



INDIA INTERNATIONAL SCHOOL

# **Study Material For Students**

**Class - XII  
Economics  
2011-2012**

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4. Note for the user of the material
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## WEIGHTAGE OF MARKS

S.NO	CONTENT	MARKS
1. UNIT	<b>Part – A Introductory Micro Economics</b>	<b>50</b>
	a. Introduction	04
	b. Theory of Consumer Behaviour & Demand	13
	c. Producer's Behaviour & supply	23
	d. Firms of Market and Price Determination	10
	e. Simple application of tools of demand and supply curves	**
2. UNIT	<b>Part – B Introductory Macro Economics</b>	<b>50</b>
	a. National Income Accounting & related aggregates	15
	b. Determination of Income and Employment	12
	c. Money & Banking	08
	d. The government budget and the Economy	08
	e. Balance of Payment	07
	<b>TOTAL</b>	<b>100</b>

### Design of sample Question Paper

#### Objectives

#### Percentage of Marks

Knowledge	30 %
Understanding	50 %
Application	20 %

### Time Management:-

Form of Questions	No . of. questions	Mark for each Question	Total Marks	Estimated Time (in minutes)
Long answer (L.A)	6	6	36	66 Mins
Short answer (S.A.I)	6	4	24	42Mins
Short answer (S.A.II)	10	3	30	50 Mins
Very Short answer	10	1	10	10 Mins
<b>Total</b>	<b>32</b>		<b>100</b>	(Four parts each) <b>168 + 12 minutes for revision</b>

**[\*] MARK QUESTIONS SHOULD BE DONE COMPULSORLIY**  
**MOCK PAPER FOR - I**

**ECONOMICS**

**Time : 3 Hrs. Max. Marks - 100**

**Note :**

- i. All questions in both the sections are compulsory.*
- ii. Marks for questions are indicated against each.*
- iii. Question Nos. 1-5 and 17-21 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.*
- iv. Question Nos. 6-10 and 22-26 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
- v. Question Nos. 11-13 and 27-29 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.*
- vi. Question Nos. 14-16 and 30-32 are long-answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.*
- vii. Answers should be brief and to the point and the above word limit be adhered to as far as possible.*

**SECTION :A (50 Marks)**

1. Why do an economic problem arise? 1M
2. What is meant Consumer's equilibrium? 1M
3. What do you meant by MU? 1M
4. ) What is a conditions of producer's equilibrium? 1M
5. In which market both AR and MR equal. 1M
6. Explain why a production possibilities curve is concave. (3)
7. What are the factors affecting demand ? (3)
8. Explain the relationship between TR and MR . (3)
9. Difference between Change in Quantity demand and Change/Shift in demand: (3)  
Difference between Change in Quantity supply and Change/Shift in supply.
10. Explain any three important features of Monopoly Market. 3M
11. A consumer buys 160 units of a good at a price of Rs 8 per unit. Price falls to Rs 6 per unit. How much quantity will the consumer buy at the new price if price elasticity of demand is (-)2 ? 4M
12. Why demand curve slopes down wards? (or)
13. Calculate Total Variable Cost and Marginal Cost from the following cost schedule of a firm whose Total Fixed Costs are Rs. 12 : 4M

Output (Unit)	Total Cost (Rs.)
1	20
2	26
3	31
4	38

14. Explain the likely behaviour of Total Product and Marginal Product when only one input is increased while all other inputs are kept unchanged. 6M

(or)

Explain the reasons for : (i) increasing returns to a factor and (ii) increasing returns to scale.

15. There is a simultaneous decrease in demand and supply of a commodity.  
When will it result in :  
(a) No change in equilibrium price. , (b) A fall in equilibrium price. ,Use Diagram.  
16. What are the determinants of market the supply . (USE DIAGRAMS). ?

SECTION : B

17. . What do you meant by Deficient demand /Excess demand? 1M  
18. What do you meant by Barter System:  
19. Show Inflationary gap? 1M  
20. Define APC/APS? 1m / Give the relationship between APC and APS.  
21.. What do you meant by Primary Deficit ? / Revenue deficit. 1M

22. Calculate Personal Income from the following data : 3  
*(Rs. crores)*
- |  |        |
|--|--------|
| (i) Undistributed profits of corporations                | 20     |
| (ii) Net domestic product accruing to the private sector | 500    |
| (iii) Corporation tax                                    | 55     |
| (iv) Net factor income from abroad                       | (—) 10 |
| (v) Net current transfers from government                | 15     |
| (vi) National debt interest                              | 40     |
| (vii) Net current transfers from the rest of the world   | 15     |

OR

Calculate Gross Value Added at MP from the following data. 3M

Sl.No	Items	Rs. In lakhs
1	CFC/ Depreciation	15
2	Sales in domestic market	250
3	Exports	50
4	Opening stock	20
5	Purchase of raw material	150
6	Closing stock	30
7	Import of raw material	25

23. **What are the ( ANY THREE) Functions of Money:- I (or)**

What are the drawbacks of BARTER SYSTEM . ( **ANY THREE**) **3M**

- 24.. . What is the basis of classifying government expenditure into :

- (a) Plan expenditure and non-plan expenditure  
(b) Developmental expenditure and non-developmental expenditure. (3)

25. A Rs. 200 crore increase in investment leads to a rise in national income by Rs. 1000 crores. Find out marginal propensity to consume. 3m

26. What are causes for disequilibrium of balance of payments /

What are the components of current account

27. State any two merits and demerits of fixed exchange rate system. (4)/

Explain how foreign exchange rate is determined in a foreign exchange market ?

- 28.Distinguish between ‘revenue receipt’ and ‘capital receipt’ and give two examples of each. (4)

29. What are the FUNCTIONS OF **COMMERCIAL BANKS**: (4)

RBI functions Issue of Currency: / Bankers to Government/ Lender of Last Resort

30. How will you treat the following while estimating domestic product of India?

- (i) Rent received by a resident Indian from his property in Singapore.
- (ii) Salaries to Indians working in Japanese Embassy in India.
- (iii) Profits earned by a branch of an American Bank in India.
- (iv) Salaries paid to Koreans working in Indian embassy in Korea.

**OR**

Explain any two precautions that should be taken while estimating national income by (a) value added method, and (b) income method. (6)

31. Can an economy be in a state of under employment equilibrium? Explain with the help of a diagram. (6) / Equilibrium of income under Agg.D and Agg.S

32. Calculate GD) P at MP by a) Expenditure method, b) Income method (Rs. In Crores)

Ans: a) 205 Crores, b) 205 Crores

1)	Net domestic fixed capital formation	50
2)	Operating Surplus	50
3)	Subsidies	5
4)	Mixed income	60
5)	Pvt. Final consumption expenditure	120
6)	Social security contributions by employees	10
7)	Net factor income from abroad	(-)10
8)	Indirect tax	30
9)	Addition to stocks	5
10)	Compensation of employees	70
11)	Govt. final consumption expenditure	25
12)	Net exports	5

## MOCK PAPER II

### ECONOMICS

**Time : 3 Hrs. Max. Marks - 100**

**Note :**

- i. All questions in both the sections are compulsory.
- ii. Marks for questions are indicated against each.
- iii. Question Nos. 1-5 and 17-21 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.
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- vii. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

### SECTION :A

1. Define opportunity cost ?. 1M
2. A rise in the price of a good , results in an increase in expenditure on it. Is its demand elastic or inelastic? 1M
3. What do you meant by MU/MP/MR/MC?:- 1M
4. a)Define Fixed cost , b)Variable cost. 1M
5. Define market price/ equilibrium quantity . 1M
6. State the problems relating to allocation of resources in an economy. (3)
7. Define marginal revenue. State the relation between marginal revenue and average revenue when a firm :  
(i) is able to sell more quantity of output at the same price.  
(ii) is able to sell more quantity of output only by lowering the price.
- 8 Given below is the utility schedule of a consumer for commodity X. The price of the commodity is Rs. 6 per unit. How many units should the consumer purchase to maximize satisfaction? (Assume that utility is expressed in utils and 1 util = Re. 1). Give reasons for your answer.

