CBSE Test Paper-02

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. Equilibrium price may be determined through
    a. Only demand
    b. Only supply
    c. Both demand and supply
    d. None of these (1)
2. If price is forced to stay below the equilibrium price
    a. Excess supply exists
    b. Excess demand exists
    c. Either A or B
    d. Neither A Nor B (1)
3. What is the effect on price when a perfectly competitive firm tries to sell more?(2)
4. State whether the following statement is true or false.' A monopolist can sell any quantity at the price, he likes.' Give reason. (2)
5. Why can a firm not earn abnormal profits under perfect competition in the long-run? Explain. (3)
6. Explain the implication of perfect knowledge about market under perfect competition. (3)
7. Explain the sequence of change that will take place when there is excess demand of the commodity. (4)
8. Explain how market price of a good is determined using diagram. (4)
9. Economist say in consistent things, as price falls, demand rises, but as demand rises, price rises. Defend or refute. (6)
10. How will an increase in the income of the buyers of an inferior good affect its equilibrium price and equilibrium quantity? Explain with the help of a diagram. (6)

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Answers

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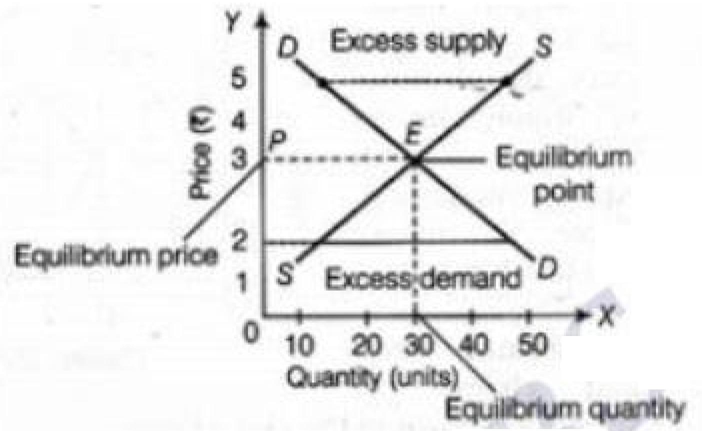
1. C. Both demand and supply.
2. B. Excess demand exists.
3. It will remain constant because firms do not have any control over prices, thus it ca sell any quantity at a given price.
4. No, the statement is not correct, even though a monopolist has full control over price, however in order to sell greater units it must reduce its price of additional units.
5. There is a freedom of entry and exit under perfect competition. In situations of extra-normal profits, new firms will enter the industry. This increases the market supply and lowers market price to finally wipe out extra normal profits.
   In situations of extra-normal losses, marginal firms will quit the industry, lowering market supply and raising market price to finally wipe out extra-normal losses. so, firm cannot earn abnormal profit under perfect competition in the long run.
6. Perfect knowledge means that both buyers and sellers have fully informed about the market condition like price etc. therefore, no firm is in a position to charge a different price and no buyer will pay a higher price. As a result, uniform price prevails in the market. In case of perfect competition, buyers and sellers have perfect knowledge of the market. In other forms of market, there is imperfect knowledge of the market.
7. In a situation of excess demand, consumers are willing to buy greater amount of a commodity then what the producers are willing to sell. Accordingly, price of the commodity will be pushed up. This will cause expansion of supply and contraction of demand, until the equilibrium is restored.
8. Market price or equilibrium price is determined by the forces of market demand and market supply. Considering market demand schedule on one hand and market supply schedule on the other, we identify equilibrium price as the one where market demand is equal to market supply or where market demand curve and market supply curve intersect each other.
   Market equilibrium price (Schedule)

Price of commodity X	**Quantity supplied of a**	**Quantity demanded for a**

(Rs)	commodity X (Dozen)	commodity X (Dozen)
5	50	10 Excess supply
4	40	20 Excess supply
3	30	30 Equilibrium
2	20	40 Excess demand
1	10	50 Excess demand



In the above schedule and diagram, demand and supply become equal only at the price of Rs. 3.00, so it will be our equilibrium price. Also, it is clear that equilibrium price is determined at the point, where demand and supply curves intersect each other at 30 units of commodity 'X'.

9. The statement that as price falls, demand rises, but as demand rises, price rises, can be defended.
The first part of the statement, i.e. as price falls, demand rises shows the general behaviour of the consumer in the market. This is simply a forward movement along a demand curve.
But, there may also be a situation when increase in demand leads to increase in price. When the supply of a commodity remains unchanged and demand increases due to factors others than price such as increase in income of the consumer or change in taste and preference of the consumer, the demand curve shifts upward and it raises the market price as shown in figure B.

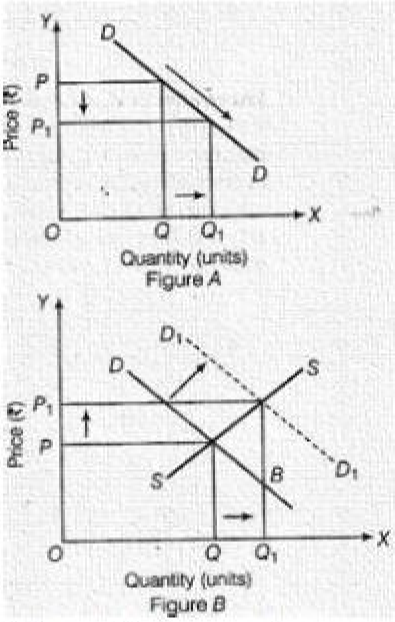


Figure A shows when price falls from OP to OP_1OP_1, demand rises to OQ_1OQ_1. This is extension of demand. Figure B shows when there is increase in demand and demand curve shifts upward toD_1D_1 ,price rises to OP_1OP_1.

10. When income rises, demand for an inferior goods falls. Hence, demand curve shifts to the left. Decrease in demand will disturb the market equilibrium.
The given equilibrium price and quantity are OP and OQ respectively. Increase in income results in a downward shift of demand curve at D_1D_1 . At price OP_1 now, quantity demanded is OQ_1 which is less than the quantity supplied OQ. This will result in competition among suppliers leading to fall in price. The price now settles at a new equilibrium. It is lower than it was before as well as new equilibrium quantity is also less than old equilibrium quantity, new price is $OP_1 < OP$ and new quantity is $OQ_1 < OQ$.