

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 and 13 are very short-answer questions carrying 1 mark for each part. They are required to be answered in one sentence each.*
- (iv) *Question Nos. 2-5 and 14-17 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
- (v) *Question Nos. 6-9 and 18-21 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.*
- (vi) *Question Nos. 10-12 and 22-24 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 limits be adhered to as far as possible.*
- (viii) *All parts of a question should be answered at one place.*

QUESTION PAPER CODE 58/1/1

SECTION 'A'

1. Answer the following questions : 4×1
 - (i) Define market supply.
 - (ii) What is meant by producer's equilibrium ?
 - (iii) Define marginal physical product.
 - (iv) Define equilibrium price.
2. State **any three** causes of a rightward shift of demand curve of a commodity. 3
3. State the geometric method of measuring price elasticity of supply (in case of straight line supply curve). 3
4. What is the relationship between marginal cost and average variable cost ? 3
5. State **three** main features of perfect competition. 3

6. Complete the following table :

Output (units)	Price (Rs.)	Total Revenue (Rs.)	Marginal Revenue (Rs.)
1	12	—	—
2	10	—	—
3	8	—	—
4	6	—	—

4

7. Distinguish between 'change in supply' and 'change in quantity supplied' of a commodity. (Use diagrams)

4

OR

Explain **any two** determinants of supply of a commodity.

8. Explain the problem of 'what to produce' with the help of an example.

4

9. The quantity demanded of a commodity at a price of Rs. 8 per unit is 600 units. Its price falls by 25 percent and quantity demanded rises by 120 units. Calculate its price elasticity of demand. Is its demand elastic ? Give reason for your answer.

4

10. Explain consumer's equilibrium, in case of a single commodity, with the help of a utility schedule.

6

OR

How is the demand of a commodity affected by changes in the price of related goods ? Explain with the help of diagrams.

11. Explain the law of variable proportions with the help of total and marginal physical product curves.

6

12. How does an increase in demand of a commodity affect its equilibrium price and equilibrium quantity ? Explain with the help of a diagram.

6

SECTION - B

13. Answer the following questions :

4×1

- (i) Why is repayment of loan a capital expenditure ?
- (ii) Define macroeconomics
- (iii) What is meant by balance of trade ?
- (iv) Give two examples of microeconomic studies.

14. From the following data about firm 'X', calculate gross value added at factor cost by it : 3

	Rs. (in thousands)
(i) Sales	500
(ii) Opening stock	30
(iii) Closing stock	20
(iv) Purchase of intermediate products	300
(v) Purchase of machinery	150
(vi) Subsidy	40

15. Explain the meaning of deflationary gap with the help of a diagram. 3
16. What is meant by revenue deficit ? What are its implications ? 3
17. Complete the following table : 3

Level of income (Rs.)	Consumption expenditure (Rs.)	Marginal propensity to consume	Marginal propensity to save
400	240	—	—
500	320	—	—
600	395	—	—
700	465	—	—

18. State the main functions of a central bank. 4
19. What is meant by visible and invisible items in the Balance of Payments account ?
Give **two** examples of invisible items. 4

OR

What is meant by foreign exchange rate ? Give three reasons why people desire to have foreign exchange.

20. Explain **any two** functions of a commercial bank. 4
21. Distinguish between : 4
- (i) Revenue receipts and capital receipts.
- (ii) Direct tax and indirect tax.

22. From the following data, calculate :
- (a) Personal disposable income and
(b) National income

	Rs.	
	(in crores)	
(i) Private income	3,000	
(ii) Compensation of employees	800	
(iii) Mixed income of self employed	900	
(iv) Net factor income from abroad	(-) 50	
(v) Net retained earnings of private enterprises	600	
(vi) Rent	350	
(vii) Profit	600	
(viii) Consumption of fixed capital	200	
(ix) Direct taxes paid by households	300	
(x) Corporation tax	350	
(xi) Net indirect taxes	250	
(xii) Net exports	(-) 70	
(xiii) Interest	450	3, 3

23. Explain the working of investment multiplier with the help of a numerical example. 6

OR

In an economy planned savings exceed planned investment. How will the equality between the two be achieved ? Explain.

