

# SAMPLE PAPER 2

Maximum Marks : 200

Time : 60 Minutes

## General Instructions :

- (i) This paper consists of 50 MCQs, attempt any 40 out of 50
- (ii) Correct answer or the most appropriate answer: Five marks (+5)
- (iii) Any incorrect option marked will be given minus one mark (-1)
- (iv) Unanswered/Marked for Review will be given no mark (0)
- (v) If more than one option is found to be correct then Five marks (+5) will be awarded to only those who have marked any of the correct options
- (vi) If all options are found to be correct then Five marks (+5) will be awarded to all those who have attempted the question.
- (vii) Calculator / any electronic gadgets are not permitted.

1. Goods purchased for the following purpose are final goods:
  - (1) for satisfaction of wants
  - (2) for investment in firm
  - (3) both (A) and (B)
  - (4) none of the above
2. Supply of money refers to \_\_\_\_\_.
  - (1) currency held by the public.
  - (2) currency held by Reserve Bank of India (RBI).
  - (3) currency held by the public and demand deposits with commercial banks.
  - (4) currency held in the government account.
3. If the value of Average Propensity to Consume (APC) is 0.8 and National Income is ₹ 4,000 crores, the value of savings will be \_\_\_\_\_.
  - (1) ₹100 crores
  - (2) ₹200 crores
  - (3) ₹800 crores
  - (4) ₹500 crores
4. The word 'Economics' was derived from two \_\_\_\_\_ words, \_\_\_\_\_ and \_\_\_\_\_.
  - (1) Greek, oikou, nomos
  - (2) French, oikou, nom
  - (3) Spanish, ecoio, nomco
  - (4) Russian, oikou, nomos
5. Primary deficit in a government budget will be zero, when \_\_\_\_\_.
  - (1) Revenue deficit is zero
  - (2) Net interest payments are zero
  - (3) Fiscal deficit is zero
  - (4) Fiscal deficit is equal to interest payment
6. Which of the following is correct?
  - (1) TU falls, MU = 0
  - (2) TU falls, MU < 0
  - (3) TU rises, MU = 0
  - (4) TU falls, MU > 0
7. Which of the following is the result of increase in price of factors of production?
  - (1) Rightward shift in supply curve
  - (2) Leftward shift in supply curve
  - (3) Expansion in supply
  - (4) Contraction in supply
8. Which of the following is a flow?
  - (1) Deposits in a bank
  - (2) Capital
  - (3) Depreciation
  - (4) Wealth
9. Average Propensity to Consume is equal to:
  - (1)  $\frac{C}{Y}$
  - (2)  $C - Y$
  - (3)  $\frac{\Delta C}{\Delta Y}$
  - (4)  $\Delta Y - \Delta C$
10. Foreign Exchange Transactions which are independent of other transactions in the Balance of Payments Account are called:
  - (1) Current transactions.
  - (2) Capital transactions.
  - (3) Autonomous transactions.
  - (4) Accommodating transactions.
11. In case of perfect competition, AR curve is:
  - (1) Downward sloping
  - (2) Positively sloped
  - (3) Horizontal straight line
  - (4) Vertical straight line
12. When price falls with rise in output, TR is \_\_\_\_\_ when MR is zero.
  - (1) Maximum
  - (2) Minimum
  - (3) Zero
  - (4) None of these

**13.** Which of the following statements is true?

- (1) Increase or decrease in demand for a commodity causes change in its price in case the supply of the commodity is perfectly elastic.
- (2) Increase or decrease in supply for a commodity does not cause any change in its price in case the demand of the commodity is perfectly elastic.
- (3) Increase or decrease in demand for a commodity does not cause any change in its price in case the supply of the commodity is perfectly elastic.
- (4) Increase or decrease in demand for a commodity causes changes in its quantity in case the supply of the commodity is perfectly elastic.

**14.** Which of the following statements is false?

- (1) Demand deposits are not legal tender.
- (2) Currency notes issued are not legal tender.
- (3) Term deposits are not legal tender.
- (4) Wheat is not legal tender.

