Educomp smartclass™

Sample Paper (CBSE)

Series ECO/SP/1B

Code No. SP/1-B

ECONOMICS

Time Allowed: 3 hours *Maximum Marks: 100*

General Instructions:

(i) *All Questions in both the sections are compulsory. However there is internal choice in some questions.*

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

(iii) *Question Nos.* ***1-3*** *and* ***15-19*** *are very short-answer questions carrying* ***1 mark*** *each. They are required to be answered in one sentence each.*

(iv) *Question Nos.* ***4-8*** *and* ***20-22*** *are short-answer questions carrying* ***3 marks*** *each. Answer to them should not normally exceed* ***60 words*** *each.*

(v) *Question Nos.* ***9-10*** *and* ***23-25*** *are also short-answer questions carrying* ***4 marks*** *each. Answer to them should not normally exceed* ***70 words*** *each.*

(vi) *Question Nos.* ***11-14*** *and* ***26-29*** *are long-answer questions carrying* ***6 marks*** *each. Answer to them should not normally exceed* ***100 words*** *each.*

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

SECTION A

Introductory Microeconomics

1. When a consumer's income increases, what happens to the budget line? 1

2. Draw the curve for average fixed cost. 1

3. 4 units of labour produces 100 units of output and 5 units of labour produces 120 units of output. Calculate the MPP of the labour. 1

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

5. Distinguish between microeconomics and macroeconomics. Give examples. 3

6. How will an increase in demand for tea affect the demand for sugar? Explain with diagram. 3

OR

How will a price discount on television affect the demand for the same? 3

7. Give any three points of difference between monopoly and monopolistic competition. 3

8. In which market form a firm is a price taker? Give three characteristics of that market. 3

9. Distinguish between change in quantity supplied and change in supply. 4

10. Explain the relationship between ATC, AVC and MC with diagram. 4

OR

Why is AR always equal to MR for a perfectly competitive firm? 4

11. Define price elasticity of demand. Explain the various degrees of price elasticity of demand with the help of diagram. 6

12. How is equilibrium achieved with the help of indifference curve approach? 6

13. Explain the Law of variable proportions with the help of total and marginal product curves. 6

14. How are equilibrium price and quantity affected when both demand and supply curves shift rightward? 6

OR

Compare demand curves facing a seller under conditions of perfect competition, monopolistic competition and monopoly, clearly reflecting the difference in their elasticities. 6

SECTION B

Introductory Macroeconomics

15. Name the institution which acts as the custodian of nation's foreign exchange reserve. 1

16. What is fiat money? 1

17. Why can the value of MPC be not greater than 1? 1

18. Name any two measures by which the central bank can reduce inflation? 1

19. Give two examples of capital receipts. 1

20. Explain the distinction between "domestic product" and "national product" on the basis of concepts of resident and domestic territory. 3

21. Balance of payments always balances. Discuss. 3

22. What do you mean by revenue deficit? What are the implications of this deficit? 3

23. What is meant by investment multiplier? Explain the relationship between marginal propensity to save and investment multiplier. 4

OR

Derive the multiplier when

a. MPC =0.9

b. MPS = 0.2

c. MPC = 0.75

d. MPS = 0.3 4

24. India is suffering from the problem of inequalities in the distribution of income and wealth. How can a budget be used as an instrument to solve this? Which value is reflected here? 4

25. Explain the relationship between foreign exchange rate and supply of foreign exchange. 4

26. Calculate (i) GNP at market price and (ii) Net current transfers to abroad

	Rs. Crores
Private final consumption expenditure	1000
Depreciation	100
Net national disposable income	1500
Closing stock	20
Government final consumption expenditure	300
Net indirect tax	50
Opening stock	20
Net domestic fixed capital formation	110
Net exports	15
Net factor income to abroad	-10

