1. **Explain the law of demand**

The law of demand states that, other things remaining the same, the quantity Demanded of commodity is inversely related to its price. OR other things being equal, if price of a commodity falls, the quantity demanded of it will raise And if the price of the commodity rises, its quantity demanded will decline.

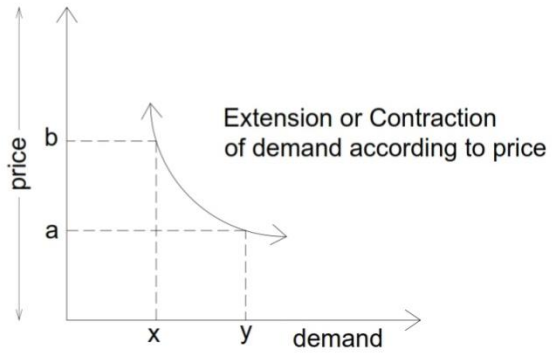
There is an inverse relationship between quantity demanded and Its price

Generally it happens that when the price of a commodity goes down, then people will demand more quantity of commodity.

For example, one may demand more numbers of ornaments when the price of ornaments is of 1000/- No. Here ornaments is of necklace or Hand lucky. But one may demand less quantity of necklace when price of the same changes from 1000/- no. to 1250/- no. with same quality and fashion and design.

Thus in general “Law of Demand” states that when other parameter remains same, if price of commodity decreases then extention of demand happens or if price of a commodity increases then contraction of demand happens in market.

Diagram



Defination :-

A. **As per Alfred Marshal**

The amount of demanded raise with fall in price or diminishes with a raise in Price.

B. **As per Paul A. Samuelson**

The law of demand states that people will buy more at a lower prices and less At higher prices, when other things remaining the same.

In general law of demand express the functional relationship.

D= f (P)

Where, P is price and

D is Quantity demanded of commodity

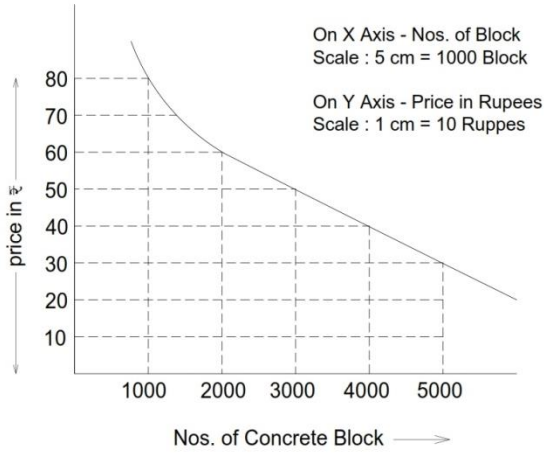
Assumptions under which the law of demand is valid

- The price of related commodity remains same.
- The size of population remains the same.
- The climate and weather conditions are same.
- The tax rates and other fiscal measures remain the same.
- There is no change in income of consumer.
- There is no change in price of product.
- There is no substitute of the commodity.
- There is no change in taste and preferences of consumers.
- There is no change in customs.
- There is no change in quality of product.

To understand the law of demand let us use the demand schedule. It is a tabular representation of various combinations of price and quantity demanded by a consumer during a particular period of time. An imaginary demand schedule is given below.

Price of concrete blocks In rupees /No	Nos of blocks order by contractor
30	5000
40	4000
50	3000
60	2000
80	1000

Diagram



When the price of concrete block was Rs.30/- per no then at that time contractor ordered 5000 numbers of block gradually as the rate of same block was rising the demand is decline previous at the rate of 30Rs/No. the demand was high. But as there is rise in price from Rs.30/No. to Rs. 40/No., Rs.50/No------- and lastly Rs. 80/No. the contractor has curtail his demand.

Hence the above table & graph shows the relation between price of blocks and number of blocks ordered or demanded by contractor.

2. **Write a short note on "Equilibrium price"**

The price at which the consumer is ready or prepared to buy the product and the Producer or seller is ready to sell the product. In economics that common price called equilibrium price.

