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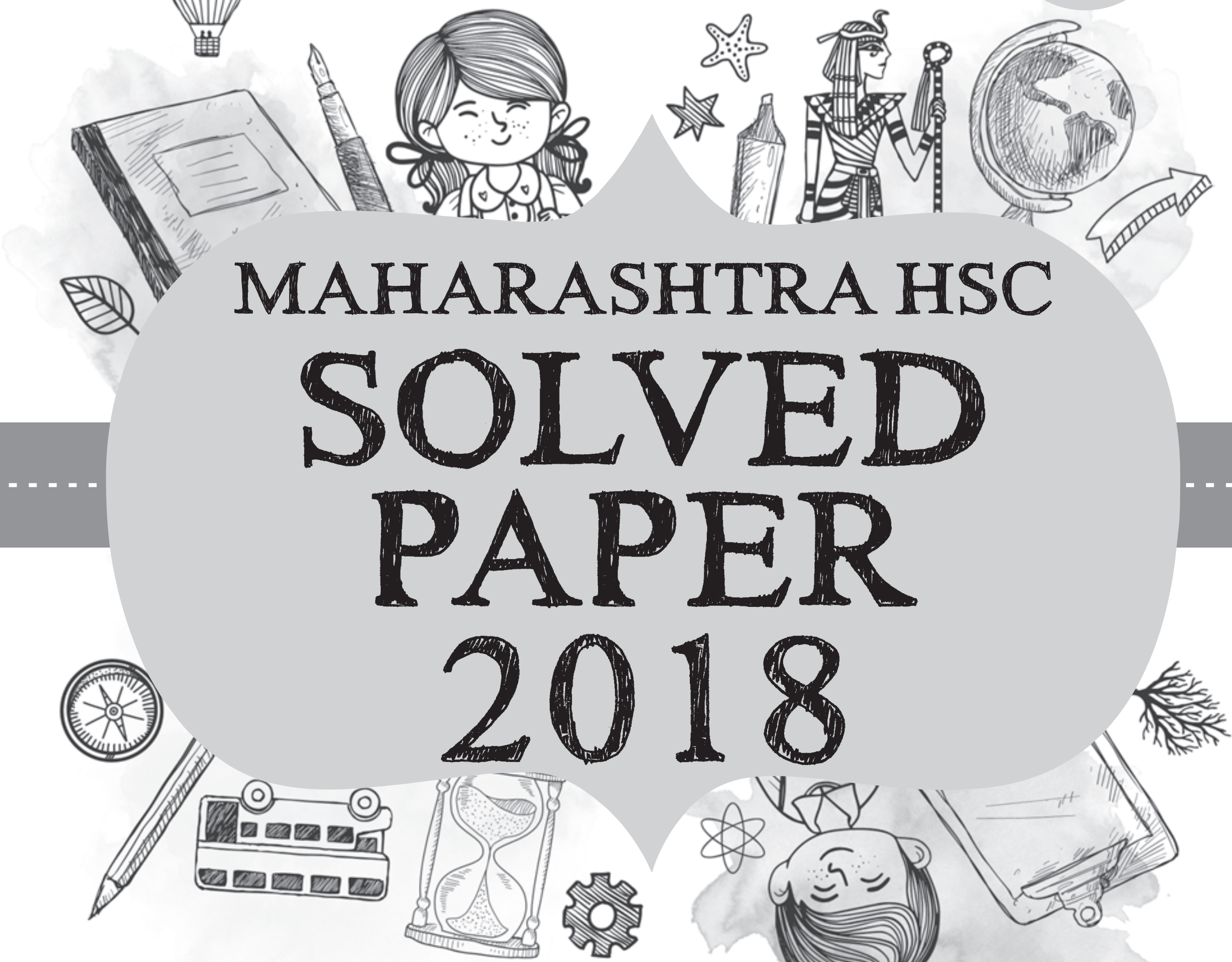

MAHARASHTRA HSC SOLVED PAPER 2018

CLASS 12

ECONOMICS

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LATEST SYLLABUS

SECTION – A

Micro Economics

1. Introduction to Micro Economics
2. Consumers behavior
3. (a) Analysis of Demand

   (b) Elasticity of Demand
4. Analysis of Supply
5. Types of Market & Price determination under Perfect competition
6. Factors of Production

SECTION – B

Macro Economics

7. Introduction to Macro Economics
8. National Income
9. Determinants of Aggregates
10. Money
11. Commercial Bank
12. Central Bank
13. Public Economics

...Contd.

Economic Topics for Project (20 Marks)

1) Visit any cottage industry and collect information about its income and expenses.
2) Visit some families and note down observations regarding how utility of different commodities is subjective and relative.
3) Prepare a chart for Marginal Utility and Total Utility of any commodity consumed by you.
4) Comparative study of individual demand schedules of any one commodity of two families.
5) Visit a grocery shop and collect information about changes in demand and changes in price of wheat for the period of 5 months.
6) Visit retailers of any commodity & collect information about prices & supply.
7) Collect information about prices charged for toothpaste, bathing soap etc. by different firms under monopolistic competition.
8) An interview of an entrepreneur.
9) An interview of skilled and unskilled labour engaged in different sectors.
10) Survey of people using credit cards & debit cards.
11) Visit any Commercial Bank & collect information about its functioning.
12) Collect information of different Banking instruments like cheques, demand drafts, etc.
13) Collect information about E-Banking
14) Collect information about changes in the policies of Reserve Bank of India.
15) Collect information of the current budget from newspaper.

