S.Y.J.C. – ECONOMICS

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CHAPTER 1 – INTRODUCTON TO MICRO ECONOMICS

Q.1. Do you agree with the following statements? Give reasons.

1. Micro Economics studies behavior of individual economic unit.

Ans. Yes, I agree with this statement.

"Micro economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities".

-K. E. Boulding

a) Study of micro variables :

According to **K. E. Boulding** micro economics is the study of individual units. It is concerned with the study of particular firms, particular households, particular commodities and particular industries. It focuses attention on the study of the behaviour of micro variables. Thus it studies only part of the economy and not the whole.

b) Microscopic approach :

According to **Mourice Dobb** micro economics takes a microscopic view of the economy to study how it works, i.e. it studies the function of the economy in terms of the behaviour of the individual consumers, producers, firms, markets and industries.

c) Slicing method :

Micro approach is known as the **slicing method** since it splits the whole economy into small units for the purpose of intensive study. In the words of **Prof. Mc Connell, *'In micro economics we examine the trees, not the forest'.***

d) Study the equilibrium of a single variable :

Micro economics studies a small part of the economy through **partial equilibrium.** When an equilibrium is related to the behaviour of a single variable, it is called partial equilibrium. For e.g. equilibrium of a consumer, equilibrium of an individual firm, equilibrium of an industry or equilibrium of a particular sector are called partial equilibrium.

e) Price determination of a particular product :

Micro economics shows interest in finding out the output and **employment of a particular firm or industry.** It analyses how the price of a particular product is determined.

f) Study of consumer behaviour :

Micro economics is concerned with the study of how **an individual consumer allocates his given income among many goods and services** in a manner so as to maximise his total satisfaction. It shows how total output and employment are distributed between individual firms and industries in the economy.

2. Micro Economics is known as income theory.

Ans: No. I disagree

Micro Economic Theory

- Product pricing
  - Theory of demand
  - Theory of Production cost
- Factor of pricing (Theory of Distribution)
  - Wages
  - Rent
  - Interest
  - Profit

1. Micro economics is mainly concerned with price determination.

Micro economics assumes full employment as given. Therefore its main concern is to study the allocation of resources and price determination. It explains how the resources are allocated and how the prices of millions of goods and services are determined. Since micro economics is concerned with product pricing and factor pricing, it is also known as price theory.

Macro economics is concerned with study of national income, fluctuations in national income and factors determining national income. Therefore macro economics is known as income theory.

2. Product pricing.

The theory of product pricing is part of micro analysis. Product pricing explains how the relative prices of various goods such as cotton, sugar, car, vegetables, rice, wheat etc are determined.

3. Factor pricing.

Factor pricing which is otherwise known as theory of distribution explains how the prices of various factors are determined. It includes economic theories explaining determination of rewards for factors like land, labour, capital and organisation in the form of rent, wages, interest and profit.

4. Role of market forces.

Micro economics explains that interaction of market forces like demand and supply results in the determination of equilibrium price. It tells us how equilibrium price is determined in product market as well as factor market.

5. Prices under competition.

Micro economics also deals with different competitive market and price determination in such markets.

Micro economics

- Perfect competition
- Monopoly
- Imperfect competition
  - (a) Monopolistic competition
  - (b) Duopoly
  - (c) Oligopoly

It explains the types of market on the basis of degree of competition prevailing in such market. It explains the price determination of firms and industries under different market conditions.

Q.4 Define or explain the following concepts

1. Economic Efficiency

Ans. Theory of economic welfare is concerned with efficiency in allocation of resources. Efficiency in allocation is achieved when people's satisfaction is maximized. Economic efficiency is summarized as followed:

Sr.No.	Type	Meaning
I	Efficiency in production	Producing maximum possible goods and services from available resources
II	Efficiency in consumption	Distribution of produced goods and services among the people for their consumption such that the total satisfaction of the society is maximum
III	Efficiency in direction of production i.e. overall economic efficiency	Producing those goods which are most desired by people.

2. Individual economic unit

Ans. Micro Economics Is a study of micro variables. It studies Individual economic units like household, firms, consumer, etc. The economists pick up a small unit and undertake detailed observations. In short, it is an examination of tree and not the forest

3. Resource Allocation

Resources *are* scare and the government has to allocate such resources properly for maximum public welfare. Micro economic analysis helps the government in allocation of scare resources in the economy so as to achieve maximum social welfare. Resource allocation determines:

i) What goods to produce.
II) Who will produce and in what manner.
iii) How the goods produced are to be priced.
iv) How to distribute the goods

It also examines whether allocation of resources is efficient which will help in economic welfare of the society.

Q.5 Give reasons or explain the following statements

1. Micro-Economics is also known as price theory

Ans:

1. The scope of Micro-Economics includes theory of product pricing and theory of factor pricing
2. The theory of product pricing explains how relative prices of cotton, cloth, wheat, rice, sugar, car and many other commodities are determined.
3. The theory of factor pricing explains how the rewards of rent, wages, interest and profits are determined for factors of production like land, labour, capital and entrepreneur.
4. Micro-Economics helps In determining product prices as well as factor prices
5. Hence, it is also known as price theory.

2. Micro - economics studies individual economic unit.

Ans:

1. Micro - economics is derived from the Greek work "Mikros" which means 'small.
2. Hence it is a branch or approach of Economics which deals with the small or individual units or parts of an economy like a consumer, a particular family, a firm etc.
3. According to Prof. K.E. Bouldlng, "Micro Economics is the study of particular firms, particular households, Individual prices, wages, incomes, individual Industries and particular commodities".
4. In simple terms, It is examination of the 'tree' and not the ‘forest'.
5. Micro Economics involves study or examination of the behaviour of these individual units with regards to allocation of limited resources.

3. Micro-Economics analyses partial equilibrium.

Ans:

1. According to Prof. K.E. Boulding, "Micro Economics is the study of particular firms, particular households, individual prices, wages, incomes, individual Industries and particular commodities".
2. Micro Economics studies the equilibrium position of the firm, Industry, market using partial equilibrium analysis.
3. It neglects the interdependence between economic variables.
4. Therefore, when one variable is being analyzed, all the other variables are considered to be constant.
5. Micro Economics is said to be based on "ceteris paribus" assumptions i.e. other things being constant or equal.

4. Micro Economic theories are based on certain assumptions

Ans:

1. According to Prof. K.E. Boulding, "Micro Economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities".
2. All Micro Economics laws like Law of Demand, Law of DMU, Law of Supply etc begin with the statement "all other things being equal".
3. Apart from this basic assumption, Micro Economics further assumes no government intervention, full employment perfect competition etc.
4. Thus, Micro Economic theories are said to be based on certain assumptions.

5. Marginalism principle is used as tool of analysis in Micro Economics

Ans:

1. Marginal means the difference or change that is brought about by one additional unit.
2. For e.g.: Marginal utility means the utility derived on consumption of an additional unit of a commodity.
3. According to Alfred Marhsall, all consumers and producers tend to take their decisions at margin.
4. The marginalism principle forms the basis of various economic laws like the Law of Diminishing Marginal Utility, Law of Equi-Marginal Utility etc.
5. Therefore, marginalism principle is used as a tool of analysis in Micro Economics.

CHAPTER 2 – CONSUMER'S BEHAVIOUR

Q. 1. (A) Distinguish between:

1. Utility And Usefulness

Utility	Usefulness
1. Meaning Utility means the capacity of a commodity to satisfy the human wants. For Example, pen has the capacity to satisfy the want of writing. This want satisfying power is called utility	Usefulness is the amount of satisfaction actually realized from the consumption of a commodity.
2. Identification Mere inspection of the commodity enables the consumer to identify Utility.	Only the application of the commodity shows how useful it is
3. Nature All goods which yield utility may not be necessarily useful.	Goods like opium gives utility drug addicts. But it is harmful to health.
4. Subjective Utility of a commodity differs From person to person	Usefulness of a commodity generally remains the same for The every person
5. Moral or Ethical Utility is ethically neutral	Usefulness has ethical Significance

2. Utility and Satisfaction

Utility	Satisfaction
1. Meaning Utility means the capacity of the human wants. For example, pen has the capacity to satisfy the want of writing. This want satisfying power is called utility.	Satisfaction is the amount of commodity to satisfy pleasure actually realized from the consumption of a commodity.
2. Realization Utility can be realized before consumption.	Satisfaction of a commodity can be realized only after the consumption of a commodity.
3. Nature Utility is the 'expected satisfaction' of a consumer from the consumption a commodity.	Satisfaction is the 'realized satisfaction'. It may be more or less than the consumer's expectation.
4. Source-Effect Utility is the source.	Satisfaction is the effect.

3. Total Utility and Marginal utility

Total Utility	Marginal Utility
1. Meaning Total utility means the sum total by consuming one more unit of utilities derived by the consumer from all the units of a commodity.	Marginal utility refers to the net addition made to the total utility by consuming one more unit.
2. Maximum satisfaction Total utility remains maximum maximum satisfaction.	Marginal utility remains zero at the time of at the time of maximum satisfaction.
3. Positive/ negative Though TU declines after maximum, it remains positive.	MU diminishes sharply and turns negative later.
4. Formula Symbolically TUn = MU1 + MU2 + ...+ MUn Items -TU of (N-1) items.	Symbolically. MU of 'N' th unit=TU of 'N'

4. Place utility and Time utility

Place utility	Time utility
1.Meaning When utility is added by changing the place of utilization, called the place utility.	When utility is added by time of utilization, it is it is called time utilization.
2.When When surplus grains like wheat utility and rice are transported to places Where it is scarce, it results summer in place utility.	Umbrella provides more during rainy seasons. Ice –cream adds more utility during than winter.
3.Determinant The amount of utility is determined by the choice of place.	The amount of utility depends upon the time chosen
4.**Example:** Transport services create place utiliy Mumbai - Kashmir	Where housing services create time utility. Rainy - summer

5. Form utility and Service utility

Form Utility	Service Utility
1. Meaning When the utility is added by changing the form or structure of a commodity, called form utility	Utility derived from the personal services of doctors, lawyers, engineers, teacher is termed as it is service utility.
2. How? Change in size or structure adds merits to the commodity. This leads to creation of utility, when a carpenter converts wooden logs into furniture, its form utility increases.	A service satisfies a particular purpose and thus adds utility. Doctor's service cures a patient.
3. Determinant Amount of utility determined by type of change.	Amount of utility is determined the by the type of service.
4. Tangible Form utility is tangible one can See it happening	Service utility is intangible one can only experience it.
5. Creation When the matter is converted in Product it creates formality	Specific service provision creates service utility.

(B) State with reason whether you agree or disagree:

1. There are no real expectations to the law of diminishing Marginal Utility.

Ans: Yes. I agree with this statement.

There are certain cases which are considered as exception to the law. The law is not applicable in such cases. However they are not genuine cases.

1. Hobbies :

It is argued that in case of certain hobbies like collection stamps, old coins etc., every additional unit gives more utility to the person. But it is not a genuine case of exception as it violates the assumption of homogeneity, i.e, the stamps or coins collected are not identical units.

2. Drunkards:

It is said that a drunkard gets more satisfaction when he drinks more. But it cannot be treated as an exception because it violates the assumption of rationality. The behaviour of a drunkard is irrational or abnormal. Even a drunkard's marginal utility diminishes and eventually reaches negative. No drunkard drinks indefinitely.

3. **Misers :**
It is argued that a miser enjoys more utility when he acquires more wealth. However, it should be carefully noted that the miser is only accumulating more and more money or wealth and not spending the same. As his behaviour is an act of accumulation, it is unfit to call it as an exception to the law.

4. **Reading :**
It is said that a scholar derives more and more utility by reading more and more books. Here also we must note a point that the scholar's reading is not restricted to a particular book. He refers different books from different fields by different authors and violates the assumption of homogeneity. Hence it is not an exception.

5. **Power:**
When a person enjoys more and more power, the utility from it increases and never decreases. More the power he gets, he is only interested to enjoy still more of it.
Power gets the possessor addicted to more and more power. Thus the law of diminishing marginal utility is not applicable. In such a case the assumption of rationality is violated.

6. **Music :**
People who are fond of music enjoys more and more pleasure when they hear more and more music. The law is not applicable.
However the assumptions of homogeneity is violated as the person listens to different types of music.

7. **Money :**
It is said that when a person gets more money, he gets more utility. However the law is applicable in this case too.
First of all, it is our common experience that the poor people get greater utility of money while the rich enjoys less. We may notice in a vegetable market that a rich lady may purchase the vegetables without arguing for a lower price, because, for the rich lady, a reduction of 50 or 25 paise per kilo will not yield much satisfaction. But a poor lady, while purchasing vegetables, will have to fight with the seller to reduce the price, because, for her, even a reduction of 50 or 25 paise per kilo adds greater utility. This point proves the fact that the marginal utility of money is not constant. Though it diminishes, it can never become zero or negative.

We can conclude that all the above cases appear to be exception since they violate assumptions. Actually there is no real exception. The law is universally applicable.

2. When MU is zero, TU diminishes.

Ans. Statement of the law.

"The additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has". - Marshall

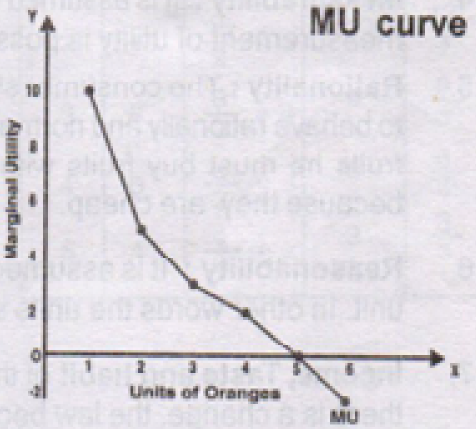
Illustration of the law.

The law explains that when a consumer consumes more and more of a commodity, the marginal utility derived from each additional unit diminishes. To explain the law, let us have a hypothetical utility schedule and diagram. Let us suppose a consumer consumes oranges. The following schedule indicates the total utility and marginal utility derived by the consumer.

Utility Schedule

Units Consumed	TU	MU
1	10	10
2	15	5
3	18	3
4	20	2
5	20	0
6	18	-2

MU curve



As the consumer increases consumption, the extra satisfaction (marginal utility) that he gains by the consumption of each successive unit goes on diminishing.

The total utility goes on increasing up to 4th unit. However it increases at a diminishing rate as MU of every additional unit declines.

The first unit of orange provides him the highest amount of satisfaction (10 units). At this point the marginal utility and the total utility are same. As long as total utility increases, the marginal utility diminishes upto 4th unit.

When the consumer reaches fifth unit, he enjoys maximum satisfaction (20 units). At this point, the total utility remains maximum and constant. The marginal utility is zero when the total utility is maximum i.e. there is complete satisfaction of a given want when the marginal utility is zero. This stage is called the point of satiety.

Any further consumption leads to negative marginal utility. When the consumer goes for the sixth unit, the marginal utility is - 2. This is called disutility. Consequently total utility starts declining and it is found to be 18 units.

The law is also diagrammatically represented.
In the diagram, the MU curve which is called the marginal utility curve, slopes downward from left to right. The 'downward slope' indicates the diminishing marginal utility when the consumer goes for more and more units.
The intersection between MU curve and X axis indicates the maximum satisfaction This is otherwise called the point of satiety.
After showing the point of satiety, the MU curve enters the negative quadrant indicating negative utility.

Assumptions of the (Law of diminishing marginal utility.)

1. **Continuity :** All the units of the commodity should be consumed in quick succession. There should be no long time interval between the consumption of one unit and the another. If there is long time interval between the consumption of successive units, the MU will not diminish.

2. **Uniformity or Homogeneity :** All the units consumed should be identical, i.e. the size, shape, colour, quality of all units should be the same.

3. **Single use.** It is assumed that the consumer will consume only that commodity which satisfies a single want.

4. **Measurability:** It is assumed that the utility can be measured cardinally, (i.e.) Numerical measurement of utility is possible.

5. **Rationality:** The consumer should possess the quality of rationality, i.e. he is assumed to behave rationally and normally at the time of analysing the law If he wants to consume fruits he must buy fruits with reasonable quality. He should not select rotten fruits because they are cheap.
6. **Reasonability:** It is assumed that the units consumed should be of normal standard unit. In other words the units should neither be too big nor too small.
7. **Income, Taste and habit** of the consumer should remain the same throughout. When there is a change, the law becomes invalid.
8. **Constancy of marginal utility of money.** It assumed that marginal utility of each unit of money remains the same.

3. Law of Diminishing Marginal Utility is important in practice.

Ans: Yes. I agree with statement.

Importance of law of diminishing marginal utility.

1. **Useful to the government.**

   The principle of socialism adopted by government to reduce inequality is based on marginal utility of money.

   Government imposes land reform measures to take away surplus land from rich and to redistribute the same to poor. The loss of wealth by rich have little impact as their marginal utility of wealth is not so great. When the wealth is transferred to poor, they enjoy greater welfare as the marginal utility is more. This helps in reducing inequality of wealth.

2. **Useful to the consumer.**

   The law of diminishing marginal utility guides consumer as how to spend his income effectively so as to ensure maximum satisfaction. Thus it helps consumer to plan his expenditure in a rational manner.

3. **Useful to the monopolist.**

   The law is helpful to monopolists to apply the policy of price discrimination. He charges different prices for the same product to different customers on the basis of marginal utility.

4. **Useful to explain paradox of value.**

   Modern economists use the concept of marginal utility to explain the difference between value in use and value in exchange. According to them total utility (value in use) of a commodity does not determine the price of a commodity. It is marginal utility (value in exchange) which determines the price of that commodity. Diamond is scarce and its relative marginal utility is high. Therefore the price of diamond is higher, though its total utility is lower than water.

   In case of water, it is available in abundant quantity and the relative marginal utility is very low. Therefore its price is very low or zero, though its total utility is higher than diamond.

5. **Useful to the finance minister.**

   "Fife taxation policy of the modern government is based on the concept of marginal utility. The government redistributes income from rich to poor through progressive taxation. Since rich have low marginal utility for money, it is desirable to tax them. The proceeds from taxes are redistributed to poor through welfare programmes. As poor have high marginal utility for money, such expenditure would provide them great welfare.

   The gain in utility enjoyed by the poor person is greater than the loss in utility suffered by rich. Thus the general community welfare increases.

6. **Useful to the households.**
The Law of Diminishing Marginal Utility guides households how to plan of their expenditure. It helps them to avoid waste expenditure. They restrict consumption upto certain point beyond which marginal utility declines.
Therefore they stop purchase at a point where marginal utility is equal to price.

7. **Useful to the producer.**
It guides the producer to determine price and sales policy. It helps him taking important decisions to maximise his profit.

8. **Useful to explain the downward sloping demand curve.**
Law of diminishing marginal utility explains why the demand curve slopes downward. The law states that the consumer buys more at a lower price and less at a higher price to adjust equilibrium between price and marginal utility.

9. **Basis of economic laws.**
Some of the very important laws and principles are based on the law of diminishing marginal utility. The law of demand, the law of equi-marginal utility, the concept of consumer surplus have been directly derived from the law of diminishing marginal utility.

Q.3 Give reasons or explain

1. Utility Is a subjective concept

Ans:
1. "Subjectivity" means changing from one person to another.
2. A product may give utility to one person but the same product may not give as much
utility to another person.
3. The utility of a commodity differs from person to person on account of differences in tastes, preference, habits, surroundings, age, occupation etc.
4. Therefore, utility is a subjective concept.

2. Utility and happiness are different

Ans:
1. Utility refers to the want satisfying power of a commodity
2. A commodity may have utility but it is not necessary that its consumption will give pleasure or happiness to the consumer.
3. For e.g.: A textbook has utility for a student but he may not derive pleasure from reading it.

Thus, utility and happiness are different.

3. Utility is ethically neutral

Ans:
1. Utility refers to the want satisfying power of a commodity
2. The concept of utility does not consider whether the commodity satisfies a good want or a bad want.
3. A commodity can have utility even if it satisfies a bad or unethical want.
4. For e.q: A gun has utility for a soldier as well as a terrorist.
5. Therefore, it is said that utility is ethically neutral.

4. Utility is a psychological term

Ans:
1. Utility refers to the want satisfying power of a commodity
2. This want satisfying power is internal to a person. It changes for one person to another.
3. There is no standard utility for a particular product.
4. A person analyses to what extent a product can satisfy his want and then decides if the product has utility for him.
5. Thus, utility is a psychological term.

5. Utility depends on urgency of want (September 2008)

Ans.
1. Utility refers to the want satisfying power of a commodity.
2. If the want is intense and the commodity satisfies the want, then the utility of the commodity is higher.
3. When the intensity of the want reduces, the utility of the commodity diminishes.
4. For e.g:
   i. The utility of notes is higher when exams are closer as the want for notes is intense.
   ii. The utility of the fan is high when the weather is warm outside as the want for the fan's breeze is high.
5. Thus, the utility depends on the urgency of the want.

CHAPTER 3 (A) – DEMAND ANALYSIS

Q.1. Give reasons or explain the following.

1. All desires are not demand.

Ans. **i. Desire is only an idea.**

Mere desire cannot become demand unless it becomes effective demand. A desire is simply an idea. It becomes effective demand when it is backed by ability and willingness of a person to pay.

ii. Ability to pay.

The desire of a beggar to become the owner of a five star hotel will remain a mere desire for he lacks ability (purchasing power) to buy the same.

iii. Willingness to pay.

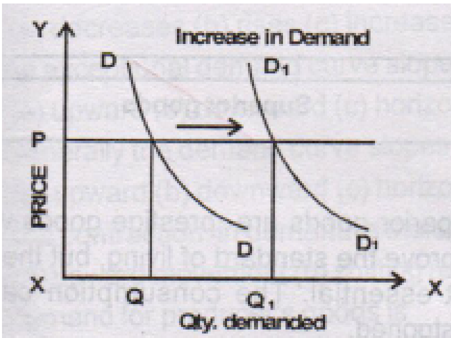
The desire of a miser to buy a Maruti car may remain a desire as he is not willing to spend money.

iv. Availability of the product.

More than desire, what is important is the availability of the commodity. There can be no demand in the absence of availability, even if the consumer is willing and able to buy.

2. Increase in demand indicates a right ward shift in the demand curve.

Ans. Increase in demand means change in demand due to factors other than price. When demand rises or falls due to change in price, all such points can be shown in the same demand curve. When demand changes due to other factors like income or population, such a change can be shown in a separate demand curve. In such cases, the demand curve shifts to the right.



In the above diagram the original demand curve is DD. The point 'a' in the demand curve indicates that the consumer demand OQ quantity at OP price. However, when the income of the consumer increases, demand increases to 0Q1 quantity. It is not because of fall in price. It is due to change in other factors like income. The increase in income pushes up purchasing power and enables the consumer to buy more at the same price. This change is indicated at point 'b' in a separate demand curve D1D1. Thus when there is increase in demand, it is indicated by shifting of demand curve to the right.

3. Demand curve slope downward from left to right.

Ans. **i. Law of equi marginal utility.**

A consumer equates marginal utility with price. When the price falls the consumer buys more of a commodity so as to reduce the marginal utility and to equate it with price.

ii. Income effect.

When the price falls, the real income i.e. purchasing power of the consumer rises. It enables him to purchase more. This is called the income effect.

iii. Substitution effect.

In case of substitutes like tea and coffee, if the price of tea falls, it becomes relatively cheaper and the consumer purchases more of it. This is called the substitution effect. It will also attract new consumers from coffee.

iv. Different uses.

When the price of a commodity falls, it may be used for different purposes and the demand rises.

Thus there is inverse relationship between price and quantity demanded and therefore the demand curve slopes downward.

4. Demand for factors of production derived is derived demand.

Ans. **i. Derived from direct demand.**

All factors of production enjoy derived demand. The demand for factors of production like and, labour, capital and organisation are derived from direct demand. For e.g. demand for book is direct demand. But the demand for printing machine to print the book is derived remand.

ii. Interrelated demand.

