

ECONOMICS

BOARD'S QUESTION PAPER (MARCH 2022)

Time : 3 Hours]

[Total Marks : 80

- Note :*
- (i) All questions are compulsory.
 - (ii) Draw neat tables/diagrams wherever necessary.
 - (iii) Figures to the right indicate full marks.
 - (iv) Write answers to all main questions on a new page.

Q. 1. (A) Complete the correlations : (5) [20]

- (1) Macroeconomics : : : Microeconomics : Price theory.
- (2) Direct demand : Food and Mobiles : : : Land and Labour.
- (3) Perfectly elastic demand : $E_d = \infty$: : : $E_d = 1$.
- (4) Output method : Product method : : : Factor cost method.
- (5) Personal income tax : : : Goods and Services Tax (GST) : Indirect tax.

(B) Give economic terms : (5)

- (1) Additional utility derived by a consumer from an additional unit consumed.
- (2) Price being constant, demand falls due to unfavourable change in other factors.
- (3) Revenue per unit of output sold.
- (4) Period in which all factors of production are variable.
- (5) The gross market value of all final goods and services produced within the domestic territory of a country during a period of a year.

(C) Complete the following statements : (5)

- (1) Whole economy is studied in

 - (a) Microeconomics (b) Macroeconomics
 - (c) Econometrics (d) Natural Sciences

- (2) When percentage change in quantity demanded is less than percentage change in price, the demand curve is

 - (a) flatter (b) steeper
 - (c) rectangular hyperbola (d) horizontal

- (3) The cost incurred by the firm to promote sales
- (a) *Total cost* (b) *Average cost*
 (c) *Marginal cost* (d) *selling cost*
- (4) Budget that consists of revenue receipts and revenue expenditure
- (a) *capital budget* (b) *government budget*
 (c) *revenue budget* (d) *family budget*
- (5) Purchase of goods and services from one country and selling them to another country is
- (a) *entrepot trade* (b) *import trade*
 (c) *export trade* (d) *national trade*

(D) Assertion and Reasoning questions :

(5)

- (1) **Assertion (A) :** Marginal utility (MU) goes on diminishing.
Reasoning (R) : Total utility (TU) increases at diminishing rate.
Options :
- (a) *Assertion (A) is true but Reasoning (R) is false.*
 (b) *Assertion (A) is false but Reasoning (R) is true.*
 (c) *Both statements A and R are true and R is the correct explanation of A.*
 (d) *Both statements A and R are true and R is not the correct explanation of A.*
- (2) **Assertion (A) :** With rising price, supply of a commodity falls.
Reasoning (R) : Seller earns more profit at higher price.
Options :
- (a) *Assertion (A) is true but Reasoning (R) is false.*
 (b) *Assertion (A) is false but Reasoning (R) is true.*
 (c) *Both statements A and R are true and R is the correct explanation of A.*
 (d) *Both statements A and R are true and R is not the correct explanation of A.*
- (3) **Assertion (A) :** Index number considers all factors.
Reasoning (R) : Index number is based on samples.
Options :
- (a) *Assertion (A) is true but Reasoning (R) is false.*
 (b) *Assertion (A) is false but Reasoning (R) is true.*
 (c) *Both statements A and R are true and R is the correct explanation of A.*
 (d) *Both statements A and R are true and R is not the correct explanation of A.*

(4) **Assertion (A)** : Money market economises use of cash.

Reasoning (R) : Money market does not deal with financial instruments that are close substitutes of money.

Options :

(a) Assertion (A) is true but Reasoning (R) is false.

(b) Assertion (A) is false but Reasoning (R) is true.

(c) Both statements A and R are true and R is the correct explanation of A.

(d) Both statements A and R are true and R is not the correct explanation of A.

(5) **Assertion (A)** : International trade leads to division of labour and specialisation.

Reasoning (R) : India's national trade is not increasing.

Options :

(a) Assertion (A) is true but Reasoning (R) is false.

(b) Assertion (A) is false but Reasoning (R) is true.

(c) Both statements A and R are true and R is the correct explanation of A.

(d) Both statements A and R are true and R is not the correct explanation of A.

Q. 2. (A) Identify and explain the following concepts : (Any THREE) (6) [12]

(1) Asha collected the information about the income of a particular firm.

(2) Ramesh's demand for salt remained unchanged in spite of a 10% rise in its price.

(3) Out of 4000 kgs of rice, the farmer offered to sell 1000 kgs of rice in the market at ₹ 40 per kg.

(4) Shobha collected data regarding the money value of all final goods and services produced in the country for the financial year 2019-20.

(5) Lucy deposited a lumpsum amount of ₹ 1,00,000 in the Bank of India for the period of one year.

(B) Distinguish between : (Any THREE) (6)

(1) Slicing Method and Lumping Method.

(2) Joint/Complementary Demand and Competitive Demand.

(3) Total Revenue and Marginal Revenue.

(4) Price Index Number and Quantity Index Number.

(5) Internal Debt and External Debt.

Q. 3. Answer the following : (Any THREE)

[12]

- (1) Explain the scope of macroeconomics.
- (2) Explain any four features of monopoly.
- (3) Elaborate any four features of utility.
- (4) Write any four practical difficulties in national income estimation.
- (5) Explain the ratio method of measuring price elasticity of demand.

Q. 4. State with reasons whether you agree or disagree with the following statements : (Any THREE)

[12]

- (1) There are no exceptions to the Law of Diminishing Marginal Utility.
- (2) Supply curve of labour is backward bending.
- (3) Price under perfect competition is decided by the interaction between demand and supply.
- (4) Capital market plays an important role in India.
- (5) Balance of Payment is same as Balance of Trade.

Q. 5. Study the following table, figure, passage and answer the questions given below it : (Any TWO)

[8]

(1)

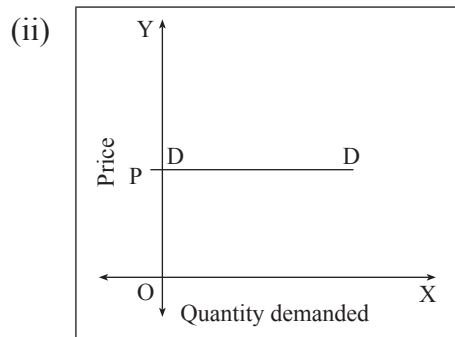
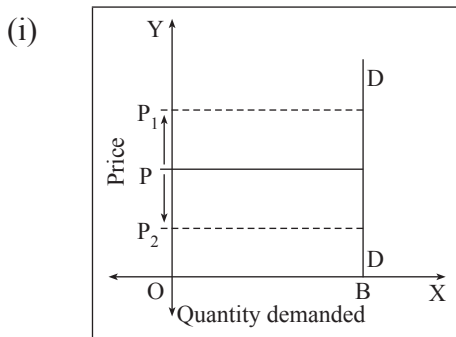
Components	₹ Crores
Consumption (C)	800
Investment (I)	700
Government Expenditure (G)	400
Net Export (X – M)	-150
Depreciation (D)	100

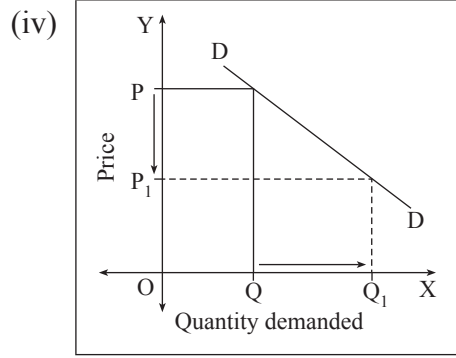
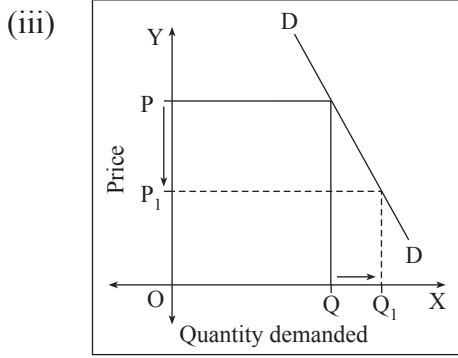
Questions :

- (i) Calculate GDP (Gross Domestic Product) on the basis of above table. (2)
- (ii) Calculate NDP (Net Domestic Product) on the basis of above table. (2)

(2) Identify the price elasticity of demand from the following diagrams :

(4)





(3)

Commercial banks act as intermediaries in the country's financial system to bring the savers and investors together. They are profit seeking financial institutions. Due to bank nationalisation in 1969, there was increase in loan disbursement in urban and rural areas. Agriculture and retail traders started getting more loans. Those sectors which were not getting loans before 1969, started getting loans in post nationalisation period. After nationalisation of banks, branch expansion took place. There has been diversification in the functions of banks. Commercial banks are providing different types of services like safe deposit lockers, demat facility, internet banking, mobile banking, etc.

Questions :

- (i) Write any two benefits of bank nationalisation. (1)
- (ii) Write various services provided by banks. (1)
- (iii) Write your opinion about the above passage. (2)

Q. 6. Answer the following questions in detail : (Any TWO) [16]

- (1) Explain the concepts of variations and changes in demand with the help of diagrams.
- (2) Explain the meaning of Index number. Explain various steps involved in the construction of index number.
- (3) Explain various sources of public revenue.

