ECONOMICS

Time allowed : 3 hours ***Maximum marks: 100***

Note:

(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* ***14-1****7 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 :

(i) Why does an economic problem arise ?

(ii) Define opportunity cost.

(iii) What does a rightward shift of production possibility curve indicate ?

(iv) Define microeconomics. 1×4

2. Explain the effect of increase in income of the consumer on the demand for a good. 3

3. State three causes of increase in supply. 3

4. Explain the relation between marginal cost and average cost. 3

5. Explain producer's equilibrium with the help of a diagram. 3

For **Blind Candidates** only in lieu of Q. No. 5

Explain the meaning and conditions of producer's equilibrium.

6. A consumer buys 40 units of a good at a price of Rs. 3 per unit. When price rises to Rs. 4 per unit he buys 30 units. Calculate price elasticity of demand by the total expenditure method. 4

OR

A consumer buys 80 units of a good at a price of Rs. 5 per unit. Suppose price elasticity of demand is (-)2. At what price will he buy 64 units ?

7. Give meaning of: 4

(i) production function

(ii) Supply

(iii) revenue, and

(iv) cost

8. Calculate 'total variable cost' and 'total cost' from the following cost schedule of a firm whose fixed costs are Rs. 10. 4

Output (units) :	1	2	3	4
Marginal cost (Rs.):	6	5	4	6

9. At a given price there is excess demand for a good. Explain how the equilibrium price will be reached. Use diagram. 4

For **Blind Candidates** in lieu of Q. No. 9

What is meant by 'excess demand' for a good ? Explain the changes which will bring about equilibrium price.

10. Distinguish between :

(a) Individual demand and market demand.

(b) 'Change in demand' and 'change in quantity demanded' 6

11. State the phases of the law of variable proportions in terms of total physical product. Use diagram. 6

For **Blind Candidates** in lieu of Q. No. 11

State the phases of the law of variable proportions in terms of total physical product and marginal physical product.

12. Explain the following features of perfect competition : 6

(i) Large number of buyers and sellers

(ii) Homogeneous products

OR

Explain the following :

(i) 'Free entry and exit' feature of perfect competition,

(ii) 'Differentiated products' feature of monopolistic competition.

Section B

13. Answer the following questions : 1×4

(i) Define macroeconomics.

(ii) Give two examples of macroeconomic studies,

(iii) What does balance of payments account of a country record ?

(iv) Name the items included in balance of trade account.

14. Calculate 'private income' from the following data :

		(Rs. crores)	
(i)	National debt interest	30	
(ii)	Gross national product at market price	400	
(iii)	Current transfers from government	20	
(iv)	Net indirect taxes	40	
(v)	Net current transfers from the rest of the world	(-) 10	
(vi)	Net domestic product at factor cost accruing to government	50	
(vii)	Consumption of fixed capital	70	3

15. A Rs. 200 crore increase in investment leads to a rise in national income by Rs. 1000 crores. Find out marginal propensity to consume.

16. Give meanings of: 3

(i) involuntary unemployment

(ii) full employment, and

(iii) under employment equilibrium

17. Give three sources each of demand and supply of foreign exchange. 3

18. Give meaning of money. Explain the 'store of value' function of money. 4

OR

What is 'barter'? Explain 'standard of deferred payment' function of money.

19. Explain the'acceptance of deposits'function of commercial banks. 4

20. Distinguish between 'revenue receipt' and 'capital receipt' and give two examples of each. 4

21. What is 'fiscal deficit' ? What are its implications ? 4

22. Calculate national income and gross national disposable income from the following data:

		(Rs. crores)	
(i)	Current transfers by government	15	
(ii)	Private final consumption expenditure .	400	
(iii)	Net current transfers from the rest of the world	20	
(iv)	Government final consumption expenditure	100	
(v)	Net factor income from abroad	(-) 10	
(vi)	Net domestic capital formation	80	
(vii)	Consumption of fixed capital	50	
(viii)	Net exports	40	
(ix)	Net indirect taxes	60	4+2

23. Explain the production method of estimating national income. 6

OR

Explain the income method of estimating national income.

