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National Disposable Income (gross and net), Private Income, Personal Income and Personal Disposable Income; Real and Nominal GDP.

GDP and Welfare

Unit VI: MONEY AND BANKING (18 Periods)

Money–its meaning and functions.

Supply of money–Currency held by the public and net demand deposits held by commercial banks. Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of Issue, Govt. Bank, Banker's Bank, Controller of Credit through CRR, SLR, Reverse Repo, Open Market Operations, Margin requirement.

Unit VII: DETERMINATION OF INCOME AND EMPLOYMENT (27 Periods)

Aggregate demand and its components.

Propensity to consumer and propensity to save (average and marginal).

Short-run equilibrium output; investment multiplier and its mechanism.

Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them–change in government spending, availability of credit.

Unit VIII: GOVERNMENT BUDGET AND THE ECONOMY (17 Periods)

Government budget–meaning, objectives and components.

Classification of receipts–revenue receipts and capital receipts; classification of expenditure–revenue expenditure and capital expenditure.

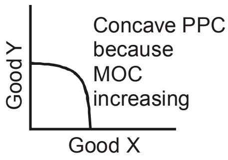
Measures of government deficit-revenue deficit, fiscal deficit, primary deficit their meaning.

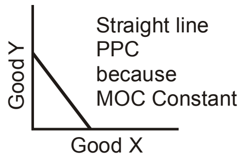
Unit IX: BALANCE OF PAYMENTS (16 Periods)

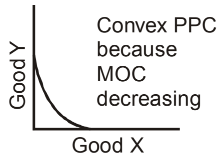
Balance of payments account–meaning and components; balance of payments deficit–meaning,

Foreign exchange rate–meaning of fixed and flexible rates and managed floating. Determination of exchange rate in a free market.

- Economising of resources means use of resources in best possible manner.







- Production Possibility Frontier

  Features

  (a) Slopes downward from left to right because if production of one good is to increase then production of other good has to be sacrificed.

  (b) Concave to the origin because of increasing marginal opportunity cost or (MRT)

- Rightward shift of PPC indicates increase in resources and improvement in technology.

- Leftword shift of PPC indicates decrease in resources and degradation in technology.

- Marginal Rate of Transformation (MRT) is the ratio of number of units of a good sacrificed to increase one more unit of the other good.

- MRT can also called Marginal Opportunity Cost. It is defined as the additional cost in terms of number of units of a good sacrificed to produce an additional unit of the other good.

MULTIPLE CHOICE QUESTIONS (1 MARK)

1. Which of the following subject matter studies in Micro Economics.

   (a) Theory of consumers behaviour

   (b) Aggregate demand and supply

   (c) Govt. Budget

   (d) National Income

UNIT II

CONSUMER'S EQUILIBRIUM & DEMAND

POINTS TO REMEMBER

- **Consumer :** is an economic agent who consumes final goods and services.
- **Total utility :** It is the sum of satisfaction from consumption of all the units of a commodity at a given time.
- **Marginal Utility :** It is a net increase in total utility by consuming an additional unit of a commodity.
- **Law of Diminishing Marginal Utility :** As consumer consumes more and more units of commodity. The Marginal utility derived from the last each successive units goes on declining.
- **Consumer's Bundle :** It is a quantitative combination of two goods which can be purchased by a consumer from his given income.
- **Budget set :** It is quantitative combination of those bundles which a consumer can purchase his from given income at prevailing market prices.
- **Consumer Budget :** It states the real income or purchasing power of the consumer from which he can purchase the certain quantitative bundles of two goods at given price.
- **Budget Line :** Shows those combinations of two goods which a consumer can buy from limited income on same curve.
- **Monotonic Preferences :** Consumer's preferences are called monotonic when between any two bundles, one bundle has more of one good and no less of other good.
- **Change in Budget Line :** There can be parallel shift (leftwards or rightwards) due to change in income of the consumer and change in price of goods.

- **Marginal Rate of Substitution (MRS) :** It is the rate at which a consumer is willing to substitute good Y for good X.

$$\text{MRS} = \frac{\text{Loss of Good Y}}{\text{Gain of Good X}} \text{ or } -\frac{\Delta Y}{\Delta X}$$

- **Indifference Curve :** is a curve showing different combination of two goods, each combinations offering the same level of satisfaction to the consumer.

