

ECONOMIC APPLICATIONS

(Two Hours)

Answers to this Paper must be written on the paper provided separately.

*You will **not** be allowed to write during the first 15 minutes.*

This time is to be spent in reading the question paper.

The time given at the head of this Paper is the time allowed for writing the answers.

*Attempt **all** questions from **Part I** and **any four** questions from **Part II**.*

The intended marks for questions or parts of questions are given in brackets [].

PART I (40 Marks)

*Attempt **all** questions from this Part*

Question 1

- (a) Explain *two* functions of land. [2]
- (b) Differentiate between *Giffen good* and *inferior good*. [2]
- (c) Why is the Reserve Bank of India known as the *Lender of the last Resort*? [2]
- (d) State *two* reasons for the shift of the demand curve to the left. [2]
- (e) Can Direct Taxes reduce income inequality? [2]

Question 2

- (a) *The nature of a commodity determines its price elasticity of demand.*
Explain. [2]
- (b) Why do we deposit money with Commercial Banks? [2]
- (c) State *two* ways in which the public sector is important even at the present times. [2]
- (d) What effect does increased input prices have on the supply of a commodity? Draw a diagram to explain your answer. [2]
- (e) Which of the following will be treated as labour in Economics? Give a reason for each.
 - (i) Preparation of food by a housewife.
 - (ii) Singing for ones own pleasure.
 - (iii) Driving his master's car by a driver.
 - (iv) Playing cricket by Mahendra Singh Dhoni. [2]

This Paper consists of 4 printed pages.

Question 3

- (a) *An entrepreneur is an organizer but an organizer need not be an entrepreneur. Explain.* [2]
- (b) State *two* important characteristics of monopoly. [2]
- (c) What are savings bank accounts? Compare the rate of interest given to such an account to that of a Current account and a Fixed Deposit. [2]
- (d) Differentiate between *direct* and *indirect* tax. [2]
- (e) With the help of an example explain the process of creation of form utility. [2]

Question 4

- (a) Distinguish between Fiscal Policy and Monetary Policy. [2]
- (b) How do commercial banks invest their surplus funds? [2]
- (c) How does increased money supply affect prices in an economy? [2]
- (d) What is meant by the income effect of a fall in the prices of a commodity? [2]
- (e) The following table shows a change in the demand. Read the table carefully and answer the question that follows:

Case	Price(Rs)	Quantity(kg)
I	10	20
	10	10
II	10	20
	5	20

What type of change is it - decrease in demand or contraction in demand?

Give a reason. [2]

PART II (60 Marks)

Attempt any four questions from this Part

Question 5

- (a) (i) Define price elasticity of demand. Give the percentage formula of price elasticity of demand.
- (ii) As a result of 5% fall in the price of a good, its demand rises by 12%. Find the price elasticity of demand.

- (iii) What type of good is this? Give reasons.
- (iv) Give *two* examples of such a good. [7]
- (b) Give reasons for the following:
 - (i) Product differentiation is practiced in monopolistic competition.
 - (ii) Creeping inflation is regarded essential for economic growth. [8]

Question 6

- (a) Which of the following statements are correct and which are incorrect? Give reasons to support your answer.
 - (i) To control inflation, the central bank lowers the bank rate.
 - (ii) Uniform price is a key feature of a perfectly competitive market. [7]
- (b)
 - (i) Define money.
 - (ii) What is legal tender money?
 - (iii) Explain how money facilitates production and trade. [8]

Question 7

- (a) State *one* important function of capital. Differentiate between:
 - (i) *Capital* and *wealth*.
 - (ii) *Capital* and *income*.
 - (iii) *Capital* and *land*. [7]
- (b) In less developed countries, the state has an active role to play in establishing social justice. Explain *four* methods adopted by the Government to fulfill this objective. [8]

Question 8

- (a) What is meant by economic depression? For each of the following measures, state whether they are taken during inflation or depression. Give reasons for your answer.
 - (i) Direct taxes are reduced and public expenditure is increased.
 - (ii) Government securities are sold by the Central Bank in the open market operations.
 - (iii) Credit rationing. [7]

- (b) *Monopolistic competition is a perfect blending of monopoly and perfect competition. Explain.* [8]

Question 9

- (a) Read the extract given below and answer the questions that follow:-

Business Telegraph, 23rd July 2008.

Inflation is already at a 13 year high of 11.91 %. Any further hike in fuel prices could trigger more price pressures and cause widespread discontent. The government raised the price of petrol by Rs.5 per litre, diesel by Rs.3 per litre and domestic LPG cylinder by Rs.50.

- (i) How does a rise in fuel price create inflation in a country?
(ii) What is cost push inflation?
(iii) Explain the effect of inflation on the following:
(1) Fixed income group in the economy.
(2) Distribution of income.
(3) Capital formation.
(4) Producers. [10]
- (b) What is meant by *privatisation* of public sector units?
Explain *four* benefits of privatisation. [5]

Question 10

- (a) (i) Explain *three* important functions of a Commercial Bank.
(ii) What is meant by Cash Reserve Ratio? [7]
- (b) (i) Explain *four* factors on which efficiency of labour depends.
(ii) Give *two* causes of inefficiency of Indian labour. [8]