When demand for one commodity derived from another commodity, it is called derived demand. For example, when there is increase in demand for food, the demand for factor land increases.

iii. Related to parent good.

Derived demand is related to parent good. When there is demand for cotton shirts, the demand for raw cotton (capital) increases. Here cotton is parent good. Cotton shirt is dependent good.

iv. Derived demand is indirect demand.

Factors of production cannot satisfy wants directly. They help to satisfy want indirectly. Indirect demand is derived demand.

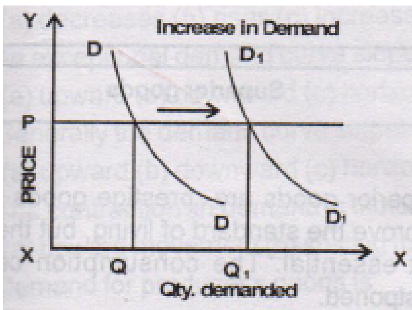
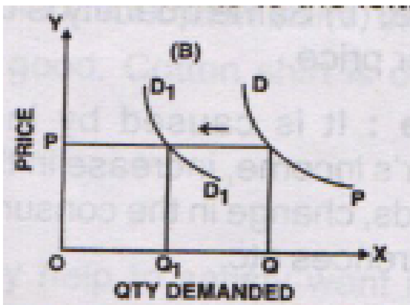
For example, when students demand books, the demand for printing machine increases. The printing machine helps to print books and satisfy the demand for books. Here the C demand for machine (capital good) is derived demand.

Q. 2. Distinguish between

Ans. 1. Desire and Demand

Desire	Demand
1. Meaning	
Desire refers to simply an idea or wish ability to have something.	Demand refers to desire backed by and willingness to pay.
2. Consumption	
A desire may or may not result in consumption.	Demand means consumption which provides utility.
3. Purchasing Power	
A desire is not necessarily associated with purchasing power. Any one, rich, miser or beggar can have a desire. All desires are not demand	Demand in possible only when a person enjoys sufficient purchasing power which he willing to forgo Demand has to be desired.

2. Increase in demand and Decease in demand

Increase in demand	Decease in demand
1. Meaning	
It is a situation when the demand of a commodity rises due to factors other than price, (a) More is demanded at a given price, (b) Same quantity is demanded at a higher price.	It is a situation when the demand of a commodity falls due to factors other than price, (a) Less is demanded at a given price, (b) Same quantity is demanded at a lower price.
2. Cause	
It is caused by increase in consumer's income, increase in the price of other goods, change in the consumer's taste and preferences etc.	It is caused by decrease in consumer's income, decrease in the price of other goods, change in the consumer's taste and preferences etc.
3. Movement/Shifting	
The increase in demand is indicated by shifting of demand curve to the right.	The demand curve shifts to the left.
Diagram	
	

3. **Individual demand and Market demand**

Individual demand	Market demand
1. Meaning	
Individual demand refers to the demand by an individual at a given price during a given period of time.	A market demand is the aggregate demand of a commodity demanded by all consumers in the market at a given price during a given period of time

Schedule.

Individual demand	
Price (₹)	Qty. demanded (Units)
2	50
4	40
6	30
8	20
10	10

Price of Mangoes per kg (₹)	Individual Demand Schedules			Market Schedule (A + B+C)
	Consumer A	Consumer B	Consumer C	
50	1	2	3	5
40	2	4	6	12
30	3	6	10	19
20	4	8	15	27
10	5	10	20	35

Individual demand	Market demand
2. Narrow/wider concept	
Individual demand is part of market demand. It is a narrow concept.	Market demand includes individual demand. It is a wider concept.
3. Importance	
Individual demand is not useful for framing business policy. It has no practical significance.sales targets	Market demand is useful for sellers to frame business policy and plan their sales targets

4. **Inferiors goods and Superior goods**

Inferiors goods	Superior goods
1.Meaning.	
Inferior goods are those goods for which income effect is negative (i.e.) Higher the income lower the consumption, lower the income higher the consumption.	Superior goods are prestige goods which improve the standard of living, but they are not essential. The consumption can be postponed.
2.Price.	
Inferior goods are low priced goods which are generally consumed by poor e.g. Bajra, Maize	Superior goods are highly priced goods which are generally consumed by rich for the sake of snob appeal, e.g. Diamond & cars.
3.Type.	
All giffen goods are inferior goods.	All status goods are superior goods.

Q.3. Define or explain the following concepts

1. Demand

Demand is a desire backed by ability to pay and willingness to spend. A desire or wish can become demand only when the person desiring the product has the ability to pay for the product and also willingness to pay.

DEMAND = DESIRE + ABILITY TO PAY + WILLINGNESS TO SPEND

2. Increase in demand

Increase in demand is a form of change in demand. When more quantity is demanded than before at the same price, it is called as increase in demand. Increase in demand takes place due to favourable changes in factors other than price like fashion, income, taxation policy, advertisement, tastes and habits etc. In this case, price remains constant and it has no effect on the demand for the commodity.

3. Derived Demand

Goods that are needed by the producers or manufacturers in order to produce finished goods for consumers are said to have derived demand. In short, goods that satisfy a want indirectly are said to have indirect or derived demand. For e.g.: Demand for land, labour, capital, etc. are the examples of derived demand. All factors of productions have derived demand.

4. Direct Demand

The demand for a commodity which satisfies want of the consumer directly is called as direct demand.

For e.g.: Demand for food, clothes and house are examples of direct demand. All finished or consumption goods have direct demand.

5. Demand Schedule

A demand schedule is a tabular representation of goods demanded by individual buyer(s) at different prices during a given period of time. A demand schedule can either be an individual demand schedule or a market demand schedule.

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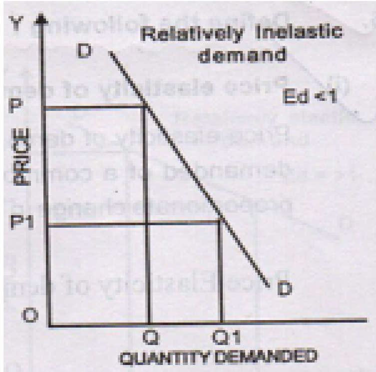
CHAPTER 3 (B) – ELASTICITY OF DEMAND

Q. 1. Give reasons or explain the following statements .

1. Demand for necessaries is inelastic.

Ans. i. Necessary goods have inelastic demand.

Generally, all necessary goods have inelastic demand. Medicine, salt and agricultural goods are necessary goods. So their demand is inelastic, i.e. whatever may be the price, the consumer will continue to demand more or less the same quantity of the commodity.



ii. Commodities which have a specific use will have inelastic demand.

Salt, food and medicine and agricultural goods can be used only for a specific use and therefore their demand is inelastic.

iii. Consumption cannot be postponed.

Necessary goods are important for survival. People cannot postpone consumption of such goods. Therefore the demand for such goods is inelastic.

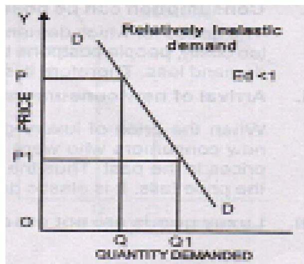
iv. A lower percentage of change in price leads to higher percentage of change.

In case of necessary goods like medicine,
salt and agricultural goods (food), a higher proportionate change in price leads to a lower proportionate change in demand, (i.e.) change in demand is smaller than change in price. Thus they have inelastic demand.

2. Demand for habitual goods is inelastic

Ans. Demand for conventional necessaries (habitual goods) is inelastic.

(i) Consumption continue irrespective of level of price. Conventional necessaries are the goods which are regarded essential due to habits or customs. In case of alcohol, a person who is addicted will continue to consume even if the price rises or falls.



(ii) Habitual goods are consumed whether useful or harmful.

Goods like opium, cigarettes, coffee, tobacco are not necessary but harmful. Still people go after them as they are habituated. People are willing to sacrifice wealth in order to consume such conventional necessaries. Thus their demand is inelastics.

(iii) Willing to spend on habitual goods irrespective of the level of price.

People celebrate parties in big halls or 5 star hotels even though hiring them becomes costlier every year. They are ready to spend money for such costly parties because it is habitual.

(iv) **A higher percentage of a change in price leads to lower percentage change in demand.**
In case conventional essentials a higher proportionate change in price results in lower proportionate change in demand. Thus the demand is inelastic in nature.

3. **Concept of Elasticity of Demand helps trade union leaders.**

Ans. The concept of elasticity of demand is useful to trade union.

i. **Knowledge of elasticity of demand is useful in wage determination.**
Trade union uses the knowledge of elasticity of demand to claim higher rewards. Elasticity of demand influences the decisions of wage determination.

ii. **Inelastic labour demands higher wages.**
If the demand for particular type of labour is inelastic, it is easy for trade union to claim higher wages. The management has no option but to employ them irrespective of wages.

iii. **Strikes are effective when the demand for labour is inelastic.**
In case of inelastic demand, even a minor threat to go for strike will work effectively. The management response quickly and raises the wage immediately.

iv. **Highly skilled labour enjoys inelastic demand.**
In case of highly skilled labour like technicians the supply is limited while demand is inelastic. The employer is ready to pay the highest possible wage

4. **Demand for commodity having multiple uses has elastic demand**

Ans:
1. A commodity having multiple uses means a commodity which can be used for various purposes.
2. Electricity is an example of commodity having multiple uses and is need for watching TV, washing machine, computer etc.
3. If the price of elasticity falls, then its demand will rise because it can be used to operate various other gadgets and equipments.
4. Thus, demand for commodity having multiple uses has elastic demand.

5. **Demand for goods having snob appeal has inelastic demand**

Ans:
1. Good having snob appeal refer to the goods that are purchased by rich people as a status symbol or show off. Fancy cars, high end watches, diamond jewellery are examples of such goods.
2. For rich people, possessing the product is more important than its price. Just because the price of such goods increases, they will not reduce or postpone their demand. Infact, they may buy more at higher prices.
3. When there is no change in demand for a commodity inspite of a change in price, it is called as perfectly inelastic demand.
4. Since, the demand for goods having snob appeal does not change with a change in price, they have inelastic demand.

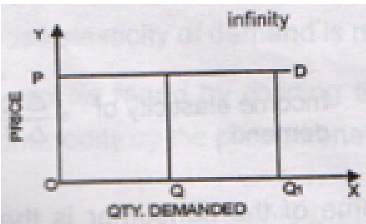
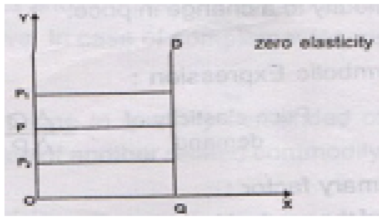
6. The demand for medicines is inelastic

Ans:
1. When there is no change in demand inspite of a change in price, it is called as perfectly inelastic demand.
2. In short, a change in price has no effect on quantity demand.
3. Medicines are required to save life of a person. A person cannot postpone or reduce his consumption because he will not be able to survive if he does that.
4. A change in price generally does not have any effect on demand of medicines.
5. Therefore, demand for medicines is inelastic.

Q. 2. Distinguish between.

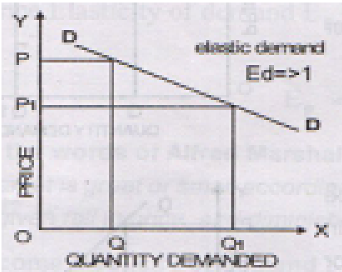
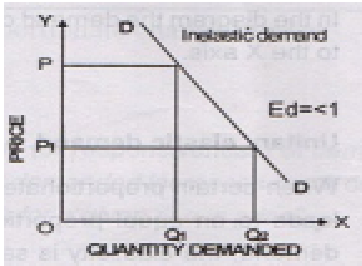
1. Perfectly elastic demand and perfectly inelastic demand

Ans.

<table>
<tr><th>Perfectly elastic demand</th><th>Perfectly inelastic demand</th></tr>
<tr><td colspan="2">1. Meaning</td></tr>
<tr><td>It refers to a situation when a small or no change in price brings unlimited amount of change in demand.</td><td>It refers to a situation when a significant change in price fails to bring any change in quantity demanded</td></tr>
<tr><td colspan="2">2. Zero / infinity</td></tr>
<tr><td>The elasticity in this case is measured to be infinity.</td><td>The elasticity in this case is measured to be zero.</td></tr>
<tr><td colspan="2">3. Diagram</td></tr>
<tr><td>
</td><td>
</td></tr>
<tr><td>4. The demand curve (PD) remains a horizontal straight line which is parallel to X axis.</td><td>4. The demand curve (QD) remains a vertical straight line which is parallel to y axis.</td></tr>
</table>

2. Relatively elastic demand and Relatively inelastic demand

Ans.

Elastic Demand (More elastic) **(Relatively Elastic Demand)**	Inelastic Demand (Less elastic) **(Relatively inelastic demand)**
1. Meaning :	
Elastic demand refers to a situation When a lower proportionate change in price leads to a higher proportionate change in demand. Generally luxury goods like TV, Car etc. have elastic demand.	Inelastic demand refers to a situation when a higher proportionate change in price leads to lower proportionate change in demand. Generally necessary goods like food and medicine have inelastic demand
2. Flatter/Steeper Curve	
	
3. More than one/less than one	
In case of elastic demand, elasticity is said to be more than one	In case of inelastic demand, the elasticity is said to be less than One.
4. Elastic demand is indicated by demand curve DD which is flatter.	4. Inelastic demand is indicated by demand curve D D which is steeper

CHAPTER 4 - PRODUCER'S BEHAVIOUR

Q.1. Give reasons or Explain.

1. Supply is directly related to price.

Ans. 1. Direct relationship.

The law of supply explains the direct relationship between price and supply (i.e.) higher the price higher the supply.

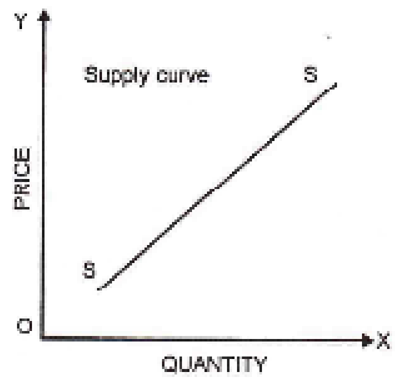
2. Positive relationship.

It states that generally a seller prefers to supply more when the price increases and contracts supply when the price decreases. Thus price and supply have positive relationship.

3. Upward sloping supply curve. The positive relationship can be explained with the help of supply schedule and supply curve.

Market supply schedule

Price of X (Rs.)	Supply (Units)
2	200
4	400
6	600
8	800
10	1000



The above schedule shows that price and quantity supplied are directly relate
d. The supply curve slopes upward indicating the positive relationship between price and supply.

2. Stock can exceed supply.

Ans. 1. Supply is part of stock.

Stock is the total quantity produced by seller. The seller may not be willing to supply the entire stock for sales. Thus a part of stock which the seller is ready to offer for sales becomes supply. Therefore stock can exceed supply.

2. Stock is the source of supply.

Stock determines the supply. Supply comes out of stock.

Stock being the source of supply, there is no question of supply exceeding stock.

3. Reservation price determines supply.

The seller determines the supply on the basis of reservation price.

When the market price is higher than reservation price the supply may reach maximum. Even under such a situation the supply can only be equal to stock. It cannot be more than stock.

4. Supply may be equal but never exceed.

In case of perishable goods, the supply is restricted to the existing demand. Here the stock is equal to supply. But supply can never be more than stock.

3. The supply of agriculture commodity is relatively elastic.

Ans. **1. Lack of storage facilities.**

Agricultural goods are generally perishable or semi perishable. They can not be stored for a long time. Sellers like small traders can not build cold storage facility. Therefore supply remains limited.

2. Perishable in nature.

In case of perishable goods like flowers, fruits and vegetables, the sellers do not want to take the risk. If they are not sold, they get rotten and bring heavy losses. Therefore the sellers supply limited quantity. They cannot increase supply even price rises. Therefore supply is inelastic.

3. Seasonal supply.

Agricultural goods cannot be cultivated throughout the year. The supply is seasonal in nature and therefore it is in limited. Even if price rises, supply cannot be increased immediately.

4. Local market.

Due to poor infrastructure like transport, communication and storage, the market for agricultural goods is confined to local area. Therefore sellers do not take the risk of expanding supply.

4. With a slight change in the price, if supply varies in a greater proportion then supply is said to be relatively elastic.

Ans. **1. Smaller change in price leads to greater change in supply.**

(i) In case of durable goods a smaller proportionate change in price brings about a greater proportionate change in supply, it is relatively elastic supply.

2. Change scale production.

In case of durable goods like equipment's, machinery, furniture, cars, chairs sellers produce such goods in large scale and keep sufficient stock.

3. **Quick response.**

   Durable goods can be produced in advance and stored for future. Therefore the sellers are in a position to respond quickly wherever there is a change in price.

4. **Ready to face risks.**

   Unlike perishable goods, durable goods never get rotten and bring losses to sellers. If not sold seller can store the goods and supply them later. Therefore they take the risk to produce more and have a large stock.

Q.2. Distinguish between the following.

1. Stock and Supply

Ans.

Stock	Supply
1. Meaning Stock refers to the total quantity available as reserves. It is the potential supply of the producer. For example, if a producer produces 1000 pens in a day, the total production 1000 pens becomes the stock.	Supply refers to that part of stock which is offered for sale at particular time at different prices. For example, if the producer prefers to sell only 400 pens out of 1000 available as reserves, the supply is 400 pens.
2. Nature Stock is a reservoir. It is the source of supply.	Supply is a flow. It is part of stock.
3. Inter relationship Stock can exceed supply.	Supply cannot exceed stock. In some cases it may be equal to supply
4. Dependence Stock depends upon production.	Supply depends upon stock.

2. Individual Supply and Market Supply

Ans.

Individual Supply	Market Supply
1. Meaning	
Individual supply refers to the different amounts of a commodity offered various sale by an individual firm at different prices.	Market supply refers to the total of quantities of the commodities offered for sale by all the firms at different prices.
2. Narrow / wider concept	
Individual supply is part of market supply. It is a narrow concept.	Market supply includes individual supply. It is a wider concept.
3. Importance	
Individual supply is not useful for Framing business policy. It has no practical significance.	Market supply is useful for sellers to frame business policy and plan their production targets.

4. Schedule

Individual Supply Schedule

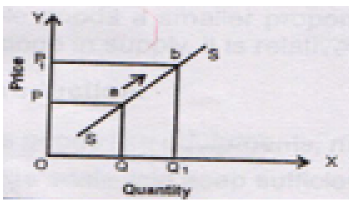
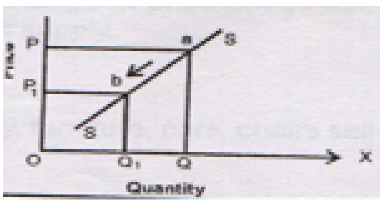
Price per Kg (Rs)	Quantity supplied Kg (Rs)
10	100
15	150
20	200
25	250

Market Supply schedule

Price per kg(₹)	Individual supply Schedules			Market Supply (x + y + z)
	Supply by x	Supply by y	Supply by z	
2	5	10	15	30
4	10	15	20	45
6	15	20	25	60
8	20	25	30	75
10	25	30	40	95

3. Extension and Contraction of Supply.

Ans.

Extension in Supply	Contraction in Supply.
1. Meaning	
Extension refers to a rise in supply only due to a rise in price. remain the same.	Contraction refers to a fall in supply Other things only due to a fall in price. Other things remain the same.
2. Schedule	
Price (₹) / **Qty. supplied** 5 / 100 10 / 200	**Price (₹)** / **Qty. supplied** 10 / 200 5 / 100
3. Diagram	
When price rises to 10 quantity supplied rises to 100. 	When price falls to 5, the supply contracts to 100. 
4. Movement	
Extension in supply is indicated by upward movement in supply curve.	Contraction in supply is indicated by downward movement of supply curve.

4. Relatively Elastic Supply and Relatively Inelastic Supply.

Ans.

Relatively Elastic Supply	Relatively Inelastic Supply
1. Meaning	
When a smaller proportionate change in price brings about a larger proportional change in quantity supply, it is called relatively elastic supply.	When a larger proportionate change in price brings about a smaller proportionate change in supply, it is called relatively inelastic supply.
2. Measurement of Es.	
In case of elastic supply, the elasticity is said to be more than one(>1).	In case of inelastic supply, the elasticity is said to be less than
3. Supply curve	
In case of elastic supply, the supply curve appears to be flatter.	In case of relatively inelastic supply, the supply curve appears to be steeper.

5. Average Revenue and Average Cost

Ans.

Average Revenue	Average Cost
1. Meanings	
Average revenue refers to revenue per unit of output.	Average cost refers to cost per unit of output.
2. Calculation	
Average revenue is estimated by dividing total revenue by total output sold.	Average cost can be estimated by dividing total cost by total output
3. Formula	
$\mathrm{AR}\frac{\text{Total Revenue}}{\text{output}}$	$\mathrm{AC}\frac{\text{Total cost (TC)}}{\text{output (O)}}$
4. Indicator	
Average revenue indicates the price per unit of the firm's product at each level of output.	Average cost indicates the level of profit. a. When there is normal profit AC=Price. b. When there is abnormal profit AC<Price. c. When there is subnormal profit (loss)AC >price.

Q.3. Do you agree or disagree with the following statement? Give reasons.

1. There is no difference between stock and supply.

Ans. No. I disagree with the statement.

1. Stock is the source of supply.

Stock is the total volume of a commodity which can be brought into market for sale at a short notice. No seller would prefer to sell the entire stock at the same time. Depending upon the market price, he may like to change the amount of supply. He may release a part of stock for sale and the rest is kept as stock. It is more true in case of durable goods.

2. Supply is the amount offered out of stock.

Supply means the quantity which is offered for sales out of stock. Thus supply means the quantity which is actually brought into the market for sales. If the market price is high, larger quantities of durable goods are sold. If price is less, the sellers offer less quantity for sales.

3. Supply is equal to stock in case of perishable goods.

In case of perishable goods like fruits, vegetables and fish, the supply would be equal to stock. The reason is that there is a risk of unsold good getting rotten. It would bring losses to the sellers. Therefore the stock of perishable goods is equal to supply.

However, modern marketing make use of cold storage facility to store even perishable goods for sometime and sell later.

4. Extent of market.

In case of perishable goods like fruit and vegetables the demand is mostly restricted to local area. Therefore the demand for such goods is more or less same. Demand being the same, seller never takes risk by keeping more stock than what is demanded.

5. Stock and supply depends upon Reservation price.

Reservation price is the minimum price below which seller will refuse to sell any quantity of a product. In case of durable goods the reservation price is relatively higher. He will supply goods only when the market price is equal to reservation price.

Higher the market price, lesser the stock and vice versa.

Thus there is always a difference between stock and supply of durable goods.

However in case of perishable goods, the seller keeps relatively lower price and dispose off all the stock.

6. **Infrastructure.**

If the producer is able to build a large network cold storage, he can keep stock of perishable goods. A strong system of transport also helps quick movement of goods

From one place to another place. In the absence of better infrastructure even durable

goods cannot be stored and transported.

7. **Seasonal demand.**

Some goods enjoy seasonal demand. During festival seasons, the demand increases and the difference between stock and supply would be least. During slack seasons, the demand declines and the difference between stock and supply would widen. In case of crackers the demand is seasonal. During Diwali the production and stock would be maximum. Once the season is over the production declines and the stock would be minimum.

CHAPTER 5 – FORMS OF MARKET AND PRICE DETERMINATION UNDER PERFECT COMPETITION

Q.1. Distinguish between the following.

1. Perfect competition and Pure competition.

Ans. Perfect competition	**Pure competition.**
Meaning.	
(1) Perfect competition is much wider than pure competition. In addition to the said three conditions, it requires: (a) Perfect mobility of the factors of Production (b) Perfect knowledge about the market (c) Absence of transport cost (d) No government restrictions	Pure competition is said to exist in a market having the following features: (a) There are large number of buyers and sellers (b) Homogeneous product (c) Free entry and exit'
Concept.	
Perfect competition is a more exclusive concept involving many assumptions.	Pure Competition is much simpler and less exclusive concept than perfect competition.

