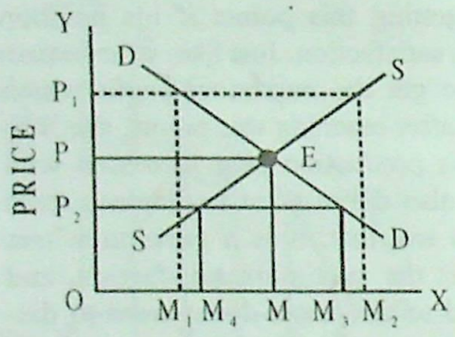
Stable Equilibrium : Stable equilibrium indicated that, if there is any disturbance in the equilibrium situation, it is self adjusting and for that old equilibrium position is restored. In this connection Marshall said, **"when the demand price is equal to supply price, the amount produce has no tendency either to be increased or to be deminised, it is an equilibrium. Such an equilibrium is stable, that is, like price, if displaced a little from it, will tened to return as a pendulum oscillate about its lowest point."**

Under the condition of perfect competition, stable equilibrium would be maintained itself as long as the underlying demand and supply condition remain unchanged.

DD is the demand curve and SS supply curve. OP (EM) is the stable equilibrium price. Any price other than OP will indicate unstable. If OP price will be disturbed, forces will soon come into operation which will tend to restore it to its original position. If price increase OP_1, which indicate the disturbance position or disequilibrium. In this point, the supply of commodities is OM_2 which is excess of the demand (OM_1). The price then fall on OP where the quantity of the commodity is equal to the quantity supplied. If on the other hand, when price falls OP_2 the demand for commodity is OM_2 which is the excess the supply OM_4 the price in-

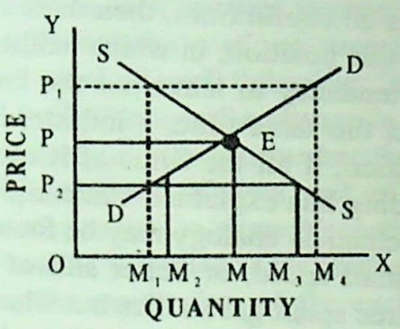


Fig–2

creases to OP where the quantity demanded is equal to quantity supplied.

Unstable Equilibrium

Unstable equilibrium indicated that, when there is any disturbance in the equilibrium position. According to "Pigou" if the small disturbance calls out further disturbing forces which act in a cumulative manner to drive the system from its initial position". As an egg is balanced on one of its ends would at the smallest shake fall down and lie length way– Pointed out by Marshall.



Fig–3

This unstable situation can be explain by the possitive demand curve and negative supply curve.

It can be explained with the help of Griffen goods where the powerful income negative effect more than neutralizes the weak positive substitution effects.

In such as case, demand curve has a positive slope OP or EM is the equilibrium value. Any change in the value will further push it away from the position of equilibrium. Let us suppose that, price increases to OP_1 at this demand OM_4 excess of supply OM_1 the price will increase followed by still rise in price.

When price decreases (OP_2) supply OM_3 is excess the demand OM_2. In that case price does not return to the original position of equilibrium.

Static Equilibrium

According to Prof. Mehta, "Static equilibrium is that quilibrium which maintains itself outside the period of time nder consideration".

If one individual or firm reached this position, then that ould not to leave this position. A consumer can set the quilibrium position, when he earn maximum profit. Any eviation from this position will lead to diminution in profit. ike that, when an industry is an equilibrium, then there is o change of its output. It is this position, in which neither ne existing firms have any tendency to leave nor the fair irm to enter the industry. At the same time, a industry is eached the equilibrium position, if all the firms of it earn ormal position. Prof. Boulding has explained static equi-ibrium like this way, "A mechanical analogy may be found n the ball rolling at a constant speed, or better still of a orest in equilibrium where tree spout grows dies but where he composition of the forest as a whole remain unchanged." We can say that static equilibrium like a train which running t a constant speed. Static equilibrium best on constant price, quantities, incomes, tastes, technology, population etc.

Comparative Static : According to Prof. Samuelson, 'it is the task of comperative statics to show the determi-nation of the equilibrium values of given variable (unknown) nder postulated conditions (functional relationship) with various data (parameters) specified. Thus in the simplest case of a particular equilibrium market for a single commod-ity to independent relations of supply and demand, each down up with the other price and institutional data being

Reference ML Seth, Micro economics-P-30

taken as given, determine by their interaction the equilibrium quantities of the unknown price and quantities sold..."

