Model AnswerSet- I

Std. – 12th

Subject-Economics

Q.1 (A) Complete the correlation

1. Price Index : Inflation :: **Quantity Index**: Agricultural Production:
2. Makros: Macro Economics:: Mikros: **Micro Economics**
3. Perfectly elastic demand : Ed = ∞ :: **Perfectly Inelastic demand** : Ed = 0
4. Pen and ink: **Complementary** :: Tea and coffee : Substitutes
5. Price taker: **Perfect Competition:**: Price maker: Monopoly

(B) Match the pairs from the given options

Group A	Group B
1**Perfect Competition**	1. Large number of sellers
2. Monopoly	2. **Single Seller**
3.**Imperfect competition**	3. Fairly large number of sellers
4. Oligopoly	4. **Few sellers**
5.Product differentiation	5.**Monopolistic Competition**

(Few sellers, Perfect Competition, Single Seller, Monopolistic Competition, Imperfect competition)

(C) Choose the correct option

1. **Price takers**
2. **Perfect Competition**
3. **Positive**
4. **Slicing Method**
5. **TU is maximum and MU is zero**

(D) Give Economic Term

1. **Price discrimination**
2. **Average Revenue**
3. **Expansion in demand**
4. **composite demand**
5. **Income Elasticity of demand**

Q. 2. (A)

1. Japan sells smart phones to Myanmar – **Export Trade**
Export trade refers to the sale of goods by one country to another or the outflow of goods to the foreign country from a home country.
2. Tina deposited a lumpsum amount of Rs 50000 in the bank for a period of One year – **Fixed deposit**
Fixed deposit refers to a lumpsum amount deposited by a customer for a specified period. Hence, this illustration relates to the concept of 'Fixed Deposit' as Tina deposited a lumpsum amount of Rs 50000 in the bank for a period of One year.

3. Sara makes a monthly contribution to a fund jointly created by her friends. The collected fund is then given to a chosen member through lucky draw – **Chit Funds**
Chit fund is an unregulated non-banking intermediary in which members make regular contributions to the fund. Bids/draws are mainly based on some criteria mutually agreed upon by members. Accordingly, the collected fund is given to the chosen member.
4. India purchased petroleum from Iran – **Import Trade**
Import trade refers to the purchase of goods by one country from another or the inflow of goods to the home country from a foreign country.
5. Bhushan refused to eat fifth chapati after eating four chapatis. – **point of satiety**
When Total Utility is maximum and Marginal Utility becomes zero, it is called as Point of Satiety. At this point maximum limit of satisfaction is reached. Any further consumption does not give additional utility to the consumer.

Q.2
(B) 1. Internal Trade and International Trade

Point	**Internal Trade**	**International Trade**
1. Meaning	1.Buying and selling of goods and services within the boundaries of a nation are referred to as 'Internal Trade	1. International Trade is trade between the different countries of the world.
2. Example	2.For example, if goods produced in Maharashtra are sold to states like West Bengal, Uttar Pradesh	2.For example, if goods produced in India are sold to countries like Bangladesh, Nepal, etc.

2. Demand deposit and Time Deposit

Point	Demand deposit	Time Deposit
1. Meaning	1.Deposits that are withdrawable on demand are known as demand deposits	1.Deposits that are repayable after a certain period of time are known as time deposits
2. Form of Account	2.They are in the form of Current account and Savings account deposits.	2.They are in the form of recurring deposits and time deposits

3. Variation in demand and change in demand

Point	Variation in Demand	Change in Demand.
1. Meaning	1.If Demand changes due to change in price only and other factors affecting demand	1.If Demand changes due to change in other factors affecting demand and price

	remain constant, then it is called as Variation in Demand.	remain constant, then it is called as Change in Demand.
2. Demand curve	2.Variation in demand can be shown on the same demand curve	2.Change in Demand cannot be shown on the same demand curve. It can be shown by shifting the demand curve.

