Time : 3 Hours] **SPECIMEN PAPER - 3 (With Solution)** [Max. Marks : 80

Notes : *(1) All questions are compulsory*
(2) Give tables / diagrams wherever necessary
(3) Figures to the right indicates marks of the question
(4) Write answer of each question on new page.

Q.1. (A) Fill in the blanks with appropriate alternative given in the bracket. **(5)**

(1) .... Utility is the utility derived from last unit of consumption.
(Average / Total / Marginal / Zero)

(2) When price of a commodity rises the demand for it ....
(rises / fall / remain constant / becomes negative)

(3) The slope of demand curve is .... in case of Perfectly inelastic demand.
(Flatter / steeper / horizontal / vertical)

(4) Monopolist means ....
(Single seller / several sellers / Single buyer / several buyers)

(5) .... is regarded as a primary factor of production.
(Land / Labour / Capital / Entrepreneur)

Ans: (1) Marginal, (2) fall, (3) vertical, (4) single seller, (5) Land.

Marking Scheme : 1 mark for each correct answer, Total 5 marks

Q.1. (B) Match the following: **(5)**

	Group A		Group B
(1)	Reward of capital	(a)	Money value of goods & services produced
(2)	Real Income	(b)	Wages
(3)	NNP at Market Price	(c)	Govt. investment
(4)	Autonomous investment	(d)	Standard of deferred payment
(5)	Secondary function of money	(e)	Measure of value
		(f)	Purchasing Power of money.
		(g)	Interest
		(h)	GNP at market prices

Ans: 1 – g, 2 – f, 3 – a, 4 – c, 5 – d

Marking Scheme : 1 mark for each correct answer, Total 5 marks

Q.1. (C) State whether the following statements are True / False **(6)**

(1) Token coins are those coins whose face value is greater than their intrinsic value.
(2) Credit money is created by the Central Bank of the country.
(3) Central Bank is the lender of the last resort
(4) When the government expenditure is greater than government revenue it is called surplus budget.
(5) In monopoly market firm and industry are the same.
(6) Average propensity to consume is the ratio of change in consumption due to change in income.

Ans: True – 1, 3, 5, **False** – 2, 4, 6.

Marking Scheme : 1 mark for each correct answer, Total 6 marks

Q.2. (A) Define or Explain the following concepts (Any three) **(6)**

(1) Resource Allocation

Ans: (i) Micro Economics deals with the allocation of resources among competing groups.

(ii) Micro Economics explains how relative prices of commodities and factors of production determine the allocation of resources in turn determines what will be produced and in what quantities? How they will be distributed.

(2) Derived Demand

Ans: (i) It is also known as derived demand. When goods are demanded indirectly e.g. to produce consumers goods.

(ii) It is indirect demand for e.g. demand for factors of production like land, labour, capital, organisation etc. is derived demand.

(3) Income Elasticity of demand

Ans : (i) Income elasticity of demand is defined as "the degree of responsiveness of quantity demanded to change in income only, other factors including price remaing unchanged.

(ii) It is measured as follows.

$$\text{Income elasticity of dd} = \frac{\% \Delta \text{ in Q Ded}}{\% \text{ of change in income}}$$

(4) Monopolistic competition

Ans: (i) It is most realistic market structure. In this market there are some features of monopoly and some features of perfect competition.

(ii) According to Prof. E.H. Chamberlin "Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitute."

(5) Personal Disposable Income

Ans: (i) It is the part of personal income which is left behind after paying personal direct taxes like income tax, personal property tax etc.

(ii) $\therefore$ PDI =PI – Direct taxes. Where PDI = Personal Disposable Income
PI = Personal Income

(6) Aggregate demand

Ans: (i) Aggregate demand refers to the sum total of demand for all goods and services in the economy by different entities such as consumers, businessmen, government and others at different prices during the year. It can be explained as follows.

(ii) AD = C + I + G + (x – m) i.e. Consumption expenditure + Investment expenditure + Government expenditure + Net foreign earnings.

Marking Scheme : 2 marks for each correct answer, 2 Points are expected

Q.2. (B) Give reasons or explain. (Any three) **(6)**

(1) Micro Economic theories are based on certain assumptions.

Ans: (i) Micro Economics assumes laissez fair policy, pure capitalism, full employment, perfect competition etc.

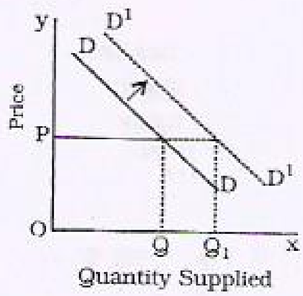
(ii) Thus micro Economic theory is based on many assumptions.

(2) Utility and happiness are different.

Ans: (i) Utility is a capacity of a commodity to satisfy human want while happiness is the better result of consumption and experience of happiness.

(ii) A commodity having utility may or may not result in happiness.

