ECONOMICS

(Maximum Marks: 80)

(Time allowed: Three hours)

(*Candidates are allowed additional 15 minutes for **only** reading the paper.*

They must NOT start writing during this time.)

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*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 (20 Marks)

*Answer **all** questions.*

Question 1

Answer briefly *each* of the following questions **(i)** to **(x)**: **[10×2]**

(i) What is *production function*?

(ii) Explain the meaning of *income effect*.

(iii) What is *progressive tax*?

(iv) State the law of Diminishing Marginal Utility. Mention *any two* assumptions of the law.

(v) Differentiate between *autonomous capital flow* and *accommodating capital flow*.

(vi) What is meant by MPS? How is MPS related to investment multiplier?

(vii) Briefly explain *any one* primary function of money.

(viii) Show with the help of a diagram, a situation when change in supply will keep the equilibrium quantity of the commodity unchanged.

(ix) What is meant by *selling cost*? Name *one* market where selling cost is applicable.

(x) What is meant by *operating surplus*?

This paper consists of 4 printed pages.

PART II (60 Marks)

*Answer **any five** questions.*

Question 2

(a) Explain the geometric method of calculating elasticity of supply. **[3]**

(b) Explain the concept of *Diminishing Marginal Rate of substitution* and show how it affects the indifference curve. **[3]**

(c) The marginal utility schedule of a rational consumer is given below. If the price of a commodity is ₹ 35, explain with the help of a diagram, how the consumer attains equilibrium. **[6]**

Number of the commodity bought	1	2	3	4	5
MU	50	45	40	35	30

Question 3

(a) Explain *any two* reasons for the supply curve to be positively sloped. **[3]**

(b) Briefly explain how equilibrium price is determined with the help of demand and supply curves. **[3]**

(c) Discuss the *three* stages of the Law of Variable Proportions with the help of diagrams. In which stage will a rational producer like to operate? **[6]**

Question 4

(a) When price of commodity X changes from ₹ 40 per unit to ₹ 20 per unit, its demand increases by 20 units. If price elasticity of demand is 0·5, calculate the initial and the final quantity demand of commodity X. **[3]**

(b) Explain with the help of a diagram, the relationship between MR and TR under imperfect competition. **[3]**

(c) Using diagrams, explain the concepts of: **[6]**

(i) Shut-down point

(ii) Break-even point of a firm in perfect competition under short run.

Question 5

(a) Give reasons for the following: **[3]**

(i) TC and TVC curves do not start from the same point.

(ii) ATC and AVC curves do not touch each other.

(b) Explain *any two* factors affecting the demand of a commodity, other than its price. **[3]**

(c) Differentiate between *perfectly competitive market* and *monopolistically competitive market* on the basis of the following: **[6]**

   (i) Nature of the product

   (ii) Price influence

   (iii) Relationship of AR and MR

   (iv) Demand curve

Question 6

(a) Discuss *two* methods of Redemption of *public debt* in an economy. **[3]**

(b) How is *fiscal deficit* different from *primary deficit*? Explain *one* implication of fiscal deficit. **[3]**

(c) Discuss *any four* causes of adverse Balance of Payments of a country. **[6]**

Question 7

(a) Mention the components of M_1, M_2 and M_3 measures of money supply by RBI. **[3]**

(b) Explain the following functions of the Central Bank: **[3]**

   (i) Custodian of foreign exchange reserves.

   (ii) Lender of the last resort.

(c) Discuss the different ways in which commercial banks extend loans to their customers. **[6]**

Question 8

(a) Briefly explain the mechanism of the investment multiplier with the help of a schedule. Take initial increase in autonomous investment as ₹ 1000 crores and MPC as 0·8. **[3]**

(b) Briefly discuss components of Aggregate Demand in an economy. **[3]**

(c) Explain the concept of *deflationary gap* with the help of a diagram. Discuss *any two* monetary measures to reduce the gap. **[6]**

Question 9

(a) How can you obtain: **[3]**

   (i) National income from GDP_{MP}.

   (ii) Personal disposable income from personal income.

(b) With the help of relevant examples, explain the meaning of *leakages* and *injections* in the circular flow of income. **[3]**

(c) From the following data, calculate GNP_{FC}, NDP_{FC} and national income: **[6]**

	Item	₹ in crores
(i)	Private final consumption expenditure	950
(ii)	Gross domestic fixed capital formation	370
(iii)	Consumption of fixed capital	20
(iv)	Government final consumption expenditure	410
(v)	Closing stock	300
(vi)	Subsidy	80
(vii)	Net exports	(-)50
(viii)	Wages and salaries	780
(ix)	Net factor income from abroad	(-)40
(x)	Indirect tax	180
(xi)	Opening stock	150
(xii)	Profit before tax	200