CLASS : 12th (Sr. Secondary) **3661/3611**

Series : SS-M/2018

Total No. of Printed Pages : **64** ***SET : A, B, C & D***

MARKING INSTRUCTIONS AND MODEL ANSWERS

ECONOMICS

ACADEMIC/OPEN

(Only for Fresh/Re-appear Candidates)

उप-परीक्षक मूल्यांकन निर्देशों का ध्यानपूर्वक अवलोकन करके उत्तर-पुस्तिकाओं का मूल्यांकन करें। यदि परीक्षार्थी ने प्रश्न पूर्ण व सही हल किया है तो उसके पूर्ण अंक दें।

General Instructions :

(i) Examiners are advised to go through the general as well as specific instructions before taking up evaluation of the answer-books.

(ii) Instructions given in the marking scheme are to be followed strictly so that there may be uniformity in evaluation.

(iii) Mistakes in the answers are to be underlined or encircled.

(iv) *Examiners need not hesitate in awarding full marks to the examinee if the answer/s is/are absolutely correct.*

(v) *Examiners are requested to ensure that every answer is seriously and honestly gone through before it is awarded mark/s. It will ensure the authenticity as their evaluation and enhance the reputation of the Institution.*

(vi) *A question having parts is to be evaluated and awarded partwise.*

(vii) *If an examinee writes an acceptable answer which is not given in the marking scheme, he or she may be awarded marks only after consultation with the head-examiner.*

(viii) *If an examinee attempts an extra question, that answer deserving higher award should be retained and the other scored out.*

(ix) *Word limit wherever prescribed, if violated up to 10%. On both sides, may be ignored. If the violation exceeds 10%, 1 mark may be deducted.*

(x) *Head-examiners will approve the standard of marking of the examiners under them only after ensuring the non-violation of the instructions given in the marking scheme.*

(xi) *Head-examiners and examiners are once again requested and advised to ensure the authenticity of their evaluation by going through the answers seriously, sincerely and honestly. The advice, if not headed to, will bring a bad name to them and the Institution.*

महत्त्वपूर्ण निर्देश :

(i) अंक-योजना का उद्देश्य मूल्यांकन को अधिकाधिक वस्तुनिष्ठ बनाना है। अंक-योजना में दिए गए उत्तर-बिन्दु अंतिम नहीं हैं। ये सुझावात्मक एवं सांकेतिक हैं। यदि परीक्षार्थी ने इनसे भिन्न, किन्तु उपयुक्त उत्तर दिए हैं, तो उसे उपयुक्त अंक दिए जाएँ।

(ii) शुद्ध, सार्थक एवं सटीक उत्तरों को यथायोग्य अधिमान दिए जाएँ।

(iii) *परीक्षार्थी द्वारा अपेक्षा के अनुरूप सही उत्तर लिखने पर उसे पूर्णांक दिए जाएँ।*

(iv) *वर्तनीगत अशुद्धियों एवं विषयांतर की स्थिति में अधिक अंक देकर प्रोत्साहित न करें।*

(v) *भाषा-क्षमता एवं अभिव्यक्ति-कौशल पर ध्यान दिया जाए।*

(vi) *मुख्य-परीक्षकों/उप-परीक्षकों को उत्तर-पुस्तिकाओं का मूल्यांकन करने के लिए केवल Marking Instructions/ Guidelines दी जा रही है यदि मूल्यांकन निर्देश में किसी प्रकार की त्रुटि हो, प्रश्न का उत्तर स्पष्ट न हो, मूल्यांकन निर्देश में दिए गए उत्तर से अलग कोई और भी उत्तर सही हो तो परीक्षक, मुख्य-परीक्षक से विचार-विमर्श करके उस प्रश्न का मूल्यांकन अपने विवेक अनुसार करें।*

SET – A

---

1. (i) (A)

(ii) (D)

(iii) (C)

(iv) (B)

(v) (B)

(vi) (D)

(vii) (A)

(viii) (C)

(ix) true

(x) false

(xi) false

(xii) false

(xiii) false

(xiv) false

(xv) true

(xvi) true $1 \times 16 = 16$

2. Opportunity cost is the cost of best alternative sacrificed. 2

3. Inferior goods is that goods whose demand decreases with increase in income and vice versa i.e. income effect is negative. 2

4. These are available to a particular firm which seeks to increase its level of output by increasing its scale of production. 2

5. A product being perfectly homogeneous means identical in size, quality and quantity i.e. identical in all respects. Perfectly homogeneous product is sold in the market at a uniform price. If ever an individual firm tries to charge a higher price, it would lose all its buyers to a large number of other sellers, selling homogeneous product at the prevailing market price. 2

6. It is a form of market in which there is a large number of buyers, but only a few big sellers of a commodity. 2

Example : Auto market in India.

7. These are those goods which are out of the boundary line of production and are ready for use by their final users. 2

8. Flexible exchange rate is that rate which is determined by the demand for and supply of different currencies in the foreign exchange market. The market where foreign currencies are demanded and supplied is called foreign exchange market. 2

9. ***Difference between Returns to a factor and Returns to scale :***

Five basic differences between returns to a factor and returns to scale are as under : 4

(i) ***Type of production function :*** Returns to a factor are studied with reference to variable proportions type production function, whereas returns to scale are studied with reference to constant proportions type production function.

(ii) ***Number of variable factors :*** Returns to a factor apply when one factor alone is variable and other factors remain fixed. Returns to scale apply when all factors of production are variable.

(iii) ***Scale of production :*** Returns to a factor are studied on the assumption that the scale of production does not change. In case of returns to scale, the scale of production ought to change.

(iv) ***Factor Ratio :*** Returns to scale are studied on the assumption that factor ratio remains constant. In case of returns to a factor, factor ratio ought to change.