24. Distinguish between the following giving suitable examples in support of your answer : 3, 3
- (a) Domestic product and national product
(b) Intermediate product and final product

QUESTION PAPER CODE 58/1

SECTION 'A'

1. Answer the following questions : 1×4
- (i) Define production function.
(ii) What is meant by producer's equilibrium ?
(iii) What causes an upward movement along a supply curve ?
(iv) Under which market form, is a firm a price-taker ?
2. Explain the law of demand with the help of a demand schedule. 3

3. Give three causes of an increase in the supply of a commodity. 3
4. What is the relationship between marginal revenue and average revenue ? 3
5. State the main features of monopoly market. 3
6. Complete the following table : 4

Output (units)	Total Cost (Rs.)	Average Variable Cost (Rs.)	Marginal Cost (Rs.)
0	80	—	—
1	180	—	—
2	270	—	—
3	350	—	—
4	440	—	—

7. At a price of Rs. 50 per unit, the quantity demanded of a commodity is 1000 units. When its price falls by 10 percent, its quantity demanded rises to 1080 units. Calculate its price elasticity of demand. Is its demand inelastic ? Give reasons for your answer. 4
8. Define price elasticity of supply. How is it measured by geometric method ? (In case of a straight line supply curve) 4
9. Explain the problem of 'how to produce' with the help of an example. 4

OR

Explain the problem of 'what to produce' with the help of a production possibility curve.

10. How does a consumer reach equilibrium position when he is buying only one commodity ? Explain with the help of marginal utility schedule. 6

OR

Briefly explain any three factors that shift the demand curve to the right.

11. Distinguish between returns to a factor and returns to scale. Explain the reasons for increasing returns to a factor. 6
12. How does an increase in supply of a commodity affect its equilibrium price and equilibrium quantity ? Explain with the help of a diagram. 6

SECTION B

13. Answer the following questions : 1×4
- (i) What is micro-economics ?
 - (ii) Give two examples of a macro-economic studies.
 - (iii) Why are borrowings treated as capital receipts ?
 - (iv) What is meant by balance of payments account ?
14. Explain the meaning of equilibrium level of national income, with the help of a diagram. 3
15. From the following data about a firm 'A', calculate net value added at market price by it : 3
- | | |
|--|-------------------------------|
| | <i>(Rs.
in thousands)</i> |
| (i) Sales | 700 |
| (ii) Change in stock | 40 |
| (iii) Depreciation | 80 |
| (iv) Net indirect taxes | 100 |
| (v) Purchase of machinery | 250 |
| (vi) Purchase of intermediate products | 400 |
16. What is the basis of classifying government expenditure into revenue expenditure and capital expenditure ? Give an example of each. 3
17. Complete the following table : 3
- | Income
(Rs.) | Consumption Expenditure
(Rs.) | Marginal Propensity
to Consume | Marginal
Propensity to Save |
|-----------------|----------------------------------|-----------------------------------|--------------------------------|
| 1000 | 900 | — | — |
| 1200 | 1060 | — | — |
| 1400 | 1210 | — | — |
| 1600 | 1350 | — | — |
18. State any three main functions of a central bank. Describe any one of them. 4
19. Explain the meaning and implications of fiscal deficit. 4
20. List four items each of current account and capital account of the balance of payments account. 4

OR

Mention four sources each of demand and supply of foreign exchange.

21. Briefly explain any four main functions of a commercial bank. 4
22. Explain briefly the distinction between : 6
- (a) Gross domestic product at factor cost and Net national product at market price.
- (b) National income and Net national disposable income.
23. Explain with the help of a numerical example how an increase in investment in an economy affects its level of income. 6

OR

Why should planned savings and planned investment be equal at equilibrium level of income ? Explain with the help of a diagram.

24. From the following data, calculate 3, 3
- (a) National income, and
- (b) Personal disposable income

	<i>(Rs. in crores)</i>
(i) Compensation of employees	1200
(ii) Rent	400
(iii) Profit	800
(iv) Consumption of fixed capital	300
(v) Mixed income of self-employed	1000
(vi) Private income	3600
(vii) Net factor income from abroad	(-) 50
(viii) Net retained earnings of private enterprises	200
(ix) Interest	250
(x) Net indirect taxes	350
(xi) Net exports	(-) 60
(xii) Direct taxes paid by households	150
(xiii) Corporation tax	100

Marking Scheme — Economics

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. The answers given in the marking scheme below are suggested answers. The content is thus indicative. The candidates may express the content in various forms. But, for standardization of evaluation it is necessary to follow the marking scheme suggested here on the basis of expected content.
3. For mere arithmetical errors, there should be minimal deduction. Only $\frac{1}{2}$ mark be deducted for such an error.
4. 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.
5. 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.

