Economics

Part – A

One mark questions from all the lessons (240 questions)

Choose the correct answer. (60 questions, each carry one mark.)

1. The author of wealth definition is :
   (a) Alfred Marshall b) Lionel Robbins **c) Adam Smith** d) Samuelson
2. The author of scarcity definition is
   (a) Adam Smith b) Samuelson c) Alfred Marshall **d) Lionel Robbins**
3. The concept of Net Economic Welfare has been given by
   (a) Samuelson b) Marshall c) Adam Smith d) Lionel Robbins
4. Economics is a
   a) positive science b) normative science **c) Both** d) none
5. In economics, we make use of
   a) deductive method b) inductive method **c) Both** d) none
6. The basic economic problems are common to
   a) Capitalism b) Socialism c) Mixed economy **d) All the above**
7. Traditional economy is a
   a) Subsistence economy b) Market economy c) Command economy
   d) Monetary economy
8. The basic force that drives the capitalist economy is
   a) Planning b) Technology c) Government **d) Profit – motive**
9. In a socialist economy, all decisions regarding production and distribution are taken by :
   a) Market forces **b) Central planning authority**
   c) Customs and traditions d) Private sector.
10. Red-tapism and corruption lead to
    a) Inefficiency of production b) Inequality of income and wealth
    c) Absence of technology d) Efficient use of resources
11. Necessaries, comforts and luxuries are
    a) Classification of goods and services b) Classification of wants
    c) Classification of utility d) None of the above
12. The Indifference curve approach was introduced by
    a) Alfred Marshall b) Lionel Robbins **c) J.R. Hicks and R.G.D. Allen** d) Adam Smith
13. Utility is a
    a) Social concept **b) Subjective / psychological concept**
    c) Political concept d) Scientific concept
14. Single commodity consumption mode is
    a) Production possibility curve b) Law of Equi-marginal utility
    c) Law of supply **d) Law of Diminishing Marginal Utility**
15. Consumer surplus is Potential Price – Actual Price
    a) Potential Price – Actual Price b) MUn = TUn –TUn-1
    c) Demand = supply d) None

16. Demand for a commodity depends on All the above
 a) Price of that commodity b) Price of related goods c) Income **d) All the above**
17. Law of Demand establishes inverse relationship between price and quantity
 a) inverse relationship between price and quantity
 b) Positive relationship between price and quantity
 c) Both d) None
18. Increase in demand is shown by Shifts of the demand
 a) Movement along the same demand curve **b) Shifts of the demand curve**
 c) The highest point on the demand curve d) Lowest point on the demand curve
19. The degree of response of demand to change in price is Price elasticity of demand
 a) Price elasticity of demand b) Income elasticity of demand
 c) Cross – elasticity of demand d) All the above.
20. Factors determining supply are :
 a) Production technology b) Prices of factors of production
 c) Taxes and subsidies **d) All the above**
21. At the point of equilibrium
 a) Only one price prevails b) Quantity demanded = quantity supplied
 c) The demand curve intersects the supply curve **d) All the above**
22. Above the equilibrium price
 a. S < D **b. S > D** c. S = D d. none
23. Changes in quantity demanded occur Only when price changes
 a. Only when price changes b. Due to change of taste c. both d. None
24. The time element in price analysis was introduced by Alfred Marshall
 a. J.R. Hicks b. J.M. Keynes **c. Alfred Marshall** d. J.S. Mill
25. In the long period
 a. All factors change b. Only variable factor changes
 c. Only fixed factor changes d. Variable and fixed factors remain constant.
26. Production refers to
 a. destruction of utility **b. creation of utilities** c. exchange value d. None
27. The initial supply price of land is
 a. Zero b. Greater than one c. Less than one d. Equal to one
28. Labour cannot be separated from
 a. Capital **b. labourer** c. profit d. organization
29. Reward paid to capital is
 a. interest b. profit c. wages d. rent
30. A successful entrepreneur is one who is ready to accept
 a. Innovations **b. Risks** c. deciding the location of the production unit d. none.
31. Real cost is
 a) pain and sacrifice b) subjective concept
 c) efforts and foregoing leisure **d) All the above**
32. Economic cost includes explicit cost and implicit cost
 a) implicit cost b) social cost **c) fixed cost** d) money cost

33. social costs are those costs all of these
a) not borne by the firms b) incurred by the society c) health hazards **d) all of these**
34. Average fixed cost is obtained by dividing
a) TC/Q **b) TFC/Q** c) TVC/Q d) None
35. Marginal revenue is the least addition made to the
a) average revenue b) Total production **c) Total revenue** d) none
36. Perfect competition is a market situation where we have a single seller
a. a single seller b. two sellers **c. large number of sellers** d. few sellers
37. A firm can achieve equilibrium when its
a. MC = MR b. MC = AC c. MR = AR d. MR = AC
38. The firm and industry are one and the same under
a. perfect competition b. duopoly c. oligopoly **d. monopoly**
39. Under perfect competition, the demand curve is
a. Upward sloping **b. horizontal** c. downward sloping d. vertical
40. Most important form of selling cost is
a. Advertisement b. Sales c. Homogeneous product d. None
41. Rent is the price paid for the use of
a) Capital b) Organisation c) Labour **d) Land**
42. Profits are the reward for
a) land b) capital c) labour **d) organisation**
43. The demand for labour is
a) effective demand b) direct demand **c) derived demand** d) elastic demand.
44. The author of the concept of quasi – rent is
a) Adam Smith **b) Marshall** c) Ricardo d) Samuelson
45. The author of liquidity preference theory is
a) J.M. Keynes b) Marshall c) Samuelson d) Knight
46. The macro economic thinking was revolutionized by
a) David Ricardo **b) J.M. Keynes** c) Adam Smith d) Malthus
47. The Classical Theory assumed the existence of
a) Unemployment b) Disguised unemployment **c) Full employment** d) Under-employment
48. The central problem in Macro Economics is
a) Income and employment b) Price and Output c) Interest and Money d) None
49. To explain the simple theory of income determination, Keynes used
a) Consumption and Investment **b) Aggregate demand and aggregate supply**
c) Production and Expenditure d) All the above
50. The marginal propensity to consume
a) $\Delta S/\Delta Y$ b) C/y c) $\Delta P/\Delta Q$ **d) $\Delta C/\Delta Y$**
51. Monetary policy is controlled by
a) central government b) state government **c) central bank** d) private sector.
52. Currency with the public is known as
a) M1 b) M2 c) M3 d) M4
53. Bank rate is raised during

