

THEORY PROGRAM

**FORTNIGHTLY REVIEW [FNR]**

Suggested 'Answers'

FNR: 07

Issued on:

AL - 2023

Due on:

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

**Part [A]**

Question	Answer	Question	Answer
01	4	13	1
02	3	14	2
03	1	15	2
04	1	16	3
05	4	17	1
06	2	18	3
07	4	19	4
08	3	20	2
09	4	21	3
10	1	22	2
11	3	23	3
12	2	24	4
		25	2

**Part [B]****Question [01]**

Fill in the blanks.

- Pairs of goods for which a price increase in one causes an increase in the demand for the other are called **substitutes**.
- When the **quantity demanded** is equal to the **quantity supplied** the price is an **equilibrium** price.
- Price serves as a **rationing** mechanism by removing from the market those who are **less willing** to purchase the good.
- The market demand for a good is calculated by **summing** all of the **individual** demand curves of consumers in the market.

**[02 marks each, total 08 marks]**

**Question [02]**

**(02) The following diagram represents the demand for fruit snacks. Refer the diagram to identify the movements which reflect the given situations.**

1. Which movement reflects an increase in demand?	From point <b>a</b> to point <b>d</b>
2. Which movement reflects a decrease in demand?	From point <b>a</b> to point <b>c</b>
3. Which movement reflects a decrease in quantity demanded but not a decrease in demand?	From point <b>a</b> to point <b>e</b>
4. Which movement reflects how consumers would react to an increase in the price of a non-fruit snack?	From point <b>a</b> to point <b>d</b>
5. Which movement reflects an increase in the price of a substitute for fruit snack?	From point <b>a</b> to point <b>d</b>
6. Which movement reflects an increase in the price of a complement for fruit snack?	From point <b>a</b> to point <b>c</b>
7. Which movement reflects how consumers would react to an increase in the price of a fruit snack that is expected to occur in the future?	From point <b>a</b> to point <b>d</b>
8. Which movement reflects an increase in income if fruit snacks are an inferior good?	From point <b>a</b> to point <b>c</b>
9. Which movement reflects an increase in income if fruit snacks are a normal good?	From point <b>a</b> to point <b>d</b>
10. Which movement reflects a decrease in population?	From point <b>a</b> to point <b>c</b>

**[02 Mark each, Total 20 marks]**

**Question [03]**

**What is meant by 'Law of Demand' and State the essential assumptions made in deriving the law of demand**

**[06 marks]**

The law of demand is the negative or inverse relationship between price and quantity demanded of a given product when all non-price factors affecting demand remain constant, at a given point of time.

**[02 marks]**

The indirect relationship between price of a normal good and its quantity demand can be justified using two main factors (sub effects) namely,

- The substitution effect of a change in price
- The income effect of a change in price

[01 mark each, subtotal 02 marks]

The law of demand is derived based two fundamental and essential assumptions namely,

- The non-price factors affecting demand are held constant
- The relationship between price and quantity demanded is analysed at a given point of time

[01 mark each, subtotal 02 marks]

[Total 06 marks]

**Question [04]**

**State four specific factors which could lead to a decrease in the demand for chicken/ poultry as a protein-based food item by a rational consumer**

- Decrease in the price of substitutes such as caned fish, fish, sprats, eggs and soy etc.
- Decrease in consumer income
- Negative perception on the health impact of consuming chicken
- Increase in the price of complements such as price of cooking fuel, coconut, spices, oil etc.

[01 mark each, max 04 marks]

**Question [05]**

**Match the key terms given below with the most suitable statement.**

A - Statements	B – Key Terms
A good whose demand increases when income increase.	Normal good
Hypothetical units for measuring utility.	Utils
Inverse relationship between price and quantity demanded.	Law of demand
Goods that can replace each other.	Substitute goods
Goods that are used together.	Complementary goods
The quantity of goods that must be given up to obtain a good.	Opportunity Cost

[02 marks each, total 12 marks]