24. Explain the problem of 'excess demand' in an economy with the help of a diagram. Explain the role of bank rate in correcting it. 6

For **Blind Candidates** in lieu of Q. No. 24

Explain the meaning of'excess demand' and 'deficient demand' in an economy. Explain the role of bank rate in correcting excess demand.

QUESTION PAPER CODE 58/1

SECTION A

1. Answer the following questions : 1×4 = 4

(i) Give two reasons for the problem of choice.

(ii) Give one reason for a rightward shift of the Production Possibility Curve,

(iii) Give two examples of microeconomic studies.

(iv) What does the problem 'for whom to produce' refer to ?

2. Explain the effect of rise in the prices of related goods on the demand of a good. 3

3. State three causes of decrease in supply. 3

4. Explain the relation between marginal revenue and total revenue. 3

5. Draw straight line supply curves with price elasticity of supply equal to (i) one, (ii) less than one and (iii) more than one. 3

For Blind Candidates only in lieu of Q. No. 5

Distinguish between fixed cost and variable cost and give one example of each.

6. When price of a good falls by 10 percent, its quantity demanded rises from 40 units to 50 units. Calculate price elasticity of demand by the percentage method. 4

OR

A consumer buys 50 units of a good at a price of Rs. 10 per unit. When price falls to Rs. 5 per unit he buys 100 units. Find out price elasticity of demand by the 'Total Expenditure Method'.

7. Give meanings of (i) marginal physical product, (ii) marginal cost, (iii) marginal revenue and (iv) supply schedule. 4

8. Calculate Total Variable Cost and Marginal Cost from the following cost schedule of a firm whose Total Fixed Costs are Rs. 12 : 4

Output (Units)	Total Cost (Rs.)
1	20
2	26
3	31
4	38

9. How is the equilibrium price of a commodity affected by a leftward shift of the demand curve ? Explain with the help of a diagram. 4

For Blind Candidates only in lieu of Q. No. 9

How is the equilibrium price and quantity of a commodity affected by a decrease in its demand ?

10. Distinguish between the following : 6

(a) Normal good and Inferior good

(b) Marginal utility and Total utility

(c) Individual demand schedule and Market demand schedule

11. Identify the three phases of the Law of Variable Proportions from the following and also give reason behind each phase : 6

Units of Variable Input (Units)	Total Physical Product
1	10
2	22
3	30
4	35
5	30

12. Explain briefly the three features of perfect competition. 6

OR

Explain the features of monopoly market.

SECTION B

13. Answer the following questions : 1×4

(i) Define macroeconomics.

(ii) Give two examples of the study of aggregates of the economic system.

(iii) List two items of the capital account of balance of payments account.

(iv) What is the difference between the values of exports of goods and imports of goods called ?

14. Calculate Personal Income from the following data : 3

		(Rs. crores)
(i)	Undistributed profits of corporations	20
(ii)	Net domestic product accruing to the private sector	500
(iii)	Corporation tax	55
(iv)	Net factor income from abroad	(—) 10
(v)	Net current transfers from government	15
(vi)	National debt interest	40
(vii)	Net current transfers from the rest of the world	15

15. An increase in investment leads to total rise in national income by Rs. 500 crores. If Marginal Propensity to Consume is 0-9, what is the increase in investment ? Calculate. 3

16. Give meanings of (i) aggregate demand, (ii) aggregate supply and (iii) excess demand. 3

17. How is foreign exchange rate determined ? Use diagram. 3

For Blind Candidates only in lieu of Q. No. 17

What is foreign exchange market ? How is foreign exchange rate determined in this market ?

18. Give meaning of money supply,. State its components. 4

OR

Give meaning of money. Explain its 'medium of exchange' function.