2. Perfect competition and Monopoly

Perfect Competition	**Monopoly**
Meaning.	
Perfect competition is a market where large number of sellers selling identical units of the same commodity at uniform price.	Monopoly is a market where there is only one seller controlling the entire supply.
Entry and exit.	
Under perfect competition there is free entry and exit of all the firms.	Under monopoly the entry of new firms is strictly prohibited.
Price determination.	
No individual seller can influence the price under perfect competition.	Under monopoly, the seller can determine the price
He is a price taker	He is a price taker

3. Natural monopoly and social monopoly

Meaning. When a seller controls the ownership of natural resources. It is called natural monopoly.	When the government controls the sole ownership and supply of goods or services it is called public monopoly.
Objective. Profit motive is the objective of natural monopoly.	Public welfare is the objective of public monopoly.
Example. Control on minerals or oil is an example of natural monopoly. Rhodesia's virtual monopoly in the supply of chrome is a case of natural monopoly.	Railways run by government of India is an example of public monopoly.

4. Natural monopoly and legal monopoly

Meaning. When a seller controls the ownership of natural resources. It is called natural monopoly.	Monopoly that is legally recognized by the government is called legal monopoly.
Objective. Profit motive is the objective of natural monopoly.	Safety and security are the main objectives.
Example. Control on minerals or oil is an example of natural monopoly. Rhodesia's virtual monopoly in the supply of chrome is a case of natural monopoly.	The patent rights enjoyed by inventors, copyrights of authors and composers are the examples of legal monopoly.

5. **Perfect competition and Monopolistic competition**

Perfect competition	Monopolistic competition
1. Meaning. Perfect competition is a market where large number of sellers selling identical units of the same commodity at uniform price. Every seller has large number of substitutes for his commodity.	Monopolistic competition is a market where few sellers sell same but differentiated product.
2. Product differentiation. There is no product differentiation by the sellers.	Product differentiation is the vital feature of monopolistic competition.
3. Price determination. Price is determined by industry. Firms and buyers are price takers and not price makers.	Sellers are price makers. Different buyers pay different prices for the same product.
4. Selling cost: Under Perfect Competition Seller Need not incur any selling cost	Under monopolistic competition the seller has to spenton selling, Ad & Publicity.

Q. 2. State with reasons whether you agree or disagree with the following statements.

1. **Perfect competition means Monopolistic Competition.**

Ans. No I disagree with this statement.

Perfect competition and monopolistic competition are not one and the same. They are different from each other.

1. **Meaning :**

Perfect competition is a market where large number of sellers selling identical units of the same commodity. The number of sellers and buyers are so large that no single firm or buyer can influence the price. The demand and supply forces operate freely without interference of any external forces. Monopolistic competition is the market where there are many sellers selling same but differentiated products to a large number of buyers. It is the mixture of the features of monopoly and perfect competition.

2. **Homogeneous &heterogeneous products.**

   In a perfectly competitive market, the product is homogeneous in character. There is no product differentiation by the sellers. All the units sold are identical.
   Product differentiation is the vital feature of monopolistic competition. Products are differentiated on the basis of brand name, shape, color, design, quantity and quality.

3. **Price takers and price makers.**
   Under perfect competition, sellers are price takers and not price makers. All buyers follow uniform price.
   Sellers are price makers under monopolistic competition. Different buyers pay different prices for the same product.

4. **Idealistic and realistic markets.**
   Perfect competition is an ideal market which hardly exists.
   Monopolistic competition is the real market which exists practically.
   e.g. Firms manufacturing Tooth Pastes.TV. Sets, Shoes, represent monopolistic competition.

5. **Relationship with monopoly.**
   Perfect competition and monopoly are contradictory to each other.
   Monopolistic competition is the blending of perfect competition and monopoly.

6. **Average revenue and marginal revenue :**
   Average Revenue and Marginal Revenue curves are one and the same and parallel under perfect competition, i.e. AR = MR.
   AR and MR are different and downward sloping under monopolistic competition. MR remains below AR. MR<AR.

7. **Demand curve.**
   In case of perfect competition demand curve remains a horizontal straight line parallel to x axis. In case of monopolistic completion, the demand curve is downward sloping.

8. **Selling cost**. Selling cost is inevitable under monopolistic competition. In the face of tough completion, the sellers of monopolistic competition spend a significant portion of their revenue towards advertisement, publicity, salesmanship etc.
   There is no selling cost under perfect competition.

9. **Perfect knowledge of market.**
   In perfect competition market both buyers and sellers have perfect knowledge regarding price structure and availability of substitute.
   In monopolistic competition there are various products possessing same features. There are different brands of the same product which are sold in different prices. It is difficult to have perfect knowledge. In fact sellers adopt campaigns and advertisements to spread knowledge of price structure.

Q.3. Give Reasons or Explain

1. Single price prevails In perfect competition

Ans:

1. Perfect competition can be defined as "a market structure where there are large number of sellers selling homogenous goods to large number of buyers at a uniform price without any type of government Intervention."
2. There are a large number of buyers and sellers In perfect competition. Therefore, neither the buyer nor the seller in a position to influence the market price. Both the buyer and seller are price takers in perfect competition.
3. The sellers sell homogenous goods i.e. exactly the same product. Therefore, if one seller charges a higher price, the buyer can go to another seller.
4. Further, transport cost is constant for all the firms. Hence, the cost or profit of any firm Is not affected because
5. In a perfect competition, market price Is determined by market forces of demand and supply.
6. Due to all the above reasons, a single price prevails in perfect competition.

2. Price discrimination is possible under monopoly.

Ans:

1. Monopoly refers to the form of a market where there supply of the commodity is under the control of a single seller or producer.
2. The product which is sold by the monopolist has no*close substitute. There Is no other seller producing or se close substitute to the commodity.
3. Since, the monopolist has complete control on the supply and there Is no close substitute, he himself fixes the : He is the price maker.
4. The buyers have to buy the product from the monopolist as they have no other option.
5. Thus, the monopolist can charge different prices from different buyers. He may charge higher price from and lower price from the poor.

3. Selling cost is incurred by a firm in monopolistic competition (Textbook + Sept'08)

Ans:

1. There are a fairly large number of sellers In a monopolistic competitive market.
2. The products sold by the firms in monopolistic competition are not close substitutes.
3. Each product has certain differentiating quality.
4. Therefore, in order to enlighten and attract the customer about such different qualities/features, the firms have to incur selling cost. It helps to increase sales of the product.
5. Selling cost includes advertising the product over TV, radio, in newspaper, incentives to sales staff, free gifts, etc

4. A monopolist can control the supply of goods

Ans:

1. Monopoly refers to the form of a market where there supply of the commodity is under the control of a single seller or producer
2. The monopolist is the sole producer or seller of the commodity.
3. The product that is sold by the monopolist is unique to him and there is no close substitute available.
4. He sets various entry barriers and does not allow any other seller to enter the market.
5. Thus, a monopolist can control the supply of goods.

5. Sellers and buyers are price takers in perfect competition

Ans:

1. Perfect competition can be defined as "a market structure where there are large numbers of sellers selling homogenous goods to large number of buyers at a uniform price without any type of government intervention."
2. In perfect competition, the price of a commodity is determined by the market forces of demand and supply.
3. There are a large number of buyers and sellers in perfect competition. Therefore, neither the buyer nor the seller is in a position to influence the market price.
4. The seller and buyer have to accept the equilibrium price i.e. the price at which demand and supply are equal.
5. Hence, both the buyer and seller are price takers in perfect competition.

CHAPTER 6 – FACTORS OF PRODUCTION

Q.1. Distinguish between the following.

1. Land and Capital.

Ans.

Land	Capital
Meaning.	
Land refers to all resources available above and under the surface of earth. It is a free gift of nature. It includes air, rains, mountain, river, forest, minerals, oil etc.	Capital goods refer to man-made on, assets which are used for further production. They are otherwise known as produced means of production Machinery, building, raw material etc. are capital goods.
Reward	
Land receives rent as its reward	Capital receives interest as the reward
Durability	
Land is durable and a permanent factor.	Though durable, capital turns Useless after certain period of time

2. Fixed capital and variable capital

Ans.

Fixed capital	Variable capital
Meaning.	
Fixed capital is that capital which is invested on the fixed assets like machinery, building, tools, factory plant etc. It can be used again and again for a long period.	Circulating capital or variable capital is that capital which is invested by the firm on raw material, electricity, fuel etc. It is used once for all.
Variable	
Fixed capital remains constant in the short run irrespective of changes in the output. However, in the long run, fixed capital is variable.	Variable capital changes with change in the output.
When	
Fixed capital arises even when there is no production.	Variable capital is required only when the production is on.
FC remains constant in short run	Variable Capital varies with the level of Production.

3. Insurable risk and non-insurable risk

Ans.

	Insurable risk	Non-insurable risk
1.	Risks which are for seen by the entrepreneur are called insurable risks. E.g.: Fire, theft, accident, flood etc.	Risks which cannot be foreseen by entrepreneur are called non-insurable risks. E.g.: Competition, arrival of substitutes, changes in demand etc.
2.	Insurable risks are covered by the insurance companies.	Non insurable risks cannot be covered by insurance companies.
3.	Insurable risks have no uncertainty since they are covered.	Non-insurable risks bring uncertainty and provide profit.

4. Labour and entrepreneur.

Ans.

Labour	Entrepreneur
Meaning.	
Labour means any mental or physical work which is undertaken with the purpose of earning economic reward. E.g. Coolie (physical labour) and doctor (mental labour).	Organizer is one who collects and combines different factors together. He coordinates the activities of different factors in the process of production.
Reward	
The factor labour receives wages as the reward.	The factor organiser receives profit as the reward for his entrepreneurial services.
Risk	
The labour does not face risk and uncertainty bearing.	The organizer faces risks and uncertainty in business.

Q. 2. State with reasons whether you agree or disagree with the following statements.

1. Profit is a reward for bearing risk only.

Ans. No. I disagree with this statement.

i. All types of risk do not bring profit.

According to Prof. Knight all types of risk will not add profit. It is non-insurable and unforeseen risk which bring profit. He divides risks into two types.

ii. Insurable risks which can be insured bring no profit.

These are risks which can be foreseen by the entrepreneur. Such a risk can be covered by the insurance companies. Such risks include fire, flood, accident etc. In the event of such risks happening, compensation is paid by insurance companies. Therefore in reality they are not risk. Profit does not occur due to such risks.

iii. Non-Insurable risks bring profit.

These are risks which can not be foreseen by the entrepreneur. It is unforseeable risk which brings uncertainty. Profit occurs due to such uncertainty. These risks can not be covered by insurance companies.

Such risks include competition, availability of substitutes, government intervention, changes in demand due to business cycle, changes in technology etc.

iv. It is not risk but uncertainty which leads to profit.

Profit occurs to the entrepreneur on account of uncertainty. It is not risk but the degree of uncertainty associated with the risk that brings profit. Unforeseen risks like changes in demand, changes in government policy, arrival of substitutes bring uncertainty.

Such risks are non-insurable in nature and add profit.

v. Risk and profit are not always directly related.

There is no direct relationship between risk and profit. It is not necessary that high degree of risk means high rate of profit. In fact profit is determined by several factors other than risk. The other functions of the entrepreneur such as initiating, co-ordinating and bargaining etc also influence profit.

2. Labour is a perishable factor of production.

Ans. Yes. I agree with this statement.

i. Labour once lost is lost forever.

Labour is perishable in nature. It is not possible to store labour for future use. For e.g. If a teacher is absent for one day, that day's labour is gone. May be the teacher come next day and deliver the lecture. But that can not compensate today's labour which is lost. Labour, once lost, is lost forever. It can not be recovered.

ii. Labourcan not be stored.

Labour is perishable and can not be stored. There is no technology by which labour can be stored for future use. It can not be stored and used in future.

iii. Labour and labourercan not be separated.

Capital can be separated from capitalist and stored. But labourcan not be separated from labourer. The labourer must be present when labour is being used.

iv. Labour is an intangible asset.

Labour is a kind of talent or skill which is invisible. Whether it is physical labour or mental labour, it has no shape or structure. Labour is not the person but the personal talent of that person. Therefore it can not be stored.

v. Labour is a qualitative aspect.

Labour is a quality. Qualities like intelligence, beauty can not be separated and stored in a place. Similarly labour is a human quality which can not be separated and stored. It can not be seen. Only its effects can be realised.

3. **All risks are insurable.**

Ans. No I disagree with this statement.

i. **Risks which are foreseen are insurable.**

Risks which are foreseen by the entrepreneur are called insurable risks. E.g. fire, theft, accident, flood etc. The businessman is in a position to predict the arrival of such risks. These risks are covered by insurance companies.

ii. **Risks which are not foreseen are non-insurable risks.**

Risks which cannot be foreseen by entrepreneur are called non-insurable risks.

E.g. competition, arrival of substitutes. Such risks are beyond the control of businessman. No estimation is possible. Therefore they are not covered by insurance companies.

iii. **Insurable risks are not risks at all.**

Since the risks in case of theft and accidents are covered by insurance companies and fully compensated, they are not treated as risks.

iv. **Non insurable risks have the element of uncertainty.**

Non insurable risks have greater degree of uncertainty. Such risks cannot be predicted but to be faced by the entrepreneurs. The entrepreneur is rewarded with huge profit when-he faces such risks.

4. **Supply of land is fixed.**

Ans. Yes, I agree with this statement.

i. **Free gift of nature.**

The land is a free gift to man given by nature. It is not made out of human efforts. The supply always remains fixed for the entire society as a whole.

ii. **Indestructible in nature.**

There is no technique by which land can be increased or decreased. Even if a bomb is dropped, it can only destroy the structure of land. But the land remains the same. The debris ultimately become land.

iii. **Permanent factor.**

Land is permanent factor. Unlike labour, it is durable and used again and again. It will not get out of existence.

iv. **Quantity remains unchanged**.

Quality of land differs from place to place. But the quantity of land remains unchanged for the entire universe. Thus supply of land remains fixed.

Q.6 Give reasons or explain

1. The entrepreneur Is called as the leader of the organization

Ans:

1. An entrepreneur is a person who co-ordinates the factors of production and directs the entire process of production.
2. He invests his capital and bears all the risks.
3. He ensures that resources are utilized properly and wastage is avoided.
4. He takes firm decisions regarding the business quickly to gain competitive advantage.
5. He introduces innovation in the products and business strategies.
6. Thus, he is called as the leader of the organization.

2. Labour cannot be stored

Ans.

1. Labour is a human factor of production.
2. It is a living and most active factor of production.
3. Labour refers to work or effort directed towards producing goods or rendering services. This work or effort may be physical or intellectual.
4. If a labourer is absent for a day, then that day's labour is lost forever. That day and time will not come back.

5.. Therefore, labour is perishable and it cannot be stored.

3. The supply of land is inelastic

Ans.

1. Land is the most basic and primary factor of production.
2. Land includes all those natural resources which are found:
   i) On the surface of earth like soil, river, mountains, forest, agricultural land.
   ii) Below the surface of earth like coal, gold, silver, oil etc.
   iii) Above the surface of earth like air, sunlight, heat etc.
3. Land is a <u>natural resource and a free gift of nature.</u>
4. By applying labour & capital, the utility of land can be increased but the area or number of plots cannot be increased.
5. Therefore, supply of land is perfectly inelastic as there cannot be an increase in the total supply of land.

4. Raw material is considered as variable capital

Ans.

1. Variable capital refers to the capital that can be used only once in the production process.
2. Variable capital is used for or absorbed in the production of the finished output.
3. Raw material also can be used only once in the production process. Once it used, it is not available for reuse.
4. Further, raw material is used for or absorbed in the production of finished output.
5. Therefore, raw material is considered as variable capital.

CHAPTER 7 – INTRODUCTON TO MACRO ECONOMICS

Q. 1. Give reasons or explain the following statements

1. Macro-Economics is the study of aggregates.

Ans. 1. Macro economics studies macro variables.

The term macro is derived from Greek word 'makro' meaning large.

Macro economics is concerned with the study of macro variables like aggregate demand, aggregate supply, total savings, total investment, national income etc. Such variables represent the whole economy.

Therefore it is a study of aggregates covering whole economy.

2. Objectives of macro economics are broad based.

The main objectives of macro economics are achievement of price stability, full employment, economic growth etc.

There are broad based issues dealing with the economy as a whole.

3. Macro Economics presents over all picture of the economy.

Macro economy presents the overall picture of the economy. It takes into account the entire economy into consideration. In otherwords it studies the forest and not the trees. Thus it gives a birds eye view of the economy.

4. Macro economics provides remedies for solving national problems.

Macro economic theory provides solution to macro issues at the national level. It provides remedial policies for facing problems such as unemployment, fluctuation in national income, depression etc. Thus it is an analysis of aggregates.

2. Macro – Economics is also known as income and employment theory.

Ans. 1. Analysis of national income is the subject matter of macro economics.

The subject matter of macro economic analysis explains the factors determining level of national income and employment.

2. Explains causes of fluctuation in national income.

It also analyses the causes of fluctuations in the level of national income and employment.

It explains why the level of national income and employment is low during depression. It also suggests measures how to come out of depression.

3. Explain equilibrium level of national income.

Keynes' book titled "A General Theory of Employment Interest and Money" which is based on macro approach explains how equilibrium level of national income and output is determined by aggregate demand and aggregate supply.

4. National income and employment.

Keynes explains the relationship between national output and employment. Higher the level of employment higher the national income. He further states that employment and national income can be increased by raising effective demand.

3. The scope of Macro - Economics is wide.

Ans. 1. Macro economics studies macro variables.

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Macro economics is concerned with the study of macro variables like aggregate demand, aggregate supply, total savings, total investment, national income etc. Such variables represent the whole economy.

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4. Macro economics provides remedies for solving national problems.

Macro economic theory provides solution to macro issues at the national level. It provides remedial policies for facing problems such as unemployment, fluctuation in national income, depression etc. Thus it is an analysis of aggregates.

4. Macro – Economics deals with whole economy.

Ans. 1. Extensive approach covering entire economy.

The term macro is derived from Greek word "Makros" meaning large. Thus macro economics study the behavior of all units combined together and not a small, single units. It is an extensive approach covering the entire economy.

2. Studies macro variables.

Macro economics covers all macro variables of the economy such as total production, total consumption, total savings and total investments. According to Prof. MC Connel, "Macro economics examines the forest, not the trees".

3. Studies overall economic activity.

Macro economics is concerned with macro issues like general price level, unemployment economic growth. It explains the causes of inflation and examines the fluctuations in growth. Thus it analyses the overall economic activity.

4. Adopts lumping method.

Unlike micro economics, macro economics does not split up the economy into the small units but studies it in big lumps. That is why it is called lumping method. In the words of K. E. Boulding, "Macro economics deals not with individual quantities but with aggregate of these quantities.

5. Macro – Economics is different from Micro – Economics

Ans. 1. Study of aggregates and individual units.

The term micro is derived from Greek word 'MIKRO meaning 'small' Micro economics is the study of individual economic units like a firm, a market, a consumer, an industry etc. Micro economics deals with micro variables which are individualistic in nature.

The term macro is desired from Greek word 'makro' meaning large.

Macro economics is a study of aggregates like national income, aggregate investment, saving etc. Macro economics deals with macro variable in totality.

2. Output and employment of the firm and economy.

Micro economics shows interest in finding out output and employment of a particular firm or industry. In analyses now the price of a particular product is determined. Macro economics is concerned with the study of determination is total output of goods and services in the economy. It explains how the total employment of resources are determined.

3. Partial equilibrium and general equilibrium.

Micro economics adopts the technique of partial equilibrium analysis. Such an analysis is based on assumptions called certain paribus. Here every firm or industry is treated as a small single unit.

In case of macro analysis, the technique of general equilibrium. It is useful to study the determination of the general price level, total employment and output and fluctuations in these aggregates.

Q. 2. Distinguish between the following.

1. Micro Economics and Macro Economics

Ans.

Micro Economics	Macro Economics
Meaning	
The word micro has been derived from the Greek word mikros which means small. It is concerned with the study of individual units such as individual firms, industries and individual markets. E.g. Alfred Marshall's book "principles of economics" was mainly based on micro economics.	The word macro has been derived from the Greek word makros which means large. It is concerned with the study of aggregates like national income, aggregate demand, aggregate supply etc. E.g. Keynes' book "The General Theory of Employment interest and Money" is based on macro economics
Price theory / income theory	
Micro economics is known as price theory which explains how the prices of goods and factors are determined.	Macroeconomics is known as income theory which explains the determination of national income and causes of its fluctuations.
Partial/general equilibrium	
It is based on partial equilibrium which explains the equilibrium of an individual, a firm, an industry etc.	It is based on general equilibrium which explains the equilibrium of all consumers, all firms and all industries in an economy.

2. Slicing Method and Lumping Method.

Ans.

Slicing Method	Lumping Method
Meaning	
It is an approach in which the is spilt up into small Units analysation.	It is the approach in which the economy entire economy is taken into for intensive consideration for extensive analysation.
Field	
It is applied in the field of micro economics which deals with individual units like single consumer, a firm, an industry or a market	It is applied in the field of macroeconomics which deals with the behaviour of aggregates like national income, total investment, general price level etc...
Application	
It analyses part of the economy and fails to give overall picture of the economy as a whole. Can also be called as Deductive method	It analyses overall performance of the economy and provides the clearpucture of the whole economy. Can also be called as Inductive Method.

3. Partial equilibrium and general equilibrium

Ans.

Partial equilibrium	General equilibrium
Meaning	
An equilibrium which is related to a single variable or few variables may be called partial equilibrium or particular equilibrium.	An equilibrium which is related to numerous variables or the economy as a whole may be called as general equilibrium.
Prof. Alfred Marshall and Cambridge School of economists introduced equilibrium.	Walras and the Lay lanne school are associated with general partial equilibrium.
Nature	
It is simple analysis which is more effective. It is easy to deal with such analysis.	It is complicated and difficult to deal with such analysis.
Use	
It is useful to analyze a particular aspect of a problem at a particular time. It is suitable for analysis of variables which have no inter relationship.	It is useful to analyse the interrelationship of various sectors of the economy.

Q.3. Do you agree with the following statements ? Give reasons.

1. The scope of Macro-Economics is wide.

Ans. Yes.I agree with this statement.

1. Analyses Macro Variables.

The word Macro is derived from the Greek word 'Makros* meaning large. Hence macro economics is concerned with the study of the entire economy and not individual units.

Macro economics is concerned with study of macro units like national income, general price level, aggregate supply, aggregate demand, total investment, total consumption and total savings. In the words of K. E. Boulding, "Macro economics deals not with individual quantities but with aggregate of these quantities, not with individual incomes but with national income, not with individual prices but with price levels, not with individual outputs but with the national output".

2. Studies the problem of unemployment.

Macro economic is an effective tool to analyse macro issues like the problem of unemployment and to find out remedies. The general theory of employment given by Keynes is a complete macro analysis. In short macro economics is very useful in studying the causes, effects and remedies of general unemployment.

3. It studies the entire economy and not part of the economy.

Macro economics does not deal with part of the economy. It studies the entire economy as one unit. In the words of Prof. MC Connel, "Macro economics examines the forest, not the trees" That is why it is known as aggregate economics.

4. Income theory.

Macro economics is not concerned with the income of an individual but with the national income. It studies about the factors determining the national income of the economy and analyses the causes of fluctuations in national income. It analyses the growth of the economy in terms of national income. Hence it is known as income theory.

5. It analyses the over all performance of the economy.

Macro economics seeks to know the increase in the material well being of the whole nation. The reason being that macro economics is concerned with all the issues like size of national income, its components, employment, inflation, taxes, budget etc. Thus macro economics is an useful instrument to study and analyse the overall performance of the economy.