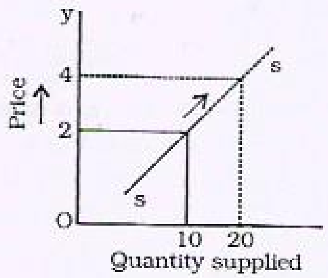
(3) Increase in demand indicates rightward shift in demand



Ans: (i) When more quantity of a commodity is demanded at the same price it is called increase in demand as shown in the following diagram.

(ii) In the above diagram shift in demand curve from DD to D^1D^1 indicates that incase of increase in demand, demand curve shift at the right side.

(iii) An increase in demand is due to increase in population, increase in income, change in taste and fashion, rise in prices of substitutes and a fall in the prices of complementary goods.



(4) When price increases supply expands.

Ans: (i) There is direct relationship between price and quantity supplied

(ii) when price rises supply expand as shown in the following diagram.

(5) Selling cost is incurred by the seller in monopolistic competitions.

Ans: (i) Under monopolistic competition there is product differentiation and products are close substitutes,

(ii) To increase sale combined efforts of advertisement and marketing are necessary to increase sale, therefore radio, T.V., News papers, magazines, incentives and salaries of representatives etc. are necessary to increase sale.

(6) Labour cannot be stored.

Ans: (i) Labour is perishable factor of production. If a worker is absent for a day, the day of labour has gone.

(ii) The amount of labour lost is lost forever. Therefore labour cannot be stored and used in future.

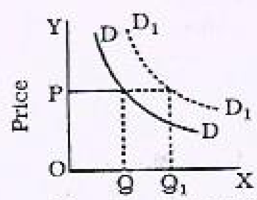
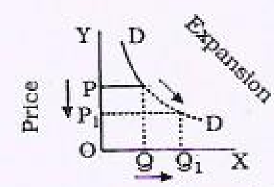
Marking Scheme : 2 marks for each correct answer, 2 points are expected

Q.3. (A) Distinguish between (Any three) **(6)**

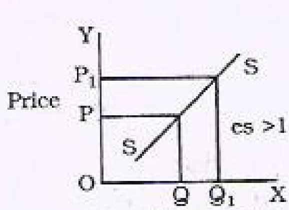
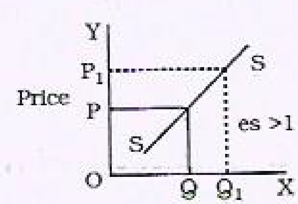
(1) Place Utility & Time Utility

	Utility		Satisfaction
(1)	When utility of a commodity changes due to change in the place of utilisation it is called place utility.	(1)	When utility of a commodity increases with a change in the time of utilisation it is called time utility.
(2)	e.g. utility of water increases when it is transferred from river to farm.	(2)	e.g. umbrellas have greater utility during rainy season than in winter.
(3)	It increases with change in place.	(3)	It increases with change in time.
(4)	It is also created by transfering place of production to the place of use.	(4)	It is created by keeping stock of commodity and making available it when needed.

(2) Increase in demand & Expansion in demand

	Increase in demand		Expansion in demand
(1)	When more quantity of a commodity is demanded at the same price, it is called increase in demand.	(1)	When more quantity of a commodity is demanded due to fall in the price it is called expansion in demand.
(2)	Price remain same while conditions of demand changes which have positive effect on demand.	(2)	Price falls while conditions of demand remain same.
(3)	 Quantity demanded	(3)	 Quantity demanded
(4)	New demand curve is necessary to show increase in demand.	(4)	It can be shown on the same demand curve.

(3) Relatively elastic supply & Relatively inelastic supply

	Relatively elastic supply		Relatively inelastic supply
(1)	When % of change in quantity supplied is more than % of change in price it is called relatively elastic supply.	(1)	When % of change in quantity supplied is less than % of change in price it is called relatively inelastic supply.
(2)	The price elasticity of supply is more than one.	(2)	The price elasticity of supply is less than one
(3)	Numerical value of elasticity of supply is $(e > 1)$	(3)	Numerical value of elasticity of supply is $e < 1$
(4)	 Quantity supplied	(4)	 Quantity supplied

(4) Perfect competition & Monopolistic competition

	Perfect competition		Monopolistic competition
(1)	It is a market in which large number of sellers sale homogeneous products.	(1)	It is a market when sellers are selling differentiated products.
(2)	Single price prevails in all part of market.	(2)	Price discrimination is possible
(3)	Expenditure on advertisement and sales-manship is not necessary	(3)	Expenditure on advertisement and salesmanship is necessary
(4)	Seller is price taker.	(4)	Seller can fix price of his product.

(5) Insurable risk & Non insurable risk

	Insurable risk		Non insurable risk
(1)	Risk which arises due to fire, floods, accident etc. can be insured.	(1)	Risk which arises due to change in the market conditions it is called non-insurable risk.
(2)	Losses can be transferd to insurance company by taking insurance policy.	(2)	Losses can not be transfered to insurance company.
(3)	It can be anticipated.	(3)	It cannot be anticipated.
(4)	It is not the cause of profit.	(4)	If is avoided by entrepreneur, he can get profit.