**15.** Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Markets in the Economy	(a) Producers only
2. National Income	(b) Macroeconomics
3. Total Cost	(c) Both Micro and Macroeconomics
4. Net National Product	(d) Microeconomics

- (1) 1 – (a)
- (2) 2 – (b)
- (3) 3 – (c)
- (4) 4 – (d)

**16.** Identify the correctly matched pair of the items in Column A to those in Column B:

Column A	Column B
1. Fiscal Deficit	(a) Other than interest payments
2. Primary Deficit	(b) Borrowings less interest payments
3. Revenue Deficit	(c) Borrowings
4. Tax Deficit	(d) Borrowings in government budget

- (1) 1 – (a)
- (2) 2 – (b)
- (3) 3 – (c)
- (4) 4 – (d)

**17.** Identify which of the following statement is true?

- (A) The flexible exchange rate system gives the government more flexibility to maintain large stocks of foreign exchange reserves.

- (2) In the managed floating exchange rate system, the government intervenes to buy and sell foreign currencies.
- (3) In the managed floating exchange rate system, the central bank intervenes to moderate exchange rate fluctuations.
- (4) In the fixed exchange rate system, market forces fix the exchange rate.

**18.** Which one of the following is not a determinant of individual supply?

- (1) Price of the given commodity
- (2) Taxation policy
- (3) State of technology
- (4) Number of firms

**19.** Identify the market form which has indeterminate demand curve :

- (1) Perfect competition
- (2) Monopoly
- (3) Oligopoly
- (4) Monopolistic competition

**20.** What will be the effect on price elasticity of demand, if the time required to find the substitute product is more.

- (1) Price elasticity will increase.
- (2) Price elasticity will remain same.
- (3) Price elasticity will decrease.
- (4) More information required.

**21.** Identify the correctly matched pair of the items in Column A to that of Column B

Column A	Column B
1. Money	(a) Supply of Money
2. Commercial Bank	(b) Store of Value
3. Central Bank	(c) Credit Control
4. $M_4$	(d) Circulation of Money

- (1) 1 – (a)
- (2) 2 – (b)
- (3) 3 – (c)
- (4) 4 – (d)

**22.** Which of the following statements is not correct?

- (1) APC is the ratio of consumption expenditure to any particular level of income.
- (2) MPC is the ratio of a change in consumption to the change in income.
- (3) APS is the ratio of savings to any particular level of consumption.
- (4) MPS is the ratio of a change in savings to the change in the income.

**23.** Identify which of the following statements is true:

- (1) Durable goods get transformed in the production and consumption process.

- (2) More sophisticated and heavy capital goods raise the ability of a labourer to produce goods.
- (3) Intermediate goods do not pass through any more stages of production.
- (4) Final goods refers to that good which is purchased for the purpose of further production/resale.

**24.** Which of the following is a correct example of a statement containing both positive and normative economics?

- (1) Government should stop Minimum Support Price to the farmers.
- (2) India should spend more money on defence
- (3) Indian economy is a developing economy, the Government should make it developed through correct planning.
- (4) Increase in real per capita income increases the standard of living of people

**25.** Which of the following statement is true:

- (1) In the first stage, Total Product increases at an increasing rate and Marginal Product rises till it reaches its maximum point.
- (2) In the second stage, Total Product decreases at a decreasing rate and reaches maximum, and MP becomes zero.
- (3) In the third stage, Total Product increases and Marginal Product (MP) becomes negative.
- (4) There is a fourth stage of production.

**26.** Identify the correctly matched pair from column A to that of Column B:

Column A	Column B
1. Large number of sellers and a single buyer	(a) Monopoly Market
2. Single seller and large number of buyers	(b) Perfect Competition Market
3. Firms and industries are synonymous	(c) Monopoly Market
4. No close substitutes	(d) Perfect Competition Market

- (1) 1 – (a)                      (2) 2 – (b)
- (3) 3 – (c)                      (4) 4 – (d)

**27.** Match the items in Column A to those in Column B and choose the correct option:

Column A	Column B
1. GST	(a) Indirect Tax
2. Income Tax	(b) Burden can be shifted
3. Fine	(c) Direct Tax
4. Tax Receipts	(d) Capital Receipt

- (1) 1 – (a)                      (2) 2 – (b)
- (3) 3 – (c)                      (4) 4 – (d)

