DELHI PUBLIC SCHOOL :: SURAT

ANSWER KEY ECONOMICS

<u>Section- A</u>

1. What does give concave shape to the PPC? **(1)**

Ans. Increasing MOC gives concave shape to the PPC.

2. Define indifference curve. **(1)**

Ans. An IC shows different combinations of goods that yield the same level of utility to the consumer.

3. What do you mean by excess supply? **(1)**

Ans. When at a given price, the quantity supplied of a product exceeds its quantity demanded, there is excess supply for a product.

4. Give the meaning of elastic demand. **(1)**

Ans. When percentage change in demand is more than percentage change in price,then the demand is said to be elastic.

5. What is meant by marginal revenue in economics? **(1)**

Ans. It refers to the addition to TR when one more unit of a commodity is sold.

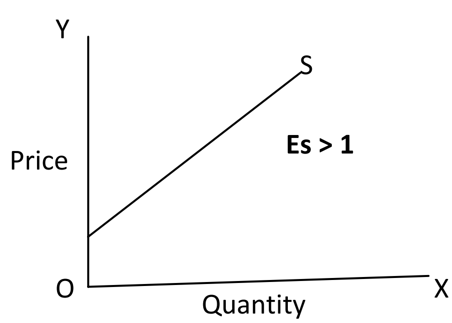
6. Distinguish between increase in quantity demanded and increase in demand. **(3)**

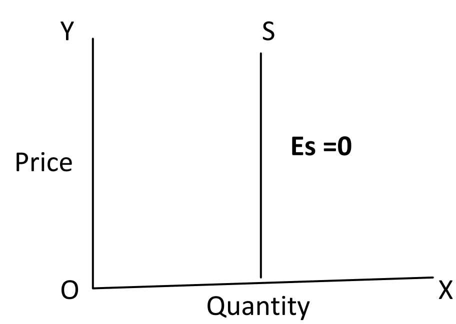
Ans. Increase in quantity demanded: When demand increases with the fall in price, other factors remaining constant.

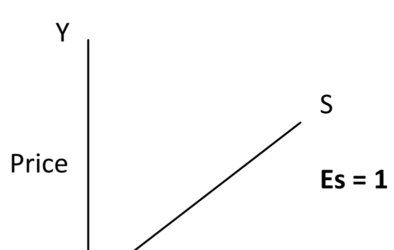
Increase in demand:When at a given price demand for a commodity increases due to change factors affecting demand.

7. Draw the diagrams for the following: **(3)**

i) Elastic supply ii) Perfectly inelastic supply iii) Unitary elastic supply.







8. Explain the problem of 'how to produce' with an example. **(3)**

Ans. This is related to the choice of technique of production. Every economy faces the problem of as how resources should be combined for the production of a given commodity. Depending upon the abundance of a particular resource,an economy may choose between labour intensive and capital intensive techniques.

OR

Briefly explain marginal opportunity cost with an example.

Ans.

9. Mention the properties of indifference curves. **(3)**

Ans. i. IC is downward sloping to the right

ii. IC is convex to the origin

iii. Higher IC gives higher level of satisfaction.

10. Briefly discuss the main features of monopolistic competitive market. **(3)**

Ans. i. Large number of buyers and sellers

ii. Product differentiation

iii. Selling cost.

11. Price of a commodity falls from Rs. 4 to Rs. 3 per unit. As a result total expenditure on it rises from Rs. 200 to Rs. 300. Find out price elasticity of demand by percentage method. **(4)**

Ans. Ed= Percentage change in demand / Percentage change in price

= 3Ans.

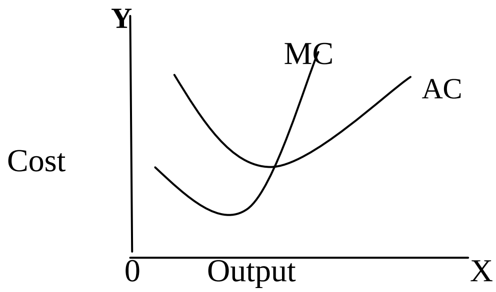
12. Given that total fixed cost is Rs. 30, calculate (i) MC (ii) TC from the following: **(4)**

Output (units)	0	1	2	3
TVC (Rs.)	0	20	50	100
MC	-	20	30	50
TC	30	50	80	130

OR

Explain the relationship between Average Cost and Marginal Cost with the help of a diagram.

Ans.



i. When MC<AC, then AC falls
ii. When MC=AC, then AC is minimum
iii. When MC>AC, then AC rises.

