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Business Economics &Environment

Ques- Define of Economics.

Ans.: The term economics is derived from two Greek words "OIKOS" and "NEMEIN" meaning the role or law of the household. Economics is the study of now people and society, choose to employ Scarce resources with or without the use of money, that could have Alternative ;uses in order to productive ;various commodities and to Distribute them for consumption, now or in the future among various Persons and groups in society.

Ques- How Economics is a Science and Arts?

Ans.: The term science has been defined as the systematized body of Knowledge, which traces the relationship between cause & effect. Applying this definition to economics we find that economics is that Branch of knowledge where the various facts relevant to it have been

Systematically collected, classified and analyzed. An arts is a system of rules for the attainment of a given end. An art is Application of knowledge and practical application. Economic has all these Feature of being an art

Ques.What is Demand?

Ans.: Meaning : The demand for any commodity at a given price is the quantity of it which will be bought per unit of time at that price.

Elements of Demand : According to the definition of demand here are three elements of demand for a commodity :-

(i) There should be a desire for a commodity.

(ii) The consumer should have money to fulfill that desire.

(iii) The consumer should be ready to spend money on that commodity. Thus we can define demand as the desire to buy a commodity which is backed by sufficient purchasing power and a willingness to spend.

Ques.What are the Determinants of Demand?

Ans.: There are many economic, social and political factors which greatly influence the demand for a commodity. Some of these factors are discussed below :

(1) Price of the Commodity

(2) Price of Related Goods

(i) Complementary Goods

(ii) Substitute Goods

(3) Level of Income and Wealth of the Consumer

- ***(i) Necessaries***
- ***(ii) Inferior goods***
- ***(iii) Luxuries***

(4) Tastes and Preference

(5) Government Policy

(6) Other Factors :

- ***(i) Size and Composition of Population***
- ***(ii) Distribution of Income and Wealth***
- ***(iii) Economic Fluctuations***

Ques.What is the Law of Demand?

Ans.: The law of demand states that, other things being equal, the demand for a Good increases with a decrease in price and decreases in demand with a Increase in price.

The term other things being equal implies the prices of related goods, Income of the consumers, their tastes and preferences etc. remain constant.

Ques. Why do Demand Curve slopes downwards?

Ans.: Reasons are:-

(i) Law of Diminishing Marginal Utility : The law of demand is Based on the law of diminishing marginal utility which states that As the consumer purchases more and more units of a commodity, The satisfaction derived by him from each successive unit goes on Decreasing. Hence at a lesser price, he would purchase more. Being A rational human beings the consumer always tries to maximize his Satisfaction and does so equalizing the marginal utility of a Commodity with its price i.e. Mux = px.

It means that now the consumer will buy additional units only When the price falls.

(ii) New Consumers : When the price of a commodity falls many Consumers who could not begin to purchase the commodity

e.g. Suppose when price of a certain good „x" was Rs. 50 market Demand was 60 units now when the price falls to Rs. 40, new Consumers enter the market and the overall market demand rises to 80 units.

(iii) Several Use of Commodity : There are many commodities which Can be put to several uses e.g. coal, electricity etc. When the prices Of such commodities go up, they will be used for important Purpose only and their demand will be limited. On the other hand, When their price fall they are used for varied purpose and as a Result their demand extends. Such inverse relation between Demand and price makes the demand curve slope downwards.

(iv) Income Effect : When price of a commodity changes, the real Income of a consumer also undergoes a changes. Hence real income Means the consumer"s purchasing power. As the price of a Commodity falls the real income of a consumer goes up and he Purchases more units of a commodity eg. Suppose a consumer Buys units wheat at a price Rs. 40/kg now, when the price falls to Rs. 30/kg. his purchasing power or the real income increase which Induces him to buy more units of wheat.

(v) Substitution Effect : As the price of a commodity falls the Consumer wants to substitute this good for those good which now Have become relatively expensive e.g. among the two substitute Goods tea and coffee, price of tea falls then

consumer substitutes tea For coffee. This is caused the „ Substitution effect‟ which makes the Demand curve sloped downwards.

In a nutshell, with a fall in price more units are demanded partly Due to income effect and partly due to substitution effect. Both of These are jointly known as the „price effect‟. Due to this negative Price effect the demand curve slopes downwards.

Ques.What are the exceptions to the Law of Demand?

Ans.: Exceptions to the law of demand refers to such cases where the law of Demand does not operate, i.e., a positive relationship is established Between price and quantity demanded.

(i) Giffen Goods : Sir Giffen made an interesting observation in 1845 During famine in Ireland. When price of potatoes went up, poor people purchased more quantity of potatoes instead of less quantity as expected from the law of demand. The reason was that between two items of food consumption meat and potatoes-potatoes were still cheaper, with the result that the poor families purchased more of potatoes and less of meat. This is known as Giffen effect which is seen in cheap necessary foodstuffs. Again, the word „Giffen‟ is not synonymous with „inferior‟. It simply refers to those goods which have a positive relationship with price.

(ii) Conspicuous Goods or Goods of Ostentation

(iii) Conspicuous Necessities

(iv) Future Expectations About Prices

(v) Change in Fashion

(vi) Ignorance

(vi) Emergency

Ques-What is Elasticity of Demand?

Ans.: Meaning : The elasticity of demand measures the responsiveness of the Quantity demanded of a good to change in its quantitative determinant.

Types Elasticity of demand are as follows :-

(i) Price Elasticity of Demand

(ii) Income Elasticity of Demand

(iii) Cross Elasticity of Demand

Ques- What is Price Elasticity of Demand?

Ans.: The Degree of responsiveness of the quantity demanded of a good to a Change in its prices of goods.

Methods to measures the elasticity of demand.

(1) % or Proportionate Method

(2) Total Outlay or Total Expenditure Method

(3) (3) Point Elasticity or Geometric Method

(4) Arc Elasticity Method