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# Economics

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Class - XII

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Chapter Assignments

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## Part A

### Introduction to Micro Economics

- **Introduction**
- **Consumer's Equilibrium and demand**
- **Product Behavior and Supply**
- **Forms of market and Price Determination**

**Unit - 1**  
**Introduction**

**VERY SHORT ANSWER QUESTIONS (1 MARK)**

1. What is economics about?
2. Define central problem.
3. Give one reason which gives rise to economic problems?
4. Name the three central problems of an economy.
5. What is opportunity cost?
6. Why is there a need for economizing of resources?
7. What is production possibility frontier?
8. Why PPC is concave to the origin?
9. Define marginal rate of transformation.
10. What does a point inside the PPC indicate?
11. What do you mean by the problem of what to produce?
12. What do you understand by the problem of how to produce?
13. What does the problem for whom to produce indicate?
14. Give two examples each of micro economics & macroeconomics.
15. What does a rightward shift of PPC indicate?
16. What is meant by economizing of resources?

**SHORT ANSWER QUESTIONS (3 / 4 MARKS)**

1. Distinguish between microeconomics and macroeconomics.
2. Draw a production possibility curve and mark the following situations:
  - a) Underutilization of resources
  - b) Full employment of resources
  - c) Growth of resources
3. From the following PP schedule calculate MRT of good x.

1. Production possibilities	2. A	3. B	4. C	5. D	6. E
7. Production of good x units	8. 0	9. 1	10. 2	11. 3	12. 4
13. Production of good y units	14. 14	15. 13	16. 11	17. 8	18. 4

4. Explain the difference between a planned economy and a market economy.
5. How does Production Possibility Curve (PPC) is affected by unemployment in the economy? Explain.
6. Why does an economic problem arise?

7. Explain the properties of Production Possibility Curve (PPC)?
8. Explain the central problem of choice of products to be produced?
9. What is Marginal Rate of Transformation? Explain with the help of an example.
10. Production in an economy is below its potential due to unemployment. Government starts employment generation schemes. Explain its effect using Production Possibility Curve.
11. Draw a Production Possibility Curve. What does this curve indicate?
12. Explain the meaning of opportunity cost with the help of production possibility schedule.
13. An economy produces two goods wheat and cloth. Due to inflation and lack of resources for wheat, the production of wheat reduces. In this case, what would be the corresponding effect on PPC? Draw the Production Possibility Curve. To combat the shortfall, the economy increases its import of wheat. Which value is being followed by the economy? (Value Based Question)



## UNIT 2

### CONSUMER'S EQUILIBRIUM AND DEMAND

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

1. What do you mean by utility?
2. How is total utility derived from marginal utility?
3. State the law of equi-marginal utility.
4. What will you say about MU when TU is maximum?
5. Give the reason behind a convex indifference curve.
6. What is Law of Demand?
7. Why is demand for water inelastic?
8. Give the formula for calculating the slope of the budget line.
9. Suppose a consumer's preferences are monotonic. What can you say about his preference ranking over the bundles (10,10), (10,9) and (9,9)?
10. A rise in the income of the consumer leads to a fall in the demand for commodity 'x'. What type of good is commodity 'x'?
11. What do you mean by substitute and complementary goods? Give two examples each.
12. Mention one factor that causes a leftward shift of the demand curve.
13. What causes a movement along the demand curve of a commodity?
14. What is demand function?
15. Draw a demand curve with unitary elasticity
16. Define price elasticity of demand.

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. Explain the law of Diminishing Marginal Utility with the help of a table and a diagram
2. What is meant by consumer's equilibrium? State its conditions in case of two commodities approach.
3. Explain any four determinants of demand for a commodity.
4. Draw a) perfectly elastic demand curve, b) perfectly inelastic demand curve and c) unitary elastic demand curve.
5. Explain any four factors that affect elasticity of demand.
6. Is the demand for the following elastic, moderate elastic, highly elastic? Give reasons
  - (i) Demand for petrol
  - (ii) Demand for text books
  - (iii) Demand for cars
  - (iv) Demand for milk.
7. For a consumer to be in equilibrium, why must MRS be equal to the ratio of price of two goods?

8. Why does higher indifference curve gives higher levels of satisfaction?
9. A consumer consumes only two goods and its equilibrium. Show that price and demand for a good are inversely related. Explain the reaction of consumer through the utility analysis.
10. If a price of a good is given, how does a consumer decide as to how many units of that good to buy?  
Explain
11. Define Marginal rate of Substitution. Why is an indifference curve convex?
12. Define an indifference map. Explain why an indifference curve to the right shows higher utility level.
13. A consumer buys 50 units of a good at Rs. 4/- per unit. When its price falls by 25 percent its demand rises to 100 units. Find out the price elasticity of demand.
14. Price elasticity of demand for wheat is equal to unity and a household demands 40 Kg of wheat when the price is Rs.1 per kg. At what price will the household demand 36 kg of wheat?
15. The quantity demanded of a commodity at a price of Rs.10 per unit is 40 units. Its price elasticity of demand is -2. Its price falls by Rs.2/- per unit. Calculate its quantity demanded at the new price.
16. Explain any two factors that affect Price Elasticity of demand.
17. A 5% fall in the price of a good leads to 10% rise in demand. A consumer buys 40 units of a good at a price of Rs. 10 per unit. How many units will he buy at a price of Rs 12 per unit?
19. Price Elasticity of Demand of a good is (-)1. At a given price, the consumer buys 60 units of the goods. How many units will he buy if the price falls by 10%?
20. State the Total Expenditure method of measuring Price Elasticity of Demand
21. Explain the relationship between Price Elasticity of Demand and Total Expenditure.
22. When price of a commodity falls by Rs.1 per unit, its quantity demanded rises by 3 units. Its Price Elasticity of demand is (-)2. Calculate its quantity demanded if the price before change was Rs 10 per unit.
23. Demand of a product is elastic. Its price falls. What will be its effect on the total expenditure on the product? Give a numerical example
24. Demand for elasticity has increased. However, supply cannot be increased due to lack of resources. Explain how, in any two ways, demand for the electricity can be decreased. Also identify the value being highlighted in the above question. (Value Based Question)

