SUGGESTED SOLUTION

SYJC

SUBJECT- ECONOMICS

Test Code – SYJ 6112

BRANCH - () (Date :)

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Answer : 1

(A) 1. **Price discrimination** appears in a monopoly market. **(01)**
2. **An Entrepreneur** is a leader of organization. **(01)**
3. **Growth theory** is the subject matter of Macro – Economics. **(01)**

(B) 1. Railway **- Public monopoly** **(01)**
2. Production – **Creating utility** **(01)**
3. Lord Keynes – **General Theory of Employment, Interest and Money** **(01)**

(C) **1. True** **(01)**
2. False **(01)**

Answer : 2

(A)

1. Selling cost :

(1) The cost that producers incur in order to differentiate their product as well as to increase the sale of their product is known as selling cost.

(2) Selling cost is an important unique feature of monopolistic competition.

(1.5)

2. Variable Capital

(1) Capital which is used in a production process only once is called variable capital. It is also called as working or circulating capital.

(2) The amount of this capital varies from time to time as per the level of production. It is comparatively less durable in nature.

(1.5)

3. General equilibrium

(1) General equilibrium is a type of analysis used by macroeconomics, which explains the equilibrium of the entire economy.

(2) General equilibrium assumes the functional relationship and interdependence between the economic variables by assuming 'everything depends on everything else.'

(1.5)

4. Equilibrium price

(1) The price at which the quantity demanded is equal to the quantity supplied is known as the equilibrium price.

(2) In perfect competition, the equilibrium price gets determined by the interaction of both market demand and market supply and it is accepted by the large number of buyers as well as sellers.

(1.5)

(B)

1. The scope of Macro – Economics is wide.

(1) Macroeconomics is a study of entire economy. It studies wide aggregate variable like national income, total employment, general price level, economic growth rate, total investment, etc. It also studies the interrelation among these aggregates, their determination and causes of fluctuations in them.

(2) The main objective of macroeconomics is to achieve macroeconomic goals such as full employment, price stability, economic growth and development, increase in national income, favourable balance of payment, etc.
Therefore, the scope of macroeconomics is wide.

(1.5)

2. **Labour cannot be stored.**

(1) Labourer and his labour (work) always go together. Hence labourer must be present himself where he is supposed to render his services.
(2) If a labourer is absent for a day, his labour for that day goes wasted. Thus, the amount of labour lost is lost forever, it cannot be used for future. Thus, labour cannot be stored.

(1.5)

3. **Price discrimination is possible under monopoly.**

(1) In a monopoly market there is a single seller or a single producer.
(2) Therefore, in monopoly, the buyers do not have any other substitute for the product produced by the monopolist.
(3) Under monopoly, the entry of other firm is strictly restricted by natural, economic, technological or legal barriers.
(4) Therefore, in monopoly, the monopolist can charge any price for his product. He can also charge different prices to different consumers for the same product. Therefore, price discrimination is possible under monopoly.

(1.5)

4. **A monopolist can control the supply of goods.**

(1) In a monopoly market there is a single seller or a single producer. Under monopoly he has no rivals and he faces no competition.
(2) Under monopoly, the entry of other firm is strictly restricted. Under monopoly, many entry barriers such as natural, economic, technological or legal do not allow competitors to enter the market.
(3) Therefore in monopoly the monopolist's individual supply itself becomes the market supply.
(4) Thus in monopoly the firm itself becomes the industry. Therefore, a monopolist can control the supply of goods.

(1.5)

ANSWER : 3
(A)

1. **Perfect competition and Pure competition**

Point	Perfect Competition	Pure Competition
Meaning	A market with features of large number of buyers, large number of sellers, free entry and exit, homogeneous product, perfect knowledge, single price, perfect mobility, no transport cost and no government intervention is known as perfect competition.	A market with features of large number of buyers, large number of sellers, free entry and exit, homogeneous product and single price is known as pure competition.
Concept	Perfect competition includes pure competition, so perfect competition is a broader concept.	Pure competition is part and parcel of perfect competition, so pure competition is a narrower concept.

(1.5)

2. Labour and entrepreneur

Point	Labour	entrepreneur
Meaning	According to Marshall, labour is "any exertion of mind or body undergone partly or wholly with view to earning some good other than the pleasure derived directly from the work."	According to F.H. Knight, an entrepreneur is a person who performs dual function of risk taking and control.
Reward	The reward for a labour is wages.	The reward for an entrepreneur is profit.