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

EXPECTED ANSWERS/VALUE POINTS

SECTION 'A'

- | | | | |
|----|-------|--|---|
| 1. | (i) | Total quantity of a commodity that all its producers are willing to sell at a given price during a period of time. | 1 |
| | (ii) | The situation when a producer earns maximum profit. | 1 |
| | (iii) | It is the change in total physical product when an additional unit of variable input is used. | 1 |
| | (iv) | The price of a commodity at which its quantity demanded and quantity supplied are equal. | 1 |

2. Causes for a rightward shift of demand curve:
- (i) Rise in price of substitute good.
 - (ii) Fall in price of complementary good.
 - (iii) Increase in income (normal good)
 - (iv) Favourable change in taste for the commodity.

(Any three) 1×3

3. (i) If the supply curve intersects the ox-axis in its positive range, than elasticity of supply < 1
- (ii) If the supply curve intersects the oy-axis in its positive range, the elasticity of supply > 1
- (iii) If the supply curve passes through the origin, the elasticity of supply = 1 1×3

4. (i) When marginal cost is less than average variable cost, average variable cost falls.
- (ii) When marginal cost is equal to average variable cost, average variable cost is constant.
- (iii) When marginal cost is greater than average variable cost, average variable cost rises. 1×3

5. Three main features of perfect competition are :

- (i) Large number of buyers and sellers.
- (ii) The product is homogeneous.
- (iii) There is free entry and exit of firms etc.

(Any three) 1×3

Output (Units)	Price (Rs.)	Total Revenue (Rs.)	Marginal Revenue (Rs.)	
1	12	<u>12</u>	<u>12</u>	
2	10	<u>20</u>	<u>8</u>	
3	8	<u>24</u>	<u>4</u>	
4	6	<u>24</u>	<u>0</u>	½×8

7. When supply increases or decreases due to change in factors other than price of the commodity, it is called change in supply. It causes a shift of supply curve. When supply rises or falls due to change in price, other factors remaining constant, then it is called change in quantity supplied. It results in movement along a supply curve. 2

Change in supply

Change in Qty supplied

1/2 x 2

1/2 x 2

OR

- (i) Technological change
- (ii) Input price change
- (iii) Change in price of related good etc.

(Any two)

1/2 x 2

(Explanation)

1 1/2 x 2

8. An economy has only limited resources and the wants are unlimited. Wants are satisfied by goods and services which are to be produced by the resources. So all goods and services cannot be produced. The economy has to decide which goods to be produced. For example, on a given piece of land, all crops cannot be grown. If it is used for growing wheat than on the area on which wheat is grown, other crop cannot be grown. This is the problem of what to produce.

4

9. $P_0 = 8 \quad Q_0 = 600 \quad P_1 = 6 \quad Q_1 = 720 \quad \Delta P = -2$
 $\Delta Q = 120$

1

$$= \frac{120}{600} \times \frac{8}{-2}$$

1 1/2

$$= -0.8$$

1/2

Its demand is inelastic because when is less than one, it is called inelastic demand.

1

10. Consumer equilibrium means a situation when a consumer buys that much quantity of a commodity which gives him maximum utility. How many units of the commodity he should buy is explained with the help of marginal utility schedule given below.

<u>Units consumed of 'A'</u>	<u>Marginal utility of 'A'</u>	
1	14	
2	12	
3	10	
4	8	2

Suppose the price of A is Rs. 5/- per unit and the marginal utility of each rupee to him is 2. Then for each unit of A he has to sacrifice 10 utility. He will compare the marginal utility of each unit of A with the utility he sacrifices. He will go on buying till the M.U. of A is equal to the utility that he sacrifices. From the table it is clear, that he will buy 3 units because at 3rd unit, what he pays is just equal to what he gets. So he is in equilibrium.

OR

Related good, can be substitute or complementary. 2

When the price of substitute good falls (rises) it becomes relatively cheaper (costlier), so it is substituted (gets substituted) for the given commodity. So the demand for the commodity decreases (increases). This results in a rightward (leftward) shift of demand curve.

1

When price of complementary good falls (rises) its quantity demanded rises (falls). The demand for given commodity increases (decreases) as complementary goods are used together. This will cause a rightward (leftward) shift of demand curve of given commodity.

