**Micro Economics & Macro Economics**

**Sep 2025 Examination**

**Q1. You are a market analyst working with a leading Indian retail chain that offers both premium and budget product lines across multiple categories such as groceries, personal care, and home essentials. The company has recently observed that changes in the prices of certain items and shifts in consumer income are affecting customer purchasing patterns, particularly in the FMCG segment. The management has asked you to analyze how the income effect, price effect, and substitution effect influence consumer choices and equilibrium in such a dynamic retail environment.**

**Using practical examples from the Indian retail sector—such as consumers choosing between branded atta (wheat flour) and local alternatives, or shifting from premium to budget shampoos—analyze how these economic concepts impact consumer equilibrium and inform product placement and pricing strategies. (10 Marks)**

**Ans 1.**

**Introduction**

In the fast-moving consumer goods (FMCG) sector, purchasing patterns are highly sensitive to changes in consumer income levels and product prices. As a market analyst for a leading Indian retail chain offering both premium and budget product lines, it is critical to understand the underlying economic forces shaping consumer decisions. Particularly, the income effect, price effect, and substitution effect offer powerful insights into why consumers shift their preferences between brands and categories. For instance, an increase in the price of branded atta may push consumers toward local brands, or a drop in income may lead to the purchase of economy shampoos over premium ones. Analyzing these behavioral shifts can help in

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**Q2. Assess the limitations and exceptions to the law of demand and law of supply and argue how understanding these exceptions is crucial for policy makers and business leaders in volatile markets. (10 Marks)**

**Ans 2.**

**Introduction**

The law of demand states that, ceteris paribus, as the price of a good increases, the quantity demanded decreases. Conversely, the law of supply posits that an increase in price leads to an increase in quantity supplied. While these laws form the foundation of microeconomic theory, they do not always hold true in real-world market scenarios. In volatile or unpredictable markets, various exceptions and limitations emerge due to behavioral, structural, and contextual factors. Understanding these exceptions is critical for both policymakers and business leaders, as relying solely on textbook economics can lead to misguided policies or flawed business strategies. The following discussion highlights key

**Q3(A). Devise a comprehensive production strategy for a manufacturing firm facing increasing demand, ensuring optimal utilization of both fixed and variable factors in the short run and the long run. Justify your approach by applying the Law of Variable Proportions in the short run and Returns to Scale in the long run to align production theory with practical planning, thereby ensuring resource efficiency and market responsiveness. (5 Marks)**

**Ans 3a.**

**Introduction**

A manufacturing firm experiencing rising demand must strategically scale production to meet market needs while maintaining efficiency and profitability. In the short run, where some resources are fixed, optimizing variable inputs becomes essential. In the long run, when all factors are adjustable, capacity expansion and process redesign come into focus. Applying the Law of Variable Proportions and the concept of Returns to Scale allows firms to align economic theory with production planning to achieve sustainable growth, resource efficiency,

**Q3(B). Critically evaluate the market structure of the aviation industry, where a limited number of large airlines dominate air travel routes both domestically and internationally. Identify and justify the most appropriate market structure for this industry and analyze key features such as price rigidity, non-price competition, and high entry barriers. Assess how these features influence market behavior, pricing strategies, and competition. (5 Marks)**

**Ans 3b.**

**Introduction**

The aviation industry is characterized by a few dominant players controlling major domestic and international air routes. This environment presents unique pricing behaviors, high operational costs, and limited competition due to substantial barriers to entry. Understanding its market structure is crucial to assessing how airlines interact, set fares, and compete beyond just price. The following evaluation identifies the aviation sector as best described by oligopoly, analyzing how features like price rigidity, non-price competition, and entry