a) deflation **b) inflation** c) stable prices d) unemployment

54. During inflation

    a) Businessmen gain b) wage earners gain c) salaried people gain d) Rentiers gain

55. A situation marked by rising prices and stagnation in demand is known as

    a) Cost-push inflation b) demand – pull inflation **c) stagflation** d) wage – push inflation.

56. Public finance is concerned with the income and expenditure of

    a) Private sector b) Agricultural sector **c) Public authorities** d) Industrial sector

57. Tax revenue deals with the

    a) Fees **b) Kinds of taxes** c) Revenue d) Non tax revenue

58. The federal form of government consists of

    a) Central, state and local government b) central and state government

    c) State and local government d) above all

59. The compulsory charge levied by the government is

    a) License b) Gifts and grants c) Loan **d) Tax**

60. In ZBB every year is considered as a

    a) base year b) financial year **c) new year** d) academic year

Fill in the blanks

1. The term "micro" means_________ Ans : **small**
2. Strictly speaking production refers to the creation of__________ Ans : **utilities**
3. Exchange of goods for goods is known as _________ Ans : **barter**
4. Economics is a _________ Ans : **Science social**
5. An example of cosmopolitan wealth is _____________ Ans : **ocean**
6. In a traditional economy, basic problems are solved by____ and _____. ***Ans :*** **Customs and Traditions**
7. Most of the economic activities of capitalism are centered on__________ ***Ans :*** **Price Mechanism**
8. Production possibility curve is also known as _________ ***Ans :*** **Transformation / producton possibility frontier**
9. The prime motive of socialist economy is __________. ***Ans :*** **Social /COLLECTIVE WELFARE**
10. Under mixed economy, the economic control is exercised by _________ and ________. ***Ans :*** **Private and public sectors.**
11. ____________ means using up of goods and services ***Ans :*** **Consumption**
12. wants may be both ________ and _________ ***Ans :*** **Competitive and complementary**
13. Marshallian utility approach is ________ ***Ans :*** **Cardinal utility analysis**
14. Marginal utility falls to zero, when the total utility is __________ ***Ans :*** **Total utility**
15. An indifference curves is _________ to the origin. ***Ans :convex***
16. The demand curve slopes downwards due to _______ ***Ans :*** **Law of diminishing marginal utility**
17. Adding up of individual consumers schedule is _______ ***Ans :*** **Market demand schedule**
18. Goods that are demanded for their social prestige come under _____ ***Ans :*** **Veblen effect**
19. The concept of elasticity of demand was introduced by _________ ***Ans :*** **Alfred Marshall**
20. The rate of change of supply to a change is price is ________ ***Ans :*** **Elasticity of supply.**

21. ____________ is the major determinant of supply. ***Ans :*** **Price**
22. Agriculture, industry, growth and distribution are the _______ of the economy. ***Ans :*** **Sub-systems**
23. At _______ price, there is no tendency to change the price or quantity. ***Ans :*** **Equilibrium**
24. Modern economists divide time periods into ______ and ________ ***Ans :*** **Short period and long period**
25. The supply curve in the market period is a _________ line. ***Ans :*** **Vertical**
26. Land and labour are called ____________ factors ***Ans :*** **primary**
27. An enquiry into the nature and causes of wealth of nations was written by _________. ***Ans :*** **Adam Smith**
28. ___________ is limited by the extent of market. ***Ans :*** **Division of labour**
29. ____________ is man-made physical goods used to produce other goods. ***Ans :*** **capital**
30. The functional relationship between inputs and output is known as _________. ***Ans :*** **Production function**.
31. Money cost is also called ________. ***Ans :*** **Nominal cost**
32. Economic profit is the difference between total revenue and_________. ***Ans :*** **Economic cost / total cost**
33. the distinction between the fixed and variable factors is possible only in ________. ***Ans :*** **Short run**
34. Total cost is the sum of _________ ***Ans :*** total fixed cost and total variable cost
35. The marginal cost curve is _________ ***Ans :*** 'U' shaped
36. Under perfect competition, the firms are producing ______ product. ***Ans :*** **homogeneous**
37. When the Average revenue of the firm is greater than its average cost, the firm is earning ________ ***Ans :*** **Super normal profit**
38. The perfect competitive firms are _________ ***Ans :*** price-takers
39. Monopoly power achieved through patent right is called _________ ***Ans :*** **legal monopoly**
40. Firms realize the importance of ________ under oligopoly. ***Ans :*** **mutual co-operation**
41. Marginal productivity theory is the _________theory of distribution. ***Ans :*** **general**
42. Marginal productivity theory is based on the assumption of ____________ competition. ***Ans :*** **perfect**
43. Transfer earnings refer to ___________ cost. ***Ans :*** **opportunity**
44. Money wages are also known as __________ wages. ***Ans :*** **nominal**
45. Organization is done by the ___________ ***Ans :*** **entrepreneur**
46. The term consumption function explains the relationship between________ and ________ ***Ans :*** **Income and Consumption**
47. _________ is the ratio of charge in saving to a change in income. ***Ans :*** **Marginal Propensity to save**
48. The worldwide depression of 1930s was also caused by a ________ ***Ans :*** **Fall in investment**
49. __________ refers to the cash holdings of the people. ***Ans :*** **Liquidity Preference**
50. The magnified effect of initial investment on income is called______ effect. ***Ans :*** **Multiplier**
51. The direct exchange of goods for goods is known as _________ ***Ans :*** **barter system**
52. Deflation is a period marked by __________ prices ***Ans :*** **falling**
53. The equation of exchange (MV = PT) was given by ***Ans : Prof.*** **Irving Fisher**

