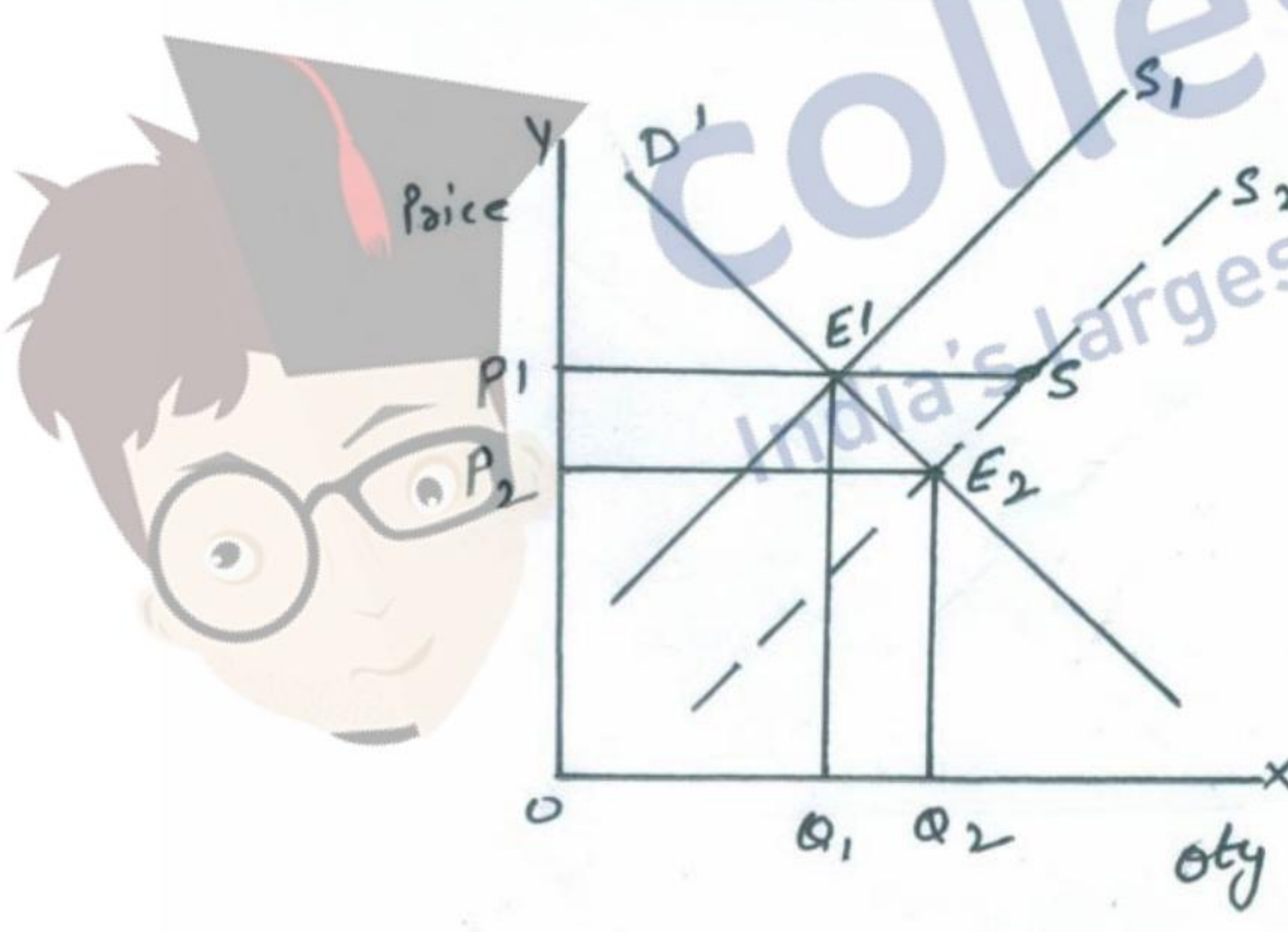


A2	Expected Answer / Value Points	Distribution of Marks
1	Production function is the relation between physical inputs used and the physical output produced.	1
2	(D) All the above	1
3	A firm is called 'price-taker' under perfect competition	1
4	When with the rise/fall in income of the consumer its demand falls/rises.	1
5	(C) Both (A) and (B)	1
6	<p>PP curve slopes downwards because to produce more of a good, the economy has to sacrifice some production of other goods. It is because of the limited resources in the economy.</p> <p style="text-align: center;"><b>(Diagram not required)</b></p>	3
7	<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>
8	$E_p = \frac{\text{percent change in demand}}{\text{percent change in price}}$ $= \frac{30}{-20}$ $=-1.5$ <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>



<p><b>9</b></p>	<table border="1"> <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> <td>10</td> <td>4</td> <td>40</td> <td>36</td> <td>10</td> <td>10</td> <td>Equilibrium</td> </tr> <tr> <td>10</td> <td>5</td> <td>50</td> <td>48</td> <td>10</td> <td>12</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Equilibrium level of output is 4 units of output.</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"> <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.</p> <p>Phase II is from 3 upto 4 units of output because MP falls but is positive or TP rises at a decreasing rate.</p> <p>Phase III is from 5<sup>th</sup> unit of output onward 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	Equilibrium	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</b></p> <p style="text-align: center;"><b>1</b></p> <p style="text-align: center;"><math>\frac{1}{2}</math></p> <p style="text-align: center;"><math>\frac{1}{2}</math></p> <p style="text-align: center;"><b>2</b></p>
Price(Rs)	Output(units)	TR(Rs)	TC(Rs)	MR	MC																																																				
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<p><b>10</b></p>	<ol style="list-style-type: none"> <li>Improved technology</li> <li>Fall in input prices</li> <li>Fall in tax on the good.</li> <li>Any other factor.</li> </ol> <p style="text-align: right;"><b>(Any two)</b> <b>Statement</b> <b>Explanation</b></p>	<p style="text-align: center;"><b>1x2</b></p> <p style="text-align: center;"><b>1x2</b></p>																																																							
<p><b>11</b></p>	<p>When buyers differentiate between the products produced by different firms, they are willing to pay different prices for the products produced by different firms. This gives some control to the individual producers who are in a position to influence the market price on their own.</p> <p style="text-align: right;"><b>(To be marked as a whole)</b></p>	<p style="text-align: center;"><b>4</b></p>																																																							