Note : The above list of projects is given only as guideline.

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Examination Paper	Maharashtra HSC Exam March 2018 Set No. J-309	Economics (49)

Time : 3 Hours **Max. Marks : 80**

General Instructions :

1. *All questions are compulsory.*
2. *Draw tables / diagrams wherever necessary.*
3. *Figures to the right indicate full marks.*
4. *Write answers to all questions on new pages.*

---

1. (A) Fill in the blanks using proper alternatives given in the brackets : **5**

(1) The terms 'micro' and 'macro' economics were first used by ....
(Adam Smith / Robbins / Ragner Frisch / Prof. Marshall)

(2) .... consumption can not be zero.
(Induced / Autonomous / Government / Private)

(3) During depression .... budget is preferable.
(balanced / surplus / deficit / zero)

(4) The demand for salt is ....
(elastic / inelastic / infinite elastic / unitary elastic)

(5) .... is a primary function of commercial bank.
(Purchase and sell securities / Accept deposits / Safe deposit vault / Letter of credit)

(B) Match the following : **5**

Group 'A'	Group 'B'
(a) Demand and price	(1) wages
(b) Perfectly elastic supply	(2) Vertical supply curve
(c) Land	(3) Transfer income
(d) Unemployment allowance	(4) Horizontal supply curve
(e) Reserve Bank of India	(5) Inverse relation
	(6) Rent
	(7) 1935
	(8) Direct relation

(C) State whether the following statements are true or false : **6**

(1) Concept of 'elasticity of demand' is useful for the finance minister.
(2) Supply of perishable goods is inelastic.
(3) Under perfect competition price is determined by equilibrium of demand and supply.
(4) Token coins are such coins whose face value is greater than their intrinsic value.

(5) Credit control is the function of commercial banks.

(6) Central bank also performs commercial banking business.

2. (A) Define or explain the following concepts : (any three) **[12]**

(1) Individual economic unit

(2) Marginal utility

(3) Elasticity of demand

(4) National income

(5) Effective demand

(6) Budget **6**

(B) Give reasons or explain the following statements : (any three) **6**

(1) The supply of agriculture commodity is relatively inelastic.

(2) A monopolist can control the supply of goods.

(3) The supply of land is inelastic.

(4) Macro economics is different from micro economics.

(5) As a banker for the government, the central bank transfers government funds.

(6) Micro economics is also known as price theory. **6**

3. (A) Distinguish between the following : (any three) **[12]**

(1) Desire and Demand

(2) Slicing method and Lumping method.

(3) Paper money and Metallic coins.

(4) Quantitative and Qualitative measures of credit control.

(5) Output method and Income method of measuring national income.

(6) Average revenue and Average cost. **6**

(B) Write short notes : (any two) **6**

(1) Subject matter of micro economics.

(2) Geometric method of measuring price elasticity of demand.

(3) Price determination under perfect competition.

(4) Features of labour.

4. Answers the following questions (any three) : **[12]**

(1) Explain the relationship between 'total utility' and 'marginal utility'.

(2) What are the features of monopolistic competition ?

(3) What are the features of macroeconomics ?

(4) Explain the types of investment expenditure.

(5) What are the different types of loans provided by commercial banks ?

(6) Explain the development and non-development expenditures of government.

5. Explain with reasons whether you 'agree' or 'disagree' with the following statements : (any three) **[12]**

(1) Law of diminishing marginal utility depends upon various assumptions.

(2) There are many types of demands.

(3) There are no exceptions to the law of supply.

(4) Barter system had many difficulties.

(5) Central bank has the sole power of issuing currency notes.

(6) Overdraft facility is not provided to the current account holders.

6. **Write explanatory answer : (any two)** **[16]**

(1) Explain the law of demand with its assumptions.

(2) What is price elasticity of demand ? Explain the types of price elasticity of demand.

(3) State and explain J.M. Keynes's 'psychological law of consumption'.

(4) Explain the output method of measuring national income.

■■

Solutions

1. (A) (1) Ragner Frisch.

(2) Autonomous.

(3) deficit

(4) Inelastic

(5) Accept deposits

(B) Match the following :

Group 'A'	Group 'B'
(a) Demand and price	(5) Inverse relation
(b) Perfectly elastic supply	(4) Horizontal supply curve
(c) Land	(6) Rent
(d) Unemployment allowance	(3) Transfer income
(e) Reserve Bank of India	(7) 1935

(C) (1) True

(2) True

(3) False

(4) True

(5) False

(6) False

2. (A) (1) Microeconomics studies the economic behaviour of an individual economic unit. The smallest part of an economy such as individual household, individual firm, individual income is considered as an individual economic unit. Microeconomics splits the economy into small individual units and further studies such units separately.

(2) It refers to the additional utility derived by a consumer from additional unit of a commodity consumed. It is the utility derived from the last unit of a commodity. In short, MU is the addition made by last unit to TU.

$$MU_n = TU_n - TU_{(n-1)}$$

(3) Elasticity of Demand is the degree of responsiveness of quantity demand for a commodity towards change in its price. It is calculated as

$$E_d = \frac{\text{\% change in demand for} \times \text{good}}{\text{\% change in price of} \times \text{good}}$$

(4) According to **Pigou**, "The national income is that part of the objective income of the community including, of course, income derived from abroad, which can be measured in money."

