INDIAN SCHOOL AL WADI AL KABIR

Class: XI	Department: Commerce
Worksheet: 1	Topic: The Theory of Consumer Behaviour and Demand

1. Who propounded the ordinal utility theory?
   (a) Marshall
   (b) Pigou
   (c) Hicks and Allen
   (d) Ricardo

2. Consumer's equilibrium takes at a point where:
   (a) MU = Price
   (b) MU < Price
   (c) MU > Price
   (d) None of these

3. If a commodity is available for free, how many unit's consumer should consume to be in equilibrium using one-commodity case of cardinal utility approach?
   (a) 5 units
   (b) 10 units
   (c) Till MU becomes zero
   (d) Can't be determined

4. Decreasing slope of indifference curve is explained by:
   a. Law of diminishing marginal returns
   b. Law of diminishing MRS
   c. Law of demand
   d. Law of constant MRS

5. Which of the following concepts is true?
   a. The ability to satisfy the human wants in a good or service is called its satisfaction
   b. The ability to satisfy the human wants in a good or service is called its productivity
   c. The ability to satisfy the human wants in a good or service is called its profitability
   d. The ability to satisfy the human wants in a good or service is called its utility

6. What does the term 'marginal' in economics mean?
   a. Additional
   b. Unimportant
   c. Minimum unit
   d. None of the above

7. A consumer is in equilibrium when the marginal utilities are ___________
   a. Increasing
   b. Equal
   c. Minimum
   d. Highest

8. Who was the one who coined the term “utility”?
   a. Pigou
   b. Marshall
   c. Hicks
   d. Samuelson

9. What is the most important factor in determining demand?
   a. Availability of adequate resources
   b. Desire to consume
   c. Willingness to consume
   d. All of the above

10. What is the cause of the shift in demand?
    a. Change in price of related goods
    b. Population increases
    c. Change in consumer’s income
    d. All of these

11. The ordinal utility notion expresses utility in terms of:
    a. level of satisfaction
    b. Constants
    c. Units
    d. none of these

12. When the following conditions are met, total utility is at its peak:
    a. The marginal utility is Zero
    b. The average utility is maximum
    c. The average utility is Zero
    d. Marginal utility is maximum

13. When the price of commodities ‘X’ declines, increasing in demand for goods ‘Y,’ both goods are:
    a. Complementary goods
    b. Substitute goods
    c. Not related
    d. Competitor

14. The line that depicts all different combinations of two things that a consumer can buy by spending all of his income, given the money income and the price, is called:
    a. production line
    b. iso-cost line
    c. price ratio
    d. budget line

15. If the quantity demanded of a commodity is unresponsive to change in prices, then the demand of that commodity is ________.
    a. Perfectly inelastic
    b. Elastic
    c. Unit elastic
    d. Inelastic

16. When the elasticity of demand for a commodity is very low, it shows that the product ___
    a. Has little importance in the total budget
    b. Is a luxury
    c. Is a necessity
    d. None of the above

17. For a particulate product, price was reduced from Rs 50 per unit to Rs 48 in order to attract More customers. It was observed that demand for the product subsequently increased from 100 to 110 units. Calculate the price elasticity of demand

18. Find the income elasticity of demand for a consumer if his income rises from Rs 100 to Rs 200 and the quantity of a good purchased by him rises from 25 units to 30 units.

19. The quantity demanded of a commodity increases from 8000 units to 10,000 units due to Increase in advertisement expenditure from Rs 6000 to Rs 12000. Find the promotional elasticity of demand

Assertion-Reasoning Questions

There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true, but Reason (R) is false

(d) Assertion (A) is false, but Reason (R) is true

1. **Assertion (A):** The slope of demand curve describes consumer behaviour
   Reason (R): The consumer increases his or her quantity demanded as the price goes up.
   A: c
2. **Assertion (A)**: Unequal distribution of income shifts the demand curve to its left
   Reason (R): If there is unequal distribution of income, all sectors of society will not be able to demand goods and services
   A: a
3. **Assertion (A):** According to LDMU, MU diminishes as we continuously consume the standard units of a commodity
   Reason (R): As we increase the consumption of a commodity, the intensity of desire to have that commodity increases.
   A:c
4. **Assertion (A):** The slope of indifference curve is different at different points of the curve
   Reason (R): It happens because slope of indifference curve is measured by marginal rate of substitution, which diminishes along the curve
   A: a

CASE BASED QUESTIONS:

Read the following Case Study carefully and answer the questions on the basis of the same:

If our income rises, we generally tend to buy more of the goods. More income would mean more pens, more shirts, more shoes, more cars and so on. But there are exceptions. If initially, you are buying coarse grain, how would you take your increase in income now? Perhaps, as a first step, you would discard the consumption of inferiors. Surely, this happens in the deserts of Rajasthan where the rich minority eats wheat while the poor majority eats Bajra as their staple food.

