

UNIT-2: Key answers with Reasoned Explanations

1. b) Study of the factors affecting consumer purchasing decisions

Consumer behavior studies various factors, including psychological, social, and economic influences that impact consumer choices beyond just spending money.

2. b) The satisfaction derived from the consumption of a good

Utility represents the level of satisfaction or pleasure consumers derive from consuming a product or service rather than its price or quantity.

3. b) The more of a good you consume, the less satisfaction you get from each additional unit.

The law of diminishing marginal utility states that as a person consumes more units of a good, the additional satisfaction from each extra unit decreases.

4. c) Consumer's lifestyle

Consumer demand depends on factors such as price, income, and the price of related goods, but lifestyle is subjective and varies across individuals.

5. b) The combinations of two goods that a consumer can afford

A budget line shows different combinations of two goods that a consumer can buy with their given income and the prices of the goods.

6. b) The price of a good changes, leading the consumer to switch to a cheaper alternative

The substitution effect occurs when a price change makes consumers switch from a relatively expensive good to a cheaper alternative, increasing its demand.

7. a) A curve representing the possible combinations of goods that yield the same level of satisfaction

An indifference curve represents combinations of goods that provide the same level of satisfaction, helping understand consumer preferences.

8. b) The marginal utility per unit of currency is the same for all goods consumed

Consumer equilibrium is achieved when the marginal utility per rupee spent on each good is equal, ensuring maximum satisfaction within a budget.

9. b) As the price of a good falls, the quantity demanded rises

According to the law of demand, there is an inverse relationship between price and quantity demanded, assuming other factors remain constant.

10. c) A good whose demand increases when income increases

A normal good is one where demand rises as income increases, unlike inferior goods, which experience a decline in demand with rising income.

11. b) Downwards from left to right

The demand curve slopes downward, indicating that as the price decreases, the quantity demanded increases due to the inverse price-demand relationship.

12. a) The change in the quantity demanded of a good due to a change in income

The income effect refers to how changes in a consumer's income influence the quantity of goods they buy, holding other factors constant.

13. b) A change in consumer income

A shift in the demand curve occurs due to changes in non-price factors like income, tastes, and expectations rather than price changes alone.

14. c) An inferior good

Inferior goods experience a decline in demand as consumer income rises, as consumers shift to higher-quality substitutes.

15. c) Designer clothing

Elastic demand means quantity demanded changes significantly with price. Designer clothing is a luxury, so demand is more sensitive to price changes.

16. b) Increase demand for the original good

If a substitute good's price increases, consumers switch to the original good, increasing its demand, showing a direct relationship between substitute goods.

19. b) Elastic

When the price of a product increases and total revenue decreases, it indicates that demand is elastic. This means consumers are sensitive to price changes, reducing their purchases significantly when the price rises.

20. b) A horizontal line

A perfectly elastic demand curve is a horizontal line, meaning that at a specific price, consumers will buy any quantity, but even a slight price increase will cause demand to drop to zero.

21. a) A percentage change in price results in an equal percentage change in quantity demanded

When demand is unitary elastic, a change in price leads to a proportional change in quantity demanded, leaving total revenue unchanged.

22. a) The quantity demanded remains constant regardless of price changes

A good with perfectly inelastic demand means that consumers will buy the same quantity regardless of price changes. This is often seen with essential goods like life-saving medications.

23. a) Bread

Bread is a necessity, meaning that its demand is inelastic. People will continue buying it even if prices change, as there are limited substitutes for basic food items.

24. b) Lead to a decrease in total revenue

When demand is elastic, an increase in price reduces total revenue because consumers cut back on purchases significantly in response to higher prices.

25. c) Price of the good

The price of a good itself does not determine elasticity; rather, factors like substitutes, time, and necessity influence how demand responds to price changes.

Consumer Preferences and Choice

26. c) Consumer preferences reflect the satisfaction gained from consumption

Consumer preferences determine choices based on the utility or satisfaction derived from consuming goods and services.

27. b) The actual choices a consumer makes, which reveal their preferences

Revealed preference theory states that a consumer's true preferences are reflected in their purchasing behavior rather than their stated opinions.

28. a) The consumer's total income and the prices of goods

Consumers make choices based on their income constraints and the prices of goods, seeking the most satisfaction within their budget.

29. a) The combinations of goods that yield equal satisfaction

An indifference curve represents different combinations of two goods that provide the same level of satisfaction, meaning the consumer is equally happy with any combination on the curve.