4. Micro Economics and Macro Economics

Point	Micro Economics	Macro Economics
1. Meaning	1.Micro economics studies the behaviour of individual unit of an economy	1.Macroeconomics studies the behaviour of aggregates of the economy as a whole
2.Method of study	2.Micro economics uses slicing method.	2.Macroeconomics uses lumping method.

5. Monopoly and Monopolistic Competition

Point	Monopoly	Monopolistic Competition
1. Meaning	1.Monopoly is a market in which there is only one seller who controls the entire market supply for a product which has no close substitute	1.Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes.
2. Main feature	2.Price discrimination is possible.	2.Product differentiation is possible.

Q.3

1. **Explain the functions of commercial banks.**

1) Acceptance of deposits: Deposits constitute the main source of funds for commercial banks. Savings lead to the creation of deposits. Deposits are categorized as

(i) Demand deposits - Deposits that are withdrawable on demand are known as demand deposits. They are in the form of Current account and Savings account deposits.

(ii) Time deposits - Deposits that are repayable after a certain period of time are known as time deposits. They are in the form of recurring deposits and time deposits.

2) Providing loans and advances: Commercial banks mobilize savings and lend these funds to institutions and individuals for various purposes. Based on the tenure, loans include call loans, short term, medium term and long-term loans. Longer the duration of the loans, greater will be the rate of interest. Besides this, banks also provide cash credit, overdraft facility as well as discount bills of exchange

3) Ancillary functions: Commercial banks also provide a range of ancillary services such as transfer of funds, collection of money, making periodical payments on behalf of the customer, merchant banking, foreign exchange, safe deposit lockers, D-mat facility, internet banking, mobile banking etc.

4) Credit Creation: Credit creation is an important function of commercial banks. Commercial banks are creators of credit. Demand and time deposits constitute the primary deposits of banks. After meeting the reserve requirements out of the net demand and time liabilities, the balance amount is used for giving loans. Thus, secondary deposits or 'derivative deposits' are created out of the loans given by the banks.

2. Explain non-tax sources of revenue of the government.

Public revenue received by the government administration, public enterprises, gifts, and grants etc. are called as non-tax revenue. These sources are different than the taxes. A brief information about these sources are as follows:

1) Fees: A tax is paid compulsorily without any return service whereas, fee is paid in return for certain specific services rendered by the government. For example- education fee, registration fee, etc.

2) Prices of public goods and services: Modern governments sell various types of commodities and services to the citizens. A price is a payment made by the citizens to the government for the goods and services sold to them. For example- railway fares, postal charges etc.

3) Special Assessment: The payment made by the citizens of a particular locality in exchange for certain special facilities given to them by the authorities is known as 'special assessment.' For example, local bodies can levy a special tax on the residents of a particular area where extra/ special facilities of roads, energy, water supply etc. are provided.

4) Fines and Penalties: The government imposes fines and penalties on those who violate the laws of the country. The objective of the imposition of fines and penalties is not to earn income, but to discourage the citizens from violating the laws framed by the Government. For example, fines for violating traffic rules. However, the income from this source is small.

5) Gifts, Grants and Donations: The government may also earn some income in the form of gifts by the citizens and others. The government may also receive grants from the foreign governments and institutions for general and specific purposes. Foreign aid has become an important source of development finance for a developing country like India. However, this source of revenue is uncertain in nature.

6) Special levies: This is levied on those commodities, the consumption of which is harmful to the health and well-being of the citizens. Like fines and penalties, the objective is not to earn income, but to discourage the consumption of harmful commodities by the citizens. For example, duties levied on wine, opium, and other intoxicants.

7) Borrowings: The government can borrow from the people in the form of deposits, bonds etc. It also gets loans from foreign governments and organizations such as IMF, World Bank etc. Loans are becoming more and more popular source of revenue for the governments in the modern times.

3. **Explain the features of National Income**

1) Macro Economic concept: National income represents income of the economy as a whole rather than that of an individual. Hence it is a macro economic concept.

