

Descriptive Questions from Chapter 3: Demand and Supply (Lectures 5, 6 and 6b)

1. Explain the meaning of Demand in Economics. What does the Law of Demand state?
2. What is the meaning of ceteris paribus?
3. What are the technical reasons for Demand curve to be downward sloping?
4. Clearly state the difference between Change in Quantity Demanded and Change in Demand (use the help of appropriate diagrams).
5. Explain the causes for shift in demand curve.
6. What are Normal, Inferior and Neutral Goods? Explain using examples and appropriate diagrams.
7. What are Substitutes and Complements? Explain using examples and appropriate diagrams.
8. Explain the meaning of Supply in Economics. What does the Law of Supply state?
9. Under what two circumstances does the Law of Supply not hold?
10. Clearly state the difference between Change in Quantity Supplied and Change in Supply (use the help of appropriate diagrams).
11. Explain the causes for shift in supply curve.
12. What effect do taxes have on supply? Explain using examples and diagrams.
13. What effect do subsidies have on supply? Explain using examples and diagrams.
14. How does a market naturally attain equilibrium when it is in a shortage?
15. How does a market naturally attain equilibrium when it is in a surplus?
16. What are the definitions of Consumer Surplus and Producer Surplus? Explain using appropriate diagram.
17. What happens when the government imposes a price ceiling? Use examples and diagram to explain.
18. What happens when the government imposes a price floor? Use examples and diagram to explain.

Conceptual Questions

1. Given below is the Demand and Supply schedule of Product X.
 - a. Plot the Demand and Supply curves on the same graph (on the same grid).

Price of Product X (\$)	Quantity Demanded	Quantity Supplied
1	10	2
2	8	4
3	6	6
4	4	8
5	2	10

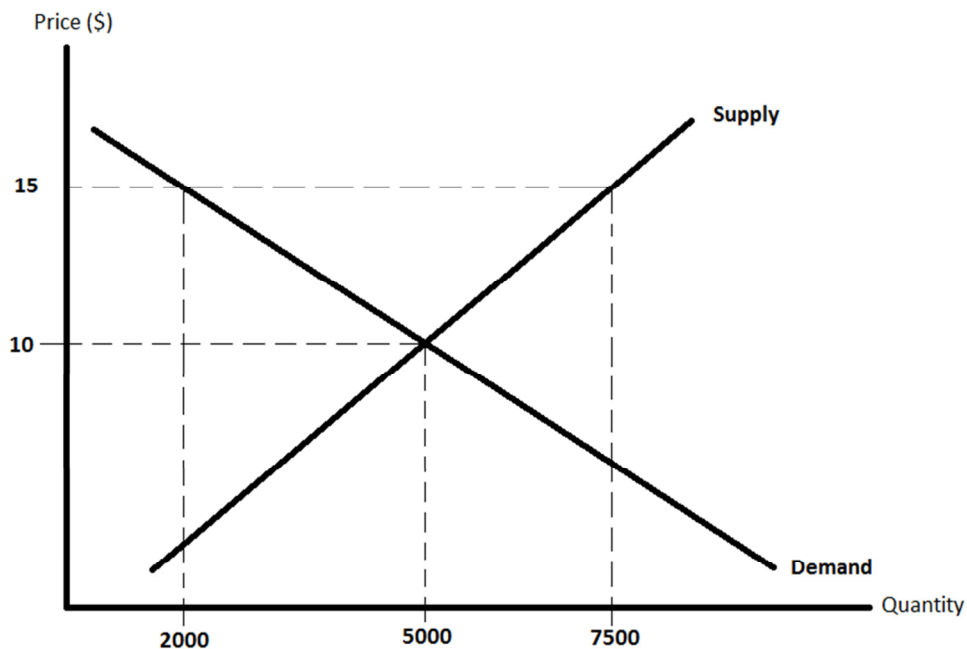
- b. Indicate on the graph at what price and what quantity the market attains Equilibrium.
2. Plot the Market Demand Curve for Product Y by horizontal summation of individual consumers' demand curves.

Price of Product Y (\$)	Quantity Demanded for Kay	Quantity Demanded for Jay	Quantity Demanded of All Other Consumers
1	12	8	30
2	9	6	25
3	6	4	20
4	3	2	15

3. Mr. Ahmed needs to travel to and fro from the city center 20 times in a regular month. In 2011, Mr. Ahmed's salary was TK. 40,000/month. In 2011, he took the public bus to travel to the city center 15 out of 20 times in a month and he availed a scooter-taxi the remaining 5 times. In 2012, Mr. Ahmed's income increased to TK. 60,000/month. In

2012, he traveled to the city center via public bus 10 out of 20 times in a month and availed a scooter-taxi the other 10 times.

- a. Is traveling by public bus an inferior/normal/neutral good for Mr. Ahmed?
 - b. Is traveling by scooter-taxi an inferior/normal/neutral good for Mr. Ahmed?
 - c. Sketch an appropriate diagram to indicate what happens to Mr. Ahmed's Demand Curve for public bus between 2011 and 2012.
 - d. Sketch an appropriate diagram to indicate what happens to Mr. Ahmed's Demand Curve for scooter-taxi between 2011 and 2012.
4. In Period I, the price of toasters was TK. 3000 in the market. The price of a packet of bread was TK. 50. In Period II, the price of toasters increased to TK. 5000.
 - a. What sort of relationship does toasters and bread has? Explain fully. (Hint: are they substitutes or complements)?
 - b. Based on the scenario presented above, sketch appropriate diagrams to indicate the effect on the demands of toasters and bread between Period I and Period II.
 5. Suppose the government imposes a business tax on the production of textiles. Explain using an appropriate diagram the effect of this business tax on the supply of textiles?
 6. The following graph presents the Demand and Supply curves of Product QRS:



- a. Explain what happens when the market price is \$15.
 - b. How does the market naturally attain equilibrium position from \$15?
7. In 2007, garments workers were paid about TK. 2000 per month. After prolonged strikes and complaints from the workers' union, the government mandated that garments workers cannot be paid less than TK. 5000 per month. What type of price control did the government set on the wages of garments workers? Explain using an appropriate diagram.