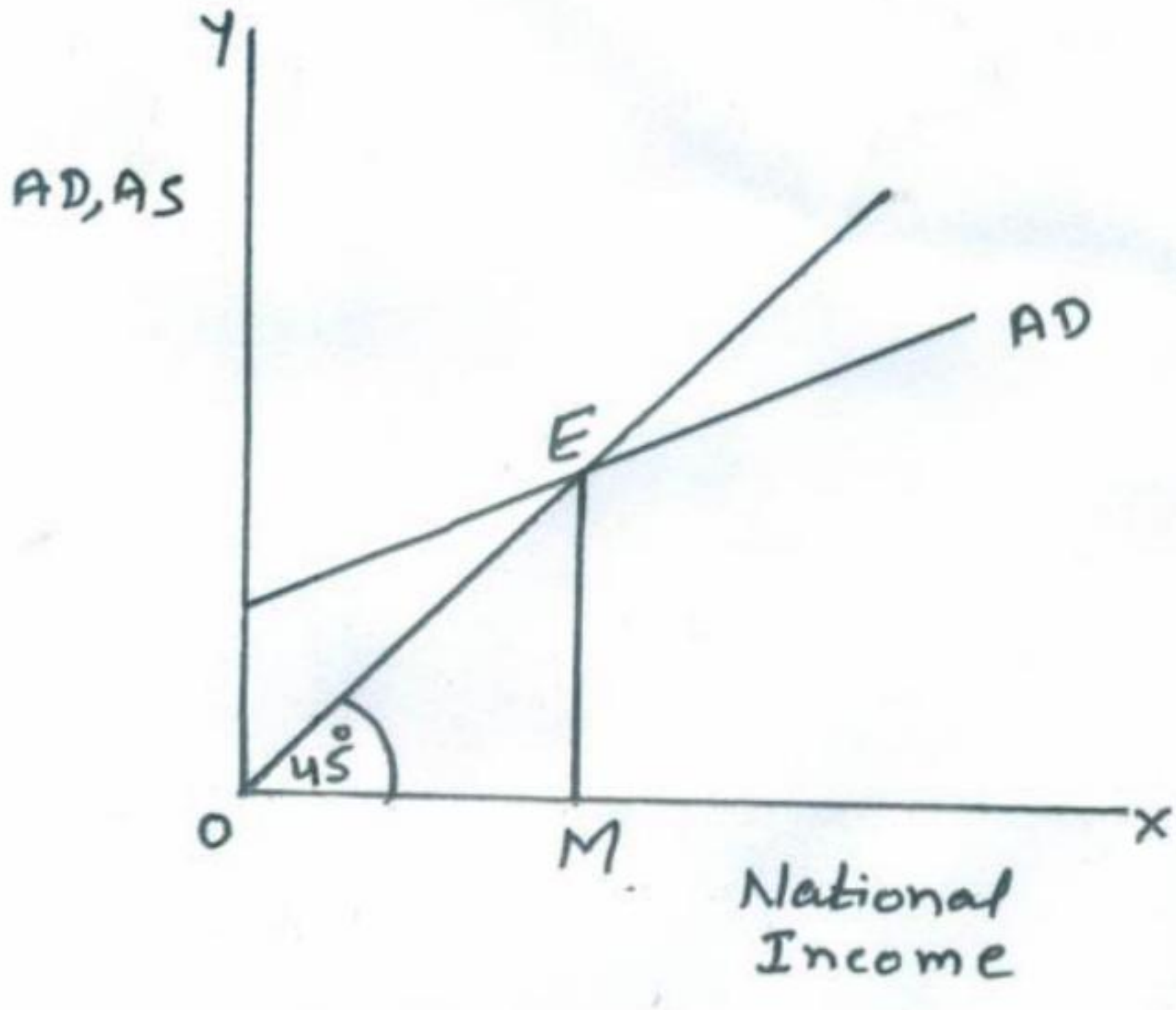
<p>12</p>	<p><u>Budget line</u> consists of all the bundles of the two goods which costs exactly equal to the consumer's income.</p> <p><u>Indifference curve</u> is the locus of all the combinations of the two goods, each combination providing the same level of satisfaction.</p> <p>The <u>budget line 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: right;"><b>(No diagram required)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>a) <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.</p> <p>b) 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.</p> <p style="text-align: right;"><b>(No diagram required)</b></p>	<p>1</p> <p>1</p> <p>2</p> <p>2</p> <p>3</p> <p>3</p>
<p>13</p>	<div style="text-align: center;">  </div> <p>Lower tax shifts supply-curve <math>S_1</math> to <math>S_2</math> This creates excess supply "<math>E_1 S</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> <p style="text-align: right;"><b>Schedule</b></p>	<p>3</p> <p>3</p> <p>4</p> <p>2</p>

14	<p>Imputed rent of land owned by the farmer is implicit cost because it does not enter into the account.</p> <p>Payment of interest on borrowed money is explicit cost because it is an actually incurred expenditure.</p> <p>Imputed wages of the family members is implicit cost because it does not enter into account.</p>	<p>2</p> <p>2</p> <p>2</p>
15	<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>
<b>SECTION B</b>		
16	(B) Primary deficit plus interest payments.	1
17	Receipt that neither creates any liability nor lead to any reduction in assets is revenue receipt.	1
18	(C) Credit side of capital account.	1
19	(B) Geographical territory.	1
20	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
21	<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>2</p> <p>1</p> <p>2</p> <p>1</p>
22	<ol style="list-style-type: none"> <li>Payment of interest to a bank by an individual is not included because the individual is a consumer.</li> <li>Expenditure by government on free education is included because it is a final expenditure.</li> <li>Expenditure on machine installed in a production unit is included because it is an investment expenditure.</li> </ol> <p style="text-align: center;"><b>(No marks if the reason is not given)</b></p>	<p>1</p> <p>1</p> <p>1</p>



