CBSE Class 11

Economics

Sample Paper 07 (2019-20)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

i. All the questions in both sections are compulsory. Marks for questions are indicated against each question.
ii. Question numbers 1 - 10 and 18 - 27 are very short-answer questions carrying 1 mark each. They are required to be answered in one word or one sentence each
iii. Question number 11 - 12 and 28 - 29 are short-answer questions caring 3 marks each. Answers to them should not normally exceed 60-80 words each
iv. Question number 13 - 15 and 30 - 32 are also short-answer questions carrying 4 marks each. Answers to them should not normally exceed 80-100 words each
v. Question number 16 - 17 and 33 - 34 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100-150 words each
vi. Answer should be brief and to the point and the above word limit be adhered to as far as possible.

Section A

1. Fill in the blanks:

   Choice is the result of _____.

2. Do you agree that classified data are better than raw data?

3. Multiple correlation is

   a. When the correlation is only studied between three variables

   b. When the correlation is only studied between four variables

   c. When the correlation is studied between three or more variables

d. When the correlation is only studied between two variables

4. Which property of correlation coefficient facilitates it's computation through step deviation method?

OR

Give the meaning of positive correlation.

5. The following frequency distribution is classified as:

X	12	17	20	22	25	30	35
F	4	0	7	8	9	6	3

a. None of these
b. Continuous distribution
c. Discrete distribution.
d. Cumulative frequency distribution

6. Fill in the blanks:

The item having the highest weight in consumer price index for industrial workers is _____.

7. State true or false:

According to Croxton and Cowden Index numbers are devices for measuring differences in the magnitude of a group of related variables.

8. Fill in the blanks:

Bar diagram, in which the height of all bars is equal is known as _____.

9. Match the following:

(a) The objective of classification of Data	(i) Continuous
(b) Characteristic of classification of Data	(ii) Geographical
(c) Type of Classification of Data	(iii) Flexible

(d) Type of Variable	(iv) To present data in a simple form

10. Fill in the blanks:

    _____ activities are not included in national income.

11. According to you which method of survey is better: census or sample method?

12. Following table gives marks in Statistics of the students of class XI. Find out mean marks using direct method.

Mid-Value	5	10	15	20	25	30
Number of Students	5	7	9	10	8	6

OR

State some demerits of Mode.

13. Give some differences between mean deviation and standard deviation.

14. The following data shows the number of cars manufactured by Maruti Ltd, Tata Motors and Hyundai in the year 2015-16. Represent it with the help of a pie-diagram.

Production of Cars (in Rs.)

Maruti Limited	15,75,000
Tata Motors	7,25,000
Hyundai	5,50,000

OR

Present the following data by a percentage sub-divided bar diagram.

Subject	Number of Students (in '000)	
	2011-12	2012-13
Statistics	25	30
Economics	40	42

History	35	28

15. Calculate the Mean Deviation about Mean and Standard Deviation for the following distribution by using step deviation method.

Classes	**Frequencies**
20 - 40	3
40 - 80	6
80 - 100	20
100 - 120	12
120 - 140	9
Total	50

16. What are the requisites of an ideal average?

OR

Define statistical average. Discuss the properties that an ideal statistical average should possess.

17. Explain different types of correlation.

18. What is the meaning of scarcity of resources?

19. State true or false:

AFC is U-shaped.

20. Match the following:

(a) Indifference curves are convex to the point of origin due to :	(a) the sum of marginal utilities
(b) If Marginal Rate of Substitution is constant throughout, the indifference curve will be:	(b) the utility from the last unit consumed

(c) Marginal utility is	(c) Downward sloping straight line
(d) Total utility is	(d) Decreasing MRT

21. Pure oligopoly is based on the _____ products.
    a. Unique product
    b. Differentiated
    c. None of above
    d. Homogeneous
22. Fill in the blanks:

    _____ economics deals with what ought to be based on value judgment.

    OR

    Fill in the blanks:

    Economising of resources means that resources are to be used in such a manner that the _____ output is realised per unit of input.

23. Fill in the blanks:

    _____ opportunity cost is an addition to the cost in terms of a number of units of commodity sacrifices to produce an additional unit of another commodity.

