Economics - 2014

General Instructions :
(i) All questions in both Groups are compulsory.
(ii) Question Nos. 1 to 5 and 17 to 21 and multiple Choice type Questions carrying 1 mark each.
(iii) Question Nos.6 to 10 and 22 to 26 are short-answer-I type questions carrying 3 marks each. Answer to these should not exceed 60 words each.
(iv) Questions Nos.11 to 13 and 27 to 29 are also short-answer-II type questions carrying 4 marks each. Answers to these should not exceed 70 words each.
(v) Question Nos. 14 to 16 and 30 to 32 are long-answer type questions carrying 6 marks each. Answers of these 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. Who is called the father of Economics?
(a) Adam Smith (b) Marshal
(c) Robbins (d) None of them
Ans. (a) Adam Smith

2. Feature of monopoly is
(a) large number of firms / sellers
(b) free entry and exit of firms)
(c) one seller and large number of buyers
(d) none of these
Ans. (c) one seller and large number of buyers

3. Meaning of price elasticity of demand is
(a) change in demand due to change in price
(b) change in demand
(c) change in real income
(d) change in price
Ans. (a) change in demand due to change in price

4. The curve which shows economic problem is called
(a) Production curve (b) Demand curve
(c) Indifference curve (d) Production possibility curve
Ans. (d) Production possibility curve

5. vFkZO;oLFkk dh dsUæh; leL;k dkSu&lh gS
(a) Allocation of resources (b) Efficient use of resources
(c) Economic development (d) All of these
Ans. (d) All of these

(Short Answer Type I Questions)

Answer the following questions

6. What are the assumptions of the law of demand?
Ans. The assumptions of law of demand are :–
(a) The consumers income remains same.
(b) The perferences of consumer remain same.
(c) Fashion does not show any changes.

7. What is Marginal Utility?
Ans. Marginal utility is the utility derived from the consumption of an additional unit of a commodity.

$$MU_n = TU_{n-1}$$
$$= \frac{\Delta TU}{\Delta Q}$$

8. Distinguish between individual supply and market supply.
Ans. The diffference between individual supply and Market supply are :–
Individual supply :– It refers to supply schedule of an individual firm in the market. it is known as individual supply.
Market supply :– It refers to supply schedule of all firms in the market producing a particular commodity, it is known as market supply.

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

10. Explain why a production possibility curve is concave.
Ans. The PPC is concave to the origin because of increasing Marginal opportunity cost. This is because in order to increase the production of one good by 1 unit more and more units of the other good have to be scarificed since the resources are limited.

(Short Answer II Type Questions)

Answer the following questions:

11. Why does demand curve slope downward towards right?)
Ans. Demand Curve slope downward to right because :–
(a) The law of demand is based on the law of diminishing Marginal utility. The consumer will buy more units of that commodity only when its price falls.
(b) Every commodity has certain consumers but when its price falls, new consumers start consuming it, as a result demand decreases.
(c) When the price of a commodity falls, the real income of the consumer increases because he has to spend less in order to buy the same quantity.

12. Explain two points of distinction between monopoly and monopolistic competition.
Ans. The difference between Monopoly and Monopolistic are :–

<u>Monopoly</u> :-
(1) There is only one producer.
(2) There is a greater possibility of price discrimination
(3) There is barriers to entry and exist.

<u>Monopolistic</u>
(1) There are large number of producer.
(2) There is slight price discrimination

(3) There is no barriers.

13. **Why is Average Cost in short run U shaped?**

Ans. U – shape of AC curve is explained :—

(a) Initially, a firm may enjoy increasing returns to w factor. Accordingly, MP tends to rise and MC tends to falls.

(b) Subsequently, there may be constant returns to a factor. This implies a situation of a constant MP and constant MC.

(c) Finally, a firm must face a situtation of diminishing returns. MP starts declining and MC starts rising. Briefly AC assumes U – Shape in accodance with the law of variable proportions.

