THEORY PROGRAM **FNRV – SUGGESTED ANSWERS**	FNR: **04**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

Question	Answer	Question	Answer
01		**11**	
02		**12**	
03		**13**	
04		**14**	
05		**15**	
06		**16**	
07		**17**	
08		**18**	
09		**19**	
10		**20**	

Part – [B]

Question [01]

(I) Use the graph you created to answer the following questions. [05 Marks]

A. The demand curve shows that at a price of Rs. 700 Mr. A will by **_ _ 1 _ _ _** music download(s), and at a price of Rs. 100, he will buy **_ _ _ 7 _ _ _** music download(s).

B. Mr. A's buying behaviour demonstrates the law of **demand.**

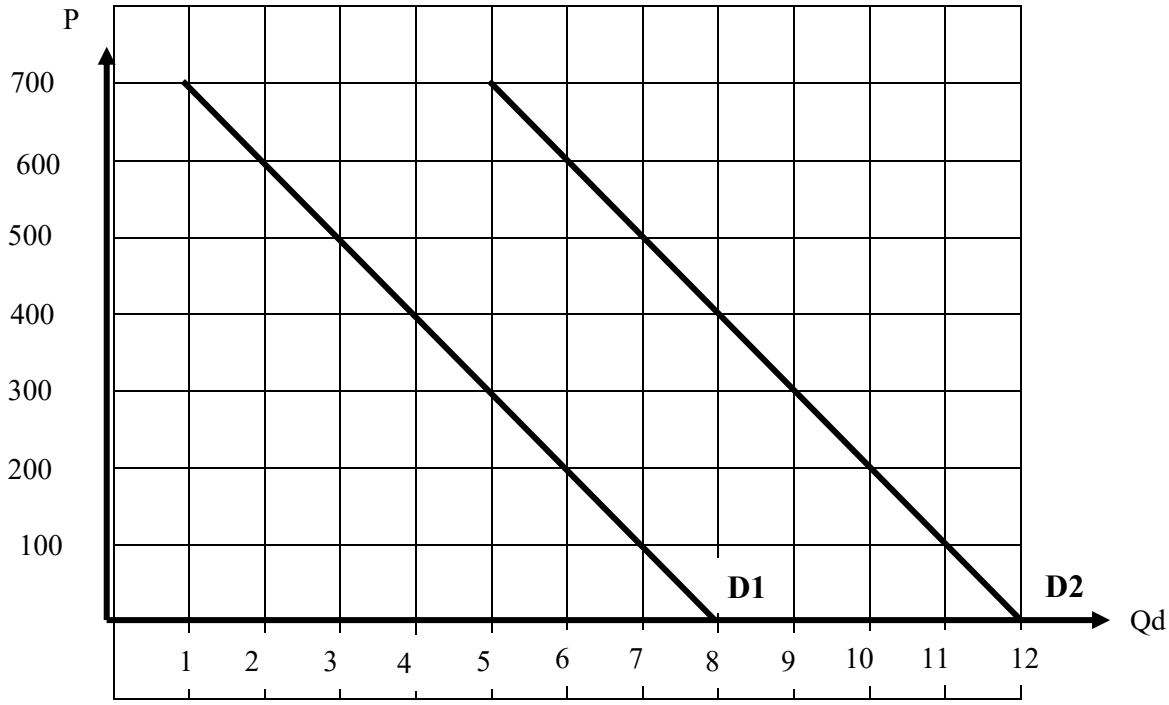
C. Mr. A's change in buying behaviour at different prices is a change in **quantity demanded.**

D. Mr. A is not willing to pay Rs.700 for every download because his utility (satisfaction) decrease as he downloads more and more music. Economists call this concept the law of **diminishing marginal utility.**

E. Accordingly, the slope of this demand curve is always **inverse/ negative/ indirect** relationship between price and quantity demanded.

(01) Use the demand schedule below to create a demand curve for Mr. A's consumption of music downloads. Label the curve D1.

