SHRI VIDHYABHARATHI MATRIC.HR.SEC.SCHOOL

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+1 COMMON QUARTERLY EXAMINATION - SEP - 2019

SUBJECT: ECONOMICS **MARKS : 90**

Q. NO	CONTENT	MARK
I.	PART-A CHOOSE THE CORRECT ANSWER:	20X1=20
1	c) Robbins	1
2	d) A system where persons buy and sell goods directly or indirectly	1
3	c) Gossen's first law of consumption	1
4	b) Maximum	1
5	d) Marashal	1
6	d) Negatively sloped	1
7	d) Land and Labour	
	c) Returns to scale	1
9	b) Positive	1
10	b) Economics	1
11	c) TFC/Q	1
12	b) Planning	1
13	c) AR	1
14	d) b and c	1
15	c) Advertisement cost	1
16	d) Marashall	1
17	b) Organization	1
18	b) Marashall	1
19	b) Co existence of public and private sectors	1
20	b) Jawaharial Nehru	1

II.	PART-B(ANY SEVEN)	7X2=14
21	Engel's Law " The proportion of total expenditure incurred on food items declines as total expenditure (which is proxy for income) goes on increasing"	2
22	**Giffen goods:** i) The Giffen good is typically an inferior good is an exception to the law of demand. ii) A Giffen goods is typically an inferior product that does not have easily available substitutes. iii) The unique characteristic that an increase in price actually increases the quantity of the good that is demanded	2
23	**The production function:** Production function refers to the relationship among units of the factors or production (inputs) and the resultant quantity of a good produced (output)	2
24	**The reasons for upward sloping supply curve:** i) The price of the commodity increases, the quantity supply of the commodity is also increase. ii) Thus the supply curve has appositive slope from left to right.	2
25	**Marginal cost :** i) Marginal cost is the addition made to the total cost by the production of an additional unit of a commodity. ii) $MC_n=TC_n-TC_{n-1}$	2
26	**Price -taker:** i) A firm under perfect competition is price taker, not a price-maker. ii) It takes the price of the product from the industry.	2
27	**Excess capacity**: Excess capacity is the difference between the optimum output that can be produced and the actual output produced by firm.	2

28	**The meaning of liquidity preference** (i) Liquidity preference means the preference of the people to hold wealth in the form of liquid cash. (ii) other non liquid assets like bonds, securities bills of exchange, land building, gold etc.	2
29	**The meaning of Economic Growth**. (i) A country's economic growth is usually measured by national income indicated by gross domestic product. (ii) The GDP is the total monetary value of the goods and services produced by that country over a specific period of time (usually one year)	2
30	**Economics** i) The word 'Economics' comes from the ancient Greek oikonomikos. ii) The term 'Economics' means "Management of household". iii) The 'Political Economy' is renamed as economics.	2
III	**PART-C(ANY SEVEN)**	**7X3=21**
31		3

Micro Economics	Macro Economics
1. It is that branch of economics which deals with the economic decision-making of individual economic agents such as the producer, the consumer etc.	1. It is that branch of economics which deals with aggregates and averages of the entire economy. E.g., aggregate output, national income, aggregate savings and investment, etc.
2. It takes into account small components of the whole economy.	2. It takes into consideration the economy of the country as a whole.
3. It deals with the process of price determination in case of individual products and factors of production.	3. It deals with general price-level in any economy.
4. It is known as price theory	4. It is also known as the income theory.
5. It is concerned with the optimization goals of individual consumers and producers	5. It is concerned with the optimization of the growth process of the entire economy.

32

The relationship between marginal utility and total utility

SNo.	MARGINAL UTILITY	TOTAL UTILITY
1	Marginal utility is the **addition made to the total utility** by consuming one more unit of a commodity (MUn = TUn - TU n-1)	Total utility refer to the sum of utilities of all units of a commodity consumed (TU = Σ $\boldsymbol{MU}$)
2	It declines	It increases
3	It reaches zero	It reaches maximum
4	It becomes negative	It declines

3

33

The functions of Entrepreneur:

- **Initiation:** An organizer is the initiator of the business,
- **Innovation:** A successful entrepreneur is always an innovator.
- **Coordination:** An organizer applies a particular combination of the
- factors of production
- **Control, Direction and Supervision:** An organiser controls so that
- nothing prevents the organisation from achieving its goal.
- **Risk-taking and Uncertainty-bearing:**

