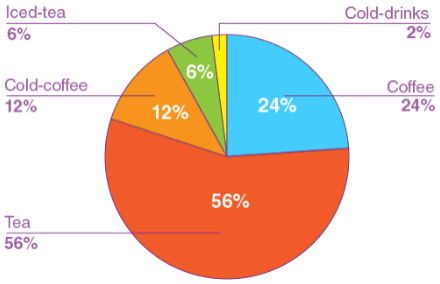
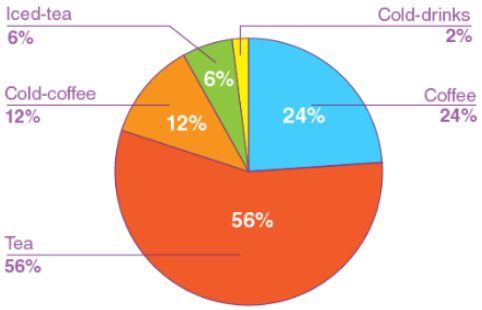
No. of printed pages: 19

CLASS - XI
ANNUAL EXAMINATION (2024-2025)
ECONOMICS (030)
MARKING SCHEME
SET B1/B2

Time Allowed: 3 hours Max. Marks: 80

Q.NO. Set B1	Q.NO. Set B2	EXPECTED ANSWER / VALUE POINTS	MARKS
SECTION A: STATISTICS FOR ECONOMICS			
1	6	Set B1: Read the following statements and choose the correct alternative from below: **Assertion (A):** Statistics is the science of estimates and probabilities. **Reason (R):** Statistics is the method of decision-making in the face of certainty on the basis of numerical data and calculated risk. *Alternatives:* (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true and R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true. Answer: (c) Set B2: Read the following statements and choose the correct alternative from below: **Assertion (A):** Statistics is the method of decision-making in the face of certainty on the basis of numerical data and calculated risk. **Reason (R):** Statistics is the science of estimates and probabilities. *Alternatives:* (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true and R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true. Answer: (d)	1

2	7	Set B1: Which of the following statements about arithmetic mean is incorrect? (a) The sum of deviations around mean is zero. (b) The sum of squares of deviations around mean is zero. (c) If 4 is added to all items in a data set, the mean will rise by 4. (d) None of the above Answer: (b) Set B2: Which of the following statements about arithmetic mean is incorrect? (a) The sum of deviations around mean is zero. (b) If 4 is added to all items in a data set, the mean will rise by 4. (c) The sum of squares of deviations around mean is zero. (d) None of the above Answer: (c)	1
3	8	Set B1: In summer, a survey was conducted among 400 people about their favourite beverages. The following pie chart shows the data. What is the the sum of the central angles for iced tea and cold-drinks?  Answer: Central angle for iced-tea = 24/600 × 360^o = 21.6^o Central angle for cold-drinks = 8/400 × 360^o = 7.2^o Total central angle = 21.6^o + 7.2^o = 28.8^o Set B2: In summer, a survey was conducted among 400 people about their favourite beverages. The following pie chart shows the data. What is the the sum of the central angles for iced tea and cold coffee?  	1

		Answer: Central angle for iced-tea = $24/600 \times 360^o = 21.6^o$ Central angle for cold-coffee = $12/400 \times 360^o = 43.2^o$ Total central angle = $21.6^o + 43.2^o = 64.8^o$	
4	9	Set B1: State any one importance of statistics in economics. Answer: Statistics plays a vital role in understanding economic data such as the relationship between the quantity and price, supply and demand etc. Set B2: State any one importance of statistics in economic planning. Answer: The success that a plan achieves is measured best by the use of statistical methods.	1
5	10	Set B1: In a moderately skewed distribution, the median is 40 and the mean is 42. Using these values, find the approximate value of the mode. Answer: Mode = 3 Median – 2 Mean Mode = 3(40) – 2(42) = 120 – 84 = 36 Set B2: In a moderately skewed distribution, the median is 40 and the mean is 45. Using these values, find the approximate value of the mode. Answer: Mode = 3 Median – 2 Mean Mode = 3(40) – 2(45) = 120 – 90 = 30	1
6	1	Set B1: A scatter diagram with a narrow clustering of points close to a straight line indicates: (a) Weak correlation (b) Strong correlation (c) No correlation (d) Positive correlation Answer: (b) Set B2: A scatter diagram with a narrow clustering of points close to a straight line indicates: (a) Weak correlation (b) Positive correlation (c) Strong correlation (d) No correlation Answer: (c)	1
7	2	A series where data is presented without arranging it in any order is known as: (a) Primary data (b) Secondary data	1

