

**Maharashtra State Board**  
**Economics**  
**Sample Question Paper - 1**  
**Academic Year: 2024-2025**

**Note :**

1. All questions are compulsory.
2. Draw neat tables/diagrams wherever necessary.
3. Figures to the right indicate full marks.
4. Write answers to all main questions on new page.

**Q1. Complete the following statements by choosing the correct alternatives:**

1. (a) Choose the correct option:

1. (a) 1. Choose the correct option:

Export trends of India's foreign trade include:

- a. Engineering goods
  - b. Gems and Jewellery
  - c. Textiles and ready-made garments
  - d. Gold
1. a and c
  2. a, b and c
  3. b, c and d
  4. None of these

**Solution**

a, b and c

1. (a) 2. Choose the correct option:

Column A	Column B
1) Time utility	a) Transport
2) Place utility	b) Blood bank
3) Service utility	c) Mobile phone
4) Knowledge utility	d) Doctor

1. 1 - d, 2 - b, 3 - a, 4 - c

2. 1 - b, 2 - a, 3 - d, 4 - c

3. 1 - a, 2 - b, 3 - c, 4 - d

4. 1 - b, 2 - c, 3 - d, 4 - a

### Solution

Column A	Answer
1) Time utility	b) Blood bank
2) Place utility	a) Transport
3) Service utility	d) Doctor
4) Knowledge utility	c) Mobile phone

1. (a) 3. Non-tax sources of revenue \_\_\_\_\_.

- a. Direct and Indirect Tax
- b. Direct Tax and Fees
- c. Fees
- d. Special levies

1. (b) and (c)

2. (a) and (c)

3. (a), (b), (c), and (d)

4. (c) and (d)

### Solution

(c) and (d)

1. (a) 4. Choose the correct pair:

Group A	Group B
A. Price Index	(a) $\frac{\sum p_1 q_1}{\sum p_0 q_0} \times 100$
B. Value Index	(b) $\frac{\sum q_1}{\sum q_0} \times 100$
C. Quantity Index	(c) $\frac{\sum p_1 q_1}{\sum p_0 q_1} \times 100$
D. Paasche's Index	(d) $\frac{\sum p_1}{\sum p_0} \times 100$

1. A - (d), B - (c), C - (a), D - (b)

2. A - (d), B - (a), C - (b), D - (c)

3. A - (b), B - (c), C - (d), D - (a)

4. A - (c), B - (d), C - (a), D - (b)

### Solution

A - (d), B - (a), C - (b), D - (c)

1. (a) 5. Statements related to limitations of index numbers.

- Index numbers are not completely reliable.
- There may be a bias in the data collected.
- Every formula has some kind of defect.
- Index numbers ignore changes in the qualities of products.

1. a, c and d

2. a, b, c and d

3. a, b and d

4. b, c and d

**Solution**

a, b, c and d

1. (b) Complete the correlation:

1. (b) 1. Complete the correlation:

Primary market : \_\_\_\_\_ :: Secondary market : Old issues.

**Solution**

Primary market : **New issues** :: Secondary market : Old issues.

1. (b) 2. Complete the correlation:

Perfect competition : Free entry and exit : : \_\_\_\_\_ : Barriers to entry.

**Solution**

Perfect competition : Free entry and exit : : **Monopoly** : Barriers to entry.

1. (b) 3. Complete the correlation:

Total Revenue : \_\_\_\_\_ :: Average Revenue :  $TR/TQ$

**Solution**

Total Revenue :  $P \times Q$  :: Average Revenue :  $TR/TQ$

1. (b) 4. Complete the correlation:

Expansion of supply : Price rises :: Contraction of supply : \_\_\_\_\_

**Solution**

Expansion of supply : Price rises :: Contraction of supply : **Price falls**

1. (b) 5. Complete the Correlation:

Output method : \_\_\_\_\_ :: Income method : Factor cost method

**Solution**

Output method : **product method or inventory method** :: Income method : Factor cost method

1. (c) Complete the following statements:

1. (c) 1. While estimating national income, we include only the value of final goods and services in order to \_\_\_\_\_.

1. make computation easier
2. **Avoid double counting**
3. maximize national welfare of the people
4. evaluate the total economic performance of a nation

**Solution**

While estimating national income, we include only the value of final goods and services in order to avoid double counting.

1. (c) 2. The relationship between demand for a good and the price of its substitute is \_\_\_\_\_.

1. **direct**
2. inverse
3. no effect
4. can be direct and inverse

**Solution**

The relationship between demand for a good and the price of its substitute is direct.

**Explanation:**

When the price of a commodity rises, the consumer tends to buy more of its substitute and less of that commodity whose price has increased. This is known as the substitution effect.

1. (c) 3. When the percentage change in quantity demanded is more than the percentage change in price, the demand curve is \_\_\_\_\_.

1. **flatter**
2. steeper
3. rectangular



4. horizontal

### Solution

When the percentage change in quantity demanded is more than the percentage change in price, the demand curve is flatter.

1. (c) 4. An upward movement along the same supply curve shows \_\_\_\_\_.

