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**Code  
Number:30/17**



**INDIAN SCHOOL MUSCAT  
FIRST PRELIMINARY EXAMINATION  
SUBJECT : ECONOMICS**

CLASS: XII

Sub. Code: 030

Time Allotted: 3 Hrs

10.12.2017

Max. Marks:

**ANSWER KEY**

**SECTION A (MICRO ECONOMICS)**

1	<p>What happens to the equilibrium price when there is increase in demand and decrease in supply in a given market equilibrium condition?</p> <p>a) Price falls. b) Price rises. c) Price does not change d) Price may rise may fall or may not change.</p> <p>Answer : Price rises</p>	1
2	<p>Ceteris Paribus, if the government provides subsidies on electricity bills, what would be the likely change in the market demand of desert coolers?</p> <p>Demand will increase</p>	1
3	<p>What happens to Average Product when Marginal product is greater than Average product?</p> <p>a) Average product is negative b) Average product falls c) Average product rises d) Average product is constant</p> <p>Ans: Average product falls</p>	1
4	<p>When do you say that demand for good is elastic?</p> <p>Ans : The proportionate change in demand is more than proportionate change in price</p>	1
5	<p>Write the relationship between Marginal Revenue and Total revenue if a firm sells more output at less price.</p> <p>Ans: When a firm sells more output at less price marginal revenue falls , becomes zero and it reaches negative .</p> <p>1) When MR falls and positive TR increases at diminishing rate. 2) When MR reaches zero TR is maximum and constant.</p>	3

	<p>3) When MR is negative TR falls.</p> <p style="text-align: center;">Or</p> <p>Discuss the nature of Total revenue curve and Marginal revenue curve when a firm sells more output at given price.</p> <p>Ans: Under this situation MR is constant and positive, therefore MR curve is parallel to X axis. TR increases at constant rate. TR curve starts from origin and upward sloping straight line.</p>	
6	<p>What is difference between demand curve under monopoly and Monopolistically competitive market?</p> <p>Ans: Monopoly market does not have close substitute therefore demand curve is inelastic but downward sloping. In monopolistically competitive market large number of sellers and consumer can find substitute so demand is elastic but downward sloping.</p>	3
7	<p>What happens to the profit in the long run if the firms are free to enter and exit in the market?</p> <p>In the long run firm makes only normal profit.</p> <p>Suppose in the short run the existing firms make abnormal or supernormal profit . This profit attracts new firms in the market as there are no artificial barriers existing in the market. The new entry</p>	4
8	<p>State Law of demand. Write its assumptions.</p> <p>Ans: Other factors remains the same . The consumer buys more quantity at less price and consumer buys less at higher price.</p> <p>Assumption.</p> <ol style="list-style-type: none"> <li>1. Income of the consumer</li> <li>2. Price of related goods</li> <li>3. Taste and preferences are remains the same.</li> </ol> <p style="text-align: center;">Or</p> <p>State the relationship between demand for a good and price of its related goods.</p> <p>Ans: The demand for the good under study and price of the substitute good are directly related. When price of substitute rises demand for the goods rises. And vice versa.</p> <p>The demand for the good under study and price of complimentary good are inversely related.</p>	4
9	<p>By giving reasons, explain the stage of increasing returns to a Factor.</p> <ol style="list-style-type: none"> <li>i) Indivisibility of fixed input . Optimum utilization of the capacity of the fixed inputs</li> <li>ii) Application of division of labor.</li> </ol>	4
10	<p>Market for a good is in equilibrium. Explain the chain of effects in the market when there is rise in the price of substitute good. Use diagram.</p> <p>Ans: Increase in the demand for good under study. Excess demand. Competition among buyers to buy the product rises . high bargaining power of the sellers . price rises and quantity rises. (diagram)</p> <p style="text-align: center;">Or</p>	6

	<p>What do you mean by excess Supply? Explain the chain of effects in the market when there is excess supply. Use diagram</p> <p>Ans: It is the situation in the market when quantity supply is more than quantity demand at a price. Excess supply leads to competition among sellers to sell the product . High bargaining power among buyers . price fall . expansion of demand and contraction of supply until market reach equilibrium.</p>																															
11	<p>What happens to the supply curve of a commodity when there is</p> <p>a) Rise in the price of the commodity and</p> <p>b) Rise in the price of other goods. Use diagram.</p>	6																														
12	<p>Complete the following table:</p> <table border="1" style="margin-left: 40px;"> <tr> <td>Output</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>Average Fixed Cost</td> <td>45</td> <td></td> <td></td> <td></td> <td>30</td> </tr> <tr> <td>Average Variable Cost</td> <td></td> <td>54</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Marginal Cost</td> <td></td> <td></td> <td></td> <td>375</td> <td>60</td> </tr> <tr> <td>Total Cost</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table>	Output	1	2	3	4	5	Average Fixed Cost	45				30	Average Variable Cost		54				Marginal Cost				375	60	Total Cost						6
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### SECTION (MACRO ECONOMICS)