(Long Answer Type Questions)

Answer the following questions:

14. **Define elasticity of demand. How can elasticity of demand be measured?**

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

- The methods to measure price elasticity of demand are :-

(a) Price elasticity of Demand :– Price elasticity of demand is a measure of the responsiveness of demand to changes in the commodity's own price.

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

Q = Quantity

P = Price

DQ/Q = relative change in the QD.

DP / P = RElative change in the price.

(b) Income elasticity of Demand :– The responiveness of quantity demanded to changes in income is called income elasticity of demand.

$$ed = \frac{\Delta Q}{Q} \Big/ \frac{\Delta y}{y} \quad Q = \text{Quantity} \quad Y = \text{income}$$

O.R.

$$= \frac{y}{Q} \times \frac{\Delta Q}{\Delta Y}$$

(c) Cross elasticity of Demand :– The cross elasticity Measures the responsiveness of quantity demanded to changes in price of other goods and servies.

$$ed = \frac{\%\ \Delta Q}{\%\ \Delta P}$$

15. **What do you mean by production function? Discuss its main characteristics.**

Ans. Production function studies the functional relationship between physical inputs and physical outputs.

Characterstics of production function.

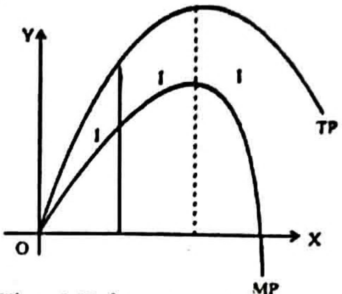
(1) Substitutability :– The factors of production or inputs are substitutes of one another which make it possible to vary the total output by changing the quantity of one or a few inputs, while the quantities of all other inputs are held constant.

(2) Complementarity :– The factors of production are also complementarity to one another, i.e. the two or more inputs are to be used together as nothing will be produced it the quantity of either of the inputs used in the production process is zero.

(3) Specificity :– It reveals that the inputs are specific to the production of a particular product.

16. **Explain the law of variable proportions with the help of total product and marginal product curves.**

Ans. Law of variable proportions states that as more and more of the variable facter is combined with the fixed factor, marginal product of the variable factor may initially increase and subsequently stabilise, but must finally decrease.



Stage - I When MP increase, TP increase at an increasing rate.

Stage - II MP diminishes and TP increases at diminishing rate.

Stage - III :– MP becomes negative and TP tends to fall.

Group-B

Multiple Choice Type Questions

17. **Through which method we can withdraw money from bank?**

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

Ans. (d) All of these

18. **Main function of the Central Bank is**

(a) the Banker, Agent, Advisor of Central Govt.
(b) bank of banks
(c) issuing currency note
(d) all of these

Ans. (d) all of these

19. **Which one of the following is the component of profit?**

(a) Dividend (b) Undistributed profit
(c) Corporate profit tax (d) All of these

Ans. (d) All of these

20. **Who said that Macro-economics deals with the functioning of the economy as a whole?**

(a) Shapiro (b) M.H. Spencer)
(c) Keynes (d) none of these

Ans. (c) Keynes

21. **Direct tax is**

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

Ans. (c) both (a) and (b)

(Short Answer I Type Questions)

Answer the following questions:

22. **Distinguish between Micro and Macro-economics.**

Ans. Difference between Micro and Macrocconomics.

Micro Economics

(1) Micro Economics studies economic relationship or economic problems at the level of an individual firm household, consumer.

(2) Allocation of resources to different uses in the central issues in microeconomics

(3) There is a smaller degree of aggregation in microeconomics.

Macro Economics

(1) Macroeconomic studies economic relationships or economic issues at level of the economy as a whole.

(2) Raising the level of output and growth is the central issue in macroeconomic

(3) There is larger degree of aggregation in macroeconomics

23. Classify Public Expenditure.

Ans. Classification of public expenditure are :–

(1) Revenue expenditure :– Revenue expenditure is a current or consumption expenditure incurred on civil administration.