2) Value of only final goods and services: In order to avoid double counting in national income, the value of only final goods and services produced in the economy are considered. The value of intermediate goods or raw materials is not considered. For example, while estimating the production of shirts, there is no need to take the value of cotton, as it is already included in the price of the shirts.

3) Net aggregate value: National income includes net value of goods and services produced and does not include depreciation cost. (i.e. wear and tear of capital assets)

4) Net income from abroad: National income includes net income from abroad i.e., difference between export value and import value (X-M) and net difference between receipts from abroad and payments made abroad (R-P).

5) Financial year: National income is always expressed with reference to a time period. In India, it is from 1st April to 31st March.

6) Flow concept: National income is a flow concept as it shows flow of goods and services produced in the economy during a year.

7) Money value: National income is always expressed in monetary terms. It represents only those goods and services which are exchanged for money.

4. **Explain the determinants of Supply**.

1) Price of commodity: Price is an important factor influencing the supply of a commodity. More quantities are supplied at a higher price and less quantities are supplied at a lower price. Thus, there is a direct relationship between price and quantity supplied.

2) State of technology: Technological improvements reduce the cost of production which lead to an increase in production and supply.

3) Cost of Production: If the factor price increases, the cost of production also increases, as a result, supply decreases.

4) Infrastructural facility: Infrastructure in the form of transport, communication, power, etc. influences the production process as well as supply. Shortage of these facilities decreases the supply and vice versa.

5) Government policy: Favourable Government policies may encourage supply and unfavourable government policies may discourage the supply. Government policies like taxation, subsidies, industrial policies, etc. may encourage or discourage production and supply, depending upon government policy measures.

6) Natural conditions: The supply of agricultural products depends on the natural conditions. For example, a good monsoon and favourable climatic condition will produce a good harvest, so the supply of agricultural products will increase and unfavourable climatic conditions will lead to a decrease in supply.

7) Future expectations about price: If the prices are expected to rise soon, the producer may withhold the stock. This will reduce the supply and vice versa

8) Other factors: It includes, • nature of the market, • relative prices of other goods, • export and imports, • industrial relations, • availability of factors of production etc. If all factors are favourable, supply of a commodity will be more and vice versa.

5. Calculate Value Index from the given data:

Commodity	**p0q0**	**p1q1**
A	600	1400
B	120	1320
C	500	1620
D	280	1600
E	390	600
Total	1890 = $\sum p0q0$	6540= $\sum p1q1$

Value Index Number $V_{01} = \frac{\sum p1q1}{\sum p0q0} \times 100$

$= \frac{6540}{1890} = 3.460 \times 100 = 346$

Q.4 State with reasons, whether you agree or disagree with the following statements: Any 3 (12 marks)

1. Scope of Micro economics is unlimited –

I Disagree with the given statement.

1.The scope of micro economics is limited to only individual units. For example, it deals with demand, supply etc. of a family, company.

2.It does not deal with the nationwide economic problems such as inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.

3.It deals with individual economic unit and not overall economy.

4. As, it does not deal with nationwide economic problems it's scope is limited.

2. Comforts and luxuries have inelastic demand –

I Disagree with the given statement.

1.By nature, we can classify commodities as necessaries, comforts, and luxury goods.

2.Demand for necessaries like foodgrains, medicines, textbooks etc. is relatively inelastic and for comforts and luxury goods like cars, perfumes, furniture etc. demand is relatively elastic.

3.This is because, if price of comforts and luxuries rises, we can postpone our demand. As they are not necessaries this is possible. So, Comforts and luxuries have elastic demand.

3. Salt has inelastic demand –

I **agree with the given statement**

1.If the proportion of expenditure in a person's income is small, then demand for the product is relatively inelastic.

2.This is because, change in price of these commodities does not make much difference to the buyer. For example, newspapers, salt. If price of salt rises it does not affect consumer’s budget too much.

3.If price of salt falls it does not affect consumer’s savings. So, change in price of salt does not affect demand for it. So, salt has inelastic demand.

