

B1	Expected Answer / Value Points	Distribution of Marks
SECTION-A		
1	A good is considered normal when with rise/ fall in income of its consumers, its demand rises /falls.	1
2	(C) Both (A) and (B)	1
3	Short run production function shows the behaviour of output when only one input is changed while other inputs are held constant.	1
4	(C) Both (A) and (B)	1
5	When government sets a price below which a producer legally cannot sell its product It is called 'price floor'.	1
6	'For whom to produce' means that 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 amounts to how should the income be distributed among people.	3
	<p style="text-align: center;">OR</p> <p>'How to produce' means that 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.</p>	3
7	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 unit of X. This increases marginal rate of transformation.	3
8	$E_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{-50}{1} \times \frac{1}{100}$ $= -0.5$	1½ 1 1/2
	(No marks if only final answer is given)	

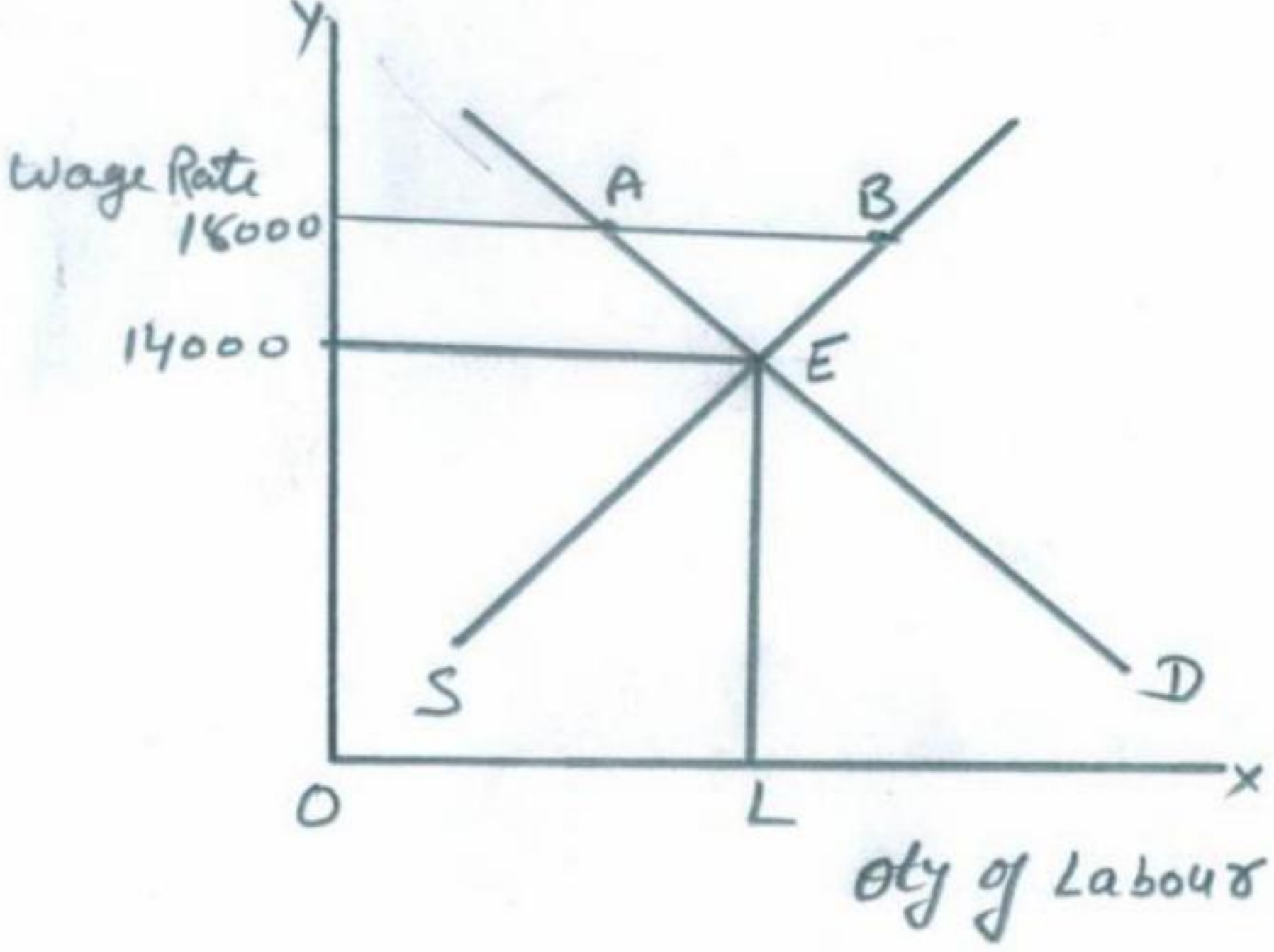


9	<p>Factors affecting supply of a good.</p> <ol style="list-style-type: none"> 1. Price of the good. 2. Prices of input. 3. Change in technology 4. Taxation policy etc (Any other factor) <p style="text-align: right;">(Any four with brief explanation)</p>	1x4																																																																
10	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Price (Rs)</th> <th style="width: 10%;">Output (units)</th> <th style="width: 10%;">TR</th> <th style="width: 10%;">TC (Rs)</th> <th style="width: 10%;">MC (Rs)</th> <th style="width: 10%;">MR</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>6</td> <td>1</td> <td>6</td> <td>10</td> <td>10</td> <td>6</td> <td></td> </tr> <tr> <td>6</td> <td>2</td> <td>12</td> <td>15</td> <td>5</td> <td>6</td> <td></td> </tr> <tr style="border-bottom: 