In general case the consumer wants to pay minimum price and the seller Or producer wants to gain more profit, but both of them come to common price which is acceptable to both of them.

The scientific way to understand is as mention below

A The equilibrium price is that price at which there is no shortage or surplus unless A determinant of demand or determint of supply changes.
Here the term shortage means consumers want to buy higher quantity than the supplier supplies.

B At the time of Shortage, demand exceeds, supplier and consumer are not Satisfied.
And the term Surplus indicates that consumers buy less quantity then supplier.

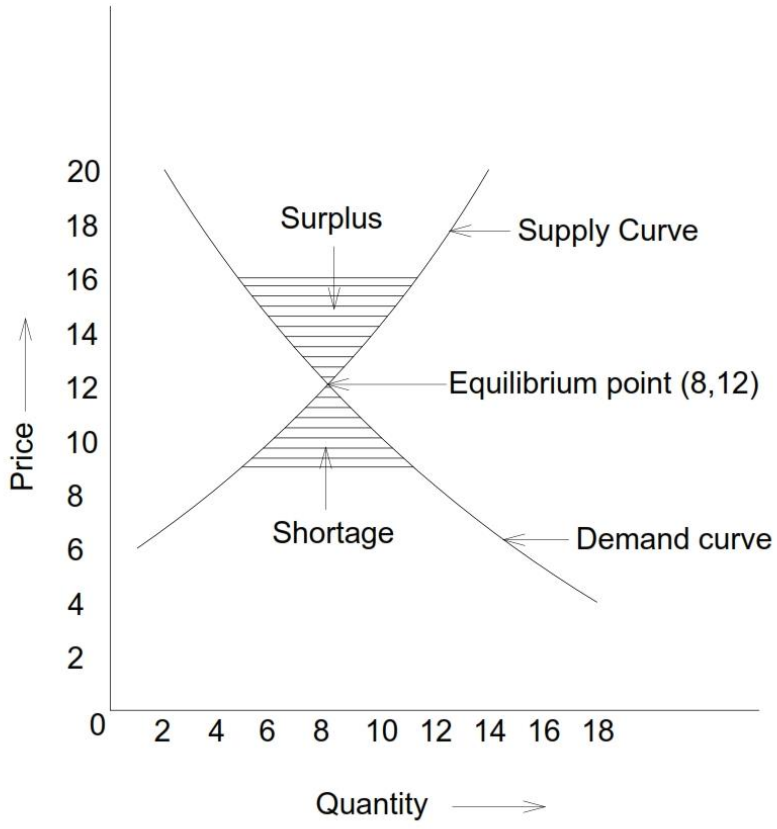
C At the time of surplus, supply exceeds the demand and so that producers or Suppliers need to lower the price of the product or the survice to avoid excessive Inventory.

Let us understand the thing, consider one example.

Price In Rs.	Demand	Supply	Surplus	Shortage
20	02	14	14 – 2 = 12	
18	03	12	12 – 3 = 09	
16	05	10	10 – 5 = 05	
14	07	09	09 – 07 = 02	
12	08	08	08 – 08 = 0	8 – 8 = 0
10	11	05		11 – 05 = 06

08	13	03		13 – 03 = 10
06	15	01		15 – 01 = 14

Diagram



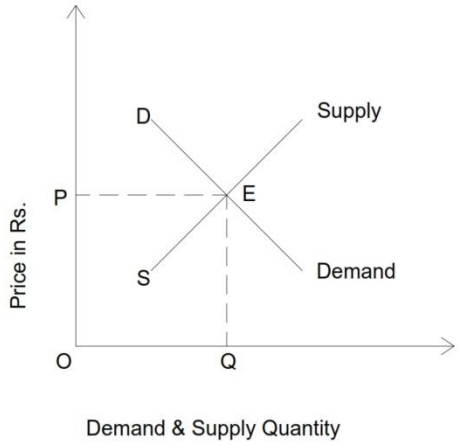
Scale on X Axis - 1 cm = 2 Unit

Scale on Y Axis - 1 cm = 2 Rs.