(v) ***Time Period :*** Returns to scale in only a long period possibility, returns to a factor are often studied with reference to short period.

10. ***Difference between National Income and Private Income:*** 4

(i) National income includes income both the public and private sectors of the economy, on the other hand, private income includes only the income of the private sector.

(ii) National income includes only factor incomes. It does not include any kind of transfers. But the private income includes both the factor incomes as well as current transfers from the government and the rest of the world.

(iii) Interest on a national debt is not included in national income but it is included in private income.

11. National Income accounting is used for many purposes which are given below : 4

(i) Estimation of National Income.

(ii) To know the structure of the Economy.

(iii) To know the relative significance of the production sectors.

(iv) Used to know factoral distribution of income.

(v) Used for inter-regional and international comparisons.

(vi) Inter-temporal comparisons.

(vii) Formulation of policies.

Note : Brief Explanation of points.

12. ***Aggregate Demand :*** It refers to the aggregate of consumption expenditure and investment expenditure by the households, firms and government at a given time in an economy. In other words : 4

$$AD = C + I$$

Components of Aggregate Demand : 2

(i) Household Consumption Expenditure

(ii) Government Consumption Expenditure

(iii) Investment

(iv) Net Exports

$$AD = C + G + I + (X - M)$$

AD = Aggregate Demand, C = Consumption Expenditure, G = Government Expenditure, I = Investment, $X - M$ = Net Exports.

13. ***Full Bodied Money :*** It refers to money in terms of coins whose commodity value is equal to the money value as and when these are issued.

Example : A rupee coin during the British period in India was made of silver. Commodity value of the coin was equal to its money value at the time of issuing or, the market value of the silver contained in the coin was equal to Rs. 1/-.

4

***Credit Money* :** It refers to that money of which money value is more than commodity value. How does it happen ? It happens because the material used for money (say, a rupee) is only a small components of the total quantity of material available in them market for a rupee. So that market value of the material used remains much lower than the money value of money.

Example : What is the market value of metal that the rupee coin is made of in India ? Obviously, much lower than the money value of the rupee coin. Otherwise people would have melted the coins and sold the metal in the market at a price higher than one rupee.

14. ***Qualitative Instruments of Credit Control :*** 4

(i) Margin requirements

(ii) Rationing of Credit

(iii) Direct Action

(iv) Moral Persuation

Note : Brief Explanation of points.

15. Following fiscal measures are recommended to correct the excess demand : 4

(i) Increase tax

(ii) Decrease government expenditure

(iii) Reduce deficit financing

(iv) Increase public borrowing

Thus, during periods of excess demand, the government should adopt the policy of surplus budget, increasing its revenue and decreasing its expenditure as much as possible.

16. Fixed rate of exchange refers to rate of exchange as fixed by the government. Under this system, rate of exchange is determined on the basis of quantity of gold contained in one unit of the currency. Different currencies are compared on the basis of quantity of gold contained in one unit of these currencies. 4

Arguments in favour of fixed exchange rate :

(i) It ensures stability

(ii) It encourages international trade

(iii) Coordination of Macro-Economic policies.

Note : Brief Explanation of points.

17. ***Meaning of Price Elasticity of Demand :*** Price elasticity of demand is the ratio of percentage change in quantity demanded to a percentage change in price. 2

$$Ed = (-)\frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$

Measurement of Price elasticity of demand by way of T. E. Method : Under this method, to measure elasticity of demand, one finds out how much and in what direction total expenditure changes as a result of change in the price of a commodity. We can consider three possible situations.

(i) If rise or fall in price of a commodity makes no change in its total expenditures, then elasticity of demand is unitary.

(ii) If with fall in price of a commodity, total expenditure increases and with rise in its price, total expenditure decrease then demand for that commodity is greater than unitary elastic.

(iii) If with fall in price of a commodity, total expenditure decreases and with rise in its price total expenditure increases then demand for that commodity is less than unitary elastic.

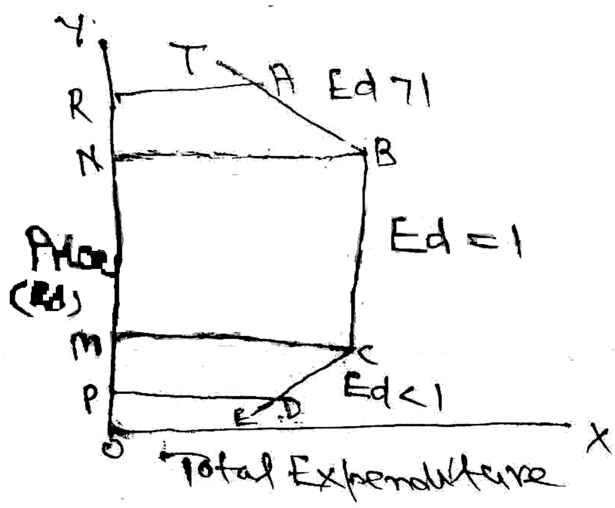
In this case, total expenditure goes in the same direction as the price does.

The below table shows the effect of change in price of the elasticity of demand.

Total Expenditure Method

Situation	Price Rs.	Quantity Kg	TE Rs.	Effect on TE	Elasticity of Demand
A	2 1	4 8	8 8	No Change	Ed = 1
B	2 1	4 10	8 10	Increases	Ed > 1
C	2 1	3 4	6 4	Decreases	Ed < 1

The below figure shows the effect of change in price on the elasticity of demand.

