SHRI VIDHYABHARATHI MATRIC.HR.SEC.SCHOOL

SAKKARAMPALAYAM , AGARAM (PO) ELACHIPALAYAM
TIRUCHENGODE(TK), NAMAKKAL (DT) PIN-637202
Cell : 99655-31727, 99655-35967

+2 COMMON QUARTERLY EXAMINATION - SEP - 2019

SUBJECT: ECONOMICS **MARKS : 90**

Q.NO	CONTENT	MARK
I.	PART-A CHOOSE THE CORRECT ANSWER:	20X1=20
1	c) Ragnar Frisch	1
2	c) Income	1
3	b) Three	1
4	b) Disposable income	1
5	a) $y=w+r+i+\pi+(R-P)$	1
6	b) C+I+G+X-M	1
7	a) Zero	1
8	d) Saving	1
9	a) The APC falls and get nearer in value to the MPC	1
10	a) 1	1
11	c) 3 4 1 2	1
12	c) Mumbai	1
13	a) Prices are rising	1
14	d) RBI	1
15	c) July 1982	1
16	a) Rs. 500 and Rs. 1000	1
17	b) Foreign exchange market	1
18	c) Export - Import	1
19	a) Washington D.C	1
20	d) China	1

II.	PART-B(ANY SEVEN)	7X2=14
21	**The term 'Inflation':** • Inflation refers to steady increase in general price level. • Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.	2
22	**The formula for calculating GNP**: GNP at market prices means the gross value of final goods and services produced annually in a country plus net factor income from abroad (C + I + G + (X-M) + (R-P) GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad.	2
23	**Reasons for labour retrenchment at present situation:** • Modern technology being capital intensive requires less labourers and contributes to technological unemployment. • Now a days, invention and innovations lead to the adoption of new techniques there by the existing workers are retrenched. Labour saving devices are responsible for technological unemployment	2
24	**Average propensity to consume (APC):** **The Average Propensity to Consume:** The average propensity to consume is the ratio of consumption expenditure to any particular level of income." Algebraically it may be expressed as under: $APC = \frac{C}{Y}$ Where, C= Consumption, Y = Income	2
25	**Money:** " Money is, what money does" - Walker. "Money can be anything that is generally acceptable as a means of exchange and at the same time acts as a measure	2

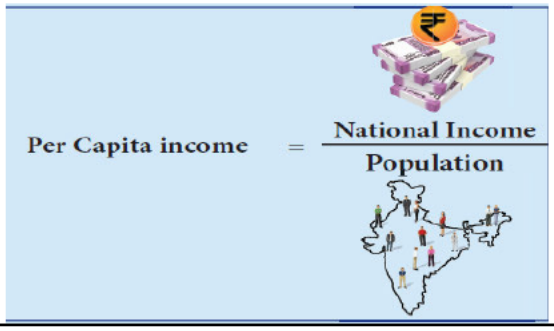
	and a store of value". –Crowther.	
26	**Plastic money: Give example.:** Plastic money is an alternative to the cash or the standard "money". Plastic money is a term that is used predominantly in reference to the hard plastic cards used every day in place of actual bank notes. EXAMPLES :Cash cards, Credit cards, Debit cards, Pre-paid Cash cards, Store cards, Forex cards and Smart cards. They aim at removing the need for carrying cash to make transactions.	2
27	**Monetary Policy:** It is the macro-economic policy laid down by the Central Bank towards the management of money supply and interest rate.	2
28	**Devaluation:** Devaluation means deliberate reduction of the official rate at which domestic currency is exchanged for another currency. In other words, devaluation refers to a reduction in the external value of a currency in the terms of other currencies. For instance, instead of 70Rs. per US$, making Rs.80 per US$. **Devaluation of Indian Currency** **Indian rupee was devalued three times since 1947.** ❖ On 29th September, 1949. ❖ On 6th June, 1966 ❖ On 1st July, 1991	2
29	**Common market:** **Common market** is established through trade pacts. A group formed by countries within a geographicalarea to promote duty free trade and free movement of labour and capital among its members. e.g. European Common Market (ECM)	2

