**Q1. Fill in the blanks: - (5m)**

1) **CAPITAL** is a produced means of Production.

2) Output method is also known as **PRODUCT METHOD.**

3) Overdraft facility is given to **CURRENT A/C** holder.

4) **SURPLUS BUDGET** is used at the time of Inflation.

5) **CENTRAL BANKS** are the creators of credit.

**Q.2. Match the following: - (5m)**

|  |  |
| --- | --- |
| A | B |
| National Income  Income Method  Unpaid Services  Double Counting  Exp. Method | Not included in NI  Difficulty in Calculation  Outlay Method  Final Commodity  Factor Cost Method |

**Q3. True or False: - (6m)**

1) Transfer Payments are included in National Income. **(TRUE)**

2) GNP = C+I+G +. **(TRUE)**

3) Saving’s A/c is opened by Salaried Persons. **(TRUE)**

4) R.B.I is a Custodian of CRR. **(TRUE)**

5) Deficit budget helps at the time of depression. **(FALSE)**

6) Every deposit creats credit. **(TRUE)**

**Q4. Explain the Term :- (Any 2) (4m)**

**1) Balanced Budget:-**

**Ans:-** **(a)** A Balance Budget refers to that kind of budget where the governments estimated receipt is equal to its anticipated expenditure i.e. Government estimated receipt = Government anticipated expenditure.

**(b)** A balanced budget structure has no impact on the aggregate demand of an economy.

**(c)** Such budget has no practical usage in the ever changing economic conditions.

**2) Labour:-**

**Ans:- (a)** Labour is a human factor of production. It is the most active and living factor of

Production, without which production process is not possible.

**3) National Income:-**

**Ans:- (a)** National income is the total amount of income accruing to a country from economic

activities, in a year’s time. Thus, it is the aggregate monetary value of all final goods and services produced in the economy in a year.

**(b)** According to **Marshall,** ‘’The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is true net annual income or revenue of the country or national dividend.’’ This definition represents a total value of production – it is from production end.

**Q5. Answer the following: - (Any 3) (12m)**

**1. Explain Features of Land:-**

**Ans:-** The features of land are as follows:

**i) Free gift of nature:**

Land is not created by mankind. It is a free gift of nature. Thus, supply price of land is Zero from the society point of view. Hence, land has no cost of production.

**ii) Passive factor of production:**

Land is a passive factor of production, i.e. it cannot produce anything by itself. It becomes productive only when the other factors of production such as labour, capital, etc. are used with it.

**iii) No geographical mobility:**

Land cannot move. It is immobile in nature. But, land has occupational mobility, i.e. it can be put into some other alternative use. For example: Farming area can be used to build residential plots. Therefore, it is the least mobile factor of production.

**iv) Inelastic Supply:**

Man cannot increase or decrease the total volume of land. However, he can try to improve the quality of land. The availability of land at any time is fixed. Thus, supply of land is perfectly inelastic.

**v) Permanent and Indestructible factor:**

Land is a indestructible factor. It cannot be destroyed completely. Fertility of land may diminish but its existence remains forever.

**vi) Heterogeneity:**

Land is a heterogeneity factor. It differs in quality. All lands differ from each other in terms of their fertility. As a result, one cannot expect to get same quantity or quantity of production from different pieces of lands. Moreover, there are different grades in land. As a result, superior land commands a higher price in the form of rent as compared to an inferior one.

**vii) Diminishing marginal returns:**

Land is subject to the law of diminishing marginal returns. As more and more inputs are employed on the same piece of land, after a particular stage, the total output increases but at a diminishing rate.

**viii) Derived demand:**

The demand for land is indirect. Demand for land depends on the demand of other goods and services. For example, the demand agricultural land is derived from the demand for agricultural products.

**ix) Site Value:**

The value of land depends on its location. A land situated near a urban area commands higher price as compared to the located near a rural area.

**2. Explain Primary functions of Commercial Banks:-**

**Ans:-** The primary functions of commercial banks are explained:

**i. Accepting Deposits:**

The primary or basic function of commercial bank is to accept deposits from the public. The funds so collected are then offered as loans to the ones who are in need of it.

The bank thus acts as an intermediary between the two i.e. by accepting deposit and paying interest on it and lending loans and on which higher interest is charged.

The difference between these two rates of interest minus the administrative charges is the profit carried by the bank.

Commercial banks accept the following:

**Types of deposits:**

**a. Demand Deposits:**

Deposits, which are withdraw able on demand, are known as demand deposits.

They are of the following two types:

**1. Current account Deposits:**

It is usually held by businessmen, corporations, industrial enterprises, public bodies, trusties, etc. The account facilitates them to carry out their transactions with minimum cash in hand, as the deposits are withdraw able any time by the depositor by means of cheques, drafts or order, Very low interest or no interest is paid on the current account deposits.

**2. Savings Account Deposits:**

Savings Account deposits are generally opened by salaried class, middle income groups or small traders, who wish to save a small portion of their income by depositing the same with the bank, normally, a small rate of interest is paid on this account Money can be withdrawn subject to certain restrictions.