54. Galloping inflation is also known as ________. ***Ans :*** **hyper-inflation or run-away inflation**
55. Monetary policy is usually effective in controlling __________. ***Ans :*** inflation
56. _______ means different sources of government income. ***Ans :*** **Public revenue**
57. the absence of direct and proportional benefit is ________ ***Ans :*** **Quid pro – quo**
58. __________ are considered as fundamental principles of taxation. ***Ans :*** **canons of taxation**
59. The classification of direct and indirect taxes is based on criterion of _________ tax. ***Ans :*** **shifting of the incidence**
60. _________ tax is a blend of progressive tax and proportional tax. ***Ans :*** **Degressive**

Match the following:

1.	"Principles of Economics"	-	Marshall
2.	First Nobel prize	-	Timbergen and Frisch
3.	Dynamic approach	-	Time Element
4.	Wealth	-	Stock
5.	Income	-	Flow
6.	Minimum cost	-	Maximum benefit
7.	Opportunity cost	-	next alternative foregone
8.	private property	-	Laissez faire economy
9.	Bureaucratic expansion	-	socialism
10.	Market forces	-	supply, demand and price
11.	Wants	-	Advertisements
12.	"Principles of economics"	-	Marshall
13.	Maximum social advantage	-	Hicks and Dalton
14.	Indifference curve	-	Ordinal Ranking
15.	Luxuries	-	Diamond, Jewels
16.	Positive relationship of price and demand	-	Veblen effect
17.	Tea and coffee	-	substitutes
18.	Segment between two points	-	Arc
19.	Ed > 1	-	elastic demand
20.	Cross-elasticity is zero	-	X and Y are not related
21.	Equilibrium	-	Pair of price and quantity
22.	Excess demand	-	D > S
23.	Price discount	-	Annual stock
24.	Long period supply curve	-	More elastic
25.	Short period price	-	Demand and supply.
26.	Entrepreneur, an innovator	-	Schumpeter
27.	Division of labour	-	Adam Smith
28.	Production function	-	Cobb Douglas
29.	Bundle of risks	-	Hawley
30.	Exertion of body or mind	-	Marshall
31.	Average cost	-	cost per unit
32.	TC	-	TFC + TVC

33. The long run average cost curve - planning curve
34. MCn - TCn – TCn-
35. Profit - TR – TC
36. Global market - Gold and silver
37. Consumer sovereignty - Perfect competition
38. South Africa - Diamond
39. Technical monopoly - Coco Cola
40. Monopolistic competition - E.H. Chamberlin
41. Residual claimant theory - Walker
42. Waiting theory of Interest - Marshall
43. Loanable Funds Theory - Neo-classical theory
44. Dynamic Theory of profit - Clark
45. Risk-bearing theory of profit - Hawley
46. Aggregate Demand - C + I + G +(X-M)
47. Slope - Vertical Change/Horizontal Change
48. K - 1/1-MPC
49. Y - C + S
50. Keynes - Liquidity Preference
51. Quantitative credit control - Bank rate
52. Selective credit control - Moral Suasion
53. Cheap money policy - Low rate of interest
54. Wages and prices push one another - Creeping inflation.
55. Value of money - Purchasing power of money
56. Conons of taxation - Adam Smith
57. Progressive tax - Best tax system
58. Fiscal policy - Rebate and subsidies
59. Regressive tax - Tax rate decreases
60. Balanced Budget - Revenue and expenditure are equal

IV. Answer in a word or two : (60 questions for each question, one mark)

1. What is the other name for Economics? **Political economy**
2. What are the subjects that econometrics make use of ? **Statistics, mathematics, economics**
3. What is the method that Ricardo made use of? **Deductive method**
4. Give one or two examples of free goods. **Air, sunshine**
5. What is the other name for money income? **nominal income**
6. Is traditional economy a subsistence economy? **Yes**
7. What is the basic force that drives a capitalist economy? **Profit Motive**
8. What is the result of over-production? **Depression**
9. Name any two successful socialist economies. **China and Cuba**
10. Is there planning under mixed economies? **Yes, Manufactures consumer and capital goods in the interest of public welfare.**
11. Define Utility. **Want satisfying power**