6. Lumping method.

Macro economics deals with macro quantities and macro units. Unlike micro economics, it does not split up the economy into small slices but studies it in big lumps. Therefore it is called the method of lumping.

7. Helpful in comparative analysis of the growth of different economies.

Macro economics provides data regarding aggregate demand, aggregate supply,investment, saving and employment. They are very useful for the comparative study of the growth of the various economies.

8. **Macro objectives**.

Macro economics is concerned with the achievement of objectives like full employment, price stability and economic growth. Thus it is based on broader objectives. Its approach is general in nature and not individualistic.

9. **Source of reliable data on aggregates.**

Macro economics provides data regarding aggregate demand, aggregate supply, investment, saving and employment. They are very useful for the measurement and study of the national income.

Measurement of national income is possible only with the data provided by macro economics. Macro economics is very helpful in measuring, studying and analysing national income.

10. **Macro theory of distribution.**

Macro theory of distribution is a branch of study of macro economics which deals with the study of shares of wages and profit in total national income.

It explains how the relative shares of wages and profits in the national income are determined and distributed. For example it tells us what is total amount of all wages of all labourers in the economy or total profits of all entrepreneurs in the economy. It is the analysis of aggregate rewards for various factors.

2. Macro – Economics is different from Micro-Economics

Ans. Yes. I agree with this statement.

Macro is concerned about the whole economy while micro is a study of individual units of the economy. They differ from each other in many respects as given below:

1. **Study of aggregates and individual units.**

The term micro is derived from Greek word 'MIKROS' meaning 'small' Micro economics is the study of individual economic units like a firm, a market, a consumer, an industry etc. According to Boulding "Micro economics is the study of particular firm, particular household, individual prices, wages, incomes, individual industries, particular commodities. Micro economics deals with micro variables which are individualistic in nature.

The term macro is derived from Greek word 'makros' meaning large.

Macro economics is a study of aggregates like national income, aggregate investment, saving etc. According to Boulding, "Macro economics deals not with individual quantities as such but with aggregate of these quantities, not with individual income, but with the national income". Macro economics deals with macro variable in totality.

2. Basis.

Micro economics is based on price mechanism which operates with the help of demand and supply forces.

The basis of macro economics is national income, output and employment.

3. Determination of price, output and employment.

Micro economics shows interest in finding out output and employment of a particular firm or industry. It analyses how the price of a particular product is determined.

Macro economics is concerned with the study of how total output of goods and services of economy is determined. It also analyses how the total employment and general price level are determined.

4. Allocation and distribution of resources.

Micro economics is concerned with the study of how an individual consumer allocates his given income among many goods and services so as to maximise his total satisfaction.

Macro economics, shows interest in finding out how resources of the economy are distributed. It examines how output of the economy is made and how national income is distributed among factors.

5. Equilibrium.

Micro economics adopts the technique of partial equilibrium analysis to study the determination of price-output of a single commodity or service. Such an analysis is based on assumptions called ceteris paribus. Here every firm or industry is treated as a small single unit.

In case of macro analysis, the technique of general equilibrium is used to study the determination of the general price level, total employment and output in an economy. General equilibrium studies the interdependence between different markets and sectors in the economy.

6. Income theory and price theory.

Micro economics analyses how the prices of individual commodities and services are determined. Since it is concerned with the price determination of products and factors, it is called price theory.

Macro economics is known as income theory. It studies the factors determining national income and employment and the causes of fluctuations in income and employment. According to Edward Shapiro, the major task of macro economics is the explanation of what determines the economy's income.

7. Vision.

Micro economics takes into account only individual units or part of the economy. Therefore it gives us a worm's eye view of a particular variable or issue.

Macro analysis takes the entire economy into consideration. Therefore it provides us a bird's eye view of the whole economy.

8. Objectives.

As far as demand side is concerned, the objective of micro economics is to achieve maximum utility for a rational consumer.

In case of supply side, the objective is to achieve maximum profit at minimum cost for a firm.

The objectives of macro economics are economy oriented. The achievement of full employment, price stability, economic growth and rise in national income are its main objectives.

9. Theory of distribution.

Micro theory of distribution is an important branch of study of micro economics which deals with factor pricing of each factor. It analyses how factor rewards like wages, rent, interest and profit are determined and distributed with respect to a particular firm or a market. It is the analysis of determination of individual reward for each factor.

Macro theory of distribution is a branch of study of macro economics which deals with the study of shares of wages and profit in total national income.

For example it tells us what is total amount of all wages of all labourers in the economy or total profits of all entrepreneurs in the economy. It is the analysis of aggregate rewards for various factors.

10. Aggregation of macro economics is different from aggregation of micro economics.

Micro economics also deals with aggregates like industry and market. But these aggregates are not related to the whole economy but confined to particular industry or a particular market.

Macro economics analyses the behaviour of aggregates which are related to the whole economy. For example, macro economics is concerned with the study of aggregates like total consumption and total investment. But these aggregates are not confined to a single product or single industry. They are related to all industries producing consumer goods and capital goods.

11. Basic questions.

Micro economics deals with the following basic questions:

i) What goods and how much quantity of those to be produced?

ii) How they shall be produced?

iii) How they shall be distributed?

Macro economics deals with the following basic questions :

i) Are the existing resources effectively employed? (Full employment)

ii) How they improve the productive capacity of the economy? (Economic growth)

iii) Is the balance of payment position comfortable? (International trade)

3. Macro – Economics is a partial equilibrium analysis

Ans. No.Idisagree with this statement.

1. **General equilibrium.**

   Macro economics is associated with general equilibrium. The reason being that general equilibrium deals with the economy as a whole. Partial equilibrium is related to a single variable or few variables. It analyses only a part of the economy. Since macro economics concerns itself with the study of entire economy, general equilibrium suits macro analysis.

2. **Analysis of macro variables.**

   Macro economic analysis takes into consideration macro variables For example aggregate variables like aggregate demand, aggregate supply, national income, total investment, employment etc can be better analysed only under macro analysis. General equilibrium is indispensable for a proper and effective analysis of such aggregate variables.

3. **Extensive analysis.**

   Macro analysis is not based on restricted data. It is much more extensive and vast. It isa comprehensive analysis including the entire data of the economy. General equilibrium is suitable for such extensive analysis.

4. **Interrelationship between sectors.**

   Macro economic analysis takes into account the entire economy as a whole. It considers the vast network of the national economy under its analysis. In such a net work there are different sectors which are interrelated. Disturbance in one sector will have impact on another sector. Such a interrelationship and their over all effect can be effectively analysed only under general equilibrium.

5. **Mutual interdependence of different ogranisms.**

   Macro economics deals with all segments functioning in an economy. These segments are mutually interdependent on each other. General equilibrium is suitable for analysis of all segments simultaneously. Partial equilibrium is suitable for the analysis of a particular segment. But general equilibrium analyses all segments in totality. It provides a collective treatment of all segments functioning in the economy.

Q.4. Define or explain the following concepts

1. Macro-variables

The term "Macro” is derived from Greek word 'Makros' which means large or aggregate (total). Macro variables refers to large variables which relate to or cover the entire economy like total employment, national income, national output, total investment total savings, total consumption, aggregate supply, aggregate demand etc. Macro-Economics is a study of macro variables.

CHAPTER 8 – NATIONAL INCOME

Q.1. Distinguish between.

1. Gross National Product (GNP) and Gross Domestic Product (GDP)

Ans.

Gross National Product (GNP)	Gross Domestic Product (GDP)
Meaning	
It is the gross value of goods and services produced within the country plus net factor income from abroad.	It is the gross value of goods and services produced within the domestic territory.
NFIA	
It includes net factor income from abroad. GNP = GDP + NFIA	It excludes net factor income from abroad. GDP = GNP-NFIA
Territory	
GNP can take place in any part of the world. GNP =C+I+G+(X-M)+(R-P)	It is concerned with goods and services produced within domestic territory GDP = C+I+G+(X-M)

2. Output method of measuring national income and Income method of measuring national income.

Ans.

Output Method	Income Method
Meaning	
Under production method national income is viewed as the total value of final goods and services produced annually in a nation. Other name Product Method	Under income method, National Income is viewed as the sum of total of money income received by all the factors of production including land, labour, capital and organization during a given year. Other name Factor Cost Method
Items included	
(i) Consumer goods and services (ii) Gross domestic private investment, (iii) government purchases, (iv) Net foreign earnings.	a. Wages and salaries, rent, interest, profits from private and government sector, b. The mixed income, c. The net factor income from abroad.
Main determined	
The total value of final goods and services act as the main determinants of national income	Factor payments act as main determinant of national income.

3. Gross National Product (GNP) and Net National Product (NNP)

Ans.

Gross National Product (GNP)	Net National Product (NNP)
Meaning	
Gross National Income or GNP refers to the gross money value of goods and services produced in a country plus net	Net National Income or NNP changes is calculated by deducting depreciation from Gross National Income i.e. NNP =

factor income from abroad during a given time period, say, a year. It includes the depreciation.	GNP - Depreciation.
Formula:	
C+I+G + (X-M)+(R-P)	C+I+G+(X-M)+(R-P)-D
Gross / Net	
Gross National Income or GNP represents Gross value of National product.	Net National Income, represents the net value of the National product.
Economics analysis	
Gross national Income is useful for short period analysis when changes in capital assets are insignificant	Net National product is useful for long run analysis when there are many changes in capital assets like building, machinery, equipment etc.

4. National income at market price (NI_{mp}) and National income at factor cost (NI_{fc})

Ans.

National income at market price (NI_{mp})	National income at factor cost (NI_{fc})
Meaning	
National income calculated on the basis of prevailing market prices is called national income at market price.	National income calculated on the basis of factor cost (wage, rent, interest and profit) is called national income at factor cost.
Formula	
Indirect taxes and subsidies	
$NI_{mp} = NI_{fc}$ + indirect taxes – subsidies	$NI_{fc} = NI_{mp}$ – indirect taxes + subsidies.
Primary Factor	
Market price is the primary factor influencing the value of goods and services.	Factor cost is the primary factor determining the value of goods and services.

Q.2. State with reasons whether you agree or disagree with the following statements.

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

Ans. Yes. I agree with the following statement

The calculation of the national income of a country is a task full of difficulties and complexities. The following difficulties generally arise while estimating national income.

1. Theoretical difficulties 2.Practical difficulties.

1. Theoretical difficulties:

This is also known as conceptual difficulties.

(i) Transfer payments:

Individuals get pension, unemployment allowance, but whether these should be included in national income is difficult problem. On one hand, these earnings are a part of individual income and, on the other, they are government expenditure. Therefore, these transfer payments are ignored from national income.

(ii) Income of foreign firms:

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

(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 of children by the mother, these services are not included in national income as remuneration is not given to them.

Also services of housewives and the services provided out of love, affection, mercy, sympathy and charity are not included in national income, as they are not paid for. By excluding all such services from it, the national income will work out to be less than what it actually is.

(iv) Incomes from illegal activities:

Income earned through illegal activities such as gambling, black marketing, theft, smuggling etc., is not included in national income. Such goods and services do have value and meet the needs of the consumers. Thus to that extent national income is underestimated.

(v) Treatment of government sector:

Government provides a number of public services like defence, public administration, law and order etc. Measuring the market value of such government services is difficult, as the real value of these services is not known, therefore it has become a convention to treat all such services as final consumption. Hence, it 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:

The difficulty of price changes arise in the national income estimate, when the price level in the country rises, the national income also shows an increase even though the production might have fallen and when price level falls, National Income may show a decrease even though production may have increased.

2. Conceptual difficulties/statistical:

In practice, a number of difficulties arise in the collection of required statistics in estimating national income, some of these are:

(i) Problem of double counting:

The greatest difficulty in calculating the national income is of double counting. It arises from the failure to distinguish properly, between a final and an intermediate product. It so happens, the national income would work out to be many times the actual For example, flour used by a bakery is an intermediate product and that by a household the final product.

(ii) Existence of non-monetized sector:

There is a large non-monetized sector in the developing economy like India. Agriculture, still being in the nature of subsistence farming in the developing countries, a major part of the output is consumed at the farm itself and a part of production is partly exchanged for other goods and services. Such production and consumption cannot be calculated in national income.

(iii) Lack of occupational specialization:

There is the lack of occupational specialization, which makes the calculation of national income by product method difficult. For instance, besides the crop, farmers in a developing country are engaged in supplementary occupations like dairy farming, poultry farming, cloth making etc. But income from such productive activities may not be revealed and thus is not included in the national income estimates.

(iv) Inadequate and unreliable data:

Adequate and correct production and cost data are not available in a developing country, such data relate to crops, fisheries, animal husbandry, forestry, the activities of petty shopkeepers, construction workers, small enterprises etc. That is why, national income of a country will not show at its actual.

For estimating national income by income method, data on unearned incomes and on persons employed in the service sector are not available. Data on consumption and investment expenditures of the rural and urban population are also not available for the estimation of national income.

Moreover, there is no machinery for the collection of data in such countries.

(v) Capital gains or losses:

Capital gains or losses, which accrue to property owners by increases or decreases in the] market value of their capital assets or changes in demand, are not included in the gross national product, because these changes do not result from current economic activities.

(vi) Depreciation:

The calculation of depreciation on capital consumption is one more difficulty. Depreciation refers to wear and tear of capital assets, due to their use in the process of production. Depreciation of capital assets will depend on technical life of the asset, the intensity of its use, nature of the asset, regular and careful maintenance etc. There are no uniform, common or accepted standard rates of depreciation applicable to the various capital assets. In case of depreciation, one has to make many reasonable assumptions, which involve an element of subjectivity. So it is difficult to make correct deductions for depreciation.

(vii) Valuation of inventories:

Raw materials, intermediate goods, semi-finished and finished products in the stock of the producers are known as inventory. All inventory changes, whether negative or positive, are included in the gross national product. Any mistake in measuring the value of inventory, will distort the value of the final production of the producer. Therefore, valuation of inventories requires careful assessment.

(viii) Illiteracy and Ignorance:

Majority of the small producers in developing countries are illiterate and ignorant, and are not in a position to keep any account of their productive activities. So they cannot give information about the quantity or value of their output. Hence, the estimates of production and earned income are simply guesses.

2. Many precautions are to be taken while estimating national income by income method.

Ans. Yes. I agree with the following statement.

Precautions:

While estimating national income by income method, the following precautions should be taken.

1. Transfer incomes or transfer payment like scholarships, gifts, donations, Charity, old age, pensions, unemployment allowance etc., should be ignored.
2. All unpaid services like services of housewife, teacher teaching her/his child, should be ignored.
3. Any income from sale of second hand goods like car, house etc., should be ignored.
4. Income from sale of shares and bonds should be ignored, as they do not add anything to the real national income.
5. Revenue received by the government through direct taxes, should be ignored, as it is only a transfer of income.
6. Undistributed profits of companies, income from government property and profits from public enterprise, such as water supply, should be included.
7. Imputed value of production kept for self consumption and imputed rent of owner occupied houses should be included.

In India, the national income committee of the Central Statistical Organization, uses the income method for adding up the income arising from trade, transport, professional and liberal arts, public administration and domestic services.

3. Gross National Product and Gross Domestic product are same concepts.

Ans. No.I Disagree with the following statement.

Gross national product and Gross National Product are two different concepts.

1. **Meaning.**

Gross Domestic Product refers to the gross total money value of final goods and services produced within the domestic territory of the country annually.

Gross National Product refers to gross total money value of goods and services produced within the economy plus net factor income from abroad.

2. Components.

GDP includes the following items :

(a) Consumption goods and services (C)

It includes consumption goods like food, clothing, books, furniture, car, TV. setsand educational and health services consumed by the households in the economy.

(b) Gross Domestic Private Investment (I)

It includes fixed factors like building and machinery, residential construction arm inventories.

(c) Government purchase (G)

It includes value of goods and services used by government like public investment on road, railways, airways, dams and business units plus police, defence educational and | health services.

All the three items constitute GDP

(d) Net export (x-m) net export refer to difference between imports and exports

GDP = C+I+G+(x-m)

Gross National Product includes something more than GDP. In addition to the above four items, if we add net factor income from abroad (R-P) it becomes Gross National Product.

GNP = C+I+G+(x-m) + (R-P)

(e) GNP is broader realistic than GDP.

GDP fails to show overall picture of the economy during the year. As it fails to include net factor income from abroad, it does not represent the overall picture of the economy in terms of national income.

GNP includes net factor income from abroad. It represents the money value of total national production for any given period. Therefore it is more suitable for comparative analysis.

4. The calculation of national income exclude the value of intermediate goods.

Ans. Yes. I agree with the following statement.

1. Only final goods and services are included.

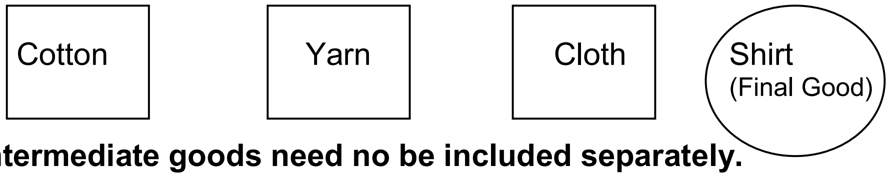
National product is defined as the money value of all final goods and services produced in the economy annually. Therefore there is no possibility of intermediate goods being included in the calculation of national income.

2. Intermediate goods are part of final goods.

Final goods are those goods which are ready for consumption. There is no need to include the value of intermediate goods since they are already a part of final goods. The reason being that no final good can be produced without the use of intermediate goods. Cotton is the intermediate goods for the final good cotton shirt. As cotton is already a part of final good, there is no need for including is separately

3. **Inclusion of intermediate goods leads to double counting**
Since the intermediate good sugarcane is part of sugar, inclusion of the value of sugarcane separately amounts to double counting. It results in over estimation of national income.

4. **Goods which crosses the production boundary becomes final goods.**
The intermediate goods do not cross the production boundary. The production process of intermediate goods is still on. They are not treated as final goods and therefore their value is not included in the calculation of national income.
Final goods are those goods which crosses the production boundary and reaches the consumer. In case of final goods the process is completed. Following example would make the point more clear.



5. **Intermediate goods need no be included separately.**
in the above example cotton, yarn and cloth are not final goods. Shirt is the final good which includes the value of all intermediate goods. Therefore there is no need to include the value of intermediate goods separately.

6. **Final goods may be consumer goods or capital goods.**
Cotton is transformed into cotton shirt which is a consumer good. Iron ore is transformed into a machine which is a capita! good. The consumer goods and capital goods are final goods which are included in the estimation of national income.

Q.3. Give reasons or explain the following concepts

1. Income from second hand sale of goods is excluded from national income.

Ans: 1. National income refers to the monetary value of goods and services produced in a country, during a given j time, generally a year.

2. Second hand goods refer to the goods that have been sold once, used by a person and then resold to a person.
3. The value of such goods would have been considered in the national income when they were produced o the first time.
4. Therefore, considering it for calculation of national income when it is again sold as second hand would double counting of the same goods.
5. Also, second hand goods are not reproduced in the year. They are only resold. Therefore, second hand goods not goods produced in a country during the year.
6. Therefore, income from second hand sale of goods is excluded from national income.

2. National income at factor cost includes subsidy.

Ans. 1. NIFC refers to sum of all incomes earned by resources suppliers for their contribution of land, labour, capital entrepreneurial ability which are utilized in the production of the year.
2. In short, it is the sum total of all income received and accrued to the factors of production.
3. A government may offer subsidy on certain necessary goods to the citizens of the country in order to bring social welfare. As a result, the business unit may receive lesser amount for his goods from the consumer.
4. However, the balance amount (i.e. subsidy amount) is given to the business unit by the government. This also in the income of the business unit.
5. The total income of the business unit is distributed among the factors of production.
6. Therefore, national income at factor cost includes subsidy.

3. National income estimates are not accurate in India

Ans. 1. National income refers to the monetary value of goods and services produced in a country, during a given period of time, generally a year.
2. In India, the calculation of national income is undertaken by Central Statistical Organization (CSO) since 1955.
3. There are various practical and theoretical difficulties in measurement of national income.
4. The following are certain difficulties in measurement of national income-
   - There is no proper mechanism to collect and record data pertaining to unorganized sector, small enterprises, service providers, animal husbandry etc.
   - It is difficult to sometime distinguish between final product and intermediate product.
   - It is difficult to estimate the production for self-consumption.
   - Due to ignorance, small producers do not keep any account of their production.
5. Due to such various difficulties, national income estimates are not accurate in India.

4. Old age pension is transfer income.

Ans: 1. Transfer income refers to the income received by a person without being a factor of production i.e. without contributing to the process of production for that particular year.
2. Old age pension is received by a person post his retirement. It is generally paid by the government to people were earlier in government service.
3. The persons receiving old age pension do not contribute anything to the production of the current year.
4. Therefore, old age pension is transfer income.

5. Paid services are included in national income

Ans:

1. National income refers to the monetary value of goods and services produced in a country, during a given period of time, generally a year.
2. Paid services refer to the services produced in the country during a year.
3. For e.g.: services of a lawyer, professor, chartered accountant, consultant, designer etc.
4. The value of such services provided can be easily determined.
5. Thus, paid services are included in national income.

6. The services of a housewife or househusband is not included in national income

Ans:

1. National income refers to the monetary value of goods and services produced in a country, during a given period time, generally a year.
2. A housewife or househusband provides service to the family out of their love and affection of the family.
3. They are not paid by the family and therefore it is not an economic activity.
4. Further, it is not possible to measure the value of such services provided.
5. Therefore, service of a housewife or househusband is not included in national income.

7. Illegal income is not included in national income

Ans.

1. National income refers to the monetary value of goods and services produced in a country, during a given period c time, generally a year.
2. Illegal income refers to income received from illegal activities like kidnapping, extortion, smuggling, gambling etc.
3. It actually fits in the term "monetary value of services produced in the country during the year."
4. However, since it is illegal income, there are no proper records of such transaction.
5. Further, it is very difficult to determine the illegal income generated in the country during the year.
6. Therefore, illegal income is not included in national income.

CHAPTER 9 – DETERMINANTS OF AGGREGATES

Q.1. A Distinguish between the following.

1. Aggregate demand and Aggregate supply

	Aggregate demand	Aggregate supply
1. Meaning.	Aggregate demand refers to the total volume of goods and services demanded by an economy as a whole during a given period, say, a year.	Aggregate supply refers to the total goods and services produced and supplied in an economy during a year.
2. Determining factors.	Aggregate demand depends upon factors like Consumption demand (C), Investment demand (I), Government demand (G) and foreign demand (X-M). Symbolically, it can be expressed as follows : AD = C + I + G + (X-M).	Aggregate supply is determined by the factors including Natural resources (land) (N), Labour (L), Capital (K) and technology (T). The relationship between aggregate supply and these factors can be expressed as follows : $O = f(\overline{N}, L, \overline{K}, \overline{T})$ Short run
3. National income and expenditure.	The value of aggregate demand is equal to the aggregate expenditure of the country.	Aggregate supply includes all the goods and services contributed by the primary secondary and service sector. The value of all these goods and services is equal to National Income.

2. Autonomous Investment and Induced Investment.

	Induced investment	Autonomous investment
1. Meaning.	Induced investment refers to investment which is made with the motive of earning profit. E.g. Investment made by private sector. (Reliance & Infosys)	Autonomous investment refers to investment which is made irrespective of level of profit or rate of interest. E.g. Investment made by government (Indian Railways)
2. Income elastic.	It is income elastic. i.e. higher the national income, higher the induced investment.	It is income inelastic. i.e. it is not affected by change in income level. It is more or less same at all levels of income.
3. Areas.	It mainly goes to consumption and capital goods.	It mainly goes to public utility services such as construction, railways, roads, energy, post and telegraph etc.

3. Exports and Imports

	Exports	*Imports*
1. Meaning	Exports refers to those goods which are sold in the foreign market via foreign trade.	Imports refers to those goods which are bought in the foreign market via foreign trade.
2. Balance of payment position	If exports exceed imports, it results in favourable balance of payment position.	If imports exceed exports, the country faces unfavourable balance of payment position.
3. Aggregate demand & supply	Exports are added to aggregate demand.	Imports are added to aggregate supply.