24. The slope of price line throughout its length?
    a. Remains the same
    b. None of above
    c. Differs from point to point
    d. Is equal on the other side of the mid points
25. Fill in the blanks:

    _____ price is a price at which demand for a commodity is an equal to its supply.

26. A resource is a

    a. Service only

b. Good only

c. Good or a service

d. Not a good or a service

27. Can AC fall when MC is rising?

a. Yes
b. Can't say
c. None of these
d. No

28. What is meant by price rigidity, under oligopoly?

OR

Draw Average Revenue and Marginal Revenue curves in a single diagram of a firm which can sell more units of a good only by lowering the price of that good. Explain.

29. Explain the significance of minus (-) negative sign Attached to the measure of Price Elasticity of Demand in case of a normal good, as compared to the ' (+) plus sign' attached to the measure of Price Elasticity of Supply.

30. When price of a commodity rises by 10%, its supply rises by 40 units. Its elasticity of supply is 1. Calculate its supply at original price.

31. A consumer buys 14 units of a good at a price of Rs 8 per unit. At price of Rs 7 per unit, he spends Rs98 on the good. Calculate Price Elasticity of Demand by percentage method. Comment on the shape of demand curve based on this information.

OR

On the basis of the following schedule, calculate Price Elasticity of Demand by Percentage Method.

price per Unit (Rs)	**Total Expenditure(Rs)**
10	180

9	162

32. Explain the difference between ‘change in demand’ and ‘change in quantity demanded’.

33. Explain the conditions of producer’s equilibrium with the help of a marginal cost and marginal revenue schedule.

34. Given equilibrium in the market, explain the chain of effects of an increase in demand of a good.

OR

Explain the series of changes that will take place if market price is higher than equilibrium price.

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Solution

Section A

1. Scarcity
2. The data collected by the investigator from primary and secondary sources are raw data. The raw data are very large and difficult to handle. It is difficult to draw meaningful conclusions from them as they do not yield to statistical methods easily. Classified data, on the other hand, are comprehensible and concise. It is easier to draw meaningful conclusions from them. Thus classified data are better than raw data.
3. (c) When the correlation is studied between three or more variables
   Explanation: Because here we have to go to calculate correlation twice or thrice, with different variables.
4. It is neither affected by change in origin nor by change in scale.

   OR

   The correlation is said to be positive when the variable move together in the same direction.
5. (c) Discrete distribution.
   Explanation: It is a discrete frequency distribution where each value of the variable has a separate frequency and the variable is discrete.
6. Food
7. True
8. Percentage Bar Diagram
9. (a) - (iv), (b) - (iii), (c) - (ii), (d) - (i)

10. Non-Economic

11. Sample method of statistical investigation is generally preferred to the census method because the former is less expensive less time and efforts in terms of time, money and efforts involved. However, for the successful application of the sample method, it is very essential that the sample items represent the characteristics of population as a whole. It depends upon the objective of the survey. Sample surveys are preferred when information is required at a lower cost and shorter time. Census is preferred when a high degree of accuracy is needed.

12. In this series, mid-values are given. The calculation of arithmetic mean involves the same procedure as in the case of exclusive series. We have to multiply the mid values with f and then find Σfm and divide it by Σf.

Calculation of Arithmetic Mean

Mid-Value (m)	**Number of Students (f)**	**fm**
5	5	25
10	7	70
15	9	135
20	10	200
25	8	200
30	6	180
	$\Sigma f = 45$	$\Sigma fm = 810$

So, we get $\Sigma fm = 810$ and $\Sigma f = 45$. Applying the formula of mean, we get

$\overline{X} = \frac{\Sigma fm}{\Sigma f} = \frac{810}{45} = 18$

Hence, required arithmetic mean=18 marks

OR

i. It is difficult to find the modal class for bi-modal and tri-modal distributions.
ii. The value of mode is not based on each and every item of the series.

iii. When frequencies of all items are identical, it is difficult to identify the modal value.
iv. As compared to mean, mode is affected to a great extent, by sampling fluctuations.
v. Calculation of mode involves the cumbersome procedure of grouping the data. If the extent of grouping changes, there will be a change in the modal value.
vi. Mode is not suitable for further mathematical treatment.
vii. Mode is not rigidly defined as there are several methods for calculating its value.

