

<p>10</p>	<p>In case of two goods A and B, a consumer will at equilibrium when:</p> <ul style="list-style-type: none"> • $\frac{MU \text{ of Good A}}{\text{Price of Good A}} = \frac{MU \text{ of Good B}}{\text{Price of Good B}}$ • MU falls as consumption increases <p>If the price of Good B rises, the per rupee Marginal Utility derived from the consumption of Good A will be more than the consumption of Good B. This will create a situation where:</p> $\frac{MU \text{ of Good A}}{\text{Price of Good A}} > \frac{MU \text{ of Good B}}{\text{Price of Good B}}$ <p>This will induce the consumer to reallocate his expenditure from Good B (less satisfying) to Good A (more satisfying). Therefore, consumer will buy more of Good A and less of Good B. As a result, MU derived from consumption of Good A decreases gradually while the MU derived from consumption of Good B increases. Eventually, this process will continue till</p> $\frac{MU \text{ of Good A}}{\text{Price of Good A}} = \frac{MU \text{ of Good B}}{\text{Price of Good B}}$ <p style="text-align: center;">OR</p> <p>Two Properties of indifference Curve (IC) :-</p> <ol style="list-style-type: none"> 1) Indifference curve (IC) is Convex to the point of origin: it is because of diminishing marginal rate of Substitution. In order to gain an additional unit of Good X, the consumer is willing to give up lesser and lesser units of good Y. This is due to application of law of diminishing marginal utility. 2) Indifference curve Slopes downwards from left to right: As a consumer consumes more units of one commodity he must give up the consumption of some units of the other commodity, so that his level of satisfaction remains unchanged. (any other property with valid explanation) 	<p>1 1 1 3 3 3</p>																																			
<p>11</p>	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Quantity sold (in units)</th> <th>Price (in ₹)</th> <th>Total Cost (in ₹)</th> <th>MC (in ₹)</th> <th>MR (in ₹)</th> </tr> </thead> <tbody> <tr><td>1</td><td>10</td><td>12</td><td>2</td><td>10</td></tr> <tr><td>2</td><td>10</td><td>24</td><td>12</td><td>10</td></tr> <tr><td>3</td><td>10</td><td>40</td><td>16</td><td>10</td></tr> <tr><td>4</td><td>10</td><td>50</td><td>10</td><td>10</td></tr> <tr><td>5</td><td>10</td><td>56</td><td>6</td><td>10</td></tr> <tr><td>6</td><td>10</td><td>57</td><td>1</td><td>10</td></tr> </tbody> </table> <p>The conditioned for produces to be in equilibrium are-</p> <ol style="list-style-type: none"> (i) Marginal revenue (MR) is equal to marginal cost (MC). (ii) $MC > MR$ after the point of equilibrium. <p>Since the both the conditions are not satisfied simultaneously, therefore the equilibrium will not be possible.</p>	Quantity sold (in units)	Price (in ₹)	Total Cost (in ₹)	MC (in ₹)	MR (in ₹)	1	10	12	2	10	2	10	24	12	10	3	10	40	16	10	4	10	50	10	10	5	10	56	6	10	6	10	57	1	10	<p>2 1 1 2</p>
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4	10	50	10	10																																	
5	10	56	6	10																																	
6	10	57	1	10																																	
<p>12</p>	<p>The market for a good is in equilibrium when demand for the commodity is equal to the supply of the commodity. Due to innovation in technology, the marginal cost (MC) falls which will lead to an increase in the total market supply of the commodity. This will create excess supply of the commodity in the market leading to competition among sellers to clear their unsold inventories.</p> <p>In such a situation, the supply will contract due to law of supply. The market (both demand and supply) will adjust itself to a lower equilibrium price. Thus, as a result the equilibrium price will fall and equilibrium quantity will rise. (to be marked as a whole) (Any other relevant explanation)</p>	<p>6</p>																																			

SECTION B – MACRO ECONOMICS		
13	Governor of Reserve Bank of India (RBI) Or Money Multiplier = $\frac{1}{\text{Legal Reserve Ratio}}$	1 1
14	a) Loans advanced by world bank or d) Tax receipts (marks should be allotted for either of the two)	1
15	a) Short term borrowings by commercial banks	1
16	Revenue deficit refers to excess of Government's revenue expenditure over its revenue receipts.	1
17	The given statement is not correct. The situation of unintended accumulation of inventories arises when ex-ante aggregate demand is lesser than the ex-ante aggregate supply. This would pile up the stock with the producers, thus to tackle this situation the economy must increase AD. (no marks to be allotted if the reason is not given or wrongly given) Or b) The value of Average Propensity to Consume (APC) can be greater than unit (1). This is because total consumption can be greater than total income, due to the existence of autonomous consumption. (no marks to be allotted if the reason is not given or wrongly given)	3 1 2
18	a) The given statement is true; an excess of aggregate demand over full employment level of aggregate supply represents a situation of inflationary gap. Hence, the production cannot be increased beyond this level. Increase in Aggregate Demand here onwards, will increase only the general price level. b) The given statement is false. Let the value of MPS = x Therefore, MPC = 4x We know that; $MPC + MPS = 1$ $x + 4x = 1$ $5x = 1$ $MPS (x) = 1/5 = 0.20$ Substituting the value of MPS in $K = \frac{1}{MPS} = \frac{1}{0.20} = 5$ Thus, the value of multiplier is 5 and not 4. (no marks to be allotted if the reason is not given or wrongly given)	1 ½ 1½
19	Legal Reserve Ratio (LRR) is the minimum reserve that a commercial bank must maintain as per the instructions of the central bank. Credit creation is inversely related to the legal reserve deposit ratio. For example – suppose the LRR is 0.20 and initial deposits are Rs 1,000. Total credit creation = $\frac{1}{\text{Legal Reserve Ratio}} \times \text{Initial Deposits}$ $= \frac{1}{0.20} \times 1,000 = ₹ 5,000$ Now suppose, if the LRR is 0.50 and initial deposits are Rs 1,000.	1 1