Q. 1. (A)

- (1) Income theory / Theory of Income and Employment
- (2) Indirect / Derived demand
- (3) Unitary elastic demand
- (4) Income method
- (5) Direct tax

Q. 1. (B)

- (1) Marginal utility.
- (2) Decrease in demand.
- (3) Average Revenue (AR).
- (4) Long period.
- (5) Gross Domestic Product (GDP).

Q. 1. (C)

- (1) Macroeconomics (2) steeper (3) selling cost (4) revenue budget
- (5) Entrepot trade

Q. 1. (D)

- (1) (c) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (2) (b) (A) is false, but (R) is true.
- (3) (b) (A) is false, but (R) is true.
- (4) (a) (A) is true, but (R) is false.
- (5) (a) (A) is true, but (R) is false.

Q. 2. (A)

(1) **(A) Identified concept :** Study of individual economic unit.

(B) Explanation of concept : The study of a particular economic unit by isolating it from the other forces of economy is known as the study of individual economic unit. For example, microeconomics deals with the study of individual economic units such as individual firm, individual price, etc.

(2) **(A) Identified concept :** Perfectly inelastic demand.

(B) Explanation of concept : When the proportionate change in the price of a commodity brings no (zero) proportionate change in its quantity demanded, the demand is said to be perfectly inelastic.

(3) (A) **Identified concept** : Supply.

(B) **Explanation of concept** : Supply refers to the quantity of a commodity offered for sale at a given price and at a given point of time.

(4) (A) **Identified concept** : Measure of national income by product method.

(B) **Explanation of concept** : Measurement of national income by summing the monetary values of all final goods and services produced in a particular financial year is a measure of national income by product method.

(5) (A) **Identified concept** : Fixed deposit.

(B) **Explanation of concept** : A fixed deposit is a type of time deposit in which the saver deposits a certain amount in the form of a deposit in a commercial bank for a fixed period of time and he can withdraw the amount from the deposit after a specified period.

Q. 2. (B)

(1) Slicing Method	Lumping Method
(1) Meaning	
Slicing method is a method used by microeconomics, in which the entire economy is divided into small units for an intensive study.	Lumping method is a method used by macroeconomics, in which the entire economy is considered into big lumps (or sectors) for aggregative study.
(2) Nature	
Slicing method is used to study the micro quantities of economic variables.	Lumping method is used to study the macro quantities of economic variables.
(2) Joint/Complementary Demand	
(1) Meaning	
Two or more commodities that are demanded together to satisfy a single want are said to have joint/complementary demand.	Commodities that are substitutes for each other are said to have competitive demand.
(2) Example	
Demand for needle and thread is joint/complementary demand.	Demand for tea and coffee is competitive demand.

(3)	Total Revenue	Marginal Revenue
(1) Meaning		
The total sales proceeds of a firm by selling a commodity at a given price is called Total Revenue (TR).	The net addition made to Total Revenue by selling one more unit of output is called Marginal Revenue (MR).	
(2) Formula		
$TR = P \times Q$	$MR_n = TR_n - TR_{n-1}$	

(4)	Price index number	Quantity index number
(1) Meaning		
Price index number is a type of index number derived by multiplying the ratio of sum of the prices of various commodities in the current year and sum of the prices of various commodities in the base year by 100.	Quantity index number is a type of index number derived by multiplying the ratio of sum of the quantities of the various goods in the current year and sum of the quantities of various goods in the base year by 100.	
(2) Formula		
Price Index Number $P_{01} = \frac{\sum p_1}{\sum p_0} \times 100$	Quantity Index Number $Q_{01} = \frac{\sum q_1}{\sum q_0} \times 100$	

(5)	Internal Debt	External Debt
(1) Meaning		
Debt raised on the basis of financial resources within the economy is called internal debt.	Debt raised on the basis of financial resources outside the economy is called external debt.	
(2) Nature		
Internal debt is repaid using domestic currency. It is less complicated to manage.	External debt is repaid using foreign currency. It is more complex to manage.	

Q. 3. (1) The scope of macroeconomics is as follows :

(a) Theory of Income and Employment : Macroeconomics explains how the level of national income and employment is determined. It also examines the causes for fluctuations in national income and employment. To understand the determination of the level of national income and employment, it also studies the consumption function, investment function and trade (business) cycles. Macroeconomics

studies the interrelationship between the level of output, national income and the employment level and suggests policies to solve the problems related to these macro variables.

- (b) **Theory of General Price Level and Inflation** : Macroeconomics shows how the general price level is determined and further explains what causes fluctuations in it. The theory of general price level studies the causes and effects of inflation and depression and suggests economic policies to tackle these problems.
 - (c) **Theory of Growth and Development** : Macroeconomics studies the causes of underdevelopment and poverty in poor countries as well as developing countries and suggests theories and strategies for accelerating growth and development in them. It also explains how the higher rate of growth with stability can be achieved.
 - (d) **Macro Theory of Distribution** : Macroeconomics deals with determination of relative shares of various social classes in the total national income. Macro theory of distribution deals with the relative shares of rent, wages, interest and profit in the total national income.
- (2) The following are the important features of monopoly :
- (a) **Single seller** : In a monopoly market, there is a single seller (monopolist). The monopolist has no rivals and therefore, he faces no competition.
 - (b) **No close substitute** : There are no close substitutes for the commodity sold in the monopoly market. Therefore, buyers in a monopoly market have no choice. They have to either buy a product from a monopolist or go without it. The cross elasticity of demand for a commodity sold by monopolist is zero.
 - (c) **Barriers to entry** : Under monopoly, the entry of rival firms is restricted due to natural, legal or technological barriers. Thus, rival firms are not allowed to enter in a monopoly market.
 - (d) **Complete control over the market supply** : The monopolist has complete hold over the market supply as he is a sole producer of the commodity.
 - (e) **Price maker** : The firm / monopolist in a monopoly market is a price maker and not a price taker. Monopolist can set any price of a commodity as he has complete control over the market supply of the product.
 - (f) **Price discrimination** : Being a single seller and price maker, monopolist can charge consumerwise, placewise, timewise and usewise different prices for the same product. Price discrimination is an important feature of monopoly market. For example, Indian Railways provides railway tickets at concessional rates to students and senior citizens.
 - (g) **No distinction between firm and industry** : As monopolist is the only seller in the monopoly market, a monopolist's firm itself is an industry in a monopoly market.

(Note : Write any four points in the answer.)

- (3) The following are the important features or characteristics of utility :
- (a) **Relative concept** : Utility changes from time to time and from place to place. For example, woollen clothes possess more utility during winter and less utility during summer. Similarly, they possess more utility in Kashmir and less utility in Mumbai.
 - (b) **Subjective concept** : Utility gets influenced by a person's likes, dislikes, habits, preferences, etc. Therefore, utility changes from person to person. For example, a non-vegetarian finds utility in mutton, but the vegetarian does not get utility from it.
 - (c) **Ethically neutral concept** : The concept of utility is morally and ethically colourless. Utility never takes into account the concepts such as good or bad, moral or immoral, etc. For example, in economics, both milk as well as wine possess utility.
 - (d) **Utility differs from usefulness** : A commodity possessing utility may not always possess usefulness. Utility and usefulness are totally different concepts. For example, a harmful product like poison possesses utility but it does not possess usefulness.
 - (e) **Utility differs from pleasure** : A commodity possessing utility may not always provide pleasure to the consumer. Thus, utility and pleasure are totally different concepts. For example, injection possesses utility, but its consumption does not give pleasure to the patient.
 - (f) **Utility differs from satisfaction** : Utility and satisfaction are totally different concepts. Utility is the starting point of consumption, whereas satisfaction is derived after consumption. For example, for a thirsty person, a glass of water has utility. When he drinks that glass of water, he derives satisfaction from it.
 - (g) **Measurement of utility is hypothetical** : Utility is a psychological concept. It has no physical existence. Therefore, it cannot be measured in numbers. Therefore, only hypothetical measurement of utility is possible.
 - (h) **Utility is multipurpose** : A particular commodity can satisfy many wants of a particular individual or more than one individual at a time. For example, one individual can make use of electricity for operating washing machine, another individual can make use of electricity to operate air conditioning unit.
 - (i) **Depends upon the intensity of want** : Utility has direct relation to intensity of want. Individual finds more utility in a commodity if his want is more intense and vice versa. For example, hungry individual finds more utility in food than a person who is not so hungry.
 - (j) **It is the basis of demand** : Utility forms the basis for demand. Generally, an individual demands a commodity when it has utility for him. Unless a commodity provides utility, it is not demanded.

(Note : Write any four points in the answer.)

- (4) Practical difficulties in measuring national income are also known as statistical difficulties in measuring national income. The practical difficulties in measuring national income are as follows :
- (a) **Problem of double counting** : The greatest difficulty in calculating national income is of double counting. It arises from the failure to distinguish properly, between a final and an intermediate product. For example, flour used by a bakery is an intermediate product and that by a household is a final product. Therefore, sometimes the flour used by a bakery is taken wrongly as a final product. This results in the problem of double counting. Double counting leads to overestimation of national income.
 - (b) **Existence of non-monetised sector** : In a developing country like India, especially in rural areas, there exists the non-monetised sector. In India, agriculture, still being in the nature of subsistence farming, a major part of production is consumed at the farm itself and a very small part produced is exchanged for other goods and services. Thus, exchange activities are carried out without the use of money. Therefore, they are not calculated in national income.
 - (c) **Inadequate and unreliable data** : In a developing country like India, no permanent machinery exists for the collection of data. Therefore, adequate and correct data on production and cost data relating to crops, fisheries, animal husbandry, forestry, construction workers, small enterprises, etc. is not available. Besides this, data on unearned incomes, consumption and investment expenditure of rural and urban population is also not available. This does not reveal the actual size of national income and it leads to underestimation of national income.
 - (d) **Depreciation** : Depreciation refers to wear and tear of capital assets, due to their use in the process of production. There are no uniform, common or accepted standard rates of depreciation applicable to the various capital assets. Thus, it is difficult to make correct deductions for depreciation due to an element of subjectivity.
 - (e) **Capital gains or losses** : Capital gains or capital losses, which accrue to the property owners by increase or decrease in the market value of their capital assets or changes in demand, are not included in the national income because these changes do not result from current economic activities.
 - (f) **Illiteracy and ignorance** : Due to illiteracy and ignorance, small producers do not keep an account of their production. So they cannot give information about the quantity or value of their output. This distorts the estimation of national income.