6

27. How will you treat the following while estimating domestic factor income of India? Give reasons for your answer.

a. Remittance from non-resident Indians to their families in India

b. Rent paid by the embassy of Japan in India to a resident Indian

c. Profits earned by branches of foreign bank in India 6

OR

Differentiate between factor payment and transfer payment. Explain briefly the concept of "mixed income of self-employed". 6

28. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram? 6

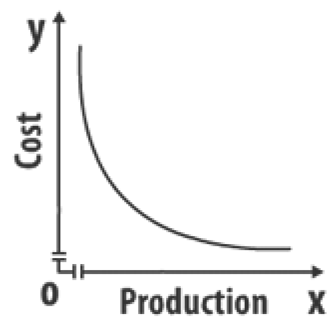
29. Explain the quantitative instruments of credit control. 6

ANSWERS

Section A:
Introductory Microeconomics

1. It shifts rightwards

2. AFC curve:



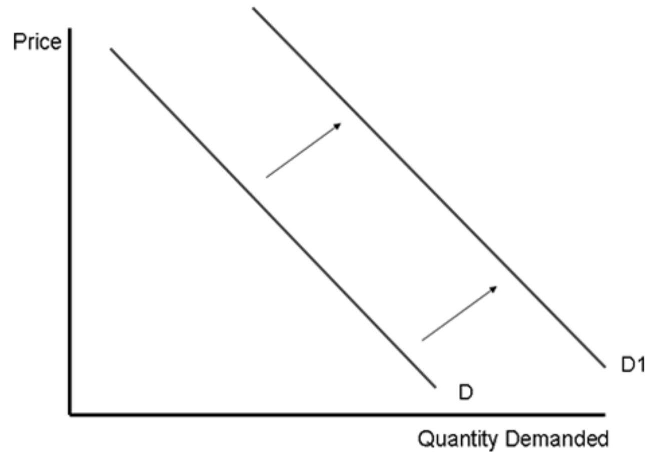
3. 20

4. No impact on the PP curve. In case there is unemployment of resources, economy will work at a point below the PP curve.

5. Microeconomics studies individual behavior, i.e. of firms, industries, consumers, producers and explains through their interaction how resources are allocated in the economy. It also explains how prices of goods and services are determined. It is known as price theory.

Macroeconomics studies the economy as a whole and explains how aggregates of the economy like national income, employment, inflation or general price level, etc. are determined. It is also called income and employment theory.

6. Shift in demand from D to D1



OR

Expansion of demand or downward movement along the demand curve

7. Points of differentiation:

a. Number of sellers

b. Product substitutes

c. Barriers to entry

8. Characteristics of Perfect competition:

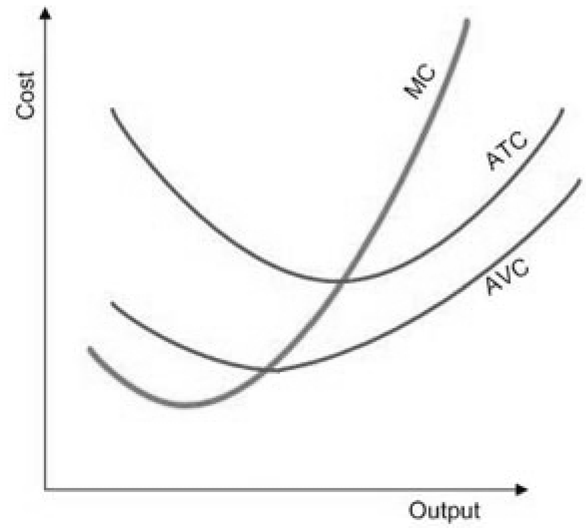
a. Large number of buyers and sellers

b. Homogenous product

c. No entry and exit barriers

9. Change in quantity supplied is due to changes in price of the commodity. It is depicted by movement along the supply curve. Change in supply is due change in other factors affecting supply like change in technology, price of inputs, changes in tax rates etc. It is depicted by shift of the supply curve.

