

**BOARD'S QUESTION PAPER (MARCH 2023)**

**Time : 3 Hours]**

**[Total Marks : 80**

- Note :* (1) All questions are compulsory.  
(2) Draw neat tables/diagrams wherever necessary.  
(3) Figures to the right indicate full marks.  
(4) Write answers to all main questions on a new page.

**Q. 1. (A) Complete the following sentences : (5) [20]**

- (1) Micro Economics is also called as .....  
(a) *Income theory* (b) *Price theory*  
(c) *Growth theory* (d) *Employment theory*
- (2) Money market faces shortage of funds due to .....  
(a) *Inadequate savings* (b) *Growing demand for cash*  
(c) *Unorganised sector* (d) *Financial mismanagement*
- (3) Marginal Utility of the commodity becomes negative when Total Utility of a commodity is .....  
(a) *rising* (b) *constant*  
(c) *falling* (d) *zero*
- (4) Public expenditure of any government shows .....  
(a) *constant trend* (b) *increasing trend*  
(c) *decreasing trend* (d) *fluctuating demand*
- (5) The relationship between income and demand for inferior goods is .....  
(a) *direct* (b) *inverse*  
(c) *no effect* (d) *can be direct and inverse*

**(B) Find the odd word out : (5)**

- (1) Revenue concepts :  
Total Revenue, Average Revenue, Total Cost, Marginal Revenue.
- (2) Quantitative Tools of credit control :  
Bank rate, Open market operations, Foreign exchange rate, Variable reserve ratio.
- (3) Scope of Micro Economics :  
Theory of product pricing, Theory of factor pricing, Theory of economic growth and development, Theory of economic welfare.

(4) Non-tax revenue :

Fees, Penalty, Wealth tax, Special levy.

(5) Types of Simple Index Number :

Laspeyre's Price Index Number, Price Index Number, Quantity Index Number, Value Index Number.

**(C) Give economic term :**

**(5)**

(1) The volume of commodities and services turned out during a given period counted without duplication.

(2) A desire which is backed by willingness to purchase and ability to pay.

(3) Degree of responsiveness of a change of quantity demanded of a good to a change in its price.

(4) Very realistic competition in nature.

(5) Swati purchased raincoat for her father in rainy season.

**(D) Assertion and reasoning questions :**

**(5)**

(1) **Assertion (A) :** In perfect competition, price is determined by the forces of demand and supply.

**Reasoning (R) :** The number of buyers and sellers is so large that one person cannot influence prices.

**Options :**

(a) (A) is true, but (R) is false.

(b) (A) is false, but (R) is true.

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

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

(2) **Assertion (A) :** A change in quantity demanded of one commodity due to a change in the price of other commodity is cross elasticity.

**Reasoning (R) :** Changes in consumers' income leads to a change in the quantity demanded.

**Options :**

(a) (A) is true, but (R) is false.

(b) (A) is false, but (R) is true.

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

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

(3) **Assertion (A) :** Production for self-consumption is not accounted for in the national income.

**Reasoning (R) :** The products kept for self consumption do not enter the market.

**Options :**

(a) (A) is true, but (R) is false.

(b) (A) is false, but (R) is true.

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

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

- (4) **Assertion (A)** : Foreign exchange management and control is undertaken by commercial banks.

**Reasoning (R)** : RBI has to maintain the official rate of exchange of rupee and ensure its stability.

**Options :**

(a) (A) is true, but (R) is false.

(b) (A) is false, but (R) is true.

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

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

- (5) **Assertion (A)** : Supply is a relative term.

**Reasoning (R)** : Supply is always expressed in relation to price, time and quantity.

**Options :**

(a) (A) is true, but (R) is false.

(b) (A) is false, but (R) is true.

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

(d) Both (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) A table seller sold the table for ₹ 2,000 per piece. In this way, he sold 15 tables and earned ₹ 30,000.
- (2) England imported cotton from India, made readymade garments from it and sold them to Malaysia.
- (3) Ashok paid the tax on his income and property.
- (4) Raju's father invests his money in a market for long term funds, both equity and debt, raised within and outside the country.
- (5) A poor person wants to buy a car.

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

- (1) Unitary Elastic Demand and Relatively Elastic Demand.
- (2) Output Method of Measuring National Income and Income Method of Measuring National Income
- (3) Demand Deposits and Time Deposits.
- (4) Simple Index Number and Weighted Index Number.
- (5) Stock and Supply.

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

- (1) Explain any four points of importance of Microeconomics.
- (2) Explain the ratio or percentage method of measuring price elasticity of demand.
- (3) Explain any four features of national income.

- (4) Explain any four problems faced by the money market in India.  
 (5) Explain any four exceptions of the Law of Diminishing Marginal Utility.

**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 supply.  
 (2) Balance of Trade and Balance of Payment are two different concepts.  
 (3) Index numbers are very significant/important in economics.  
 (4) There are no theoretical difficulties in the measurement of national income.  
 (5) Macroeconomics is different from Microeconomics.

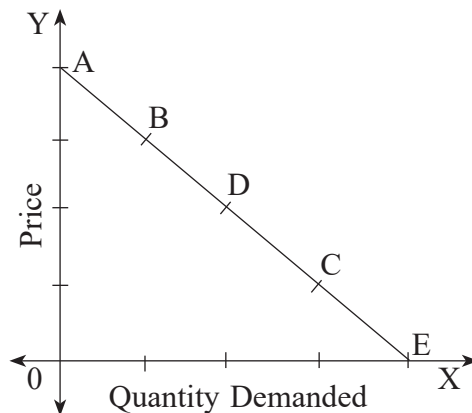
**Q. 5. Study the following table, figure, passage and answer the questions given below it : (Any TWO) [8]**

**(1) Observe the following table and answer the questions given below it :**

Unit of Commodity	Total Utility (TU) units	Marginal Utility (MU) units
1	6	<input type="text"/>
2	<input type="text"/>	5
3	15	4
4	15	<input type="text"/>
5	<input type="text"/>	-1

**Questions :**

- (i) Complete the above table. (2)  
 (ii) (a) When total utility is maximum, the marginal utility is –  (1)  
 (b) When total utility falls, the marginal utility becomes –  (1)
- (2) In the following diagram, AE is the linear demand curve of a commodity. On the basis of the given diagram, state whether the following statements are True or False :**



- (i) Demand at point 'C' is relatively elastic demand. (1)
- (ii) Demand at point 'B' is unitary elastic demand. (1)
- (iii) Demand at point 'D' is perfectly inelastic demand. (1)
- (iv) Demand at point 'A' is perfectly elastic demand. (1)

**(3) Read the given passage and answer the questions :**

Index Number is a technique of measuring changes in a variable or group of related variables with reference to time, geographical location and other characteristics.

Index Number is very useful for economists, farmers, traders, government, educationalists and trade union leaders for planning and implementing the plans according to their sector.

The scope of Index Number is not limited to only one subject but it extends to many subjects such as Economics, Educational science, Psychology, History, Sociology, Geography, etc.

While framing Index Number, its objective must be determined. To attain the objective, the information is collected in various ways and this information is used for comparing two different time periods. For this purpose, the base year's index is assumed as 100 and accordingly, the value of the current year is calculated.

Laspeyre, Paasche and Fisher have suggested different methods for constructing Index Number.

