CBSE Test Paper-06

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

General Instruction: All questions are compulsory.

1. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilization of personal computers. Which of the following statements / factors will happen to equilibrium price and equilibrium quantity?
   a. Price will increase; quantity cannot be determined.
   b. Price will decrease; quantity cannot be determined.
   c. Quantity will increase; price cannot be determined.
   d. Quantity will decrease; price cannot be determined. (1)
2. 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)
3. When do you say there is excess supply for a commodity in the market? (2)
4. Giving reasons, state whether the following statements are true or false:
   a. In case of excess supply, equilibrium price is greater than prevailing price.
   b. When supply decreases more than proportionately than fall in demand, equilibrium price will also fall. (2)
5. What is price line under perfect competition? (3)
6. Explain any two sources of restricted entry under monopoly. (3)
7. Explain why an equilibrium price of a commodity is determined at that level of output at which its demand equals its supply. (4)
8. “An increase in the demand for notebooks raises the quantity of notebooks demanded, but not the quantity supplied.” Is this statement true or false? Explain. (4)
9. If an equilibrium, price of a good is greater than its market price, explain all the changes that will take place in the market. Use diagram. (6)
10. Explain the features of perfect competition. (6)

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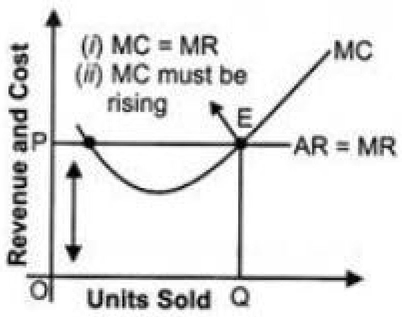
Answers

1. C. Quantity will increase; price cannot be determined.
2. D. The equilibrium price of camera film will decrease.
3. When Market price is above the equilibrium price, then at that given price, demand is lesser than supply, which leads to excess supply.
4. a. False: When there is excess supply, equilibrium price is less than prevailing price.
   b. False: With a decrease in supply proportionately more than demand, equilibrium price will rise.
5. The price line shows the relationship between the market price and a competitive firm's output level,
   The vertical height of the price line is equal to the market price as shown in the given figure.

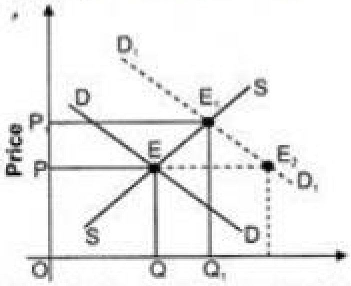


6. **Grant of patent rights**
   i. When a company introduces a new product or new technology it applies to the government to grant it patent certificate by which it gets exclusive rights to produce new product or use new technology.
   ii. Patent rights prevent others to produce the same product or use the same technology without obtaining license from the concerned company. Patent rights are granted by the government for a certain number of years.

   Licensing by Government: A monopoly market emerges when government gives a firm license, i.e. exclusive legal rights to produce a given product or service in a particular area or region.
7. An equilibrium is a point where quantity demanded is equal to quantity supplied and an equilibrium can be attained only at that point. If at a given price, supply is more, it will show excess supply and if demand is more, it will show excess demand. Due to excess

supply price will fall and due to excess demand price will rise. Hence, price will be stable only at an equilibrium level where demand and supply both are equal.

8. The statement that "an increase in the demand for notebooks raises the quantity of notebooks demanded, but not the quantity supplied," in general, is false. As given figure shows, the increase in demand for notebooks results in an increased quantity supplied.



9. If the price prevailing in the market is above an equilibrium price then the firms will supply more quantity of the commodity and the consumer will demand less quantity of the commodity. Thus, it will distort the situation of an equilibrium in the market. There will be situation of an excess supply, this situation is shown in the following schedule and diagram.

Price	Demand	Supply	status
1	500	100	Excess demand
2	400	200	Excess demand
3	300	300	Equilibrium
4	200	400	Excess supply
5	100	500	Excess supply

In such a case, competition among the sellers will pull down the market price to equilibrium price, by the way of expansion in demand and contraction in supply. As it can be seen from the schedule that at prices Rs 4 and Rs 5, supply exceeds demand.
As shown in the diagram DD is the demand curve and SS is supply. Equilibrium is attained at point E, where demand equals supply with OP equilibrium price and OQ quantity. Now supply is market price is greater than equilibrium price at OP1. In this case a fall in price, hence expansion in demand and contraction in supply will continue till the time equilibrium is not achieved.

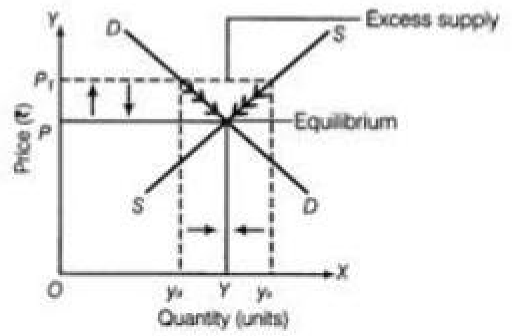


Diagram showing situation of excess supply

10. Features of perfect competition are as follows:
    i. Very large number of buyers and sellers There are very large number of buyers and sellers are present in the market as a result of which size of each economic agent is so small as compared to the market that they cannot influence the price through their individual actions.
    ii. Homogeneous products These are the products which are identical in quality, shape, size and colour. So, no producer is in a position to charge a different price of the product it produces. A uniform price prevails in the market. In a perfectly competitive market, commodity must be homogeneous (identical). Thus, the buyers find no reason to prefer the product of one seller to the product of another.
    iii. Freedom of entry and exit Firms under this form of market are free to leave the industry if they are suffering from loss, on the other hand profits could attracts new firms.
    iv. Perfect knowledge Each economic agent have a perfect knowledge about the market conditions say the prevailing prices in the market etc.