According to **Fisher**," The national dividend or income consists solely of services as received by ultimate consumer, whether from their material or from their human environments,". **2**

(5) (i) According to Lord Keynes, the equilibrium between aggregate demand and aggregate supply determines the point of effective demand. It is the actual expenditure incurred by all the people, on all types of consumer goods and capital goods in the economy during a given period of time. The flow of expenditure, in turn, determines the flow of income.

(ii) Thus, in the economy : Effective Demand = Total Expenditure = National Income = National Output.

(6) Definitions of Budget :

(i) According to **Prof. Johnson**, "A state budget is a statement of the states estimated income and expenditure in a commencing period usually one year"

(ii) According to **Prof. Dimock**, "Balanced estimate of expenditure and receipt for the given period of time".

The word Budget is derived from the French word 'Bougette' which means a bag or a wallet containing financial proposals. These financial proposals are in the form of the government's revenue and expenditure. The government budget is an annual statement of 'collection of revenue' and 'Payments on expenditure' prepared by the financial authority during a fiscal year. The key objective of budget is to regulate the financial and economic affairs of the country. **2**

(B) (1) Production of agricultural commodities depends on natural factors such as rainfall, climatic conditions etc. Due to unforeseen changes in weather, the agricultural productions is low, then their supply cannot be increased even at a higher price. As a result, the supply of agricultural commodities is relatively inelastic.

(2) The statement is True.

Reason – In monopoly market, there is a single seller or a single producer. Under monopoly, he has no rivals and he faces no competition. Entry of other firms are strictly restricted. Therefore, monopoly firm and monopoly industry is one and same. Hence, it can control the supply of goods. **2**

(3) The supply of land cannot be either increased or decreased but only the quality of land can be improved. The availability of land is fixed at-any time, hence, the supply of land is inelastic.

(4) Yes, I agree to it.

Reasons :

(i) Macroeconomics is the study of entire economy where as on the other hand, microeconomics is a study of the particular segment of an economy.

(ii) Macroeconomics studies aggregate demand, aggregate supply, national income, general price level, etc. On the other hand, micro economics studies individual demand, individual supply, individual income, price determination of particular product, etc.

(iii) Macroeconomics follows general equilibrium analysis. On the other hand, microeconomics follows partial equilibrium analysis.

(iv) Macroeconomics uses lumping method. On the other hand, microeconomics uses slicing method.

Therefore, macroeconomics is different from microeconomics. **2**

(5) The Central Bank transfers government funds from one place to another place and form one account to another account. In India, the Reserve Bank of India has branches in Mumbai, Delhi, Kolkata, Chennai, Kanpur, etc. It has five zonal offices and 19 regional offices in most state capitals. At other places, the branches of the State Bank of India act as agents of the Reserve Bank of India. This helps in the transfer of the government funds.

Thus, as a banker to the government, the Central Bank transfers government funds.

(6) Yes, Microeconomics is also known as price theory.

Reason: Microeconomics is primarily concerned with price determination of goods and services as well as factors of production. Therefore, it is also known as price theory. **2**

3. (A) (1)

S. No.	Desire	Demand
(i)	Desire simply refers to the mere wish of a person to have a particular commodity.	Demand refers to a desire backed by the ability and willingness to pay for a particular commodity.
(ii)	A person can desire anything at any point of time. There are no limitations for a desire.	There are several limitations affecting demand like ability to pay, willingness to buy etc.
(iii)	There is no relation between desire with price, place and time.	Demand has relation with price, place and time.
(iv)	Desire has a wider scope as it includes demand.	Demand has a narrow scope as it is a part of desire.

(2)

S. No.	Slicing Method	Lumping Method
(i)	In slicing method the entire economy is cut into small individual slices.	In lumping method the whole economy will be studied.
(ii)	Microeconomics uses the slicing method.	Macroeconomics uses the lumping method.
(iii)	In slicing method indepth study of individual unit is done.	In lumping method indepth study of whole economy is done.

(3)

Sr. No.	Paper Money	Metallic Coins
(i)	It refers to that money which is in the form of paper currency notes issued by the government of the country.	It refer to money which is made of metals like gold, silver, copper, etc.
(ii)	Cost of printing notes is less.	They are not economical to produce.
(iii)	They are suitable for large transactions.	They are suitable for small transactions.
(iv)	Paper money is comparatively more portable but less durable.	Metallic coins are comparatively less portable but more durable.

(4)

Sr. No.	Quantitative Credit Control Measures	Qualitative Credit Control Measures
(i)	These credit control measures are used to control the volume of credit.	These credit control measures are used to control the flow of credit.
(ii)	Bank rate, open market operations and variable cash reserve ratio are examples of quantitative methods.	Regulation of margin requirement, regulation of consumer credit, direct action, issuing directives, moral suasion, credit rationing and publicity are some of the examples of qualitative methods.

(5)

S. No.	Output Method	Income Method
(i)	Output method is also known as product method or inventory method.	Income method is also known as factor cost method.
(ii)	According to product method, the total value of final goods and services produced in a country during a year is calculated at market price or adding up values at each higher stage of production.	According to income method, the net incomes earned by the factors of production in the form of rent, wages, interest and profits are added up to obtain the national income for one year.
(iii)	The output method is widely used in underdeveloped countries for calculating national income.	The income method is used in developed countries like USA and UK for estimating national income.

