CBSE Test Paper-06

Class-11 Economics (Theory of Consumer Behaviour)

General Instruction:

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

1. When total demand for a commodity whose price has fallen increases, it is due to: (1)
    1. Income effect.
    2. Substitution effect.
    3. Complementary effect.
    4. Price effect.
2. The goods that exhibits direct price-demand relationship are called: (1)
    1. Giffen goods.
    2. Complementary goods.
    3. Substitute goods.
    4. None of the above.
3. Calculate market demand from the following information: (2)

Price(Rs.)	Demand(dx)	Demand(dy)	Market demand
1	7	16	-
2	6	14	-
3	5	12	-
4	4	8	-

4. Does a change in consumer's taste lead to a movement along the demand curve or a shift in the demand curve? Does a change in price lead to a movement along the demand curve or a shift in the demand curve? (2)
5. 'Indian markets are generally price sensitive'. What type of Elasticity of Demand does it indicate? (3)
6. Law of Demand is a qualitative statement. Comment. (3)
7. Give reason that Law of demand does, not hold true when the prices are expected to go

up farther. (4)

8. A 5% fall in price of a good leads to 10% rise in its demand.Consumer buys 40 units of good at price of 10 per unit. How many units will he buy at price of 12 per unit? Calculate. (4)
9. State the Total Expenditure (TE) method of measuring Price Elasticity of Demand. (4)
10. A 5% rise in price of a good leads to 5% fall in its demand. Consumer buys 100 units of a good when price is 5 per unit. At what price will he buy 120 units? Calculate. (6)

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Answers

1. B. substitution effect.
2. A. giffen goods.
3.

Price(Rs.)	Demand(dx)	Demand(dy)	Market demand(dx+dy)
1	7	16	23
2	6	14	20
3	5	12	17
4	4	8	12

4. A change in consumers' tastes leads to a shift of the demand curve. A change in price leads to a movement along the demand curve.
5. Price sensitive means that a small change in price results big change in demand for a commodity. This means that there is greater than unitary elasticity of demand or elastic demand. Due to. large section of Indian population belonging to middle class, the market tends to be elastic or price sensitive.
6. Law of demand is only a qualitative, and not a quantitative statement.
   It indicates only the direction in which the quantity demanded will change with a change in price. It says nothing about the magnitude of such a change.
   For example, price of coke rises from Rs. 8 to Rs. 10 per bottle, then as per law of demand, we can say that the demand for coke will fall. But the law does not give the actual amount by which the demand for coke will decline.
7. Law of demand states that if the price of a commodity rises its demand will fall, the other things remain the same. But if, the consumers expect that the price of a commodity will keep rising in future also, they may, in fact, purchase the increased quantity at a higher price to insure themselves against future rise in prices.
8. $E_d = \frac{Percentage\ Change\ in\ Quantity\ Demanded}{Percentage\ Change\ in\ Price} = \frac{10}{5} = 2$

   Here, P = Rs.10 per unit; P_1 = Rs.12 per unit;

   $\Delta P = P_1 = P = 12 - 10 = Rs.2\ per\ unit$

Q = 40 units; Q1 =?; $\Delta Q = Q - 40$

$E_d = (-1)\frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$

$2 = \frac{10}{40} \times \frac{Q_1 - 40}{2}$

16 = -Q_1 + 40

Q_1 = 40 - 16

Q_1 = 24 units

∴ He will buy 24 units.

9. In this method, Price Elasticity of Demand is measured by comparing the Total Expenditure on commodity before and after the price change. The following possibilities are:
   1. When TE increases with the fall in price and decreases with the rise in price then there is elasticity greater than one.
   2. When TE remains the same with the fall or rise in price then the Elasticity of Demand will be equal to unity.
   3. When TE decreases with fall in price and increases with the rise in price then the Elasticity of Demand will be less than unity.
10. $E_d = \frac{\%Change\ in\ Quantity\ Demanded}{\%Change\ in\ \text{Price}} = \frac{5}{5} = 1$

Here, P = Rs.5 per unit; P_1 = x; $\Delta P = P_1 - P = x - 5$

Q = 100 units; Q_1 = 120 units

$\Delta Q = Q_1 - Q = 120 - 100 = 20\ units$

$E_d = (-1)\frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$

$E_d = -\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$1 = -\frac{5}{100} \times \frac{20}{x-5}$

$1 = \frac{-1}{x-5}$

x - 5 = - 1

x = - 1 + 5

x = 4

∴ He will buy 120 units at a price of Rs 4 per unit.