		(c) Raw data (d) Discrete data Answer: (c)	
8	3	Set B1: Define economic activities. Give an example. Answer: Activities undertaken to earn a livelihood. Eg.: worker working in a factory. Set B2: Define non-economic activities. Give an example. Answer: Activities undertaken out of love and not for profit motive. Eg.: teacher teaching her son.	1
9	4	What is the mode in a data set? (a) The lowest number in a data set (b) The number that occurs less frequently (c) The number that occurs most frequently (d) The highest number in a data set Answer: (c)	1
10	5	Which of the following statements is false about correlation? (a) It quantifies the degree of linear relationship between two variables. (b) It can be used to infer causation. (c) The value of correlation lies between -1 and +1. (d) A high correlation does not necessarily imply a causal relationship. Answer: (b)	1
11	12	Write short notes on ***<u>any two</u>***: (a) External data (b) Census of India (c) NSSO Answer: (a) It refers to the data which is collected from outside an organization. It includes primary data and secondary data. (b) It is conducted every ten years in our country by the govt. It collects data on a country's population like no. of people, religion, caste, employment status etc. (c) NSSO is an organization that conducts socio-economic surveys. It collects data on variables like employment, health, education etc.	1½ + 1½
12	11	Set B1: Organize the following data into a continuous frequency distribution with classes 20-29, 30-39 and so on. Also, what percentage of the data lies in the range 40-59?	2+1

45, 32, 55, 63, 42, 27, 51, 39, 33, 49,
62, 28, 53, 40, 58, 60, 65, 50, 36, 47,
57, 44, 52, 41, 29, 34, 48, 56, 38, 43

Answer:

CI	Tally marks	Frequency
20-29	III	3
30-39	~~IIII~~ I	6
40-49	~~IIII~~ IIII	9
50-59	~~IIII~~ III	8
60-69	IIII	4
	Total	30

Percentage of data between 40-59 = 17/30 * 100 = 56.67%

Set B2: Organize the following data into a continuous frequency distribution with classes 20-29, 30-39 and so on. Also, what percentage of the data lies in the range 40-59?

23, 34, 46, 58, 22, 37, 41, 49, 27, 31,
54, 25, 43, 36, 61, 60, 45, 28, 39, 56,
40, 47, 29, 35, 30, 50, 48, 42, 57, 38

Answer:

CI	Tally marks	Frequency
20-29	~~IIII~~ I	6
30-39	~~IIII~~ III	8
40-49	~~IIII~~ IIII	9
50-59	~~IIII~~	5
60-69	II	2
	Total	30

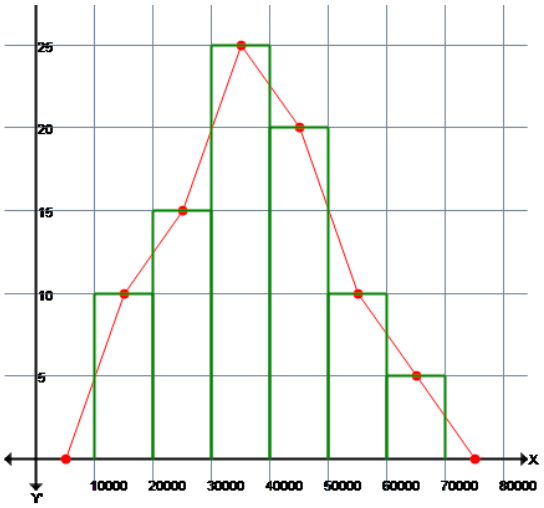
Percentage of data between 40-59 = 14/30 * 100 = 46.67%