(6)

S. No.	Average Revenue	Average Cost
(i)	Average Revenue (AR) refers to total revenue per unit of output sold.	Average Cost (AC) refers to total cost of production per unit.
(ii)	It is calculated as : $\text{Average Revenue} = \dfrac{\text{Total Revenue}}{\text{Quantity}}$	It is calculated as : $\text{Average Cost} = \dfrac{\text{Total Cost}}{\text{Total Quantity of Output}}$

(B) **(1)** The subject matter of microeconomics is mainly confined to price theory and resource allocation. Microeconomics seeks to obtain solutions to the basic economic questions such as what to produce ? How to produce ? How the goods are to be distributed ? How the resources are to be efficiently allocated to production and consumption etc. Thus the scope of micro economics is :

(a) Product pricing, (b) Factor Pricing, (c) Efficiency in production, (d) Efficiency in consumption, (e) Over all economic efficiency. In other words, under microeconomics, we study, Theory of Demand, Consumer Equilibrium, Production function, Law of supply, Market Equilibrium, Price determination, etc.

(2) **Point Method or Geometric Method :** The proportionate method and total outlay method enable us to measure elasticity of demand at a given point on the demand curve. Therefore, Prof. Marshall has developed yet another method to measure elasticity of demand, which is known as Point or Geometric method. At any point on demand curve, elasticity of demand is measured with the use of the following formula :

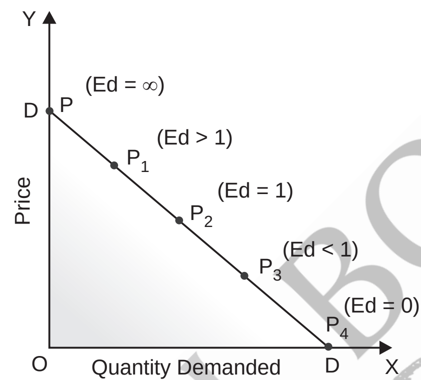
$$\text{Point Elasticity of demand} = \frac{\text{Lower segment of the demand curve below the given point}}{\text{Upper segment of the demand curve above the given point}}$$

Or $$\text{Price Elasticity of demand} = \frac{L}{U}$$

or $$\text{Point } E_d = \frac{L}{U}$$

With the help of the following example, we can understand how to measure elasticity of demand at a point on linear demand curve.

Linear Demand Curve



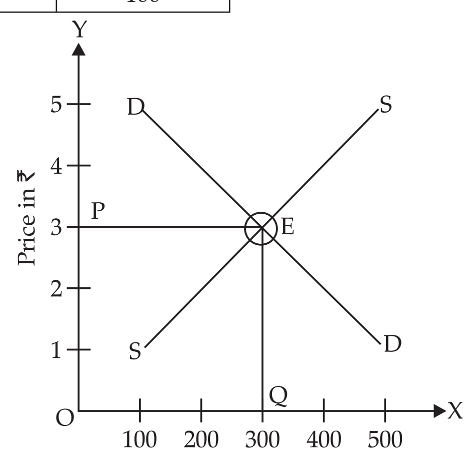
(3) Equilibrium Price : Equilibrium price is the price at which quantity demanded is equal to quantity supplied. The price of the product under perfect competition is influenced by both buyers and sellers and equilibrium price is determined by the interaction of demand and supply forces.

According to **Marshall,** demand and supply are like two blades of scissors. Just as cutting of cloth is not possible with the use of one blade, the equilibrium price of a commodity cannot be determined, either by the forces of demand or by supply alone. Both together determine the price.

We can study this with the help of the following table and graph.

Table - Demand and Supply Schedule

Price (₹) Per unit	Quantity Demanded (Units)	Quantity Supplied (Units)
5	100	500
4	200	400
3	300	300
2	400	200
1	500	100



Quantity Demanded and Supplied

E – Equilibrium point

OP – Equilibrium price

OQ – Equilibrium quantity demanded and supplied

(4) **(i)** **Inseparable from the body of the worker :** Labour and his work always goes together. Hence, labourer must present himself where he suppose to render his services.

(ii) **Human and active factor of production :** Labour being a human factor has feelings, likes and dislikes. Therefore, he cannot be treated as a machine. Other factors become productive only after the application of labour. So, labour is the most active factor of production.

(iii) **Labourer sells his labour and not himself :** As quoted by **Alfred Marshall,** "the worker sells his labour, but he himself remains his own property," The worker does not sell himself. He sells his labour only.

(iv) **Restricted mobility :** According to **Adam Smith**, "Of all the luggage's, the labour is the most difficult to be transported." Labour can move from one country to another country in the same way. Labour can change his business easily, but due to the family attachment, housing problems, climate etc., restricts geographic mobility of labour.

4. **(1)** **The relationship between MU and TU is as :**

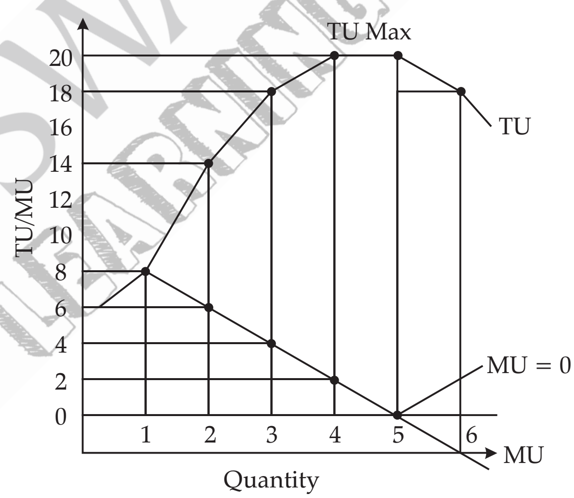
(i) When MU is positive, TU rises.