4. Consumption & Saving

Consumption	Saving
1. Meaning : Consumption means the final use of a commodity to derive satisfaction. Consumption expenditure refers to that part of the income which is spent for consumption of goods & services. It means the income (y) minus savings (s). $C = Y - S$	Saving refers to that part of income which is left after consumption. It means the excess income over consumption $S = Y - C.$
2. Employment : Consumption leads to a rise in effective demand and generates employment.	Saving leads to a rise in investment and generates employment.
3. Determinants : Generally consumption is a function of income.	Though saving depends upon income, it is also influenced by the rate of interest.

5. **Consumption function and saving function**

Consumption function	Saving function
1. Meaning : The consumption function or the propensity to consume is defined as the amount of expenditure spent out of given level of income.	Saving function or propensity to save refers to the functional relationship between saving and income.
It is the functional relationship between income and consumption.	It shows that saving depends upon income.
2.Symbolic expression : Symbollically, C= f(y)	Symbollically, S= f(y)
3. Determinants : Factors like income, wealth, prices of goods, taste and preference, rate of interest etc. determine consumption function.	Factors like income, rate of interest, taxation policy, social security, price level etc. determine saving function.

Q. 2 State with reasons whether you agree and disagree with the following statements.

1. Aggregate demand depends only on the consumption expenditure.

Ans. No. I disagree with the following statement.

Aggregate demand refers to the sum total of demand for all goods and services by all sections of the economy including consumers, entrepreneurs,government and others at different prices during the year.

Aggregate demand represents all types of goods and services demanded by the people from primary, secondary and tertiary sector. Aggregate demand is equal to aggregate expenditure.

(1) Components of Aggregate Demand
Consumption demand by household (c) or Consumption Expenditure.

The consumption expenditure refers to expenditure incurred by consumers on consumption.

Household consumption refers to total demand for consumption goods like food, clothing, books, furniture's, car, TV. sets, educational and health services etc by all the households in the economy. Consumption is of two types :

Autonomous consumption expenditure.
It refers to expenditure incurred irrespective of the size of income received by a person. It is always positive and cannot be zero.

For example, demand for essential or necessary goods like food, clothing, shelter and religious activities is inevitable which cannot be postponed. All sections including poor, middle class and rich have no option but to demand such goods and services for survival.

Induced consumption expenditure.
It refers to expenditure that is incurred depending upon the size of disposable income. It is directly related to income

Thus consumption expenditure is the sum total of a and b.

C = a + b

(2) Investment demand. (I) or Investment Expenditure.

Expenditure on investment refers to the expenditure incurred by the private entrepreneurs on capital goods like new factory building, machinery, raw material, tools, equipments etc. It is called capital formation. Demand for investment goods depends upon the marginal efficiency of capital (MEG) and the rate of interest.

According to Keynes when the marginal efficiency of capital exceeds interest rate the demand for investment will increase. It will continue until MEI become equal to the rate of interest.

Keynes considers only the real investment like capital assets as investment. The financial investment on shares, bonds, debentures etc. is not treated as investment.

(3) Government Demand (G) or Government Expenditure.

Government spends money on capital goods and consumption goods to provide services like defence, administration, education, health, transport, communication etc Government also invests huge capital on public enterprises. Thus government spends a significant portion of money on purchase of variety of goods and services. A major portion of the government investment is autonomous in nature.

(4) Foreign demand or foreign expenditure on our exports. (Net export)

At present almost all modern economies are open economies. Hence the foreign demand has assumed greater importance in the calculation of aggregate demand.
Foreign demand refers to the demand made by foreigners on our goods. At the same time our people also incur expenditure when they demand imports. The net expenditure can be calculated) by knowing the difference between exports and imports (X-M). (*X* means the receipts from exports while M refers to payments towards imports). It may be either positive or negative.

If exports exceed imports, the net exports is positive and it is added to aggregate expenditure. If imports exceeds exports, it is negative and it is deducted from aggregate expenditure.

Symbolically, the determinants of aggregate demand can be expressed as follows :
AD = C + I + G + (X-M)

2. Aggregate supply is influenced by the state of technology only.

Ans. No, I disagree with following statement.

Aggregate supply refers to the sum of all goods and services produced and supply all producers and sellers in an economy during a given period of time, say, one Aggregate supply is also referred to as national product or national income. It includes all the quantity of goods and services produced by primary sector, secondary sector and tertiary sector.

Factors Determining Aggregate Supply

Aggregate supply, in general, is determined by the following factors. They are:

1. Natural Resources (land) (N):

Generally, the productivity of an economy is very much influenced by the natural resources available. By natural resources we mean all the resources which are available on and under the surface of earth. It includes fertile land, forest, rivers, mountains, buildings on the surface of earth, rains, clouds, air, sunlight above the land and the minerals metals under the surface of earth. All such natural resources are very helpful ir process of production of goods and services.

2. Labour (L):

The factor labour plays a crucial role in promoting productivity of an economy. Indeed the productivity is determined by quantity and quality of labour force. Labour is required to exploit the natural resources. The quantity of goods and services available in economy depends upon the skill and efficiency of the human resources.

3. Capital (K):

Stock of capital is equally important in determining aggregate supply. Capital formation is the key factor promoting productivity and economic growth. Availability of capital good is instrumental in making industrialization a great success. On the other hand, deficient of capital leads to low production, low aggregate supply and low national income.

4. State of technical know-how (T):

The state of technology plays an important role in the determination of aggregate supp Latest technology and improved technical know-how along with large scale product* help the producers to expand supply. On the contrary application of primitive technique and unscientific methods of operation result in poor productivity and poor supply i goods and services.

Thus aggregate supply is determined by the four important factors namely land, labor capital and technology. The relationship between aggregate supply and these factor the short run can be symbolically expressed as follows:

0 = f(N, L, K, T) (Short run)

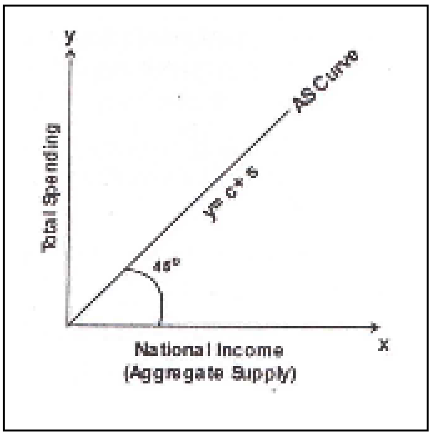
where, O = aggregate output, N-Natural resource, L-Labour, K-Capital, T-Technology - Function of.

The symbol'—' indicates that the respective factors remain constant. Since other factors remain constant in the short run, the output depends upon the level of employment.

In a closed economy model the entire national income is spent on consumption and savings. Thus national income or aggregate supply is equal to the sum of consumption expenditure (C) and savings (S)

Symbolically

AS = C + S



The following diagram shows the AS curve.

In the diagram AS curve is represented by 45°

line indicating that at every point in AS curve,

total national income (aggregate supply) is

equal to total expenditure (consumption + savings).

The above model is based on economy where

we have only two sectors viz household and firm.

In such an economy the major part of the income is spent on consumption and the balance is saved. If the entire income is spent on consumption, there will be no savings and this point is called the breakeven point.

3. Positive net earnings from foreign transactions add to aggregate demand.

Ans. Yes. I agree with following statement.

1. Positive net earnings from foreign transactions imply that the expenditure on exports exceeds the expenditure on imports.

Positive net earnings from foreign transactions refer to difference between imports and exports. It is also known as net exports. When foreigners buy our goods it is called exports.

If exports exceed imports, the net exports is positive and it is added to aggregate expenditure. If imports and exports are equal net export becomes zero. It has no impact on national income or national expenditure.

Net export = X - M, X = exports, M = imports

2. Positive net earnings indicate that there is more demand for domestic goods foreigners.

At present almost all modern economies are open economies. Hence the foreign dc has assumed greater importance in the calculation of aggregate demand. Foreign d refers to the demand made by foreigners on our goods. When Indian exports grow than imports, India is left with positive net earnings. Since exports represent spending by foreigners on Indian goods, they are added to aggregate demand.

3. Heavy imports can result in negative net earnings.

Local people also incur expenditure when they demand imports. In countries like In import goods like petrol, machinery etc. They are bought at high prices in the market If imports exceed exports, the net earnings may be negative. In such a case\ deducted from aggregate demand.

4. Foreign transactions are possible only with an open economy.

In case of a closed economy, there is no foreign demand. At present almost all economies are open economies. After the introduction of World Trade Centre and trade reforms, is significant rise in foreign trade. As the volume of foreign trade expands, the inclusion positive net export in aggregate demand has become very important.

Symbolically, the determinants of aggregate demand can be expressed as follows:

AD = C + I + G + (X-M).

5. **Higher the growth, higher the net earnings from foreign transactions.**

Generally countries achieving high growth rate enjoy better prospects of foreign trade. developed country performs better than developing countries in terms of foreign trade. Due to better performance of export sector, they maintain a favourable balance of trade. It results in positive net earnings.

4. **At break even point consumption (C) is equal to income(Y).**

Ans. Yes. I agree with following statement.

Consumption function or propensity consumption refers to a schedule indicating the amount of consumption at different levels of income. It shows the functional relationship between aggregate consumption and aggregate income. It indicates how consumption changes in response to change in income.

Thus the consumption function or propensity to consume is defined as the amount of expenditure spent out of at different level of income.

Symbolically

C - f(y)

where c = consumption function, y = income (disposable), f = function of

The propensity to consume does not mean a mere idea or desire to consume. It is an effective idea indicating the actual amount of current consumption or expected consumption at different levels of income.

Aggregate Income	Consumption	Saving	APC	MPC
0	250	-250	-	-
500	550	-50	1.1	0.6
1000	1000	00	1	0.9
1500	1400	100	0.93	0.8
2000	1700	300	0.85	0.6
2500	1900	600	0.76	0.4

(i) At the initial stage, when the national income is zero, people have to maintain minimum i expenditure to ensure survival. Thus they spend Rs. 250 crores at zero level income. It may be done either by borrowing or by charity. It ultimately results in dissaving or negative saving amounting to Rs. 250 crore. This consumption is known as autonomous consumption.

ii) When income increases to Rs. 1000 crore, the entire income is spent on consumption and therefore saving become zero. This is called break even point.

iii) After break even point, income rises by Rs. 500 crore. Consumption too rises but less I proportionately. Therefore entire income is not spent on consumption and a part of the income goes for saving.

iv) When income increases, both consumption and saving increase. However consumption increases at a diminishing rate while saving rises at an increasing rate.

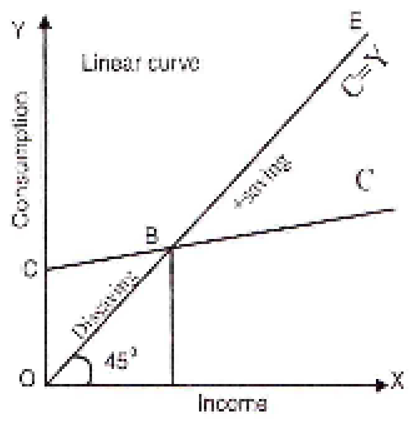
v) Average propensity to consume (APC) is the ratio of consumption to any particular level of income.

Algebraically, APC = c/y Where C=consumption y = income

The APC goes on diminishing.

vi) The marginal propensity to consume (MPC) may be defined as the ratio of change in consumption to the change in income. It is the increase in consumption as a result of increase in income.

Algebraically, $MPC = \frac{\Delta C}{\Delta Y}$



In the diagram, OE is the line of equality drawn at **45°** angle which indicates equality between consumption and income (Y = C) at all stages. CC is the straight line linear consumption curve. At break even point the consumption and income are equal. At this stage, there is no savings. After the point B, the consumption expenditure remains less than income. The distance between the line of equality and consumption curve indicates saving.

5. Savings are negative before breakeven point.

Ans. Yes. I agree with the following statement.

Saving is the excess income over consumption expenditure. In other words it is that part of income which is not spent on consumption. Saving can be obtained by deduction consumption expenditure (C) from income (y)

Symbolically,

S = y-c

Saving function or propensity to consume refers to the functional relationship between saving and income. It shows that saving depends upon income.

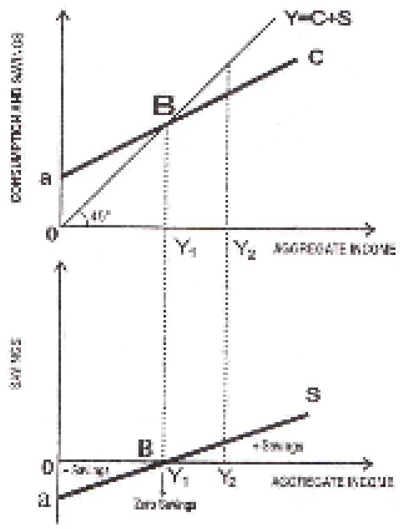
Algebraically,

S = f(y)

The relationship between savings and income is direct or positive, (i.e) An increase in income results in decrease in income results in decrease savings.

Saving function schedule and diagram Negative saving.

Aggregate Income	Consumption Expenditure	Saving
0	250	-250
500	550	-50
1000	1000	00
1500	1400	100
2000	1700	300
2500	1900	600



In the above table it is observed that saving remains negative (Rs. -250 crore) at the initial stage when income is zero. This is because people spent on consumption even when their income is zero by borrowing. This is called dissavings.

At the initial stage, when the national income is zero, people have to maintain minimum expenditure to ensure survival. Thus they spend Rs. 250 crores at zero level income. It may be done either by borrowing or by charity or even by begging. It ultimately results in dissaving or negative saving amounting to Rs. 250 crore. This consumption is known as autonomous consumption.

When the level of income reaches Rs. 1000 crores, saving becomes zero as the entire income is spent on consumption. This stage is called break even point.
After breakeven point, the saving turns positive. This is because the level of income exceeds consumption.

At this stage, the increment in income is divided between savings and consumption.

Q.3 Define or explain the following concepts

1. Autonomous Consumption

It is the expenditure which has to be incurred in order to sustain life. It is basically the expense incurred for minimum food, clothing, shelter, expenditure for religious purpose, etc. This expenditure has to be incurred irrespective of the income. If a person has no income, the may beg or borrow or steal in order to collect money to spend for these basic necessities. Since, this consumption expenditure is not dependent on income, it is called autonomous consumption expenditure.

2. Aggregate Demand

Aggregate demand refers to the amount of sales proceeds which are actually expected from the sale of output produced at a given level of employment during the year. Aggregate demand in an economy is measured in terms of total expenditure on goods and services. The determinants of aggregate demand are

i) Consumption expenditure
ii) Investment expenditure
iii) Government expenditure
iv) Net earnings from foreign exchange transactions.

3. Aggregate Supply

Aggregate supply refers to the minimum amount of sales proceeds which entrepreneurs expect to receive from the sale of output at a given level of employment during the year. In short, it refers to the total national product or national income. The determinants of aggregate supply are

i) Natural resources
ii) Labour
iii) Stock of capital
iv) State of technology.

4. Effective Demand

Effective demand is the actual expenditure incurred by all people on all types of goods and services in an economy during a given period of time.

Expenditure of a person is income for another. Thus, the flow of expenditure determines the flow of income. Therefore,

Effective Demand = Total Expenditure = Total Income = Total Output.

According to Lord Keynes, the effective demand determines the level of income, output and employment in the country.

The level of effective demand is determined by the intersection of Aggregate Demand Function (ADF) and Aggregate Supply Function (ASF).

Q.6 Give reasons or explain

1. Investment demand is not the sole determinant of aggregate demand.

Ans:

1. Aggregate demand refers to the amount of sales proceeds which are actually expected from the sale of output produced at a given level of employment during the year.
2. Aggregate demand in an economy is measured in terms of total expenditure on goods and services.
3. The determinants of aggregate demand are
   - **i. Consumption expenditure**:
     Consumption expenditure refers to the expenditure increased for those goods and services which satisfy the ants of private individuals and business firms directly.
   - **ii. Investment expenditure**
     Investment expenditure refers to the use of savings for the purpose of capital formation. Capital formation refers to an addition to capital goods i.e. factory, machinery raw material, finished goods, work - in - progress (i.e. semi finished goods) etc.
   - **iii. Government expenditure**
     It refers to public expenditure. It includes the expenditure incurred by the government at the centre, state as well as the local level.
   - **iv. Net earnings from foreign exchange transactions.**
     The difference between the foreign exchange received on export and the foreign exchange spent on import is the net earnings from foreign transaction
4. Thus, investment demand is not the sole determinant of aggregate demand.

2. Saving may be used in the future for unforeseen contingencies

Ans:

1. Savings refers to the difference between income and expenditure.
2. It is that part of income which is not spent for consumption.
3. People may save for various purposes. One of the prime motives of saving is the motive of precaution
4. People save as precaution against any future contingencies or unforeseen events like accident, major sickness or any other urgent expenditure.

3. There are many subjective factors determining consumption function

Ans:

1. Propensity to consume refers to the actual amount of consumption that is expected to take place at various levels of income. The propensity to consume is also called as consumption function.
2. There are various subjective and objective factors that determine the consumption function.
3. Subjective factors are internal factors and change from one person to another. These are human factors which affect the consumption pattern of an individual.

   The following are the various subjective factors which determine consumption function:

i.	Motive of self pride	ii.	Motive of precaution
iii.	Motive of independence	iv.	Motive of calculation
v.	Motive of enterprise	vi.	Motive of foresight
vii.	Motive of improvement	viii.	Motive of avarice

4. Aggregate demand is a positive function of the level of employment and output.

Ans:

1. ADF is measured with the help of aggregate demand price. Price means the expected maximum sale proceeds.
2. Thus, aggregate demand price is the total amount that the household and firms are expected to spend on purchase of different goods and services.
3. When we look at this from the income perspective refers to the revenue which the producers expect to earn from the sale of the output at the given level of employment
4. There is a direct relationship between level of employment and aggregate demand price. Higher the level of employment, higher the aggregate demand price and vice versa.
5. Thus, aggregate demand is a positive function of the level of employment and output.

5. The propensity to consume means consumption function

Ans.

1. Propensity to consume refers to the actual amount consumption that is expected to take place at various levels income.
2. The propensity to consume is also called as consumption function.
3. To put it simply, propensity to consume shows the relation between aggregate consumption expenditure (C) aggregate income (Y).

4. According to Lord Keynes, other things, other things being equal, consumption is a function of income. Symbolic : C = f (Y)

Where, C = Aggregate consumption expenditure
f = Function of
Y = Aggregate Income

7. In a rich country, the marginal propensity to consume is less.

Ans:

1. As per Keynes Psychological Law of Consumption, "as income goes on increasing, the consumption also increases but at a rate lesser than Increase in income."
2. Marginal propensity to consume (MPC) represents the portion of increase in aggregate income that is spent on consumption rather than being saved.
3. In a rich country, the people generally have a high income level. At such levels, their basic consumption needs have already been met.
4. When their income rises, they do not need to spend on consumption and therefore that portion of income gets saved.
5. Thus, in a rich country, the marginal propensity to consume is less.

CHAPTER 10 – MONEY

Q.1. Distinguish between:

1. Paper money and metallic coins.

Paper Money	Metallic Coins
Meaning	
Money that is printed out of paper is called paper money . (e.g) currency notes like ₹ 1000 , ₹ 500 ,₹ 100, ₹ 20, ₹ 10Etc.	Money which is made out of a particular metal like gold, silver Copper, nickel etc. is called metallic money .e.g. coins ₹ 1,50 paise etc.
Suitability	
Currency notes are more suitable for making bulky payments in case of large transactions.	Metallic coins are usually made in smaller denominations. They are Suitable for small volume of payment in case of small transactions
Portability	
Being lighter in weight, it is easy and convenient to carry.	It is inconvenient to carry metallic money from one place to another place.
Risk of duplication is more since paper is a cheaper comm.	Risk of duplication is less since Metal is an expensive comm.

2. Convertible paper money and inconvertible paper money.

Convertible Paper Money	Inconvertible Paper Money
Meaning	
Convertible paper money refers to that type of paper currency which is convertible into standard coins at the option of the holder.	Inconvertible paper money refers to that type of paper money for which the monetary authority gives no Option to convert the paper note into coins.
Use	
Convertible paper currency is not in Practical use at present.	Inconvertible paper money is used Practically. All the currency notes Issued by reserve bank of India like ₹ 500 and upto ₹ 2 are inconvertible Paper money.
Backing	
Convertible paper currencies are backing by gold and silver reserves.	Inconvertible paper currency are Usually backed by government securities bonds and treasury bills.

3. Full – Bodied Coins and Token Coins

Full – Bodied Coins	Token Coins
1. Full – bodies coins are those coins where the face value and intrinsic value is the same	1. Token coins are those coins where the face value is higher than intrinsic value.
2. The coins which were made of gold and silver were standard or full bodied coins.	2. The coins which are made of cheap metails like copper, nickel etc are token coins.
3. These coins are rarely used.	3. All money coins in circulation today are token coins
4. They are minted for higher denomination	4. They are minted for small denomination.

4. Commodity Money and Metallic Money

Commodity Money	Metallic Money
1. In the initial stage of human development, different commodities were used as money.	1. It refers to the money which is made of metals like gold, silver, iron, etc.
2. They were perishable in nature.	2. They are more durable in nature.
3. Commodity money of each place differs from another place depending on various factors such as location, climatic , culture, etc.	3. Metallic money is of tw types i.e. full – bodied money and token money.

5. Primary Functions of Money and Secondary Functions of Money

Commodity Money	Metallic Money
1. The functions of money that are fundamental and comparatively more important are called primary functions of money.	1. The functions of money that are additional to the fundamental functions are called secondary functions of money.
2. Medium of exchange and measure of value or unit of account are the primary functions of money.	2. Standard of deferred payments, store of value and transfer of value are the secondary functions of money.

Q.2. State with reasons whether you agree and disagree with the following statement.

1. Barter System did not have any difficulty.

Ans. No. I Disagree with following statement

1) Lack of double co-incidence of wants.
2) Lack of common measure of value.
3) Difficulty of storage of goods.
4) Problem of indivisibility.
5) Problem of making deferred payments.

1) Lack of double co-incidence of wants –

Double /co-incidence of wants indicates need of each other's goods and willingness to accept it. Lack of double co-incidence of wants was one of the important limitations of Barter system, e.g. Person "A' has cloth and he wants rice in exchange and the person 'B' has wheat and he wants milk in exchange. In this case exchange between 'A' and 'B' would not take place as both are not in need of each other's goods.

2. Lack of common measure of value - In the

absence of common measure of value or a unit of account, it was difficult to calculate the values of the goods exchanged. Exchange became difficult in the case of goods which could not be compared, e.g.. It was difficult to compare 2 litres of milk with 2 kgs of onions. At the same time it was difficult to compare certain units of a commodity with any service.

3. **Difficulty of storage of goods –**

Under barter exchange, it was necessary to store goods for future consumption. Storage of highly perishable goods like fish, vegetables, milk etc. was difficult, besides there were space constraints.

4. **Problem of indivisibility –**

Under barter system, it was difficult to make fractional payments, especially when things to be exchanged were indivisible e.g. Person 'X' had a bag of rice which he wanted to exchange for a plough, with person 'Y', but suppose 'Y' wanted only half a bag of rice, then it would be difficult to offer half of the plough.

5. **Problem of making deferred payments -**

Deferred payments are those which are made in future. When people used to borrow cattle, it was difficult to return the cattle in the same physical conditions, after a certain number of years.

Thus, various difficulties faced under the Barter System gave rise to money. Invention of money is one of the most fundamental invention.

2. Anything can function as money.

Ans. NO. I Disagree with the following statement.

Any commodity cannot act as money. A thing which works as money must possess some qualities for characteristics. Following are the qualities of money.

1) **General acceptability –**

The thing which acts as money must be easily accepted by all without hesitation for exchange.

