**Business Economics**

**December 2021 Examination**

**Q1. What is Indifference Curve, explain with the help of diagram and also explain its properties. (10 Marks)**

**Answer 1.**

**Introduction**

**Indifference curve:**

The indifference curve illustrates how consumers behave based on their indifference towards certain groups of goods and services. The consumer is equally satisfied by all combinations in an indifference curve. Normally, an indifference curve is designed to be convex to the origin. Assuming that marginal utility/marginal satisfaction diminishes, this statement is correct. The extra utility we gain from consuming extra units decreases as the total utility increases at a diminishing rate. We assume that the combined utility of products further from the origin will be

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**2. Consider the demand for a good. At price Rs 4, the demand for the good is 25 units. Suppose price of the good increases to Rs 5, and as a result, the demand for the good falls to 20 units. Calculate the price elasticity? (10 Marks)**

**Answer:**

**Introduction:**

**The elasticity of demand:**

In contrast, elasticity of demand measures the impact of a change in an economic variable on the quantity demanded in a market. Demand for a product is influenced by a variety of factors, such as income levels within a segment, price of the product, and the price of other products in that segment. This measure assesses how much change is observed in demand in response to changes in any of the variables in the market, like price, income, etc. Demand changes when other factors

**3.a. Two goods have a cross-price elasticity of demand of +1.2 (a) would you describe the goods as substitutes or complements? (b) If the price of one of the goods rises by 5 per cent, what will happen to the demand for the other good, holding other factors constant? (5 Marks)**

**Answer:**

**Introduction:**

A commodity's demand elasticity refers to how it responds to alterations in elements affecting the direction of its demand based on adjustments in elements affecting its direction. A number of factors influence consumer choice and taste, consumer earnings, the price of other products, the

**3.b. Calculate Marginal Utility and Average Utility from the information given in the below table: (5 Marks)**

|  |  |
| --- | --- |
| **Quantity Consumed** | **Total Utility** |
| **1** | **20** |
| **2** | **35** |
| **3** | **47** |
| **4** | **55** |
| **5** | **60** |

**Answer:**

**Introduction:**

**Utility:**A good or service's utility is the level of total satisfaction it gives when consumed. According to economic theories based on rational choice, consumers strive to maximize utility. Economic utility is crucial for understanding because it directly affects demand and therefore price. The utility of a consumer cannot be measured or quantified. Yet some economists believe