**Micro Economics**

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

**Internal Assignment Applicable for June 2025 Examination**

**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.**

**Answer:**

**Introduction:**

The COVID-19 pandemic created widespread disruption across global supply chains, leading to a shortage of products, including gaming consoles like the PlayStation 5 (PS5). Despite the scarcity of the PS5, demand remained high, fueled by increased consumer interest in home entertainment as people stayed home due to lockdowns and social distancing. The gaming industry experienced a surge in interest, as the PS5 offered an escape through immersive video games and entertainment. However, the demand for PS5 was not uniform across all markets, as various factors such as consumer preferences, price sensitivity, income levels, availability of substitutes, and external economic conditions played a critical role in shaping purchasing decisions. In this context, understanding these factors is crucial to analyze how the demand for PS5 was affected by the global health crisis. This analysis delves into how these diverse elements influenced consumer behavior, considering the balance between the allure of the PS5 and the challenges posed by the pandemic's economic landscape.

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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.**

**Answer:**

**Introduction:**

The law of supply states that, all else being equal, as the price of a good increases, the quantity supplied of that good will also increase. Both Mr. Rajan, the art collector, and the jewellery merchant’s decisions appear to contradict this principle. Mr. Rajan decides to delay auctioning his rare painting, expecting prices to rise further, while the jewellery merchant holds back a portion of his diamond inventory in anticipation of higher future prices. These actions challenge the typical behavior predicted by the law of supply and offer insights into exceptions and external factors that affect supply decisions.

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**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.**

**Answer:**

**Introduction:**

Income elasticity of demand (YED) measures how the quantity demanded of a good changes in response to a change in consumer income. It helps to understand the relationship between income changes and demand for goods and services. Positive YED values indicate that the good is a normal good, while negative values suggest an inferior good. The higher the YED, the more sensitive the demand is to income changes. In this scenario, we’ll calculate the income elasticity of demand for organic fruits and vegetables for the Mehta family as their income rises.

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