ECONOMICS

(Three hours)

*(Candidates are allowed additional 15 minutes for **only** reading the paper.*
They must NOT start writing during this time.)

Answer **Question 1** (compulsory) from Part I and **five** questions from Part II.

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

PART I

Question 1

Answer briefly each of the questions (i) to (xv)   [15 x 2]

(i)   State any *two* assumptions of Law of the Diminishing Marginal Utility.

(ii)   What is meant by *macro economics*?

(iii)   If demand increases by 50% due to an increase in income by 75%, calculate the *income elasticity of demand.*

(iv)   Draw the supply curve of a perishable commodity. Give a reason for the shape of the supply curve.

(v)   What is meant by *increasing returns to a variable factor*?

(vi)   What would be the elasticity of demand of a commodity when:

      (a)   Price and total expenditure move in the same direction?

      (b)   Price and total expenditure move in the opposite direction?

(vii)   Identify the type of market which has a characteristic of perfect substitutes. Give *one* reason for your answer.

(viii) What is meant by *super normal profit*?

(ix)   How is *personal income* calculated from *private income*?

(x)   What is *variable cost*? Give *two* examples.

(xi)   Differentiate between *economic* and *non-economic* services.

(xii)   Is *deficit financing* inflationary? Justify your answer.

(xiii)   What is a *trade union*?

(xiv)   How can an increase in *public expenditure* create *more employment* in the country?

(xv)   What is meant by *unfavourable balance of payment*?

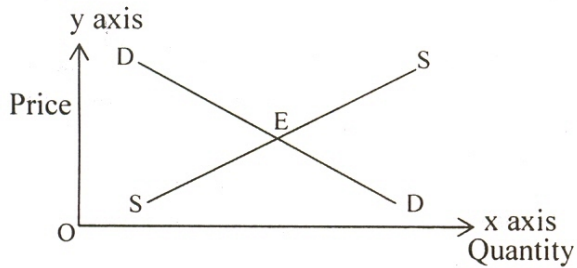---

This Paper consists of 4 printed pages.

Question 2

(a)   Discuss *two* reasons for the downward slope of the demand curve.   **[4]**

(b)   Complete the demand schedule for commodity X: **[4]**

Price (Rs./unit)	Quantity demanded by Individual A (dozens)	Quantity demanded by Individual B (dozens)	Market Demand (dozens)
15	50	85	?
20	45	?	105
25	?	45	85
30	35	35	?

Draw the market demand curve from the above schedule.

(c)   **[6]**

In the graph above, DD is the demand curve and SS is the market supply curve.

(i)   On the y axis, mark any price P, showing excess demand.

(ii)   How will equilibrium be restored from a situation of excess demand?

(iii)   Show how equilibrium price will be affected when the increase in demand is equal to the decrease in supply of a commodity.

Question 3

(a)   Explain the *supply function*.   **[4]**

(b)   State the *Law of Supply*. Discuss how change of technology affects the supply of a commodity.   **[4]**

(c)   Discuss the relationship between *Average product* and *Marginal product* with the help of a diagram.   **[6]**

Question 4

(a) Explain *one* cause each for *increasing* and *diminishing returns to scale*. [4]

(b) A cost function is given below: [4]

Output (units)	0	1	2	3	4
Total Cost (Rs.)	100	160	212	280	356

Calculate:

(i) Total Fixed Cost

(ii) Total Variable Cost

(iii) Marginal Cost

(c) Discuss *four* determinants of elasticity of demand. [6]

Question 5

(a) Using diagrams, distinguish between the shapes of the Total Revenue curve under *perfect* and *imperfect* competition. [4]

(b) Discuss the shape of the *Average Fixed Cost Curve*. [4]

(c) Explain how a perfectly competitive firm in equilibrium incurs losses in short run. Show the same with the help of a diagram. [6]

Question 6

(a) With the help of a well labelled diagram, show the circular flow of income in a three-sector model. [4]

(b) Define compensation of employees and mention its components. [4]

(c) From the data given below, calculate Gross Domestic Product at market price and National Income (NNP_{FC}) using the Value Added Method: [6]

		Rs.(in crores)
(i)	Gross Value of output in primary sector (at factor cost)	950
(ii)	Gross Value of output in secondary sector (at factor cost)	470
(iii)	Gross Value of output in tertiary sector (at factor cost)	500
(iv)	Value of intermediate product in primary sector	360
(v)	Value of intermediate product in secondary sector	200
(vi)	Value of intermediate product in tertiary sector	175
(vii)	Depreciation	20
(viii)	Indirect tax	35
(ix)	Subsidy	10
(x)	Net Factor Income from Abroad	4

3

Turn over

Question 7

(a) What is meant by *selling cost?* Which kind of market does not need selling cost and why? [4]

(b) Define *interest*. In calculating gross interest, what is *payment for risk?* [4]

(c) Discuss how under perfect competition, a firm is a *price taker* and an industry a *price maker*. [6]

Question 8

(a) *Balance of Payment always balances in the accounting sense* . Explain briefly. [4]

(b) Discuss *two* causes of disequilibrium of balance of payments. [4]

(c) "A country which has an absolute disadvantage in production of any two goods can still have a comparative advantage in production of one of those goods, which it can produce efficiently and export." Explain the underlying theory with an example. [6]

Question 9

(a) What is a *Performance Budget*? Differentiate between Revenue Expenditure and Capital Expenditure. [4]

(b) In a situation of income inequality, give *two* ways in which Fiscal Policy can be used to bring about equity. [4]

(c) Discuss *four* methods of repayment of public debt. [6]