13	15	Calculate Laspeyre's and Paasche's price index numbers on the basis of the following data:	4

Commodities	A	B	C	D	E
Base year prices	10	25	30	15	20
Current year prices	15	40	45	30	25
Base year quantities	6	10	15	20	8
Current year quantities	8	20	12	15	6

		Answer: P_0 | Q_0 | P_1 | Q_1 | P_0Q_0 | P_1Q_0 | P_0Q_1 | P_1Q_1 10 | 6 | 15 | 8 | 60 | 90 | 80 | 120 25 | 10 | 40 | 20 | 250 | 400 | 500 | 800 30 | 15 | 45 | 12 | 450 | 675 | 360 | 540 15 | 20 | 30 | 15 | 300 | 600 | 225 | 450 20 | 8 | 25 | 6 | 160 | 200 | 120 | 150 $\sum P_0Q_0 = 1220$ | $\sum P_1Q_0 = 1965$ | $\sum P_0Q_1 = 1285$ | $\sum P_1Q_1 = 2060$ Laspeyre's Price Index: $P_{01} = \frac{\sum P_1Q_0}{\sum P_0Q_0} \times 100 = \frac{1965}{1220} \times 100 = 161.06$ Paasche's Price index : $P_{02} = \frac{\sum P_1Q_1}{\sum P_0Q_1} \times 100 = \frac{2060}{1285} \times 100 = 160.31$	
14	14	Set B1: Answer the following questions: (a) The average income of 90 families is Rs. 6,200. Out of these, the average income of 30 families is Rs. 4,000. Find out the average income of the remaining families. (b) The average of five consecutive numbers is 20. What is the sum of the first and the last number in the series? OR Answer the following questions: (a) Three numbers have a mean of 64. When a fourth number is included, the mean becomes two times of the original mean. What is the fourth number? (b) When 5 is added to a set of three numbers, the mean of these four numbers increases to 4.6. What was the mean of the original three numbers? Answer: (a) Using combined mean formula, 6200 = [(30)(4000) + (60)(X)] / 90 558000 = 120000 + 60X X = 438000 / 60 X = Rs. 7,300 (b) Let the first number be x. Mean of x, x+1, x+2, x+3, x+4 = 20 5x + 10 = 20*5 Thus, x = 18 Sum of first and last number = 18 + 22 = 40 OR (a) Sum of three numbers = 64 * 3 = 192 Sum of four numbers = 128 * 4 = 512	2+2

		Thus, fourth number = 512 – 192 = 320 (b) Mean of three numbers and 5 = 4.6 Sum of three numbers = 4.6*4 – 5 = 13.4 Mean of the original three numbers = 13.4 / 3 = 4.467 Set B2: Answer the following questions: (a) The average income of 60 families is Rs. 4,000. Out of these, the average income of 15 families is Rs. 2,500. Find out the average income of the remaining families. (b) The average of five consecutive numbers is 30. What is the sum of the first and the last number in the series? OR Answer the following questions: (a) Three numbers have a mean of 80. When a fourth number is included, the mean becomes four times of the original mean. What is the fourth number? (b) When 7 is added to a set of three numbers, the mean of these four numbers increases to 6. What was the mean of the original three numbers? Answer: (a) Using combined mean formula, 4000 = [(15)(2500) + (45)(X)] / 60 240000 = 37500 + 45X X = 202500 / 45 X = Rs. 4,500 (b) Let the first number be x. Mean of x, x+1, x+2, x+3, x+4 = 30 5x + 10 = 30*5 Thus, x = 28 Sum of first and last number = 28 + 32 = 60 OR (a) Sum of three numbers = 80 * 3 = 240 Sum of four numbers = 320 * 4 = 1280 Thus, fourth number = 1280 – 240 = 1040 (b) Mean of three numbers and 7 = 6 Sum of three numbers = 6*4 – 7 = 17 Mean of the original three numbers = 17 / 3 = 5.67	
15	13	***Read the following case study about the salary structure of employees at XYZ Corporation and construct a frequency polygon using a histogram to present this data.***	4