12. What is the other name for the law of Equi-Marginal Utility? **Gossen's second law**
13. What is Indifference curve? **Locus of different combinations of two commodities**
14. What is Indifference Map? **It is a group of indifference curves for two commodities**
15. What is the other name for budget line? **Price – ratio line**
16. What is the basic assumption of economic theory? **Other things being equal / ceteris paribus condition**
17. How does the demand change during boom and depression?
    During boom demand increases and during depression demand decreases
18. Give the formula for point method.
    ep = lower segment of the demand curve / upper segment of the demand curve
19. What is income elasticity of demand?
    The degree of responsiveness of demand to change in income.
20. When the demand for labour is inelastic, can a trade union raise wages? **Yes**
21. What is equilibrium in general? **State of rest / balance**
22. What are the determinants of shift in demand curve? **Income, taste, price of substitutes**
23. Who has introduced the time element? **Alfred Marshall**
24. Give an example for fixed input? **Heavy machinery / building and capital equipments**
25. Is supply fixed in the market period? **Yes**
26. Who is the changing agent of the society? **Entrepreneur**
27. How do internal economies arise? **From within the firm**
28. What is other name for isoquant? **Iso-Product curve**
29. Give the condition for producer's equilibrium ? **MRTS xy = Px / Py**
30. State the Cobb-Douglas production function. $\mathbf{Q = b\, L^{a}\, C^{b}}$
31. When average revenue remains constant what will be M.R.?
    M.R. remains constant / coincide with A.R.
32. What is Marginal Revenue? **Addition made to the total revenue.**
33. What is break-even point? **No - profit no-loss point**
34. What is an envelope curve? **It is a group of short run cost curves (planning curve)**
35. How will you calculate AC? **TC/q**
36. What is an industry? **Group of firms**
37. Who undertakes the public utilities? **state**
38. How does the government control monopoly? **taxation / legislative method**
39. What is the essential feature of monopolistic competition? **product differentiation**
40. In which year the MRTP Act was passed? **1969**
41. According to Ricardio, do all lands get rent? **No**
42. Even if all lands are equally fertile, can rent arise? **Yes**
43. Who is the author of Agio theory of interest? **Bohm-Bawerk**
44. Who is the author of the rent theory of profits? **Prof. Walker**
45. What is the name of Schumpeter's theory of profits? **Innovation theory**
46. What crippled the free enterprise economies of US and UK? **Great Depression**
47. State J.B. Say's Law of Market. **Supply creates its own demand**
48. Who is the author of the "General Theory of Employment, Interest and Money"? **J.M. Keynes**

49. Name the point of intersection of Aggregate Demand and Aggregate Supply. **Keynesian cross**
50. Give the formula for Multiplier. **K = 1 / 1-MPC**
51. Name the bank which controls money supply in a country. **central bank**
52. When is dear money policy followed? **during inflation to central money**
53. What is the name of inflation without a rise in price level? **suppressed inflation**
54. Is wage cut a remedy for depression? **No**
55. Give the example of a country that experienced hyperinflation. **Germany**
56. What is a tax? **Compulsory contribution by each person**
57. Give the expansion for VAT. **Value added tax**
58. What is the meaning of proportional tax? **Uniform tax rate**
59. What are the kinds of budget? **Balanced and unbalanced budget**
60. What is public debt? **Borrowing from the public**

Answer the following questions in four or five lines (3 marks)

Chapter - 1

1. State Alfred Marshall's definition of Economics.
In 1890, Alfred Marshall wrote a book "Principles of Economics". He defined Economics as "a study of mankind in the ordinary business of life" According to him study of man is more important than the study of wealth.

2. What are the divisions of Economics?
1. Consumption 2. Production 3. Exchange 4. Distribution 5. Public Finance

3. Describe the relationship between Economics, Mathematics, Statistics.
   1. Statistics is the science of averages.
   2. Many tables and diagrams used in economics are based on statistical analysis.
   3. Mathematical methods are largely used in modern economics.

4. Distinguish between free goods and Economic goods.

Free goods	Economic goods
1. Gifts of nature (Air, sunshine)	1. They are produced
2. Do not command price in the market	2. Command a price in the market
3. They are not scarce	3. They are scarce
4. They have no value – in – exchange	4. They have value – in – Exchange

5. Explain the difference between value – in – use and value – in – exchange.
Value has two kinds - Value in use and value in exchange
Value in use : Air, rain and sunshine have value – in – use. There is no price. Do not have value – in – exchange.
Value - in – exchange : Economics gives importance to those goods which have value – in – exchange. For a good to have value – in - exchange, it must possess utility, it must be scarce in relation to demand and it must be possible for us to exchange it.

Chapter - 2

6. What are the basic issues / problems of any society?

1. What to produce ? How much?
2. How to produce?
3. For Whom to produce?

7. Name the important general economic systems.

1.Traditional Economy. 2.Capitalist Economy.

3.Socialist Economy and 4.Mixed Economy

8. List the basic features of socialism.

1. Social welfare motive. 2. Limited Right to private property.

3. Central planning 4. Market forces

9. Is India a mixed economy? Explain.

Yes, Both Public and private sector co exists and exercise economic control.

Government Sector : All decisions regarding what, how and for whom to produce are taken by state.

Private sector : Produces and distributes goods and services.

10. What is opportunity cost?
    1. The next best alternative foregone. (or)
    2. The benefits that could be received from the opportunity. (or)
    3. Differences between the concepts of 'economic cost' and 'accounting cost'.

Chapter - 3

11. What are causes for wants?
    1. Arises due to psychological causes.
    2. Arises due to social causes.
    3. Arises due to customs and habits.
    4. Arises due to advertisements.
12. What are the classifications of goods. (wants)
    1. Necessaries (Food, Clothing)
    2. Comforts (fruits, milk)
    3. Luxuries (diamond jewels)
13. Define the Law of Diminishing Marginal Utility.

    "The additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has". (Marshall's law)
14. What are the properties of Indifference curve?
    1. Slopes downwards to the right.
    2. Convex to the origin.
    3. No two Indifference curves can ever cut each other.
15. Define consumers surplus in the words of Marshall.

    "The excess of price which a person would be willing to pay rather than go without the thing over that which he actually does pay is the Economic measure of this surplus of satisfaction". Consumers surplus = potential price – Actual price.

Chapter - 5

16. What is equilibrium price?

    At a particular price, the quantity demanded by the buyer is equivalent to the quantity seller is willing to sell. It is the point of intersection of the supply curve and the demand curve.

17. Distinguish between change in demand and shift in demand.

Change in demand	Shift in demand
1. Due to change in price 2. Movement on the same demand curve 3. Only one demand curve exists.	1. Due to change in factors. 2. Factors shift the demand curve as a whole 3. More than one demand curve occurs.

18. What are the determinants of shift in supply?

1. Number of producers or firms
2. Prices of factors
3. Prices of other products
4. Taxes and subsidies.
5. Production technology

19. Differentiate the short period from the long period.

Short period : some inputs cannot be varied.