### **LONG QUESTIONS (6 MARKS)**

1. How is equilibrium achieved with the help of indifference curve analysis?
2. Explain the factors affecting the market demand of a commodity.
3. Explain the various degrees of price elasticity of demand with the help of diagrams.
4. Derive the total utility schedule from the marginal utility.
5. A consumer consumes only two goods. Explain the conditions of consumer's equilibrium with the help of IC analysis.
6. Explain difference between Cardinal Utility and Ordinal Utility.
7. Explain the conditions of consumer's equilibrium in case of

- i) single commodity
  - ii) Two commodity
8. Explain why is an Indifference Curve (a) downwards sloping (b) convex.
  9. Explain the cause of a leftward shift in demand curve of a commodity.
  10. Explain the effects of the following on demand for a good
    - i) rise in income
    - ii) rise in prices of related goods.
  11. Distinguish between change in demand and change in quantity demanded.
  12. Explain the effect of the following on demand of a good
  13. Change in the income of the consumer
  14. Change in the price of the related goods
  15. State three causes each for a rightwards shift and a leftwards shift of demand curve.



## UNIT 3

### PRODUCER'S BEHAVIOUR AND SUPPLY

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

1. What will be MP when TP is maximum?
2. What is cost of production?
3. Define cost function.
4. What are money costs?
5. Give two examples of Fixed Cost
6. What is the behavior of Average Fixed Cost as output increase
7. How do you define an opportunity cost?
8. Why the fixed cost curve is a horizontal straight line to the X axis?
9. Why AFC curve never touches 'x' axis though it lies very close to x axis?
10. Why AVC and AFC always lie below AC?
11. Why TVC curve start from origin?
10. When TVC is zero at zero level of output, what happens to TFC or Why TFC is not zero at zero level of output?
11. Can MR be negative or zero.
12. If all units are sold at same price how will it affect AR and MR?
13. What is price line?
14. Can TR be a horizontal Straight line?
15. What do you mean by revenue?
16. Why AR is more elastic in monopolistic competition than monopoly?
17. Why TR is 45 angles in perfect competition market?
18. In which market the Average revenue is equal to marginal Revenue?
19. Give the meaning of returns to a factor
20. Define MP.
21. What is the behavior of average revenue in the market, in which a firm can sell more only by lowering the price?
22. Give one reason of an increase in supply of a commodity.
23. Price elasticity of supply of a good is 0.8. Is the supply elastic or inelastic? Why?

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. Explain the difference between MPP & TPP.
2. Giving reasons, state whether the following statements are true or false :

- I) When there are diminishing returns to a factor, total product always decreases
  - II) TPP increases only when MPP increases.
  - III) Increase in TPP always indicates that there are increasing returns to a factor.
  - IV) When there are diminishing returns to a factor marginal and total products always fall.
3. Calculate MP for the following.

<b>Variable factor (unit)</b>	0	1	2	3	4	5	6
<b>TP (unit)</b>	0	5	13	23	28	28	24

- 4. What difference you find between fixed and variable costs?
- 5. Why the fixed cost curve is a horizontal straight line to the X axis?
- 6. With a diagram describe the various phases of AC.
- 7. Bring out the relationship between AC & MC
- 8. Explain the relationships between AR and MR when price is constant and when price falls.
- 9. Explain the relationships between TR and MR when price is constant.
- 10. Explain producer's equilibrium with the help of a diagram.
- 11. From the following schedule, find out the level of output, at which the producer is in equilibrium. Give reasons for your answers

<b>Output (unit)</b>	<b>Price (Rs)</b>	<b>TC</b>
1	24	26
2	24	50
3	24	72
4	24	92
5	24	115
6	24	139
7	24	165

- 12. What is break- even point? Explain with a diagram.
- 13. When the situation of 'shut - down' point arises for a firm?
- 14. If the price of the commodity falls by 10 % and consequently the quantity supply decreases by 20 % what will be elasticity of supply?
- 15. Distinguish between change in supply and change in quantity supplied?
- 16. Explain the movement along the supply curve?
- 17. Why is AR always equal to price?
- 18. Explain the likely behavior of TP when only one input is increased for increasing production? Use diagram.
- 19. Identify different phase of the law of Variable Proportion from the following schedule. Give reasons for your answers.