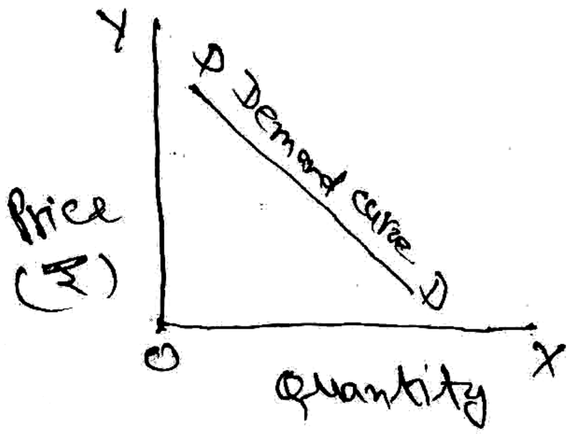


Note : Brief Explanation of Table and Figure.

OR

What is Demand Curve ?

Demand Curve is simply a graphic representation of demand schedule showing the relationship between different quantities demanded at different possible prices of a commodity. Therefore, "The demand curve represents the maximum quantities per unit of time that consumers will table at various prices".



Why does a demand curve slope downwards ?

The demand curve slope downwards due to the following reasons : 4

(1) Law of diminishing marginal utility.

(2) Income effect

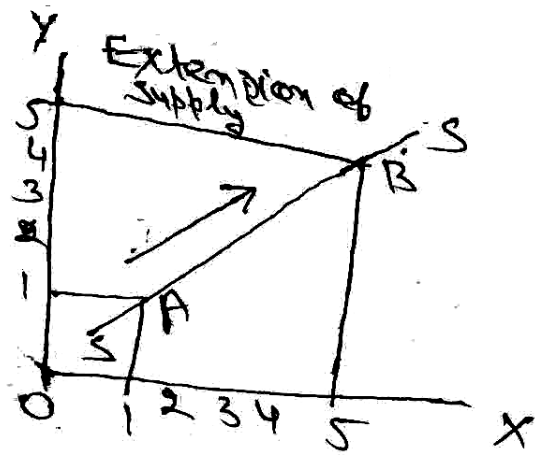
(3) Substitution effect

(4) Size of consumer group

(5) Different uses

Note : Brief explanation of points.

18. Extension of Supply : Other things being equal, when quantity supplied of a commodity increases due to rise in its price it is called extension of supply. The below figure illustrates this view point. 6



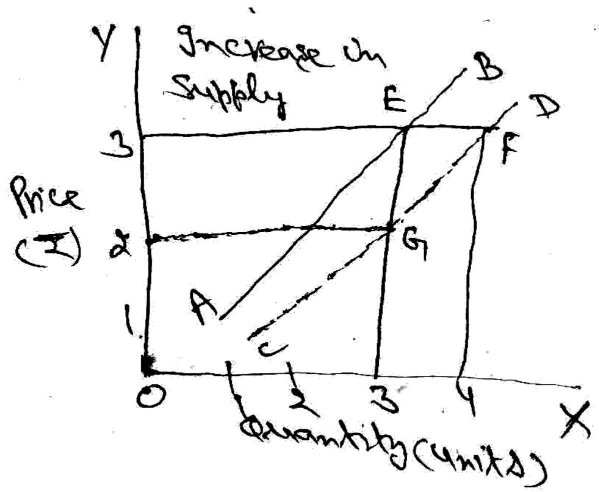
In the above figure, the movement from the lower point to the higher point on the supply curve is called extension of supply.

Increase in Supply : More supply at same price or same supply at less price is called increase in supply. Thus, Increase in supply implies two things :

(i) Same Price, More Supply

(ii) Less Price, Same Supply

The following figure illustrates this view point :



Note : Brief explanation of points.

OR

Marginal approach : The second and most popular method of finding out a firm's equilibrium is known as marginal revenue and marginal cost approach. The addition made to the total cost by the production of one more unit of a commodity is called marginal cost. Likewise, the addition made to the total revenue by the rate of one more unit is called marginal revenue. In order to know the position of maximum profits, a firm compares marginal cost with marginal revenue.

According to marginal analysis, a firm would therefore, be in equilibrium when the following two conditions are fulfilled.

(i) MC = MRC necessary or first order condition

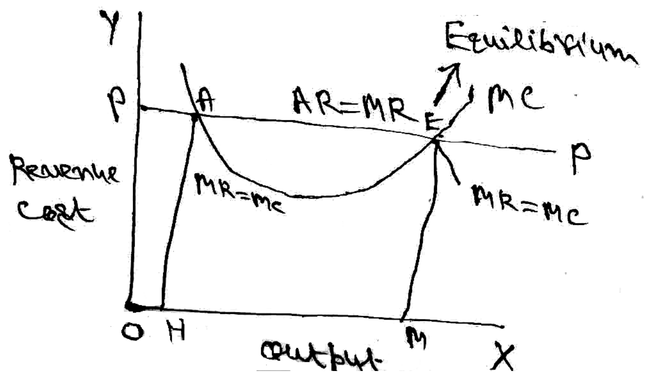
(ii) MC curve intersects MR curve from below (sufficient or second order condition)

OR

Where MC = MR, MC must be positively sloped.

The two conditions together are necessary and sufficient for profit maximization (or loss minimization)

Both these conditions of firm's equilibrium are explained with the help of below figure.



Note : Brief explanation of diagram.

19. ***Important characteristics of monopoly market :***

6

(1) One seller and large number of buyers.

(2) Pure monopoly is also an Industry.

(3) Restrictions on the entry of new firms.

(4) No close substitutes.

(5) Price Control.

(6) Different Average and Marginal Revenue Curves.

(7) Possibility of price discrimination

Note : Brief explanation of points.

OR

Features of Monopolistic Competition :

(1) Large numbers of firms and buyers.

(2) Product differentiation

(3) Freedom of entry and exit of firms.

(4) Selling cost.

(5) Less mobility.

(6) Lack of perfect knowledge.

(7) Non-price competition.

(8) More can be sold only at lower price.

(9) Average and marginal curves are different.

(10) Partial price control.

Note : Brief explanation of points.

