

**DESIGN OF QUESTION PAPER
ECONOMICS
Class - XII**

Marks - 100

Duration - 3 hrs.

1. Weightage by types of questions

Type	Number of questions	Marks	Total	Estimated time a candidate is expected to take to answer
Long answer questions	6	6	36	60 minutes
Short answer questions I	6	4	24	36 Minutes
Short answer questions II	10	3	30	50 Minutes
Very short answer questions	10	1	10	15 Minutes

2. Weightage by content

Unit No	Unit/ Sub-Units	Marks
1.	Introduction	4
2.	Consumer Behaviour and Demand	13
3.	Producer Behaviour and Supply	23
4.	Forms of Market and Price determination	10
5.	National income and related aggregates	15
6.	Determination of income and employment	12
7.	Money and Banking	8
8.	Government Budget and the economy	8
9.	Balance of Payments	7
		100

3. Difficulty level of the question paper

Level	Marks	% age of the total marks
Difficult (can be attempted by top students)	20	20
Average (can be attempted by students who have regularly studied the study material but may not have given sufficient time to writing)	50	50
Easy (can be attempted satisfactorily by students who have gone through the study material)	30	30

4. **Scheme of Options**

There is no overall choice. However, there is an Internal choice in one question of 6 marks, one question of 4 marks and one question of 3 marks in each section. Thus there will be internal choice to 6 questions.

Sample Question Paper - I
Economics
Class - XII

Time - 3 Hours.

Maximum marks - 100

Notes :

1. All questions in both the sections are compulsory.
2. Marks for questions are indicated against each.
3. Question Nos. **1-5** and **17 - 21** are very short- answer questions carrying 1 mark each. They are required to be answered in **one** sentence each
4. Question Nos. **6-10** and **22-26** are short-answer questions carrying **3** marks each. Answer to them should not normally exceed **60** words each.
5. Question Nos. **11-13** and **27-29** are also short- answer questions carrying **4** marks each. Answer to them should not normally exceed **70** words each.
6. Question Nos. **14-16** and **30-32** are long-answer questions carrying **6** marks each. Answer to them should not normally exceed **100** words each..
7. Answer should be **brief** and to the point and the above word limit be adhered to as far as possible.

Section A

1. What gives rise to an economic problem? (1)
2. Define 'production function'. (1)
3. What happens to equilibrium price of a commodity if there is 'decrease' in its demand and 'increase' in its supply?
4. What induces new firms to enter an industry? (1)
5. Define cost. (1)
6. State **three** changes leading to the shift of demand curve of a consumer to the right. (3)
7. What will be the price elasticity of supply if the supply curve is a positively sloped straight line? (3)
8. Explain why a production possibilities curve is concave. (3)

OR

9. Find the profit maximizing level of output from the following :

Quantity sold (Units)	Price (Rs. per unit)	Average Total Cost (Rs.)
7	10	6
8	9	5
9	8	6
10	7	7

10. Define marginal revenue. State the relation between marginal revenue and average revenue when a firm : (3)
 - (i) is able to sell more quantity of output at the same price.
 - (ii) is able to sell more quantity of output only by lowering the price. (3)
11. A consumer buys 100 units of a good at a price of Rs. 5 per unit. When price changes he buys 140 units. What is the new price if price elasticity of demand is - 2 ? (4)
12. State **any two** features each of monopoly and monopolistic competition.

OR

State four features of a perfectly competitive market.

13. Explain the effects of 'increase' in supply of a good on its equilibrium and equilibrium quantity. Use diagram. (4)

14. Draw average total cost, average variable cost, and marginal cost curves in a single diagram. Also explain the relationship between ATC and AVC. (6)
15. What is consumer's equilibrium? Explain the conditions of consumer's equilibrium assuming that the consumer consumes only two goods. (6)

OR

- Distinguish between an inferior good and a normal good. Explain the effect of change in income on each giving suitable examples. (6)
16. Explain the reasons for : (i) increasing returns to a factor and (ii) increasing returns to scale. (6)

Section B

17. Give meaning of involuntary unemployment. (1)
18. What is the relationship between marginal propensity to consume and marginal propensity to save? (1)
19. State **any two** sources of non-tax revenue receipts. (1)
20. Why is entertainment tax an indirect tax? (1)
21. What is meant by Cash Reserve Ratio? (1)
22. From the following data relating to a firm, calculate its net value added at factor cost :

(Rs. in Crores)

(i) Subsidy	40	
(ii) Sales	800	
(iii) Depreciation	30	
(iv) Exports	100	
(v) Closing stock	20	
(vi) Opening stock	50	
(vii) Intermediate purchases	500	(3)

23. Can there be a fiscal deficit in a government budget without a revenue deficit? Explain

OR

- Distinguish between direct tax and indirect tax. Give an example of each. (3)
24. Categorise the following government receipts into revenue and capital receipts Give reasons for your answer.
- (a) Receipts from sale of shares of a public sector undertaking.
- (b) Borrowings from public.
- (c) Profits of public sector undertaking (3)

25. List **three** sources each of demand and supply of foreign exchange (3)
26. Name **any three** types of deposit accounts of commercial banks and also state one of their distinguishing features. (4)
27. Distinguish between current account and capital account of balance of payment account. Is import of machinery recorded in current account or capital account? (4)
28. State the role of central bank as a banker to the government.