(1.5)

3. Perfect Competition and Monopolistic Competition

Point	Perfect Competition	Monopolistic Competition
Meaning	A market where a large number of sellers sell homogenous product at a single price is known as perfect competition.	A market where a fairly large number of sellers sell differentiated products at different prices is known as monopolistic competition.
Selling Cost	In perfect competition, a seller does not have to incur selling cost.	In monopolistic competition, a seller has to incur selling cost.

(1.5)

4. Slicing method and Lumping method

Point	Slicing method	Lumping method
Meaning	Slicing method is a method used by microeconomics, in which the entire economy is divided into small units for an intensive study.	Lumping method is a method used by macroeconomics, in which the entire economy is divided into big lumps (or sectors) for aggregative study.
Nature	Slicing method is used to study the micro quantities of economic variables.	Lumping method is used to study the macro quantities of economic variables.

(1.5)

(B) (1) Types of capital

The capital can be classified mainly into four groups :

(1) On the basis of ownership :
- (a) Private capital or Personal capital
- (b) Public capital or Social capital

(2) On the basis of durability :
- (a) Fixed Capital
- (b) Working capital or Circulating capital

(3) On the basis of mobility :
- (a) Sunk Capital
- (b) Floating Capital

(4) On the basis of nature
- (a) Real capital
- (b) Money capital

(1) On the basis of Ownership :

(a) Private of Personal Capital :
It is that capital which is owned by individual or institute that is group of individuals. e.g., a firm owned by individual, machinery etc.

(b) Public or Social Capital :
When capital is owned collectively by the society or the government, it is public or social capital. e.g., municipal school, municipal hospital, railways etc.

(2) On the basis of Durability :

(a) Fixed Capital :
It is that capital which is used in a production process again and again. It is durable in nature. e.g., machinery, factory building etc.

(b) Working or Circulating Capital :
It is that type of capital which is used in a production process only once. It is also known as variable capital. e.g. raw material, power fuel.

(3) On the basis of Mobility :

(a) Sunk Capital :
When the capital is used for specific purpose, it is sunk capital, e.g. Xerox machine, road rollers, railway lines. It cannot be used for any other purpose.

(b) Floating Capital :
It is that capital which has several alternative uses. e.g. electricity, coal, petrol, etc.

(4) On the basis of Nature :

(a) Real capital :
It is a physical capital used in the production process. e.g. machinery, raw material, equipment etc. It is used to produce other goods.

(b) Money Capital :
It is a capital in the form of money. Real capital like raw material, machinery can be purchased with the help of money capital.

(03)

(B) (2) Types of Monopoly
- (1) Natural monopoly
- (2) Public monopoly
- (3) Private monopoly
- (4) Legal monopoly
- (5) Simple monopoly
- (6) Discriminating monopoly
- (7) Voluntary monopoly

1. **Natural monopoly :** Natural monopoly emerges due to availability of natural resources. A particular type of natural resource is available, therefore that region enjoys monopoly in the product which requires that natural resource. Natural advantages like good location, confirm natural monopoly e.g., tea from Assam.

2. **Public monopoly :** Public monopoly refers to sole ownership of the supply of goods or services by the government. Such monopoly functions with the primary motive of providing maximum welfare to the society, thus, it is also known as welfare monopoly. It is not based on profit motive. e.g., Indian Railway.

3. **Private monopoly :** Private monopoly refers to sole ownership of the supply of goods or services by the private firm or individual. The main objective of private monopoly is profit maximization, for e.g. Tata group and Reliance group.

4. **Legal monopoly :** When monopoly is created by law, it is known as legal monopoly. Legal provisions like patents, trade marks, copy rights etc. give rise to legal monopolies e.g. some producers use a particular trademark for their product and they take legal permission from the government for that brand, thus law forbids the potential competitors to imitate the design, form and shape of product. If any firm tries to violate the rights action can be taken against them e.g. Parle – G etc.

5. **Simple monopoly:** It is that organization which charges a simple uniform price for all consumers. There is no price discrimination among the consumers.

6. **Discriminating monopoly :** When different prices are charged to different customers for the same product or services, it is known as price discrimination or discriminating monopoly. e.g., a doctor or a lawyer may charge different fees to the people.