		XYZ Corporation has recently conducted an internal analysis to better understand the salary distribution among its employees. The company is keen to examine the income spread across various salary ranges to evaluate the compensation structure. To do so, the HR department has gathered data on the number of employees in each salary bracket. The data shows that there are 10 employees earning more than Rs. 10,000 but less than Rs. 20,000 per month. In the next salary bracket, between Rs. 20,000 and Rs. 30,000, 15 employees are represented. The largest group of employees, totaling 25 individuals, earns between Rs. 30,000 and Rs. 40,000. Following that, 20 employees make between Rs. 40,000 and Rs. 50,000, while only 10 employees earn between Rs. 50,000 and Rs. 60,000. Finally, there are 5 employees whose monthly earnings are between Rs. 60,000 and Rs. 70,000. Answer: **Class** / **Frequency** 10000 - 20000 : 10 20000 - 30000 : 15 30000 - 40000 : 25 40000 - 50000 : 20 50000 - 60000 : 10 60000 - 70000 : 5  	
16	17	Compute the rank correlation coefficient for the following data of the marks obtained by 8 students in the Commerce and Mathematics.	6

Marks in Commerce	15	20	28	12	40	60	20	80
Marks in Mathematics	40	30	50	30	20	10	30	60

Answer:

Marks in Commerce (X)	Rank (R_{1i})	Marks in Mathematics (Y)	Rank (R_{2i})	$D_i = R_{1i} - R_{2i}$	D_i^2
15	2	40	6	-4	16
20	3.5	30	4	-0.5	0.25
28	5	50	7	-2	4
12	I	30	4	-3	9
40	6	20	2	4	16
60	7	10	I	6	36
20	3.5	30	4	-0.5	0.25
80	8	60	8	0	0
				Total	$\sum D^2 = 81.5$

$$\rho = 1 - 6\left[\frac{\sum D_i^2 + \frac{1}{12}\left(m_1^3 - m_1\right) + \frac{1}{12}\left(m_2^3 - m_2\right) + \ldots}{n\left(n^2 - 1\right)}\right]$$

$$\rho = 1 - 6\left[\frac{81.5 + \frac{1}{12}\left(2^3 - 2\right) + \frac{1}{12}\left(3^3 - 3\right)}{8\left(8^2 - 1\right)}\right]$$

$$= 1 - 6\frac{[81.5 + 0.5 + 2]}{504} = 1 - \frac{504}{504} = 0$$

No correlation.

17 | 16 | Calculate the mean marks of the following data using step-deviation method: | 6

Marks (less than)	55	60	65	70	75	80	85	90
No. of students	5	25	35	45	54	60	72	80

OR

Calculate the mode of the following data using grouping method:

Marks (more than)	0	5	10	15	20	25	30	35
No. of students	116	111	99	73	60	36	15	4

Answer:

Class interval	Mid – value (x_i)	f_i	$d_i = x_i - A$	$u_i = \frac{d_i}{h}$ ($h = 5$)	$f_i \times u_i$
50 – 55	52.5	5	−15	−3	−15
55 – 60	57.5	20	−10	−2	−40
60 – 65	62.5	10	−5	−1	−10
65 – 70	A = 67.5	10	0	0	0
70 – 75	72.5	9	5	1	9
75 – 80	77.5	6	10	2	12
80 – 85	82.5	12	15	3	36
85 – 90	87.5	8	20	4	32

