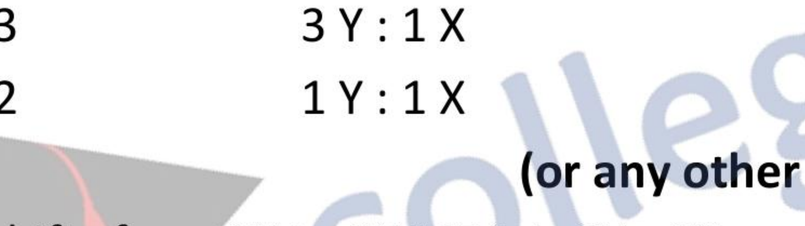
B2	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	Short run production function shows the behaviour of output when only one input is changed while other inputs are held constant.	**1**
2	(C) Both (A) and (B).	**1**
3	When government sets a price below which a producer legally cannot sell its product. It is called 'price floor'.	**1**
4	A good is considered normal when with rise/ fall in income of its consumers, its demand rises /falls.	**1**
5	(C) Both (A) and (B)	**1**
6	A typical production possibility curve is taken to be a concave curve because it is based on the assumption that no resource is equally efficient in production of all the goods. So, when resources are transferred from Y to X, more and more units of Y are to be sacrificed to produce every additional units of X. This increases marginal rate of transformation.	**3**
7	'For whom to produce' means how should the goods and services so produced be distributed. Since goods and services can be bought only by those who have income, the problem amount to how should the income be distributed among people. **OR** 'How to produce' means which technique of production be used. The broad choice is between the labour intensive technique and capital intensive technique. Labour intensive technique uses more labour and less of capital. Capital intensive technique uses more of capital and less of labour.	**3** **3**
8	$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= \frac{\mathbf{10}}{100} \times \frac{60}{-3}$ = -2 **(No marks if only final answer is given)**	$\mathbf{1\frac{1}{2}}$ **1** $\mathbf{^1/_2}$

9	Price (MR) (Rs) / Output (units) / TC (Rs) / MC (Rs) 6 / 1 / 10 / 10 6 / 2 / 15 / 5 6 / 3 / 21 / 6 Equilibrium 6 / 4 / 28 / 7 6 / 5 / 37 / 9	**2**
	Equilibrium output is at 3rd Unit of output.	**1**
	Because at this output	
	(i) MC = MR	$^1/_2$
	(ii) MC > MR, after equilibrium	$^1/_2$
	OR	
	Variable input (units) / TP (units) / MP (units) 1 / 3 / 3 Phase I 2 / 7 / 4 3 / 10 / 3 Phase II 4 / 12 / 2 5 / 11 / -1 Phase III	**2**
	Phase I is upto 2 units because TP rises at an increasing rate or MP rises.	
	Phase II is from 3 upto 4 units of output because TP rises at a decreasing rate. or MP falls but is positive.	**2**
	Phase III is from 5^{th} unit because TP falls or MP is negative.	
10	Factors affecting supply of a good. 1. Price of the good. 2. Prices of input. 3. Change in technology 4. Taxation policy Any other factor **(Any four with brief Explanation)**	**1x4**

11	The number of sellers is so large that no individual firm can influence the market price on its own. The proportion of output produced by an individual firm is insignificant. Therefore an individual firm, whether raises output or reduces output it has no effect on market price of the good.	**4**
12	(a) Indifference curve is downward sloping because to consume more quantity of one good, the consumer must give up the consumption of the other good so that he remains on the same level of satisfaction. (b) Indifference curve is convex because marginal rate of substitution falls as the consumer consumes more of the good on X-axis. Marginal rate of substitution is the slope of the indifference curve. Slope falls because of the law of diminishing marginal utility. **(No diagram is required)** **OR** Marginal rate of substitution is the rate at which consumer is willing to sacrifice one good to get one more unit of the other good. Suppose the two goods are X and Y, then Good X — Good Y — MRS 1 — 6 — — 2 — 3 — 3 Y : 1 X 3 — 2 — 1 Y : 1 X **(or any other relevant example)** When consumer shifts from 1X to 2X MRS is 3Y : 1X. When he shifts from 2X to 3X, MRS is 1Y : 1X.MRS falls as more of X is consumed. It is because when consumer consumes more of X, MU_X falls.This prompts the consumer to sacrifice less and less of Y. **(To be marked as a whole)**	**3** **3** **6**
13	Payment of wage rate (Rs 18000) higher than equilibrium wage rate (Rs 14000)leads to excess supply of labour as shown in the diagram, equal to AB. Since supply is greater than demand, it may lead to unemployment equal to AB.  	3 3
	For the Blind Candidates Numerical example Explanation on the same line as above.	3 3

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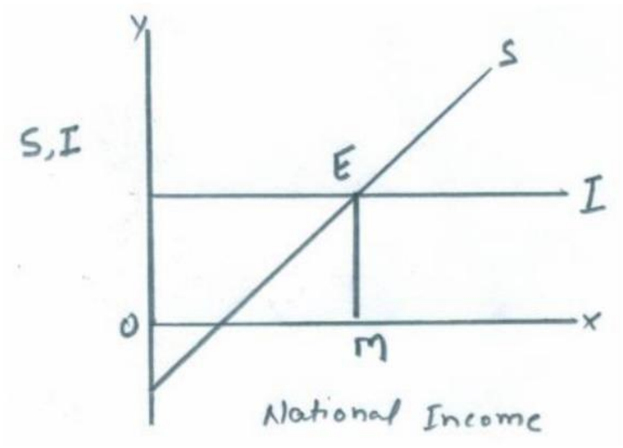
14	Interest paid to bank is <u>explicit cost</u> because it is actually paid. Imputed salary of taxi driven by the owner is <u>implicit cost</u> because it is not actually paid but a cost of taxi business. Payment of annual license fee is <u>explicit cost</u> because it is the actual cost incurred.	**2** **2** **2**
15	There are two conditions of equilibrium 1. $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ 2. MU falls as more is consumed of a good. <u>Explanation</u> 1. Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$, 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 MU_x and raises MU_y till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$. (Explanation based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct). 2. If MU does not fall as more is consumed, the consumer may not reach equilibrium again. **(No diagram or schedule is required)**	**6**
	SECTION B	
16	(C) Customs duty	**1**
17	Capital receipts are the receipts which either create a liability or reduce assets.	**1**
18	(D) Debit side of capital account	**1**
19	(C) Both (A) and (B).	**1**
20	Real gross domestic product is the GDP measured at constant prices.	**1**