2

1

11. The law of variable proportion states that to increase production as more and more unit of a variable factor are applied with fixed factors, the proportion in which the factor of production are used, varies. The total and marginal physical product changes as shown in the diagram.

1

3

TPP increases at an increasing rate upto point 'A'. Then it increases at decreasing rate upto point 'C' beyond point 'C', it decreases.

1

MPP is increasing upto point 'B'. Then it decreases but is positive upto point 'D' beyond which it is negative.

1

12. An increase in demand of a commodity results in a rightward shift of demand curve as shown by dotted demand curve in the diagram.

2

The original equilibrium price is OP and equilibrium quantity is OQ. When demand curve shifts to right, the quantity demanded at OP price exceeds the quantity supplied by TR. This will result in competition among buyers. This will raise the price. At a higher price, quantity demanded will fall and quantity supplied will increase, resulting in upward movement along new demand curve and given supply curve. This reduces the gap between quantity demanded and quantity supplied. These changes continues till we reach the price OP_1 at which quantity demanded is equal to quantity supplied.

3

OP_1 is new equilibrium price which is higher than old equilibrium price. New equilibrium quantity is OQ_1 which is also higher than old equilibrium quantity.

1

SECTION 'B'

13. (i) Because repayment of loan reduces the liability. 1
(ii) It is the study of the economy as a whole. 1
(iii) Balance of trade is the difference between value of exports and imports of goods. 1
(iv) (i) Study of consumer's equilibrium
(ii) Study of price determination of a commodity etc. $\frac{1}{2} \times 2$
14. Gross value added at factor cost = (i) + [(iii) - (ii)] - (iv) + (vi) 1
= 500 + (20 - 30) - 300 + 40 $1\frac{1}{2}$
= Rs. 230 thousand $\frac{1}{2}$

15. In an economy when aggregate demand is less than the aggregate supply at full employment then this gap is called a deflationary gap. In such a situation, output and income start falling. 1

1

Explanation of Diagram 1

16. Revenue deficit is the excess of revenue expenditure ~~and~~ $MPC = 0.25$ revenue receipts. 1

Revenue deficit means spending beyond the means. This will result in borrowing. Loans are paid back with interest. So in future on account of interest payment, the revenue expenditure will increase. Hence there is a possibility of greater revenue deficit in future unless revenue expenditure on other heads is reduced or revenue receipts are increased.

2

17.	Level of income (Rs.)	Consumption Exp. (Rs.)	MPC	MPS	
	400	240	—	—	
	500	320	$\frac{\Delta c}{\Delta Y} = \frac{80}{100} = 0.8$		
	600	395	$\frac{\Delta c}{\Delta Y} = \frac{75}{100} = 0.75$		
	700	465	$\frac{\Delta c}{\Delta Y} = \frac{70}{100} = 0.7$		$\frac{1}{2} \times 6$

18. Main functions of a central bank are :
- (i) Currency authority or Bank of issue
 - (ii) Banker to the Government
 - (iii) Controller of money supply and credit
 - (iv) Lender of the last resort. etc.
- (Only four) 1×4
19. Visible items refer to items relating to trading in goods with other countries. Invisible items refer to items relating to trading of services with other countries and unilateral transfers. 3
- Two examples of invisible items are :
- (1) Transport services
 - (2) Insurance and banking etc.
- (Any two) ½×2
- OR**
- The rate at which one currency is exchanged for another currency. 1
- The three reasons are –
- (1) To import from other countries
 - (2) To send a gift abroad
 - (3) To purchase financial assets abroad, etc.
- (Any three) 1×3
20. Main functions of a commercial bank are :
- (i) Accepting Deposits
 - (ii) Giving loans
 - (iii) Discounting Bills of Exchange
 - (iv) Acts as an agent of its customers, collecting and making payments on their behalf.
- Any two ½×2
- Explanation 1½×2
21. (i) Revenue receipts are receipts that neither create a liability nor reduce an asset whereas capital receipt either create a liability or reduce an asset. 2
- (ii) When the liability to pay and the burden of a tax falls on the same person, it is a direct tax. When the burden of a tax can be shifted to some other person, it is an indirect tax. 2
22. (a) Personal disposable income = (i) – (v) – (x) – (ix) 1
- = 3000 – 600 – 350 – 300 1½
- = Rs. 1750 crores ½

