

A1	Expected Answer / Value Points	Distribution of Marks
1	When with the rise/fall in income of the consumer its demand falls/rises.	1
2	(C) Both (A) and (B)	1
3	Production function is the relation between physical inputs used and the physical output produced.	1
4	(D) All the above	1
5	A firm is called 'price - taker' under perfect competition.	1
6	<p>Positive economics studies "what is".</p> <p>For example, statement that the man is consuming tobacco is a positive statement.</p> <p>whereas, normative economics studies " what should be ".</p> <p>For example consumption of tobacco is bad for health.</p> <p style="text-align: center;"><b>OR</b></p> <p>In microeconomics we study the economic behaviour of an individual economic agent.</p> <p>For example, a consumer etc.</p> <p>whereas, In macroeconomics we study the economic behaviour of the economy as a whole.</p> <p>For example, aggregate demand,.....etc</p>	<p>1</p> <p>1/2</p> <p>1</p> <p>1/2</p> <p>1</p> <p>1/2</p> <p>1</p> <p>1/2</p>
7	<p>PP curve slope downwards because to produce more of a good, the economy has to sacrifice some production of other good. It is because of the limited resources in the economy.</p> <p style="text-align: right;"><b>(Diagram not required)</b></p>	3
8	$E_p = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$ $= \frac{-40}{20}$ $= -2$ <p style="text-align: center;"><b>(No marks if only final answer is given)</b></p>	<p>1 1/2</p> <p>1</p> <p>1/2</p>





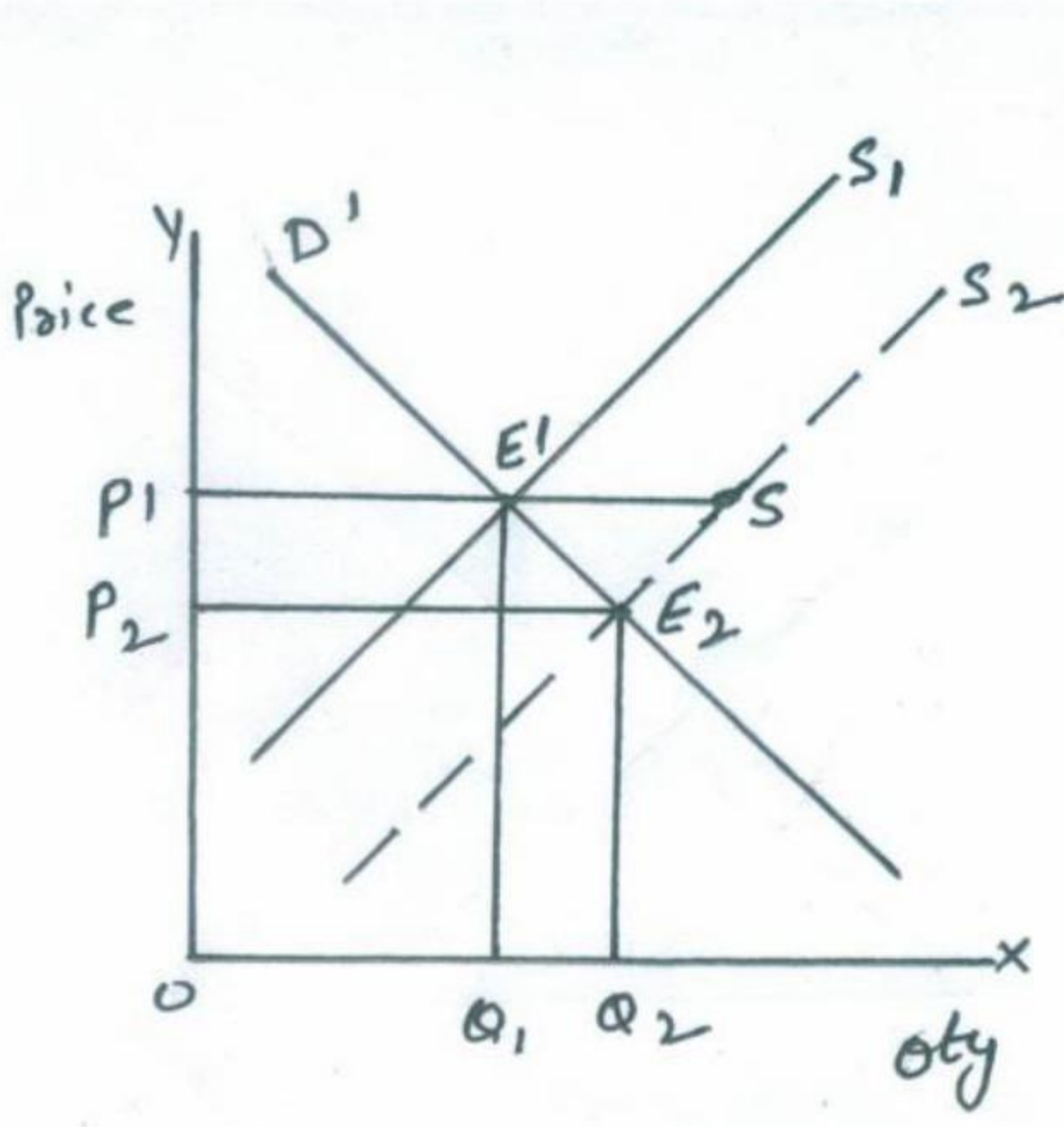
9	<p>1. Improved technology 2. Fall in input prices 3. Fall in tax on the good. 4. Any other factor.</p> <p style="text-align: right;"><b>(Any two) Statement Explanation</b></p>	<p style="text-align: center;"><b>1x2 1x2</b></p>																																																						
10	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Price(Rs)</th> <th>Output(units)</th> <th>TR(Rs)</th> <th>TC(Rs)</th> <th>MR</th> <th>MC</th> </tr> </thead> <tbody> <tr> <td>10</td> <td>1</td> <td>10</td> <td>10</td> <td>10</td> <td>10</td> </tr> <tr> <td>10</td> <td>2</td> <td>20</td> <td>19</td> <td>10</td> <td>9</td> </tr> <tr> <td>10</td> <td>3</td> <td>30</td> <td>26</td> <td>10</td> <td>7</td> </tr> <tr style="border-bottom: 2px solid blue;"> <td>10</td> <td>4</td> <td>40</td> <td>36</td> <td>10</td> <td>10</td> </tr> <tr> <td>10</td> <td>5</td> <td>50</td> <td>48</td> <td>10</td> <td>12</td> </tr> </tbody> </table> <p>Equilibrium</p> <ul style="list-style-type: none"> <li>Equilibrium level of output is 4 units.</li> <li>Because at this output <ul style="list-style-type: none"> <li>(i) <math>MC = MR</math></li> <li>(ii) <math>MC &gt; MR</math> after equilibrium.