

THEORY PROGRAM

FNR - SUGGESTED ANSWERS

FNR: 01

Discussed on:

AL - 2024

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

Question	Answer	Question	Answer
01		10	
02		11	
03		12	
04		13	
05		14	
06		15	
07		16	
08		17	
09			

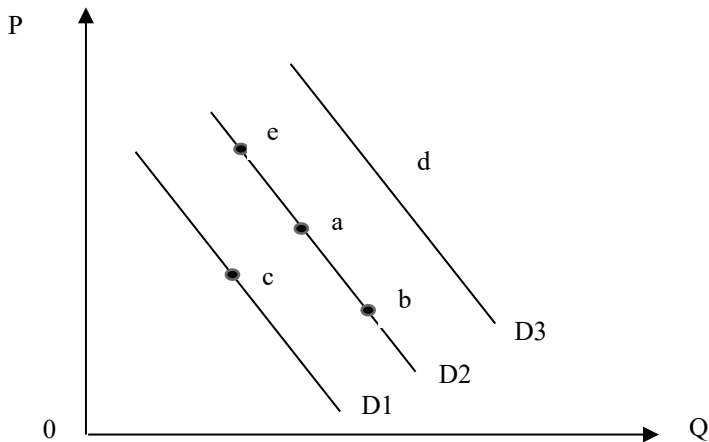
State whether the following statements are True (T) or False (F) (01 mark each)

Scarcity exists even in very rich societies.	True
People's wants are small compared to the production capacity of a large modern economy such as that of the United States.	False
Every time a scarce good is used, an opportunity cost is involved.	False
The use of skilled labor to produce automobiles may involve an opportunity cost	True
Bubble gum is not a scarce good, because I can get as much of it as I want.	False
Economists regard natural resources as gifts of nature.	False

Part – [B]

Question [01]

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?	
2. Which movement reflects a decrease in demand?	
3. Which movement reflects a decrease in quantity demanded but not a decrease in demand?	
4. Which movement reflects how consumers would react to an increase in the price of a non-fruit snack?	
5. Which movement reflects an increase in the price of a substitute for fruit snack?	
6. Which movement reflects an increase in the price of a complement for fruit snack?	
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?	
8. Which movement reflects an increase in income if fruit snacks are an inferior good?	
9. Which movement reflects an increase in income if fruit snacks are a normal good?	
10. Which movement reflects a decrease in population?	

[02 Mark each, Total 20 marks]

Question [02]

What is meant by demand in economics [02 marks]

Demand in economics is essentially effective demand. Demand represents the quantities of a given product, a consumer(s) operating in the market want, have the purchasing power and planning to purchase, at alternative prices in the market, when other factors affecting demand remain constant during a given period of time.

[02 marks]

Question [03]

What is meant by ‘Law of Demand’ and state the essential assumptions made in deriving the law of demand

[04 marks]

The law of demand is the negative or inverse relationship between price and quantity demanded of a given product when all other factors (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 the ‘Price Effect’, which is a combination of two 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 factors other than the given product’s price or 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]

END OF FNR [01]