UNOFFICIAL ANSWER KEY

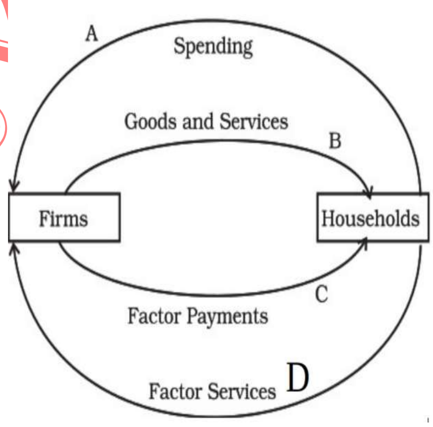
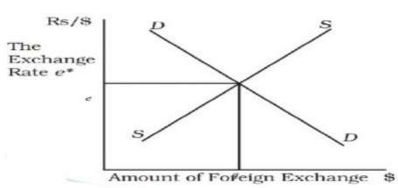
SECOND YEAR HIGHER SECONDARY EXAMINATION – MARCH 2023

PART III SUBJECT: ECONOMICS

CODE : SY 235 MAXIMUM SCORE: 80 TIME: 2 ½ HOURS

PREPARED BY RAJESH.S

Qn. No	Sub. Qns	Answer Key / Value Point	Score	Total Score
		ANSWER ANY 8 QUESTIONS FROM 1to10		
1		(a) Public goods	1	1
2		(b) 0 and 1	1	1
3		(c) Distribution of National Income	1	1
4		(d) Price = Average Variable Cost	1	1
5		(b) RBI	1	1
6		(c) Decrease	1	1
7		(d) GDP Deflator	1	1
8		(a) Surplus	1	1
9		(b) Law of Returns to Scale	1	1
10		(c) Zero	1	1
		Answer any 4 questions from 11 to 15		
11		Goods used as an input for producing other goods are called intermediate goods. e.g., Cotton thread used to make cloth	1+_1	2
12		Money multiplier= $\frac{1}{crr} = \frac{1}{0.25} = 4$	2	2
13	a) b)	• Indifference curve is convex to the origin • Higher indifference curve gives higher utility	1 1	2
14		Equilibrium price=10 Equilibrium quantity=30	1 1	2
15		Allocation function Redistribution function	1 1	2
		Answer any 4 questions from 16 to 20		
16		Increasing returns to scale (IRS) when a proportional increase in all inputs results in an increase in output by a larger proportion constant returns to scale (CRS) when a proportional increase in all inputs results in an increase in output by the same proportion	1 1	3

		Decreasing returns to scale (DRS)when a proportional increase in all inputs results in an increase in output by a smaller proportion	1	
17		1. Large number of buyers and sellers 2. Homogeneous products. 3. Perfect mobility of goods and factors of production	1 1 1	3
18		Horizontal Intercept=$\frac{M}{P1}=\frac{120}{15}=8$ Vertical Intercept=$\frac{M}{P2}=\frac{120}{20}=6$ Slope= $-\frac{P1}{P2}=-\frac{15}{20}=0.75$	1 ½ 1 ½	3
19		• Distribution of GDP how uniform is it • Externalities • Non monetary exchanges	1 1 1	3
20		Output Market. Financial Market: Labour Market:	1 1 1	3
Answer any 4 questions from 21 to 25				
21		. It is the pictorial illustration of inter relationship and interdependence among different sectors of the economy. The flow of goods and services and factors services(B&D)is called real flow. The flow of money as factor payments and Spending (A&C) is called money flow. 	2+2	4
22		Until 1929 the emphasis was on the classical concepts of full employment, laissez faire etc. The Great Depression of 1929 proved that the classical ideas were wrong. J M Keynes's General Theory, published in 1936 led to the emergence of macroeconomic ideas.	4	4
23		The exchange rate is determined by the demand and supply of foreign currency. No government intervention. 	2+2	4