(ii) When MU is zero, TU is maximum.

(iii) When MU is negative, TU falls.

The following utility schedule and diagram illustrate the relationship :

Units	TU	MU
1 2 3 4	8 14 18 20] TU rises	8 6 4 2] MU is +ve
5	20] TU Max.	0] MU is zero
6	18] TU falls	– 2] MU is – ve



(2) **(a)** **Fairly large no. of buyers :** In this market, there are fairly large number of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.

(b) **Fairly large no. of sellers :** The no. of sellers in monopolistic competition is large. Each seller has a limited control over supply. The seller has complete control over his brand. Thus, they have to face competition from sellers selling close substitutes (other brands) in market .

(c) **Product differentiation :** Another important feature of this market is that the product produced and sold by various firms (sellers) are not identical but they are slightly different from each other on the basis of their brand name, shape, colour, packing etc. Thus, producers compete with each other on the basis of product differentiation and not on the price differentiation. Therefore, monopolistic competition is also known as no price competition.

(d) **Close substitutes :** Goods are close substitutes to each other, *e.g*, pepsi and coca cola.

(e) **Selling cost :** Product differentiation in monopolistic market leads to emergence of selling cost. The price of product includes the selling cost (advertisement on T. V, radio, exhibitions etc. incurred by producers to increase the sales.

(f) **Free entry and exit :** There is freedom of entry and exit under this competition, *i.e.*, new firms are free to enter the market, if there is super normal profits and similarly they can leave the market, if they found it difficult for survival.

(g) **Demand curve of the firm :** Due to product differentiation and availability of close substitutes, demand curve of the firm is highly price elastic and downward sloping.

(h) The firm is the price maker in this market and AR curve > MR curve. AR curve and MR curve both are negatively sloped curves.

(3) Following are the features of Macroeconomics :

(i) **Study of aggregates :** Macroeconomics studies the nation's economy as a whole. It is a study of wide aggregate variables such as national income, national output, total employment, aggregate demand, aggregate supply, total consumption, total investment, general price level, etc.

(ii) **Lumping method :** Macroeconomics uses lumping method to deal with macro-variables. Macro variables include aggregate demand, aggregate supply, national output, etc.

(iii) **A General equilibrium analysis :** Macroeconomic analysis is based on General Equilibrium Analysis.

This analysis deals with the entire economy in the context of equilibrium. It studies the behaviour of number of economic variable at a time and takes into consideration their functional relationship and interdependence in doing so.

This approach follow the principle of "Everything depends on everything else". Macroeconomics also explains how aggregate supply is brought into equality with aggregate demand and how equilibrium between them determine the price level as well as the level of income and employment.

(4) Investments refer to the addtion made in the total physical stock of capital. Following are the different types of Investment Expenditure :

(i) **Financial Investment :** Financial Investment refers to the investment made for the purchase of financial assets, such as shares, bonds, securities etc. It does not help in the production of goods and services directly.

(ii) **Real Investment :** Real Investment refers to the investment made in the production of goods and services such as machinery, tools, equipments. It is actually a net addition made to physical stock of capital.

(iii) **Gross Investment :** Gross Investment refers to the investment made in capital assets, buildings, raw materials, machines without deducting the amount of depreciation or capital consumption allowances.

(iv) **Net Investment :** Net Investment refers to the amount of investment made in capital assets like building raw material etc. after allowance has been made for depreciation. It is expressed as :

Net Investment = Gross Investment – Depreciation.

(v) **Autonomous Investment :** Autonomous Investment refers to investment made irrespective of income, profit and rate of interest. It is income inelastic which means that it is not directly linked with profit. Such kind of investments are made by the government in the public sector, with a view to provide public utilities and to promote maximum social welfare.

(5) Loans : Loans are the credit provided by banks for a certain time period bearing a varying rate of interest. Various type of loans provided by the banks are as follows:

(i) **Call Loans/Money at Call Notice :** These loans are provided for a period of 7 to 15 days. These loans are generally taken by bill brokers or stock brokers. These are called as call loans, as they can be called back anytime by the commercial bank from the borrowers. Hence, rate of interest is the lowest.

(ii) **Short term loans :** These are provided by commercial banks for a period of not more than two years. They are given to the businessmen to satisfy their working capital requirement. The rates of interest are higher than call loans and lower than medium term loans.

(iii) **Medium term loans :** These loans are provided by commercial banks for a period ranging from two to five years. Such loans are useful to producers and manufacturers for making changes in the methods of production, purchase of equipment, tools, etc.

(6) The government development and non-development expenditure are as follows :

(i) The government development expenditure is the expenditure that is incurred by it for the economic and social development of the country.

(ii) Expenditure on health, education, industrial development, social welfare, scientific research, etc. is considered as the government developmental expenditure.

(iii) The government non-development expenditure is the expenditure incurred on the essential service of the government.

(iv) Expenditure on administrative services, defence, judiciary, police, etc. is considered as the government non-developmental expenditure.

5. (1) Yes, I agree to this statement.

(i) **Homogeneity :** The law assumes that units of commodity consumed by consumer are uniform. They are identical or same in size, colour, shape, taste etc.