13. The following table shows the total revenue and total cost schedules of a competitive firm. Calculate the profit at each level of output. Determine the producer's equilibrium with diagram. **(4)**

Output (in units)	Total Revenue (Rs.)	Total Cost (Rs.)	Profit (Rs.)
3	30	20	10
4	40	26	14
5	**50**	**33**	**17**
6	60	44	16
7	70	56	14

14. Explain the law of variable proportions with the help of a diagram. Give the causes of increasing returns to a factor. **(6)**

Ans. The law of variable proportions states that if we go on using more and more units of a variable factor with a fixed factor,the total product increases at an increasing rate in the beginning,then increases at a diminishing after a level of output and ultimately it falls.

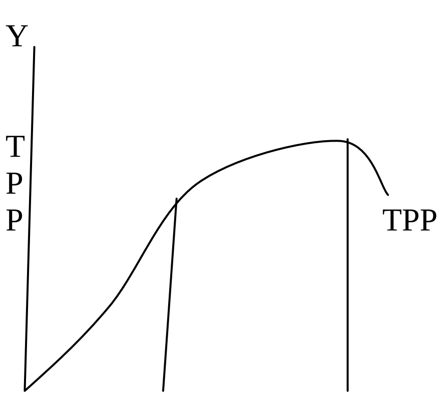


Diagram shows that there are three phases of the law Of variable proportions. In the phase I, TPP increases At an increasing rate. In phase II , increases at decreasing rate. In phase III, TPP start falling.

IStage II Stage III Stage

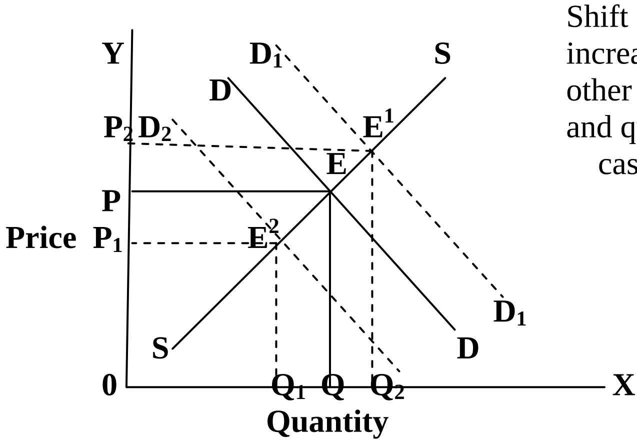
0 Units of Labour X

Causes of increasing returns to a factor: i. Optimum use of fixed factor ii. Specialisation.

15. How are equilibrium price and quantity affected when income of the consumer changes. Explain with diagrams. **(6)**

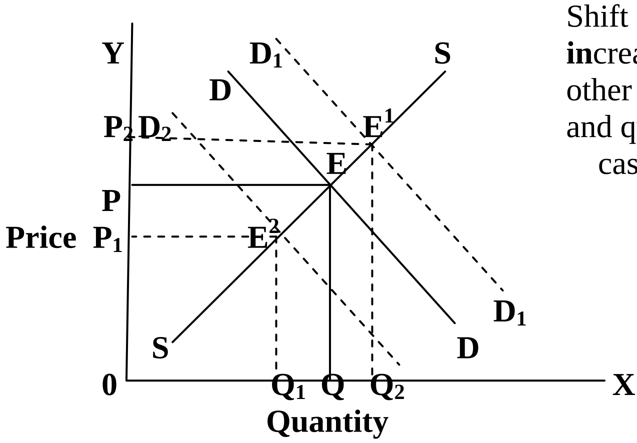
Ans. There are two types of commodities related to income:

(i) Normal goods: These have positive relation with income. When Income of the consumers increase demand increases and vice-versa.The effect is shown in the diagram;



Shift of demand curve from DD to D1D1 implies increase in demand due to increase in income other factors remaining same. Here Equ. Price and quantity both increases and opposite in D2D2 case.

(ii) Inferior goods: These goods have inverse relation with income. The effect on equ. Price and quantity is shown in the following diagram:



Shift of demand curve from DD to D2D1 implies **in**crease in demand due to decrease in income other factors remaining same. Here Equ. Price and quantity both increases and opposite in D2D2 case.

16. What is consumer’s equilibrium? How does a consumer attain equilibrium in case of two commodities under the cardinal utility theory? **(6)**

Ans. A consumer is in equilibrium when he maximize his satisfaction with his given income. Suppose a consumer wants to spend 6 units of money upon X and Y good. If he spend 4 units of money on X good and 2 units of money upon Y good. He will be in equilibrium. He will get maximum satisfaction and MU for both the goods is equal. It is shown through following schedule. Suppose Px = Py = Re 1 per unit. Therefore, consumer will be in equilibrium when MUx = MUy.

