# CBSE 12th Economics 2016 Solved Paper Outside Delhi

# CBSE 12th Economics 2016 Solved Paper Outside Delhi

TIME - 3HR. | QUESTIONS - 30

THE MARKS ARE MENTIONED ON EACH QUESTION

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SECTION – A

**Q. 1. What is the relation between Average Variable Cost and Average total Cost, if Total Fixed Cost is zero?** *1 marks*

**Ans.** AC=AVC If TFC is zero.
AC = AFC + AVC (If TFC is zero, AFC will also be zero)

**Q. 2. A firm is able to sell any quantity of a good at a given price. The firm's marginal revenue will be: (Choose the correct alternative)** *1 marks*
**(a) Greater than Average Revenue (b) Less than Average Revenue (c) Equal to Average Revenue (d) Zero**

**Ans.** (c) Equal to Average Revenue.

**Q. 3. When does 'change in demand' take place?** *1 marks*

**Ans.** When price of the commodity remains same and other factors than price change for e.g. Price of related goods, income of the consumer change.

**Q. 4. Differentiated products is a characteristic of:** *1 marks*
**(Choose the correct alternative):**
**(a) Monopolistic competition only. (b) Oligopoly only (c) Both monopolistic competition and oligopoly (d) Monopoly**

**Ans. (a)** Monopolistic competition only.

**Q. 5. Demand curve of a firm is perfectly elastic under:** *1 marks*
**(choose the correct alternative)**
**(a) Perfect competition**
**(b) Monopoly**
**(C) Monopolistic competition**
**(d) Oligopoly**

**Ans. (a)** Perfect competition.

**Q. 6. A consumer consumes only two goods X and Y. Marginal utilities of X and y are 3 and 4 respectively. Prices of X and Y are Rs 4 per unit each. Is consumer in equilibrium? what will be further reaction of the consumer? Give reasons.** *3 marks*

**Ans.** Given,

$$MU_X = 3 \qquad MU_Y = 4$$
$$P_X = 4 \qquad P_Y = 4$$

Consumer will be in equilibrium when,

$$\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y} = MU_M$$

$$\frac{3}{4} \neq \frac{4}{4} \text{ so, consumer will consume more units of good y and}$$

$$75 \neq 1 \text{ less units of goods X till Point } \frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}.$$

**Q. 7. What will be the effect of 10 percent rise in price of a good on its demand if price elasticity of demand is (a) Zero, (b) -1, (C) -2.** 3 marks

**Ans.** Given, % change in price =10%

(a) $E_d$= zero
(b) $E_d$= -1.
(C) $E_d$= -2

$$E_d = \frac{\text{% Change in Qty demanded}}{\text{% change in Price}}$$

(a) % change in Qty. demanded, if $E_d$ = Zero

$$0 = \frac{\% \Delta Q}{10} = \text{Zero change in Qty. demanded, } Q = Q_1 \text{ be same.}$$

(b) If $E_d$ = -1

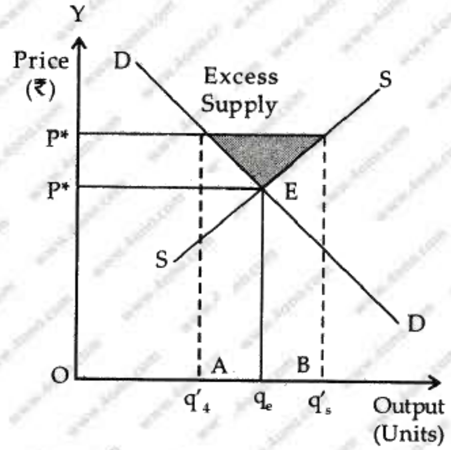
$$-1 = \frac{\% \Delta Q}{10} = 10\% \text{ Qty. demanded will fall by } 10\%.$$

(c) If $E_d$ = -2

$$-2 = \frac{\% \Delta Q}{10} = 20\% \text{ Qty. demanded will fall by } 20\%.$$

**Q. 8. What is minimum price ceiling? Explain its implications.** 3 marks

**Ans.** Price floor implies legislated or government fixed minimum price that should be charged by the seller. Since, price floor is above the equilibrium price (OP), thus, the imposition of the price floor leads to excess supply as shown in the diagram below.