30	**Macro Economics:** • The word 'Macro' is derived from the Greek word 'Makros' meaning 'large'. Hence, Macro Economics is the study of the economy as a whole. • In other words, macro economics deals with aggregates such as national income, employment and output. • Macro Economics is also known as 'Income Theory'.	**2**
III.	**PART-C (ANY SEVEN)**	**7X3=21**
31	**The different types of economic systems:** • Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area. It is the methodology of doing economic activities to meet the needs of the society. There are three major types of economic systems. They are: 1. Capitalistic Economy (Capitalism), 2. Socialistic Economy (Socialism)and 3. Mixed Economy (Mixedism)	**3**
32	**The solution to the problem of double counting in the estimation of national income:** • Double counting is to be avoided under value added method. Any commodity which is either raw material or intermediate good for the final production should not be included. For example, value of cotton enters value of yarn as cost, and value of yarn in cloth and that of cloth in garments. At every stage value added only should be calculated. • The value of output used for self consumption should be counted while measuring national income. • In the case of durable goods, sale and purchase of second hand goods (for example pre owned cars) should not be included.	**3**
33	**Aggregate demand : Mention its components:** **Aggregate demand function (ADF)** In the Keynesian model, output is determined mainly by	

	aggregate demand. The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed. Aggregate demand has the following four components: 1. Consumption demand 2. Investment demand 3. Government expenditure and 4. Net Export (export – import)	3
34	**Classification of Multiplier:** **Static and dynamic multiplier** i. **Static multiplier** is otherwise known as simultaneous multiplier, timeless multiplier, and logical multiplier. Under static multiplier the change in investment and the resulting change in income are simultaneous.There is no time lag. There is also no change in MPC as the economy moves from one equilibrium position to another. ii. **Dynamic multiplier** is also known as 'sequence multiplier'. In real life, income level does not increase instantly with investment. In fact, there is a time lag between increase in income and consumption expenditure.	3
35	**Demand-Pull Vs Cost-Push inflation** **i) Demand-Pull Inflation:** Demand and supply play a crucial role in deciding the inflation levels in the society at all points of time. For instance, if the demand is high for a product and supply is low, the price of the products increases. **ii) Cost-Push Inflation:** When the cost of raw materials and other inputs rises inflation results. Increase in wages paid to labour also leads to inflation.	3
36	**The functions of NABARD:** NABARD has inherited its apex role from RBI i.e, it is performing all the functions performed by RBI with regard to agricultural credit. (i) NABARD acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-	3

	scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities with a view to promoting integrated rural development. (ii) It provides short-term, medium-term and long-term credits to state co-operative Banks (SCBs), RRBs, LDBs and other financial institutions approved by RBI. (iii) NABARD gives long-term loans (upto 20 Years) to State Government to enable them to subscribe to the share capital of co-operative credit societies. (iv) NABARD gives long-term loans to any institution approved by the Central Government or contribute to the share capital or invests in securities of any institution concerned with agriculture and rural development. (v) NABARD has the responsibility of co-ordinating the activities of Central and State Governments, the Planning Commission (now NITI Aayog) and other all India and State level institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts, industries in the tiny and decentralized sectors, etc. (vi) It has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies. (vii) It maintains a Research and Development Fund to promote research in agriculture and rural development	
37	**Subject Matter of International Economics** The subject matter of International Economics includes large number of segments which are classified into the following parts. **1. Pure Theory of Trade** This component explains the causes for foreign trade, composition, direction and volume of trade, determination of the terms of trade and exchange rate, issues related to balance of trade and balance of payments. **2. Policy Issues :** Under this part, policy issues such as free trade vs. protection, methods of regulating trade, capital and technology flows, use of taxation, subsidies and dumping, exchange control and convertibility, foreign aid, external borrowings and foreign direct investment, measures of	**3**

	correcting disequilibrium in the balance of payments etc are covered. **3. International Cartels and Trade Blocs :** This part deals with the economic integration in the form of international cartels, customs unions, monetary unions, trade blocs, economic unions and the like. It also discusses the operation of Multi National Corporations (MNCs). **4. International Financial and Trade Regulatory Institutions** The financial institutions like International Monetary Fund IMF, IBRD, WTO etc which influence international economic transactions and relations shall also be the part of international economics.	
38	**Trade blocks:** Some countries create business opportunities for themselves by integrating their economies in order to avoid unnecessary competition among them. Trade blocks cover different kinds of arrangements between or among countries for mutual benefit. Economic integration takes the form of Free Trade Area, Customs Union, Common Market and Economic Union.	**3**
39	**Implications of Say's Law** • There is no possibility for over production or unemployment • If there exist unutilized resources in the economy, it is profitable to employ them up to the point of full employment. This is true under the condition that factors are willing to accept rewards on a par with their productivity. • As automatic price mechanism operates in the economy, there is no need for government intervention. (However, J.M. Keynes emphasized the role of the State) • Interest flexibility brings about equality between saving and investment. • Money performs only the medium of exchange function in the economy, as people will not hold idle money	**3**