1. contraction of supply
2. decrease in supply
3. **expansion of supply**
4. increase in supply

### Solution

An upwards movement along the same supply curve shows the expansion of supply.

1. (c) 5. NDP is obtained by \_\_\_\_\_.

1. deducting depreciation from GNP
2. **deducting depreciation from GDP**
3. including depreciation in GDP
4. including depreciation in GNP

### Solution

NDP is obtained by deducting depreciation from GDP.

1. (d) Assertion and Reasoning:

1. (d) 1. **Assertion (A):** Elasticity of demand explains that one variable is influenced by another variable.

**Reasoning (R):** The concept of elasticity of demand indicates the effect of price and changes in other factors on demand.

1. (A) is true, but (R) is false
2. (A) is false, but (R) is true
3. Both (A) and (R) are true and (R) is the correct explanation of (A).

4. Both (A) and (R) are true, and (R) is not the correct explanation of (A).

**Solution**

Both (A) and (R) are true, and (R) is not the correct explanation of (A).

1. (d) 2. **Assertion (A):** The unorganized sector of the money market Lacks transparency.

**Reasoning (R):** Activities of the unorganized sector are Largely confined to rural areas.

1. (A) is True, but (R) is False.
2. (A) is False, but (R) is True.
3. Both (A) and (R) are True and (R) is the correct explanation of (A).

4. Both (A) and (R) are True and (R) is not the correct explanation of (A).

**Solution**

Both (A) and (R) are True and (R) is not the correct explanation of (A).

1. (d) 3. **Assertion (A):** The money market economizes the use of cash.

**Reasoning (R):** The money market deals with financial instruments that are close substitutes for money.

1. (A) is True, but (R) is False.
2. (A) is False, but (R) is True.
3. Both (A) and (R) are True and (R) is the correct explanation of (A).
4. Both (A) and (R) are True and (R) is not the correct explanation of (A).

**Solution**

Both (A) and (R) are True and (R) is the correct explanation of (A).

1. (d) 4. **Assertion (A):** Foreign exchange management and control is undertaken by commercial banks.

**Reasoning (R):** RBI has to maintain the official rate of exchange of the rupee and ensure its stability.

1. (A) is True, but (R) is False.
2. (A) is False, but (R) is True.

3. Both (A) and (R) are True and (R) is the correct explanation of (A).
4. Both (A) and (R) are True and (R) is not the correct explanation of (A).

**Solution**

(A) is False, but (R) is True.

1. (d) 5. Assertion and Reasoning type of question:

**Assertion (A):** The degree of price elasticity is less than one in case of relatively inelastic demand.

**Reasoning (R):** The change in demand is less than the change in price.

1. (A) is true, but (R) is false.
2. (A) is false, but (R) is true.
3. Both (A) and (R) are true and (R) is the correct explanation of (A).
4. Both (A) and (R) are true and (R) is not the correct explanation of (A).

**Solution**

Both (A) and (R) are true and (R) is the correct explanation of (A).

Q2.

2. (a) Identify and explain the following concepts (Any THREE):

2. (a) 1. Identify and explain the concept from the given illustration:

Kavita consumed five units of oranges one after the other.

**Solution**

**Concept:** Total utility or Continuity

**Explanation:**

- **Total utility (TU):**  
Total utility refers to the aggregate of utility derived by the consumer from all units of a commodity consumed. It is an aggregate of utilities from all successive commodity units consumed.
- **Continuity:**  
All units of a commodity are consumed quickly without any lapse of time.



2. (a) 2. Identify and explain the following concept:

Shobha collected data regarding the money value of all final goods and services produced in the country for the financial year 2018-2019.

**Solution**

**Concept:** National Income and Intermediate Goods

**Explanation:**

- National income refers to the money value of all final goods and services produced in a country during a given time period.
- The term "intermediate goods" refers to products that producers buy to be used in the creation of final products.

2. (a) 3. Identify and explain the concept from the given illustration:

Sara makes a monthly contribution to a fund jointly created by her friends. The collected fund is then given to a chosen member through lucky draw.

**Solution**

**Concept:** Chit fund

**Explanation:**

- i. Chit fund is an unregulated non-banking financial intermediary in which members make regular contributions to the fund. Bids/draws are made based on some criteria mutually agreed upon by members. Accordingly, the collected fund is given to the chosen member.
- ii. Hence, this illustration relates to the concept of 'chit fund' as Sara makes a monthly contribution to a fund created by friends and the collected fund is given to a chosen member through a lucky draw.

2. (a) 4. Identify and explain the concept from the given illustration:

England imported cotton from India, made readymade garments from it and sold them to Malaysia.

**Solution**

**Concept:** Entrepot trade

**Explanation:**

- i. Entrepot trade refers to the purchase of goods and services from one country for reselling to another country after some processing.
- ii. Hence, this illustration relates to the concept of 'entrepot trade' as England imported cotton from India, made readymade garments from it (i.e. processing operations), and sold (i.e. exported) them to Malaysia.

2. (a) 5. Identify and explain the concept from the given illustration:

Nilesh purchased ornaments for his sister.