2) **Divisibility –**

It should be divisible into different denominations, e.g., 5 rupees, 10 rupees, 50 rupees, etc.

3) **Durability –**

It should be durable. It should last for a longer period of time e.g. metallic coins are more durable than paper notes.

4) **Cognizibility –**

It must be easily recognizable and distinguishable from other things.

5) **Portability –**

It must be easy to carry from one place to another without any difficulty, expense and inconvenience e.g. paper notes are easily portable. They also possess high value in a small bulk e.g. notes of Rs. 500, Rs. 1000.

6) **Homogeneity –**

The money of same denomination should be of the same size, quality etc.

7) **Stability of Value** - It must have general stability of value.

3. Money performs various functions.

Ans. Yes. I agree with the following statement

Money plays many significant roles in modern economy.

Broadly the functions of money can be classified into three categories.

Broadly the functions of money can be classified into three categories.

FUNCTIONS OF MONEY

A) Primary Function

i) Money as medium of exchange

ii) Measure of value of unit of account

Secondary Functions

i) Standard of deferred payments

ii) Store of value

iii) Transfer of Value

Contingent Functions

i) Measurement and Division of National Income

ii) Basis of Credit

iii) Imparts liquidity to wealth

iv) Equalization of marginal utilities and marginal productivities with price

v) Estimation of Macro-Economic variables.

a) **Primary functions**
b) **Secondary functions**
c) **Contingent functions**

A) Primary Functions:

i) Medium of Exchange –

The fundamental role money is to serve as a medium of exchange. This is the most important function of money. By working a medium of exchange money divides the exchange transactions into two parts, namely sale purchase. This function of money has solved of the biggest problems of the Barter System. lack of double co-incidence of wants. Any commodity or service can be bought with and sold money. Money represents general purchasing power. A person can sell any commodity today for money and can use the money in future to purchase any commodity or service. Some unique characteristics of money like general acceptability, portability, durability etc. have helped money to as a medium of exchange.

ii) Measure of Value or unit of account –

The value goods and services is expressed in terms of money. It is a unit of account. When the value of a commodity is expressed in terms of money, it is called price. It helps us to compare the value of all commodities. By comparing the prices of different commodities, relative values of these commodities can be calculated, e.g., price of a table is f 2,000 and price of a chair is ? 500. It indicates that the value of a table is equivalent to the value of 4 chairs. Goods and services are quantified in different units. It would have been difficult to express the value of a kilogram of sugar in terms of certain litre of milk or a certain metre of cloth, in the absence of money. This difficulty is overcome when the prices of all these goods are expressed in terms of money which is a unit of account. Every country has a standard money or a monetary unit in terms of which values are expressed and measured e.g. Dollars, Pounds, Yens, etc. In India Rupee is the unit of account. Incomes and expenditures of all kinds, assets and liabilities of all kinds, budgets of the government etc., are stated in terms of money as a unit of account.

B) Secondary Functions:

i) Standard of deferred payments –

In the modern economy many transactions take place without instant payments. The debtors make a promise to make payments on some future date. Such future payments are possible because of money. Under Barter

System taking loan was easy, but its repayment was difficult because loans were in the ' form of grains or cattle. Money facilitates lending and borrowings, because the borrowings are in the form of money and the repayment are also in the form of money. Due to general acceptability, stability of value compared to other goods, durability etc., money acts as a standard of deferred payments.

ii) Store of value –

Money works as a store of value. Along with satisfaction of present wants, provision for satisfaction of future wants is equally important. It requires savings from the current earnings. Money is a convenient means through which savings can be done easily. According to Lord J.M. Keynes, "money is a link between the present and the future." Money serves as a store of value because money has purchasing power. It can be used to purchase.

real assets like land, house etc. and financial assets like shares, debentures, bonds, etc.

iii) Transfer of Value –

Today with the extension of trade among various countries and organizations it becomes necessary to transfer purchasing power from one place to another. This is easily done by money. Money helps to shift the purchasing power from one place to another e.g. real assets like building or agricultural land from one place can be sold and with the help of that money, building or land can be purchased at some other place.

C) Contingent/Incidental Functions of Money:

According to Prof. Kinley, money in modern times also performs certain contingent functions.

Following are some contingent or incidental functions of money.

i) Measurement and Division of National Income -

Money facilitates estimation and distribution of national income. Numerous goods and services are produced in a country during a period of time. When these goods and services are converted in terms of money, calculation of national income becomes possible. Factors of production like land, labour, capital and organisation contribute to national income. All these factors get their respective rewards like rent, wages, interest and profit in terms of money. Thus, total production and factor prices are easily expressed in terms of money.

ii) Basis of Credit –

Modern economy is based on credit. Commercial banks create credit on the basis of their cash holdings. Without the use of money, credit instruments cannot operate. One cannot issue cheque without having a bank balance. Money provides the liquid base of the banking system.

iii) Imparts liquidity to wealth –

Money is called the most liquid asset. Money can be easily converted into any asset and any asset can be converted in to money e.g. a person can purchase gold and if he wants, he can sell it and can purchase government bonds, securities etc. Liquidity of money has improved the mobility of capital from a business in loss to a profit making business. It also facilitates transfer of capital from less productive use to a more productive use.

iv) Equalization of marginal utilities a marginal productivities with Price
Prices goods, services and prices of all factors production are expressed in terms of money. It help the consumers to compare marginal utilities goods with their prices. Based on this comparison consumers can allocate their income on various goods, in such a way that the price of each commodity is equal to its marginal utility.

Producers compare factor prices like rent, f land, wages for labour, interest for capital, wi marginal productivity (contribution made r additional factor unit to total productivity) of fact of production. The producers try to maximize the profits by equalizing marginal productivity of] factor with its price.

v) Estimation of Macro Economic Variables

Macro Economic variables like Gross Nation Product, total savings, total investment etc. can easily estimated in monetary terms. It also facilitate, government tax collection, budget etc.

Thus, in modern monetized economy money has facilitated production, distribution, saving etc.] It encourages international trade, transport. formation of capital market and other financial institutions.

Along with these functions money also| performs some other functions like

(a) It helps in the maintenance of the repaying capacity which is called 'guarantee of solvency'.

(b) Money can be used for any purpose according to the priority of an individual or an organization e.g. Money saved by a person to purchase a house in future can be used for higher education of children. Prof. Graham has called this function of money as 'bearer of option'.

(c) It is the base of price mechanism – Prices of all goods and all factors of production are expressed in terms of money. Price mechanism guides important decisions like what to produce how much to produce, how to distribute etc.

When money performs various functions, different qualities or characteristics of money help it to perform these functions. Let us discuss qualities of good money.

Q.3 Define or explain the following concepts

1. Barter system

Barter means exchange of goods & services with goods & services. In other words, barter also means paying the price for goods in terms of goods. Under the barter system, goods & services itself played the role of money.

For e.g.:

i. Exchange of 5 bags of wheat with one goat

ii. Washing clothes for a glass of milk

2. Double co-incidence of wants

The double co-incidence of wants is a pre-requisite or basic requirement in a barter system. It refers to simultaneous need of each other's goods and willingness to accept it.

For e.g. Mr. Ali has earthen pots and wants a can of oil in exchange. Now, there has to somebody who has a can of oil and wants earthen pots in exchange.

This double co-incidence of wants was not always possible and was one of the major difficulties in the barter system.

3. Money

According to Prof. Crowther, "Money is anything that is generally acceptable, as a means of exchange and which, at the same time, acts as a measure and store of value." Therefore, money is any instrument which is generally used as a medium of exchange and which also has measures & stores value.

4. Near Money

As the name suggests, near money is not money but it is nearly money. Near money refers to assets that can be easily converted to cash. They are highly liquid. Near money in itself is not a medium of exchange but it has a feature of money i.e. it stores value. For e.g.: Bill of exchange, treasury bills, short term government securities, equity shares etc

5. Limited Legal Tender

It is legal tender money which is accepted only upto a certain limited amount. Beyond a certain limit, a person can refuse to accept it. For e.g.: In India, coins of Rs. 25 paise are legal tender only upto a limit of Rs. 25. (i.e. only 100 coins of 25 paise)

6. Bank Money / Credit Money

Credit money is also called as bank money. Basically, it means the money that is deposited in the demand deposit of the bank i.e. current account and savings account. This money is withdrawable by issue of cheques. Cheque can be presented to the bank and money can be withdrawn for the account or it can be issued to a creditor who may deposit the same in his own bank account. The basic advantage of bank money is that is eliminates or reduces the need to carry paper money.

Q.4. Give reasons or explain

1. Money works as a store of value

Ans:

1. According to Prof. Crowther, "Money is anything that is generally acceptable, as a means of exchange and which, at the same time,, acts as a measure and store of value."
2. Money has purchasing power i.e. it can be used to buy goods and services at present and also in the future.
3. When money is received it is not necessary to use it to buy goods and services immediately. Money can be saved for future use.
4. Money also becomes a form of holding wealth. Money can be used to buy assets like land, house, shares, securities etc.
5. Thus, money serves a store of value because its utility can be used at any point of time and it is the most liquid asset.

2. Any commodity cannot act as money

Ans:

1. Anything that is used as money needs to possess certain qualities
2. The following are the qualities of good money: *Mention in brief the qualities of good money*
3. Thus, any commodity cannot act as money. It has to possess the above qualities.

3. Barter system had many difficulties

Ans: ***Refer notes. and mention in brief the difficulties of barter system***

4. Money is the basis of credit

Ans:

1. Credit plays an important role in the modern economic system and money constitutes the basis of credit.
2. People deposit their money (saving) in the banks and on the basis of these deposit, the banks create credit.
3. Therefore, without money it is not possible to create credit.
4. Credit instruments like cheque, draft, bills of exchange will be of no use without money.
5. Thus, money forms a base for the credit system in the economy.

CHAPTER 11 – COMMERCIAL BANKS

Q.1. Distinguish between

1. Call loans and long term loan

Call loans	long term loan
Meaning	
Call loans refer to loans granted for short period of 1 to 7 days.	A long term loan refers to loans granted for a long period of 5 years or more than five years.
To Whom	
Call loans are given mainly to bill brokers or stock brokers to support their transactions in shares and securities	Long term loans are given to manufacturers and producers to satisfy their working capital requirement
Rate of Interest	
Call loans bear the least interest rate.	Long term loans attract highest rate of interest
Call loans mainly given to temporary cash cronic	Long term loans are mainly given for a cronic money problem

2. Cash credit and overdraft facility

Cash credit	Overdraft facility
Meaning	
It is an indirect loan under which the borrowers are allowed to draw cash to meet their cash requirements.	It is an indirect loan under which the customer is allowed to withdraw over and above their actual balance
To Whom	
It is granted to any customer or borrower against eligible securities. They are allowed to draw cash upto a Certain limit.	It is granted to current account holder who enjoys good reputation in their transaction.
Mode of Payment	
Borrower is allowed to draw cash.	Funds are adjusted by the bank to meet the shortage and to clear the cheque of the borrower.
Interest	
Interest is charged on the amount Withdrawn	Very low or no interest is charged on the OD amount.

3. Current Account and Savings Account

Current Account	Savings Account
1. Current account is suitable for businessmen, companies and firms.	1. This account is useful for individuals getting monthly salary, small traders and others.
2. No restrictions on withdrawal.	2. Withdrawals are allowed subject to certain restrictions.
3. The aim of current deposit is to facilitate daily financial transactions.	3. It main purpose is to save a part of the income.
4. Generally, no interest is paid on current deposits. Few banks pay extremely low interest on these deposits.	4. The rate of interest on saving account is comparatively more.

5. The bank provides a cheque book and passbook, monthly statement, pay–in–slip book.	5. The bank provides a pass book, cheque book and pay – in – slip book.
6. It requires a large amount.	6. It can be operated with lesser amount.
7. The current account holder gets the benefit of overdraft facility	7. No overdraft facility is given to savings accountant

Q.2 Give reasons or explain the following statements

1. Commercial banks provide agency functions to earn profits

Ans:

1. Commercial banks perform various agency functions for its clients:
   - Making periodic payments of rent, insurance premium, telephone bills, electricity bills etc .
   - Collection of cheques, bills, promissory notes, dividends on behalf of consumers
   - Managing investment portfolio of clients
   - Phone banking services
   - E-banking services
   - Acting as executor, trustee, attorney etc on behalf of customers.
   - Providing demat facility to their customers
2. The bank charges fees for providing all such services.
3. Thus, commercial provide agency functions to earn profits.

2. Overdraft facility is provided to current account holders

Ans:

1. The facility of overdraft is provided to current account holders.
2. Under this facility, the customer is allowed to withdraw more than what is currently outstanding (i.e. account balance) in the account upto an agreed limit.
3. The withdrawal limit depends on the collateral security.
4. No separate overdraft account needs to be opened.
5. Interest is charged on the amount withdrawn.

3. Savings account is generally opened by salaried class

Ans:

1. A savings account is an account where people deposit their personal savings.
2. Interest is paid by the bank on the balance in the account.
3. There are certain restrictions on the number of times money can be withdrawn from the account.
4. Banks provide many agency and general services to savings account holders.
5. Savings accounts encourage the habit of saving amount people in the country.
6. Savings account is very suitable by people earning a fixed income and therefore, it is generally opened by salaried class.

4. Rate of interest on fixed deposits is high

Ans:

1. In a fixed deposit, money is deposited for a fixed period of time varying from 10 days to 10 years.
2. This money can be withdrawn only at the end of the stipulated period.
3. Therefore, the bank can safely use the money for lending and investment purpose. The bank earns high income of the loans given and investment made.
4. Therefore, the rate of interest on fixed deposit is relatively higher as compared to any other deposit in the bank and the rate of interest depends on the duration for which money is deposited. Higher the duration, higher is the interest rate.

5. Every loan creates a deposit

Ans.

1. The process of credit creation starts when the customers deposit their cash in the bank. Such deposits are called "primary deposits" or "cash deposits".
2. The banks lend money (i.e. provide loans) out of the deposits received by them. The balance amount left after keeping aside the minimum cash reserves is used for providing loans and it is known as "derivative deposit" or secondary deposit.
3. When the bank provides loan to a customer, the bank opens a deposit account in the name of the borrower. The loan amount is credited to this deposit account.
4. Therefore, every loan given by a bank creates a deposit.

CHAPTER 12 – CENTRAL BANKING

Q.1 Distinguish Between:

1. Cash reserve Ratio and Statutory Liquidity Ratio

Cash reserve Ratio	Statutory Liquidity Ratio.
1. Meaning CRR refers to ratio at which all commercial banks have to maintain amount of cash out of their time and demand deposits	In addition to SLR, commercial banks have to keep certain percentage of their total time and demand deposit with the central bank in the form of cash, gold and securities.
2. Mode of Payment CRR must be kept only in cash	SLR may be held in gold and securities.
3. No interest is paid on cash reserves. Current CRR is 47 %	Government security earn interest Current SLR is 21.50%

2. Central Bank and Commercial Bank

Central Bank	Commercial Bank
1. The Central Bank is defined as the apex banking and monetary institution.	1. Commercial banks are the intermediary financial institutions which deal in money.
2. The main function of Central Bank is to control, regulate and stabilize the banking and monetary system of the country.	2. The main function is to accept deposits and lend loans and advances.
3. It does not deal with the public directly. It acts as the bank of government and bank of the banks.	3. It deals with the public. It accepts deposits from the public and lends loans and advances to businessmen, organizations.
4. The main objective is to control money supply and stabilize price level. It is welfare oriented organization.	4. The main objective of commercial banks is profit making through its function of accepting deposits and lending loans.
5. It enjoys the monopoly right to print and issue currency notes.	5. Commercial banks do not possess such rights.
6. Central Bank controls the credit.	6. Commercial banks create credit.
7. There is only one Central Bank in India. R.B.I. is owned by the Government.	7. Owned by private or government. There are several commercial banks like State Bank of India, ICICI Bank, Canara Bank, etc.

3. Quantitative Credit Control Measures and Qualitative Credit Control Measures

Quantitative Credit Control Measures	Qualitative Credit Control Measures
1. The measures which are useful for controlling the volume of credit which the commercial banks create are called Quantitative Credit Control measures.	1. The regulation of credit for specific purposes or branches of economy is called Qualitative Credit Control.
2. They create direct and immediate effect on the liquidity position of banks.	2. They aim at providing funds for socially and economically desirable purposes.
3. Quantitative credit control measures are also known as General Credit Control measures.	3. Qualitative Credit Control measures are also known as selective credit control measures.

4. The important quantitative measures are as follows: (a) Bank Rate; (b) Open market operation; (c) Variable reserve ratio.	4. The important qualitative measures are as follows: (a) Margin requirements; (b) Consumer credit control; (c) Issue of Directives (d) Credit Rationing; (e) Direct Action; (0 Publicity; (g) Moral suasion.
5. They control the credit activities of banks through expansion and contraction of liquidity position of the commercial banks.	5. They are devised to control the use or purpose of credit without seeking to control the volume of credit.

4. Bank Rate and Open Market Operations

Bank Rate	Open Market Operations
1. Bank Rate is the rate at which Central Bank of the country rediscounts the bills of exchange presented by the commercial banks.	1. Open market operations refer to the sale and purchase of Government securities by the Central Bank.
2. Bank rate is an indirect method utilized by Central Bank to control the volume of credit.	2. Open market operations have a direct effect on credit mechanism of the country.
3. In Bank Rate policy, the Central Bank depends on the functioning of commercial banks.	3. The initiative of open market operations lies with the Central Bank.
4. This method of credit control is inferior to open market operations.	4. This method of credit control is superior to the Bank Rate policy.
5. The important limitations of bank rate policy are - i) Dependence of commercial banks for rediscounting. ii) Existence of well-organized money market. iii) Lack of flexible and elastic economic structure etc.	5. The important limitations of open market operations are: i) Non-existence of broad and well organized Government security market ii) Open market operations are not suitable during the period of depression. iii) Lack of adequate stock of cash and securities with Central Bank etc.

Q.2 State with reasons, whether you agree or disagree with the following statements.

1. A Co- operative bank acts as a lender of the last resort.

Ans. No. I disagree with following statement

Central bank acts as the lender of the last resort. It supports, protects and assists, whenever commercial banks face problems.

i. .Accommodates commercial banks to meet their reasonable demand.

The function of lender of last resort has become very essential under present situation. The central bank meets all reasonable demands from commercial banks and discount houses. Almost it has become sine qua non of central banking.

Being the lender of the last resort, central bank meets all the reasonable requirements of commercial banks by rediscounting eligible bills. Central bank provides them great relief.

ii. **Crisis manager.**

As a lender of last resort, central bank rescues commercial banks in times of crisis.

Commercial banks keep only a fraction of their deposit with the central bank and the rest goes for loans. In case if public rushes to withdraw their deposits, any well developed commercial bank can run into trouble. Central bank protects their interest by acting as] the lender of the last resort. It provides cash during emergencies.

iii. **To meet seasonal demand.**

In countries like India, the demand for loan is seasonal. During rainy seasons the demand I for funds increases rapidly in the agricultural sector. Commercial banks face shortage of | funds. Under such circumstances, they can approach central bank and receive funds by rediscounting bills or by selling securities.

iv. **Provides liquidity.**

The facility of rediscounting strengthen the liquidity position of commercial banks, Whenever commercial banks face adverse situation and their cash reserves fall below the required level, they depend upon rediscounting.

v. **The function of lender of the last resort suits central bank better than other banks**.

Commercial banks or co-operative banks are not in a position to perform the function as lender of the last resort.

Central bank has been granted the power of monopoly of note issue. As the volume of money circulation is under its direct control, central bank effectively act as the lender of the last resort.

The function of lender of the last resort was initially introduced to Bank of England in 1873.

It is Walter Bagehot in his book Lombard Street stressed the need for the central bank to act as lender of the last resort. Eventually it has been recognised as the vital function of all central banks globally.

2. Credit control is the function of Central Bank of the country.

Ans. Yes, I agree with statement.

Write Quantitative and qualitative measures in brief.

3. Central Bank is a profit making institution.

Ans. No. I disagree with the following statement.

i. Welfare oriented.
Central bank is a public sector organisation. The objective of central bank is to act in the interest of public welfare. It is not a profit making organisation. Its main aim is to maintain price stability and boost economic growth.

ii. It is not based on profit making.
Central bank does not perform ordinary commercial bank functions like receiving deposit It does not advance loans in expectation of profit. It never competes with commercial banks. Rather it supports commercial banks and ensure smooth functioning of the banking system. Central bank also earns a surplus and enjoys profit. But its operations are not based on the objective of profit maximisation.

iii. Economic growth.
Its operations like credit control and price stability are undertaken purely in the interest of the economy. Such acts aim at improving general growth and welfare of the economy.

iv. It deals with government.
Unlike commercial banks central bank does not deal directly with general public. It does not provide agency functions to earn commission.It deals only with government and banks with an objective to improve economic welfare of the country.

4. Central Bank having monopoly of note issue is most appropriate institute of the government

Ans. Yes agree with the following statement.

i. Central bank is the only authority to issue notes.
Central bank is entrusted with the job of printing and issuing currency notes. It is the only bank in country which is authorised to issue currency notes. No commercial bank in India enjoys the power to issue notes.

In India RBI prints and issues ail currency notes except 1 rupee note and coins The central bank has its issue department which issues notes to commercial banks. Though coins are manufactured by government mint, they are circulated by central bank.

ii. Central bank is a legal monopoly to issue notes.

In India Reserve Bank of India acts as the central bank which enjoys the monopoly of note issue. The R.B.I, keeps a minimum reserve to issue currency notes since 1957. Under this system the Reserve banks of India its a minimum reserve of Rs. 200 crores out of which 115 crores must be in gold and the remaining 85 crores in foreign securities. There is no limit for the issue of currency notes.

iii. Notes enjoy distinct prestige.

Notes issued by RBI enjoy distinctive prestige as RBI enjoys the monopoly. Such a distinct prestige make the notes of RB! popular, it enjoys wider recognition. Since the notes are guaranteed by government security, it adds further strength to the dignity of RBI notes. Such prestige and dignity will be lost if commercial banks and co-operative banks are allowed to print notes.

iv. Controlling money supply.

At present size of deposit money and volume of credit creation by commercial banks have been ever expanding. This has created a need for a powerful controlling authority to avoid excess credit creation. The power of monopoly of note issue provides central bank to have absolute control on money circulation.

Q.3 Give reasons or explain

1. Clearing house system economises the use of cash

Ans:

1. In every country, there are several commercial banks operating in a banking system.
2. It is not possible for them to meet personally and to debit & credit their accounts.
3. Thus, this difficulty is solved by the central bank which acts a clearing house.
4. Every commercial bank has its account with the central bank.
5. Therefore, any outstanding claims of banks against each other are settled by debit credit entries in their accounts.
6. The actual transfer of money does not take place.
7. Thus, the clearing house system economises the use of cash.

2. Central bank acts as a lender of last resort.

Ans:

1. A major portion of money received by commercial banks as deposits is given as loan or invested in securities.
2. Therefore, banks do not have very high liquidity.
3. If many account holders demand cash from the bank at a point of time, the bank might face difficulty as the bank might not have enough cash reserves.
4. At such times, the commercial banks can go to the central bank for financial assistance.
5. The central bank is the ultimate source of final assistance to commercial banks.
6. Thus, the central bank is also called as lender of last resort.

3. The CRR affects the lending capacity of the banks.

Ans:

1. Commercial banks have to keep a certain percentage of the total demand and time deposits as cash reserve with the central bank. This percentage is called as cash reserve ratio (CRR).
2. Only the balance amount is available to the banks for lending activities.
3. During inflation, the central bank increases the CRR. As a result, the commercial bank has to keep a higher amount as reserve with central bank and the amount available for lending is reduces.
4. During recession, the central bank decreases the CRR. As a result, the commercial bank has to keep a lesser amount as reserve with central bank and the amount available for lending increases.
5. Thus, CRR affects the lending capacity of the banks.