3

34

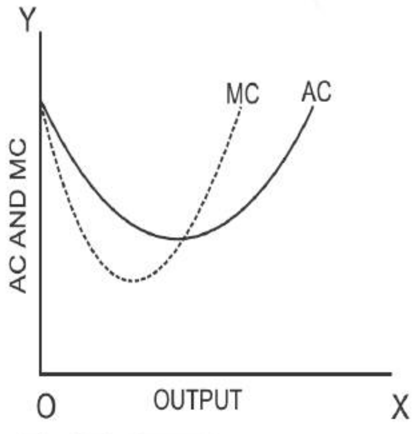
Nominal and Real Cost

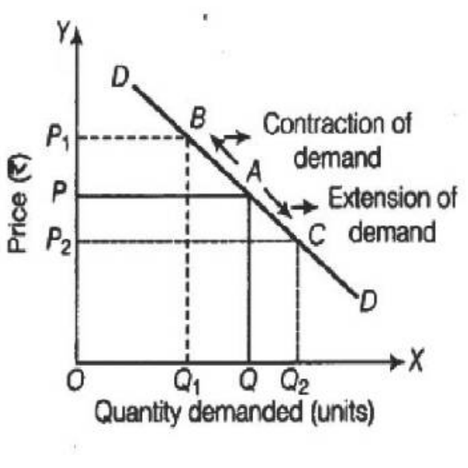
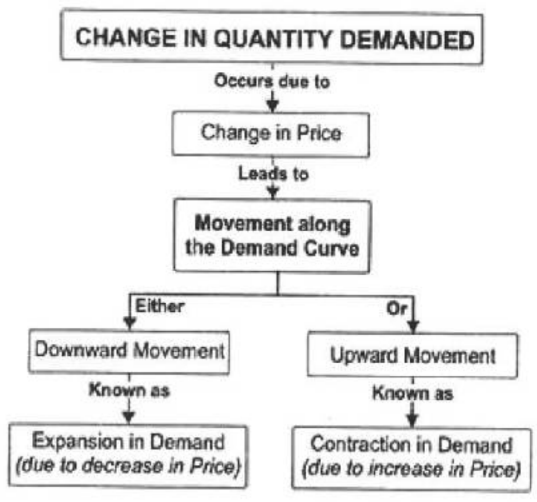
- Nominal Cost
  - Nominal cost is the money cost of production
  - It is also called expenses of production
  - It is important from producer's point of view
    - As he has to cover this and earn profit to remain in business
- Real Cost
  - Many economists tried to define real cost
  - Adam Smith regarded
    - pains and sacrifices of labour as real cost
  - Marshall includes under it
    - Real cost of efforts of various qualities
    - Real cost of waiting
  - The Austrian School of economists and their followers gave a new concept of real costs
    - The real cost of production of a given commodity is the next best alternative sacrificed in order to obtain that commodity
    - It is also called opportunity cost or displacement cost

Nominal Value = The Value of Something Today

Real Value = The Value of Something after Accounting for Inflation

3

35	**The meaning of selling cost with an example.** 1. It was Chamberlin who introduced the analysis of selling costs. 2. Selling costs play the key role in monopolistic competition. The firms haveto compete to promote their sale by spending on advertisements and publicity. 3. Thus cost on advertisement publicity and salesmanship ads to the demand ofthe product. 4. In selling costs we include the salaries of sales persons, allowances to retailers to display the products etc. besides the advertisements. Advertisement expenditure includes costs incurred for advertising in newspapers and magazines, televisions, radio, cinema slides etc.	3
36	**The relationship between AC and MC.** 1. When AC is falling, MC lies below AC. 2. When AC becomes constant, MC also becomes equal to it. 3. When AC starts increasing, MC lies above the AC. 4. MC curve always cuts AC at its minimum point from below.  	3
37	**Kinds of wages.** **Nominal Wages or Money Wages.** Nominal wages are referred to the wages paid in terms ofmoney **Real Wages** Real wages are the wages paid in terms of goods and services. **Piece Wages** Wages that are paid on the basis of quantum of work done. **Time Wages** Wages that are paid on the basis of the amount of time.	3