(ii) **Single use :** Here, it is assumed that a commodity is used to satisfy only a single want to experience the law.

(iii) **Cardinal Measurement :** Utility can be measured in numbers. So that, it is possible to know and compare utility derived from each unit of a commodity.

(iv) **Rationality :** A consumer is assumed to be a rational person and he tries to maximise his satisfaction from his given income.

(v) **Continuity :** There should not be a time lag between consumption of 2 successive unit. MU will not diminish, if there is time interval.

(vi) **Standard Units :** The units of commodity consumed should be of a standard or normal size. They should neither be too big or too small, *e.g.* a cup of tea etc.

(vii) **Condition of Divisibility :** The law assumes that the commodity consumed by the consumer is divisible so that, it can be acquired in small quantities for consumption.

(viii) **Constancy :** MU of money remains constant. Tastes, habits, likings etc. of consumer and place of a commodity remain constant through out the period of consumption.

(2) Yes, I agree to this statement.

Types of Demand :

(i) **Direct Demand :** When a commodity is demanded to satisfy human wants directly, it is direct or conventional demand. For example, the demand for food, clothes have direct demand. Consumer goods have direct demand.

(ii) **Indirect Demand :** Indirect demand is also known as derived demand. When goods are demanded indirectly, *i.e.,* to produce consumer goods, it is indirect demand. *For example:* the demand for factors of production is indirect demand.

(iii) **Joint Demand :** When two or more goods are demanded jointly to satisfy a single need, it is known as joint demand. *For example :* to make tea, water, sugar, tea powder, milk etc. is jointly demanded. The demand for complementary goods is joint demand.

(iv) **Composite Demand :** The demand for commodities, having alternative uses *i.e.* which is used for satisfying several want at a time, is composite demand. *For example :* the demand for electricity is composite demand.

(v) **Competitive Demand :** Competitive demand is when demand for a commodity competes with its substitutes. *For example :* tea and coffee have competitive demand. (Any three) 3

(3) No, I disagree to this statement.

Reasons : There are following exception to law of supply.

(i) **Labour supply :** In case of labour, as the wage rate rises, the supply of labour (number of hours of work) would rise. So the supply curve slopes upwards but the supply of labour decreases with a further rise in the wage rate, this is because the worker would prefer leisure to work after receiving higher amount of wages. Thus, after a certain point when wage rate rises the labour supply tends to fall.

(ii) **Saving :** Normally, when the rate of interest rises, saving increase. But some people want to have fixed regular income by the way of interest. They may save less at a higher rate of interest and savings tend to rise as the rate of interest falls.

(iii) Need for cash : If a seller is in urgent need of cash, he will supply a large amount of a commodity even at lower price.

(iv) Agricultural goods : The law of supply does not apply to agricultural goods as they are produced once a year and their production depends on climatic conditions. Due to unforeseen changes in weather, if the agriculture production is low, then this supply can't be increased even at a higher price.

(v) Future expectations about price : If a seller expects a fall in price in the near future, he will be willing to sell more, even at a lower price.

(vi) Rare Articles : Antiques artistic articles are exceptions to the law of supply because a change in price can't change their supply.

(4) Yes, I agree to the statement.

Reasons : Difficulties faced under Barter system –

(i) Lack of double co-incidence of wants : Under Barter system, exchange is possible only when there is double co-incidence of wants. It means that both the parties' needs to coincide their wants. ***For example***, if a person 'A' has shoes and is in need of wheat and a person 'B' has milk and is in need of rice, then in such a case, exchange between 'A' and 'B' would not take place as both are not in need of each other's goods.

(ii) Lack of common measure of value : In barter exchange, there was no common measure of value or unit of account. Hence, it was difficult to calculate the values of goods exchanged. ***For example,*** it was difficult to compare 2 kgs of onions with two litres of milk. At the same time, it was difficult to compare certain units of a commodity with any service.

(iii) Difficulty of storage of goods : In barter exchange, it was necessary to store goods for future consumption.

But, the storage of highly perishable goods like fish, vegetables, milk, etc. was difficult. Also, there were space constraints.

(iv) Problem of indivisibility : Under barter system, making a fractional payment was difficult especially when certain commodities to be exchanged were indivisible in nature.

For example, person 'A' has a bag of wheat which he intends to exchange for a cow with person ' B'. But suppose 'B' wanted only half a bag of wheat, then it would be difficult to offer half of the cow.

(v) Problem of making deferred payments : Deferred payments means payments to be made in future. When people used to borrow cattle, it was difficult to return the cattle in the same physical condition, after a few year. These difficulties of barter system led to the invention of money.

(5) Yes, I agree to this statement.

Reason : Central bank of India is Reserve Bank of India has the sole right of issuing notes or paper currency to the public RBI issues currency notes of all denomination except the one note. The one rupee note and coins of all denominations are issued by the Ministry of Finance of Govt. of India. However their distribution is undertaken by RBI. The central bank follow certain principles while issuing note. Earlier it was full backing in terms of gold, however, now it is based on Minimum Reserve System of note issue.

The RBI maintains a minimum reserve of ₹ 200 crores, consisting of ₹ 115 crores in gold and the remaining ₹ 85 crores in govt. securities.

(6) No, I disagree to the statement.

Overdraft facility is provided to current account holders.