4. As a banker to the government, the central bank transfers government funds.

Ans:

1. The central bank is a banker to the government. It is an apex monetary & banking authority and occupies a pivotal position in the banking structure of the country.
2. The government is the custodian of all government funds. It maintains all the cash balance of the government.
3. It makes all payments on behalf of the government towards salaries, interest, pension etc.
4. It transfers funds of government from one part of the country to another and from one account to another account.
5. In India, for this purpose, the RBI has 5 zonal offices and 19 regional offices. Where there is no RBI office, the SBI acts as an agent of RBI.

5. A central bank may take "direct action" against defaulting commercial banks

Ans.

1. The central bank is a banker to the government. It is an apex monetary & banking authority and occupies a pivotal position in the banking structure of the country.
2. It supervises and regulates the activities of commercial banks.
3. The central bank takes strong disciplinary action against commercial banks which violate the directives issued by the central bank.
4. The central bank could take the following action against defaulting commercial banks:
    - It may <u>refuse to rediscounting facilities</u> to commercial banks
    - It may charge penal rate of Interest to banks who borrow from the central bank above a prescribed limit.
    - The central bank may refuse to <u>grant loan & advances</u> to commercial banks against some collateral securities.
    - It may threaten the commercial bank to be <u>taken over by it</u> if it continues to default.

CHAPTER 13 – PUBLIC ECONOMICS

Q.1 Distinguish between

1. Revenue Receipt and Capital Receipt

	Revenue Receipt	Capital Receipt
1. Meaning	Revenue receipts refer to those receipts which increase usable funds of the government without creating any debt liability.	Capital receipts refer to those receipts which increase the usable funds of the government by creating debt obligation
2. Sources	i. Receipts from taxation ii. Non– tax receipts like registration fees, court fees, fines and penalties surpluses from public enterprises and surpluses from public utilities.	i. Borrowing by the government from the public. (market borrowings) ii. Borrowing from Reserve Bank of India and other parties. iii. External borrowing from foreign government and international organization. iv. Recoveries of loans from states and union territories. v. Small savings and public provident fund (PPF).
3. Liability	Revenue receipts does not add liabilities	Excessive borrowing results in liabilities for the government.

2. Direct Tax and Indirect Tax

Direct Tax	Indirect Tax
1. **Meaning :** A direct tax is a tax which is paid by a person on whom it is legally imposed. **E.g.:** Income tax, wealth tax etc.	An indirect tax is a tax which is imposed on a person but paid partly or wholly by other person. **E.g.:** Sales tax, excise duty, import duty etc.
2. **Impact and incidence :** Impact and incidence are on the same person, i.e. the tax payer is also the tax – bearer.	The impact and incidence are on different person i.e. there is a shifting of the tax.
3. **Determinant :** Generally direct tax is linked to income and wealth. Direct tax are more just and equitable	Generally indirect taxes are linked to expenditure. Indirect tax are unjust and unequitable.

3. Deficit budget and Balance budget

	Deficit budget	Balance budget
1.	**Meaning :** A deficit budget is that type of budget in which the estimate expenditure exceeds estimated revenue.	A balanced budget is the type of budget in which the estimated revenue of the government is equal to estimate expenditure of the government.
2.	**Borrowing :** The revenue is not sufficient to meet expenditure. It results in borrowing.	Government raises sufficient revenue to meet the expenditure. There is no need to borrow.
3.	**Suitability :** It is suitable for governments especially when the economy suffers from depression. More favorable for developing nations like India.	At present, it is not possible to introduce a balanced budget. Not favorable (Just Idealist)

Q.2 State with reasons whether you agree or disagree with the following statement.

1. Capital budget consists of revenue receipts and revenue expenditure.

Ans. No. I disagree with following statement.

Capital budget consists of revenue receipts and revenue expenditure.
Capital budget gives an account of capital receipts and capital expenditure.

a) Capital receipts.

Capital receipts refer to those receipts which increase the usable funds of the government by creating debt obligations. It may also result in reduction in assets of the government it includes the following items:

(I) Borrowing by the government from the public, (market borrowings)

(II) Borrowing from Reserve Bank of India and other parties through the sale of treasury.

(III) External borrowing from foreign governments and international organisation like world bank, International Monetary Fund, Asian Development Bank etc.

(IV) Recoveries of loans from states and union territories.

(V) Small savings and public provident fund (PPF). Small savings refer to funds mobile from general public in the form of post office deposits, national saving certificates etc. creates liability for the government.

(V) Disinvestment. It refers to the act of selling shares of reputed public sector organization to private enterprises either partly or fully. It will results in reduction in the assets government.

b) Capital Expenditure.

Capital expenditure refers to expenditure incurred by the central government on acquisition of assets like land, building, machinery and equipment. It also includes investment on shares, loans granted to state and union territories, government companies, corporations etc.

Capital receipts result in creation of assets which can become sources of further revenue for the government. Thus they help in reducing debt liability.

2. During the period of inflation surplus Budget is advisable

Ans. When estimated government receipts are more than the estimated government expenditure it is termed as Surplus Budget. When government spends less than the receipts the budget become surplus. That is, estimated Government receipts > anticipated Government expenditure.

A surplus budget is used either to reduce governments public debt (its liabilities) or increase its savings.

A surplus budget may prove useful" during the period of inflation. In periods of inflation, although there is greater employment, there is also a tendency for prices to rise rapidly. This has to be checked, particularly in the interest of those who have a more or less fixed income. This inflationary gap can be corrected by lowering the level of effective demand in the economy. It can be corrected by increasing taxes. This would increase the revenue of the government; but reduce the purchasing power of the people. As a result, the aggregate demand will fall. This inflationary gap can be corrected by lowering the level of public expenditure.

When government reduces its expenditure on public works and other infrastructure, the revenue with the government is in excess of its expenditure.

The surplus budget should not be used in situation other than the inflationary gap, as it may lead to unemployment and low levels of output in an economy.

Reserve Budget	Capital Budget
It is a study of revenue receipts & revenue expenditure	Capital receipts & expenditure
Sources of revenue receipts are tax revenue & non tax revenue. Reserve expenditures are incurred in the form of pla, non-pla, dev, non-devl.	Sources of capital receipts are recovery of loans, borrowing, small savings, disinvestment capital expenditure is also incurred an P,NP, D,ND.
Revenue budget does not result into creations & reduction of assets & liabilities.	Capital budget results into creation & reduction of assets & liabilities.
Imbalance of RR & RE may result into surplus or deficit in revenue budget	Imbalance between CR & CE may result into surplus or deficit in capital budget.
RB is depicted in P & L A/c	Capital Budget brings changes in BS.

Q.3 Define or explain the following concepts

1. Fine and Penalty

The government also earns revenues from various fines and penalties levied on citizens and business organization in the country. The government levies fines and penalties to maintain law and order.

For e.g.:

- <u>Fine</u> of Rs. 350 crores was collected from Bharti Airtel for violating telecom license conditions
- <u>Penalty</u> for not paying taxes on due date, not disclosing proper income, not maintaining proper books of accounts etc.

2. Budget

A budget is an annual statement of the expenditure and revenue of the government prepared by the financial authority (i.e. the Finance Ministry) which covers the preceding year, current year and the following year. The word 'budget' derived from the French word, "Bougettee" which means a bag or a wallet containing the financial proposals.

3. Plan Expenditure

Plan expenditure refers to expenditure incurred on the various plans and programmes of the government. For e.g.: Employment programmes, poverty eradication programmes, rural development programmes etc.

4. Recovery of debt

The government gives loans to state government and private organisations in time of need. Recovery of debt refers to the recovery of such loans given by the government. The recovery of debt Is a capital receipt and leads to a reduction in assets of the government.

5. Deficit Budget

A budget in which the estimated revenue of the government is less than the estimated expenditure of the government is called as a deficit budget.

i.e. Government's estimated revenue < Government's estimated expenditure

A deficit budget either increases the liability of the government (because the government will borrow more funds) or will reduce Its reserves.

Q.4 Give reasons or explain the statement

1. Income collected from tax is the main source of government revenue

Ans:

1. Tax is a compulsory payment made by people and various business organizations in the country
2. Tax revenue is collected from two types of taxes - direct taxes and indirect taxes
3. Direct tax is the tax on income of individuals and profit of business organizations.
4. Indirect tax is the tax on commodities or services which are manufactured or produced by business organizations.
5. Payment of tax is compulsory and non-payment of tax is a punishable offence.
6. Thus, tax Is collected on income as well as on the goods & services which are purchased with the income.
7. Hence, income collected from tax Is the main source of government revenue.

2. Revenue receipts and revenue expenditure is known as revenue budget

Ans:

1 Revenue budget consists of revenue receipts of the government and the allocation of the same towards various revenue expenditures.

2. It is a summary of revenue receipts and revenue expenditure of the government.
3. Revenue receipts refer to the recurring earning of the government. For e.g.: tax revenue and non-tax revenue.
4. Revenue expenditure refers to the recurring expenditure of the government. For e.g.: expenditure of defe judiciary, health, education etc.

Thus, revenue receipts and revenue expenditure together Is known as revenue budget.

3. Government revenue is more than government expenditure.

Ans.

1. A budget in which the estimated revenue of the government during the year is more than the estimated expenditure is called as a surplus budget.
   i.e. Government estimated revenue > Government estimated expenditure
2. A surplus budget either reduces debt (because the government can repay its debts out of the surplus revenue) or increases the reserves.
3. A surplus budget indicates that either the government is spending less on public welfare or it is collecting excess taxes or both.
4. When the country is facing the pressure of inflation, the government may reduce its spending. Simultaneously, it may increase the tax rates and reduce the disposable income of the people.
5. Thus, when tax revenue increases and government reduces its spending, the government revenue is more than government expenditure.

ECONOMICS

Time : 3 Hours **MARCH 2014** **Max Marks : 80**

Q.1. (A) Fill in the blanks with appropriate alternatives given in the brackets below the questions : (5)(16)

(1) Micro economics is a _______________ equilibrium approach.
(partial / general / total / multi-variable)

(2) The demand for salt is _______________.
(elastic / in elastic / infinitely / unitary elastic)

(3) Investment made by the government is _________investment.
(unplanned / gross / autonomous / induced)

(4) A bank is an institution which deals in money and _________.
(commodity money / credit / barter / standard money)

(5) During depression____________ budget is preferable.
(balance / surplus / deficit / zero)

(B) Match the following Group 'A' with group 'B': (5)

	Group 'A'		Group 'B'
(1)	Tea and coffee	(a)	Wages
(2)	Stock	(b)	Flow concept
(3)	Labour	(c)	Central bank
(4)	National Income	(d)	Commercial bank
(5)	Clearing house system	(e)	Complementary goods
		(f)	Rent
		(g)	Potential Supply
		(h)	Substitute goods

(C) State whether the following statements are True or False : (6)

(1) Perfectly inelastic demand curve is parallel to 'Y' axis.
(2) Supply is inversely related to price.
(3) Price discrimination is possible under monopoly.
(4) In case of token coins intrinsic value is less than their face value.
(5) Credit money is created by the central bank of a country.
(6) The main objective of the Central bank is to earn profit.

Q.2.(A) Define or Explain the following concepts (Any THREE) : (6)(12)

(1) Slicing method (2) Total output (3) Pure competition
(4) Entrepreneur (5) Macro economics (6) Repo rate

(B) Give reasons or explain the following (Any THREE) : (6)

(1) Theories of micro economics are based on certain assumption.
(2) Utility is a relative concept.
(3) Demand for the commodity having multiple uses is elastic.
(4) Old age pension is transfer income.
(5) The propensity to save depends upon the level of income.
(6) Central bank acts as a lender of the last resort of commercial banks.

Q.3.(A) Distinguish between (Any THREE) **(6)(12)**

(1) Individual demand and Market demand
(2) Increase in supply and Decrease in supply.
(3) Partial equilibrium and General equilibrium.
(4) Gross domestic product at market price and Gross domestic product at factor cost.
(5) Legal tender money and Non legal tender money
(6) Surplus budget and deficit budget.

(B) Write short notes (Any TWO) : **(6)**

(1) Subject matter of micro economics.
(2) Significance of price elasticity of demand.
(3) Types of monopoly
(4) Types of capital

Q.4. Write short answers for the following questions. (Any THREE) : **(12)**

(1) Explain the type of utility.
(2) Explain the features of monopolistic competition.
(3) Explain the subject matter of macro economics.
(4) Explain the determinants of aggregate demand.
(5) Explain the agency function of commercial banks.
(6) Explain the budget expenditure of the government.

Q.5. Explain with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE) : **(12)**

(1) The law of 'diminishing marginal utility' is important in practice.
(2) Price is the only determinant of demand
(3) Supply curve of labour bends backwards.
(4) Money also performs certain contingent functions.
(5) Commercial banks can not create credit money.
(6) Cash reserve ratio is a quantitative measure of credit money.

Q.6. Write explanatory answers (Any TWO) **(16)**

(1) State and explain the 'Law of demand' with its exceptions.
(2) Explain any 'two methods' of measuring price elasticity of demand.
(3) Explain the practical difficulties involved in the measurement of national income.
(4) What is 'consumption function'? Explain the subjective factors which determine consumption function.

ECONOMICS

Time : 3 Hours **OCTOBER 2014** **Max Marks : 80**

Q.1. (A)Fill in the blanks with appropriate alternatives given in the brackets below the questions : (5)(16)

(1) Microeconomics is a study of ______________.
(whole economy / individual economic unit / general price level / national output)

(2) The slope of demand curve is ___________in the case of relatively inelastic demand.
(flatter / steeper / horizontal / vertical)

(3) The book " The General Theory of Employment, Interest and Money" was written by________
(Marshall / Keynes / Smith / Ricardo)

(4) Every loan creates a ____________. (loss / profit / deposit / credit)

(5) ___________ is an example of direct tax. (Excise duty / Income tax / Sales tax/ Gifts)

(B) Match the following Group 'A' with group 'B': (5)

	Group 'A'		Group 'B'
(1)	Inferior goods	(a)	Average cost (AC)
(2)	Reward of capital	(b)	1st April to 31st March
(3)	Financial year	(c)	Quantitative measure of credit control
(4)	Bank Rate	(d)	Marginal cost
(5)	Total cost (TC)	(e)	1st January to 31st December
	Total quantity (TQ)	(f)	Profit
		(g)	Interest
		(h)	Giffen goods

(C) State whether the following statements are True or False : (6)

(1) Demand for electricity is elastic.
(2) Supply is directly related to price.
(3) In monopolistic competition goods have no lose substitutes.
(4) Barter system did not have any difficulty.
(5) D-mat account is useful to investors who deal in shares.
(6) Clearing house system economics the use of cash.

Q.2.(A) Define or Explain the following concepts (Any THREE) : (6)(12)

(1) Microeconomics (2) Average revenue (3) Monopoly
(4) Land (5) Macroeconomic variables (6) Central bank

(B) Give reasons or explain the following (Any THREE) : (6)

(1) Microeconomics is useful to the government
(2) Utility is a relative concept.
(3) Demand for habitually used goods is inelastic.
(4) Services of housewives are excluded from national income.
(5) Autonomous investment is not directly linked with profit.
(6) Central bank has the sole power of issuing currency notes.

Q.3.(A) Distinguish between (Any THREE) (6)(12)

(1) Direct demand and Indirect demand
(2) Percentage method and Geometric method of measuring elasticity of supply.

(3) Microeconomics and Macroeconomics.
(4) Gross national product and Net national product.
(5) Standard coins and Token coins.
(6) Revenue budget and Capital budget.

(B) Write short notes (Any TWO) : (6)
(1) Historical review of microeconomics.
(2) Proportional method of measuring price elasticity of demand.
(3) Price determination under perfect competition.
(4) Risk and uncertainty bearing functions of an enrpreneur.

Q.4. Write short answers for the following questions. (Any THREE) : (12)
(1) Explain the importance of the 'law of diminishing marginal utility'.
(2) Explain the features of perfect competition.
(3) Explain the features of macroeconomics.
(4) Explain the determinants of aggregate supply.
(5) Explain the various types of deposits.
(6) Explain the types of government budget.

Q.5. Explain with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE) : (12)
(1) There is no relationship between marginal utility and total utility.
(2) There are no exceptions to the 'law of demand'.
(3) There is difference between stock and supply.
(4) Good money has many qualities.
(5) Commercial banks provide many general utility services.
(6) Central bank does not work as a banker for the government.

Q.6. Write explanatory answers (Any TWO) (16)
(1) State and explain the 'law of demand' with assumptions.
(2) What is elasticity of demand? Explain the types of price elasticity of demand.
(3) Explain any 'two' methods of measuring national income.
(4) Explain Keynesian 'Psychological law of consumption'.

ECONOMICS

Time : 3 Hours **MARCH 2015** **Max Marks : 80**

Q.1.(A) Fill in the blanks with appropriate alternatives given in the brackets below the questions: (5) [15]

(1) The terms 'micro' and 'macro' economies were first used by____________ .
(Marshall / llagnar Frisch / Robbins/ Adam Smith)

(2) The objective of a seller in monopoly market is maximization.
(loss / profit / negative profit / zero profit)

(3) Marginal propensity to consume + marginal propensity to save ..
(zero / one / less / more)

(4) Method of withdrawing money without goi ng to the bank is by___________ .
(cheque / demand draft f ATM / mail transfer)

(5) The term 'budget' is derived from the_____________ word 'bougette'.
(Greek / German / French / Latin)

(B) Match the following Group *A' with group 'B': (5)

	Group 'A'		Group 'B'
1.	Pen and ink	1.	Quantity-price
2.	Revenue	2.	Accident
3.	Insurable risk	3.	Transfer income
4.	Unemployment allowance	4.	Short period
5.	Reverse repo rate	5.	Long period
		6.	Change in demand
		7.	Joint demand
		8	Quantity x price

(C) State whether the following statements are True or False: (6)

(1) Demand for perishable goods is inelastic.
(2) Total cost is the total expenditure incurred by a firm.
(3) The seller is a price maker in the perfect competition.
(4) Cheque is an optional money.
(5) A bank is an institution which deals in money and credit.
(6) The RBI was nationalised in the year 1935.

Q. 2.(A) Define or Explain the following concepts (Any THREE): (6) [12]

(1) Resource allocation (2) Elasticity of supply (3) Market
(4) Labour (5) Macro economics (6) Central bank

(B) Give reasons or explain the following (Any THREE) : (6)

(1) Micro economics studies individual economic unit.
(2) Change in the price of substitute goods affects the demand lor another goods.
(3) In order to avoid double counting, value added approach is used.
(4) Effective demand is also called macro economic equilibrium.
(5) The Central bank may take direct action against the defaulting commercial banks.
(6) Unpaid sendees are not included in national income.

Q. 3.(A) Distinguish between (Any THREE): (6) [12]

(1) Place utility and Time utility.
(2) Demand curve and Supply curve.
(3) Individual supply and Market supply.
(4) Slicing method and Lumping method.
(5) Convertible paper money and Inconvertible paper money.
(6) Revenue expenditure and Capital expenditure.

(B) Write short notes (Any TWO): (6)

(1) Microscopic study. (2) Income elasticity of demand.
(3) Determination of equilibrium price under perfect competition.
(4) Functions of an Entrepreneur.

Q. 4. Write short answers for the following questions. (Any THREE): [12]

(1) Explain the law of diminishing marginal utility.
(2) Explain the features of monopoly.
(3) Explain the features of macro economics.
(4) Explain various types of investment expenditure.
(5) Explain the secondary functions of money.
(6) Explain different types of loans and advances provided by commercial banks.

Q.5. Explain with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE): . [12]

(1) The law of equi-marginal utility is based on certain assumptions.
(2) Population is the only determinant factor of demand.
(3) There are no exceptions to the law of supply.
(4) Providing safe deposit vault facility is the only general function of commercial banks.
(5) There is no difference between Central bank and a commercial bank.
(6) During the period of inflation surplus budget is advisable.

Q. 6. Write explanatory answers (Any TWO): [16]

(1) Explain in detail 'saving function' with schedule and diagram.
(2) What is 'elasticity of demand"? Explain the factors determining elasticity of demand.
(3) What is 'national income'? Explain the theoretical difficulties involved in the measurement of national income.
(4) State and explain the law of demand' with its exceptions.

ECONOMICS

Time : 3 Hours **OCTOBER 2015** **Max Marks : 80**

Q.1. (A) Fill in the blanks using proper alternatives given in the brackets:

(1) Micro economics is a study of ________.
(whole economy, general price level, national output, individual economic unit)

(2) Demand for salt is__________.
(elastic, inelastic, infinitely elastic, unitary elastic)

(3) __________consumption cannot be zero.
(Induced, Autonomous, Government, Private)

(4) The primary function of commercial banks is to .
(purchase and sale securities, accept deposits, provide safe deposit vaults, issue letter of crcdit)

(5) During depression___________budget is preferable.
(balanced, surplus, deficit, zero)

(B) Match the following :

Group 'A'		**Group 'B'**	
(a)	Demand and price	(1)	Interest
(b:	Stock	(2)	Profit
(c)	Reward of capital	(3)	Reserve Bank of India
(d)	Unemployment allowance	(4)	Bank of India
(e)	Central Bank	(5)	Direct relation
		(6)	Potential supply
		(7)	Transfer income
		(8)	Inverse relation

(C) State whether the following statements are True or False :

(1) Concept of elasticity of demand is useful for finance minister.
(2) Supply of perishable goods is inelastic.
(3) There is no price discrimination under monopolistic competition.
(4) A cheque is a fiat money.
(5) The savings bank deposit can be opened with a small amount.
(6) The Central Bank does not work as bankers' bank.

Q. 2. (A) Define or explain the following concepts (Any THREE): (6) (12J

(1) Average revenue (2) Selling cost
(3) Land (4) General equilibrium
(5) Bank rate (6) Individual economic unit

Q. 2. (B) Give reasons or explain the following statements (Any THREE) : (6)

(1) Micro economic theories are based on certain assumptions.
(2) Utility is ethically neutral.
(3) Demand for habitual goods is inelastic.
(4) Paid services are included in national income.
(5) There are many subjective factors that determine consumption function.
(6) Central Bank acts as a lender of the last resort.

Q. 3. (A) Distinguish between (Any THREE) : (6) [12)

(1) Desire and Demand.
(2) Gross National Product and Net National Product.
(3) Paper money and Metal coins.
(4) Surplus budget and Deficit budget.
(5) Micro economics and Macro economics.
(6) Stock and Supply.

(B) Write short notes (Any TWO) : (6)

(1) Importance of micro economics.
(2) Ratio method of measuring elasticity of demand.
(3) Types of monopoly.
(4) Qualities of an entrepreneur.

Q. 4. Write short answers for the following questions (Any THREE): [12]

(1) What are the characteristics of utility?
(2) Explain the features of perfect competition.
(3) What are the features of macro economics?
(4) What are the determinants of aggregate supply?
(5) Explain various types of deposits.
(6) Explain the components of budget.

Q.5. Explain with reasons whether you Agree or Disagree with the following statements(Any THREE): [12]

(1) Various factors influence the demand for a commodity.
(2) Law of diminishing marginal utility is important in practice.
(3) Price is the only determinant of supply.
(4) Money performs various functions.
(5) Commercial banks provide many general utility services.
(6) Central Bank is a profit making institution.

Q. 6. Write explanatory answers (Any TWO) : [16]

(1) State and explain the law of demand with assumptions.
(2) What are the types of price elasticity of demand?
(3) Explain the practical difficulties involved in the estimation of national income.
(4) Explain the determinants of aggregate demand.