4. Public finance is more elastic than private finance –

I **agree with the given statement**

1.Public finance is created by the government to offer maximum social advantage to the society.

2.Government first determines the volume and different ways of its expenditure. As government itself involved in it, it has high degree of credit in the market.

3.As compared to Private finance, it can be raised easily. As per the requirement government can raise it comfortably. Hence it is more elastic.

5. Fines and penalties are a major source of revenue for the government –

I dis**agree with the given statement**

1.This is non-tax revenue of government.

2.The government imposes fines and penalties on those who violate the laws of the country.

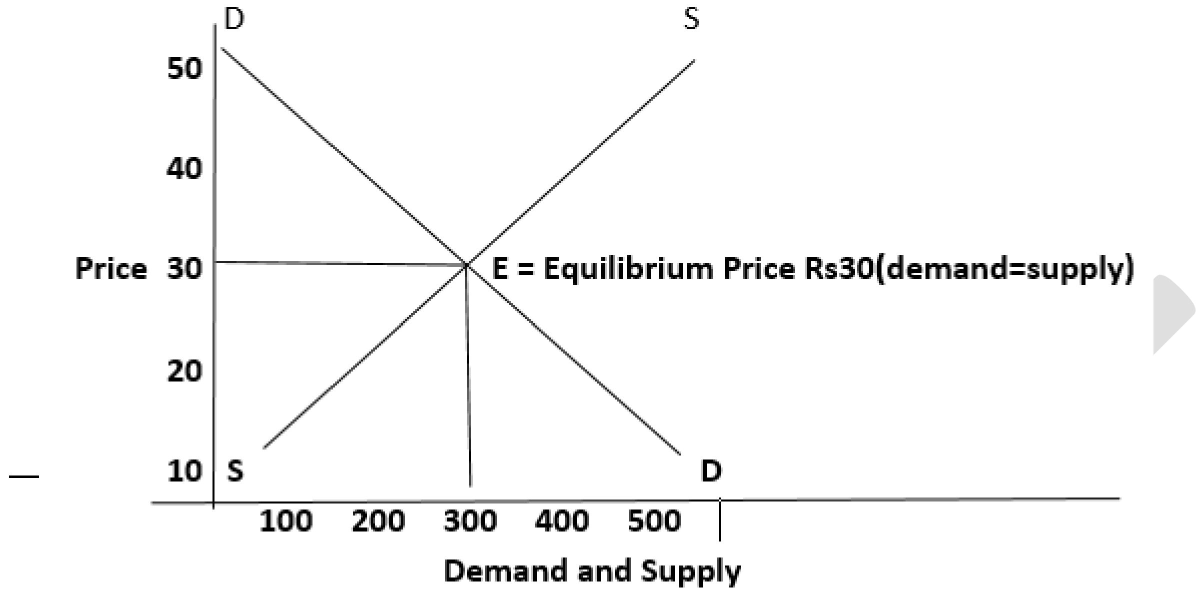
3. The objective of the imposition of fines and penalties is not to earn income, but to discourage the citizens from violating the laws framed by the Government. For example, fines for violating traffic rules.

4.However, the income from this source is small. So, it is not the major source of revenue for the government.

Q.5 **A.**

Price of banana (per dozen)	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS

10	500	100	DD > SS
20	400	**200**	DD > SS
30	**300**	300	DD = SS
40	200	**400**	DD < SS
50	**100**	500	DD < SS

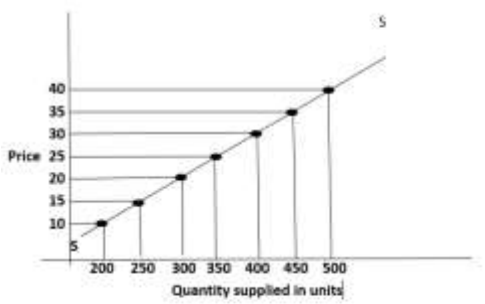


Equilibrium Price = Rs30

B. 1. Observe the table and answer the questions:

Price in Rs	Quantity supplied in Units
10	200
15	**250**
20	300
25	350
30	**400**
35	**450**
40	**500**