40	**A short note on per capita income.** **Per Capita Income** The average income of a person of a country in a particular year is called Per Capita Income. Per capita income is obtained by dividing national income by population.  	3
IV.	**PART-D**	**7X5=35**
41	**Scope of Macro Economics :** The study of macro economics has wide scope and it covers the major areas as follows • **National Income:** Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis. The trends in National Income and its composition provide a long term understanding of the growth process of an economy. • **Inflation:** Inflation refers to steady increase in general price level. Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed. • **Business Cycle:** Almost all economies face the problem of business fluctuations and business cycle. The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables. • **Poverty and Unemployment:** The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes. A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.	5

- **Economic Growth:** The growth and development of an economy and the factors determining them could be understood only through macro analysis.
- **Economic Policies:** Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

(OR)

Fisher's Quantity theory of money:

(a) Fisher's Quantity Theory of Money: The quantity theory of money is a very old theory. It was first propounded in 1588 by an Italian economist, Davanzatti. Irving Fisher who published his book, 'The Purchasing Power of Money" in 1911.He gave it a quantitative form in terms of his famous "Equation of Exchange".

Irving Fisher

The general form of equation given by Fisher is

MV = PT

Where M = Money Supply/quantity of Money

V = Velocity of Money

P = Price level

T = Volume of Transaction.

Fisher points out that in a country during any given period of time, the total quantity of money (MV) will be equal to the total value of all goods and services bought and sold (PT).

$$MV = PT$$

This equation is referred to as "Cash Transaction Equation".

It is expressed as P = MV / T which implies that the quantity of money determines the price level and the price level in its turn varies directly with the quantity of money, provided 'V' and 'T' remain constant.

The above equation considers only currency money. But, in a modern economy, bank's demand deposits or credit money and its velocity play a vital part in business.

Therefore, Fisher extended his original equation of exchange to include bank deposits M1 and its velocity V1.

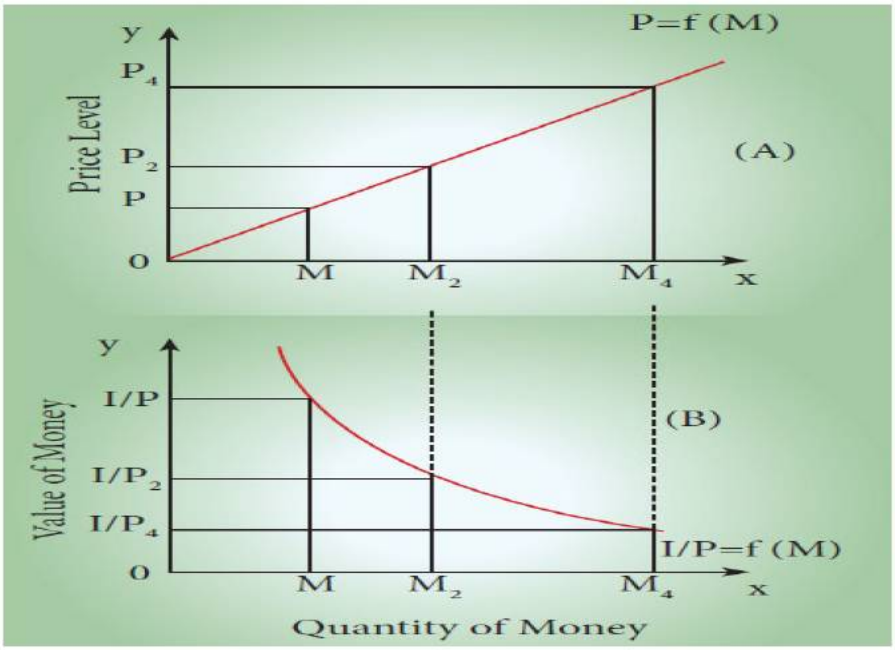
The revised equation was:

$$PT = MV + M^1V^1$$

$$P = \frac{MV + M^1V^1}{T}$$

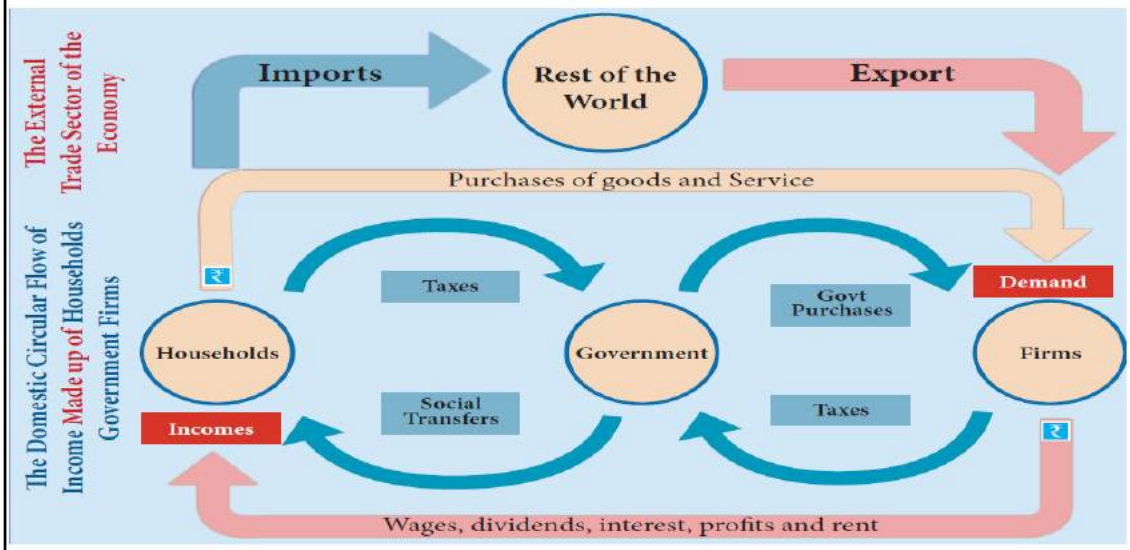
From the revised equation, it is evident, that the price level is determined by (a) the quantity of money in circulation 'M' (b) the velocity of circulation of money 'V' (c) the volume of bank credit money M1 (d) the velocity of circulation of credit money V1 and the volume of trade (T)

Diagrammatic Illustration



(A) shows the effect of changes in the quantity of money on the price level. When the quantity of money is OM, the price level is OP. When the quantity of money is doubled to OM2 , the price level is also doubled to OP2 . Further, when the quantity of money is increased four-fold to OM4 , the price level also increases by four times to OP4 . This relationship is expressed by the curve OP = f (M) from the origin at 45^0.

(B), shows the inverse relation between the quantity of money and the value of money, where the value of

	money is taken on the vertical axis. When the quantity of money is OM, the value of money is OI / P. But with the doubling of the quantity of money to OM2 , the value of money becomes one-half of what it was before, (OI / P2). But, with the quantity of money increasing by four-fold to OM4, the value of money is reduced by OI / P4. This inverse relationship between the quantity of money and the value of money is shown by downward sloping curve IO / P = f(M).	
42	**Four sector economy**:  In a Four sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included In real life, only four-sector economy exists. This model is composed of four sectors namely. i) Households, ii) Firms, iii) Government, iv) External sector The external sector comprises exports and imports. It is illustrated in the Flow Chart. In four-sector economy, expenditure for the entire economy include domestic expenditure (C+I+ G) and net export (X-M). Therefore. Y=C+I+G+(X-M)	5

(OR)

Keynes psychological law of consumption function with diagram:

Keynes's Psychological Law of Consumption: Keynes propounded thefundamental Psychological Law of Consumption which forms the basis of the consumption function.

Assumptions: Keynes's Law is based on the following assumptions:

1. **Ceteris paribus (constant extraneous variables)**
2. **Existence of Normal Conditions**
3. **Existence of a Laissez-faire Capitalist Economy**

Propositions of the Law:

This law has three propositions:

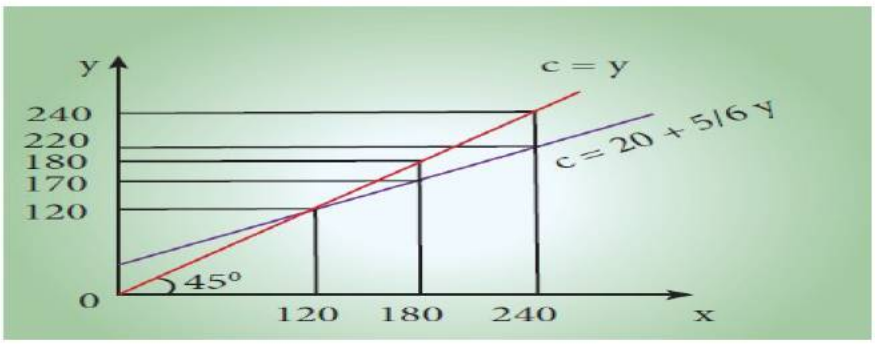
(1) When income increases, consumption expenditure also increases but by a smaller amount.

