

EC 101: Principles of Microeconomics

Quiz 1 — Markets & Elasticity — ANSWER KEY

Duration: 30 minutes Maximum marks: 10

SET A

Instructions

- Write your name and roll number before starting.
- This paper has 5 questions in 3 parts, for a total of 10 marks.

Part A — Multiple Choice

6 marks

Q1. A good's price rises from ₹10 to ₹12 and quantity demanded falls from 100 to 80 units. [2 marks]

	Before	After
Price	₹10	₹12
Quantity	100	80

Using percentage changes from the initial point, demand here is:

(A) Unit elastic ($|\varepsilon| = 1$) ✓

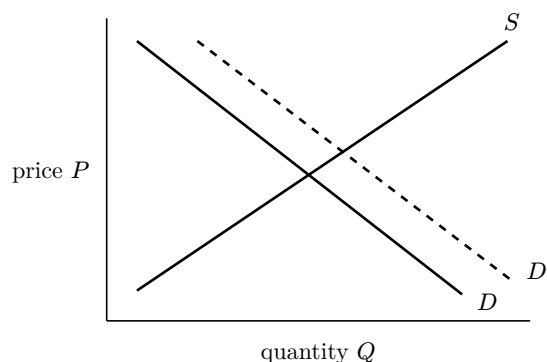
(B) Perfectly inelastic ($\varepsilon = 0$)

(C) Elastic ($|\varepsilon| > 1$)

(D) Inelastic ($|\varepsilon| < 1$)

Explanation. $\varepsilon = (-20\%)/(+20\%) = -1$.

Q2. The market below starts at the intersection of S and D ; demand then shifts outward to D' (dashed). [2 marks]



In the new equilibrium, compared with the old one:

(A) Price rises and quantity rises ✓

(B) Price falls and quantity rises

(C) Both are unchanged

(D) Price rises and quantity falls

- Q3.** You skip a concert ticket worth ₹500 (which you value at ₹800) to work a shift paying ₹600. The opportunity cost of working is: [2 marks]
- (A) ₹300 of net enjoyment forgone (₹800 value — ₹500 price) ✓
(B) ₹800
(C) ₹600
(D) ₹500

Part B — Fill in the Blanks

1 marks

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- Q4.** GDP deflator = (nominal GDP / real GDP) × 100. [1 mark]

Part C — Essay

3 marks

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- Q5.** “A binding minimum wage always reduces total employment.” Discuss in at most [3 marks] one page, referencing both the competitive model and one situation where the claim can fail.

Model answer. In the competitive model a binding floor raises wages above equilibrium and reduces employment along the demand curve. Under monopsony, however, employers face an upward-sloping labor supply and restrict hiring; a moderate minimum wage can **increase** employment toward the competitive level. Empirical work (e.g. Card–Krueger) suggests small effects near current levels.

Rubric. +1 competitive model: wage floor above equilibrium → surplus of labor; +1 monopsony (or search friction) counter-case; +1 clarity and a stated conclusion.

— End of paper —