- (g) **Difficulties in the classification of working population :** In India, working population is not clearly defined. For instance, farmers in India are not engaged in agriculture all round the year. Obviously, in the off season, they engage themselves in alternative occupations. In such a case, it is very difficult to identify their incomes from a particular occupation. This leads to underestimation of national income.
- (h) **Valuation of inventories :** Raw materials, intermediate goods, semi-finished and finished products in the stock of the producers are known as inventories. Valuation of inventories requires careful assessment. Any mistake in measuring the value of inventory, distorts the value of the final production of the producer which in turn distorts the estimation of national income.

(Note : Write any four points in the answer.)

(5)

- (a) Ratio method of measuring price elasticity of demand is developed by Dr. Alfred Marshall. This method is also known as arithmetic method or percentage method or proportional method of measuring elasticity of demand.
- (b) In this method, the price elasticity of demand is measured by dividing the percentage change in the quantity demanded of a commodity by the percentage change in its price.
- (c) The formula used for the measurement of the price elasticity of demand is as follows :

$$E_d = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} \text{ Where,}$$

- (i) ΔQ = Change in the quantity demanded, i.e. $Q_1 - Q$. (New demand – Original demand)
- (ii) Q = Original demand
- (iii) ΔP = Change in the price, i.e. $P_1 - P$. (New price – Original price) and
- (iv) P = Original price.
- (d) Ratio method can be explained with the help of the following example :

Price and Demand of a Commodity	Original	New	Change
Demand (per day in units)	10 (Q)	9 (Q ₁)	01 (ΔQ) $Q_1 - Q$
Price (₹)	20 (P)	25 (P ₁)	05 (ΔP) $P_1 - P$

$$E_d = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$\therefore E_d = \frac{1}{10} \times \frac{20}{5}$$

$$\therefore E_d = 0.4$$

$$\therefore E_d < 1.$$

As the numerical value of the elasticity of demand is less than one, the demand is relatively inelastic in this example.

Q. 4. (1) I agree with this statement.

Reasons :

There are no real exceptions to the Law of Diminishing Marginal Utility (DMU). In the following some cases, it is considered that the Law of DMU is not valid :

- (a) **Hobbies :** It is said that in case of certain hobbies such as collection of stamps, rare coins, etc. an individual derives more and more utility from every additional stamp or coin. It is also said that people who are fond of music derive more and more marginal utility from every additional listening of music. It is also said that people who are fond of reading books derive more and more utility from every additional reading of book. But in fact as per the assumptions of homogeneity and continuity of the law of DMU, if an individual is asked to collect same type of stamp or coin continuously or to listen same song continuously or to read the same book continuously, the marginal utility will fall and the law will become applicable.
- (b) **Misers :** It is said that for a miser, the marginal utility of money increases with every increase in the stock of money. But the miser's behaviour is irrational. Thus, he violates the rationality assumption of the law. Therefore, misers are not real exception to the law.
- (c) **Addictions :** It is said that a drunkard derives more and more marginal utility from consumption of every additional unit of liquor. But the drunkard's behaviour is irrational. Thus, he violates the rationality assumption of the law. Therefore, drunkards or addicts are not real exception to the law.
- (d) **Power :** It is said that a person derives more and more marginal utility from every additional acquisition of power. But a person's lust for power is irrational. Thus, he violates the rationality assumption of the law. So, power is not a real exception to the law.
- (e) **Money :** It is said that a person derives more and more marginal utility with every additional unit of money. But in fact, the marginal utility of money also diminishes as its stock increases. For example, a poor person will get more marginal utility from a 5-rupee note, but a rich person will get less marginal utility from the same 5-rupee note.

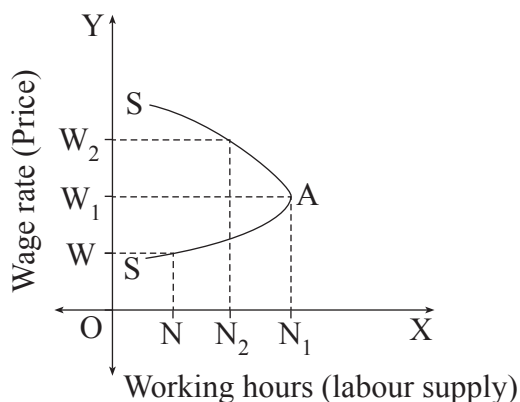
Thus, in fact, there are no real exceptions to the law of DMU. It has universal applicability.

(Note : Write any three points in the answer.)

(2) I agree with this statement.

Reasons :

- (a) In the initial stages, labour supply increases as wage rate increases. However, at a later stage, workers would prefer leisure to work.
- (b) Therefore, in the initial stages, the labour supply curve slopes upwards from the left to the right. However, in the later stage, the labour supply curve bends backward.



- (c) From the diagram, it can be seen that in the initial stages, as wage rate rises from OW to OW_1 , the supply of labour also rises from ON to ON_1 . However, when the wage rate further rises from OW_1 to OW_2 , the supply of labour do not rise further; rather, it is reduced from ON_1 to ON_2 .
- (d) Thus, after the wage level OW_1 , the supply curve bends backwards from the point A towards Y -axis indicating that at higher prices, fewer labour hours are supplied. Therefore, the backward bending supply curve shows the inverse relationship between supply of labour and wage rate.
- (3) I agree with this statement.

Reasons :

- (a) The price of the product in perfect competition is determined by the interaction of market demand and market supply forces. This price is called an equilibrium price. According to Dr. Alfred Marshall, market demand and market supply are like two blades of a pair of scissors. Just as cutting cloth is not possible with the use of only one blade, equilibrium price of a commodity cannot be determined either by the force of market demand or by market supply alone.
- (b) The equilibrium price determination under perfect competition is explained in the following schedule :

Price per kg of Apples (in ₹)	Quantity Demanded (in kg)	Quantity Supplied (in kg)	Relation Between DD and SS
100	5000	1000	DD > SS
200	4000	2000	DD > SS
300	3000	3000	DD = SS
400	2000	4000	DD < SS
500	1000	5000	DD < SS

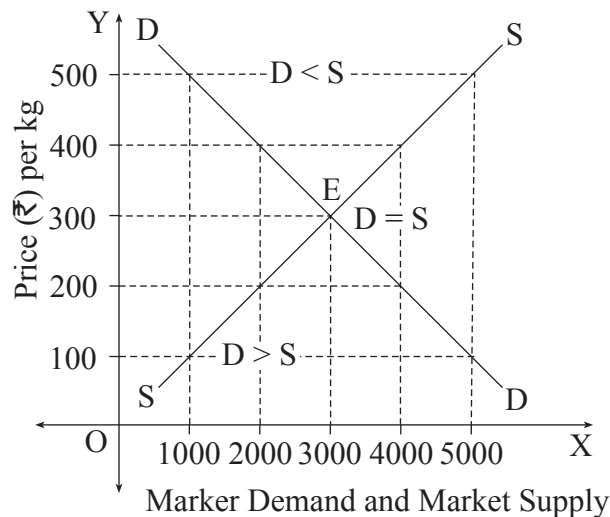
- (i) From the schedule, it can be seen that when the price of the commodity is low, the quantity demanded is more and quantity supplied is less. For example, at price of apples ₹ 100 per kg, quantity demanded (5000) > quantity supplied (1000). Similarly, at price of apples ₹ 200 per kg, quantity demanded (4000) > quantity supplied (2000.) In this condition excess market demand, the price

of the commodity starts rising. Due to a rise in the price, the market demand starts contracting and market supply starts expanding. In this way, the process of equilibrium in market demand and market supply gets initiated.

(ii) From the schedule, it can be seen that when the price of the commodity is high, the quantity demanded is less and quantity supplied is more. For example, at price of apples ₹ 400 per kg, quantity demanded (2000) < quantity supplied (4000). Similarly, at price of apples ₹ 500 per kg, quantity demanded (1000) < quantity supplied (5000.) In this condition of excess market supply, the price of the commodity starts falling. Due to a fall in the price, the market demand starts expanding and market supply starts contracting. In this way, the process of equilibrium in market demand and market supply gets initiated.

(iii) From the schedule, it can be seen that at a particular price, the market demand and market supply are equal to each other. For example, at price of apples ₹ 300 per kg, quantity demanded (3000) = quantity supplied (3000.) This is called an equilibrium price. An equilibrium price is the price at which quantity demanded is equal to the quantity supplied. In this way, an equilibrium price is determined in perfect competition. This equilibrium price is accepted by all buyers as well as sellers.

