

58/1/2

Q.No.	Expected Answer / Value Points	Marks Distribution
	<b>SECTION A – MICRO ECONOMICS</b>	
1	(c) Utils	1
2	<p>Leftward Shift in demand curve:</p> <p>(i) Fall in the price of substitute goods                      (ii) Rise in the price of Complementary goods</p> <p>(iii) Decrease in the size of population                      (iv) Unfavourable Change in taste</p> <p>(v) Fall in income of the consumer (in case of normal goods)                      <b>(any one valid reason)</b></p> <p style="text-align: center;">OR</p> <p>Price Elasticity of Demand is defined as the degree of responsiveness of change in quantity demanded for a good due to a change in its price.</p>	1  1
3	<p><math>(P_1)(X_1) + (P_2)(X_2) = M</math></p> <p style="text-align: center;">OR</p> <p>Marginal utility (MU): MU can be defined as the addition to the total utility (TU) by consuming one extra unit of the commodity.</p>	1  1
4	Opportunity cost	1
5	In order to produce an additional unit of commodity X, same units of good Y are sacrificed i.e rate of sacrifice remains constant therefore the shape of production possibility curve will be a straight line downward sloping from left to right.	3
6	<p>As output increases, Average fixed Cost (AFC) curve decreases continuously but never touches to any axis. It is because, when total fixed cost is divided by incremental units of output, the resultant AFC curve falls and takes the shape of a rectangular hyperbola.                      <b>(to be marked as a whole)</b></p> <p style="text-align: center;">OR</p> <p>Average Variable Cost (AVC) curve is U-shaped due to the application of law of variable proportions.</p> <p>Initially, Average Variable Cost (AVC) curve falls due to increasing returns to a factor with better utilisation of fixed and variable factors. After reaching its minimum level (optimum level), AVC starts increasing with every increase in output due to diminishing returns to a factor. <b>(to be marked as a whole)</b></p>	3  1 2
7	<p>(a) The given statement is false. The quantity of a good that a consumer demands can increase or decrease with rise in income. This depends upon the nature of the good i.e. normal good or an inferior good. With increase in income of an individual, the demand for normal good rises whereas demand for inferior good falls.</p> <p>(b) The given statement is false. The demand curve in this situation will be downward sloping from left to right due to inverse relationship between price and the quantity demanded. <b>(no marks to be allotted if the reason is not given or wrongly given)</b></p> <p style="text-align: center;">OR</p> <p><math>E_d = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}}</math> (ignoring minus sign)</p> <p style="text-align: center;"><math>= \frac{20\%}{10\%}</math></p>	2  2  1 1 1 1

= 2  
Shape of demand curve will be flatter (Away from origin)

8 The given statement is true.  
Under Perfect Competition the equilibrium price is determined by the industry through the market forces of demand and supply. This price is to be accepted by the all individual firms which have negligible share in the total market output and cannot influence the market price. Thus, the firms under perfect competition are a price taker and industry is the price maker.  
**(no marks to be allotted if the reason is not given or wrongly given)**