(2) The increased income will be divided in some proportion between consumption expenditure and saving.

(3) Increase in income always leads to an increase in both consumption and saving.

The three propositions of the law

Income Y	Consumption C	Savings S = Y - C
120	120	0
180	170	10
240	220	20



	Here, income is measured horizontally and consumption and saving are measured on the vertical axis. • C is the consumption function curve and 45° line represents income consumption equality. **Proposition (1):** • When income increases from 120 to 180 consumption also increases from 120 to 170 but the increase in consumption is less than the increase in income, 10 is saved. **Proposition (2):** • When income increases to 180 and 240, it is divided in some proportion between consumption by 170 and 220 and saving by 10 and 20 respectively. **Proposition (3):** • Increases in income to 180 and 240 lead to increased consumption 170 and 220 and increased saving 20 and 10 than before. It is clear from the widening area below the C curve and the saving gap between 45° line and C curve.	
43	**Basic concepts of national income :** The following are some of the concepts used in measuring national income. 1.GDP 2. GNP 3. NNP 4. NNP at factor cost 5. Personal Income 6. Disposable Income 7. Per capita Income 8. Real Income 9 GDP deflator **1. Gross Domestic Product (GDP)** GDP is the total market value of final goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. GDP by expenditure method at market prices = C + I + G + (X – M) Where C – consumption goods; I – Investment goods; G – Government purchases; X – Exports; M – Imports (X – M) is net export which can be positive or negative. **a) Net Domestic Product (NDP)** NDP is the value of net output of	5

the economy during the year. Some of the country's capital equipment wears out or becomes outdated each year during the production process. Thus Net Domestic Product = GDP - Depreciation.

2 Gross National Product (GNP) GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad. GNP includes five types of final goods and services :

(1) value of final consumer goods and services produced in a year to satisfy the immediate wants of the people which is referred to as consumption (C);

(2) gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods which is called as gross investment (I) ;

(3) goods and services produced or purchased by the government which is denoted by (G) ; and

(4) net exports of goods and services, i.e., the difference between value of exports and imports of goods and services, known as (X-M) ; Net factor incomes from abroad which refers to the difference between factor incomes (wage, interest, profits) received from abroad by normal residents of India and factor incomes paid to the foreign residents for factor services rendered by them in the domestic territory in India (R-P);

(5) GNP at market prices means the gross value of final goods and services produced annually in a country plus net factor income from abroad (C + I + G + (X-M) + (R-P)).

GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad.

during the year. NNP is obtained by deducting the value of depreciation, or replacement allowance of the capital assets from the GNP. It is expressed as,

NNP = GNP – depreciation allowance

NNP = GNP – depreciation allowance.

NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.

Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments

(depreciation is also called as Capital Consumption Allowance)

NNP at Factor cost

NNP refers to the market value of output. Whereas NNP at factor cost is the total of income payment made to factors of production. Thus from the money value of NNP at market price, we deduct the amount of indirect taxes and add subsidies to arrive at the net national income at factor cost.

Personal Income

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year. Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

6 Disposable Income Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax. This is the amount available for households for consumption.

7 Per Capita Income The average income of a person of a country in a particular year is called Per Capita Income. Per capita income is obtained by dividing national income by population.

8 Real Income Nominal income is national income expressed in terms of a general price level of a particular year in other words, real income is the buying power of nominal income.

$$\text{National Income at constant price} = \text{National Income at current price} \div P_1 / P_0$$

GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100

$$\text{GDP deflator} = \frac{Nominal\ GDP}{Real\ GDP} \times 100$$

	(OR) **Criticisms of Say's Law :** **The following are the criticisms against Say's law:** • According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases. • Automatic adjustment process will not remove unemployment. Unemployment can be removed by increase in the rate of investment. • Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities. • Say's law is based on the proposition that supply creates its own demand and there is no over production. Keynes said that over production is possible. • Keynes regards full employment as a special case because there is under - employment in capitalist economies. • The need for state intervention arises in the case of general over production and mass unemployment.	
44	**The various methods of estimating the national income of a country.** **PRODUCT METHOD** • Product method measures the output of the country. It is also called inventory method. • Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce, etc., is obtained for the entire economy during a year. • The value obtained is actually the GNP at market prices. Care must be taken to avoid double counting. • The value of the final product is derived by the summation of all the values added in the productive process. • To avoid double counting, either the value of the final output should be taken into the estimate of GNP or the sum of values added should be taken.	**5**

Income Method (Factor Earning Method)

