

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.

Answer all questions in Section A, Section B and Section C.

Section A consists of objective / very short answer questions.

Section B consists of short answer questions.

Section C consists of long answer questions.

The intended marks for questions or parts of questions are given in brackets [].

SECTION A – 16 MARKS

Question 1

- (i) If the price elasticity of demand for a commodity is 2 and the percentage change in price is 5, the percentage change in quantity demanded will be: [1]
- (a) 3
 - (b) 2.5
 - (c) 10
 - (d) 7
- (ii) **Assertion:** An increase in public expenditure during recession can help to control the situation. [1]
Reason: Government reduces subsidies to overcome its budget deficit.
- (a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.
 - (b) Both Assertion and Reason are true, but Reason is not the correct explanation of Assertion.
 - (c) Assertion is true but Reason is false.
 - (d) Assertion is false but Reason is true.

This paper consists of 10 printed pages.

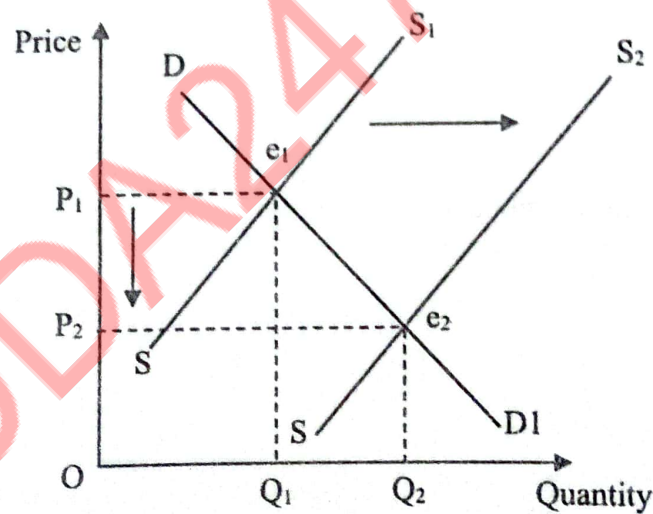
(iii) At the point of inflexion, _____ is maximum.

- (a) total product
- (b) total cost
- (c) average product
- (d) marginal product

(iv) In which one of the following types of market, are Average Revenue curve and Market Demand curve the same? [1]

- (a) Monopoly
- (b) Oligopoly
- (c) Perfect Competition
- (d) Monopolistic Competition

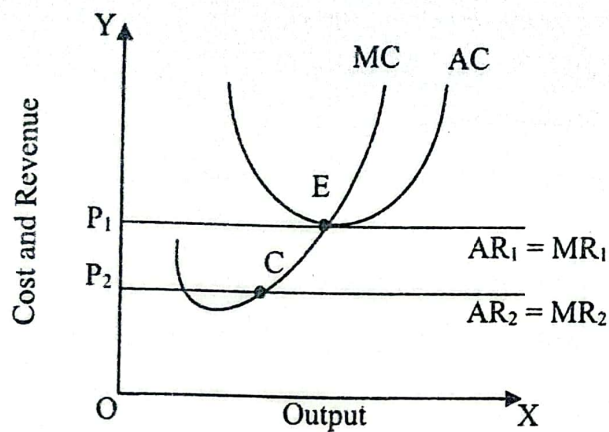
(v) The diagram given below shows the change in price of cotton shirts. Which one of the following causes the equilibrium price to move from P_1 to P_2 ? [1]



- (a) Increase in excise duty on raw cotton.
- (b) Expected fall in future price of cotton shirts.
- (c) Fall in the price of synthetic shirts.
- (d) Increase in wage rate.

(vi) Refer to the diagram given below and choose the incorrect statement.

[1]



- (a) E is the equilibrium point.
- (b) The diagram shows a situation of normal profit.
- (c) C is the *shut down point*.
- (d) E is the *break even point*.

(vii) Government of India purchased Raffle aircrafts from France in recent times. [1]
Which one of the following market forms is applicable for this product in India?

- (a) Monopsony
- (b) Monopoly
- (c) Oligopoly
- (d) Monopolistic Competition

(viii) Revenue receipts in the government's budget: [1]

- (a) create liability.
- (b) reduce liability and create assets.
- (c) reduce assets.
- (d) keep liability and assets unaltered.

