ECONOMICS

Time allowed : 3 hours ***Maximum Marks : 100***

General Instructions:

(i) *All questions in both the sections are compulsory.*

(ii) *Marks for questions are indicated against each.*

(iii) *Question Nos. 1 -5 and 17 - 21 are very short answer questions carrying 1 mark each. They are required to be answered in one sentence each.*

(iv) *Question Nos. 6 - 10 and 22 - 26 are short answer questions carrying 3 marks each. Answer to them should normally not exceed 60 words each.*

(v) *Question Nos. 11 - 13 and 27 - 29 are also short answer questions carrying 4 marks each. Answer to them should normally not exceed 70 words each.*

(vi) *Question Nos. 14 - 16 and 30 - 32 are long answer questions carrying 6 marks each. Answer to them should normally not exceed 100 words each.*

(vii) *Answers should be brief and to the point and the above word limits should be adhered to as far as possible.*

QUESTION PAPER CODE 58/1/1

SECTION - A

1. What is a market economy? 1

2. When is a firm called 'price-taker' ? 1

3. Define budget set. 1

4. What is meant by 'increase' in supply? 1

5. Define supply. 1

6. Why is a production possibilities curve concave? Explain. 3

7. 8 units of a good are demanded at a price of Rs. 7 per unit. Price elasticity of

demand is (-)1. How many units will be demanded if the price rises to Rs. 8 per unit? Use expenditure approach of price elasticity of demand to answer this question. 3

8. Giving examples, explain the meaning of cost in economics. 3

9. Draw average revenue and marginal revenue curves in a single diagram of a firm which can sell more units of a good only by lowering the price of that good. Explain. 3

For blind candidates in lieu of Q No.9:

Distinguish between Average Revenue and Marginal Revenue with the help of a numerical example. 3

10. Explain the implication of 'freedom of entry and exit to the firms' under perfect competition.

OR

Explain the implication of 'perfect knowledge about market' under perfect competition. 3

11. A consumer consumes only two goods X and Y. State and explain the conditions of consumer's equilibrium with the help of utility analysis. 4

12. Explain how the demand for a good is affected by the prices of its related goods. Give examples. 4

13. Define 'Market-supply'. What is the effect on the supply of a good when Government imposes a tax on the production of that good? Explain.

OR

What is a supply schedule? What is the effect on the supply of a good when Government gives a subsidy on the production of that good? Explain. 4

14. What is meant by producer's equilibrium? Explain the conditions of producer's equilibrium through the 'total revenue and total cost' approach. Use diagram. 6

For blind candidates in lieu of Q No. 14 :

What is meant by producer's equilibrium? Explain the conditions of producer's equilibrium through the 'total revenue and total cost approach'. Use a schedule. 6

15. Explain the three properties of indifference curves. 6

16. Market for a good is in equilibrium. There is an 'increase' in demand for this good. Explain the chain of effects of this change. Use diagram. 6

For blind candidates only in lieu of Q No. 16 :

Market for a good is in equilibrium. There is an 'increase' in demand for this good. Explain the chain of effects of this change. Use a numerical example.

OR

Distinguish between collusive and non-collusive 'oligopoly. Explain how the oligopoly firms are interdependent in taking price and output decisions. 6

SECTION - B

17. What is nominal gross domestic product ? 1

18. Define flow variables.

19. Define cash reserve ratio. 1

20. Define money supply.

21. Define foreign exchange rate. 1

22. State the components of capital account of balance of payments. 3

23. Explain how 'distribution of gross domestic product' is a limitation in taking gross domestic product as an index of welfare. 3

24. Given that national income is Rs.80 crore and consumption expenditure Rs.64 crore, find out average propensity to save. When income rises to Rs.100 crore and consumption expenditure to Rs.78 crore, what will be the average propensity to consume and the marginal propensity to consume? 3

25. Explain the relationship between investment multiplier and marginal propensity to consume. 3

26. When price of a foreign currency rises, its demand falls. Explain why.

OR

When price of a foreign currency rises, its supply also rises. Explain why. 3

27. Explain the 'allocation of resources' objective of Government budget.

OR

Explain the 'redistribution of income' objective of Government budget.

28. From the following data about a Government budget, find out (a) Revenue deficit, (b) Fiscal deficit and (c) Primary deficit:

		(Rs. Arab)
(i)	Capital receipts net of borrowings	95
(ii)	Revenue expenditure	100
(iii)	Interest payments	10
(iv)	Revenue receipts	80
(v)	Capital expenditure	110

4

29. Giving reasons classify the following into intermediate products and final products:

(i) Furniture purchased by a school.