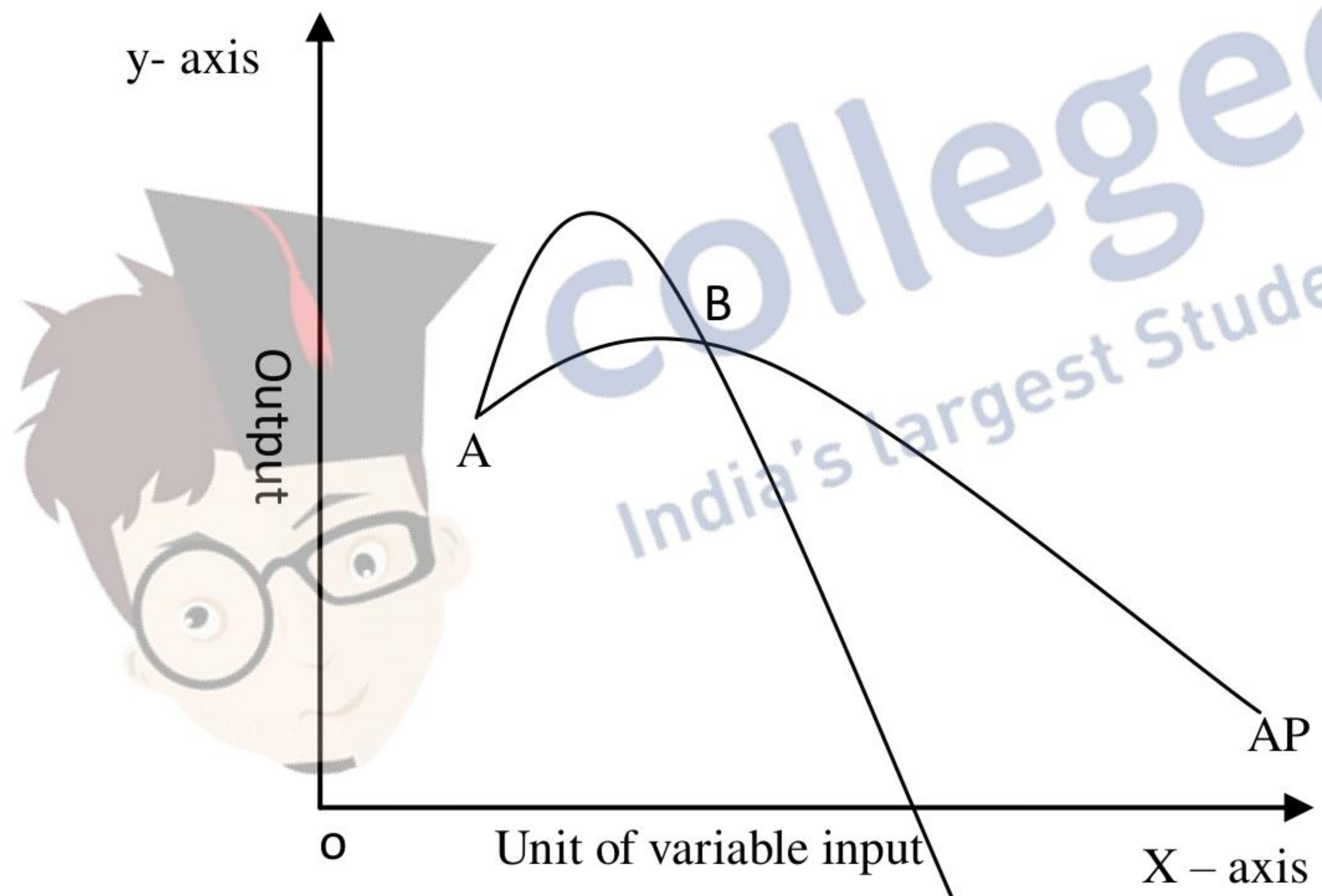
4

9

Out put (in units)	Total cost (in ₹)	Average cost (in ₹)	Marginal cost (in ₹)
1	20	<u>20</u>	<u>20</u>
2	<u>30</u>	<u>15</u>	10
3	<u>36</u>	12	<u>6</u>
4	40	<u>10</u>	<u>4</u>

Or

**Diagram:**



- When, MP is greater than AP; AP rises (from A to B).
- When, MP is equal to AP; AP is constant and maximum (At point B).
- When, MP is lesser than AP, AP falls (beyond B point).

**Schedule:**

Units of variable factor (Labour)	MP (in Units)	AP (in Units)

(1/2 x 8 = 4)