(b) National Income = (ii) + (iii) + (vi) + (vii) + (xiii) + (iv) 1
= 800 + 900 + 350 + 600 + 450 - 50 1½
= Rs. 3050 crores ½

23. The working of the multiplier is based on the fact that one person's expenditure is other person's income. Suppose investment increases by Rs. 100 crores and mpc in the economy is 0.8. So mps = 0.2

How increase in investment affect income is shown in the following table

Rounds	ΔI			
I	100	100		
II		100×0.8	100×0.8	100×0.2
III		$100 \times 0.8 \times 0.8$	$100 \times 0.8 \times 0.8$	$100 \times 0.8 \times 0.2$
IV		$100 \times 0.8 \times 0.8 \times 0.8$	$100 \times 0.8 \times 0.8 \times 0.8$	$100 \times 0.8 \times 0.8 \times 0.2$
		-		
		-		
		-		
		-		

$$\sum \Delta Y = 100 \times \frac{11}{1-0.8} = 500$$

In the 1st round expenditure ΔI increases by Rs. 100 crores so income increases by Rs. 100 Crores. In second round, out of increased income of 100, 100×0.8 is spent on consumption, so consumption expenditure increases by 100×0.8 . As soon as consumption expenditure increases by 100×0.8 , income increases by same amount. This process continues till the effect of is over if we add the column showing we get 3

So total increase in increase will be Rs. 500 crores & investment multiplier is $\frac{500}{100} = 5$ 2

(If numerical example is given and explained not in a tabular form, it be treated as correct) 1

OR

Excess of planned savings over planned investment means that the expenditure in the economy is less than what the producers had expected. This would result in undesired or unplanned build up of unsold stock. To correct this situation producers will produce less. This will reduce level of output and income. Fall in income will result in fall in saving. These changes will continue till income fall to a level at which savings equal investment. 6

24. (a) Total production within the domestic territory is called domestic product whereas total production by the resident of a country is called national product. 2
Examples $\frac{1}{2} \times 2$
- (b) A product which is purchased by one production unit from another for resale is called intermediate product whereas a product purchased for investment or for consumption is called a final product. 2
Examples $\frac{1}{2} \times 2$

QUESTION PAPER CODE 58/1

EXPECTED ANSWERS/VALUE POINTS

SECTION 'A'

1. (i) It is a technological relationship between physical inputs and physical output. 1
(ii) The level of output at which producer earns maximum profit. 1
(iii) Rise in price. 1
(iv) Perfect competition. 1
2. Law of demand states that there is an inverse relationship between the price and quantity demanded of a good, other things remaining the same. 1
- | <u>Price(Rs.)</u> | <u>Quantity demanded(Units)</u> | |
|-------------------|---------------------------------|---|
| 5 | 20 | 1 |
| 4 | 25 | |
| 3 | 30 | |
- The above schedule shows that as price falls quantity demanded rises. 1
3. The three causes of increase in supply of a commodity are:
(i) Improvement in technology
(ii) Decrease in prices of other goods
(iii) Fall in prices of inputs.
(iv) Fall in excise tax rate
(Any three) 1×3
4. When marginal revenue is less than average revenue, average revenue falls. 1
When marginal revenue is equal to average revenue, average revenue is constant. 1
When marginal revenue is greater than average revenue, average revenue rises. 1
5. Main features of a monopoly market are :
(i) There is a single seller
(ii) There is no close substitute of the product
(iii) No freedom of entry of new firms 1×3

6.	<u>Output</u> (Units)	<u>TC</u> (Rs)	<u>TFC</u> (Rs)	<u>TVC</u> (Rs)	<u>AVC</u> (Rs)	<u>MC</u> (Rs)	
	0	80	80	—	—	—	
	1	180	80	100	<u>100</u>	<u>100</u>	
	2	270	80	190	<u>95</u>	<u>90</u>	
	3	350	80	270	<u>90</u>	<u>80</u>	
	4	440	80	360	<u>90</u>	<u>90</u>	½×8

7. $P_0 = 50$ $Q_0 = 1000$ $P_1 = 45$ (after 10% fall in P_0) $Q_1 = 1080$ $\Delta P = -5$
 $\Delta Q = 80$