**28.** If the marginal propensity to consume is greater than marginal propensity to save, the value of the multiplier will be:

- (1) greater than 2
- (2) less than 2
- (3) equal to 2
- (4) equal to 5

**29.** The marginal physical product of a factor must be \_\_\_\_\_ when total physical product is falling.

- (1) Positive
- (2) Zero
- (3) Negative
- (4) None of the above

**30.** Which of the following affects national income?

- (1) Goods and Services Tax
- (2) Corporation Tax
- (3) Subsidies
- (4) None of the above

**31. Assertion (A):** Profits of chemical industries increased 150%; fishermen income reduced by 70% due to untreated chemical pollutants in water bodies. This is a negative externality.

**Reason (R):** The profits of chemical industries is causing pollution which is harming the water and inturn leading the fishermen to catch less fish as the biodiversity of the water body is disturbed.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion (A).
- (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
- (3) Assertion (A) is true, but Reason (R) is false.
- (4) Assertion (A) is false, but Reason (R) is true.

**32. Assertion (A):** The elastic demand curve for luxuries is flatter than normal.

**Reason (R):** The coefficient of Elasticity ranges between 0 and 1.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion (A).
- (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
- (3) Assertion (A) is true, but Reason (R) is false.
- (4) Assertion (A) is false, but Reason (R) is true.

**33.** \_\_\_\_\_ shows the functional relationship between output and cost of production.

- (1) Production function
- (2) Supply function

- (3) Cost function
- (4) Demand function

**34.** Full employment:

- (1) is consistent with 'natural rate of unemployment'.
- (2) occurs when demand for labour force = supply of labour force.
- (3)  $AS = AD$  with zero level of unemployment.
- (4) both (A) and (B)

**35.** "The law states that a consumer will so allocate his expenditure so that the utility gained from the last rupee spent on each commodity is equal." Identify the law defined above.

- (1) Law of diminishing marginal utility
- (2) Law of substitution
- (3) Law of equi-marginal utility
- (4) None of the above

**36.** Identify the correctly matched pair in Column A and Column B from the following:

Column A	Column B
(1) India	(a) Economic reforms in 1997
(2) Pakistan	(b) Economic reforms in 1991
(3) China	(c) Economic Reforms in 1978
(4) India	(d) GST rolled out in 1999

- (1) 1 – (a)                      (2) 2 – (b)
- (3) 3 – (c)                      (4) 4 – (b)

**37.** Real GDP is considered as an index of:

- (1) price level in the economy.
- (2) welfare of the people.
- (3) profit maximization.
- (4) none of the above.

**38.** Which of the following statements is true?

- (1) Government Borrowings from the World Bank is a Revenue Receipt.
- (2) Higher fiscal deficit is the result of higher revenue deficit.
- (3) The loans taken by government represents a situation of fiscal deficit.
- (4) The excess of capital receipts over the revenue receipts is called Revenue deficit.

**39.** When domestic currency loses its value in relation to a foreign currency in the international money market, it is a situation of:

- (1) Currency appreciation
- (2) Currency depreciation
- (3) Currency devaluation
- (4) None of the above

**40.** Identify the correct sequence of alternatives given in Column B by matching them with respective Column A:

Column A	Column B
(1) Borrowings from IMF	(a) Current Account
(2) Import shipping services	(b) Invisible items
(3) Export machinery	(c) Accommodating items
(4) Foreign aid	(d) Visible items

- (1) 1 – (a)                      (2) 2 – (b)
- (3) 3 – (c)                      (4) 4 – (d)

**41.** Railways is an example of:

- (1) Perfect competition      (2) Monopoly
- (3) Duopoly                      (4) Oligopoly

**42.** Which of the following statements is true?

- (1) All financial institutions are banking institutions.
- (2) RBI has the complete authority to issue currency notes.
- (3) The government of India issues currency notes.
- (4) Banking institutions issue currency notes.

**43.** Which of the following statements is true?

- (1) In monopolistic competition, the demand curve is relatively elastic.
- (2) In monopolistic competition, the demand curve is relatively inelastic.
- (3) In monopolistic competition, the demand curve is perfectly elastic.
- (4) In a monopolistic competition, the demand curve is perfectly inelastic.

