ECONOMICS

(Maximum Marks: 80)

(Time allowed: Three hours)

*(Candidates are allowed additional 15 minutes for **only** reading the paper.*

They must NOT start writing during this time.)

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*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) Define *deficit financing*.

(ii) Differentiate between *Current Account* and *Capital Account of Balance of Payment*.

(iii) What is meant by *price discrimination* in monopoly market?

(iv) Define *total utility*. How is marginal utility derived from total utility?

(v) Explain the *overdraft* facility given by banks.

(vi) Define *implicit cost*. How is it different from *explicit cost?*

(vii) Why is *price* per unit equal to AR and MR under perfect competition?

(viii) Explain the meaning of the following:

- (a) Full employment
- (b) Involuntary unemployment.

(ix) Explain *two* differences between *factor income* and *transfer income*.

(x) With the help of diagrams, show how equilibrium price and quantity of a commodity are affected when:

- (a) Demand is perfectly elastic and supply decreases.
- (b) Supply is perfectly elastic and demand increases.

PART II (60 Marks)

Answer any five questions.

Question 2

(a) Differentiate between *contraction of demand* and *decrease in demand*, using diagrams. [3]

(b) "The supply curve of labour is an exception to the law of supply." Justify the statement, using a diagram. [3]

(c) A consumer consumes goods X and Y. Given below is his marginal utility schedule for goods X and Y. Suppose, the price of X is ₹ 2, Y is ₹ 1 and income ₹ 12. State the law of Equimarginal utility and explain how the consumer will attain equilibrium. [6]

Units	1	2	3	4	5	6
MU_X	16	14	12	10	8	6
MU_Y	11	10	9	8	7	6

Question 3

(a) Explain *any two* factors affecting the price elasticity of demand. [3]

(b) Derive a market supply curve from two hypothetical individual supply schedules. [3]

(c) *If more variable factors are employed to fixed factors, the total product increases initially at increasing rate and finally it decreases.* Explain this law with the help of a diagram. [6]

Question 4

(a) Explain the shapes of *total fixed cost curve* and *average fixed cost curve*. Give one reason each, to justify the shape of the two curves. [3]

(b) Explain the concept of *Maximum Price Legislation* with the help of a diagram. [3]

(c) Explain *any four* features of perfect competition. [6]

Question 5

(a) Explain how a firm in perfect competition incurs loss, in short run equilibrium. [3]

(b) Discuss how prices of related goods affect the demand for a commodity. [3]

(c) Explain how a producer attains equilibrium using the *TR* and *TC* approach. [6]

Question 6

(a) Discuss the mechanism of *investment multiplier* with the help of a numerical example. **[3]**

(b) Complete the following table: **[3]**

Income (Y) ₹	Consumption (C)	APS	MPS
0	40		
50	70	---	---
100	100	---	---
150	120	---	---

(c) Explain the concept of inflationary gap with the help of a diagram. Discuss two monetary measures to correct it. **[6]**

Question 7

(a) Differentiate between *Revenue deficit* and *Fiscal deficit.* **[3]**

(b) What is an *indirect tax?* How is it different from a direct tax? **[3]**

(c) Show with the help of a diagram how exchange rate is determined under flexible exchange rate system. **[6]**

Question 8

(a) Explain *any two* functions of the Reserve Bank of India. **[3]**

(b) Explain the following terms: **[3]**

(i) Fiat money

(ii) Deposit money

(iii) Token money

(c) How do commercial banks create credit? Explain with the help of an example. **[6]**

Question 9

(a) Explain the components of *compensation of employees* for calculation of National Income by Income method. **[3]**

(b) Explain how the following are treated in estimating National Income: **[3]**

(i) Wheat grown by a farmer for self-consumption.

(ii) Earnings of the shareholders from the sale of shares.

(iii) Services rendered by family members to each other.

(c) From the following data, calculate National Income by Income method and Expenditure method: **[6]**

	Item	₹ in crores
(i)	Compensation of employees	700
(ii)	Government final consumption expenditure	750
(iii)	Net factor income from abroad	(-)10
(iv)	Net exports	(-)15
(v)	Profits	600
(vi)	Net indirect taxes	60
(vii)	Mixed income of self employed	350
(viii)	Rent	200
(ix)	Interest	310
(x)	Private final consumption expenditure	1100
(xi)	Net domestic capital formation	385
(xii)	Consumption of fixed capital	65