(ii) Chalks, dusters, etc. purchased by a school. 4

30. Explain the role of the following in correcting 'deficient demand' in an economy:

(i) Open market operations.

(ii) Bank rate.

OR

Explain the role of the following in correcting 'excess demand' in an economy:

(i) Bank rate.

(ii) Open market operations. 6

31. Explain the process of money creation by the commercial banks with the help of a numerical example. 6

32. Calculate National Income and Gross National Disposable Income from the following:

		(Rs. Crore)
(i)	Net current transfers to the rest of the world	(-)5
(ii)	Private final consumption expenditure	500
(iii)	Consumption of fixed capital	20
(iv)	Net factor income to abroad	(-)10
(v)	Government final consumption expenditure	200
(vi)	Net indirect tax	100
(vii)	Net domestic fixed capital formation	120
(viii)	Net imports	30
(ix)	Change in stocks	(-)20

6

QUESTION PAPER CODE 58/1

SECTION - A

1. What is a planned economy? 1

2. When is a firm called price' maker? 1

3. Define a budget line. 1

4. What is 'decrease' in supply? 1

5. Define production function. 1

6. How is production possibility curve affected by unemployment in the economy? Explain. 3

7. When price of a good is Rs. 13 per unit, the consumer buys 11 units of that good. When price rises to Rs. 15 per unit, the consumer continues to buy 11 units. Calculate price elasticity of demand. 3

8. Distinguish between explicit cost and implicit cost and give examples. 3

9. Draw in a single diagram the average revenue and marginal revenue curves of a firm which can sell any quantity of the good at a given price. Explain. 3

Note: The following question is for the Blind Candidates only, in lieu of Q. No.9.

Explain the relation between average revenue and marginal revenue of. a firm which is free to sell any quantity at a given price. 3

10. Explain the implications of the feature 'large number of buyers' in a perfectly competitive market. 3

OR

Explain the implications of the feature 'homogeneous products' in a perfectly competitive market. 3

11. A consumer consumes only two goods X and Y. At a consumption level of these two goods, he finds that the ratio of marginal utility to price in case of X is higher than in case of Y. Explain the reaction of the consumer. 4

12. Explain how rise in income of a consumer affects the demand of a good. Give examples. 4

13. Define marginal cost. Explain its relation with average cost. 4

OR

Define variable cost. Explain the behaviour of total variable cost as output increases. 4

14. What is producer's equilibrium? Explain the conditions of producer's equilibrium through the 'marginal cost and marginal revenue' approach. Use diagram. 6

Note: The following question is for the Blind Candidates only, in lieu of Q. No. 14.

What is producer's equilibrium? Explain the conditions of producer's equilibrium through the 'marginal cost and marginal revenue' approach. Use a schedule. 6

15. Explain the conditions of consumer's equilibrium with the help of the Indifference Curve Analysis. 6

16. Market for a good is in equilibrium. There is 'increase' in supply of the good. Explain the chain of effects of this change. Use diagram. 6

Note: The following question is for the Blind Candidates only, in lieu of Q. No. 16.

Market for a good is in equilibrium. There is 'increase' in. supply of that good. Explain the chain of effects of this' change. Use a numerical example. 6

OR

Distinguish between 'non-collusive' and 'collusive' oligopoly. Explain the following features of oligopoly: 6

(i) Few firms

(ii) Non-price competition

SECTION B

17. What are stock variables? 1

18. Define ‘depreciation'. 1

19. Define 'Statutory Liquidity Ratio'. 1

20. Define money. 1

21. What is foreign exchange? 1

22. Which transactions determine the balance of trade. ? When is balance of trade in surplus? 3

23. Explain how 'non-monetary exchanges' are a limitation in taking gross domestic product as an index of welfare. 3

24. In an economy the marginal propensity to consume is 0.75. Investment expenditure in the economy increases by Rs. 75 crore. Calculate the total increase in national income. 3

25. Explain the distinction between voluntary and involuntary unemployment. 3

26. When price of a foreign currency falls, the demand for that foreign currency rises. Explain, why. 3

OR

When price of a foreign currency falls, the supply of that foreign currency also falls. Explain, why. 3

27. Explain the 'redistribution of income' objective of a government budget. 4

OR

Explain the 'economic stability' objective of a government budget. 4

28 From the following data about a government budget find (a) revenue deficit, (b) fiscal deficit and (c) primary deficit: 4

		(Rs.arab)
(i)	Tax revenue	47
(ii)	Capital receipts	34
(iii)	Non-tax revenue	10
(iv)	Borrowings	32
(v)	Revenue expenditure	80
(vi)	Interest payments	20

29. Giving reasons, explain the treatment assigned to the following while estimating national income: 4

(i) Family members working free on the farm owned by the family.

