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Question 1. Explain market equilibrium.

Answer Market Equilibrium is a situation where the quantity demanded becomes equal to quantity supplied, corresponding to a particular price.
It means Market demand = Market supply

Question 2. When do we say there is excess demand for a commodity in the market?

Answer When the market demand exceeds market supply of a commodity at a given price then there IS an excess demand for a commodity in the market.

Question 3. When do we say that there is excess supply for a commodity in the market?

Answer When the market supply of a commodity is greater than market demand at a given price then there is an excess supply for a commodity in
the market.

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Question 4. What will happen if the price prevailing in the market is
(i) above the equilibrium price?
(ii) below the equilibrium price?

Answer
(I) If the price prevailing in the market is above equilibrium price, demand will be less than supply, It means a situation of excess supply in the Market.
(ii) If the price prevailing in the market is below the equilibrium price, demand will be more than supply, It means a situation of excess demand,

Question 5. Explain how price in determined in a perfectly competitive market with fixed number of firms,

Answer Equilibrium price is determined by the market forces of demand and supply in a perfectly competitive market. Where market equilibrium IS
determined when market demand is equal to market supply, under perfect
competition,

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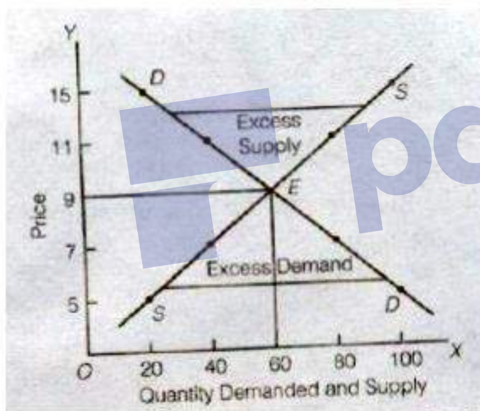
Market demand is the sum total of demand for a commodity by all the
(i) buyers In the market. Its curve slopes downward due to law of demand,
(ii) Markel supply is the sum total of supplies of a commodity by all the firms in the market. Its curve slopes upwards due to law of supply Considering market demand schedule on the one hand and market supply schedule on the other, identify equilibrium price on the one where Market demand = Market supply. It means market demand curve and market supply curve intersect each other.

Price of commodity	Market Demand	market Supply
5	100	20
7	80	40
9	60	60
11	40	80
15	20	100



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Question 6. Suppose the price at which equilibrium is attained in exercise 5 is above the minimum average cost of the firms constituting the market. Now,if we allow for free entry and exit of firms, how win the market price adjust to it?

Answer The equilibrium price is Rs 9 in the above figure of 0-5 which is above the minimum of average cost It Implies that firm is earning super normal profit. This situation attracts new firms, the industry supply of output also increases New firms will continue to enter the industry which
leads the price to fall until it becomes equal to minimum average cost.At this stage firms starts earning normal profit.

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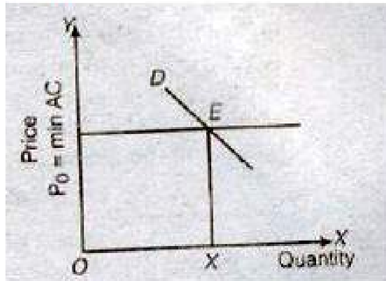
Question 7. At what level of price do the firms in a perfectly competitive market supply when free entry and exit is allowed in the market? How is equilibrium quantity determined in such a market?

Answer Equilibrium price will always be equal to minimum average cost in the long run as due to the free entry and exit of the firms, all the firms earn zero economic profit.



Question 8. Howis the equilibrium number of firms determined in a market where entry and exit is permitted?

Answer With the free entry and exit, the equilibrium number of firms determined in a market by equilibrium quantity supply per firm

Equilibrium no of firms = Equilibrium quantity/ supply of each firm .

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Question 9. How are equilibrium price and quantity affected when income of the consumers

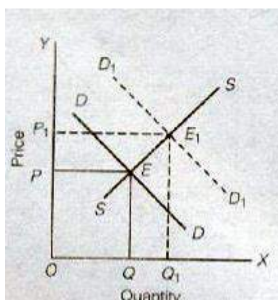
(a) increase?

(b) decrease?

Answer

(i) When income of the consumers increase then demand will also increase. But it is possible only in case of normal goods As result there is an increase in both equilibrium price and equilibrium quantity.

Diagram (i)



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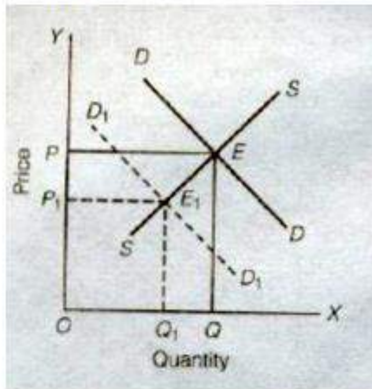
(ii) When income of consumer decrease. then demand will also decrease (in case of normal goods only). As a result demand curve shifts leftward and both equilibrium price and quantity will decrease.

Diagram (ii)



Question 10. Using supply and demand curves, show how an increase in the price o shoes affects the price of a pair of socks and the number of pairs of socks bought an sold.