Variable Inputs (units)	TP (units)	MP (units)
1	4	4
2	9	5
3	13	4
4	15	2
5	12	-3

20. Complete the following table

Output (unit)	AC (Rs)	MC (Rs)
1	12	
2	10	
3		10
4	10.5	
5	11	
6		17

21. An individual is both the owner and the manager of a shop taken on rent. Identify implicit cost and explicit cost from this information. Explain.

22. Distinguish between implicit and explicit costs. Give examples.

23. Complete the following table:

Output (unit)	AR (Rs)	MR (Rs)	TR
1	8		
2		4	
3			12
4	2		8

24. Explain how technological progress is a determinant of a supply of good by a firm.

25. A firm's revenue rises from Rs. 400 to Rs 500 when the price of its product rises from Rs.20 to Rs25 per unit. Calculate the price elasticity of supply

26. TR at price of Rs 4 per unit of a commodity is Rs 480. TR increases by Rs 240 when its price rises by 25%. Calculate its price elasticity of supply.

27. Explain the effects of fall in prices of inputs on the supply of a good.

28. In India, generally producers are using capital intensive methods of production instead of labor intensive methods. Which value is affected by their choice of method? Is it a correct approach? (Value Based Question)

## **LONG QUESTIONS (6 MARKS)**

1. Explain the law of variable proportions with the help of a schedule and a diagram.
2. What are the reasons for
  - a) Increasing returns to a factor
  - b) Diminishing returns to a factor
  - c) Negative returns to a factor
3. Explain AVC, AFC & ATC and explain the relationship between these costs
4. Explain the concept of revenue.
5. What happens to TR when a) MR is increasing, b) decreasing but remains positive and c) MR is negative? Explain with diagram.
6. Explain the determinants of supply?
7. Explain the relationship between Total Revenue and marginal Revenue using a Schedule and diagram?
8. Complete the following table

<b>Output (unit)</b>	<b>AVC (Rs)</b>	<b>MC (Rs)</b>	<b>TC</b>
1		60	20
2	18		
3			18
4	20	120	
5	22		

9. Draw AR and MR curves in a single diagram of a firm :
  - I) Which sells more units of a good only by lowering the price of that good
  - II) Which can sell any quantity of the good at a given price.
10. Is the producer at equilibrium under the following situations?
  1. When  $MR > MC$
  2. When  $MR < MC$
11. Explain briefly the following determinants of supply
  - ii) Increase in the price of inputs
  - iii) Decrease in tax on the product
  - iv) Technological change

## UNIT – IV

### FORMS OF MARKET, PRICE DETERMINATION UNDER PERFECT COMPETITION WITH SIMPLE APPLICATIONS.

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

- 1 Define perfect competition.
- 2 Define monopoly.
- 3 Define monopolistic competition.
- 4 Under which market form firm is a price maker?
- 5 What are selling cost?
- 6 What is collusive oligopoly?
- 7 Which is a price taker firm?
- 8 In which market form is there product differentiation?
- 9 What is product differentiation?
- 10 What is the effect on price when a perfectly competitive firm rise to sell more?
- 11 What do you mean by patent rights?
- 12 What is price discrimination?
- 13 What is the shape of marginal revenue curve under monopoly?
- 14 What do you mean by abnormal profits?
- 15 Why AR is equal to MR under perfect competition?
- 16 What are advertisement costs?
- 17 What is meant by normal profit?

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. Explain any four characteristics of perfect competition market.
2. Explain briefly why a firm under perfect competition is a price taker not price maker?
3. Distinguish between monopoly and perfect competition.
4. What are the reasons which give emergence to the monopoly market?
5. Explain the process of price determination under perfect competition with the help of schedule and a diagram.
6. When will equilibrium price not change even if demand and supply increase?
7. Why is the demand curve facing monopolistically competitive firm likely to be very elastic?
8. Show with the help of diagram the effect on equilibrium price and quantity when supply is perfectly inelastic and demand increases and decreases?
9. Why is demand curve facing a monopolistic competition firm likely to be more elastic?

10. Show with the help of a diagram the effects of an increase in demand for a commodity on its equilibrium price and quantity.
11. Explain 'large number of buyers and sellers feature of perfect competitive market.
12. Why is the demand curve of a firm under monopolistic competition more elastic than under monopoly? Explain.
13. Giving reasons, distinguish between the behavior of demand curve of firms under perfect competition and monopolistic competition.
14. Distinguish between collusive and non-collusive oligopoly. Explain how the oligopoly firms are interdependent in taking price and output decisions?
15. How is price determined under perfect competition? Explain briefly.
16. The demand and supply of a commodity both decreases in the same proportion. Explain its effects on an equilibrium price with the help of a diagram.
17. A product market is in equilibrium. Suppose the demand for the product decreases. What changes will take place in the market? Use diagram
18. What is excess supply of a good in a market? Explain its chain of effects on the market for that good. Use diagram
19. If equilibrium, price of a good is greater than its market's [rice. Explain all the changes that will take place in the market. Use diagram
20. Due to the technological advancement in India, many firms use the latest technology to increase to increase the production. How does technological progress affect the supply of a firm? Which economic value is followed by the firm by embracing technological changes?  
(Value Based Question)

### **LONG QUESTIONS (6 MARKS)**

1. Equilibrium price may or may not change with shifts in both demand and supply curve. Comment.
2. Distinguish between collusive and non-collusive oligopoly. Explain the following features of oligopoly.
  - a) Few firms.
  - b) Non-price competition
3. With the help of demand and supply schedule explain the meaning of excess demand and its effects on price of a commodity
4. Market for a good is in equilibrium. There is increase in demand for the goods. Explain the chain effect of this change.
5. Distinguish between monopoly and monopolistic competition.
6. Given the market equilibrium of a good. What are the effects of Simultaneous increase in both demand and supply of that good on its equilibrium price and quantity?
7. Explain the chain of effects on demand, supply and price of a commodity caused by a leftward shift of the demand curve. Use diagram.