### Solution

**Concept:** Value in exchange/Possession utility

### Explanation:

- i. The law of DMU explains the 'paradox of values' by showing the difference between the value in use and the value in exchange. Some commodities have high value in use, and some commodities have high value in exchange.
- ii. Possession utility arises when the ownership of goods is transferred from one person to another.

2. (b) Distinguish between (Any THREE):

2. (b) 1. Distinguish between:

Demand deposit and Time deposit

### Solution

Basic for comparison	Demand deposit	Time deposit
Meaning	Deposits that are withdrawable on demand are known as demand deposits.	Deposits that are repayable after a certain period of time are known as time deposits.
Time Period	There is no fixed time period involved in the case of a demand deposit.	Time deposits are deposited in the bank for a fixed period of time (usually 1 year to 5 years).

Example	Saving accounts and current accounts are examples of demand deposits.	Fixed or term deposits are an example of time deposits.
Rate of Interest	In the case of saving and current accounts, it is lower (which is around 4 to 6 percent).	The rate of interest offered by the banks on time deposits is higher around 7 to 9 percent.
Facilities	In case of demand deposits, one needs all facilities like ATM, credit card, the online banking as these accounts are meant for the withdrawal of funds as and when required by the account holder.	In the case of time deposits, one does not need facilities like ATMs, credit cards, the online banking as funds are tied for a specific period.

2. (b) 2. Distinguish between the following concepts:

Special assessment and Special levy.

**Solution**

	Special assessment	Special levy
1)	Special assessment refers to the payment made by citizens of a particular locality in exchange for certain special facilities provided to them by the public authorities.	A special levy is charged on commodities whose consumption is harmful to the health and well-being of citizens.
2)	<b>E.g.:</b> local bodies can levy a special tax on the residents of a particular area where extra/special facilities of roads, energy, water supply, etc. are provided.	<b>E.g.:</b> duties levied on wine, opium, and other intoxicants.
3)	The objective is to earn revenue through the provision of special facilities.	The objective is to discourage the consumption of such commodities.



2. (b) 3. Distinguish between:

Stock and Supply

**Solution**

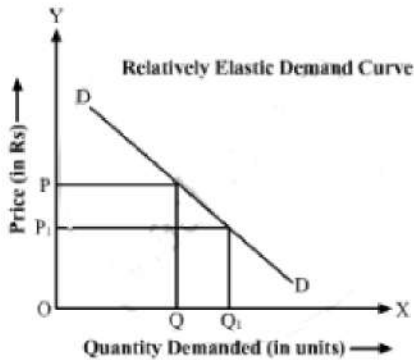
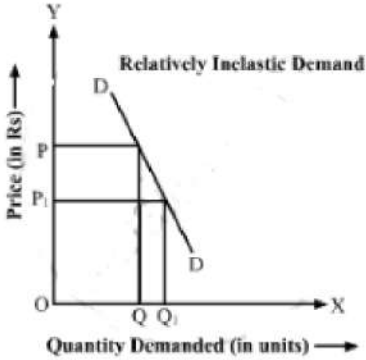
	Stock	Supply
1)	Stock is the total quantity of goods available for sale with a seller at a particular point of time.	Supply refers to the quantity of goods that a seller is able and willing to offer for sale at a particular price during a certain period of time.
2)	Stock is the outcome of production.	Supply is derived out of stock.
3)	Stock can be increased if production is increased.	Supply can be increased if stock is increased.
4)	Stock is generally more than supply.	Supply can be less than or equal to stock. However, it cannot exceed stock.
5)	Stock is a static concept and is not expressed in relation to price and time.	Supply is a flow concept and is always expressed in relation to price and time.

2. (b) 4. Distinguish between Relatively elastic demand and relatively inelastic demand.

**Solution**

Relatively elastic demand	Relatively inelastic demand
In this case, the change in price leads to a proportionately large change in the quantity demanded.	In this case, the change in price leads to a proportionately less change in the quantity demanded.



<p>It represents a flatter demand curve.</p>  <p>Symbolically, it is represented as <math>E_d &gt; 1</math>.</p> <p>For example - a 50% fall in price leads to a 100% rise in quantity demanded.</p>	<p>It represents a steeper demand curve.</p>  <p>Symbolically, it is represented as <math>E_d &lt; 1</math>.</p> <p>For example - a 50% fall in price leads to a 25% rise in quantity demanded.</p>
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## 2. (b) 5.

Distinguish between Desire and Demand.

### Solution

Desire	Demand
Desire means an urge to have something.	Demand means a desire which is backed by willingness and ability to pay.
Desire is a part of demand.	Demand includes desire.
Desire is not per unit of time.	Demand is always per unit of time.
There is no relation between desire and price.	There is an inverse relationship between demand and price.
Reference of time and price is not necessary to express desire.	Reference of time and price is necessary to express demand.
<b>E.g.</b> The desire of a poor person to go on a vacation to Switzerland.	<b>E.g.</b> The demand of a popular movie actor to buy an "Audi" car.