OR

Describe the following functions of money :-

- (a) Medium of exchange
- (b) Standard of deferred payment (4)
29. An increase of Rs. 250 crores in investment in an economy resulted in total increase in income of Rs. 1000 crores, Calculate the following :
- (a) Marginal propensity to consume
- (b) Change in Savings
- (c) Change in consumption expenditure
- (d) Value of multiplier (4)
30. Why are exports included in the estimation of domestic product by the expenditure method? Can gross domestic product be greater than gross national product ? Explain (6)
31. Explain the meaning of equilibrium level of income and output with the help of saving and investment curves. If planned expenditure is less than planned output, what changes will take place in the economy?
32. From the following data calculate National Income by Income and Expenditure methods : (3, 3)

	(Rs crores)
(i) Government final consumption expenditure	100
(ii) Subsidies	10
(iii) Rent	200
(iv) Wages and salaries	600
(v) Indirect tax	60
(vi) Private final consumption expenditure	800
(vii) Gross domestic capital formation	120
(viii) Social security contributions by employers	55

(ix) Royalty	25
(x) Net factor income paid to abroad	30
(xi) Interest	20
(xii) Net domestic capital formation	110
(xiii) Profit	130
(xiv) Net exports	70

OR

Calculate Gross National Disposable Income and Personal Income from the following data :

(3, 3)

	(Rs. Crores)
(i) Personal tax	120
(ii) Net indirect tax	100
(iii) Corporation tax	90
(iv) National income	1000
(v) Net factor income from abroad	5
(vi) Consumption of fixed capital	50
(vii) National debt interest	70
(viii) Retained earnings of private corporate sector	40
(ix) Net current transfers to the rest of the world.	(-)20
(x) Current transfers from government	30
(xi) Share of government in national income	80

Marking Scheme

1. Scarcity of resources (1)
2. Production function is a technological relationship between physical inputs and physical output (1)
3. Equilibrium price will fall. (1)
4. Earning of above- normal profit by the existing firms. (1)
5. Cost of producing a good is the sum of actual expenditure on inputs and the imputed expenditure on the inputs supplied by the owner. (1)

6.
 1. Rise in the price of the substitute good.
 2. Fall in the price of complementary good.
 3. Rise in income (in case of a normal good)
 4. Fall in income (in case of an inferior good)
 5. Increase in taste for the good.

(Any three) (1x3)

7. $E_s = 1$ if the curve starts from the origin
 $E_s > 1$ if the curve starts from the y-axis
 $E_s < 1$ if the curve starts from the x-axis
8. Downward sloping concave PP curve shows increasing Marginal Rate of Transformation (MRT) as more quantity of one good is produced by reducing quantity of the other good. This behaviour of the MRT is based on the assumption that all resources are not equally efficient in production of all goods. As more of one good is produced, less and less efficient resources have to be transferred to the production of the other good which raises marginal cost i.e. MRT. (3)

OR

The problem means that who will buy the goods produced ? Clearly those who have income will buy. people earn income in the form of wages, rent, interest and profit. This reduces the problem to the problem of distribution of income among people. (3)

9.	Qty. sold. (Units)	Price (Rs. per unit)	ATC (Rs)	TR (Rs)	TC (Rs)	Profit (TR-TC)	
	7	10	6	70	42	28	
	8	9	5	72	40	32	
	9	8	6	72	54	22	
	10	7	7	70	70	0	(2)

Profit maximizing output = 8 units (1)

10. Marginal revenue is the addition to total revenue from producing one more unit of output (1)
- (i) MR = AR at all the output levels (1)
- (ii) MR will be less than AR at all the output levels (1)

11. $E = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ (1)

$-2 = \frac{5}{100} \times \frac{40}{\Delta P}$ (1½)

$-200 \Delta P = 200$

or $\Delta P = -1$ (½)

New P = P + $\Delta P = 5 + (-1) = \text{Rs.4.}$ (1)

12. Monopoly :

- (1) Only one producer
- (2) No freedom of entry to new firms, etc.

Monopolistic Competition (1x2)

- (1) Large number of sellers and buyers
- (2) Firms produce differentiated products.
- (3) Freedom of entry and exit to firms
- (4) Perfect knowledge about market

(any two) 1x2

OR

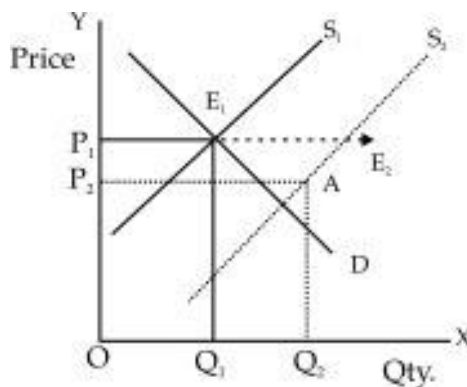
Perfect competition : (1) Large number of sellers and buyers

(2) Firms produce homogeneous product

(3) Freedom of entry and exit to firm

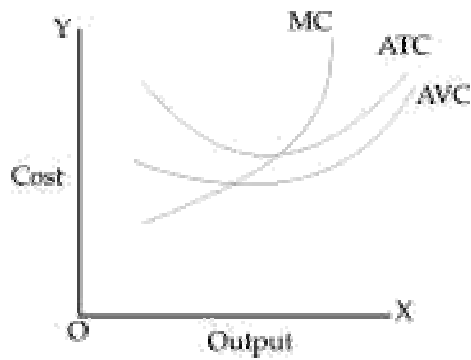
(4) Perfect knowledge about market and technology. (1x4)

13. Increase in supply means more quantity supplied at the given price. Supply curve shifts to the right from S₁ to S₂. This creates excess supply (=E, A) at price OP. Since the firms are not able to sell what they produce, Competition among firms leading to fall in price. takes place. Fall in price leads to rise in demand and fall in supply. These changes continue till price falls to OP₂ OP₂ is the new equilibrium price and OQ₂. equilibrium quantity. (3)



(1)

14.



