INDIAN SCHOOL MUSCAT
SENIOR SECTION
DEPARTMENT OF COMMERCE AND HUMANITIES
CLASS XII
ECONOMICS (SOLVED)- 3

Maximum Marks: 80
Time allowed : 3 hrs

General Instructions:
1. All questions in both the sections are compulsory
2. Marks for questions are indicated against each
3. Questions No. **1-4** and **13 - 16**are very short answer/MCQs of 1 mark each.
4. Questions No. **5 - 6**and **17- 18**are short answer questions of **3** marks each.
 These are to be answered in about **60** words each.
5. Questions No. **7-9**and **19 - 21**are also short answer questions of **4** marks each.
 These are to be answered in about **70** words each.
6. Questions No. **10- 12**and **22 - 24**are long answer questions of **6** marks each.

SECTION A

1.	A firm is able to sell any quantity of a good at a given price. The firms Marginal Revenue will be: (Choose the correct alternative) (a) Greater than Average Revenue (b) Less than Average Revenue (c) © equal to Average Revenue (d) Zero Ans: Equal to Average Revenue	1
2.	If it is given that the Total Variable Cost for producing 15 units of output is Rs.3000 and for 16 units is Rs.3500. find the value of Marginal cost. Ans: Rs.500	1
3.	Define Marginal Rate of Transformation. It is the rate at which amount of one good is sacrificed to produce one more unit of other good.(It is the ratio of number of units of a good sacrificed)	1
4.	What causes an upward movement along a supply curve of a commodity? A rise in price of a commodity causes an upwards movement along a supply curve..	1
5.	At a given market price of a good a consumer buys 120 units, when price falls by 50 percent he buys 150 units. Calculate price elasticity of demand. Elasticity of Demand= % change in quantity demand/percentage change in price 25/50 =1/2 = 0.5	3
6.	Why does an economic problem arise? Explain the problem of how to produce? An economic problem arises due to scarcity of resources having alternative uses in relation to unlimited wants. The problem of how to produce means that what technique of production should be employed to produce a good. Generally, the technique of production are classified into labor intensive and capital intensive. Labour intensive technique use more units of labour than capital. Capital intensive technique use more capital than labour. The aim is maximum output with minimum cost. OR Explain by giving reason, why production possibilities curve is concave.	3

	A production possibility curve is concave to the origin because of increasing marginal opportunity cost or marginal rate of transformation. The increasing marginal rate of transformation means that for additional unit of a good the sacrifice of other good goes on increasing. Since the sacrifice of other good goes on increasing , production possibility curve would be concave to the origin. This behavior is based on the assumption that all resources are not equally efficient in the production of all goods.	
7.	Explain the effect of the following on the supply of a commodity. (i) Fall in the price of factor inputs: when the price of factor inputs decreases, the cost of production decreases. Thus it become more profitable to produce the commodity and so its supply will increase and hence, supply curve will shift to the right. (ii) Rise in the price of substitute goods.: When the price of substitute good rise, it become relatively more profitable to produce these goods in comparison to the given good. This results in diversion of resources from the production of given good to other goods. So, the supply of the given good decreases and the supply curve shift leftward.	2+2
8	A consumer consumes only two goods X and Y. At consumption level of these two goods, he finds that the ratio of marginal utility of price in case of X is higher than in case of Y. Explain the reactions of the consumer. A consumer attains equilibrium in case of two commodities when the ratio of marginal utility two goods and their prices are equal. i.e. per rupee Mux=per rupee MUy Mux/Px = MUy/Py i.e. per rupee x = per rupee MUy If MUx/Px is not equal to MUy/Py, then the consumer is not in equilibrium. If Mux/Px is greater than MUy/Py, then per rupee Mux is greater than per rupee MUy. He will buy more of X and less of Y. this will reduce Mux and increase MUy. These changes will continue till Mux/Px= MUy/Py and he will be in equilibrium.	4
9.	What is minimum price ceiling? Explain its implications. Minimum price ceiling can also be referred to as 'price floor'. It means the minimum price fixed by the government for a commodity in the market to protect the interest of the producers. The government in most countries fixes price floor for agricultural products., food grains in particular. The implication of price floor is that leads to excess supply in the market. The government buys this excess supply to be stored in the form of buffer stocks and be used at the time of shortage. OR Explain 'black marketing' as a consequence of price ceiling. Price ceiling means maximum price of a commodity that the seller can charge from the buyers. Often the government fixes this price much below the equilibrium price of a commodity. So that it becomes within the reach of the poor sections of the society. It is resorted to protect the interest of the consumers. However it leads to excess demand and black marketing. Black marketing is a situation in which controlled commodity is sold at a price higher than the price fixed by the government. This situation arises because of: (a) Presence of such consumers who are willing to pay more than the ceiling price (b) Presence of excessive influential and wealthy consumers in large numbers.	4
10.	Explain the implication of the following features of perfect competition. **(a) Large number of buyers and sellers**: A perfectly competitive market is dominated by very large number of buyers and sellers of a commodity. It means that there is no such buyer or seller in the market whose purchase or sale	6