Long period : All inputs can be varied. (changed)

20. Write a short note on market period.

1. Very short period and during this period firms cannot change their supply in response to changes in demand.
2. Supply is fixed.
3. Price is determined according to demand. Eg. Fruits, flowers.

Chapter - 6

21. Name the types of utility.

1) Form utility
2) Place utility
3) Time utility and
4) Possession utility.

22. Define labour.

Labour is the human input. "The use or exertion of body or mind, partly or wholly, with a view to secure an income apart from the pleasure derived from the work". – Marshall.

23. What is meant by division of labour?

Dividing the process of production into distinct and several component processes and assigning each component in the hands of a labourer or a set of labourers. Eg. : production of Readymade garments.

24. What are the forms of capital?

1) Physical capital or Material Resources. (Plant and machinery)
2)Money Capital or monetary Resources (Bank deposits, shares and securities)
3) Human Capital or Human Resources. (education, health)

25. What is Production function? What are its classifications?

The functional relationship between inputs and outputs is known as production function. Inputs : land, labour, capital and enterprise.

Output : refers to the volume of goods produced.

Classification :

1)Short-run production function which is studied through Law of Variable Proportions.

2)Long-run production function which is explained by Constant Returns to scale.

26. What are economic costs?

    Includes Explicit cost and implicit cost. The money rewards for the own services of the entrepreneur and the factors owned by himself and employed in production are known as implicit cost.

27. What is Marginal cost.

    Marginal cost is the addition made to the total cost by the production of one additional unit of output.

28. Mention the relationship between SAC and SMC

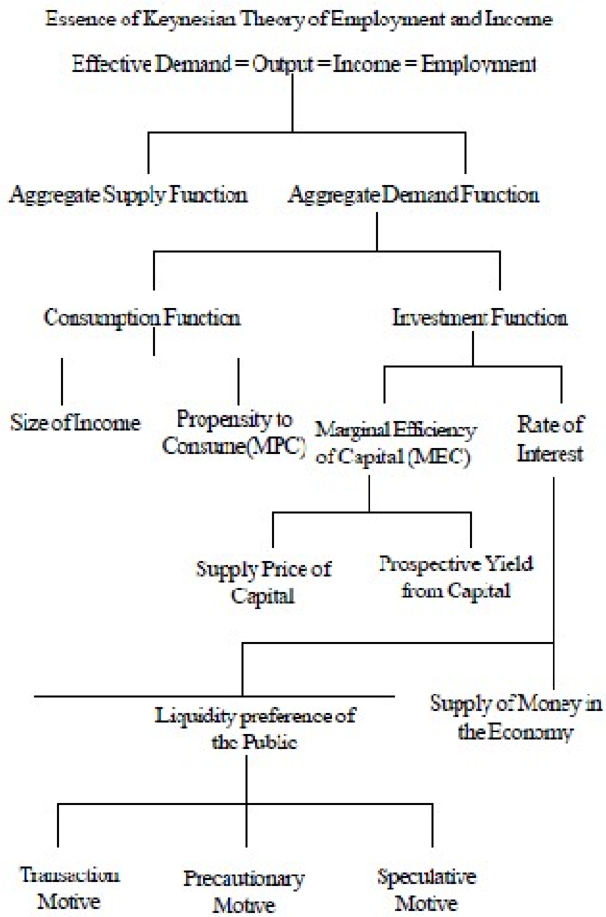
    1) SMC < SAC, SAC is falling

    2) SMC > SAC, SAC is increasing

    3) SMC must cut the SAC at SAC's minimum point from below. At the minimum point SMC = SAC.

LESSON - 10

1. What are the criticisms of says law?
    1. Great Depression made say's law unpopular.
    2. All incomes earned are not always spent on consumption.
    3. Whatever saved is not invested.
    4. Law was based on wrong analysis of market.
    5. Suffers from the fallacy of aggregation.
    6. Aggregate supply and aggregate demand are not always equal.
    7. Rate of interest is not the equilibrating factor.
    8. Capitalist system is not self – adjusting always.
    9. Perfect competition is an unrealistic assumption.
    10. Money is a dominant force in the economy.
    11. Law is applicable only for a long period.
    12. Say's law holds good only in the barter economy.
2. Draw the flow chart to depict the essence of Keynes theory.



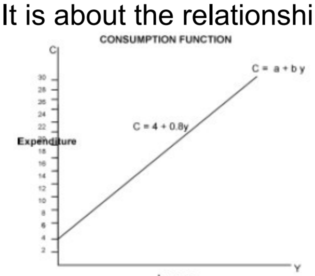
Basic ideas of Keynes :

1. Total income depends on total employment.
2. Total employment depends on effective demand.
3. Depends on consumption expenditure and investment expenditure.
4. Consumption depends on income and propensity to cosume.
5. Investment depends upon the Marginal efficiency of capital and the rate of interest.

3. Describe the consumption function with a diagram.

Consumption Function :-

1. People spend most of their income on commodities.
2. Some spend their income fully
3. Some others spend a portion and keep the rest for saving.
4. It is about the relationship between income and consumption.



Graphical explanation : 1. OY axis represents income, OC represents expenditure.

2. Propensity to consume is the ratio that measures the functional relationship between income and consumption.
3. The psychology of the community is such that when real income is increased but not so much as income.
4. C = a + b y …. (2)

   C = 4 + 0.8Y
5. The consumption curve CC is a short-run curve.
6. Consumption takes place even when income is zero.
7. Curve starts from 4 on the vertical axis.
8. In equation 80% of additional income is spent.
9. MPC = $\Delta C/\Delta Y$
10. Autonomous consumption. That is consumption is not related to income.
11. Slope curve b is marginal propensity to consume.