Relation between ATC and AVC. (3)

1. ATC is greater than AVC by the amount of AFC. (1½)

2. The difference between ATC and AVC decreases as more output is produced because AFC declines as level of output increases. (1½)

15. Consumer's equilibrium means allocation of income by a consumer on goods and services in a manner that gives him maximum satisfaction. (2)

The two conditions of consumer's equilibrium are :

(i) Ratio of marginal utility to price in case of each good is the same i.e.

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y} \quad (2)$$

(ii) MU of a good decreases as more of it is consumed. (2)

16. (i) It means that TPP increases at an increasing rate and consequently MPP rises. It is due to (a) more efficient utilization of fixed input and (b) division of labour and specialisation due to increase in the quantity of variable input. (3)

(ii) It means output increasing in greater proportion than the increase in all input simultaneously and in the same proportion. It is due to (a) more division of labour leading to specialisation that increases productivity and (b) use of specialized machines.

Section B

Q.No.		Marks
17.	Involuntary unemployment occurs when those who are able and willing to work at the prevailing wage rate do not get work	(1)
18.	The sum of MPC and MPS is equal to 1.	(1)
19.	Income from investment made by the government, fees and fines received by the government.	(½x2)
20.	It is an indirect tax because its burden can be shifted.	(1)
21.	It is the ratio of bank deposits that the commercial banks must keep with the central bank.	(1)
22.	NVA _{fc} = (ii)+(v)-(vi)-(vii)-(iii)+(i)	(1)
	= 800+20-50-500-30+40	(1½)
	= Rs. 280 lakhs	(½)
23.	Yes it is possible in the following situations	
	(i) When revenue budget is balanced and capital budget shows a deficit.	
	(ii) When there is a surplus in the revenue budget but the deficit in capital budget is greater than this surplus	(1½)
	OR	
	Direct tax is a tax in which incidence & impact is on the same person. Its burden cannot be shifted. Indirect tax is a tax where burden can be shifted.	(2)
	Examples : Direct Tax : Income Tax etc.....	(½)
	Indirect Tax : Excise duty etc.....	(½)
24.	(a) It is a capital receipt as it results in reduction of asset.	
	(b) It is a capital receipt as it creates liability.	
	(c) It is a revenue receipt as it neither creates a liability nor reduces any asset.	(1)
25.	Sources of demand for foreign exchange :	
	(i) Importers	
	(ii) Tourists going abroad	
	(iii) Investors who want to make investments in other countries.	(½x3)
	Sources of supply of foreign exchange.	
	(i) Exporters	
	(ii) Foreign tourists	
	(iii) Remittances from abroad, etc.	(½x3)

26. (i) Current account deposits
The bank does not pay any interest on deposit in this account. (½)
- (ii) Saving account deposits (½)
Interest is paid on deposits in this account. (½)
- (iii) Fixed/ term deposits (½)
Interest paid on such deposits is higher than the interest paid on deposits under saving account (½)
27. In current account, transactions relating to export and import of goods and services and transfer payment are recorded. In capital account transaction relating to international purchases and sales of assets are recorded. (3)
Import of machinery is included under import of goods and so it is recorded under current account. (1)
28. The central bank acts as a banker to the government. The government keeps its cash balance with the central bank. The central bank accepts receipts and makes payments for the government. It also provides short term credit facility to the government. It also manages the public debt. It also advises the government on banking and financial matters. (4)

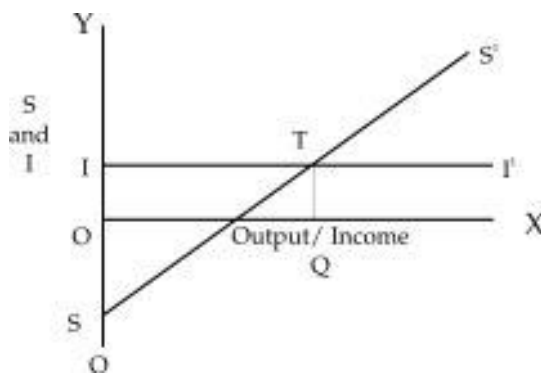
OR

- (a) Money is acceptable as means of exchange. A person can sell his goods or services in exchange for money and can use this money for buying the goods and services that he needs. Thus money acts as a medium of exchange, (2)
- (b) Deferred payments mean payments to be made in future. Money serves as a standard for deferred payments. Money can perform this function only if its value remains more or less stable. (2)
29. (a) $\frac{\Delta Y}{\Delta I} = K = \frac{1}{MPS}$
- $\frac{1000}{250} = \frac{1}{MPS}$
- MPS = 0.25
- $\therefore MPC = 0.75$
- So MPC = 0.75 (1)
- (b) $\Delta S = \Delta Y \times MPS$
= 1000 x 0.25
= Rs. 250 Crores (1)
- (c) $\Delta C = \Delta Y \times MPC$
= 1000 x 0.75
= Rs. 750 Crores (1)
- (d) $K = \frac{\Delta Y}{\Delta I} = \frac{1000}{250} = 4$ (1)

30. Expenditure method estimates expenditure on domestic product, i.e expenditure on final goods and services produced within the economic territory of the country. It includes expenditure by residents and non- residents both. Exports, though purchased by non- residents, are produced within the economic territory, and therefore, a part of domestic product. (4)

Domestic product can be greater than national product if factor income paid to the rest of the world is greater than the factor income received from the rest of the world is i.e. when net-factor income received from abroad is negative. (2)

31. The equilibrium level of income and output is that level at which planned saving and planned investment are equal. (1)



ss' is the saving curve that shows planned saving at different levels of income. I I' shows fixed level of investment as it is assumed that investment is given and is constant, OQ is the equilibrium level of income and output as at this level, planned saving and investment are equal (2)

If planned expenditure is less than planned output inventories will increase. So output will be reduced till planned expenditure and planned output are equal.

