EC 101: Principles of Microeconomics

Quiz 1 — Markets & Elasticity — ANSWER KEY

Duration: 30 minutes   Maximum marks: 10

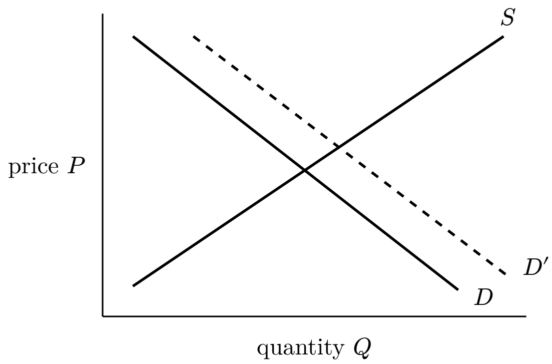
SET B

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. 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) Both are unchanged
(B) Price falls and quantity rises
(C) Price rises and quantity rises ✓
(D) Price rises and quantity falls

Q2. 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) Perfectly inelastic ($\varepsilon = 0$)
(B) Elastic ($|\varepsilon| > 1$)
(C) Unit elastic ($|\varepsilon| = 1$) ✓
(D) Inelastic ($|\varepsilon| < 1$)

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

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) ₹800
(B) ₹500
(C) ₹600
(D) ₹300 of net enjoyment forgone (₹800 value − ₹500 price) ✓

Part B — Fill in the Blanks *1 marks*

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

Part C — Essay *3 marks*

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

> **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 —