13. Differences between mean deviation and standard deviation

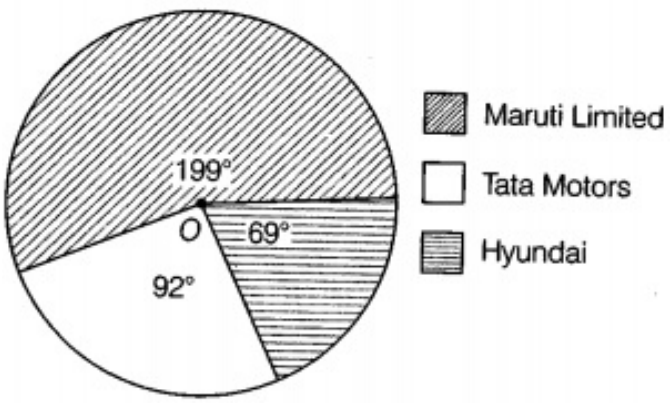
Basis	Mean Deviation	Standard Deviation
Meaning	Mean deviation is the sum of absolute deviations from an average divided by the number of items.	Standard deviation is the positive square root of the sum of square of deviations of various values from their arithmetic mean divided by the sample size.
Algebraic Signs	While calculating the deviations, 'plus' and 'minus' signs are not considered. Only the absolute value is considered.	While calculating the deviation, 'plus' and 'minus' signs are considered.
Average Used	It can be computed from either mean or median.	It is always computed from mean.
Algebraic Treatment	It is not capable of being treated algebraically. In other words, we cannot find the combined mean deviation of the two series.	It is capable of being treated algebraically. In other words, we can find combined standard deviation of any two or n given series.
Ideal measure.	Mean deviation is not an ideal measure of dispersion.	Standard deviation is relatively an ideal measure of standard deviation.

14.

	Production	percentage values	**Angle (in degree)**

Name of the Company			
Maruti Limited	15,75,000	$\frac{15,75,000}{28,50,000} \times 100 = 55.26$	$\frac{55.26 \times 360}{100}$ = 199°
Tata Motors	7,25,000	$\frac{7,25,000}{28,50,000} \times 100 = 25.43$	$\frac{25.43 \times 360}{100}$ = 92°
Hyundai	5,50,000	$\frac{5,50,000}{28,50,000} \times 100 = 19.3$	$\frac{19.3 \times 360}{100}$ =~ 69°
Total	28,50,000		360°

In the above table, we have calculated the percentage values of the production figures first and then we have computed the angle in degrees for each value. The pie diagram for the above data is given below:

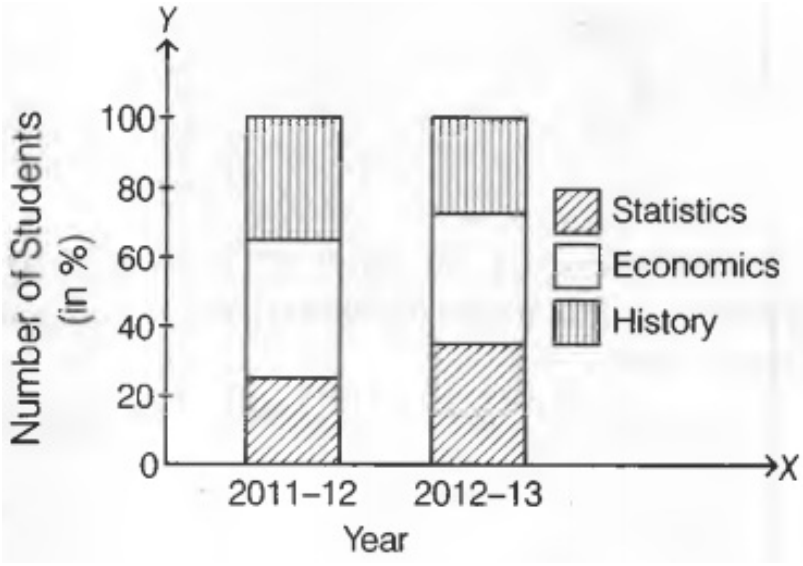


OR

First, we prepare a percentage table.