Mean $(\bar{x}) = A + \frac{\sum f_i u_i}{\sum f_i} \times h$

$= 67.5 + \frac{24}{16}$

$= 67.5 + 1.5$

$= 69.0$

OR

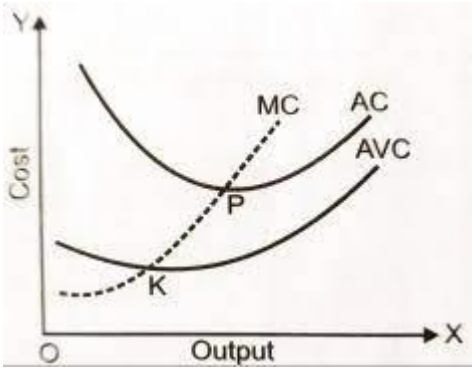
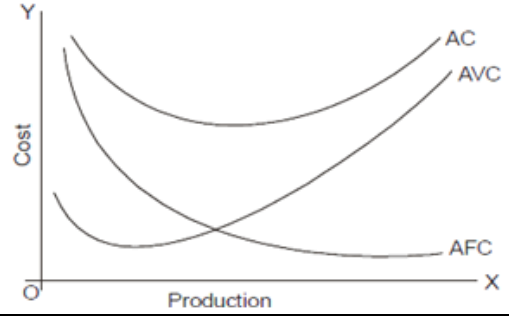
Class-Interval (X)	(I) Frequency	(II) (1+2)	(III) (2+3)	(IV) (1+2+3)	(V) (2+3+4)	(VI) (3+4+5)
0-5	5	17		43		
5-10	12		**38**		51	
10-15	**26**	39				**63**
15-20	13		37	**58**		
20-25	24	**45**			**56**	
25-30	21		32			36
30-35	11	15				
35-40	4					

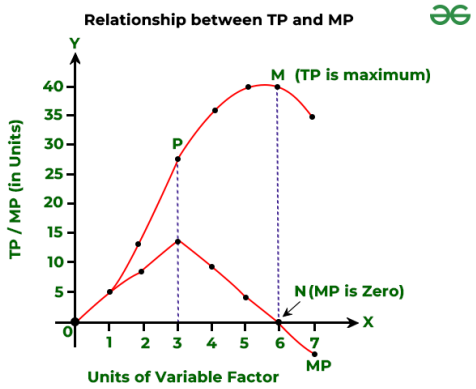
Column	Class Interval (X)							
	0-5	5-10	10-15	15-20	20-25	25-30	30-35	35-40
I			✓					
II					✓	✓		
III		✓	✓					
IV				✓	✓	✓		
V					✓	✓	✓	
VI			✓	✓	✓			
Total	-	1	3	2	**4**	3	1	-

		$M_o = l_1 + \frac{f_1 - f_0}{2f_1 - f_0 - f_2} \times i$ $M_o = 20 + \frac{24-13}{2(24)-13-21} \times 5$ $M_o = 20 + \frac{11}{48-34} \times 5$ $M_o = 20 + \frac{55}{14}$ $M_o = 20 + 3.92$ **Mode (Z) = 23.92**	
SECTION B: INTRODUCTORY MICROECONOMICS			
18	23	Read the following statements and choose the correct alternative from below: **Assertion (A):** A consumer's budget line shifts outward when their income increases, keeping the prices of goods constant. **Reason (R):** The slope of the budget line depends on the ratio of the prices of the two goods. *Alternatives:* (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true and R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true. Answer: (b)	1
19	24	When marginal revenue is constant and positive, what can you say about the behaviour of total revenue? (a) No change (b) Increasing at an increasing rate (c) Increasing at a diminishing rate (d) Increasing at a constant rate Answer: (d)	1
20	25	Set B1: What is the implication of freedom of movement of firms in a perfectly competitive industry? (a) Uniform prices (b) Normal profits in the long run (c) Homogeneous product (d) Uniform cost structure	1