	is so large as to impact the total sale or purchase in the market. Each buyer/seller has only a fractional share in the market demand/supply. Each buyer or seller has to accept the price as it is in the market. Therefore it is said that a firm under perfect competition is a price taker not a price maker. **(b) Freedom of Entry and Exit of a firm: A firm can enter or exit the industry any time**. In order to analyses the implication of the feature we need to focus on short period and long period situation. Because of free entry and exit, a firm in the long run earns only normal profit. In case extra normal profits are earned, new firms will leave join the industry. Market supply will increase; price will fall, in case of extra normal losses, some of the existing firms will leave the industry. Market supply will decrease, market price will increase. Hence there will be neither supernormal profit or loss in the long run	
11.	Complete the following table:	6

Output(units)	Marginal Cost (Rs)	Average variable cost	Total cost (Rs)	Average Fixed Cost (Rs)
1	60	---------	120	---------
2	----------	-----------	174	----------
3	----------	54	--------	---------
4	54	-------------	---------	15
5	----------	57	345	------------

Ans: Marginal Cost : 54 , 54,54, 69
Average Variable cost: 60, 57, 54
Total Cost : 222, 276
Average fixed cost : 60, 30, 20, 15, 12

12.	Define demand. Explain the factors influencing individual households demand for a commodity in the market. Demand means the quantity of a commodity that consumers wish to purchase in the market in a given period of time and at various prices. Factors affecting individual household demand are: (i) Own price of the commodity: when the price of a commodity rises in the market, its demand contracts and with a fall in price, its demand expands. (ii) Price of related goods: Demand for a commodity is also influenced by change in price of related goods. These are of two types: (a) Substitute goods: these are the goods which can be substituted for each other such as tea and coffee .in such cases increase in price of one, causes increase in demand for the other and decrease in the price of one, causes decrease in the demand for the other. (b) Complementary goods: these goods are demanded together. Pen and ink, car and petrol. In case of complementary goods, a fall in the price of one, causes increase in the demand for the other and a rise in the price of one, causes decrease in the demand for the other. (iii) Income of the consumer: change in the income of the consumer also influences his demand for different goods. The demand for normal goods tends to increase with increase in income and decrease with decrease in income. The demand for inferior goods like coarse grain etc. tends to decrease with increase in income and increase with decrease in income. OR What is Indifference curve? What are the properties of Indifference curve?	6

	An Indifference curve is the curve which represents all those combinations of two commodities, which give the same level of satisfaction to a consumer. (i) Indifference curves slope downwards from left to right because to increase the consumption of one good, the consumption of the other good has to be reduced. (ii) Indifference cure is always convex to the origin because marginal rate of substitution tends to fall. (iii) Indifference curves can never touch or intersect each other because the same combination of two goods cannot give two different levels of satisfaction.	
	SECTION – B	
13.	What is ex-ante aggregate demand? Ex-ante aggregate demand means the planned expenditure on purchase of goods and services in an economy.	1
14.	Define Money supply; Money supply refers to the stock of money in circulation among the public at a particular point of time. It consists of currency and coins with public and demand deposits of commercial banks.	1
15.	Give the meaning of autonomous consumption. The consumption expenditure at zero level of income is called autonomous consumption.	1
16.	Define Statutory Liquidity Ratio. It is the ratio of deposits which commercial banks are required to keep with themselves.	1
17.	What is foreign exchange rate? State two sources of demand of foreign exchange . Foreign exchange rate refers to the rate at which the currency of one country is exchanged with the currency of another country. Following are the two sources of demand of foreign exchange: (i) To purchase goods and services from other countries by domestic residents (ii) To invest and purchase financial assets in some other country. OR Explain the relation between Foreign Exchange rate and supply of foreign exchange. There is a direct relation between foreign exchange rate and supply of foreign exchange.. Higher the exchange rate, higher the supply of foreign exchange and lower the exchange rate, lower the supply of foreign exchange. Graphically the supply curve of foreign exchange is upward sloping signifying the direct relation between foreign exchange rate and supply of foreign exchange.	3
18.	What is Balance of Payments? State the components of capital account of balance of payments. Balance of payment is record of economic transactions that take place between one country and the rest of the world during one year. It takes into account the exchange of both visible and invisible items. (i) External assistance (ii) Commercial borrowing including borrowing from IMF (iii) Non-residents deposits (iv) Foreign investments in the form of portfolio investment and foreign direct investment	3
19.	Explain the role of the following in correcting deficient demand in an economy. (i) Open Market operation: For correcting deficient demand in the economy, central bank purchase government securities in the open market. By buying	4