38	**Short note on village sarvodhaya.** 1. According to Gandhi, -Real India was to be found in villages and not in towns or cities.‖ 2 So he suggested the development of self-sufficient, self-dependent villages. 3. **Sarvodaya** is a Sanskrit term meaning 'universal uplift' or 'progress of all'. 4. The Sarvodaya Movement has as its target the establishment of awhole network of such self-supporting village communities. 5. According to Gandhi, The needs of the village will be determined by the people of the village themselves, through Village Council, representative of the whole village.	3
39	**According to Clark, the following five main changes are taking place in a dynamic society** **1.** Population is increasing 2. Volume of Capital is increasing 3. Methods of production are improving 4. Forms of industrial organization changing 5. The wants of consumer are multiplying	3
40	**Extension and contraction of demand**   The changes in the quantity demanded for a commodity due to the change in its price alone are called -Extension and Contraction of Demand	3

IV	PART-D	7X5=35

41

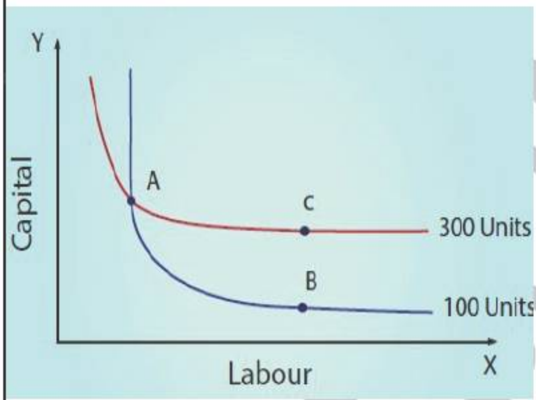
The properties of iso-quants with the help of diagrams. Meaning

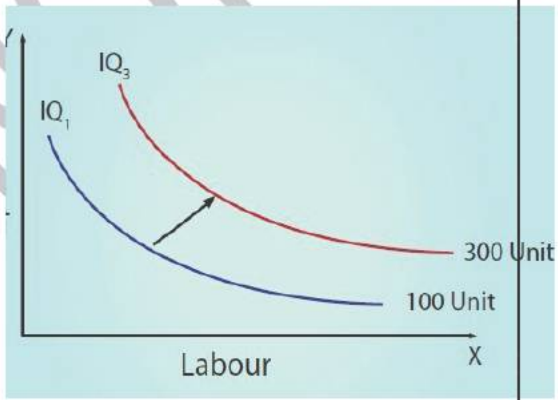
An iso-quant curve can be defined as the locus of points representing various combinations of two inputs capital and labour yielding the same output.

The iso-quant is also called as the **-Equal Product Curve**ll or the **-Product Indifference Curve** 5

Properties of Iso-quant Curve

1. The iso-quant curve has negative slope.
2. Convex to the origin.
3. Non inter-section of Iso-quant curves.
4. An upper iso-quant curve represents a higher level of output.
5. Iso-quant curve does not touch either X axis or Y axis. .





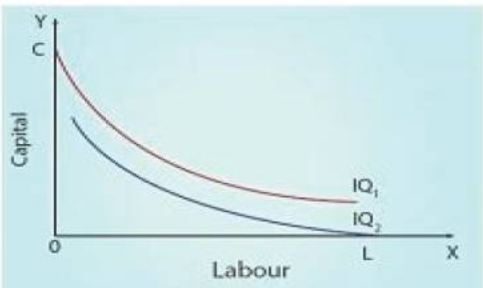
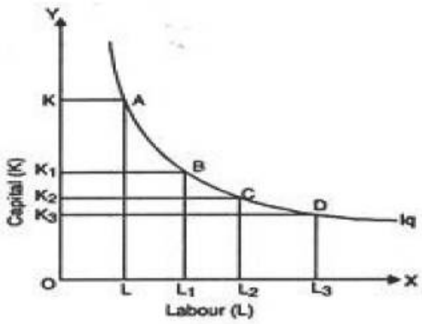


Diagram 3.9



(OR)

The relationship between AR and MR curves under various price conditions. Average Revenue

Average revenue is the revenue per unit of the commodity sold. It is calculated by dividing the total revenue by the number of units sold.

	AR = TR / Q **Explanation** 1. If a firm is able to sell additional units at the same price then AR and MR willbe constant and equal. 2. If the firm is able to sell additional units only by reducing the price, then bothAR and MR will fall and be different.	
42	**The law of demand and its exceptions. Definition** According to Alfred Marshall, The Law of Demand said as –the quantity demanded increases with a fall in price and diminishes with a rise in price **Assumptions of Law of Demand** • The income of the consumer remains constant. • The taste, habit and preference of the consumer remain the same. • The prices of other related goods should not change. • There should be no substitutes for the commodity. **Explanation** Quantity demanded and Y axis represents the price of the commodity. DD is the demand curve, which has a negative slope.	5
	(OR) **Divisions of economics** • **Consumption** Human wants coming under consumption is the starting point of economic activity. • **Production** Production is the process of transformation of inputs into output. the factors of production namely Land, Labour, Capital and Organization. • **Exchange** Exchange is concerned with price determination in different market forms. This division covers trade and commerce.	