SET – B

1. (i) (C)

(ii) (B)

(iii) (A)

(iv) (C)

(v) (B)

(vi) (D)

(vii) (A)

(viii) (A)

(ix) true

(x) false

(xi) false

(xii) false

(xiii) false

(xiv) true

(xv) false

(xvi) true $1 \times 16 = 16$

2. Slope of PPC shows marginal opportunity cost. 2

3. The law will not hold goods under following circumstances : 2

(i) Giffen goods – When price of a giffen goods falls, its quantity also falls.

(ii) Goods of conspicuous consumption – In such cases, higher price means more consumption.

4. Shape of AR and MR curve is horizontal straight line parallel to the X-Axis. 2

5. Price elasticity of supply is a percentage change in quantity supplied in response to a percentage change in price of the commodity. 2

6. It is a situation when the same goods are sold at different prices to different buyers. 2

7. It refers to expenditure by the producer on the purchase of new capital goods, so that his stock of capital increases. It is also called capital formation. 2

8. Balance of trade is defined as the difference between value of imports and exports of only physical goods or visible items. Balance of trade is determined of considering only visible items of transactions. It is the difference between exports of goods and imports of goods. 2

9. ***Internal Economies :*** These are the economies which are firm specific. These are available to that particular firm in the industry which seeks to increase its level of output by increasing its scale of production. These are not available to other firms in the industry which are not expanding their scale of production. These are such as managerial economies, financial economies, technical economies, etc. 4

External Economies : These are the economies which are industry specific. These are available to all the firms in the industry when the scale of operation of the industry as a whole expands. These are Economies of Concentration, Economies of Information etc.

10. ***Income Method :*** It is that method which measures national income in terms of payments made in the form of wages, rent, interest and profit to the primary factors of production i.e. land, labour, capital and enterprise respectively for their productive services in an accounting year. 4

Components of Income Method : Net Domestic income or Net domestic product at factor cost = compensation of employees + operating surplus + Mixed income of self employed persons.

(a) ***Compensation of Employees :*** It includes all kinds of payments made by the producers to their employees i.e. wages and salaries in cash, payment in kind, employer's contribution to social security schemes, pension on retirement etc.

(b) ***Operation Surplus :*** It includes income from property and entrepreneurship, i.e. rent, interest profit (dividend + corporation tax + savings of enterprises or undistributed profits) or whatever remains after subtracting compensation of employees, net indirect taxes and depreciation is called operating surplus.

(c) ***Mixed Income :*** It refers to the total income of self employed and earned profit of unincorporated enterprises like the income of doctor, farmer etc.

Net factor income from abroad : It is the difference between the income received by the normal residents of a country in return for the factor services rendered to rest of the world and the income paid to the non-residents or foreigners for the factor services rendered by them within the domestic territory of that country.

By adding the incomes paid out by all the industrial sectors we get net domestic income. By making appropriate changes in this concept we get other concept of national product.

For Example :

Net National Income = Net Domestic Income + Net factor income from abroad.

11. ***Final Consumption Expenditure :*** 4

It includes private final consumption expenditure and government final consumption expenditure.

(i) ***Private final consumption expenditure :*** To measure private final consumption expenditure, the volume of final scale of the durable goods, semi-durable goods, non-durable goods and services to the consumer household and non-profit institutions serving household is multiplied by retail prices. The direct purchases of non-resident households in the domestic market is deducted from it and the direct purchases of resident household made abroad are added. The resultant figure will be equal to private final consumption expenditure.

In it, the value of the following items is included :

(a) Other goods and services than houses produced in the current year by the producing enterprises in the domestic market.

(b) Wages and salaries received in kind.

(c) Net gifts received in kind.

(d) Direct purchase of goods and services from abroad by consumer households.

(e) Imputed rent of self-owned houses and wages paid to the servants.

(f) Purchase of goods and services produced in the current year and compensation of employees by the non-profit institutions rendering services to households.

(ii) ***Government Final Consumption Expenditure :***

To measure government final consumption expenditure :

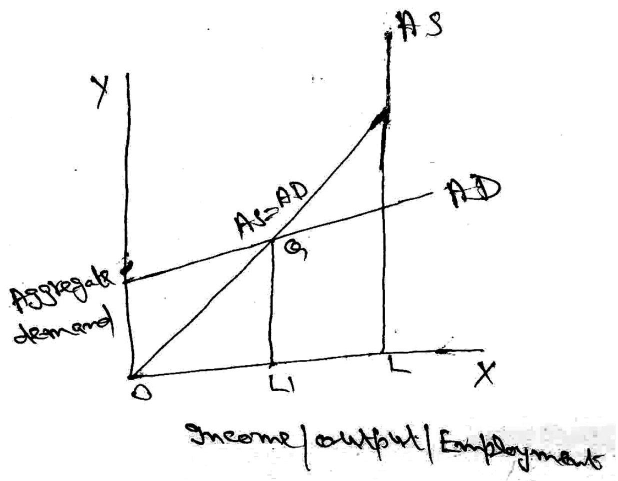
(a) The total volume of sales to the government by the enterprises is multiplied retail prices.

(b) Compensation of employees paid by the government is added.

(c) Purchase from abroad is also added.

Note : Value of production for self-consumption and also the imputed rent of owners occupied houses in included in private final consumption expenditure in the domestic market.

12.



Under employment Equilibrium : It is a situation of equality between AD and AS before resources are fully employed. As function is shown as a vertical straight line at OL level of output, because OL level of output is assumed to be a full employment level of output.

Full employment level of output = OL

Equilibrium level of output = OL_1

Since OL_1 < OL, this is a situation of under employment equilibrium. Resources have not been fully employed even when planned output = planned expenditure on output. 2

13. Following are the principal drawbacks of the barter system of Exchange : 2, 2

(1) Difficulty of double coincidence of wants.

(2) Trading costs of barter exchange.