- This method approaches national income from the distribution side. Under this method, national income is calculated by adding up all the incomes generated in the course of producing national product.
- The enterprises are classified into various industrial groups.
- Factor incomes are grouped under labour income, capital income and mixed income.
- National income is calculated as domestic factor income plus net factor incomes from abroad. In short,

$$\mathbf{Y = w + r + i + \pi + (R-P)}$$

w = wages, r = rent, i = interest, π = profits, R = Exports and P = Imports

The Expenditure Method (Outlay method)

- Under this method, the total expenditure incurred by the society in a particular year is added together. To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports. Symbolically,

$$\mathbf{GNP = C + I + G + (X-M)}$$

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government expenditure

X-M = Net exports

(OR)

The objectives of Monetary Policy:

The specific objectives of monetary policy are

1. Neutrality of Money
2. Stability of Exchange Rates
3. Price Stability
4. Full Employment
5. Economic Growth
6. Equilibrium in the Balance of Payments

1. Neutrality of Money Economists like Wicksteed, Hayek and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Monetary changes could be the root cause of all economic fluctuations. According to neutralists, the monetary change causes distortion and disturbances in the proper operation of the economic system of the country.

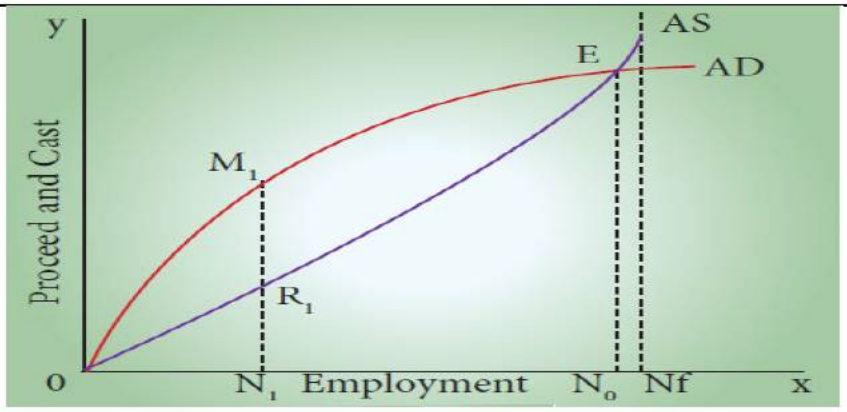
2. Exchange Rate Stability : Exchange rate stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements. It was popularly known as "Expand Currency and Credit when gold is coming in; contract currency and credit when gold is going out." This system will correct the disequilibrium in the balance of payments and exchange rate stability will be maintained. It must be noted that if there is instability in the exchange rates, it would result in outflow or inflow of gold resulting in unfavorable balance of payments. Therefore, stable exchange rates are advocated.

3. Price Stability : Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy. Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence. It promotes business activity and ensures equitable distribution of income and wealth. As a consequence, there is general wave of prosperity and welfare in the community.

But it is admitted that price stability does not mean 'price rigidity' or price stagnation'. A mild increase in the price level provides a tonic for economic growth. It keeps all virtues of a stable price.

4. Full Employment : During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment was considered as the main goal of monetary policy. With the publication of Keynes'General Theory of Employment, Interest and Money in 1936, the objective of full employment gained full support as the chief objective of monetary policy.

	5. Economic Growth : Economic growth is the process whereby the real per capita income of a country increases over a long period of time. It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants. Therefore, monetary policy should promote sustained and continuous economic growth by maintaining equilibrium between the total demand for money and total production capacity and further creating favourable conditions for saving and investment. For bringing equality between demand and supply, flexible monetary policy is the best course. **6. Equilibrium in the Balance of Payments :** Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.	
45	**The equilibrium between ADF and ASF with diagram.** **Equilibrium between ADF and ASF** • Under the Keynes theory of employment, a simple two sector economy consisting of the household sector and the business sector is taken to understand the equilibrium between ADF and ASF. • All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment. It is also assumed that consumption function is linear and planned investment is autonomous. There are two approaches to determination of the equilibrium level of income in Keynesian theory. These are : 1. Aggregate demand – Aggregate supply approach 2. Saving – Investment approach In this chapter, out of these two, aggregate demand and aggregate supply approach is alone explained to understand the determination of equilibrium level of income and employment.	**5**



- In the figure, the aggregate demand and aggregate supply reach equilibrium at point E. The employment level is No at that point.
- At ON1 employment, the aggregate supply is N1 R1. But they are able to produce M1 N1. The expected level of profit is M1 R1. To attain this level of profit, entrepreneurs will employ more labourers.
- The tendency to employ more labour will stop once they reach point E. At all levels of employment beyond, ONo, the aggregate demand curve is below the aggregate supply curve indicating loss to the producers.
- Hence they will never employ more than ONo labour.
- Thus effective demand concept becomes a crucial point in determining the equilibrium level of output in the capitalist economy or a free market economy in the Keynesian system.