- **Characteristics of IC**

  1. Indifference curves are negatively sloped.
  2. Indifference curves are convex to the point of origin.
  3. Indifference curves never touch or intersect each other.
  4. Higher indifference curve represents higher level of satisfaction.

- **Consumer's Equilibrium :** It is a situation where a consumer is spending his income in such a way that he is getting maximum satisfaction.

- **Condition of Consumer's Equilibrium**

  (a) **Cardinal approach (Utility Analysis) :** According to this approach utility can be measured. "Utils" is the unit of utility.

Condition

(i) In case of one commodity

$$\text{MU}m = \frac{\text{Mu}x}{\text{P}x}\left[\text{If MU}m = 1, \text{MU}x = \text{P}x\right]$$

Where, MUm = Marginal utility of money

MUx = Marginal utility of 'x', Px = Price of 'x'

(ii) In case of two commodity. $\frac{\text{MU}x}{\text{P}x} = \frac{\text{MU}y}{\text{P}y} = \text{MU}m$

and MU must be decreasing

(b) **Ordinal approach (Indifference Curve Analysis):** According to this approach utility can't be measured but can be expressed in

(c) $\frac{Px}{MUx} = MUm$ (d) None of these

8. Marginal utility of money in Marginal utility analysis.

   (a) constant (b) increases

   (c) decreases (d) None of these

9. What happens when $\frac{MUx}{Px} > \frac{MUy}{Py}$

   (a) increase in consumption of X & Y

   (b) decrease in consumption of X & Y

   (c) increase in consumption of X

   (d) increase in consumption of X and decrease in consumption of Y.

10. In case of two commodities a consumer strikes equilibrium when

   (a) $\frac{MUx}{Px} = \frac{MUy}{Py} = MUm$ (b) $\frac{MUx}{Px} > \frac{MUy}{Py}$

   (c) $\frac{MUx}{Px} < \frac{MUy}{Py}$ (d) $\frac{Px}{MUx} = \frac{Py}{MUy}$

11. This shows different combinations of two goods which a consumer can attain by given his income and market prices of the goods.

   (a) Budget set (b) indifference map

   (c) indifference curve (d) marginal rate of substitution

12. Which of the following is not a characteristic of indifference curve

   (a) IC is convex to the origin

   (b) Higher IC indicates higher level of satisfaction

   (c) ICs do not intersect each other

   (d) Concave to the origin

- Implicit cost is the cost of self owned resources of the production used in production process. Or estimated value of inputs supplied by owner itself.
- Total cost refers to total amount of money which is incurred by a firm on production of a given amount of a good.
- Total cost is the sum of total fixed cost and total variable cost.

$$TC = TFC + TVC \quad \text{or} \quad TC = AC \times Q$$

- Total fixed cost remains constant at all levels of output. It is not zero even at zero output level. Therefore, TFC curve is parallel to OX-axis.

$$TFC = TC - TVC \quad \text{or} \quad TFC = AFC \times Q$$

- Total variable cost is the cost which vary with the quantity of output produced. It is zero at zero level of output. TVC curve is parallel to TC curve.

$$TVC = TC - TFC \quad \text{or} \quad TVC = AVC \times Q$$

- Average cost is per unit of production of a commodity. It is the sum of average fixed cost and average variable cost.

$$AC = \frac{TC}{Q} \quad \text{or} \quad AC = AFC + AVC$$

- Average fixed cost is per unit of fixed cost of production of a commodity.

$$AFC = \frac{TFC}{Q} \quad \text{or} \quad AFC = AC - AVC$$

- Per unit of variable of production of a commodity is called average variable cost.

$$AVC = \frac{TVC}{Q} \quad \text{or} \quad AVC = AC - AFC$$

- MC-It refers to change in TC, due to additional unit of a commodity is produced. MC = $\Delta TC/\Delta Q$ or MCn = TCn – TCn–1. But under short run, it is calculated from TVC.

$$MC_n = TVC_n - TC_{n-1} \text{ or } MC = \frac{\Delta TVC}{\Delta Q}$$

- **Individual Supply :** Refers to quantity of a commodity that an individual firm is willing and able to offer for sale at a certain price during a given period of time.

