

CBSE Class–12 economics
Important Questions - Micro Economics 02
Theory of Consumer Behaviour

VERY SHORT ANSWER QUESTIONS (1 Mark)

Q1. Which of the following statements regarding utility is not true?

- (1) It is a satisfying power of a commodity.
- (2) Utility is always measurable
- (3) It helps consumers to make choices.
- (4) It is purely a subjective entity.

Ans. (2)

Q2. Which of the following utility approach is based on the theory of Alfred Marshall?

- (1) Ordinal utility approach
- (2) Cardinal utility approach
- (3) Independent variable approach
- (4) None of the these

Ans. (2)

Q3. _____ is the addition to total utility by the consumption of one additional unit of the commodity?

- (1) Ordinal utility
- (2) Total utility
- (3) Marginal utility
- (4) Average utility

Ans. (3)

Q4. Is the demand for the following elastic, moderate elastic, highly elastic? Give reasons.

- (i) Demand for petrol

(ii) Demand for text books

(iii) Demand for cars

(iv) Demand for milk

Ans.

- i) Demand for petrol is moderately elastic, because when the price of the petrol goes up, the consumer will reduce the use of it.
- ii) Demand for text books is completely inelastic. In case of text books, even a substantial change in price leaves the demand unaffected.
- iii) Demand for cars is elastic. It is a luxury good, when the price of the car rises, the demand for the car comes down.
- iv) Demand for milk is elastic, because price of the milk increases then the consumer purchase less quantity milk.

Q5. What do you mean by utility?

Ans. Utility is the want satisfying power of a commodity.

Q6. How is total utility derived from marginal utility?

Ans. Total utility is the sum total of marginal utilities of various units of a commodity.

$$TU_n = MU_1 + MU_2 + MU_3 + \dots + MU_n$$

Q7. State the law of equi-marginal utility.

Ans. It states that a consumer gets maximum satisfaction when the ratio of the marginal utilities of two goods and their prices is equal, i.e.

$$MU_x / P_x = MU_y / P_y$$

Q8. What will you say about MU when TU is maximum?

Ans. MU is zero when TU is maximum.

Q9. Give the reason behind a convex indifference curve.

Ans. Diminishing marginal rate of substitution is the reason behind a convex indifference curve.

Q10. _____ shows various combinations of two goods that give same amount of satisfaction to the consumer?

Ans. Indifference curve

Q11. Indifference curve slopes _____?

Ans. Downward to the right

Q12. _____ is defined as the difference between what the consumer is willing to pay for a product and what he is able to pay?

Ans. Consumer Surplus

Q13. According to the law of diminishing marginal utility, _____?

Ans. After a point, any addition in the consumption causes a reduction in total utility.

Q14. What is called point of satiety?

Ans. The point where marginal utility becomes zero.

Q15. The total utility divided by the number of units consumed is known as?

Ans. Average utility

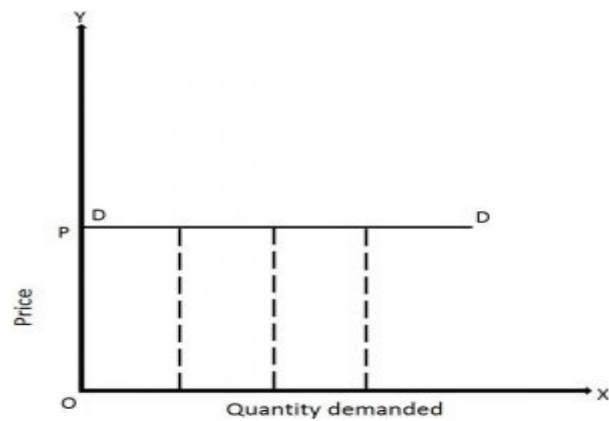
SHORT ANSWER QUESTIONS (3/4 Marks)

Q16. Explain the various degrees of price elasticity of demand with the help of diagrams.