(6) Net National Product (NNP) & Net Domestic Product (NDP)

	Net National Product (NNP)		Net Domestic Product (NDP)
(1)	It is money value of all final goods and services produced in a country during a year including net income from abroad and excluding depreciation.	(1)	It is money value of all final goods and services produced in a country during a year excluding depreciation and net income from abroad.
(2)	NNP = NDP + Net income from abroad i.e. (x – M) + (R – P)	(2)	NDP = NNP – Net income from international trade i.e. (X – M) + (R – P)
(3)	It is useful in the open economy having international transactions.	(3)	It is useful in closed economy having no international transactions.
(4)	It gives idea about net national income of a country.	(4)	It gives idea about net domestic income of a country.

Marking Scheme : 2 marks for each correct answer 2 points are expected

Q.3.(B) Write Short Notes (Any Two) **(6)**

(1) Micro Ecnomics

Ans : Micro economics is concerned with an individual economic entity such as price of a commodity determination of rewards of factors of production like rent, wages, interest, profit etc.

Scope of Micro economics can be explained as follows :

Micro Economic Theory

- Product Pricing
  - Theory of demand
  - Theory of production & cost
- Factors pricing
  - Rent
  - Wages
- Theory of Economic welfare
  - Interest
  - Profit

(i) Product pricing : Micro economic study about determination of price of a product. It studies law of demand, law of supply and price determination under different market structure.

(ii) Theory of production and cost : Theory of production deals with laws of returns to scale, law of variables, equilibrium of a firm, cost conditions etc.

(iii) Factors pricing : Micro economics discuss about distribution of rewards among factors of production in the forms of rent, wages, interest, profit and different theories of determination of rewards of factors of production.

(iv) Theory of Economic Welfare : This part of micro economics deals with maximisation of economic welfare by a consumer from the amount of money spend by him. e.g. law of demand, law of diminishing marginal utility, the law of equli marginal utility etc.

(2) Determinants of Aggregate supply

Ans : The concept of aggregate supply was introduced by prof. J. M. Keynes in his book "The General theory of employment interest and money."

In other words aggregate supply refer to total quantity of goods and services produced in a country during a year.

Aggregate supply-function can be explained as follows:-

$ASF = f(N, L, K, \bar{T})$

Where, ASF = Aggregate supply function, f = function of, N = Natural resources, L = Labour, K = capital, $\bar{T}$ = Technology given and remain constant.

Thus output or aggregate supply is determined by natural resources, labour, capital and technology let us discuss these factors in detail.

(i) Natural Resources (N) : It refers to all free gifts of nature available in their natural form on the earth, above the earth and below the surface of earth. It include Land it's fertility, rivers, mountains, seashore, forest, good climate, mineral deposits like iron-bronze, copper, petrol, diesel etc. If natural resources are more aggregate supply will be more and vice versa.

(ii) Labour (L) : In economics labour refers to any exertion of mind or body undergone partly or wholly to get some reward, rather than the pleasure derived from the work. Labour includes mental as well as physical work. It labour supply is more, labourers are skilled, efficient and educated aggregate supply will be more.

(iii) Capital (K) : In Economics capital refers "to manmade means of production" which is used for further production of goods and services e.g. Machinery, plant, factory building, equipments etc. If the stock of capital is more in the country aggregate supply will be more and vice-versa.

(iv) Technology ($\bar{T}$) : According to Keynes in the short period technology is given and remain constant. There are two techniques of production. Labour intensive and capital intensive. If labour intensive technique is used aggregate supply will be less and if capital intensive technique is used aggregate supply will be more.

(3) Effect of population on consumption expenditure

Ans : (i) Consumption expenditure refers to the expenditure of consumer to satisfy day to day requirements of life

(ii) "Such as purchase of food, clothing, shelter, education etc. to satisfy necessary goods, comfort goods, luxury goods etc. There is direct relationship between consumption expeditire and size of population larger the size of population more is the consumption expenditure and smaller the size of population less is the consumption expenditure.

(iii) Thus there is direct relationship between population and consumption expenditure.

(4) Overdraft facility

Ans : (i) It is given to current A/c holders, under this facility an a/c holder is allowed to withdraw more amount than the balance in his A/c.

(ii) Overdraft limit of A/c holder is decided by the bank on the basis of assets mortaged and a banking experience of the a/c holder.

(iii) Interest is charged only on the amount overdrawn e.g. If an a/c holder is allowed overdraft limit ₹ 1,00,000/- as overdraft and used ₹ 60,000/- as overdraft then he has to pay interest only on ₹ 60,000/- and not on ₹ 1,00,000/- Thus overdraft facility is an temporary and short term loan facility provided by the bank to A/c holder.

Marking Scheme : 3 marks for each correct answer 3 points are expected

Q.4. Answer the following questions (Any three) **(12)**

(1) What is double counting of national income ?