10.



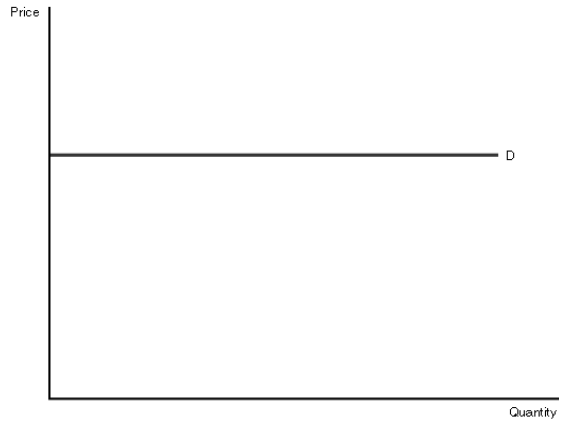
a. When AC declines, MC declines faster than AC. Therefore, MC curve is below the AC curve.
b. When AC increases, MC increases faster than AC. Therefore, MC curve is above AC curve
c. Since MC curve declines faster than AC, it reaches its lowest point earlier than AC. So that MC starts rising even when AC is falling
d. MC must cut both AVC and ATC from its lowest point.

OR

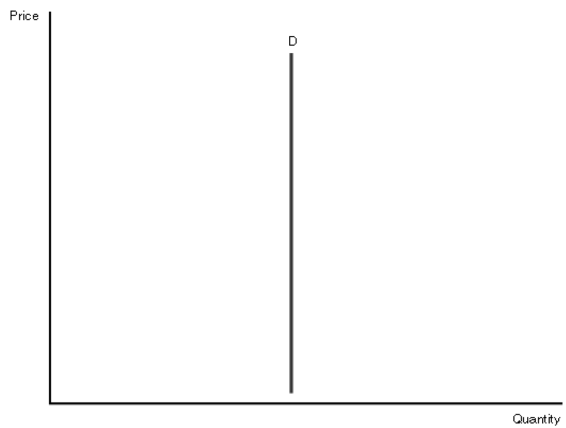
Because the firm is a price taker . Firm can sell any number of units at the price set by the market, which means with sale of every additional unit, MR will be equal to AR which will be equal to price.

11. Price elasticity of demand is the degree of responsiveness of quantity demanded to a change in its price. Five degrees of price elasticity of demand:

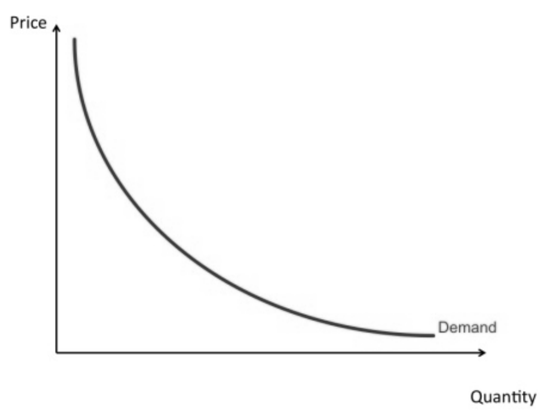
a. Perfectly elastic demand ($e_D = \infty$)



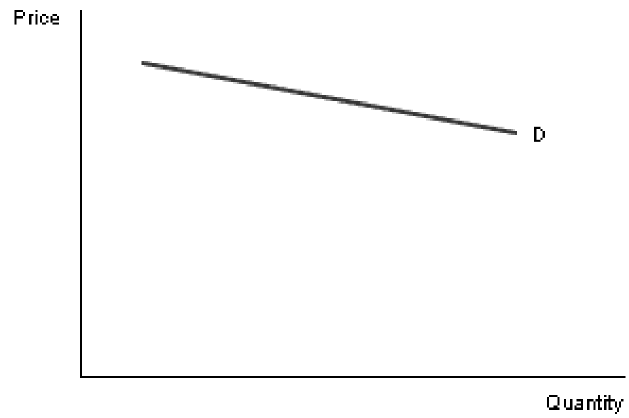
b. Perfectly inelastic demand($e_D = 0$)