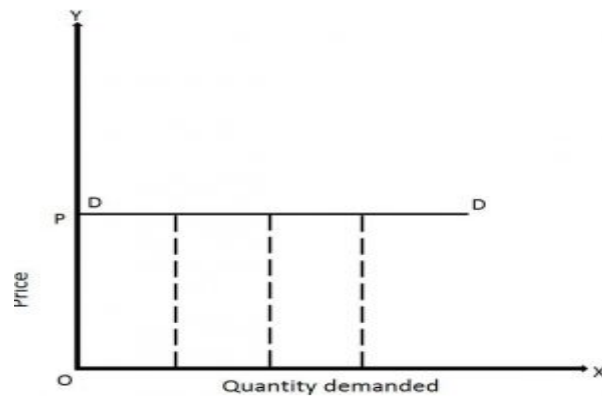
Ans. There are five degrees of price elasticity of demand. They are as follows:-

a) **Perfectly elastic demand ($E_d = \infty$)**:- a slight or no change in the price leads

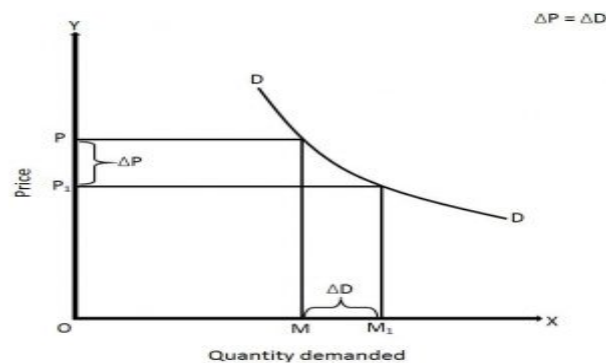
to infinite changes in the quantity demanded.



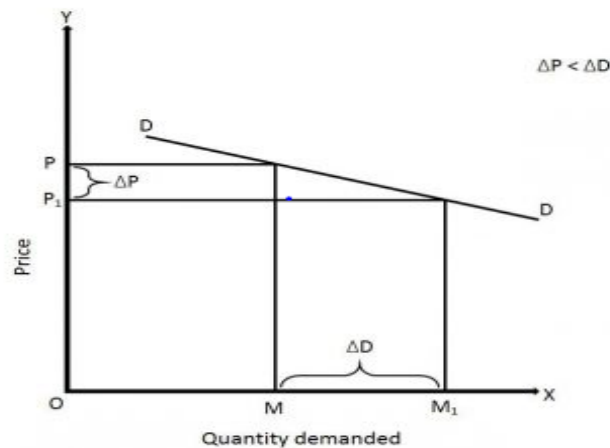
b) Perfectly Inelastic demand ($E_d=0$):- Demand of a commodity does not change at all irrespective of any change in its price.



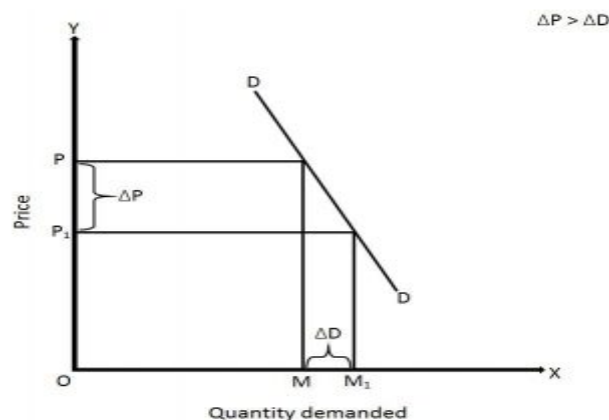
c) Unitary elastic demand ($E_d=1$):- When the percentage change in demand (%) of a commodity is equal to the percentage change in price.



d) Greater than unitary elastic demand ($E_d>1$):- When percentage change in demand of a commodity is more than the percentage change in its price.



e) Less than unitary elastic demand ($E_d < 1$):- When percentage change in demand of a commodity is less than the percentage change in its price.



