Economics - 2018

General Instructions:
(i) All questions in both Groups are compulsory.
(ii) Question Nos. 1 to 5 and17 to 21 are 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 :

1. According to whom economics is a science of human welfare ?
(a) A. Marshall (b) Paul Robbins Samuelson
(c) J. S. Mill (d) Adam. Smith.
Ans. (a) A. Marshall

2. With rise in coffee price the demand of tea
(a) rises (b) falls
(c) remains stable (d) none of these.
Ans. (a) rises

3. The price of a good is determined by
(a) Demand (b) Supply
(c) Both demand & supply
(d) Government.
Ans. (c) Both demand & supply

4. which is the central problem of an economy ?
(a) Allocation of resources
(b) Optimum utilisation of resources
(c) Economic development
(d) All of these
Ans. (d) All of these

5. At which time all the factors of production may be changed?
(a) Shrot-run (b) Long-run
(c) very long-run (d) All of these.
Ans. (d) All of these

(Short Answer Type I Questions)

6. What are the main causes of origin of economic problems?
Ans. Problems relating to allocation of resources in an economy arise because of three basic characteristic of resources :—
(i) Unlimited wants :– Humans wants are unlimited.
(ii) Scarcity :– REsources are scarce in relation to their wants. It is a situation when requirement of goods exceeds their availability so that goods acquire market value or price.
(iii) Alternative uses :– Resources have alternative uses. For examples, land may be used to grown wheat or rice or may be used for the construction of buildings.

7. Explain any three features of perfect competition.
Ans. The three features of perfect competition are :–
(a) Large number of buyers and sellers. So that no individual buyer/seller can affect price of the product.
(b) Homogenous, product. So that no individual seller exercies even a partial control over price of the product.
(c) Freedom of entry and exist in the market. So that only normal profits prevail in the long run.

8. What is average production ?
Ans. Average product refers to output per unit of the variable factor (labour).

$$AP = \frac{TP}{L}$$

TP = Total Product
L = Labour

9. What is the meaning of returns to scale ?
Ans. Returns to scale state, that as the scale of output is raised (factor ratio remaining constant), behaviour of output passes through three different phases :–
(a) Phase of increasing returns :– When output increases proportionately greater than the increase in inputs.
(b) Phase of constant returns :– When output in increases in the same proportion as the increase in inputs.
(c) Phase of Diminishing Returns :– When output increases proportionately less than the increases in inputs.

10. Explain the 'Law of Supply'.
Ans. Law of supply states that other things being equal, quantity supplied increases with increase in price and decreases with decrease in price of the commodity.

(Short Answer Type II Questions)

Answer the following questions :

11. Distinguish between flow and stock.
Ans. The difference between stock and flow are :–
Stock :
(a) Stock is that quantity of an economic variable which is measured at a particular point of time.

(b) Stock has no time dimension.
(c) Stock is a static concept

Example : - Quantity of money, wealth.

Flow :

(a) Flow is that quantity of an economic variable which is measured during the period of time.
(b) Flow has time dimesion as per hour, perday, per month.

It is a dynamic concept

Example : – Consumption, investment.

12. Explain the law of diminishing marginal utility.

Ans. Law of diminishing marginal utility states that as the consumer consume more and more unit of a commodity, the marginal utility derived from each successive unit goes, on diminishing.

13. Define Market. Explain those four bases on which different markets are defined.

Ans. Market refers to the mechanism that brings buyers and sellers of a commodity in contact with each other.

Features of Market are :–

(a) One commodity :– In practical life, a market is understood as a place where commodities are brought and sold at retail or wholesale price, but in economics, "Market" does not refer to a particular place as such but it refers to a market for a commodity.
(b) Area : – In economics, market does not refer only to a fixed location. It refers to the whole area or region of operation of demand and supply.
(c) One Price : – One and only one price be in existence in the market which is possible only through perfect competition and not otherwise.
(d) Perfect knowledge of the Market :– Buyers and sellers must has perfect knowledge of the market regarding the demand of the customers, regarding their habits, tastes, fashions etc.

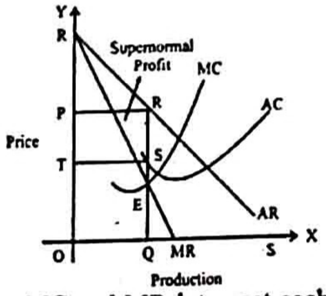
(Long Answer Type Question)

Answer the following questions :

14. How is price determined under monopoly market ?

Ans. In Monopoly market price is determined at the point where;

(a) MR = MC
(b) MC curves cuts MR curve below it.



In this figure MC and MR intersect each other at point E and after that MC goes on rising. Thus OQ production is determined and OP is the price. But Average cost is SQ. So profit per unit is RS and at OQ output the total profit is PTSR.