Consumption (units)	Total utility (utils)	Marginal utility (utils)
1	10	10
2	18	8
3	25	7
4	31	6
5	34	3
6	34	0

(3)M

9. . Explain the implication of the feature .product differentiation. under Monopolistic Competition. (3)

**OR**

Explain the implication of the feature .Freedom of entry and exit of firms.. (3)

10. Explain the relationship between AC (AVC) and MC (3)
11. A consumer buys 100 units of a good at a price of Rs. 5 per unit. When price changes he buys 140 units. What is the new price if price elasticity of demand is - 2 ? (4)

12. Explain the effect of rise in the prices of related goods on the demand for a good X. Use diagrams.

**OR**

Explain the effects of rise in income on demand for a good. Use diagram. (4)

13. Complete the following table : 4M

Output (units)	Price (Rs.)	Marginal Revenue (Rs.)	Total Revenue (Rs.)
1	--	10	--
2	9	--	--
3	--	--	24
4	--	4	--

14. Explain the effects of .increase. in supply of a good on its equilibrium price and (4) equilibrium quantity with the help of a schedule.

15 Define producer's equilibrium. Explain the conditions of producer's equilibrium in terms of Total Cost and Total Revenue. Use diagram.. 6m ( OR )

What is consumer's equilibrium? Explain the conditions of consumer's equilibrium assuming that the consumer consumes only two goods.

16. Explain the law of variable proportions with suitable diagram

### SECTION : B

17. What do you meant by Excess demand? 1M

18. Define APC and APS./ consumption function / saving function. 1M

19. What do you meant by SLR / Cash Reserve Ratio(CRR) / BANK RATE .1M

20. What do you meant by .Revenue Deficit ? 1M

21. Define macroeconomics ? 1M

22. From the following data relating to a firm, calculate its net value added at factor cost :

(Rs. in Crores)

(i) Subsidy	40
(ii) Sales	800
(iii) Depreciation	30
(iv) Exports	100
(v) Closing stock	20
(vi) Opening stock	50
(vii) Intermediate purchases	500

$$\begin{aligned}
 \text{NVA}_{fc} &= \text{ii} + (\text{v} - \text{vi}) - \text{vii} - \text{iii} + \text{i} \\
 &= 800 + (20 - 50) - 500 - 30 - (-40) = 280 \\
 \text{Note} &= \text{NIT}(\text{Ind. Tax\_Sub}) \\
 &\text{Sales included exports.}
 \end{aligned}$$

23. Categorise the following government receipts into revenue and capital receipts Give reasons for your answer.

(a) Receipts from sale of shares of a public sector undertaking.

(b) Borrowings from public.

(c) Profits of public sector undertaking (3)

24. List **three** sources each of demand and supply of foreign exchange (3)

25. Account any three types of deposits in commercial banks. ( 3)

26. Explain the deflationary gap through diagram. ( 3)

27. Describe the following functions of money :- 4M

(a) Medium of exchange

(b) Standard of deferred payment



28. Distinguish between current account and capital account of balance of payments accounts mention two items of each of these accounts? 4M

29. Give the difference between Direct Tax & Indirect Tax /  
Difference between capital receipts and revenue receipts. 4M

30. Explain the steps involved in estimation of national income by income and expenditure methods. (6M)

31. Calculate **Personal Disposable Income (or)** GNP at MP from the following data

	(Rs. crores)	
1. Net factor income from abroad	(.) 60	$\text{PDI} = 13 - 7 - 4 - 3 - 12$ $= 700 - 90 - 40 - 110 - 30 = 430$ $\text{GNP at MP} = 5 + 6 + (2 - 8)$ $= 900 + 100 + 50 = 1050$
2. Gross national disposable income	1050	
3. Personal Tax	110	
4. Savings of private corporations	40	
5. National income	900	
6. Indirect tax	100	
7. Corporation tax	90	
8. Net national disposable income	1000	
9. National debt interest	30	
10. Net current transfers from abroad	20	
11. Current transfers from government	50	
12. Miscellaneous receipts of the government administrative departments.	30	
13. Private income	700	

32. Explain the meaning of equilibrium level of income and output with the help of saving and investment curves. If planned expenditure is less than planned output, what changes will take place in the economy? (or)

30. **Will the following be included in Gross National Product? Give reasons for your answer:**

1. Profits earned by a foreign company in India. No, it is factor income to abroad
2. Money received from sale of shares. No, It is a financial transactions / money claims
3. Salary paid to Americans working in Indian embassy in America., Yes, it is a part of domestic territory of India,
4. Money received from sale of old house., No it makes double counting
5. Scholarships received by a student., No, it is a transfer income
6. Remittances from abroad. No, It is also transfer income to India

## MODEL PAPER

SUB:-ECONOMICS

Max.Marks:100

Time : 3 Hours

### **General Instructions:**

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### SECTION –A (INTRODUCTORY MICRO ECONOMIC THEORY)

1. Define Marginal Revenue 1m
  2. What does a point below production possibility curve indicate? 1m
  3. Which cost may there when output is even zero. 1m
  4. State the condition of producer's equilibrium. 1m
  5. Draw unitary elasticity of supply. 1m
  6. Explain any two central problems facing our economy. 3
  
  7. Define law of demand? Draw a unitary elasticity of demand with the help of a demand schedule. 1,1,1 =3
  8. Draw the supply curves showing a) elasticity of supply equal to 1 b) elasticity of supply greater than 1 c) elasticity of supply less than 1. 1,1,1 =3
  
  9. . State any three causes of a leftward shift of supply curve. 3
  
  10. Explain the relationship between average variable cost and marginal cost with the help of diagram. 3M (or)  
What is the relationship between Total revenue and Marginal revenue with diagram?
  11. The total fixed cost of a firm is Rs. 12. given below is its marginal cost schedule. Calculate total cost and average variable cost for each given level of output. 2,2 =4
- |                     |   |   |   |   |
|---------------------|---|---|---|---|
| Output(units)       | 1 | 2 | 3 | 4 |
| Marginal Cost (Rs.) | 9 | 7 | 2 | 4 |
12. The quantity demanded of a commodity at a price of Rs. 10 per unit is 40 units. Its price elasticity of demand is (-2). Its price falls by Rs. per unit. Calculate its quantity demanded at the new price. 4M
  13. . What is equilibrium price? What happens to equilibrium price of a commodity when its demand increases? 4M
  
  14. Explain the main features of monopolistic competition. 6M
  15. Explain the law of variable proportion. (6M)
  16. Explain the factors that affect the market demand of a commodity. (or)

Distinguish between increase in demand and expansion of demand (rise in quantity demanded). Use diagram. (6)

SECTION –B (INTRODUCTOR MACRO ECONOMIC THEORY)

17. Define macro economics. 1M  
18. Give one point of difference between macro and micro economics. 1M  
19. When is there a deficit in the balance of trade? 1M  
20. What is meant by a surplus budget?. 1M  
21. What is SLR/CRR. 1M  
22..Find out (a) Personal disposable Income, b) Personal Income and c) private Income from the following data.  
(Rs. In crores)
- |   |      |
|---|------|
| i) Payments of direct taxes by the households | 650  |
| ii) Corporation tax                           | 150  |
| iii) Household final consumption expenditure  | 2450 |
| iv) Savings of the a private corporate sector | 350  |
| v) Interest on national debt                  | 200  |
| vi) Saving of the households                  | 750  |
24. Explain Briefly the meaning inflationary gap and deflationary ? (3M)  
25.. As a result of increase in investment by Rs 75 crores, national income rises by Rs. 300 crores. Calculate a marginal propensity to save (MPS)?  
26. . Define (a) Fiscal deficit (b) Budget deficit (c) Revenue deficit ?  
27. . Give any four functions of a Central Bank (RBI)?  
28.. Give reasons, categorise the following into revenue receipts and capital receipts ? (4M )  
i) Recovery of Loans. , ii) Income tax.  
iii) Dividends on Investments made by Government.,  
iv) Sale of public sector undertaking.  
29. State the four function of Money. Describe any one of them ? (4M )  
30. Explain how foreign exchange rate is determined in a foreign exchange market ? (4M )

OR

Distinguish between current account and capital account of balance of payments accounts. mention two items of each of these accounts ?