4. What are the determinants of consumption other than income?

1. Income distribution
2. Size and nature of wealth distribution
3. Age distribution of population
4. Inflation or price level
5. Government policies
6. Rate of interest
7. Expectations about price, income, etc.
8. Advertisements
9. Improvement in the living standard
10. Changes in cultural values

5. What are the assumptions of Keynes' Simple Income Determination?

Income Determination :-

1. There are only two sectors viz. consumers (C) and firms (I).
2. Government influence on the economy is nil. (G = 0)
3. Closed economy (x – M = 0)
4. Wages and prices remain constant.
5. There are unemployed resources and hence less than full employment equilibrium prevails.
6. There is no variation in the rate of interest.
7. Investment is autonomous.
8. The consumption expenditure is stable.
9. Due to the first three assumptions.

$$Y = C + I + G + (X - M) \qquad\qquad Y = C + I$$

Chapter - 12

1. Explain the canons of taxation.

Canon of equity

1. It means that taxes should be imposed according to the capacity of the tax payer.

2. Poor should be taxed less and rich should be taxed more.
3. This canon involves the principle of justice.

Canon of certainty

Each tax payer should know that the amount of tax to be paid, when to be paid, and where to be paid and also should be certain about the rate of tax to make investment decisions.

Canon of convenience

1. Tax payment should be convenient and less burden to the tax payer.
   e.g. income tax - collected at source, land tax - collected after harvest.

Canon of economy

1. The cost of collecting the revenue should be kept at the minimum possible level.
2. The tax laws and procedures should be made simple, administrative expenditure to be kept at a minimum.

2. What are the main sources of tax and non-tax revenue of the state government ?

1. Land revenue,
2. Taxes on land and building
3. Taxes on the consumption of electricity
4. Taxes on agricultural income,
5. Excise duty on alcoholic liquors and narcotics,
6. Taxes on vehicles, animals and boats,
7. Entertainment tax,
8. Taxes on trade, profession and employment,
9. Income from irrigation and forests,
10. Grants from the central government and
11. Taxes on advertisements other than those in newspaper,
12. Stamp duties, court fees and registration,

3. Explain Budget - balanced and unbalanced budget.

Budget :-

- Statement of receipts and expenditure.
- April 1 to March 31.
- Indicates the probable income and expenditure of the government, the financial policies, taxation measures, investment opportunities, extent of saving, utilization of resources, mobilization of capital.

Definition - Dimock :-

- A balanced estimate of expenditures and receipts for a given period of time.

Balanced Budget :

- Government budget is said to be balanced when its tax revenue and expenditure are equal.
- Over a period of time both are equal.

Unbalanced Budget :

(surplus or Deficit) Government’s income and expenditure are not equal.

Surplus Budget :

When there is an excess of income over expenditure

Deficit Budget :

When there is an excess of expenditure over income.

14. What are the limitations of fiscal policy ?

1) Size of Fiscal measures

* Not a mere statement of receipts and revenues but shapes the economic structure of a country.

* Direct taxation at times become an instrument of limited applicability, as the vast majority of the people are not covered by it.

* When the total tax revenue forms a smaller portion of the national income, fiscal measures will not step up the sagging economy requiring massive help.

2. Fiscal policy as ineffective anti-cyclical measure

* When the different sectors of the economy are not closely integrated with one another will not stimulate economic growth.

* Action taken by the government may not always have the same effect.

* Recession in some sectors is followed by a rise in price in other sectors.

3. Administrative delay

* Fiscal measures may introduce delay, uncertainties and arbitrariness arising from administrative bottlenecks.

* As a result, fiscal policy fails to be a powerful.

Other Limitations

* Large scales of underemployment, lack of co-ordination from the public, tax evasion, low tax base etc.

5. Differentiate between the direct and indirect taxes?

Direct tax	Indirect tax
1. Dalton : tax paid by a person on whom it is imposed.	1. imposed on one person, paid by another.
2. Impact of the tax fall on the same person	2. Impact of tax falls on one person and incidence of the tax falls on another person
3. Eg. Income tax, gift tax	3. Excise duty, sales tax
4. Collected from the public directly	4. imposed on commodities & services.
5. Imposed on and collected from the same person	5. Incidence is upon one person who ultimately pays it.
6. One cannot evade paying.	6. One can evade paying tax
7. Transfer of tax is difficult.	7. Easy to transfer tax.
8. No shifting of incidence.	8. Shifting of incidence is there.
9. Tax imposed on rich.	9. Tax is imposed on poor.

(20 marks) Chapter - 4

31. Explain Law of demand with the help of diagram.

Demand and supply :-

Demand for a commodity refers to the desire backed by ability to pay and willingness to buy it. If a person below poverty line wants to buy a car, it is only a desire but not a demand as he cannot pay for the car. If a rich man wants to buy a car it is demand as he will be able to pay for the car. Thus desire backed by purchasing power is demand.

The demand for any commodity mainly depends on the price of that commodity. The other determinants include price of related commodities, income of the consumers, tastes and preferences of consumers, and the wealth of consumers. Hence the demand function can be written as

Dx = f(Px, Ps, Y, T, W)

Dx = demand for good x.

Px = price of good x.

Ps = Price of related goods

Y = income

T = taste and preferences of the consumers

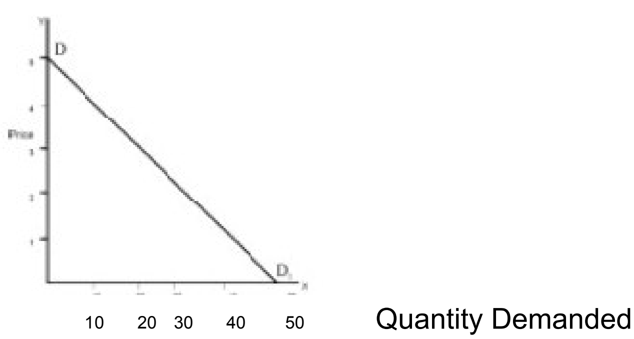
w = wealth of the consumer

Price (Rs.)	Quantity Demanded (units)
6	10
5	20
4	30
3	40
2	50
1	60

The above said is a demand schedule. It shows a list of prices and corresponding quantities demanded by an individual consumer. This is an individual demand schedule.