The following are the consequences and effects of price floor.

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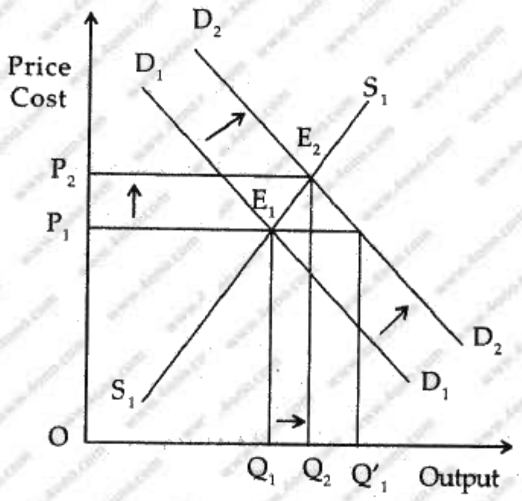
**Assurance to the Farmers-** The imposition of the price floor assures the farmers that whatever they produce will get sold in the market. This implies that the farmers can produce to their maximum.
**Assurance of Returns-** Due to the price floor, the farmers need not to bother about the sale of their output. This ensures a minimum guaranteed return to their investment in the production process.
**Higher Income-** The minimum guaranteed returns in form of minimum price and minimum wage to labourers result in increase in the income or the poor people.
**Burden on Consumers**- Price floor exerts additional pressure on the consumers and the traders, as they need to buy the products at comparatively higher price (Op*in the figure) instead of the equilibrium price (OPe).
**Burden on Government-** It also puts extra burden on the government revenues. It becomes mandatory for the government to purchase the excess produce, even if it runs a sufficient volume of buffer stocks.
**Higher Taxes-** The government tries to shift the burden (associated with purchasing the excess produce at higher price) to the consumers and the traders in form of higher taxes.

**OR**

**If the prevailing market price is above the equilibrium price, explain its chain of effects.**

**Ans.** An increase in the demand for the commodity leads to an increase in the equilibrium price and quantity.

Let us understand how it happens: $D_1D_1$ and $S_1S_1$ represent the market demand and market supply respectively. The initial equilibrium occurs at $E_1$ where the demand and the supply intersect each other. Due to the increase in the demand increase in the demand for the commodity the demand curve will shift rightward parallel from $D_1D_1$, to $D_2D_2$ while the supply curve will remain unchanged. Hence, there will be a situation of excess demand equivalent to $Q_{1-}Q_1$.




Consequently, the price will rise due to excess demand. The price will continue to rise until it reaches $E_2$ (new equilibrium), where $D_2D_2$ intersects the supply curve $S_1S_1$ The equilibrium price increases from $P_1$ to $P_1$ and the equilibrium output increases from $q_1$ to $q_2$.

**Q.9. Define demand. Name the factors affecting market demand.** 4 marks

**Ans. Market Demand:** The total quantity of the commodity that all the individual households in the market are willing to buy different prices in a given period of time. Market demand is derived by summing up the individual demand.

**Factors affecting market demand:**

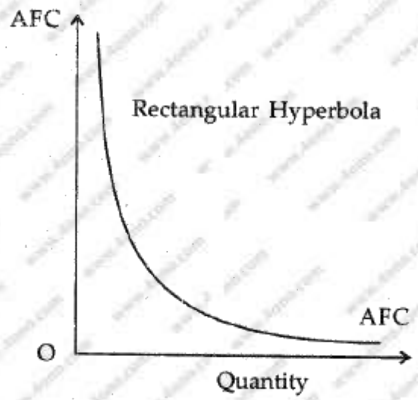
1. **Price of related goods:** In case of substitute goods like coffee and tea, increase in price of one increases the demand for the other good. In case of complementary good like car and petrol, rise in price of one causes fall in demand for the other.
2. **Number of customers in the market:** Increase in the number of buyers will increase the market demand and cause rightward shift of market demand curve. As against, fall in number of buyers in the market will decrease the market demand and shift the demand curve leftward, more will be number of buyers and more will be market demand.