31. Explain with the help of diagram the determination of equilibrium. Can the economy be in equilibrium at less than full employment ?  
32.. Distinguish between:  
a) Value of output and value added  
b) Factor income and transfer receipt  
c) Intermediate goods and final goods

OR

Explain the components of factor income ( NDP at fc )

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  8. Draw the supply curves showing a) elasticity of supply equal to 1 b) elasticity of supply greater than 1 c) elasticity of supply less than 1. 1,1,1 =3
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  13. . What is equilibrium price? What happens to equilibrium price of a commodity when its demand increases? 4M
  14. Explain the main features of monopolistic competition. 6M
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 29. State the four function of Money. Describe any one of them ? ( 4M )  
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OR

- Distinguish between current account and capital account of balance of payments accounts. mention two items of each of these accounts ?  
 31. Explain with the help of diagram the determination of equilibrium. Can the economy be in equilibrium at less than full employment ?  
 32.. Distinguish between:  
 d) Value of output and value added  
 e) Factor income and transfer receipt  
 f) Intermediate goods and final goods

OR

Explain the components of factor income ( NDP at fc )

# **HIGH ORDER THINKING SKILLS**

## **(BRAIN STORMING QUESTIONS)**

### **Introduction**

- Q1) How can the central problem be solved with the help of PPC?
- Q2) Why is PPC concave to the origin?
- Q3) . Explain the problem of opportunity cost with an example?
- Q 4) Draw a PPC and show the following on this curve. Give reasons of this shift. (i)
- Q5) Q 5) Growth of Resource., (ii) Underutilization of resource.  
(iii) Fuller utilization of resource. .
- Q 6) Calculate marginal opportunity cost of good X.

Production of Good X	Production Of Good Y	Marginal Opportunity cost
0	100	
1	90	
2	70	
3	40	
4	0	

- Q 7) Tell in what situations would economic problems arise? (\*)
- 1) If all wants are of equal importance.
  - 2) When means are limited in relation to wants.
  - 3) When means and wants are both unlimited.
  - 4) When means and wants are both limited.
  - 5) When limited means can be put to alternative uses.
- Q 8) How would you select the efficient technique of production? (\*)
- Q 9) Draw the production possibility curve in the following situations: (\*)
- 1) When marginal opportunity cost is increasing.
  - 2) When marginal opportunity cost remains constant.

### Theory of Consumer Behaviour

Q1) A rise in the income of the consumer X leads to a fall in the demand for that good by that consumer. What is the good X called?

Q2) As you add together the identical demand curves of more and more people, the market demand curve becomes flatter and flatter on the same scale. Thus this fact indicate that the elasticity of demand is becoming larger and larger? Explain your answer carefully? (\*)

**Hint:-** Elasticity of demand is responsiveness of change in demand due to change in the price of the product. But here, the demand increases due to the changes in the number of consumer's in the market not due to change in price of the commodity.

Q3) When demand for good falls due to rise in its own price, what is the change in demand called?

**Hint:-** Contraction of demand

Q4) Why do household buy more of a good at a lower price? Explain? (\*)

**Hint:- Because of real income increase. See mock answer paper determinants of DD**

Q5) Suppose there are 20 consumer for a good and they have identical demand function (\*)

$$d_1(p) = 10 - 3p \text{ for any price } \leq 10/3 \\ = 0 \text{ price } > 10/3$$

What is the market Demand function?

**Hint:-**  $d_m(p) = (10 - 3p)20$  for  $p \leq 10/3$   
 $= 0$   $p > 10/3$

Q6) (a) Given  $P_x = Rs 2$ ,  $P_y = Rs 1$ , income = Rs 12. Find how a consumer spends her income in order to maximize total utility.

(b) Calculate TU receive by the consumer. Show that the equilibrium condition for the consumer are satisfied. (\*)

Ans) (a) Consumer will spend 1<sup>st</sup> and 2<sup>nd</sup> rupe to buy 1<sup>st</sup> and 2<sup>nd</sup> units of Y. This will give total of U units. If the 1<sup>st</sup> two rupees were spent on 1<sup>st</sup> unit of X then 16 units would be received.

(b) TU = 93 units

(c)  $MU_x / P_x = MU_y / P_y$  subject to  $P_x X + P_y Y = M$

$$12/2 = 6/1 \dots \text{subject to } (2)(3) + (1)(6) = 12$$

Q7) Draw 3 demand curves showing the same value of price elasticity of demand at all points.

Q8 ) A consumer consumes goods x. Explain the effects of fall in prices of related goods on the demand for x. use diagram showing demand for good x on the x-axis and its price on the y-axis.

Q9 ) State three causes each for a forward shift and a left ward shift of demand curve.

Q 10) Why does the demand curve slope downwards? Explain

Q 11). A consumer buys 160 units of a good at a price of Rs 8 per unit. Price falls to Rs 6 per unit. How much quantity will the consumer buy at the new price if price elasticity of demand is (-2) ?

A. 
$$Ed = \frac{DQ}{DP} \times \frac{P}{Q}$$

$$-2 = \frac{8}{160} \times \frac{X - 160}{-2} = \frac{X - 140}{-40}$$

$$X = 160 = +80$$

$$X = +80 + 160 = 240$$

The Consumer will buy 240 units

Q.12. As a result of 5% fall in price of a good its demand rises by 12 % find out elasticity of dd & say whether demand is elastic or inelastic & Why ?

A. 
$$Ed = \frac{\% \text{ change in qly dd}}{\% \text{ change in price}}$$

$$= \frac{12\%}{5\%} = 2.4$$

Demand is elastic because percentage

Change in demand is greater than percentage

Change in price

Q.13. Explain the meaning and implication of points on, points above and points below the indifference curve. (\*)

Q.14. If the advertisement on TV has increased the liking of a consumer for a particular brand of soap, what will its impact be on the demand curve of the soap ? Show diagram. (\*)

## Producer Behaviour & Supply

**COST FUNCTION** : Output – Cost Relationship of a firm is the cost function of that firm. When Output increases it is IRS , when decreases it is DRS and when production function remains unchanged it exhibits CRS.