- **Distribution**

  Production is the result of the coordination of factors of production.

  The reward for factors of production is studied in this division under rent, wages, interest and profit. Distribution studies about the pricing offactors of production.

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The features of perfect competition. Meaning of Perfect Competition

Perfect Competition market is that type of market in which the number of buyers and sellers is very large, all are engaged in buying and selling a homogenous product at uniform price.

Features

1. Large Number of Buyers and Sellers

The term ‗large number of sellers' implies that share of each individual seller is a very, very small quantum of a product.

5

2. Homogeneous Product and Uniform Price

All the units of the product are identical (ie) of the same size, shape, colour, quality etc. Therefore, a uniform price prevails in the market.

3. Free Entry and Exit

Efficient producer producing the product at a very low cost, to earn super normal profits. Attracted by such a profit, new firms enter into the industry.

4. Absence Of Transport Cost

The prevalence of the uniform price is also due to the absence of the transport cost.

5. Perfect Mobility of Factors of Production

As they enjoy perfect freedom to move from one place to another and from one occupation to another, the price gets adjusted.

6. Perfect Knowledge of the Market

All buyers and sellers have a thorough knowledge of the quality of the product, prevailing price etc

7. No Government Intervention

There is no government regulation on supply of raw materials, and in the determination of price etc.

(OR)

Explain basic problems of the economy with the help of production

Production Possibility Curve Meaning

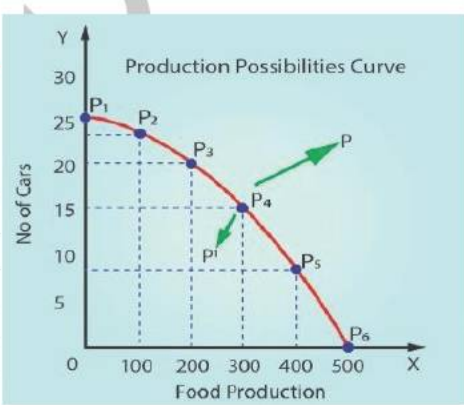
- Production possibility curve shows the menu of choice along which a society can choose to substitute one good for another.
- Choice between relatively scarce commodities due to limited productive resources with the help of **a -Geometric Devicell (that is production possibility curve**)

Assumptions

- The time period does not change.
- Techniques of production are fixed.
- **iii)** There is full employment in the economy.
- Only two goods can be produced from the given resources.
- Resources of production are fully mobile.

Production possibilities schedule

Production possibilities	Quantity of food production in tons	No of car production
I	0	25
II	100	23
III	200	20
IV	300	15
V	400	8
VI	500	0



Explanation

- The quantity of food is shown on x-axis and the number of cars is shown on y- axis
- The different six production possibilities are being shown as point P1 P2 P3P4 P5 & P6.
- A maximum of 500 tons of food can be produced, given the existing technology.
- If on the other hand, all resources are instead used for producing cars, 25cars can be produced.
- In between these two extremes, possibilities exist.
- If we are willing to give up some food, we can have some cars

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S. No	Internal Economies	External Economies
1	**Technical Economies:** There is a possibility to introduce up-to-date technologies	**1. Increased transport facilities**
2	**Financial Economies:** Big firms can float shares in the market for capital expansion,	2 Banking facilities
3	**Managerial Economies:** Large scale production facilitates specialisation and delegation.	**3.**Development of townships
4	**Labour Economies:** Large scale production implies greater and minute division of labour.	**4.**Development of information and communication
5	**Marketing Economies:** The producers can both buy raw- materials in bulk at cheaper cost and can take the products to distant markets.	5. Expansion of the Plant size

5

(OR)

The short run cost curves with suitable diagram. Short run cost curves:

1. **TFC -** Total Fixed Cost Curve
2. **TVC** - Total Variable Cost Curve
3. TC - **Total Cost Curve**
4. **AFC - Average Fixed Cost Curve**
5. **AVC - Average Variable Cost Curve**
6. **AC OR ATC** - Average Cost or Average Total Cost
7. MC - **Marginal Cost**