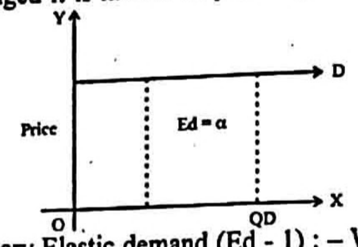
15. What do you understand by price elasticity of demand ? What are its degrees ?

Ans. Price elasticity of demand refers to the degree of increase or decrease in quantity demanded of a commodity as a result of change in its price.

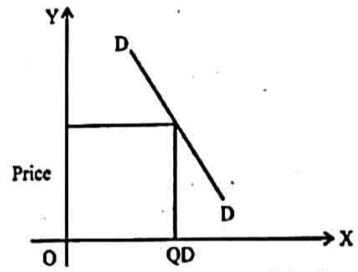
$$Ed = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

The degrees of price elasticity of demand are :–

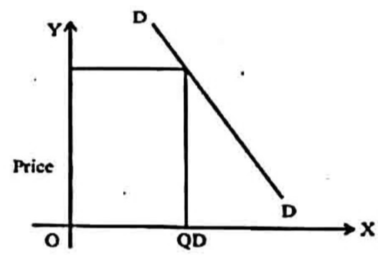
(a) Perfectly Elastic (Ed = a) : – When there is no change or little bit change in price and quantity demanded is changed it is known as perfectly elastic demand.



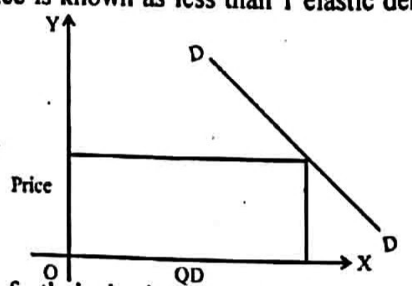
(b) Unitary Elastic demand (Ed - 1) : – When% Change in QD is equal to one it is known as unitary elastic demand.



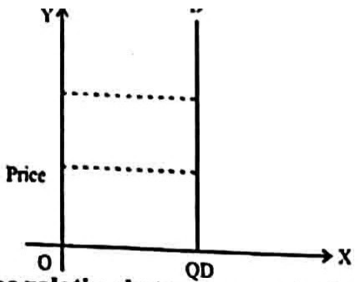
(c) Greater than 1 elastic demand (Ed > 1) : – When % change in QD is more than the % change in price it is known as greater than 1 elastic demand.



(d) Less than 1 elastic demand : – (Ed < 1) : – When % change in QD is less than the % change in price is known as less than 1 elastic demand.



(e) Perfectly inelastic demand : – (Ed = 0) :– When there is no change in QD due to change in price it is known as perfectly inelastic demand.

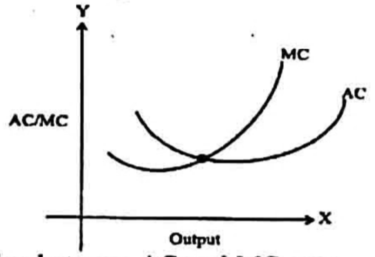


16. Explain the ralation between marginal cost and average cost with the help of a cost-table

Ans.

Q	TC	AC	MC
1	20	20	20
2	38	19	18
3	54	18	18
4	72	18	18
5	100	20	28
6	150	25	50

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



The relation between AC and MC are :–

(i) When AC is falling, AC > MC.
(ii) When AC is constant, AC = MC
(iii) When AC is rising, MC > AC
(iv) MC curve cuts AC curve at its lowest point.
(v) Both MC and AC curve are of U-shape.

OR

Discuss the difference between law of return and return to scale.

Ans. The difference between Return to a feactor and return to scale are :–

Return to a factor :–

(a) Return a factor are studied with reference to variable proportions type production function.
(b) In case of returns to a factor, scale of production does not change.
(c) Returns to a factor are studied when one factor alone is variable and other factors remain constant.
(d) It is a short run production function.

Return to a Scale :–

(a) Return to scale are rtudied with reforence to constant propertion type production function.
(b) In case of returns to scale, scale of production ought to change.
(c) Returns to scale are studied when all factors of production are variable and change in the same proportions.
(d) It is long run production function.

Group - B

(Multiple Choice Type Questions)

Choose the correct answer :

17. Through which method can we withdraw money from Bank?

(a) Withdrawal form (b) Cheque
(c) ATM (d) All of these.

Ans. (d) All of these

18. What is Central Bank of India ?

(a) Commercial Bank (b) Central Bank
(c) Private Bank (d) None of these.

Ans. (a) Commercial Bank

19. Direct Tax is

(a) Income Tax (b) Gift Tax
(c) both (a) and (b) (d) none of these.