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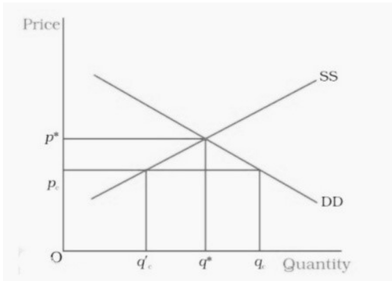
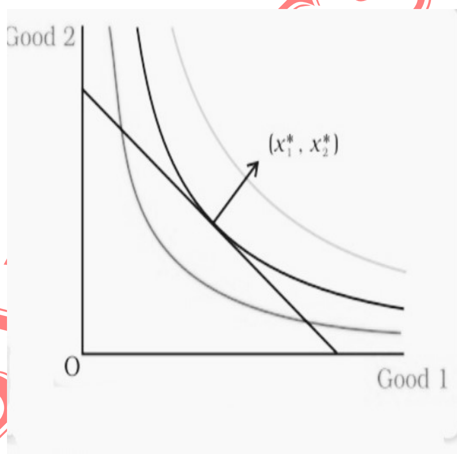
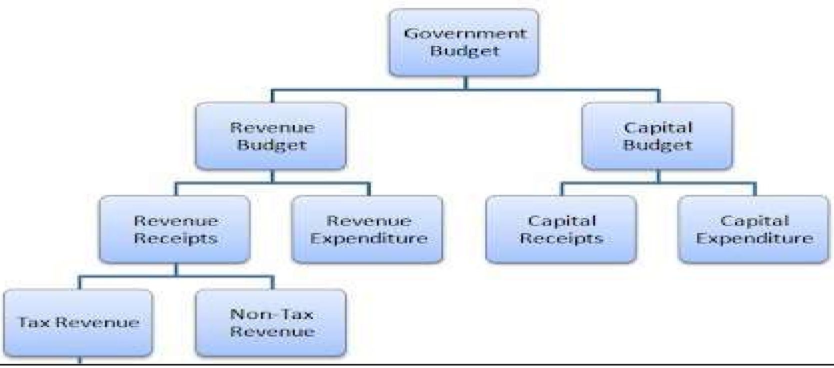
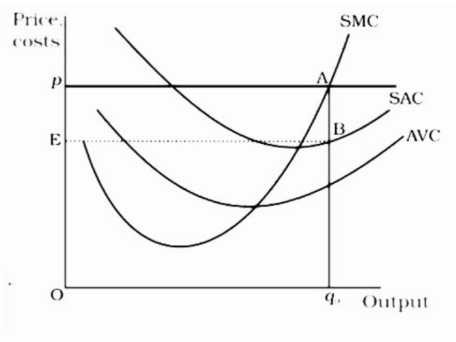
<tr><td>24</td><td></td><td>It is the upper price limit imposed by the Government. It will always be less than equilibrium price. Results in excess demand.

</td><td>2+2</td><td>4</td></tr>
<tr><td>25</td><td></td><td><table><tr><td>MARKET ECONOMY</td><td>CENTRALLY PLANNED ECONOMY</td></tr><tr><td>Private sector</td><td>Public sector</td></tr><tr><td>Market mechanism</td><td>Centralised planning</td></tr><tr><td>Profit motive</td><td>Welfare motive</td></tr></table></td><td>2+2</td><td>4</td></tr>
<tr><td colspan="5">Answer any 4 questions from 26 to 30</td></tr>
<tr><td>26</td><td></td><td>A consumer is said to be in equilibrium when he attains maximum satisfaction from his limited income. At consumer's equilibrium Indifference curve should be tangent to the budget line and the slope of the indifference curve is equal to the slope of the budget line.

</td><td>1×5</td><td>5</td></tr>
<tr><td>27</td><td></td><td>
</td><td>1 ×5</td><td>5</td></tr>
<tr><td>28</td><td></td><td>A perfect competitive firm is in equilibrium when it gets maximum profit. For the maximization of profit the following conditions are necessary
1.P=MC=MR=AR
2.MC is non decreasing at equilibrium output
3.P>AVC in short run.

</td><td>3+2</td><td>5</td></tr>
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29	A	Price elasticity of demand is defined as the degree of responsiveness of quantity demanded of a commodity with respect to change in its price.	1	5
	B	$ED = \frac{\Delta q}{\Delta p} \times \frac{P}{q} = \frac{5}{25} \times \frac{100}{10} = \frac{500}{250} = 2$	3	
	C	Relatively elastic	1	
30		Ratio between change in consumption and change in Income $\frac{\Delta C}{\Delta Y}$	1½	5
		Ratio between Change in Savings and change in Income $\frac{\Delta S}{\Delta Y}$	1½	
		Investment multiplier= $\frac{\Delta y}{\Delta I} = \frac{1}{1-c} \times = \frac{1}{1-0.6} = 2.5$	2	
Answer any 2 questions from 31 to 33				
31	a)	PRODUCT METHOD OR VALUEADDED METHOD Under this method National Income can be measured by adding all the final goods and services produced by each firm in the economy during a financial year. Then the problem of Double Counting arises. Double Counting means value of a good or service is added more than once in the calculation of National Income. To avoid double counting we use Value Added Method.	3	8
	b)	Value added or Gross Value Added is difference between value of output and intermediate Consumption. Value Added OR Gross value added = Value of output – Value of intermediate Consumption. GVAi ≡ Value of sales by the firm (Vi) + Value of change in inventories (Ai) – Value of intermediate goods used by the firm (Zi) Value of output = market price × quantity of output.	3	
		GVAi ≡ Value of sales by the firm (Vi) + Value of change in inventories (Ai) – Value of intermediate goods used by the firm (Zi) change of inventories of a firm during a year = production of the firm during the year – sale of the firm during the year. Under value added method we calculate NI by adding GVA of all firms in the economy during a financial year. If there are N firms in the economy, each assigned with a serial number from 1 to N, then GDP ≡ Sum total of the gross value added of all the firms in the economy ≡ $GVA_1 + GVA_2 + ... + GVA_N$	2	