13	<p>A hypothetical budget of the government shows that revenue receipts are Rs. 1200 crores , capital receipts are Rs. 800 crores and non debt creating capital receipts are Rs.250 crores. How much is the borrowing of the government?</p> <p>Ans : Rs . 550</p>	1
14	<p>At breakeven point in Macro economics:</p> <p>a) Autonomous consumption is equal to dissaving</p> <p>b) Total consumption equal to Total Saving</p> <p>c) Average Propensity to consume equals to 1</p> <p>d) Average propensity to save equals to 1</p> <p>Ans: Average propensity to consume equals to 1</p>	1
15	<p>Write the significance of Accommodating transaction in Balance Of payment.</p> <p>This transaction arises to correct disequilibrium in BoP</p>	1
16	<p>Which of the following statement is correct:</p> <p>a) At equilibrium of an economy Ex ante Saving = Ex post Investment</p> <p>b) Marginal propensity Save never be negative</p> <p>c) The minimum value of multiplier is Zero</p> <p>d) Aggregate supply is the sum of consumption and investment.</p>	1

	Ans: Marginal propensity to save never be negative	
17	<p>Distinguish Capital receipts and Revenue Receipts of government budget .</p> <p>Ans: Receipts that create liability or reduce asset- capital Receipts that do not create liability nor reduce asset- revenue</p> <p>Or</p> <p>Distinguish Revenue Expenditure and Capital expenditure of government budget.</p> <p>Ans: Expenditure which creates asset or reduce liability – capital Expenditure which does not create liability nor reduces the asset.</p>	3
18	<p>State Whether the following statements are true or false. Give reasons.</p> <p>a) External assistance is not recorded in the balance of Payments account.</p> <p>Ans: False. It is recorded as unilateral transfers in current account</p> <p>b) Difference between the value of exports and imports of goods and services is called trade balance.</p> <p>Ans: False . It is called current account balance.</p>	3
19	<p>What changes take place in the economy when planned spending is less than planned output? Use diagram</p> <p>Ans: If planned spending (AD) is less than planned output (AS), total demand would be less than total supply of goods and services. This leads to unexpected increase in Inventory stock or unsold goods. So firm will try to reduce the stock by reducing the output. As a result employment falls due to under utilization of resources and income starts to fall. This process will continue till income and output reaches to the level at which <math>AD = AS</math>.</p> <p>Or</p> <p>What is the chain of effects in the economy when planned Investment expenditure is more than saving in the economy? Use diagram</p> <p>Ans: A situation where a firm produces a level of output which is less than the equilibrium level of output. At that situation , planned saving is less than planned Investment. This will cause an unplanned reduction in Inventories. Therefore, firm plans to raise the inventory by raising its output, as a result, level of employment, level of Income and saving will start to increase till <math>S=I</math></p>	4
20	<p>Discuss the relationship between price of foreign exchange and supply of foreign exchange.</p> <p>Ans: Price of foreign exchange and supply of foreign exchange are directly related. When price of foreign exchange rises, value of domestic currency falls. Domestic commodities becomes cheaper to the foreigners. Exports, foreign investment etc will increase. Thus supply of foreign exchange will increase.</p>	4
21	<p>Government expenditure on providing public goods has increased. Explain the economic value reflected in this statement.</p> <p><i>Ans: It means reallocation of resources by government in consideration with social &amp; economic welfare therefore the allocation functions deals with the problem of adjustment in resource allocation . To attain allocation function govt budgets helps to divert resources from private to public sectors .if private firms do not find profitable to produce public goods like</i></p>	4