2. Draw a diagram for the above supply schedule

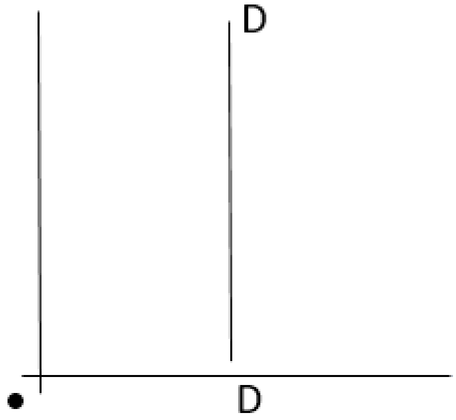


3. State the relationship between price and supply-

There is a Direct relation between Price and Supply.

C. Identify and define the degrees of elasticity of demand from the following demand curves.

1.



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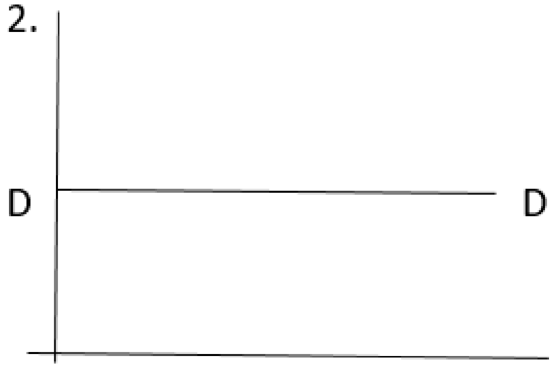

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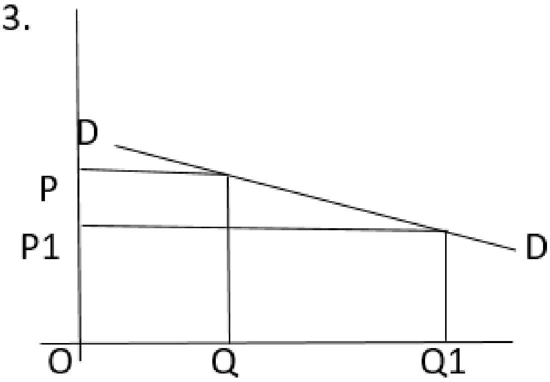
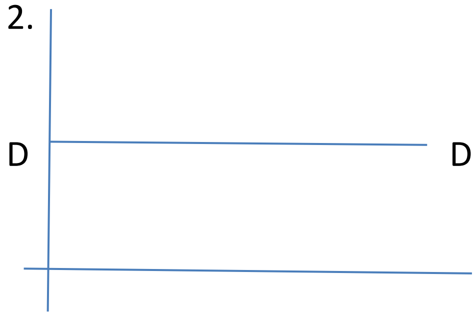


Relatively More Elastic Ed >1

1.

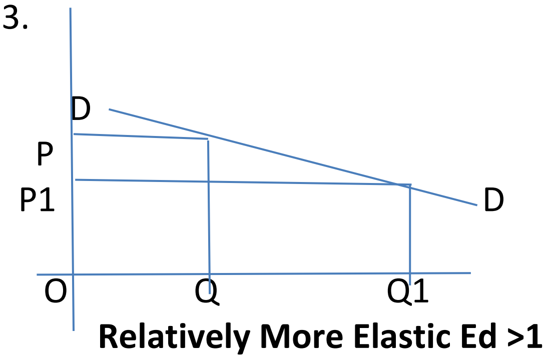
Perfectly Inelastic Demand = Ed=0

2.



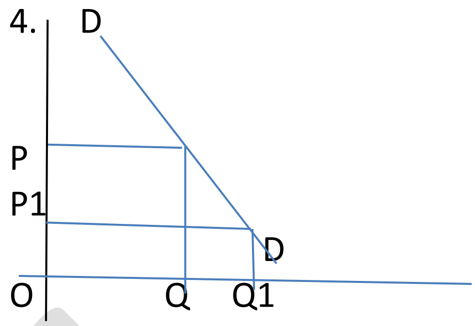
Perfectly Elastic Demand = Ed = ∞

3.