19. Explain briefly the 'banker to the government' function of the central bank. 4

20. Distinguish between 'revenue expenditure' and 'capital expenditure'. Give two examples of each. 4

21. Distinguish between 'fiscal deficit' and 'revenue deficit'. What does fiscal deficit indicate ? 4

22. Calculate Gross National Product at Market Price and Net National Disposable Income from the following data :

		(Rs. crores)	
(i)	Current transfers from government	25	
(ii)	Compensation of employees	600	
(iii)	Net current transfers from the rest of the world	20	
(iv)	Rent	100	
(v)	Consumption of fixed capital	50	
(vi)	Interest	120	
(vii)	Net indirect tax	110	
(viii)	Profit	80	
(ix)	Mixed income of the self-employed	200	
(x)	Net factor income from abroad	(-) 10	4, 2

23. Explain the 'expenditure' method of estimating national income. 6

OR

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

(i) Gifts by employers

(ii) Bonus

24. What is 'deficient demand' in macroeconomics ? Show it on a diagram. Explain the role of open market operations in correcting it. 6

For Blind Candidates only in lieu of Q. No. 24

Distinguish between 'deficient demand' and 'excess demand' in macroeconomics. Explain the role of open market operations in correcting deficient demand.

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 ½ 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 : <u>In case of numerical question no mark is to be given if only the final answer is given</u>.

QUESTION PAPER CODE 58/1/1

EXPECTED ANSWERS/VALUE POINTS

Section – A

1. (i) Economic problem arises because of unlimited wants and scarcity of resources having alternative uses. 1

(ii) Opportunity cost is the value of the next best alternative foregone. 1

(iii) It indicates growth of resources. 1

<u>OR</u>

Advancement of technology.

(iv) A study of the single economic unit of the economic system / economy. 1

2. Explanation of the effect in case of normal good. 1½

Explanation of the effect in case of an inferior good. 1½

3. Cause of increase in supply :

(i) Technological improvements

(ii) Fall in prices of inputs

(iii) Fall in taxes on production.

(iv) Fall in prices of other goods

(v) Any other relevant cause.

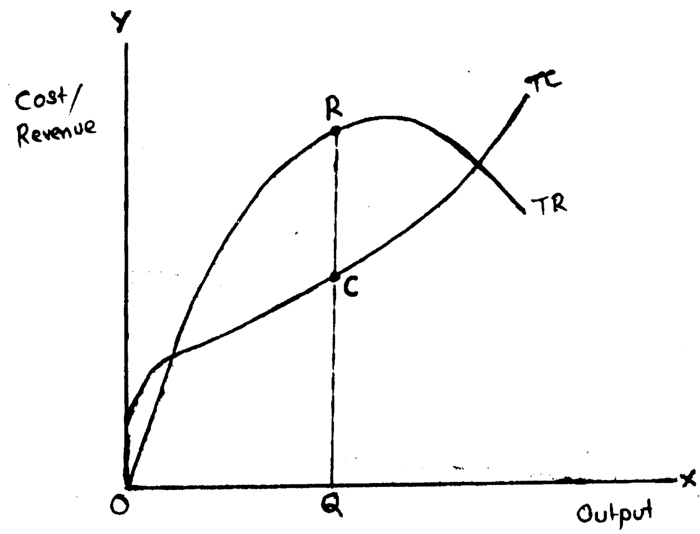
(any three) 1×3

4. When MC < AC : AC falls

When MC = AC : AC is constant

When MC > AC : AC rises 3

5.



1

Note : If the diagram is drawn with straight line TR curve, it may be treated as correct.

A producer is in equilibrium at that level of output at which the difference between Total Revenue and Total Cost is maximum.

In the diagram OQ is the equilibrium output at which total profit equals RC = RQ – CQ. 2

For Blind Candidates Only

Meaning of producer's equilibrium 1

Condition of equilibrium : Difference between TR and TC is maximum and it should be at a level of output beyond which profits fall. 2

6.