		Answer: (b) Set B2: What is the implication of freedom of movement of firms in a perfectly competitive industry? (a) Uniform cost structure (b) Uniform prices (c) Normal profits in the long run (d) Homogeneous product Answer: (c)	
21	26	Define opportunity cost. Answer: It refers to the cost of the next best alternative forgone.	1
22	27	Set B1: Read the following statements and answer the questions that follow: **Statement 1:** Total utility increases at a decreasing rate as more units of a good are consumed. **Statement 2:** Marginal utility becomes negative when total utility starts decreasing. *Alternatives:* (a) Both statements are true. (b) Both statements are false. (c) Statement 1 is true, but Statement 2 is false. (d) Statement 1 is false, but Statement 2 is true. Answer: (a) Set B2: Read the following statements and answer the questions that follow: **Statement 1:** Total utility increases at an increasing rate as more units of a good are consumed. **Statement 2:** Marginal utility becomes negative when total utility starts decreasing. *Alternatives:* (a) Both statements are true. (b) Both statements are false. (c) Statement 1 is true, but Statement 2 is false. (d) Statement 1 is false, but Statement 2 is true. Answer: (d)	1
23	18	Set B1: When price of Good M rises, demand for Good N rises. What is the relation between these goods? (a) Substitute goods (b) Complementary goods	1

		(c) Unrelated goods (d) Giffen goods Answer: (a) Set B2: When price of Good M rises, demand for Good N falls. What is the relation between these goods? (a) Substitute goods (b) Complementary goods (c) Unrelated goods (d) Giffen goods Answer: (b)	
24	19	Set B1: When a firm sells 50 units of a commodity, it earns a revenue of Rs. 2000. When it sells 55 units, its revenue rises by 25%. Calculate the marginal revenue of selling the 55^{th} unit. Answer: MR = Change in TR / Change in units consumed MR = (2500-2000) / 5 = Rs. 100 Set B2: When a firm sells 40 units of a commodity, it earns a revenue of Rs. 2000. When it sells 50 units, its revenue rises by 25%. Calculate the marginal revenue of selling the 50^{th} unit. Answer: MR = Change in TR / Change in units consumed MR = (2500-2000) / 10 = Rs. 50	1
25	20	Set B1: Average revenue and price are always equal under: (a) Monopoly (b) Perfect competition (c) Oligopoly (d) All market forms Answer: (d) Set B2: Average revenue and price are always equal under: (a) All market forms (b) Monopoly (c) Perfect competition (d) Oligopoly Answer: (a)	1
26	21	Production possibility frontier is _____ *(convex, concave)* due to _____. Answer: Concave, increasing MRT / MOC	1

27	22	Which of the following measures of elasticity shows elastic supply? (a) 0 (b) 0.5 (c) 1.0 (d) 1.5 Answer: (d)	1
28	29	Set B1: Using graph, explain the relationship between average cost, average variable cost and marginal cost. Answer: MC curve cuts both AC and AVC curves at their minimum points. When MC is above AC, both AC and AVC rise.  Set B2: Using graph, explain the relationship between average cost, average variable cost and average fixed cost. Answer: AC curve lies above AVC and AFC curves. The gap between AC and AVC keeps decreasing since it is equal to AFC.  	3
29	28	With limited resources, an economy's government must decide between using technology for higher productivity or employing more workers. What economic problem does this represent, and what factors influence this decision? OR An economy can shift resources between two goods, but increasing the production of one good leads to larger and larger reductions in the other. Identify the curve used to depict this situation. Also, write down any two properties of the curve. Answer: How to produce – identify and explain along with guiding	3