(3) Lack of common unit of value.

(4) Lack of system for future payments.

(5) Difficulty of store of wealth.

(6) Difficulty of transfer of value.

Note : Explain any ***two*** points out of ***six*** given above.

14. Every bank is required to maintain a fixed percentage of its assets in the form of cash or other liquid assets, called statutory liquidity ratio. While Cash Reserves Ratio (CRR) refers to the minimum percentage of bank's total deposits required to be kept with the Central Bank. 4

15. ***Progressive Tax :*** It is a tax that causes relatively less real burden on the poor and more on the rich. In this tax system, rate of tax increases with increase in income. 4

Regressive Tax : It is a tax that causes relatively more real burden on the poor and less on the rich. In this tax system, rate of tax decreases with increase in income.

16. **Items of Capital Account** 4

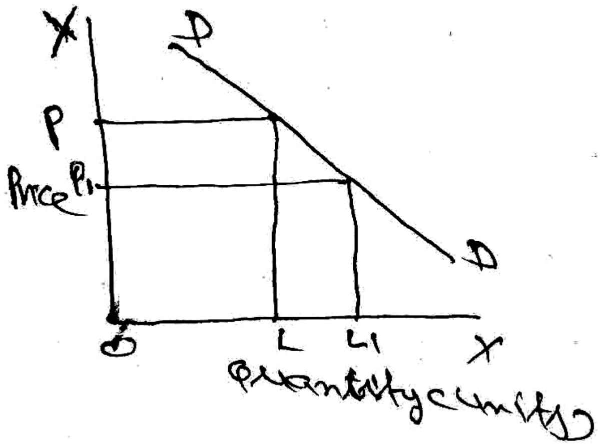
Receipts or Credits	Payments or Debit
1. Foreign private debits	Recovery of private debit from foreigners
2. Inflow of banking capital	Outflow of banking capital
3. Debit received by the government	Payment of debit by government sector
4. Reserve and monetary gold inflow	Payments of reserves and monetary gold outflow
5. International sale of gold	Purchase of gold in international market
6. Capital receipts	Capital payments

17. The law of demand states that other things remaining constant, quantity demanded of a commodity increases with a fall in price and diminishes when price increases. 2

Explanation :

Demand Schedule

Px ₹	**Qx** Units
10	100
9	150
8	200



Note : Brief explanation of schedule and demand curve.

Why does this law operates ?

(1) Law of diminishing marginal utility.

(2) Income effect.

(3) Substitution effect.

(4) Size of consumer group.

(5) Different uses.

Due to above said reasons, the law of demand operates.

Note : Brief explanation of points.

OR

Proportionate method of measuring price elasticity of demand : Under this method, elasticity of demand is measured by the ratio of the proportionate (percentage) change in quantity demanded to the proportionate (percentage) change in price. This method of measuring elasticity of demand is called proportionate or percentage method. It is worked out as under :

$$Ed = (-)\frac{\text{Proportionate change in quantity demanded}}{\text{Proportionate change in price}}$$

$$Ed = (-)\frac{\dfrac{\text{Change in demand}}{\text{Initial demand}} \times 100}{\dfrac{\text{Change in price}}{\text{Initial price}} \times 100}$$

$$Ed = (-)\frac{\frac{Q_1 - Q}{Q}}{\frac{P_1 - P}{P}}$$

$$Ed = (-)\frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}}$$

$$Ed = (-)\frac{\Delta Q}{Q} \div \frac{\Delta P}{P}$$

$$Ed = (-)\frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$Ed = (-)\frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$

Here Q = Initial demand

Q_1 = New demand

P = Initial price

P_1 = New price

ΔQ = Change in demand

ΔP = Change in price

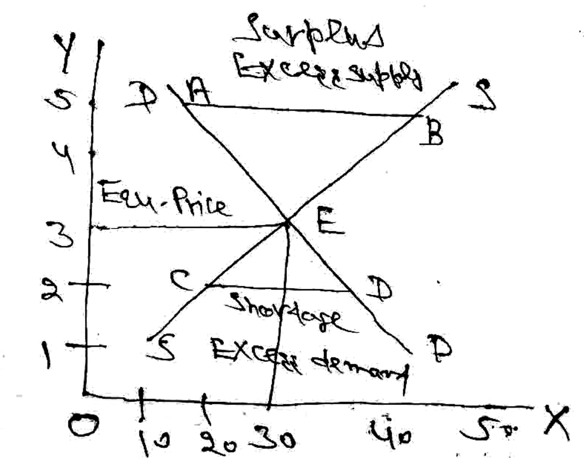
18. ***Equilibrium Price :*** It is that price which equates market demand of a commodity with its market supply. How equilibrium price determine : 2

Explanation

Table

Price	Supply of X Units	Demand for X Units
5	50	10
4	40	20
3	30	30
2	20	40
1	10	50

Diagram :



Note : Brief explanation of table and diagram.

OR

Main characteristics of Perfect Competition :

6

(1) Large numbers of firms or sellers.

(2) Large numbers of buyers.

(3) Homogeneous product.

(4) Perfect knowledge.

(5) Free entry and exit of firms.

(6) Independent decision making and freedom from checks.

(7) Perfect Mobility

(8) No extra transport cost.

(9) Same average and marginal revenue.

Note : Brief explanation of points.