(c) The equilibrium price determination under perfect competition is explained in the following diagram :



(i) In the diagram, Y-axis represents the price of apples and the X-axis represents the market demand and market supply of apples. In the diagram, DD is a downward sloping demand curve indicating the inverse relationship between the price and quantity demanded. SS is an upward sloping supply curve indicating the direct relationship between the price and the quantity supplied.

(ii) From the diagram, it can be seen that both the curves intersect each other at point E which is the equilibrium point. In this example, the equilibrium price is ₹ 300 and equilibrium quantity is 3000 kgs.

(4) I agree with this statement.

Reasons :

The role of the capital market in India is explained in the following points :

- (a) Mobilisation of long-term savings :** Industrial organisations and the government need a large amount of funds for investment and as financial resources. Availability of financial resources is insufficient to meet the demand for these funds. In such a case, the sale of securities by the capital market helps to bring together the long-term savings of different sections of the population.
- (b) Provision of equity capital :** The capital market provides equity capital to entrepreneurs. Entrepreneurs use the share capital to buy assets for the firm/industry and to fund business operations.
- (c) Operational efficiency :** Capital market reduces the cost of transactions and simplifies the transaction process. Capital market helps financial transactions to achieve operational efficiency by reducing the time taken to buy and sell stocks.
- (d) Quick valuation :** Capital market helps to determine the fair and quick value of equities (shares) and debt (bonds and debentures).
- (e) Integration :** The capital market coordinates by consolidating the real and financial sector, equities and debt instruments, public sector and private sector, domestic and external funds, etc.

(Note : Write any three points in the answer.)

(5) I disagree with this statement.

Reasons :

- (a)** Balance of payment refers to a systematic record of all international economic transactions of a particular country for a given period. On the other hand, balance of trade refers to the difference between the value of country's exports and imports for a given period.
- (b)** Balance of trade gets included in balance of payment. Thus, it is a part of balance of payment.
- (c)** Balance of payment is a broader concept. Balance of trade is a narrower concept.

Thus, balance of payment is not same as balance of trade. Both of them are different concepts.

Q. 5. (1)

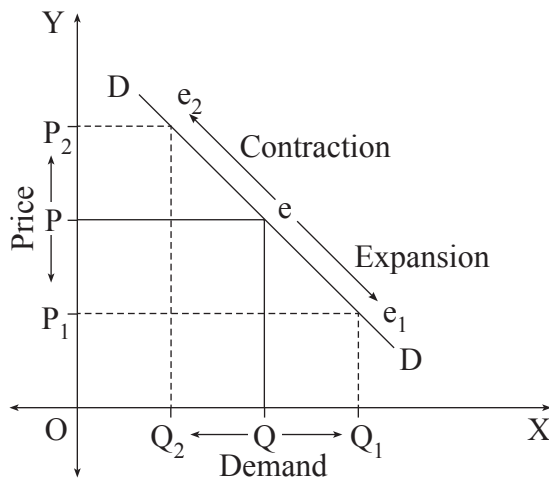
$$\begin{aligned} \text{(i) GDP} &= C + I + G + (X - M) \\ &= 800 + 700 + 400 + (-150) \\ &= 1900 + (-150) \\ &= ₹1750 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{(ii) NDP} &= \text{GDP} - \text{Depreciation (D)} \\ &= 1750 - 100 \\ &= ₹1650 \text{ crores} \end{aligned}$$

- (2) (i) The price elasticity of demand in diagram (i) is perfectly inelastic.
(ii) The price elasticity of demand in diagram (ii) is perfectly elastic.
(iii) The price elasticity of demand in diagram (iii) is relatively inelastic.
(iv) The price elasticity of demand in diagram (iv) is relatively elastic.
- (3) (i) Two benefits of bank nationalisation are :
(a) Increase in loan disbursement to urban and rural areas.
(b) Agriculture and retail traders started getting more loans.
- (ii) Various services provided by banks are :
(a) Safe deposit lockers
(b) Demat facility
(c) Internet banking
(d) Mobile banking, etc.
- (iii) Commercial banks are profit seeking financial institutions. After nationalisation of banks, various sectors in economy started getting more loans. It also resulted in the diversification in the functions of banks.

Q. 6. (1)

- (A) **Variation in Demand** : Variation in demand can be explained with the help of the following points :
- (a) **Meaning** : Other factors remaining constant, a rise or fall in demand due to the change in the price of a commodity, is called variation in demand. Variation in demand is of the following two types :
- (i) **Expansion of Demand** : Other factors remaining constant, a rise in demand due to fall in the price of a commodity, is called expansion of demand.
- (ii) **Contraction of Demand** : Other factors remaining constant, a fall in demand due to a rise in the price of a commodity, is called contraction of demand.
- (b) **Diagram** : Variation in demand can be explained with the help of the following diagram :



From the given diagram, it can be seen that, other things being equal, as price falls from OP to OP_1 , demand rises from OQ to OQ_1 . This rise in demand is called expansion of demand. In expansion of demand, the equilibrium point of price and demand moves downwards from the left to the right (e to e_1) on the same demand curve.

On the other hand, as price rises from OP to OP_2 , demand falls from OQ to OQ_2 . This fall in demand is called contraction of demand. In contraction of demand, the equilibrium point of price and demand moves upwards from the right to the left (e to e_2) on the same demand curve.

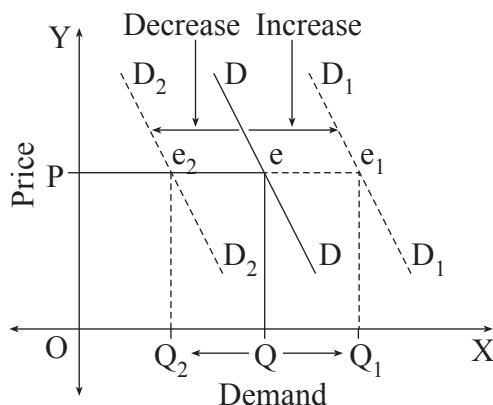
(B) Change in Demand : Change in demand can be explained with the help of the following points :

(a) Meaning : Price of a commodity in question remaining constant, a rise or fall in demand due to the change in the other factors, is called change in demand. Change in demand is of the following two types :

(i) Increase in Demand : Price of a commodity in question remaining constant, a rise in demand due to favourable changes in other factors, is called increase in demand.

(ii) Decrease in Demand : Price of a commodity in question remaining constant, a fall in the demand due to unfavourable changes in other factors is called decrease in demand.

(b) Diagram : Change in demand can be explained with the help of the following diagram :



From the diagram, it can be seen that price remaining equal, i.e. OP, due to favourable changes in other factors, demand rises from OQ to OQ₁. This rise in demand is called as increase in demand. In increase in demand, demand curve shifts to the right side of the original demand curve (DD to D₁D₁) and the equilibrium point of price and demand shifts from the left to the right (e to e₁) on the new demand curve.

On the other hand, price remaining equal, i.e. OP, due to unfavourable changes in other factors, demand falls from OQ to OQ₂. This fall in demand is called as decrease in demand. In decrease in demand, demand curve shifts to the left side of the original demand curve (DD to D₂D₂) and the equilibrium point of price and demand shifts from the right to the left (e to e₂) on the new demand curve.

(2)

(A) Meaning : According to Spiegel, “An index number is a statistical measure designed to show changes in a variable or a group of related variables with reference to time, geographical location and other characteristics such as income, profession, etc.”

(B) Steps : The steps involved in the construction of index numbers are as follows :

(a) Deciding the purpose of index numbers : Deciding the purpose of index numbers is the first important step in the construction of index numbers. The purpose of constructing the index number, its scope as well as which variable is intended to be measured should be clearly decided to achieve fruitful results. For example, if the purpose of constructing index numbers is to find out the changes in the wholesale prices of a particular commodity, then collecting data on the retail prices of a particular commodity will not be fruitful.

(b) Selecting the base year : Base year is also called the reference year. It is the year against which comparisons are made. The base year should be normal, i.e. it should be free from natural calamities, warlike conditions, emergencies, etc. It should not be too distant in the past.

(c) Selecting items : It is necessary to select a representative sample of the number of items to be included in the construction of index numbers. The representative sample should represent the tastes, habits and customs of the people. Similarly, only standardised or graded items should be included to give better results. For example, while measuring the trends in consumption pattern of poor people, the data related to quantities of essential goods consumed by poor people over a period of time is to be collected. The collection of data related to quantities of luxury goods consumed by rich people will not be fruitful.

- (d) **Obtaining price quotations** : Prices of the selected commodities may vary from place to place and shop to shop in the same market. Therefore, while calculating index numbers, it is desirable that price quotations should be obtained from an unbiased price reporting agency. Proper selection of representative places and persons is required to achieve accuracy in the construction of index numbers.
- (e) **Choosing suitable average** : Construction of index numbers requires choice of a suitable average. Generally, arithmetic mean is used in the construction of index numbers as compared to other averages, it is simple to compute.
- (f) **Assigning proper weights** : Weight refers to the relative importance of the different items in the construction of an index number. Weights are of two types, viz. (i) Quantity weights (q) and (ii) Value weights ($p \times q$). Since all items are not of equal importance, while constructing index numbers, specific weights are assigned to various commodities for achieving better results.
- (g) **Selecting an appropriate formula** : Various formulae are devised for the construction of index numbers. According to the purpose of index number and availability of data, a suitable formula is chosen for constructing index numbers.