Demand Curve :

The demand schedule can be converted into a demand curve.



Law of Demand :-

Law of demand states that there is a negative or inverse relationship between the price and quantity demanded of a commodity over a period of time.

Definition :-

Alfred Marshall stated that "the greater the amount sold, the smaller must be the price at which it is offered, in order that it may find purchasers; or in other words, the amount demanded increases with a fall in price and diminishes with rise in price". According to Ferguson, the law of demand is that the quantity demanded varies inversely with price.

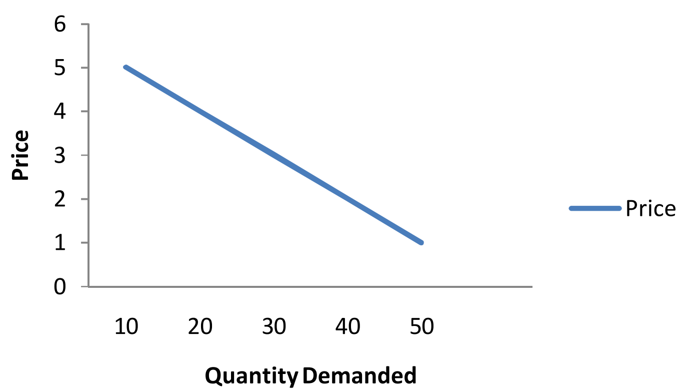
"The people will buy more at lower prices and buy less at higher prices" - other things remaining the same. – Law of Demand.

Assumptions :-

1. No change in the consumer's income.
2. No change in consumer's tastes and preferences.
3. No changes in the prices of other goods.
4. No new substitutes for the goods have been discovered.
5. People do not feel that the present fall in price is a prelude to a further decline in price.

Demand Schedule and individual demand schedule

Demand schedule is a tabular statement showing of how much of a commodity is demanded at different prices.



In the above figure DD is the demand curve. The curve slopes downwards from left to right showing that when price rises less is demanded and vice versa. Thus the demand curve represents the inverse relationship between the price and quantity demanded other things remaining constant.

Why does the demand curve slope downwards?

The demand curve slopes downwards mainly due to the law of diminishing marginal utility. The law of diminishing marginal utility states that an additional unit of a commodity gives a lesser satisfaction. Therefore the consumer will buy more only at a lower price. The demand curve slopes downwards because the marginal uitility curve also slopes downwards.

Individual demand and market demand schedules.

Individuals demand schedule tells the quantities demanded by an individual consumer at different prices.

Individual demand schedule for oranges :

Price of Orange (Rs.)	Quantity of Oranges
5	1

4	2
3	3
2	4
1	5

Explanation :-

It is clear from the schedule that when the price of orange is Rs.5 the consumer demands just one orange. When the price falls to Rs.4 he demands 2 oranges. When the price falls further to Rs.3, he demands 3 oranges. Thus when the price of a commodity falls, the demand for that commodity increases and vice versa.

Market demand schedule

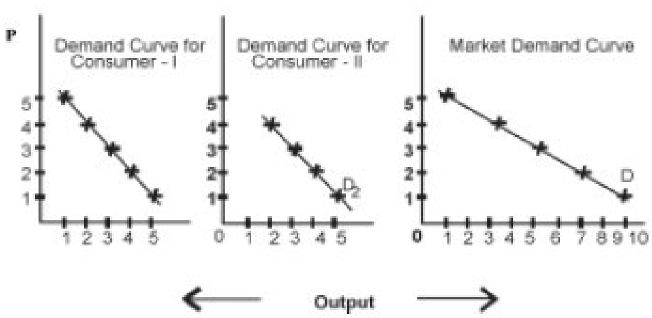
A demand schedule for a market can be constructed by adding up demand schedules of the individual consumers in the market. Suppose that the market for oranges consists of 2 consumers. The market demand is calculated as follows :

Demand schedule for two consumers and the Market demand schedule :

Price of oranges in Rs.	Quantity Demanded		
	Consumer I	Consumer II	Market Demand
5	1	-	1
4	2	1	3
3	3	2	5
2	4	3	7
1	5	4	9

Market demand curve

The market demand also increases with a fall in price and vice versa.



32. Explain the methods of measurement of price elasticity of demand in detail.

Price Elasticity of Demand :-

The rate at which demand changes to a change in price.

The degree of responsiveness of quantity demanded to a change in price is called price Elasticity of Demand.

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

Symbolically, $e_p = \frac{\Delta Q / Q}{\Delta p / p} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$

Measurement of price elasticity of demand :-

Important methods for calculating price elasticity of demand are

1) Percentage method
2) Point method or slope method
3) Total outlay method
4) Arc method

1. Percentage method

The relative change in demand is divided by relative change in price (or) percentage change in demand is divided by percentage change in price.

Formula is $e_p = \frac{\%\Delta q}{\%\Delta p}$

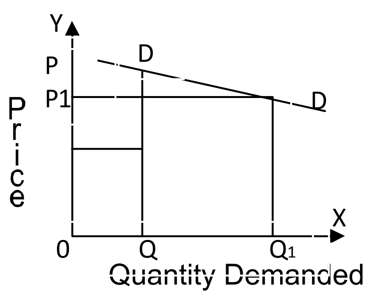
For example, the price of rice rises by 10% and the demand for rice falls by 15%.

