

ECONOMICS

Maximum Marks: 80

Time Allowed: Three hours

*(Candidates are allowed **additional 15 minutes** for **only** reading the paper.
They must **NOT** start writing during this time).*

Answer all questions in Section A, Section B and Section C.

Section A consists of **objective/ very short answer** type questions.

Section B consists of **short answer** questions.

Section C consists of **long answer** questions.

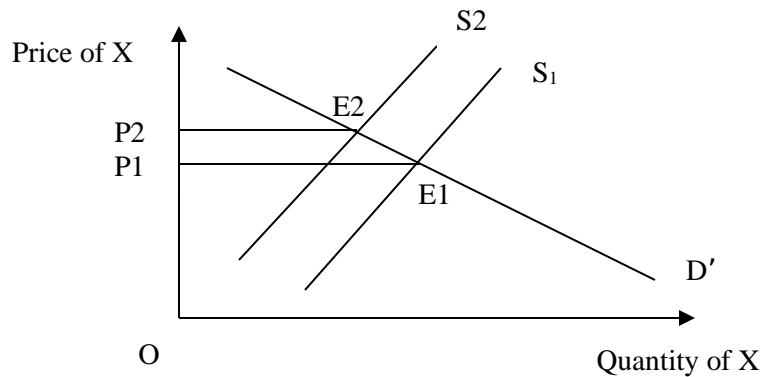
The intended marks for questions or parts of questions are given in brackets [].

SECTION A – 16 MARKS

Question 1

- (i) Indifference curve is convex to the origin due to: [1]
- (a) Axiom of transitivity.
 - (b) Law of DMU.
 - (c) Law of DMRS.
 - (d) Axiom of non-satiety.
- (ii) When supply of a commodity increases by 24% following the rise in price by 8%, supply curve will be: [1]
- (a) positively sloped with positive intercept.
 - (b) positively sloped with negative intercept.
 - (c) horizontal.
 - (d) parallel to price axis.
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- (iii) The diagram given below shows the market demand for and market supply of good X. [1]



The equilibrium point has been changed from E_1 to E_2 .

Which one of the following statements is **NOT** correct?

- (a) The supply has decreased because government has raised Goods and Services tax rate.
 - (b) D' is a demand curve for a Giffen good.
 - (c) Equilibrium price has increased due to the rise in wage rate in the market.
 - (d) The number of firms has decreased.
- (iv) Demand curve parallel to X axis signifies: [1]
- (a) perfectly elastic.
 - (b) perfectly inelastic.
 - (c) elastic.
 - (d) inelastic.
- (v) Which one of the following is a pair of direct taxes? [1]
- (a) Excise duty and Wealth Tax
 - (b) Service Tax and Income Tax
 - (c) Excise Duty and Service Tax
 - (d) Wealth Tax and Income Tax

- (vi) Which one of the following is included in the calculation of National Income? [1]
- (a) Transfer Earnings
 - (b) Sale proceeds of Shares and Bonds
 - (c) Black Money
 - (d) None of the Above
- (vii) Currency held by the public + Cash reserve with the commercial bank + Required reserve of commercial bank with the RBI + Other deposits with RBI is equal to: [1]
- (a) Broad money
 - (b) Narrow money
 - (c) High powered money
 - (d) Standard money
- (viii) Indian Railways charges lower freight rates for transporting essential products like food, coal etc., as compared to freight charges for other products like T.V., Air coolers etc. This is an example of: [1]
- (a) Price ceiling.
 - (b) Price discrimination.
 - (c) Price control.
 - (d) Floor pricing.
- (ix) As per the marginal revenue and marginal cost approach, it will be profitable for a firm to produce when: [1]
- (a) $MR = AR$
 - (b) $MR > MC$
 - (c) $AR < MR$
 - (d) $MC > MR$

- (x) Complete the following table: [1]

INCOME (Y) ₹	CONSUMPTION (C) ₹	MPC ₹	MPS ₹
8000/-	6800/-		
10000/-	8000/-		

- (xi) Define *autonomous investment expenditure*. [1]
- (xii) What is the difference between *revaluation of domestic currency and appreciation of domestic currency*? [1]
- (xiii) State whether the following statement is True or False. Give one reason for your answer. [1]
- Undistributed profits are not a part of domestic factor income.
- (xiv) An oligopolist has an indeterminate demand curve. What is the reason for this feature of Oligopoly? [1]
- (xv) When demand and supply increase by equal percentage, what happens to the equilibrium price? [1]
- (xvi) What does $0 < c < 1$ signify? [1]

SECTION B – 32 MARKS

Answer the following questions briefly.