1

$$= \frac{80}{-5} \times \frac{50}{1000}$$

1½

$$= (-) 0.8$$

½

Yes, because . 1

8. It is a measure of the degree of responsiveness of supply of a good to a change in its price:

$$e_{dd} = \frac{\Delta Q}{Q_0} \times \frac{P_0}{P_0}$$

When the supply curve passes through the origin, $e_s = 1$

When the supply curve intersects the OX-axis in its positive range, $e_s < 1$

When the supply curve intersects the OY-axis in its positive range, $e_s > 1$ 1×3

9. This problem relates to choosing the technique of production for producing goods. Generally, most goods can be produced by using more than one techniques. More labour and less capital can be used or more capital and less labour can be used. Since the resources are scarce a decision is to be taken as to which technique to be used. For example, cloth can be produced with labour intensive technique. as well as capital intensive technique Which technique to choose is the problem of how to produce. 4

OR

Since resources are limited and wants are unlimited, all goods and services desired cannot be produced. If more resources are used for producing one good then less resources are left for producing other goods. This is the problem of what to produce. 1½

1

PP₁ is the production possibility curve. All the points on this curve represent all possible combinations of goods A & B that can be produced with given resources. Which point or which combination of A & B to choose is the problem of what to produce.

1½

10. Suppose the consumer buys commodity A whose price is Rs 5 per unit and utility of a rupee for him is 1 util (util is unit in which utility is measured) and the utility from unit of A is shown in the marginal utility schedule given below.

1

<u>Units consumed of A</u>	<u>Total Utility</u> (Utils)	<u>Marginal Utility</u> (Utils)
1	7	7
2	13	6
3	18	5
4	22	4

2

For each unit of A the consumer has to pay Rs.5 (= 5 utils). He will buy 3 units because at three units MU equals price. It means that what he gives is just equal to what he receives from the last unit consumed. For 1st & 2nd units he gets more than what he gives. Beyond three, i.e. 4th unit, he loses because he sacrifices 5 utils and gets only 4. hence he will buy only 3 units and will be in equilibrium because there would be no tendency to buy more or less.

3

OR

Factors that shift the demand curve to the right i.e. increase in demand are:

- (i) Increase in income (normal good)
- (ii) Rise in price of substitute good
- (iii) Favourable change in taste etc.

Any three 1×3
Explanation 1×3

11. Returns to a factor means the change in physical output by increasing only one physical input, keeping other inputs constant.
- On the other hand, returns to scale means change in physical output by changing all physical inputs simultaneously and in the same proportion. 4
- In the beginning as we start employing variable input, the quantity of the variable input is too small to use fixed inputs efficiently. As we employ more and more units of the variable factor, the fixed inputs are efficiently utilized and there is increasing returns to the variable input. 2
- 12.
- 2
- Dotted supply curve shows increase in supply. OP is the given equilibrium price and OQ is the equilibrium quantity. When SS curve shifts to right due to increase in supply, it shows that at OP price now quantity supplied is OQ_2 which is greater than demand by QQ_2 . 1
- This excess supply results in competition among the sellers leading to fall in the price. A fall in price results in rise in quantity demanded (a downward movement along the new demand curve) and fall in quantity supplied (a downward movement along new supply curve). These changes continue till we reach price OP_1 . This is new eq. price at which quantity demanded & supplied are equal ($=OQ_1$). Hence equilibrium price has fallen from OP to OP_1 and equilibrium quantity has increased from OQ to OQ_1 . 3
- SECTION 'B'**
13. (i) The branch of economics that studies a single unit of the economic system. 1
- (ii) Study of general price level; study of level of national income and output etc. (any two) 1
- (iii) Because the borrowings create a liability. 1
- (iv) It is a summary statement of transactions in foreign exchange in a year. 1

14. When in an economy aggregate demand is equal to aggregate supply, then the level of income and output is called equilibrium level.

2

OY_1 is the equilibrium level of income because at this level aggregate demand = TY_1 and aggregate supply = OY_1 and $OY_1 = TY_1$.

1

Alternatively (OR)

2

Eq. level of income means that level at which savings and investment are equal. No tendency for income to change. OY_1 is eq. level of income. Savings = Investment = TY_1 .

1

15. Net value added at mp = (i) + (ii) – (iii) – (iv)
 $= 700 + 40 - 80 - 400$
 $= \text{Rs. } 260 \text{ thousand}$

1
 $1\frac{1}{2}$
 $\frac{1}{2}$

16. Any expenditure that either creates an asset or reduces a liability is categorised as capital expenditure. Any expenditure that neither creates an asset nor reduces a liability is called revenue expenditure.

