Chapter 9: The Price Puzzle: What Drives the Market

SECTION A — Multiple Choice Questions.

1. The Law of Demand shows the relationship between price and quantity demanded as:
   a) Direct b) Inverse c) No relationship d) Constant

2. Roads, streetlights, and national defence are examples of:
   a) Public goods b) Private goods c) Substitute goods d) Complementary goods

3. Tea and coffee are examples of:
   a) Inferior goods b) Public goods c) Substitute goods d) Complementary goods

4. Which factor is directly related to a person's ability to purchase goods?
   a) Income b) Weather c) Festival d) Trend

5. The Law of Supply shows a relationship between price and quantity supplied that is:
   a) Inverse b) Direct c) Negative d) Unpredictable

6. The point where quantity demanded equals quantity supplied is called:
   a) Price ceiling b) Price floor c) Market equilibrium d) Monopoly

7. A government-imposed maximum price for a product is called a:
   a) Price floor b) Subsidy c) Tariff d) Price ceiling

8. A market structure with a single seller controlling the entire supply is called:
   a) Competition b) Equilibrium c) Monopoly d) Public good

9. Improvement in ____________ helps producers increase the supply of goods.
   a) Demand b) Technology c) Consumption d) Population

10. Market demand is:
   a) Demand of the richest buyer b) Average of supply and demand
   c) Demand at zero price d) Sum of all individual demands

SECTION B — Write True or False.

1. Demand is just the desire to buy something, regardless of purchasing power. [_______]
2. The market demand curve is flatter than an individual's demand curve. [_______]
3. If tea's price remains the same while coffee becomes expensive, demand for tea may increase. [_______]
4. Supply and price move in the same direction according to the Law of Supply. [_______]
5. Market equilibrium, once reached in the real world, remains fixed forever. [_______]
6. A price ceiling set above the market price would help control overcharging. [_______]
7. RBI, TRAI, and SEBI are examples of regulators that ensure transparency in markets. [_______]
8. Public goods are usually provided by private companies because they generate high profits. [_______]
9. Excessive government regulation can discourage innovation and entrepreneurship. [_______]
10. During the COVID-19 pandemic, the demand for face masks and sanitisers fell sharply. [_______]

SECTION C — Fill in the Blanks by using the correct words from the Help Box.

[purchasing power | demand curve | increase | income | supply | surplus | black marketing | hoarding | above | CCPA]

1. Demand is the willingness complemented by the ability or ___________ to buy a product.
2. The demand schedule, when represented graphically, is called the ___________.
3. When the price of a substitute good increases, the demand for the other related good will ___________.
4. A rise in ___________ generally makes people feel more confident about their ability to spend.
5. The ___________ curve is upward sloping, showing a direct relationship between price and quantity supplied.
6. At the equilibrium price, there is neither a shortage nor a ___________.
7. The illegal trade of banned or regulated goods and services is called ___________.
8. ___________ is the accumulation of goods beyond what is immediately necessary, driven by fear of future shortages.
9. For a price floor to be effective, it must be set ___________ the market equilibrium price.
10. The ___________ regulates unfair practices to protect consumers, workers, and producers from exploitation.

SECTION D — Match the terms in Column A with their correct descriptions in Column B.

Column A	Column B	Ans.
1. Price ceiling	a. Illegal trade of regulated goods	1. ___
2. Price floor	b. Single seller dominates the market	2. ___
3. Monopoly	c. Maximum price set by the government	3. ___
4. Black marketing	d. Accumulating goods beyond necessity	4. ___
5. Hoarding	e. Minimum price/wage set by the government	5. ___

SECTION E — Short Answer Questions.

1. Define demand. What is the Law of Demand?

Ans. ____

____

2. What is meant by "individual supply"? Give one example.

Ans. ____

____

3. Differentiate between substitute goods and complementary goods with one example each.

Ans. ____

____

4. What is market equilibrium? What happens to prices when it is disturbed?

Ans. ____

____

5. Explain the concept of diminishing marginal utility with a simple example.

Ans. ____

____

6. How does a rise in consumer income affect demand for goods?

Ans. ____

____

7. What is a price ceiling? Give one real-life example.

Ans. ____

____

8. Why are public goods usually not provided by private companies?
Ans. ____
____

9. Mention any two determinants of supply other than price.
Ans. ____
____

10. Give two limitations of excessive government intervention in markets.
Ans. ____
____

SECTION F —Answer the following in detail.