**Questions :**

- (i) Explain the meaning of Index Number. (1)
- (ii) To whom the Index Number is useful? (1)
- (iii) Express your opinion about the given passage. (2)

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

- (1) State and explain the Law of Demand with exceptions.
  - (2) Explain the meaning of Monopoly with its features.
  - (3) Explain various reasons for the growth of public expenditure.
-

**Q. 1. (A)**

- (1) Price theory
- (2) Inadequate savings
- (3) falling
- (4) increasing trend
- (5) inverse

**Q. 1. (B)**

- (1) Total Cost
- (2) Foreign exchange rate
- (3) Theory of economic growth and development
- (4) Wealth tax
- (5) Laspeyre's Price Index Number

**Q. 1. (C)**

- (1) National Income
- (2) Demand
- (3) Price elasticity of demand
- (4) Monopolistic competition
- (5) Time utility

**Q. 1. (D)**

- (1) (c) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (2) (d) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (3) (c) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (4) (b) (A) is false, but (R) is true.
- (5) (c) Both (A) and (R) are true and (R) is the correct explanation of (A).

**Q. 2. (A)**

**(1) (A) Identified concept :** Total Revenue (TR).

**(B) Explanation of concept :** Total Revenue (TR) is the total sales proceeds of a firm/seller by selling a commodity at a given price. It is the total income of a firm/seller. Total Revenue (TR) is calculated as follows :

Total Revenue (TR) = Price × Quantity.

**(2) (A) Identified concept :** Entrepot trade.

**(B) Explanation of concept :** The process of processing goods imported from one country and exporting them to another country is called entrepot trade.

(3) (A) **Identified concept** : Direct tax.

(B) **Explanation of concept** : 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.

(4) (A) **Identified concept** : Capital market.

(B) **Explanation of concept** : Capital market is a type of financial market for long term funds, both equity and debt raised within and outside the country.

(5) (A) **Identified concept** : Desire.

(B) **Explanation of concept** : Desire refers to mere wish of a person to have a particular commodity.

Q. 2. (B)

(1) Unitary Elastic Demand	Relatively Elastic Demand
<b>(1) Meaning</b>	
When the proportionate change in the price of a commodity brings about exactly equal proportionate change in its quantity demanded, the demand is said to be unitary elastic.	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.
<b>(2) Numerical value</b>	
In the case of unitary elastic demand, the numerical value of elasticity of demand is one. ( $E_d = 1$ )	In the case of relatively elastic demand, the numerical value of elasticity of demand is greater than one. ( $E_d > 1$ )
(2) Output Method of Measuring National Income	Income Method of Measuring National Income
<b>(1) Meaning</b>	
The method in which the total value of final goods and services produced in a country during a year is calculated at market price or adding up values at each higher stage of production to measure national income is called Output Method of Measuring National Income.	The method in which the net incomes earned by the factors of production in the form of rent, wages, interest and profits are added up and also the value of mixed income, net export and net receipts from abroad is added up to measure national income is called Income Method of Measuring National Income.
<b>(2) Use</b>	
Output method of measuring national income is widely used in underdeveloped countries.	Income method of measuring national income is widely used in developed countries.

(3) Demand Deposits	Time Deposits
<b>(1) Meaning</b>	
Deposits that are withdrawn on demand are called Demand Deposits.	Deposits that are withdrawn after a certain period of time are called Time Deposits.
<b>(2) Types</b>	
Current deposits and savings deposits are the types of demand deposits.	Recurring deposits and fixed deposits are the types of time deposits.
(4) Simple Index Number	Weighted Index Number
<b>(1) Meaning</b>	
Index numbers measured by giving equal importance (weight) to every commodity are known as Simple Index Number.	Index numbers measured by giving suitable importance (weight) to every commodity are known as Weighted Index Number.
<b>(2) Nature</b>	
The measurement of simple index number is comparatively simple.	The measurement of weighted index number is comparatively complex.
(5) Stock	Supply
<b>(1) Meaning</b>	
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.
<b>(2) Interrelationship</b>	
Stock can exceed supply or stock and supply can be same.	Supply and stock can be same. But supply can never exceed stock.

**Q. 3. (1)** The importance of microeconomics can be explained with the help of the following points :

- (1) **Helpful in explaining price determination :** Microeconomics helps in explaining the price determination of goods and services as well as factors of production.
- (2) **Helpful to understand the working of free market economy :** Microeconomics helps to understand how free market economy works and gets regulated by demand and supply principles. Microeconomics helps producers to take business decisions about what to produce, how to produce, how much to produce, etc. at individual levels. There is no intervention by government or any other agency in this decision making process.

- (3) **Helpful in foreign trade** : Microeconomics is useful in studying the aspects related to foreign trade such as effects of tariff, determination of exchange rate, gains from international trade, etc.
- (4) **Helpful in economic model building** : Microeconomics helps in understanding complex economic situations with its variety of models. Many terms, concepts, terminologies, tools of economic analysis of microeconomics have valuably contributed to the science of economics.
- (5) **Helpful to businessmen in taking business decisions** : Microeconomics helps businessmen in formulating appropriate prices of products or services, minimising the cost of production, analysing profitability of investment, attainment of maximum productivity and profit, etc. It also helps businessmen in demand forecasting.
- (6) **Useful to government** : Microeconomics is useful to government in framing economic policies such as tax policy, public expenditure policy, price policy, etc. Microeconomics also guides government in attaining the goal of efficient allocation of resources and economic welfare of society.
- (7) **Basis of welfare economics** : Microeconomics provides explanation for the conditions of economic welfare. It explains how the maximum welfare of people in society can be achieved by avoiding wastage of resources.

Thus, microeconomics has many theoretical and practical importance as well as uses.

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

- (2) (1) 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.
- (2) 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.
- (3) 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)  $\Delta Q$  = Change in the quantity demanded, i.e.  $Q_1 - Q$ . (New demand – Original demand)
- (ii)  $Q$  = Original demand
- (iii)  $\Delta P$  = Change in the price, i.e.  $P_1 - P$ . (New price – Original price)
- (iv)  $P$  = Original price.

(4) 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 <sub>1</sub> )	01 (ΔQ) Q <sub>1</sub> – Q
Price (₹)	20 (P)	25 (P <sub>1</sub> )	05 (ΔP) P <sub>1</sub> – P

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

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

$$\therefore Ed = 0.4$$

$$\therefore Ed < 1.$$

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

(3) The features of national income are as follows :

- (1) **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.
- (2) **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.
- (3) **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)
- (4) **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).
- (5) **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.
- (6) **Flow concept** : National income is a flow concept. It shows flow of goods and services produced in the economy during a financial year.

(7) **Expressed in monetary terms** : National income is always expressed in monetary terms. It represents only those goods and services which are exchanged for money.

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

(4) The problems faced by the money market in India are as follows :

(1) **Dual structure** : The money market in India has a dual structure, i.e. organised sector of money market and unorganised sector of money market. The organised sector of money market includes the Reserve Bank of India, commercial banks, co-operative banks, development financial institutions, Discount and Finance House of India, etc. The unorganised sector of money market in India includes money lenders, indigenous bankers, unregulated non-bank financial intermediaries, etc. Due to this dual structure of the money market, there is a lack of transparency and stability in the Indian money market. There is a lack of coordination in the unorganised sector of the Indian money market. Also, the unorganised sector of the Indian money market does not come under the direct control and supervision of the Reserve Bank of India.

(2) **Lack of uniformity in the rates of interest** : The interest rate charged on the debt in the unorganised money market in India is relatively high. In the organised money market of India, there exists a difference in the rate of interest of commercial banks, co-operative banks, non-bank finance companies, development finance institutions, investment companies, etc. This lack of similarity in interest rate adversely affects the efficiency of the money market of India.

(3) **Shortage of funds** : Due to limited per capita income, lack of banking habits among the general public, over-emphasis on useless consumption expenditure, inadequate banking facilities in rural areas, etc., the savings rate among the people of India is low. Inadequate savings have led to a shortage of funds in the money market of India.