7. **Voluntary monopoly :** When number of big business companies acquire monopoly through voluntary agreement, business firms join together through trusts, cartels, syndicates etc. They are called joint monopolies. Mergers and amalgamations may also lead to monopoly e.g., OPEC (Oil Producing and Exporting Countries). This is also known as Joint Monopoly.

(03)

ANSWER : 4

(1) Features of Perfect Competition :

1. **Large number of sellers/ sellers are price takers :** There are many potential sellers selling their commodity in the market. Their number is so large that a single seller cannot influence the market price because each seller sells a small fraction of total market supply. The price of the product is determined on the basis of market demand and market supply of the commodity which is accepted by the firms, thus seller is a price taker and not a price maker.
2. **Large number of buyers :** There are many buyers in the market. A single buyer cannot influence the price of the commodity because individual demand is a small fraction of total market demand.
3. **Free entry and exit :** New firms can enter and exit the market without any restrictions.
4. **Homogeneous product :** Firms produce and sell identical units of a given product, in perfectly competitive market, i.e., units of a commodity produced by each of them is uniform, in respect of size, shape, colour, quality, etc. Thus commodities have **perfect substitute** for each other.
5. **Single price :** In Perfect Competition all units of a commodity have uniform or a single price. It is determined by the forces of demand and supply.
6. **Perfect knowledge :** The buyers as well as sellers in the perfectly competitive market have perfect knowledge of the market conditions. Such knowledge will prevent the buyers from paying a higher price and a seller charging a different price than what is prevailing in the market.
7. **Perfect mobility of factors of production :** Under Perfect Competition the factors of production that is land, labour, capital and organization, enjoy complete freedom to move from one place to another and from one occupation to another. This implies optimum use of each factor input which can be available easily to the producers. Thus they will not face any problem in production of any commodity.

8. **No transport cost :** There is no transport cost under perfect competition. It is assumed that in perfect competition all the firms are close to each other. There will not be any difference in transport cost and price will remain uniform.
9. **Non Government Intervention :** Laissez faire policy prevails under perfect competition which mean there is no government intervention in respect of production, transportation, price determination of goods etc.

   After analyzing all the features of perfect competition, it is clear that perfect competition is ideal form of market, but it is very difficult to realize the above conditions practically. Thus, perfect competition is an imaginary concept.

(03)

(2) Features of labour :

1. **Inseparable from the body of the worker :** Labourer and his work always goes together. Hence, labourer must be present himself where he suppose to render his services.
2. **Human and active factor of production :** Labour being a human factor has feelings, likes and dislikes. Therefore, he cannot be treated as a machine. Other factors become productive only after the application of labour. So labour is the most active factor of production.
3. **Labour sells his labour and not himself :** As quoted by Alfred Marshall, the worker sells his labour, but he himself remains his own property." The worker does not sell himself. He sells his labour only.
4. **Restricted mobility :** According to Adam Smith, "Of all the luggages, the labour is the most difficult to be transported." Labour can move from one country to another country in the same way. Labour can change his business easily, but due to the family attachment, housing problems, climate etc., restricts geographic mobility of labour.
5. **Perishable factor :** Labour is perishable in nature. If a worker is absent for a day, the days labour has gone. The amount of labour lost is lost forever. Labour cannot be stored and used for future.
6. **Efficiency of labour :** Efficiency of labour differs from worker to worker. These differences are on account of a number of factors such as training, education, surrounding, culture, physical strength etc. Thus, labour is a heterogeneous factor of production, that's why labour is categorized under different classes such as skilled labour, semi – skilled labour and unskilled labour.
7. **Less bargaining power :** Individual worker has weak bargaining power. They are helpless to accept the low wages offered to them, rather than remaining unemployed. However, in modern days trade unions fights for the rights of the labour. Labour can form a trade union, and through trade union they can put forward their demands for better working conditions, higher wages etc.
8. **Inelastic Supply of labour :** Supply of labour is relatively inelastic during the short period of time this is because working population is between the age group i.e. 15 – 59. Supply of labour cannot be quickly increased or decreased to meet the changes in the demand for it.

(03)

(3) Scope and Subject Matter of Macro – Economics

Macro – Economics is a study of very large, economy wide aggregate variables like national income, total employment, general price level, economic growth rate, total investment, etc. It examines the inter - relation among these various aggregates, their determination and causes of fluctuations in them.

Macro – Economics is known as Theory of Income and Employment, because it explains the forces which determine the level of national incomes and employment in an economy and analyses the causes of fluctuations in them. Further, it also explains the determinants, which will bring about increase in national income, output and employment over a long period.