(3)

(A) **Tax Revenue** : Tax sources of public revenue are as follows :

- (a) **Direct Tax** : A tax which is levied on the income or property of an individual and so in which, the impact and incidence of tax is on same head is called direct tax. Income tax, property tax, etc. are the examples of direct tax.
 - (b) **Indirect Tax** : A tax which is levied on goods and services and so in which, the impact of tax is on one person (seller) and the incidence of tax is on another person (buyer) is called indirect tax. Goods and Services Tax (GST), custom duty, etc. are the examples of indirect tax.
- (B) **Non-Tax Revenue** : Non-tax sources of public revenue are as follows :
- (a) **Fees** : Fee is paid by citizens in return for certain specific services rendered by the government. For example, education fee, registration fee, etc.
 - (b) **Prices of public goods and services** : Modern governments sell various types of commodities and services to the citizens. A price is a payment made by the citizens to the government for the goods and services sold to them. For example, railway fares, postal charges, etc.
 - (c) **Special assessment** : The payment made by the citizens of a particular locality in exchange for certain special facilities given to them by the authorities is known as 'special assessment'. For example, local bodies can levy a special charge on the residents of a particular area where extra/special facilities of roads, energy, water supply etc. are provided.

- (d) **Fines and penalties** : The government imposes fines and penalties on those who violate the laws of the country. The objective of the imposition of fines and penalties is not to earn income, but to discourage the citizens from violating the laws framed by the government. For example, fines for violating traffic rules. However, the revenue from this source is comparatively limited.
- (e) **Gifts, grants and donations** : The government may also earn some income in the form of gifts by the citizens and others. The government may also receive grants from the foreign governments and institutions for general and specific purposes. Foreign aid has become an important source of development finance for a developing country like India. However, this source of revenue is uncertain in nature.
- (f) **Special levies** : The government levies duties on those commodities, the consumption of which is harmful to the health and well-being of the citizens. Like fines and penalties, the objective of special levies is not to earn income, but to discourage citizens from the consumption of harmful commodities. For example, duties levied on wine, opium and other intoxicants.
- (g) **Borrowings** : The government borrows from the citizens in the form of deposits, bonds, etc. Government also gets loans from foreign governments and international organisations such as IMF, World Bank, etc. In modern times, loans are becoming more and more popular source of revenue for the governments.
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BOARD'S QUESTION PAPER (JULY 2022)**Time : 3 Hours]****[Total Marks : 80**

- Note :** (i) All questions are compulsory.
(ii) Draw neat tables/diagrams wherever necessary.
(iii) Figures to the right indicate full marks.
(iv) Write answers to all main questions on a new page.

Q. 1. (A) Choose the correct option :**(5) [20]**

- (1) The branch of economics that deals with the allocation of resources :
(a) Microeconomics (b) Macroeconomics
(c) Econometrics (d) Monetary Economics
Options : (1) a, b, c (2) a, b (3) only 'a' (4) None of these
- (2) Classification of markets is done on the basis of place :
(a) Local market, National market, International market
(b) Very short period market, Local market, National market
(c) Short period market, National market, International market
(d) Local market, National market, Short period market.
Options : (1) a, b, c (2) b, c, d (3) only a (4) a, d
- (3) Statements that are incorrect in relation to index numbers :
(a) Index number is a geographical tool.
(b) Index numbers measure changes in the air pressure.
(c) Index numbers measure relative changes in an economic variable.
(d) Index numbers are specialized averages.
Options : (1) c, d (2) a, b (3) b, c (4) a, b, c, d
- (4) Non-tax sources of revenue :
(a) Direct and indirect tax (b) Direct tax and fees
(c) Fees (d) Special levy
Options : (1) b, c (2) a, c (3) a, b, c, d (4) c, d
- (5) Methods of quantitative credit control :
(a) Bank rate (b) Open market operation
(c) Cash reserve ratio (d) Credit rationing
Options : (1) a, b, c (2) b, c, d (3) a, b, d (4) a, c, d

(B) Complete the correlations :

(5)

- (1) Microeconomics : : : Macroeconomics : Forest.
- (2) Price and demand for normal-good : Inverse relationship : : Giffen goods : .
- (3) Perfect competition : : : Monopoly : Single seller.
- (4) Total revenue : : : Average revenue : $\frac{\text{Total Revenue}}{\text{Total Quantity}}$.
- (5) Output method : : : Income method : Factor cost method.

(C) Find the odd word out :

(5)

- (1) Types of elasticity of demand – Price elasticity, Income elasticity, Less elastic, Cross elasticity.
- (2) External debt – Foreign banks, World bank, International Monetary Fund, Central bank.
- (3) Organised sector – Money-lender, Commercial bank, Co-operative bank, Reserve Bank of India.
- (4) Transfer income – Pension, Unemployment allowance, Wages, Gifts.
- (5) Types of foreign trade – Local trade, Import trade, Export trade, Entrepot trade.

(D) Complete the following statements :

(5)

- (1) The relationship between demand for a good and price is
(a) *direct* (b) *inverse*
(c) *no effect* (d) *can be direct and inverse*
- (2) Demand curve is parallel to 'X'-axis in case of
(a) *perfectly elastic demand* (b) *perfectly inelastic demand*
(c) *relatively elastic demand* (d) *relatively inelastic demand*
- (3) A rightward shift in supply curve shows :
(a) *Contraction of supply* (b) *Decrease in supply*
(c) *Expansion of supply* (d) *Increase in supply*
- (4) Trade of goods and services within the geographical boundaries of a nation :
(a) *International trade* (b) *Internal trade*
(c) *Currency trade* (d) *Intercontinental trade*

(5) Stock exchange is an important constituent of the

- (a) capital market (b) money market
(c) local market (d) international market

Q. 2. (A) Identify and explain the following concepts : (Any THREE) (6) [12]

- (1) Salma purchased sweater for her father in winter season.
- (2) Sanket's demand for consumer goods increased by 20% due to an increase in his income by 50%.
- (3) Anita receives monthly pension of ₹ 15,000 from the State Government.
- (4) John produces 5 units of mobile in his factory at ₹ 50,000. When he produced the 6th unit of mobile, his total cost was ₹ 58,000.
- (5) Samir paid wages to workers in his factory and interest on his bank loan.

(B) Distinguish between : (Any THREE) (6)

- (1) Individual demand and Market demand
- (2) Slicing method and Lumping method
- (3) Stock and Supply
- (4) Simple index number and Weighted index number
- (5) Direct tax and Indirect tax

Q. 3. Answer the following : (Any THREE) [12]

- (1) Explain any four features of microeconomics.
- (2) Explain any four points related to the significance of index number.
- (3) Explain any four features of monopoly.
- (4) Explain any four points related to the role of money market in India.
- (5) Explain any four points related to the role of foreign trade.

Q. 4. State with reasons whether you agree or disagree with the following statements : (Any THREE) [12]

- (1) Every desire of an individual is a demand.
- (2) There is a direct relationship between price and quantity supplied.
- (3) Commercial bank performs various functions.
- (4) Index numbers can be constructed without base year.
- (5) Slope of relatively elastic demand curve is steeper.

Q. 5. Study the following table, figure, passage and answer the questions given below it :

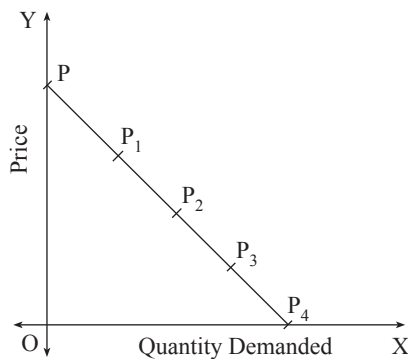
(Any TWO) [8]

(1)

Price of Apple [Per kg ₹]	Demand [Per kg]	Supply [Per kg]
100	50	10
200	<input type="text"/>	20
<input type="text"/>	30	30
400	20	<input type="text"/>
500	<input type="text"/>	50

Questions :

- (i) Complete the above table. (2)
 - (ii) Draw an equilibrium price determination diagram based on the above table. (2)
- (2) Following diagram is a linear demand curve. On the basis of the given diagram, answer the following questions : (4)



Questions :

- (1) Demand at point 'P₂' is relatively inelastic. Is this statement true or false?
- (2) Identify the elasticity of demand at point 'P'.
- (3) What is denoted on 'X'-axis in the above diagram?
- (4) Which method of measuring elasticity of demand is denoted in the above diagram?

(3) As per a survey conducted by Galaxy Enterprise, it was observed that in Panji, there was an increase in the demand for biscuits. This was due to the change in people's taste and habits.

Considering this an opportunity, the Galaxy Enterprise borrowed capital from 'Bank of India', purchased wheat from the farmers and started producing biscuits. The company had a competition from Andromeda Foods Ltd., a producer of cream biscuits. One more research conducted by the Galaxy Enterprise made them realise that with the rise in demand for biscuits, the demand for tea also has increased.

Galaxy Enterprise started a chain of tea shops in Panji with an intention of creating competition to Andromeda.

(i) Find out the examples of types of demand from the above passage.

(a) Direct demand (1)

(b) Indirect demand (1)

(ii) Give your opinion with reference to above passage. (2)

Q. 6. Answer the following questions in detail : (Any TWO)

[16]

(1) State and explain the Law of Diminishing Marginal Utility with exceptions.

(2) Explain the concept of national income and explain the features of national income.