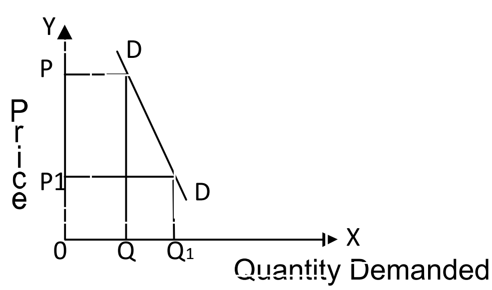
Then $e_p = \frac{15}{10} = 1.5$

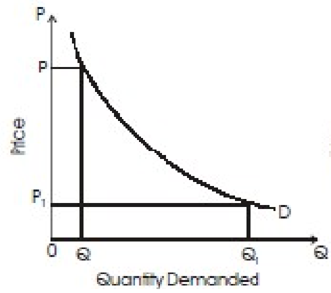
This means that the demand for rice is elastic. If the demand falls to 5% for a 10% rise in price. This means the demand for rice is inelastic.

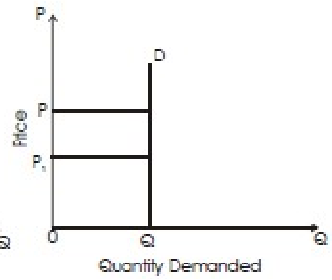
Five measures of elasticity :-

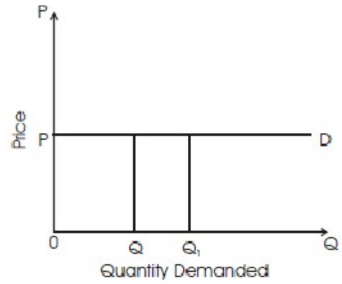
a) Relative elastic demand (ed > 1)
b) Relatively inelastic demand. (ed < 1)
c) Unitary elastic demand. (ed = 1)
d) Perfectly inelastic demand. (ed = 0)
e) Perfectly elastic demand. (ed = ∞)











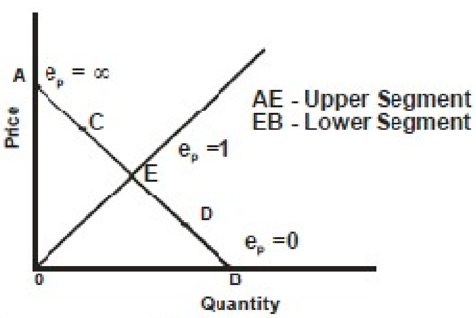
Point method :-

We can calculate the price elasticity of demand at a point on the linear demand curve.

Formula to find out

$$ep = \frac{\text{Lower segment of the demand curve}}{\text{Upper segment of the demand curve}}.$$

Example :- The length of the demand curve below is AB = 4 cm.



$$e_p = \frac{\text{Lower segment of the demand curve}}{\text{Upper segment of the demand curve}}$$

Exactly at middle point of AB demand curve,

Exactly at middle point of AB demand curve,

1) e_p at point e $e_p = \frac{EB}{EA} = \frac{2}{2} = 1 \therefore$ ep = 1

2) e_p at point D = (middle point of EB portion of demand curve)

$\frac{DB}{DA} = \frac{1}{3} = 0.3$ ep < 1

3) e_p at point c (middle point of EA portion of demand curve)

$\therefore$ ep = $\frac{CB}{CA} = \frac{3}{1} = 3$ ep > 1

4) e_p at point B = $\frac{0}{AB} = \frac{0}{4} = 0$

(o by anything is zero, a mathematical principle) $\therefore$ ep = 0

5) e_p at point A = $\frac{AB}{0} = \frac{4}{0} = \infty$

(Anything by zero becomes infinity a mathematical principle

Total outlay method :-

We can measure elasticity through a change in expenditure on commodities due to a change in price.

1. Demand is elastic, if total outlay or expenditure increases for a fall in price (ep > 1)
2. Demand is inelastic, if total outlay or expenditure falls for a fall in price. (ep < 1)
3. Elasticity of demand is unitary, if total expenditure does not change for a fall in price (ep = 1)

   The results are tabulated in the following table.

Changes in price	Types of elasticity of demand		
	$e_p = 1$	$e_p < 1$	$e_p > 1$
fall in price	Total outlay remains constant	Total outlay falls	Total outlay rises
rise in price	Total outlay remains constant	Total outlay rises	Total outlay falls

4) Arc method

Segment of a demand curve between two points is called an Arc. Arc elasticity is calculated from the following formula.

$$Ep = \frac{q_1 - q_2}{Q_1 + q_2} \div \frac{P_1 - P_2}{P_1 + P_2}$$

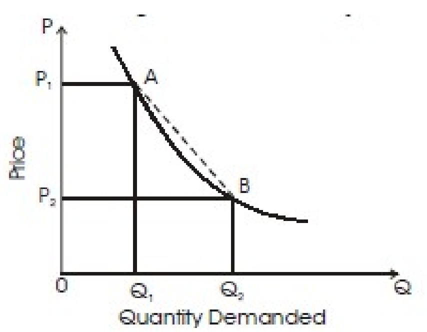
$$= \frac{\Delta q}{Q_1 + q_2} \div \frac{\Delta p}{p_1 + p_2}$$

$$= \frac{\Delta q}{Q_1 + q_2} \times \frac{p_1 + p_2}{\Delta p}$$

$$= \frac{\Delta q}{\Delta p} \times \frac{p_1 + p_2}{Q_1 + q_2}$$

ΔQ = change in quantity demanded
ΔP = change in price of the commodity
P_1 = original price
P_2 = new price
Q_1 = original quantity
Q_2 = new quantity

Arc elasticity formula should be used when the change, in price is some what large. It can be shown by diagrams.



In the above figure we can measure arc elasticity between points A and B on the demand curve; we will have to take the average prices of OP_1 and OP_2 and average of the two quantities demanded (original and the new). This is Arc Elasticity of Demand.