Q17. A consumer buys 50 units of a good at Rs. 4/- per unit. When its price falls by 25 percent its demand rises to 100 units. Find out the price elasticity of demand.

Ans. Elasticity of demand is 4.

Q18. Price elasticity of demand for wheat is equal to unity and a household demands 40 Kg of wheat when the price is Rs.1 per kg. At what price will the household demand 36 kg of wheat?

Ans. The price of wheat rises to Rs.1.10 per kg.

Q19. The quantity demanded of a commodity at a price of Rs.10 per unit is 40 units. Its price elasticity of demand is -2. Its price falls by Rs.2/- per unit. Calculate its quantity demanded at the new price.

Ans. 56 units.

Q20. Explain any four determinants of demand for a commodity.

Ans. Below mentioned are the determinants of demand:-

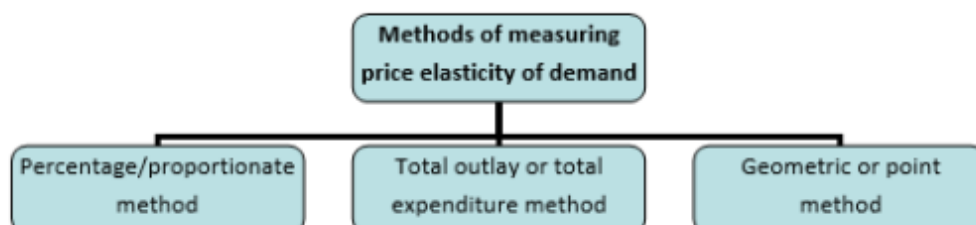
1. **Price of the commodity:** When the price of a commodity increases, the demand for that commodity decreases and vice versa.
2. **Income of the consumer:** When the income increases, the demand for normal commodity also increases and vice versa.
3. **Price of related goods:** In complementary goods, demand rises with fall in price of complementary goods. In case of substitute goods, demand for a commodity falls with a fall in the price of other substitute goods.
4. **Taste and preference of the customer:** With favourable taste and likings, demand increase and if it's unfavourable, demand gets decrease for any goods.

LONG ANSWER QUESTIONS (6 Marks)

Q21. What are the methods of measuring price elasticity of demand?

Ans. The methods of measuring price elasticity of demand are as follows:

Methods of Measuring Price Elasticity of Demand:-



Proportionate / Percentage Method:

$$E_d = \frac{\% \text{ change in Quantity demanded}}{\% \text{ change in price}} = \frac{\Delta Q/Q \times 100}{\Delta P/P \times 100}$$

OR

$$= \Delta Q / \Delta P \times P / Q$$

For e.g.: Price of ice candy is Rs. 20 each and demand is for 200 ice candies. If the price of ice candy falls to Rs. 15, demand increases to 300. Calculate elasticity of demand.

Ans.

$$\begin{aligned} P &= 20; P_1 = 15; \Delta P = 5 \\ Q &= 200; Q_1 = 300; \Delta Q = 100 \\ E_d &= \frac{100}{5} \times \frac{20}{200} = 2 \end{aligned}$$

Total Outlay Method (Expenditure Method)

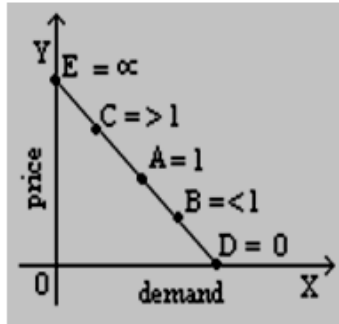
If with the fall in price, total outlay increases elasticity of demand is greater than one, if total outlay remain constant, elasticity is equal to one and if the total outlay decreases elasticity is less than one.