Relatively More Elastic Ed >1

4.



Relatively Less Elastic Ed < 1

Q. 6 Answer in Detail. Any 2 (16 marks)

1. Explain the meaning of Monopolistic Competition with its features.

Meaning and Definition: Monopolistic competition is very realistic in nature. In this market there are some features of perfect competition and some features of monopoly acting together. Prof. E. H. Chamberlin explained this concept in his book "Theory of Monopolistic Competition" which was published in 1933. According to Chamberlin, "Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes."

Following are the main features of monopolistic competition:

1) Fairly large number of sellers: In monopolistic competition, the number of sellers is large but comparatively it is less than that of perfect competition. Due to this reason sellers' behaviour is like monopoly.

2) Fairly large number of buyers: In this market there are fairly large number of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.

3) Product differentiation: Product differentiation is the main feature of monopolistic competition. In this market, there are many firms producing a particular product, but the product of each firm is in some way differentiated from the product of every other firm in the market. This is known as product differentiation. Product differentiation may take the form of brand names, trademarks, peculiarity of package or container, shape, quality, cover, design, colour etc. This means that the product of a firm may find close substitutes and its cross elasticity of demand is very high. For example, mobile handsets, cold drinks etc.

4) Free entry and exit: Under monopolistic competition there is freedom of entry and exit, that is new firms are free to enter the market if there is profit. Similarly, they can leave the market, if they find it difficult to survive.

5) Selling Cost: Selling cost are peculiar to monopolistic competition only. It refers to the cost incurred by the firm to create more demand for its product and thus increase the volume of sales. It includes expenditure on advertisements, radio and television broadcasts, hoardings, exhibitions, window display, free gifts, free samples etc.

6) Close substitutes: In monopolistic competition, goods have close substitutes to each other. For example, different brands of soaps, toothpastes etc.

7) Concept of group: Under monopolistic competition, Chamberlin introduced the concept of 'Group' in place of industry. Industry means the number of firms producing identical products. A 'Group' means a number of firms producing differentiated products which are closely related. For example, group of firms producing medicines, automobiles etc.

2. State and explain Law of Diminishing Marginal Utility.

Law of Diminishing Marginal Utility:

Statement of the Law: According to Prof. Alfred Marshall, "Other things remaining constant, the additional benefit which a person derives from a given increase in his stock of a thing, diminishes with every increase in the stock that he already has." In other words, marginal utility that any consumer derives from successive units of a particular commodity goes on diminishing as his or her total consumption of that commodity increases. In short, the more of a thing you have, the less you want to have more of it.

Assumptions: Following are the assumptions of the law of diminishing marginal utility:

1) Rationality: Consumer is assumed to be rational. It means that his behaviour is normal and he tries to maximize his satisfaction.

2) Cardinal measurement: The law assumes that utility can be cardinally or numerically measured. Hence, mathematical operations are easily possible to know and compare the utility derived from each unit of a commodity.

3) Homogeneity: All units of a commodity consumed are exactly homogeneous or identical in size, shape, colour, taste etc.

4) Continuity: All units of commodity are consumed in quick succession without any lapse of time.

5) Reasonability:All the units of a commodity consumed are of reasonable size. They are neither too big nor too small.

6) Constancy: All the related factors like income, tastes, habits, choices, likes, dislikes of a consumer should remain constant. Marginal utility of money is also assumed to be constant.