**TOTAL COST:** The cost that a firm incurs to employ fixed input is called Total Fixed Cost and the cost that a firm incurs to employ variable input is called TVC. Addition of TVC and TFC is called Total Cost .

$$TC = TVC + TFC$$

$$TVC = TC - TFC$$

$$TFC = TC - TVC$$

**AVERAGE COST:** Cost Incurred by a firm on per unit of production is known as Average Cost

$$(AC) = \frac{TC}{Q}$$

$$AVC = \frac{TVC}{Q} \therefore$$

$$AFC = \frac{TFC}{Q}$$

$$AC = AFC + AVC$$

$$AVC = AC - AFC$$

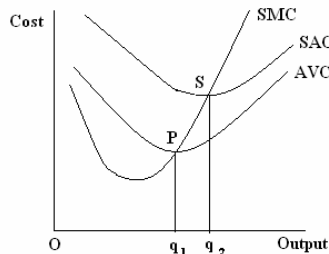
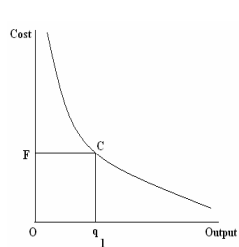
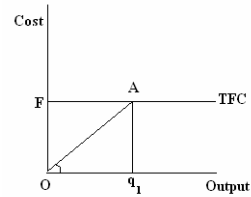
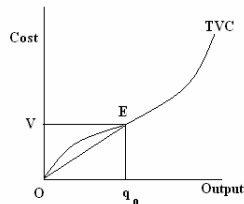
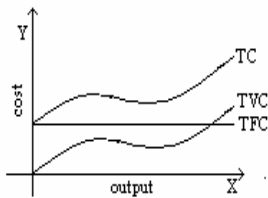
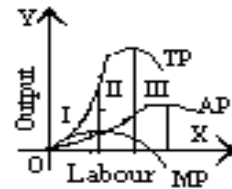
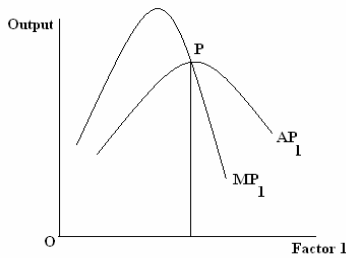
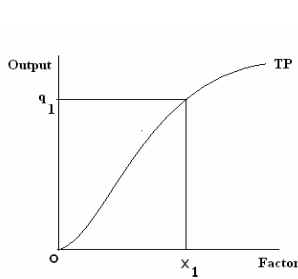
$$AFC = AC - AVC$$

AVC + AFC is always equal to SAC

**MARGINAL COST:** Change in total cost due to change in production of additional unit of output is known as Marginal Cost

$$MC = TC_N - TC_{N-1}$$

**DIAGRAMS:- Production and cost**



Q1) Complete the following table and identify the 3 phases of the law of variation

proportion variation.

Unit of Variation	TPP	APP	MPP
1	10		
2	22		
3	30		
4	30		
5	25		

Hint: Law of variable proportions and see Mock paper

Q2) Assuming 2 input L and K in producing a product > identify returns to scale on the basis of the following when producer moves from one input combination to another.

Input Combination	T Output
1K + 1L	60
2K + 2L	140
4K + 4L	280
8K + 8L	50

Hint: Law of Returns to scale

Q3) Complete the following table assuming that the law of diminishing returns is operating throughout.

Variation Input	MPP
1	10
2	
3	

Q4) Prepare a schedule of different combination of X and Y input assuming

- Increasing return to scale.
- Constant return to scale.
- Decreasing return to scale.

Q5) Explain the difference between MC and AVC. Why should AVC always look like MC? Why is MC the same when computed from VC as from TC?

Q6) why is MC curve in the short run U shape?

Q7) Why is AC curve in the short run U shaped?

Q8) How does the following effect the supply curve of a firm.

- Technological purpose., Imposition of a unit tax.
- Increasing in input price., Increasing in number of firms.

Ans. See Mock answers paper

Q9) Is it correct to say that profit of a producer under perfect competition is maximum

at a level at which  $P = MC$ , but MC is decreasing?

(\*)

**Hint:-** No, MC should be increasing along with  $P = MC$ .

Q10) At a particular level of output, a producer finds that  $MC > MR$ . What will a

Producer do to maximize his profit?

**Hint:-** If  $MC > MR$  the producer will reduce his production to increase his profit.

Q11) TC is not the sum total of marginal costs. (\*)

$$TC \neq \sum MC. \text{ Why?}$$

$$\text{Hint:- } \sum MC = TVC$$

$$\sum MC \neq TVC$$

$TC = FC + VC$
----------------

Q12) Does MC include fixed cost? Why?

**Hint:-** No. Because MC is additional cost and additional cost can only be variable cost.

Q13) What change in total revenue will result in

- (a) Decrease in marginal revenue.
- (b) An increase in marginal revenue

**Hint:-** Relationship TRS/ MR

Q14) What change should take place in total revenue so that

- (a) Marginal revenue is positive.
- (b) Marginal revenue is falling.

Q 15) Distinguish between 'Change in supply' and 'Change in quantity supply' of a commodity.

Q 16) Define market supply. State the law of supply and the assumption behind it

Q 17) Complete the following table:

Variable input	TPP	APP	MPP
0	0		---
1	---		20
2	---		26
3	66		---
4	---	19	10
5	---		4

Q18) At the market price of Rs. 10 a firm supplies 4 units of output. The market price increases to Rs. 30. The price elasticity of the firm's supply is 1.25. What quantity will the firm supply at the new price?

Q19. When the price of doll is Rs 4 per doll, a doll makes supplies 8 dolls per day. If the price to Rs 5 per doll, he is writhing to supply 10 dolls.

Ans.  $ES = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$$= \frac{2}{1} \times \frac{4}{8}$$

The price elasticity of supply is 1

Q20) Given below is the cost schedule of a firm. Its total fixed cost is Rs. 100. Calculate average variable cost and marginal cost at each given level of output.

Output (units)	1	2	3	4
Total cost (Rs.)	350	450	610	820

Q21 Calculate total variable cost and marginal cost at each given level of output from the following table.

Output (units)	0	1	2	3	4
Total cost (Rs.)	40	60	78	97	124

Q.22. Complete the following table:

Output (units)	Price (Rs.)	Total revenue (Rs.)	Marginal revenue (Rs.)
1	7	--	--
2	6	--	--
3	4	--	--
4	2	--	--

Q23. Calculate total cost and average variable cost of a firm at each given level of output from its cost schedule given below:

Output (units)	AFC (Rs.)	MC (Rs.)
1	60	32
2	30	30
3	20	28
4	15	30
5	12	35
6	10	43

Explain why MC cuts AC and AVC at their minimum values

Q24. Explain the fallacies in each of the following:

(\*)

- AC is minimized when MC is at its lowest point.
- Because fixed costs never change, AFC is constant for each level of output.
- AC is rising whenever MC is rising.
- The opportunity cost of drilling for oil is zero because no firm produces anything there.

Q25. At the market price of Rs. 10 a firm supplies 4 units of output. The market price increases to Rs. 30. The price elasticity of the firm's supply is 1.25. What quantity will the firm supply at the new price?

Q26. The price of a commodity is Rs. 12 per unit and its quantity supplied is 500 units. When its price rises to Rs 15 per unit, its quantity supplied rises to 650 units. Calculate its price elasticity of supply. Is supply elastic?

Q27. Due to a 10 per cent rise in the price of a commodity, its quantity supplied rises from 400 units to 450 units. Calculate its price elasticity of supply. Is its supply elastic?

Q.28. Explain why the output level where marginal revenue is greater than marginal cost cannot be profit maximizing level of output. (\*)

#### Unit 4:Forms of Market and Price Determination

Q1) Why a firm under perfect competition will not lower the price to increase its sales? (\*)

**Hint:-** (a) An individual firm - a small supplier in the market can not ever cater to the entire market demand for the commodity.

(b) Uniform price –

Q2) Perfect competition is no competition. How?

**Hint:-** (a) Uniform price

(b) No price war

(c) Homogeneous product

Q3) Both under monopoly and under monopolistic competition firms demand curve slopes downwards. Is there any differences? Reasons. (\*)

**Hint:-** (a) No close substitutes

(b) Single seller

Q4) Does price never change under perfect competition, given the fact that a firm under perfect competition is a price taker?

**Hint:-** Industry will determine the price with the help of Demand and Supply force

Q5) What is the reason for the long run equilibrium of a firm in monopolistic competition to be associated with zero profit? (\*)

Q6) What happens when demand and supply curve don't intersect each other?

**Hint:-** Economically non-viable.

Q7. 'what is the relationship between control price and equilibrium price ?