Conclusion of above graph & table

- At the price i.e. Rs. 12, quantity demanded and quantity supplied both are being equal.
  Hence from the table we can easily locate the equilibrium point.
- From the table, the price higher than the equilibrium price i.e12, at that time surplus happens, where supply is higher then the demand.
- From the table, the price lower then the equilibrium price i.e. Rs.12, there is shortage happens, where, demand is higher then supply.
- The equilibrium price can change in case of a technological advancement or in case of lower production cost.

Diagram
Graphical representation at a glance



DD – Indicate Demand Curve
SS – Indicate Supply Curve
E – Equilibrium Point where both DD & SS point intersect

Here OP = Equilibrium price
OQ = Equilibrium Quantity

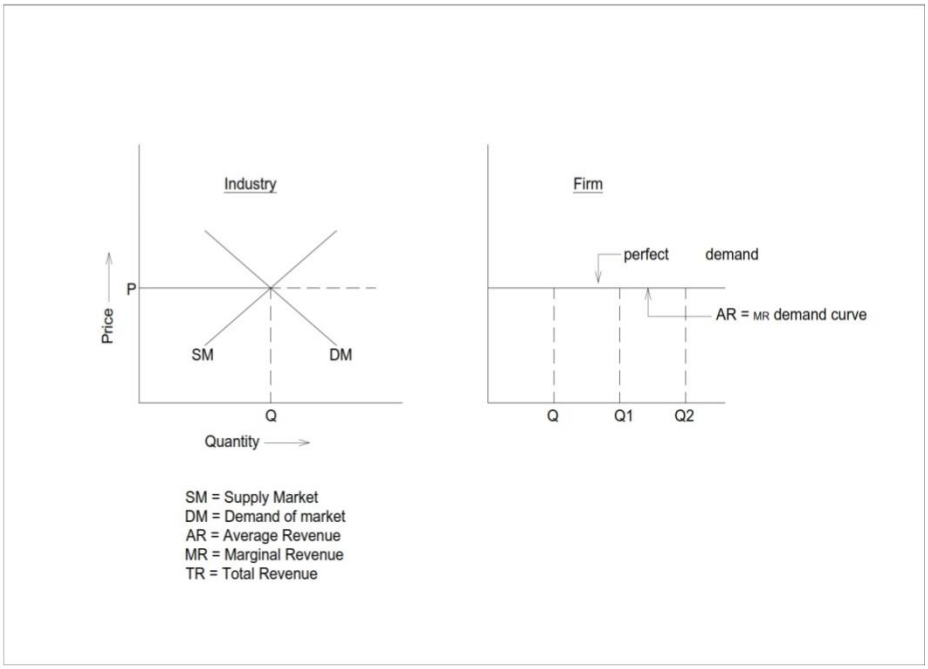
Thus Equilibrium price is depends on two factors
1. Demand Factor
2. Supply Factor

3. **Write a short note on "Pricing of Product or price out put determination"**
The pricing of product under different market condition are mainly three types.
    1) Pricing in perfect compition
    2) Pricing in imperfect compition
    3) Pricing in monopolistic compition

1) Pricing under perfect compition
Salient feature
    a. Large numbers of buyers and sellers
    b. Homogenous buyers are there
    c. Free entry and exit is this type of compition

d. Mobility of factors of purchaser (FOP)
e. Perfect knowledge is most required to have perfect compition
f. There is no transportation.

i. Price determination curve under perfect compition
Diagram
Describe the determinations of price mechanics



Example OR Say case study

Units Qty	Price	TR = P×Q	MR = TR – n1	AR = TR ÷ Q
1	5	5 = (5× 1)	0 – 5 = 5	5/1 = 5
2	5	10 = (5 × 2)	10 – 5 = 5	10/2 = 5
3	5	15 = (5× 3)	15 – 10 = 5	15/3 = 5
4	5	20 = (5× 4)	20 – 15 = 5	20/4 = 5
5	5	25 = (5× 5)	25 – 20 = 5	25/5 = 5