19. See Answer of Question No. **19** of Set-**I** 6

OR

See Answer of Question No. **19** of Set-**I** 6

SET – C

1. (i) (D)

(ii) (D)

(iii) (B)

(iv) (C)

(v) (B)

(vi) (C)

(vii) (D)

(viii) (D)

(ix) false

(x) false

(xi) true

(xii) true

(xiii) false

(xiv) true

(xv) false

(xvi) false $1 \times 16 = 16$

2. It is a situation when the requirement of goods (or resources) exceeds their availability so that goods (or resources) acquire market value or price. Greater the scarcity higher is the price. 2

3. Demand is said to be unitary elastic, when percentage change in quantity demand is equal to percentage change in price. 2

4. Fixed or supplementary costs are those costs which do not change with change in the level of output. 2

5. When the quantity supplied increases due to factors other than price of the concerned commodity, it is a situation of increase in supply. 2

6. It is a form of market in which there is a large numbers of buyers, but only a few big sellers of a commodity. 2

Example : Auto market in India

7. From the macro point of view, ***four*** sectors of an economy are : 2

(i) Producer sector

(ii) Household sector

(iii) Government sector

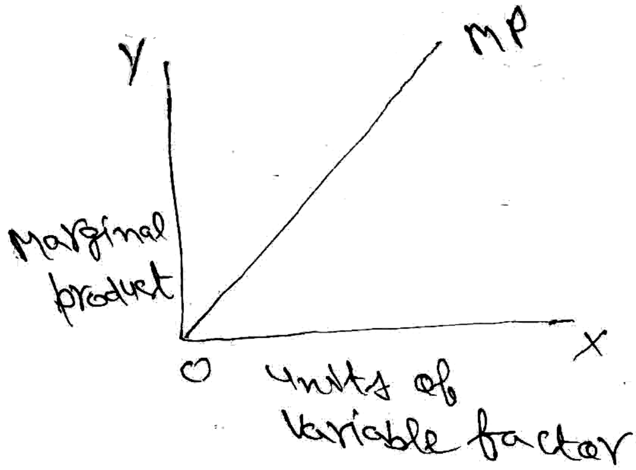
(iv) Rest of the world sector

8. These include all commodities of exports and imports i.e. petrol, machinery, etc. 2

9. Increasing returns to a factor refers to the situation in which total output tends to increase at the increasing rate when more of the variable factor is combined with the fixed factors of production. In such a situation marginal product of the variable factor must be increasing. 4

Illustration : The below figure and table illustration the operation of increasing return to a factor.

Units of Labour	Units of Land	Total Product	Marginal Product
1	1	4	4
2	1	10	6
3	1	18	8
4	1	28	10
5	1	40	12



Note : Brief explanation of table and diagram

10. ***Precautions regarding product method :*** 4

Following are some of the important precautions regarding product method :

(1) Value of the sale and purchase of second hands goods is not included in value added. Because, value of second hand goods is already accounted for during the year they were produced.

(2) Commission earned on account of the sale and purchase of second hand goods is included in the estimation of value added. Because, commission is a reward for the services rendered.

(3) Own account production of goods of the producing units is included while estimating value added. Because, these goods are like those produced for the markets. They are simply not sold owing to their need by the producers themselves.

(4) Value of intermediate goods is not included in the estimation of value added. Because, value of intermediate goods is already included in the value of final goods.

(5) Value of production for self consumption is included. Because, these goods are like those produced for the market. They are not sold simply because of their need by the producers themselves.

(6) Rent on the owner occupied house is also included. Because, all houses have rental value, no matter these are self occupied or rented out.

11. ***Difference between National Income and Private Income :*** 4

(i) National Income includes income both in the public and private sectors of the Economy. On the other hand, private income includes only the income of the private sector.

(ii) National Income includes only factor incomes. It does not include any kind of transfers. But the private income includes both the factor incomes as well as current transfers from the government and rest of the world.

(iii) Interest on national debt is not included in national income but it is included in private income.

12. Increase in investment does not cause increase in income in the same proportion; rather increase in income is more than the initial increase in investment. The factor by which income increases (i.e. multiplier) depends on marginal propensity to consume. Higher the marginal propensity to consume, greater the value of multiplier and hence greater the increase in income. Thus, there is a direct relation between multiplier and marginal propensity to consume. In fact, the value of multiplier is determined by the value of marginal propensity to consume. Larger the MPC, larger the multiplier.

This relation can be expressed in terms of an equation as under :

$$K = \frac{\Delta Y}{\Delta I} \quad \ldots\ldots\ldots \quad (1)$$

We know that :

$Y = C + I$

$\Delta Y = \Delta C + \Delta I$

$\Delta I = \Delta Y - \Delta C$

ΔI = change in investment

ΔY = change in income

ΔC = change in consumption

Putting the value of ΔI, in equation (i), we get

$$K = \frac{\Delta Y}{\Delta Y - \Delta C}$$

Dividing the right hand side of the equation by ΔY

$$K = \frac{\frac{\Delta Y}{\Delta Y}}{\frac{\Delta Y}{\Delta Y} - \frac{\Delta C}{\Delta Y}}$$

$$K = \frac{1}{1 - \frac{\Delta C}{\Delta Y}}$$

$$\because MPC = \frac{\Delta C}{\Delta Y}$$

$$K = \frac{1}{1 - MPC}$$

$$\because MPS = 1 - MPC$$

$$K = \frac{1}{MPS}$$

Here K = Multiplier, MPC = Marginal Propensity to Consume, MPS = Marginal Propensity to save.

It is clear from the above equation that knowledge of either MPC or MPS will enable us to find out the value of multiplier. Higher the MPC, greater will be the value of multiplier. On the other hand, higher the MPS, smaller will be the value of multiplier. Thus MPC and multiplier are directly related while MPS and multiplier are inversely related. 4

Supposing $MPC = \frac{1}{2}$

$$K = \frac{1}{1-MPC} = \frac{1}{1-\frac{1}{2}}$$

$$K = \frac{1}{\frac{1}{2}}$$

$K = 2$

Hence, the multiplier is large or small according as the marginal propensity to consume is large or small.

13. ***Quantitative Instruments of Credit Controls :***

These are the instruments of monetary policy which affect overall supply of money credit in the Economy. Important ones are as under : 4

(1) Bank Rate

(2) Open Market Operations

(3) Cash Reserve Ratio

(4) Statutory Liquidity Ratio

Note : Brief Explanation of Points.