Percentage Table				
Subject	**2011-12**		**2012-13**	
	Number of students (in '000)	**Percent**	**Number of students (in '000)**	**Percent**
Statistics	25	25	30	30
Economics	40	40	42	42
History	35	35	28	28
Total	100	100	100	10

A percentage sub-divided bar diagram of given data is shown below



15. **Calculation of Mean Deviation from Mean and Standard Deviation:** Since the given series is a continuous series, we have to take the mid value (m) of each class interval. We take the assumed mean (A) as 90 and find out the deviation(d) from the assumed mean. We have to take the absolute value of d, i.e. |d| and then multiply frequency with |d|. As we have to find mean deviation and standard deviation by using step deviation method, we have to find fd' and fd'^2 The calculations are given below:

Classes	**Frequency**	**Mid Value(m)**	**d(X - A), A = 90**	$\|d\|$	**f**$\|d\|$	**d'**$\left(\frac{X-A}{c}\right)$**, c = 10**	**fd'**	**d'^{2}**	**fd'^{2}**
20 - 40	3	30	-60	60	180	-6	-18	36	108
40 - 80	6	60	-30	30	180	-3	-18	9	54
80 - 100	20	90	0	0	0	0	0	0	0
100 - 120	12	110	20	20	240	2	24	4	48
120 -	9	130	40	40	360	4	36	16	144

140									
	$\Sigma f = 50$				$\Sigma f\|D\| = 960$		$\Sigma fd' = 24$		$\Sigma fd'^2 = 354$

$\overline{X} = A + \frac{\Sigma fd'}{\Sigma f} \times c = 90 + \frac{24}{50} \times 10 = 94.8$

Mean Deviation from Mean$(MD_{\overline{x}}) = \frac{\Sigma f|D|}{\Sigma f} = \frac{960}{50} = 19.2$

Standard Deviation$(\sigma) = \sqrt{\frac{\Sigma fd'^2}{\Sigma f} - \left(\frac{\Sigma fd'}{\Sigma f}\right)^2} \times c$

$= \sqrt{\frac{354}{50} - \left(\frac{24}{50}\right)^2} \times 10 = \sqrt{\frac{354}{50} - \frac{576}{2500}} \times 10$

$= \sqrt{6.85} \times 10 = 26.17$

16.
1. **It should be rigidly defined.** An average should be clear and rigid so that there is no confusion and there is only one interpretation. If an average is left to the estimation of an observer and if it is not a definite and fixed value it cannot be representative of a series. The bias of the investigator in such cases would considerably affect the value of the average. If the average is rigidly defined; this instability in its value would be no more, and it would always be a definite figure. It should be defined by an algebric formula so that the average computed from a set of data by anybody remains the same.
2. **It should be based on all the observations of the series.** Average should be calculated by taking into consideration each and every item of the series. If some of the items of the series are not taken into account then the average cannot be said to be a representative one. As we shall see later on there are some averages which do not take into account all the values of a group and to this extent they are not satisfactory averages.
3. **It should be capable of further algebraic treatment.** If an average dose not possess this quality, its use is bound to be very limited. It will not be possible to calculate, say, the combined average of two or more series from their individual averages; further it will not be possible to study the average relationship of various parts of a variable if it is expressed as the sum of two or more variables. Many other similar studies would not be possible if the average is not capable of further algebraic treatment.

