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) What is meant by *income elasticity of demand*?

(ii) *Technical advancement leads to cost saving.* With the help of a diagram, explain the effect of technical advancement on the supply curve.

(iii) Explain the meaning of M_1 and M_4 supply of money.

(iv) With the help of a diagram, show how the equilibrium price can remain unchanged even after a rightward shift of the demand curve.

(v) What is meant by *fiscal policy?* Name *any two* instruments of *fiscal policy.*

(vi) Give *two* differences between *Current Account* and *Capital Account* of Balance of Payment Account.

(vii) What is meant by *budget line*?

(viii) State whether each of the items given below is included in estimating National Income. Give a reason in each case to justify your answer.

(a) Expenditure on the construction of Express Highway.

(b) Expenditure on the purchase of an old house.

(ix) If the value of MPC is 0·9, find the value of multiplier.

(x) Explain the meaning of social cost with the help of an example.

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PART II (60 Marks)

*Answer **any five** questions.*

Question 2

(a) Explain *any two* reasons for the upward slope of the supply curve. [3]

(b) Explain the shape of the following: [3]

(i) Total fixed cost curve.

(ii) Total variable cost curve.

(c) Explain the concept of consumer's equilibrium with the help of indifference curve analysis. [6]

Question 3

(a) The quantity demanded of a commodity at a price of ₹ 10 per unit is 40 units. Its price elasticity of demand is -2. The price falls by ₹ 2 per unit. Calculate the quantity demanded at the new price. [3]

(b) Discuss *two* differences between *cardinal utility* and *ordinal utility*. [3]

(c) Explain how equilibrium price can be determined with the help of: [6]

(i) Demand and supply schedule

(ii) Demand and supply curves

Question 4

(a) Classify the following into fixed cost and variable cost giving a reason for your answer: [3]

(i) Expenses incurred on raw material

(ii) Interest on capital

(iii) Salaries to permanent employees

(b) Draw the TR and AR curves under perfect competition,with the help of a schedule. [3]

(c) Discuss *four* differences between *perfect competition* and *monopolistic competition*. [6]

Question 5

(a) Differentiate between *fixed factor of production* and *variable factor of production.* [3]

(b) Show with the help of a diagram, how a perfectly competitive firm earns *supernormal profit* in short run equilibrium. [3]

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

Question 6

(a) Explain the *primary functions* of money. [3]

(b) Explain the following functions of the Reserve Bank of India: [3]

(i) Banker to the government

(ii) Issue of currency notes

(c) Explain the mechanism of credit creation by commercial banks with the help of an example. [6]

Question 7

(a) *Public expenditure helps in increasing the production of an economy.* In this context, discuss *any two* points of importance of public expenditure. [3]

(b) Explain *any two* causes of disequilibrium in the balance of payment. [3]

(c) Define *fiscal deficit*, *primary deficit* and *revenue deficit*. Discuss their implications with reference to India. [6]

Question 8

(a) Show the relationship between *APC* and *APS.* [3]

(b) Explain the difference between *induced investment* and *autonomous investment.* [3]

(c) Discuss the main components of *aggregate demand* in an economy with the help of a diagram. [6]

Question 9

(a) Explain the following components of domestic factor income: [3]

(i) Compensation of employees

(ii) Operating surplus

(b) Distinguish between *private income* and *personal income.* [3]

(c) From the following data, calculate GNP_{MP} and National Income by using value added method: **[6]**

		₹ in crores
(i)	Gross value of output in primary sector (at FC)	950
(ii)	Gross value of output in secondary sector (at FC)	470
(iii)	Gross value of output in tertiary sector (at FC)	500
(iv)	Value of intermediate goods in primary sector	360
(v)	Value of intermediate goods in secondary sector	200
(vi)	Value of intermediate goods in tertiary sector	175
(vii)	Depreciation	20
(viii)	Indirect tax	35
(ix)	Subsidy	10
(x)	Net factor income from abroad	4
