

# Economics - 2017

## General Instructions

- (i) All questions in both Groups are compulsory.)
- (ii) Question Nos. 1 to 5 and 17 to 21 and multiple Choice type Questions carrying 1 mark each.)
- (iii) Question Nos.6 to 10 and 22 to 26 are short-answer-I type questions carrying 3 marks each. Answer to these question should not exceed 60 words each.
- (iv) Questions Nos.11 to 13 and 27 to 29 are also short-answer-II type questions carrying 4 marks each. Answers to these question should not exceed 70 words each.
- (v) Question Nos. 14 to 16 and 30 to 32 are long-answer type questions carrying 6 marks each. Answers of these question should not exceed 100 words each.
- (vi) Attempt all parts of questions at one place.

## Group-A

### (Multiple Choice Type Questions)

Choose the correct answer:

Q.1. Which of the following is a source of production?

- (a) Land (b) Labour  
(c) Capital (d) All of these

Ans. (d)

Q.2. The slope of a production possibility curve falls

- (a) from left to right (b) from right to left  
(c) from top to bottom (d) from bottom to top

Ans. (a)

Q.3. When TU becomes maximum MU is

- (a) positive (b) negative  
(c) zero (d) none of these

Ans. (c)

Q.4. In perfect competition which of the following remains constant?

- (a) AR (b) MR  
(c) Both AR and MR (d) None of these

Ans. (c)

Q.5. How many types of elasticity of demand are there?

- (a) Three (b) Five  
(c) Six (d) Seven

Ans. (b)

### (Short Answer Type I Questions)

Answer the following questions:

Q.6. What is opportunity cost?

Ans. Opportunity cost refers to value of a factor in the next best (or second best) alternative use.

Q.7. What is marginal utility?

Ans. Marginal utility is additional utility when a unit more of the commodity is consumed by the consumer is known as Marginal utility.

$$MU_n = TU_n - TU_{n-1}$$

Q.8. Distinguish between 'Desire' and 'Demand'.

Ans. Desire : - Desire is whatever we wish to have or something we want, but don't have sufficient money or income to afford it.

Demand : - It refers to the quantity demanded that the consumer are able and willing to purchase at different prices at given period of time.

Q.9. Mention the elasticity of demand for following goods:

- (i) Salt (ii) Diamond (iii) Milk.

Ans. Salt : Highly inelastic

Diamond : highly elastic

Milk : inelastic demand.

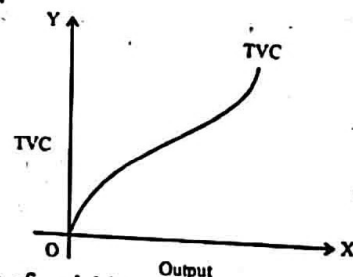
Q.10. What is meant by variable cost? Give two examples.

Ans. Variable cost : - Variable cost are those costs which change as the level of output changes, it is known as variable cost on prime cost.

Schedule : -

Q	TVC
0	0
1	60
2	80
3	90
4	105
5	140
6	210

Diagram :



Examples of variable cost are : -  
Cost incurred on raw material, electricity etc

### (Short Answer Type II Questions)

Answer the following questions:

Q.11. Explain the relationship between MR and AR. Use diagram.

Ans. Marginal revenue is the addition to total revenue on account of sale of one more unit of output.

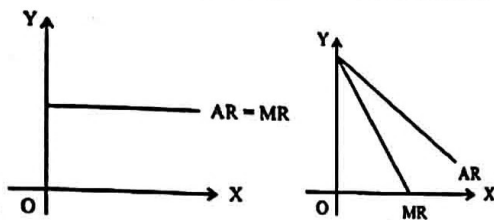
$$MR = \frac{\Delta TR}{\Delta Q}$$

Average revenue is the revenue per unit of output sold.

$$AR = \frac{TR}{Q}$$

The relation between MR and AR are.

