**Micro Economics & Macro Economics**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for June 2025 Examination**

**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)**

**Answer:**

**Introduction:**

Rohan’s organic farming business is experiencing growth due to the increasing demand for fresh, chemical-free produce. Consumers are becoming more health-conscious, leading to a surge in preference for organic fruits and vegetables. While this presents an opportunity for business expansion, Rohan faces multiple challenges that restrict his ability to increase supply. These include unpredictable weather conditions, high labor costs, rising transportation expenses, and government regulations that impact farming practices.

**This is partially solved sample answer**

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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)**

**Answer:**

**Introduction:**

Aarav, the owner of a gourmet fast-food restaurant chain, is facing a challenge in understanding how pricing changes impact sales. He observed that a 10% price increase in his signature burger led to a significant drop in sales, while a 15% increase in soft drink prices had little effect. This indicates that different products in his restaurant have different price sensitivities. To make better pricing decisions and maximize revenue, Aarav needs to understand the concept of price elasticity of demand. By analyzing how customers react to price changes, he can implement effective pricing strategies that balance profitability and customer retention.

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**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)**

**Answer:**

**Introduction:**

Neha’s recent promotion and salary hike have given her increased financial flexibility, allowing her to make new consumption choices. She now prefers premium organic food, high-end fashion, and a gym membership, signaling a shift in her spending habits. However, some of her colleagues with higher incomes continue to purchase budget-friendly products and prioritize saving. This difference in behavior can be explained by the concept of the income effect, which examines how changes in a person’s income influence their consumption patterns. The income effect plays a crucial role in determining how individuals allocate their earnings among normal goods, inferior goods, and luxury goods.

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