32. **Income method**

$$\text{National Income} = (\text{iv} + \text{viii}) + (\text{iii} + \text{ix}) + \text{xi} + \text{xiii} - \text{x} \quad (1)$$

$$= (600 + 55) + (200 + 25) + 20 + 130 - 30 \quad (1\frac{1}{2})$$

$$= \text{Rs. } 1000 \text{ crores} \quad (\frac{1}{2})$$

Expenditure Method

$$\text{National Income} = \text{vi} + \text{i} + \text{xii} + \text{xiv} - \text{v} + \text{ii} - \text{x} \quad (1)$$

$$= 800 + 100 + 110 + 70 - 60 + 10 - 30 \quad (1\frac{1}{2})$$

$$= \text{Rs. } 1000 \text{ Crores} \quad (\frac{1}{2})$$

OR

$$\text{GNDI} = \text{iv} + \text{ii} + \text{vi} - \text{ix} \quad (1)$$

$$= 1000 + 100 + 50 - (-20) \quad (1\frac{1}{2})$$

$$= \text{Rs. } 1170 \quad (1\frac{1}{2})$$

$$\text{Personal Income} = (\text{iv} - \text{xi}) + (\text{vii} - \text{ix} + \text{x}) - \text{viii} - \text{iii} \quad (1)$$

$$= 1000 - 80 + 70 - (-20) + 30 - 40 - 90 \quad (1\frac{1}{2})$$

$$= \text{Rs. } 910 \text{ Crores.} \quad (1\frac{1}{2})$$

SAMPLE PAPER II
ECONOMICS
Class - XII

Maximum Marks 100

Time : 3 hrs.

BLUE PRINT

Sl. No.	Form of Questions Content Unit	Very Short (1 Mark)	Short Answer (3, 4 Marks)	Long Answer (6 Marks)	Total
1	Unit 1	1(1)	3(1)	–	4(2)
2	Unit 2	1(2)	3(1), 4(2)	–	13(5)
3	Unit 3	1(1)	3(2), 4(1)	6(2)	23(6)
4	Unit 4	1(1)	3(1)	6(1)	10(3)
5	Unit 6	–	3(1)	6(2)	15(3)
6	Unit 7	1(2)	4(1)	6(1)	12(4)
7	Unit 8	1(2)	3(2)	–	8(4)
8	Unit 9	1(1)	3(1), 4(1)		8(3)
9	Unit 10	–	3(1) 4(1)		7(2)
	Sub-Total	10(10)	54(16)	36(6)	100(32)

Notes : Figure within brackets indicate the number of questions and figures outside the brackets indicates Marks.

*Denotes that marks have been combined to form one question.

Summary :

Essay (E)	No. 6	Marks : 6	36
Short-Answer (SA) I	No. 6	Marks : 4	24
Short-Answer (SA) II	No. 10	Marks : 3	30
Very Short Answer (VSA)	No. 10	Marks : 1	10
	Questions 32		100

**SAMPLE PAPER II
ECONOMICS**

Time : 3 Hrs.

Max. Marks - 100

Note :

2. *All questions in both the sections are compulsory.*
3. *Marks for questions are indicated against each.*
4. *Question Nos. 1-5 and 17-21 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.*
5. *Question Nos. 6-10 and 22-26 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
6. *Question Nos. 11-13 and 27-29 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.*
7. *Question Nos. 14-16 and 30-32 are long-answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.*
8. *Answers should be brief and to the point and the above word limit be adhered to as far as possible.*

Section - A

Introductory Microeconomics

1. Define 'opportunity cost'. (1)
2. Define 'change in demand'. (1)
5. A rise in the price of a good results in an increase in expenditure on it. Is its demand elastic or inelastic? (1)
4. What is meant by the term 'price taker' in the context of a firm? (1)
8. What is the price elasticity of supply of a commodity whose straight line supply curve passes through the origin forming an angle of 75°? (1)

4. Given below is the utility schedule of a consumer for commodity X. The price of the commodity is Rs. 6 per unit. How many units should the consumer purchase to maximize satisfaction? (Assume that utility is expressed in utils and 1 util = Re. 1). Give reasons for your answer.

<u>Consumption</u> (units)	<u>Total utility</u> (utils)	<u>Marginal utility</u> (utils)	
1	10	10	
2	18	8	
3	25	7	
4	31	6	
5	34	3	
6	34	0	(3)

7. State the 'law of supply'. What is meant by the assumption 'other things remaining the same' on which the law is based? (3)

10. A firm's Average Fixed Cost of producing 2 units of a good is Rs. 9. and given below is its total cost schedule. Calculate its Average Variable Cost and Marginal Cost for each of the given level of output :

<u>Output (units)</u>	<u>Total cost (Rs.)</u>	
1	23	
2	27	
3	30	(3)

- (ii) Explain the implication of the feature 'product differentiation' under Monopolistic Competition.