Subject Matter :

(i) Theory of Income and Employment : Macro – economics analysis explains what determines the level of national income and employment, and what causes fluctuations in the level of income, output and employment.

To understand how the level of income and employment is determined, we have to study the determinants of aggregate supply and aggregate demand and further we have to study consumption function and investment function. The analysis of consumption function and investment function are the important subjects to Macro – Economic Theory.

Theory of Business Cycles is also a part and parcel of the theory of income.
This theory also examines inter – relation between income and employment, and suggests policies to solve the problems related to these variables.

(ii) Theory of General Price level and Inflation : Macro – Economics analysis shows how the general level of prices is determined and further explains what causes fluctuations in it.

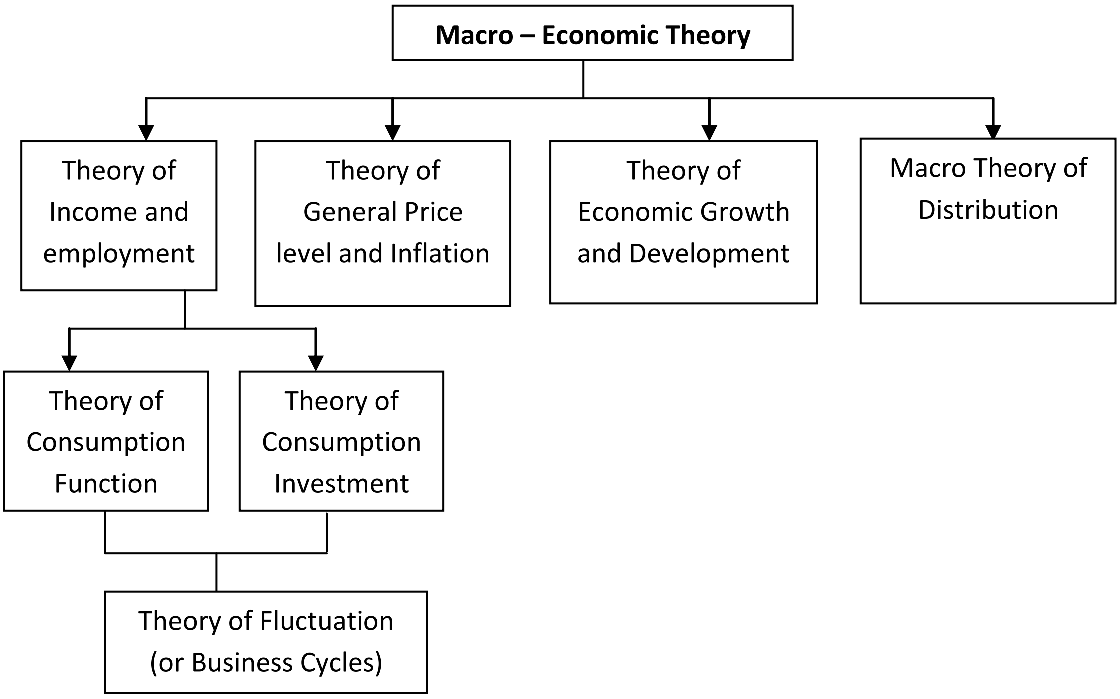
The study of general level of prices is significant of account of the problems created by inflation and depression. The problems of inflation and depression are the serious economic problems faced these days by most of the countries in the world. Theory of price level studies causes and effects of inflation and depression, and suggests economic policies to tackle these problems.

(iii) Theory of Growth and Development : Another important subject matter of Macro – economics is the theory of economic growth and development. It studies the causes of under development and poverty in poor countries and suggest strategies for accelerating growth and development in them. Growth Theory also deals with the problems of full utilization of increasing productive capacity in developed countries and explains how the higher rate of growth with stability, can be achieved in these countries.

(iv) Macro Theory of Distribution : Still another important subject matter of Macro – Economics is, to explain what determines the relative shares from the total national income of the various classes, especially a workers and capitalist. Ricardo and Karl Marx propounded theories, explaining the determination of relative shares of various social classes in the total national income. Afterwards, Kalecki and Kaldor also explained determination of relative shares of wages and profits in the national income.
Macro theory of distribution thus deals with the relative shares of rent, wages, interest and profits in the total national income.

In addition to this, study of public finance, international trade, monetary and fiscal policies are also a subject matter of Macro – Economics.