**44. Statement 1:** Supply of the commodity can also decrease when the price remains constant.

**Statement 2:** Due to rise in price of factor of production or inputs.

**Alternatives:**

- (1) Both the statements are true.
- (2) Both the statements are false.
- (3) Statement 1 is true but statement 2 is false.
- (4) Statement 1 is false but statement 2 is true.

**45.** The government encourages exports to correct excess capacity in the economy. This may lead to:

- (1) inflation in the local market.
- (2) rise in voluntary unemployment.
- (3) rise in aggregate demand to match aggregate supply.
- (4) fall in voluntary unemployment.

**46.** Which of the following is/are the kinds of economic resources?

- (1) Natural Resources
- (2) Capital Resources
- (3) Human Resources
- (4) All of these

**II. Read the following news report and answer the Q.97-Q.100 on the basis of the same:**

The quantity of a commodity that a consumer is willing to buy and is able to afford, given the prices of goods and the consumer's tastes and preferences is called demand for the commodity. Whenever one or more of these variables change, the quantity of the good Chosen by the consumer is likely to change as well. The relation between the consumer's optimal choice of the quantity of a good and its price is very important and this relation is called the demand function. Thus, the consumer's demand function for a good gives the amount of the good that the consumer chooses at different levels of its price when the other things remain unchanged.

- 47. Assertion:** The income of the consumers remain unchanged.

**Reason:** Commodity should be a normal good.

Select the correct alternative from the following.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (3) Assertion (A) is true, but Reason (R) is false.
- (4) Assertion (A) is false, but Reason (R) is true.

- 48.** In which of the following cases there will be leftward shift in demand?

- (1) Increase in the price of substitute goods.
- (2) Rise in the price of complementary goods.
- (3) Fall in the price of complementary goods.
- (4) Decrease in the income of the consumer in case of inferior goods.

- 49.** What is meant by the contraction of demand?

- (1) Movement along a demand curve
- (2) Shift in the demand curve
- (3) Fall in consumer's income
- (4) None of the above

- 50.** The price elasticity of demand for a good depends on \_\_\_\_ and \_\_\_\_ of the good.

- (1) The nature of the good
- (2) The availability of close substitutes
- (3) Both (1) and (2)
- (4) None of the above

□□□

**47. Option (1) is correct.**

*Explanation:* Agricultural Development bank of Pakistan uses the production function approach to measure bank output and costs.

**48. Option (2) is correct.**

*Explanation:* Economies of scale is larger for branches at a smaller scale of production

**49. Option (1) is correct.**

*Explanation:* When the banks grow in size, they move closer in achieving increasing returns to a factor.

**50. Option (3) is correct.**

*Explanation:* The increasing returns to scale in larger branches is due to both increase in loans and increase in deposits.

□□□

# SOLUTIONS

**1. Option (3) is correct.**

*Explanation:* Final goods are referred to as those goods that do not require further processing. These goods are produced for the direct consumption either by a consumer for final consumption or by a producer for investment or capital formation.

**2. Option (1) is correct.**

*Explanation:* Money supply refers to the total stock of money of all types held by the people of a country at a given point of time.

**3. Option (3) is correct.**

*Explanation:*

$$APC = \frac{C}{Y}$$

$$0.8 = \frac{C}{₹4,000}$$

$$C = ₹3,200 \text{ crores}$$

$$S = Y - C$$

$$= ₹4,000 - ₹3,200$$

$$= ₹800 \text{ crores}$$

**4. Option (1) is correct.**

*Explanation:* The word 'Economics' was derived from two Greek words oikou (a house) and nomos (to manage).

**5. Option (4) is correct.**

*Explanation:* Primary deficit indicates borrowing requirements of the government to meet fiscal deficit net of interest payments.

**6. Option (2) is correct.**

*Explanation:* Since, the MU curve is a strictly downward sloping graph and is also the slope for TU curve, after reaching the saturation point i.e., MU=0, moving further on TU graph gives us negative value of MU.

**7. Option (1) is correct.**

*Explanation:* When the price of factors of production like land, labour rises, then it leads to rise in cost of production and hence supply falls. Thus, supply curve shifts to the left.

**8. Option (3) is correct.**

*Explanation:* Depreciation indicates the changes in the value of an asset over a period of time.