Units of money	**MUx**	**MUy**
1	(1)32	(3)24
2	(2)28	(5)**20**
3	(4)24	16
4	(6)**20**	12
5	16	8
6	12	4

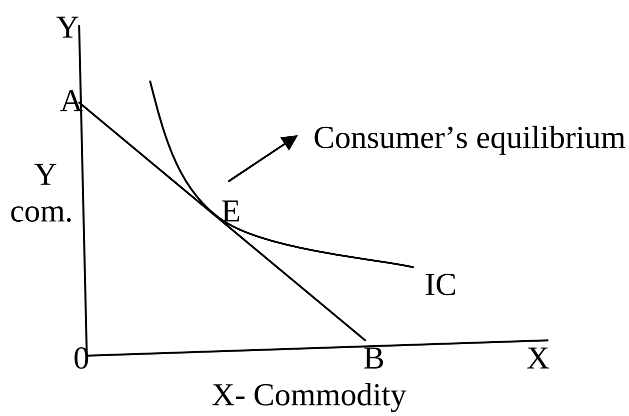
OR

Define budget line. Explain the derivation of consumer's equilibrium through budget line and indifference curve.

Ans.Budget lines shows all the different combinations of the two goods that a consumer can purchase given his money income and the price of two commodities.

Derivation of consumer's equilibrium through budget line and indifference curve: according to this approach , a consumer will be in equilibrium when the following two conditions are fulfilled:

i. Price line should be tangent to indifference curve.
ii. IC should be convex to the point of origin.



Section- B

17. What do you mean by barter system of exchange? **(1)**

Ans. It refers to the system in which goods are exchanged for goods without the use of money.

18. A government budget shows a primary deficit of Rs. 4,400 crores. The revenue expenditure on interest payment is Rs. 400 crores. How much is the fiscal deficit? **(1)**

Ans. Fiscal deficit= Primary deficit-Interest payment
= 4,400-400= 4,000crores.

19. Define investment multiplier. **(1)**
Ans. It is a measure of change in national income as a result of change in investment.

20. Differentiate between direct tax and indirect tax with example. **(1)**

Ans. Direct tax is paid by the person on whom it is imposed. Example, Income tax. Indirect tax is imposed on some person or institution but paid by someone else. Example, Sales tax.

21. What is bank rate? **(1)**

Ans. It is the rate at which central bank lends funds to banks, against approved securities or bills of exchange.

22. Calculate gross fixed capital formation from the following data: **(3)**

	Items	***(Rs crores)***
(i)	Gross domestic product at market price	2,500
(ii)	Opening stock	300
(iii)	Closing stock	200
(iv)	Private final consumption expenditure	1,000
(v)	Government final consumption expenditure	500
(vi)	Net exports	(-) 50
(vii)	Net factor income from abroad	20

23. Explain how foreign exchange rate is determined in a foreign exchange market? Use diagram. **(3)**
Ans. It is determined at that point where demand for foreign exchange is equal to supply of foreign exchange.

24. How does money solve the problem of double coincidence of wants? **(3)**

Ans. In the absence of money, goods were exchanged for goods. This required double coincidence of wants. Accordingly, exchange was difficult, and therefore limited. Introduction of money has separated the acts of sale and purchase : double coincidence of wants is no longer required. Exchange is now much simpler, and is therefore unlimited.

25. Discuss the meaning and implications of revenue deficit. **(3)**
Ans. Revenue deficit is the excess of revenue expenditure over revenue receipts. High revenue deficit gives a warning to the government either to cut its expenditure or increase its tax/ non-tax receipts.

26. Distinguish between commercial bank and central bank. **(3)**

Ans.

Basis	Central Bank	Commercial bank

Management	By the government	Privately
Note issue	Monopoly right	It can not issue
Banker	To the government	To the public

OR

Explain the open market operations method of credit control used by a Central Bank.

Ans. OMO refer to the sale and purchase of securities in the securities in the open market by the central bank. By selling the securities ,the central bank withdraws cash balances from the economy. And by buying the securities , the central bank adds to cash balances in the economy.

27. Distinguish between current account and capital account of balance of payments. Give two examples of each. **(4)**

Ans.Current account: It is that account which records imports and exports of goods and services and unilateral transfers.eg. import of wheat,gifts etc.

Capital account: It is that account which records all such transactions which cause a change in the asset or liability status of the residents of a country or its government. Eg. Foreign direct investment, borrowing etc.

28. Briefly explain revenue receipts and capital receipts of a government budget with examples. **(4)**

Ans. Revenue receipts: These are those receipts which do not create either a liability or lead to reduction in assets. For example receipts from tax revenue.