**3. Recurring Deposits:**

These deposits are generally held by individuals having fixed income or salary. Under this scheme, customer is required to deposit a fixed sum of money for a specified period of time. Recurring deposits attract high rate of interest and money can be withdrawn after the specified time period. It also inculcates a habit of regular savings among the masses.

**4. Fixed Deposits:**

Fixed deposits are the time bound deposits which are made for a fixed or a specified period. The rate of interest offered on such deposits is relatively high. However, such rate varies with the period of time for which money is deposited. For instance, if the depositor wishes to withdraw the amount before the expiry of the specified period, he receives a lower rate of interest.

**ii. Advance of loans:**

The deposits accepted by the banks from the depositor are not kept as ‘idle’ cash balance.

After keeping certain cash reserves, the balance is lent to the needy borrowers in the forms of loans and advances.

The profit earning capacity of commercial banks depends mainly upon this function. Commercial banks accept deposits at a lower rate if interest and give it as loans and advances at a higher rate of interest.

Banks grant loans and advances to the borrowers in the following forms:

**a. Loans:**

Loans are the credit provided by banks for a certain time period bearing a varying rate of interest. Various tyoes of loans provided by the banks are a follows:

**1. Call loans / Money at Call Notice:**

These loans are provided for a period of 7 to 15 days. These loans are generally taken by bill brokers or stock brokers. These are called as call loans, as they can be called back at any time by the commercial banks from the borrowers. The rate of interest is lowest.

**2. Short term loans:**

These loans are provided by commercial banks for a period of not more than two years. They are given to businessmen to satisfy their working capital requirement. The rate of interest is higher than call loans and lower than medium term loans.

**3. Medium term loans:**

These loans are provided by commercial banks for a period ranging from two to five years. Such loans are manufactures for making changes in the methods of production, purchase of equipment’s tools, etc. The rate of interest charged is higher than the short term loans and lower than the long term loans.

**4. Long term loans:**

These loans are provided by commercial banks for a period of more than five years. Such loans help the businessmen to introduce permanent changes in the methods of production, technique of production, etc. The rate of interest charged is higher as compared to other types of loans.

**b. Cash Credit:**

Cash credit facilities are allowed to any customer / borrower by which the borrower is allowed to draw from that account upto a certain limit against eligible securities. Interest is charged on the amount actually drawn.

**c. Overdraft facility:**

Overdraft facility is generally given to current account holders by which customers are allowed to withdraw the amount from the account in excess of their balance. The maximum limit of overdraft is specified by the bank. Rate of interest charged is generally low.

**d. Discounting of bills:**

Discounting of bill of exchange means advancing a loan against a promise of

repayment in future. The commercial banks charge a commission for discounting bills. As and when the bill mature, the bank is entitled to receive payment from the banker of the debtor who originally accepted the bill.

**3. Short Note on Income Method:-**

**Ans:- Income Method:-**

**i.** This Method is also known as Factor Cost Method. This method seeks to measure national income at the phase of distribution.

**ii.** According to income method, the income payments received by all citizens of a country, in a particular year, are added up.

**iii.** In other words, the net income earned by the factors of production in the form of rent, wages interest and profit are added together but incomes in the form to transfer payments are not included in the national income.

**iv.** The income figures are obtained mostly from income tax returns, books of accounts and reports. Thus, National Income, under this method can be calculated as: NI = Rent + Wages + Interest + Profit + Mixed Income+ Net income from abroad.

**v.** In India, this method is used by National Income Committee of the Central Statistical Organization (C.S.O) for adding up the income arising from trade, transport, public administration, professional, liberal art and domestic services.

**4. Qualities of Entrepreneur?**

**Ans:-** The essential qualities of an entrepreneur are:

**i. Efficient:**

An entrepreneur should be highly intelligent, able and efficient so as to solve problems arising in the industry.

**ii. Organizer:**

He should be a good organizer in a way so as to organize all the factors of production in a proper manner to achieve the desired results.

**iii. Leadership:**

The success of any business largely depends upon its leader. Hence, an entrepreneur must possess good leadership qualities. He should put the right directions to different factors of production.

**iv. Decision Maker:**

An entrepreneur should have the ability to take quick decisions with respect to investments, location, nature and sale of products, etc.

**v. Self-Confident:**

An entrepreneur has to self-confident and someone who backs his own abilities. He should be able to develop confidence in his term, regarding his integrity and honesty, which in turn helps to maintain goodwill and reputation of his firm in the market.

**vi. Bold and Courageous:**

He should be able to face difficult times and adverse situations courageously and boldly.

**vii. Knowledgeable:**

He should have complete knowledge about his business, market conditions, new products, new technology, etc.

**viii. Innovator:**

An entrepreneur must be innovative and creative, an innovative entrepreneur introduces new products, develops new method of production, discovers new market, etc. which in turn helps to minimize the cost of production.

**ix. Vision and foresight:**

He should be a man of vision, foresight, full of imagination and judgement so that he may be able to estimate the changes likely to take place in the market trends.