21	Marginal propensity to consume equals to change in consumption expenditure divided by change in income Whereas Marginal propensity to save equals to change in savings divided by change in income. MPC + MPS = 1 **OR** Aggregate demand means total expenditure planned to be incurred on final goods and services. **<u>Components</u>** (1) Private final consumption expenditure. (2) Investment expenditure. (3) Government's final expenditure. (4) Net exports	**2** **1** **1** $^{1}/_{2} \times 4$
22	(i) Payment of interest to its depositors by banks is included in national income because it is factor income. (ii) Expenditure on old age pensions is not included because it is a transfer payment. (iii) Expenditure on engine oil by a car service station is not included because it is an intermediate cost.	**1** **1** **1**
23	$\Delta\ y$ = K.ΔI 1000 = K.400 K(Investment Multiplier) = 2.5	$1\frac{1}{2}$ **1** $^{1}/_{2}$
24	(a) Ban on consumption of liquor will bring down consumption of liquor. Since production of liquor is counted in gross domestic product,it will fall. (b) Fall in consumption of liquor will improve health causing rise in welfare. OR Pollution by factories, vehicles, etc is an example of negative externalities, i.e. harm caused by a firm or a person to others for which they are not paid for. Gross domestic product does not take into account such harms caused.	**2** **2** **4**

25	<table><tr><th></th><th>Deposits</th><th>Loan</th><th>Legal Reserves</th></tr><tr><td>New</td><td>5000</td><td>4000</td><td>1000</td></tr><tr><td>Next round</td><td>4000</td><td>3200</td><td>800</td></tr><tr><td></td><td>3200</td><td>2560</td><td>640</td></tr><tr><td></td><td>.</td><td>.</td><td>.</td></tr><tr><td></td><td>.</td><td>.</td><td>.</td></tr><tr><td></td><td>.</td><td>.</td><td>.</td></tr><tr><td>All rounds</td><td>25000</td><td>20000</td><td>5000</td></tr></table> Since LRR = 20 percent,banks keep Rs.1000 as reserve and give loan of Rs.4000 which ultimately comes back to the bank as deposits.Out of these 4000 banks keep 20% i.e. 640 as reserve and give loans of Rs.2560.In this way in every round 80% of the loans are converted into deposits and total deposit of Rs.25000 are created. The rule of deposit creation : Total deposit = New deposit $X \frac{1}{LRR}$. = 5000 X $\frac{1}{0.2}$ = Rs. 25000 crore Since the deposits are a part of money supply,money supply increase by Rs.25000 crore **(Answer without schedule is also correct)** **(To be marked as a whole)**	**6**
26	Bank rate is the rate of interest at which central bank lends to commercial banks. When this rate is raised, borrowing by the commercial banks becomes costly. Banks are forced to raise their lending rates. This reduces demand for loans by the borrowers leading to fall in money supply.	**4**
27	By providing essential items of food grains almost free to the families below the poverty line, government is trying to reduce the gap between the rich and the poor. Government taxes the rich and spends the amount on poor. This reduces disposable income of the rich and increases the disposable income of the poor. **OR** Economic stabilization means limiting the fluctuations in general price level in the economy. To fight inflationary tendencies government can impose heavy taxes to discourage demand as well as reduce its own expenditure. To fight deflationary tendencies government can reduce taxes to encourage demand and as well as increase its own expenditure. Government can also use subsidies for this purpose.	**6** **6**

28	An exchange rate between the two currencies fixed at government level is called <u>fixed exchange rate</u>. An exchange rate determined by the forces of demand and supply in the foreign exchange market is <u>flexible exchange rate</u>. If exchange rate falls, foreign goods become cheaper. This raises imports. If exchange rate falls, domestic goods becomes dearer to the foreign buyers. This reduces exports.	**1** **1** **2** **2**
29	The equilibrium is where S = I i.e. at E, where the savings curve 'S' and investment curve 'I' intersect.  **(Explanation of Diagram)** **If S > I** , it means AD< AS. This leads to unplanned inventories. Producers reduce output till S = I again. **For the Blind Candidates** Given AD = AS C + I = C + S I = S Effect of S > I (On the above lines)	**2** **2** **2** **4** **2**
30	$GDP_{mp} = (vii + v) + vi + iii + ii + viii - iv$ = 600 + 100 + 300 + 500 + 70 + 120 – 20 =Rs 1670 crore. NNDI = GDP_{mp} – ii – ix – i = 1670 – 70 – 30 –(-10) = Rs 1580 crore **(No marks if only the final answer is given)**	$\mathbf{1\frac{1}{2}}$ **1** $\mathbf{\frac{1}{2}}$ $\mathbf{1\frac{1}{2}}$ **1** $\mathbf{\frac{1}{2}}$

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