**Micro 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. During the COVID-19 pandemic, global supply chains faced disruptions, leading to a shortage of gaming consoles, including the PlayStation 5 (PS5). Despite supply constraints, demand for the PS5 surged due to increased consumer interest in home entertainment. However, varying consumer preferences, price sensitivity, and economic uncertainty influenced purchasing decisions differently across markets.Given this context, analyze how different factors such as consumer preferences, price sensitivity, income levels, availability of substitutes, external economic conditions and other factors affected the demand for the PlayStation 5 during the pandemic. (10 Marks)**

**Ans 1.**

**Introduction**

The COVID-19 pandemic created an unprecedented disruption in global economic activities, with both supply and demand chains facing considerable turmoil. One notable example was the shortage of gaming consoles, particularly Sony’s PlayStation 5 (PS5), which became a highly sought-after product amidst lockdowns. As people spent more time indoors, the demand for home entertainment skyrocketed. Interestingly, despite the economic downturn and limited availability due to supply chain issues, the PS5 witnessed high global demand. This phenomenon can be analyzed using microeconomic tools such as consumer preferences, price sensitivity, income effects, availability of substitutes, and external economic shocks. These factors collectively shaped purchasing behaviors in different regions, providing a real-life

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**Q2A. Mr. Rajan is a well-known art collector who owns a rare painting by a famous artist. He plans to auction the painting but recently heard that another similar painting by the same artist was sold for a record-breaking price. Expecting that prices may rise further in the future, he decides to delay the auction to maximize his profit.Meanwhile, a jewellery merchant who specializes in rare diamonds observes a surge in diamond prices. Instead of increasing supply to take advantage of higher prices, he holds back a significant portion of his inventory, anticipating even higher prices in the coming months. Analyse how the decisions of Mr. Rajan and the jewellery merchant contradict the law of supply. Evaluate the exceptions to law of supply and discus the role of future price expectations and goods sold through auctions in influencing their supply decisions. Provide examples to support your answer. (5 Marks)**

**Ans 2A.**

**Introduction (Approx. 80 words)**

The law of supply states that other factors being constant, an increase in the price of a good leads to an increase in its quantity supplied. However, in real-world scenarios, especially for rare or speculative goods, this law may not always hold true. Mr. Rajan and the jewellery merchant, despite rising prices, chose to hold back their goods, expecting further price appreciation. Their behavior reflects exceptions to the law of supply and shows how future

**Q2B. Evaluate the role of income elasticity of demand. Calculate the income elasticity of demand and interpret the result from the below scenario. The monthly disposable income of the Mehta family increases from Rs.20,000 to Rs.50,000. As a result, their demand for organic fruits and vegetables rises from 10 kg to 25 kg per month. (5 Marks)**

**Ans 2B.**

**Introduction**

Income elasticity of demand (YED) measures how much the quantity demanded of a good responds to changes in consumer income. It is a critical concept in understanding consumer behavior and market classification of goods. As income levels rise or fall, consumers may shift their consumption patterns, increasing demand for certain goods while reducing demand for others. In this context, we analyze how a change in income affected the Mehta family’s demand