**5. Distinguish between Surplus Budget / Deficit Budget:-**

**Ans:-**

|  |  |  |
| --- | --- | --- |
|  | **Deficit Budget** | **Surplus Budget** |
| a. | It is a type of budget where the governments proposed expenditure is more than its estimated revenue. | It refers to that type of budget, where the anticipated expenditure is less than the estimated revenue. |
| b. | Deficit budget approach is adopted during depression period of an economy | Surplus budget may prove useful during the period of inflation. |
| c. | It accelerates effective demand which in turn leads to increased level of employment and investments. | This type of budget leads to reduction in economy’s aggregate demand. |

**Q6. Long answers : - ( Any 1) (8m)**

**1) Explain Quantitative Method of credit control:-**

Ans:-  **Quantitative Measures of credit control:**

These are the measures adopted by the Central Bank in order to control the volume or quantity of credit so as to prevent the inflationary or deflationary pressures caused by expansion or contraction of credit.

The various measures of quantitative credit control are as follows:

**i. Bank Rate:**

Bank Rate is the minimum rate of interest charged by the Central Bank to commercial banks while giving loans to them against eligible securities or by rediscounting bills of exchange. It is also called as rediscount rate.

To control inflation, the Central Bank follows ‘Dear Money Policy’ wherein it increases the bank rate.

To control deflation, the Central Bank follows ‘ Cheap Money Policy’ wherein it decreases the bank rate.

**ii. Open Market Operations (O.M.O):-**

Open Market Operations refer to deliberate buying and selling of government securities and treasury bills by the Central Bank in the open market. To control inflation, the Central Bank sells government securities to public and commercial banks.

**iii. Variable Cash Reserve Ratio:-**

This method of credit control by the Central Bank was popularised by J.M.Keynes.

It includes:

**a. Cash Reserve Ratio (CRR):**

By the Banking Act, commercial banks have to maintain a certain percentage (3% to 15% in case of RBI) of cash with the Central Bank as reserves against their demand and time deposits. This is known as Cash Reserve Ratio (CRR).

**b. Statutory Liquidity Ratio (SLR):**

In addition to the CRR, the commercial banks have to maintain a certain percentage (5% in case of RBI) of their total demand and time deposits with the Central Bank in the form of liquid assets, i.e. in the form of cash, gold and in approved securities. This is known as Statutory Liquidity Requirement. This amount cannot be used by banks for lending activities. To control inflation, the SLR is increase and to control deflation, the SLR is decreased.

**c. Repo Rate and Reverse Repo Rate:**

**Repo Rate or Repurchase Rate** refers to the rate at which commercial banks borrow money from the Central Bank for a short period by selling their securities to the Central Bank with an agreement to repurchase them at a future date at pre-determined price. To control inflation, the repo rate is increased and to repo rate is decreased.

**Reverse Repo Rate** refers to the rate of interest at which the Central Bank borrows funds from other commercial banks for a short period.

The commercial banks deposit their short term excess funds with the Central Bank and earn interest on it. To control inflation, the Central Bank absorbs liquidity from the economy by increasing the reverse repo rate. To control deflation, the Central Bank injects liquidity in the economy by decreasing the reverse repo rate.

**2) Difficulties in Calculation of National Income:-**

**Ans:-** The conceptual / theoretical difficulties in measuring the national income are as

Follows:

**i. Transfer Payments:**

Though transfer payments such as old age pensions, scholarships, gifts, donations, etc. are considered as individual income, they are not earned income.

Individuals are entitled to receive such income from the government’s expenditure.

Thus, it becomes difficult to decide whether or not to include such earnings in the estimation of National income.

Therefore, these transfer payments are ignored from National income.

**ii. Income of foreign firms:**

From the view-point of IMF, income of a foreign firm should be included in the national income of the country, where the firm actually undertakes work of production. However, profits earned by the foreign firms are credited to the parent concern. (Home country)

**iii. Unpaid services:**

National income is always measured in money, but there are a number of goods and services which are difficult to be assessed in terms of money. For example, painting as a hobby by an individual, the bringing up if children by the mother, these services are not included in national income as remuneration is not given to them.

**iv. Illegal income:**

Income earned from illegal activities such as theft, smuggling, gambling, etc. are not included in national income as income.

However, such goods and services do have value and meet the needs of the consumers. Thus, to that extent national income is underestimated.

**v. Services of Government:**

Government provides a large number of public services such as defence, education, health, law and order, etc. Measuring the market value of such services is difficult, as the real value of these services is not known; hence it has become a convention to treat all such services as final consumption whereby their approximate value is included in national income.

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

Goods produced for self-consumption such as food grains, vegetables and other farm products do not enter in the market. But the value of such goods should be estimated at the rate of market price that have been marketed and should be included in national income.

**vii. Changing price levels:**

When the price level rises, the national income may show an increase even though the production may have decreased. On the other hand, when the price level falls, the national income may show a decrease even though there may be an increase in production. Thus, it becomes difficult to estimate the value of national income due to changes in price level.