(2) Capital expenditure :– This is incurred once and all. It is non-recurring expenditure.

(3) Development expenditure :– This is made on irrigational development, industrial development, education and health etc.

(4) Non-development expanditure :– This is the money spent on civil administration, police force etc.

24. What is Investment? Explain

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

Types of investment are :–

(a) Induced investment :– It is related to the cost of investment as well as the level of income in the economy.

(b) Autonomous investment :– It is not related to the cost of investment or the level of income in the economy.

25. Distinguish between cheque and overdraft.

Ans. The difference between cheque and overdraft are :–

Cheque :

(1) A cheque refers to a document that orders a bank to pay a specific amt. of money from a person's account to the person in whose name the cheque has been issued.

(2) For availing a cheque facility; the person must have an account with the bank whereas to avail.

(3) A cheque does not required any collateral assurance to the bank.

(4) A cheque can be written up to the extent of credit balance in the account.

Overdraft :

(1) Overdraft refers to a continous withdrawing facility in which the banks allow the customer to withdraw amt, more than what he hold his credit, but only up to a certain extent.

(2) Overdraft facility, the borrower must have a current AC with the bank.

(3) Overdraft facility is given against the security of fixed assets.

(4) Overdraft includes withdrawl of amounts beyond the credit balance in the account.

26. Who supplies money?

Ans. The government and the banking system – Central and commercial banks of economy supplies money.

Short Answer II Type Questions

Answer the following questions:

27. Distinguish between national income and private income.

Ans. The different between national income and private income are :–

National Income :

(1) Only factor income is included in National income.

(2) National income includes income of both public sector and private sector.

(3) It is the income of normal residents of a country.

(4) National Income = Net domestic factor income + Net factor income from abroad.

Private income

(1) Private income includes both factor income as well as transfer income.

(2) It includes income received by the private sector workers only consisting of households and private enterprises.

(3) It is the total of earned incomes and transfer incomes received by private sector.

(4) Private income = Dometic income – public sector's income from domestic product + All current transfers received by private sector + interest on national debt + Net factor income from abroad.

28. What is tax? State its two main features.

Ans. Tax : – A tax is a compulsory payment imposed by the govt. on the people of a country.

The Features of taxes are :–

(1) The scientific Division of Tax powers : – India being a federation, there is the existence of a multi leval finance system.

(2) Multiplicity of Tax structure : – India is having a broad based and extensive tax structure. Its main feature is the existence of multiplicity of taxes.

29. What is the difference between Average propensity to save and Marginal Propensity to save?

Ans. The difference between APS and MPS are :–

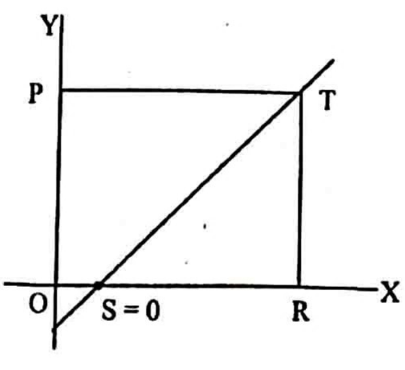
Average Propensity to save

(1) It refers to the proportion of total income that goes to saving.

(2) It is measured as the ratio between total saving (s) and total income (y).

(3) $APS = \frac{S}{Y}$

(4)



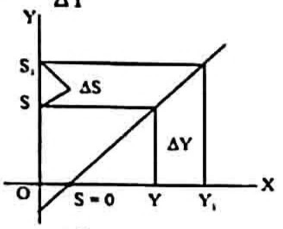
$$APS = \frac{S}{Y} = \frac{RT}{PT}$$

Marginal propensity to save

(1) It refers to the proportion of additional income that goes to saving.

