

Ans (1.) A production possibility curve is downward sloping because to increase the production of one good the production of another good is to be decreased as the resources are limited and given.

Ans (2.) In this stage, TP increases but at a diminishing rate because MP falls as additional factors are employed.

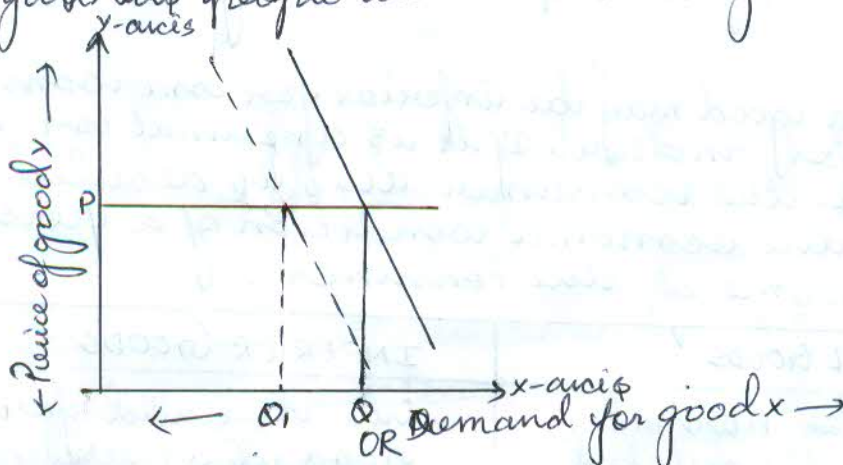
Ans (3.) It is the fixed cost because rent has to be paid even if the office remains closed due to some reason.

Ans (4.) change in taste and preferences of people, giffens good, future price changes, items of necessity etc cause the perception to law of demand.

Ans (5.) SUBSTITUTE GOODS

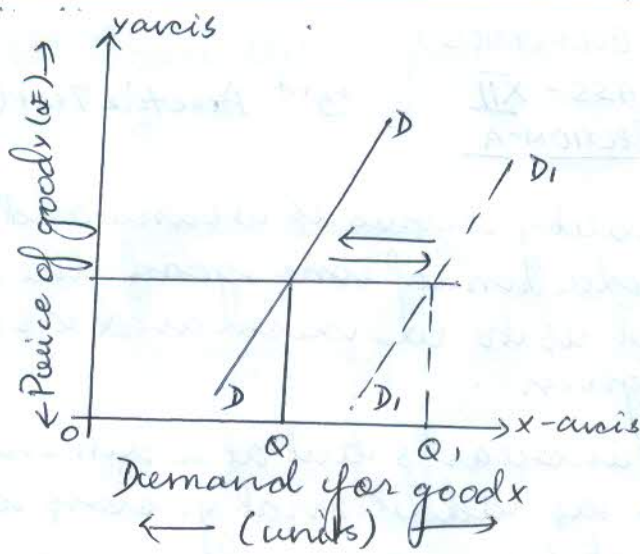
These are those goods which can be used in place of each other; for e.g. tea and coffee or ball pen and ink pen. In such cases increase in price of one good causes increase in demand for another good and vice-versa.

If good x and good y are substitute goods. Then fall in price of good x will result to increase in demand for good y as people will substitute good y with good x.



COMPLEMENTARY GOODS

These are those goods which complete the demand for each other i.e. they are used together. For e.g. pen and ink, bread and butter, car and petrol. In case of the complementary goods a fall in price of one good causes increase in demand of other good and vice versa in price of one causes decrease in demand for other good. If good x and y are complementary goods, then fall in price of good x will result to an increase in demand for good y.



- Ans (6.) The production possibility curve will rotate outward under the following conditions -
- (i) Improvement in technology in favour of one commodity
 - (ii) Growth of resources for the production of one commodity.

OR

- The production possibility curve will rotate inward under the following conditions -
- (i) Degradation of technology of one commodity
 - (ii) Fall in resources for the production of one commodity.

Ans (7.) Yes, it is true a good may be inferior for one consumer and normal for another. If it is a normal one is an inferior good for the consumer this is decided or depends upon the economic condition of a person or level of income of the consumer.

NORMAL GOODS

1. The demand for normal goods is directly related with income. Increase in income leads to an increase in demand for these goods and vice-versa.

2. The demand curve for normal goods shifts rightwards with increase in income and leftward with decrease in income.

INFERIOR GOODS

The demand for inferior good is inversely proportional related to income of the consumer. With the increase in income of the consumer the demand for inferior good decrease and vice-versa.

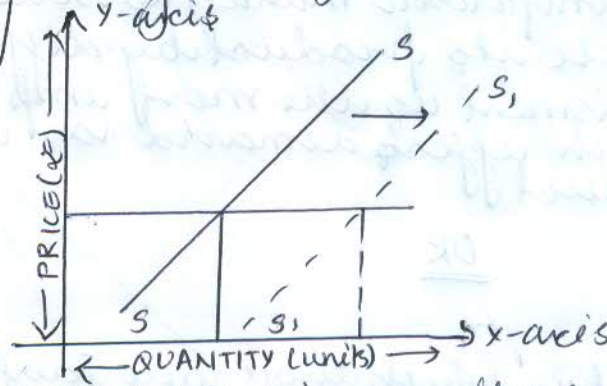
The demand curve for inferior good shifts rightward with decrease in income and shifts leftward with increase in income of the consumer.

The goods have a positive income effect

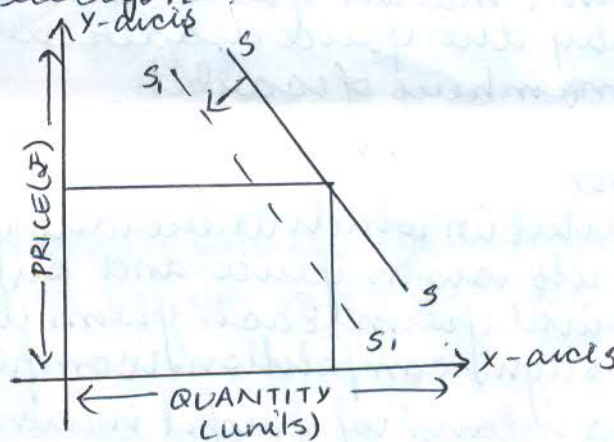
The goods have a negative income effect

Ans (8)

(i) If price of factor of input falls, the production of a commodity increases due to higher profit margin. Because of this, supply also increases. Thus, the supply curve shifts downward or rightward. As it is shown in the following diagram



(ii) When price of good (substitute) rises the supply of commodities falls and supply curve will shift in upward or downward direction



Ans (9) Main features of monopolistic market are -

(a) Large No. of Buyers and Sellers.

There are large no. of firms but not as large as under perfect competition. That means each firm can control its price and output policy to some extent. It is assumed that each firm follows an independent price policy.

(b) Free Entry and exit of firms.

Like perfect competition under monopolistic competition also the firm can enter or exit freely, the firm will enter when existing firms are making supernormal profit. With entry of new firms the supply would increase which would reduce price and hence, the existing firms will be left with normal profit. Similarly if existing firms are sustaining losses some of marginal firms will exit. It will reduce supply due to which price will rise and firms will start earning normal profit.