</li> </ul> </li> </ul> <p style="text-align: center;"><b>OR</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Variable input (units)</th> <th>TP (units)</th> <th>MP (units)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>5</td> <td>5</td> </tr> <tr> <td>2</td> <td>11</td> <td>6</td> </tr> <tr> <td>3</td> <td>15</td> <td>4</td> </tr> <tr> <td>4</td> <td>17</td> <td>2</td> </tr> <tr> <td>5</td> <td>15</td> <td>(-2)</td> </tr> </tbody> </table> <p>Phase I is upto 2 units of output because MP rises or TP rises at an increasing rate. Phase II is from 3 upto 4 units of output because MP falls but is positive or TP rises at a decreasing rate. Phase III is from 5<sup>th</sup> unit of output onwards because MP becomes negative or TP falls.</p>	Price(Rs)	Output(units)	TR(Rs)	TC(Rs)	MR	MC	10	1	10	10	10	10	10	2	20	19	10	9	10	3	30	26	10	7	10	4	40	36	10	10	10	5	50	48	10	12	Variable input (units)	TP (units)	MP (units)	1	5	5	2	11	6	3	15	4	4	17	2	5	15	(-2)	<p style="text-align: center;"><b>2 1 1/2 1/2 2 2</b></p>
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11	<p>The number of buyers is so large that no individual buyer can influence the market price on its own. The proportion of demand of an individual buyer in the total market demand of the good is insignificant. If the single buyer buys more or less, market price is not affected.</p> <p style="text-align: right;"><b>(To be marked as a whole)</b></p>	<p style="text-align: center;"><b>4</b></p>																																																						



12	<p>There are two conditions of equilibrium</p> <ol style="list-style-type: none"> <li><math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y}</math></li> <li>MU falls as more is consumed of a good.</li> </ol> <p><u>Explanation</u></p> <ol style="list-style-type: none"> <li>Suppose <math>\frac{MU_x}{P_x} &gt; \frac{MU_y}{P_y}</math>, it means that per rupee MU from consumption of X is higher than the price to be paid for it. This induces the consumer to buy more of X and less of Y. This reduces <math>MU_x</math> and raises <math>MU_y</math> till <math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y}</math>. (Explanation based on <math>\frac{MU_x}{P_x} &lt; \frac{MU_y}{P_y}</math> is also correct).</li> <li>If MU does not fall as more is consumed, the consumer may not reach equilibrium again.</li> </ol> <p style="text-align: center;"><b>(No diagram or schedule is required)</b></p>	<p>1</p> <p>1</p> <p>3</p> <p>1</p>