30. a) The amount of one good a consumer is willing to sacrifice for one more unit of another good, while maintaining the same level of satisfaction

The marginal rate of substitution (MRS) explains how much of one good a consumer is willing to give up to gain an extra unit of another good while maintaining the same overall satisfaction.

31. a) Increases

When the price of a complementary good decreases, the demand for the related good increases because they are consumed together, like cars and fuel.

32. a) A good that has an upward sloping demand curve

A Giffen good is an inferior good that defies the law of demand, where demand increases as price increases due to a strong income effect.

33. a) The responsiveness of demand for a good to a change in the price of another good

Cross-price elasticity measures how the demand for one good changes in response to a change in the price of a related good, such as substitutes or complements.

34. b) Luxury cars

Luxury goods exhibit income elasticity greater than 1 because their demand increases significantly as consumer income rises.

35. b) The demand is elastic

When demand elasticity is greater than 1, it means demand is elastic, where a small price change leads to a large change in quantity demanded.

36. c) Examining how total spending changes with a change in price

The total expenditure approach evaluates how total consumer spending on a good changes in response to price variations.

37. c) High barriers to entry

A perfectly competitive market has many buyers and sellers, homogeneous products, and perfect information, but it does not have high barriers to entry.

38. d) Less elastic than in the long run

Demand tends to be less elastic in the short run since consumers take time to adjust their consumption habits, but in the long run, they find alternatives.

39. a) A good whose demand increases with price because it is perceived as more prestigious

Veblen goods are luxury goods where demand rises with higher prices due to their perceived status and exclusivity.

40. a) Spend money until the marginal utility of the last dollar is maximized

The marginal utility per dollar spent principle suggests that consumers will distribute their spending so that the last unit of money spent on each good provides equal satisfaction.

41. b) Positive

For perfect substitutes, an increase in the price of one good leads to increased demand for the other, making cross-price elasticity positive.

42. c) Positive for normal goods

Income elasticity is positive for normal goods because their demand increases as income rises.

43. b) An increase in consumer income

Higher income leads to increased demand for normal goods since consumers can afford to buy more.

44. c) An inferior good

Inferior goods experience higher demand when income decreases, as consumers switch to cheaper alternatives.

45. a) Coffee and sugar

Complementary goods are those that are consumed together, meaning a decrease in the price of one increases the demand for the other.

46. a) A decrease in demand for the original good

If the price of a substitute decreases, consumers switch to the cheaper alternative, reducing demand for the original good.

47. b) An increase in demand

A rightward shift in the demand curve indicates an increase in demand due to factors like higher income, consumer preferences, or lower prices of complementary goods.

48. b) The marginal utility is positive

Total utility keeps increasing as long as marginal utility is positive, meaning each additional unit consumed adds to overall satisfaction.

49. b) A horizontal line

A perfectly elastic demand curve is horizontal, meaning consumers will only buy the good at a fixed price and will stop purchasing if the price rises.

50. c) Greater than 1

Luxury goods have an income elasticity greater than 1, meaning their demand increases significantly as income rises.

51. a) Using the change in quantity and price relative to the initial values

The percentage method measures elasticity by calculating the percentage change in quantity demanded relative to the percentage change in price.

52. c) $PED = (\% \text{ Change in Quantity}) / (\% \text{ Change in Price})$

Price Elasticity of Demand (PED) is calculated as the percentage change in quantity demanded divided by the percentage change in price.

53. a) Total expenditure increases as price increases

If demand is inelastic, a price increase leads to higher total revenue because consumers continue purchasing despite the higher price.

54. a) Inelastic

If price increases and total expenditure increases, demand is inelastic, meaning consumers are not highly responsive to price changes.

55. c) Elasticity varies at different points on the curve

The geometric method assumes that elasticity changes along different points of a straight-line demand curve.

56. c) Different at different points

On a straight-line demand curve, elasticity varies depending on whether the point is closer to the upper, middle, or lower part of the curve.

57. b) Decrease total revenue

If demand is elastic, increasing price results in a decline in total revenue because consumers buy significantly less at higher prices.

58. b) The slope of the demand curve at a point

The geometric method calculates elasticity using the slope of the demand curve at a specific point to determine responsiveness to price changes.

59. c) Leave total expenditure unchanged

When demand is unitary elastic, total expenditure remains unchanged when price changes, as the percentage change in quantity offsets the percentage change in price.

60. c) Percentage change in price and quantity

The percentage method calculates elasticity by comparing the percentage changes in price and quantity demanded rather than absolute values.