(OR)

Differences between 'Internal Trade' and 'International Trade' :

Sl.No	Internal Trade	International Trade
1.	Trade takes place between different individuals and firms within the same nation.	Trade takes place between different individuals and firms in different countries.
2.	Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another.
3.	There will be free flow of goods and services since there are no restrictions.	Goods and services do not easily move from one country to another since

				there are a number of restrictions like tariff and quota.	
		4.	There is only one common currency.	There are different currencies.	
		5.	The physical and geographical conditions of a country are more or less similar.	There are differences in physical and geographical conditions of the two countries.	
		6.	Trade and financial regulations are more or less the same.	Trade and financial regulations such as interest rate, trade laws differ between countries.	
		7.	There is no difference in political affiliations, customs and habits of the people and government policies.	Differences are pronounced in political affiliations, habits and customs of the people and government policies.	

46 **The subjective and objective factors of consumption function:**

- Determinants of Consumption **function: Subjective and Objective Factors :** J.M Keynes has divided factors influencing the consumption function into two namely: Subjective factors and Objective factors

A) Subjective Factors

- Subjective factors are the internal factors related to psychological feelings. Major subjective factors influencing consumption function are given below.
  Keynes lists eight motives which lead *individuals* to refrain from spending, they are:

1. **The motive of precaution:** To build up a reserve against unforeseen contingencies. Eg. Accidents, sickness
2. **The motive of foresight:** The desire to provide for anticipated future needs. Eg. Old age pension
3. **The motive of calculation:** The desire to enjoy interest and appreciation.
4. **The motive of improvement:** The desire to enjoy for improving standard of living.

5

5. The motive of financial independence.

6. The motive of enterprise (desire to do forward trading).

7. The motive of pride.(desire to bequeath a fortune)

8. The motive of avarice.(purely miserly instinct)

Objective Factors

1) Income Distribution

If there is large disparity between rich and poor, the consumption is low because the rich people have low propensity to consume and high propensity to save.

2) Price level

Price level plays an important role in determining the consumption function. When the price falls, real income goes up; people will consume more and propensity to save of the society increases.

3) Wage level

Wage level plays an important role in determining the consumption function and there is positive relationship between wage and consumption.

4) Interest rate

Rate of interest plays an important role in determining the consumption function. Higher rate of interest will encourage people to save more money and reduces consumption.

5) Fiscal Policy

When government reduces the tax the disposable income rises and the propensity to consume of community increases.

6) Consumer credit

The availability of consumer credit at easy installments will encourage households to buy consumer durables like automobiles, fridge, computer. This pushes up consumption.

7) Demographic factors

Ceteris paribus, the larger the size of the family, the greater is the consumption.

a) The consumption expenditure depends not only on his current income but also past income and standard of living.

8) Duesenberry hypothesis

Duesenberry has made two observations regarding the factors affecting consumption.

a) The consumption expenditure depends not only on his current income but also past income and standard of living.
b) Consumption is influenced by demonstration effect. The consumption standards of low income groups are influenced by the consumption standards of high income groups

(OR)

Functions of World Bank.

The World Bank performs the major role of providing loans for development works to member countries, especially to underdeveloped countries. The World Bank provides long-term loans for various development projects. Article 1 of the Agreement states the functions performed by the world bank as follows.

1. Investment for productive purposes

The World Bank performs the function of assisting in the reconstruction and development of territories of member nations through facility of investment for productive purposes. It also encourages the development of productive facilities and resources in less developed countries.

2. Balanced growth of international trade

Promoting the long range balanced growth of trade at international level and the maintaining equilibrium in BOPs of member nations by encouraging international investment.

3. Provision of loans and guarantees

Arranging the loans or providing guarantees on loans by various other channels so as to execute important projects.

4. Promotion of foreign private investment

The promotion of private foreign investment by means of guarantees on loans and other investment made by private investors. The Bank supplements private investment by providing finance for productive purpose out of its own resources or from borrowed funds.