Ans. (a) Income Tax

20. The function of Money is

(a) Medium of Exchange (b) Measure of Value
(c) Store of Value (d) All of these.

Ans. (d) All of these

21. On which factor does Keynesian theory of employment depend ?

(a) Effective demand (b) Supply
(c) Production efficiency (d) None of these.

Ans. (a) Effective demand

Short Answer Type I Questions

Answer the following questions :

22. What is Macro-Economics ?

Ans. Macroeconomics deals with economic issues (or economic problems) at the level of an economy as a whole.

Description : – Macroeconomics analyzes all aggregate indicators and the microeconomic factors that influence the economy. Govt. and corporations use macroeconomic models to help in formulating to economic policies and strategies.

23. Define Government Budget.

Ans. A govt. budget is a statement showing estimated receipts and estimated expenditure of the govt, during a fiscal year.

Objectives of the Govt. Budget are :–

(a) To accelerate GDP in terms of the flow of goods and services in the economy.
(b) Rellocation of rescourees with a view to maximising social welfare.

24. Discuss two main functions of Money.

Ans. Money is generally defined as a thing that is commonly accepted as a medium of exchange.

Functions of Money are :–

(i) **Primary Function :–**

(a) Medium of exchange : – Money act as a medium for sale and purchase of goods. After introduction of money exchange has become much simpler.
(b) Measure of value : – Money serves as a measure of value.

(ii) **Secondary Function :–**

(a) Store of value : – Store of value implies store of wealth.
(b) Transfer of value : – Money serve as a convenient mode of transfer of value (wealth).

25. What do you mean by Gross National Product ?

Ans. Gross National Product is the market value of final goods and services produced during the year along with net factor income from abroad (NFIFA) and consumption of fixed capital.

It include net factor income from abroad (NFIFA)

Formula of calculating GNP are :-

GNP = GDP + NFIFA – NFITA.

NFIFA : – Net factor income from Abroad

NFITA : – Net factor income to Abroad.

26. What do you mean by balance of payment ?

Ans. Balance of payment is a set of accounts which show receipts and payments of foreign exchange of a country an account of its economic transactions with the rest of the world.

There are true types of BOP :-

(i) Current Account of BOP

(a) Merchandise : It refers to all such items of exports and imports which are material in nature and there fore are called visibles.

(b) Invisibles : It refers to all such items of Export and import which are non material and are therefore called invisibles.

(c) Current transfers : It refers to unilateral transfer by may of gifts, grants and markers remitlances (residents settled abroad sending money to their relatives in the home country).

(ii) **Capital Account of BOP :-**

(a) Borrowing : It includes external commercial Borrowing and external Assistance. External assistance is recorded as the net of receipts while commercial Borrowing in recorded as the net of Borrowing in the capital account of India's BOP.

(b) Short term trade credit : Inflow of Foreign exchange on account of short term trade credit in recorded in the credit side of capital account of BOP.

27. Differentiate between direct taxes and indirect taxes.

Ans. Direct Tax :

(i) Direct taxes are those taxes the final Burden of which falls on the person who is liable to pay the tax to the Government.

(ii) The Final Burden of the taxes can't be shifted to other person.

(iii) Direct taxes are generally progressive in nature. Their Real Burden is more an Rich and Less on Poor.

Eg : (i) Income Tax

(ii) Wealth Tax

Indirect Taxes :

(i) Indirect Taxes are those taxes the final Burden of which dues not necessarily full on the person who is liable to pay the tax to the Government.

(ii) The final Burden of indirect taxes can be shifted to other persons.

(iii) Indirect taxes are generally regressive in nature. Their Real Burden is more on the poor and Less on the Rich.

Eg : (i) Excise Tax

(ii) G.S.T

28. What is Investment ? Explain.

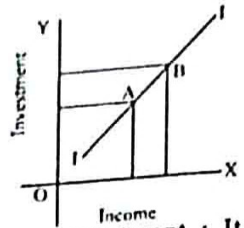
Ans. Investment refers to expenditure that increase the stock of capital. It is called capital formation.

There are two types of Investment :-

(a) Induced Investment

(b) Autonomous Investment

(a) Induced Investment : Induced investment is induced by the profit motive. It is also referred to as profit motivated investment. It occurs in Response to. Actual increase in outlays for specific existing projects.



(b) Autonomous Investment : It is independent of economic activity. It occur independently of rising economic activity as a result for example, of the introduction of new products. This types of Investment is not responsive to changes in prices, income are population Grouth.

29. Discuss the main features of government budget.

Ans. Government Budget is a statement of the estimates of the Government receipts and Government expenditure during the period of the Financial Year. It reveals the fiscal policy of the Government for the year to come.

Features of Government Budget :-

(i) To accelerate GDP in terms of the Flow of Goods and services in the economy.