4. **It should be easy to calculate and simple to follow.** If the calculation of the average involves tedious mathematical processes it will not be readily understood and its use will be confined only to a limited number of persons. It can never be a popular average. As such, one of the qualities of a good average is that it should not be too abstract or mathematical and there should be no difficulty in its calculation. Further, the properties of the average should be such that they can be easily understood by persons of ordinary intelligence.
5. **It should not be affected by fluctuations of sampling.** If two independent sample studies are made in any particular field, the averages thus obtained, should not materially differ from each other. No doubt, when two separate enquires are made, there is bound to be a difference in the average values calculated but in some cases, this difference would be great while in others comparatively less. Those averages in which this difference(which is technically called "fluctuation of sampling") is less, are considered better than those in which its difference is more. So, we can say that an average should possess sampling stability.
6. **It should be based on homogeneous and uniform items:** One more thing to be remembered about averages is that the items whose average is being calculated should form a homogenous group. It is absurd to talk about the average of a man's height and his weight. If the data from which an average is being calculated are not homogeneous, misleading conclusions are likely to be drawn. To find out the average production of cotton cloth per mill, if big and small mills are not separated the average would be unrepresentative. Similarly, to study wage level in cotton mill industry of India, separate averages should be calculated for the male and female workers. Thus we see that as far as possible, the data from which an average is calculated should be a homogeneous lot. Homogeneity can be achieved either by selecting only like items or by dividing the heterogeneous data into a number of homogeneous groups.

OR

Average refers to a measure of central tendency or measure of location. It is a single value which represents the entire set of data. This is a term that is used, mis-used and often over used. Typically, many individuals refer to average when they really mean

the arithmetic average (mean). Average can mean the mean, the median and the mode; it can refer to a geometric mean and weighted averages.

Characteristics of a Good Average

i. It should be rigidly defined. If an average is left to the estimation of an observer and if it is not a definite and fixed value it cannot be representative of a series. The bias of the investigator in such cases would considerably affect the value of the average. If the average is rigidly defined; this instability in its value would be no more, and it would always be a definite figure. It should be defined by an algebric formula so that the average computed from a set of data by anybody remains the same.
ii. It should be based on all the observations of the series. If some of the items of the series are not taken into account in its calculation the average cannot be said to be a representative one. As we shall see later on there are some averages which do not take into account all the values of a group and to this extent, they are not satisfactory averages.So, average should be calculated taking into consideration each and every item of the series.
iii. It should be capable of further algebraic treatment. If an average dose not possess this quality, its use is bound to be very limited. It will not be possible to calculate, say, the combined average of two or more series from their individual averages; further it will not be possible to study the average relationship of various parts of a variable if it is expressed as the sum of two or more variables. Many other similar studies would not be possible if the average is not capable of further algebraic treatment.
iv. It should be easy to calculate and simple to follow. If the calculation of the average involves tedious mathematical processes it will not be readily understood and its use will be confined only to a limited number of persons. It can never be a popular average. As such, one of the qualities of a good average is that it should not be too abstract or mathematical and there should have no difficulty in its calculation. Further, the properties of the average should be such that they can be easily understood by persons of ordinary intelligence.
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materially differ from each other. No doubt, when two separate enquires are made, there is bound to be a difference, in the average values calculated but in some cases this difference would be great while in others comparatively less. These averages in which this difference, which is technically called "fluctuation of sampling" is less, are considered better than those in which its difference is more. An average should possess sampling stability.

17. **1. Positive and Negative Correlation:** Correlation is classified into positive and negative correlation when two variables move in the same direction, i.e. if the value of Y increases (or decreases) with an increase (or decrease) in the value of X, they are said to be positively related. On the other hand when two variables move in the opposite direction i.e. if the value of variable 'X' increase (or decrease) with the decrease or increase in the value of Y variable, they one said to be negatively correlated.
    2. Linear and Non- linear correlation: Correlation may be linear or non-linear . If the amount of change in one variable tends to have a constant relation with the amount of change in the other variable then the correlation is said to be liner. It is represented by a straight line. On the other hand if the amount of change in one variable does not have constant proportional relationship to the amount of change in the other variable, then the correlation is said to be non-linear or curvi-linear.
    3. Simple, multiple and partial correlation: Correlation may also be simple, multiple and partial correlation. When two variables are studied to determine correlation, it is called simple correlation on the other hand when more than two variables are studied to determine the correlation it is called multiple correlation. When correlation of only two variables is studied keeping other variables constant, it is called partial correlation.