	5. Technical services The World Bank facilitates different kinds of technical services to the member countries through Staff College and experts.	
47	**The phases of Trade cycle.** **i) Boom or Prosperity Phase:** The full employment and the movement of the economy beyond full employment is characterized as boom period. During this period, there is hectic activity in economy. Money wages rise, profits increase and interest rates go up. The demand for bank credit increases and there is all-round optimism. **ii) Recession:** The turning point from boom condition is called recession. This happens at higher rate, than what was earlier. Generally, the failure of a company or bank bursts the boom and brings a phase of recession. Investments are drastically reduced, production comes down and income and profits decline. There is panic in the stock market and business activities show signs of dullness. Liquidity preference of the people rises and money market becomes tight. **iii) Depression:** During depression the level of economic activity becomes extremely low. Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment. Interest prices, profits and wages are low. The agricultural class and wage earners would be worst hit. Banking institutions will be reluctant to advance loans to businessmen. Depression is the worst phase of the business cycle. Extreme point of depression is called as "trough", because it is a deep point in business cycle. Any person fell down in deeps could not come out from that without other's help. Similarly, an economy fell down in trough could not come out from this without external help. Keynes advocated that autonomous investment of the government alone can help the economy to come out from the depression. **iv. Recovery:** After a period of depression, recovery sets in. This is the turning point from depression to revival	5

towards upswing. It begins with the revival of demand for capital goods. Autonomous investments boost the activity. The demand slowly picks up and in due course the activity is directed towards the upswing with more production, profit, income, wages and employment. Recovery may be initiated by innovation or investment or by government expenditure (autonomous investment).

(OR)

The functions of Reserve Bank of India:

Functions of Central Bank (Reserve Bank of India) The Reserve Bank of India (RBI) is India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935 in accordance with the Reserve Bank of India Act, 1934. The original share capital was divided into shares of Rs.100 each fully paid, which were initially owned entirely by private shareholders. Following India's independence on 15 August 1947, the RBI was nationalised on 1 January 1949.

1. **Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.
2. **The issuer of currency:** The objective is to maintain the currency and credit system of the country. It is the sole authority to issue currency. It also takes action to control the circulation of fake currency.
3. **The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

RESERVE BANK OF INDIA

History:

- Formed on April 1, 1935 in accordance with the RBI Act, 1934
- Nationalized on January 1, 1949 (Fully owned by GOI)
- Headquarter moved from Calcutta to Mumbai in 1937
- Osborne Smith was the first Governor of RBI

Administration:

- It is the Central Bank/ Regulator for all bank in India
- Also called "Lender of Last Resort"
- Governors and 4 Deputy Governors along with a central board of directors appointed by the GOI.

Functions:

- Issues currency
- Banker to the government
- It collects receipts of funds and makes payments on behalf of the government}
- Regulator of Indian Banking system
- Custodian of Forex
- Controller of credit

The process of issuing paper currency was started in the 18th century. Private Banks such as the bank of Bengal the bank of Bombay and the Bank of Madras – first printed paper money.

The first rupee was introduced by Sher Shah Suri based on a ratio of 40 copper pieces (paisa) per rupee. The name was derived from the Sanskrit word Raupya, meaning silver. Each banknote has its amount written in 17languages (English and Hindi on the front and 15 other on the back) illustrating the diversity of the country.

4. Banker to the Government: It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government securities. It advises the government on banking and financial subjects.

5. Banker's Bank: RBI is the bank of all banks in India as it provides loan to banks, accept the deposit of banks, and rediscount the bills of banks.

6. Lender of last resort: The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

7. Act as clearing house: For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.

8. Custodian of foreign exchange reserves: It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.

9. Regulator of Economy: It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.

10. Managing Government securities: RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.

11. Regulator and Supervisor of Payment and Settlement Systems: The Payment and Settlement Systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.

12. Developmental Role: This role includes the development of the quality banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objectives. It also includes establishing institutions designed to build the country's financial infrastructure. It also helps in expanding access to affordable financial services and promoting financial education and literacy.

13. Publisher of monetary data and other data: RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.

14. Exchange manager and controller: RBI represents India as a member of the International Monetary Fund [IMF]. Most of the commercial banks are authorized dealers of RBI.

	15. Banking Ombudsman Scheme: RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the Ombudsman against the awards and the other decisions of the Banks. **16. Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI has set up the Banking Codes and Standards Board of India (BCSBI).	

DEPARTMENT OF ECONOMICS

SHRI VIDHYABHARATHI MATRIC.HR.SEC.SCHOOL

SAKKARAMPALAYAM , AGARAM (PO) ELACHIPALAYAM

TIRUCHENGODE(TK), NAMAKKAL (DT) PIN-637202

Cell : 99655-31727, 99655-35967