The subject matter of Macro – Economics can be summarized in the following chart:



(03)

(4) Features of monopoly :

(1) Single seller : In a monopoly market there is a single seller or a single producer. Under monopoly he has **no rivals** and he faces **no competition**.

(2) No close substitute : There are no close substitutes for the commodity sold in the market. Likewise other firms may not produce the same product. Hence, monopolists do not face any competition.

(3) Barriers to entry : Under monopoly the entry of other firm is strictly restricted. The seller has complete hold over the supply in the market. Such provision protects the monopoly powers.

(4) No distinction between firm and the industry : Under monopoly there is only one seller, there is no distinction between the firm and the industry. Thus, under monopoly the firm is an industry.

(5) Control over the market supply : The monopolist has complete hold over the market supply. He is a sole producer of the commodity. Therefore entry barriers such as natural, economic, technological or legal do not allow competitors to enter the market.

(6) Price maker : The firm under monopoly is price maker and not the price taker. He can charge any price for the commodity as he has complete control over the supply of the product.

(7) Profit maximization : The monopolist always wants to earn supernormal profit. His decision regarding the price and the level of output are guided by the profit maximization motive. Thus, sometimes at high price, he supplies the product as per the demand and sometimes he controls the supply of the product and sells the product at high prices.

(8) Price discrimination : This implies charging different prices for the same product to different buyers. The monopolist succeeds in increasing his profit by adopting the technique of price discrimination.

(03)

ANSWER : 5

(1) Perfect Competition means Monopolistic Competition.

No, I do not agree with this statement.

Reasons:

1. In perfect competition, there are a large number of sellers. In monopolistic competition there are fairly large number of sellers, but they are smaller than that in a perfectly competitive market.
2. In perfect competition, all sellers sell a homogeneous product. On the other hand, in monopolistic competition, all seller sell differentiated products.
3. In perfect competition selling cost is not incurred by the sellers. On the other hand, in monopolistic competition, all sellers incur selling cost to attract consumers.
4. In perfect competition there is a uniform price of a product. On the other hand, in monopolistic competition, the price of the differentiated product of every seller is different.

   Thus, perfect competition does not mean monopolistic competition. They are two different forms of the market.

(03)

(2) All risks are insurable.
No, I do not agree with this statement.

Reasons:

1. The loss due to some risks can be covered by the insurance companies. Such risks are called insurable risks.
2. The risk due to fire, risk due to flood, risk due to accident, etc. are insurable risks.
3. The loss due to some risks cannot be covered by the insurance companies. Such risks are called as non - insurable risks or uncertainties.
4. The risks due to the change in demand for the product, availability of close substitute for the product, change in government policy, war - like condition, etc. are non - insurable.

   Thus, all risks are not insurable.

(03)

(3) The scope of Macro – Economics is wide.
Yes, I agree with this statement.

Reasons:

1. Macroeconomics is the study of entire economy. Macroeconomics deals with the theory of determination of size of national income, level of employment, general price level, business cycles, public finance, international trade. etc.
2. Macroeconomics studies wide aggregate variables like national income, total employment, general price level, economic growth rate, total investment, etc. It also studies the interrelation among these aggregates.
3. Macroeconomics explains the forces that determine the level of national incomes and employment in an economy. It also analyses the causes of fluctuations in them. Therefore, macroeconomics is also known as the Theory of income and Employment.
4. The main objective of macroeconomics is to achieve macroeconomic goals such as full employment, price stability, economic growth and development, increase in national income, favourable balance of payment, etc.

   Therefore, the scope of macroeconomics is wide.

(03)

(4) A seller is price maker in monopoly.

Yes, I agree with this statement.

Reasons:

1. In a monopoly market there is a single seller or a single producer. Under monopoly he has no rivals and he faces no competition.
2. Under monopoly, the entry of other firm is strictly restricted. Under monopoly, many entry barriers such as natural, economic, technological or legal do not allow competitors to enter the market.
3. Therefore, in monopoly, the monopolist's individual supply itself becomes the market supply and the firm itself becomes the industry.
4. Therefore, in monopoly, the monopolist can set any price for his product. Similarly, he can also follow the technique of price discrimination for maximizing the profit.
   Therefore, a seller is price maker in monopoly.

(03)

ANSWER : 6

1. Definition of Monopolistic Competition :

- **According to Chamberlin,** "Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitute."