8. Explain the implications of the following features of perfect competitions
- ii) Homogenous products
  - iii) Large number of buyers and sellers
  - iv) Freedom of entry and exit of a firm
9. Market for a good is in equilibrium. There is simultaneous increase both in demand and supply of the good. Explain its effects on market price.
10. How is an equilibrium price and an equilibrium quantity of a normal commodity affected by an increase in the income of the buyers? Explain with the help of a diagram.





### **PART B Introduction To Macro Economics**

- **National Income and Related Aggregates**
- **Money and Banking**
- **Determination of Income and Employment**
- **Government Budget and the Economy**
- **Balance of Payment**

## Unit -6

### NATIONAL INCOME AND RELATED AGGREGATES

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

1. Define Consumption Goods.
2. Define Capital good.
3. Give two examples of intermediate goods.
4. When will the domestic income be greater than the national income?
5. What is national disposable income?
6. What is transfer payment?
7. What must be added to domestic factor income to obtain national income?
8. Explain the meaning of non-market activities
9. Define nominal GNP
10. Define Real GNP.
11. Meaning of real flow.
12. Define money flow.

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. Distinguish between intermediate and final goods. Give two examples of each.
2. Explain circular flow of income.
3. Give reasons and categorize the following into stock and flow
  - i. Capital
  - ii. GDP
  - iii. Saving
  - iv. Wealth
4. Explain how non- monetary exchanges are a limitation in taking domestic product as an index of welfare?
5. Distinguish between factor income to abroad and factor income from abroad. Give examples.
6. Distinguish between GDP at Market price and GNP at Factor cost
7. Distinguish between personal income and private income
8. Distinguish between nominal GDP and real GDP
9. Explain the main steps involved in measuring national income through product method
10. Explain the steps involved in calculation of national income through income method
11. Explain the main steps involved in measuring national income through expenditure method.
12. What are the precautions to be taken while calculating national income through product method (value added method)

13. Precautions to be taken while calculating national income through income method.
14. Precautions to be taken while calculations N.I under expenditure method.
15. Write down the limitations of using GDP as an index of welfare of a country
16. Machine purchased is always a final good' do you agree? Give reason for your answer
17. What is double counting? How can it be avoided?
18. While estimating national income how will you treat the following? Give reasons for your answer.
  - a. Imputed rent of self-occupied houses.
  - b. Interest received on debentures
  - c. Financial help received by flood victims
  - d. Capital gain
19. Distinguish between transfer payments and factor payments. Give an example of each
20. GNP is estimated value of the total worth of production and services earned by the normal residents of a country. But to find out NNP from GNP, depreciation is deducted. Why should we deduct the depreciation from GNP? Which economic value is fulfilled by providing for depreciation?

### **LONG QUESTIONS (6 MARKS)**

1. Define externalities. Give example of negative and positive externality. What is its impact on welfare of the people?
2. State whether following is true or false. Give reason for your answer.
  - 1) Capital formation is a flow
  - 2) Bread is always a consumer good.
  - 3) Nominal GDP can never be less than real GDP
  - 4) Gross domestic capital formation is always greater than gross fixed capital formation.
3. Why are exports included in the estimation of domestic product by the expenditure method? Can the gross domestic product be greater than the gross national product? Explain
4. How will you treat the following while estimating domestic product of India?
  - 1) Rent received by resident Indian from his property in Singapore.
  - 2) Salaries of Indians working in Japanese Embassy in India
  - 3) Profits earned by branch of American bank in India.
  - 4) Salaries paid to Koreans working in the Indian embassy in Korea
5. How are the following treated in estimating national income from expenditure method? Give reason.
  - 1) Purchase of new car by a household:
  - 2) Purchase of raw material by purchase unit:
  - 3) Expenditure by the government on scholarship to student
6. Are the following item included in the estimating a country's national income? Give reason.
  - 1) free cloth given to workers:
  - 2) Commission paid to dealer in old car:
  - 3) Growing vegetable in a kitchen garden of the house



7. While estimating  $GDP_{MP}$  how will you treat the following? Give reasons for your answer.
- I) Fees to a mechanic paid by a firm
  - II) Interest paid by an individual on a car loan taken from a bank
  - III) Expenditure on purchasing a car for use by a firm
8. Explain the problem of double counting in estimating national income, with the help of an example. Also explain, two alternative ways of avoiding the problem. While estimating of National Income.
9. While estimating national income how will you treat the following? Give reasons for your answer:
- i) Salaries paid to Russian working in Indian Embassy in Russia
  - ii) Profits earned by an Indian company from its branches in Singapore
  - iii) Capital gains to Indian residents from sale to shares of a foreign company
  - iv) Financial help received by flood victims
  - v) Remittances from non-resident Indian to their families in India
  - vi) Interest received by the debentures