[04 Marks]



(II) Mr. B's demand curve drawn as shown in the <u>above</u> diagram. [02 Marks]

(III) Use the graph with both Mr. A's and Mr. B's demand curve to answer the following questions. [03 Marks]

A. Mr. B's demand curve is to the **<u>right/outside</u>** of Mr. A's demand curve.

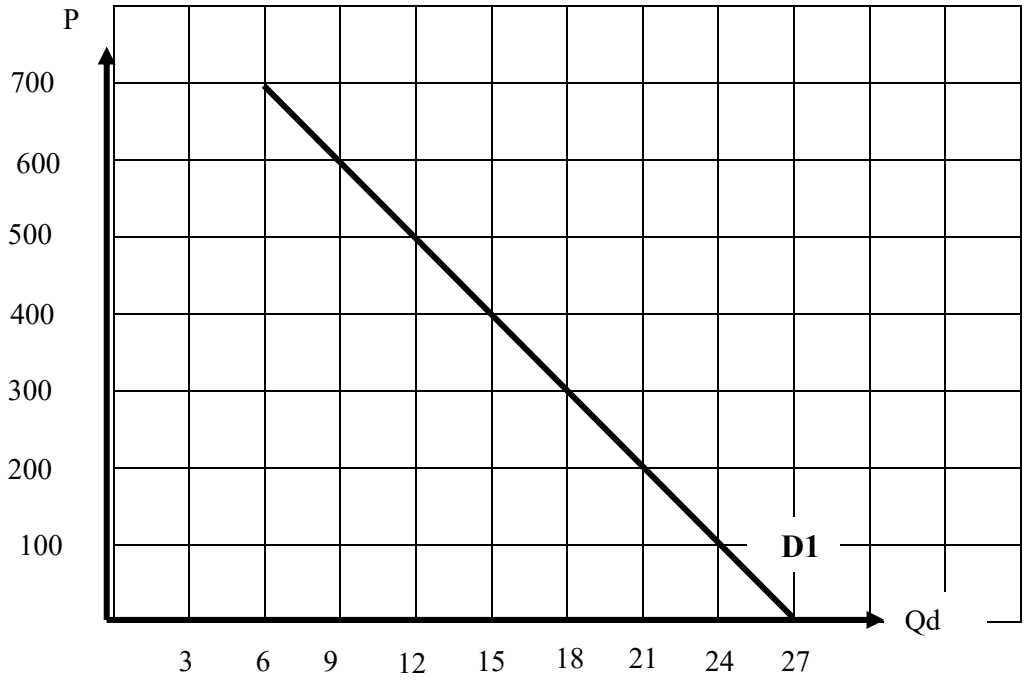
B. For each of the listed prices, Mr. B is willing to and able to buy **<u>more</u>** music downloads than Mr. A and at each possible quantities he is willing and able to pay a **<u>higher</u>** price than Mr. A.

C. The demand curves you created on the grid are **<u>individual</u>** demand curves.

(IV) If Mr. A and Mr. B are the only buyers of music downloads, complete the market demand schedule. [03 Marks]

Market Demand Schedule for Music Downloads							
Price	700	600	500	400	300	200	100
Qd (Units)	**6**	**9**	**12**	**15**	**18**	**21**	**24**

[03 Marks]



[03 Marks] [Total 06 marks]

Question [02]

(A) Define Income Elasticity of Demand (YED) and outline the implications based on the YED coefficient

Income Elasticity of Demand (YED) measures the responsiveness or sensitivity of quantity demanded of a given product to a relative change (or proportionate change) in consumer income, while all other factors (or all factors other than own price) are held constant. The YED is estimated based on the following formula:

(02 marks)

Based on the YED coefficient the following product categories and subcategories can be identified:

(1) Positive YED Coefficient: Normal Goods

- Positive and Elastic (YED > 1): Luxury or Superior Goods
- Positive and Inelastic (YED < 1): Essential or Basic Goods

(2) Negative YED Coefficient: Inferior Goods

(03 marks) (Total 05 marks)

(B) Define Cross Price Elasticity of Demand (CPED) and outline the implications based on the CPED coefficient

[05 marks each]

Cross Elasticity of Demand (XED) or Cross Price Elasticity of Demand (CPED) measures the responsiveness or sensitivity of quantity demanded of a given product to a relative change (*or proportionate change)* in the price of another product, while product's own price and other factors are held constant.

$$\textbf{Cross Price Elasticity of Demand (CPED)} = \frac{\textbf{Percentage change in Quantity Demanded of Good (X)}}{\textbf{Percentage change in Price of Good (Y)}}$$

(02 marks)

Based on the XED coefficient the following product categories and subcategories can be identified:

(1) Positive XED Coefficient: Substitute Goods

- Positive and Elastic (XED > 1): Close Substitute Goods
- Positive and Inelastic (XED < 1): Distant Substitute Goods

(2) Negative XED Coefficient: Complementary Goods

(03 marks) (Total 05 marks)