1. Explain, with examples, the various factors (other than price) that affect the demand for a product.
Ans. ____
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2. Explain the concept of market equilibrium with the help of a demand and supply schedule and diagram.
Ans. ____
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3. "Government intervention in the market is necessary but must be balanced." Discuss this statement with suitable examples.
Ans. ____
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4. Explain the law of supply and the factors that determine the supply of a good in a market.
Ans. ____
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5. Using the example of hotel room tariffs, explain how prices in real-world markets are dynamic rather than fixed.
Ans. ____
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Section G: Case-Based Study.

Read the passage and answer the questions that follow:

- During the COVID-19 pandemic, the demand for hand sanitisers surged suddenly across the country. Many shopkeepers began hoarding and black-marketing sanitisers to earn higher profits, causing stockouts and a sharp rise in prices. The government intervened by declaring sanitisers an essential commodity under the Essential Commodities Act, 1955, and capped the maximum retail price at ₹100 for a 200 ml bottle. Meanwhile, many companies increased production, and eventually sanitisers became widely available at fair prices.

Questions:

1. Why did the price of sanitisers rise sharply during the pandemic?
2. What government measure was taken to control the price, and what is this type of price control called?
3. What role did hoarding and black-marketing play in this situation?
4. How did increased production by companies affect market supply and prices over time?
5. Do you think such price controls should continue permanently, or only during emergencies? Give a reason.

Section H: Assertion-Reason Questions (5 Marks)

Instructions: For each question, choose the correct option from the choices below:

A. Both Assertion (A) and Reason (R) are true, and R is the correct explanation of A.
B. Both Assertion (A) and Reason (R) are true, but R is not the correct explanation of A.
C. Assertion (A) is true, but Reason (R) is false.
D. Assertion (A) is false, but Reason (R) is true.

1. Assertion (A): The market demand curve is flatter than an individual's demand curve.
   Reason (R): Market demand aggregates many consumers, so the same price change creates a larger total quantity response.
   Ans. ________________________________
2. Assertion (A): If the price of a good rises, its quantity supplied also rises.
   Reason (R): Higher prices increase profitability, incentivising producers to increase output.
   Ans. ________________________________
3. Assertion (A): A price floor is always set below the market equilibrium price.
   Reason (R): A price floor protects sellers, such as ensuring a minimum wage for workers.
   Ans. ________________________________
4. Assertion (A): Public goods like roads and streetlights are usually provided by the government.
   Reason (R): Private companies avoid providing such goods because they do not generate direct profit.
   Ans. ________________________________
5. Assertion (A): Market equilibrium in the real world remains stable and unchanging once reached.
   Reason (R): Markets are dynamic, and factors like technology, weather, and events constantly shift demand and supply.
   Ans. ________________________________

Section I: Answer in One Word.

1. The quantity of a good sellers are willing and able to offer at a particular price. ___________
2. The point where quantity demanded equals quantity supplied. ___________
3. A market structure with a single seller. ___________
4. The illegal trade of banned/regulated goods. ___________
5. Accumulation of goods beyond necessity due to fear of shortage. ___________
6. Goods that can replace each other, e.g., tea and coffee. ___________
7. Goods used together, e.g., car and petrol. ___________
8. Government-imposed minimum price/wage. ___________
9. Total money earned by a business from sale of goods/services before expenses. ___________
10. The measure of how much one unit of currency can buy at a particular time. ___________

ANSWER KEY

Section A – MCQs

1. b) Inverse
2. a) Public goods
3. c) Substitute goods
4. a) Income
5. b) Direct
6. c) Market equilibrium
7. d) Price ceiling
8. c) Monopoly
9. b) Technology
10 .d) Sum of all individual demands

Section B – True or False

1. False
2 .True
3. True
4. True
5. False
6. False
7. True
8. False
9. True
10 .False

Section C – Fill in the Blanks

1. purchasing power
2. demand curve
3. increase
4. income
5. supply
6. surplus
7. black marketing
8. hoarding
9. above
10. CCPA

SECTION D — Match the following

1. Price ceiling → c. Maximum price set by the government
2. Price floor → e. Minimum price/wage set by the government
3. Monopoly → b. Single seller dominates the market
4. Black marketing → a. Illegal trade of regulated goods
5. Hoarding → d. Accumulating goods beyond necessity

Section E – Short Answers

1. Demand is the quantity of a product that consumers are willing and able to buy at a particular price. The Law of Demand states that, other things remaining constant, when price rises, quantity demanded falls, and when price falls, quantity demanded rises.
2. Individual supply is the quantity of a good that a particular seller is willing and able to offer at different prices. For example, a seller may supply 1 kg at ₹50, 2 kg at ₹100 and 3 kg at ₹150.
3. Substitute goods vs complementary goods.