- **Market supply:** It is the sum total of quantity supplied of a commodity by all sellers or all firms in the market at a certain price and in a given period of time.

- **Stock :** Refers to the total quantity of a particular commodity available with the firm at a particular point of time.

- **Supply Schedule :** Refers to a tabular presentation which shows various quantities of a commodity that a producer is willing to supply at different prices, during a given period of time.

- **Supply curve :** Refers to the graphical representation of supply schedule which represents various quantities of a commodity that a producer is willing to supply at different during given period of time.

- **Law of Supply :** States the direct relationship between price and quantity supplied, keeping other factors constant.

- **Price Elasticity of Supply :** Refer to the degree of responsiveness of supply of a commodity with reference to a change in price of such commodity. It is always positive due to direct relationship between price and quantity supplied.

$$\text{Price Elasticity of Supply (Es)} = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in price}}$$

- **Methods for measuring price elasticity of supply :**

    1. Percentage Method

$$\text{Es} = \frac{\text{\% change in a quantity supplied}}{\text{\% change in price}}$$

$$\text{Or Es} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

2. Geometric Method

$$Es = \frac{\text{Supply curve intercept on X} - \text{axis}}{\text{Quantity supplied}}$$

- **There are three possibilities of Elasticity of Supply :**

  (a) If a straight line supply curve passes through the point of origin doesn't matter what it makes angles, Es at any point is equal to unity.

  (b) If a straight line supply curve passes through left side of point of origin and interest X-axis in its negative range, Es will be greater than one at any point.

  (c) If a straight line supply curve passes through right side of point of origin and interest X-axis in its positive range, Es will be less than one at any point.

Charge in Q. Supplied Vs change in Supply

Change in Q. Supplied
or
Movement along supply curve
↓
due to charge in price of
Commodity other factors
remain consistant
↓

- Expansion of supply or Upward movement along with a supply curve
- Contraction of supply or Downward movement along with a supply curve

Change in Supply
or
Shift in supply
↓
Due to change in factors
other than price of the commodity
↓

- Increase in supply or right ward shift insupply curve
  ↓
  Causes
  (i) fall in price of inputs
  (ii) fall in price of related goods
  (iii) Improvement in tech.
  (iv) Increase in no. of firms
- Decrease in supply or leftward shift in supply curve
  ↓
  Cases
  (i) Rise in price fo inputs
  (ii) Rise in price of related goods
  (iii) Obsolete tech.
  (iv) decrease in no. of firms

17. If the total fixed cost of a firm is Rs. 24, complete the following table :

Output (Units)	*AVC (Rs.)*	*TVC (Rs.)*	*MC (Rs.)*
1	50		
2	40		
3	45		

18. Define market supply. Explain its two determinants.

19. Distinguish between 'Change in Supply' and change in quantity supplied.

20. Explain briefly two causes of a rightward shift of supply curve.

21. Differentiate between contraction in supply and decrease in supply.

22. How does change in price of inputs affect the supply of a good.

23. Calculate the economic cost **Rs.**

(i)	Purchases of raw material	250
(ii)	Payment of wages and salaries	500
(iii)	Payment of rent	100
(iv)	Donations	100
(v)	Estimated value of services of owner	350
(vi)	Expected minimum profit	40
(vii)	Estimated abnormal profit	300

24. A firm produces 200 units of goods A. Actual money expenditure incurred on producing this good is Rs. 5350 cr. The owner supplies inputs worth of Rs. 550 cr. for which he does not receive any payment. The economic cost turned out to be Rs. 6000 cr. How do you account for difference?

25. Complete the following table :

Output	*Price (Rs.)*	*MR (Rs.)*	*TR (Rs.)*
1	–	–	10
2	–	4	–
3	–	–	15
4	–	(–) 3	–

(b) **Minimum Price Ceiling:** It means that producers are not allowed to sell, the good below the price fixed by Government, When government finds equilibrium price is too low for the producer then Govt. fixed a price ceiling higher than equilibrium price to prevent the possible loss of the producers. The price is also called minimum support price.