(ii) Payment of interest on borrowings by general government.

30. Explain the role of the following in correcting the inflationary gap in an economy: 6

(i) Legal reserves

(ii) Bank rate

OR

Explain the role of the following in correcting the deflationary gap in an economy: 6

(i) Open market operations

(ii) Margin requirements

31. Explain the following functions of the central bank: 6

(i) Bank of issue

(ii) Bankers' bank

32. Calculate (a) 'Net Domestic Product at Factor Cost' and (b) 'Private Income' from the following: 6

		(Rs. crore)
(i)	Domestic product accruing to government	300
(ii)	Wages and salaries	1000
(iii)	Net current transfers to abroad	(-) 20
(iv)	Rent	100
(v)	Interest paid by the production units	130
(vi)	National debt interest	30
(vii)	Corporation tax	50
(viii)	Current transfers by government	40
(ix)	Contribution to social security schemes by employers	200
(x)	Dividends	100
(xi)	Undistributed profits	20
(xii)	Net factor income to abroad	0

Marking Scheme ó Economics

Questions with * mark are higher order thinking questions.

General Instructions

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.
3. For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
4. For mere arithmetical errors, there should be minimal deduction. Only ½ mark be deducted for such an error.
5. Wherever only two / three or a "given" number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
6. There should be no effort at "moderation" of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
7. Higher order thinking ability questions are assessing student's understanding / analytical ability.

General Note : In case of numerical question no mark is to be given if only the final answer is given.

QUESTION PAPER CODE 58/1/1

Q.No.	**EXPECTED ANSWERS/VALUE POINTS**	**Distribution of marks**

Section ñ A

1	A market economy is one in which the central problems are solved through the free forces of demand and supply .	1
2	The firm is called price taker when it has to adopt the price determined by market demand and market supply.	1

3 Budget set is the set of all possible combinations of the two goods which a consumer can afford, given his income and prices in the market. 1

4 'Increase' in supply means rise in supply of a good caused by any factor other than the own price of the good. 1

5 Supply means the quantity of a good which a firm (or industry) is willing to supply at a given price during a period of time. 1

6 The PP curve being concave means that MRT increases as we move downwards along the curve . 1

MRT increases because it is assumed that no resource is equally efficient in production of all goods As resources are transferred from one good to another less and less efficient resources have to be employed. This raises cost and raises MRT. 2

7 Given that total expenditure = 7x8=56 (Rs.)

When price rises to Rs 8 per unit, and ep = -1 2

total expenditure remains unchanged at Rs 56 .

Consumer buys =56 ÷ 8=7 units. 1

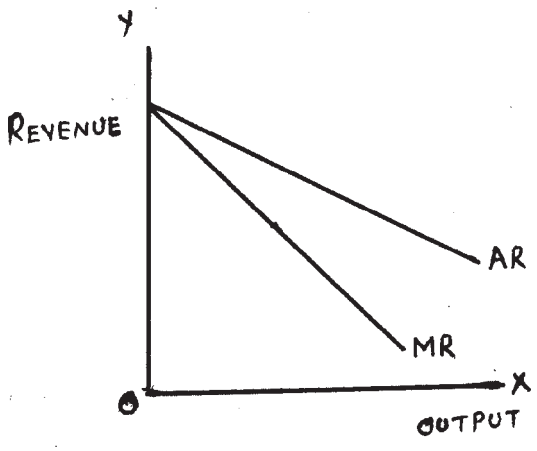
(Answer given in any other form using only expenditure method be treated as correct)

8 Cost in economics is the sum of :

(1) Explicit cost which is actual money expenditure on inputs, for example purchase of materials (or any other)

(2) Implicit cost is the estimated value of the inputs supplied by the owners including normal profit, for example estimated salary of the owners (or any other). 3

9 When a firm can sell more only by lowering the price the AR curve is downward sloping. When AR is falling, MR must be less than AR. Therefore, MR curve lies below the AR curve. 1



2

For blind candidates

Distinguish between AR and MR 2

Numerical example 1

10 The firms enter the industry when they find that the existing firms are earning super normal profits. Their entry raises output of the industry, brings down the market price and thus reduce profits. 1½

The entry continues till profits are reduced to normal. (or zero)

The firms start leaving the industry when they are facing losses. 1½

This reduces output of the industry, raises market price and reduces losses. The exit continues till the losses are wiped out.