- (i) When AR is constant, it is equal to MR.
- (ii) When AR is diminishing, it is greater than MR.
- (iii) MR can be zero or negative but not the AR.

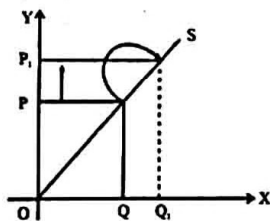


**Q.12.** Mention one point of difference between increase in supply and extension in supply.

**Ans.** Difference between extension of supply and increase in supply.

**Extension of supply :**

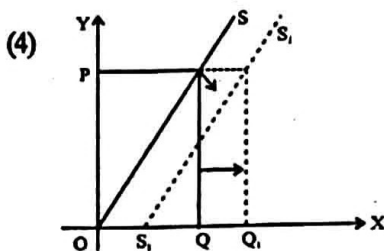
- (1) Extension of supply refers to increase in quantity supplied of a commodity due to an increase in its price.
- (2) Extension of supply occurs due to change in own price of the commodity.
- (3) Diagrammatically, it implies a upward movement along the same supply curve.



(4)

**Increase in supply :**

- (1) Increase in supply refers to increase in quantity supplied of a commodity at its existing price.
- (2) Increase in supply occurs due to change in factors other than own price of the commodity.
- (3) Diagrammatically, it implies a forward shift in supply curve



(4)

**Q.13.** Mention the basic features of market.

**Ans.** The four basic feature of market are :-

- (a) Area
- (b) Buyer and seller
- (c) One price
- (d) Perfect knowledge of Market

(Long Answer Type Questions)

Answer the following questions:

**Q.14.** Differentiate between market price and normal price.

**Ans. Market Price :**

- (1) Market price is the price prevailing on a particular day or a particular time.
- (2) Market price is influenced more by demand.
- (3) Market price is determined by temporary equilibrium between the forces of demand and supply at a time.
- (4) Market price may change continuously
- (5) Market price is the real price.
- (6) A market price can be more or less than the marginal cost of production.

**Normal price :**

- (1) Normal price is the result for period of time.
- (2) Normal price is influence more by supply
- (3) Normal price is the result of long run equilibrium between demand and supply.
- (4) Normal price is more stable.
- (5) Normal price is hypothetical price and ideal price.
- (6) A normal price cannot be more or less than the marginal cost of production.

**Q.15.** What do you mean by production cost? Distinguish between Explicit Cost and Implicit Cost.

**Ans. Production Cost :** Production or product costs refers to the cost incurred by a business from manufacturing a product or providing a service.

Difference between explicit cost and Implicit cost.

**Explicit cost**

- (1) Explicit cost are those costs which a firm incurs on account of the purchase of inputs from the market.
- (2) Explicit cost are also known as out of pocket costs.  
*Example :* - Expenditure incurred on the purchase of raw material

**Implicit cost.**

- (1) Implicit costs are those costs which a firm incurs on account of the use of self owned inputs.
- (2) Implicit cost are also known as imputed costs.  
*Example :* - Use of family labour.

**Q.16.** Why does Demand Curve slope downward from left to right?

**Ans.** The main causes of leftward shift in demand curve are:-

- (a) Income of the consumer :- With decrease in income of the consumer, the demand curve for normal goods shifts to the left.
- (b) Price of related goods :- In case of substitute goods, demand for a commodity falls with fall in price of the substitute commodity.
- (c) Taste and preferences :- If consumers taste and preferences change against the commodity, the quantity demanded of the commodity falls.
- (d) Expectations :- If the consumer expects that the price in the near future will fall, he will buy less quantity at the prevailing price and hence demand curve shift to the left.

Or

Q. Explain the important characteristics of monopoly market.

Ans. Characteristics of monopoly market are :—

- Single seller and large number of buyers of a product.
- No close substitutes of the monopoly product.
- Full control over price.
- Price discrimination is possible.
- Entry of new firms is not possible.