    4.Absence of correlation: If two series of two variables exhibit no relations between them or change in variable does not lead to a change in the other variable, then we can firmly say that there is no correlation or absurd correlation between the two variables. In such a case the coefficient of correlation is 0.

18. Scarcity of resources means shortage of resources as compared to its demand.

19. False, AFC is a rectangular hyperbola.

20. (a) - (iv), (b) - (iii), (c) - (ii), (d) - (i)

21. (d) Homogeneous Explanation:

    In case of pure oligopoly, firms produce homogeneous products like copper, iron, steel and aluminium. So decision by the consumers to purchase the good of a particular firm is influenced by the price considerations.

22. Normative

OR

Maximum

23. Marginal

24. (a) Remains the same **Explanation:** slope of price line is given by ratio of the prices of two goods, i.e. Px/Py, which is constant.

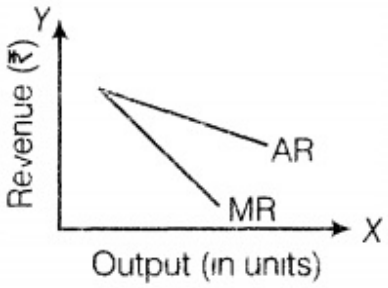
25. Equilibrium

26. (c) Good or a service
    Explanation: A resource is a source or supply from which benefit is produced. An item becomes a resource with time and developing technology. Typically resources are materials, energy, services, staff, knowledge, or other assets that are transformed to produce benefit and in the process may be consumed or made unavailable.
27. (a) Yes **Explanation:** AC can fall when MC is rising. However it is possible only when MC is less than AC.
28. i. Price rigidity refers to a situation in which whether there is change in demand and supply the price tends to stay fixed.
    ii. If a firm tries to reduce the price the rivals will also react by reducing their prices. Likewise, if it tries to raise the price, other firms will not do so. It will lead to loss of customers for the firm which intended to raise the price.

OR

A firm which can sell more units of a good only by lowering the price of that good operates in monopoly, oligopoly or monopolistic market forms. In these market

forms, the firms have to lower the price to increase the demand for their products. This is because the Average and Marginal Revenue curves are downward sloping as is depicted in the graph below:



In the above diagram both average revenue and marginal revenue curves are downward sloping and in such a case firm can sell more units of a good only by lowering its price.

29. Price Elasticity of Demand measures the responsiveness of quantity demanded due to change in price. Also, according to Law of Demand, price and quantity demanded are inversely related, hence the negative sign in Price Elasticity of Demand signifies the inverse relation. On the other hand, Price Elasticity of Supply measures the responsiveness of quantity supplied due to change in its price. Similarly, Law of Supply states a positive relationship between price and quantity supplied, hence Price Elasticity of Supply carries a positive sign.

30. Elasticity of Supply

$(E_s) = \frac{\%\text{ Change in quantity supplied}}{\%\text{ change in price}}$

So, $1 = \frac{\%\text{ Change in quantity supplied}}{10}$

So, $\Rightarrow$ % Change in quantity supplied = 10%

We also know that,

% Change in quantity supplied

$= \frac{\text{Change in quantity}}{\text{Old quantity}} \times 100$

So, $10 = \frac{40}{\text{Old quantity}} \times 100$

$\therefore$ Old quantity $= \frac{40 \times 100}{10}$

= 400 units

31. **Table showing quantity purchased at given prices along with their total expenditure**

Quantity (Q) (units)	Price(P) (Rs)	Total Expenditure (TE) (Rs) (P × Q)
14	8	112
14	7	98

At Rs 8 per unit 14 units were purchased therefore, total expenditure is Rs 8 × 14 = Rs 112.

While at Rs 7 per unit Rs 98 were spend, therefore number of units purchased= Rs 98/7 = 14 units.

Calculation of Elasticity of demand:

Elasticity of demand, $\mathbf{E}_{\mathrm{d}} = (-)\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

Elasticity of demand, $E_d = (-)\frac{\frac{\Delta Q}{Q}\times 100}{\frac{\Delta P}{P}\times 100} = (-)\frac{\frac{0}{14}\times 100}{\frac{1}{8}\times 100} = \frac{0}{1.25} = 0$

or E_d = 0, therefore, Demand is perfectly inelastic.