(4) **Seasonal fluctuations** : In India, during the peak season, i.e., from October to June, there is a huge demand for finance due to various reasons such as trading in agricultural products, investing in agro-based businesses, etc. During the peak season, the demand for finance in the money market is high and the supply is low, leading to an increase in lending rates. Demand for finance is relatively low in the post-harvest period, leading to lower borrowing rates. As a result, the money market of India, especially the unorganised sector, experiences significant fluctuations in seasonal interest rates and lending rates, adversely affecting the efficiency of the money market of India.

(5) **Lack of financial inclusion** : Banking facilities are not adequately accessible to the economically weaker lower income groups in India. As a result, people in this group do not have adequate savings and loan opportunities. As a result, there is a lack of financial inclusion in the money market of India.

(6) **Delays in technological upgradation** : It is essential to use the latest technology for the development and smooth functioning of the money market. Due to some delays in the improvement of technology in India, the functioning of the money market in India is hampered.

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

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

(1) **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 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.

(2) **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.

(3) **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 are not real exception to the law.

(4) **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.

(5) **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 four points in the answer.)

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

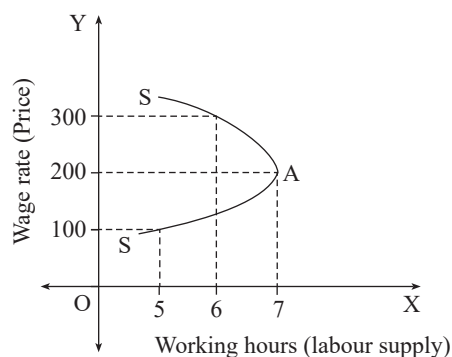
**Reasons :**

The exceptions to the Law of Supply are as follows :

(1) **Labour supply :** In the initial stages, labour supply increases as wage rate increases. However, at a later stage, workers would prefer leisure to work.

Therefore, in the initial stage, the labour supply curve slopes upwards from the left to the right. However, in the later stage, the labour supply curve bends backward. This is explained in the following schedule and diagram :

Wage Rate (₹) (Per Hour)	Hours of Work (Per Day)
100	5
200	7
300	6



From the schedule and diagram, it can be seen that in the initial stages, as wage rate rises from ₹ 100 to ₹ 200, the supply of labour also rises from 5 hours to 7 hours. However, when the wage rate further rises from ₹ 200 to ₹ 300, the supply of labour do not rise further; rather, it is reduced from 7 hours to 6 hours. Thus, after the wage level ₹ 200, the supply curve bends backwards from the point A towards Y-axis indicating that at higher prices, fewer labour hours are supplied.

(2) **Agricultural goods :** Agricultural goods require suitable climatic conditions and sufficient period of growth. Therefore, the supply of agricultural goods cannot be increased overnight though their prices rise. Similarly, due to favourable conditions, the supply of agricultural goods may rise even at their constant prices. Therefore, in case of agricultural goods, the law is inapplicable. Therefore, agricultural goods are exception to the Law of Supply.

(3) **Urgent need for cash :** If a seller needs cash urgently, he is forced to sell more even at less prices/below market prices. Therefore, the sale of goods influenced by the need for cash is considered as an exception to the Law of Supply.

(4) **Perishable goods** : Perishable goods like vegetables, flowers, eggs, etc. cannot be stored for a long period of time. Seller has to bear a huge loss if perishable goods do not get sold. Therefore, in case of perishable goods, the supplier would offer to sell more quantities at lower prices to avoid losses. Therefore, the sale of perishable goods at low price is considered as an exception to the Law of Supply.

(5) **Rare goods** : The supply of rare articles remains unchanged though their prices are high. Therefore, rare articles are exception to the Law of Supply.

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

(2) **I agree** with this statement.

**Reasons :**

(1) Balance of trade is the difference between the value of a country's exports and imports for a given period. On the other hand, balance of payments refers to a systematic record of all international economic transactions of a particular country for a given period.

(2) In balance of trade, only the values of transactions related to goods are recorded. On the other hand, in balance of payments, the values of transactions related to both goods and services are recorded.

(3) Balance of trade is comparatively a narrower concept. On the other hand, balance of payments is comparatively a wider concept.

Thus, balance of trade and balance of payments are two different concepts.

(3) **I agree** with this statement.

**Reasons :** The significance/importance of index numbers in economics can be explained as follows :

(1) **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.

(2) **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.

(3) **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.

- (4) **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.
- (5) **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 three points in the answer.)

- (4) **I disagree** with this statement.

**Reasons :** The theoretical difficulties in measuring national income are as follows :

- (1) **Transfer payments :** Individuals retired from services get pension. Unemployed people get unemployment allowance. Though pension, unemployment allowances, etc., is considered as an individual's income, it is not an earned income. Individual receives this income from the government's expenditure. Therefore, it becomes difficult to decide whether or not to include such income in national income. Generally, transfer payments are ignored while estimating national income.
- (2) **Illegal income :** Illegal incomes received by selling goods and services by following illegal activities like gambling, black marketing, theft, smuggling, etc. is not included in national income. But these goods and services do have the value and meet the needs of the consumers. Thus, excluding income from illegal activities leads to underestimation of national income.
- (3) **Unpaid services :** National income is always measured in money, but there are a number of goods and services which are difficult to be assessed in terms of money. For example, painting as a hobby by an individual, the bringing up of children by mother; these services are not included in national income as remuneration is not given to them. Also, services of housewives and the services provided out of love, affection, mercy, sympathy and charity are not included

in national income as they are not paid for. By excluding all such services, the national income is underestimated.

- (4) **Production for self consumption :** Goods produced for self consumption such as food grains, vegetables and other farm produce do not enter the market. Therefore, it becomes difficult to find out their exact market value. Therefore, the value of such goods is estimated at the rate of market price of the goods that have been marketed. Thus, the approximate values of the goods produced for self consumption are added in the national income.
- (5) **Income of foreign firms :** According to International Monetary Fund's viewpoint, income of a foreign firm should be included in national income of a country, where the firm actually undertakes production work. However, profits earned by foreign firms are credited to their home country. Therefore, it becomes difficult to decide whether or not to include the income of foreign firms in the national income.
- (6) **Valuation of Government Services :** Government provides a number of public services such as law and order, defence, public administration, education, health services, etc. Measuring the exact market value of such government services is quite difficult, as the real value of these services is not known. Therefore, these services are considered as final consumption and their approximate values are added in the national income.
- (7) **Changing price level :** Difficulties in calculating national income also arise due to changes in price levels. For example, when the price level rises, the national income may show an increase even though the production may have decreased. Also, when the price level falls, the national income may show a decrease even though there may be an increase in production. Thus, it becomes difficult to estimate national income exactly due to changing price level.

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

- (5) **I agree** with this statement.

**Reasons :**

- (1) Macroeconomics is the study of entire economy. On the other hand, microeconomics is a study of a particular segment (unit) of an economy.
- (2) Macroeconomics studies aggregate demand, aggregate supply, national income, general price level, etc. On the other hand, microeconomics studies individual demand, individual supply, individual income, price determination of a particular product, etc.
- (3) Macroeconomics follows general equilibrium analysis. On the other hand, microeconomics follows partial equilibrium analysis. Macroeconomics uses lumping method. On the other hand, microeconomics uses slicing method.

Therefore, macroeconomics is different from microeconomics.

Q. 5. (1) (i)

Unit of Commodity	Total Utility (TU) units	Marginal Utility (MU) units
1	6	6
2	11	5
3	15	4
4	15	0
5	14	-1

(ii) (a) When total utility is maximum, the marginal utility is – **zero**.

(b) When total utility falls, the marginal utility becomes – **negative**.

(2) (i) Demand at point ‘C’ is relatively elastic demand. **False**

(ii) Demand at point ‘B’ is unitary elastic demand. **False**

(iii) Demand at point ‘D’ is perfectly inelastic demand. **False**

(iv) Demand at point ‘A’ is perfectly elastic demand. **True**

(3) (i) Index number is a technique of measuring changes in a variable or group of related variables with reference to time, geographical location and other characteristics.