Price (Rs.)	demand (Units)	Total Expenditure (Rs.)
3	40	120
4	30	120

2

Since with change in price total expenditure remains the same, $E_p = 1$ 2

OR

$$E_P = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$ 1

$$-2 = \frac{5}{80} \times \frac{-16}{\Delta P}$$ 1½

$$-160 \Delta P = -80$$ ½

or $\Delta P = 0.50$

Price at which 64 units are bought $= P + \Delta P = 5 + 0.50 = \text{Rs. } 5.50$ 1

7. (i) Production function shows relation between physical inputs and the physical output . 1

(ii) Supply means the quantity of a good a producer is willing to supply at a price during a period of time. 1

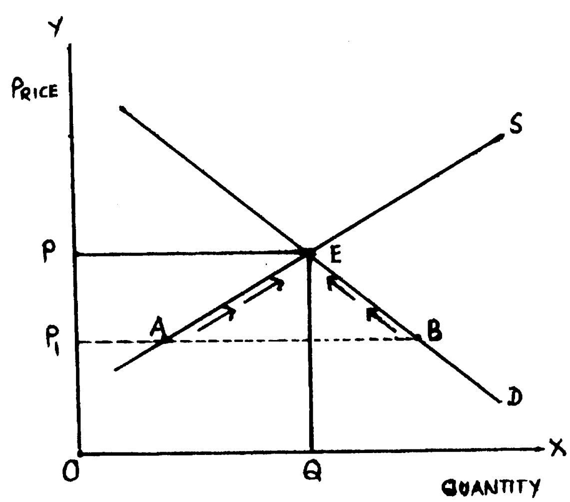
(iii) Revenue means receipts from the sale of output. 1

(iv) Cost means expenditure incurred on producing a good including the estimated value of the inputs supplied by the owner. 1

8.

Output (Units)	MC (Rs.)	TVC (Rs.)	TFC (Rs.)	TC (Rs.)	
1	6	6	10	16	
2	5	11	10	21	
3	4	15	10	25	
4	6	21	10	31	½×8

9.



1

In the diagram excess demand at price OP_1 is AB.

Since consumers will not be able to buy what all they want, they will offer a higher price. When price rises supply rises and demand falls.

These changes continue till price reaches a level at which quantity demanded equals quantity supplied. This price is OP. 3

<u>For Blind Candidates Only</u>

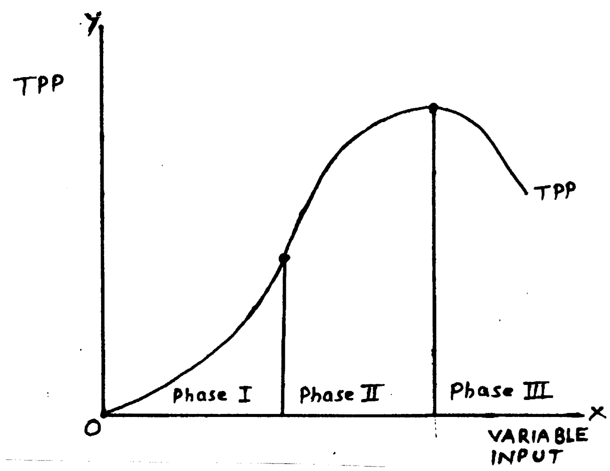
Meaning of excess demand 1

The answer is same as above except that diagram is not required. 3

10. (a) Quantity demanded of a commodity by a buyer at a given price during a given period is called <u>individual demand</u>. Quantity demanded of a commodity by all the buyers is called <u>market demand</u>. 3

(b) Change in demand due to change in own price of the given good is called <u>change in quantity demanded</u>. Change in demand of a good due to any factor other than the own price of the good is called '<u>change in demand</u>' 3

11.



3

Statement of three phases of law of variable proportion in terms of total physical product using the diagram. 3

For Blind Candidates Only

Statement of the three phases in terms of TPP 3

Statement of the three phases in terms of MPP 3

12. (i) Explanation 3

(ii) Explanation 3

OR

(i) Explanation 3

(ii) Explanation 3

SECTION - B

13. (i) Macro economics is a study of the aggregates of the economic system. 1

(ii) Study of aggregate demand, aggregagate supply, unemployment, inflation , etc. (any two) ½×2

(iii) BOP records transactions between residents of the given country and the residents of the foreign countries. 1

