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.)

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*Answer **Question 1 (compulsory) from Part I** and **five** questions from **Part II**.*

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

PART I (20 Marks)

*Answer **all** questions.*

Question 1

Answer briefly *each* of the following questions **(i)** to **(x)**: [10×2]

(i) What is meant by *product differentiation* in monopolistic competition?

(ii) Explain an *indifference map*, with the help of a diagram.

(iii) Give *two* examples of each of the following:

    (a) Revenue receipts of the government.

    (b) Revenue expenditure of the government.

(iv) With the help of a diagram, state the behaviour of MP when:

    (a) TP of the variable factor reaches maximum.

    (b) TP of the variable factor falls.

(v) What is meant by *High Powered Money?*

(vi) Distinguish between *depreciation* and *devaluation*.

(vii) Explain *any two* precautions to be taken while calculating national income by income method.

(viii) Differentiate between *accounting cost* and *opportunity cost*.

(ix) With the help of diagrams, show when the elasticity of supply is:

    (a) greater than one.

    (b) equal to one.

(x) What is meant by *investment multiplier*?

This paper consists of 4 printed pages.

*Answer **any five** questions.*

Question 2

(a)   How does an increase in income affect the demand for the following: **[3]**

(i)   A normal good

(ii)   An inferior good

(b)   Discuss *any three* reasons for the leftward shift of a supply curve.   **[3]**

(c)   Explain how a consumer attains equilibrium using *indifference curve analysis*.   **[6]**

Question 3

(a)   Discuss *two* differences between *returns to scale* and *returns to a variable factor*.   **[3]**

(b)   With the help of a diagram, explain the relationship between AR and MR of a firm under *imperfect competition*.   **[3]**

(c)   Discuss *any four* features of monopoly market.   **[6]**

Question 4

(a)   Explain the various degrees of price elasticity of demand at different points on a straight line demand curve.   **[3]**

(b)   Show with the help of a diagram, how a perfectly competitive firm earns normal profit in short run equilibrium.   **[3]**

(c)   Explain with the help of diagrams how equilibrium price changes when there is *simultaneous* increase of both, demand and supply.   **[6]**

Question 5

(a)   Discuss *any two* exceptions to the law of demand.   **[3]**

(b)   Study the cost function of a firm given below: **[3]**

Output (Units)	0	1	2	3
TC (₹)	30	90	110	120

Calculate:

(i)   AFC

(ii)   AC

(iii)   MC

(c)   A producer is in equilibrium when MR = MC. Explain this statement with the help of a diagram.   **[6]**

Question 6

(a)   Explain how public expenditure can be used as an instrument of fiscal policy to solve the problem of: **[3]**

   (i)   Income inequality

   (ii)   Inflation

(b)   Differentiate between the *revenue* and *capital components* of the *union budget*.   **[3]**

(c)   Discuss briefly the various components of *balance of payment*.   **[6]**

Question 7

(a)   Discuss *any two* limitations of credit creation by commercial banks.   **[3]**

(b)   Explain *two* secondary functions of money.   **[3]**

(c)   Discuss *any two* qualitative methods and *any two* quantitative methods of credit control used by the Central Bank.   **[6]**

Question 8

(a)   What is meant by *average propensity to consume?* Explain its relationship with average propensity to save.   **[3]**

(b)   Discuss *any two* fiscal measures to correct a situation of *deficient demand* in an economy.   **[3]**

(c)   Explain how equilibrium level of income can be determined with the help of saving and investment approach.   **[6]**

Question 9

(a)   Draw a well-labelled diagram to show a circular flow of income in a two sector model. What happens to the flow of income when savings equals investment?   **[3]**

(b)   What is meant by *economic welfare?* Explain how GDP is an indicator of economic welfare.   **[3]**

(c)   From the following data, calculate National Income by Output method and   **[6]**
      Income method:

	Item	₹ in crores
(i)	Value of output	2500
(ii)	Value of intermediate consumption	1300
(iii)	Subsidies	40
(iv)	Rent	110
(v)	Employer's contribution to social security	30
(vi)	Profit	50
(vii)	Wages and salaries	340
(viii)	Interest	10
(ix)	Mixed income of self-employed	360
(x)	Indirect tax	180
(xi)	NFIA	(-)30
(xii)	Consumption of fixed capital	160

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