**9. Option (1) is correct.**

*Explanation:* The average propensity to consume measures the percentage of income that is spent rather than save. It defines the amount of consumption in every ₹1 of income per all level of income.

**10. Option (3) is correct.**

*Explanation:* Autonomous transactions are independent of the state of BOP Account. For example, if a foreign company is making investments in India with the aim of earning profit, then such a transaction is independent of the country's BOP situation.

**11. Option (3) is correct.**

*Explanation:* Under perfect competition, price is same or remains constant. Hence, total revenue increases at a constant rate and hence average revenue or marginal revenue is same or constant and AR or MR curve is parallel to x-axis.

**12. Option (1) is correct.**

*Explanation:* When price falls with rise in output, i.e., under imperfect competition, when TR reaches its maximum point, then MR reaches zero. And after that TR starts falling and MR becomes negative.

**13. Option (3) is correct.**

*Explanation:* Supply of the commodity is said to be perfectly elastic when supply curve is parallel to x-axis and when there is increase or decrease in demand for a commodity, then equilibrium quantity changes, i.e., increases or decreases but equilibrium price remains the same.

**14. Option (2) is correct.**

*Explanation:* A legal tender is a type of money that the court of law need to see as a satisfactory payment of any financial debt. In India, the authentic legal tender of the Reserve Bank of India consists of coins and notes.

**15. Option (2) is correct.**

*Explanation:* Macroeconomics is the study of behaviour of an economy as a whole. National Income is the value of total final goods produced by an economy. Thus, the study of National Income is related to macroeconomics.

**16. Option (2) is correct.**

*Explanation:* Primary deficit indicates borrowing requirements of the government to meet fiscal deficit net of interest payments.

**17. Option (3) is correct.**

*Explanation:* Managed floating exchange rate system is the amalgamation of the flexible exchange rate system and the fixed exchange rate system. Under this system, central banks intervene to buy and sell foreign currencies in an attempt to moderate exchange rate movements.

**18. Option (4) is correct.**

*Explanation:* All other factors except 'Number of firms' is not a determinant of individual supply. All other factors like price of the given commodity, taxation policy, state of technology are the determinants of individual supply.

**19. Option (3) is correct.**

*Explanation:* In an Oligopoly form of market no single firm can predict its prospective sales with perfection. This is because any given change in the price/output decision by a rival firm would initiate a series of actions, reactions and counter actions by others. Therefore, there is no certain nature and position of demand curve under this form of market for a firm.

**20. Option (1) is correct.**

*Explanation:* The price elasticity of demand varies directly with the time period. If the time period required to find the substitute commodity is more, the price elasticity will increase and vice versa. This means the elasticity for a shorter time period is always low or it can be even inelastic.

**21. Option (3) is correct.**

*Explanation:* Central Bank regulates the volume and use of credit by using quantitative and qualitative tools, i.e., monetary policy. Instruments of Monetary Policy are Bank Rate, Repo Rate, Reverse Repo Rate, Cash Reserve Ratio.

**22. Option (3) is correct.**

*Explanation:* Average propensity to save refers to the proportion of income that is saved rather than spent on current goods and services.

**23. Option (2) is correct.**

*Explanation:* More sophisticated and heavy capital goods that raise the ability of a labourer to produce goods includes heavy machineries. These heavy and sophisticated machineries reduce the time taken by labourer.

**24. Option (3) is correct.**

*Explanation:* In the third statement, the first part of the statement is positive giving facts, and the second part is normative based on value judgements.

**25. Option (1) is correct.**

*Explanation:* In the first stage, when total product increases at an increasing rate, then marginal product also rises till the point where it reaches maximum point.

**26. Option (3) is correct.**

*Explanation:* Under monopoly market there is only one firm which constitutes the industry.

**27. Option (1) is correct.**

*Explanation:* Indirect tax is a tax on goods and services.

**28. Option (1) is correct.**

*Explanation:*

$$\text{MPC} = 0.6$$

$$\text{MPS} = 0.4$$

$$K = 1/\text{MPS}$$

$$= 1/1 - \text{MPC}$$

$$= 1/0.4$$

$$= 2.5$$

**29. Option (3) is correct.**

*Explanation:* When total physical product starts falling, then marginal physical product of a factor becomes negative.