MULTIPLE CHOICE QUESTIONS (1 MARK)

1. In which market AR = |MR

   (a) Monopoly (b) Perfect Market

   (c) Monopolistic Market (d) Oligopoly

2. In which market restrictions on entry of new firm

   (a) Perfect Market (b) Monopolistic Market

   (c) Monopoly (D) None of the above.

3. Under which market firm is price taker

   (a) Perfect Market (b) Monopoly

   (c) Monopolistic Market (d) Oligopoly

4. Under Oligopoly

   (a) Large no of sellers (b) Few sellers

   (c) Single seller (d) None of above.

5. A price of which a consumer is willing to buy and a seller is willing to sell the commodity is called.

   (a) Minimum Price (b) Maximum Price

   (c) equilibrium price (d) None of the above.

6. When a monopoly firm charges different prices from different consumers for the same product is called:

   (a) Quantity discrimination

   (b) Product differential

7. Quantity of a commodity which is bought and sold at the equilibrium price is called.?

(a) Maximum quantity (b) Minimum quantity

(b) Both (a) and (b) (d) Equilibrium quantity

8. At a given price, when demand for commodity is more then supply of the commodity then it is called excess demand or shortage. Here given price is:

(a) less than equilibrium price.

(b) more than equilibrium price

(c) less than or equal to equilibrium price.

(d) More than or equal to equilibrium price.

9. Maximum ceiling price refers to:

(a) Max. retail price

(b) Max. price the buyer is willing to pay

(c) Max. price at which seller is willing to sell.

(d) Max . price the producer is legally allowed to charge.

10. Fixation of minimum wage below the equilibrium wage rate leads to :

(a) Unemployment (b) Over employment

(c) Neither (a) nor (b) (d) Either (a) or (b)

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

1. Why is firm under perfect competition a price taker and under monopolistic competition is price maker. Explain?

2. How is the demand curve under monopolistic competition different from demand curve of a firm under perfect competition?

3. Why is a firm under perfect competition a price taker? Explain.

4. Explain three features of perfect competition.

4. How will a fall in the price of tea affect the equilibrium price of coffee? Explain the chain of effects.

5. Explain the following features of perfect competition.

   (i) Large number of firms or Sellers and Buyers

   (ii) Homogeneous Product.

6. Explain features of Oligopoly.

7. Explain how change in price of a substitute commodity would affect market equilibrium of the commodity X.

8. With the help of a diagram explain the effect of "decrease" in demand of a commodity on its equilibrium price and quantity.

9. There is simultaneous decrease in demand and supply of a commodity, when it result in

   (i) no change in equilibrium price

   (ii) a fall in equilibrium price

VALUE BASED QUESTIONS

1. Suppose under competitive market equilibrium price is too high for an average consumer in case of essential items. Give suggestion to bring down the equilibrium price up to afford level for a common man.

2. Now suppose government reduces the rate of excise duty and raise subsides. What is the likely to be impact of those on the market of a product. Explain with diagram.

ANSWERS

Multiple choice questions : (1 Mark)

1.(b) 2.(c) 3.(a) 4.(b) 5.(c) 6.(c) 7.(d) 8.(a) 9.(d) 10.(c)

6. From the following data calculate National Income by income and expenditure method : (Rs. crore)

(i)	Government final consumption expenditure	
(ii)	Subsidies	10
(iii)	Rent	200
(iv)	Wages and salaries	600
(v)	Indirect Taxes	60
(vi)	Private final consumption expenditure	800
(vii)	Gross domestic capital formation	120
(viii)	Social security contribution by employers	55
(ix)	Social recruity contribution by employees	200
(x)	Royalty	25
(xi)	Net factor income paid to abroad	30
(xii)	Interest	20
(xiii)	Net domestic capital formation	110
(xiv)	Profit	130
(xv)	Net Exports	70
(xvi)	Change in stock	50

7. A farmer purchases Rs. 2000 worth of seeds, Rs. 3000 worth of fertilizers and pays Rs. 1500 as water charges to raise a wheat corp. He produces100 quintals of wheat and sells the same at Rs. 200 per quintal. Calculate value added by the farmer.