(ix) If $S > I$, it will lead to: [1]

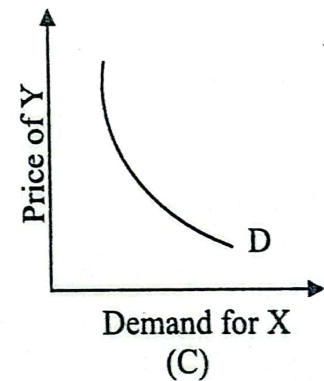
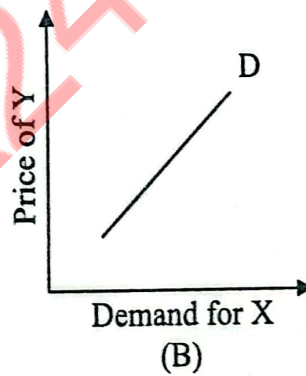
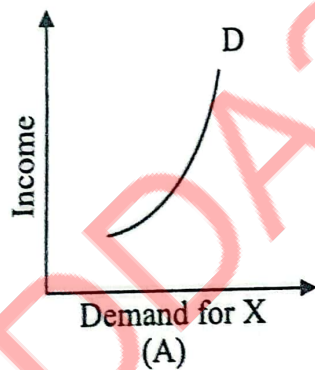
- (a) excess demand.
- (b) deficient demand.
- (c) notional demand.
- (d) actual demand.

- (x) An increase in the number of firms in the market causes a rightward shift in the market supply curve, but the individual supply curve may shift leftwards. Justify the statement. [1]
- (xi) State whether the following is True or False. Give a reason for your answer. [1]
TVC is an avoidable cost.
- (xii) Mention *any one* difference between Induced investment and Autonomous investment. [1]
- (xiii) Why is the demand curve for foreign exchange negatively sloped? [1]
- (xiv) Mention *any one* difference between Balance of Trade and Balance of Payment. [1]
- (xv) How is APS obtained from APC? [1]
- (xvi) With reference to Simple Keynesian model, give the meaning of *ex-ante demand*. [1]

SECTION B – 32 MARKS

Question 2

- (i) Milk is used for making curd, sweets and chocolates. What type of demand does milk have? Give a reason. [1]
- (ii) Figures (A), (B) and (C) given below represent different types of Demand curves. [3]



What kind of goods do each of these Demand curves represent? Give a reason for each of the curves.

Question 3

- (i) A huge production of onions and lack of storage facilities have caused a continuous fall in its price. This may adversely affect the production of onions in the subsequent year. With the help of a diagram, briefly explain the measure that the government should adopt to combat this situation. [2]
- (ii) Draw and explain Average Fixed Cost curve. [2]

Question 4

With the help of a diagram, explain the relationship between Average Product and Total Product under the Law of Variable Proportions. [4]

Question 5

- (i) Briefly discuss the implication of 'freedom of entry and exit' under perfect competition. [2]
- (ii) Per unit price of electricity is higher in the Commercial sector as compared to the Domestic sector. Identify and briefly describe this phenomenon. Name the market in which it is applicable. [2]

OR

- (i) Briefly discuss the importance of Selling Cost under oligopoly market. [2]
- (ii) There are many manufacturers of pencils in the market who produce pencils in different designs and colours to attract children. Which market form is referred to here? Briefly explain the feature of this market form indicated in the given situation. [2]

Question 6

- (i) What is meant by *autonomous consumption expenditure*? Show it on a diagram. [2]
- (ii) When National Income rises from ₹ 600 cr. to ₹ 1000 cr., the consumption expenditure increases from ₹ 500 cr. to ₹ 800 cr. Calculate MPC and hence the value of Investment Multiplier. [2]

Question 7

- (i) A large amount of fiscal deficit proves to be counter productive. Give any two reasons in support of this statement. [2]
- (ii) What is meant by *no quid pro quo* of a tax? Name any two direct taxes. [2]

Question 8

- (i) Categorise the following items into Current Account or Capital Account of Balance of Payment of India. [2]
- (a) Acquisition of land in India by an American firm
 - (b) Use of transport by Indian tourists in Dubai
 - (c) Dividend paid to foreigners on their investment in shares in India
 - (d) Loan taken by India from International Monetary Fund (IMF) to cover its BOP deficit
- (ii) Briefly explain the effect of the following on the Balance of Payment of a country. [2]
- (a) Inflationary pressure in the economy
 - (b) Appreciation in domestic exchange rate.

OR

- (i) Suppose the exchange rate was \$1 = ₹ 80 and later changed to \$ 1 = ₹ 92. [2]
What will be its effect on the following?
- (a) Export of cotton garments by India to the USA
 - (b) Export of technical knowledge by the USA to India
 - (c) Import of wheat by India from the USA
 - (d) Import of gold jewellery by the USA from India
- (ii) Briefly discuss the *fixed exchange rate system* of determining foreign exchange rate. [2]

Question 9

Draw a well labelled diagram and explain the circular flow of income in a four-sector model. [4]