(ii) Index number is useful to economists, farmers, traders, government, educationalists and trade union leaders.

(iii) Index number is a technique of measuring changes in a variable/group of related variables with reference to various characteristics like time, location, etc. Its scope is very wide. It has practical uses/importance. Selecting base year, assuming base year’s index as 100 and accordingly, calculating the value of current year are the important steps in constructing index number.

Q. 6. (1) (A) **Statement and explanation of the Law of Demand** : The Law of Demand can be stated and explained with the help of the following points :

(1) **Law of Demand** : The Law of Demand is one of the fundamental laws of consumption. It was propounded by Dr. Alfred Marshall in his famous book, ‘Principles of Economics’. The Law of Demand explains the inverse relationship between the price and the quantity demanded.

(2) **Statement of the Law** : “Other things being equal, the amount demanded rises with a fall in price; and diminishes with a rise in price.”

(3) **Symbolical Representation** : The Law of Demand is expressed symbolically as follows :

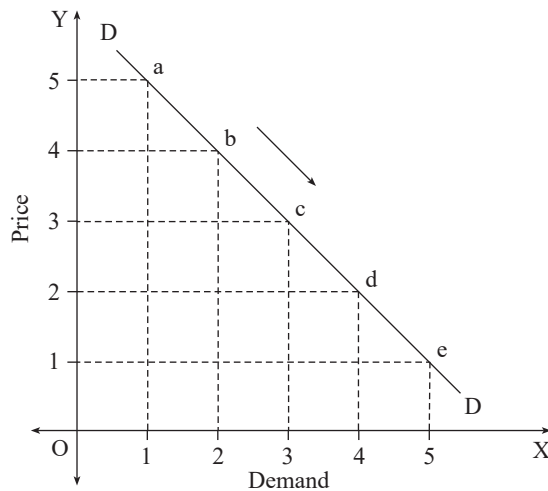
$$D_x = f(P_x)$$

Where,  $D_x$  stands for demand for a commodity x, f stands for function of,  $P_x$  stands for the price of the commodity x.

- (4) **Individual Demand Schedule :** The Law of Demand is explained in the following individual demand schedule :

Price (₹) of Commodity x	Individual Demand of Commodity x (per day in units)
1	5
2	4
3	3
4	2
5	1

- (5) **Explanation of Individual Demand Schedule :** From the individual demand schedule, it can be observed that at a lowest price (₹ 1), highest units of commodity x are demanded (5 units). Similarly, at a highest price (₹ 5), lowest units of commodity x are demanded (1 unit). Thus, there exists an inverse relationship between the price and the quantity demanded.
- (6) **Individual Demand Curve :** The Law of Demand can be explained with the help of the following diagram of the individual demand curve :



- (7) **Explanation of Individual Demand Curve :** In the diagram, Y-axis represents the price of the commodity x and X-axis represents demand of commodity x. From the above diagram, it can be seen that the demand curve, i.e. DD slopes downwards, from the left to the right. It indicates that price and demand are inversely related to each other. Therefore, the demand curve has a negative slope.

**(B) Exceptions to the Law of Demand :**

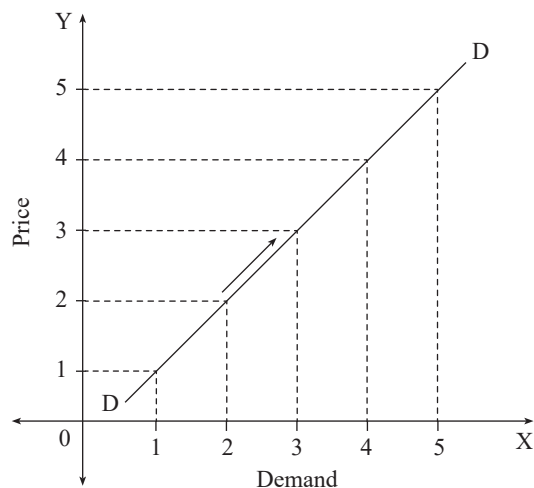
The following are the exceptions to the Law of Demand :

- (1) **Giffen goods :** Sir Robert Giffen from England noticed that in the case of inferior quality products (Giffen goods), the Law of Demand does not hold

good. When the price of Giffen goods fall, buyer's real income increases. As its effect, buyers demand more of superior quality goods. Thus, a fall in the prices of Giffen goods leads to fall in their demand. For example, as the price of bread falls, people demand less of bread and more of meat.

- (2) **Prestige goods** : Diamonds, luxury cars, posh bungalows, etc. are considered as prestige goods. Such goods have a snob appeal. Therefore, prestige goods are demanded in greater quantities at higher prices.
- (3) **Speculation** : Some consumers anticipate a fall in the price of a commodity in the near future, so the demand for the commodity in question falls at the present price. Similarly, some consumers anticipate a rise in the price of the commodity in the near future, so the demand for the commodity in question rises at the present price.
- (4) **Price illusion** : Many consumers wrongly assume that high priced goods are of better quality. Due to this illusion, buyers demand costlier goods in greater quantities.
- (5) **Ignorance** : Many times, the buyers do not have a complete knowledge of market conditions. Due to such ignorance, they may demand costlier goods in greater quantities.
- (6) **Habitual goods** : Certain goods like tobacco, cigarettes, etc. are consumed due to the habits. Therefore, demand for such goods remains constant even if their prices change.

In all these cases, the Law of Demand becomes inapplicable. Therefore, they are considered as exceptions to the Law of Demand. The exceptions to the Law of Demand can be explained with the help of the following diagram :



In the diagram, Y-axis represents the price of a commodity and X-axis represents the demand of commodity. From the diagram, it can be seen that the exceptional demand curve, i.e. DD slopes upwards from the left to the right. In exceptional cases, the price and demand are directly related to each other. Therefore, the exceptional demand curve has a positive slope.

- (2) (A) **Meaning of monopoly** : The Greek words ‘Mono’ means single and ‘poly’ means seller. Thus, monopoly means single seller who has complete control over the market supply of the commodity. According to Prof. E.H. Chamberlin, “A monopoly refers to a single firm which has control over the supply of a product which has no close substitute.”
- (B) **Features of monopoly** : The following are the important features of monopoly :
- (1) **Single seller** : In a monopoly market, there is a single seller (monopolist). The monopolist has no rivals and therefore, he faces no competition.
  - (2) **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.
  - (3) **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.
  - (4) **Complete control over the market supply** : The monopolist has complete hold over the market supply as he is a sole producer of the commodity.
  - (5) **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.
  - (6) **Price discrimination** : Being a single seller, monopolist can charge consumer wise, place wise, time wise and use wise 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.
  - (7) **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.
- (3) The reasons for the growth of public expenditure are as follows :
- (1) **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.

- (2) **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.
  - (3) **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.
  - (4) **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.
  - (5) **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.
  - (6) **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 overtime. As a result, public expenditure is rising.
  - (7) **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.
  - (8) **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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**BOARD'S QUESTION PAPER (JULY 2023)**

**Time : 3 Hours]**

**[Total Marks : 80**

- Note :** (1) All questions are compulsory.  
(2) Draw neat tables/diagrams wherever necessary.  
(3) Figures to the right indicate full marks.  
(4) Write answers to all main questions on new pages.