	$\text{Total credit creation} = \frac{1}{\text{Legal Reserve Ratio}} \times \text{Initial Deposits}$ $= \frac{1}{0.50} \times 1,000 = ₹2,000$ <p>Thus, any increase in LRR will decrease the credit creation power of the commercial banks (banking system). (Any other relevant example should be evaluated)</p> <p>Or</p> <p>Banker's Bank:-As the bankers to the banks, the central bank holds surplus cash reserves. It also lends to commercial banks when they are in need of funds. Central bank also provides a large number of routine banking functions to the commercial banks. It also acts as a supervisor and a regulator of the banking system. (any other relevant explanation)</p>	1 1 4																																			
20	$(i) = GVO - (iv) - (ii) - (IT - iii)$ $100 = GVO - 185 - 30 - (0 - 15)$ $GVO = 100 + 200$ $= ₹ 300 \text{ Crs.}$	1 1 1 1																																			
21	<p>The given statement is true. Reallocation of resources refers to re-distribution of resources from one use to another. The government reallocates resources with a view to balance the goals of profit maximisation (by firms) and social welfare (by government). Production of goods which are injurious to health is discouraged through taxation. On the contrary, production of socially useful goods is encouraged through subsidies. If the private sector does not take initiative in certain activities, government directly controls them like water supply, sanitation etc. (to be marked as a whole)</p>	4																																			
22	<p>a) Wages received by an Indian working in British embassy in India is not a part of economic territory of India, as British Embassy is a part of Economic territory of Britain.</p> <p>b) Financial aid is a transfer income as no factor service is provided in return. Hence, it is not included while estimating the value of GDP.</p> <p>c) Purchase of second hand machinery from abroad is not included as the value of imports are deducted while estimation GDP of a country.</p> <p>Or</p> <p>Real National Income and Nominal National Income: When National Income (Product) of the current year is estimated on the basis of price prevailing in the current year, it is called Nominal National income whereas When national income (product) of the current year is estimated on the basis of price prevailing in the base year, it is called Real National income.</p> <table border="1"> <thead> <tr> <th>Commodities</th> <th>Quantity of the Current Year (Q1)</th> <th>Quantity of the Base (Q0)</th> <th>Price of the Current Year (P1)</th> <th>Price of the Base Year (P0)</th> <th>P0Q1 (Real NI)</th> <th>P1Q1 (Nominal NI)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>10</td> <td>5</td> <td>20</td> <td>10</td> <td>100</td> <td>200</td> </tr> <tr> <td>B</td> <td>20</td> <td>10</td> <td>30</td> <td>20</td> <td>400</td> <td>600</td> </tr> <tr> <td>C</td> <td>5</td> <td>2</td> <td>50</td> <td>40</td> <td>200</td> <td>250</td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td></td> <td></td> <td>700</td> <td>1,050</td> </tr> </tbody> </table> <p>In the above example the Real NI ($\sum P_0Q_1$) = ₹ 700 and Nominal NI ($\sum P_1Q_1$) = ₹ 1,050</p>	Commodities	Quantity of the Current Year (Q1)	Quantity of the Base (Q0)	Price of the Current Year (P1)	Price of the Base Year (P0)	P0Q1 (Real NI)	P1Q1 (Nominal NI)	A	10	5	20	10	100	200	B	20	10	30	20	400	600	C	5	2	50	40	200	250	Total					700	1,050	2 2 2 3 3
Commodities	Quantity of the Current Year (Q1)	Quantity of the Base (Q0)	Price of the Current Year (P1)	Price of the Base Year (P0)	P0Q1 (Real NI)	P1Q1 (Nominal NI)																															
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23	<p>(a) Autonomous transactions are those international economic transactions which take place due to some economic motive such as profit maximisation. These transactions are independent of the state of country's BOP.</p> <p style="text-align: center;">Whereas;</p> <p>Accommodating transactions are those international economic transactions that occur to cover deficit/ surplus arising out of autonomous transactions. BOP transactions are influenced by the state of BOP.</p> <p>b) (i) Foreign Exchange Rate : It is the rate at which one currency can be converted into another currency.</p> <p>(ii) Foreign Currency : foreign currency is the currency other than domestic currency.</p> <p>(iii) Devaluation of currency: reduction in the value of domestic currency by the government with respect to a given foreign currency.</p>	<p style="text-align: center;">3</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p>
24	<p>(i) We know that at equilibrium income</p> $S = I$ $(-)10 + 0.20 Y = 100$ $Y = \frac{110}{0.20}$ $= ₹ 550 \text{ Crs.}$ <p>(ii) $AD = C + I$ $AD = (10 + 0.8Y) + 100$ $AD = (0.8Y) + 110$ AD when Income (Y) is ₹ 300 Crs. (given) $AD = 0.8 (300) + 110$ $= 240 + 110$ $AD = ₹ 350 \text{ Crs.}$</p>	<p style="text-align: center;">½</p> <p style="text-align: center;">½</p> <p style="text-align: center;">½</p> <p style="text-align: center;">½</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">½</p> <p style="text-align: center;">½</p>