2px solid black;"> <td>6</td> <td>3</td> <td>18</td> <td>21</td> <td>6</td> <td>6</td> <td style="text-align: center;">Equilibrium</td> </tr> <tr> <td>6</td> <td>4</td> <td>24</td> <td>28</td> <td>7</td> <td>6</td> <td></td> </tr> <tr style="border-bottom: 2px solid black;"> <td>6</td> <td>5</td> <td>30</td> <td>37</td> <td>9</td> <td>6</td> <td></td> </tr> </tbody> </table> <p>Equilibrium output is at 3rd Unit Because at this output</p> <p style="margin-left: 20px;">(i) MC = MR (ii) MC > MR, after equilibrium</p> <p style="text-align: center;">OR</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Variable input (units)</th> <th style="width: 20%;">TP (units)</th> <th style="width: 20%;">MP (units)</th> <th style="width: 40%;"></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>3</td> <td>3</td> <td rowspan="2" style="text-align: center;">} Phase I</td> </tr> <tr> <td>2</td> <td>7</td> <td>4</td> </tr> <tr> <td>3</td> <td>10</td> <td>3</td> <td rowspan="2" style="text-align: center;">} Phase II</td> </tr> <tr> <td>4</td> <td>12</td> <td>2</td> </tr> <tr> <td>5</td> <td>11</td> <td>-1</td> <td style="text-align: center;">} Phase III</td> </tr> </tbody> </table> <p>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. Phase III is from 5th unit because TP falls or MP is negative.</p>	Price (Rs)	Output (units)	TR	TC (Rs)	MC (Rs)	MR		6	1	6	10	10	6		6	2	12	15	5	6		6	3	18	21	6	6	Equilibrium	6	4	24	28	7	6		6	5	30	37	9	6		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	<p>2</p> <p>1 1/2 1/2</p> <p>2</p> <p>2</p>
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11	<p>Few firms produce most of the output of the industry. The implication is that the number of firms is small enough to make a guess of the likely reactions of the rival firms possible and influence the price accordingly.</p>	4																																																																