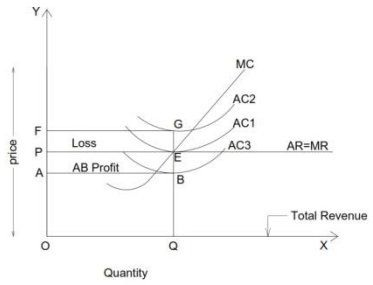
Here

Firm X's price, average revenue and marginal revenue are equal to Rs. 5
Thus, we can see that in a perfect competitive market a firm's AR = MR = Price

Industry Industry price OP (Rs.5) is fixed through the interaction of total demand and total supply of the industry

Firm have to accept this price as given and as such they are price taker rather then price – maker.

ii. Price output determination in short – term
Diagram



PFQE – Loss
PABE – Profit (Abnormal profit)
OPEQ – OABQ = PABE = Abnormal profit

Total Revenue

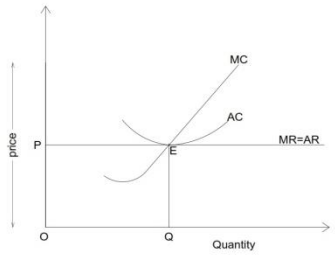
Total Cost

Total Revenue: TR = P × Q

= OP × OQ
= OPEQ

AR = AC ⟶ Normal profit
AR <AC ⟶ Minimum profit
AR > AC ⟶ Abnormal profit

iii. Price output determination in long term
Diagram



Here OQ is equilibrium quantity
OP is equilibrium price
E is equilibrium point
When average revenue is equal to the average cost, then normal profit occurs.

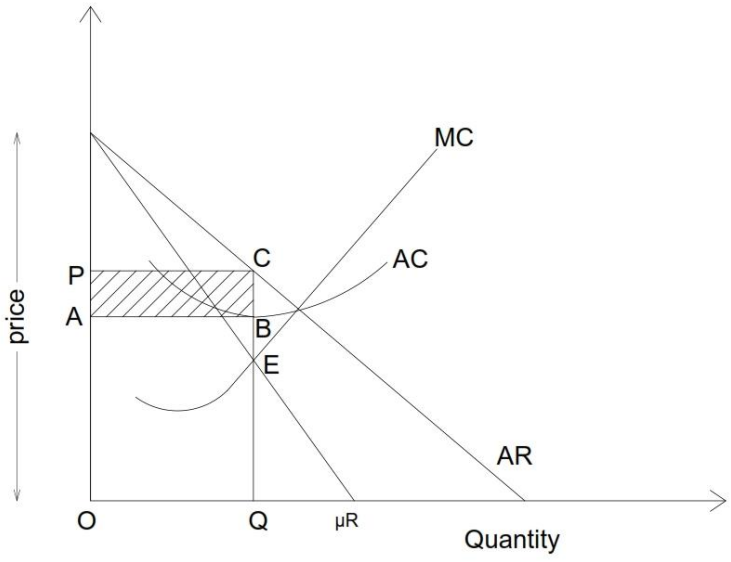
Long term price output is mainly works as below
- This is welfare of the society
- Only efficient firm remains
- Free entry & free exit
- Lowest possible change in perfect competitive market
- Efficiently use of natural resources

2) Pricing under imperfect competition

In case of imperfect compitative market, firms are price – makers so that they are only concern about determination of output.

Thats why usually firms have abnormal profit in imperfect competition.

Diagram



OQ is Equilibrium output
OP is Equilibrium price
QC is ave. Revenue p.u.q
QB is ave. Cost p.u.q