**Q. 1. (A) Complete the following statements : (5) [20]**

- (1) The branch of economics that deals with the allocation of resources is known as .....
- (a) *Microeconomics*                      (b) *Macroeconomics*  
(c) *Econometrics*                        (d) *Agricultural economics*
- (2) Net addition made to the total revenue by selling an extra unit of a commodity is .....
- (a) *total revenue*                        (b) *marginal revenue*  
(c) *average revenue*                    (d) *marginal cost*
- (3) Symbolically, the functional relationship between Demand and Price can be expressed as .....
- (a)  $D_x = f(P_x)$    (b)  $D_x = f(P_z)$    (c)  $D_x = f(y)$    (d)  $D_x = f(T)$
- (4) In India, National Income Committee establishment year is .....
- (a) 1952   (b) 1949   (c) 1947   (d) 1950
- (5) Marginal Utility of the commodity becomes negative when Total Utility of a commodity is .....
- (a) *rising*   (b) *constant*   (c) *falling*   (d) *zero*

**(B) Find the odd word out : (5)**

- (1) Types of Elasticity of Demand : Income elasticity, Unitary elasticity, Cross elasticity, Price elasticity.
- (2) Factors of production : Profit, Labour, Capital, Entrepreneur.
- (3) Market structure on the basis of competition : Perfect competition, Monopoly, Oligopoly, Very short period market.
- (4) Types of Bank Accounts : Saving account, D-mat account, Recurring account, Current account.

(5) Classification of Public Expenditure : Revenue expenditure, Capital expenditure, Consumption expenditure, Developmental expenditure.

**(C) Give an economic term :** (5)

- (1) The cost incurred by the firm to promote sales.
- (2) The tax which is paid by the taxpayer on his income and property.
- (3) The capacity of a commodity to satisfy human wants.
- (4) Wear and tear of capital assets, due to their use in the process of production.
- (5) A desire which is backed by willingness to purchase and ability to pay.

**(D) Complete the correlation :** (5)

- (1) Pen and ink :  : : Tea and coffee : substitute goods.
- (2) Microeconomics : Tree : : Macroeconomics : .
- (3)  : Base year prices : :  $P_1$  : Current year prices.
- (4) Demand curve :  : : Supply curve : Upward.
- (5) Theoretical difficulty : Transfer payments : :  : Valuation of inventories.

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

- (1) Savita collected the information about individual income in a particular firm.
- (2) India purchased petroleum from Iran.
- (3) Prakash receives monthly pension of ₹ 15,000/- from the State Government.
- (4) Price of salt increases by ₹ 20 to ₹ 50, still there is no change in demand for salt.
- (5) Meena deposited a lumpsum amount of ₹ 1,50,000 in the bank, for a period of one year.

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

- (1) Microeconomics and Macroeconomics
- (2) Expansion of demand and Contraction of demand
- (3) Gross Domestic Product (GDP) and Gross National Product (GNP)
- (4) Public Finance and Private Finance
- (5) Simple Index Number and Weighted Index Number

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

- (1) Explain any four features of Microeconomics.
- (2) Explain the two sector model of circular flow of national income.
- (3) Explain any four types of Utility.
- (4) Explain the meaning of budget with its types.
- (5) Explain any four factors influencing elasticity of demand.

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

- (1) The Law of Diminishing Marginal Utility is based on many assumptions.
- (2) Index numbers are free from limitations.
- (3) Supply curve slopes downwards from left to right.
- (4) Foreign trade plays an important role in economic development of country.
- (5) Fees, fines and penalties are a major source of revenue for the Government.

**Q. 5. Study the following table, figure, passage and answer the questions given below it : (Any TWO) [8]**

**(1) Observe the given table and answer the questions :**

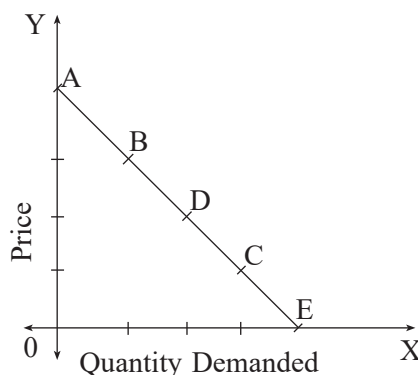
Commodity	Base Year		Current Year			
	Price $p_0$	Quantity $q_0$	Price $p_1$	Quantity $q_1$	$p_1q_1$	$p_0q_1$
A	2	10	5	8	40	<input type="text"/>
B	4	5	8	3	<input type="text"/>	12
C	1	7	2	10	20	<input type="text"/>
D	5	8	10	5	<input type="text"/>	25
<b>Total</b>					134	63

**Questions :**

- (i) Fill the blank boxes of the above schedule. (2)
- (ii) Apply the given formula and find out Paasche's Index Number.

$$P_{01} = \frac{\sum p_1 q_1}{\sum p_0 q_1} \times 100 \quad (2)$$

**(2) On the basis of the given diagram state whether the following statements are True or False :**



**Questions :**

- (i) Demand at point 'C' is relatively elastic demand. (1)
- (ii) Demand at point 'B' is unitary elastic demand. (1)
- (iii) Demand at point 'D' is perfectly inelastic demand. (1)
- (iv) Demand at point 'A' is perfectly elastic demand. (1)

**(3) Read the given passage and answer the questions :**

Maharashtra is the largest producer of tur dal, the principle source of protein in a vegetarian diet in India. The state produces nearly 28% of National output with Latur and Hingoli districts in Marathwada and Akola district in Vidarbha producing the lion's share.

In 2019-20 production of tur dal in Maharashtra was 37.36 lakh tonne and in 2020-21 it has been increased to 42.24 lakh tonne. But in the current year 2021-22, due to unfavourable climatic conditions, production of tur dal will reduce by 20% to 25% as a result of which the prices of tur dal has increased.

Last season, the state government has purchased tur at minimum base price. As the production was not predictable, the government was in trouble while buying tur under guaranteed price. Duej to limited number of godowns the government has now decided to sell tur in form of dal to minimize the increasing loss due to storage, maintenance problems, etc.

**Questions :**

- (i) Name the largest tur dal producer districts in Maharashtra. (1)
- (ii) What was the production of tur dal in the year 2020-21 of Maharashtra? (1)
- (iii) Express your opinion about given passage. (2)

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

- (1) State and explain the law of demand with exceptions.
- (2) Explain the functions of Reserve Bank of India.
- (3) Explain the meaning of perfect competition with its features.

**Q. 1. (A)**

- (1) Microeconomics
- (2) marginal revenue
- (3)  $D_x = f(P_x)$
- (4) 1949
- (5) falling

**Q. 1. (B)**

- (1) Unitary elasticity
- (2) Profit
- (3) Very short period market
- (4) D-mat account
- (5) Consumption expenditure

**Q. 1. (C)**

- (1) Selling cost
- (2) Direct tax
- (3) Utility
- (4) Depreciation
- (5) Demand

**Q. 1. (D)**

- (1) Complementary goods
- (2) Forest
- (3)  $P_0$
- (4) Downward
- (5) Practical difficulty

**Q. 2. (A)**

- (1) **(A) Identified concept :** Study of individual economic unit/Microeconomics.  
**(B) Explanation of concept :** The study of economic behaviour of a particular 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 unit such as individual firm, individual price, etc.
- (2) **(A) Identified concept :** Import trade.  
**(B) Explanation of concept :** Purchase of goods and services by one country from another country is called import trade.

(3) (A) **Identified concept** : Transfer income.

(B) **Explanation of concept** : If the expenditure incurred by another person/ organization 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** : Perfectly inelastic demand.