Group-B

(Multiple Choice Type Questions)

Choose the correct answer:

Q.17. Reserve Bank of India was established in

- 1947
- 1935
- 1937
- 1950

Ans. (b)

Q.18. Which one is included in primary sector?

- Land
- Forest
- Mining
- All of these

Ans. (d)

Q.19. Multiplier can be expressed as

- $K = \frac{\Delta S}{\Delta I}$
- $K = \frac{\Delta Y}{\Delta I}$
- $K = I - S$
- none of these

Ans. (b)

Q.20. Which is a component of Budget?

- Budget Receipts
- Budget Expenditure
- Both (a) and (b)
- None of these

Ans. (c) Both (a) and (b)

Q.21. Which of the following is not included in the calculation of Gross National Product?

- Purchase and sale of old commodities
- Intermediate commodities
- Both (a) and (b)
- None of these

Ans. (c) Both (a) and (b)

(Short Answer Type I Questions)

Answer the following questions:

Q.22. What is meant by circular flow of National Income?

Ans. Circular flow of income refers to unbroken circularity of real flows and money flows across different sectors of the economy.

Circular flow are of two types :—

- money flow :— money flow refers to the flow of money in the form of factor payments.
- Real flow :— Real flow refers to the flow of goods and services from sector to other.

Q.23. What is transfer payment?

Ans. These are the payments that the govt. makes available to the public through the social security or welfare system. These are one way payments made to the individuals. That means the govt. does not require the receiving party to give produce any good or service. Examples of transfer payment are pensions, unemployment benefit, child benefit etc.

Q.24. What is Aggregate Demand?

Ans. Aggregate Demand :— Aggregate Demand is the sum total of expenditure that the people plan to incur on the purchase of goods and services produced in the economy during the period of an accounting year.

$$AD = C + I$$

C = Consumption expenditure

I = Investment expenditure

Q.25. What is Fixed Rate of Exchange?

Ans. Fixed exchange rate is related to gold standard. Fixed exchange rate is a rate fixed and determined by the govt. of a country and the government alone changes it.

Q.26. What is Balance of Trade?

Ans. Balance of trade is defined as the difference between the value of imports and exports of only physical goods, or visible items.

(Short Answer Type II Questions)

Answer the following questions:

Q.27. What are meant by Capital Expenditure and Revenue Expenditure? Give an example of each.

Ans. Capital Expenditure :

- Capital expenditure refers to that expenditure which leads to asset creation or reduction in liability for the govt.
- Capital expenditure has a duration of more than one year.
- These are not matched with the capital receipts.  
*Example :-* Expenditure on purchasing land loans granted to state govt.

Revenue Expenditure

- Revenue expenditure refers to that expenditure which does not lead to asset creation or reduction in liability for the govt.
- Revenue expenditure has a duration of upto the one year
- These are matched with the revenue receipts to know the profit/loss for the year.  
*Example :-* Expenditure on law and order, expenditure on old age pensions.

Q.28. State the main functions of central bank.

Ans. The main function of central bank are :—

- Issuing of notes :— Central Bank is a sole authority to issue currency in the country.
- Banker to the govt. :— As a banker Central Bank carries out all banking business of the govt. and maintains current accounts for keeping cash balances of the govt.
- Banker's Bank :— As a banker's bank it has almost the same relation with other banks in the country as a commercial bank has with its customers.
- Lender of Last Resort :— The central Bank also acts a lender of the last resort for the other banks of the country. It means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the central bank as a last resort.
- Clearing House Function :— Central Bank also performs the function of a clearing house. Every bank keeps cash reserves with the Central Bank.

Q.29. What is the difference between Micro-Economics and Macro-Economics?

Ans. Micro Economis

- Microeconomics studies economic problems at the level of an individual an individual firm, an individual household or an individual consumer.

- (2) Allocation of resources to different uses is the central issue in microeconomics.
- (3) There is a smaller degree of aggregation in microeconomics.