23	<p>Multiplier (k) = <math>\frac{1}{1-MPC}</math></p> <p><math>= \frac{1}{1-0.8}</math></p> <p>= 5</p> <p style="text-align: center;"><b>(No marks if only the final answer is given)</b></p>	<p><math>1\frac{1}{2}</math></p> <p>1</p> <p><math>1\frac{1}{2}</math></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: center;"><b>(To be marked as a whole)</b></p>	<p>2</p> <p>2</p> <p>4</p>																																
25	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>Deposits</th> <th>Loan</th> <th>Legal Reserves</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>10,000</td> <td>9000</td> <td>1000</td> </tr> <tr> <td>Next round</td> <td>9000</td> <td>8100</td> <td>900</td> </tr> <tr> <td>Next round</td> <td>8100</td> <td>7290</td> <td>810</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></td> <td style="border-top: 1px solid black;">100,000</td> <td style="border-top: 1px solid black;">90,000</td> <td style="border-top: 1px solid black;">10,000</td> </tr> </tbody> </table> <p>Since LRR is 10%, banks keep Rs. 1000 as reserves and give loans of Rs 9000 which ultimately comes back to bank as deposits. Out of these Rs 9000 banks keep 10% i.e. Rs 900 crore as reserves and gives loans worth Rs 8100. In this way in every round 80% of the loans are converted into deposits totalling to Rs 100000. The rule for deposit creation is:</p> <p>Total deposit creation = New deposits <math>\frac{1}{LRR}</math></p> <p style="margin-left: 40px;"><math>= 10000 \times \frac{1}{1-0.9}</math></p> <p style="margin-left: 40px;">=Rs 100000</p> <p style="text-align: center;"><b>(Answer without schedule is also correct)</b></p> <p style="text-align: center;"><b>(To be marked as a whole)</b></p>		Deposits	Loan	Legal Reserves	New	10,000	9000	1000	Next round	9000	8100	900	Next round	8100	7290	810	-	-	-	-	-	-	-	-	-	-	-	-		100,000	90,000	10,000	<p>4</p>
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26	<p>CRR is the ratio of deposits kept by the commercial banks with the central bank. When central bank wants to increase money supply it reduces CRR. Banks keep less amount as reserves. The saved amount now can be used for giving loans. This raises deposit creation capacity of commercial banks. Since bank deposits are a part of money supply, money supply increases.</p> <p style="text-align: center;"><b>(To be marked as a whole)</b></p>	<p>4</p>																																

<p><b>27</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>28</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>

<p>29</p>	 <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 style="text-align: center;"><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>2</p> <p>1</p> <p>1</p> <p>1</p> <p>3</p>
<p>30</p>	<p>Private Income = <math>ii + v + x + viii</math>  <math>= 500+100+40+60</math>  <math>= \text{Rs. } 700 \text{ crore}</math></p> <p><math>NDP_{fc} = \text{Private Income} - iii - vi - ix + vii + i + iv</math>  <math>= 700 - 20 - (-10) - 30 + 10 + 35 + 25</math>  <math>= \text{Rs. } 730 \text{ crore}</math></p> <p style="text-align: center;"><b>(No marks if only final answer is given)</b></p>	<p><math>1\frac{1}{2}</math></p> <p>1</p> <p><math>\frac{1}{2}</math></p> <p><math>1\frac{1}{2}</math></p> <p>1</p> <p><math>\frac{1}{2}</math></p>

\*These answers are meant to be used by evaluators