OR

Perfect knowledge means that both buyers and sellers are fully informed about the market price. Therefore no firm is in a position to charge a different price and no buyer will pay a higher price. As a result a uniform price prevails in the market. 3

11 The two conditions are

(1)

$$\frac{MUx}{Px} = \frac{MUy}{Py}$$

OR

$$\frac{MUx}{MUy} = \frac{Px}{Py}$$

1

Explanation

If $MU_x / P_x > MU_y / P_y$, the consumer is not in equilibrium because he can raise his total utility by buying less of Y and more of X. 1

similarly if $\frac{MUx}{Px} < \frac{MUy}{Py}$ the consumer is not equilibrium as he can raise his T.U. by buying less of X and more of Y.

(2) **MU falls as consumption increases** 1

If MU does not fall as consumption increases the consumer will end up buying only one good which is unrealistic or consumer will never reach the equilibrium position. 1

12 Related goods are either substitutes or complementary –

Substitutes: When price of a substitute falls, it becomes cheaper than the given good. So, the consumer substitutes it for the given good. Hence the demand for the given good will decrease. Similarly, a rise in the price of substitute will result in increase in the demand for given good. For example Tea and Coffee. 1½ ½

Complementary: When the price of a complementary good falls (raises), its demand rises (falls) and the demand for the given good will increase (decrease), for example pen and ink. 1½ ½

13 Market supply is the quantity of a good supplied by all the firms taken together at a given price during a period of time. 1

Imposition of tax raises cost.

Price remaining unchanged, Profits fall.

As a result supply decreases. 3

OR

A supply schedule is a schedule that shows the quantity supplied

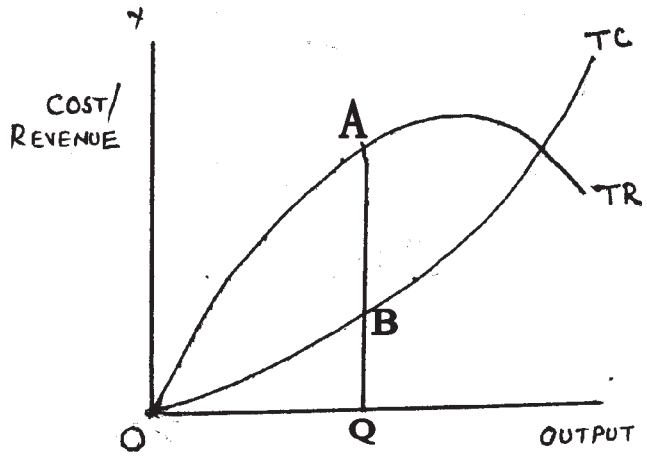
of a commodity at different prices during a period to time.

Subsidy raises revenues.

Cost remaining unchanged, profits rise 1

As a result supply increases. 3

14 Producer's equilibrium refers to that level of output at which a producer gets maximum profits. 1



(or any other relevent diagram)

Conditions:

1. TR-TC should be maximum because TR-TC equal profits. This condition is satisfied where the vertical distance between the TR curve and the TC curve is maximum (i.e. AB) 2

2. Profits falls when one more unit of output is produced beyond the output level where TR-TC is maximum. Or addition to total revenue is less than addition to total cost as more output is produced. 1

For blind candidates

Meaning (same as above) 1

Schedule 2

Conditions (same as above) 3

15 (1) Slopes downward from left to right ½

To consume more of one good the consumer must give up some quantity of the other good so that total utility remains the same. 1½

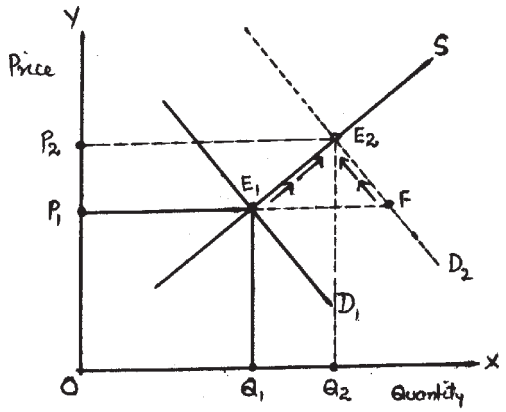
(2) Convex towards the origin ½

MRS declines continuously due to the operation of the law of diminishing marginal utility. 1½

(3) Higher indifference curves represents higher utility. ½

Higher IC represents large bundle of goods. Which means more utility because of monotonic preference. 1½

16



2

- 'Increase ' in demand shifts the demand curve from D1 to D2 to the right leading to excess demand E_1 F at the given price OP_1
- Since the consumers will not be able to buy all they want to buy at this price, there will be competition among buyers leading rise in price.
- As price rises, demand starts falling (along D_2) and supply starts rising (along S) as shows by arrows in the diagram. 4
- This change continue till D and SS are equals at E_2.
- The quantity rises to OQ_2 and price to OP_2

NOTE: Unless the above chain of effects is given marks allotted for explanation be not given.