Therefore, Demand curve is straight line parallel to Y-axis.

OR

Price-P (Rs)	Total Expenditure-TE (Rs)	Quantity (units) (TE/P)
10	180	18 [$\frac{180}{10}$]
9	162	18 [$\frac{162}{9}$]

Percentage change in quantity demanded

$= \frac{\Delta Q}{Q} \times 100$

$= \frac{0}{18} \times 100 = 0$

∴Percentage change in quantity demanded = 0

Percentage change in price

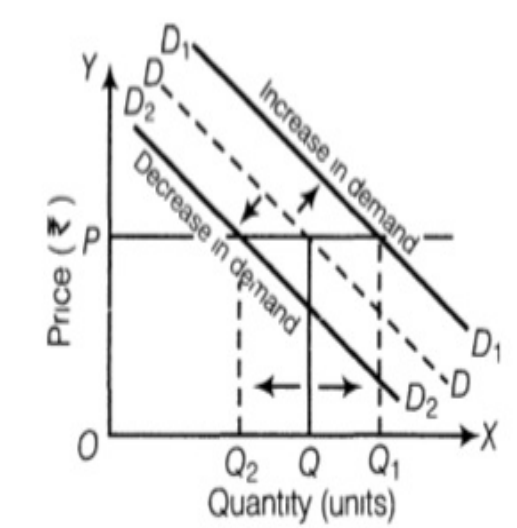
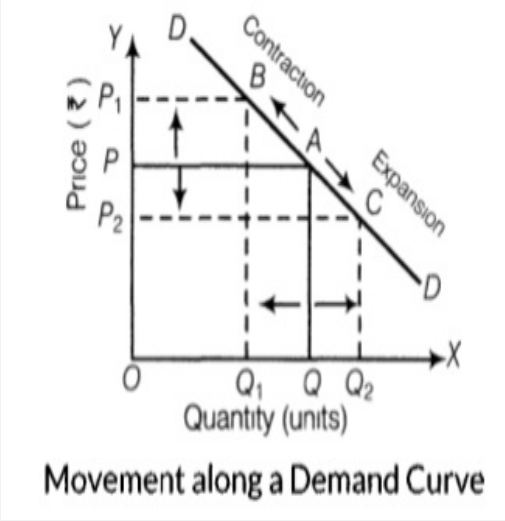
$= \frac{\Delta P}{P} \times 100 = \frac{1}{10} \times 100 = 10\%$

$\mathrm{E_d} = (-)\frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Proce}}$

$= (-1)\frac{0}{10} = 0$

E_d = 0 (Perfectly inelastic demand)

32. Differences between change in demand and change in quantity demanded are

Basis	Change in Demand	Change in quantity Demanded
Reason	It is caused by a change in prices of substitutes, change in prices of complementary goods,change in income, etc. other than the own price of the commodity.	It is caused by an increase or decrease in the price of the given commodity, keeping other factors constant.
Impact on demand curve	It leads to a shift in the demand curve either rightwards (known as increase in demand)or leftwards(known as decrease in demand).	It leads to a movement along the same demand curve either upwards(known as contraction in demand)or downwards(known as expansion in demand)
Diagrammatic Presentation	Diagrammatically, this is shown as a forward or backward shift in demand curve.  Shift in Demand Curve	Diagrammatically, this is shown as a downward or an upward movement on the same demand curve.  Movement along a Demand Curve

33. A producer strikes his equilibrium when two conditions are satisfied:

    i. MR = MC, and
    ii. MC is greater than MR after the MC = MR output level.

    MR-MC can be explained by schedule:

Output (units)	Price (₹)	TR (₹)	TC (₹)	MR (₹)	MC (₹)	Profit (TR - TC) (₹)
1	8	8	6	8	6	2
2	8	16	14	8	8	2
3	8	24	20	8	6	4
4	8	32	28	8	8	4
5	8	40	38	8	10	2

    Here, MR = MC in two situations:

    i. In-case of 2 units of output.
    ii. In-case of 4 units of output.