CB is profit per unit quantity
APCB is total abnormal profit

Normal Profit

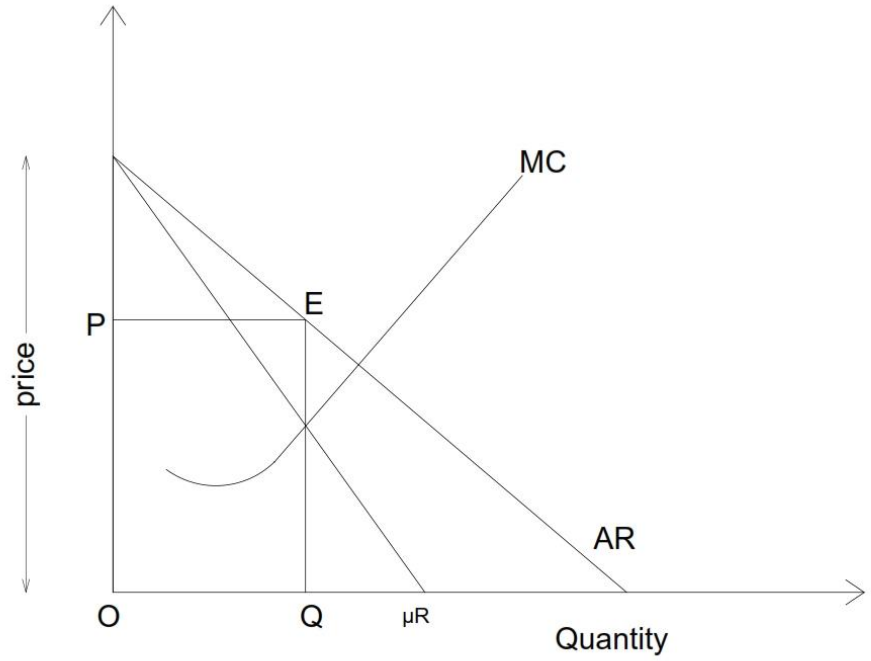
Mainly, there are two condition for normal profit in imperfect competition

i) MC = MR

ii) MC curve must cut MR curve from below

At the intersection of those two curves there is an equilibrium point, at which there is no abnormal profit nor minimum loss but, normal profit happens.

Diagram



OQ – Equilibrium Quantity
OP – Equilibrium Price
E - Equilibrium

Minimum Loss

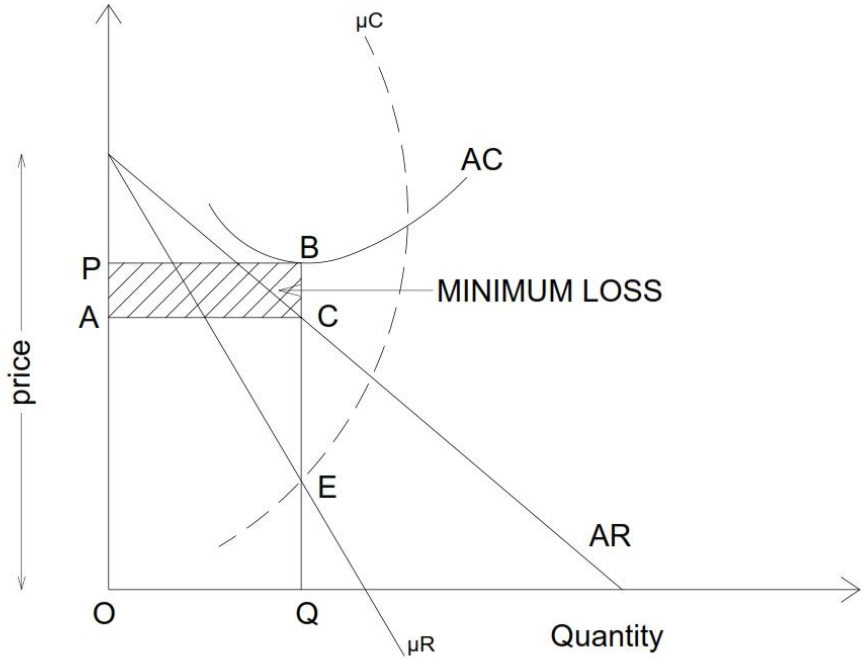
It is not always necessary that in imperfect competition, price – makers always makes profit. It is all depends upon his demand and cost condition.

So whenever average revenue of a commodity is less then average cost, then one will incur loss.

But, if one covers his average variable cost and at least a part of fixed cost, then he doesn't need to stop his production.

And if one is unable to meet the average variable cost, then he will shut down his production.

