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## ISC Specimen 2011 Economics

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# ECONOMICS

(Three hours)

(Candidates are allowed additional 15 minutes for **only** reading the paper.  
They must NOT start writing during this time)

Answer **Question 1** (compulsory) from Part I and **five** questions from Part II.  
The intended marks for questions or parts of questions are given in brackets [ ].

## PART I

### Question 1

Answer briefly each of the questions (i) to (xv)

[15 x 2 = 30]

- (i) Explain how 'Micro Economics' and 'Macro Economics' are inter dependent.
- (ii) Differentiate between *movement along the demand curve* and *shift of the demand curve* with the help of a diagram.
- (iii) Distinguish between *fixed cost* and *variable cost*.
- (iv) Differentiate between 'Stock' and 'Supply'.
- (v) Define 'internal economics'. Give two examples.
- (vi)
  - (a) Explain equilibrium price with the help of a diagram.
  - (b) What will happen if price is less than equilibrium price?
- (vii) State two methods of debt redemption.
- (viii) How is national income different from gross national product at market price?
- (ix) Define quasi rent.
- (x) What is *pure profit* ? How is it different from *normal profit* ?
- (xi) Define corporation tax. How does taxation affect the level of circular flow of income?
- (xii) Discuss the "Canon of Equity" given by Adam Smith.
- (xiii) Mention two merits of international trade.
- (xiv) State the relationship between *Balance of current account* and *Balance of capital account*.
- (xv) Define surplus budget.

## PART II

*Answer any five questions*

### Question 2

- (a) What is the relationship between *Total Utility* and *Marginal Utility*? Use a diagram to show the relationship. [4]
- (b) State the law of diminishing marginal utility with the help of a diagram. [4]
- (c) Explain *three* main assumptions of law of diminishing marginal utility and *three* main assumptions of consumer's equilibrium. [6]

### Question 3

- (a) State four features of monopoly. [4]
- (b) Why is the price of a firm under perfect competition equal to average revenue and marginal revenue? [4]
- (c) Describe with the help of a diagram, the supernormal profit earned by a perfectly competitive firm in equilibrium in the short run. [6]

### Question 4

- (a) Show the various money and real flows in a closed economy with a diagram. [4]
- (b) State the steps used in calculating national income by expenditure method. [4]
- (c) Calculate NNP at factor cost and NNP at market price from the following data:

	Rs. (in crores)	
(i) Wages & Salaries	500	
(ii) Royalty	20	
(iii) Interest	40	
(iv) Indirect tax	100	
(v) Rent	50	
(vi) Profit after tax	100	
(vii) Corporation tax	20	
(viii) Subsidy	30	
(ix) Net factor income earned from abroad	(-) 5	[6]

**Question 5**

- (a) Define transfer earning and economic rent. [4]
- (b) Why is the supply curve of labour backward bending? Explain with the help of a diagram. [4]
- (c) What is collective bargaining? Differentiate between real wage and nominal wage. [6]

**Question 6**

- (a) Distinguish between *international and inter regional trade*. [4]
- (b) Mention four export promotion measures. [4]
- (c) Explain the comparative cost theory of international trade in terms of opportunity cost approach. [6]

**Question 7**

- (a) State two sources each of revenue of the State Government and the Central Government. [4]
- (b) Differentiate between indirect and direct taxes. [4]
- (c) Account for the growth of public expenditure in recent times. [6]

**Question 8**

- (a) Explain the following types of public debt: [4]  
Redeemable – irredeemable, funded – unfunded.
- (b) State the need for a government budget. [4]
- (c) Discuss how stability and growth can be achieved through fiscal policy. [6]

**Question 9**

- (a) State the relationship between average cost and marginal cost using a diagram. [4]
- (b) State the law of variable proportions. Give two assumptions of this law. [4]
- (c) Derive the long run average cost curve from short run average cost curve. [6]