For the blind candidates

Chain of effects: (as above) 4

use of numerical example: 2

OR

Collusive oligopoly is one in which the firms cooperate with each other in deciding price and output whereas, non-collusive oligopoly in one in which the firms compete with each other. 2

The firms are interdependent because each firm takes in to consideration the likely reactions of its rival firms when deciding its output and price policy.

It makes a firm dependent on other firms. The firm may have to reconsider the change in the light of the likely reactions 4

SECTION B

17. When GDP of a given year is estimated on the basis of price of the same year it is called nominal GDP. 1

18 Any variable whose magnitude is measured over a period of time is called a flow variable. 1

19 CRR refers to that minimum percentage of deposits with the commercial banks which the commercial banks must keep with the central bank. 1

20 Stock of money in the country on a specific day. 1

21 Foreign exchange is the price of a foreign currency in terms of domestic currency. 1

22 (1) Borrowings and lendings to and from abroad. 1

(2) Investments to and from abroad. 1

(3) Changes in foreign exchange reserves. 1

(or an other way to describing components)

23 It is possible that with rise in GDP, inequalities in the distribution of income may also increase. It means gap between rich and poor increases. So, the welfare of the people may not rise as much as the rise in GDP. 3

24 $\mathbf{APS = \frac{S}{Y} = \frac{80 - 64}{80} = 0.20}$ 1

After change: 1

$\mathbf{APC = \frac{78}{100} = 0.78}$

$\mathbf{MPC = \frac{\Delta C}{\Delta Y} = \frac{14}{20} = 0.70}$ 1

(or any other form of calculation)

25 Investment multiplier = $\frac{1}{1 - MPC}$. It shows a direct relationship between MPC and the value of multiplier. Higher the proportion of increased income spend on consumption, higher will be value of investment multiplier. 3

26 When price of foreign currency rises it makes imports costlier. This leads to fall in demand for imports. As a result demand for foreign exchange falls. 3

OR

When price of foreign currency rises it makes exports cheaper. This leads to rise in demand for exports. As a result supply of foreign currency rises. 3

27 Government can influence allocation of resources through (i) tax concessions, subsidies, etc. and (ii) directly producing goods and services. To encourage investment government can give tax concession, subsidies etc. to the producers. If private sector does not take interest, government can directly undertake the production. 4

OR

Government can influence distribution of income by imposing taxes on the rich and spending more on the welfare of the poor. It will reduce income of the rich and raise standard of living of the poor, thus reducing inequalities in the distribution of income. 4

28 Revenue deficit= Revenue expenditure –Revenue receipts 1

100 – 80 = Rs. 20 arab

Fiscal deficit = ii + v – iv – i 2

= 100 + 110 – 80 – 95 = Rs. 35 arab

Primary deficit =Fiscal deficit – iii = 35 – 10 = Rs. 25 arab 1

*29 (i) It is a final product because it is purchased for investment. 2

(ii) These are intermediate products because these are taken to be used up completely during the same year

(or these are meant of resale). 2

30 (i) Open market operations refer to the sale and purchase of securities by the central bank. Deficient demand refers to AD falling short of AS at full employment. In this situation the central bank buys securities in the open market

and makes payment to the sellers .The money flows out of the central bank and ultimately reaches the commercial banks as deposits. This raises the lending capacity of the banks. People can borrow more . This will raise AD. 3

(ii) Bank rate is the rate of interest which the central bank charges on the loans given to commercial banks. In case of deficient demand central banks can reduce the bank rate. This forces the commercial banks to reduce lending rate. Since borrowing becomes cheaper people borrow more. AD rises. 3

OR

(i) Bank rate is that rate of interest at which the central bank lends to commercial banks. To correct excess demand central bank can raise the bank rate. This forces commercial banks to increase lending rates. This reduces demand for borrowing by the public for investment and consumption. Aggregate demand falls. 3

(ii) Open market operations refer to the sale and purchase of securities by the central bank in the open market. excess demand refers to AD exceeding AS at the full employment level of income. In this situation the central bank can sell securities receiving payments from its buyers. The money flows out of the commercial banks into the central bank. This reduces the lending capacity of the banks and in turn reduces AD. 3