(3) Explain various reasons for the growth of public expenditure.

Q. 1. (A)

- (1) (3) Only 'a'
- (2) (3) Only 'a'
- (3) (2) a, b
- (4) (4) c, d
- (5) (1) a, b, c

Q. 1. (B)

- (1)

Tree

- (2)

Direct relationship

- (3)

Large number of sellers

- (4)

Price × Quantity

- (5)

Product/Inventory method

Q. 1. (C)

- (1) Less elastic
- (2) Central bank
- (3) Money-lender
- (4) Wages
- (5) Local trade

Q. 1. (D)

- (1) (b) inverse
- (2) (a) perfectly elastic demand
- (3) (d) Increase in supply
- (4) (b) Internal trade
- (5) (a) capital market

Q. 2. (A)

(1) (A) Identified concept : Time utility.

(B) Explanation of concept : Utility increased/derived by changing the time of utilisation of a commodity is called time utility.

- (2) (A) **Identified concept** : Income elasticity of demand.
 (B) **Explanation of concept** : Income elasticity of demand can be defined as the percentage change in the quantity demanded of a commodity in response to a percentage change in the income of the consumer only.
- (3) (A) **Identified concept** : Transfer income.
 (B) **Explanation of concept** : If the expenditure incurred by another person/organisation is received by an individual in the form of income without any form of productive work, then such income is called 'transfer income'.
- (4) (A) **Identified concept** : Marginal cost.
 (B) **Explanation of concept** : Marginal cost is the net addition made to total cost by producing one more unit of output. It is calculated as follows :
- $$MC_n = TC_n - TC_{n-1}$$
- (5) (A) **Identified concept** : Payment of factor price/reward.
 (B) **Explanation of concept** : The factors of production, viz. land, labour, capital and entrepreneur are essential for the production of goods. These factors of production get rewards in the form of rent, wages, interest and profit, respectively from the producer for participating in the production process.

Q. 2. (B)

(1)	Individual Demand	Market Demand
(1) Meaning		
Individual demand is the demand by a single consumer in a market for a given commodity at a given price and time.	Market demand is the total demand by all consumers in a market for a given commodity at a given price and time.	
(2) Interrelation		
Individual demand is always less than market demand.	Market demand is always greater than individual demand.	
(2)	Slicing Method	Lumping Method
(1) Meaning		
Slicing method is a method used by microeconomics, in which the entire economy is divided into small units for an intensive study.	Lumping method is a method used by macroeconomics, in which the entire economy is considered big lumps (or sectors) for aggregative study.	
(2) Nature		
Slicing method is used to study the micro quantities of economic variables.	Lumping method is used to study the macro quantities of economic variables.	

(3)	Stock	Supply
(1) Meaning		
Stock refers to the entire quantity of a commodity which exists with the seller at a given point of time.	Supply refers to the quantity of a commodity offered for sale at a given price and at a given point of time.	
(2) Interrelationship		
Stock can exceed supply or stock and supply can be same.	Supply and stock can be same. But supply can never exceed stock.	
(4)	Simple Index Number	Weighted Index Number
(1) Meaning		
Index numbers measured by giving equal importance (weight) to every commodity are known as simple index numbers.	Index numbers measured by giving suitable importance (weight) to every commodity are known as weighted index numbers.	
(2) Nature		
The measurement of simple index number is comparatively simple.	The measurement of weighted index number is comparatively complex.	
(5)	Direct Tax	Indirect Tax
(1) Meaning		
A tax which is levied on the income or property of an individual and so in which, the impact and incidence of tax is on same head is called direct tax.	A tax which is levied on goods and services and so in which, the impact of tax is on one person (seller) and the incidence of tax is on another person (buyer) is called indirect tax.	
(2) Examples		
Income tax, property tax, etc. are the examples of direct tax.	Goods and Services Tax, Customs Duty, etc. are the examples of indirect tax.	

Q. 3. (1) The following are the features of microeconomics :

- (a) Study of individual units :** Microeconomics is concerned with the study of economic behaviour of small individual economic units of an economy. For example, microeconomics studies the economic behaviour of particular household, particular firm, price of a particular product, etc.
- (b) Price theory :** Microeconomics is primarily concerned with price determination of goods and services as well as factors of production, viz., land, labour, capital and entrepreneur. Therefore, microeconomics is also known as ‘Price Theory’.

- (c) **Partial equilibrium** : Microeconomics isolates individual economic units from the other forces of economy. It analyses the equilibrium positions of individual economic units such as individual consumer, individual firm separately (independently). Therefore, microeconomic analysis is a partial equilibrium analysis. Partial equilibrium analysis is based on the assumption of ‘Ceteris Paribus’, i.e., other things remaining the same. Thus, partial equilibrium neglects the interdependence between economic variables of an economy.
- (d) **Based on certain assumptions** : Microeconomics is based on certain assumptions such as full employment, pure capitalism, laissez-faire policy, perfect competition, etc. prevailing in an economy. But in reality, an economy with such conditions does not exist. Most of the theories of microeconomics are based on the ‘Ceteris Paribus’ assumption, i.e., other things remaining the same.
- (e) **Slicing method** : Microeconomics splits the entire economy into small individual economic units. Then it studies the economic behaviour of each individual unit separately in detail. Thus, microeconomics uses slicing method for its analysis.
- (f) **Use of marginalism principle** : Consumers as well as producers take all important economic decisions at the margin. Therefore, microeconomics uses marginalism principle as a key tool of analysis.
- (g) **Analysis of market structures** : Microeconomics studies market structures such as perfect competition, monopoly, oligopoly, monopolistic competition, etc. It also describes how the prices of goods and services are determined in these markets.
- (h) **Limited scope** : Microeconomics does not deal with national economic problems such as poverty, unemployment, inflation, depression, deficit in balance of payments, etc. Therefore, microeconomics has limited scope.

(Note : Write any four points in the answer.)

- (2) The significance of index number in economics can be explained as follows :
 - (a) **Helpful in framing suitable policies** : Index numbers provide guidelines to policy makers in framing suitable economic policies. Index numbers are helpful in framing the economic policies such as agricultural policy and industrial policy. Index numbers also help in the fixation of wages and dearness allowances in accordance with the cost of living.
 - (b) **Helpful in studying trends and tendencies** : Index numbers are widely used to measure changes in various economic variables such as production, prices, exports, imports, etc. over a period of time. For example, by examining the index of industrial production for the last five years, important conclusions about the trend of industrial production, i.e. whether the industrial production shows an upward tendency or a downward tendency can be drawn.

- (c) **Helpful in forecasting future economic activity** : Index numbers help in making predictions on the basis of analysis of the past and present trends in the economic activities. For example, by examining the data pertaining to exports of alphonso mangoes from the year 2009 to 2014 and from the year 2014 to 2019, if it is noticed that the export of alphonso mangoes has been increasing, it can be predicted that an increase in export will continue in future.
- (d) **Helpful in measurement of inflation** : Index numbers are also used to measure changes in the price level from time to time. The measurement of inflation enables the government to undertake appropriate anti-inflationary measures. For example, there is a legal provision to pay the D.A. (dearness allowance) to the employees in organised sector on the basis of changes in Dearness Index. Thus, with the help of the Dearness Index, the government can increase the D.A. from time to time.
- (e) **Useful to present financial data in real terms** : Rise in money supply over a period of time leads to inflation in an economy. Inflation has its effects on various economic variables such as total production, national income, price level, wage level, etc. Index numbers can eliminate the effects of inflation by deflating the values of these various economic variables on the basis of their constant prices. Thus, index numbers can measure the changes in the values of various economic variables in real terms.

(Note : Write any four points in the answer.)

(3) The following are the important features of monopoly :

- (a) **Single seller** : In a monopoly market, there is a single seller (monopolist). The monopolist has no rivals and therefore, he faces no competition.
- (b) **No close substitute** : There are no close substitutes for the commodity sold in the monopoly market. Therefore, buyers in a monopoly market have no choice. They have to either buy a product from a monopolist or go without it. The cross elasticity of demand for a commodity sold by monopolist is zero.
- (c) **Barriers to entry** : Under monopoly, the entry of rival firms is restricted due to natural, legal or technological barriers. Thus, rival firms are not allowed to enter in a monopoly market.
- (d) **Complete control over the market supply** : The monopolist has complete hold over the market supply as he is a sole producer of the commodity.
- (e) **Price maker** : The firm / monopolist in a monopoly market is a price maker and not a price taker. Monopolist can set any price of a commodity as he has complete control over the market supply of the product.
- (f) **Price discrimination** : Being a single seller and price maker, monopolist can charge consumer-wise, placewise, timewise and usewise different prices for the same product. Price discrimination is an important feature of monopoly market. For example, Indian Railways provides railway tickets at concessional rates to students and senior citizens.

(g) No distinction between firm and industry : As monopolist is the only seller in the monopoly market, a monopolist's firm itself is an industry in a monopoly market.

(Note : Write any four points in the answer.)

(4) The role of money market in India can be explained with the help of the following points :

(a) Meeting the short term requirements of the borrower : Due to the money market, the short-term financial needs of the borrowers are met at realistic interest rates.

(b) Liquidity management : Money market facilitates better management of liquidity and money in the economy by the monetary authorities. As a result, the country enjoys economic stability and economic development.

(c) Portfolio management : Money market deals with different types of financial instruments that are designed to suit the risk and return preferences of investors. This enables the investors to manage portfolios to minimise the risks and to maximise the returns.