	<i>parks,dams,bridges etcthen govt must produce &amp; provide such goods to publicthrough its expenditure policy.</i>	
22	<p>In an economy, there is an additional investment of Rs.5000 takes place. Marginal propensity to consume is 0.5. Explain the process of working of investment multiplier using the above information.</p> <p>This process of multiplier is explained below :-</p> <p>-An increase in investment ( <math>\Delta I</math>)leads to an increase in Income (<math>\Delta Y</math>) of the people involved in the additional Investment. The increased Income of those people will cause an increase in consumption depending on the MPC.This increased consumption causes increase in aggregate demand which in turn leads to changes to changes in Income. Thus, a chain of Secondary consumption is set from a primary change in investment. This ever diminishing Secondary Consumption will be many times more than the primary change in Investment.</p> <p>Suppose , an economy undertakes an additional investment of Rs. 5000 crores and the MPC is assumed as 0.5 . The investment multiplier process is stated as follows :</p> <p>Table :</p>	6
23	<p>Discuss the concept of Inflationary gap. How can open market operation control this situation?</p> <p>Ans: The economy will be in full employment equilibrium only when planned AD is equal to the full employment level of output. If the actual AD is greater than the full employment level of output, then the situation of excess demand arises.</p> <p>ii)The excess demand causes demand pull Inflation in the economy. Therefore, the differences between excess of actual aggregate demand and planned aggregate demand are known as inflationary gap.</p> <p>Open Market Operation</p> <p>At the time of excess demand Central bank sells government securities and bonds which is sold in the market. As a result money supply decreases which decreases the disposable income of society. Therefore, consumption and investment also decreases, thus AD decreases.</p> <p style="text-align: center;">Or</p> <p>What are the implications of deficient demand in the economy? How does central bank use Repo rate to control this situation?</p> <p>Ans: The deflationary gap is the difference between actual aggregate demand and equilibrium level of output. If, actual aggregate demand is less than equilibrium level of output.</p> <p>- In order to correct deflationary gap, RBI(central bank) reduces the Repo rate which in turn reduces market interest on loan given by commercial banks to the public. As a result, borrowing increases , money supply increases, purchasing power increases, thus aggregate demand also increases</p>	6

24	<p>Calculate National Income and GNP at Factor cost.</p> <p>Ans: <math>NNP_{fc} = 2100+3215+320+510+1200+-200</math></p> <table border="1" data-bbox="305 338 1336 793"> <thead> <tr> <th data-bbox="305 338 1052 380">Item</th> <th data-bbox="1052 338 1336 380">Rs. Arab</th> </tr> </thead> <tbody> <tr> <td data-bbox="305 380 1052 422">Government purchases of goods and services</td> <td data-bbox="1052 380 1336 422">2100</td> </tr> <tr> <td data-bbox="305 422 1052 464">Purchases of final goods and services by household</td> <td data-bbox="1052 422 1336 464">3215</td> </tr> <tr> <td data-bbox="305 464 1052 506">Net addition to stock</td> <td data-bbox="1052 464 1336 506">320</td> </tr> <tr> <td data-bbox="305 506 1052 548">Goods and services purchased by Nonprofit institutions.</td> <td data-bbox="1052 506 1336 548">510</td> </tr> <tr> <td data-bbox="305 548 1052 590">Net domestic fixed capital formation</td> <td data-bbox="1052 548 1336 590">1200</td> </tr> <tr> <td data-bbox="305 590 1052 632">Consumption of fixed capital</td> <td data-bbox="1052 590 1336 632">170</td> </tr> <tr> <td data-bbox="305 632 1052 674">subsidies</td> <td data-bbox="1052 632 1336 674">55</td> </tr> <tr> <td data-bbox="305 674 1052 716">Net Imports</td> <td data-bbox="1052 674 1336 716">-(200)</td> </tr> <tr> <td data-bbox="305 716 1052 758">Factor income from abroad</td> <td data-bbox="1052 716 1336 758">110</td> </tr> <tr> <td data-bbox="305 758 1052 800">Excise duty</td> <td data-bbox="1052 758 1336 800">85</td> </tr> <tr> <td data-bbox="305 800 1052 793">Net factor income to abroad</td> <td data-bbox="1052 800 1336 793">220</td> </tr> </tbody> </table>	Item	Rs. Arab	Government purchases of goods and services	2100	Purchases of final goods and services by household	3215	Net addition to stock	320	Goods and services purchased by Nonprofit institutions.	510	Net domestic fixed capital formation	1200	Consumption of fixed capital	170	subsidies	55	Net Imports	-(200)	Factor income from abroad	110	Excise duty	85	Net factor income to abroad	220	6
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