### **NATIONAL INCOME – NUMERICALS**

1. Calculate Value Added at factor cost from the following.

<b>ITEMS</b>	<b>Rs. CRORES</b>
a. Purchase of raw materials	30
b. Depreciation	12
c. Sales	200
d. Excise tax	20
e. Opening stock	15
f. Intermediate consumption	48
g. Closing stock	10

2. Calculate (a) Net National Product at MP, and (b) Gross National Disposable Income

<b>ITEMS</b>	<b>Rs. crores</b>
a. Private final Consumption expenditure	200
b. Net indirect taxes	20
c. Change in stocks	(-)15
d. Net current transfers from abroad	(-- )10
e. Govt. final consumption expenditure	50
f. Consumption of fixed capital	15
g. Net domestic capital formation	30
h. Net factor income from abroad	5
i. Net imports	10

3. Calculate Gross Domestic Product at Market Price by

(a) Production Method and (b) Income Method

ITEMS	Rs. crores
a. Intermediate consumption by	
i) Primary sector	500
ii) Secondary sector	400
iii) Tertiary sector	400
b. Value of output by	
i) Primary sector	1000
ii) Secondary sector	900
iii) Tertiary sector	700
c. Rent	10
d. Compensation of employees	400
e. Mixed income	550
f. Operating surplus	300
h. Net factor income from abroad	(-)20
i. Interest	
j. Consumption of fixed capital	40
k. Net indirect taxes	10

4. Calculate Net National Disposable Income from the following data

ITEMS	Rs. crores
a. Gross domestic product at MP	1000
b. Net factor income from abroad	(-) 20
c. Net indirect taxes	120
d. Consumption of fixed capital	100
e. Net current transfers from abroad	50

5. Calculate Gross National Disposable Income from the following.

ITEMS	Rs. crores
a)National Income	2000
b) Net current transfers from rest of the world	200
c) Consumption of fixed capital	100
d) Net factor income from abroad	(-) 50
e) Net indirect taxes	25

6.CALCULATE GNP at FACTOR COST BY INCOME METHOD AND EXPENDITURE METHOD.

	In crores
1. Private final consumption expenditure	1000
2. Net domestic capital formation	200
3. Profit	400
4. Compensation of employers	800
5. Rent	250
6. Gov.: final consumption expenditure	500
7. Consumption of fixed capital	60
8. Interest	150
9. Net current transfer from row	(-)80
10. Net factor income from abroad	(-)10
11. Net exports	(-)20
12. Net indirect taxes	80

7. FROM THE FOLLOWING DATA CALCULATE (a) NATIONAL INCOME (b) PERSONAL DISPOSABLE INCOME.

	In crores
1. Profit	500
2. Rent	200
3. Private income	2000
4. Mixed income of self-employed	800
5. Compensation of employers	1000
6. Consumption of fixed capital	100
7. Net factor income from abroad	-(50)
8. Net retained earnings of private employees'	150
9. Interest	250
10. Net exports	200
11. Co-operation	100
12. Net indirect tax	160
13. Direct taxes paid by houses hold's	120
14. Employers contribution to social security scheme	60

8. CALCULATE NET NATIONAL DISPOSABLE INCOME AND PERSONAL INCOME FROM THE FOLLOWING DATA (Rs. In crores)

- o Net indirect taxes 90

- Compensation of employers 400
- Personal taxes 100
- Operating surplus 200
- Corporation profit tax 80
- Mixed income of self-employed 500
- National debt interest 70
- Saving of non-departmental enterprises 40
- Current transfer from govt 60
- Income from property and entrepreneurship to govt administrative Department 30
- Net current transfer from RAW 20
- Net factor income from abroad -50
- Saving of private corporate sector 20

1. From the following data, calculate:

(a) Gross national Disposable Income

(b) Private Income

(c) Personal Disposable Income (Rs. In Crores)

- Net national product at factor cost 700
- Indirect taxes 60
- Subsidies 10
- Consumption of fixed capital 40
- Income from property and entrepreneurship Accruing to government administrative departments 50
- Current transfers from rest of the world 45
- Profits 100
- Direct tax paid by households 50
- Savings of private corporate sector 60
- Saving of non-departmental enterprises 25
- Current transfer from govt: administrative departments 70
- A factor income abroad 20
- Factor income to abroad 30
- Corporation tax

2. There are only two producing sectors A and B in an economy. Calculate

a) Gross Value Added at Market Price by each sector

b) National income

S.No	Contents	Rs (in crores)
1	Net Factor Income From Abroad	20
2	Sales by A	1000
3	Sales by B	2000

4	Change in stock of B	(-)200
5	Change in Stock of A	50
6	Opening stock A	100
7	Consumption of Fixed Capital by A & B	180
8	Indirect taxed paid by A & B	120
9	Purchase of Raw material by A	500
10	Purchase of Raw material by B	600
11	Exports by B	70



**UNIT – VII**  
**MONEY AND BANKING**

**VERY SHORT ANSWER QUESTIONS (1 MARK)**

1. Define Bank Rate.
2. What are demand deposits?
3. If total deposits created by commercial banks are Rs.12000, LRR is 25% calculate initial deposit.
4. Calculate LRR, if initial deposit of Rs. 200 cores lead to creation of total deposits of Rs. 1600 cores.
5. What do you mean by credit creation by commercial banks.
6. Define cash reserve ratio.
7. Give the meaning of statutory liquidity ratio.
8. What is meant by open market operations (OMO)?
9. Define money supply.
10. Write one difference between commercial bank and central bank.
11. Mention two important functions of central bank.

