situation of increase in demand, other things remaining constant, commodity price must rise.

Q.10. How is equilibrium price affected by decrease in demand?

Ans. When demand decreases, equilibrium price must decrease, other things remaining unchanged.

Q.11. How is equilibrium price affected by increase in supply?

Ans. When supply increases, equilibrium price will decrease, other things being equal.

Q.12. How is equilibrium price affected by decrease in supply?

Ans. When supply decreases, equilibrium price will increase, other things remaining constant.

Q.13. How is the equilibrium price of a commodity affected when demand increases more than supply?

Ans. When demand increases more than supply, equilibrium price of the commodity must rise, other things remaining constant.

Q.14. How is equilibrium price of a commodity affected when demand increases less than supply?

Ans. When demand increases less than supply, equilibrium price of the commodity will fall, other things remaining constant.

Q.15. What will be the effect on equilibrium price and quantity if supply curve shifts rightward while demand remains constant?

Ans. The equilibrium price will reduce and equilibrium quantity will increase.

Q.16. What will be the effect on equilibrium price and quantity of an increase in equal proportion of demand and supply of a commodity?

Ans. Other things remaining constant, when demand and supply increase in an equal proportion, there will be no change in equilibrium price. However, the equilibrium quantity will increase.

Q.17. When demand is perfectly elastic, if supply increases, what happens to equilibrium price?

Ans. The equilibrium price will remain unchanged with perfectly elastic demand curve, as supply increases.

Q.18. How does a favourable change in taste affect the market price and quantity exchanged?

Ans. A favourable change in taste increases the market price and quantity exchanged, owing to shift in demand curve to the right.

Q.19. How does a cost saving technology affect the market price and quantity exchanged?

Ans. A cost saving technology reduces the market price and raises the quantity exchanged, owing to reduction in cost and forward shift in supply curve.

Q.20. How does an increase in excise tax rate affect the market price and quantity exchanged?

Ans. As the excise tax rate increases, supply curve will shift to the left, market price will increase and quantity exchanged will decrease.