OR

Explain the implication of the feature 'Freedom of entry and exit of firms'. (3)

10. State the problems relating to allocation of resources in an economy. (3)

12. Explain the effect of rise in the prices of 'related goods' on the demand for a good X. Use diagrams.

OR

Explain the effects of rise in income on demand for a good. Use diagram. (4)

12. When price of a good falls from Rs. 5 to Rs. 3 per unit, its demand rises by 40 percent. Calculate its price elasticity of demand. (4)

13. Complete the following table :

<u>Output</u> (units)	<u>Price</u> (Rs.)	<u>Marginal Revenue</u> (Rs.)	<u>Total Revenue</u> (Rs.)
1	--	10	--
2	9	--	--
3	--	--	24
4	--	4	--

(4)

13. Explain the likely behaviour of Total Product and Marginal Product when only one input is increased while all other inputs are kept unchanged.

OR

All the inputs used in production of a good are increased simultaneously and in the same proportion. What are its possible effects on Total Product? Explain with the help of a numerical example.

(6)

15. There is a simultaneous 'decrease' in demand and supply of a commodity. When will it result in :

No change in equilibrium price.

A fall in equilibrium price.

Use Diagram.

16. Define 'producer's equilibrium'. Explain the conditions of producer's equilibrium in terms of Total Cost and Total Revenue. Use diagram.

Section - B
Introductory Macroeconomics

17. If MPC and MPS are equal, what is the value of the multiplier? (1)
18. What is meant by Statutory Liquidity Ratio? (1)
19. How is primary deficit calculated? (1)
20. What will be the effect of a rise in bank rate on money supply? (1)
21. If planned savings are greater than planned investment, what will be its effect on inventories? (1)
22. State the nature of transactions that are recorded in current account of the Balance of Payments account. (3)
23. From the following data calculate national income :

	Rs.(Crores)
(i) Compensation of employees	800
(ii) Rent	200
(iii) Wages and salaries	750
(iv) Net exports	(-30)
(v) Net Factor income from abroad	(-20)
(vi) Profit	300
(vii) Interest	100
(viii) Depreciation	50

OR

Calculate 'gross domestic product of factor cost' from the following data.

	(Rs.Crores)
(i) Private final consumption expenditure.	800
(ii) Net domestic capital formation	150
(iii) Change in stock	30
(iv) Net factor income from abroad	(-) 20
(v) Net indirect tax	120
(vi) Government final consumption expenditure	450
(vii) Net exports	(-) 30
(viii) Consumption of fixed capital	50

(3)

24. How does money solve the problem of double coincidence of wants ? (3)
25. What are open market operations ? What is their effect on availability of credit ? (3)
26. What is the basis of classifying government expenditure into :
(a) Plan expenditure and non-plan expenditure
(b) Developmental expenditure and non-developmental expenditure. (3)
27. What are the implications of a large revenue deficit? Give two measures to reduce this deficit. (4)
28. Give two reasons for a rise in demand for a foreign currency when its price falls.

OR

- State any two merits and demerits of flexible exchange rate system. (4)
29. Can an economy be in a state of under employment equilibrium? Explain with the help of a diagram.
30. How will you treat the following while estimating domestic product of India?
(i) Rent received by a resident Indian from his property in Singapore.
(ii) Salaries to Indians working in Japan's Embassy in India.
(iii) Profits earned by a branch of an American Bank in India.
(iv) Salaries paid to Koreans working in Indian embassy in Korea.

OR

- Explain any two precautions that should be taken while estimating national income by (a) value added method, and (b) income method. (6)
31. Given below is the consumption function in an economy :
 $C = 100 + 0.5Y$
With the help of a numerical example show that in this economy as income increases APC will decrease. (6)

32. Calculate Gross National Product at Market Price and Personal Disposable Income from the following data

	(Rs. crores)	
(i) Subsidy	20	
(ii) Net factor income from abroad	(-) 60	
(iii) Gross national disposable income	1050	
(iv) Personal Tax	110	
(v) Savings of private corporations	40	
(vi) National income	900	
(vii) Indirect tax	100	
(viii) Corporation tax	90	
(ix) Net national disposable income	1000	
(x) National debt interest	30	
(xi) Net current transfers from abroad	20	
(xii) Current transfers from government	50	
(xiii) Miscellaneous receipts of the government administrative departments.	30	
(xiv) Private income	700	(6)

SAMPLE PAPER -II
SECTION -A
MARKING SCHEME

1. Opportunity cost is the value of the next best alternative foregone when availing a particular alternative. (1)
2. 'Change in demand' means more or less demand at the same price or more or less demand due to factors other than the own price of the good. (1)
3. It is inelastic. (1)
4. A firm is said to be a 'price taker' when it has no option but to sell the product at a price determined at the industry level. (1)
5. $E_s = 1$. (1)
6. The consumer will purchase 4 units because at this consumption level marginal utility equals price. (1)
At consumption level of less than 4 units MU is greater than price. Therefore there is scope of increasing gain by purchasing more. (1)
If he buys more than 4 units MU becomes less than the price. Therefore, there is scope of increasing gain by purchasing less. (1)
7. The Law of supply states that there is direct relation between price and supply of a good, other things remaining the same. (1)

The assumption means that factors, other than the own price of the good, determining supply remain unchanged. (1)

Some of these other factors are prices of other goods, prices of inputs, taxes, technology, etc. (1)
8.

