

CBSE Test Paper-04
Class - 11 Economics (Introduction to Microeconomics)

General Instruction: All questions are compulsory. Marks are given alongwith their questions.

1. Periods of less than full employment corresponds to: (1)
 - a. Points outside the PPF
 - b. Points inside the PPF
 - c. Points on the PPF
 - d. Either points inside or outside the PPF
2. When Productivity increases (1)
 - a. Price rises
 - b. Living standard improve
 - c. There are fewer good jobs.
 - d. Living standard deteriorate.
3. Give the meaning of economy. (2)
4. Take the economic value achieved through the spread of education in the context of production potential. (2)
5. Suppose a consumer can afford to buy 6 units of good 1 and 8 units of good 2 if she spends her entire income. The prices of two goods are ₹ 6 and ₹ 8 respectively. How much is the consumer's income? (3)
6. If a consumer has monotonic preferences, can she be indifferent between the bundles (10,8) and (8, 6)? (3)
7. Explain any two main features of a centrally planned economy. (4)
8. In the indifference curve approach, why should the ratio of marginal rate of substitution be equal to the ratio of prices to attain equilibrium? (4)
9. If a price of a good is given, how does a consumer decide as to how many units of that good to buy? Explain. (6)
10. A consumer consumes only two goods. What are the conditions of consumer's equilibrium in the utility approach? Explain the changes that will take place when the consumer is not at equilibrium. (6)

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Answers

1. B. Points outside the PPF.
2. B. Living standard improve
3. An economy is a system in which and by which people get a living to satisfy their wants through the processes of production, consumption, exchange and investment.
4. Government's endeavors to spread education will lead to an increase in the quality of the work force. The production potential of country would also increase. Economic value reflected is in terms of providing better quality work force.
5. $P_1 = \text{Rs. } 6$ $P_2 = \text{Rs. } 8$ $X_1 = 6$ $X_2 = 8$
Budget line = $M = P_1x_1 + P_2x_2$ $M = 6 \times 6 + 8 \times 8$ $M = 36 + 64$ $M = 100$
Thus, the consumer's income is Rs 100.
6. No, he/she cannot be indifferent towards these two bundles as bundle I consists of more of both goods as compared to bundle II. He/she will prefer bundle I over bundle II as it contains 10 units of good 1 and 8 units of good 2 as compared to 8 units and 6 units of good 1 and good 2 respectively in bundle II.
7. Two main features of a centrally planned economy are as follows:
 - a. In this economy, decisions relating to economic problems are taken by some central authority appointed by the government of the country.
 - b. Social welfare or collective welfare is the prime consideration behind allocation of resources to the production of different goods and services.
8. Marginal Rate of Substitution (MRS) refers to the rate at which the consumer is willing to forego commodity Y to obtain more and more of commodity X.
The ratio of prices, on the other hand denote the rate at which the consumer has to sacrifice commodity Y to obtain more and more of commodity X.
Obviously, equilibrium will be struck only when what the consumer is willing to sacrifice is equal to what he has to sacrifice.
Similarly, Prices are competitive in nature in the market I.e if one product is cheaper than other we compare the price in terms of utility provides by these products.
So prices ratio is 2 commodity which is nothing but in a limited budget what is a consumer willing to forgo the price of Y to pay for X.

While MRS is in terms of satisfaction. Price ratio is terms of prices between 2 commodities.

9. Given price of a good, a consumer decides on the basis of the following conditions:

$$MU = \text{Price, i.e. } \frac{MU_x}{MU_M} = P_x$$

Total gain falls as more is purchased after equilibrium. If $MU_X > P_x$

Consumer keeps on consuming more units. When he consumes more units, the additional utility derived from consuming x keeps on falling. He keeps on consuming till $MU_X = P_x$

If $MU_X < P_x$.

He will decrease the consumption of x. When he decreases the consumption of x, the Marginal Utility of x will increase. He will keep on decreasing consumption of x till $MU_X = P_x$.

Thus, $MU_X = P_x$ is the condition for consumer's equilibrium in a single commodity case.

10. Conditions of Consumer's equilibrium

1. In case of single commodity, $\frac{MU_x}{P_x} = \text{MU of money}$

$$\text{In case of two commodities, } \frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \text{MU of money}$$

where, MU = Marginal Utility, P = Price

Where, MU_X is Marginal Utility of commodity x; MU_y is Marginal Utility of commodity y; P_x is price of commodity X and P_y is price of commodity y.

2. Marginal Utility of money remains constant.
3. Law of Diminishing Marginal Utility must hold good, implying that Marginal Utility must decline as more of a commodity is consumed. If

$$\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$$

By spending a rupee on good x, the consumer gets greater Marginal Utility than in case of good y. Accordingly, he will spend more on x than y. As consumption of x rises, MU_X will fall. On the other hand, as consumption of y falls, MU_y will rise. The consumer will stop buying more of x in place of y only when

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}, \text{ and vice-versa.}$$