Diagram Graph represents minimum loss



OQ – is equilibrium Quantity puq
OP – is equilibrium price puq
QB – is average cost puq
QC – is average puq
BC – is minimum loss p.u.q

APCB = BC × P [OQ

4. <u>Explain "Recardian theory of rent" OR Classical theory of rent"</u>

According to **<u>Recardian</u>** theory **----------**
The rent is a payment for the use of land only and it is different from contractual rent which includes the returns on capital investment made by the landlord in the form of hedges, drains wells and the like.

In simple words, if we deduct the return on the capital investment made by the landlord or landowner from the contractual rent, we will be left only with the pure land rent which according to **<u>Ricardian</u>** terminology is the price for the use of land only.

- Recardian rent is also known as pure rent
- The true economic rent is only a payment for the use of land
- It excludes interest on landlord's investment

Assumptions

1) No alternative use
2) Different in fertility
3) Law of diminishing returns
4) Increase in population
5) Long run
6) No – Rent land
7) Scarcity of land
8) Original and Indestructible power of the soil
9) Perfect competition
10) Descending order of cultivation

Features of Recardian theory

1) Rent is the factor income of land
2) Rent increases with increase in population
3) Rent does not enter into price
4) Rent is unearned income
5) Rent arises both in intensive and extensive form
6) Rent is a differential return
7) Rent is due to the original and indestructible power of the soil
8) Rent is due to niggardliness of nature

To understand the theory of Recardian let us consider one example as a case study

Suppose, there is large area of a particular land sides, where there are different types of fertility grades plots. Thus the plot of land is divided as per the productivity and fertility index as category A – B – C & D

Land type A (Part of the plot) is the most fertile land is enough available of this quality to satisfy all the needs related to crop production.

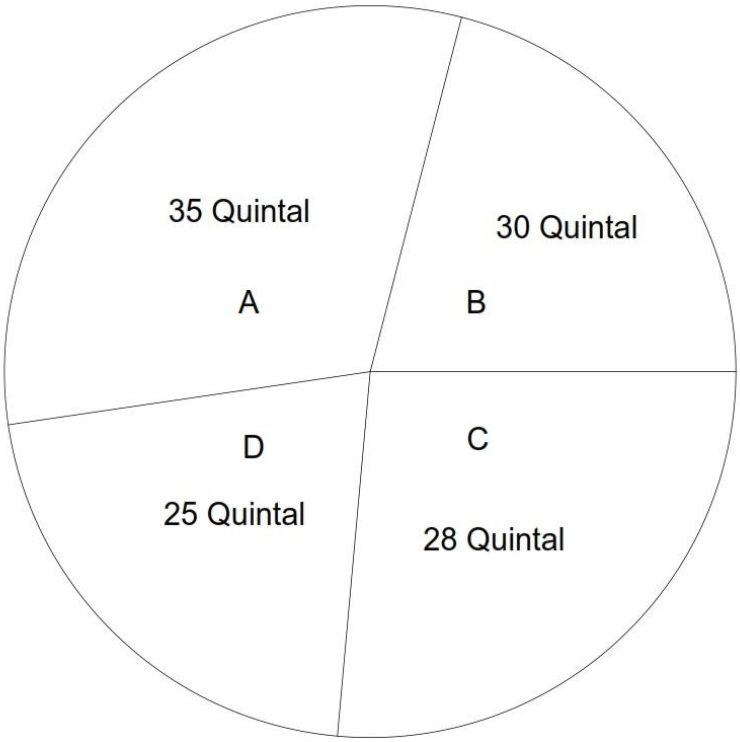
Now a time has come when all the land area of A type has been taken up, and still demand is there. Means some demand still remains pending or unsatisfied.

Then we have to go for choosing B type of land which is inferior to 'A' type and yield 30 quintiles per plot as compared with 35 qnanitals of 'A' with same expenditure of labour and capital.

To go a step further, all the land of 'B' grade or B type has also been taken
So we have to move on land 'C' type which yields 28 quintals per plot and so value of 'A' and 'B' goes on higher side.

And at last likely, land of ‘C’ type has also been taken up and we have to move on land ‘D’ which yields 25 quintals per land so value of ‘A’, ‘B’, & ‘C’ further increases.