Output (units)	TC (Rs.)	TFC (Rs.)	TVC (Rs.)	AVC (Rs.)	MC (Rs.)
1	23	18	5	<u>5</u>	<u>5</u>
2	27	18	9	<u>4.5</u>	<u>4</u>
3	30	18	12	<u>4</u>	<u>3</u>

(½ x 6)
9. Product differentiation means that buyers differentiate between the products produced by different firms. Therefore, they are willing to pay different prices for the products of different firms. Different groups of buyers prefer products of different firms. This gives an individual firm some monopoly power, i.e. power to influence the demand for its product by changing price. (3)

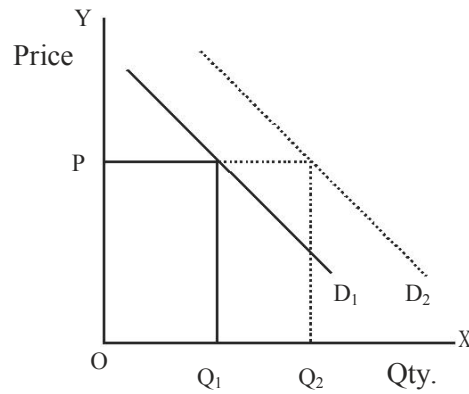
OR

The freedom ensures that firms earn just the normal profits in the long run. If the existing firms earn 'above-normal' profits, new firms enter the industry, raise supply, which brings down the price. The profits fall till each firm is once again earning only the normal profits. If the existing firms are having losses, the firms start leaving, supply falls and price goes up. The price continues to rise till the losses are wiped out and firms are just earning normal profits. (3)

10. **The three problems of allocation of resources are :**

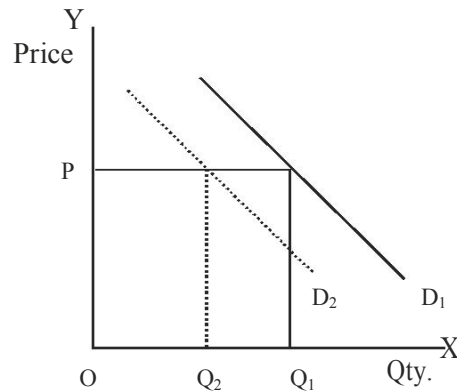
1. What goods to produce and in what quantities?
2. How, i.e. by which technology, to produce?
3. For whom to produce ? (1 x 3)

11. **Rise in the price of a substitute good makes good X relatively cheaper.**



(1)

This raises demand for X at the same price. Graphically the demand curve of good shifts to the right from D₁ to D₂ and the consumer's demand for X rises from OQ₁ to OQ₂ at price OP. (1)



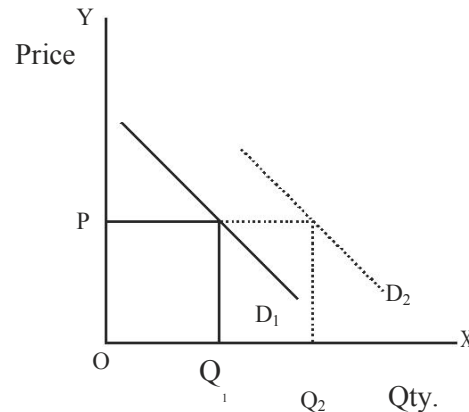
(1)

Rise in price of a complementary good reduces demand for the complementary good and in turn reduces demand for good X. Graphically the demand curve of good X shifts to the left from D_1 to D_2 and the demand for X falls from OQ_1 to

OQ_2 at price OP .

(1)

OR

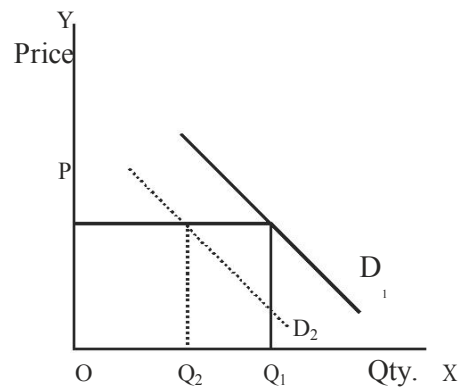


(1)

Rise in income increases demand of a normal good. Graphically the demand curve of the good shifts to the right from D_1 to D_2 . The demand at the same price OP

risers from OQ_1 to OQ_2 .

(1)



(1)

Rise in income decreases demand of an inferior good. Graphically, the demand curve of the good shifts to the left from D_1 to D_2 . The demand at the same price

OP falls from OQ_1 to OQ_2 .

(1)

Rise in the price of a complementary good reduces demand for the complementary good and in turn reduces demand for good X at the same price of X. (1)

Fall in the price of a complementary good raises demand for the complementary good and in turn raises demand for good X at the same price of X. (1)

OR

Rise in income increases demand for a normal good. (1)

Fall in income reduces demand for a normal good. (1)

Rise in income decreases demand for an inferior good. (1)

Fall in income increases demand for an inferior good. (1)

12.
$$E_p = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$$
 (1)

$$= \frac{40}{\frac{3-5}{5} \times 100} = \frac{40}{-40}$$
 (2)
$$= -1$$
 (1)

13.