ECONOMICS

Time : 3 Hours **MARCH 2016** **Max Marks : 80**

Q. 1. (A) Fill in the blanks with appropriate alternatives given in brackets : (5) [16]

(1) The terms 'Micro' and 'Macro' economics were first used by
(Adam Smith / Robbins / Ragncr Frisch / Marshall)

(2) Demand for necessaries is
(elastic / inelastic / infinitely elastic / un itary clastic)

(3) _____________consumption can not be zero.
(Induced / Autonomous / Government /Private)

(4) Accepting deposits from the public is the_________
(secondary / general /primary / incidental)

(5) In India budget is presented in the Parliament by the_______
(Prime Minister / Finance Minister / Chief Minister / Defence Minister)

(B) Match the following:

	Group 'A'		Group'B'
(a)	Financial plan	(1)	Savings account
(b)	Demand for electricity Perfectly elastic	(2)	Rent
(c)	supply land	(3)	Transfer income
(d)	Pension	(4)	Dear money policy
(e)	Inflation	(5)	Composite demand
(f)		(6)	Horizontal supply curve
		(7)	Part of national income
		(8)	Vertial supply curve
			Cheap money policy

(C) State whether the following statements are True'or'False': (6)

(1) Income elasticity of demand for inferior goods is negative.
(2) If price falls, the supply curve will shift to the left.
(3) Product differentiation is the most distinguishing feature of monopolist competition.
(4) In the case of token coins, intrinsic value is less than their face value.
(5) Overdraft facility i$ provided to saving account holders.
(6) Clearing house system economises the use of cash.

Q.2. (A) Define or Explain the following concepts (Any THREE): (6)[12]

(1) Micro Economics (2) Relatively elastic supply
(3) Price discrimination (4) National income
(5) General equilibrium (6) Reverse Repo Rate

(B) Give reasons or explain the following (Any THREE): (6)

(1) Micro Economics studies behaviour of individual economic unit.
(2) Utility has no ethical consideration.
(3) Demand for the commodity having multiple uses has elastic demand.
(4) An entrepreneur is called a leader of the organization.
(5) With the increase in income, both consumption and savings increase.
(6) Central Bank is a banker to the government.

Q.3. (A) Distinguish between (Any THREE): (6)[12]

(1) Expansion of demand and Increase in Demand.
(2) Total Cost and Total Revenue.
(3) Micro Economics and Macro Economics.
(4) Gross National Product and Net National Product.
(5) Convertible paper money and Inconvertitable paper money.
(6) Surplus Budget and Deficit Budget.

(B) Write short notes (Any TWO): (6)

(1) Features of Micro Economics.
(2) Total expenditure method of measuring Elasticity of Demand.
(3) Features of Monopolistic Competition.
(4) Features of Land.

Q.4. Write short answer for the following questions. (Any THREE): [12]

(1) Explain the relationship between Total utility and Marginal utility.
(2) What are the features of perfect competition?
(3) Explain the subject matter of Micro Economics.
(4) State the determinants of aggregate demand.
(5) Explain Primary functions of Commercial Bank.
(6) What are the main components of government budget?

Q.5. Explain with reasons whether you 'agree' or 'disagree' with the following statements(Any THREE): [12]

(1) The law of diminishing marginal utility can be explained with the help of schedule . and diagram.
(2) There are no exceptions to the law of demand.
(3) Price is the only determinant of supply.
(4) Money performs various functions.
(5) Commercial Bank cannot create credit.
(6) Bank rate is quantitative measure of credit control.

Q.6. Write explanatory answer (Any TWO): [16]

(1) State and explain the 'Law of Demand' with its assumptions.
(2) What is elasticity of demand? What are the types of elasticity of demand?
(3) Explain various methods of measuring national income.
(4) What is aggregate supply? Explain determinants of aggregate supply?

ECONOMICS

Time : 3 Hours **OCTOBER 2016** **Max Marks : 80**

Q. 1. (A) Fill in the blanks with appropriate alternatives given in brackets : (5) [16]

(1) Micro Economics is a study of ___________
(Whole economy/general price level/national output/individual economic unit)

(2) Indirect demand is also known as ____demand.
(derived/ direct/ composite /joint)

(3) Under monopoly there is existence of _______.
(single buyer/ several buyers/single seller/ several sellers)

(4) Producer means of production is known as ____________
(a) land/labour/capital/ entrepreneur)

(5) Budget is the __________of the revenue and expenditure of the coming year.
(exact value/estimate/ planning of private sector/ planning of co-operative sector)

(B) Match the following:

	Group 'A'		Group'B'
(a)	Electricity	(1)	Inelastic demand
(b)	Complementary goods	(2)	Share brokers
(c)	Pension	(3)	Elastic demand
(d)	D-mat account	(4)	Composite demand
(e)	Central Bank	(5)	Transfer income
		(6)	Primary function of Commercial Banks
		(7)	ATM facility
			Apex banking institution

(C) State whether the following statements are True or False: (6)

(1) Perfectly inelastic demand curve is parallel to 'X' axis.
(2) Micro Economic theory assumes full employment.
(3) There is no product differentiating under monopolistic competition.
(4) Labour is a perishable factor of production.
(5) Investment made by the government is autonomous investment.
(6) The Cash Reserve Ratio does not affect the lending capacity of the commercial banks.

Q.2. (A) Define or explain the following concepts (Any THREE): (6) [12]

(1) Micro Economics (2) Service utility
(3) Market demand (4) Induced consumption expenditure
(5) Token coins (6) Government budget

(B) Give reasons or explain the following statements (Any THREE): (6)

(1) Demand for habitual goods is normally inelastic.
(2) Supply of land is perfectly inelastic.
(3) Macro Economics is concerned with macro economic variables.
(4) Rate of interest on fixed deposit is high.
(5) Central Bank acts as a lender of the last resort.
(6) A deficit budget may prove useful during the period of depression.

Q. 3. (A) Distinguish between (Any THREE) : **(6) [12]**

(1) Average Revenue anil Average Cost.
(2) Land and Capital.
(3) Partial equilibrium and General equilibrium.
(4) Metallic money and Paper money.
(5) Central Bank and Commercial Bank.
(6) Revenue expenditure and Capital expenditure.

(B) Write short notes (Any TWO): **(6)**

(1) Giffen's paradox. (2) Income elasticity of demand.
(3) Difficulties in Barter system. (4) Credit creation.

Q. 4. Write short answers for the folio wing questions (Any THREE): **[12]**

(1) Explain the Law of Demand.
(2) Explain increase in supply and decrease in supply.
(3) What is the importance of the study of Micro Economics?
(4) Explain factors determining elasticity of demand.
(5) Explain features of National income.
(6) Explain qualitative measures of credit control adopted by the Central Bank.

Q. 5. Explain with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE): **[12]**

(1) Price is the only factor that affects demand of a commodity.
(2) Price elasticity of demand can not be measured by using geometric method.
(3) There is direct relationship between price and quantity supplied.
(4) Aggregate supply is influenced only by availability of natural resources.
(5) Commercial banks perform agency functions to earn profit.
(6) There is a difference between Micro Economics and Macro Economics.

Q. 6. Write explanatory" answers (Any TWO): **[16]**

(1) State and explain in detail the Law of Diminishing Marginal Utility.
(2) Define perfect competition and explain price determination under perfect competition.
(3) Explain the'Output Method'of measuring National income.
(4) What is Aggregate demand? Explain the determinants of Aggregate demand.

ECONOMICS

Time : 3 Hours **MARCH 2017** **Max Marks : 80**

Q. 1. (A) Fill in the blanks with appropriate alternatives given in brackets : (5) [16]

(1) Market demand is a total demand of _______________buyers.
(Some /all/one/two)

(2) Perfectly inelastic demand curve is ___________
(flatter/ steeper/vertical straight line parallel to "OY" axis/ horizontal straight line parallel to "OX" axis)

(3) Other factors remaining constant, when price of a commodity rises, then is _________of supply.
(extension/ contraction/decrease increase)

(4) National income is ______________concept.
(stock/final/intermediate/flow)

(5) _______________is the apex body of the monetary and banking system of the nation's economy.
(Commercial bank/Central bank/ Government /CO-operative bank)

(B) Match the following:

	Group 'A'		Group'B'
(a)	Adam Smith	(1)	Private monopoly
(b)	Railway	(2)	Father of economics
(c)	Legal tender money	(3)	Public monopoly
(d)	D-mat account	(4)	Principles of economies
(e)	Bank rate	(5)	Buying and selling of shares
		(6)	Quantitative tool of credit control
		(7)	Flat money
			Selective method of credit control

(C) State whether the following statements are True or False: (6)

(1) Total Revenue = Total quantity x price
(2) Demand for necessary goods is inelastic
(3) Capital is a natural factor of production.
(4) Consumption expenditure is the only component of aggregate demand.
(5) Credit money is created by the central bank of country.
(6) Budget is a monthly statement.

Q.2. (A) Define or explain the following concepts (Any THREE): (6) [12]

(1) Micro economics
(2) Service utility
(3) Unitary elastic demand
(4) Disposable income
(5) Autonomous consumption
(6) Bank rate

(B) Give reasons or explain the following statements (Any THREE): (6)

(1) Supply is directly related to price
(2) Price discrimination is possible under monopoly
(3) Labour cannot be stored
(4) Macro economics is the study of aggregates
(5) Cash reserve ratio (CRR) affects the lending capacity of banks.
(6) Macro economics deals with allocation of resources.

Q. 3. (A) Distinguish between (Any THREE) : (6) [12]

(1) Increase in demand and Decrease in demand
(2) Partial equilibrium and General equilibrium
(3) Personal Income and National income
(4) Standard coins and Token coins
(5) Direct tax and Indirect tax
(6) Extension of supply and Contraction of supply

(B) Write short notes (Any TWO): (6)

(1) Importance of Micro Economics
(2) Factors determining elasticity of demand
(3) Features of monopoly
(4) Types of capital

Q. 4. Write short answers for the folio wing questions (Any THREE): [12]

(1) What are the characteristics of utility.
(2) What are the features of pure competition
(3) What are the features of 'macro economics'?
(4) What are the primary functions of commercial bank?
(5) What are the types of budget?
(6) What are the determination of aggregate demand?

Q. 5. Explain with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE): [12]

(1) There are no exception to the Law of Demand.
(2) Commercial banks can create on the basis of primary deposit.
(3) Central Bank is called as the bankers bank
(4) There is no difference between Stock and Supply
(5) General acceptability is the only quality of good money.
(6) Law of Diminishing Marginal Utility is importance in practice.

Q. 6. Write explanatory" answers (Any TWO): [16]

(1) State and explain Law of Demand with assumption.
(2) Explain Ratio method and Geometric method of measuring price elasticity of demand
(3) What is National Income? Explain theoretical or conceptual difficulties of measuring national income?
(4) Explain the Subjective and Objective factors determining consumption function.

ECONOMICS

Time : 3 Hours **JULY 2017** **Max Marks : 80**

Q. 1. (A) Fill in the blanks with appropriate alternatives given in brackets : (5) [16]

(1) Demand for car and petrol is _______ demand.
(Direct I Indirect / joint / Composite)

(2) Total Revenue total number of units sold = _______.
(Average cost I Average revenue / Marginal cost / Total cost)

(3) Personal income – Direct tax =
(Private income / Disposable Income / National income / Total income)

(4) _______ bank has the monopoly o\ note issue.
(Commercial / Co-operative / Central / Industrial)

(5) When government revenue exceeds government expenditure, it is known as a _________ budget.
(surplus / balanced / deficit / unbalanced)

(B) Match the following: (5)

Group 'A'	Group 'B'
a) Marginal utility	1) Price discrimination
b) Medicines	2) Legal tender money
c) Monopoly	3) Government bank
d) Currency notes	4) Utility from last unit
e) Central Bank	5) Inelastic demand
	6) Commercial bank
	7) Utility of all units
	8) Elastic demand

(C) State whether the following statements are True or False: (6)

(1) Adam Smith is known as the 'Father of Economies'.
(2) Better transport facility increases supply at the same price.
(3) There is no need of advertisement in monopolistic competition.
(4) Depreciation is included in net investment,
(5) Central Bank acts as a lender of the last resort.
(6) Budget is not prepared for each and every year.

Q.2. (A) Define OR explain the following concepts (Any THREE): (6)

(1) Individual demand (2) Cross elasticity of demand (3) Stock
(4) Entrepreneur (5) Effective demand (6) clearinghouse

(B) Give reasons OR explain the following statements (Any THREE): (6)

(1) All desires are not demand.
(2) Perfectly inelastic demand curve is parallel to OY' axis.
(3) Agricultural goods arc exception to law of supply.
(4) Macro Economics is also known as income and employment theory.
(5) Kale of interest on fixed deposit is high.
(6) During the period of depression deficit budget is used.

Q.3. (A) Distinguish between (Any THREE): (6)

(1) Form utility and time utility.
(2) Increase in demand and Decrease in demand.
(3) Relatively inelastic demand and relatively elastic demand.
(4) Micro Economics and Macro Economics.
(5) Standard coins and token coins.
(6) Commercial bank and Central bank.

(B) Write short notes (Any TWO): (6)

(1) Features of Micro Economics
(2) Importance of the Law of Diminishing Marginal Utility.
(3) Types of loans of commercial banks.
(4) Revenue receipts.

Q.4. Answer the following questions (Any THREE): (12)

(1) Explain the importance of Micro Economics.
(2) Explain the features of utility.
(3) Explain the importance of Elasticity of Demand.
(4) Explain the features of Macro Economics.
(5) Explain the circular How of national income.
(6) Explain the agency functions of commercial bank.

Q.5. State with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE): (12)

(1) Various factors influence Elasticity of Demand.
(2) Supply curve slopes upward from left to right.
(3) There are many features of labour. '
(4) Aggregate demand depends only on the consumption expenditure.
(5) Barter system did not have any difficulties.
(6) Central bank do not adopt quantitative measures of credit control.

Q.6. Write explanatory answers (Any TWO): (16)

(1) State and explain law of demand with exceptions.
(2) What is Perfect Competition? Explain price determination under Perfect Competition.
(3) Define national income. Explain hove National income is measured by output method.
(4) What do you mean by Aggregate Supply? Explain determinants of Aggregate Supply.

ECONOMICS

Time : 3 Hours **MARCH 2018** **Max Marks : 80**

Q.1. (A) Fill in the blanks using proper alternatives given in the brackets: (5) [16]

(1) The terms 'micro' and 'macro' economics were first used by
(Adam Smith / Robbins / Ragner Frisch / Prof. Marshall)

(2) ________ consumption cannot be zero.
(Induced / Autonomous / Government / Private)

(3) During depression ______ budget is preferable.
(Balanced / surplus / deficit / zero)

(4) The demand for salt is .
(Elastic / inelastic / infinite elastic / unitary elastic)

(5) ________ is a primary function of commercial bank.
(Purchases and sell securities / Accept deposits / Safe deposit vault / Letter of credit)

(B) Match the following words from group 'A' and B': (5)

Group 'A'	Group 'B'
a) Demand and price	1. Wages
b) Perfect elastic supply	2. Vertical supply curve
c) Land	3. Transfer income
d) Unemployment allowance	4. Horizontal supply curve
e) Reserve Bank of Indian	5. Inverse relation
	6. Rent
	7. 1935
	8. Direct relation

(C) State whether the following statements are true or false: (6)

1. Concept of 'elasticity of demand' is useful for the finance minister.
2. Supply of perishable goods is inelastic.
3. Under perfect competition price is determined by equilibrium of demand and supply.
4. Token coins are such coins whose face value is greater than their intrinsic value.
5. Credit control is the function of commercial banks.
6. Central bank also performs commercial banking business.

Q.2. (A) Define or explain the following concepts (Any THREE): (6) [12]

1. Individual economic unit
2. Marginal utility
3. Elasticity of Demand
4. National Income
5. Effective demand
6. Budget

(B) Give Reasons or explain the following statements (Any THREE): (6)

1. The Supply of agricultural commodity is relatively inelastic.
2. A monopolist can control the supply of goods.
3. The supply of land is inelastic.
4. Macroeconomics is different from micro economics.
5. As a banker for the government, the central bank transfers government funds.
6. Micro economics is also known as price theory.

Q.3. (A) Distinguish between the following (Any THREE): (6) [12]

(1) Desire and Demand
(2) Slicing method and Lumping method
(3) Paper money and Metallic coins
(4) Quantitative and Qualitative measures of credit control.
(5) Output method and Income method of measuring national income
(6) Average revenue and Average cost

(B) Write Short Notes (Ant TWO): (6)

(1) Subject matter of micro economics.
(2) Geometric method of measuring price elasticity of demand.
(3) Price determination under perfect competition.
(4) Features of labour.

Q.4. Answer the following questions (Any THREE): [12]

(1) Explain the relationship between 'total utility' and 'marginal utility'.
(2) What are the features of monopolistic competition?
(3) What are the features of macro-economics?
(4) Explain the types of investment expenditure.
(5) What are the different types of loans provided by commercial banks?
(6) Explain the development and non-developments expenditures of government.

Q.5. State with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE): [12]

(1) Law of diminishing marginal utility depends upon various assumptions.
(2) There are many types of demands.
(3) There are no exceptions to the law of supply.
(4) Barter system had many difficulties.
(5) Central bank has the sole power of issuing currency notes.
(6) Overdraft facility is not provided to the current account holders.

Q.6. Write explanatory answers (Any TWO): [16]

(1) Explain the law of demand with its assumptions.
(2) What is price elasticity of demand? Explain the types of price elasticity of demand.
(3) State and explain J.M.Keynes's 'psychological law of consumption'.
(4) Explain the output method of measuring national income.

ECONOMICS

Time : 3 Hours **JULY 2018** **Max Marks : 80**

Q.1. (A) Fill in the blanks using proper alternatives given in the brackets: (5) [16]

(1) Micro economics is also called as _______ theory.
(Income / Price / Growth / Employment)

(2) Income elasticity of demand for inferior goods is ______.
(Positive /negative / zero / greater than one)

(3) Part of income, which is not spent on consumption is called _______ .
(Expenditure / saving / investment / public debt)

(4) _______ is an example of direct tax.
(Excise duty / Wealth tax / Sales tax / Gifts)

(5) Every loan creates a _______.
(Credit / deposit / profit / loss)

(B) Match the following words from group 'A' and 'B' : (5)

Group 'A'	Group 'B'
a. Production	1. Average expenditure
b. Tea and coffee	2. Personal income - Direct taxes
c. Stock	3. Substitute goods
d. Disposable income	4. Central bank
e. Credit control	5. Complementary goods
	6. Potential supply
	7. Commercial bank
	8. Creation of utility

(C) State whether the following statements are True or False : (6)

(1) Demand for luxurious goods is elastic.
(2) Supply is indirectly related to price.
(3) Metallic coins are easily portable than paper notes.
(4) In a monopoly market, firm and industry are the same.
(5) Commercial banks are the- backbone of modern economy.
(6) The main objective of the central bank is to earn profit.

Q.2. (A) Define 'or' explain the following concepts (Any THREE): (6) [12]

(1) Macro economic variables
(2) Marginal cost
(3) Monopolistic competition
(4) Partial equilibrium
(5) Entrepreneur
(6) Moral suasion

(B) Give reasons or explain the following statements (Any THREE): (6)

(1) Micro economic theories are based on certain assumptions.
(2) Utility is a subjective concept.
(3) Demand for necessary goods is inelastic.
(4) Paid services are included in national income.
(5) There are many subjective factors determining consumption function.
(6) Central bank acts as a lender of last resort.

Q.3. (A) Distinguish between the following (Any THREE): (6) [12]

(1) Expansion of demand and Contraction of demand
(2) Micro economics and Macro economics
(3) Output method of measuring national income and Income method of measuring national income
(4) Commodity money and Metallic money
(5) Deficit budget and "Balanced budget
(6) Individual supply and Market supply

(B) Write short notes on the following (Any TWO): (6)

(1) Features of micro economics.
(2) Ratio method of measuring price elasticity of demand.
(3) Types of monopoly.
(4) Qualities of an entrepreneur.

Q.4. Answer the following questions (Any THREE) : [12]

(1) Explain the types of utility.
(2) What are the features of perfect competition?
(3) What is the subject matter of macro-economics?
(4) State the objective factors determining consumption function.
(5) Explain various types of deposit.
(6) What are the sources of non-tax revenue?

Q. 5. State with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE): [12]

(1) There are no real exceptions to the law of diminishing marginal utility.
(2) Many factors influence the demand for a commodity.
(3) Barter system did not have any difficulty.
(4) Price is the only determinant of supply.
(5) Commercial banks perform many general utility services.
(6) Central bank works as a banker to the government.

Q. 6. Write explanatory answers (Any TWO) : [16]

(1) Explain the law of demand with its exceptions.
(2) What is price elasticity of demand? Explain the types of price elasticity of demand.
(3) Explain the practical (statistical) difficulties involved in the estimation of national income.
(4) What is 'aggregate supply'? Explain the determinants of aggregate supply.

ECONOMICS

Time : 3 Hours **MARCH 2019** **Max Marks : 80**

Q. 1. (A) Fill in the blanks using appropriate alternatives given in the brackets: [16] (5)

(1) _______ is regarded as the father of 'Economies'.
(Prof. Marshall / Adam Smith / Ragner Frisch / Robbins)

(2) The demand for perishable goods is ______.
(Elastic / inelastic / unit elastic / perfectly inelastic)

(3) ________ Consumption cannot be zero.
(Induced / Autonomous / Government / Private)

(4) The e-banking facility is provided through ________.
(Telephone / debit card / internet / credit card)

(5) The duration of government budget is ________ years.
(One / two / five / ten)

(B) Match the correct pairs: (5)

Group "A"	Group "B"
a) Prestigious goods	**1.** Average cost
b) $\frac{\text{Total Revenue}}{\text{Total Quantity}}$	**2.** Transfer payment
c) Labour	**3.** Qualitative credit control
d) Unemployment allowance	**4.** Rent
e) Direct action	**5.** Quantitative credit control
	6. Exception to the law of demand
	7. Wages
	8. Average revenue

C) State whether the following statements are True or False: (6)

1) Demand for luxurious goods is elastic.
2) Stock is a source of supply.
3) There is no price discrimination in monopoly.
4) In the initial stage of human civilization commodity money was used.
5) Loans given by banks for a period of less than five years is known as long-term loan.
6) The main objective of the central bank is to earn profit.

Q. 2. (A) Define 'or' explain the following concepts (Any THREE): (6) [12]

1) Partial equilibrium
2) Ratio method of measuring price elasticity of demand
3) Product differentiation
4) Fixed capital
5) Lumping method
6) Propensity to save

(B) Give reasons or explain the following statements (Any THREE) : (6)

1) Clearing house facility by central bank economizes the use of cash.
2) Micro economics studies individual economic unit.
3) Utility and satisfaction are different concepts.
4) Law of supply is not applicable to rare articles.
5) Income from sale of second hand goods is excluded from national income.
6) Central bank acts as a banker to the government.

Q. 3. (A) Define 'or' explain the following concepts (Any THREE): (6) [12]

1) Desire and Demand
2) Increase in supply and Decrease in supply
3) Micro economics and Macro economics
4) Personal income and Disposable income
5) Standard coins and Token coins
6) Direct tax and Indirect tax

(B) Write short notes (Any TWO): (6)

1) Importance of micro economics.
2) Total outlay method of measuring price elasticity of demand.
3) Types of monopoly.
4) Functions of an Entrepreneur.

Q. 4. Answer the following questions (Any THREE) : [12]

1) Explain the relationship between Total utility and Marginal utility?
2) Explain the features of Perfect competition.
3) Explain the features of Macro economics?
4) Explain the subjective factors determining consumption function?
5) What are the different types of deposits?
6) Explain the types of government budget.

Q. 5. State with reasons whether you 'agree' or 'disagree' with the following statements (Any THREE) : [12]

1) Homogeneity of commodities is the only assumption of the law of diminishing marginal utility.
2) Demand curve slopes downward from left to right.
3) Supply depends on several factors.
4) Barter system did not have any difficulties.
5) Credit creation of commercial banks is based on primary deposits.
6) Central bank is a bank which issues notes.

Q. 6. Write explanatory answers (Any TWO) : [16]

1) Explain the law of demand with its exceptions.
2) What is elasticity of demand? Explain the determinants of elasticity of demand.
3) What is National Income? Explain the practical difficulties in measuring National Income.
4) What is aggregate supply? Explain the determinants of aggregate supply.