For more previous year question papers visit:

www.4ono.com

ECONOMICS

(Three hours)

(Candidates are allowed additional 15 minutes for only reading the paper.
They must NOT start writing during this time.)

Answer Question 1 (compulsory) from Part I and five questions from Part II.
The intended marks for questions or parts of questions are given in brackets [ ].

PART I (20 Marks)

Answer all questions.

Question 1

Answer briefly each of the following questions (i) to (x): [10 × 2]

(i) State the components of compensation of employees.
(ii) Explain the shape of Average Cost Curve.
(iii) Explain the demand curve for a necessity commodity.
(iv) Explain any two causes of disequilibrium in the balance of payment in an economy.
(v) What is meant by high powered money?
(vi) The demand for a commodity at ₹ 4 per unit is 100 units. The price of the commodity rises and as a result, its demand falls to 75 units. Find the new price if the price elasticity of demand of that commodity is 1.
(vii) Justify the following as price-takers / price-makers:

(a) an oligopoly market
(b) a perfectly competitive market
(viii) If the value of the multiplier is 4, what will be the value of MPC and MPS?
(ix) Distinguish between intended supply and actual supply.
(x) What is meant by deficit financing?
Question 2

(a) Study the diagram given below and answer the questions that follow:

\[ \text{Price} \quad P_0 \quad P_e \]
\[ \text{Quantity} \quad 0 \quad Q_e \]

(i) \( P_e \) is the equilibrium price. What would prompt the government to fix the price at \( P_0 \)?

(ii) What would be the effect of fixing the price at \( P_0 \)?

(b) Discuss the effect of elasticity of demand on:

(i) a commodity which has many substitutes.

(ii) a small part of individual's income spent on a commodity.

(c) (i) Study the schedule given below and identify how much of commodity A and commodity B will a utility-maximizing consumer buy:

<table>
<thead>
<tr>
<th>Units of A</th>
<th>M.U. of A</th>
<th>Units of B</th>
<th>M.U. of B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: Price A = ₹ 2, price B = ₹ 4, income = ₹ 20

(ii) Explain the Law of Equi Marginal Utility, using the above schedule.

Question 3

(a) Discuss how supply of labour is an exception to the law of supply.

(b) According to the Law of Variable Proportions, in which stage would a producer like to operate? Explain why.

(c) Explain how a producer can attain equilibrium using TR and TC approach.
Question 4
(a) Explain the relationship between AC and MC with the help of a diagram. [3]
(b) Highlight any three differences between monopolistic competition and oligopoly. [3]
(c) A perfectly competitive firm can continue producing even if it is incurring losses in short run equilibrium. Justify the given statement with the help of a diagram. [6]

Question 5
(a) Differentiate with the help of diagrams, contraction in supply and decrease in supply. [3]
(b) Identify the market where a firm is not required to reduce the price to sell more. Explain the behaviour of TR and MR. [3]
(c) Explain how a consumer attains equilibrium using the indifference curve analysis. [6]

Question 6
(a) Discuss two contingent functions of money. [3]
(b) Explain the role of the Reserve Bank of India with respect to:
   (i) custodian of foreign exchange.
   (ii) promotional and developmental functions.
(c) Discuss how exchange rate is determined under flexible exchange rate system. [6]

Question 7
(a) Explain how public expenditure can be used as a tool to attain economic stability. [3]
(b) Differentiate between degressive taxation and regressive taxation. [3]
(c) Explain the various components of the budget. [6]

Question 8
(a) Discuss the mechanism of investment multiplier with the help of a numerical example. [3]
(b) Distinguish between marginal propensity to consume and marginal propensity to save. What is the relationship between the two? [3]
(c) Explain the determination of equilibrium level of output with the help of saving and investment curves. If savings exceed planned investment, what changes will bring about equality between them. [6]
Question 9

(a) How can personal disposable income be derived from private income? \[3\]
(b) Explain *any three* precautions which should be taken while estimating national income by income method. \[3\]
(c) Calculate national income and operating surplus from the following data: \[6\]

<table>
<thead>
<tr>
<th></th>
<th>₹ in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Government final consumption expenditure</td>
<td>800</td>
</tr>
<tr>
<td>(ii) Net factor income from abroad</td>
<td>(-) 110</td>
</tr>
<tr>
<td>(iii) Private final consumption expenditure</td>
<td>900</td>
</tr>
<tr>
<td>(iv) Net domestic capital formation</td>
<td>200</td>
</tr>
<tr>
<td>(v) Profits</td>
<td>220</td>
</tr>
<tr>
<td>(vi) Rent</td>
<td>90</td>
</tr>
<tr>
<td>(vii) Net exports</td>
<td>(-) 25</td>
</tr>
<tr>
<td>(viii) Interest</td>
<td>100</td>
</tr>
<tr>
<td>(ix) Net indirect taxes</td>
<td>165</td>
</tr>
</tbody>
</table>

*For more previous year question papers visit: [www.4ono.com](http://www.4ono.com)*