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

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

(B) **Explanation of concept** : A fixed deposit is a type of deposit in which the saver deposits 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) <b>Microeconomics</b>	<b>Macroeconomics</b>
<b><u>1. Meaning</u></b>	
According to Maurice Dobb, “Microeconomics is in fact a microscopic study of the economy”.	According to Prof. Carl Shapiro, “Macroeconomics deals with the functioning of the economy as a whole”.
<b><u>2. Scope</u></b>	
The scope of microeconomics includes the theory of product pricing, theory of factor pricing and theory of economic welfare.	The scope of macroeconomics includes theory of income and employment, theory of general price level, theory of economic growth and development and macroeconomic theory of distribution.
(2) <b>Expansion of Demand</b>	<b>Contraction of Demand</b>
<b><u>1. Meaning</u></b>	
Other factors remaining constant, a rise in the demand due to a fall in price is called expansion of demand.	Other factors remaining constant, a fall in the demand due to a rise in price is called contraction of demand.
<b><u>2. Movement in Equilibrium Point</u></b>	
In expansion of demand, equilibrium point of price and demand moves downwards from the left to the right on the same demand curve.	In contraction of demand, equilibrium point of price and demand moves upwards from the left to the right on the same demand curve.

(3) Gross Domestic Product (GDP)	Gross National Product (GNP)
<b>1. Meaning</b>	
Gross Domestic Product (GDP) is the gross market value of all final goods and services produced within the domestic territory of a country during a financial year.	Gross National Product (GNP) is the total measure of flow of all goods and services at market price resulting from current production during financial year in a country, including net income from abroad.
<b>2. Formula</b>	
$GDP = C + I + G + (X - M)$	$GNP = C + I + G + (X - M) + (R - P)$

(4) Public Finance	Private Finance
<b>1. Meaning</b>	
The financial transactions carried out by the government with the objective of providing maximum social advantage to the society are called public finance.	The financial transactions carried out by an individual or a private enterprise to fulfil private interest are called private finance.
<b>2. Elasticity</b>	
Public finance is comparatively more elastic. There is much scope for changes in public finance.	Private finance is comparatively less elastic. There is not much scope for changes in private finance.

(5) Simple Index Number	Weighted Index Number
<b>1. Meaning</b>	
Index number measured by giving equal importance (weight) to every commodity is known as simple index number.	Index number measured by giving suitable importance (weight) to every commodity on the basis of their quantity is known as weighted index number.
<b>2. Nature</b>	
The measurement of simple index number is comparatively simple.	The measurement of weighted index number is comparatively complex.

**Q. 3. (1) Features of microeconomics are as follows :**

- (1) **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.
- (2) **Price theory** : Microeconomics is primarily concerned with price determination

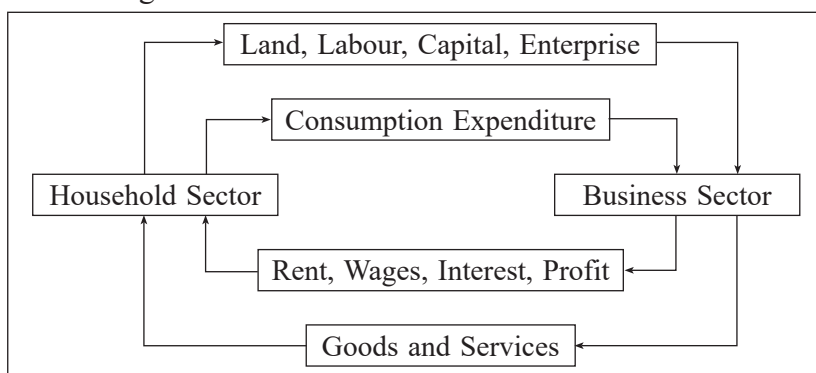
of goods and services as well as factors of production, viz. land, labour, capital and entrepreneur. Therefore, microeconomics is also known as Price Theory.

(3) **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. 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.

(4) **Based on certain assumptions** : Microeconomics is based on certain assumptions such as full employment, pure capitalism, laissezfaire 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.

(2) Circular flow of national income is the basic concept of macroeconomics. The two sector model of circular flow of national income can be explained with the help of the following points :

(1) The two sector model of circular flow of national income assumes that there are only two sectors, viz. household and firms in an economy. The circular flow of national income between these two sectors is explained with the help of the diagram.



(2) From the diagram, it can be seen that households are the owners of factors of production, viz. land, labour, capital and entrepreneur. Household sector supplies their services to the firms. Firms produce goods and services by using the services of factors of production. Firms supply goods and services to the household sector. Thus, services of factors of production flow from household sector to firms and goods and services flow from firms to household sector continuously. This flow is known as real flow or product flow. It is shown by an outer flow in the diagram.

- (3) From the diagram, it can be seen that as household sector supplies land, labour, capital and entrepreneur to the firms, it in turn receives rent, wages, interest and profit from the firms. Similarly, as firms supply goods and services to the household sector, it in turn receives the prices from household sector that are paid by household sector for purchasing those goods and services. Thus, the factor payment flows from firms to household sector and price payment flows from household sector to the firms. This flow is known as money flow. It is shown by an inner flow in the diagram.
- (4) From the diagram, it can be seen that income of household sector gets converted into consumption expenditure. Similarly, income of firms gets converted into factor payment. Thus, the flow of income and expenditure continues as production is a continuous activity due to never ending human wants. It makes the flow of national income circular between household sector and firms.
- (3) Types of utility are as follows :
- (1) **Form utility** : Utility increased by changing the shape, size, colour, etc., of a commodity is called form utility. It refers to changing the structure of an existing material to another structure, which is more useful. For example, transforming a log of wood into table and chair.
  - (2) **Place utility** : Utility increased by changing the place of utilization of a commodity is called place utility. It refers to transporting commodity from one place where it is available in plenty to another place where it is in scarcity. For example, grapes of Nashik are brought to Mumbai.
  - (3) **Service utility** : Utility obtained from the services of professional is called service utility. For example, a utility obtained from the services of teachers, doctors, chartered accountants, etc.
  - (4) **Knowledge utility** : Utility obtained from acquiring knowledge is called knowledge utility. For example, after completion of training, a person finds more utility in computers.
- (4) (A) **Meaning** : Financial statement showing the expected receipts and proposed expenditure of the government in coming financial year is known as budget.
- (B) **Types** : The types of government budget are as follows :
- (1) **Balanced budget** : A budget in which government's estimated revenue and its anticipated expenditure is equal to each other is called balanced budget. Balanced budget is purely a theoretical concept.
  - (2) **Surplus budget** : A budget in which government's estimated revenue exceeds its anticipated expenditure is called surplus budget. Surplus budget is used during inflation to pull down the effective demand.

- (3) **Deficit budget** : A budget in which government's anticipated expenditure exceeds its estimated revenue is called deficit budget. Deficit budget is used during depression to push up the effective demand.
- (5) The factors influencing elasticity of demand are as follows :
- (1) **Nature of commodities** : Nature of commodities is one of the important factors influencing the elasticity of demand. We can classify commodities as necessities, comforts and luxury goods. The necessary goods like salt, medicines, etc., have less elastic demand. On the other hand, comfort and luxury goods like cars, perfumes, jewellery, etc., have more elastic demand.
  - (2) **Availability of substitute goods** : A commodity having larger number of substitutes tends to have elastic demand and vice versa. For example, due to the availability of larger number of substitutes, the demand for cold drinks tends to be elastic. Similarly due to a lack of substitutes, the demand for salt is inelastic.
  - (3) **Number of uses** : A commodity which has specific use has less elastic demand. For example, a demand for a particular vegetable is less elastic. A commodity which can be put to several uses has elastic demand. When the price of such a commodity falls, it is put into various uses. Similarly when the price of such a commodity rises, it is put only for important purposes. For example, electricity has elastic demand.
  - (4) **Habits** : The demand for habituated goods tends to be inelastic. For example, a smoker's demand for cigarettes is inelastic. On the other hand, the demand for non-habituated goods tends to be elastic. For example, demand for biscuits is more elastic.