**Q3. Answer the following (Any THREE):**

**3. (a) Explain the total outlay method of measuring elasticity of demand?**

**Solution**

The total outlay method is also known as the "Total expenditure method". This method was developed by Prof. Marshall. In this method, the total amount of expenditure before and after the price change is compared. Here the total expenditure refers to the product of price and quantity demanded.

**Total expenditure = Price × Quantity demanded**

In this connection, Marshall has given the following propositions:

- A. **Relatively elastic demand ( $E_d > 1$ ):** When with a given change in the price of a commodity total outlay increases, the elasticity of demand is greater than one.
- B. **Unitary elastic demand ( $E_d = 1$ ):** When the price falls or rises, the total outlay does not change or remains constant, the elasticity of demand is equal to one.
- C. **Relatively inelastic demand ( $E_d < 1$ ):** When with a given change in the price of a commodity total outlay decreases, the elasticity of demand is less than one.

This can be explained with the help of the following example.

Total outlay method

	Price in ₹ (P)	Quantity demanded in units (Q)	Total outlay (P × Q)	Elasticity of demand
A	10	6	60	$E_d > 1$
	20	5	100	
B	30	4	120	$E_d = 1$
	40	3	120	
C	50	2	100	$E_d < 1$
	60	1	60	

In the above table example 'A' original price is ₹ 10 per unit and the quantity demanded is 6 units. Therefore, the total expenditure incurred is ₹ 60. When the price rises to ₹ 20 quantity demanded falls to 5 units, and the total expenditure incurred is ₹ 100. In this case, the total outlay is greater than the original expenditure.

Hence, in this example elasticity of demand is greater than one. ( $E_d > 1$ ) that is a relatively elastic demand.

An example 'B', the original price is ₹ 30 per unit and the quantity demanded is 4 units. Therefore, total expenditure is ₹ 120. When the price rises to ₹ 40 quantity demanded falls to '3' units. The total expenditure incurred is ₹ 120. In this case, the total outlay is the same (equal) as the original expenditure. Hence, in this example, the elasticity of demand is equal to one ( $E_d = 1$ ) which is unitary elastic demand.

An example 'C', the original price is 50 per unit and the quantity demanded is 2 units. Therefore, the total expenditure is ₹ 100. When the price rises to ₹ 60, quantity demand falls to 1 unit and the total expenditure incurred is ₹ 60. In this case, the total outlay is less than the original expenditure. Hence, the elasticity of demand is less than one ( $E_d < 1$ ) which is relatively inelastic demand.

### 3. (b) Name and explain the types of monopoly.

Explain the types of Monopoly.

Write short answer for the following question :

Types of monopoly

Write a short note on the following:

Types of monopoly

#### **Solution**

Following are some of the types of monopoly:

1. **Private monopoly:** When an individual or private body controls a monopoly firm it is known as private monopoly. For example, Tata Group.
2. **Public monopoly:** When the production is solely owned, controlled and operated by the Government, it is known as public monopoly. It is usually welfare-oriented. For example, Indian Railways.
3. **Legal monopoly:** This monopoly emerges on account of legal provisions like patents, trade mark, copyrights etc. The law forbids the potential competitors to imitate the design or form of the product registered under given branded names. For example, Amul products.



4. **Natural monopoly:** A monopoly created on the basis of natural conditions like climate, rainfall, specific location etc. is known as natural monopoly. For example, wheat from Punjab.
  5. **Simple monopoly:** In simple monopoly, seller or a firm charges a uniform price for its product to all the buyers.
  6. **Discriminating monopoly:** In a discriminating monopoly, a firm charges different prices to different buyers for the same product. For example, doctor charges different fees to different patients.
  7. **Voluntary monopoly:** To avoid cutthroat competition, some monopolists voluntarily come together and form a group of monopolists. This facilitates them to maximise the profit. For example, Organisation of Petroleum Exporting Countries (OPEC).
3. (c) Explain the importance of Macro economics.

State the importance of macroeconomics.

### **Solution**

**The importance of Macroeconomics is explained as follows:**

1. **Functioning of an Economy:** Macroeconomic analysis gives us an idea of the functioning of an economic system. It helps us understand the behaviour pattern of aggregative variables in a large and complex economic system.
2. **Economic Fluctuations:** Macroeconomics helps analyse the causes of fluctuations in income, output, and employment and makes an attempt to control them or reduce their severity.
3. **National Income:** The study of macroeconomics has brought forward the immense importance of the study of national income and social accounts. Without a study of national income, it is not possible to formulate correct economic policies.
4. **Economic Development:** Advanced studies in macroeconomics help to understand the problems of developing countries, such as poverty, inequalities of income and wealth, differences in the standards of living of the people, etc. It suggests important steps to achieve economic development.



5. **Performance of an Economy:** Macroeconomics helps us to analyse the performance of an economy. National Income (NI) estimates are used to measure the performance of an economy over time by comparing the production of goods and services in one period with that of the other.
6. **Study of Macroeconomic Variables:** To understand the workings of the economy, a study of macroeconomic variables is important. The main economic problems are related to economic variables such as the behaviour of total income, output, employment, and the general price level.
7. **Level of Employment:** Macroeconomics helps analyse an economy's general employment and output levels.