- Substitute goods: Goods that can replace each other, e.g. tea and coffee.
- Complementary goods: Goods that are generally used together, e.g. car and petrol.

4. Market equilibrium is the point where quantity demanded equals quantity supplied. When there is excess demand, prices tend to rise; when there is excess supply, prices tend to fall.
5. It means that the additional satisfaction gained from consuming successive units of a good decreases. For example, the first mango may give great satisfaction, while the second and third mangoes give progressively less additional satisfaction.
6. A rise in consumer income generally increases the quantity demanded for several goods because consumers have greater purchasing power.
7. A price ceiling is a government-imposed maximum price that a seller can charge. For example, the government may cap the price of an essential medicine.
8. Public goods such as roads, parks and streetlights benefit many people but may not generate direct profit for private companies. Therefore, the government often provides or funds them.
9. Two determinants of supply other than price:
    - Technology
    - Number of sellers
    - Other acceptable answers: price of related goods, future expectations, input costs, weather, etc.
10. Two limitations of excessive government intervention:
    - It can reduce producer incentives and cause shortages.
    - Excessive regulation can discourage innovation and entrepreneurship.

Section F – Detailed Answers

1. Factors affecting demand other than price

- Demand is affected by several factors besides price:
- Income: Higher income generally increases demand.
- Prices of substitutes: If coffee becomes expensive, demand for tea may increase.

- Prices of complementary goods: Higher movie-ticket prices may reduce demand for cinema popcorn.
- Taste and preferences: Popular products may experience increased demand.
- Population: Changes in population size and composition affect demand.
- Seasonality: Demand for sweaters rises in winter.
- Future price expectations: If people expect prices to rise, they may buy more now.

2. Market equilibrium occurs when quantity demanded = quantity supplied.

Price	Q.D.	Q.S.	Situation
• **₹40**	38 kg	6 kg	Excess demand
• **₹100**	12 kg	12 kg	**Equilibrium**
• **₹150**	8 kg	43 kg	Excess supply

Therefore:
- Equilibrium Price = ₹100
- Equilibrium Quantity = 12 kg

On a graph, equilibrium is shown by the intersection of the demand curve and supply curve.

3. Government intervention may be necessary to protect consumers, workers and producers and to ensure fair outcomes. It can:
- regulate unfair practices;
- impose price ceilings on essential goods;
- establish minimum wages/price floors;
- regulate monopolies;
- provide public goods such as roads and streetlights.

However, excessive intervention can reduce producer incentives, increase compliance burdens and discourage innovation and entrepreneurship. Therefore, government intervention should be necessary, balanced and carefully designed.

4. The Law of Supply states that, other things remaining constant, as price rises, quantity supplied increases; as price falls, quantity supplied decreases. Higher prices can increase profitability and encourage producers to supply more.

Factors affecting supply include:
- Price of related goods
- Number of sellers
- Technology
- Future expectations
- Input costs and availability
- Weather and other conditions

5. Hotel room tariffs and dynamic markets

Hotel prices are not fixed. For example, the textbook gives:
  - Off-season weekday: ₹1,500
  - Tourist-season weekend: ₹8,000
  - New Year's Eve: ₹25,000

- Prices change according to demand, season, booking speed, nearby hotel prices, festivals/events, weather forecasts and past booking trends. This demonstrates that real-world markets are dynamic and prices continually adjust as demand and supply conditions change.

Section G – Case Study Answers

1. Demand suddenly increased during COVID-19, while supply could not immediately keep up. Hoarding and black-marketing also contributed to shortages and higher prices.
2. Sanitisers were declared essential commodities and the maximum retail price was capped at ₹100 for a 200 ml bottle. This is a price ceiling.

3. They reduced the availability of sanitisers in the normal market and contributed to stockouts and higher prices.
4. Increased production raised market supply. As supply improved, sanitisers became more widely available and prices became fairer.
5. Suggested answer: Such controls may be useful during emergencies when sudden shortages or unfair pricing occur, but permanent controls should be carefully considered because excessive price controls can reduce incentives for producers to supply goods.

Section H – Assertion–Reason

1. A – Both A and R are true, and R correctly explains A.
2. A – Both A and R are true, and R correctly explains A.
3. D – Assertion is false, but Reason is true.
4. A – Both A and R are true, and R correctly explains A.
5. D – Assertion is false, but Reason is true.

Section I – One-Word Answers

1. Supply	2. Market equilibrium	3. Monopoly	4. Black marketing
5. Hoarding	6. Substitute goods	7. Complementary goods	8. Price floor
9. Revenue	10 .Purchasing power		