31 The money (or deposit or credit) creation by the commercial banks is determined by the amount of initial deposit and the legal reserve ratio(LRR). Suppose the amount of initial deposit is Rs. 10,000 and LRR 0.2 . The banks will keep 20% i.e. Rs. 2000 as reserve and lend the remaining Rs. 8000. Those who borrow spend this money. It is assumed that Rs. 8000 comes back to the banks. This raises total deposits to Rs. 18000. Banks again keep 20% of Rs. 8000 i.e. Rs. 1600 as reserve and lend Rs. 6400. This further raises the amount of deposits with the banks. In this way deposits go on increasing @ 80% of the last deposit. How many times will these deposits be is determined by the deposit multiplier : 4

$$\text{Money multiplier} = \frac{1}{LRR} = \frac{1}{0.2} = 5$$

The total deposits will be :

Total money creation = Initial deposit X Money multiplier

= 10000 X 5

= Rs. 50000 1

(Answer in an other form be also rewarded)

*32 N. I. = ii + v + (vii + ix) – viii – vi – iv 2

= 500 + 200 + 120 +(–20) –30 – 100 – (-10) 1½

= 500 + 200 + 120 – 20 – 30 – 100 + 10

= Rs. 680 Crore. ½

GNDI = N. I. + iii + vi – i 1

= 680 + 20 + 100 – (-5) ½

= Rs. 805 Crore. ½

QUESTION PAPER CODE 58/1

Q.No.	EXPECTED ANSWERS/VALUE POINTS	Distribution

Section ñ A

1 The economy in which the central problems are solved by the government through planning. 1

2 When the firm can influence the market price of the product that the firm is producing. 1

3 Locus of different combinations of the two goods which the consumer can afford by spending the whole of his income. 1

4 Decrease in supply of a good is fall in supply due to any factor other than the own price of the good. 1

5 A mathematical expression of the technological relation between physical inputs and output of a good. 1

*6 The PP curve shows the maximum quantities of the two goods the economy can produce subject to full and efficient utilization of resources. When there is unemployment, the maximum that an economy can produce does not change. So,

there is no effect on the position of the PP curve. The only thing is that economy produces somewhere below the curve. 3

*7 $E = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ 1

$= \frac{0}{2} \times \frac{13}{11}$ 1½

= 0 ½

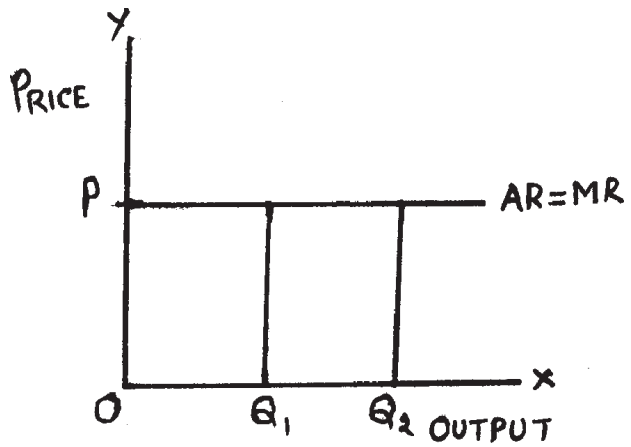
8 Explicit cost refers to the actual purchase of inputs, or, actual money expenditure on inputs.

Example : expenditure on buying raw materials(or any other).

Implicit cost refers to the estimated value of the inputs provided by the owner.

Example: estimated salary of the owner (or any other) 3

9 In such a market whether the firm sells more or sells less it does not affect the market price. It makes the AR curve parallel to the x-axis so that whether quantity produced is OQ_1 or OQ_2 market price remains unchanged. Since AR is unchanged AR must be equal to MR. The MR curve thus coincides with the AR curve. 2



1

For blind candidates

In such a market whether the firm sells more or sells less, it does not affect the market price. It makes average revenue constant as output is increased. According to marginal-average relationship, when AR is constant MR equals AR throughout. 3

10 The number of buyers of the product is so large that a single buyer cannot influence the market on his own. It is because the quantity purchased by a single buyer is so insignificant that whether he buys more, or buys less, the market price is not affected. 3

Or

The buyers treat the products of all the firms in the industry as same. Therefore, they are willing to give the same price for all the products. A uniform price prevails in the market for all the products in the industry. 3

11 It means that at some consumption level

$$\frac{MUx}{Px} > \frac{MUy}{Py}$$

In this case the consumer is getting more marginal utility per rupee in case of good X as compared to Y. Therefore, he will buy more of X and less of Y. This will lead fall in MUx and rise in MUy. The consumer will continue to buy more of X till MUx/Px becomes equal to MUy/Py. 4

12 Normal good case: Income increases, demand increases. 1

Example : If the consumer demands more of good X after the rise in income, then that good is a normal good for that consumer. 1

Inferior good case : Income increases, demand decreases. 1

Example : If the consumer demands less of good X after the rise in income, that good X is an inferior good for that consumer. 1

