

Subject: ECO-12 (Principles of Microeconomics)
Topic: Demand and Supply

Q.1. Define demand and explain the law of demand.

Answer:

Demand refers to the quantity of a commodity that a consumer is willing and able to purchase at different prices during a specific period of time. The law of demand states that, ceteris paribus, as the price of a good rises, the quantity demanded falls, and vice versa. This negative relationship between price and quantity demanded is represented by a downward-sloping demand curve.

Q.2. Explain the concept of price elasticity of demand.

Answer:

Price elasticity of demand measures the responsiveness of quantity demanded to a change in price. It is calculated as:

Price Elasticity of Demand (PED) = % Change in Quantity Demanded / % Change in Price

If $PED > 1$, demand is elastic; if $PED < 1$, demand is inelastic; if $PED = 1$, demand is unitary elastic. Elastic demand indicates that consumers are highly responsive to price changes, while inelastic demand indicates low responsiveness.

Q.3. What factors affect the supply of a commodity?

Answer:

The main factors affecting supply are:

Price of the commodity

Production cost

Technology used

Prices of related goods

Government policies (taxes, subsidies)

Expectations about future prices

Q.4. Explain the law of supply.

Answer:

The law of supply states that, ceteris paribus, as the price of a good increases, the quantity supplied increases, and as the price falls, the quantity supplied decreases. This positive relationship between price and quantity supplied is represented by an upward-sloping supply curve.