Ans: It is the greatest difficulty in calculating national income. It arises from the failure to distinguish properly between a final and intermediate product. Due to this national income would work out to be many times than the actual e.g. flour is used by a bakery as a intermediate product while it is used as final product for household use. Sugarcane is final commodity for farmers but intermediate for sugar factories. In orders to avoid double counting we should use value added approach or final commodity approach.

(i) Value added approach: In order to avoid double counting while estimating national income value added approach is used. According to this approach value added at each stage of production during the process of production is added, the difference between value of material output and input at each stage of production is added this can be explained with the help of following table.

Stage of production	value of output	Value of input	value added
Cotton	500	0	500
Yarn	700	500	200
Cloth	1000	700	300
Shirt	1500	1000	500
	Total value		₹ 1500

(ii) Final Commodity approach : According to this approach only the final goods and services are included and the intermediary goods and services are left out. GNP includes

(a) Consumer goods which satisfy human wants immediately.

(b) Gross private domestic investment in capital goods such as residential constructions

(c) Goods and services produced by Government.

In this approach the market prices of only the final product should be taken into account, to get accurate figure and National income in order to avoid double counting of national income.

(2) State J.M. Keynes Psychological law of consumption.

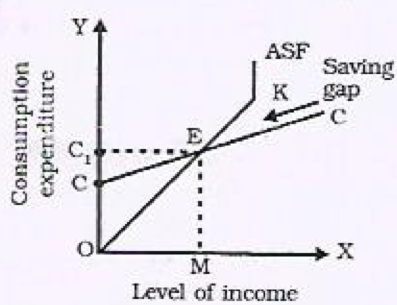
Ans: The psychological law of consumption is given by Prof. J.M. Keynes in his book "The general theory of Employment interest and money". (i) According to this law as the level of income increases the level of consumption also increases but it increases at less proportionate than the increase in the level of income. It means as income increases marginal propensity to consume declines because after satisfying necessary, comfort and luxury wants as income of a consumer increase his expenditure will not increase at the same rate.

(ii) It means as level of income increases level of saving also increases but level of consumption declines.

The law of consumption function can be explained with the help of following schedule and diagram.

Level of Income (₹ in crs.)	Consumptions expenditure (₹ in crs.)	Saving (₹ in crs.)
100	200	-100
200	200	000
300	250	50
400	300	100
500	350	150

(iii) The above table shows that when level of income is ₹ 100/- crs consumption expenditure is ₹ 200/- crs. and saving is ₹ –100/- crs. When income increases to ₹ 200/-crs consumption expenditure also increases to ₹ 200/- crs. and savings is zero when income further increases to ₹ 300/- ₹ 400/- and ₹ 500/- crs. Respectively consumption expenditure increases to ₹ 250/- ₹ 300/- & ₹ 350/- crs respectively and saving increases to ₹ 50/- ₹ 100/- and ₹ 150/- crs respectively. Thus Psychological law of consumption states that as income increases beyond minimum required level of consumption expenditure, consumption will increase but it will increase at less proportionate.



(iv) This law can be expanded with the help of the diagram

In the diagram OX axis represent level of income and OY axis represents level of consumption expenditure ASF is aggregate supply curve that is income curve and CC is consumption curve.

CC intersect 'ASF' at 'E' point where OM is the level of income and OC1 is the level of consumption, thereafter as level of income increases consumption expenditure also increases but it increases at less proportionate than income as saving gap is created as shown in the area between 'EC & K' points.

(3) What are the contigent functions of money?

Ans: In Economics, money is defined as "anything which is generally accepted as a medium of exchange and at the same time act as a standard of deferred payment and store of value.

Functions of money are classified as :

(1) Primary functions (2) Secondary functions (3) Contigent functions :

Let us discuss contigent functions :

Contigent functions refers to incidential functions of money they are as follows:

(i) Division of labour : Money helps division of rewards of factors of production. Factors can be paid in terms of money e.g. land-rent, labour-wages, capital-interest, entrepreneur-profits, etc.

It also help division of labour among factors of production.

(ii) Division of National income : Money helps to distribute national income among factors of production in the form of rent, wages, interests and profit.

(iii) Transfer of value : Money helps to transfer value of movable as well as non-movable properties from one person to another person.

(iv) Liquidity : Money is the most liquid asset because money can be converted in any commodity or service which is available for sale, as money is accepted without any hesitation.

(v) Basis for credit system : Money is the basis of credit system lending and borrowing activities are possible because of use of money.

(vi) Maximisation of utility : Money helps to the consumer to maximize utility by helping consumer to distribute his/her income on different goods and services to get maximum satisfaction.

(4) What are the various types of Bank deposits?

Ans: Commercial Bank is a profit making institution which accept deposit at low rate of interest and lend it at higher rate of interest. Commercial Bank accepts deposits in the following forms.

(i) Saving A/c : This account is suitable to salaried person or a person who desires to save and have banking transactions. From this account limited withdrawals are allowed. Bank pay attractive interest to encourage Saving. A/c holders are given cheque book, pay-in slip, passbook or Bank statements of their account.