(2) It is measured as the ratio between change in saving (DS) and change in income (DY).

$$MPS = \frac{\Delta S}{\Delta Y}$$



$$MPS = \frac{\Delta S}{\Delta Y} = \frac{SS_1}{YY_1}$$

Long Answer Type Questions

(Long Answer Type Questions)

Answer the following questions

30. Define National Income. Explain the method of measuring national income.

Ans. National Income is the aggregate money value of final all goods and services produced in a country during one year, account being taken of the deduction made due to wear and tear of the deduction made due to wear and tear and deperciation of plants and machinery used in the production of goods and services.

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

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

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

Steps in value added Mathod are :-

1st Step :- It involves classification of production enterprises into three categeeries :-

Primary, Secondary, Tertiary sector.

2nd Step :- Value of output is determined by multiplying the product by its Market price. Gross value added is estimated by deducting the intermediate consumption from the value of output, Depreciation is deducted from gross value added to get net value added.

3rd Step :- Net indirect taxes are deducted from net value added at Market price to get net value added at factor cost which is equal to net domestic income. Net factor income from abroad is added to net domestic income to get national income.

(2) Income Method :- Income method is that method which measures national income from the side of payment made in the form of wages, rent, interest and profit to the primary factors of production in an accounting year.

(3) Expenditure Method :- As per this method, domestic product is estimated as the sum total of expenditure on the purchase of final goods and services produced within the domestic territory of the country, during the year of estimation.

31. What are the principal instruments of monetary policy of the central bank?

Ans. The Various instument of monetary policy are :—

(1) Bank Rate : – It is the rate at which the central bank offers loans to the commercial bank as a lender of last resort. During inflation when supply of money is to be reduced, bank rate is increased.

(2) Reserve Repo Rate :– Reserve repo rate is the rate of interest at which the commercial banks can deposit their surplus funds with the central bank. This allows the commercial banks to generate interest income.

(3) Open Market operation :– This refers to sale and purchase of securities by the central bank in the open market. To increase money supply (during deflation) securities are purchased by the central bank. To decrease money supply (during inflation) securities are sold off the central bank.

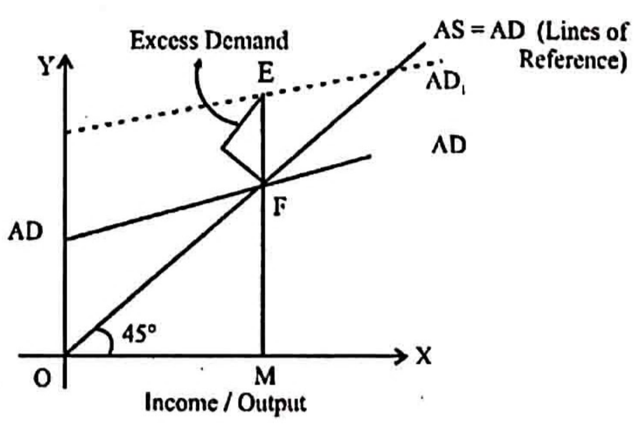
(4) Cash Reserve Ratio :– CRR requires the commercial banks to maintain certain minimum cash reserves with the central bank, as a percentage of their total deposits.

(5) Statutory liquid Ratio :– SLR requires the commercial banks to maintain a specified percentage of their deposits in the form of liquid assets.

(6) Moral sursion :– It refers to moral pressure exercised by the central bank on the commercial banks to be restricted and selective in lending during inflation and to be liberal in lending during deflation.

32. What is excess demand? What is its impact on output and price?

Ans. Excess demand refers to a situation when AD > AS corresponding to full employment level.



Full employment requires FM level of AD. But it happens to be EM as shown in the figure. According, excess demand is equal to EF, Which is known as inflationary Gap.

The impact of excess demand on output and price are:-

(1) Price tends to rise
(2) Increases employment
(3) Excess demand does, not affect the level of ouput because economy is already at full employment level and there is no idle capacity in the economy.