14. ***Secondary functions of money :*** 4

(1) Standard of deferred payments

(2) Store of Value

(3) Transfer of Value

Note : Brief explanation of points.

15. ***Objectives of Budget :*** Budget is not a mere statistical statement showing expected receipts and expenditure of the government. It is a detailed account of governments policies and objectives.

Main objectives of the budget are as follows : 4

(1) Redistribution of income and wealth

(2) Reallocation of resources

(3) Economic stability

(4) Managing public enterprises

Note : Brief explanation of points.

16. ***Measures to correct adverse balance of payments :*** 4

Following are the measures to correct adverse balance of payments :

(1) Discouraging imports

(2) Export promotion

(3) Deflation

(4) Devaluation

(5) Encouragement to foreign investment

(6) State Trading

Note : Brief explanation of points.

17. See Answer of Question No. **17** of Set-**II**. 2, 4

OR

See Answer of Question No. **17** of Set-**II**. 8

18. See Answer of Question No. **18** of Set-**II**. 2, 4

OR

See Answer of Question No. **18** of Set-**I**. 8

19. See Answer of Question No. **19** of Set **I** 6

OR

See Answer of Question No. **19** of Set **I** 6

SET – D

---

1. (i) (D)

(ii) (B)

(iii) (B)

(iv) (B)

(v) (A)

(vi) (A)

(vii) (A)

(viii) (C)

(ix) true

(x) true

(xi) false

(xii) true

(xiii) false

(xiv) true

(xv) false

(xvi) true $1 \times 16 = 16$

2. Micro Economies deals with Economic issues (or Economic problems) at the level of an Individual – an Individual person an individual firm, an individual industry or an individual market. 2

3. See Answer of Question No. **3** of Set-**II**. 2

4. Shape of AR and MR curve is horizontal straight line parallel to the X-Axis. 2

5. See Answer of Question No. **5** of Set-**I**. 2

6. See Answer of Question No. **6** of Set-**I**. 2

7. These are those goods which are used as raw material, or purchased by the firms for resale. 2

8. Fixed exchange rate is a rate fixed and determined by the government of a country, and the government alone change it. 2

9. Fixed cost are costs which do not change with change in the quantity of output. These costs do not change with the change in volume of output. Whether the output is zero or maximum, fixed cost remains the same. 4

Fixed costs include expenses like :

(i) Rent

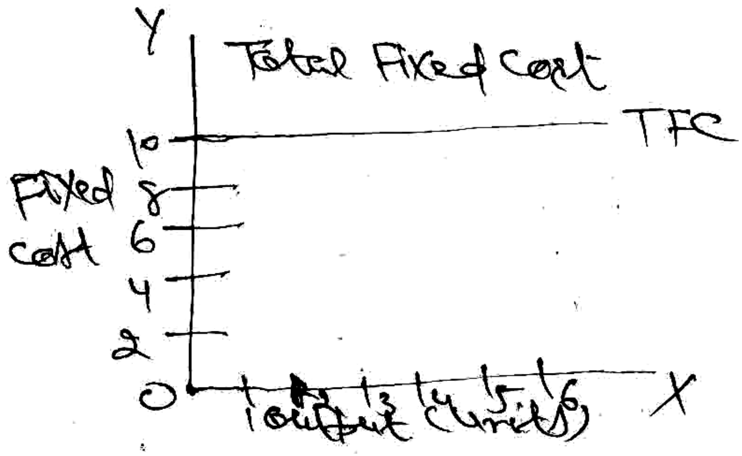
(ii) Wages of permanent employees

(iii) License fee

(iv) Interest on borrowed capital etc.

Fixed costs are explain with the help of following table and figure :

Output (Units)	**Fixed Cost (₹)**
0	10
1	10
2	10
3	10
4	10
5	10
6	10



Note : Brief explanation of points.

10. ***Problem of double counting :*** The problem of double counting is the problem of estimating the value of goods and services more than once. This is because while estimating national income by using final output method, the value of only final goods and services is taken into consideration. As far as an enterprise is concerned, its sales are treated as final sales or sales of final goods and services. For example, a farmer produces one tone of wheat and sells it for ₹ 400/- in the market to a flour mill. As far as farmer is concerned, the sale of wheat is final sale and he get ₹ 400/- for value of his contribution. The purchase of wheat by the flour mill is an intermediate goods. It converts wheat into flour and sells it for ₹ 600/- to a baker. The flour mill treats the flour as a final product but the baker uses it as an intermediate product and manufactures bread. The baker sells the bread to the shopkeeper for ₹ 800/- for the baker, the bread is a final goods but for the shopkeeper, it is an intermediate goods. The shopkeeper sells the entire stock of bread to the final consumers for ₹ 900/- value of output of farmer, flour mill, baker and shopkeeper will be as under :

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

Every producer treats the commodity he sells as final. He is not concerned as to what happens to it after he sells it. But, we know that the value of flour includes the value of wheat and the value of bread manufactured includes the value of wheat and the value of services of miller, baker and shopkeeper. Now the value of the wheat is counted four times, the value of services of the miller thrice, and the value of services by the baker twice. In other words, the value of wheat and value of services of the miller and baker have been counted more than once.

The counting of the value of commodity more than once is called double counting. This leads to over estimation of the value of goods and services produced.

How to avoid Double Counting ?