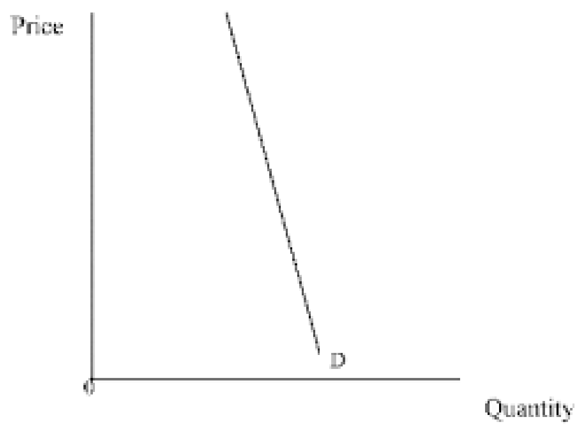
c. Unit elastic demand($e_D = 1$)



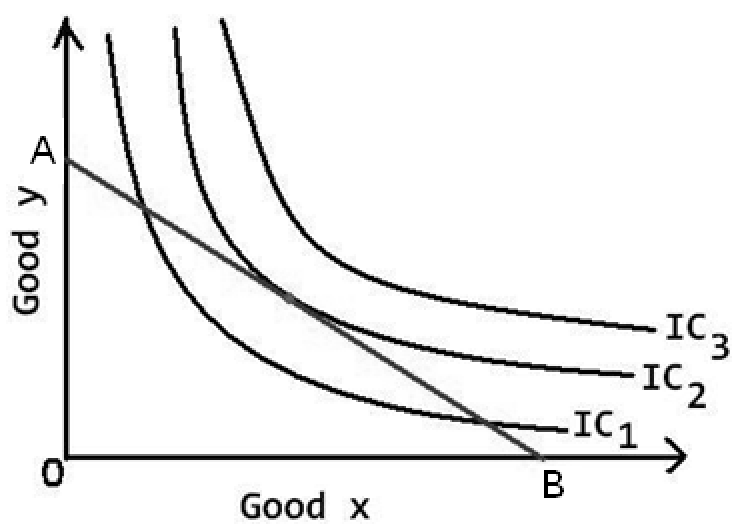
d. Relatively elastic demand($e_D > 1$)



e. Relatively inelastic demand($e_D < 1$)



12.



a. AB is the budget line with given level of income.

b. IC1, IC2 and IC3, i.e. the indifference map show the consumer's scale of preferences between different combinations of Good x and y

c. Consumer's equilibrium will be achieved when budget line is tangent to highest possible indifference curve, i.e. IC2.

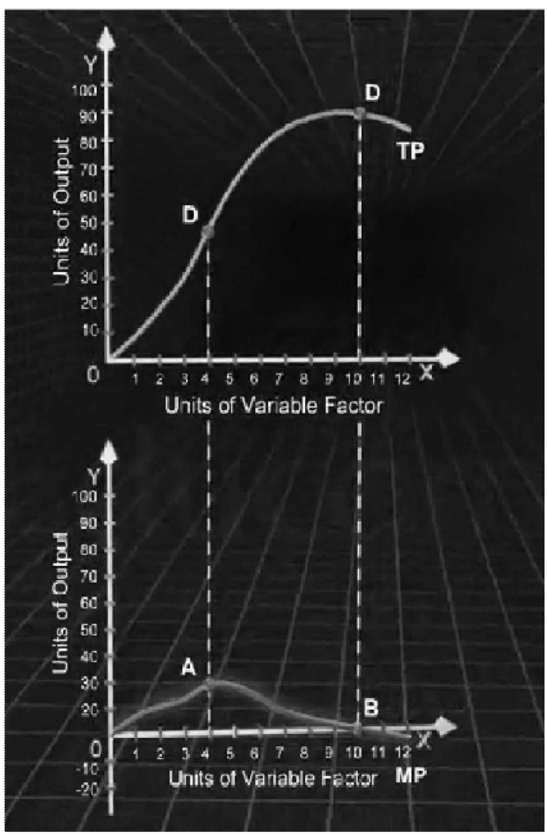
d. At consumer's equilibrium, slope of indifference curve = slope of budget line