**Example :-** We study output behaviour of an industry which is aggregate of all the firms producing a particular commodity.

**Macro - Economics :**

- (1) Macro economics studies economic problems at the level of the economy as a whole.
- (2) Raising the level of output and growth is the central issue in macroeconomics.
- (3) There is a larger degree of aggregation in macroeconomics.

**Example :** We study national output which is aggregate of output of all the producing units in the economy.

**(Long Answer Type Questions)**

**Answer the following questions:**

**Q.30. Define Investment Multiplier. How is it related with marginal propensity to consume?**

**Ans.** Investment Multiplier is the ratio of change in income to a given change in investment.

**Formula :-**

$$\text{Multiplier (K)} = \frac{\Delta Y}{\Delta I} = \frac{1}{1 - MPC} = \frac{1}{MPS}$$

DY = Change in income

DI = Change in investment.

MPC = Marginal propensity to consume.

MPS = Marginal propensity to save.

There is direct relationship between multiplier and Marginal propensity to consume (MPC). Higher is the value of MPC, lower is the value of multiplier and vice versa. On the contrary, lower the MPC, smaller is the size of multiplier.

We will take two example :-

We will take two price of MPC :-

(1) MPC = 0.75

(2) MPC = 0.60

When we will take MPC as 0.75

$$K = \frac{1}{1 - MPC} ; K = \frac{1}{1 - 0.75}$$

$$= \frac{1}{0.25} = \frac{100}{25} = 4$$

When we will take MPC as 0.60

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - .60}$$

$$= \frac{1}{0.40} = \frac{100}{40} = 2.5$$

From the above example we come to know that higher the value of MPC, higher is the value of multiplier.

**Q.31. Explain the reasons of adverse balance of payment.**

**Ans.** The reasons for causes of Disequilibrium in Balance of payment are :-

(a) **Economic factors :-**

- (i) Imbalance between exports and imports. It is the main cause of disequilibrium in BOP.
- (ii) Large scale development expenditure which causes large imports.
- (iii) Cyclical fluctuations like depression in general business activity.

(b) **Political factors :-** Experience shows that political instability and disturbances causes large capital out flows and inflows of foreign capital.

(c) **Social factors :-**

- (i) Change in fashion, tastes and preferences of the people bring disequilibrium in BOP by influencing imports and exports.
- (ii) High population growth in poor countries adversely affects their BOP because it increases the needs of the country for imports and decreases the capacity to exports.

**Q.32. What are the difficulties of the barter system? Explain how money has removed these difficulties.**

**Ans.** Difficulties of the barter system are :-

- (a) Double coincidence of wants :- It implies that, the two individuals are in possession of such goods which they are willing to exchange for the satisfaction of their wants.
- (b) Lack of common unit of value :- Under barter system there is a lack of common unit of value, like at present value of any car is five lakhs, but under barter system car would be valued in terms of houses, Cow etc simply because there is no money.
- (c) Difficulty of future payment :- future payment would be very difficult under barter system of exchange.
- (d) Difficulty of storage of value :- Barter system does not allow any convenient method of storage of value.

**Or**

**Q. What is deficient demand in an economy? What is its impact on production and employment?**

**Ans.** Deficient Demand is also known as deflationary gap. Deflationary gap refers to a situation of deficiency of demand when aggregate demand is short of aggregate supply corresponding to full employment level.

The impact of deficient demand on employment are :-

If aggregate demand is less than aggregate supply, entire amt of goods produced in an economy is not sold. This lead to over production. Therefore, producers of goods cut production and reduce investment. Consequently unemployment problem becomes rampant Deficient demand causes involuntary unemployment in the economy due to fall in the planned output.

The impact of deficient demand on production are:-  
Due to lack of sufficient aggregate demand, there will be an increase in the inventory stock. It will force the firms to plan for lesser production for the subsequent period. As a result, planned output will fall.