<u>Output (Units)</u>	<u>Price (Rs.)</u>	<u>MR (Rs.)</u>	<u>TR (Rs.)</u>
1	<u>10</u>	10	<u>10</u>
2	9	<u>8</u>	<u>18</u>
3	<u>8</u>	<u>6</u>	24
4	<u>7</u>	4	<u>28</u>

(½ x 8)

14. The behaviour of total product is summed up as the Law of Variable Proportions. There are three phases in the behaviour of TP.
 Ist Phase : TP rises at increasing rate
 IInd Phase : TP rises at decreasing rate
 IIIrd Phase : TP falls (3)

and

The three phases in the behaviour of M P are :
 Ist Phase : MP rises.
 IInd Phase : MP falls and is positive.
 IIIrd Phase : MP falls but becomes negative. (3)

OR

The behaviour of TP is technically termed as Returns to Scale. There are three possibilities:

(4) TP rises in greater proportion than the rise in inputs, called Increasing Returns to Scale. For example : Suppose there are only two inputs, labour (L) and Capital (K). Suppose 1K + 1L produce 100 units and 2K + 2L

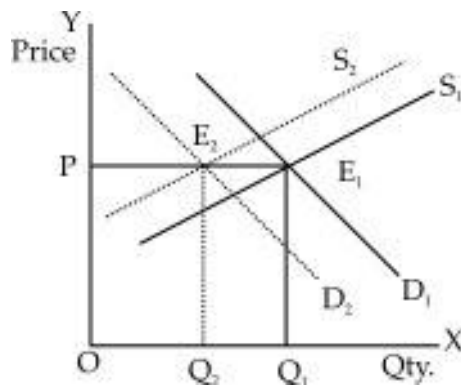
produce 250 units. Input rises by 100% while the output rises by 150% (1+1)

14. TP rises in the same proportion as rise in inputs, called Constant Returns to Scale. For example, suppose $1K+1L$ produce 100 units and $2K+2L$ produce 200 units, both inputs and TP rise in the same proportion. (1+1)

3. TP rises in smaller proportion than the rise in inputs, called Decreasing Returns to Scale. For example, Suppose $1K+1L$ produce 100 units and $2K+2L$ produce 190 units, inputs rise by 100% while the output rise by 90%. (1+1)

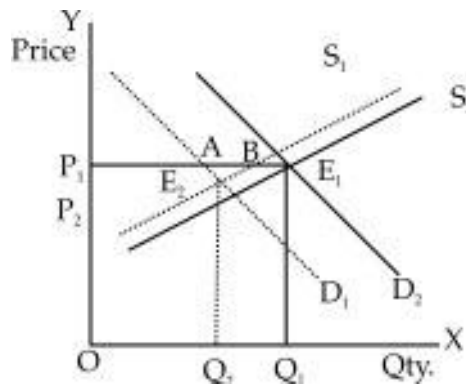
1 'Decrease' means less quantity at the same price.

(a) If 'decrease' in demand is equal to decrease in supply, there will be no change in the equilibrium price. In the figure, decrease in $dd =$ decrease in $SS = E_1 E_2$ Equilibrium price remains the same at OP . (1½)



(1½)

(b) If 'decrease' in demand is greater than decrease in supply, the equilibrium price will fall. In the figure, decrease in $dd = AE$, while decrease in supply is lower i.e. BE_1 Therefore, equilibrium price falls from OP_1 to OP_2



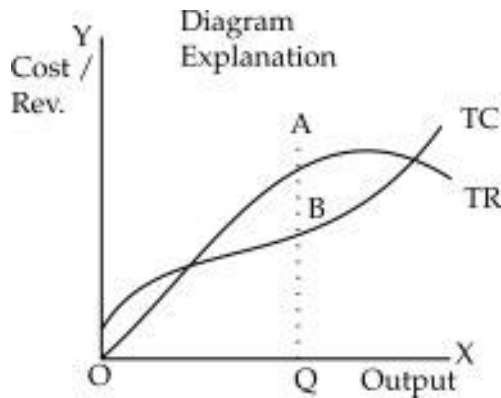
16. The producer of a good is in equilibrium at that level of output of the good at which he earns maximum profit. (1)

There are two conditions of producer's equilibrium :

- (i) The difference between TR and TC is maximum. (2)
(ii.) Total profit falls if one more unit of output is produced.

In the diagram, OQ is the equilibrium output with profit equal to $AB = AQ - BQ$. AB is the maximum vertical distance between TR and TC. If more than OQ output is produced total profits fall.

(Note : Diagram with straight line TR curve may also be taken as correct). (1)



(2)

SECTION - B

17. Since $MPC + MPS = 1$ and $MPC = MPS$, therefore, value of $MPS = \frac{1}{2}$ and value of multiplier is 2. (1)
18. Statutory Liquidity Ratio is the ratio of total demand and time deposits of commercial bank which it has to keep in the form of specified liquid assets. (1)
19. Primary deficit = Fiscal deficit - Interest payment. (1)
20. It reduces money supply . (1)
21. If planned savings are greater than planned investment inventories will increase. (1)
22. There are three types of transactions that are recorded in current account of balance of payments account.

