

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 17-21 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 22-26 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
- (v) *Question Nos. 9-10 and 27-29 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 30-32 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 far as possible.*

SECTION A**Introductory Microeconomics**

1. What will you say about MU when TU is maximum? 1
2. Which market form has the characteristics of large number of buyers and sellers of homogenous products? 1
3. Which of the following market isn't a type of imperfect competition?
 - a. Monopoly

- b. Monopolistic competition
 - c. Oligopoly
 - d. Duopoly 1
4. Why is a production possibility curve concave? 3
 5. What is an economic problem? How does it arise? 3
 6. Price of a product rises from Rs. 10 to Rs. 11 per unit. As a result the quantity demanded of that product falls by 10%. Calculate the price elasticity of demand. 3

OR

- Explain the relationship between the MR curve and elasticity of demand. 3
7. What features separate monopolistic competition from perfect competition? 3
 8. Explain the effect of shift of supply curve on the equilibrium price and quantity. 3
 9. Distinguish between expansion of supply and increase in supply with the help of a diagram. 4
 10. Identify the different phases of law of variable proportions from the following table. Give reasons for your answer. 4

Unit of variable input	1	2	3	4	5
TPP (units)	4	9	13	15	12

11. Explain the concept of indifference curves with the help of schedule and diagram. Discuss the assumptions and properties of indifference curves. 6
12. Explain with the help of diagram the effect of following on the changes in demand of a commodity. 6
- A rise in price of complementary good
 - A rise in price of substitute
13. Draw all the short run cost curves in a single diagram. Explain the relationship between MC and ATC with its help. 6

OR

Explain the concepts of AR, MR and TR. Complete the following table.

Output (units)	Average Revenue (Rs.)	Marginal Revenue (Rs.)	Total Revenue (Rs.)
1	-	15	-
2	-	-	26
3	11	-	-
4	-	3	-

14. Define oligopoly. Explain the features and types of oligopoly. 6

SECTION B

Introductory Macroeconomics

15. What is a central bank? 1
16. Sahil wants to keep his money safe and earn a higher rate of interest. In which type of account should he keep his money? 1

17. If $MPS = 0.25$, calculate the value of the multiplier. 1
18. What is deflationary gap. 1
19. Define primary deficit in a Government budget? 1
20. Categorize the following into intermediate goods and final goods. Give reasons for your answers. 3
- a. A new car purchased by a taxi driver
 - b. Stationary purchased by the Government
 - c. Wheat purchased by households
21. Distinguish between direct and indirect taxes. 3
- OR**
- Why is recovery of loans treated as a capital receipt? 3
22. The balance of trade shows a deficit of Rs. 5000 crores and the value of imports are Rs. 9000 crores. What is the value of exports? 3
23. Derive the savings function from the consumption function of $C = a + bY$. 4
24. How is surplus budget used to combat inflation? 4
25. Explain the relationship between foreign exchange rate and demand for foreign exchange. 4
26. Calculate National Income and Gross National Disposable Income from following data.

Amount (Rs. In crores)

a. Net Indirect Tax	5	
b. Net domestic fixed capital formation	100	
c. Net imports	-20	
d. Government final consumption expenditure	200	
e. Net current transfers from abroad	15	
f. Private final consumption expenditure	600	
g. Change in stocks	10	
h. Net factor income from abroad	5	
i. Gross domestic fixed capital formation	125	6

27. Describe the steps involved in the estimation of National Income by value added method. State any two precautions that must be taken while using this method. 6

OR

Explain the qualitative instruments of credit control. 6

28. Do you consider a commercial bank creator on money in the economy? Explain. 6

29. From the given table, answer the questions that follow:

Income	Consumption	Saving	Investment	AD	AS = Y
0	60	-60	40	100	0
100	140	-40	40	180	100
200	220	-20	40	260	200
300	300	0	40	340	300
400	380	+20	40	420	400
500	460	+40	40	500	500
600	540	+60	40	580	600

- a. Identify the break-even point.
- b. Locate the equilibrium level of income
- c. Calculate MPS when income changes from Rs. 400 to Rs. 500
- d. Calculate APC at income level of Rs. 100
- e. Calculate APS at income level of Rs. 500