    However, while in situation 1 (when output =2 units) MC is still falling, while in situation 2 (when output = 4 units) MC is rising. Here equilibrium will be struck when 4 units of output are produced, not when 2 units of output are produced.

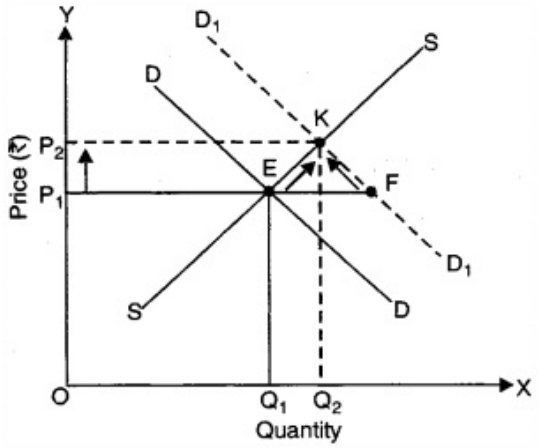
34. Market equilibrium is the point where the quantity demanded and quantity supplied are equal at a given time and price. There is no surplus or shortage in this situation and the market would be considered stable.

    An increase in demand is a situation under which the demand curve shifts to the right due to factors other than price.

    i. In given figure 'E' is the initial Equilibrium point, due to an increase in demand,

the demand curve shifts from DD to D_1D_1.

ii. Due to the pressure of demand, the price of the commodity tends to be higher than the equilibrium price.

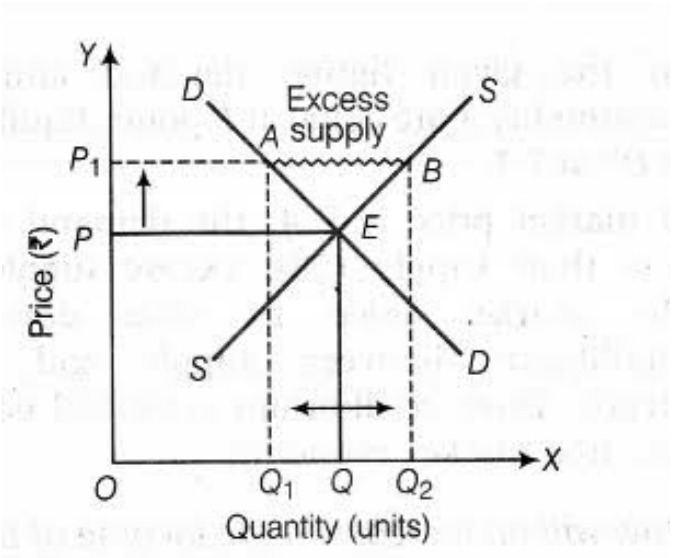


iii. Due to the rising price, the quantity demanded tends to contract. The contraction of demand occurs from point F to point K.

iv. Due to the rising price, the quantity supplied tends to extend. The extension of supply occurs from point E to point K.

The process of extension of supply and contraction of demand continue till new equilibrium K is established.

OR



If at a given price there is excess supply as shown in the given figure.

In the given figure, the excess supply of AB at price P_1 will create a competition

among the producers, which will reduce the price from P_1 to P. It can be explained in the following cases:

i. Downward movement along the supply curve (contraction in supply): Due to excess supply of AB, the competition among the producers will reduce the price. As we know, positive relationship exists between price and quantity supplied. So fall in price P_1 to P leads to fall in supply from B to E.
ii. Downward movement along the demand curve (Expansion in demand): Due to excess supply of AB, the competition among the producers will reduce the price. As we know inverse relationship exists between price and quantity demanded. So, fall in price from P_1 to P, leads to rise in demand from A to E.

It can be explained with the help of the following schedule.

Price ₹	Demand	Supply	Resulting tendency
5	1	5	Excess Demand
4	2	4	Excess Demand
3	3	3	Equilibrium

In the above schedule at price 5, there is excess supply. This excess supply, leads to fall in price till we reach the equilibrium at price 3.
Note: Contraction in supply and expansion in demand have to done simultaneously to reach the equilibrium.