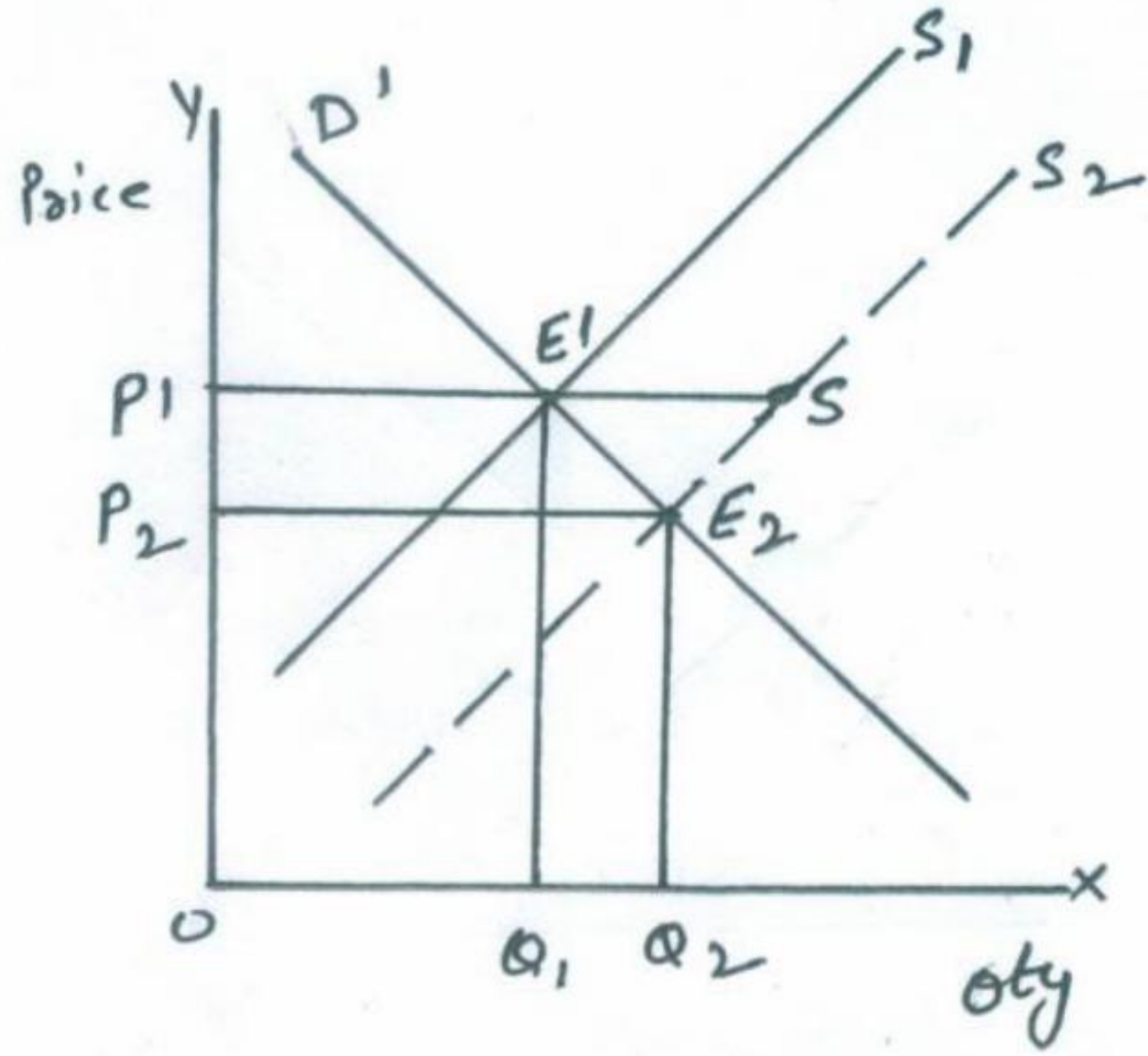


A3	Expected Answer / Value Points	Distribution of Marks
1	A firm is called price taker under perfect competition.	1
2	When with the rise/fall in income of the consumer its demand falls/rises.	1
3	(C) Both (A) and (B)	1
4	Production function is the relation between physical inputs used and the physical output produced.	1
5	(D) All the above	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;">OR</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>
7	<p>PP curve slopes 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;">(Diagram not required)</p>	3
8	$E_p = \frac{\text{Percent change in demand}}{\text{Percent change in price}}$ $= \frac{60}{-50}$ $=-1.2$ <p style="text-align: center;">(No marks if only final answer is given)</p>	<p>1 1/2</p> <p>1</p> <p>1/2</p>