8. Calculate Personal Disposable Income from the following data :

(Rs. Crore)

(i)	Personal Tax	6
(ii)	Corporate Tax	4

11. From the following data calculate (a) Private income (b) Personal income (c) Personal disposable income. (Rs. Crore)

(i)	Income from property and entrepreneurship accruing to the Govt. administrative Dept.	100
(ii)	Saving of non-departmental enterprises	80
(iii)	Factor income from NDP occurring to Private sector	500
(iv)	Corporation tax	30
(v)	Saving of Pvt. corporate sector	65
(vi)	Direct taxes paid by house hold	20
(vii)	Current transfers from Govt. Administrative departments	10
(viii)	Current transfer from Row	20
(ix)	Factor income from abroad	5
(x)	Operating surplus	150
(xi)	Factor income to abroad	15

[**Ans. :** (a) 520 Crore (b) 425 Crore (c) 405 Crore]

12. Calculable value of output from the following data : (Rs. crore)

(i)	NVA_{FC}	100
(ii)	Intermediate consumption	75
(iii)	Excise duty	20
(iv)	Subsidy	5
(v)	Depreciation	10

13. Calculate NDP_{FC} and Private income from the following (Rs. crore)

(i)	Domestic product accruing to government sector	300
(ii)	Wages and salaries	1000
(iii)	Net current transfer to abroad	–20

= 331 - 14 = Rs 317 crore.

9. (a) Private income = (i) - (iii) - (v) + (ix) + (vii) + (viii)

= 1000 - 100 – 150 + 10 + 20 + 50

= 1080 - 250

= Rs. 830 lakh.

(b) Personal income = Private income

= (iv) - (vi)

= 830 - 30 - 40 - 830 - 70 = Rs 760 lakh.

(c) Personal disposable income = Personal income - (ii) - (xi)

= 760 - 70 - 10

= 760 - 80 = Rs 680 lakh.

10. NDP_{FC} accruing to the private sector (i) - (iv) - (ii) - (v)

= 4000 - (-20) - 80 - 50

= 4000 + 20 - 130 = Rs. 3890 crore

11. (a) Private Income = Rs. 52[illegible] crore

(b) P.I. = Rs. 425 crore(c) P.D.I. = Rs. 405 crore

12. V.O. = Rs. 200 cr.

13. NDP_{FC} = Rs. 1600 Cr.; Private Income = 1380 Cr.

14. GDP_{FC} = Rs. 1300 Cr.

Factor Income to abroad = Rs. 80 crore.

UNIT VI

MONEY AND BANKING

POINTS TO REMEMBER

- **Money :** Money may be defined as anything which is generally acceptable as a medium of exchange and does the function of 'unit of account' and measures of value.

- **Barter Exchange :** It is a system of exchange in which goods are directly exchanged one with other without the use of money.

- **Difficulties involved in the Barter Exchange**

    1. Absence of a common unit.
    2. The lack of double coincidence of wants.
    3. Lacks of any satisfactory units to engage in contracts involving future payments.
    4. Does not provide for any method of storing generalised purchasing power.
    5. Lack of divisibility.

- **Supply of Money :** Total stock of money (currency notes, coins and demand deposite of banks) in circulation are held by the public at a given point of time.

- **Measures of Money Supply = Currency held by Public + Demand Deposit of a Bank**

- **Commercial Banks :** Commercial Banks is a financial institution who accepts deposits from the general public and provide loans facilities for investment with the aim of earning profit.

    Central Banks : The central Bank is the apex institution of monetary and banking system of country. It makes monetary policy of the country in public interest. It manages, supervises and facilitiates the banking system of the country.

(4) APS rises with increase in income.

- **Marginal Propensity to Save (MPS) :** Marginal propensity to save refers to the ratio of change in savings to change in total income.

$$\text{MPS} = \frac{\text{Change in Savings}}{\text{Change in Income}} = \frac{\Delta S}{\Delta Y}$$

- **MPS varies between 0 and 1**

  (i) MPS = 1 if the entire additional income is saved. In such a case, $\Delta S = \Delta Y$, then MPC = 1

  (ii) MPS = 0 If the entire additional income is consumed. In such a case, $\Delta S = 0$, then MPS = 0

- **Relationship between APC and APS**

  The sum of APC and APS is equal to one. It can be proved as under we know :

  $$Y = C + S$$

  Dividing both sides by Y, we get

  $$\frac{Y}{Y} = \frac{C}{Y} + \frac{S}{Y}$$

  $$1 = \text{APC} + \text{APS} \qquad \left[\because \text{APC} = \frac{C}{Y},\ \text{APS} = \frac{S}{Y}\right]$$

  APC + APS = 1

  because income is either used for consumption or for saving.

