# Economics- 2020

Times : 3 Hours | Annual Examination - 2020 | Full Marks: 100

**Candidates are required to give their answers in their own words as far as practicable.**
**Figures in the margin indicate full marks.**

*General Instructions :*

(i) All questions in both the Groups are compulsory.

(ii) Question Nos- 1 to 5 and 17 to 21are Multiple Choice type carrying 1 mark each.

(iii) Question Nos- 6 to 10 and 22 to 26 are Short answer I Type carrying 3 marks each. Answer to these questions should not exceed 60 words each.

(iv) Question Nos- 11 to 13 and 27 to 29 are Short answer II type carrying 4 marks each. Answer to these questions should not exceed 70 words each,

(v) Question Nos- 14 to 16 and 30 to 32 are Long answer type carrying 6 marks each. Answer to these questions 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 :—** $1 \times 5 = 5$

**1. Who was the father of Economics ?**

(a) J. B. Say (b) Malthus
(c) Adam Smith (d) Mrs. Joan Robinson

*Ans.* (c) Adam Smith

**2. The alternative name of opportunity cost is**

(a) Economic cost (b) Equilibrium price
(c) Marginal cost (d) Average cost.

*Ans.* (a) Economic cost

**3. Market price is defined as**

(a) Short period market
(b) Long period market
(c) Very long period market
(d) All of these.

*Ans.* (a) Short period market

**4. The first condition of firm's equilibrium is**

(a) Marginal cost = Marginal Revenue
(b) Marginal Revenue = Total Revenue
(c) Marginal Revenue = Average Revenue
(d) Average cost = Average Revenue.

*Ans.* (a) Marginal cost = Marginal Revenue

**5. If total product at 2 units of labour employed is 22 and total product at 1 unit is 10, then MP is**

(a) 10 (b) 12
(c) 14 (d) 16.

*Ans.* (b) 12

### (Short Answer I Type Questions )

□ **Answer the following questions :** $3 \times 5 = 15$

**6. Distinguish between contraction of demand and decrease in demand.**

*Ans.* The difference between contraction of demand and decrease in demand are.

| Contraction of Demand | Decrease in Demand. |
|---|---|
| (i) Contraction of Demand refers to decrease in purchase of a commodity due to rise in its won price. | Decrease in demand refers to decrease in purchase of a commodity at its existing price. |
| (ii) Contraction of occurs due to change in own price of the commodity. | Decrease in demand occurs due to change in factors tother than own price of the commodity. |
| (iii) Diagrammatically, it is shown by a upward movement along the same demand curve. | Diagrammatically, it is shown by a backward shift in demand curve. |

**7. Mention the basic features of market.**

*Ans.* The basic features of Market are :—

(i) **One commotity : —** In practial life, a market is understood as a place where commodities are bought and sold at retail or wholesale price.

(ii) **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.

(iii) **Buyers and sellers :—** To create a market for a commodity what we need in only a group of potential sellers and potential buyers.

**8. Write the features of Monopolistic competition.**

***Ans.*** The features of Monopolistic competition are :—

(i) Large number of sellers and buyers of a commodity. So that an individual seller does not enjoy a monopoly control of the market.

(ii) Product differentiation is widely practiced. This allows partial control over price of the product.

(iii) No barriers to the entry and exist of the firms. Consequently, only normal profits prevail in the long run.

**9. Discuss the assumptions of law of demand.**

***Ans.*** The assumption of law of demand are :—

(i) No change in price of related commodities.

(ii) No change in income of the consumer.

(iii) No change in taste and preference, customs, habit and fashion of the consumer.

(iv) No change in size of population.

(v) No expectation regarding future change in price.

**10. Differentiate between substitute goods and complementary goods.**

***Ans.*** The difference between substitute goods and complementary goods are.

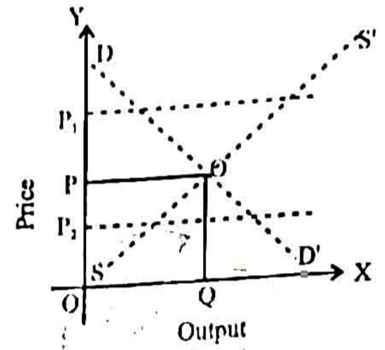
| Substitute Goods | Complementary Goods. |
|---|---|
| (i) Substitute goods have inverse relationship to each other. | Complementary Goods have positive relationship to each other. |
| (ii) Increase in price of one good will decrease the consumption of that particular good and demand for another good increases. | Increase/decrease in demand for one good will increase/decrease demand for other good also. |
| (iii) *Example* :– Increase in price of coffee makes people to have tea. | *Example* :– Car and petrol mobile and mobile covers etc. |

**( Short Answer II Type Questions )**

**□ Answer the following questions : 4 × 3 = 12**

**11. How is price determined under perfect competition ?**

***Ans.*** In perfect competition, the price of a product is determined at a point at which the demand and supply curve intersect each other. This point is also known as equilibrium point. At this point, the quantity demanded and supplied is called equilibrium quantity.