9	1. Improved technology 2. Fall in input prices 3. Fall in tax on the good. 4. Any other factor.	(Any two) Statement Explanation 1x2 1x2																																																										
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"> Equilibrium level of output is 4 units of output. Because at this output <ul style="list-style-type: none"> (i) $MC = MR$ (ii) $MC > MR$ after equilibrium. <p style="text-align: center;">OR</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> <th></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>5</td> <td>5</td> <td rowspan="2">Phase I</td> </tr> <tr> <td>2</td> <td>11</td> <td>6</td> </tr> <tr> <td>3</td> <td>15</td> <td>4</td> <td rowspan="2">Phase II</td> </tr> <tr> <td>4</td> <td>17</td> <td>2</td> </tr> <tr> <td>5</td> <td>15</td> <td>(-2)</td> <td>Phase III</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 5th 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	10	5	50	48	10	12	Variable input (units)	TP (units)	MP (units)		1	5	5	Phase I	2	11	6	3	15	4	Phase II	4	17	2	5	15	(-2)	Phase III	<p style="text-align: right;">2</p> <p style="text-align: right;">1</p> <p style="text-align: right;">$\frac{1}{2}$</p> <p style="text-align: right;">$\frac{1}{2}$</p> <p style="text-align: right;">2</p> <p style="text-align: right;">2</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	Phase I																																																									
2	11	6																																																										
3	15	4	Phase II																																																									
4	17	2																																																										
5	15	(-2)	Phase III																																																									
11	Firms are interdependent in an oligopoly market because when any firms intends to make a change in price or output ,it takes into consideration the likely reactions of its rival firms. The firm decides its policy on the basis of these reactions.	<p style="text-align: center;">4</p>																																																										

<p>12</p>	 <p>Lower tax shifts supply-curve S_1 to S_2. This creates excess supply "$E_1 S$" at price P_1. It leads to competition among producers. As a result price falls. Supply falls along the curve S_2 and demand rises along the curve D_1. This continues till demand equals supply at E_2. Price falls to OP_2 and quantity rises to OQ_2.</p> <p style="text-align: center;">For the Blind Candidates</p> <p>Explanation on the same lines as above but without the use of diagram.</p>	<p>3</p> <p>3</p> <p>4</p> <p>2</p> <p style="text-align: right;">Schedule</p>
<p>13</p>	<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>	<p>1</p> <p>1</p> <p>3</p> <p>1</p>
<p>14</p>	<p>Imputed rent of the owner office is <u>implicit cost</u> because it is not recorded in accounts.</p> <p>Imputed interest on own savings is <u>implicit cost</u> because this interest is not actually paid and so not recorded in accounts.</p> <p>Salaries of assistants are <u>explicit cost</u> because these are actually paid and recorded in accounts.</p>	<p>2</p> <p>2</p> <p>2</p>