3. (d) Explain the recent trends in India's exports.

### **Solution**

Export trade refers to the sale of goods and services by one country to another. In other words, it is the outflow of goods from a home country to a foreign country.

**The recent trends in India's exports are as follows:**

1. **Engineering goods:** According to the Engineering Goods Export Promotion Council (EGEPC) Report, the share of engineering goods was 25% of India's total exports in 2017-18. Within this category, some of the prominent exported items are transport equipment including automobiles and auto components, machinery, and instruments. During the period 2010-11 to 2014-15, exports of transport equipment have grown from 16 billion dollars to 24.8 billion dollars.
2. **Petroleum products:** India's petroleum capacity increased significantly since 2001-02, due to which India turned as a net exporter of petroleum refinery products. Petroleum products had a share of 4.3% in India's total exports in 2000-01, which rose steadily to 20.1% in 2013-14.
3. **Chemicals and chemical products:** An important export item that has performed reasonably well over the last few years is chemicals and chemical products. The share of this item was 10.4% in 2014-15.
4. **Gems and Jewellery:** Gems and jewellery are one of the major contributors to export earnings in India, having a share of 13.3% in India's merchandise export in 2014-15.

5. **Textiles and readymade garments:** India is one of the leading exporting countries of textiles and readymade garments in the world. The share of textiles and garments in total exports of the country was 11.3% in 2014-15.

**3. (e) What is the role of the capital market in India?**

Explain the role of the Indian Capital Market (any four).

Answer the following:

Explain the role of capital market in India.

**Solution**

Capital market is an important constituent of the financial system. It is basically a market for long-term funds (both equity and debt) raised within and outside the country.

**The role of capital market in India can be explained as follows:**

1. **Mobilizes long term savings:** There is an increasing demand for investment funds by industrial organizations and the government. But the availability of financial resources is insufficient to meet this growing demand. The capital market helps to mobilize long-term savings from various sections of the population through the sale of securities.
2. **Provides equity capital:** Capital market provides equity capital or share capital to entrepreneurs which could be used to purchase assets as well as fund business operations.
3. **Achieve operational efficiency:** Capital market helps to achieve operational efficiency by lowering the transaction costs, simplifying transaction procedures, lowering settlement timings in the purchase and sale of stocks.
4. **Quick valuation:** Capital market helps to determine a fair and quick value of both equity (shares) and debt (bonds, debentures) instruments.
5. **Integration:** Capital market leads to integration among real and financial sectors, equity and debt instruments, government and private sector, domestic and external funds, etc.

**Q4. State with reasons whether you agree or disagree with the following statements (Any THREE):**



4. (a) State with reason, whether you agree or disagree with the following statement:

There are many theoretical difficulties in the measurement of national income.

State with reasons whether you agree or disagree with the following statement:

The measurement of National Income involves too many theoretical difficulties.

1. Agree

2. Disagree

### **Solution**

I agree with the above statement.

### **Reason:**

The various theoretical difficulties involved in the estimation of national income are as follows:

a. **Illegal income:**

Illegal incomes, such as income from gambling, black marketing, theft, smuggling, etc., are not included in national income.

b. **Changing price level:**

The changes in price levels also cause difficulties in calculating national income. E.g. If the price level falls, the national income may show a decreasing trend even when there is a rise in production.

c. **Unpaid services:**

Only paid goods and services are taken into account while calculating national income. However, there are a number of unpaid services which are not considered in national income estimates.

d. **Transfer payments:**

Whether the transfer payments (such as scholarships, grants, pensions, unemployment allowance, etc.) should be included in national income or not is a major concern.

e. **Valuation of government services:**

The government provides several public services. The calculation of these services at market price is difficult since the real value of these services is not known.

**f. Income of foreign firms:**

According to the IMF, the income of a foreign firm should be included in the national income of the country in which the firm actually undertakes the production activities.

**g. Production for self-consumption:**

The products kept for self-consumption by farmers and other allied producers do not enter the market. Hence, it is not accounted for in the national income.

**4. (b) State with reason whether you agree or disagree with the following statement:**

Democratic Governments do not lead to increase in public expenditure.

1. Agree

2. Disagree

**Solution**

I **disagree** with the above statement.

**Reason:**

- i. Public expenditure refers to the expenditure incurred by the public authority (i.e., Central, State, and Local Bodies) for the protection of their citizens, for satisfying their collective needs, and for promoting their economic and social welfare.
- ii. The majority of the countries in the world are democratic in nature.
- iii. A democratic form of government is expensive due to regular elections and other such activities.
- iv. There has been an increase in public expenditure over the years due to such a form of government.
- v. Hence, democratic governments lead to an increase in public expenditure.

**4. (c) State with reasons whether you agree or disagree with the following statement:**

Index number measures changes in the price level only.

1. Agree

2. Disagree

**Solution**



I Disagree With the above statement.

**Reasons:**

1. An index number is a device to measure changes in economic variables (or groups of variables) over a period of time.
2. Index numbers are one of the most used statistical tools in economics.
3. Index numbers were originally developed to measure changes in the price level.
4. At the present time, it is also used to measure trends in a wide variety of areas, such as stock market prices, cost of living, industrial and agricultural production, and changes in exports and imports. Etc.