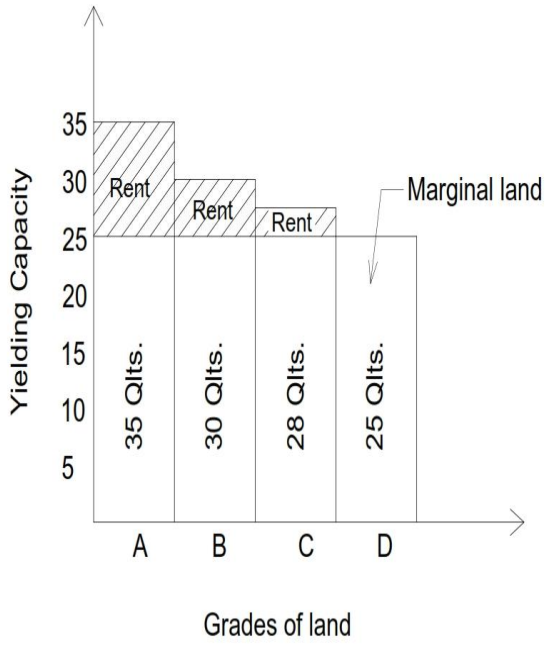
Diagram



Land having different types of fertility zones or grade

A. Highly fertile – 1st grade
B. Fertile – 2nd
C. Medium fertile – 3rd
D. Marginal fertility – 4th

Bar chart



- From the bar chart, one can understand that the grade D type of land is the marginal.
- So corresponding to 'D' the rent of 'A', 'B', & 'C' could be obtained
- Here, from the bar chart we can observe that the rent of 'A' which produces 35 quintals, has maximum rent and rent of land 'C' is minimum.

Conclusion

As per **Recardian Theory** we can conclude that as the time passes, the rent of a land or value of a land increases.

5. Write a short note on 'Quasi Rent'

A payment which is almost rent but is not economical rent is known As "Quasi Rent".

Quasi Rent may arise due to a temporary scarcity of a particular kind of skill which can be increased only if enough time is given.

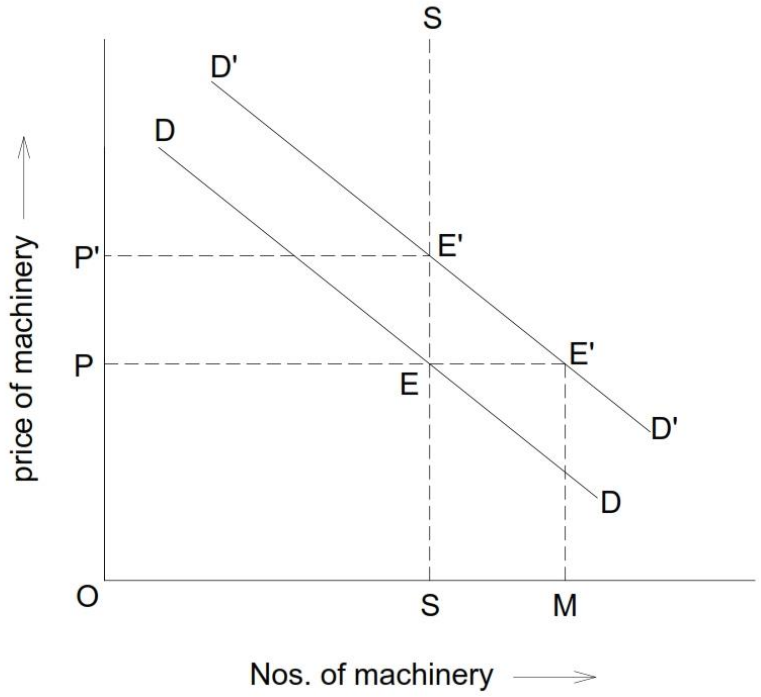
The concept of quasi –rent was introduced in economics theory by Marshall and it lasts only for a short period of time and disappears when condition become normal. It is mainly depending upon the short –run earnings of capital equipment which is in inelastic supply in the short-run.