(ii) Current A/c : This account is suitable for businessmen, traders, industrialist etc. There are no restrictions on withdrawals from this account. No interest is given on the deposit in this account. Account holders are also given overdraft facilities.

(iii) Recurring Deposit A/c : This account is suitable for people who can save a certain sum of money regularly every month. A person has to deposit a certain sum every month minimum for 6 months and maximum according to his choice. No withdrawals are allowed before maturity. Bank pay higher interest on such deposits depending on the term of deposit.

(iv) Fixed Deposit A/c : In this a/c a certain sum is to be deposited for a certain period minimum for 15 days and maximum according to choice. Higher interest is paid according to the period. No withdrawals are allowed before maturity.

(5) Central Bank of the country has monopoly of note issue.

Ans: (i) Central Bank enjoy monopoly right of issuing currency notes. (ii) In India Reserve Bank of India is our Central Bank. **It was established on 1st April 1935 and nationalized on 1st Jan 1949.**

(iii) It has given monopoly right of issuing currency notes. Currency notes of ₹ 2, 5, 10, 20, 50, 100, 500 and 1000 are issued by Reserve Bank of India and coins of small denominations are issued by ministry of finance government of India but circulated through RBI.

(iv) To have control on issuing money and maintain uniformity in issuing currency notes. RBI is given monopoly power of issuing currency notes.

(6) What are the qualities of an successful entrepreneur ?

Ans: Following are the qualities of a successful entrepreneur.

(i) Leadership quality : He must have ability to lead the business organization which he is managing. He must be dynamic.

(ii) Foresightness and imagination : A successful entrepreneur should have ability to judge the future course of action of market and he must have imaginative power to judge future demand to follow proper business policies.

(iii) General knowledge : He must have general knowledge of economic, political & international situations, decisions of the others and their effect on his business.

(iv) Quality of adventure : A successful entrepreneur is one who is bold enough to take adventures and decisions to grab habits of changing market situations.

(v) Complete control on firm : He must have direct complete control on his business and production units, he must be able to direct all and ensure co-operation from all.

(vi) Innovative : He must be dynamic to take innovative decision to improve quality of product, reduce cost of production and to increase sale.

(vii) Rigidity & firmness : He must be rigid and firm to take decisions and to implement it without hesitation. Thus an entrepreneur is the captain of his firm and must have ability to guide and control it.

Marking Scheme : 4 marks for each correct answer, 4 point are expected

Q.5. State with reasons whether you are agree or disagree. (Any three) **(12)**

(1) There are no real exceptions to the law of Diminishing marginal utility.

Ans: I **agree** with the statement that there are no real exceptions to the law of diminishing marginal utility even though following are exceptions to the law of diminishing marginal utility.

Reasons:

Exceptions to the Law: Following are the exceptions to this law:

(i) Hobbies : This law is not applicable to hobbies like, stamp collection, coin collection, etc. where the person derives more and more utility from every additional stamp or coin. But this is not a genuine exception because the homogeneity condition of the law is violated. Each time a new variety of stamp is collected, therefore satisfaction increases, but if the stamps are of the same type, marginal utility diminishes.

(ii) Drunkards : This law is said to be not applicable to a drunkard because his satisfaction increases with every glass of liquor. This is true, but here the condition of rationality of the law is not fulfilled. A drunkard's behaviour is quite irrational.

(iii) Misers: It is said that the law cannot be applied to miser who derive more and more utility from more and more money but even here it can be argued that the miser is an abnormal person and the condition of rationality is not fulfilled.

(iv) Music and poetry : In the case of music and poetry it is commonly experienced that a repeated hearing gives a better satisfaction than the first one and so the law is inapplicable, but it may be said that the repeated hearing of the same song will surely prove to be monotonous and give less satisfaction.

(v) Money : It is said that the law is not applicable to money. But this is not true. Money is only a medium of exchange. Since wants are multiple, every additional rupees fufills a new want. Thus, homogenity condition is not fulfilled.

(2) There are no exceptions to the law of demand.

Ans: No. I **do not agree** with the statement, that there are no exceptions to the law of demand because following are the exceptions to the law of demand.

Reasons:

(i) Inferior goods : Inferior goods refers to those goods which are used by poor people they are low quality and low price commodities. If prices of such commodities fall demand for them also falls.

(ii) Prestige goods : It refers to those goods which are used by rich people to show their richness in the society when prices of costly goods are higher demand for such goods from rich people will be higher.

(iii) Giffen goods : It refers to those goods in case of which if price is higher demand is more and if price is lower demand is less. Sir Robert Giffen in 19^{th} century studies, demand for bread and meat in Britain in the case of bread i.e. low quality and low price commodity he found that when price of bread was lower demand for bread was less and when price of bread was higher demand for bread was higher this is called Giffen's paradox.

(iv) Necessaries : In the case of necessary goods even if price rises or fall demand for them will remain same.

(v) Quality : If the price of a commodity is higher due to improvement in the quality and if a consumer is aware of it then even at higher price demand will not fall.

