**Micro Economics & Macro Economics**

**Jun 2025 Examination**

**PLEASE NOTE: This assignment is application based, you have to apply what you have learnt in this subject into real life scenario. You will find most of the information through internet search and the remaining from your common sense. None of the answers appear directly in the textbook chapters but are based on the content in the chapter**

**Q1. Rohan owns a local organic farming business that supplies fresh fruits and vegetables to supermarkets and online grocery platforms. Recently, he has seen an increase in demand due to rising consumer preference for organic produce. However, he is struggling to increase supply due to challenges such as unpredictable weather conditions, high labor costs, rising transportation expenses, and government farming regulations. As an agricultural consultant, analyze the concept of supply and its determining factors to help Rohan expand his business. (10 Marks)**

**Ans 1.**

**Introduction**

Rohan, a local organic farmer, has seen an increase in demand for fresh organic fruits and vegetables due to shifting consumer preferences toward healthier, chemical-free food options. However, despite this growing demand, he faces several challenges in increasing supply, including unpredictable weather, high labor costs, rising transportation expenses, and government farming regulations.

Understanding the concept of supply and the factors that influence it is crucial for Rohan to expand his business efficiently. Supply in economics refers to the quantity of goods a producer is willing and able to offer in the market at a given price over a specific period. Several factors determine the supply of agricultural products, and by managing these factors effectively, Rohan can enhance

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**Q2A. Aarav owns a chain of fast-food restaurants that specializes in gourmet burgers. Recently, he noticed that when he increased the price of his signature burger by 10%, sales dropped significantly. However, when he increased the price of soft drinks by 15%, there was little to no impact on sales. Aarav is now trying to understand how price changes affect demand for different products in his restaurant and how he can use this information to make better pricing decisions. As a business consultant, analyze the concept of price elasticity of demand and recommend pricing strategies that Aarav can use to maximize revenue without losing customers. (5 Marks)**

**Ans 2A.**

**Introduction**

Pricing decisions play a crucial role in determining the profitability and competitiveness of businesses. Aarav, a fast-food restaurant owner, observed varying effects of price changes on different products. While an increase in the price of his signature burger led to a sharp decline in sales, a similar hike in soft drink prices had little effect. This scenario highlights the concept of price elasticity of demand, which helps businesses optimize pricing strategies to maximize revenue without losing customers.

**Concept and Application**

**Concept of Price Elasticity of Demand**

Price elasticity of demand (PED) measures how sensitive consumer demand is to changes in price.

**Q2B. Neha, a young professional, recently received a promotion with a significant salary hike. Excited about her increased income, she decides to upgrade her lifestyle by purchasing premium organic food products, high-end fashion brands, and a gym membership. However, she also notices that some of her colleagues, despite their higher incomes, continue buying budget-friendly brands and prefer saving rather than increasing their spending. As an economist, analyze the impact of the income effect on Neha’s consumption choices. In your response explain the concept of the income effect and how changes in income influence consumer demand for normal goods, inferior goods, and luxury goods. (5 Marks)**

**Ans 2B.**

**Introduction**

The income effect explains how changes in a person’s income influence their purchasing decisions. After receiving a promotion and a salary hike, Neha opted for premium organic food, luxury fashion brands, and a gym membership, reflecting her increased purchasing power. However, some of her colleagues continued buying budget-friendly brands despite higher incomes. This highlights the varying effects of income changes on consumer behavior.

**Concept of the Income Effect**

The income effect describes how an individual’s demand for goods and services shifts due to a