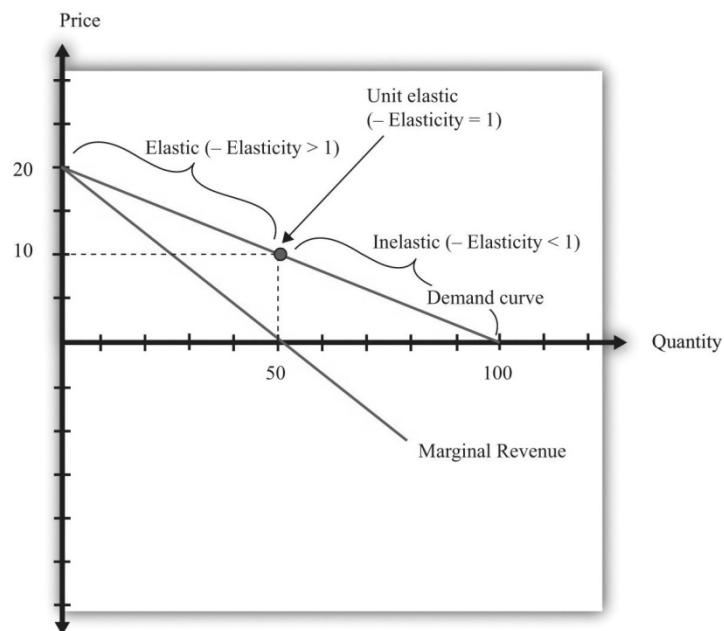
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ANSWERS

Section A: Introductory Microeconomics

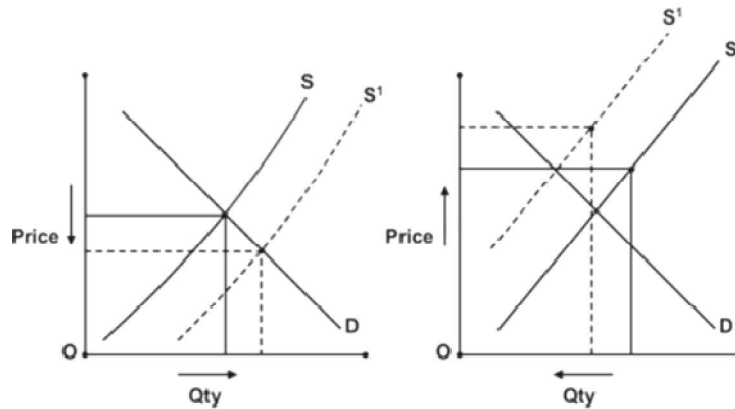
1. $MU = 0$
2. Perfect competition
3. Monopoly
4. Because of increasing marginal cost, the sacrifice of other good goes on increasing.
5. Problem of choice. It arises because of scarcity of resources.
6. $e_D = 1$

OR

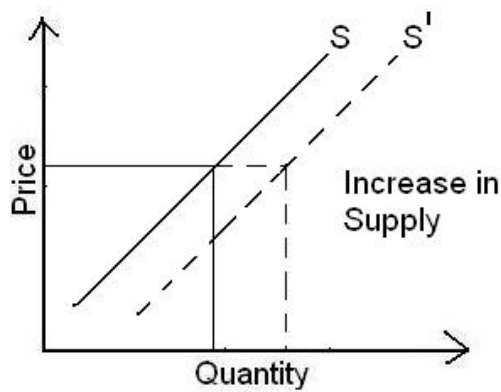
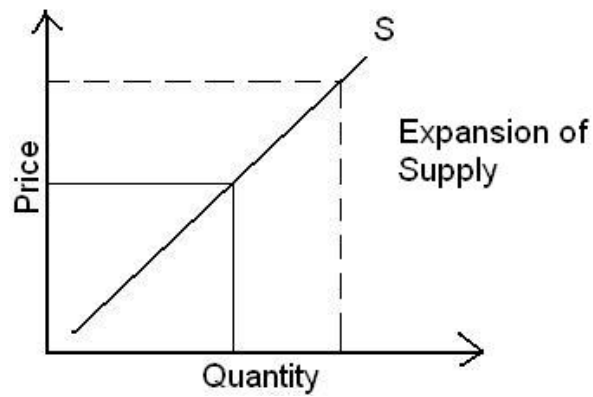


7. Features separating are:
 - a. Type of product
 - b. Advertising and sales promotion
 - c. Price fixation

8.