		principle. OR Production possibility frontier – identify and explain its two properties – downward sloping, concave.	
30	32	Answer the following questions: (a) State the law of variable proportions. (b) Illustrate the stages of the law with the help of a graph. (c) Which stage would a profit-maximizing producer prefer, and why? OR Answer the following questions: (a) Differentiate between short run and long run. (b) List any two reasons leading to increasing returns to a factor. Answer: (a) As we go on increasing the units of variable factor, keeping others fixed, TP initially increases at an increasing rate, then at a diminishing rate and finally starts falling. (b)  (c) Stage 2 with reason OR (a) Short run – where some factors are fixed. Output can be increased only by changing variable factors. Long run – where all factors are variable. Output can be increased by changing all factors. (b) Better utilization of fixed factors, increased efficiency of variable factors.	1+1+2 or 2+2
31	31	***Read the following case study and answer the questions that follow.*** Rivertown, a small town known for its cozy cafes, recently faced a shift in the price of coffee. The local supplier, Café Beans, decided to raise the price of its coffee by 15%. The owner, Mrs. Green, made this decision after noticing an increase in demand due to a new	4

promotional campaign and expanding her supply chain. Her café had become a favorite hangout for the young professionals working in the tech park nearby.

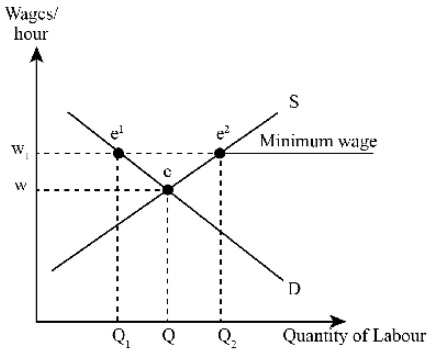
At first, many customers continued to buy their regular coffee despite the higher price. However, after a few weeks, some regulars began to hesitate. A few of them, especially those who had been coming for years, started to explore other options, while others began brewing their coffee at home. Mrs. Green noticed that a number of her younger customers remained loyal, regardless of the price rise, citing their preference for Café Beans' unique blends. On the other hand, some of the older customers, who were mostly habitual coffee drinkers, began to consider more affordable alternatives offered by other shops.

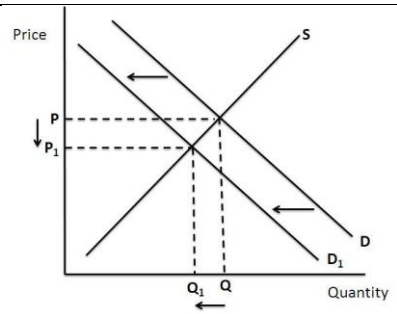
Some people, who had always seen coffee as an essential part of their daily routine, continued purchasing without much thought, while others, now seeing it as more of a luxury, started cutting back. Mrs. Green also observed that some customers seemed less concerned about the price increase, while others, with more limited budgets, adjusted their purchasing behavior in response to the price change.

As Mrs. Green reflected on the situation, she started wondering about the different factors at play that influenced her customers' reactions to the price hike, and whether these factors would affect their willingness to buy coffee in the future.

(a) Identify the concept that explains how the quantity demanded responds to changes in price, as depicted by the reactions of customers to the price increase at the café.
(b) What does the case study suggest about the effect of price changes on different customers?
    (i) All customers react the same way.
    (ii) Price changes have no effect on consumer behavior.
    (iii) Customer responses vary based on factors like income and necessity.
    (iv) Higher prices always lead to reduced demand.
(c) A product with a more elastic demand has a _____ *(steeper / flatter)* demand curve.
(d) Price of a commodity rises, as a result of which the total expenditure incurred by the consumer on it also rises. Its demand must be _____ *(elastic / inelastic).*