Question 2

- (i) The following headline appeared in the newspaper – [2]
- “Crop damage in Himachal Pradesh sent tomato prices soaring in Delhi.”
Analyse the statement with reference to the relationship between price and supply.
- (ii) The initial demand for a commodity was 100 units. With a rise in price by ₹ 5, the demand for the quantity decreases by 5 units. The elasticity of demand is 1.2. Calculate the price before the change in demand. [2]

Question 3

- (i) State *any two* differences between a *direct tax* and an *indirect tax*. [2]
- (ii) Refunding and Debt conversion are two methods of Debt redemption. Briefly explain these two methods of debt redemption. [2]

Question 4

- (i) What is *marginal cost* of a firm? [1]
- (ii) Calculate Total fixed cost, Marginal cost and Average Cost from the following data: [3]

Output (Units)	0	1	2	3	4
Total cost (₹)	100	240	360	540	620

Question 5

- (i) Draw one graph each for substitute goods and complementary goods to show the relationship between price and demand for a good.. [2]
- (ii) Two indifference curves never intersect each other. Justify the statement. [2]

OR

- (i) State the Law of Diminishing Marginal Utility. [2]
- (ii) Explain how it causes negatively sloped demand curve. [2]

Question 6

- (i) The distance between ATC and AVC curves is larger in the beginning and gets shorter as output increases. Discuss the statement. [2]
- (ii) Why do firms earn normal profit in the long run under Perfect competition? [2]

Question 7

- (i) What is meant by *inflationary gap*? [1]
- (ii) Explain the role of 'repo rate' in reducing this gap. [3]

Question 8

- (i) Illustrate the process of credit creation by Commercial banks with the help of a hypothetical numerical example. [4]

OR

- (ii) How does Central bank control credit by Qualitative methods?

Question 9

Explain the equilibrium level of income and output determination by Aggregate demand and Aggregate supply approach with the help of a diagram. [4]

SECTION C – 32 MARKS

Question 10

- (i) Mention *any one* difference between *cardinal utility* and *ordinal utility*. [2]
- (ii) Show Consumer's equilibrium through Indifference curve approach mentioning the essential conditions. [6]

OR

- (i) State the *law of variable proportions*. Explain its three stages using a diagram. [6]
- (ii) Briefly explain why the producer is comfortable in the second stage of production. [2]

Question 11

- (i) What is *minimum support price*? [2]

- (ii) Explain the process of Maximum price legislation and rationing with the help of a diagram. [6]

Question 12

- (i) What is the difference between GDP_{mp} and NNP_{fc} ? [2]
- (ii) Calculate *Domestic Income* and *National Income* from the following information: [6]

	Items	₹ (in Crore)
1.	Rent	120
2.	Interest	15
3.	Profits	45
4.	Wages & Salaries	330
5.	Consumption of fixed capital	150
6.	Factor income earned abroad	30
7.	Factor income paid abroad	60
8.	Mixed income of self-employed	360
9.	Employer's contribution to social security schemes	30

OR

- (i) Differentiate between *personal income* and *national income*. [2]

- (ii) Calculate the GNP_{mp} and NDP_{fc} from the following data: [6]

Items	₹ (in Crore)
1. Government final consumption expenditure	800/-
2. Net factor income earned from abroad	(-) 10/-
3. Import	300/-
4. Export	250/-
5. Net Indirect taxes	70/-
6. Private final consumption expenditure	1200/-
7. Net domestic capital formation	385/-
8. Consumption of fixed capital	85/-

Question 13

Read the passage given below and answer the questions that follow.

India is predominantly an agriculture based country. It is the second largest producer of wheat in the world and wheat export is also an important component in its international business transactions. Recently, Indian Government put a ban on the export of wheat to other countries to control inflation in the country. This decision of Indian Government may decrease the flow of foreign exchange in credit side of the balance of payments of our country in comparison to the debit side of it. This may affect the Balance of Payment as India has been following flexible exchange rate system, to some extent, since 1991-92.

- (i) What is meant by *balance of payments*? [1]
- (ii) State *any two* causes of adverse balance of payments. [2]
- (iii) In the context of international business relations, what does *flexible exchange rate system* mean? [2]
- (iv) Why does a country need foreign exchange? [2]
- (v) What economic variables are measured along x-axis and y-axis for the determination of foreign exchange rate? [1]