**Q.10. Define fixed cost. Give an example. Explain with reason the behavior of Average Fixed Cost as output is increased.** 4 marks

**Ans**. Fixed costs: The cost which do not change with the change in level of output of a good e.g., Rent of a building.

Average Fixed Cost is defined as the Fixed Cost per unit of output produced. It is derived by dividing the Total Fixed Cost by quantity of output produced. That is, AFC=TFC/e where, TFC represents Total Fixed Cost and Q represents units of output produced.

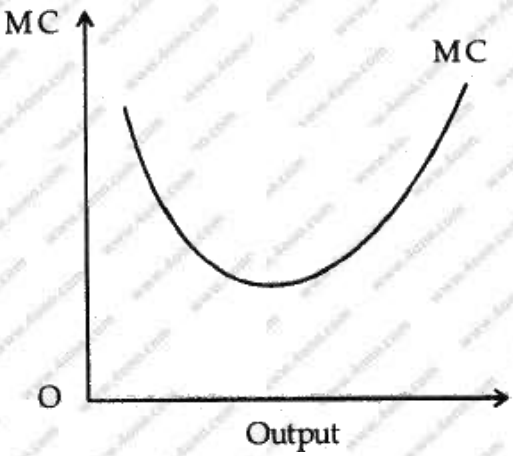
Average Fixed Cost is a Rectangular Hyperbola. That is, it can never be zero. This happens because AFC is defined as the ratio of TFC to output. We know that TFC remains constant throughout all the output levels and as output increases, with TFC being constant, AFC decreases.




**OR**

**Define marginal product State the behavior of marginal product when only one input is increased and other inputs are held constant.**

**Ans. Marginal Cost:** It is the addition to total cost of producing one more unit of output $MC = TC_n - TC_{n-1}$. Initially, MC falls as one input is increased and other inputs remains same as MP increases. After certain level of output MC starts rising after reaching minimum, as MP starts falling after reaching maximum, the shape of MC is U-shaped.




**Q.11. When price of a commodity falls from Rs12per unit to Rs9 per unit, the producer supplies 75 percent less output. Calculate price elasticity of supply.** *4 marks*

**Ans. Given,**

**P = Rs12** **% Change in Qty. supplied = 75%**

**$P_1$ = Rs 9**

$$\Delta P = P_1 - P \qquad E_s = \frac{\text{\% change in Qty. supplied}}{\text{\% change in price}}$$

9 – 12 = -3

% Change in price

$$\frac{\Delta P}{P} \times 100 \qquad E_s = \frac{75\%}{25\%} = 3\%$$

$$\frac{3}{12} \times 100 = 25\%$$

**Q.12. Why do central problems of an economy arise? Explain the central problem of "for whom to produce"?** *6 marks*

**Ans.** An economic problem arises due to limited resources and they have alternative uses, on the other hand wants are unlimited and recurring in nature.

The problem arises due to:

**(i) Unlimited wants:** Wants of the people are unlimited and keep on multiplying and cannot be satisfied due to limited resources.

**(ii) Limited resources:** Resources such as land, Labor, capital etc. are available in limited quantities in an economy and cannot produce all what people want.

**(iii) Resources have alternative uses**: Resources can be used for producing more than one product. this creates a problem Which should be produced or which want should be satisfied first.

**For whom to produce:** The central problem for whom to produce is related with the distribution of good. It depends how production should be distributed among different groups if individuals in the society. The distribution of goods can be done equally or on the basis of needs or the distribution can be done on the basis of contribution of an individual in the production of goods and services.

**Q. 13. Explain three properties of indifference curves.** *6 marks*

**Ans.** Properties of Indifference curve:

1. The curve is negatively sloped because, to obtain more quantity of one good, the consumer must give up some quantity of other goods.
2. It is strictly convex towards the origin because, marginal rate of substitution continuously declines due to law of diminishing MU.
3. Higher Indifference curves represents higher utility because of the assumption that preferences are monotonic and more quantity consumed means more utility.