Current account holders are generally companies, firms, businessmen, etc. Overdraft facility enables the current account holders to withdraw amount over and above their actual balance in the account. This facility helps the businessmen to serve transaction purpose or meet their working capital. Thus, overdraft facility is provided to current account holders.

6. (1) Introduction : Law of demand is one of the important basic laws of consumption. Prof. Alfred Marshall, in his book "Principles of Economics", has explained the law of demand as follows :

Statement of Law : "Other things being constant the higher the price of the commodity, smaller is the quantity demanded and lower the price of the commodity larger is the quantity demanded."

The law of demand explains change in the behaviour of consumer demand due to various changes in price.

Marshall's Law of demand describes functional relation between demand and price. It can be expressed as $D = f(P)$, that is demand is function of price. The relation between price and demand is inverse, because larger quantity is demanded when price falls and smaller quantity is demanded when price rises. The law of demand is explained with the help of the following schedule and diagram :

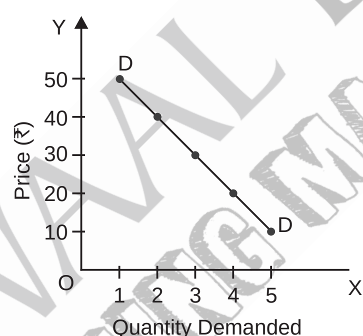
Table No. - Demand Schedule

Price of Mangoes Per Kg. (₹)	Demand for Mangoes (Kg.)
50	1
40	2
30	3
20	4
10	5

As shown in the schedule when price of mangoes is ₹ 50/- per kg., their demand is 1 kg. When price falls to the level of ₹ 40/- per kg. and demand rises to 2 kg. Similarly, at the price ₹ I0/- per kg., demand of mangoes is 5 kg., whereas 4 kg. of mangoes are demanded at price ₹ 20/- per kg. This shows inverse relation between price and demand.

In this diagram, X-axis represents demand for mangoes, whereas Y-axis represents price of mangoes. DD is demand curve which slopes downwards from left to right. In other words, its slope is negative because of inverse relationship between price and demand.

Demand Curve



The law of demand is based on the following assumptions :

(i) Size and composition of population remains constant : There should not be any change in the size and composition of population. Because a change in population will bring about a change in demand even if price remains the same.

(ii) Income of the consumer : The income of the consumer is assumed to be constant.

(iii) Taste and preferences : These should not be any change in the tastes, preferences and habits of the consumers.

(iv) Future price expectations : In future, price are expected to be constant. No change in future prices are expected.

(v) Price of the related goods : The prices of substitute and complementary goods are taken to be constant.

(vi) Govt. Policy : No change in govt. policy of taxation should be there.

(2) Elasticity of Demand :

The concept of elasticity of demand measures the responsiveness of quantity demanded of a commodity to a change in its price.

According to Samuelson :

"Price elasticity is a concept for measuring how much the quantity demanded responds to changing price."

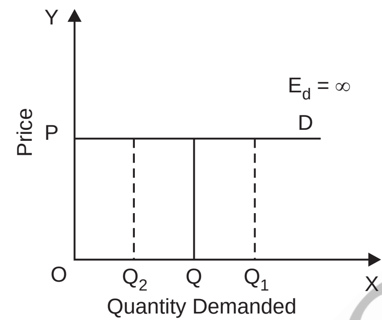
It is clear from the above definitions that elasticity of demand is a technical term which describes the responsiveness of change in the quantity demanded to a fall or rise in its price. In other words, it is the ratio of percentage change in quantity demanded of a commodity to a percentage change in price.

Types of Price Elasticity of Demand Degress of Elasticity of Demand are :

(i) Infinite/Perfectly Elastic Demand

When a change in price leads to infinite change in quantity demanded, it is known as infinite elastic demand. When demand is infinitely elastic, demand curve is a horizontal straight line parallel to X-axis. Symbolically, $E_d = \infty$ Perfectly elastic demand is only a theoretical possibility.

Infinite/Perfectly Elastic Demand Curve

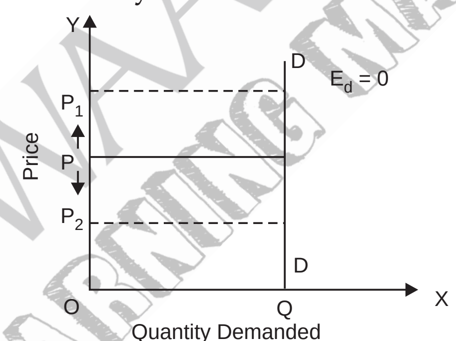


(ii) Perfectly Inelastic Demand

Irrespective of change in price, when demand remains the same, it is called as perfectly inelastic demand. *For example:* as shown in the figure below, at price OP demand is OQ, whereas at price OP_1 (Higher) and OP_2 (Lower) the demand is OQ only. It means demand does not change at all. When demand is perfectly inelastic, the demand curve is represented by a vertical straight line parallel to Y-axis as shown in diagram. Symbolically, E_d=0.

In practice, such situation occurs occasionally, such as demand for salt.

