

# ECONOMICS

(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 [ ].

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## PART I (30 Marks)

Answer *all* questions.

### Question 1

Answer briefly *each* of the following questions:

[15×2]

- (i) What does zero cross elasticity of demand between two goods imply? Give an example to explain.
- (ii) Why is the marginal cost curve U shaped?
- (iii) Differentiate between *monopoly* and *monopsony*. Give an example for each.
- (iv) What is *market period* ? What is the shape of the supply curve in this period?
- (v) Give *two* assumptions of the law of Variable Proportions.
- (vi) Explain the meaning of *price ceiling* with the help of a diagram.
- (vii) Why is the Central Bank considered to be the *lender of the last resort*?
- (viii) What is *Vote-on-account budget*?
- (ix) Explain how taxation can be used to reduce inequality of income.
- (x) What is meant by *unlimited legal tender*?
- (xi) Distinguish between CRR and SLR.
- (xii) Calculate the value of multiplier if MPC is equal to MPS.
- (xiii) Define *GNP at factor cost*. How is it different from national income?
- (xiv) Explain with the help of an example, how inflation affects the debtors.
- (xv) How does an increase in the price of a commodity affect its quantity demanded? Show it with the help of a diagram.

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## PART II (70 Marks)

Answer any five questions.

### Question 2

- (a) Explain with the help of a well labelled diagram how a perfectly competitive firm earns normal profit in short run equilibrium. [4]
- (b) Why does the TC curve start from the Y axis and the TVC curve from the Origin? [4]
- (c) Discuss *four* features of *Oligopoly*. [6]

### Question 3

- (a) Complete the following table and draw a supply curve for the firm A: [4]

Price per unit	Supply by firm A	Supply by firm B	Market Supply
2	5	5	?
3	?	10	17
4	9	?	24
5	11	20	?

- (b) Explain what happens when the market price is less than the equilibrium price. [4]
- (c) Explain the *four* determinants of supply of a commodity. [6]

### Question 4

- (a) Explain the nature of the AR and MR curves under perfect and imperfect competition. [4]
- (b) Explain any one *internal* and any one *external* economy of scale. [4]
- (c) How does a producer attain equilibrium under perfect competition through the MR and MC approach? [6]

**Question 5**

- (a) Explain how the *income effect* and the *substitution effect* are the reasons for the downward slope of the demand curve. [4]
- (b) Price elasticity of demand for a product is unity. A household buys 50 units of this product when its price is ₹ 10 per unit. If its price rises to ₹ 12 per unit, how much quantity of the product will be bought by the household? [4]
- (c) A marginal utility schedule of a person is given below. Discuss the law underlying the given schedule: [6]

Pen (units)	1	2	3	4	5
MU (utils)	25	20	15	10	5

**Question 6**

- (a) Calculate MPC, MPS and APC from the following data: [4]

Income (Y)	Consumption
100	95
110	104

- (b) Discuss the fiscal measures used to solve the situation of *deficient demand*. [4]
- (c) Explain how the equilibrium level of income can be determined by *aggregate demand* and *aggregate supply*. [6]

**Question 7**

- (a) Explain the following functions of money: [4]
- Medium of exchange
  - Store of value
- (b) Explain how *bank rate* and *open market operations* can be used by the Central Bank to control credit. [4]
- (c) How do commercial banks create credit? Explain with the help of an example. [6]

**Question 8**

- (a) Explain *any two* objectives of the fiscal policy in a developing economy. [4]
- (b) What is *primary deficit* and *fiscal deficit* in a government budget? What is the implication of the primary deficit on the economy? [4]
- (c) Explain *cost-push inflation* with the help of a diagram. [6]

### Question 9

- (a) Classify the following as final or intermediate goods. Give reasons for your answer. [4]
- (i) A car purchased by a company for business purposes.
  - (ii) Pen or paper purchased by a consumer.
- (b) Discuss two reasons why the per capita real income is considered to be a better index of economic welfare than gross domestic product. [4]
- (c) Calculate national income and  $GDP_{mp}$  by the income method using the following information: [6]

<u>Items</u>	<u>₹ in crores</u>
(i) Private final consumption expenditure	1300
(ii) Net factor income earned from abroad	50
(iii) Mixed income of self employed	500
(iv) Subsidies	100
(v) Indirect tax	200
(vi) Consumption of fixed capital	1000
(vii) Operating surplus	5000
(viii) Compensation of employees	1500