- **Relationship between MPC and MPS**

  The sum of MPC and MPS is equal to one. It can be proved as under :

  We know

  $$Y = C + S$$

  Dividing both sides by ΔY, we get

3. Consumption function is the functional relation b/w

   (a) income and saving

   (b) price level and consumption

   (c) income and consumption

   (d) income, saving and consumption

4. Value of investment multiplier directly related with MPC but universally related with

   (a) APC (b) MPS

   (c) APS (d) None of the above.

5. Excess demand leads to inflationary pressure in the economy because

   (a) fall in unintended inventory

   (b) rise in unintended inventory

   (c) fall in national income

   (d) none of the above

6. Of the following, what are the quantitative measures of monetary policy?

   (a) Repo rate

   (b) open market operation

   (c) SLR

   (d) all of the above.

7. When AD falls short of AS at full employment level of output then it is called

   (a) excess demand (b) deficient demand

   (c) inflationary gap (d) all of the above

8. When value of MPC is 0.75 then the value of investment multiplier is

   (a) K = 4 (b) K = 5

   (c) K = 2 (d) K = 3

(i) Equilibrium level of income.

(ii) Saving at equilibrium level of national income.

10. Given below is the consumption function in an economy.

$$C = 100 + 0.5\,Y$$

with the help of a numerical example show that in this economy, as income increase APC will decrease.

HOTS (6 MARKS QUESTIONS)

11. Draw a straight line saving curve from the consumption curve, explaining the method of derivation. Show a point on the consumption curve at which APC is equal to 1.

12. How increase in investment will effect income level of an economy? Explain with the help of an example and diagram.

13. Briefly explain the concept of under employment equilibrium with the help of diagram. How increase in investment helps in achieving, full employment equilibrium?

14. What is 'deficient demand' in macroeconomics? Explain the role of open market operations in correcting it.

15. Explain the steps taken in derivation of the saving curve from the consumption curve using. Use diagram.

16. Can an economy be in equilibrium when S = – 40 + 0.25 Y and investment of Rs. 60.

17. If MPC in the economy is 0.8. Complete the following table :

Income (Rs.) (Y)	*Consumption (Rs.) (C)*	*Saving (Rs.) (S)*	*Investment (Rs.) (I)*	*AD (C+I)*	*AS (C+S)*
0		-60	40		
100			40		
200			40		
300			40		
400			40		
500			40		
600			40		
700			40		

25.	*Income (Rs. 1000)*	*Consumption Expenditure (Rs. 1000)*	*MPC* ($\Delta C/\Delta Y$)	*APS (S/Y)*
	0	40	–	–
	100	120	0.8	–0.2
	200	200	0.8	0
	300	280	0.8	0.067
	400	360	0.8	0.1

26.	*Income*	*MPC*	*Savings*	*APS*
	0	–	–90	–
	100	0.6	150	–0.5
	200	0.6	210	–0.05
	300	0.6	270	–0.1

6 MARKS QUESTIONS

8. (a) Y = Rs. 1500 (b) C = Rs. 800

9. (a) Y = Rs. 4750 (b) S = Rs. 400

17.	*Income (Y)*	*Consumption (C)*	*Saving (S)*	*Investment (I)*	*AD (C+1)*	*AS (C+S)*
	0	60	–60	40	100	0
	100	140	–40	40	180	100
	200	220	–20	40	260	200
	300	300	0	40	340	300
	400	380	20	40	420	400
	500	460	40	40	500	500
	600	540	60	40	580	600
	700	620	80	40	660	700

