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]**

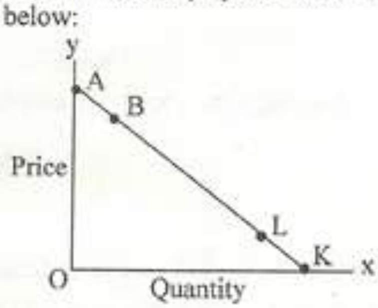
(i) Name and explain the two main branches of economics.

(ii) State the law of *equi-marginal utility*.

(iii) Explain with an example, what kind of a commodity will have an inverse relationship between income and demand.

(iv) Explain the meaning of *indivisibility of a factor* with an example.

(v) What will be the *price elasticity of demand* of the points A, B, L and K in the diagram given below:



(vi) State what causes a *movement* along the supply curve and show it diagrammatically.

(vii) Define *marginal cost*. With the help of an example, show how *marginal cost* can be obtained from *total cost*.

(viii) Give the modern definition of *economic rent*.

(ix) Which revenue concept is also called *price*? Justify your answer by giving a reason.

(x) Distinguish between *national income at current prices* and *national income at constant prices*.

This Paper consists of 5 printed pages and 1 blank page.

Turn over

(xi) When does the equilibrium quantity in a market remain unchanged with a change in demand? Show it with the help of a diagram.

(xii) What is the significance of *freedom of entry and exit of firms* under perfect competition?

(xiii) Give *one* difference between *flexible exchange rate* and *fixed exchange rate*.

(xiv) What is meant by *zero base budget*?

(xv) Explain *two* merits of direct tax.

PART II

*Answer any **five** questions*

Question 2

(a) Calculate the quantity demanded of a commodity when its price increases from Rs.4 to Rs.6. The original quantity demanded was 40 units and the price elasticity of demand is 0·5. **[4]**

(b) Explain how the following phenomena are exceptions to the *Law of Demand*: **[4]**

(i) Expectations regarding future prices.

(ii) Conspicuous consumption by a consumer.

(c) Discuss *four* factors other than price, that affect demand of a commodity. **[6]**

Question 3

(a) Define *price elasticity of supply*. Draw diagrams when price elasticity of supply is: **[4]**

(i) Equal to one.

(ii) Greater than one.

(b) Differentiate between *returns to variable factor* and *returns to scale*. **[4]**

(c) Explain with the help of diagram, the relationship between *total product* and *marginal product*. **[6]**

Question 4

(a) Explain diagrammatically how equilibrium price and equilibrium quantity are affected by changes in the demand for a commodity, with the supply remaining constant. **[4]**

(b) Define *production function*. Discuss *two* criticisms of the *Law of Variable Proportions*. **[4]**

(c) How does a perfectly competitive firm earn supernormal profits in the short run equilibrium? Explain it with the help of a diagram. **[6]**

Question 5

(a) Distinguish between *monopoly* and *perfect competition* on the basis of: **[4]**

(i) AR curve.

(ii) Control over the market price.

(b) Explain the following concepts: **[4]**

(i) Gross profit.

(ii) Transfer Earning of a factor.

(c) Define *economic cost*. Explain the relationship between *total cost*, *total fixed cost* and *total variable cost* with the help of a diagram. **[6]**

Question 6

(a) Discuss *two* differences between *intermediate goods* and *final goods.* **[4]**

(b) Distinguish between: **[4]**

(i) *Gross Domestic Product* at market price and *Net National Product* at factor cost.

(ii) *Personal income* and *Personal disposable income*.

(c) Calculate National Income and *Net Domestic Product* at market price by *Income method* from the following data: **[6]**

		Rs. (in crores)
(i)	Value of output	800
(ii)	Value of intermediate consumption	400
(iii)	Subsidies	10
(iv)	Indirect taxes	60
(v)	Factor income received from abroad	10
(vi)	Factor income paid abroad	20
(vii)	Mixed income of self-employed	120
(viii)	Rent and royalty	40
(ix)	Interest and profit	20
(x)	Wages and salaries	110
(xi)	Consumption of fixed capital	50
(xii)	Employer's contribution to social security	10

Question 7

(a) Explain how the expenditure of the Indian government has risen with reference to: **[4]**

(i) Increase in developmental activities.

(ii) Increase in population.

(b) How does the *fiscal policy* of the government control *inflation* with the following tools: **[4]**

(i) Public Expenditure.

(ii) Taxation.

(c) Discuss *four* reasons for the *internal borrowing* by the government. **[6]**

Question 8

(a) Mention *two* merits and *two* demerits of international trade. Explain *any one* merit and *any one* demerit of international trade. **[4]**

(b) How can the government correct an *adverse balance of payments* through the following measures: **[4]**

(i) Export promotion.

(ii) Import control.

(c) Explain the *Absolute Cost Advantage Theory* of international trade with an example. **[6]**

Question 9

(a) The following table shows the marginal utility derived from the purchase of books. The price of the book is Rs. 500. Draw a diagram to explain consumer's equilibrium where MU = P. **[4]**

Number of books	M.U.
1	700
2	600
3	500
4	400
5	300

(b) How is the *elasticity of demand* of a commodity affected by the following factors: [4]

(i) Existence of substitutes of a commodity.

(ii) Nature of a commodity.

(c) The cost function of a firm is given below: [6]

Output	0	1	2	3	4
Total Cost (Rs.)	60	80	100	111	116

Find:

(i) Total Fixed Cost.

(ii) Total Variable Cost.

(iii) Average Fixed Cost.

(iv) Average Variable Cost.

(v) Marginal Cost.