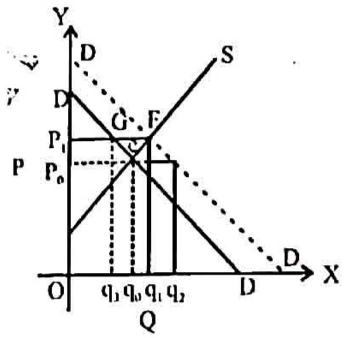



In the above figure it can be seen that at price $OP_1$ supply is more than the demand. Therefore, price will fall down to OP. Simlarly, at price $OP_2$, demand is more than the supply. In such case, the price will rise to OP.

**12. What is the effect of shift of demand and shift of supply on price?**

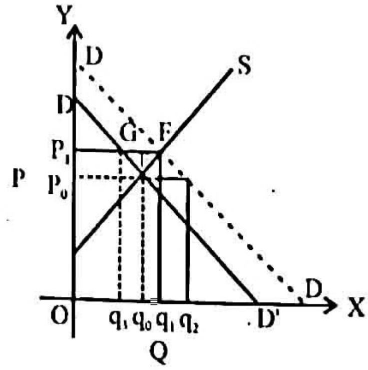
***Ans.*** The effect of shift of demand and supply curve are :—

**(i) A rise in Demand :—**

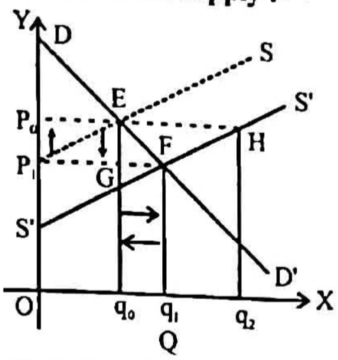



The original demand curve is D and the supply is S. Here $P_0$ is the original equilibrium price and $q_0$ is the equilibrium quantity. If the income of the buyer rise the market demand curve for carrot will rise to $D_1$.

(ii) **A fall in Demand :–** Demand may fall due to changes in the conditions of demand. The second conclusion a leftward shift of the demand curve cause a decrease in the equilibrium price and quantity.

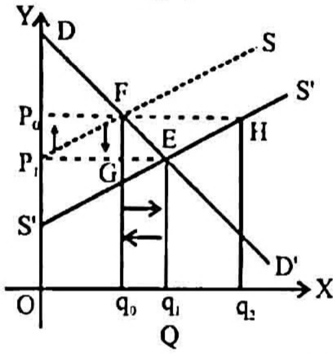


(iii) **An increase in supply :—**




The effect of a shift in the suply curve. Here S and D are original supply and demand curve. The two curves meet at point E. There was a rightward shift of the supply curve due to increase in the productivity of factors of production, caused by technological advance.

(iv) **A decrease in Supply :—**




In this case the original supply curve is S'. Equilibrium price and quantity are $p_1$ and $q_1$. Now the supply curve shifts to left. At the original equilibrium price $p_1$, the quantity offered for sale is O but the QD is still $q_1$. The leftward shift in the supply curve leads to an increase in the equilibrium price and a fall in equilibrium quantity.

**13. What is the difference between short run and long run production function ?**

***Ans.*** The difference between shout run and long run production function are :—

| Short Run Production | Long Run Production. |
|---|---|
| (i) Short run production function alludes to the time period in which at least one factor of prouction is fixed. | Long run production function connotes the time period, in which all the factors of production are variable. |
| (ii) Scale of output remains constant. | scale of output changes. |
| (iii) Short run production function is of variable proportions type. | Long run production function is of constant proportions type. |

**( Long Answer Type Questions )**

**Answer the following questions :**

**6×3 = 18**

**14. Explain the laws of diminishing marginal utility with the help of diagram.**

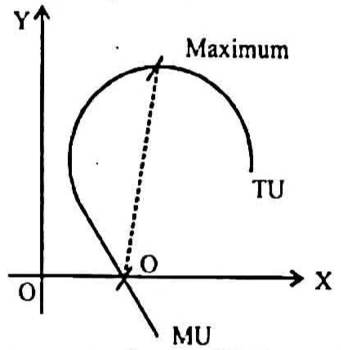
***Ans.*** The law of diminishing marginal utility states that the marginal utility derived from the consumption of a commodity must decline as more and more units of that comodity are consumed at a point of time.