1. The law of demand does not apply to ___________________ goods. (Normal/ Giffen)
2. Inferior goods are those whose income effect is______________. (Negative/ Positive)
3. A fall in income of the consumer (in case of normal goods) will cause
   a. Upward movement on the demand curve.
   b. Downward movement on the demand curve
   c. Rightward shift of the demand curve
   d. Leftward shift of the demand curve
4. As a result of rise in consumer's income, the demand curve for coarse-grain (inferior good)
   a. Becomes a horizontal straight line
   b. Becomes a vertical straight line
   c. Shifts to the right
   d. Shifts to the left

Answer Key:
a. Giffen
b. Negative
c. Leftward shift of the demand curve
d. Shifts to the left

1. Causes of Downward Sloping of Demand Curve:

- Law of diminishing the marginal utility
- Substitution effect
- Income effect
- New buyers
- Old buyers

1. Law of diminishing the marginal utility

The law of diminishing marginal utility states that with each increasing quantity of the commodity, its marginal utility declines.
For example, when a person is very hungry the first chapatti that he eats will give him the most satisfaction. As he will consume more chapattis, his level of satisfaction will diminish.
Thus, when the quantity of goods is more, the marginal utility of the commodity is less. Thus, the consumer is not willing to pay more price for the commodity and its demand will decline.
Also, when the price of the commodity is low, its demand increases.
Hence, the demand curve slopes downwards from left to right.

2. Substitution effect

Let us understand this with an example. Tea and coffee are substitute goods. If the price of tea rises, consumers will shift to coffee.
This will decrease the demand for tea and increase the demand for coffee. Thus, the demand curve of tea will slope downwards.

3. Income effect
Income effect refers to the change in the real income or the purchasing power of the consumers. When the price level falls the purchasing power of the consumer's increases and they buy more goods. Similarly, when the price level rises, the purchasing power of the consumer's decreases and they buy less quantity of goods.
4. New buyers
Due to the fall in the prices of a commodity new buyers get attracted towards it and buy it. Thus, this increases the demand for the commodity.
5. Old buyers
When the prices of the goods fall the old buyers tend to buy more goods than usual thereby increasing its demand. This causes the downward sloping of demand curve.

2. What happens to the budget set if both the prices as well as the income double?
Answer: There will be no change in the budget line. Let us understand this with the help of an example: Suppose, the price of goods 1 rises from Rs 4 to Rs 8 and that of goods 2 rises from Rs 5 to Rs 10. Income also rises from Rs 20 to Rs 40. With double increase in prices and income, intercepts on both X-axis and Y-axis will remain unchanged at 5 units (goods 1) and 4 units (goods 2) respectively. Slope of budget line will also remain the same. Therefore, there will be no change in the budget set and the budget line.

3. State the Law of Demand. Is there any exception to the law?

Exception to the law:

a. A Giffen good is considered to be an exception of law of demand. The unique features of a Giffen good results in quantity demanded increasing where there is an increase in price.
b. Veblen goods, i.e: conspicuous Consumption, i.e: they are goods that people buy more of when or if the price increases. These goods tend to be status symbols and displays wealth eg: diamonds, Rolls Royce cars, Patek Phillipe watches.

4. Explain the inverse relationship between price and quantity demanded of a commodity.

when the price of a good falls it has following two effects that lead a consumer to buy more of that commodity.

a. Income effect:
When the price of a commodity falls, the real income of the consumer increases. As a result, he can now buy more of a commodity. This is called income effect.
b. Substitution effect:
When price of a commodity falls, it becomes relatively cheaper than others. This induces the consumer to substitute the relatively cheaper commodity for the other good which is relatively expensive. This is called substitution effect.
Thus, as a result of the combined operation of the income effect and substitution effect, the qnty demanded of a commodity increases with a fall in the price of the given commodity and vice versa, provided other things remaining the same.

5. Explain how rise in income of a consumer affects the demand of a good. Give examples.

The rise in the income of the consumer affects the demand of a good in the following ways:

a. Normal goods:
In case of any normal good, like wheat, rice, any increase in the income of the buyer increases his demand for that commodity - causing the demand curve to shift towards right. There exists direct relationship between income and demand for normal good.
b. Inferior goods:

In case of inferior goods, there is inverse relationship between the income of the buyer and his demand for inferior goods. With the increase in income the demand curve of inferior good like bajra shifts left wards (draw the graphs)

6. Why is price elasticity of demand has negative sign always?
   Price elasticity of demand is generally negative because of the inverse relationship between Price and Quantity demanded