

# ECONOMICS

(Three hours)

(Candidates are allowed additional 15 minutes for only reading the paper.

They must NOT start writing during this time.)

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Answer Question 1 (compulsory) from Part I and five questions from Part II.

The intended marks for questions or parts of questions are given in brackets [ ].

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## PART I (20 Marks)

Answer all questions.

### Question 1

Answer briefly *each* of the following questions (i) to (x):

[10×2]

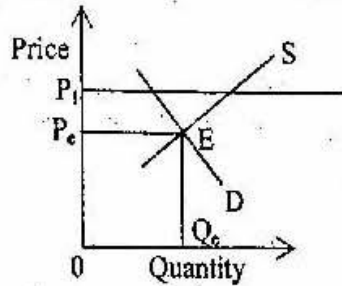
- (i) State the components of compensation of employees.
  - (ii) Explain the shape of *Average Cost Curve*.
  - (iii) Explain the demand curve for a necessity commodity.
  - (iv) Explain *any two* causes of disequilibrium in the balance of payment in an economy.
  - (v) What is meant by *high powered money*?
  - (vi) The demand for a commodity at ₹ 4 per unit is 100 units. The price of the commodity rises and as a result, its demand falls to 75 units. Find the new price if the price elasticity of demand of that commodity is 1.
  - (vii) Justify the following as *price-takers / price-makers*:
    - (a) an oligopoly market
    - (b) a perfectly competitive market
  - (viii) If the value of the multiplier is 4, what will be the value of MPC and MPS?
  - (ix) Distinguish between *intended supply* and *actual supply*.
  - (x) What is meant by *deficit financing*?
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## PART II (60 Marks)

*Answer any five questions.*

### Question 2

- (a) Study the diagram given below and answer the questions that follow: [3]



- (i)  $P_e$  is the equilibrium price. What would prompt the government to fix the price at  $P_1$ ? [3]
- (ii) What would be the effect of fixing the price at  $P_1$ ?
- (b) Discuss the effect of elasticity of demand on: [3]
- (i) a commodity which has many substitutes.
- (ii) a small part of individual's income spent on a commodity.
- (c) (i) Study the schedule given below and identify how much of commodity A and commodity B will a utility-maximizing consumer buy: [6]

Units of A	M.U. of A	Units of B	M.U. of B
1	10	1	30
2	8	2	24
3	6	3	20
4	4	4	16
5	2	5	14
6	1	6	8

Note: Price A = ₹ 2, price B = ₹ 4, income = ₹ 20

- (ii) Explain the Law of Equi Marginal Utility, using the above schedule.

### Question 3

- (a) Discuss how supply of labour is an exception to the law of supply. [3]
- (b) According to the Law of Variable Proportions, in which stage would a producer like to operate? Explain why. [3]
- (c) Explain how a producer can attain equilibrium using TR and TC approach. [6]



#### Question 4

- (a) Explain the relationship between AC and MC with the help of a diagram. [3]
- (b) Highlight *any three* differences between *monopolistic competition* and *oligopoly*. [3]
- (c) *A perfectly competitive firm can continue producing even if it is incurring losses in short run equilibrium.* Justify the given statement with the help of a diagram. [6]

#### Question 5

- (a) Differentiate with the help of diagrams, *contraction in supply* and *decrease in supply*. [3]
- (b) Identify the market where a firm is not required to reduce the price to sell more. Explain the behaviour of TR and MR. [3]
- (c) Explain how a consumer attains equilibrium using the indifference curve analysis. [6]

#### Question 6

- (a) Discuss two contingent functions of money. [3]
- (b) Explain the role of the Reserve Bank of India with respect to: [3]
- (i) custodian of foreign exchange.
- (ii) promotional and developmental functions.
- (c) Discuss how exchange rate is determined under flexible exchange rate system. [6]

#### Question 7

- (a) Explain how public expenditure can be used as a tool to attain economic stability. [3]
- (b) Differentiate between *degressive taxation* and *regressive taxation*. [3]
- (c) Explain the various components of the budget. [6]

#### Question 8

- (a) Discuss the mechanism of investment multiplier with the help of a numerical example. [3]
- (b) Distinguish between *marginal propensity to consume* and *marginal propensity to save*. What is the relationship between the two? [3]
- (c) Explain the determination of equilibrium level of output with the help of saving and investment curves. If savings exceed planned investment, what changes will bring about equality between them. [6]

### Question 9

- (a) How can personal disposable income be derived from private income? [3]
- (b) Explain *any three* precautions which should be taken while estimating national income by income method. [3]
- (c) Calculate national income and operating surplus from the following data: [6]

	<u>₹ in crores</u>
(i) Government final consumption expenditure	800
(ii) Net factor income from abroad	(-) 110
(iii) Private final consumption expenditure	900
(iv) Net domestic capital formation	200
(v) Profits	220
(vi) Rent	90
(vii) Net exports	(-) 25
(viii) Interest	100
(ix) Net indirect taxes	165