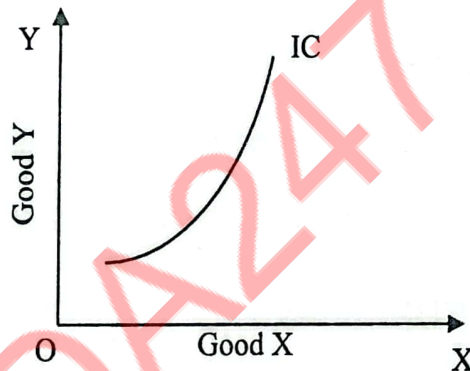
SECTION C – 32 MARKS

Question 10

- (i) How is Total Revenue under perfect competition different from Total Revenue under imperfect competition? Give two points to show the difference. [2]
- (ii) Explain the short run equilibrium of a perfectly competitive firm earning supernormal profit with the help of a diagram. [6]

Question 11

- (i) Draw a straight-line demand curve joining both the axes. Indicate the following on the demand curve. [2]
- (a) Elasticity of demand is equal to zero
- (b) Elasticity of demand is greater than one
- (ii) Observe the graph given below and answer the questions that follow.

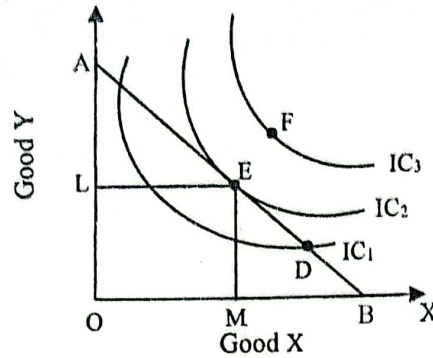


- (a) Give a reason to explain if the graph shown above can be a common phenomenon or not. [2]
- (b) What is an *indifference map*? Draw its diagram. [2]
- (c) State *any two* differences between *cardinal utility* and *ordinal utility*. [2]

OR

- (i) Give two differences between *intended supply* and *actual supply*. [2]

(ii) Refer to the diagram given below and answer the questions that follow.



- (a) What does the line AB represent? Why is the line AB negatively sloped? [2]
- (b) At which one of the given points, D, E and F, will the consumer attain equilibrium? Explain. [2]
- (c) Briefly explain why the consumer is not in equilibrium at the other two points. [2]

Question 12

- (i) State whether the following items will be included in the estimation of National Income or not? Give a reason for your answer. [2]
- (a) Government expenditure on street lighting.
- (b) Profit earned by State Bank of India in a foreign country.
- (ii) Calculate GNP_{MP} and NNP_{FC} from the following data by Expenditure Method. [6]

PARTICULARS		₹ (crores)
(i)	Mixed income of self employed	550
(ii)	Private Final Consumption Expenditure	1100
(iii)	Net factor income from abroad	(-)120
(iv)	Net indirect taxes	250
(v)	Consumption of fixed capital	270
(vi)	Net domestic capital formation	480
(vii)	Net exports	(-)130
(viii)	Interest	300
(ix)	Government Final Consumption Expenditure	650

OR

(i) State whether the following items will be included in the estimation of National Income or not? Give a reason for your answer. [2]

(a) Fresh tomatoes used by a food processing company.

(b) Wooden cupboard purchased by a family.

(ii) Calculate National Income using Income method and Output method. [6]

PARTICULARS	₹ (crores)
<input type="radio"/> (i) Value of output	1200
<input checked="" type="radio"/> (ii) Wages and salaries	165
<input checked="" type="radio"/> (iii) Rent	60
<input type="radio"/> (iv) Subsidies	15
<input checked="" type="radio"/> (v) Mixed Income of self employed	180
<input type="radio"/> (vi) Employer's contribution to social security	15
<input type="radio"/> (vii) Value of intermediate consumption	600
<input checked="" type="radio"/> (viii) Interest	7
<input checked="" type="radio"/> (ix) Factor income earned from abroad	15
<input checked="" type="radio"/> (x) Indirect taxes	90
<input checked="" type="radio"/> (xi) Profits	23
<input checked="" type="radio"/> (xii) Depreciation	75
<input checked="" type="radio"/> (xiii) Factor income paid abroad	30

Question 13

Read the passage given below and answer the questions that follow.

The Monetary Policy Committee (MPC) increased the repo rate, at which RBI lends short term funds to the commercial banks, from 6.25 percent to 6.50 percent. This increase in repo rate is based on the increase in the key rate by 250 bps. The Committee also decided to continue the withdrawal of money supply in the economy.

[Source (Edited): *The Economic Times*, Feb. 8, 2023]

- (i) Which function of central bank is hinted at, in the passage given above? [1]
- (ii) In which situation does central bank adopt the measure given in the above passage? [1]
- (iii) Explain *any two* monetary measures that can be used to accomplish a similar objective, other than the one given in the above passage. [4]
- (iv) Differentiate between Reserve Bank of India and Commercial banks by giving *any two* points. [2]

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