**SHORT ANSWER QUESTIONS (3 / 4 MARKS)**

1. Describe how money overcomes the problems of barter system?
2. Explain the evolution of money.
3. Explain the standard of deferred payment function of money.
4. State four functions of money. Explain any one of them.
5. How does the central bank apply bank rate as a measure of credit control?
6. Explain the currency authority function of Central Bank.
7. What are the components of Legal Reserve Ratio? Explain.
8. State any three functions of central bank. Explain any one.
9. Explain the "lender of last resort" function of central bank.
10. Explain briefly any three drawbacks of barter system
11. Explain the open market operations method of credit control used by a central bank
12. Describe the process of money creation or credit creation by commercial banks.
13. Distinguish between commercial banks and central bank.
14. Briefly explain any two quantitative measures of credit control by the central bank.
15. Explain briefly the credit creation by commercial banks with the help of an example.
16. In India, inflation is riding day by day. It is a matter of concern for the government. Explain how RBI helps in controlling inflation. (Value Based Question)

## **LONG ANSWER QUESTIONS (6 MARKS)**

1. Explain the various qualitative and quantitative instruments used by the central bank in controlling the money supply during the times of
  - a) excess demand/inflation
  - b) deficient demand/deflation
2. Explain the process of money creation by commercial banks with the help of a numerical example.



## Unit-8

### Determination of Income and Employment

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

1. What is excess of exports of goods over the imports of goods called?
2. What of autonomous consumption?
3. What is the relation between APC and APS?
4. What is the relation between MPC and MPS?
5. If APC is 0.7 then how much will be APS?
6. If MPC is 0.75, what will be MPS?
7. State the important factor influencing the propensity to consume in an economy?
8. What is meant by investment?
9. What is the investment demand function?
10. What is equilibrium income?
11. Give the formula of investment multiplier in terms of MPC.
12. What can be the minimum value of investment multiplier?
13. What is the maximum value of investment multiplier?
14. Give the equation of propensity to consume.
15. Write down the equation of saving function?
16. What is ex-ante aggregate demand?
17. What is ex-ante saving?
18. What is investment multiplier?
19. Give the meaning of deflationary gap.
20. Give the meaning of involuntary unemployment.
21. What is under employment equilibrium?
22. What is deficient demand?

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. What is APS? What is its relation with APC? Explain.
2. Explain the components of equation  $c = \bar{a} + by$ .
3. Derive the saving function from the consumption function  $c = \bar{a} + by$ .
4. Explain the components of  $S = -a + (1-b) Y$ .
5. Can the value of APS be negative? If yes then when?
6. Can the average propensity to consume be greater than one? Give the reason for your answer.
7. When can the APC be equal to one? Give reason for your answer.
8. Explain the meaning of investment multiplier? What can be its minimum value and why?



9. Explain the working of a multiplier with an example.
10. Giving reasons, state whether the following statements are true or false.
  - i) APS is always greater than 0
  - ii) When MPC is greater than MPS, the value of investment multiplier will be greater than 5.
  - iii) The value of MPS can never be negative
  - iv) Value of investment varies between zero and infinity
11. Differentiate between ex ante and ex post investment.
12. Giving reasons, state whether the following statements are true or false.
  - i) If the ratio of MPC and MPS is 4:1, the value of investment multiplier will be 4
  - ii) Sum of APC and MPC is equal to 1
13. How is equilibrium output of final goods determined under short run fixed price?
14. Explain the distinction between voluntary and involuntary unemployment.
15. What is the implication of deflationary gap?
16. Explain the concept of excess demand in macroeconomics. Also, explain the role of open market operation in correcting it.

### **LONG ANSWER QUESTIONS (6 MARKS)**

1. Outline the steps taken in deriving consumption curve from the saving curve. Use diagram.
2. Explain the determination of income and employment with AD and AS. (Give schedule)
3. Draw a straight line consumption curve. From it derive a saving curve explaining the process. Show on the diagram.
  - a) The level of income at which average propensity to consume equal to one.
  - b) A level of income at which average propensity to save is negative.
4. Explain the steps taken in derivation of saving curve from the consumption curve. Use diagram.
5. Explain consumption function, with the help of a schedule and diagram.
6. Explain the saving function, with the help of a diagram.
7. Explain National Income equilibrium through AD and AS. Use diagram. Also explain the changes that place in an economy when the economy is not in equilibrium
8. What changes will take place to bring an economy in equilibrium, if
  - i) Planned saving are greater than planned investment
  - ii) Planned saving are less than planned investment
9. Explain the meaning of under employment equilibrium. Explain two measures by which full employment equilibrium can be reached.
10. Explain the role of the following in correcting deficient demand in an economy
  - i) Open Market operation
  - ii) Bank rate
11. Explain the concept of inflationary gap. Also, explain the role of legal reserve ratio in removing gap.

12. Explain the meaning of equilibrium level of income. Can there be unemployment in the economy at an equilibrium level of income?

