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 (30 Marks)

*Answer **all** questions.*

Question 1

Answer briefly *each* of the following questions: **[15×2]**

(i) State the Law of Demand. Mention *two* assumptions of the Law.

(ii) What is meant by *substitution effect*?

(iii) Define *income elasticity of demand*.

(iv) With the help of a diagram, explain *one* exception to the Law of Supply.

(v) What is *marginal physical product*? How can marginal physical product be obtained from total physical product?

(vi) With the help of a diagram, show how the equilibrium price and quantity change, when supply increases and demand remains unchanged.

(vii) Define *monopsony*. Explain *one* feature of monopsony.

(viii) Differentiate between *explicit cost* and *implicit cost*.

(ix) What is meant by *marginal efficiency of capital*?

(x) Explain how bank rate can be used to control credit in an economy.

(xi) How can private income be obtained from domestic income?

(xii) Define *fiscal policy*. Mention the tools of fiscal policy.

(xiii) What is meant by *revenue deficit*?

(xiv) Differentiate between *stock* and *supply*.

(xv) Explain the meaning of *full employment* in macro economics.

PART II (70 Marks)

*Answer any **five** questions.*

Question 2

(a) Discuss *any two* exceptions to the Law of Demand. **[4]**

(b) The quantity demanded of a commodity at a price of ₹ 10 per unit is 40 units. Its price elasticity of demand is (-2). The price falls by ₹ 2 per unit. Calculate the quantity demanded of the commodity at the new price. **[4]**

(c) Explain the Law of Diminishing Marginal Utility. **[6]**

Question 3

(a) Draw a market supply curve from two individual hypothetical supply schedules. **[4]**

(b) Discuss *two* factors other than price that affect the supply of a commodity. **[4]**

(c) Explain price control and rationing with the help of demand and supply curves. **[6]**

Question 4

(a) Explain with the help of a diagram, the relation between *marginal physical product* and *average physical product*. **[4]**

(b) Differentiate between: **[4]**

(i) *Internal* and *external* economies of scale.

(ii) *Internal* and *external* diseconomies of scale.

(c) Discuss *two* causes *each* of increasing returns to scale and decreasing returns to scale. **[6]**

Question 5

(a) Explain the shape of the average fixed cost curve. **[4]**

(b) Why is the average revenue = marginal revenue = price, under perfect competition? **[4]**

(c) Discuss producer's equilibrium by using the total revenue and total cost curves. **[6]**

Question 6

(a) Define *aggregate demand*. Mention its components. **[4]**

(b) Explain the meaning of *investment multiplier*. **[4]**

(c) Distinguish between *deficient demand* and *excess demand* in macro economics. **[6]**

Question 7

(a) Define money. Explain its function as a medium of exchange. **[4]**

(b) Explain the role of Central Bank as the government's agent and as an advisor to the government. **[4]**

(c) Briefly explain the types of deposits of commercial banks. **[6]**

Question 8

(a) Discuss *two* causes of demand pull inflation. **[4]**

(b) How can taxation be used to control inflation? **[4]**

(c) Why is it important for a country to have a budget? Give *four* reasons for the same. **[6]**

Question 9

(a) Discuss *two* precautions that need to be observed while calculating national income by income method. **[4]**

(b) Explain the components of compensation of employees. **[4]**

(c) From the following data, calculate national income, using the expenditure method: **[6]**

		₹ in crores
(i)	Government final consumption expenditure	730
(ii)	Private final consumption expenditure	1580
(iii)	Net factor income earned from abroad.	20
(iv)	Gross capital formation	300
(v)	Change in stocks	40
(vi)	Net indirect tax	100
(vii)	Consumption of fixed capital	50
(viii)	Net exports	10