**4. (d)** State with reason, whether you agree or disagree with the following statement:

Under the output method, the value-added approach is used to avoid double counting.

State with reason whether you agree or disagree with the following statement:

The value-added approach is used under the output method to avoid double counting.

1. Agree
2. Disagree

**Solution**

I agree with the above statement.

**Reason:**

- i. Double counting occurs when the costs of intermediate goods used by a business to produce finished good are included in the computation of a nation's GDP.
- ii. According to the value-added approach, value-added at each stage of the production process is included while calculating national income.
- iii.  $\text{Value-added} = \text{Value of final output} - \text{Value of input}$ .
- iv. GNP is obtained by adding the values added by the different stages of the production process till the final output is reached in the hands of consumers.

- v. The calculation in such a manner ensures that the costs of all intermediate goods are counted only once.

4. (e) State with reason whether you agree or disagree with the following statement:

The scope of microeconomics is unlimited.

1. Agree
2. Disagree

**Solution**

I **disagree** with the above statement.

**Reason:**

The scope of microeconomics is limited to individual units. It doesn't deal with nationwide economic problems such as inflation, deflation, the balance of payments, poverty, unemployment, population, etc. Microeconomics is mainly confined to price theory and resource allocation. It does not study aggregates relating to the whole economy. This approach does not study national economic problems such as unemployment, poverty, inequality of income, etc. The theory of growth, the theory of business cycles, monetary and fiscal policies, etc., are beyond the limits of microeconomics.

Q5. Study the following table, figure, passage and answer the questions given below it (Any TWO):

5. (a) Observe the following table and answer the questions:

Price of a banana (per dozen) in ₹	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS
10	500	100	DD > SS
20	400	_____	DD > SS
30	_____	300	DD = SS
40	200	_____	DD < SS
50	_____	500	DD < SS

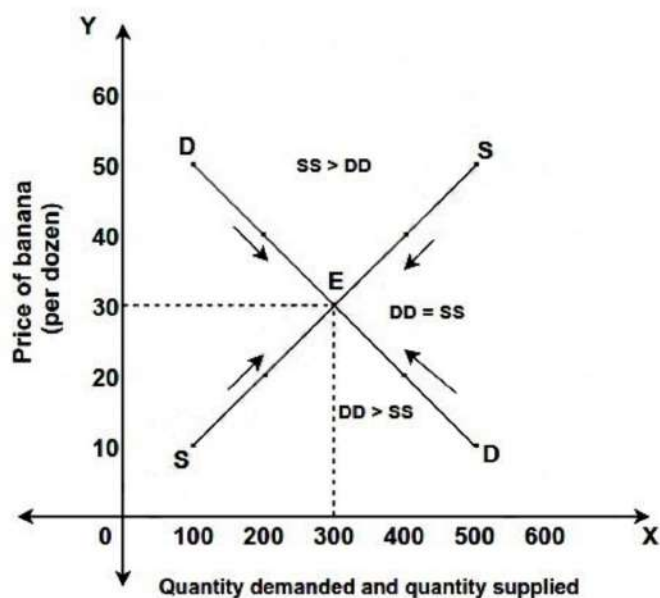
- Fill in the blanks in the above schedule.
- Derive the equilibrium price from the above schedule with the help of a suitable diagram.

### Solution

a.

Price of a banana (per dozen) in ₹	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS
10	500	100	$DD > SS$
20	400	200	$DD > SS$
30	300	300	$DD = SS$
40	200	400	$DD < SS$
50	100	500	$DD < SS$

b.



5. (b) Observe the given table and answer the questions given below:

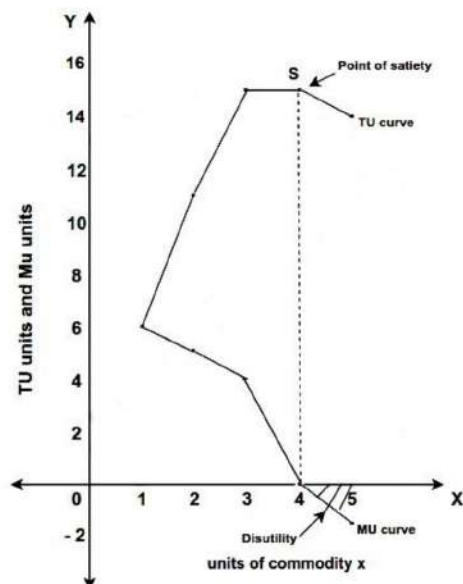
Units of a commodity	TU units	MU units
1	6	6
2	11	5
3	15	4
4	15	0
5	14	-1

- Draw the total utility curve and marginal utility curve.
- When the total utility is maximum, marginal utility is \_\_\_\_.
  - When total utility falls, marginal utility becomes \_\_\_\_.

### Solution

### Solution

- Total Utility Curve and Marginal Utility Curve.