(iv) (a) Exports of goods (b) Imports of goods. 1

14. Pvt. Income = ii – vii – iv – vi + iii + v + i 1

= 400 – 70 – 40 – 50 + 20 + (-10) + 30 1½

= Rs 280 crores. ½

15. $\Delta Y = \Delta I \frac{1}{1 - MPC}$ 1

$1000 = \frac{200}{1 - MPC}$ 1½

$1000 - 1000\ MPC = 200$

$MPC = \frac{800}{1000} = 0.8$ ½

16. (i) Involuntary unemployment is a situation where all those who are able and willing to work at the going wage rate do not get work. 1

(ii) Full employment means a situation when all resources in an economy are fully utilized. 1

(iii) Under employment equilibrium means aggregate demand equals aggregate supply when resources are not fully employed. 1

17. Sources for demand for foreign exchange (any three) ½×3

Sources of supply of foreign exchange (any three) ½×3

18. Meaning of money 1

Explanation of the function 3

OR

Meaning of barter 1

Explanation of the function 3

19. Explanation of the function.

(To be marked as a whole) 4

20. The receipts which neither create any liability nor lead to any reduction in assets are called revenue receipts while the receipts which lead to either increase in liability or to reduction in assets are called capital receipts — 2

Examples (two each) — ½×4

21. Meaning of fiscal deficit — 2

Implications of fiscal deficit — 2

22. N. I. = ii + iv + vi + viii – ix + v — 1

= 400 + 100 + 80 + 40 – 60 + (-10) — 2½

= Rs. 550 crores — ½

GNDI = (N. I. + ix + vii) + iii — 1

= (550 + 60 + 50) + 20 — ½

= Rs. 680 crores. — ½

23. Steps of estimating national income in production method

(i) Classify the production units into industrial sectors. — 1

(ii) Estimate value added by each industrial sector : — 2

GVAmp = value of output – intermediale cost.

(iii) Take the sum of value added by all the industrial sectors to get GDPmp. — 1

(iv) Deduct consumption of fixed capital and net indirect tax to arrive at NDPfc. — 1

(v) Add. Net Factor Income from abroad to NDPfc to get NNPfc / national income. — 1

OR

Steps in income method.

(i) Classify the production units into industrial sectors. — 1

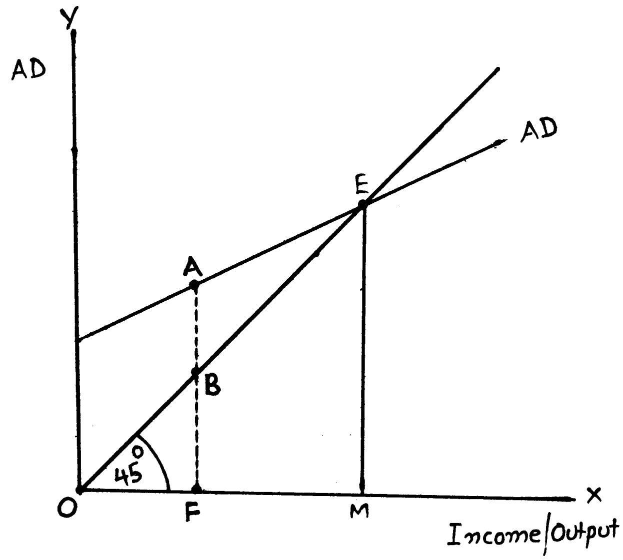
(ii) Estimate factor payments – COE, rent, interest and profit – by each industrial sector to arrive at NVAfc. — 2

(iii) Take the sum of NVAfc to arrive at NDPfc. — 2

(iv) Add. NFIA to NDPfc to get NNPfc / national income. — 1

24. Excess demand : AD greater than AS at full employment — 1

Excess demand = AB. at the full employment level OF.



2

Role of bank rate

Bank rate is the rate of interest charged by the central bank on lending to the commercial banks. To correct excess demand the central bank raises bank rate. This in turn leads to rise in rate of interest charged by the commercial banks. Rise in the lending rate reduces demand for borrowing for investment. Since investment is a component of AD, AD falls. 3

This ultimately wipes out excess demand.