(vi) Fashion : When a commodity goes out of fashion even at lower price demand for it will be less.

(vii) Demonstration effect : There is a tendency on part of low income group people to follow standard of living of high income group people. In such cases even at higher price demand will be more and vice versa.

(viii) Price illusion : When a consumer is governed by wrong belief that higher the price higher is the quality and lower the price lower is the quality then even at higher price demand for a commodity will be more.

Thus there are many exceptions to the law of demand therefore I do not agree with this statement.

(3) Single seller is the only feature of monopoly.

Ans: I **do not agree** with the statement that single seller is the only feature of monopoly because following are feature of monopoly.

Reasons:

(i) Single seller : In monopoly there is a single seller of a commodity who controls and regulate market supply of a commodity.

(ii) Large Number of Buyers : Under monopoly there are very large number of buyers in the market, who have to borrow goods supplied by monopolist.

(iii) No freedom of entry to seller : There is no freedom of entry to new seller in the market Entry of new firm is restricted either by natural, legal, technological or any other barrier.

(iv) Price discrimination : Since there is single seller of a commodity he can follow price discrimination that is to charge different price to different buyers.

(v) Abnormal profit : Since there is a single seller of a commodity and he can fix the price, he can charge higher price for the product and earn abnormal profit.

(vi) A seller can fix price or output : A seller can fix either higher price or higher sell or output and not both because seller has control only on supply and not on demand because demand side is controlled by the consumer if seller charges higher price a consumer will demand less therefore seller cannot fix higher price and sell more quantity.

(vii) Product differentiation : A seller can also follow product differentiation by making difference in the taste, size, quality of product etc.

(viii) Downward slopping demand curve : In a monopoly market seller faces downward slopping demand curve which indicate that a seller can sell more quantity only at lower price if he charges higher price he cannot sell more quantity.

Thus there are many features of monopoly so single seller is the only feature of monopoly this statement is not correct and so I am not agree with it.

(4) Natural Resource is the only determinant of aggregate supply.

Ans: No. I **do not agree** with the statement that natural resources is the only determinant of aggregate demand because aggregate demand depend up on (1) Natural resources (2) Labour (3) Capital (4) Technology.

Aggregate supply function can be explained as follows.

$ASf = f(N, L, K, \bar{T})$

Where : Asf = Aggregate supply

N = Natural Resources

L = Labour, K = capital

$\bar{T}$ = Technology given and (remain constant)

Let us discuss these determinants in detail :

Reasons:

(i) Natural Resources (N) : Natural resources include all free gifts of nature available in their natural form on the earth above the earth and below the surface of earth, it includes Land, fertility of Land, rivers, mountains seashore, forest, mineral deposits like iron, bronze, copper, gold, silver reservoirs like petrol, disel, etc. If natural resources in the country are more aggregate supply will be more.

(ii) Labour (L) : In economics labour refers to "any exertion of mind or body undergone partly or wholly to get some reward rather than the pleasure derived from the work" If supply of labour is more, they are skilled and efficient aggregate supply will be more.

(iii) Capital (K) : In Economics Capital is defined as "man made means of production which is used for further production of goods and services" capital include Machinery, plant factory building equipment raw material etc. If the stock of capital in the country is more aggregate supply will be more.

(iv) Technology ($\bar{T}$) : There are two techniques of production i.e. Labour intensive and capital intensive. If labour intensive technique is used aggregate supply will be less and if capital intensive technique is used aggregate supply will be more.

Thus aggregate supply is determined by Natural resources, labour, capital and technology therefore I am **not agree** with the statement.

(5) Money performs some seconday functions also.

Ans: I **do agree** with the statement that money performs some secondary functions.

Money means anything which is generally accepted as a medium of exchange, measure of value, standard of deferred payment & store of value. First two functions are primary functions & last two functions are secondary functions.

Let us discuss secondary functions of Money.

Reasons:

(a) Standard of deferred payment: Money performs this function because the value of money remains more or less stable. Therefore, credit transactions which are necessary for the development of business becomes possible due to use of money. In such transactions goods or services are purchased and used in the current period while payment is made infuture.

(b) Store of value: Money also used as store of value. Saving which is the life blood of modern economic system is possible only due to use of money. Saving in terms of money is possible because value of money remains more or less stable & changes in value are compensated with payment of interest.

Thus, standard of deferred payment & store of value are two secondary functions of money.

(6) Macro Economics deals with the whole economy

Ans: Yes, I **do agree** with this statement. The word macro is derived from the Greek word 'Makros' which means large or aggregate. Macro economics is a branch of Economics which deals with aggregate behavior of an economy as a whole. Macro Economics deals with aggregates and their determination.

Reasons:

The subject matter of macro economics

(i) The theory of income: It discuss about determination, measurement and analysis of national income.

(ii) Theory of employment: It is related to determination of the level of unemployment different types of unemployment that is open, disguised, technical, frictional, cyclical, seasonal unemployment etc. and policies to solve unemployment problems.

(iii) Price stability: It discuss about the trade cycles, inflation, deflation and macro economic policies to have price stability.