- When the total utility is maximum, the marginal utility is **zero.**
  - When total utility falls, marginal utility becomes **negative.**



5. (c) Read the given passage and answer the questions:

The conventional notion of social security is that the government would make periodic payments to look after people in their old age, ill health, disability, and poverty. This idea should itself change from writing a cheque for the beneficiary to institutional arrangements to take care of beneficiaries, including by enabling them to look after themselves, to a large extent.

The write-a-cheque model of social security is a legacy from the rich world at the optimal phase of its demographic transition when the working population was numeral enough and earning enough to generate the taxes to pay for the care of those not working. This model is ill-suited for less, well-off India with growing life expectancy, increasing urbanization, and resultant migration. Social security under urbanization will be different from social security in a static society.

- a. State the conventional notion of social security.
- b. What kind of conceptual change is suggested in the given paragraph?
- c. What is the legacy of social security from the rich world?
- d. Which features of India make the traditional model of social security ill-suited for the economy?

### **Solution**

1. The conventional notion of social security is that the government would make periodic payments to look after people in their old age, ill health, disability, and poverty.
2. The conceptual change in the paragraph is writing a cheque for the beneficiary to institutional arrangements to take care of beneficiaries, including by enabling them to look after themselves, to a large extent.
3. The write-a-cheque model of social security is a legacy from the rich world at the optimal phase of its demographic transition.
4. The traditional model is ill-suited for less, well-off India with a growing life expectancy, increasing urbanization, and resultant migration.

**Q6. Answer the following questions in detail (Any TWO):**

6. (a) What is perfect competition? Explain the concept and its features.

What is meant by Perfect competition? State its features.

Explain the meaning of Perfect competition with its features.

### **Solution**

Perfect competition is an ideal and imaginary concept of a market rather than an actual market. According to Mrs. Joan Robinson, "Perfect competition prevails when the demand for the output of each producer is perfectly elastic."

A perfectly competitive market is one in which the number of buyers and sellers is very large. All the buyers and sellers are engaged in buying and selling a homogeneous product without any restrictions. Moreover, both buyers and sellers possess perfect knowledge of market conditions.

The following are the features of perfect competition:

- i. **A large number of buyers and sellers:** Under perfect competition, there are a large number of buyers and sellers. The number of sellers is so large that no individual firm has control over the market price of the commodity.
- ii. **Free entry and exit of firms:** There is no restriction on the entry and exit of firms. This free entry and exit of the firms ensure that no firm earns either abnormal losses or abnormal profits in the long run.
- iii. **Homogeneous product:** The product of each and every firm in a perfectly competitive market is a perfect substitute for other products in terms of quantity, quality, colour, size, features, etc.
- iv. **Perfect knowledge:** In a perfectly competitive market, the buyers are aware of the prevailing market price of the product at different places and the sellers are aware of the prices at which the buyers are willing to buy the product.
- v. **Perfect mobility of factors of production:** In perfect competition, the factors of production are perfectly mobile. Such mobility implies that there is optimum utilization of the factors of production.
- vi. **Absence of transport cost:** In perfect competition, it is assumed that there is no transport cost. This further ensures that there is a uniform price in the market.
- vii. **Single price:** A single uniform price prevails under perfect competition which is determined by the interaction of demand and supply.



viii. **No government intervention:** Laissez-faire policy is an important feature of perfect competition. It means there is an absence of Government intervention in economic activities.

6. (b) Explain any four exceptions of the law of Diminishing marginal utility.

Explain the law of diminishing marginal utility and its exceptions

State and explain the law of Diminishing Marginal Utility and explain its exceptions.

### **Solution**

**Introduction:** The Law of Diminishing Marginal Utility (DMU) explains the economic behaviour of a rational consumer. Prof. Gossen first proposed this law in 1854. Prof. Alfred Marshall, later on, discussed the law in his book 'Principles of Economics' in 1890. The law of DMU is universal in character. It is based on the common consumer behaviour that the utility derived diminishes with the reduction in the intensity of want.

#### **1. Statement of The Law:**

According to Prof. Alfred Marshall, "Other things remaining constant, the additional benefit which a person derives from a given increase in his stock of a thing, diminishes with every increase in the stock that he already has."

**Explanation:** Marginal Utility that any consumer derives from the consumption of successive units of a particular commodity goes on diminishing as his/her total consumption of that commodity increases. In short, the more of a thing you have, the less you want to have more of it.

#### **2. Schedule:**

The law of DMU can be explained with the following schedule:

No. of Units	MU (measured in utils)
1	10
2	8
3	6
4	4

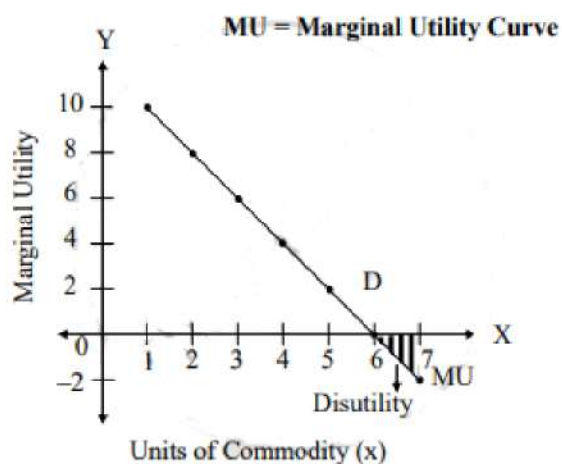


5	2
6	0
7	-2

#### Explanation:

1. When a person consumes the first unit, the Marginal Utility (MU) is 10.
2. As the consumption increases, MU keeps decreasing from 10 to 8 to 4 to 2. This proves that as consumption increases, MU goes on declining.
3. Further, when the Sixth unit is consumed, the MU becomes zero. This is a point of maximum satisfaction or the point of satiety.
4. When a person consumes the Seventh unit, the MU becomes negative i.e. -2. This indicates negative utility or disutility.