(ii) To promote the Denelopment of backward Regions of the Country with a view to minimising the Regional disparities.

(iii) Reallocation of resources with a view of maximising social welfare.

(iv) Investment in Public enterprises with a view to generating employment opportunity.

(Long Answer Type Questions)

Answer the following questions :

30. Describe the merits and demerits of flexible exchange rate system.

Ans. Flexible exchange rates is that exchange Rate which is Determined by the Demand for and supply of different countries in the foreign exchange market.

Merits of Flexible exchange Rate are :-

(i) A system of Fluctuating foreign exchange rates enables the country to find out its natural rate of exchange in coarse of time.

(ii) A system of Flexible interest Rates automatically brings about equilibirium in the BOP of the country.

(iii) A systtem of Flexible exchange is no Hinderance in the smooth functioning of the currency blors.

(iv) A Flexible rate of exchange protects the Domestic economy of a country from the shocks generated by disturbances originating abroad.

Demerits of Flexible exchange Rates :-

(i) A system of Freely flexible exchange Rates induces unnecessary and unwanted international capital movements.

(ii) A system of flexible exchange rate hinders long term foreign investment by creating uncertainty in minds of the Barrowers and the lenders.

(iii) It has been argued that a fluctuating rate of exchange is essential to enable a country to reach its natural rate of exchange. This in fact is not necessary. A stable rate of exchange can also become the natural rate of exchange in coarse of time.

31. What is National income ? Discuss the method of measuring national income.

Ans. National income in the aggragate money value of final all goods and services produced in a country during one year, account being taken of the eductions made due to wear and tear and depreciation of plants and machinery used in the production of Goods and services.

Different measures by which national income can be calculated are :–

(1) Value Added Method
(2) Income Method
(3) Expenditure Method

(1) Value added Method : It is that method which measures the contribution of each producing enterprises to production in the domestic territory of the country.

Steps in value added Methods are :–

(a) 1st step. It involve classification of productive enterprises into three categaries primary, secondary, Tertiory sector.

(b) 2nd step : Value of output is determined by multiplying the quantily of the product by its Market Price. Gross value added in estimated by deducting the intermediate consumption from the value of output depreciation in deducted from gross value added to get net value Added.

(c) 3rd step : Net indirect taxes are deducted from net value added at market price to get net value added at factor cost which is equal to net Domestic income. Net factor income from abroad in added to net domestic income to get national income.

(2) Income Method : Income Method is that Method which measures national income from the side of payment mode in the form of wages, rent interest and profit to the primary Factors of Production in an accounting year.

(3) Expenditure Method : Asper the Method, Domestic product is estimated as the sum total of expenditure on the purchase of final Goods and services produced within the Domestic territory of the country a during the year of estimation.

32. What are Ex-post savings and Ex-post Investment?

Ans. Expost investment refers to actual investment in the economy during the period of one year.

Ex post saving refers to actual savings that took place. Alternatinely ex post (Actual) savings are those which the households actually save from their income.

In Keynes terminology investment means Real and non Financial investment. The point in to be noted is that ex post investment of firms are always equal to ex post saving of the households at all level of Income. Ex post are Realised saving and investment are necessarily equal and this is Bronght about by fluctuations in income. Since unplanned. investment also gets included in realised investment, realised investment in always equal to Realised saving.

Y (Realised Income) = C + S (Realised Saviing)
Y (Realised Income) = C + I (Realised Investment)
C + S = C + I
(Realised Saving = (Realised Investment)

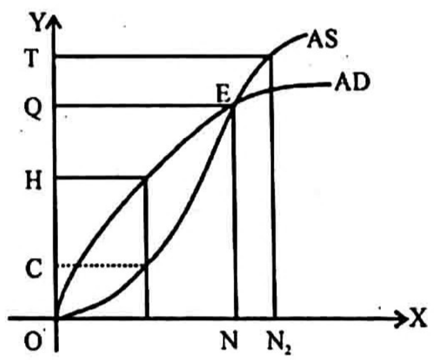
OR

Discuss the main features of Keynesian theory of employment.

Ans. As per keynes theory of employment, effective demand signifies the money spent on the consumption of goods and services and on investment. The total expenditure is equal to the national output.

(a) Aggregate Demand Function (ADF) is a schedule of various amount of money which the enterpreneurs in an economy expect from the sale of their output at varying level of employment.

A. Aggregate supply Function (ASF) on the other hand is a schedule of the various amounts which the entrepreneurs in an economy must receive from the sale of output at varying levels of employment.



So long as ADF is greater than ASF enterprenur shall go on employing more and more workers till ADF and ASF are exactly equal. The moment ASF exceeds ADF further expansion of Bussiness activity and employment shall come to an end.

So the equilibiumn will be at point E where. AS = AD.