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Illustrate price and output determination under Monopoly. Meaning

Monopoly is a market structure characterized by a single seller, selling the unique product with the restriction for a new firm to enter the market

Features of Monopoly

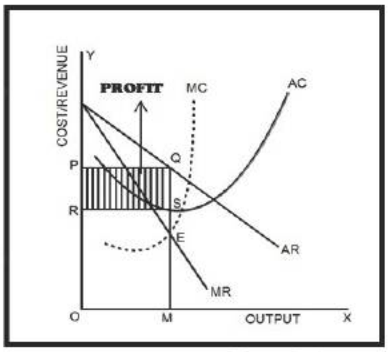
1. There is a single producer / seller of a product;

2. The product of a monopolist is unique and has no close substitute;

3. There is strict barrier for entry of any new firm; 5

4. The monopolist is a price maker

Price & Output Determination Under Monopoly



Explanation

1. The Diagram shows that MC cuts MR at E to give equilibrium output as OM.
2. At OM, the price charged is OP (we find this by extending line EM
3. till it touches AR or demand curve).
4. Also at OM,thecostperunitisMS.
5. Therefore,profitperunitisSQortotalprofitisPQRS.

6. Numerical Explanations

Let us take the following hypothetical example of Total Revenue Function and Total cost function.

TR=100Q-4Q2 and TC=Q3 - 18Q2 + 91Q +12.

Therefore AR= 100 - 4Q; MR=100 - 8Q; AC=

Q2- 18Q + 91 + 12/Q; MC= 3Q2 - 36Q + 91;

When Q=3,

AR= 100 – 4(3) = 88,

AC= 32-18(3) +91+12/3=9-54+91+4=50;

MR=100-8(3) =76;

MC= 3(3)2- 36(3) +91=27-108+91 = 10

Total profit = (Average Revenue – Average Cost) X Total output

(OR)

The Keynesian Theory of Interest. Meaning

Liquidity preference means the preference of the people to hold wealth inthe form of liquid cash rather than in other non- liquid assets like bonds securities, bills of exchange, land, building, gold etc.

Motives of Demand for Money

1. The Transaction Motive

The desire of the people to hold cash for the current transactions (or day–to- day expenses). Mt = f (y)

2. The Precautionary Motive

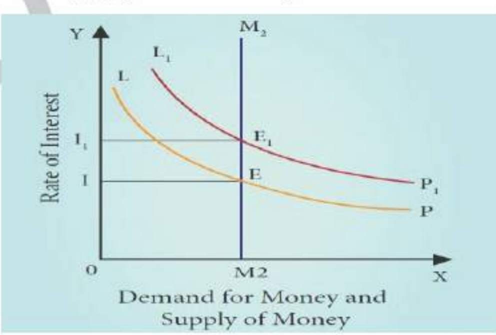
Desire of the people to hold cash to meet unexpected or unforeseen expenditures such as sickness, accidents). Mp = f (y)

3. The Speculative Motive

The speculative motive relates to the desire of the people to hold cash in order to take advantage of market movements regarding the future.

Ms = f (i)

Equilibrium between Demand and Supply of Money



The rate of interest is determined by the demand for money and the supply of money.

1. If liquidity preference increases from LP to L1P1 the supply of money remains constant,
2. The rate of interest would increase from OI to OI1.
3. The supply of money remains constants
4. Total demand for money=Mt+Mp+Ms

Demand for money=supply of money at equilibrium point ;

Equilibrium Point 1 = E = LP = M2 = I = Rate of Interest .. (1)

Equilibrium Point2 = E1 = L1P1 = M2 = I1 = Rate of Interest ... (2)

46 **The law of diminishing marginal utility with diagram.**

Definition

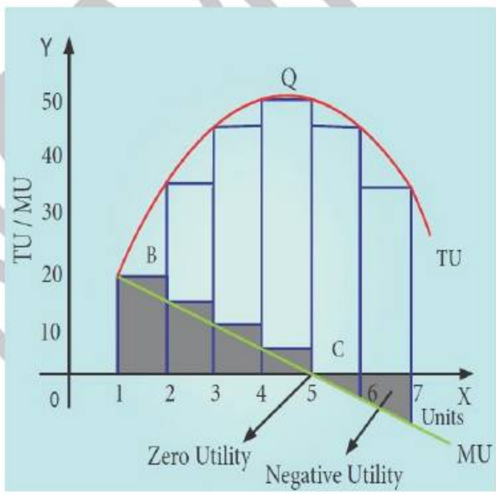
Marshall states the law as, –the additional benefit which a person derives from a given increase of his stock of a thing, diminishes with every increase in the stock that he already has.