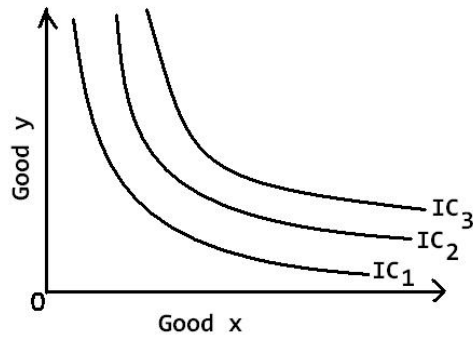
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10. a. First phase is upto 2 units as MP is increasing

- b. Second phase is 3 to 4 units as MP is falling but positive.
- c. Third phase is from 5th unit as MP is negative

- 11.** IC shows different combinations of good x and y which give same level of satisfaction to customers. Set of IC is called indifference map.



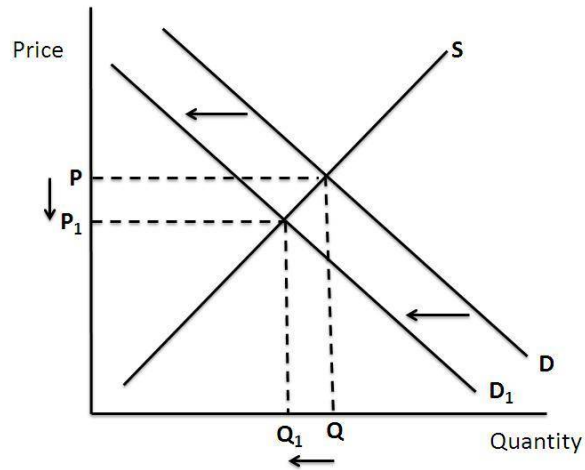
Assumptions of indifference curves:

- a. Utility is ordinally measurable
- b. Rational consumer: maximizes satisfaction
- c. Consumer is consistent in choices
- d. Preferences are transitive
- e. Point of saturation in the commodity has not been reached
- f. DMRS exists

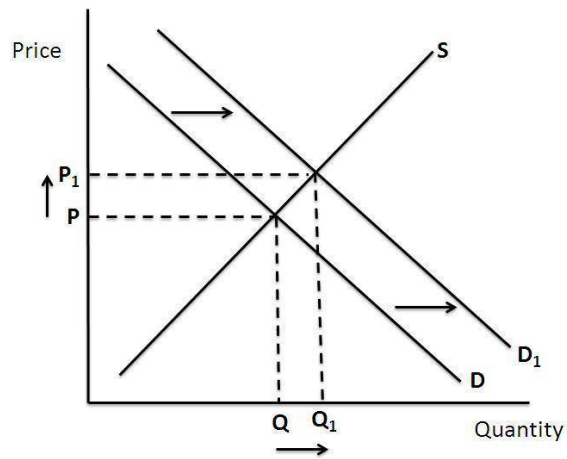
Properties of indifference curves:

- a. IC slopes downwards to the right
- b. Convex to origin
- c. Two IC cannot intersect
- d. Higher IC means higher satisfaction

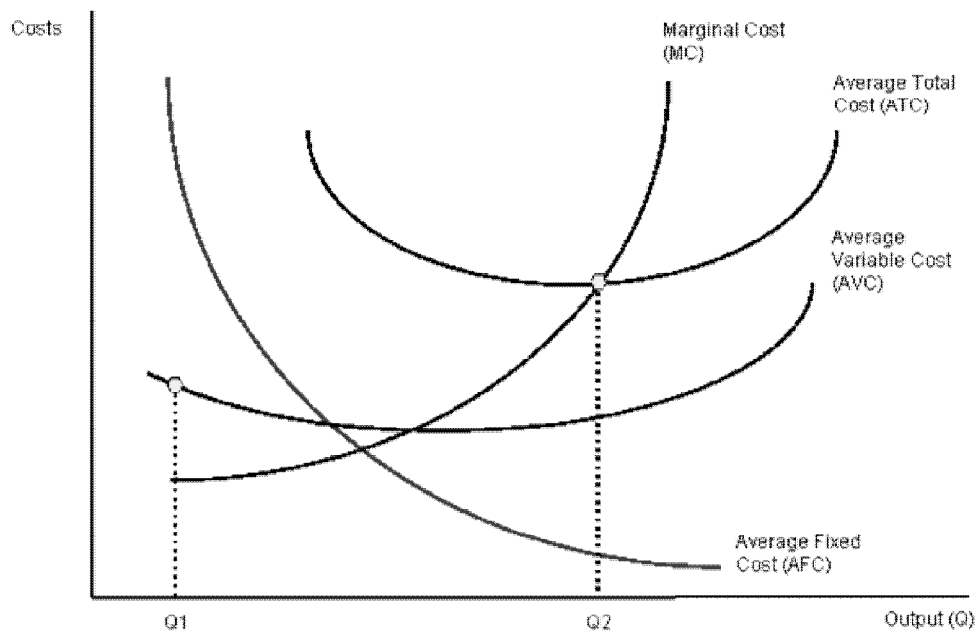
12. a. Rise in price of Complementary good