For Blind Candidates Only

Excess of AD over AS at full employment level is called excess demand while the excess of AS over AD at full employment level is called deficient demand. 3

Role of bank rate 3

(on the above lines)

QUESTION PAPER CODE 58/1

EXPECTED ANSWERS/VALUE POINTS

Section – A

1. (i) Unlimited wants and scarce resources having alternative uses. 1

(ii) Growth of resources, etc. (any one) 1

(iii) Study of consumer's equilibrium, producer's equilibrium, etc. (any two) ½×2

(iv) It refers to the problem of distribution of income 1

2. Explanation of effect of rise in price of a substitute good. 1½

Explanation of effect of rise in price of a complementary good. 1½

3. (i) Rise in input prices

(ii) Rise in taxes on production

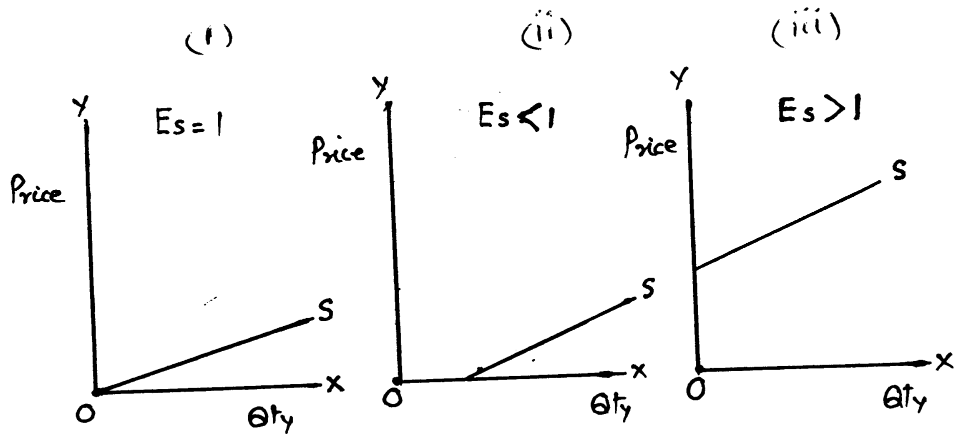
(iii) Rise in the prices of other products 1×3

4. (i) When MR is positive TR increases 1

(ii) When MR is zero TR is constant 1

(iii) When MR is negative TR decreases 1

5.



(No explanation required) 1×3

For Blind Candidates Only

Fixed cost : meaning and example. (one example) 1+½

Variable cost : meaning and example. (one example) 1+½

6. $$E_P = \frac{\%\text{ change in Qty. demanded}}{\%\text{ change in price}}$$ 1

$$= \frac{\frac{10}{40} \times 100}{-10}$$ 2½

$$= \frac{25}{-10} = -2.5$$ ½

OR

Price (Rs)	Demand (Units)	TE (Rs)	
10	50	500	
5	100	500	2

Since with change in price TE remains unchanged, $E_p = 1$ 2

7. (i) MPP means addition to TPP by using one more unit of variable input. 1

(ii) MC means addition to TVC or TC by producing one more unit of output. 1

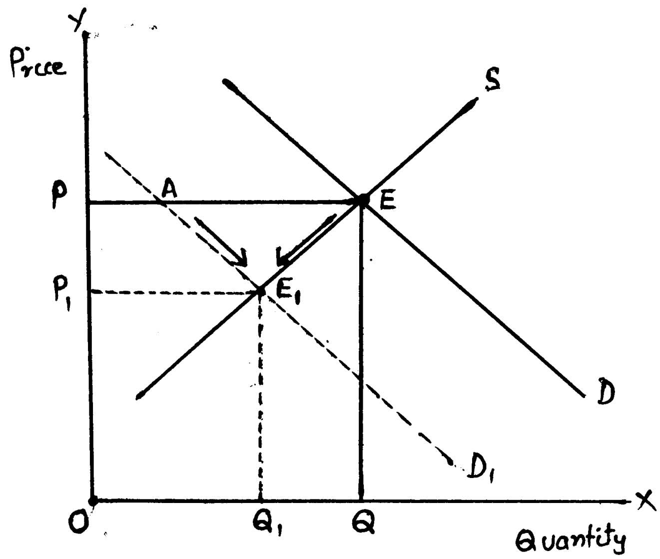
(iii) MR means addition to TR when one more unit of output is sold. 1

(iv) Supply schedule is a table showing quantities of a commodity a producer is willing to supply at different prices at a given point of time. 1

8.