**Hint :-**Control price is less than equilibrium price

8. What is meant by abnormal profit

A. Abnormal profit are known as positive profit. It is the profit earned over and above normal profit

9. What is the break – even price ?

- A. Break-even price is the price at which firms make zero abnormal profit. It is equal to average cost.
10. If the firms are earning abnormal profits, how will the number of firms in the industry change ?
- A. When the firm enjoys the abnormal profits, many new firms gets attracted to the industry and the number firms in the industry charge and also increases the competition.
11. If the firm is making abnormal losses, how will the number of firms in the change.
- A. In the situation of abnormal losses, some of existing firms may leave the industry. This process will condition till there is no losses.
12. Why does a competitive firm cannot earn abnormal profit in the long run?
- A. Due to free entry and exit of firms, break even price is equal to average cost in long run since  
 $P = LAC = LMC$ , a competitive firm cannot earn abnormal profits.
13. What are patent rights ?
- A. It is an exclusive license or right grouted to a company or an individual to produce a particular product or use a particular technology.
15. What is cartel ?
- A. Cartel is a group of firms which jointly sets output and price so as to exercise monopoly power.
16. What is the relationship between price and marginal cost at the monopoly equilibrium?
- A. Price is greater than marginal cost i.e  $P > MC$ , When  $MC = MR$
17. What is profit maximizing rule for a monopoly firm. (\*)
- A. The profit maximizing condition is  $MC = MR$  and on  $C$  is rising ( $P > MR$ ;  $P > MC$ )
18. Why does a monopoly firm earn abnormal profit in the Long run ? (\*)
- A. Monopoly firm earns abnormal profits in the long run becamed of blacked free entry of new firms in the market.
19. What are anti-trust legislations? (\*)
- A. Anti-Trust legislations refers to these legislations which del with the issue of market power of firms, in relation to their productive efficiency.
20. What is persuasive advertising ?
- A. There is a need to maintain a perception in the mind of the potential consumers that their respective brands are different / better as compared to other bands. Expenses incurred for this is known as advertising costs or persuasive advertisement.

IDENTIFY THE FORM OF MARKET FROM THE DAT GIVEN BELOW:

Output sold (units)	Price of A	Price of B
20	2	4
30	2	3
40	2	2

## 6: National Income and Related Aggregates

Q1) What are leakages injections?

Q2) Valued added – (see Numerical )

Double counting and how to avoid it.

Q3) Expenditure and Income Method (see Numerical )

Q4) NDI and Pvt. I - (see Numerical )

Q5) What is the difference between planned and unplanned inventory accumulation?\*

Write down the relation between change in inventions and value added of a firm

Q6) Write down the 3 identities of calculating the GDP of a country by 3 methods.

Explain why each of these should give us the same value of GDP.

Q7) Why is net exports (X-H) a part of domestic income, and not a part of NFIA

**Hint:-** exports are goods produced within the domestic territory. (\*)

Q8) State the 2 major components each of final consumption expenditure and gross domestic capitals formation.

**Hint:-** (a) Pvt final Consumption Exp.

- (b) Government Final Consumption exp.  
- Gross domestic fixed capital formats.  
-Change in stock

Q9) NI included

10. What is factor market?

A. It consists of factors of production namely, land, labour, capital, raw material and entrepreneur.

11. Define product market?

A. It consists of final goods and services.

12. What do you understand by real flow?

A. Real flow means the flow of factor services from households to firms and of goods and services from firms to households.

13. What is the alternative name of micro economics?

A. 'Price theory'

14. Why is change in stock is considered a part of final expenditure?

A: Unsold stocks left with producers are assumed as purchased by the producers themselves. That is why it is treated as investment expenditure by the producers

From the following data calculate 'gross value added at factor cost':

	(Rs. in lakhs)
(i) Net indirect taxes	20
(ii) Purchase of intermediate products	120
(iii) Purchase of machines	300
(iv) Sales	250
(v) Consumption of fixed capital	20
(vi) Change in stock	30

From the following data calculate net national product at factor cost by  
(a) income method, and (b) expenditure method.

	(Rs. in crores)
(i) Current transfers from rest of the world	100
(ii) Government final consumption expenditure	1,000
(iii) Wages and salaries	3,800
(iv) Dividend	500
(v) Rent	200
(vi) Interest	150
(vii) Net domestic capital formation	500
(viii) Profits	800
(ix) Employers' contribution to social security schemes	200
(x) Net exports	(-) 50
(xi) Net factor income from abroad	(-) 30
(xii) Consumption of fixed capital	40
(xiii) Private final consumption expenditure	4,000
(xiv) Net indirect tax	300

Calculate (a) private income, and (b) personal disposable income from the following data:

	(Rs. in crores)
(i) Income from property an entrepreneurship accruing to government administrative department	500
(ii) Savings of the non-departmental public enterprises	100
(iii) Corporation tax	80
(iv) Income from domestic product accruing to private sector	4,500
(v) Current transfers from government administrative departments	200
(vi) Net factor income from abroad	(-) 50
(vii) Direct personal taxes	150
(viii) Indirect taxes	220
(ix) Current transfers from rest of the world	80
(x) Savings of private corporate sector	500

**15.** Will the following factor income be a part of domestic factor income of India?

Give reasons for your answer.

- (i) Profit earned by foreign banks from their branches in India.
- (ii) Salary received by Indian residents, working in American embassy in India.
- (iii) Profits earned by an Indian company from its branch in Singapore.
- (iv) Compensation of employees given to residents of China working in Indian



embassy in China.

16. What is double counting? How can it be avoided?

17. How the sum of net factor income is equal to the sum of factor income?

18. What is effective demand? How will you derive the autonomous expenditure multiplier when price of final goods and the rate of interest are given?

Calculate Gross National Disposal Income from the following data: Rs.

(Crores)

(i)	National income.	2,000
(ii)	Net current transfers from rest of the world.	200
(iii)	Consumption of fixed capital.	100
(iv)	Net factor income from abroad.	(-) 50
(v)	Net indirect taxes.	250

(3 marks)

$$\begin{aligned}
 \text{Ans. G.N.D.I.} &= \text{GNP}_{\text{mp}} + \text{NCT}_{\text{R/W}} \\
 &= (\text{N.I.} + \text{CFC} + \text{NIT}) + \text{NCT}_{\text{R/W}} \\
 &= (2000 + 100 + 250) + 200 \\
 &= 2350 + 200 = \text{Rs. } 2550.
 \end{aligned}$$

Calculate Gross National Disposal Income from the following data:

Rs.

(Crores

)

(i)	Net national product of factor cost.	3,000
(ii)	Net factor income from abroad.	(-) 50
(iii)	Consumption of fixed capital.	150
(iv)	Net indirect taxes.	250
(v)	Net current transfers from rest of the world.	300

(3 marks)

$$\begin{aligned}
 \text{Ans. G.N.D.I.} &= (\text{I} + \text{iii} + \text{iv}) + (\text{v}) \\
 &= (\text{GNP}_{\text{mp}}) + (\text{NCT}_{\text{R/W}}) \\
 &= (3000 + 150 + 250) + (300) \\
 &= 3400 + 300 = \text{Rs. } 3700 \text{ crores.}
 \end{aligned}$$

Calculate Net National Disposal Income from the following data: Rs. crores)

(i)	Gross national product at factor cost.	800
(ii)	Net current transfers from rest of the world.	50

(iii)	Net indirect taxes.	70
(iv)	Consumption of fixed capital.	60
(v)	Net factor income from abroad.	(-)10

(3 marks)

$$\begin{aligned}
 \text{Ans. G.N.D.I.} &= \text{GNP}_{\text{mp}} + \text{NCT}_{\text{R/W}} \\
 &= (\text{GNP}_{\text{FC}} + \text{NIT}) + \text{NCT}_{\text{R/W}} \\
 &= (\text{i} + \text{iii}) + \text{ii} \\
 &= (800 + 70) + 50 \\
 &= \text{Rs. 920 crores.}
 \end{aligned}$$