(d) Equilibrating mechanism : Money market leads to rational allocation of financial resources. The money market accelerates and mobilises savings in the investment stream. The money market helps to strike a balance between the demand for and the supply of short-term funds.

(e) Meeting the financial requirements of the government : Money market helps the government to fulfil its short-term financial needs on the basis of the Treasury Bills.

(f) Implementation of monetary policy : The main objective of monetary policy is to manage the quantity of money in the economy. In India, monetary policy is implemented by the Reserve Bank of India. Monetary policy makes it possible to meet the economic needs of different sectors of the economy and accelerate economic growth. The money market guides the Reserve Bank of India in developing appropriate interest rates policy. Thus, a fully developed money market in the economy helps in the successful implementation of monetary policy.

(g) Economising the use of cash : The money market is not about the actual money but about various financial instruments that are the close substitute to money. As a result, the money market helps to use cash sparingly.

(h) Promoting the growth of commerce, industry and trade : Local traders as well as international traders who are in the need of short-term funds have the facility to discount bills of exchange in the money market. Money market provides working capital for agro-industries and small scale industries. As a result, the money market drives the growth of commerce, industry and trade in the country.

(Note : Write any four points in the answer.)

- (5) The role of foreign trade can be explained with the help of the following points :
- (a) **To earn foreign exchange** : Foreign exchange is earned through foreign trade. The foreign exchange received can be used for various productive activities. Foreign trade promotes the production and market expansion of domestic goods and services.
 - (b) **Encourages investment** : Foreign trade provides an opportunity for producers to sell goods and services in the domestic market as well as export to the world market. As a result, the production of various goods and services in the country is boosted and investment is encouraged.
 - (c) **Division of labour and specialisation** : Foreign trade leads to division and specialisation of labour at the global level. For example, if workers in country 'A' are skilled in agricultural production and workers in country 'B' are skilled in making electronic products, then country 'A' can export agricultural products to country 'B' by acquiring specialisation in agricultural products. country 'B' can export electronic products to country 'A' by acquiring specialisation in electronic products.
 - (d) **Optimum allocation and utilisation of resources** : Due to foreign trade, each country channelised the available resources to the production of the same goods from which maximum benefit can be obtained at minimum production cost. For example, if it would be possible to produce wheat at the lowest cost based on the resources available in country 'A' and if it would be possible to produce medicines at the lowest cost based on the production resources in country 'B', then country 'A' manufactures wheat and exports wheat to country 'B'. Similarly, country 'B' manufactures drugs and exports drugs to country 'A'. Thus, foreign trade leads to optimum allocation and utilisation of resources internationally.
 - (e) **Stability in price level** : Foreign trade helps in balancing the demand for and supply of goods and hence, brings stability in price level in the economy.
 - (f) **Availability of multiple choices** : Foreign trade provides multiple choices of imported commodities. It thus creates competition in the market and hence, high quality goods can be made available to the consumers at reasonable prices. Thus, foreign trade helps in raising the standard of living.
 - (g) **Brings reputation and helps earn goodwill** : Exporting countries get reputation and goodwill in the international market. For example, Japan and Switzerland have gained a great deal of goodwill in the international market by exporting quality electronic goods worldwide.

(Note : Write any four points in the answer.)

Q. 4. (1) I disagree with this statement.

Reasons :

- (a) Desire refers to a mere wish or urge of a person to have a particular commodity.

- (b) Desire has no relation with price, place and time.
- (c) Desire that is backed by the ability to pay and the willingness to pay becomes demand.

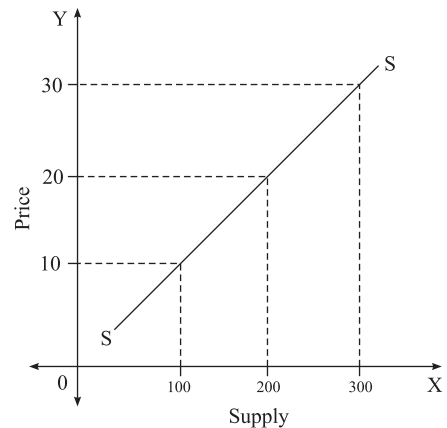
Thus, every desire of an individual is not a demand.

(2) I agree with this statement.

Reasons :

- (a) The Law of Supply was propounded by Dr. Alfred Marshall. The Law of Supply explains the direct relationship between the price and the supply.
- (b) The Law of Supply is stated as follows : “Other things being constant, the higher the price of a commodity, greater is the quantity supplied and lower the price of a commodity, smaller is the quantity supplied.”
- (c) The direct relationship between price and quantity supplied can be explained with the help of the following individual supply schedule and individual supply curve.

Price (₹)	Quantity Supplied (kg)
10	100
20	200
30	300



Thus, there is a direct relationship between price and quantity supplied.

(3) I agree with this statement.

Reasons : Commercial bank performs the following functions :

(a) **Accepting deposits :** Deposits are the main source of funds for commercial banks.

Commercial banks accept the following types of deposits :

(A) **Demand deposits :** Demand deposits are deposits that are withdrawn on demand. The following are the two types of demand deposits :

- (i) **Current deposits :** Current deposits are generally kept in current account by businessmen, corporations and trusts. The account holder can deposit money in the current deposit account any number of times and withdraw as many times as required. Current deposit account holders are also given the facility of overdraft, i.e., facility to withdraw in excess of the balance in the account.
- (ii) **Savings deposits :** Savings deposits are held mainly by salaried class and small traders. The account holder can deposit money in the savings deposit account any number of times and withdraw money as and when required.

(B) Term (time) deposits : Deposits held for a fixed period are called term deposits.

The following are the two types of term deposits :

- (i) **Recurring deposits :** Recurring deposits are regularly kept in the recurring deposit account, especially by small savers. Recurring deposits encourage regular savings.
 - (ii) **Fixed deposits :** Fixed deposits are kept by the saver for a fixed period. The lumpsum amount deposited by the saver can be withdrawn after the stipulated period. Interest is paid at the highest rate on fixed deposits.
- (b) Providing loans and advances :** Commercial banks use deposits accepted from depositors to lend to needy people. Commercial banks provide short, medium and long term loans to individuals and institutions for various purposes. The longer the loan period, the higher is the loan rate. Apart from this, commercial banks also offer cash credit, overdraft facility and also discount bills of exchange.
- (c) Ancillary functions :** Commercial banks provide various facilities like transfer of funds, collection of money, making periodical payments on behalf of the customers, safe deposit lockers, Demat facility, internet banking facility, mobile banking facility, etc.
- (d) Credit creation :** Credit creation is an important function of commercial banks. Commercial banks create credit on the basis of primary deposits. Commercial banks use demand and term (time) deposits to lend after meeting the cash reserve requirement. Commercial banks deposit the loan amount in the borrower's account when lending a loan. Thus, loans are made from primary deposits and secondary deposits are made while lending loans. Thus, commercial banks create credit.

(Note : Write any three points in the answer.)

(4) I disagree with this statement.

Reasons :

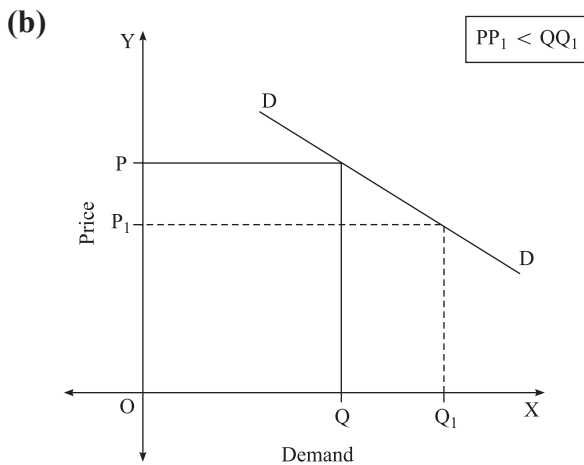
- (a) Index numbers measure the changes in an economic variable in present times with reference to the year in the past. This year in the past is known as base year.
- (b) For the calculation of index numbers, the normal year from the past is selected as the base year. The base year should be normal, i.e., it should be free from natural calamities, warlike conditions, emergencies, etc. Similarly, it should not be too distant in the past.
- (c) While preparing index numbers with reference to the base year, it is denoted by the suffix '0'. The base year's index of a selected variable is assumed as 100. The index numbers are measured for the current year on the basis of the past year.

Thus, index numbers cannot be constructed without the base year.

(5) I disagree with this statement.

Reasons :

(a) When the proportionate change in the price of a commodity brings about greater than proportionate change in its quantity demanded, the demand is said to be relatively elastic.



(c) From the diagram, it can be seen that the original price of a commodity is OP and the original demand of a commodity is OQ. When the price of a commodity falls from OP to OP₁ (by 25 per cent) the demand of a commodity rises from OQ to OQ₁ (by 50 per cent). In the case of relatively elastic demand, the demand curve is a flatter line. Its elasticity can be measured as follows :

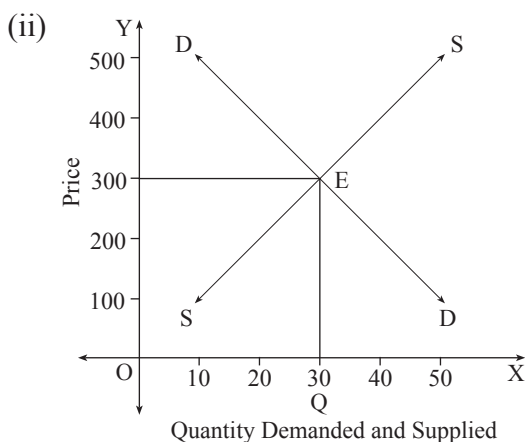
$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}} = \frac{50}{25} = 2$$

The numerical value of relatively elastic demand is greater than one. ($Ed > 1$)

Thus, slope of relatively elastic demand curve is not steeper but flatter.