	government securities, the central bank will pay the price of the securities to the sellers, commercial banks. As a result the lending capacity of the commercial bank will go up and they will expand credit for investment by businessmen. Aggregate demand will increase which will help to correct deficient demand. (ii) Bank Rate: It is the rate at which central bank lends to the commercial bank. In a situation of deficient demand the central bank decreases the bank rate. As a result the interest rate for lending also decreases. Investment is stimulated which brings about increase in aggregate demand and help in correcting deficient demand. OR Explain the meaning of investment multiplier. What can be its minimum value and why? Investment multiplier is defined as the ratio of change in income to change in investment. Multiplier K = Change in Income/ change in Investment. The value of multiplier is determined by Marginal Propensity to consume. It is directly related with MPC. K=1/1-MPC Minimum value of multiplier is 1 as the minimum value of MPC is zero, so the minimum value of k will be one.	
20.	How will you treat the following while estimating National Income of India? (i) Dividend received by an Indian from his investment in shares of a foreign company. It is included in National income of India as it is factor income received from abroad. (ii) Profits earned by a branch of an Indian bank in Canada, It is income received from abroad, hence it is included in the national income of India.	4
21.	Explain the banker to the government function of the central bank. The central bank act as a banker to the government in various ways: It accepts and makes payment for the government and carries out exchange, remittance and other banking operations. It provides short term loans to the government. It provides foreign exchange resources to the government to repay external debt. It manages public debt. It advices the government on all financial matters.	4
22	In an economy, Consumption Function (C) =1000 + 0.5Y, Investment (I) = 2000 Calculate (i) Equilibrium level of Income (Y) (ii) Saving at equilibrium level of Income (S) (iii) Average Propensity to consume at equilibrium level of income. Ans (i) C = 1000+0.5Y , I =2000 and Y=C+I Y=1000+0.5+2000 0.5Y=1000+2000 0.5Y=3000 Y=3000/0.5=6000 (ii) S = Y-C C=1000+0.5x6000 = 4000 S= 6000-4000 = 2000 Average Propensity to consume = Consumption/Income = 4000/6000=0.67	6
23	Distinguish between : (i) Capital Expenditure and Revenue Expenditure	6

	(ii) Fiscal deficit and primary deficit; Capital expenditure is that expenditure which leads to creation of an asset or or reduction in liabilities. Such expenditure is financedout of borrowing from the public and foreign bodies. Example: construction of roads, bridges, grant of loans etc. Revenue Expenditure: Revenue Expenditure is that expenditure of the government which does not result in creation of any assets or reduction in liability. It is financed out of revenue receipts. Examples: Expenditure on payment of salary, pension etc. (iii) Fiscal deficit is defined as the excess of all expenditure over total receipts net of borrowings. Fiscal deficit= Total budget expenditure – Total budget receipts net of borrowings. (iv) Primary Deficit: It is the excess of fiscal deficit over interest payments on public debt. Primary deficit= Fiscal deficit – Interest payments. Fiscal deficit is a wider concept than primary deficit. OR Define Revenue deficit. Briefly explain the implications of Revenue deficit and measures to reduce revenue deficit. Revenue deficit refers to the excess of revenue expenditure of the government over its revenue receipts. Revenue deficit = Total Revenue Expenditure-Total Revenue Receipts. Implications: (i) Revenue deficit indicates dis-savings on government account because the government has to make up uncovered gap. (ii) Revenue deficit implies that the government has to cover this uncovered gap by drawing upon capital receipts either through borrowing or through sale of its assets. (iii) Since government is using capital receipts to meet consumption expenditure of the government which leads to an inflationary situation in the economy. Measures to reduce revenue deficit: (i) Government should reduce its unproductive or unnecessary expenditure. (ii) Government should increase its receipts from various sources of tax and non-tax revenue.	
24.	From the following data calculate Gross National Product at Factor Cost by (a) Income Methodand (b) Expenditure Method:	6

Items	Rs. (in crores)
1. Government final consumption expenditure	500
2. Net Indirect Taxes	80
3. Net Domestic capital formation	200
4. Profits	400
5. Net current transfers from Rest of the World	(-) 80
6. Rent	250
7. Consumption of fixed capital	60
8. Private final consumption expenditure	1000
9. Interest	150
10. Net Export	(-) 20

		11. Net Factor income from abroad	(-)10		
		12. Compensation of employees	800		
		Income Method = NDPFC + Net factor Income from abroad +Depreciation 1600+(-)10 + 60 = Rs. 1650cr Expenditure Method GNP Fc = GDPMp – NIT + NFIA = 1740-80+(-)10 = Rs.1650 crores.			