e. Consumer cannot achieve equilibrium at any other point because:

f. At points other than on budget line, he will either not be able to afford the goods or will be left with some amount which can be spent and more satisfaction be gained

g. At points where IC1 crosses AB, again equilibrium cannot be achieved as the lower indifference curve denotes lesser satisfaction

13.

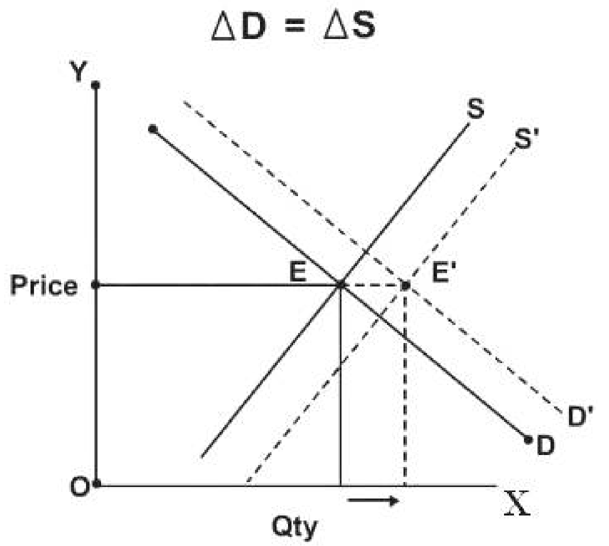


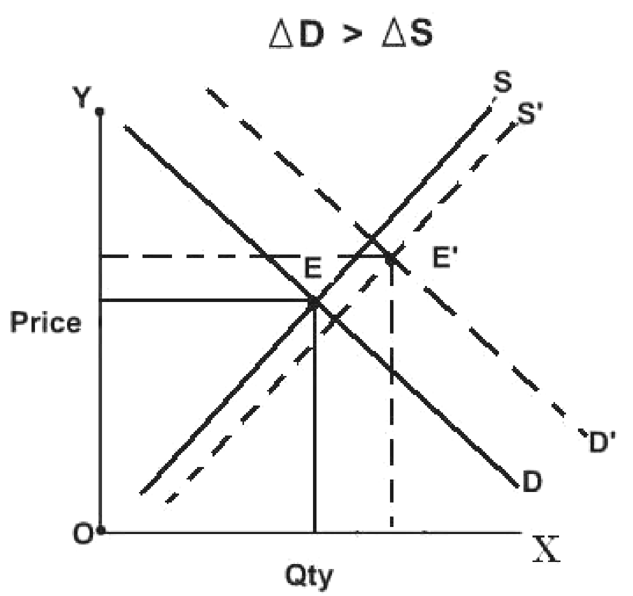
Phase 1: TPP rises at an increasing rate. MPP is increasing and positive. Phase ends when MPP is at its highest point.

