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 (20 Marks)

Answer all questions.

Question 1

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

(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*?

Question 2

(a) Study the diagram given below and answer the questions that follow: [3]
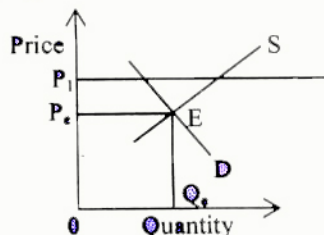
(i) P_e is the equilibrium price. What would prompt the government to fix the price at P_1?

(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]

Turn over

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