13	<p><u>Budget line</u> consists of all the bundles of the two goods which costs exactly equal to the consumer's income.</p> <p><u>Indifference curve</u> is the locus of all the combinations of the two goods, each combination providing the same level of satisfaction.</p> <p>The <u>budget line is downward sloping</u> because to buy more quantity of one good the consumer must give up some quantity of the other good. It is because the consumer's income is fixed.</p> <p>The <u>indifference curve is downward sloping</u> because to consume more quantity of one good, the consumer must give up the consumption of the other good. It is necessary for the consumer to remain on the same level of satisfaction.</p> <p style="text-align: center;"><b>OR</b></p> <ol style="list-style-type: none"> <li><u>Budget line is a straight line</u> because the price of the two goods are constant. It makes the market rate of exchange (or <math>\frac{P_x}{P_y}</math>) between the two good constant. Market rate of exchange is the slope of budget line which is constant.</li> <li>Indifference curve is convex because marginal rate of substitution (MRS) falls as consumer consumes more of the good on X-axis. MRS is nothing but slope of the indifference curve. Slope falls because of the law of diminishing marginal utility.</li> </ol> <p style="text-align: center;"><b>(No diagram required)</b></p>	<p>1</p> <p>1</p> <p>2</p> <p>2</p> <p>3</p> <p>3</p>
14	<ol style="list-style-type: none"> <li>Interest paid on borrowed money is explicit cost because it is recorded in accounts.</li> <li>Imputed rent of the owner's building is implicit cost because it is not actually paid by the owner.</li> <li>Imputed salary of the owner is implicit cost because the owner does not actually receive any salary.</li> </ol>	<p>2</p> <p>2</p> <p>2</p>





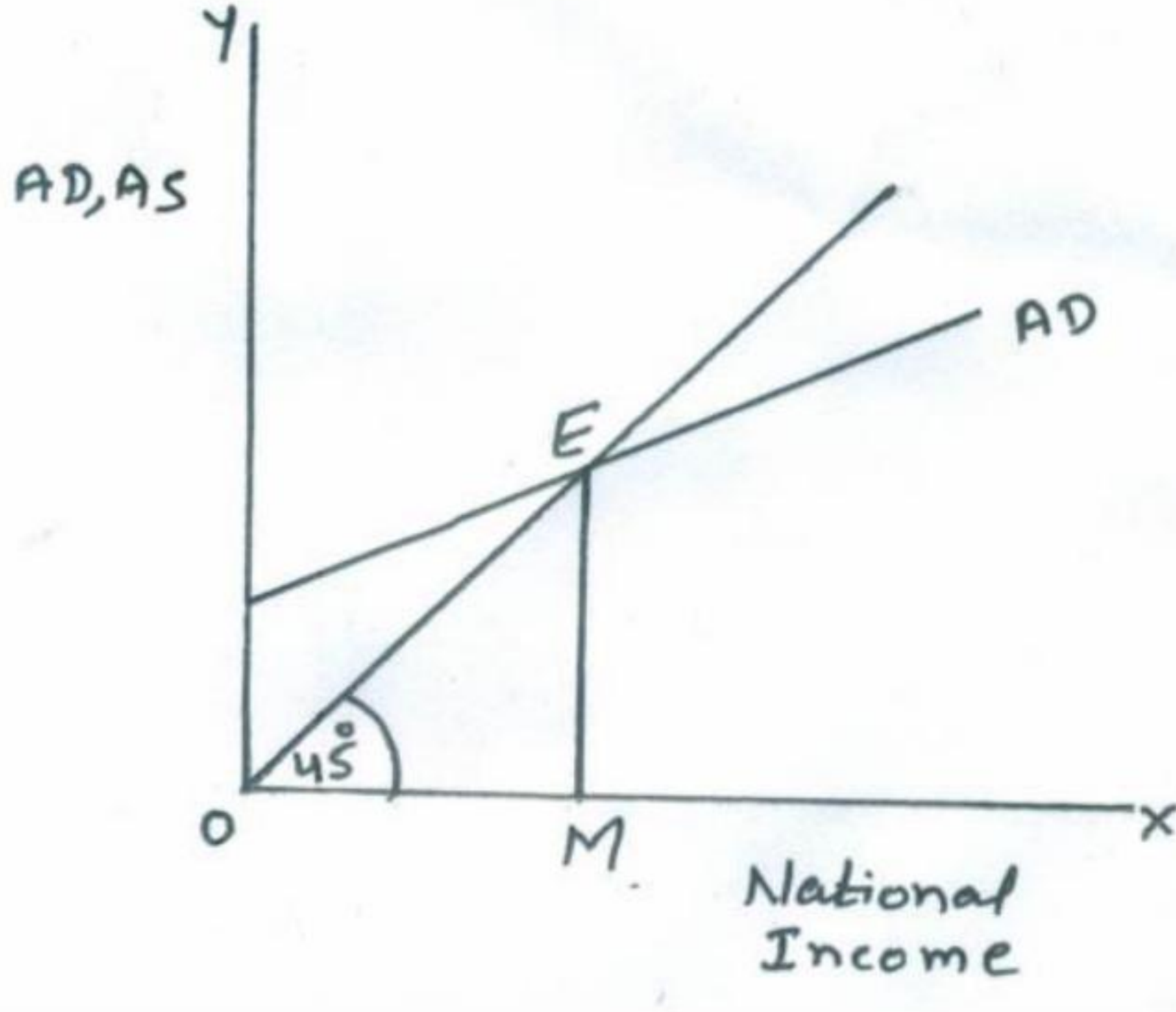
15	 <p>Lower tax shifts supply-curve <math>S_1</math> to <math>S_2</math>. This creates excess supply "<math>E_1S</math>" at price <math>P_1</math>. It leads to competition among producers. As a result price falls. Supply falls along the curve <math>S_2</math> and demand rises along the curve <math>D_1</math>. This continues till demand equals supply at <math>E_2</math>. Price falls to <math>OP_2</math> and quantity rises to <math>OQ_2</math>.</p> <p style="text-align: center;"><b>For the Blind Candidates</b></p> <p>Explanation on the same lines as above but without the use of diagram.</p>	3  3 4 2
<b>SECTION B</b>		
16	(B) Geographical territory.	1
17	When GDP of an year X is calculated on the basis of prices of year X or at current prices, it is called nominal GDP.	1
18	(B) Primary deficit plus interest payments.	1
19	Receipt that neither creates any liability nor lead to any reduction in assets is revenue receipt.	1