(iv) Existence of full employment: Macro economic theory also deals with measures to be taken to achieve full employment and monetary and budgetary policies for achieving full employment.

(v) Economic growth: Macro economics also deals about different theories and policies for economic growth.

(vi) Economic justice: Macro economics also deals with policy measures to have economic justice and formulation of taxation policy budgetary policies to achieve economic justice.

(vii) Improvement in common standard of living: Macro economics deals with distribution of national income and improve common standard of living of all people so as to provide benefits of economics development to all sections of the society. In short the subject matter of macro economics is related to monetary policy, fiscal policy, income policy, trade policy, industrial policy, import and export policy, monetary policy, economic planning etc.

Thus macro economics deals with aggregate economic behavior of an economy. So, macro economics deals with whole economy.

Marking Scheme : 1 mark for agree or disagree, 3 marks for reasons

Q.6. Answer in details (Any two) **(16)**

(1) Explain the law of demand and its assumptions.

Ans: Introduction: Law of demand is one of the most important basic laws of consumption in Economics. It is given by Alfred Marshall in his book 'Principles of Economics'. It is based on utility analysis.

(i) Statement of law: The law of demand states that "Other things being equal demand varies, inversely with the price".

(ii) Explanation of the statement: The law of demand is the general experience of all of us. Demand rises with a fall in price and contracts with rise in price. Thus we say that demand is a function of price i.e. demand depends upon price & demand is inversely related to price. However the law becomes applicable when other things remaining same i.e. ceteris paribus.

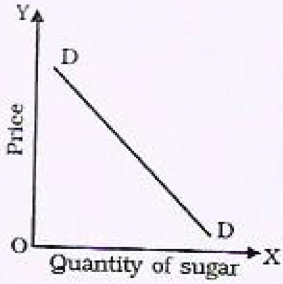
(iii) Schedule: As per the law of demand at any given time the demand for a commodity or service at prevailing price is greater than what it would be at higher price and less than what it would be at a lower price.

Demand Schedule

Price per kg in ₹	Quantity of sugar demanded in kgs				Total
	A	B	C	D	
8	–	1	2	3	6
7	1	2	3	4	10
6	2	3	4	5	14
5	3	4	5	6	18
4	4	5	6	7	22

(iv) Explanation of the schedule:

Like other laws in Economics the law of demand is also better explained with the help of demand schedule. The demand schedule is a tabular representation of the various quantities of commodity demanded at different prices during a given period of time.



The above schedule explains the various quantities of sugar demanded by different consumers A, B, C & D at different prices. It also shows the market demand at various prices. The market demand is the sum of all individuals' purchase of sugar. Thus the market demand rises at lower price& vice versa. Which clearly indicates the inverse relationship between demand and price

(v) Explanation of diagram:

In the above diagram the quality of sugar demanded is shown along X-axis & the price per kg is shown along Y-axis. By plotting the points of total demand & joining these points we get a continuous line, i.e. demand curve (DD).

It is observed that the demand curve slopes downwards from left to right. It shows inverse relationship between the price of a commodity and its demand i.e. when price is high demand is low.

The law of demand is conditional. The validity of the law depends on such other things being equal assumptions. The following are such assumptions.

Assumptions :

(i) No change in population.
(ii) No change in prices of other commodities.
(iii) No change in fashion or taste.
(iv) No change in weather.
(v) No change in quantity of money in circulation.
(vi) No change in age-composition.
(vii) No change in sex-ratio.
(viii) No change in prices of substitutes.
(ix) No introduction of cheap & improved substitutes
(x) No change in habits & customs.
(xi) No change in wealth distribution.
(xii) No change in technical knowledge.
(xiii) No advertisements & High pressure salesmanship.
(xiv) No expectations about changes in price.

(2) Explain the various concepts of National Income.

Ans: The various concepts of National Income will make the meaning of National Income Clear. Various concepts of National Income are as follows.

(i) Gross National Product (GNP) : It refers to the total market value of goods & services produce in an economy during a specific period of time i.e. a year in a country. It is expressed as

$GNP = C + I + G + (X - M) + (R - P)$

(ii) Gross Domestic Product (GDP) : It refers to the value of all goods & services produced within the boundaries of a country during a period of one year. So that it does not include net earnings from abroad. It is expressed as

$GDP = C + I + G + (X - M)$

(iii) Net National Product (NNP) : It refers to the total money value of the net output of an economy during a period of one year. It is also known as national Income at market price. In the process of production fixed capital goods like machinery are used again & again. They gradually lose their initial value. It refers to wear & tear of capital assets i.e. depreciation. When charges of depreciation are deducted from GNP we get NNP at market price. It is expressed as NNP = GNP – Depreciation.

NNP at factor cost refers to the term National income. It is the sum of the earnings received by the factors of production in one year in a country. To derive NNP at factor cost indirect taxes must be deducted & subsidies must be added to NNP at market price. It is expressed as NNP at factor cost.

= NNP at market price – Indirect taxes + subsidies.