Comparative static analysis compare one equilibrium position with another when information and statistical data have changed and system has finally reached another equilibrium positions.

Keynes employment, Income and output analysis based on comparative equilibrium, because, he compare different equilibrium of level of income. Comperative static is a very useful technique of explaining the changing phenomena. The word of prof. Schneider "this sort of dynamic analysis of the influence of a change is data is much more comprehensive and informative than the more static analysis of two different sets of data and of the equilibrium positions corrosponding to them Neverthless, the comparative static treatment provides as we shall see some important in sights into the machanism of the exchange economy."

Dynamic Equilibrium :

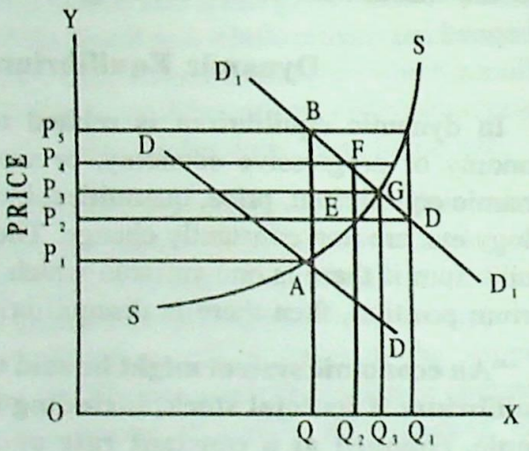
In dynamic equilibrium is related to the change is economy or progressive economy, or we can say that in dynamic equilibrium, price, quanttities, income, taste, technology etc. are non constantly change. There is always disequilibrium if there is one variable which change the equilibrium position, then there is disequilibrium.

"An economic system might be said to be in dynamic equilibrium if its total stock, including both things and people, changed at a constant rate and if the rates of production and consumption of all items of the stock increased at the same rate."

Here, from this quotation, points are come out that, the various organism must change, and they must change at uniform rate. Prof. Mehta said that when after a fixed period the equilibrium state is disturbed, it is called dynamic equilibrium.

To understand the dynamic equilibrium, suppose there is normal demand for rice in the market, but suddenly, the demand for rise increases due to so cause. Then seller will definitely increases the price level at the market, then, there is a disequilibrium position in the market still the supply increase and still the supply will increase and establish a new equilibrium position.

It can be explain with the diagram the primary position from where disturbances starts is point A where demand and Supply curve intersect. When demand rises to D_1 price at once rises up to OP_5 (=QB) but when supply is rice is rises gradually over a period of time, it continues to fall till it reaches G, the new equilibrium point where OQ_3 quantity of rice is demanded and supplied at the new equilibrium price OP_3 (Q_3G) this is explain the dynamic equilibrium, that it is always changes.



Fig–4

Questions

1. Write down the meaning and scope of economics?
2. Explain the definition of Robin's on economics.
3. Describe the Definition of Marshall on economics.
4. Explain the problem of economics briefly.
5. Write down the concept of equilibrium.
6. Explain stable and unstable equilibrium.
7. What is dynamic equilibrium? Explain.
8. Explain the difference between static and comparative static equilibrium.
9. What is static equilibrium and comperative equilibrium? Explain its.

UNIT - II

CONSUMER BEHAVIOUR

Detailed Course Content

- Consumer Behaviour :
- Cardinal Approach in Difference Curves Assumption
- Cardinal Approach in Difference Curves Properties
- Law of Deminising MRS
- Consumer's Equilibrium
- Income Effect
- Substitution Effect
- Price Effect
- Derivation of Demand Curves
- Giffen Paradox

UNIT-II Consumer Behaviour

Definition : Utility means, the power to satisfy a human want. Any commodity or service which can satisfy a human want is said to have utility. The following points are to be noted in connection with the concept of utility:

1. The term utility is used in Economics without any moral or rational significance. The consumption of 'a particular commodity may be harmful, illogical or immoral. Nevertheless, if it satisfies some want of somebody it is deemed to possess utility from the economic standpoint.

2. The term utility does not refer to the intrinsic quality or the physical characteristics of a commodity. The same thing may be wanted by different persons for different reasons. A cigarette may be wanted by a non-smoker for business or for presentation to friends.

3. The term utility is popularly used as equivalent to satisfaction, but not in Economics. The "amount" of satisfaction actually obtained from the consumption of a thing is a psychological entity which is incapable of measurement, because it vades according to time, place and the mental make-up of the individual concerned.

4. The intensity of a person's desire for a commodity depends on his habits, taste and various other circumstances. At different times, the intensity of desire may be-different.