2

Example of Cap. Exp. : Construction of factory etc.

$\frac{1}{2}$

Rev. Exp. : Payment of salaries etc.

$\frac{1}{2}$

17.	Income (Rs.)	Consumption Expenditure (Rs.)	MPC	MPS (1-MPC)	
	1000	900	—	—	
	1200	1060	$\frac{\Delta c}{\Delta Y} = \frac{160}{200} = 0.08$		
	1400	1210	$\frac{\Delta c}{\Delta Y} = \frac{150}{200} = 0.75$		
	1600	1350	$\frac{\Delta c}{\Delta Y} = \frac{140}{200} = 0.70$		½×6

18. Main functions of a central bank are :

- (i) Currency authority or Bank of issue
- (ii) Banker to the Government
- (iii) Controller of money supply and credit
- (iv) Lender of the last resort, etc.

(Any Three)

1×3

~~1 - 0.75 = 0.25~~ Describing any one

1

19. Fiscal deficit is the excess of total expenditure of the government over its total receipts (excluding borrowing).

1

The fiscal deficit is financed by borrowing. Borrowing results in payment of interest and repayment of loans in future. This creates additional burden and may result in larger deficits in future because payment of interest and repayment of loans may mean more borrowing and more problems.

3

20. Four items of current account :

- (i) Exports of goods
- (ii) Imports of goods
- (iii) Unilateral transfers
- (iv) Exports of services, etc.

½×4

Capital account :

- (i) Foreign direct investment
- (ii) Portfolio investment
- (iii) Foreign borrowing.
- (iv) Non-resident deposits, etc. (Any four)

½×4

OR

Sources of demand for foreign exchange : (i) Importers
 (ii) Sending gifts abroad
 (iii) Investment abroad
 (iv) Tourists going abroad etc. ½×4

Source of supply of foreign exchange : (i) Exports
 (ii) Foreign tourists
 (iii) Remittances from abroad
 (iv) Foreign investments, etc. ½×4

21. (i) Accepting deposits
 (ii) Giving loans
 (iii) Discounting bills of exchange
 (iv) Providing agency services to customers ,etc.
(Any four) ½×4
Brief Explanation ½×4

22. (a) GDP (fc) is the value of final products produced by the production units located within domestic (economic) territory reduced by net indirect taxes, while NNP(mp) is the value of final products produced by the residents of a country and reduced by the consumption of fixed capital. 3

(b) National income is the sum total of factor incomes earned by the residents of a country during a year, while Net-National Disposable Income is the sum total of earned incomes and transfer incomes reduced by the consumption of Fixed capital accruing to the residents of a country during a given year. 3

23. Suppose investment increases by Rs. 100 crores and in MPC=0.8 The effect of investment on income can be explained with the help of investment Multiplier. The working of multiplier is shown in the following table :

Rounds	ΔI					
1	100	→	100	→	100 × .8 = 80	100 × .2 = 20
2			80	←	80 × .8 = 64	80 × .2 = 16
3			64	←	64 × .8 = 51.2	64 × .2 = 12.8
.
.

3

Explanation 2

Income increases (total increase) by Rs.500 crores ie 5 times of increase in investment.

1

(If the working of the multiplier is explained numerically but without the use of table, marks may be awarded)

OR

3

OY_1 is the equilibrium level of income at which planned savings and investment are equal.

If planned savings are greater than planned investment then there would be increase in inventories. As a result the producers will reduce production. Income will fall, savings will fall. These changes continue till savings are again equal to investment. This is shown in the diagram at OY_2 level of output. This is not equilibrium level because planned savings > planned investment. So output & income start falling and reach OY_1 level.

2

Similarly at OY_3 level of income planned savings are less than planned investments. So inventories deplete. Producers produce more, level of income and savings rise and again reach equilibrium level of income OY_1 .

1

24. (a) National Income = (i) + (ii) + (iii) + (v) + (vii) + (ix) 1
= 1200 + 400 + 800 + 1000 + (-50) + 250 1½
= Rs. 3600 crores ½
- (b) Personal disposable Income = (vi) - (viii) - (xiii) - (xii) 1
= 3600 - 200 - 100 - 150 1½
= Rs. 3150 crores ½