**30. Option (3) is correct.**

*Explanation:*  $\text{NNP}_{\text{FC}} = \text{NNP}_{\text{MP}} - \text{Indirect Taxes} + \text{Subsidies}$

**31. Option (1) is correct.**

**32. Option (3) is correct.**

*Explanation:* The elastic demand curve for luxuries is flatter than normal because the coefficient of elasticity is always greater than one.

Hence, the reason is wrong as it says, the coefficient of elasticity ranges between 0 and 1. The assertion is correct.

**33. Option (3) is correct.**

*Explanation:* The functional relationship between output and cost of production is given by cost function.

$$C = F(Q)$$

Because cost is dependent on output. As output changes, cost also changes.

**34. Option (4) is correct.**

*Explanation:* It embodies the highest amount of skilled and unskilled labor that can be employed within an economy at any given time.

**35. Option (3) is correct.**

*Explanation:* A customer purchases each commodity until the MU per rupee spent on it is equal to the MU per rupee spent on another good. A customer cannot shift a rupee of expenditure from one commodity to another and raise his utility while this condition is met. This law is the law of equi-marginal utility.

**36. Option (3) is correct.**

*Explanation:* The economy entered a period of stagnation in 1970 and after Mao Zedong's death, the communist party leadership chose to shift to market-oriented reforms to revive the economy.

**37. Option (2) is correct.**

*Explanation:* People's sense of material well-being is referred to as welfare. It is dependent on the availability of products and services for consumption per person. When GDP rises, the flow of goods and services increases.

**38. Option (3) is correct.**

*Explanation:* Fiscal deficit is defined as the amount of borrowing the government has to resort to to meet its expenses.

**39. Option (2) is correct.**

*Explanation:* Depreciation of domestic currency refers to a fall in the value of domestic currency in terms of foreign currency caused

by a rise in the foreign exchange rate in the foreign exchange market.

**40. Option (2) is correct.**

*Explanation:* Invisible items refer to those items which cannot be seen, felt, touched or measured. For example, services of shipping, banking, insurance, etc.

**41. Option (2) is correct.**

*Explanation:* As the railways in India are operated solely by the government of India, making only one seller for it, Railways is the example of Monopoly Market.

**42. Option (2) is correct.**

*Explanation:* The Central Bank undertakes this function of being a monopolist in issuing currency to maintain uniformity of currency across the nation and to control the money supply process at a centralised level.

**43. Option (1) is correct.**

*Explanation:* Under monopolistic competition, a firm is a price maker and due to close substitutes available in the market, the demand curve is more elastic than monopoly but not perfectly elastic demand curve.

**44. Option (3) is correct.**

*Explanation:* Supply can be referred to as the total quantity of a commodity that a producer is willing and able to offer for sale at a given price during a given period of time. Stock refers to the total quantity available with the seller to be sold.

**45. Option (3) is correct.**

**46. Option (4) is correct.**

*Explanation:* Economic resources are of four kinds:

- (i) Natural (air, water)
- (ii) Capital (machines)
- (iii) Human (labour)
- (iv) Entrepreneurial (a person who bears the risk and integrates all other resources to produce output.)

Hence, we can say that all of the above-mentioned resources are kinds of economic resources.

**47. Option (2) is correct.**

*Explanation:* The income of the consumers remains unchanged. This is one of the assumptions required for the law of demand to hold true. Law of demand follows the assumption that the commodity should be a normal good. Therefore, the reason is the correct statement, but the assertion is the wrong statement.

**48. Option (2) is correct.**

*Explanation:* A leftward shift in the demand curve indicates a decrease in demand because consumers are purchasing fewer products for the same price. Therefore, when the prices of complementary goods increase, demand decreases.

**49. Option (1) is correct.**

*Explanation:* Contraction of demand means movement along a demand curve. In this, the consumer moves to the left or upwards on the same demand curve.

**50. Option (3) is correct.**

*Explanation:* The price elasticity of demand for a good depends on the nature of the good and the availability of close substitutes of the good. Consider, for example, necessities like food. Such goods are essential for life and the demands for such goods do not change much in response to changes in their prices.