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

**Reasons** : The Law of Diminishing Marginal Utility (DMU) is based on following some assumptions :

- (1) **Rationality** : The Law of Diminishing Marginal Utility (DMU) assumes that a consumer is a rational person and his behaviour is normal. The law assumes that a rational consumer wants to maximise his satisfaction.
- (2) **Cardinal measurement** : The Law of Diminishing Marginal Utility (DMU) assumes that utility can be measured in numbers. It also assumes that utility derived from each unit of a commodity can be compared.
- (3) **Homogeneity** : The Law of Diminishing Marginal Utility (DMU) assumes that units of a commodity consumed by a consumer are identical. It means all

units of consumption of a commodity are perfectly uniform in respect of size, shape, taste, colour, quality, etc.

Thus, the Law of Diminishing Marginal Utility (DMU) is based on many assumptions.

**(2) I disagree** with this statement.

**Reasons :** The following are some of the limitations of index numbers :

- (1) **Based on samples :** Index numbers are generally based on samples. While constructing index numbers, we cannot include all the items in the construction of the index numbers. Hence index numbers suffer from sampling errors.
- (2) **Bias in the data :** Index numbers are constructed on the basis of various types of data which may be incomplete. There may be bias in the data collected. This is bound to affect the results of the index numbers adversely.
- (3) **Defects in formulae :** There is no perfect formula for the construction of an index number. It is only an average and so it has all the limitations of an average.

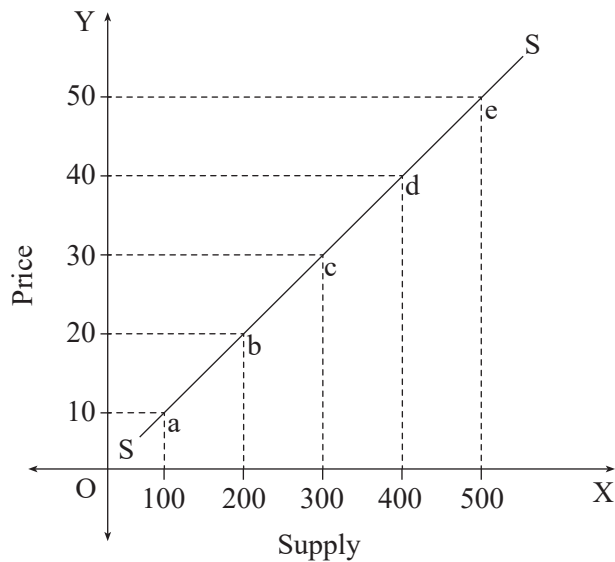
Thus, index numbers are not free from limitations.

**(3) I disagree** with this statement.

**Reasons :**

- (1) As per the Law of Supply propounded by Dr. Alfred Marshall, there is a direct relationship between the price and the supply. Supply curve is a graphical representation of supply schedule.
- (2) The Law of Supply can be explained with the help of the following individual supply schedule and individual supply curve :

Price (₹)	Quantity Supplied (in units)
10	100
20	200
30	300
40	400
50	500



(3) From the individual supply schedule and individual supply curve it can be observed that at a lesser price (₹ 10) less units of commodity x are supplied (100 units). Similarly, at a higher price (₹ 50) more units of commodity x are supplied (500 units). Therefore supply curve 'SS' slopes upwards from the left to the right.

Thus, supply curve does not slope downwards from the left to the right, but it slopes upwards from the left to the right.

(4) **I agree** with this statement.

**Reasons :** The role of the foreign trade in economic development of a country can be explained with the help of the following points :

- (1) **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.
- (2) **To 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.
- (3) **To bring stability in price level :** Foreign trade helps in balancing the demand and supply of goods and hence brings stability in price level in the economy.

Thus, foreign trade plays an important role in economic development of a country.

(5) **I disagree** with this statement.

**Reasons :**

- (1) Revenue from fees and penalties is non-tax revenue. The government receives less revenue from non-tax sources than it does from tax sources.

- (2) The Government receives revenue in the form of fines and penalties only if a person violates the law.
- (3) However, it cannot be said that many individuals will consistently violate the laws of the country.

Therefore, fines and penalties are not a major source of revenue for the government.

Q. 5. (1) (i)

Commodity	Base Year		Current Year			
	Price $P_0$	Quantity $q_0$	Price $P_1$	Quantity $q_1$	$P_1 q_1$	$P_0 q_1$
A	2	10	5	8	40	<u>16</u>
B	4	5	8	3	<u>24</u>	12
C	1	7	2	10	20	<u>10</u>
D	5	8	10	5	<u>50</u>	25
<b>Total</b>					134	63

$$(ii) P_{01} = \frac{\sum P_1 q_1}{\sum P_0 q_1} \times 100$$

$$\therefore P_{01} = \frac{134}{63} \times 100$$

$$\therefore P_{01} = \frac{13400}{63}$$

$$\therefore P_{01} = 212.69$$

$$\therefore \text{Paasche's Index Number} = P_{01} = \mathbf{212.69}.$$

- (2) (i) Demand at point 'C' is relatively elastic demand. – **False**
- (ii) Demand at point 'B' is unitary elastic demand. – **False**
- (iii) Demand at point 'D' is perfectly inelastic demand. – **False**
- (iv) Demand at point 'A' is perfectly elastic demand. – **True**
- (3) (i) Districts of Latur and Hingoli in Marathwada division and Akola district of Vidarbha division are the largest tur dal producer districts in Maharashtra.
- (ii) The production of tur dal in the year 2020-21 of Maharashtra was 42.24 lakh tonne.
- (iii) About 28 percent of the total production of tur dal is produced by the state of Maharashtra. Unfavorable natural conditions increase the prices of tur dal. As a solution to this, the Maharashtra state government has adopted measures such as purchasing tur dal at a minimum base price or selling it in the form of dal.

**Q. 6. (1) (A) Law of Demand :** Law of Demand can be explained with the help of the following points :

- (1) **Law of Demand :** The Law of Demand is one of the fundamental laws of consumption. It was propounded by Dr. Alfred Marshall in his famous book, 'Principles of Economics'. The Law of Demand explains the inverse relationship between the price and the quantity demanded.
- (2) **Statement of Law :** "Other things being equal, the amount demanded rises with a fall in price; and diminishes with a rise in price."
- (3) **Symbolical Representation :** The Law of Demand is expressed symbolically as follows :

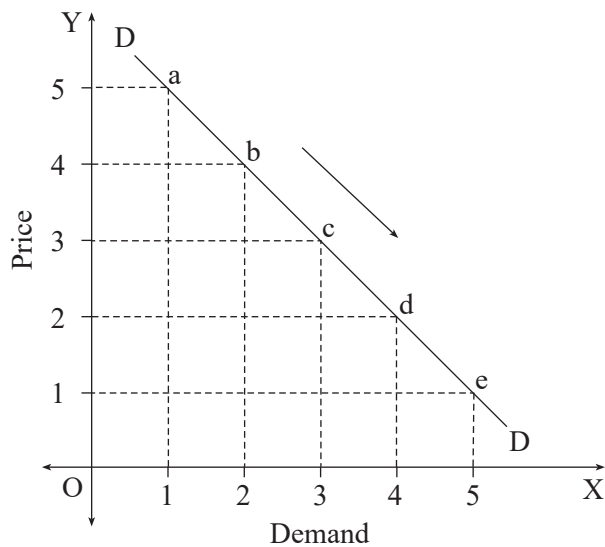
$$D_x = f(P_x)$$

Where,  $D_x$  stands for demand for a commodity x, f stands for function of,  $P_x$  stands for the price of the commodity x.