13 MC is addition to total cost on producing one more unit of output. 1

When MC<AC, AC falls

MC=AC, AC is constant

MC>AC, AC rises 3

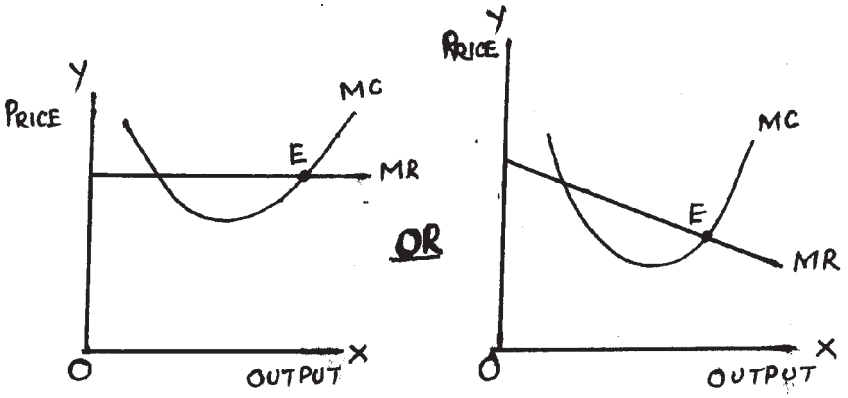
OR

The cost which changes with change in output is VC. 1

Behaviour of TVC : 2 phases .

1. Initially, as output is increased, TVC rises at a decreasing rate.
2. After a level of output, TVC increases at an increasing rate. 3

14 Producer's equilibrium refers to that price and output combination which brings the producer maximum profit. 1



1½

(Any one of two diagrams)

Equilibrium Conditions(Statements)

(1) MC=MR at point E. 1

(2) MC>MR after equilibrium i.e. after point E 1

Equilibrium Conditions(explanation)

So long as MR is greater than MC, the producer continues to produce because every new unit produced adds to profits. As he continues to produce, at some level of output MR becomes equal to MC. This maximizes profits.

After MC=MR level, if MC is greater than MR, every new unit produced is sold at a loss. So, he will not produce more units. 1½

For blind candidates

Meaning and conditions(same as above) 5

Schedule 1

15 Let the two goods be X and Y. Given income, prices and preferences of the consumer, the conditions of equilibrium are:

(1) MRS=Px/Py 1

Explanation:

If MRS>Px/Py, the consumer will find it advantageous to substitute X for Y. As a result MRS will fall. This process will continue till MRS becomes equal to Px/Py.

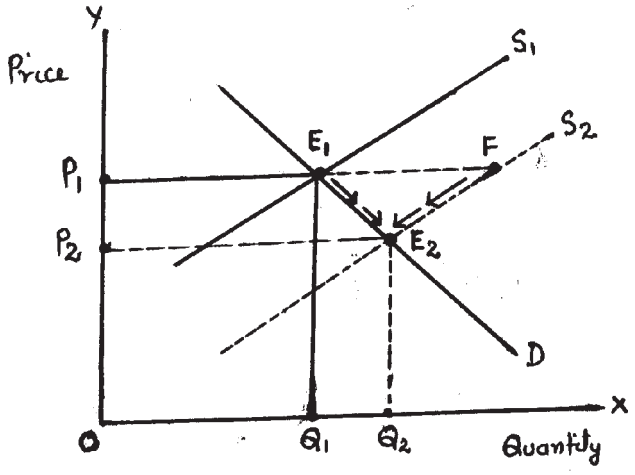
(or answer based on MRS<Px/Py) 2

(2) MRSxy continuously falls.

In case the consumer is not in equilibrium, it is the decreasing MRS which brings back the consumer into equilibrium. 1 2

(Diagram is not required)

16



2

- 'Increase' in supply shifts the supply curve from s_1 to s_2 to the right leading to excess supply E_1F at the given price OP_1.
- Since the firms will not be able to sell all that they want to sell, there will be competition among sellers leading to fall in price.
- As price falls, demand starts rising (along D) and supply starts falling(along s_2) as shown by arrows in the diagram.
- These changes continue till D=S at a new equilibrium at E_2.
- The quantity rises to OQ_2 but price falls to OP_2. 4

Note: Unless the above chain of effects is given marks allotted for explanation be not given

For blind candidates

Chain of effects(same as above) 4

Use of numerical example. 2

OR

<u>Collusive Oligopoly</u> is one in which the firms cooperate with each other in deciding price and output, while

Non collusive Oligopoly is one in which firms compete with each other. 2

(i) Few firms: The implication is that the number of firms is manageable enough to make a guess of the likely reactions of rival by a firm. 2