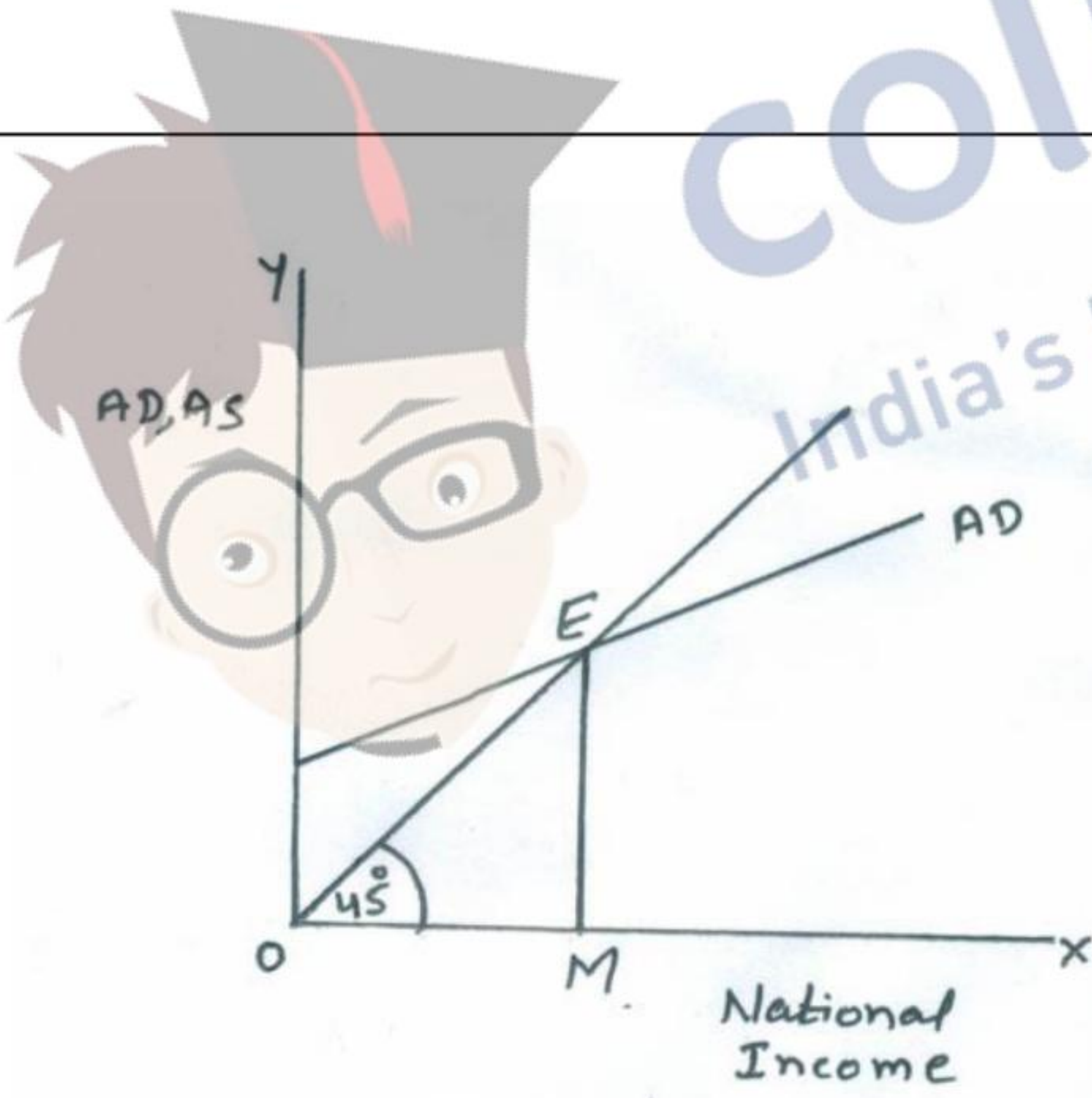


15	<u>Budget line</u> consists of all the bundles of the two goods which costs exactly equal to the consumer's income.	1
	<u>Indifference curve</u> is the locus of all the combinations of the two goods, each combination providing the same level of satisfaction.	1
	The <u>budget line is downward sloping</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.	2
	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.	2
	(No diagram required)	
OR		
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 $\frac{P_x}{P_y}$) between the two good constant. Market rate of exchange is the slope of budget line which is constant.	3	
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.	3	
(No diagram required)		
SECTION B		
16	(C) Credit side of capital account.	1
17	(B) Geographical territory.	1
18	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
19	(B) Primary deficit plus interest payments.	1
20	Receipt that neither creates any liability nor lead to any reduction in assets is revenue receipt.	1
21	(i) Payment of interest to a bank by an individual is not included because the individual is a consumer.	1
	(ii) Expenditure by government on free education is included because it is a final expenditure.	1
	(iii) Expenditure on machine installed in a production unit is included because it is an investment expenditure.	1
(No marks if the reason is not given)		