(iv) Personal Income (PI) : Personal Income is the sum of all income actually received by all individual or households during a given year.

(v) Per Capita Income (PCI) : The average income of the people of a country in a particular year is known as per capita income.

$$PCI = \frac{\text{National Income}}{\text{Total Population}}$$

This concept explain the standard of living of the people.

All above various concepts of national incomes are useful to clear the concept of National Income.

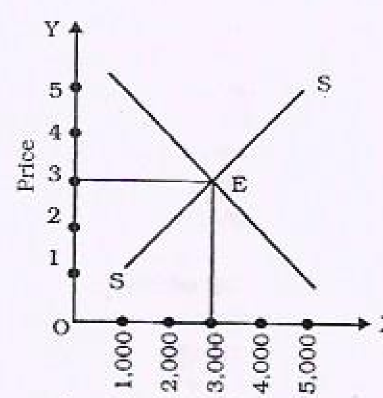
(3) What is perfect competition How price determination takes place under perfect competition?

Ans : Under perfect competition an equilibrium price is determined by intersection of demand and supply. It is because according to Marshall as two pairs to scissors have to operate in opposite direction to cut a piece of paper similarly forces of demand and supply operates in the opposite direction to determine market price.

(i) Under perfect competition an equilibrium price is determined at the point where demand curve intersect to supply curve and quantity demanded is exactly equal to quantity supplied this can be explained with the help of following schedule and diagram.

Price	Market Demand (Quantity)	Market supply (Quantity)	Effect on price
5	1000	5000	↓
4	2000	4000	↓
3	3000	3000	=
2	4000	2000	↑
1	5000	1000	↑

(ii) In the above schedule price, market demand, market supply and effect on price is shown the table shows that when price is ₹ 5/- market demand is 1000 units while supply is 5000 units, since supply is more than demand price falls to 4/-, ₹ 3/- respectively and demand extended to 2000 & 3000 units respectively while supply contracted to 4000 & 3000 units respectively at ₹ 3/- price, quantity supplied and quantity demanded both are euqal so ₹ 3/- will be an equilibrium price if price further fall to ₹ 2/- & ₹ 1/- market demand will be extended to 4000 & 5000 units respectively while demand will be contracted to 2000 and 1000 units respectively at both prices since demand is more than supply price will rise to ₹ 2/- & ₹ 3/- respectively at both prices.



Quantity demanded & supplied

(iii) Since demand is more than supply price will rise to ₹ 2/- & ₹ 3/ - respectively and equilibrium price will be ₹ 3/-. Thus under perfect competition equilibrium price is determined by intersection of demand and supply. This can be explained with the help of the diagram.

(iv) In the diagram OX axis indicate quantity demanded and supplied and OY axis indicate price.

(v) Demand curve 'dd' intersect supply curves at E point where Rs. 3/- is an equilibrium price and 3000 is an equilibrium quantity thus under perfect competition an equilibrium price is determined by intersection of demand and supply curve.

(4) What are different kinds of Money ?

Ans : In Economics money refers to anything which have general acceptability, which work as a medium of exchange and at the same time act as standard of deferred payment and store of value.

Kinds / types of money

Following are different types of money :

(1) Common Money : It refers to the money which is statutory or legal tender money within the country. Coins of all denominations and currency notes are example of common money.

Common money is of three types :

(i) Full bodied/standard money : In the case of full bodied or standard money the face value of the coin is equal to it's intrinsic value that the metal which is used for it. Such coins are not in circulation now.

(ii) Token money/coins : It is one in case of which face value is more than it's metallic value. Coins in circulation of all denominations are token coins.

(2) Paper Money : It refers to the currency notes issued by monetary authority of a country.

Following are the types of paper money.

(i) Representative paper money : Such currency notes are issued by the Central Bank of the country which are backed by 100% gold reserve.

(ii) Convertible paper money : When monetary authority of the country promises to convert paper money in to precious metal like gold or precious metal into currency notes, it is called convertible paper money. It is not in circulation in modern economy.

(3) Non convertible peper money : When currency notes issuing authority does not promise to convert paper curency into gold or silver it is called non convertible paper money. All currency notes in circulation are the example of non-convertible paper money.

(4) Legal tender money : It refers to the money whose acceptance is leaglly bounded that is compulsory and non acceptance of it cause punishment. Currency notes and coins issued by monetary authority of the country are legal tender in that country.

Legal tender money may be :

(i) Limited legal tender : Which can be used for settlement of claims upto specific amount e.g. coins of small denominations.

(ii) Unlimited legal tender : It refers to the legal tender money which can be used to settle claim upto any amount. All Indian curency notes are unlimited legal tender money in India.

(iii) Bank money /Optional money : If refers to the credit money created by the commercial bank on the basis of primary deposits received from people. It is circulated in the form of bank cheque and bank drafts. It is optional money that is it's acceptance depend upon an individual.

Thus there are different forms of money.

Marking Scheme : 8 Marks for each correct answer at least 4 to 8 points required