b. Rise in price of substitutes



13.



OR

Output (units)	Average Revenue (Rs.)	Marginal Revenue (Rs.)	Total Revenue (Rs.)
1	15	15	15
2	13	11	26
3	11	7	33
4	9	3	36

- 14.** Oligopoly:
- a. Few sellers
 - b. Homogenous or differentiated product
 - c. Interdependence in decision making
 - d. Heavy selling and advertising
 - e. Group behavior
 - f. Price rigidity
 - g. Barriers to entry

Section B

Introductory Macroeconomics

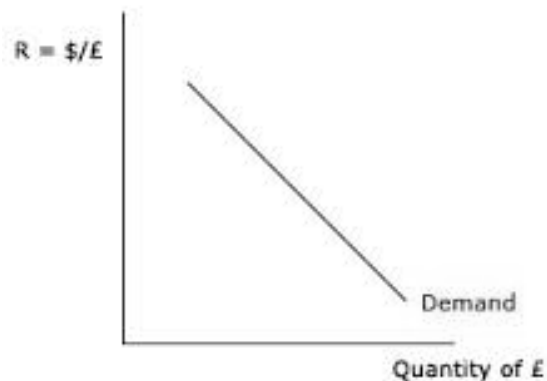
- 15.** Apex monetary institution which controls the entire money and banking system of the country.
- 16.** Fixed deposit account
- 17.** Multiplier = 4
- 18.** Deflationary gap is a measure of the amount of deficient demand.
- 19.** Primary deficit is difference between fiscal deficit and interest payments.

20. a. Final good since it is an investment
 b. Intermediate good as used to produce services
 c. Final good as it is for final consumption
21. Direct taxes: levied on property and income of individual persons
 Indirect taxes: levied on production and sale of commodities

OR

Because it leads to decline in the capital assets of the Government

22. $-5000 = \text{Value of exports} - 9000$
 Therefore, value of exports = Rs. 4000 crores
23. Saving function is $S = Y - C$
 Therefore, $S = Y - (a + bY)$
 $S = -a + (1-b)Y$
24. A surplus budget has more revenues than expenditures and thus it reduces aggregate demand and helps in combating inflation.
- 25.



26. National Income = vi + iv + ii + vii - iii + viii - I = Rs. 930 crores

$$\text{GNDI} = (930 + 5) + 25 + 15 = \text{Rs. } 975 \text{ crores}$$

- 27.** Value added method measures contribution of each producing unit.
- Identify all producing units and classify them into different sectors
 - Estimate value of output (sales + ΔS) and deduct value of intermediate consumption, depreciation and net indirect taxes.
 - Add NVA at FC of all industrial sectors to calculate NDP at FC
 - Estimate net factor income from abroad. So, NI = NDP at FC + NFIA

Precautions:

- Avoid double counting
- Count production for self consumption
- Don't include second hand goods

OR

Qualitative measures for control of credit include

- Margin requirements
 - Rationing of credit
 - Regulation of consumer credit
 - Moral persuasion
 - Direct action
- 28.** Credit creation:
- Deposit multiplier = $1/\text{reserve deposit ratio} = 1/r$
 - E.g. $r = 10\%$

	Deposits	Loans	Cash reserves
First round	100	90	10
Second round	90	81	9
Third round	81	72.9	8.1
...	And so on...

29. a. BEP is where $Y = C$. Rs. 300
b. Equilibrium level of income is where $AD = AS$. Rs. 500
c. $MPS = \Delta S / \Delta Y = 20 / 100 = 0.2$
d. $APC = 140 / 100 = 1.4$
e. $APS = 40 / 500 = 0.08$