- i. Export and import of goods.
 - ii. Export and import of services. It includes both factor income and non factor income.
 - iii. Transfer payments. These are unilateral transfers. (1x 3)
23. N.I. = (i) + (ii) + (v) + (vi) + (vii) (1)
 = 800 + 200 – 20 + 300 + 100 (1½)
 = Rs. 1380 crore. (½)

OR

GDP@ f.c. = (i) + (vi) + [(ii) + (viii)] + (vii) - (v) (1)
 = 800 + 450 + 150 + 50 – 30 – 120 (1½)
 = Rs.1300 crore (½)

24. Double coincidence of want means what one person wants to sell and buy must coincide with what some other person wants to buy and sell. It was very difficult that such coincidence of wants may take place. Money has removed this difficulty. You can sell your goods for money to whosoever wants it and with this money you can buy what you want from whosoever wants to sell that. (3)
25. A commercial bank is a financial institution that performs the functions of accepting chequable deposits and lending. (1)
 Methods of lending :
- i. Cash credit
 - ii. Demand loans
 - iii. Overdrafts etc. (Any Two) (1x2)

- (iii) (a) Expenditure relating to Central Plans (Five Year Plans) and central assistance for States and Union territory Plans is classified as Plan-expenditure. All other expenditure not included under plan expenditure is classified as Non Plan expenditure. (1½)
27. Expenditure on essential general services such as defence and administration etc. is classified as non-developmental expenditure. Expenditure on agriculture and industrial development, social and economic infrastructure etc is categorized as developmental expenditure. (1½)
29. Revenue deficit is the excess of government's revenue expenditure over its revenue receipts. A large revenue deficit means large borrowings for meeting the expenditure on normal functioning of government departments and various services. Large borrowings will result in increased revenue expenditure (interest payment) and a larger revenue deficit. (2)
- For reducing the revenue deficit the government should reduce its expenditure and raise more tax revenue. (2)
- (c) Reasons for rise in demand for a foreign currency when its price falls:
31. When price of a foreign currency falls, imports from that country become cheaper. So, imports increase and hence demand for foreign currency rises. (2)
32. When a foreign currency becomes cheaper in terms of domestic currency, it promotes tourism to that country. As a result the demand for that foreign currency rises. (2)

OR

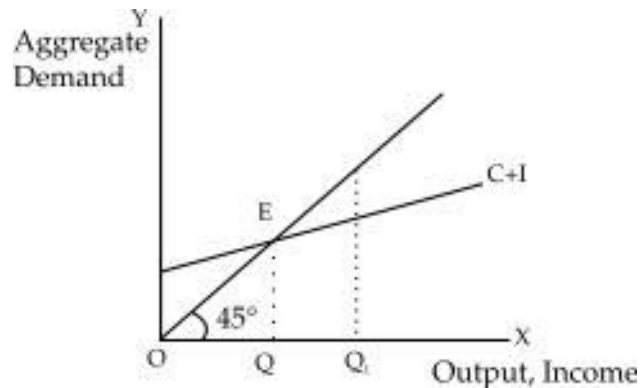
Merits of flexible exchange rate system :

- i. Under this system deficit or surplus in balance of payments is automatically corrected .
- ii. Under this system there is no need for the government to hold any foreign exchange reserves.
- iii. It helps in optimum resource allocation etc. (Any two) (1x2)

Demerits of flexible exchange rate system :

- i. It encourages speculation.
- ii. There can be wide fluctuations in exchange rate which may hamper foreign trade etc. (Any two) (1x2)

29. An economy is in equilibrium when planned expenditure and planned output in the economy are equal. If this equality is achieved at a less than full employment level of output then the economy is in a situation of under full employment equilibrium. (2)



(1)

OQ₁ is the full employment level of output. C+I curve shows aggregate demand at different levels of output. The aggregate demand is sufficient only for OQ level of output. So at OQ level of output the economy is in equilibrium but it is a situation of under employment equilibrium. (1)

30. (a) It will not be included in domestic product of India as this income is earned outside the domestic (economic) territory of India. (1½)
- (b) It will not be a part of domestic product of India as embassy of Japan in India is not a part of domestic territory of India. Hence this income is not earned within the domestic territory of India. (1½)
- (c) It will be included in domestic product of India as the branch of American bank is located within the domestic territory of India. So it is income earned within the domestic territory of India. (1½)
- (d) It will be part of domestic product of India because this income is earned within the domestic territory of India. Indian embassy in Korea is treated as located within the domestic territory of India. (1½)

OR

- (a) Precautions to be taken under value added method :
- i. Only value added by production units should be added and not their value of output otherwise it will result in double counting. (1½)

ii. While estimating value added, sale of second hand goods should not be included. Production of these goods has already been accounted for when these were newly produced. (1½)

(b) Precautions to be taken under income method :

i. Only factor income should be included, transfer income should not be included because such income is not received for rendering factor services. (1½)

ii. Income from sale of financial assets like shares etc. should not be included. Trading in these assets does not result in production of any good or service. (1½)

31.

$$\underline{C = 100 + 0.5Y}$$

Y	C	$APC = \frac{C}{Y}$	
400	300	0.75	
500	350	0.70	
600	400	0.67	(3)

$$\text{When Y is 400, } C = 100 + 0.5 \times 400 \\ = 300$$

Similarly when Y is 500, C is 350 and when Y is 600, C is 400,
As income increase from 400 to 600, APC declines from 0.75 to 0.67.
Thus as income is increasing APC is decreasing. (3)

32. $GNP @ mp = (vi) + [(vii) - (i)] + (iii - ix)$ (1)

$$= 900 + (100 - 20) + (1050 - 1000)$$
 (1½)

$$= \text{Rs. 1030 crores}$$
 (½)

Another way of calculating GNP @ mp from given data is

$$GNP @ MP = (iii) - (xi)$$
 (1)

$$= 1050 - 20$$
 (1½)

$$= \text{Rs. 1030 crores}$$
 (½)

$$\text{Personal Disposable income} = (xiv) - (v) - (viii) - (iv) - (xiii)$$
 (1)

$$= 700 - 40 - 90 - 110 - 30$$
 (1½)

$$= \text{Rs. 430 crores}$$
 (½)