Economics Class 12 Important Question Chapter 5 Market Equilibrium

Q1. What is a price maker firm?

Ans: An organisation that has the power to affect prices independently is referred to as a price maker. A company with market dominance can raise prices without losing customers.

Q2. What is a price-taker firm?

Ans: A firm that accepts the industry pricing because of its smaller transaction sizes is referred to as a price taker. It must consent to the price set by market forces.

Q3. If a single business cannot affect the market price in a situation of perfect competition, who can alter the market price?

Ans: In a market with perfect competition, the industry has the power to influence market pricing by altering its output.

Q4. What does "normal profit" mean?

Ans: The absolute minimal profit needed to sustain an entrepreneur's business over the long term is called normal profit. The profit exceeds the potential cost that the company incurs by efficiently using its resources.

Q5. Explain advertising costs.

Ans: Advertising expenses are what a business spends to boost sales through channels like TV, radio, newspapers, magazines, and more.

Q6. Describe the cooperative oligopoly.

Ans: A cooperative oligopoly develops when businesses in an oligopoly market work together to determine pricing and output.

Short answer Questions – 3 or 4 Marks

Q7. Explain two features of the monopoly market.

Ans: The following are the two most crucial characteristics of a monopoly market:

i. Sole Seller: As there is only one seller in the market, the seller can influence the market price on its own. A business with market power can increase prices without losing its consumers or competitors.

ii. High Entry Barrier: There exist entry hurdles for new enterprises, allowing sellers to earn abnormal profits that are far higher than usual earnings.

Q8. Why is the number of firms small in oligopoly? Explain.

Ans: The fundamental reason for the minimal number of firms in an oligopoly is that there exist barriers that restrict firms from entering the industry. Patents, huge capital requirements, and ownership over crucial raw materials, among other things, prohibit new firms from entering the industry. Only those who can overcome these obstacles will be able to enter and remain in the market.

Therefore, The numbers of firms are small in oligopoly.

Q9. Explain the implications of a large buyer in a perfectly competitive market?

Ans: A huge number of buyers are supposed to be so numerous that an individual buyer's percentage of total purchases is so insignificant that he cannot influence market price by purchasing more or less. As a result, the pricing remains unchanged.

Every business in the industry would be earning only normal profits due to the large number of buyers. The buyers are the price takers and have no bargaining power in the market.

Q10. Explain the implications of the following:

a) Interdependence between firms in oligopoly

b) Large number of sellers in perfect competition

Ans: The implications of the above features are as follows

a) Oligopolies are often made up of a few huge corporations. Because each firm is so huge, its actions have an impact on market circumstances. As a result, rival firms will be aware of a firm's market activity and will respond properly. Mutual interdependence develops when one firm's actions have a significant impact on the other enterprises in the industry.

b) The presence of a large number of buyers and sellers of a commodity dominates a fully competitive market, which implies that there is no such buyer or seller in the market whose purchase or sale is so huge that it affects the overall sale or purchase in the market. Each buyer/seller owns only a little portion of the market demand/supply.

Q11. Explain briefly why a firm under perfect competition is a price taker not a price maker?

Ans: Because the price is set by market forces of demand and supply, a firm in perfect competition is a price taker rather than a price maker. This is referred to as the equilibrium price. At this equilibrium price, all firms in the industry must sell their outputs. The reason for this is that the number of enterprises in perfect competition is so high. As a result, no firm's supply can impact the price. Every company makes the same type of goods.

Q12. Why is there a small number of businesses in an oligopoly? Explain.

Ans: The main reason an oligopoly has a small number of enterprises is that there are obstacles to new businesses entering the market. Patents, high start-up costs, and ownership of essential raw materials are just a few of the barriers that prevent new businesses from entering the market. Only those who are able to solve these challenges will enter and survive in the market.

Due to this, an oligopoly has a small number of enterprises.

Q13. Describe two characteristics of a monopoly market.

Ans: The two most important traits of a monopoly market are as follows:

Sole Seller: Since there is only one seller in the market, the seller has independent control over the market price. A company with market control can raise prices without losing customers or competitors.
High Entry Barrier: Since there are barriers to entry for new businesses, sellers can generate anomalous profits that are significantly greater than typical earnings.

Q14. Describe the effects of the following:

- **Oligopolistic firm interdependence**
- **A perfect competition with many sellers.**

Ans: The consequences of the aforementioned characteristics are as follows:

A small number of enormous firms frequently make up oligopolies. Each company is so large that its actions have an effect on the market environment. Competing businesses will consequently be informed of a firm's market activities and will react appropriately. When one company's actions have a major effect on the other businesses in the industry, mutual interdependence arises.
A market with perfect competition is characterised by a large number of buyers and sellers of a given good, which suggests that neither the buyers nor sellers in the market make

purchases or sales that are substantial enough to have a significant impact on the market's overall sales or purchases. Only a small amount of the market's demand and supply is owned by each buyer and seller.

Q15. Briefly describe why a company operating in perfect competition is a price taker rather than a price maker.

Ans: A company in perfect competition is a price taker rather than a price maker since the price is determined by the forces of supply and demand on the market. The price at which demand and supply for a particularly good meet are called the equilibrium price. All businesses in the industry must sell their products at the equilibrium price. This is due to the large number of businesses that are in perfect competition. Therefore, the supply of any firm has no bearing on the price. The same kind of product is produced by all businesses.

Long Answer Questions – 6 Marks

Q1. An equilibrium exists in the market for a commodity. Both the supply of commodities and their demand are rising at the same time. Describe how it affects the market price.

Ans: Equilibrium occurs when there is no desire for a circumstance to change. The number of commodities that consumers expect to purchase and the number of things that producers intend to sell are equal when equilibrium is attained. The laws of supply and demand cause the market to reach equilibrium. In three distinct instances, the impact of rising demand and supply on equilibrium price and quantity is examined:

When demand growth equals supply growth: The rightward shift in the demand curve from D1D1 to D2D2 is equivalent to the rightward shift in the supply curve from S1S1 to S2S2. The new equilibrium is established by E2. The equilibrium price stays constant at OP1 because both supply and demand are increasing in the same ratio, while the equilibrium quantity is rising from Oq1 to Oq2.

When demand growth surpasses supply growth: The demand curve's rightward shift from D1D1 to D2D2 is proportionally bigger than the supply curve's rightward shift from S1S1 to S2S2. The new equilibrium is located at E2, where the equilibrium quantity rises from Oq1 to Oq2, and the price from OP1 to OP2.

When supply growth surpasses demand growth: The rightward shift in the demand curve from D1D1 to D2D2 is proportionately smaller than the rightward movement in the supply curve from S1S1 to S2S2. The new equilibrium is found at E2. While the equilibrium quantity grows from Oq1 to Oq2, the equilibrium price lowers from OP1 to OP2.

Q2. How would an increase in the consumers' income influence the equilibrium price and equilibrium quantity of a common good or service?

Ans: The demand curve for common goods shows a rightward shift as consumers' income grows. The supply curve remains the same. It is assumed that consumers are willing to spend more for the same amount when their income increases. This increases the cost of the goods. Therefore, it motivates the production of the same good, which increases supply.

Accordingly, a rise in demand and its ensuing shift to the right has an impact on producer choices since it causes the supply to increase in reaction to a rise in price. As a result, an increase in demand and the resulting shift to the right have an effect on producer choices because it causes supply to increase in response to a price increase.