		Answer: (a) Elasticity of demand (b) (iii) (c) flatter (d) inelastic	
32	30	Can there be a positive level of output that a profit-maximizing firm produces in a perfectly competitive market, at which market price is not equal to marginal cost? Justify your answer by considering the conditions for a producer's profit maximization and the nature of perfect competition. Answer: No, it is not possible. Explain MR = MC condition of producer's equilibrium and P = MR in perfect competition. Thus, P = MC.	4
33	34	Set B1: Answer the following questions: (a) Differentiate between expansion in demand and increase in demand. (b) A consumer spends his income on two goods, X and Y. Explain his reaction when price of good X rises. How does he reach equilibrium? Use the cardinal utility approach. OR Answer the following questions: (a) Differentiate between change in quantity demanded and change in demand. (b) Define indifference curve. Why is a consumer's indifference curve downward sloping and convex to the origin? Answer: (a) Any 3 points of differences. (b) When price of Good X rises, MU ratio < Price ratio. He will consume less of good X and more of good Y. So, MU_x will start rising and MU_y will start falling till both the ratios become equal. OR (a) Any 3 points of differences. (b) Definition. Downward sloping – to maintain same level of satisfaction. Convex – due to diminishing MRS. Set B2: Answer the following questions: (a) Differentiate between expansion in demand and increase in demand. (b) A consumer spends his income on two goods, X and Y. Explain his reaction when price of good X falls. How does he reach equilibrium? Use the cardinal utility approach.	3+3

		OR Answer the following questions: (c) Differentiate between movement along demand curve and shift in demand curve. (d) Define indifference curve. Why is a consumer's indifference curve downward sloping and convex to the origin? Answer: (a) Any 3 points of differences. (b) When price of Good X falls, MU ratio > Price ratio. He will consume more of good X and less of good Y. So, MU_x will start falling and MU_y will start rising till both the ratios become equal. OR (a) Any 3 points of differences. (b) Definition. Downward sloping – to maintain same level of satisfaction. Convex – due to diminishing MRS.	
34	33	Set B1: Answer the following questions: (a) Graphically illustrate the likely impact of the minimum wage policy legislation by the government on labour market. (b) *"Discovery of natural gas in the international markets leads to a cut in the petrol prices."* Explain the economic theory to analyze the impact of reduced petrol prices for cars on the ***cycle market*** in equilibrium. Use diagram. Answer: (a) Since minimum wage is imposed above the equilibrium wage rate, it leads to excess supply of labour, i.e. unemployment.  (b) Reduction in petrol prices will raise the demand for cars and will thus, cause a decrease in the demand for its substitute, cycles. As a result, demand curve for cycles will shift to the left leading to excess supply at the existing price. This will lead to competition among sellers, thereby reducing prices till demand becomes equal to supply. Thus, equilibrium price of cycles will fall and equilibrium quantity will also fall.	2+4

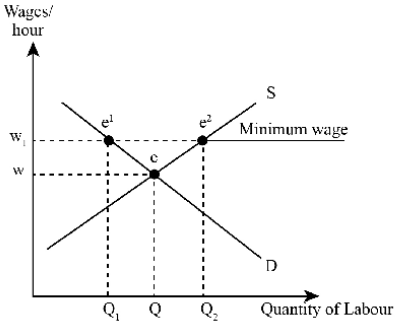


Set B2: Answer the following questions:

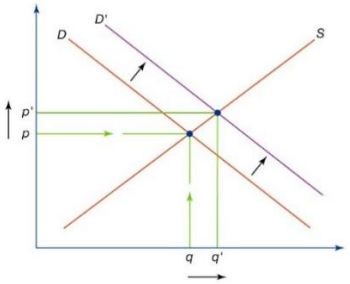
(a) Graphically illustrate the likely impact of the minimum wage policy legislation by the government on labour market.

(b) *"The Ministry of Health has issued an advisory to reduce the consumption of alcohol / hard drinks due to heightened cases of liver damage in the country."* Explain the economic theory to analyze the impact of this advisory on the ***soft drinks market*** in equilibrium. Use diagram.

Answer: (a) Since minimum wage is imposed above the equilibrium wage rate, it leads to excess supply of labour, i.e. unemployment.



(b) Issuance of the advisory will reduce the demand for hard drinks and will thus, cause an increase in the demand for its substitute, soft drinks.

As a result, demand curve for soft drinks will shift to the right leading to excess demand at the existing price. This will lead to competition among buyers, thereby raising prices till demand becomes equal to supply.

Thus, equilibrium price of soft drinks will rise and equilibrium quantity will also rise.