Calculate Net National Disposal Income from the following data:

		Rs. (Crores)
(i)	Gross domestic product at the market price.	1,000
(ii)	Net factor income from abroad.	(-)20
(iii)	Net indirect taxes.	120
(iv)	Consumption of fixed capital.	100
(v)	Net current transfers from rest of the world.	50

(3 marks)

$$\begin{aligned}
 \text{Ans. NNDI} &= \text{NNP}_{\text{MP}} + \text{NCT}_{\text{R/W}} \\
 &= (\text{GNP}_{\text{MP}} - \text{CFC} + \text{NFIA}) + \text{NCT}_{\text{R/W}} \\
 &= \text{i} - \text{iv} + \text{ii} + \text{v} \\
 &= 1000 + 100 + (-20) + 50 \\
 &= \text{Rs. 930 crores.}
 \end{aligned}$$

Calculate Net National Disposal Income from the following data:

Rs. crores

(i)	Gross domestic product at the market price.	1,500
(ii)	Net factor income from abroad.	(-)20
(iii)	Consumption of fixed capital.	100
(iv)	Net current transfers from rest of the world.	(-)30
(v)	Net indirect taxes.	120

(3 marks)

$$\begin{aligned}
 \text{Ans. NNDI} &= \text{NNP}_{\text{mp}} + \text{NCT}_{\text{R/W}} \\
 &= (\text{GNP}_{\text{mp}} - \text{CFC} + \text{NFIA}) + \text{NCT}_{\text{R/W}} \\
 &= \text{i} - \text{iii} + \text{ii} + \text{iv} = 1500 + 100 + (-20) + (-30), \quad = \text{Rs. 1350 crores.}
 \end{aligned}$$

Calculate (a) private income, and (b) personal disposable income from the following

	data:	Rs.
	(Crores)	
(i)	Income from property and entrepreneurship accruing to the government administrative departments.	500
(ii)	Savings of non-departmental enterprises.	100
(iii)	Corporate tax.	80
(iv)	Income from domestic product accruing to private sector.	4,500
(v)	Current transfer form government administrative departments.	200
(vi)	Net factor income from abroad.	(-)50
(vii)	Direct personal taxes.	150
(viii)	Indirect tax.	220
(ix)	Current transfers from rest of the world.	80
(x)	Savings of private corporate sector.	500

Ans: Pvt. Income = iv + v + ix + vi  
= 4500 + 200 + 80 + (-50)  
= 4500 + 200 + 80 - 50 = Rs.4370 Crores,

PDI = Pvt. Income - iii - x - vii: = 4730 - 80 - 500 - 150 = Rs.4000 Crores.

Calculate (a) private income, and (b) personal disposable income from the following data:

		Rs.
		(Crores)
(i)	Savings of private corporate sector.	500
(ii)	Current transfers from rest of the world.	60
(iii)	Corporate tax.	80
(iv)	Current transfer form government administrative departments.	170
(v)	Direct personal taxes.	150
(vi)	Income from domestic product accruing to private sector.	4,500
(vii)	Savings of non-departmental enterprises.	250
(viii)	Net factor income from abroad.	(-)30
(ix)	Net exports	(-)50

Ans: Pvt. Income = vi + viii + iv + ii  
= 4500 + (-30) + 170 + 60  
= 4500 - 30 + 170 + 60 = Rs.4700 Crores

Explain briefly the distinction between:

(a) Gross domestic product at factor cost and Net national product at market price.

(b) National income and Net Disposable Income.

Calculate (a) private income, and (b) personal disposable income from the following

data:

Rs.

(Crores)

(i)	Net Indirect tax.	90
(ii)	Compensation of employees	400
(iii)	Personal tax.	100
(iv)	Operating surplus	200
(v)	Corporate profit tax.	80
(vi)	Mixed income of the self-employed.	500
(vii)	National debt interest.	70
(viii)	Savings of non-departmental enterprises.	40
(ix)	Current transfers from rest of the world.	60
(x)	Income from property and entrepreneurship accruing to the government administrative departments.	30
(xi)	Net current transfers to the rest of the world.	20
(xii)	Net factor income from abroad.	(-50)

S

$$\begin{aligned} \text{Ans: (a)NNDI} &= \text{ii} + \text{iv} + \text{vi} + \text{xii} + \text{i} - \text{xi} \\ &= 400 + 200 + 500 + (-50) + 90 - 20 \\ &= \text{Rs.1120} \end{aligned}$$

$$\begin{aligned} \text{(b) Private income} &= (\text{ii} + \text{iv} + \text{vi}) - \text{viii} - \text{x} + \text{xii} + \text{vii} + \text{ix} - \text{xi} \\ &= (400 + 200 + 500) - 40 - 30 + (-50) + 70 + 60 - 20 \\ &= 100 - 40 - 30 - 50 + 70 + 60 - 20 \\ &= \text{Rs. 1090 crores.} \end{aligned}$$

From the following data calculate national income by (a) income method and (b) expenditure method. (6 marks)

Rs.

(Crores)

(i)	Private final consumption expenditure	2,000
(ii)	Net capital formation	400
(iii)	Change in stock	50
(iv)	Compensation of employees	1,900

(v)	Rent	200
(vi)	Interest	150
(vii)	Operating surplus	720
(viii)	Net indirect tax	400
(ix)	Employees' contribution to social security schemes	100
(x)	Net exports	20
(xi)	Net factor income from abroad	(-)20
(xii)	Government final consumption expenditure	600
(xiii)	Consumption of fixed capital	100

Ans: N.I. (Income method) = iv + vii + xi  
 $= 1900 + 720 + (-20) = 1900 + 720 - 20$   
 $= \text{Rs. } 2600 \text{ crores.}$

N.I. (Exp. Method) = i + xii + ii + x + viii + xi  
 $= 2000 + 600 + 400 + 20 - 400 + (-20)$   
 $= 2000 + 600 + 400 + 20 - 400 - 20$   
 $= \text{Rs. } 2600 \text{ crores.}$

Will the following factor incomes be included in domestic factor income of India? Give reasons for your answer. ( 6 marks)

(i)	Compensation of employees to the residents of Japan working in Indian embassy in Japan.
(ii)	Profits earned by a branch of foreign bank in India.
(iii)	Rent received by an Indian resident from Russian embassy in India.
(iv)	Profits earned by a branch of State Bank of India in England.

Ans:

(i)	It is a part of domestic factor income of India because the Indian embassy in Japan is a part of domestic territory of India.	
(ii)	It is a part of domestic factor income of India because the foreign bank is located in the domestic territory of India.	

(iii)	It is not a part of domestic income of India because Russian embassy in India is not a part of domestic territory of India.	
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2. From the following data, calculate National Product at Market Price by (i) income method and (ii) expenditure method: (6 marks)

Rs. (Crores)

(i)	Mixed income of self- employed	400
(ii)	Compensation of employees	500
(iii)	Private final consumption expenditure	900
(iv)	Net factor income from abroad	(-) 20
(v)	Net indirect tax	100
(vi)	Consumption of fixed capital	120
(vii)	Net domestic capital formation	280
(viii)	Net exports	(-)30
(ix)	Profits	350
(x)	Rent	100
(xi)	Interest	150
(xii)	Government final consumption expenditure	450

Ans: (i)  $GNP_{MP} = COE + R + I + P + \text{Mixed I} + \text{NFIA} + \text{CFC} + \text{NIT} +$

$$\begin{aligned} & \text{(Income method)} = \text{ii} + \text{x} + \text{xi} + \text{ix} + \text{i} + \text{iv} + \text{vi} + \text{v} \\ & = 500 + 100 + 150 + 350 + 400 + (-20) + 120 + 100 \\ & = \text{Rs. 1700 crores.} \end{aligned}$$

$GNP_{MP} = \text{PFCE} + \text{GFCE} + \text{GDCF} + \text{Net X} + \text{NFIA}$

$$\begin{aligned} & \text{(Exp. Method)} = \text{iii} + \text{xii} + (\text{vii} + \text{vi}) + \text{viii} + \text{iv} \\ & = 900 + 450 + (280 + 120) + (-30) + (-20) = \text{Rs. 1700 crores.} \end{aligned}$$

3. Will the following be included in domestic factor income of India? Give reasons for your answer. (6 marks)

(i)	Profit earned by a foreign bank from its branches in India.
(ii)	Scholarships given by Government of India.
(iii)	Profits earned by a resident of India from his company in Singapore.
(iv)	Salaries received by Indians working in American Embassy in India.