		Therefore $GDP \equiv \sum_{i=1}^{N} \text{GVAi}$ INCOME METHOD: Under this method NI is calculated by adding all the factor income received by owners of factors of production. Income received by land is called Rent (Ri), Income received by labour is called Wages and salaries (Wi), Income received by Capital is called Interest (Ini) And Income received by entrepreneurship is called Profit (Pi). Thus GDP can be written as follows. $GDP \equiv \sum_{i=1}^{N} Ri + \sum_{i=1}^{N} Wi + \sum_{i=1}^{N} Ini + \sum_{i=1}^{N} Pi \equiv R + W + In + P$ EXPENDITURE METHOD Under this 4method of calculating NI on the final expenditure on domestic product. Final expenditure categorized under four heads. The Final Consumption expenditure (Ci), The Final Investment expenditure (Ii), The Government final Consumption expenditure (Gi) and the export revenue (Xi). Then we substract import expenditure from the sum of C+I+G+X. Then the GDP can be written as follows $GDP \equiv \sum_{i=1}^{N} Ci + \sum_{i=1}^{N} Ii + \sum_{i=1}^{N} Gi + \sum_{i=1}^{N} Xi - M \equiv C + I + G + X - M$ GDP $\equiv RVi \equiv C + I + G + X - M$		
32		Bank Rate Policy: Bank rate or rediscount rate is the rate fixed by the central bank at which it rediscounts the first class bills of exchange and government securities held by the commercial banks. Open Market Operation: Open market operations are another quantitative method of credit control. There are two types of open market operations: outright and repo. Outright open market operations are permanent in nature: when the central bank buys these securities (thus injecting money into the system), it is without any promise to sell them later. Similarly, when the central bank sells these securities (thus withdrawing money from the system), it is without any promise to buy them later. As a result, the	8	

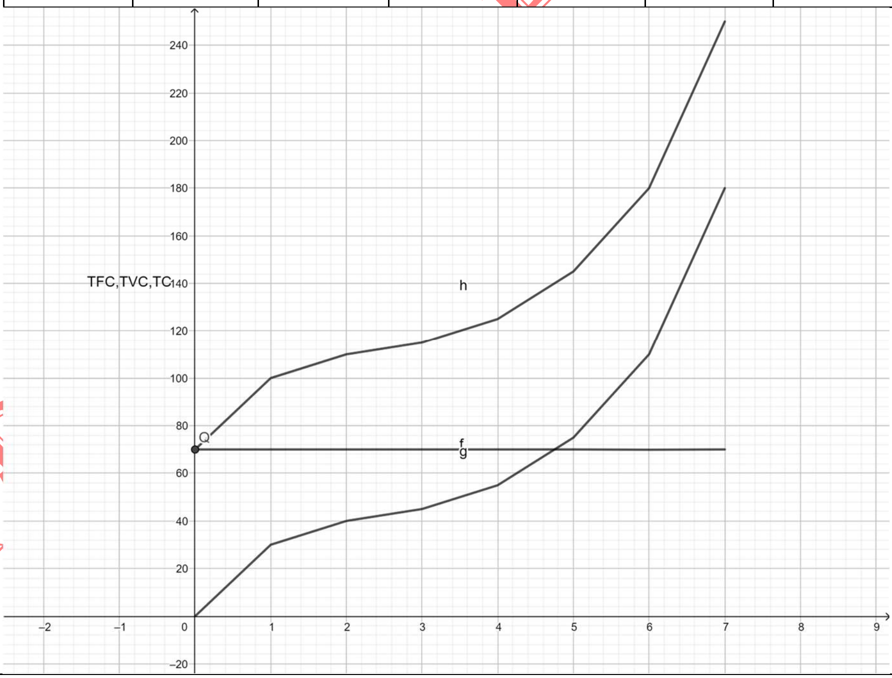
injection/absorption of the money is of permanent nature. 8

III. VARIYING RESERVE RATIO: Every commercial bank is required by law to maintain a minimum percentage of its deposits with the central bank. It may be either a percentage of its time and demand deposits separately or of total deposits. During the inflation time RBI increases Reserve Ratio and during deflation time RBI decreases reserve ratios.(

33 a) 5

Output (Q)	(TFC)	(TVC)	(TC)	(AC)	(AFC)	(AVC)	(SMC)
0	70	0	70	-	-	-	-
1	70	30	100	100	70	30	30
2	70	40	110	55	35	20	10
3	70	45	115	38.33	23.33	15	5
4	70	55	125	31.25	17.5	13.75	10
5	70	75	145	29	14	15	20
6	70	110	180	30	11.67	18.33	35
7	70	180	250	35.71	10	25.71	70

b) 8



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