To avoid double counting, two methods are used :

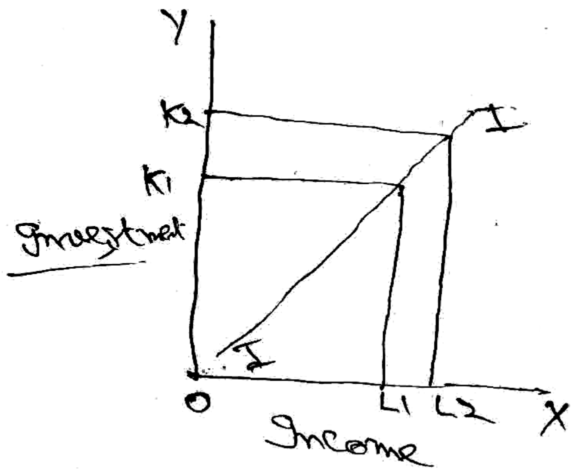
(i) Final Output Method

(ii) Value added Method

Note : Brief explanation of both methods.

11. ***Mixed Income :*** Mixed income refers to the income of the self-employed persons using their labour, land, capital and entrepreneurship to produce goods and services. These incomes are mixed in terms of wages, rent, interest and profit. That is why it is called mixed income. Such incomes are also a part of national income.
4

12. Induced investment : It is that investment which depends on the quantum of income and profit in an economy. At higher level of income, consumption expenditure goes up. As a result of increase in consumption expenditure or increase in demand, there is increase in the expected profitability of the producers. Accordingly they are induced to invest more. There exists positive relationship between induced investment and level of income in an economy. In other words, it increase with increase in the expectation of income and profit and vice versa.

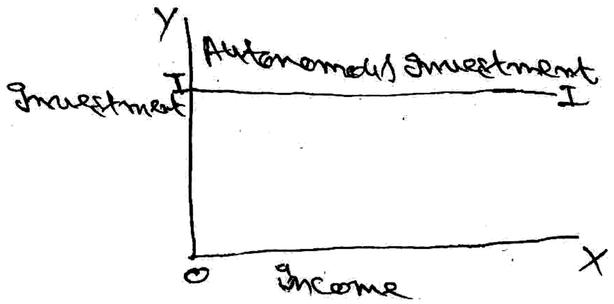


Note : Brief explanation of figure.

Autonomous Investment :

Autonomous Investment refers to that investment which is independent of the changes in the level of income. It is not influenced by the expected rate of profitability.

In fact autonomous investment refers to that investment which is undertaken by the government with a view to promoting the level of aggregate demand in the economy. When the level of aggregate demand falls short of aggregate supply resulting in fall in prices and profitability, and consequently a rise in unemployment, the government intends to push up the level of aggregate demand by increasing its own investment expenditure. The below figure explains the autonomous investment :



Note : Brief explanation of figure.

13. See Answer of Question No. **14** of Set-**III**. 4

14. ***Four functions of a Central Bank are as follows :*** 4

(1) Issuing of notes

(2) Banker to the government

(3) Banker's bank

(4) Supervision of the banks

(5) Lender of the last resort

(6) Custodian of Nation's Reserves of Foreign Exchange

(7) Clearing house function

(8) Control of credit

(9) Collection of statistics

(10) Other functions :

(i) Agriculture Credit

(ii) International Monetary Conferences

(iii) Money and Bill Market

(iv) Return of torn notes

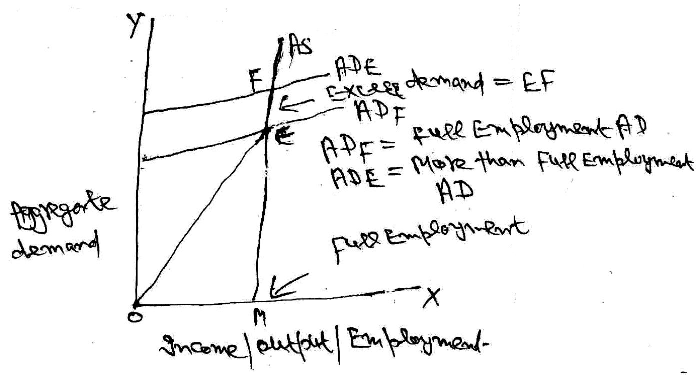
Note : Explain any ***four*** functions out of ***ten*** functions given above.

15. ***Meaning of Excess Demand :*** Excess demand refers to the situation when Aggregate Demand (AD) is in excess of aggregate supply (AS) corresponding to full employment in the economy.

Two main features of excess demand are as under : 4

(i) Planned AD in the economy happen to exceed its full employment level.

(ii) The level of aggregate demand surposses the level of aggregate supply even when there is full capacity production in the economy. Accordingly, the market value of the existing goods and services tend to rise.



2

Note : Brief explanation of diagram.

16. ***Merits of flexible exchange rate system :*** 4

Following are the principal merits or advantages of flexible exchange rate system :

(i) No need for international reserves

(ii) Optimum resource allocation

(iii) International capital movement

(iv) Venture capital

Note : Brief explanation of points.

17. See Answer of Question No. **17** of Set-**II**. 2, 4

OR

Price elasticity of demand is the ratio of percentage change in quantity demanded to a percentage change in price. 2

$$Ed = (-)\frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$

Factors affecting elasticity of demand :

(i) Nature of commodity

(ii Availability of substitutes

(iii) Different uses of commodity

(iv) Postponement of the use

(v) Income of consumer

(vi) Habit of consumer

(vii) Proportion of income spent on a commodity

(viii) Price level

(ix) Time period

Note : Brief explanation of points.

18. See Answer of Question No. **18** of Set-**I**. 2, 4

OR

What is Supply ? 2

"The supply of goods is the quantity offered for sale in a given market at a given time at various prices".

Factors affecting supply : 4

(i) Price of the commodity

(ii Price of the other goods

(iii) Number of firms

(iv) Goal of the firm

(v) Price of factors of production

(vi) Change in technology

(vii) Expected future price

(viii) Government policy

Note : Brief explanation of points.

19. See Answer of Question No. **19** of Set-**I**. 6

OR

See Answer of Question No. **19** of Set-**I**. 6