Ans:

(i)	Profit earned by a foreign bank is included in domestic product of India because
-----	--

	the bank's branches are located in the Indian domestic territory.
(ii)	Scholarships is a transfer payment because no service is provided in return. So, it is not included in domestic income.
(iii)	Profits earned by an Indian company in Singapore is not included in domestic product of India because company is located outside the economic (domestic) territory of India.
(iv)	Salaries received by Indians working in American Embassy in India is not included because the embassy is treated as a part of American domestic territory and not of India.

4 Explain the meaning of injections and withdrawals. Also state the condition of equilibrium with its regard. (\*)

## 6: DETERMINATION OF INCOME AND EMPLOYMENT

Q1) What is the difference between ex- ante investment and ex-post investment?

Q2) What do you understand by parametric shift of a line? How does a line shift when its slope decreases

(1) its intercept increases

Q3) Explain the paradox of thrift? (\*)

Q4) Bring out the relation between APC and MPC. The value of which of them can be more than one and when?

Q5) Explain (a) inflationary gap (b) deflationary gap with the help of a diagram.

ANS: See Mock / sample papers marking scheme

Q6) Differentiate between full employment equilibrium and under employment equilibrium with the help of diagram. (\*)

ANS: See Mock / sample papers marking scheme

Q7) Define marginal efficiency of capital. How is this concept in business decisions?

Q8) Numericals from K, MPC and APC etc.

Q9) In India, people spend a high percentage of their income so that APC and MPC are high. Yet the value of multiplier is low. Why?

**Hint:-** India lack in production capacity. Whenever demand increases, there is increasing pressure of demand on the existing output rather than the increase in output or income.

Q10) What is multiplier? What determine its value?

Q11) Can output increases beyond full utilization of resources.

Q12) Will price level rise in a situation of increase in Agg demand

Hint:: No

Q13) Does over employment equilibrium imply a higher level of output compared to full employment equilibrium?

Hint: No

Q14) What is the difference between monetary policy and fiscal policy.

Q15) State the components of fiscal policy

**Hint:- SEE Mock paper**

Q16. Define frictional un-employment?

A: Frictional unemployment is a temporary unemployment of people who are shifting jobs since it takes time for a person to get another job. During this period of leaving one job and getting/accepting another job, it is called frictional unemployment

Q17. What is induced investment?

A: Induced investment is that kind of investment, which is profit, motivated. When national income increases induced investment also increases.

Q18. Define autonomous investment / public investment.

A: Autonomous investment is that kind of investment, which is not profit, motivated. It is not affected by the change income, rate of interest, and rate of profit.

Q19. Define linear consumption function.

A: If the consumption function is given on the basis of constant marginal propensity to consume, it is called linear consumption.

$$C = \bar{C} + by$$

C = Consumption;  $\bar{C}$  = Autonomous consumption/minimum level of consumption; b = Marginal propensity to consume; y = Level of income.

Q20. Explain the relationship between multiplier and MPC.

A. Relationship between multiplier and MPC:- The value of multiplier varies directly with MPC. Higher the MPC, the larger will be the value of multiplier and lower the MPC, the smaller will be the value of multiplier.

Q21. Distinguish between average propensity to consume and marginal propensity to consume with the help of numerical examples.

ANS: See Mock / sample papers marking scheme

Q22. Define aggregate demand. State its components.

ANS: See Mock / sample papers marking scheme

Complete the following table. <b>Income (Rs.)</b>	<b>Consumption Expenditure to consume</b>	<b>Marginal Propensity to save</b>	<b>Marginal Propensity</b>
--	---	------------------------------------	----------------------------



1000	900	-	-
1200	1060	-	-
1400	1210	-	-
1600	1350	-	-

Q23. In an economy, investment expenditure is increased by Rs. 400 crores and MPC is 0.8 calculate total increase in income and savings

Hints. : Increase income Rs. 2000 Crores, Increase saving Rs. 400 crores .

Q24. Find out MPC and MPS if an additional investment of Rs. 100 crores generates and additional income of Rs. 500 crores .

Hints. : MPC = 0.8 and MPS=0.2

### Money and Banking

Q1) What is high powered Money

(a) cash with people, B) cash reserve with

Q2) What is money multiplier? How do you determine its value? What ratios play an important role in the determination of the value of money multiplier?

ANS: See Mock / sample papers marking scheme

Q3) What are the instruments of monetary policy of RBI? How does RBI stabilize money

supply against exogenous shocks?

Q4) How does central bank perform the function of controller of credit?

ANS: See Mock / sample papers marking scheme

Q5) What is the difference between a commercial bank and central bank.

Q6) What is liquidity trap?

Q7) Why is speculative demand for money inversely related to the rate of interest.

Q8. What are the main functions of money? How does money overcome the shortcomings of a barter system?

ANS: See Mock / sample papers marking scheme

Q10. What are the alternative definitions of money supply in India?

ANS: See Mock / sample papers marking scheme

### Government Budget and the Economy

Q1) Why are borrowing treated as capital receipts.

Q2) Why is the payment of interest treated as revenue expenditure

Q3) What is the basis of classifying govt. expenditure into

(a) Revenue expenditure and capital expenditure

(b) Plan expenditure and non-plan expenditure

Q4) What does fiscal deficit in a govt. budget mean? What are its implications?

Q5) A government budget shows a primary deficit of Rs. 4,400 crores. The revenue expenditure on interest payment is Rs 400 crores. How much is the fiscal deficit?

Q6. . Define fiscal deficit.

Q7. . What is meant by revenue deficit?

See Mock paper for answer

Q8. . In a government budget revenue deficit is Rs 50000 crores and borrowings are Rs 75000 crores. How much is the fiscal deficit?

See Mock paper for answer

Q9. In a government budget revenue deficit is Rs 50000 crores and borrowing are Rs 75000 crores. How much is the fiscal deficit?

See Mock paper for answer

Q10. Are fiscal deficits necessarily inflationary? Explain . (\*)

Q11. . Explain why the tax multiplier is smaller in absolute value than the government expenditure multiplier . (\*)

Q. 12 **OBJECTIVES OF BUDGET:-**

- a) Re-distribution of income and wealth.
- b) Re-allocation of resources
- c) Economic stability

### Balance of payments

Q1) If inflation is higher in country A than in country B and the exchange rate between the 2 countries is fixed, what is likely to happen to the trade balance between the countries.

Q2) What is meant by visible and invisible items in the balance of payments account?

Give 2 examples of invisible items

Q3) Balance of Payment always balance : Does it mean a situation of zero net financial

obligation for a country? (\*)

**Hint:-** It should not be interpreted as zero net financial obligation for a country.

A

-ve balance on the current account is equated with the balance in the capital account. But +ve balance in capital account has to be achieved through loans from ROW.

Q4) How is deficit or surplus on current account BOP restored?

**Hint:-** Through surplus on capital account, and surplus on current account is restored

through deficit on capital account.