Output (units)	TC (Rs)	TFC (Rs)	(TVC) Rs	MC (Rs)	
1	20	12	8	8	
2	26	12	14	6	
3	31	12	19	5	
4	38	12	26	7	½×8

9.



2

When demand curve shifts to the left, this leads to excess supply (A E) at price OP. The producers unable to sell all they produce, lower the price. The lower price leads to fall in supply and rise in demand. These changes continue till the price reaches OP_1 where the market is once again in equilibrium with both demand and supply equal to OQ_1 2

For Blind Candidates Only

When at the given equilibrium price the demand of commodity decreases, it results in excess supply. Excess supply results in competition among sellers causing a fall in price. A fall in price results in fall in supply and rise in demand. These changes continue till price falls to a level at which quantity demanded and supplied are equal. This new equilibrium price is lower than the earlier price and the equilibrium quantity will also be lower than the earlier equilibrium quantity. 4

10. (a) When the increase / decrease in income of a buyer of a commodity results in increase / decrease in its demand, it is called a normal commodity and if it results in decrease / increase in demand it is called an inferior commodity. 2

(b) Marginal utility is the addition to total utility when one more unit of a commodity is consumed whereas total utility is the sum of the utilities derived from all the units of a commodity consumed. 2

(c) Individual demand schedule is a table showing the quantities of a commodity demanded by a consumer at different prices at a given time whereas market demand schedule is a table showing the quantity demanded by all consumers of a commodity at different prices at a given time. 2

11.

Units of variable input	TPP (units)	MPP units	Phases	
1	10	10	TPP rises at increasing rate	Phase I
2	22	12	MPP rises	
3	30	8	TPP rises at decreasing rate	Phase II
4	35	5	MPP falls but is Positive	
5	30	- 5	TPP falls. MPP is negative.	Phase III

Identification of phases 3

Reasons 1×3

12. Statement of Features 1×3

Explanation of Features 1×3

Or

Statement of Features 1×3

Explanation of Features 1×3

SECTION – B

13. (i) Macro economics is the study of aggregates of an economy. 1

(ii) National Income, Unemployment, inflation etc (any two) ½×2

(iii) Direct foreign investment and borrowings etc. (any two) ½×2

(iv) Balance of trade 1

14. P. I = ii + iv + v + vi + vii – i – iii 1

= 500 + (-10) + 15 + 40 + 15 – 20 – 55 1½

= Rs 485 crores ½

15. $\Delta Y = \Delta I \frac{1}{1-MPC}$ 1

$500 = \Delta I \frac{1}{1-0.9} = 10\Delta I$ 1½

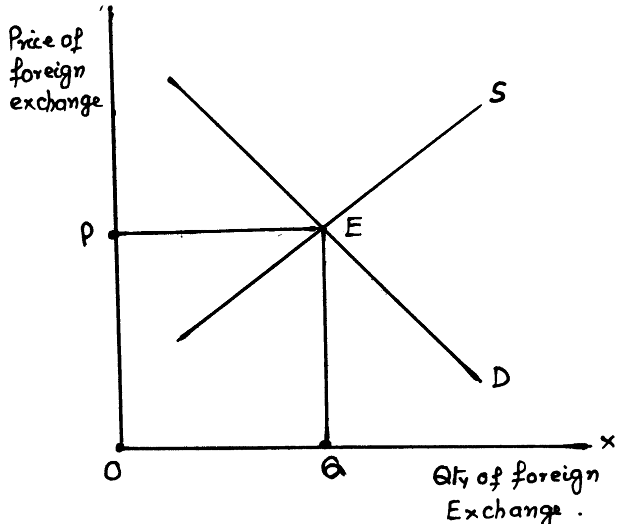
$\Delta I =$ Rs. 50 crores ½

16. (i) Meaning of aggregate demand 1

(ii) Meaning of aggregate supply 1

(iii) Meaning of excess demand 1

17.