### NUMERICALS

1. If the National income is 50 crores and saving is 5 crores, find out Average Propensity to consume. When income rises to 60 crore and saving to 9 crore, what will be the Average Propensity to Consume and Marginal Propensity to Save.
2. In an economy, the consumption expenditure is Rs. 8750 crores and the ratio of APC and APS is 7:1. Calculate the level of income in the economy.
3. If in an economy investment increases by Rs 1000 cores to Rs 1200 cores and as a result total income increases by 800 cores calculate capital MPS.
4. IF in an economy the actual level of income is Rs 500crores whereas the full employment the level of income is RS 800 cores. The  $MPC=0.75$  calculate the increase in investment required to achieve full employment income.
5. Calculation of APC and MPC given the level of Income and Consumption

Income	consumption
0	4
10	12
20	20
30	28
40	36

6. Suppose the consumption equals  $c = 40 + 0.75 y$ , Investment equals  $I = Rs 60$  and  $Y = C + I$ . Find i) Equilibrium level of income ii) The level of consumption at equilibrium iii) level of saving at equilibrium

7. In a two sector economy, the saving and investment functions are:

$$S = -10 + 0.2Y \quad I = -3 + 0.1Y$$

What will be the equilibrium level of income?

8. The consumption function is  $C = 20 + 0.9y$ . The value of Income is given as 100,200, 300, 400 and 500. Find out the consumption schedule and draw the consumption curve.

### Application level questions

1. In an economy an increase in investment leads to increase in national income which is three times more than the increase in investment (calculate marginal propensity to consume)
2. In an economy the MPC is 0.95 investment is increased by Rs. 100 crores. Calculate the total increase in income and consumption expenditure.
3. Explain with numerical example how an increase in investment in an economy affects the level of consumption.

4. An increase in investment leads to total rise in national income by Rs. 500 crores. If MPC is 0.9 what is the increase in investment? Calculate.

5. In an economy the MPC is 0.8 Investment is increased by Rs.500 crores. Calculate the total increase in income and consumption expenditure.

6. If in an economy MPC is 0.75 and its investment is increased by Rs.500 crores. Calculate the total increase in income and consumption expenditure

7. Complete the table

Income	MPC	Saving	APS
0		-90	
100	0.6		
200	0.6		
300	0.6		

8. In an economy  $S = -50 + 0.5Y$  is the saving function (where S=saving and Y=national income) and investment expenditure is 7000. Calculate (i) Equilibrium level of national income (ii) Consumption expenditure at Equilibrium level of N.I

9. From the following information about an economy calculate

(i) Its Equilibrium level of national income and

(ii) Saving at Equilibrium level of N.I

Consumption function =  $200 + 0.9Y$

Investment expenditure  $I=3000$ .

10. Disposable income is Rs. 1000 crores and consumption expenditure is Rs.750 crores. Find out average propensity to save and average represent to consume.

11. In an economy investment expenditure increased by Rs.700 crores. The marginal propensity to consume is 0.9 calculate total increase income and consumption expenditure

12. Complete the following table

Level of Income	Consumption Expenditure	Marginal Propensity	MPC
400	240		
600	320		
700	465		

13. In an economy an increase in investment leads to increase in national income which is three times more than the increase in investment calculate marginal propensity to consume.

14. The disposable income is Rs.2500 crores and saving is Rs.500 crores. Find out average propensity to consume

15. Calculate autonomous condumption expenditure rom the following data about an economy which in equilibrium.

N.I = Rs. 1200    MPS = 0.20    I= Rs. 100

16. As a result of increase investment by 125 crores national income increased by 500 crores. Calculate multiplier, MPC and MPS.

17. Given consumption function  $C=100+0.75 Y$  (where C=consumption expenditure and Y=national income) and investment expenditure Rs.2000. Calculate

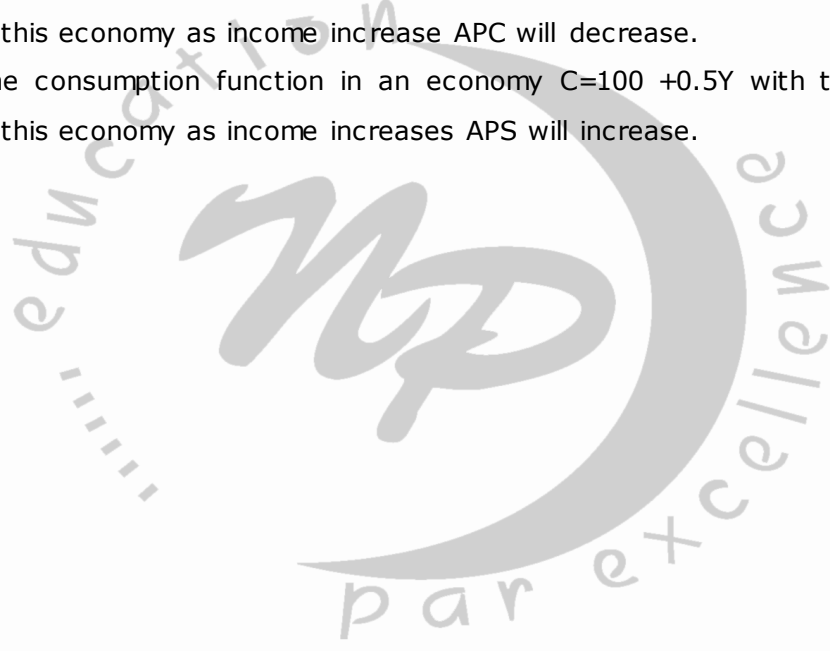
(i) Equilibrium level of national income (ii) Consumption expenditure at equilibrium level of income

18. In an economy  $S= -50+0.5Y$  is the saving function (where S=saving and Y=national income) and investment expenditure is 9000 calculate (i) Equilibrium level of national income (ii) Consumption expenditure at equilibrium level of national income

20.  $C=100+0.75 Y$  is a consumption function (where C= consumption expenditure and Y= N.I) and investment expenditures =1600 on the basis of this information calculate (i) Equilibrium level of national income (ii) Saving at Equilibrium level of NI.

