Q4

Consider the following statements: Other things remaining unchanged, market demand for a good might increase if 1. price of its substitute increases 2. price of its complement increases 3. the good is an inferior good and income of the consumers increases 4. its price falls Which of the above statements are correct? (a) 1 and 4 only (b) 2, 3 and 4 (c) 1, 3 and 4 (d) 1, 2 and 3 Official key: A.

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Explanation

(a) Official key

1 and 4 only. A dearer substitute and a fall in own price raise demand. A dearer complement cuts demand. Higher income cuts demand for an inferior good.

(b)

2, 3 and 4. Complement-price up and inferior-good income up both reduce demand.

(c)

1, 3 and 4. Statement 3 is false for an inferior good.

(d)

1, 2 and 3. Own-price fall is the law of demand; 2 and 3 fail.

Summary

Official key is (a) 1 and 4 only. Demand rises if a substitute gets costlier or if the good's own price falls. A costlier complement and a rise in income for an inferior good both reduce demand.

Related possible facts

These can be asked in a future Prelims paper.

Substitute
Tea-coffee: price of one lifts demand for the other.

Inferior good
Demand falls as income rises; coarse grain vs fine rice.