2 1/2

1 1/2

	<table border="1"> <tbody> <tr> <td>1</td> <td>10</td> <td>=</td> <td>10</td> </tr> <tr> <td>2</td> <td>20</td> <td>&gt;</td> <td>15</td> </tr> <tr> <td>3</td> <td>15</td> <td>=</td> <td>15</td> </tr> <tr> <td>4</td> <td>7</td> <td>&lt;</td> <td>13</td> </tr> <tr> <td>5</td> <td>0</td> <td>&lt;</td> <td>10.4</td> </tr> <tr> <td>6</td> <td>-4</td> <td>&lt;</td> <td>8</td> </tr> </tbody> </table> <p style="text-align: center;"><b>(any other relevant schedule with explanation)</b></p> <ul style="list-style-type: none"> <li>When, MP is greater than AP; AP rises (At 2<sup>nd</sup> unit of variable factor employed).</li> <li>When, MP is equal to AP; AP is constant and maximum (At 3<sup>rd</sup> unit of variable factor employed).</li> <li>When, MP is lesser than AP, AP falls (4<sup>th</sup> unit to 6<sup>th</sup> unit of variable factor employed).</li> </ul>	1	10	=	10	2	20	>	15	3	15	=	15	4	7	<	13	5	0	<	10.4	6	-4	<	8	<p style="text-align: right;">2 ½</p> <p style="text-align: right;">1 ½</p>
1	10	=	10																							
2	20	>	15																							
3	15	=	15																							
4	7	<	13																							
5	0	<	10.4																							
6	-4	<	8																							
10	<p>In case of two goods A and B, a consumer will at equilibrium when:</p> <ul style="list-style-type: none"> <li><math>\frac{MU \text{ of Good A}}{\text{Price of Good A}} = \frac{MU \text{ of Good B}}{\text{Price of Good B}}</math></li> <li>MU falls as consumption increases</li> </ul> <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;"><b>OR</b></p> <p>Two Properties of indifference Curve (IC) :-</p> <ol style="list-style-type: none"> <li><b>Indifference curve (IC) is Convex to the point of origin:</b> 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.</li> <li><b>Indifference curve Slopes downwards from left to right:</b> 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)</li> </ol>	<p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">3</p> <p style="text-align: right;">3</p> <p style="text-align: right;">3</p>																								
11	<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.</p> <p><b>(to be marked as a whole)</b></p> <p style="text-align: right;"><b>(Any other relevant explanation)</b></p>	6																								



12	<table border="1"> <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>20</td> <td>50</td> <td>40</td> <td>20</td> </tr> <tr> <td>2</td> <td>20</td> <td>80</td> <td>30</td> <td>20</td> </tr> <tr> <td>3</td> <td>20</td> <td>100</td> <td>20</td> <td>20</td> </tr> <tr> <td>4</td> <td>20</td> <td>105</td> <td>5</td> <td>20</td> </tr> <tr> <td><b>5</b></td> <td><b>20</b></td> <td><b>125</b></td> <td><b>20</b></td> <td><b>20</b></td> </tr> <tr> <td>6</td> <td>20</td> <td>150</td> <td>25</td> <td>20</td> </tr> </tbody> </table>	Quantity sold (in units)	Price (in ₹)	Total Cost (in ₹)	MC (in ₹)	MR (in ₹)	1	20	50	40	20	2	20	80	30	20	3	20	100	20	20	4	20	105	5	20	<b>5</b>	<b>20</b>	<b>125</b>	<b>20</b>	<b>20</b>	6	20	150	25	20	2
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<p>The conditions for produces to be in equilibrium are-</p> <p>i. (MR) Marginal revenue is equal to marginal cost (MC)</p> <p>ii. MC is greater than MR, after equilibrium.</p>	1																																				
<p>Thus, produces achieve equilibrium at 5<sup>th</sup> units of output. It is because at this level of output both the conditions are satisfied simultaneously.</p>	1																																				
<b>SECTION B – MACRO ECONOMICS</b>																																					
13	a) Loans advanced by world bank or d) Tax receipts (marks should be allotted for either of the two)	1																																			
14	a) Short term borrowings by commercial banks	1																																			
15	Revenue deficit refers to excess of Government's revenue expenditure over its revenue receipts.	1																																			
16	Governor of Reserve Bank (RBI)	1																																			
	Or Money Multiplier = $\frac{1}{\text{Legal Reserve Ratio}}$	1																																			
17	<p>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.</p> <p style="text-align: center;"><b>(no marks to be allotted if the reason is not given or wrongly given)</b></p> <p style="text-align: center;">Or</p> <p>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.</p> <p style="text-align: center;"><b>(no marks to be allotted if the reason is not given or wrongly given)</b></p>	3																																			
			1																																		
18	(a) The given statement is false, as ex-post investment includes both fixed as well as inventory investment with the production unit during a period of time	1 ½																																			
	(b) The given statement is true, as it represents change in consumption due to a given change in income. $MPC = \left(\frac{\Delta c}{\Delta y}\right)$	1 ½																																			