1

Explanation with the help of diagram 2

For Blind Candidates Only

Meaning of Foreign exchange market 1

Explanation of determination of Foreign exchange rate 2

18. **Meaning :** Total stock of money in an economy at a particular point of time 1

Components : (1) Currency held by public

(2) Demand deposits with banks

(3) Other deposits with central bank. 1×3

OR

Meaning of money : 1

Explanation of the medium of exchange function 3

19. Undertakes banking business of government : receipts, payments, foreign exchange transactions, credit to the govt, borrowing money on behalf of govt, managing public debt, etc

(A brief explanation of these points)

(To be marked as a whole) 4

20. Revenue expenditure is the expenditure that neither creates an asset nor reduces a liability whereas capital expenditure either creates an asset or reduces a liability. 2

Examples ½×4

21. Fiscal deficit is the excess of total expenditure over total receipts excluding borrowings and revenue deficit is the excess of revenue expenditure over revenue receipts 3

Explanation of what fiscal deficit indicates. 1

22. GNP_{mp} = ii + iv + vi + viii + ix + v + vii + x 1

= 600 + 100 + 120 + 80 + 200 + 50 + 110 + (-10) 2½

= Rs 1250 crores ½

NNDI = GNP_{mp} – v + iii ½

= 1250 – 50 + 20 1

= Rs 1220 crores ½

23. (a) First the following four expenditures are estimated

(i) Private final consumption expenditure

(ii) Government final consumption expenditure

(iii) Gross domestic capital formation

(iv) Net exports 2

(b) The sum of the above gives Gross domestic product at market price. 1

(c) From (b), net indirect taxes and consumption of fixed capital are subtracted to get net domestic product at factor cost 2

(d) To $\underline{NDP_{fc}}$, net factor income from abroad is added to get national income. 1

OR

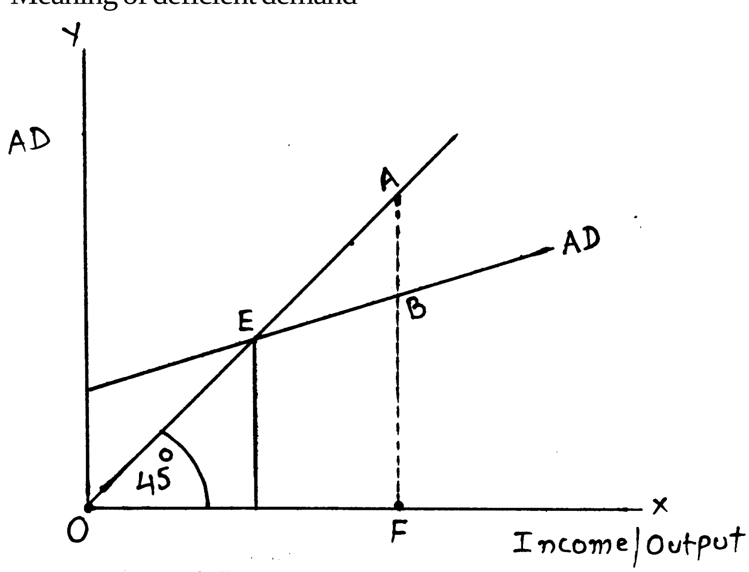
Explanation of COE and its components 3

(i) Gift by employer : a transfer payment because no service is provided in return. So not treated as COE. 1½

(ii) Bonus : treated as COE because it is paid for the services rendered to the employer 1½

(No marks if reason is not given)

24. Meaning of deficient demand 1



2

Role : Under open market operations the central bank buys securities. The money flows from central bank to the commercial banks. This raise deposits with commercial banks and also raises their credit creation capacity. Investment rises and so AD rises. 3

For Blind Candidates Only

Distinction between excess demand and deficient demand 3

Role of open market operations 3