(ii) Non price competition: The firms are afraid of competing through lowering the price because it may start price war. Therefore they compete through the non-price factors like advertising, after sale services, etc. 2

SECTION ñ B

17 Stock variables are the variables whose magnitudes are measured at a particular point of time. 1

18 Depreciation means fall in the value of fixed capital goods due to normal wear or tear and foreseen obsolescence. 1

19 SLR is the ratio of deposits which commercial banks are required to keep with the-mselves. 1

20 Money is anything serving as a medium of exchange. 1

21 Any currency other than the domestic currency. 1

22 Exports of goods and imports of goods. 1

When the value of exports of goods is greater than the value of imports of goods. 2

23 Non-monetary exchanges refer mainly to the own account or self consumed goods and services like services of family members to each other, which are left out of GDP on account of non availability of data. But these do contribute to welfare. As such GDP under estimates welfare. 3

24 $\Delta Y = \Delta I \frac{1}{1- MPC}$ 1½

$= 75 \frac{1}{1- 0.75}$ 1

= 75x4=Rs. 300 crore. ½

25 Voluntary unemployment is that part of the working force not willing to engage itself in gainful occupation whereas Involuntary unemployment is that part of the labour force which is willing and able to work at the prevailing wage rate but is out of work. 3

26 When price of foreign currency falls it makes imports or investing abroad, etc. cheaper. As a result, demand for foreign exchange rises. 3

OR

When price of foreign currency falls it makes exports and investments by foreign residents costlier. As a result supply of foreign currency falls. 3

27 Government can influence distribution of income by imposing taxes on the rich and spending more on the welfare of the poor. It will reduce income of the rich and raise the standard of living of the poor, thus reducing inequalities in the distribution of income 4

OR

Government can bring in economic stability, i.e. control fluctuation in general price level, through taxes, subsidies and expenditure. When there is inflation, government can reduce its own expenditure When there is deflation, government can reduce taxes and give subsidies to encourage spending by the people. 4

28 (a) Revenue deficit = v-(i + iii)

= 80 - 47 -10 = Rs. 23 arab. 1½

(b) Fiscal deficit – iv – Rs. 32 arab 1½

(c) Primary deficit = iv-vi = 32-20 = Rs. 12 arab. 1

*29 (i) Imputed salaries of these members will be included in national income. 2

(ii) It will not be included in national income because it is a non-factor payment as general government borrows only for consumption purpose. 2

30 (i) Legal reserves refer to a minimum percentage of deposits which commercial banks have to keep as cash either with themselves or with the central bank. The central bank has the power to change it .When there is inflationary gap the central bank can raise the minimum limit of these reserves so that less funds are available to the banks for lending. This will reduce AD. 3

(ii) Bank rate is that rate of interest at which the central bank lends to commercial banks. To correct inflationary gap central bank can raise the bank rate. This forces commercial banks to increase lending rates. This reduces demand for borrowing by the public for investment and consumption. Aggregate demand falls. 3

OR

(i) Open market operations refer to the sale and purchase of securities by the central bank. Deflationary gap refers to AD falling short of AS at full employment. In this situation the central bank buys securities in the open market and makes payment to the sellers. The money flows out of the central bank and ultimately reaches the commercial banks as deposits. This raises the lending capacity of the banks. People can borrow more. This will raise AD. 3

(ii) Margin refers to the margin on the security provided by the borrowers . When margin is lower, the borrowing capacity of the borrower is higher. The central bank has the power to change this margin. When central bank lowers the margin, the borrowing capacity of the borrower increases. This raises AD. 3

31 (i) Bank of issue refers to the legal right to issue currency. The central bank enjoys complete monopoly of note issue. This brings about uniformity in note circulation . At the same time it gives the central bank power to influence money supply because currency with public is a part of money supply. 3

(ii) Bankers' bank : Commercial banks have to keep a certain percentage of its deposits as cash reserves with the central bank. The central bank uses these reserves to meet the emergency cash needs of the commercial banks . The central banks in this way gives loans to these banks .It makes the central bank the banker's bank. 3

32 (a)

NDP_{fc} = (ii + ix) + (iv) + (v) + (vii + x + xi) 2

= 1000 + 200 + 100 + 130 + 50 + 100+20 1½

= Rs. 1600 Crores ½

(b)

Pvt.income	$= NDP_{FC} - i - iii + vi + viii - xii$	1
	$= 1600 - 300 - (-20) + 30 + 40 - 0$	½
	= Rs. 1390 Crores	½
	(No marks be given if only the final answer is given)	
	(Calculation by other method may also be awarded)	