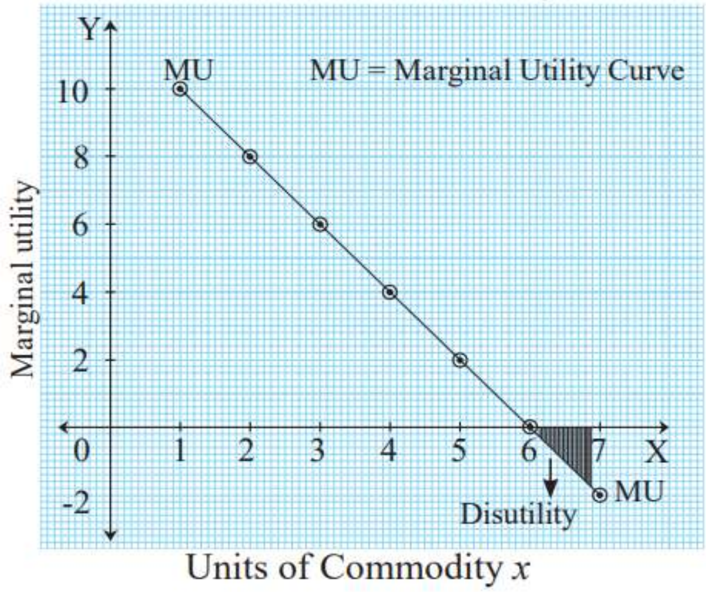
7) Divisibility: The law assumes that the commodity consumed by the consumer is divisible so that it can be acquired in small quantities.

8) Single want: A given commodity can satisfy a single want of a person. The law assumes an experience of a single want which is completely satiable at a given point of time.

Following Table explains the Law of Diminishing Marginal Utility.

Units of X	MU
1	10
2	8
3	6
4	4
5	2
6	0
7	-2

The table shows that marginal utility keeps on diminishing with increase in consumption, further it becomes zero and then negative.



Explanation of the Diagram:

In the above diagram, units of commodity x are measured on X axis and marginal utility is measured on Y axis. Various points of MU are plotted on the graph as per the given schedule. When the locus of all the points is joined, MU curve is derived. MU curve slopes downwards from left to right which shows that MU goes on diminishing with every successive increase in the consumption of a commodity. When MU becomes zero, MU curve intercepts the X axis. Further consumption of a commodity brings disutility (negative utility) which is shown by the shaded portion in the diagram.

3. Explain the various reasons for the growth of public expenditure.

Reasons for Growth in Public Expenditure: It is observed that there is a continuous growth in public expenditure in a developing country like India. Following are some of the important reasons:

1) **2) Increase in the Activities of the Government:**

As mentioned earlier, the modern government performs many functions for the social and economic development of the country. These functions include spread of education, public health, public works, public recreation, social welfare schemes etc. It is observed that new functions are continuously being undertaken and old functions are being performed more efficiently on a large scale by the government. This leads to increase in public expenditure.

2) **Rapid Increase in Population**: Population of developing countries like India is increasing fast. In 2011 Census, it was 121.02 crores. As a result, the government has to incur greater expenditure to fulfil the needs of the increasing population.

3) **Growing Urbanization**: Spread of urbanization is a global phenomenon of the day. This leads to increase in the government expenditure on water supply, roads, energy, schools and colleges, public transport, sanitation etc.

4) **Increasing Defense Expenditure**: In modern times, defense expenditure of the government is increasing even in the peace time due to unstable and hostile international relationships.

5) **Spread of Democracy**: Majority of the countries in the world are democratic in nature. A democratic form of government is expensive due to regular elections and other such activities. This results in the increase in total expenditure of the government.

6) **Inflation**: Just like a private individual, the government has to buy goods and services from the market for the spread of economic and social development. Normally, prices show a rising trend. Due to this, the government has to incur increasing costs.

7) **Industrial Development**: Industrial development leads to an increase in production, employment, and overall growth in the economy. Hence, the government makes huge efforts for implementing various schemes and programmes for industrial development. This results in increase in government expenditure.

8) **Disaster Management**: Many natural and man-made calamities like earthquakes, floods, cyclones, social unrest etc. are occurring more frequently. The government has to spend a huge amount for the disaster management which increases total expenditure. Modern governments are working for 'welfare state'. Hence, there is a continuous increase in the public expenditure.