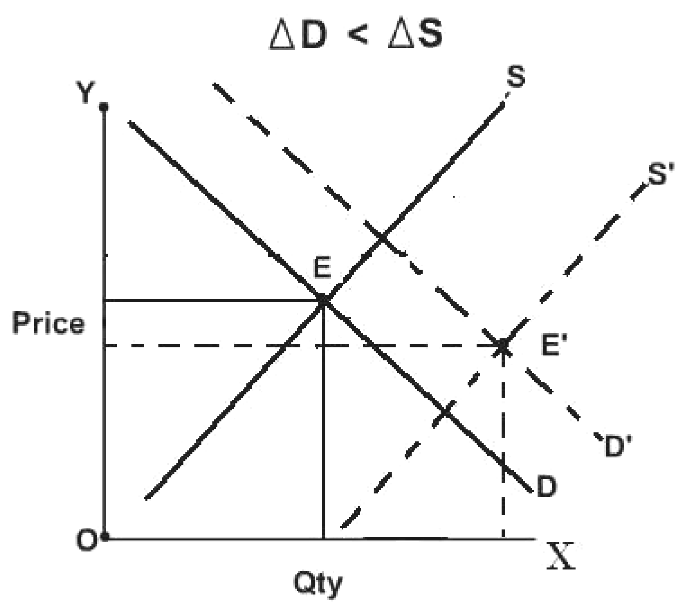
Phase 2: TPP rises at decreasing rate. MPP is decreasing, but positive. Phase 2 ends when MPP becomes 0. Firms like to produce in this stage.

Phase 3: TPP declines. MPP is negative and decreasing

14. When both demand and supply curves shift right, following three situations may occur.







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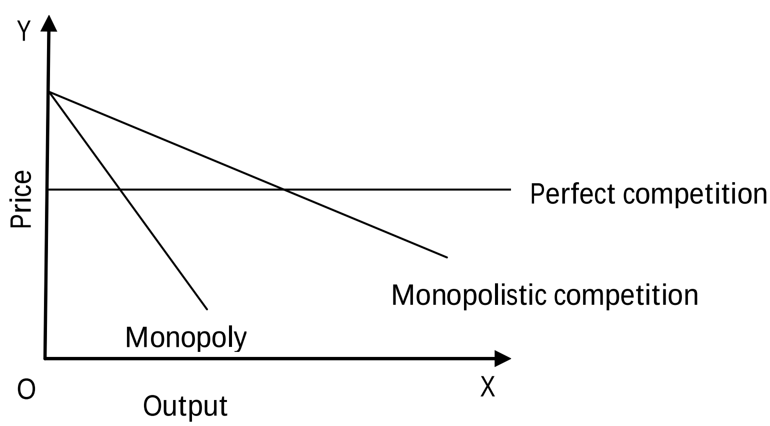


Under perfect competition, the demand curve for a firm is a straight line parallel to the x-axis. This is because a firm can sell whole of its output at the same price.

Under monopoly, a firm can sell more of its product only at a lower price. Therefore, the demand curve facing a monopoly is negatively sloped. Due to absence of substitutes, the elasticity of demand curve is less.

Under monopolistic competition, a firm can sell more of its product only at lower price. Therefore the demand curve is negatively sloped. But the presence of close substitutes makes the demand curve more elastic.

The reason for the differences in the demand curves stems from the availability of substitutes of the product. For perfect competition, there are perfect substitutes available, for monopoly, there are no substitutes and for monopolistic competition, there are close substitutes.

Section B:
Introductory Macroeconomics

15. RBI

16. A type of representative money which not convertible and which circulates by the order of the Government.

17. Because increment in consumption cannot be more than increment in income.

18. Increase bank rate and sale of securities(open market operations)

19. Borrowings, recovery of loans, sale of shares of PSUs

20. Domestic product – Total market value of goods and services produced in a year by both resident and non-resident in the domestic territory
National product – Total market value of goods and services produced in a year by residents in both domestic territory and abroad

21. In accounting sense: BOP always balances due to double entry system.
In operating sense: current account imbalances are offset using capital account

22. Revenue deficit is excess of total revenue expenditure over total revenue receipts. Implications:

a. Part of revenue deficit is financed through borrowed funds, so capital expenditure falls and so does the economic growth

b. Higher borrowings reduce resources available for private investment which again hampers economic growth.