  "When markets, which have a large number of producers producing differentiated products which are close substitute to each other, engage in non price competition, we call it as a Monopolistic Competitive market."

- **Features of Monopolistic Competition :**

(1) Fairly large number of buyers : In this market, there are fairly large number of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.

(2) Fairly large number of sellers : The number of sellers in a monopolistic competition is large. It is still smaller than that in a perfectly competitive market. Since the number of sellers is large. Each seller has a limited control over supply. The seller has complete control over his brand. This control is possible because of patents, trade mark, copyrights etc., that the producer possesses. Thus, each producer enjoys an element of monopoly on one hand and on the other they have to face competition from sellers selling close substitute in the market.

(3) Product differentiation : The most important feature of Monopolistic Competition is product differentiation. Each product in this market is different from other product in some form or the other. The differences could be in its colour, shape, wrapper, after – sales services etc. Their products, though different, are close substitute to each other e.g., Hamam soap is close substitute to Lux soap. Producers also adopt various techniques such as discounts, gifts, advertisements etc. to attract the consumers. This is known as product differentiation. In this market producers compete with each other on the basis of product differentiation and not on the price differentiation. Therefore, Monopolistic Competition is also known as **non – price competition.**

(4) Close Substitute : In Monopolistic Competition goods have close substitute to each other. For e.g. Goldspot is close substitute to Limca.

(5) Selling cost : The uniqueness of this market lies in the fact that a difference is made between cost of production and selling cost. Product differentiation leads to emergence of selling cost. Thus, the cost that producer have to incur, in order to differentiate their product is known as selling cost. Hence, medium such as television, radio, newspaper, magazine, exhibitions, incentives and salaries of sales representatives etc., are used by firms to increase the sales. The price of the product includes cost of production as well as selling cost.

(6) Free entry and exit : Under Monopolistic Competition, there is freedom of entry and exit i.e., new firms are free to enter the market, if there is super normal profit. Similarly, they can leave the market, if they find it difficult to survive.

(7) Demand curve of the firm : Due to product differentiation and availability of close substitute, demand curve of the seller is highly price elastic and downward slopping.

It means a slight change in price of the product will bring about a change in quantity demanded.

(8) Concept of group : Chamberlin introduced the concept of group as the substitute for industry concept. The firm producing identical product, are clubbed together in one industry under perfect competition. However, in the Monopolistic Competition the products are differentiated. All the firms producing close substitutes are taken together in a 'group concept'. For example – group of firms producing medicines, cement etc.

(08)

2. Features of Macro – Economics

(1) Study of aggregates : Macro – Economics deals with the study of nations economy as a whole. It is a study of very large, economy wide aggregates such as national output or income, total employment, aggregate demand, aggregate supply, total investment, total consumption, general price level etc.

(2) Lumping method : Macro analysis deals with the behavior of aggregates i.e. total values of economic variables related to whole economy. It uses method of lumping to deal with macro variables, such as aggregate demand, aggregate supply, national output etc.

(3) A General equilibrium analysis : Macro – Economics analysis is based on General Equilibrium Analysis. This analysis deals with entire economy in the context of equilibrium. It studies the behavior of number of economic variables at a time and takes into consideration their functional relationship and interdependence in doing so.

This approach assumes "Everything depends on everything else."

Since this approach deals with whole economy, it has to explain how aggregate supply and aggregate demand are brought into equality, and how equilibrium between these forces determine, not only price level, but also level of income and employment. This whole analysis involves the study of number of variables and their interactions.

(4) Income analysis : Macro – Economics is also known as the theory of income and employment or simply income analysis. Because, basis subject matter of Macro – Economic analysis is to explain what determines the level of national income and employment and what causes fluctuations in them. Further, it explains the growth of national income over a long period of time.

(5) Policy – oriented : Macro – Economics, according to Keynes' is a policy – oriented science. Macro – Economics analysis helps in formulating suitable economic policies to promote economic growth, to generate employment, to control inflation, to pull the economy out of depression etc.

(6) **Dynamic science :** Macro – Economics studies the changes in aggregate economic variables and analyses dynamic nature of the economy. It enables us to study progress of an economy over a period of time.

(7) **Based on interdependence :** Macro analysis takes accounts of interdependence between aggregate economic variables, such as income, output, employment, investment, price level etc. E.g., it explains how change in level of investment will finally change the level of national income, output and employment and eventually the level of economic growth.

(08)