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.

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*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) Mention *two* assumptions of the law of demand. [2]

(b) Briefly explain the impact of division of labour on cost of production by a firm. [2]

(c) *A moderate dose of inflation is necessary for the development of an economy*. Briefly explain. [2]

(d) With the help of a suitable example explain the effect of a rise in price on the demand for complementary goods. [2]

(e) Explain in brief the first stage of capital formation. [2]

Question 2

State whether the following statements are ***true*** or ***false***. Give reasons for each of the following:

(a) Commercial Banks act as the *lender of the last resort*. [2]

(b) The privatisation of PSUs do not guarantee social welfare. [2]

(c) Producers in a perfect market are price takers. [2]

(d) There is an inverse relationship between quantity supplied and price of a commodity. [2]

(e) A rise in income leads to a fall in demand for normal goods. [2]

This Paper consists of 4 printed pages.

Question 3

(a) Differentiate between a *tax* and a *subsidy*. [2]

(b) Why do producers incur high selling costs in an Imperfect Market? [2]

(c) *The extent of division of labour depends on the size of the market.* Briefly explain. [2]

(d) Define fiscal policy. [2]

(e) State the effect of inflation on creditors. [2]

Question 4

(a) *"Entrepreneurs are innovators"* said Schumpeter. Briefly explain. [2]

(b) State *one* similarity between Monopolistic competition and Monopoly. [2]

(c) Price of a good rises by 2%. As a result, its supply rises by 4%. Find out the price elasticity of supply. [2]

(d) State the difference between *Income tax* and *Expenditure tax*. [2]

(e) Distinguish between *Fixed deposits* and *Demand deposits*. [2]

PART II (60 Marks)

*Attempt **any four** questions from this Part*

Question 5

(a) With the help of a hypothetical supply schedule draw a supply curve. State *one* exception to the law of supply. [7]

(b) Define efficiency of labour and explain any *three* of its benefits. Briefly explain *two* causes of the low efficiency of labour in India. [8]

Question 6

(a) *The Central Bank is the apex monetary institution of the country.* Explain its role as a:

(i) Banker of the Government.

(ii) Lender of the last resort.

(iii) Custodian of foreign exchange reserves. [7]

(b) How does the state fulfill the following socio-economic objectives?

(i) Reducing income inequality

(ii) Promoting industrial growth.

(iii) Environmental protection. [8]

Question 7

(a) With the help of suitable diagrams explain the difference between *decrease* in demand and *contraction* in demand. [7]

(b) Read the article given below carefully and answer the questions that follow:

Business Standard, Friday, 26th November, 2010

Food inflation declined to a 17 month low of 10.15 percent for the week ended November 13, as vegetable prices softened on fresh crop arrival, raising hopes that the Reserve Bank of India (RBI) would not raise key rates for now.

This is the sixth week in a row that food inflation has declined on the back of improved crop arrivals in markets across the country, as also the impact of RBI's monetary tightening which arrested pressure on demand.

(i) Define inflation.

(ii) What according to the article are two causes of a fall in food price?

(iii) What is meant by demand pull inflation?

Briefly explain *two* factors which determine this phenomenon. [8]

Question 8

(a) Define land and explain any *three* of its important characteristics.

Suggest *two* measures to improve productivity of land. [7]

(b) Explain *two* similarities and *two* dissimilarities between a *Perfect market* and an *Imperfect market*. [8]

Question 9

(a) What are Public Sector Undertakings (PSU)? Give *two* of its examples. Explain any *four* problems faced by PSUs in recent times. [7]

(b) Define *elasticity of supply* and explain any *four* of its determinants. [8]

Question 10

(a) State the following:

(i) *Four merits* of a Direct tax

(ii) *Three demerits* of an Indirect tax. [7]

(b) Read the excerpt given below and answer the questions that follow:

The Hindu, 19th July 2010.

The new symbol of the Rupee: a step towards globalisation. Evoking national spirit and international attention, the Indian Rupee attained a new avtar in its new symbol...........the Indian currency will be joining the elite club of the US Dollar, European Euro, British Pound Sterling, and Japanese Yen.

(i) State *one* positive effect of globalisation.

(ii) Name the institution that has the sole authority to print currency notes in India.

(iii) Distinguish between *limited* legal tender and *unlimited* legal tender currency.

(iv) Define cash reserve ratio. What purpose does it serve?

(v) Write the new symbol for the Indian Rupee. [8]