18. Given MPS = 0.2

4. What are the components of the current account of the balance of payment account.

5. Give difference between the autonomous and accommodating items included in BOP.

6. Distinguish between autonomous and accommodating transaction in the balance of payment account. Give an example each.

7. Give three reasons why people desire to have foreign exchange.

8. Give any three/four sources of supply of foreign exchange.

9. Explain the relationship between foreign exchange rate and demand for it.

10. Explain the relationship between foreign exchange rate and supply of foreign exchange.

11. Explain the terms 'appreciation and depreciation of currency.'

12. Explain the merit and demerits of fixed exchange rate.

13. Explain the merits and demerits of flexible exchange rate.

14. How is flexible exchange rate determined in a free market economy? Explain with the help of diagram.

15. Higher the foreign exchange rate, lower the demand fore foreign exchange. Explain why?

16. Lower the foreign exchange rate, higher the demand for foreign exchange. Explain why?

17. Explain the impact of Devaluation of domestic currency on the export and imports of an economy.

18. Give the meaning of fixed flexible and managed floating exchange rate.

19. Why the demand for foreign exchange falls when the foreign exchange rate rise explain with the help of an example.

6 MARKS QUESTIONS

1. Explain the distinction between Autonomous and Accommodating transactions in balance of payments. Also explain the concept of balance

MODEL TEST PAPER 2

Time : 3 hrs **Max. Marks : 100**

General Instructions :

(1) Q. No. **1** to **4** and **16** to **19** are MCQs carrying **1** mark each.

(ii) Q. No. **5** to **10** and **20** to **21** are short answer type questions carrying **3** marks each. Answer to them in 60 words each.

(iii) Q. No. **11** and **22** to **25** are also short answer type questions carrying **4** marks each. Answer to them in 70 words each.

(iv) Q. No. **12** to **15** and **26** to **29** are long answer type questions carrying **6** marks each. Answer to them in 100 words each.

(v) There is no words limitation for numerical questions.

SECTION - 'A'

1. Expressing choices in terms of first preference, second preference, third preference and so is expression in terms of :

   (a) Diminishing marginal utility (b) Monophonic preference

   (c) Cardinal preference (d) Ordinal preference

2. So long as AP is rising :

   (a) MP is also rising (b) MP > AP

   (c) AP > MP (d) MP < AP

3. A firm under perfect competition in the long run earns :

   (a) Normal profit (b) Above normal profit

   (c) Below normal profit (d) Any one of the above

4. If monopoly (m), monopolistic competition (MC), oligopoly (O) and Perfect competition (PC) are arranged on the basis of no. of sellers in the ascending order as

   (a) PC, MC, M, O (b) M, MC, PC, O

   (c) MC, O, PC, M (d) M, O, MC, PC

6. Explain the central problem 'for whom to produce'?

Or

Draw a PPF and show (i) inefficiency use of resources and (ii) improvement in technology in production of both goods simultaneously.

7. How does a consumer decide to buy a commodity at a given price? Explain.

8. Complete the table :

Price (Rs.)	*Output (Units)*	*TR (Rs.)*	*MR (Rs.)*
–	1	6	–
4	–	–	2
–	3	6	–
1	–	–	–2

9. Identify fixed costs and variable costs :

   (i) Wages to casual worker

   (ii) Expenditure on raw material

   (iii) Licence fee

   (iv) Depreciation

   (v) Excise duty

   (vi) Telephone bill

10. When price of a good rises by Rs. 10 per unit, the supply by a firm increases from 400 units to 800 units. What was the original price, if es = 1.

UNIT IV

FORMS OF MARKET AND PRICE DETERMINATION

3-4 MARKS QUESTIONS

Q.1 Explain the implication of large number of buyers in a peifi competitive market.

Ans. The implication is that no single buyer is in a position to influence market price on its own because an individual buyer's purchase for negligible proportion of the total purchase of the good in the market.

Q.2 Explain why are firms mutually interdependent in an oligopoly market

Ans. Firms are mutually interdependent because an individual firms to decision about price and output after considering the possible reach by the rival firms.

Q.3 Explain the implication of 'freedom of entry and exit to the firms' by perfect competition.

Ans. The firms enter the industry when they find that the existing firm earning super normal profits. Their entry raises output of the indL brings down the market price and thus reduce profits. The entry conti till profits are reduced to normal (or zero). The firms start leaviyn; industry when they are facing losses. This reduces output of the indL raises market price and reduces losses. The exit continues till the li are wiped out.