20	(C) Credit side of capital account.	1
21	<p>(i) Payment of interest to a bank by an individual is not included because the individual is a consumer.</p> <p>(ii) Expenditure by government on free education is included because it is a final expenditure.</p> <p>(iii) Expenditure on machine installed in a production unit is included because it is an investment expenditure.</p> <p style="text-align: center;"><b>(No marks if the reason is not given)</b></p>	1 1 1





22	<p>Ex-ante variable is the planned or expected value of variable whereas, ex-post variable is the actual or realised value of the variable.</p> <p>Ex-ante variables are the basis of theory of income determination.</p> <p style="text-align: center;"><b>OR</b></p> <p>APC equals total consumption expenditure divided by the total income whereas, APS equal total savings divided by the total income .</p> <p>APC + APS = 1</p>	<p style="text-align: center;">2</p> <p style="text-align: center;">1</p> <p style="text-align: center;">2</p> <p style="text-align: center;">1</p>																																
23	<p>Multiplier(K) = <math>\frac{1}{1-MPC}</math></p> <p>= <math>\frac{1}{1-0.5}</math></p> <p>= 2</p> <p style="text-align: right;"><b>(No marks if only the final answer is given)</b></p>	<p style="text-align: center;">1½</p> <p style="text-align: center;">1</p> <p style="text-align: center;">½</p>																																
24	<p>a) Ban on consumption of tobacco will bring down production of tobacco. Since it is counted in GDP, GDP will fall.</p> <p>b) The ban will improve the health in general. It will thus increase welfare.</p> <p style="text-align: center;"><b>OR</b></p> <p>Increase in inequalities means that rich become richer and poor become poorer. Since utility of money is higher among poor and lower among the rich, any increase in inequalities may not lead to increase in welfare.</p> <p style="text-align: right;"><b>(To be marked as a whole)</b></p>	<p style="text-align: center;">2</p> <p style="text-align: center;">2</p> <p style="text-align: center;">4</p>																																
25	<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 25%; text-align: center;">Deposits</th> <th style="width: 25%; text-align: center;">Loan</th> <th style="width: 35%; text-align: center;">Legal Reserves</th> </tr> </thead> <tbody> <tr> <td>New</td> <td style="text-align: center;">1000</td> <td style="text-align: center;">800</td> <td style="text-align: center;">200</td> </tr> <tr> <td>Next round</td> <td style="text-align: center;">800</td> <td style="text-align: center;">640</td> <td style="text-align: center;">160</td> </tr> <tr> <td>Next round</td> <td style="text-align: center;">640</td> <td style="text-align: center;">512</td> <td style="text-align: center;">128</td> </tr> <tr> <td></td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td></td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td></td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td>All rounds</td> <td style="text-align: center; border-top: 1px solid black;">5000</td> <td style="text-align: center; border-top: 1px solid black;">4000</td> <td style="text-align: center; border-top: 1px solid black;">1000</td> </tr> </tbody> </table> <p>Since LRR is 20%, banks keep Rs.200 as reserves and give loans of Rs 800, which ultimately comes back to banks as deposits. Out of these Rs 800, banks keep 20% i.e. Rs 160 as reserves and give loans worth Rs 640. In this way in every round 80 percent of loans are converted into deposit.</p> <p>In this way total deposits of Rs 5000 are created. The rule for deposit creation is :</p> <p>Total deposit creation = Initial deposits <math>\frac{1}{LRR}</math></p> <p>= 1000 X <math>\frac{1}{0.2}</math> = 5000</p> <p>Since bank deposits are a part of money supply, it is also called money creation.</p> <p style="text-align: right;"><b>(To be marked as a whole)</b> <b>(Answer without schedule is also correct)</b></p>		Deposits	Loan	Legal Reserves	New	1000	800	200	Next round	800	640	160	Next round	640	512	128		-	-	-		-	-	-		-	-	-	All rounds	5000	4000	1000	<p style="text-align: center;">4</p>
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26	<p>Open market operations refer to the sale and purchase of government securities by the central bank in the open market for these securities. When objective is to reduce money supply, the central bank sells securities. Those who buy securities make payment by cheques. The money flows out of commercial banks into the central bank. Any money that flows into the central bank reduces money supply because it is out of circulation.</p>	4
27	 <p>The equilibrium is where <math>AD=AS</math> i.e. at point E where AD curve intersects the <math>45^\circ</math> line. OM is the equilibrium income.</p> <p>When AD is less than AS, inventories accumulate. The producers produce less. This continues till AS falls enough to be equal to AD.</p> <p><b><u>For the blind candidates</u></b></p> <p>Meaning of AD</p> <p>Meaning of AS</p> <p>Equilibrium at <math>AD=AS</math></p> <p>What happens when <math>AD &lt; AS</math> (on the above line)</p>	<p>2</p> <p>2</p> <p>1</p> <p>1</p> <p>1</p> <p>3</p>