Q4. The Balance of trade shows a deficit of Rs.300 Crore. The Value of exports are Rs.500 Crore. What is the value of imports? **Hint: 800**

## **COMMON ERRORS WHICH ARE GENERALLY SEEN IN ECONOMICS ANSWER SCRIPTS**

1. Owing to language problem, the students do not understand the questions correctly.
2. Due to the same problem, they are unable to convey the answers suitably.
3. Poor application of Mathematical problems not practicing regularly
4. Inadequate skills in presenting the diagrams due to lack of practice. For eg., drawing of demand curve for supply curve and vice versa; drawing of cost curves instead revenue curves and vice-versa.
5. Over all presentation of answers is not as expected confused answers.
6. Formulae in National Income Accounting and Micro Economics are not learnt thoroughly.
7. Omission of some answers is commonly seen among the students. One should attempt all the questions.
8. Inadequate practice to present the answers to the point.
9. Writing question number wrongly.

✳	32	30	31	<p>(i) Self consumed output is a part of total output and therefore, accounted for through the production method. 2</p> <p>(ii) Earning from the sale and purchase of financial assets is not accounted in national income estimation because it is not production. 2</p> <p>(iii) It is a final consumption expenditure of the government and therefore, accounted in national income through the expenditure method. 2</p> <p>(No marks if reasons not given)</p>

## **SAMPLE PAPER ECONOMICS**

**Class - XII**

**Maximum Marks 100 Time : 3 hrs.**

**Time : 3 Hrs. Max. Marks - 100**

*Note :*

- i. All questions in both the sections are compulsory.*
- ii. Marks for questions are indicated against each.*
- iii. Question Nos. 1-5 and 17-21 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.*
- iv. Question Nos. 6-10 and 22-26 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
- v. Question Nos. 11-13 and 27-29 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.*
- vi. Question Nos. 14-16 and 30-32 are long-answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.*
- vii. Answers should be brief and to the point and the above word limit be adhered to as far as possible.*

### **Section - A**

#### **Introductory Microeconomics**

1. Define .opportunity cost.. (1)
2. Define .change in demand.. (1)
3. A rise in the price of a good results in an increase in expenditure on it. Is its demand elastic or inelastic? (1)
4. What is meant by the term .price taker. in the context of a firm? (1)
5. What is the price elasticity of supply of a commodity whose straight line supply curve passes through the origin forming an angle of  $75^\circ$ ? (1)
6. Given below is the utility schedule of a consumer for commodity X.

The price of the commodity is Rs. 6 per unit. How many units should the consumer purchase to maximize satisfaction? (Assume that utility is expressed in utils and 1 util = Re. 1). Give reasons for your answer.

Con. (units)	TU (utils)	MU (utils)
1	10	10
2	18	8
3	25	7
4	31	6
5	34	3
6	34	0

7. State the law of supply. What is meant by the assumption other things remaining the same. on which the law is based? (3)

8. A firm's Average Fixed Cost of producing 2 units of a good is Rs. 9. and given below is its total cost schedule. Calculate its Average Variable Cost and Marginal Cost for each of the given level of output :

Output (units)	TC
1	23
2	27
3	30

9. Explain the implication of the feature product differentiation. under Monopolistic Competition.

**OR**

Explain the implication of the feature Freedom of entry and exit of firms. (3)

10. State the problems relating to allocation of resources in an economy. (3)

11. Explain the effect of rise in the prices of related goods. on the demand for a good X. Use diagrams.

**OR**

Explain the effects of rise in income on demand for a good. Use diagram. (4)

**For Blind Candidates only in lieu of Q. No. 11**

Explain the effects of change in the prices of related goods. on demand for good X.

**OR**

Explain the effects of change in income on demand for a good. (4)

12. When price of a good falls from Rs. 5 to Rs. 3 per unit, its demand rises by 40 percent. Calculate its price elasticity of demand. (4)

13. Complete the following table :

Output (units)	Price (Rs.)	Marginal Revenue (Rs.)	Total Revenue (Rs.)
1	10	--	--
2	9	--	--
3	--	--	24
4	4	--	--

14. Explain the likely behaviour of Total Product and Marginal Product when only one input is increased while all other inputs are kept unchanged.

**OR**

All the inputs used in production of a good are increased simultaneously

and in the same proportion. What are its possible effects on Total Product?

Explain with the help of a numerical example. (6)

15. There is a simultaneous .decrease. in demand and supply of a commodity.

When will it result in :

(a) No change in equilibrium price.

(b) A fall in equilibrium price.

Use Diagram.

**For Blind candidates : In lieu of Q.No. 15.**

There is a simultaneous .decrease. in demand and supply of a commodity .

Explain its effect on equilibrium price. (6)

16. Define .producer.s equilibrium.. Explain the conditions of producer.s equilibrium in terms of Total Cost and Total Revenue. Use diagram.

**For Blind Candidates only in lieu of Q.No.16.**

Define .producer.s equilibrium.. Explain the conditions of producer.s equilibrium in terms of Total Cost and Total Revenue with the help of a schedule. (6)

### **Section - B**

#### **Introductory Macroeconomics**

17. If MPC and MPS are equal, what is the value of the multiplier? (1)

18. What is meant by Statutory Liquidity Ratio? (1)

19. How is primary deficit calculated? (1)

20. What will be the effect of a rise in bank rate on money supply? (1)

21. If planned savings are greater than planned investment, what will be its effect on inventories? (1)

22. State the nature of transactions that are recorded in current account of the Balance of Payments account. (3)

23. From the following data calculate national income :

**Rs.(Crores)**

(i) Compensation of employees 800

(ii) Rent 200

(iii) Wages and salaries 750

(iv) Net exports (-30)

(v) Net Factor income from abroad (-20)

(vi) Profit 300

(vii) Interest 100

(viii) Depreciation 50

**OR**

Calculate .gross domestic product of factor cost. from the following data.

**(Rs.Crores)**

(i) Private final consumption expenditure. 800

(ii) Net domestic capital formation 150

(iii) Change in stock 30

(iv) Net factor income from abroad (.) 20

(v) Net indirect tax 120

(vi) Government final consumption expenditure 450

(vii) Net exports (.) 30

(viii) Consumption of fixed capital 50 (3)

24. How does money solve the problem of double coincidence of wants ? (3)

25. What are open market operations ? What is their effect on availability of credit ? (3)

26. What is the basis of classifying government expenditure into :

(a) Plan expenditure and non-plan expenditure

(b) Developmental expenditure and non-developmental expenditure. (3)

27. What are the implications of a large revenue deficit? Give two measures to



reduce this deficit. (4 )

28. Give two reasons for a rise in demand for a foreign currency when its price falls.

**OR**

State any two merits and demerits of flexible exchange rate system. (4)

29. Can an economy be in a state of under employment equilibrium? Explain with the help of a diagram.

**For Blind Candidates only in lieu of Q.No.29.**

Can an economy be in a state of under employment equilibrium? Explain. (4)

30. How will you treat the following while estimating domestic product of India?

(i) Rent received by a resident Indian from his property in Singapore.

(ii) Salaries to Indians working in Japan's Embassy in India.

(iii) Profits earned by a branch of an American Bank in India.

(iv) Salaries paid to Koreans working in Indian embassy in Korea.

**OR**

Explain any two precautions that should be taken while estimating national income by (a) value added method, and (b) income method. (6)

31. Given below is the consumption function in an economy :

$$C = 100 + 0.5Y$$

With the help of a numerical example show that in this economy as income increases APC will decrease. (6)

32. Calculate Gross National Product at Market Price and Personal Disposable Income

from the following data

**(Rs. crores)**

(i) Subsidy 20

(ii) Net factor income from abroad (.) 60

(iii) Gross national disposable income 1050

(iv) Personal Tax 110

(v) Savings of private corporations 40

(vi) National income 900

(vii) Indirect tax 100

(viii) Corporation tax 90

(ix) Net national disposable income 1000

(x) National debt interest 30

(xi) Net current transfers from abroad 20

(xii) Current transfers from government 50

(xiii) Miscellaneous receipts of the government administrative departments. 30

(xiv) Private income 700 (6)