Capital receipts: These are those receipts which either create a liability or lead to reduction in assets. For example disinvestment.

OR

Briefly explain revenue expenditure and capital expenditure of a government budget with examples.

Ans. Revenue expenditure: It refers to estimated expenditure of the government in a fiscal year which does not either create assets or cause a reduction in liability.For example old age pension or scholarships etc.

Capital expenditure: It refers to estimated expenditure of the government in a fiscal year which either create assets or cause a reduction in liability.For example purchase of shares or expenditure on land and building etc.

29. The consumption function is C=20+0.9Y . The value of income (in Rs.) is given as 100,200,280,350 and 410. Find out MPC at each level of income. **(4)**

Income (Rs.)	Consumption(Rs.)	MPC
100	C=20+0.9.100= 110	-
200	C=20+0.9.200= 200	0.90
280	C=20+0.9.280 = 272	0.97
350	C=20+0.9.350= 325	0.93

410	C=20+0.9.410= 470	0.95

30. Explain the problem of double counting in the estimation of national income with the help of an example. State two methods to avoid it. **(6)**

Ans. It is the problem of estimating the value of goods and services more than once. For example, a farmer produces one tone of wheat and sell it for Rs. 400 in the market to a flour mill. As far as farmer is concern the farmer is concerned ,the sale of wheat is a final sale and he gets Rs 400 for it. If he does not have to incur any expenditure on the cultivation of wheat Rs400 becomes the value of his contribution or value added by him. The purchase of wheat by the flour mill is an intermediate good. It converts wheat into flour and sells it for Rs 600 to a baker. The flour mill treats the flour as a final product, but the baker uses it as an intermediate good and manufactures bread. The baker sells the bread to the shopkeeper for Rs 800. For the baker , the bread is a final good but, for the shopkeeper, it is an intermediate good . the shopkeeper sells the entire stock of bread to the final consumers for Rs 900. Thus ,

Value of output= 400+600+800+900 = Rs.2,700

Two methods to avoid it: Final output method and value added method.

OR

Explain the term of operating surplus and its components. Giving reasons state whether the following are treated as compensation of employees:

(i) Gift by employers (ii) Bonus

Ans. It is the sum of income from property and entreneurship. It arises from household enterprises, corporate and quasi corporate enterprises and govt. enterprises. Main components are;

i. Income from property: Such an income accrue from ownership of financial assects such as shares, bonds etc. it is classified into following three parts:

a. Rent; From land and building and imputed rent from self occupied houses.

b. Interest: From financial assets like bank deposits, bills,etc.

c. Royalty: Payment made for the use of natural resourses and for granting rights for using patents,manuscripts,etc.

ii. Income from entrepreneurship: In the form of profit. Hovever profit ed into following three parts;

a.Dividend: Against equity and preference shares.

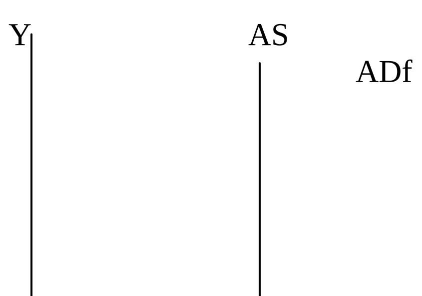
b. Corporation tax: Paid by companies for their profit.

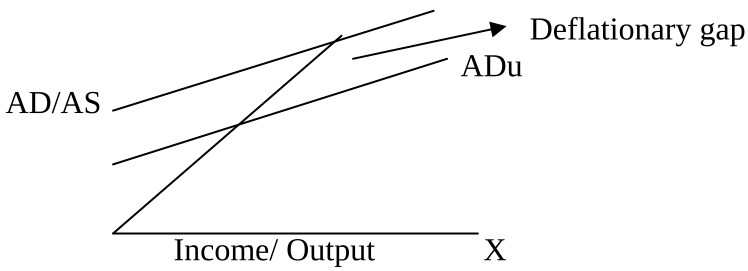
c. Retained earnings: A position of profit kept as reserves to meet unnecessary contingencies or for further expansion.

iii. Mixed income: It is the income generated by unincorporated enterprises owned by the members of household either individually or in partnership.

31. Explain deflationary gap with the help of a diagram. Mention four fiscal measures to correct it. **(6)**

Ans. It is the shortfall in AD from the level required to maintain full employment equilibrium in the economy.





Four fiscal measures to correct it:

i. Increase in govt. expenditure

ii. Decrease in taxes

iii. Decrease in public borrowing

iv. Deficit financing.