Q. 5. (1) (i)

Price of Apple [Per kg ₹]	Demand [Per kg]	Supply [Per kg]
100	50	10
200	40	20
300	30	30
400	20	40
500	10	50



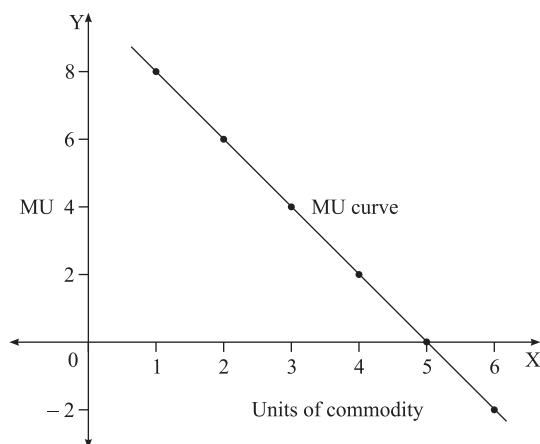
- (2) (1) Demand at point 'P₂' is relatively inelastic. – False
- (2) The elasticity of demand at point 'P' is perfectly elastic. ($E_d = \infty$)
- (3) Quantity demanded is denoted on 'X'-axis in the above diagram.
- (4) Point or Geometric method of measuring elasticity of demand is denoted in the above diagram.
- (3) (i) (a) Direct demand – Demand for biscuits and tea
 (b) Indirect demand – Demand for wheat and capital
- (ii) From the given passage, it can be derived that taste and habits determine demand. It also shows that supplementary goods have complementary or joint demand.

Q. 6. (1) (A) Statement and Explanation of the Law of Diminishing Marginal Utility (DMU) : The Law of DMU can be explained with the help of the following points :

- (a) The Law of DMU was first proposed by Prof. Gossen. However, this law was further explained by Dr. Alfred Marshall in his famous book, 'Principles of Economics' in 1890.
- (b) **Statement of the Law :** According to **Dr. Alfred Marshall**, "*Other things being equal, the additional benefit which a person derives from the increase in the stock of a thing diminishes with every increase in the stock that he already has.*"
- (c) The Law of DMU can be explained with the help of the following schedule :

Unit of a Commodity	MU
1	08
2	06
3	04
4	02
5	00
6	– 02

- (d) From the schedule, it can be seen that as the stock of a commodity increases from 1 to 6, the marginal utility diminishes from 8 to -02 .
- (e) The Law of DMU can be explained with the help of the following diagram :



- (f) In the diagram, the Y-axis represents the marginal utility and the X-axis represents the units of consumption of a commodity. It can be seen that, the consumer derives the maximum marginal utility from the first unit of the consumption. As consumer keeps consuming the further units, the marginal utility keeps falling.
- (g) On the consumption of the 5th unit, the marginal utility becomes zero. Therefore on the consumption of 5th unit, the marginal utility curve touches the X-axis.
- (h) On the consumption of the 6th unit, the marginal utility becomes negative. This means consumption at this point results in disutility.

From beginning to end, the marginal utility curve slopes downwards from the left to the right.

(B) Exceptions to the Law of Diminishing Marginal Utility (DMU) : There are no real exceptions to the Law of DMU. In the following some cases, it is considered that the Law of DMU is not valid :

- (a) Hobbies :** It is said that in case of certain hobbies such as collection of stamps, rare coins, etc., an individual derives more and more utility from every additional stamp or coin. It is also said that people who are fond of music derive more and more utility from every additional listening of music. It is also said that people who are fond of reading books derive more and more utility from every additional reading of book. But in fact as per the assumptions of homogeneity and continuity of the Law of DMU, if an individual is asked to collect same type of stamp or coin continuously or to listen same song continuously or to read the same book continuously, the marginal utility will fall and the law will become applicable.

- (b) **Misers** : It is said that for a miser, the marginal utility of money increases with every increase in the stock of money. But the miser's behaviour is irrational. Thus, he violates the rationality assumption of the law. Therefore, misers are not real exception to the law.
- (c) **Addictions** : It is said that a drunkard derives more and more marginal utility from consumption of every additional unit of liquor. But the drunkard's behaviour is irrational. Thus, he violates the rationality assumption of the law. Therefore, the drunkards are not real exception to the law.
- (d) **Power** : It is said that a person derives more and more utility from every additional acquisition of power. But a person's lust for power is irrational. Thus, he violates the rationality assumption of the law. So, power is not a real exception to the law.
- (e) **Money** : It is said that a person derives more and more marginal utility with every additional unit of money. But in fact, the marginal utility of money also diminishes as its stock increases. For example, a poor person will get more marginal utility from a 5-rupee note, but a rich person will get less marginal utility from the same 5-rupee note.

Thus, in fact, there are no real exceptions to the Law of DMU. It has universal applicability.

(2) (A) **Meaning of national income** : The meaning of national income can be explained with the help of the following points :

- (a) The total income of the nation is called national income. In real terms, national income is the flow of all goods and services produced in an economy during a year. According to **NIC** "*A national estimate measures the volume of commodities and services turned out during a given period counted without duplication.*"
- (b) According to **Prof. A. C. Pigou** : "*National dividend is that part of objective income of the community including of course income derived from abroad which can be measured in money.*"
- (c) According to **Prof. Irving Fisher** : "*National dividend or income consists solely of services as received by ultimate consumers, whether from their material or from their human environments.*"
- (d) From the above definitions, it is clear that national income is a composite measure of all economic activities such as production, distribution, exchange and consumption. It is also an objective indicator of economic welfare of the people in a country.

(B) **Features of national income** : The features of national income are as follows :

- (a) **Macroeconomic concept** : National income represents income of the economy as a whole rather than that of an individual. Therefore, national income is a macroeconomic concept.
- (b) **Inclusion of value of only final goods and services** : In order to avoid double counting, the value of only final goods and services produced in the economy are

considered while calculating national income. While calculating national income, the value of intermediate goods or raw materials is not considered. For example, while estimating the value of sugar, the value of sugar cane is not separately taken into account, as it is already included in the price of the sugar.

- (c) **Inclusion of net aggregate value** : National income includes net value of goods and services produced and does not include depreciation cost (i.e. wear and tear of capital assets).
 - (d) **Inclusion of net income from abroad** : National income includes net income from abroad, i.e. difference between export value and import value ($X - M$) and difference between receipts from abroad and payments made abroad ($R - P$).
 - (e) **Expressed with reference to financial year** : National income is always expressed with reference to a specific time period. In India, it is calculated for every financial year, i.e. from 1st April to 31st March.
 - (f) **Flow concept** : National income is a flow concept. It shows flow of goods and services produced in the economy during a financial year.
 - (g) **Expressed in monetary terms** : National income is always expressed in monetary terms. It represents only those goods and services which are exchanged for money.
- (3) The reasons for the growth of public expenditure are as follows :
- (a) **Increase in the activities of the Government** : For the economic and social development of the country, the modern government is continuously spending a large amount on activities like dissemination of education, provision of health facilities, provision of recreational services, implementation of social welfare schemes. The government is adopting new optional functions and performing traditional obligatory functions more efficiently. The government has to spend a lot to carry out all these functions. As a result, public expenditure is rising.
 - (b) **Rapid increase in population** : As India is a developing country, population growth in India is accelerating. According to the 2011 census, India's population was 121.02 crore. Public expenditure is increasing as the government has to spend heavily to meet the various needs of the growing population.
 - (c) **Growing urbanisation** : In modern times, the pace of urbanisation is increasing in many countries of the world. In newly emerging and developed urban areas, the government has to provide water supply, electricity supply, transportation facilities, sanitation facilities, recreational facilities. For providing these various facilities, the government has to incur continuous expenditure and as a result, public expenditure is increasing.
 - (d) **Increasing defence expenditure** : In modern times, unstable and hostile international relations have increased. Many countries around the world are increasing defence spending to cope with potential foreign aggression and war. As a result, public expenditure is rising.

- (e) **Spread of democracy** : Most of the countries of the world have adopted the system of democracy. In a democratic system, the process of forming a government is carried out by holding general elections after a certain period of time. In a country like India, which is large in size and population, huge expenses have to be incurred for elections. As a result, public expenditure is rising.
- (f) **Inflation** : Just as a person spends money on purchasing various goods and services to meet his personal needs, the government spends money on purchasing various goods and services to meet the needs of the society. Prices of most goods and services continue to rise over time. As a result, public expenditure is rising.
- (g) **Industrial Development** : In order to achieve the objectives of increase in production, increase in employment and overall growth in the economy, large scale industrial development is required in the country. As a result, in developing countries like India, a large amount of money is being spent on industrial development schemes to boost industrial development. As a result, public expenditure is rising.
- (h) **Disaster Management** : The modern government is spending heavily on managing natural disasters like floods, earthquakes, hurricanes and man-made disasters like social unrest, riots, wars, etc. As a result, public expenditure is rising.
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