Situa- tion	Price of Commodity (Rs)	Quantity (Kg)	Total Expenditure (Rs)	Effect on Total Expenditure	Elasticity of Demand
A	2	4	8	Same Total Expenditure	Unitary Elastic $E_d=1$
	1	8	8		
B	2	4	8	Total Expenditure increases	Greater than unitary $E_d > 1$
	1	10	10		
C	2	3	6	Total Expenditure decreases	Less than unitary $E_d < 1$
	1	4	4		

Geometric / Point Method: -

This measures the elasticity of demand at different points on the same demand Curve.

$$E_d = \frac{\text{lower segment of the demand curve}}{\text{Upper segment of the demand curve}}$$



Q22. Explain the factors affecting the market demand of a commodity.

Ans. The market demand for a commodity means the total demand for a commodity made by all the individuals in the market. The market demand for a commodity gives the alternative amounts of a commodity demanded per time period, at various alternative prices, by all the individuals in the market. It depends on all the factors as the individuals demand depends on.

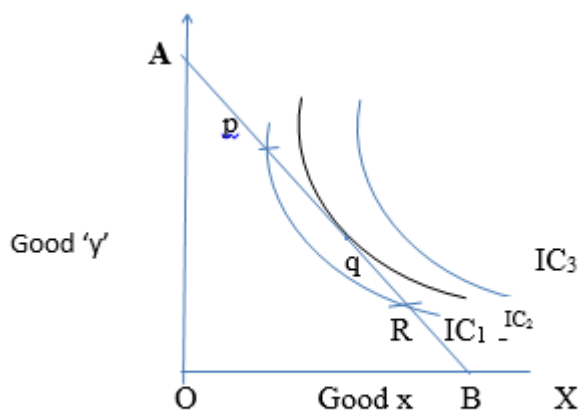
Below mentioned factors affecting the market demand of a commodity are as follows:

1. **Tastes and Preferences of the Consumers** - The changes in demand for various goods occur due to the changes in fashion and also due to the pressure of advertisements by the manufacturers and sellers of different products.
2. **Income of the People** - The demand for goods also depends upon the incomes of the people. The greater the incomes of the people, the greater will be their demand for goods.
3. **Changes in Prices of the Related Goods** - The demand for a good is also affected by the prices of other goods, especially those which are related to it as substitutes or complements. When we draw the demand schedule or the demand curve for a good we take the prices of the related goods as remaining constant.

4. **Consumers' Expectations with Regard to Future Prices** - If due to some reason, consumers expect that in the near future prices of the goods would rise, then in the present they would demand greater quantities of the goods so that in the future they should not have to pay higher prices.
5. **The Number of Consumers in the Market** - The market demand for a good is obtained by adding up the individual demands of the present as well as prospective consumers of a good at various possible prices. The greater the number of consumers of a good, the greater the market demand for it.

Q23. How is equilibrium achieved with the help of indifference curve analysis?

Ans. When a consumer gets maximum satisfaction from his expenditure, he is said to be in equilibrium consumer's equilibrium means maximum satisfaction level consumer can attain at given income and prices. We can explain the equilibrium of consumer with the help of the indifference curve technique.



Explanation of the above diagram:

- i) 'AB' is the budget line.
- ii) It is sure that consumer's equilibrium will lie on some point on 'AB'
- iii) Indifference map (set of IC_1 , IC_2 , IC_3) shows consumers scale of preferences between different combinations of good 'x' and good 'y'
- iv) Consumers' equilibrium will achieve where budget line (AB) is tangent to the IC_2 .

Assumptions which are made to determine the consumer's equilibrium position are as follows:

- (i) **Rationality:** The consumer is rational. He wants to obtain maximum satisfaction given his income and prices.

(ii) Utility is ordinal: It is assumed that the consumer can rank his preference according to the satisfaction of each combination of goods.

(iii) Consistency of choice: It is also assumed that the consumer is consistent in the choice of goods.

(iv) Perfect competition: There is perfect competition in the market from where the consumer is purchasing the goods.

(v) Total utility: The total utility of the consumer depends on the quantities of the good consumed.