**Schedule :—**

| X | TUx | MUx |
|---|---|---|
| 1 | 25 | 25 |
| 2 | 45 | 20 |
| 3 | 60 | 15 |
| 4 | 70 | 10 |
| 5 | 75 | 5 |
| 6 | 75 | 0 |
| 7 | 70 | –5 |

The above schedule reveals that as the consumer consumes more of commodity – X, the marginal utility diminishes. According, marginal utility curve (MU) slopes downwards from left to right MU curve cuts across X–axis implying that MU may even be zero or negative.

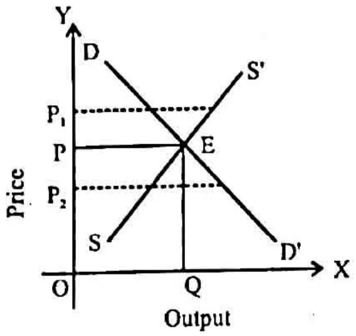
**Diagrammatic Representation :—**




**15. What do you mean by equilibrium price ? How is it determined in perfect competition ? Explain with diagram.**

***Ans.*** **Equilibrium Price :—** The equilibrium price is the only price where the desires of consumer and the desires of producers agree– that is, where the amount of the product that consumers want to buy is equal to the amount producers want to sell.

**Equilibrium price under perfect competition.** The price at whicht he demand and supply curve intersect each other. This point is known as equilibrium point. At this point the quantity demanded and supplied is called equilibrium quantity.




It can be seen that at price $OP_1$, supply is more than the demand. Therefore price will fall down to OP similarly, at price $OP_2$, demand is more thatn supply. similarly, in such a case, the prices will rise to OP. Thus, E is the equilibrium at which equilibrium price is OP and equilibrium quantity is OQ.

**16. How is price determined under monopoly market ?**

*Ans.* Price determination under monopoly is based on the policy of profit maximization. There are two main approaches to profit maximization :—

(a) Marginal Revenue and Marginal cost Approach :— In this case maximum profit is earned when the difference between the marginal revenue and marginal cost is the maximum. While plotting costs and prices along Y axis, and the Revenues along the X-axis, it would be seen that the Marginal cost curve cuts the Marginal revenue slope from below. The equilibrium point is where MC = MR.

(b) Total Revenue and Total cost approach :— In this approach the maximum gap between the total revenue and total cost is represented by maximum profit. The TR curve is like a 'inverted cup,' While the TC curve is a kinked line, cutting theTR curve at two places.

## Group - B

### ( Multiple Choice Type Questions )

□ **Choose the correct answer :** $1 \times 5 = 5$

**17. Which one is included in Secondary sector ?**

(a) Insurance (b) Manufacturing
(c) Trade (d) All of these.

*Ans.* (b) Manufacturing

**18. Who is the writer of the book 'General Theory of Employment, Interest and Money' ?**

(a) Pigou (b) Malthus
(c) J. M. Keynes (d) Marshall.

*Ans.* (c) J. M. Keynes

**19. APC + APS = ?**

(a) 0 (b) 1
(c) ∞ (d) None of these.

*Ans.* (b) 1

**20. Tax revenue of the Government includes**

(a) Income Tax (b) Corporate Tax
(c) Excise duty (d) All of these.

*Ans.* (d) All of these.

**21. In India one rupee note is issued by**

(a) Reserve Bank of India
(b) Finance Ministry of Government of India
(c) State Bank of India
(d) None of these.

*Ans.* (b) Finance Ministry of Government of India

### ( Short Answer I Type Questions )

□ **Answer the following questions :** 3×5 = 15

**22. What is meant by National Income ?**

*Ans.* National Income means the value of goods and services produced by a country during a financial year. It includs payments made to all resources in the form of wages, interest, rent and points

**23. Define Macro-Economics.**

*Ans.* Macroconomics is a branch of economics that studies how an overall economy – the market systems that operate on a large scale - hehaves. Macro economics studies economy – wide phenomena such as inflation, price levels, mational income etc.

**24. What is factor income ?**

*Ans.* Factor income is the flow of income that is derived from the factors of production – the general inputs used in the production of goods or services in order to make an economic profit.

**25. What is Balance of Payment ?**

*Ans.* Balance of payment is a statement of A/Cs showing all monetry transactions of a country with the rest of the world during a period of time, generally 1 years.

