# ECONOMICS

## PART I (20 Marks)

*Answer **all** questions.*

**Question 1**

Answer briefly *each* of the following questions (i) to (x): [$10 \times 2$]

(i) State the components of compensation of employees.

(ii) Explain the shape of *Average Cost Curve*.

(iii) Explain the demand curve for a necessity commodity.

(iv) Explain *any two* causes of disequilibrium in the balance of payment in an economy.

(v) What is meant by *high powered money?*

(vi) The demand for a commodity at ₹ 4 per unit is 100 units. The price of the commodity rises and as a result, its demand falls to 75 units. Find the new price if the price elasticity of demand of that commodity is 1.

(vii) Justify the following as *price-takers / price-makers*:

(a) an oligopoly market

(b) a perfectly competitive market

(viii) If the value of the multiplier is 4, what will be the value of MPC and MPS?

(ix) Distinguish between *intended supply* and *actual supply*.

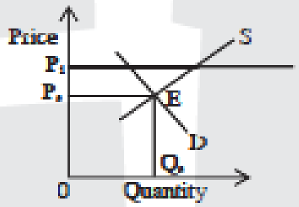
(x) What is meant by *deficit financing*?

## PART II (60 Marks)

*Answer **any five** questions.*

### Question 2

(a) Study the diagram given below and answer the questions that follow: [3]




(i) $P_e$ is the equilibrium price. What would prompt the government to fix the price at $P_1$?

(ii) What would be the effect of fixing the price at $P_1$?

(b) Discuss the effect of elasticity of demand on: [3]

(i) a commodity which has many substitutes.

(ii) a small part of individual's income spent on a commodity.

(c) (i) Study the schedule given below and identify how much of commodity A and commodity B will a utility-maximizing consumer buy: [6]

| Units of A | M.U. of A | Units of B | M.U. of B |
|---|---|---|---|
| 1 | 10 | 1 | 30 |
| 2 | 8 | 2 | 24 |
| 3 | 6 | 3 | 20 |
| 4 | 4 | 4 | 16 |
| 5 | 2 | 5 | 14 |
| 6 | 1 | 6 | 8 |

Note: Price A = ₹ 2, price B = ₹ 4, income = ₹ 20

(ii) Explain the Law of Equi Marginal Utility, using the above schedule.

### Question 3

(a) Discuss how supply of labour is an exception to the law of supply. [3]

(b) According to the Law of Variable Proportions, in which stage would a producer like to operate? Explain why. [3]

(c) Explain how a producer can attain equilibrium using TR and TC approach. [6]

### Question 4

(a) Explain the relationship between AC and MC with the help of a diagram. [3]

(b) Highlight *any three* differences between *monopolistic competition* and *oligopoly*. [3]

(c) *A perfectly competitive firm can continue producing even if it is incurring losses in short run equilibrium.* Justify the given statement with the help of a diagram. [6]

### Question 5

(a) Differentiate with the help of diagrams, *contraction in supply* and *decrease in supply*. [3]

(b) Identify the market where a firm is not required to reduce the price to sell more. Explain the behaviour of TR and MR. [3]

(c) Explain how a consumer attains equilibrium using the indifference curve analysis. [6]

**Question 6**

(a) Discuss two contingent functions of money. [3]

(b) Explain the role of the Reserve Bank of India with respect to: [3]

(i) custodian of foreign exchange.

(ii) promotional and developmental functions.

(c) Discuss how exchange rate is determined under flexible exchange rate system. [6]

**Question 7**

(a) Explain how public expenditure can be used as a tool to attain economic stability. [3]

(b) Differentiate between *degressive taxation* and *regressive* taxation. [3]

(c) Explain the various components of the budget. [6]

**Question 8**

(a) Discuss the mechanism of investment multiplier with the help of a numerical example. [3]

(b) Distinguish between *marginal propensity to consume* and *marginal propensity to save*. What is the relationship between the two? [3]

(c) Explain the determination of equilibrium level of output with the help of saving and investment curves. If savings exceed planned investment, what changes will bring about equality between them. [6]

**Question 9**

(a) How can personal disposable income be derived from private income? [3]

(b) Explain *any three* precautions which should be taken while estimating national income by income method. [3]

(c) Calculate national income and operating surplus from the following data: [6]

| | | ₹ in crores |
|---|---|---|
| (i) | Government final consumption expenditure | 800 |
| (ii) | Net factor income from abroad | (-) 110 |
| (iii) | Private final consumption expenditure | 900 |
| (iv) | Net domestic capital formation | 200 |
| (v) | Profits | 220 |
| (vi) | Rent | 90 |
| (vii) | Net exports | (-) 25 |
| (viii) | Interest | 100 |
| (ix) | Net indirect taxes | 165 |