**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**

A basic economic idea, supply shapes the availability of products and services in a market. It describes the quantity of a good producers are ready and able to present at several price points during a designated period. Changing consumer tastes have driven demand for fresh, chemical-free food at Rohan's organic agricultural company. Meeting this increasing demand is difficult, though, given supply-side factors include erratic weather, high labor costs, shipping costs, and regulatory rules. Analyzing the main elements affecting supply, the function of market forces, and ways to get beyond these challenges will help Rohan grow his company and guarantee sustainable agricultural development and profitability.

**Concept and Application**

**Concept of Supply and Its Determining Factors**

**Definition and Law of Supply**

Supply is the total quantity of a product that producers are willing to sell at various prices in a given

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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**

Price elasticity of demand (PED) measures how the quantity demanded of a product responds to changes in its price. Aarav's experience with his fast-food restaurant highlights that different products have varying levels of price sensitivity. While a 10% increase in burger prices led to a significant drop in sales, a 15% rise in soft drink prices had little impact on demand. Understanding PED can help Aarav make informed pricing decisions, optimize revenue, and balance customer

**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 is the way that variations in a consumer's income affect their purchase behavior. Neha decides to change her way of living by buying luxury goods and services as she gets a pay raise. Some of her colleagues, though paid more, nonetheless spend carefully on reasonably priced goods. Economic elements such normal goods, inferior products, and luxury items help to explain this variation in behavior. Examining these consumption trends clarifies the different effect of