19	<p>Legal Reserve Ratio (LRR) is the minimum reserve that a commercial bank must maintain as per the instructions of the central bank.</p> <p>Credit creation is inversely related to the legal reserve deposit ratio.</p> <p>For example – suppose the LRR is 0.20 and initial deposits are Rs 1,000.</p> $\text{Total credit creation} = \frac{1}{\text{Legal Reserve Ratio}} \times \text{Initial Deposits}$ $= \frac{1}{0.20} \times 1,000 = ₹ 5,000$ <p>Now suppose, if the LRR is 0.50 and initial deposits are Rs 1,000.</p> $\text{Total credit creation} = \frac{1}{\text{Legal Reserve Ratio}} \times \text{Initial Deposits}$ $= \frac{1}{0.50} \times 1,000 = ₹ 2,000$ <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 style="text-align: center;">Or</p> <p><b>Banker's Bank:-</b>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. <b>(any other relevant explanation)</b></p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>4</p>
20	<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
21	<p>Depreciation = (i)- (iv)-( iii) – (ii)</p> $= 300 - 185 - (-15) - 100$ $= 200 - 185 + 15$ $= 215 - 185 = ₹ 30 \text{ Crs.}$	<p>1 ½</p> <p>1 ½</p> <p>½</p> <p>½</p>
22	<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;"><b>Whereas;</b></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) <b>Foreign Exchange Rate</b> : It is the rate at which one currency can be converted into another currency.</p> <p>(ii) <b>Foreign Currency</b> : foreign currency is the currency other than domestic currency.</p> <p>(iii) <b>Devaluation of currency</b>: reduction in the value of domestic currency by the government with respect to a given foreign currency.</p>	<p>3</p> <p>1</p> <p>1</p> <p>1</p>
23	<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>2</p> <p>2</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><b>Real National Income and Nominal National Income:</b> 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</p> <p>whereas</p> <p>When nation 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>	2																																			
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	<table border="1"> <thead> <tr> <th>Commodities</th> <th>Quantity of the Current Year (Q<sub>1</sub>)</th> <th>Quantity of the Base (Q<sub>0</sub>)</th> <th>Price of the Current Year (P<sub>1</sub>)</th> <th>Price of the Base Year (P<sub>0</sub>)</th> <th>P<sub>0</sub>Q<sub>1</sub> (Real NI)</th> <th>P<sub>1</sub>Q<sub>1</sub> (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 (<math>\sum P_0Q_1</math>) = ₹ 700 and Nominal NI (<math>\sum P_1Q_1</math>) = ₹ 1,050</p>	Commodities	Quantity of the Current Year (Q <sub>1</sub> )	Quantity of the Base (Q <sub>0</sub> )	Price of the Current Year (P <sub>1</sub> )	Price of the Base Year (P <sub>0</sub> )	P <sub>0</sub> Q <sub>1</sub> (Real NI)	P <sub>1</sub> Q <sub>1</sub> (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	3
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24	<p><math>S = -250 + 0.25Y</math> (Given)</p> <p>(a) Equilibrium level of income in the economy exist when;</p> <p><math>S = I</math></p> <p>Substitute the values of saving and investment</p> <p><math>-250 + 0.25Y = 2000</math></p> <p><math>0.25Y = 2000 + 250</math></p> <p><math>0.25Y = 2250</math></p> <p><math>Y = \frac{2250}{0.25}</math></p> <p><math>Y = ₹ 9000</math> Crs.</p> <p>(b) <math>C = \bar{c} + b(Y)</math></p> <p><math>= 250 + 0.25(5000)</math></p> <p><math>= 250 + 1250</math></p> <p><math>= 1,5000</math></p> <p><math>AD = C + I</math></p> <p><math>AD = 1500 + 2000 = 3500</math> Units.</p>	<p>1/2</p> <p>1</p> <p>1/2</p> <p>1/2</p> <p>1/2</p> <p>1</p> <p>1</p>																																			

