CLASS XII

There will be one paper of 3 hours duration of 100 marks divided into 2 parts.

Part 1 (30 marks) *will consist of* **compulsory** *short answer questions testing knowledge, application and skills relating to elementary/ fundamental aspects of the entire syllabus.*

Part 2 (70 marks) *will consist of* ***eight*** *questions out of which the candidate will be required to answer* ***five*** *questions. Each question in this Part shall carry 14 marks.*

Note: *The syllabus is intended to reflect a study of the theory of Economics with specific reference to the Indian Economy. Therefore, examples and specific references to the Indian Economy must be made wherever relevant.*

1. Micro Economic Theory

(i) Meaning of micro and macro economics: Meaning, difference.

A basic understanding of the micro and macro economics is needed. Interdependence and differences between micro and macro economics.

(ii) Demand: meaning, factors affecting demand; Demand function; Law of Demand; derivation of demand curve; movement and shift of the demand curve; exceptions to the Law of Demand.

Law of Diminishing Marginal Utility, Law of Equimarginal Utility, consumers equilibrium through utility approach.

The concept of demand (exante) and effective (expost) demand. A demand function to be specified incorporating the determinants of demand. Diagrams should be used in explaining the Law of Demand, its derivation using demand schedule. Derivation of market demand curve from individual demand curve.

Law of Diminishing Marginal Utility, Law of Equimarginal Utility and consumer's equilibrium with the help of schedule and graph.

(iii) Elasticity of demand: meaning, types of elasticity of demand, measurement of elasticity of demand; factors affecting elasticity of demand; importance of the concept of elasticity of demand.

Various methods of measurement of the elasticity of demand: point method, arc method, percentage method, expenditure method and geometric method. (Numericals required on percentage method only). The cross and income elasticity of demand must be explained. Use diagrams wherever necessary. Degrees of elasticity of demand to be explained.

(iv) Supply: meaning; difference between stock and supply; determinants of supply; time period and supply; Law of Supply; movement and shift of the supply curve; elasticity of supply

Difference between stock (actual supply) and supply (intended supply) with reference to the time period, with the help of certain examples. A supply function should be specified and explained. Law of Supply, supply schedule and supply curve. Derivation of market supply curve from individual supply curve. Movement and shift of the supply curve. Meaning and degrees of elasticity of supply (methods of measuring elasticity of supply are not to be included).

(v) Equilibrium price and effect of changes in demand and supply on the equilibrium price.

A basic understanding of the concept of equilibrium. The effects of changes in demand and supply - both along the curves and shift of the curves to be explained.

(vi) Concept of product and production function: returns to a factor, total, average and marginal physical products; Law of Variable Proportions and its three stages; returns to scale.

A production function to be specified and explained (concept only - specific production function not required). Law of Variable Proportions: statement, assumptions, schedule (for the purpose of understanding and not for testing), diagram and explanation to the three stages and criticism. A comparison should be made between Law of Variable Proportion and the returns to scale concepts.

(vii) Main market forms: perfect competition, monopolistic competition, oligopoly, monopoly; characteristics of the various market forms; equilibrium of firm under short run and long run under perfect competition.

Features of perfect competition, monopolistic competition, oligopoly and monopoly. Equilibrium of firms under short run and long run, under perfect competition (to be explained with the help of diagrams).

(viii) Cost and revenue: Basic concepts of cost; fixed cost, variable cost, total cost, marginal cost and average cost – their relationships; opportunity cost; short run and long run cost curves – internal and external economies and diseconomies. Revenue: meaning; average revenue, marginal revenue and total revenue and their relationships under perfect competition and imperfect competition.

Basic concepts – private cost, economic cost, social cost, money cost, real cost, explicit cost, implicit cost.

Cost concepts – Fixed cost, variable cost, total cost, marginal cost, average cost with schedule and diagram; relationship between average cost, marginal cost, total cost. Derivation of long run average cost curve from short run average cost curve. Opportunity cost – meaning only.

Revenue – Average revenue, marginal revenue, total revenue – concepts and relationships under perfect competition and imperfect competition.

(ix) Factor pricing: basic concepts of rent, wages, interest and profit.

Basic concepts of economic rent, transfer earning, quasi-rent; nominal wages and real wages, collective bargaining; gross interest, net interest, gross profit and net profit.

2. National Income

(i) Circular flow of Income.

A simple model explaining the circular flow of income with two, three and four sector models with leakages and injections.

(ii) Nature of goods and services produced.

Economic and non economic goods, economic and non economic services, intermediate and final goods, consumer goods and producer goods, single-use and durable-use goods.

(iii) Concepts and definition of NY, GNP, GDP, NNP, private income, personal income, personal disposable income and per capita income; relationship between the income concepts.

A brief understanding of the mentioned national income aggregates is needed. The concepts of GNP and NNP should be explained both at factor cost and market prices.

(iv) Methods of measuring National Income: product or value-added method; income method and expenditure method with simple numericals based on them.

Simple numericals based on all the methods to be covered for better understanding of the concept. Precautions and difficulties of measuring National Income for each method.

3. International Trade

(i) Need for international trade; basis of international trade in terms of the Theory of Comparative Costs (Ricardo).

Need, advantages, disadvantages of international trade; the Theory of Absolute Cost and Comparative Cost in terms of Opportunity Cost to be explained as a basis of international trade. Production Possibilities Curve (PPC) - to be used for illustration.

(ii) Balance of Payments: Balance of Trade - meaning; causes of disequilibrium in B.O.P.; measures to correct the disequilibrium in the B.O.P.

The concepts of balance of trade, balance of current account and balance of capital account to be explained. The causes of disequilibrium and the measures, both monetary and fiscal to be explained.

4. **Public Finance**

(i) Public Revenue: meaning; Taxes: types, direct, indirect taxes, cannons of taxation; progressive, proportional, regressive, digressive (meaning only). Sources of central and state revenue (names only); VAT.

A basic understanding of the above mentioned concepts. The concept of VAT to be explained. MODVAT, CENVAT ***(for the purpose of understanding and not for testing)****.*

(ii) Public Expenditure: meaning, reasons for growth of public expenditure in recent times.

The growth of the public expenditure in view of increasing functions and responsibilities of the government to be explained.

(iii) Public Debt: reasons for external and internal borrowing by the government; methods of debt redemption; effects of borrowing on the Indian economy.

Public Debt: meaning; types: internal-external, productive-unproductive, redeemable-irredeemable, funded-unfunded, voluntary and forced, short-term and long-term, marketable and non-marketable debts; reasons for external and internal borrowing by the government; debt redemption methods, effects of borrowing on the Indian economy.

(iv) Fiscal Policy: meaning, objectives and instruments of fiscal policy.

Meaning, objectives and instruments of fiscal policy (taxation, public debt, public expenditure).

(v) Deficit Financing: meaning, types of deficit, "why" deficit financing and effects of deficit financing. Indian compulsion for deficit financing.

To be explained in the context of rising public expenditure and inadequacy of revenues of the government to meet this requirement. Types of deficits: a conceptual understanding of fiscal deficit, budget deficit, revenue deficit and primary deficit.

(vi) Budget: meaning, importance and types; budgetary procedure: preparation, enactment, execution and parliamentary control over finance, in brief.

Meaning, importance and types of budget – union, state, planned, performance, supplementary, zero-base, vote on account, revenue, capital; concept of deficit, surplus and balance budgets.

The budgetary procedure requires only a brief mention (for the purpose of understanding and not for testing).