Perfectly Inelastic Demand Curve

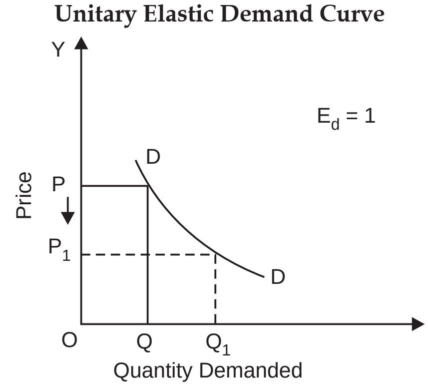


(iii) Unitary Elastic Demand

When a change in price leads to proportionate change in quantity demanded then demand is unitary elastic. *For example:* if price falls by 50%, the demand will rise by 50%. In figure, the change in price is PP_1 and change in demand is QQ_1. Both the changes are proportional to each other. So the demand curve DD shows unitary elastic demand.

Symbolically, E_d = 1.

Unitary Elastic Demand Curve



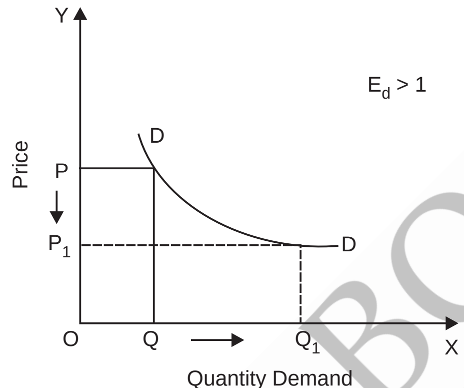
When the demand curve slopes steadily towards the X-axis or is a rectangular hyperbola, demand is unitary elastic.

(iv) Relatively Elastic Demand

When a change in price leads to more than proportionate change in quantity demanded, the demand is said to be relatively elastic. *For example:* if price falls by 50% the demand rises by 75%. In the figure, change in demand QQ_1 is greater than the change in price PP_1. Hence, the demand curve DD shows elastic demand.

Symbolically, $E_d > 1$.

Relatively Elastic Demand Curve

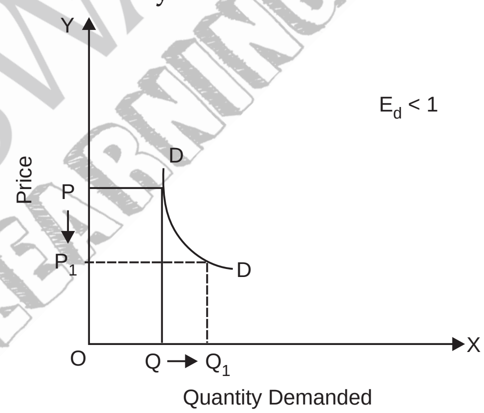


In this type, the slope of demand curve is flatter.

(v) Relatively Inelastic Demand

When a change in price leads to less than proportionate change in quantity demanded, the demand is relatively inelastic. *For example :* if price falls by 50%, the demand will rise by 25%, *i.e.*, less than percentage change in price. In the above figure, the change in price is from OP to OP_1 is greater than change is demand from OQ to OQ_1.

Relatively Inelastic Demand Curve



Therefore, DD is the demand curve which represents inelastic demand.

Symbolically, $E_d < 1$.

The slope of demand curve is steeper.

(3) Keynesian psychological law of consumption explains the relationship between consumption (C) and income (Y).

According to **J. M. Keynes,** "as aggregate income increases, the total consumption expenditure in the economy also increases, but in a proportion less than the increase in the income."

As income increases, the individual wants are satisfied to a larger and larger extent. So, when income increases further, people do not consume the entire income. So, they save a part of it. Hence there is bound to be a gap between income and consumption.

Thus, according to Keynes, with the increase in income, both consumption and savings increases but consumption increases at a diminishing rate and savings increase at an increasing rate.

Explanation of the law : According to keynes as income increase, the individual is able to satisfy more and more wants. However, when the income is increased, the entire income is not spent on consumption instead, people save a part of it which results into a gap b/w income and consumption.

(4) Output Method :

(i) This method is also known as inventory method or product method. Under this method, the economy is divided into different sectors such as agriculture, mining, manufacturing, small enterprises, commerce, transport communication and other services.

(ii) The output or product method is followed either by valuing all the final goods and services, produced during a year, at their market price or by adding up all the values at each higher stage of production, until these products are turned into final products.

(iii) While using this method, utmost care must be taken to avoid multiple or double counting. In order to do so, output method suggests two alternative approaches for the measurement of GNP namely, the Final Goods Approach or Final Product Approach and the Value Added Approach / the Value Added Method.

(iv) In the method of Final Goods Approach, the value of all final goods and services produced in primary, Secondary and tertiary sector are included and the value of all intermediate transactions are ignored.

For example: the price of bread includes, the cost of wheat, making of flour etc.

Hence, only the value of final product, *i.e.* bread should be considered to avoid double counting.

(v) In the method of Value Added Approach, the value added at each stage of the production process is included.

The difference between the value of final outputs and inputs at each stage of production is called the value added.

For Example: A farmer produces and sells wheat for ₹ 1000/- to the miller. Miller sells flour for ₹ 1500/- to the baker. Baker sells bread for ₹ 1800/- to the retailer/merchant. Retailer sells bread for ₹ 2000/- to the consumers. So, the value added by farmer (₹ 1000/-), miller (₹ 500/-), baker (₹ 300/-) and retailer (₹ 200/-), *i.e.* total of ₹ 2000/- should be included in the national income.

(vi) Output method is widely used in the underdeveloped countries, but is not considered that reliable because of the margin of error.

(vii) In India, this method is applied to agriculture, mining and manufacturing section including handicrafts, but it is not applied for transport, commerce and communicating sector.

■■