Answer Shoes and socks are complementary goods An increase In the price 0: shoe will cause a decrease in demand of socks It will lead to
excess supply. This leads to competition among sellers, which reduces the price. Fall in price leads to decrease in supply and rise In demand These
changes continue till supply and demand become equal at a new equilibrium price. A a result there is a decrease In demand of both shoes and socks

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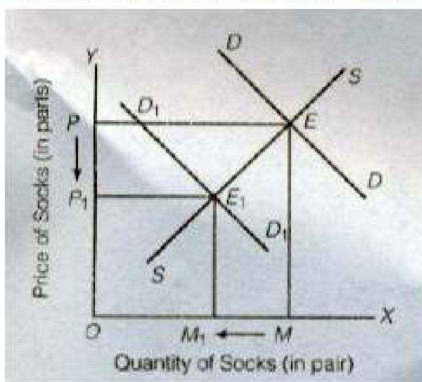

Question 11. How will a change in price of coffee affect the equilibrium price of tea? Explain the effect on equilibrium quantity also through a diagram.

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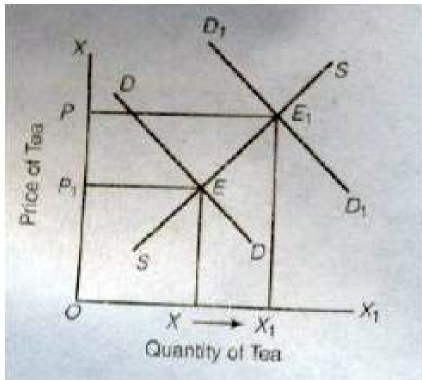
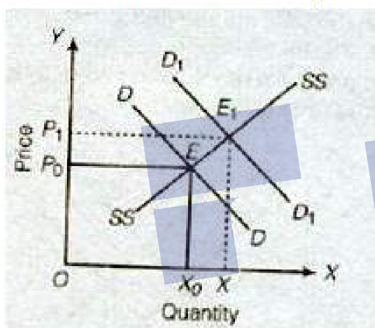
Answer Tea and coffee are substitute goods. A change in price of coffee will directly influence the equilibrium price and quantity of tea. As a result
the demand curve of tea will shift to the right (in case of an Increase in the price of coffee). The supply curve of tea remain same this will lead to an
Increase in price 0 tea (P_1) and increase in quantity (X_1).



Question 13. If the price of a substitute (y) of goods (x) increases, what impact does it have on the equilibrium price and quantity of good x?



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Answer An increase in price of a substitute (y) of goods (x) will directly affect the equilibrium price and quantity of goods (x). Rise in price of (y)
will relatively cheaper and demand for (x) will rise. It will lead to excess demand. It will lead to increase in both equilibrium price and equilibrium
quantity.

Question 14. Compare the effect of shift in demand curve on the equilibrium when the number of firms in the market is fixed with the situation when entry-exit is permitted.

Answer It demand increase. then it creates excess demand tor the goods. It will lead to increase in pnce and in supernormal profit. This will attract entry of new firms and It will lead to minimum AC

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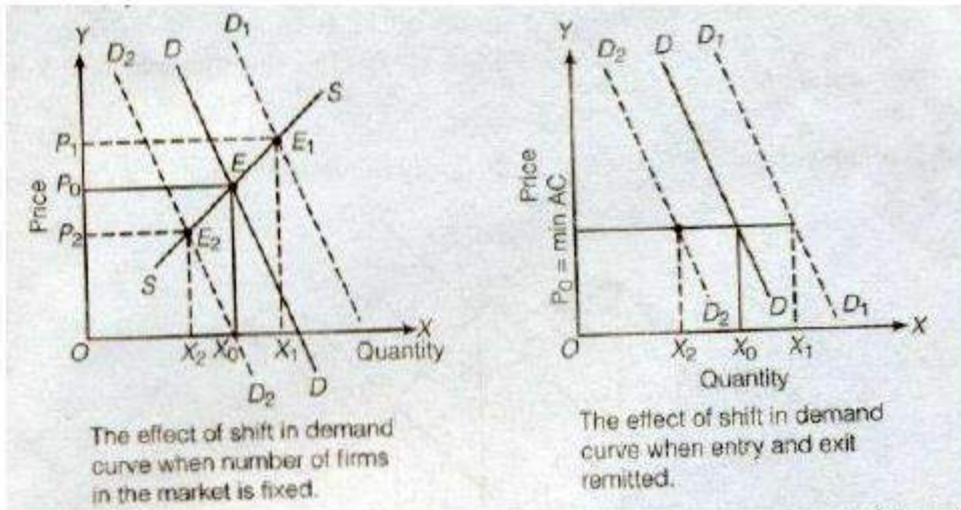

Question 15. Explain through a diagram the effect of a rightward shift of both the demand and supply curves on equilibrium price and quantity.

Answer As a result equilibrium price remains unchanged. When both demand and supply of a commodity increase the equilibrium quantity will increase but equilibrium price mayor may not be affected. There may be following three situations (I) The equilibrium price will remain the same, If demand and supply of a commodity increase in equal ratio.

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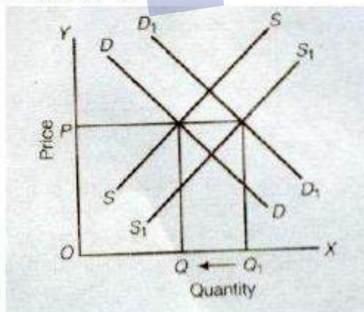
Diagram as



(ii) Equilibrium price will rise, if both demand and supply increase but Increase in demand is more than the increase in supply.

Diagram as