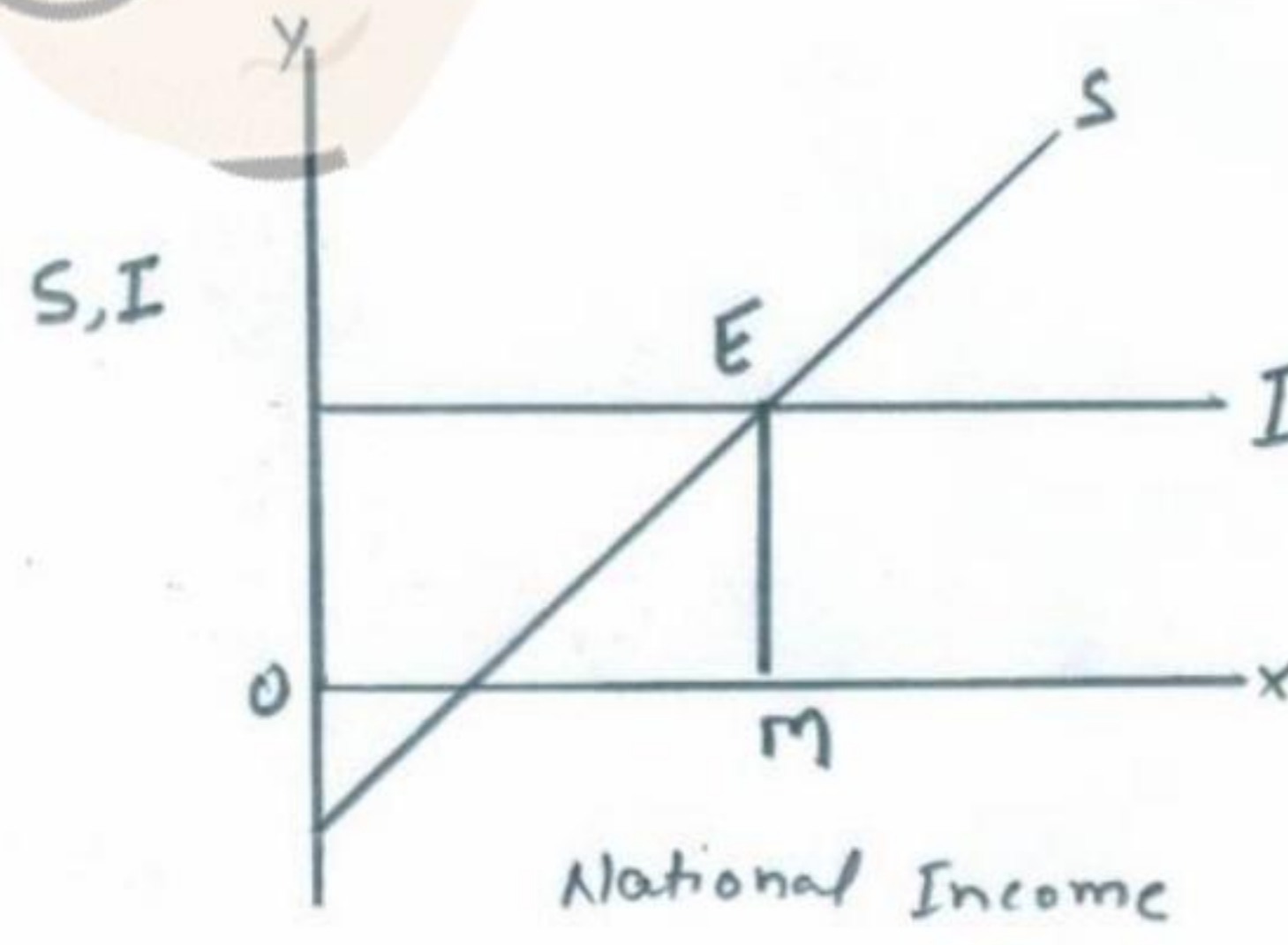
12	<p>There are two conditions of equilibrium</p> <ol style="list-style-type: none"> $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ MU falls as more is consumed of a good. <p><u>Explanation</u></p> <ol style="list-style-type: none"> Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$, it means that per rupee MU from 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). If MU does not fall as more is consumed, the consumer may not reach equilibrium again. <p style="text-align: center;">(No diagram or schedule is required)</p>	6												
13	<p>(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.</p> <p>(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.</p> <p style="text-align: center;">(No diagram is required)</p> <p style="text-align: center;">OR</p> <p>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</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Good X</th> <th>Good Y</th> <th>MRS</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>6</td> <td>—</td> </tr> <tr> <td>2</td> <td>3</td> <td>3 Y : 1 X</td> </tr> <tr> <td>3</td> <td>2</td> <td>1 Y : 1 X</td> </tr> </tbody> </table> <p style="text-align: center;">(or any other relevant example)</p> <p>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.</p> <p style="text-align: center;">(To be marked as a whole)</p>	Good X	Good Y	MRS	1	6	—	2	3	3 Y : 1 X	3	2	1 Y : 1 X	6
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14	<p>Rent of premises is <u>explicit cost</u> because the owner of the firm actually pays it and is shown in accounts.</p> <p>Imputed interest on self-finance is <u>implicit cost</u> because owner actually does not pay but it is a cost.</p> <p>Imputed salary of the owner is <u>implicit cost</u> because no such payment is shown in accounts.</p>	2 2 2												



<p>15</p>	<p>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.</p>  <p style="text-align: center;">For the Blind Candidates</p> <p>Numerical example Explanation on the same line as above.</p>	<p>3 3 3</p>
SECTION B		
<p>16</p>	<p>(c) Both (A) and (B).</p>	<p>1</p>
<p>17</p>	<p>Real gross domestic product is the GDP measured at constant prices.</p>	<p>1</p>
<p>18</p>	<p>(c) Customs duty</p>	<p>1</p>
<p>19</p>	<p>Capital receipts are the receipts which either create a liability or reduce assets.</p>	<p>1</p>
<p>20</p>	<p>(d) Debit side of capital account</p>	<p>1</p>
<p>21</p>	<p>(i) Payment of interest by banks is included in national income because it is factor income paid by a production unit. (ii) Expenditure on old age pension 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.</p>	<p>1 1 1</p>