Assumption 5

- Utility can be measured by cardinal number (Eg:1,2, 3..)
- The marginal utility of money remains constant.
- The consumer should be a rational consumer
- The units of the commodity must be reasonable in size.
- The commodity consumed should be homogeneous

Table 2.1 The Law of Diminishing Marginal Utility

Units of Apple	Total Utility	Marginal Utility
1	20	20
2	35	15 (35-20)
3	45	10 (45-35)
4	50	5 (50-45)
5	50	0 (50-50)
6	45	-5 (45-50)
7	35	-10(35-45)



Explanation;

- Suppose a consumer wants to consume 7 apples one after another.
- The utility from the first apple is 20. But the utility from the second apple will be less than that of the first (say 15), the third less than that of the second (say 10) and so on.
- Finally, the utility from the fifth apple becomes zero and the utilities from sixth and seventh apples a e negative.

Criticisms ;

- Utility cannot be measured numerically.
- This law is based on the unrealistic assumptions.
- This law is not applicable .

(OR)

A brief note on the Gandhian economic ideas.

Gandhian Thought : Gandhian Economics is based on ethical foundations.

1. **Village Republics** : To Gandhi, India lives in villages. He was interested in developing the villages as self sufficient units.
2. **On Machinery** : Gandhi described machinery as ‗Great sin'.
3. **Industrialism** : Gandhi considered industrialism as a curse on mankind.
4. **Decentralization :** He advocated a decentralized economy,
5. **Village Sarvodaya :** He suggested the development of self-sufficient, self- dependent villages.
6. **The Doctrine of Trusteeship:** Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one.
7. **On Population :** Gandhi opposed the method of population control through contraceptives.
8. **On Prohibition :** Gandhi advocated cent per cent prohibition. He regarded the use of liquor as a disease rather than a vice.

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Strong features Indian economy Important Strong features of Indian Economy

1. India has a mixed economy

Indian economy is a typical example of mixed economy. This means both private and public sectors co-exist and function smoothly.

2. Agriculture plays the key role

Around 60% of the people in India depend upon agriculture for their livelihood. In fact, about 17% of our GDP today is contributed by the agricultural sector.

3. An emerging market

India has a high potential for prospective growth. This also makes it an emerging market for the world.

5

4. Fast Growing Economy

India has emerged as the world's fastest growing economy in the year 2016-17 with the growth rate of 7.1% in GDP next to China.

5. Fast growing Service Sector

The service sector, contributes a lion's share of the GDP in India. There has been a high rise growth in the technical sectors like Information Technology, BPO etc.

6. Demographic dividend

The human capital of India is young. This means that India is a pride owner of the maximum percentage of youth.

(OR)

The Marginal Productivity Theory of Distribution. Meaning

According to the Marginal Productivity Theory of Distribution, the price or the reward for any factor of production is equal to the marginal productivity of that factor. In short, each factor is rewarded according to its marginal productivity.

Assumption

1. All the factors of production are homogenous.
2. Factors of production can be substituted for each other.
3. There is perfect competition both in the factor market and product market.
4. There is perfect mobility of factors of production.

Marginal Product

The Marginal product of a factor of production means the addition made to the total product by employment of an additional unit of that factor. The Marginal Product may be expressed as MPP, VMP and MRP.

Marginal Physical Product (MPP)

Value of Marginal Product = VMP = MPP x Price Marginal Revenue

Product MRP = MPP x MR

Under Perfection Competition

1. When there is perfect competition in the factor market, the firm is in equilibrium (i.e., earning maximum profits) only when MFC = MRP.

2. Hence, in the diagram, the firm reaches equilibrium at point Q by employing ON units of factors and paying OP price (NQ) where MFC = MRP. At the point Q, MRP = ARP.

3 The price paid to the factor (NQ) is also equal to marginal revenue product (NQ) and average revenue product (NQ).

Under Imperfect Competition

1. Under imperfect competition, At the point Q, MFC = MRP, where the employer attains his maximum profit and so he stops employment of the factors at the point.

2. The total exploitation of factor by the employer is RQ X SR = –PQRS‖ (shaded area).

3. Thus, under imperfect competition, factor is exploited at the equilibrium position.

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