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;">OR</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) = $\frac{1}{1-MPC}$</p> <p style="text-align: center;">$= \frac{1}{1-0.9}$</p> <p style="text-align: center;">$= 10$</p> <p style="text-align: center;">(No marks if only 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;">$\frac{1}{2}$</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;">OR</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;">(To be marked as a whole)</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="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Deposits</th> <th>Loan</th> <th>Legal Reserves</th> </tr> </thead> <tbody> <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></td> <td>_____</td> <td>_____</td> <td>_____</td> </tr> <tr> <td></td> <td>25000</td> <td>20000</td> <td>5000</td> </tr> </tbody> </table> <p>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 for deposit creation is:</p> <p>Total deposit creation = Initial deposits $\times \frac{1}{LRR}$</p> <p>$= 5000 \times \frac{1}{0.2}$</p> <p>$= \text{Rs.}25000$</p> <p>Since the deposits are a part of money supply, money supply increases by Rs.25000 crore</p> <p style="text-align: center;">(Answer without schedule is also correct)</p> <p style="text-align: center;">(To be marked as a whole)</p>		Deposits	Loan	Legal Reserves	New	5000	4000	1000	Next round	4000	3200	800		3200	2560	640			_____	_____	_____		25000	20000	5000	<p style="text-align: center;">4</p>
	Deposits	Loan	Legal Reserves																																			
New	5000	4000	1000																																			
Next round	4000	3200	800																																			
	3200	2560	640																																			
	.	.	.																																			
	.	.	.																																			
	.	.	.																																			
	_____	_____	_____																																			
	25000	20000	5000																																			



26	<p>Repo rate is the interest rate at which central bank gives loans to commercial banks for short period. Raising repo rate makes such borrowings by the commercial banks costly. As Such banks are forced to raise their lending rates. This has a negative effect on demand for borrowing by people. This reduces money supply.</p>	4
27	<p><u>Sources of demand for foreign exchange</u></p> <p>(1) Imports (2) Interest payments on loans from abroad (3) Investment abroad (4) Any other (Any three)</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> <p>(1) Exports (2) Interest received on loans to abroad (3) Investments from abroad (4) Any other (Any three)</p> <p><u>Explanation</u> : These are sources of supply because these lead to inflow of foreign exchange.</p>	$\frac{1}{2} \times 3 = 1\frac{1}{2}$ $1\frac{1}{2}$ $\frac{1}{2} \times 3 = 1\frac{1}{2}$ $1\frac{1}{2}$
28	 <p>The equilibrium is where $AD=AS$ i.e. at point E where AD curve intersects the 45° 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><u>For the blind candidates</u></p> <p>Meaning of AD</p> <p>Meaning of AS</p> <p>Equilibrium at $AD=AS$</p> <p>What happens when $AD < AS$ (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>29</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;">(To be marked as a whole)</p> <p style="text-align: center;">OR</p> <p>Government can influence allocation of resources through taxes, subsidies and expenditure .</p> <ul style="list-style-type: none"> • By imposing <u>taxes</u> at higher rates, it can discourage those occupations which are not beneficial to society . • By giving <u>Subsidies</u> it can encourage certain industries which are beneficial to people. • By <u>opening public undertakings</u> in fields where the private sector is shy of investing , it can promote public utility services. <p style="text-align: center;">(To be marked as a whole)</p>	<p style="text-align: center;">6</p> <p style="text-align: center;">6</p>
<p>30</p>	<p>Private Income = iii + iv + v + viii = 400 + 70 + 30 + 80 = Rs. 580 crore</p> <p>NNP_{mp} = Private Income- i – ix + x + ii + vi =580 – 20 – 40 + (-10) + 10 + 20 =Rs.540 crore</p> <p style="text-align: center;">(No marks if only 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;">$\frac{1}{2}$</p> <p style="text-align: center;">$1\frac{1}{2}$</p> <p style="text-align: center;">1</p> <p style="text-align: center;">$\frac{1}{2}$</p>