<p>22</p>	<p>Marginal propensity to consume equals to change in consumption expenditure divided by change in income</p> <p>Whereas Marginal propensity to save equals to change in savings divided by change in income.</p> <p>$MPC + MPS = 1$</p> <p style="text-align: center;">OR</p> <p>Aggregate demand means total expenditure planned to be incurred on final goods and services.</p> <p><u>Components</u></p> <p>(1) Private final consumption expenditure.</p> <p>(2) Investment expenditure.</p> <p>(3) Government's final expenditure.</p> <p>(4) Net exports</p>	<p>2</p> <p>1</p> <p>1</p> <p>$\frac{1}{2} \times 4$</p>
<p>23</p>	<p>$\Delta Y = K. \Delta I$</p> <p>$2500 = K.500$</p> <p>$K = 5$</p> <p>i.e. Multiplier is 5</p>	<p>$1\frac{1}{2}$</p> <p>1</p> <p>$\frac{1}{2}$</p>
<p>24</p>	<p>(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.</p> <p>(b) Fall in consumption of liquor will improve health causing rise in welfare.</p> <p style="text-align: center;">OR</p> <p>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.</p>	<p>2</p> <p>2</p> <p>4</p>



<p>25</p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Deposits</th> <th>Loans</th> <th>Legal Reserves</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>1000</td> <td>800</td> <td>200</td> </tr> <tr> <td>Next round</td> <td>800</td> <td>640</td> <td>160</td> </tr> <tr> <td>Next round</td> <td>640</td> <td>512</td> <td>128</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><u>5000</u></td> <td><u>4000</u></td> <td><u>1000</u></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 800, banks keep 20% i.e. Rs 160 as reserve and give loans worth Rs 640. In this way in every round 80 percent of loans are converted into deposit. In this way total deposits of Rs 5000 are created. The rule of deposit creation is:</p> <p>Total deposit creation = New deposits $\times \frac{1}{LRR}$ $= 1000 \times \frac{1}{0.2} = 5000$</p> <p>Since bank deposits are a part of money supply, it is also called money creation.</p> <p style="text-align: center;">(To be marked as a whole) (Answer without schedule is also correct)</p>		Deposits	Loans	Legal Reserves	New	1000	800	200	Next round	800	640	160	Next round	640	512	128		-	-	-		-	-	-		-	-	-	All rounds	<u>5000</u>	<u>4000</u>	<u>1000</u>	<p style="text-align: center;">4</p>
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<p>26</p>	<p>Reverse Repo Rate is the rate of interest paid by the central bank on surplus deposits made by the commercial banks. When this rate is lowered it discourages the commercial banks to park their funds with the central bank. This increases lending capacity of the commercial banks. Lendings increase, so money supply increases.</p>	<p style="text-align: center;">4</p>																																
<p>27</p>	<p>The equilibrium is where $S = I$ i.e. at E, where the savings curve 'S' and investment curve 'I' intersect.</p> <div style="text-align: center;">  </div> <p style="text-align: center;">(Explanation of Diagram)</p> <p>If $S > I$, it means $AD < AS$. This leads to unplanned inventories. Producers reduce output till $S = I$ again</p> <p style="text-align: center;">For the Blind Candidates</p> <p>Given $AD = AS$ $C + I = C + S$ $I = S$ Effect of $S > I$ (On the above lines)</p>	<p style="text-align: center;">2</p> <p style="text-align: center;">2</p> <p style="text-align: center;">2</p> <p style="text-align: center;">4</p> <p style="text-align: center;">2</p>																																

<p>28</p>	<p>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 the poor. This reduces disposable income of the rich and increases the disposable income of the poor.</p> <p style="text-align: center;">OR</p> <p>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.</p> <p>To fight deflationary tendencies government can reduce taxes to encourage demand as well as increase its own expenditure.</p> <p>Government can also use subsidies for this purpose.</p>	<p style="text-align: center;">6</p> <p style="text-align: center;">6</p>
<p>29</p>	<p>An exchange rate between the two currencies fixed at government level is called <u>fixed exchange rate</u>.</p> <p>An exchange rate determined by the forces of demand and supply in the foreign exchange market is <u>flexible exchange rate</u>.</p> <p>If exchange rate falls, foreign goods become cheaper. This raises imports.</p> <p>If exchange rate falls, domestic goods becomes dearer to the foreign buyers. This reduces exports.</p>	<p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">2</p> <p style="text-align: center;">2</p>
<p>30</p>	<p>$NDP_{fc} = xi + ix + vii + (iii + vi + i)$ $= 600 + 100 + 150 + 30 + 20 + 50$ $= \text{Rs } 950 \text{ Crore}$</p> <p>$GNDI = NDP_{fc} + iv - v + x - viii$ $= 950 + 60 - 20 + 70 - (-10)$ $= \text{Rs } 1070 \text{ Crore}$</p> <p style="text-align: right;">(No marks if only the final answer is given)</p>	<p style="text-align: center;">$1\frac{1}{2}$</p> <p style="text-align: center;">1</p> <p style="text-align: center;">$1\frac{1}{2}$</p> <p style="text-align: center;">$1\frac{1}{2}$</p> <p style="text-align: center;">1</p> <p style="text-align: center;">$1\frac{1}{2}$</p>