- (4) **Individual Demand Schedule :** The Law of Demand is explained in the following individual demand schedule :

Price (₹) of commodity X	Individual Demand of Commodity X (per day in units)
1	5
2	4
3	3
4	2
5	1

- (5) **Explanation of Individual Demand Schedule :** From the individual demand schedule it can be observed that at a lesser price (₹ 1) more units of commodity x are demanded (5 units). Similarly at a higher price (₹ 5) less units of commodity x are demanded (1 unit). Thus, there exists an inverse relationship between the price and the quantity demanded.
- (6) **Individual Demand Curve :** The Law of Demand can be explained with the help of the following diagram of the individual demand curve :



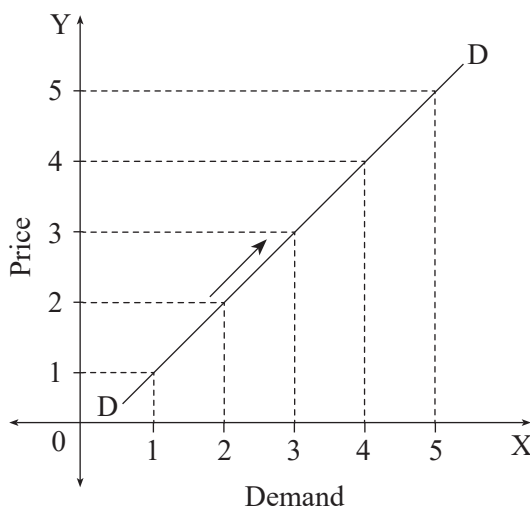
(7) **Explanation of Individual Demand Curve :** In the diagram, Y-axis represents the price of the commodity x and X-axis represents demand of commodity x. From the diagram, it can be seen that the demand curve, i.e. DD slopes downwards from the left to the right. Price and demand are inversely related to each other. Therefore, the demand curve has negative slope.

**(B) Exceptions :** The following are the exceptions to the Law of Demand :

- (1) **Giffen goods :** Sir Robert Giffen from England noticed that in the case of inferior quality products (Giffen goods), the Law of Demand does not hold good. When the price of Giffen goods falls, buyers' real income gets increased. As its effect, buyers demand more of superior quality goods. Thus, a fall in the prices of Giffen goods leads to fall in their demand. For example, as the price of bread falls, people demand less of bread and more of meat.
- (2) **Prestige goods :** Diamonds, luxury cars, posh bungalows, etc., are considered as prestige goods. Such goods have a snob appeal. Therefore, prestige goods are demanded in greater quantities at higher prices and vice versa.
- (3) **Speculation :** Some consumers anticipate a fall in the price of a commodity in the near future, so the demand for the commodity in question falls at the present price. Similarly, some consumers anticipate a rise in the price of the commodity in the near future, so the demand for the commodity in question rises at the present price.
- (4) **Price illusions :** Many consumers wrongly assume that high priced goods are of better quality. Due to this illusion, such buyers demand costlier goods in greater quantities.
- (5) **Ignorance :** Many times the buyers do not have a complete knowledge of a market. Due to such ignorance, they demand costlier goods in greater quantities.

- (6) **Habitual goods** : Certain goods like tobacco, cigarettes, etc., are consumed due to the habits. Therefore, demand of such goods remains constant even if their prices change.

In all these cases, the Law of Demand becomes inapplicable. Therefore, they are considered as exceptions to the Law of Demand. The exceptions to the Law of Demand can be explained with the help of the following diagram :



In the diagram, Y-axis represents the price of a commodity and X-axis represents the demand of commodity x. From the diagram, it can be seen that the exceptional demand curve, i.e. DD slopes upwards from the left to the right. In exceptional cases the price and demand are directly related to each other. Therefore, the exceptional demand curve has a positive slope.

- (2) The functions of Reserve Bank of India are as follows :

- (1) **Issue of currency notes** : The Reserve Bank of India has a monopoly on printing of all rupee notes except one rupee note and all coins. According to the Minimum Reserve Policy of 1957, the Reserve Bank of India has to reserve at least ₹ 200 crore. Of this, ₹ 115 crore is kept in terms of gold and ₹ 85 crore are kept in terms of foreign currency.
- (2) **Acting as a banker to the government** : The Reserve Bank of India acts as a banker to the government. The Reserve Bank of India accepts deposits from the Central and State Governments and makes payments on their behalf as a representative of the Government. The Reserve Bank of India assists the government in managing public debt and provides advice on a number of financial issues.
- (3) **Acting as a banker to banks** : The Reserve Bank of India has statutory control over all banks in India. All Scheduled Banks in India are required to reserve minimum cash with the Reserve Bank of India as per their demand and term liabilities. The Reserve Bank of India provides financial assistance to banks by discounting of eligible bills, providing advances against approved securities.

- (4) **Acting as a custodian of foreign exchange reserves :** The Reserve Bank of India acts as the custodian of foreign exchange reserves. The Reserve Bank of India conducts the buying and selling of currencies of all member countries of the International Monetary Fund. The Reserve Bank of India helps in maintaining the official rate of exchange of rupee as well as ensure its stability.
- (5) **Controlling credit :** As the Supreme bank in the country, the Reserve Bank of India controls the credit creation process of commercial banks. The Reserve Bank of India uses quantitative techniques to control the volume of credit, such as bank rates, open market operations, Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). The Reserve Bank of India uses qualitative tools to regulate the use of credit, such as fixing margin requirements, credit rationing, moral suasion, etc.
- (6) **Collection and publication of data :** The Reserve Bank of India collects and publishes statistical information related to banking and other financial sectors of the economy.
- (7) **Carrying out promotional and developmental functions :** The Reserve Bank of India carries out promotional and developmental functions such as extending banking services in semi-urban and rural areas of India, providing financial securities to depositors, providing agricultural credit to farmers, providing industrial credit to boost industries.
- (8) **Performing other functions :** The Reserve Bank of India acts as a clearing house for settling the accounts between its member banks. The Reserve Bank of India acts as the lender of last resort to all banks in India and provides liquidity to banks experiencing financial difficulties.
- (3) (A) **Meaning :** A perfectly competitive market is one which has a large number of buyers and sellers of a homogenous product. According to Mrs. Joan Robinson, “Perfect competition prevails when the demand for the output of each producer is perfectly elastic”.
- (B) **Features :** The following are the features of perfect competition :
- (1) **Large number of buyers and sellers :**
- (a) **Large number of buyers :** In perfect competition, there is a large number of potential buyers buying commodity in market. Their number is so large that a single buyer cannot influence the market price. Thus, in perfect competition, a buyer is a price taker.
- (b) **Large number of sellers :** In perfect competition, there is a large number of potential sellers selling their commodity in the market. Their number is so large that the single seller cannot influence the market price. The price of the product is determined by the interaction of market demand and

market supply of a commodity. Thus, in perfect competition, a seller is a price taker.

- (2) **Homogenous product** : In perfect competition, every firm produces and sells identical products, i.e. units of a commodity produced by each firm are uniform in respect of their size, shape, colour, quality, etc. Therefore, the commodities sold in perfect market are perfect substitutes to one another.
  - (3) **Free entry and exit** : In perfect competition, any firm can freely enter or can exit the market without any restrictions. If there is a hope of profit, a new firm can easily enter the market. Similarly, if there is possibility of losses, the existing firm can freely exit the market.
  - (4) **Single price** : In perfect competition, all units of a commodity have uniform price and it is determined by the equilibrium of the market demand and market supply.
  - (5) **Perfect knowledge of market** : In perfect competition, the buyers as well as sellers have perfect knowledge of market conditions such as price of product, quality of product, source of supply of product, etc.
  - (6) **Perfect mobility of factors of production** : In perfect competition, land has occupational mobility and other factors of production viz. labour, capital and entrepreneur have occupational mobility as well as geographical mobility.
  - (7) **Absence of transport cost** : It is assumed that there is no transport cost in perfect competition. Therefore, uniform price prevails in perfect competition.
  - (8) **No government intervention** : Laisses-faire policy prevails under perfect competition. It means that there is no government intervention in economic activities.
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