23. Investment multiplier is the ratio of change in income due to change in investment.

Multiplier (k) = 1/MPS

Multiplier varies inversely with PMS. Higher the MPS, lower will be the size of the multiplier and vice versa. E.g. if MPS = 0.1, k = 10 and for MPS = 0.2, k = 5. This establishes inverse relationship between the two.

OR

K = 1/(1-MPC) Therefore,

a. k = 10

b. k = 5

c. k = 4

d. k = 3.33

24. Budget may be used in following ways:

a. Progressive tax rates

b. Broaden tax base

c. More services under indirect taxes

d. Raise expenditure on social sectors

e. Expenditure on special anti poverty and employment schemes

f. PDS inferred so that poor get subsidized price benefit

Value: Problem solving and social justice

25. a. Direct relationship of exchange rate and supply of the same.

b. Upward sloping supply curve

c. E.g. fall in exchange rate price means local goods become costlier, which reduces their demand, and hence foreign countries supply less foreign exchange.

26. $GVA_{FC} = (\text{Sales} + \Delta S)$-IC-NIT(T-S)

GVA_{FC} = Rs. 60 lakhs

27. a. It is not earned within domestic territory, so not added in domestic income

b. It is a part of NFIA and hence not part of domestic factor income of India

c. It is a factor income paid abroad and therefore not a part of domestic factor income of India.

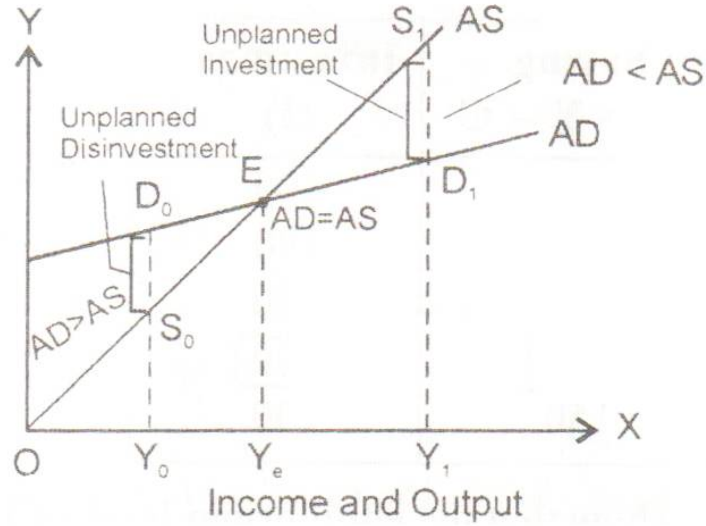
OR

Factor payments: payments to factors of production included in national income

Transfer payments: payments to individuals, households and enterprises made by the Government and vice versa without getting any service in return. Not included in National income.

Mixed income: individuals and households engaged in small business not registered as joint stock companies earn incomes of mixed types. Difficult to separate profits from wages and salaries. Classified as separate category of income.

28.



At equilibrium level, AD = AS.

AD = C + I and AS = C + S

Before the equilibrium level, if the income is less than equilibrium income, say Y0, AD is D0Y0 against supply of S0Y0. In other words, AD>AS. This will lead to decrease in inventories with businessmen and they will increase production. Consequently, output, income and employment will rise till the equilibrium level of income is achieved where AD = AS.

Similarly, when AD<AS at higher income level of Y1, there will be excess supply and increased accumulated inventories. To avoid further increase in inventories, businessmen will decrease production till these accumulated inventories are used up. This will decrease production, and consequently output, income and employment will decrease till the equilibrium level of income Ye is achieved where AD = AS.

29. Quantitative instruments are:

a. Bank rate: rate at which central bank gives loan to commercial banks
b. Cash reserve ratio: minimum percentage of total deposits to be kept as cash
c. Statutory liquidity ratio: specific percentage of the net total demand in form of liquid assets

d. Open market operations: buying and selling of government securities in the open market by RBI