Let us take an example, if we go to tour at picnic place there we occupy a room in hotel easily on the other day of a week. But if we want to get a room on weekend days [Saturday or Sunday] or in vacation time, than it may happen that very less nos. of rooms are available.

To get the room at that time we have to pay extra or more amount compare to normal days.

That extra rent paid by the customer on weekend because of scarcity of room for that small period [weekend] only is called 'Quasi – rent'

Diagram shows Quasi – rent.



SS ⟶ Absolutely inelastic supply curve which cuts demand DD & DD' at E and E' Respectively.

OS ⟶ Supply of machine when the demand is normal the price shall be OP. [normal Demand = DD]. If the demand increases for short –time that is D'D', then with Same supply of machine [OS] there is rise in price from OP to OP' or say from SE to SE'.

Thus since the number of machines are fixed in short – run, the transfer of Earnings rise and whole earnings OSE'P are Quasi – rent.

Now let us come to the point from the graph it is perfectly elastic in long run thats Why the supply of machines will increase to **OM and** the price now come down to E'M [OP] and so that the quasi rent has finished, because the price E'M just covers the supply price OP.

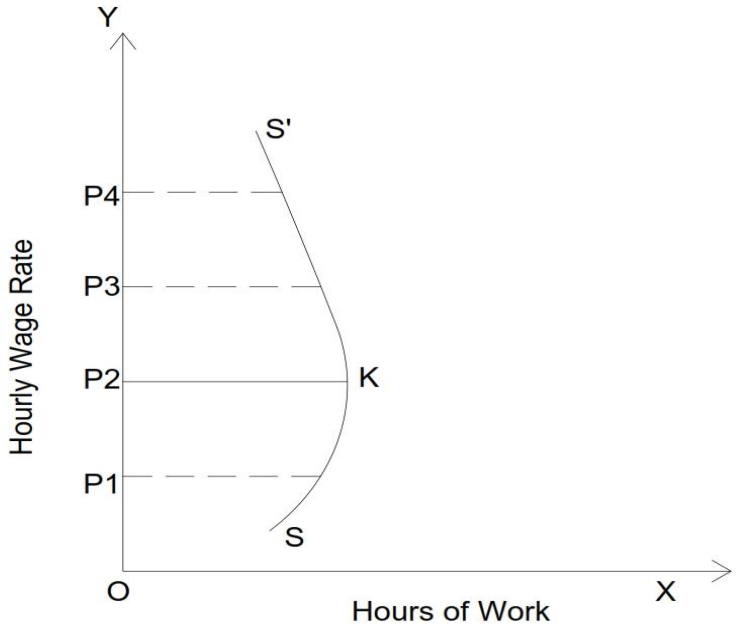
6. Explain "Backward Sloping curve of Labour"

The supply curve of labour of a group of individuals or of the whole Working force in the economy can be derived by summing up horizontally the Supply curves of individuals. It may be noted that the supply curve of labour for The economy as a whole will be upward slopping or backward slopping

Depending upon weather the relative number of individuals having upward Slopping supply curves is greater or less then those having backward slopping Supply curves of labour. Further, different individuals will have backward Slopping portion in their supply curve at different wage ranges, which creates Difficulties in finding the nature of supply curve of the whole work force.

It is generally found that when the wages rate rises from the initially low level to a sufficiently good level, the total supply of labour to the economy as a whole increases (that is, supply curve for the economy as a whole slopes upward to a certain wage rate) and for further increase in the wage rate the total supply curve of labour to the economy as a whole decrease (that is, beyond a certain wage rate the total supply curve of labour slopes backward).Thus, the total supply curve of labour for the economy as a whole is generally believed to be the shape depicted as shown in fig.

Diagram.



Key factor affecting labour supply

1. **Willingness to work**

   The real wage rate on offer in the industry itself. If higher the wage rate The people willng and able to work.

2. **Over time**

   Opportunities to boost earning come through overtime payments.

3. **Substitute Occupations**

   As the worker gets trained and occupying confidence level may cause Some people to switch their jobs.

4. **Barriers to entry**

   In occupation or industry there is clause of limited staff or work force, in That case pay level may go higher.
   Improvement in the occupational mobility of labour.