<p><b>28</b></p>	<p>Through Ujjwala Yojana, government is trying to reduce gap between the rich and the poor. Government sells LPG gas at a higher rate to those who can afford it. Revenue so collected is used to provide LPG gas connection free of cost and also at subsidized rates to the families below the poverty line . This reduces disposable income of the rich and increases that of the poor, reducing the gap between the two.</p> <p style="text-align: center;"><b>(To be marked as a whole)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Government can influence allocation of resources through taxes, subsidies and expenditure .</p> <ul style="list-style-type: none"> <li>• By imposing <u>taxes</u> at higher rates, it can discourage those occupations which are not beneficial to society .</li> <li>• By giving <u>Subsidies</u> it can encourage certain industries which are beneficial to people.</li> <li>• By <u>opening public undertakings</u> in fields where the private sector is shy of investing , it can promote public utility services.</li> </ul> <p style="text-align: center;"><b>(To be marked as a whole)</b></p>	<p style="text-align: center;">6</p> <p style="text-align: center;">6</p>
<p><b>29</b></p>	<p><u>Sources of demand for foreign exchange</u></p> <ol style="list-style-type: none"> <li>(1) Imports</li> <li>(2) Interest payments on loans from abroad</li> <li>(3) Investment abroad</li> <li>(4) Any other</li> </ol> <p style="text-align: right;"><b>(Any three)</b></p> <p><u>Explanation</u> : These are sources of demand because these lead to outflow of foreign exchange.</p> <p><u>Sources of supply of foreign exchange</u></p> <ol style="list-style-type: none"> <li>(1) Exports</li> <li>(2) Interest received on loans to abroad</li> <li>(3) Investments from abroad</li> <li>(4) Any other</li> </ol> <p style="text-align: right;"><b>(Any three)</b></p> <p><u>Explanation</u> : These are sources of supply because these lead to inflow of foreign exchange.</p>	<p style="text-align: center;"><math>\frac{1}{2} \times 3 = 1\frac{1}{2}</math></p> <p style="text-align: center;"><math>1\frac{1}{2}</math></p> <p style="text-align: center;"><math>\frac{1}{2} \times 3 = 1\frac{1}{2}</math></p> <p style="text-align: center;"><math>1\frac{1}{2}</math></p>





30	<p>a) Private income = ii + v + iii + iv + ix  = 900 + 150 + 20 + 100 + 10  = Rs 1180 crore</p>	$1\frac{1}{2}$ <b>1</b> $\frac{1}{2}$
	<p>b) National income = Private income – vii + viii – x + i + vi  = 1180 – 50 + (-10) – 40 + 30 + 50  = Rs 1160 crore</p> <p style="text-align: center;"><b>(No marks if only final answer is given)</b></p>	$1\frac{1}{2}$ <b>1</b> $\frac{1}{2}$



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