Q.4 Explain the implication of 'perfect knowledge about market' perfect competition.

Ans. Perfect knowledge means that both buyers and sellers are fully inf about the market price. Therefore no firm is in a position to cY different price and no buyer will pay a higher price. As a result a to: price prevails in the market.

(i) Payment of pocket money by parents.

(ii) Interest free loan given by employer to employee.

Ans. (i) Not included, as it is transfer payment from firm to government.

(ii) Included, as it is treated in national income because it is part of company of employee in kinds.

Q.7. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Ans. Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods for example : raw material.

Goods which are purchased for consumption and investment are called final goods for example : Purchase of machinery for installation in factory.

Q.8. Giving reason classify the following into intermediate and final goods. (i) Machine purchased by a dealer of machine. (ii) A car purchased by a household.

Ans. (i) It is an intermediate good because it is meant for resale in the market.

(ii) It is a final good because it is meant for final consumption

Q.9. How will you treat the following in estimating national income of India? Give reasons for your answer.

(i) Value of bonus shares received by shareholders of a company.

(ii) Interest received on loan given to a foreign company in India.

Ans. (i) It is not included in national income because it is the return of financial capital and not of the goods and services.

(ii) It is included in the national income as interest is a factor income and a part of domestic income.

6 MARKS QUESTIONS

Q.1 How will you treat the following which estimating national income of India? Give reasons.

(2) When there is excess demand Central Bank sells securities. This leads to flow of money out of the Commercial Banks to the Central Bank when people make payment by cheques. This reduces deposits with the banks leading to decline in their lending capacity. Borrowing decline. AD declines.

Q.3. Explain the role of following in correcting the deflationary gap in an economy.

(1) Govt. Expenditure

(2) Legal Reserve Ratio

Ans.

(1) In a situation of deflationary gap or deficient demand. The govt. should raise its expenditure i.e. there will be more economic activities in the economy like, building of roads, bridges, canal etc. This will raise the level of employment. It will in turn increase the income and the purchasing power. Thus aggregate demand will rise.

(2) During deficient demand, Central Bank reduces the CRR. The result of reducing CRR will be seen in the surplus cash reserves with the banks which can be offered for credit. The bank's credit bank reduces SLR, this will have expansionary effect on the credit position of the banks leading to increase in their leading capacity. borrowing increases and AD increases.

Q.4 Explain the role of margin requirements for correcting the deflationary gap.

Ans. Deflationary gap refers to a situation when at full employment level of income AD falls short of As. It is called deficient demand.

Margin requirements refers to the margin on the security provided by the borrower. When margin is lower, the borrowing capacity of the borrower is higher. When Central Bank lowers the margin the borrowing capacity of the borrowers increase. This raise AD.

Q.5 In an economy 75% of the increase in income is spent on consumption. Investment increased by Rs. 1000 crore. Calculate.

(1) Total increase in income

(2) Total increase in consumption expected. Ans. MPC = 75 %= 75/ 100 = 3/4

Ans. MPC = 75% = 75/100 = 3/4

MARKING SCHEME : ECONOMICS (DELHI)

SET - 1

A1	*Expected Answer/Value Points*	*Distribution of marks*

1. The economic value of reduction in unemployment is that it will help the economy in realising its production potential 1

2. Budget set consists of all the bundles of the goods which at given prices cost less than or equal to the given income of the consumer. 1

3. Receipts from sale of a good **Or** market value of the output produced is called revenue. 1

4. Returns to a factor refers to change in output when only one input is changed, other inputs remaining unchanged. 1

5. If in an oligopoly market firms produce homogeneous products, it is called perfect oligopoly. 3

6. For whom to produce means that who will buy the goods and services produced. Clearly, those who have income will be able to buy. So, the problem amounts to how the national income is distributed in an economy. 3

7. $E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$

$-1 = \frac{9}{18} \times \frac{\Delta Q}{1}$

$9 \times \Delta Q = -18$

$\Delta Q = -2$

Consumer will buy Q + <D> = 18 + (–2) = 16 units (No marks if only the final answer is given)

8. When MR < AR, AR falls