21. Given below is the consumption function in an economy  $C=100+0.10Y$ . with the help of a numerical example show that in this economy as income increase APC will decrease.

22. Given below is the consumption function in an economy  $C=100 +0.5Y$  with the help of a numerical example show that in this economy as income increases APS will increase.



## UNIT 9

### GOVERNMENT BUDGET AND THE ECONOMY

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

1. Define government Budget.
2. Name the three broad divisions of the Budget.
3. Name the two types of Revenue Receipts.
4. What are taxes?
5. Why are borrowing a Capital Receipts?
6. Give two examples of Developmental Expenditure.
7. Give two examples of Non-tax revenue receipts.
8. Define Surplus Budget.
9. What is revenue expenditure in government budget?
10. What is primary deficit?
11. What is revenue deficit?

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. Explain the objectives of the Government Budget.
2. What are the components of the Budget?
3. Define Direct Taxes and Indirect taxes and give two examples each.
4. What are the Non-Tax Revenue receipts?
5. State three sources each of revenue receipts and capital receipts in government budget?
6. What do you mean by Revenue Expenditure and Capital Expenditure?
7. Explain the role of government budget in bringing economic stability.
8. Explain the role of government in allocation of resources.
9. Tax rates on higher income group have been increased. Which economic value does it reflect? Explain.
10. Classify the following receipts into revenue and capital receipts. Give reasons.
  - i) Recovery of loans
  - ii) Interest received on loans
  - iii) Dividend received from public enterprises
  - iv) Grants from foreign government
11. Distinguish between fiscal deficit and revenue deficit.
12. Distinguish between fiscal deficit and primary deficit.
13. Explain the concept of fiscal deficit in a government budget. What does it indicate?
14. What are the monetary measures to correct excess demand?
15. State the fiscal measures to correct excess demand?
16. Explain any two monetary and fiscal measures to correct deficient demand?

17. The Punjab Government has decided to sell state owned Punjab State Industrial Development Corporation (PSIDC) stake in Punjab Alkalies and Chemicals Limited (PACL). What is this process called? Why do Government's indulge in the above defined process? (Value Based Question)

### **LONG ANSWER QUESTIONS (6 MARKS)**

1. How is tax revenue different from administrative revenue?
2. Explain the objectives of resource allocation and income distribution in a government budget.



## UNIT – 10

### BALANCE OF PAYMENTS AND FOREIGN EXCHANGE RATE

#### VERY SHORT ANSWER QUESTIONS (1 MARK)

1. Define foreign exchange rate.
2. What do you mean by Foreign Exchange Market?
3. What is meant by Fixed Exchange Rate?
4. What is equilibrium rate of exchange?
5. What is meant by appreciation of currencies?
6. What is meant by balance of payments?
7. What do you mean by balance of trade?
8. The balance of trade shows a deficit of Rs. 600 crores, the value of exports is Rs.1000 crores. What is value of Imports?
9. What is the balance of visible items in the balance of payments account called?
10. What do you mean by disequilibrium in BOP?
11. List two items of the capital account of BOP account.
12. Which transactions bring balance in the BOP account?
13. Define autonomous items in BOP.
14. What is the other name of autonomous items in the BOP?
15. When does a situation of deficit in BOP arises?
16. What is meant by managed floating exchange rate?

#### SHORT ANSWER QUESTIONS (3 / 4 MARKS)

1. Why is foreign exchange demanded?
2. What determines the flow of foreign exchange in to the country?
3. Why does the demand for foreign exchange rise, when its price falls?
4. When price of a foreign currency falls, the supply of that foreign currency also fall why?
5. Distinguish between autonomous and accommodating transaction of balance of payment account.
6. Give two examples explain why there is a rise in demand for a foreign currency when its price falls.
7. How does incentives for exports influence foreign exchange rate? Explain
8. What is appreciation of domestic currency? What is its likely effects on exports and how?
9. How can RBI help in bringing down the foreign exchange rate which is very high?
10. When price of a foreign currency rises, its demand falls. Explain why?
11. Distinguish between Devaluation and depreciation of domestic currency.
12. Explain the meaning and two merits of fixed foreign exchange rate.
13. Distinguish between Balance of trade and balance on current account.
14. Explain the concept of surplus in the balance of payment account.

15. Explain the concept of surplus in the BOP account.
16. State whether the following statement are true or false. Give reason for your answer.
- Difference between value of exports and imports of goods and services are called Balance of trade
  - External assistance is not recorded in BOP account
17. Distinguish between current account and capital account of BOP.
18. If US \$ exchanges Rs. 40 instead of Rs. 38 earlier, in this case domestic currency is appreciating or depreciating. Declining value of rupee bodes ill for economy or not. (Value Based Question)