**26. What is aggregate demand ?**

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

( Short Answer II Type Questions )

- Answer the following questions : 4 × 3 = 12

27. **What are the differences between Micro-Economics and Macro Economics ?**

*Ans.* The difference between Micro and Macro economics are :—

| Micro–Economics | Macro–Economics |
|---|---|
| (1) Micro-Economics studies economic relationships or economic issues or economic problems at the level of an individual | Macro-economics studies economic relationships or economic issues or economic problems at the level of the economy as a whole. |
| (2) Allocation of resources to different uses is the central issues in micro-economics | Raising the level of putput and growth is the central issue in macro-economics. |
| (3) There is a smaller degree of aggregation in micro-economics. | There is a larger degree of aggregation in macroeconomics. |

28. **What are the differences between Balance of Trade and Balance of Payment ?**

*Ans.* The difference between Balance of Trade and Balance of payment :—

| Balance of Trade | Balance of Payment |
|---|---|
| (1) Balance of trade is that account which records imports and experts of goods only. | Balance of payment is that account which records (i) import and export of goods. (ii) inport and export of services and (iii) current transfer. |
| (2) It is the difference between visible exports and visible imports. | It is the sum total of trade balance and invisible balance. |
| (3) It involves international transactions relating to physical goods only which be seen crossing the borders. | It involves international transaction relating to physical goods as well as transactions relating to service which cannot be seen crossing the borders. |

29. **What is Government budget ? What are the main features of a Government budget ?**

*Ans.* **Government Budget :—** A Government Budget is a statement showing estimated receipts and estimated expenditure of the government during a fiscal year.

**The features of government Budget are :—**

(i) It is an estimate of the economic activities of an entity which related to a specified future period.

(ii) It must be written and approved by the appropriate authority.

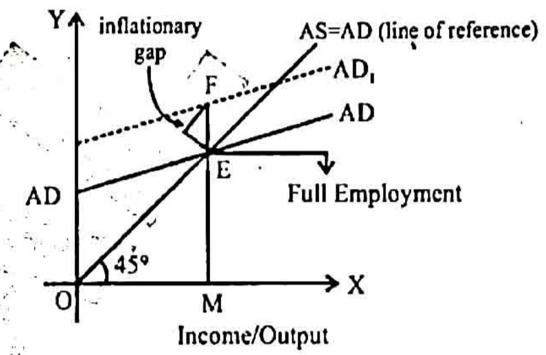
(iii) It should be modified or corrected. Whenever, there is a change in circumstances.

( Long Answer Type Questions )

- Answer the following questions : 6× 3 = 18

30. **Explain the concept of Inflationary gap with the help of a diagram. State any two methods of correcting it.**

*Ans.* Inflationary gap is the excess of aggregate demand over and above its level required to maintain full employment equilibrium in the economy.




full employment equilibrium stuck at point. E. If the level of demand increases to $AD_1$, it is in excess of what is required to maintain full employment. The causes inflation. Hence, the difference between AD, and EF is called inflationary gap.

➢ **Two methods of currecting it are :—**

(1) **Monetary policy** — Higher interest rates reduce demand in the economy, leading to lower economic growth and lower inflation.

(2) **Control of money supply** – Monetarists argue there is a close link between the money supply and inflation, therefore controlling money supply can control inflation.

(3) **Fiscal policy :–** a higher rate of income tax could reduce spending demand and inflationary pressures.

31. **What is central bank ? Mention its main functions with reference to India.**

*Ans.* A central bank is an apex instution of a country that controls and regulates the cost of credit as well as the flow of credit in the economy with a view to achieving growth and stability..

➤ **The function of central bank are :—**

(1) **Control of credit :—** The most important function of the central bank is to control the credit activities of the commercial banks. Credit control refers to the increase or decrease in the volume of credit money in accourdance with the monetary requirement of the country.

(2) **Banker's bank–** As a banker central bank carries out all banking business of the govt. and maintains current account for keeping cash balances of the govt. It also gives loans and advances to the govt.

(3) **Issuing of Notes :—** Central bank is a sole authority to issue currency in the country.

(4) **Lender of the last Resort :—** The central bank also acts as 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 lost resort, central bank advances loan to such a bank against securitis.

32. **Explain Balanced Budget, Surplus Budget and Deficit Budget.**

*Ans.* **Balance Budget :—** A government budget is said to be a balanced budget if the estimated government expenditure is equal to expected government receipts in a particular financial year.

(2) **Surplus Budget :—** A government budget is said to be a surplus budget if the expected government revenues exceed the estimated government expenditure in a particular financial year. A surplus budget denotes the financial affluence of a country. Such a budget can be implemented at time of inflation to reduce aggregate demand.

(3) **Deficit Budget :—** A government budget is said to be a deficit budget if the estimated government expenditure exceeds the expected government revenue in a particular financial year. This type of budget is best suited for developing economies, such as India. Especially helpful at times of recession, a deficit budget helps generate additional demand and boost the rate of economic growth.

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