#### 3. Diagram:



#### Explanation:

1. In the diagram, X-axis represents no. of units consumed while the Y-axis represents the Marginal Utility.
2. Various points of MU are plotted on the graph as per the given schedule. When the locus of all the points is joined, the MU curve is derived.

3. MU curve is a downward-sloping curve from left to right. It indicates that an increase in the consumption of a commodity leads to a decrease in the marginal utility of that commodity.
4. When MU becomes zero, the MU curve intercepts the X-axis. Further consumption of a commodity brings disutility (negative utility) which is shown by the shaded portion.

#### 4. Exceptions:

The following are exceptions to the law of Diminishing Marginal Utility:

1. **Hobbies:** A person having a hobby of collecting old coins, artefacts, paintings, etc. gets more pleasure when he collects more of it. In other words, the MU keeps on increasing with additions to his collection. Hence, it is an exception to the law. However, the assumption of homogeneity is violated here as a person does not collect the same coins or artefacts. Further, he does not collect them in continuous succession. So, the assumption of continuity is also violated. Hence, it is not a real exception.
2. **Miser:** A miser is a person who wants to accumulate more and more wealth and does not want to spend it. Therefore, MU of money increases for a miser as his stock of money keeps on increasing. It contradicts the law of DMU. However, even in this case, the assumption of rationality is violated and it cannot be considered to be a real exception.
3. **Addiction:** MU of alcohol keeps increasing for a drunkard as he consumes more of it. Alcoholism increases with every additional unit consumed. This applies to all addictions. However, in the case of all addicts, the assumption of rationality is violated and therefore, it cannot be considered to be a real exception.
4. **Power:** A person who has power or influence always wants more of it. The MU of power keeps increasing as the person continues to get more power. The greed for power does not end. Therefore, it can be said to be an exception to the law. Again, it is not a real exception as the assumption of rationality is violated.
5. **Money:** MU of money never becomes zero. In fact, the MU of money keeps on increasing as the stock of money increases. However, money cannot be considered to be real except for the following reasons:

- i. Money does not have a single use and therefore it violates one of the basic assumptions of the law.
- ii. After a certain point of time, the MU of money for a rich person reduces as his stock of money (bank balance) keeps increasing. According to various economists, the law of DMU is applicable to money.  
E.g: MU of money is more to a poor person than to a rich person.

6. (c) Explain the meaning of monopolistic competition with its features.

### **Solution**

Monopolistic competition is very realistic in nature. In this market, there are some features of perfect competition and some features of monopoly acting together. Prof E. H. Chamberlin coined this concept in his book "Theory of Monopolistic Competition" which was published in 1933.

#### **Definition:**

According to Chamberlin, "Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes." The following are the main features of monopolistic competition:

- a. **Fairly Large Number of Sellers:** In monopolistic competition, the number of sellers is large but comparatively it is less than that of perfect competition. Due to this reason, sellers' behaviour is Like a monopoly.
- b. **Fairly Large Number of Buyers:** In this market. there are fairly Large numbers of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.
- c. **Product Differentiation:** Product differentiation is the main feature of monopolistic competition. In this market, there are many firms producing a particular product, but the product of each firm is in some way differentiated from the product of every other firm in the market. This is known as product differentiation. Product differentiation may take the form of brand names, trademarks, a peculiarity of package or container, shape, quality, cover, design, colour, etc. This means that the product of a firm may find close substitutes and its cross-elasticity of demand is very high. For example, mobile handsets, cold drinks, etc.



- d. **Free Entry and Exit:** Under monopolistic competition, there is freedom of entry and exit, that is new firms are free to enter the market if there is profit. Similarly, they can leave the market, if they find it difficult to survive.
- e. **Selling Cost:** Selling cost is peculiar to monopolistic competition only. It refers to the cost incurred by the firm to create more demand for its product and thus increase the volume of sales. It includes expenditure on advertisements, radio and television broadcasts, hoardings, exhibitions, window displays, free gifts, free samples, etc.
- f. **Close Substitutes:** In monopolistic competition, goods have close substitutes to each other. For example, different brands of soaps, toothpaste, etc.
- g. **Concept of Group:** Under monopolistic competition. Chamberlin introduced the concept of 'Group' in place of industry. Industry means the number of firms producing identical products. A 'Group' means a number of firms producing differentiated products which are closely related. For example, a group of firms producing medicines, automobiles, etc.