+2 Economics
Blue print

Lesson	1Mark	3 Mark	10 Mark	20 Mark	Total Marks
1	4	1	-	1	27
2	4	2	1	-	20
3	4	1	-	1	27
4	5	1	-	1	28
5	4	2	1	-	20
6	4	2	1	-	20
7	4	2	2	-	30
8	4	-	1	1	34
9	4	1	-	1	27
10	5	1	2	-	28
11	4	1	-	1	27
12	4	1	2	-	27
Total Questions	50	15	10	6	315
Total Marks	50	30	60	60	200

DETAILS OF QUESTIONS & ANSWERS IN THIS BOOKLET					
Q & A	1Mark	3 Mark	10 Mark	20 Mark	Total Marks
Given	240	42	8	2	
Demand	50	10	6	3	
Materials useful to students in this booklet	50/240	10/42	3/8	½	
Marks to be obtained	50	30	30	20	130/200

Stage I - To get 70 Marks

Marks

Lessons	1	3	10	20	Total
Lesson 4 Demand & Supply	5	1	-	1	28
Lesson 6 Production	4	2	1	-	20
Lesson10 Simple Theory of Income determination	5	1	2	-	28
	14	12	30	20	76

- In Lesson 4, Study well two 20 Mark questions. From these, you can answer **one 20 Mark question**, **two 3 Mark questions** and **Five 1 Mark questions**.
- In Lesson no 10 Study well five 10 Mark Questions. You can answer **two 10 Mark questions, one 3 Mark questions and Five 1 Mark questions**.

Note: In lesson 4, no 10 Mark questions will be asked according to the blue print.

In lesson 6 & Lesson 10, no 20 Mark questions will be asked according to the blue print.

Stage II - To get 120 marks

Marks

Lesson	1	3	10	20	Total
2-Basic Economic Problems	4	2	1	-	20
3 – Theory of Consumer Behaviour	4	1	-	1	27
8 – Market structure and Pricing	4	-	1	1	34
	12	9	20	40	81

- In lesson 2, study well **five 10 Mark questions**. You can answer **one 10 Mark question, two 3 mark question and four 1 mark questions.**

Note : In lesson 2, no 20 mark questions will be asked according to the blue print.
In lesson 3, no 10 mark questions will be asked according to the blueprint.
In lesson 8, no 3 mark questions will be asked according to the blue print.

Stage III - To get 170 Marks

Marks

Lesson	1	3	10	20	Total
1 – Nature and scope of Economics	4	1	-	1	27
7 – Cost and Revenue	4	2	2	-	30
11 – Monetary policy	4	1	-	1	27
	12	12	20	40	84

- In lesson 7, study well **five 10 Mark questions**. You can **answer two 10 mark questions, two 3 mark questions and Four 1 mark questions.**

Note : In Lesson 1, lesson 11, no 10 mark questions will be asked according to the blue print.

In Lesson 7 no 20 mark questions will be asked according to the blueprint.

Stage IV -To get 200 marks

Marks

Lesson	1	3	10	20	Total
5 – Equilibrium Price	4	2	1	-	20
9 – Marginal Productivity Theory of Distribution	4	1	-	1	27
12 – Fiscal Policy	4	1	2	-	27
	12	12	30	20	74

- In lesson 5, study well **five 10 Mark questions**. You can answer **one 10 mark question, two 3 mark questions** and **Four 1 mark questions**.
-
- In lesson 12, study **well five 10 mark questions**. You can answer **two 10 mark questions, one 3 mark questions and Four 1 mark questions.**

Note : In lesson 5 and lesson 12, no 20 mark questions will be asked according to the blue print.
In lesson 9, no 10 mark questions will be asked according to the blue print.

ECONOMICS

PART – A

I. CHOOSE THE CORRECT ANSWER (60 Questions each one mark)

Lesson - 1

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

Lesson-2

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. Redtapism and corruption lead to

a) **Inefficiency of production** b) Inequality of income and wealth

c) Absence of technology d) Efficient use of resources

Lesson-3

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

a) Potential Price – Actual Price b) MVn = TVn –TVn-1
c) Demand = supply d) None

Lesson-4

16. Demand for a commodity depends on
a) Price of that commodity b) Price of related goods
c) Income **d) All the above**
17. Law of Demand establishes
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

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

a) Income elasticity of demand b) Cross – elasticity of demand

c) Price 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**

Lesson -5

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

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

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.

Lesson -6

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. labour** 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.

Lesson-7

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

a) implicit cost b) social cost c) fixed cost d) money cost

33. social costs are those costs

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

Lesson -8

36. Perfect competition is a market situation where we have

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. Most important form of selling cost is

a. Advertisement b. Sales c. Homogeneous product d. None

40 . Under perfect competition, the demand curve is

a. Upward sloping **b. horizontal** c. downward sloping d. vertical

Lesson-9

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

Lesson -10

46. The macroeconomic 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) $\Delta P/\Delta$ **d) $\Delta C/\Delta Y$**

Lesson-11

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

Lesson 12

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. Licence fees 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

II. FILL IN THE BLANKS (60 Questions Each One Mark)

Lesson 1

1. The term "micro" means **Small**

2. Strictly speaking production refers to the creation of **utilities**

3. Exchange of goods for goods is known as **Barter system**

4. Economics is a **Social** Science

5. An example of cosmoplitan wealth is **Ocean**

Lesson 2

6. In a traditional economy, basic problems are solved by **Customs** and **Tradition**

7. Most of the economic activities of capitalism are centered on **Price Mechanism**

8. Production possibility curve is also known as **Production possibility frontier**

9. The prime motive of socialist economy is **collective welfare**

10. Under mixed economy, the economic control is exercised by **public** and **private** sectors

Lesson 3

11. **Consumption** means using up of goods and services

12. wants may be both **competitive** and **complementary**

13. Marshallian utility approach is **cardinal utility** analysis

14. Marginal utility falls to zero when the total utility is **Maximum**

15. An indifference curves is **Convex** to the origin

Lesson 4

16. The demand curve slopes downwards due to **Law of diminishing marginal utility**

17. Adding up of individual consumer schedule is **Market demand schedule**

18. Goods that are demanded for their social prestige come under **Veblen** effect

19. The concept of elasticity of demand was introduced by **Alfred Marshall**

20. The rate of change of supply to a change is price is **Elasticity of supply**

Lesson 5

21. **Price** is the major determinant of supply

22. Agriculture, Industry,growth and distribution are the **Sub- systems** of the economy

23. At **Equilibrium** price, there is no tendency to change the price or quantity

24. Modern economists divide time periods into **Short period** and **Long period**

25. The supply curve in the market period is a **Vertical** line

Lesson 6

26. Land and labour are called **Primary** factors

27. An enquiry into the nature and causes of wealth of nations was written by **Adam Smith**

28. **Division of labour** is limited by the extent of market

29. **Capital** is man-made physical goods used to produced other goods

30. The functional relationship between inputs and output is known as **Production function**

Lesson 7

31. Money cost is also called **Nominal cost**

32. Profit is the difference between total revenue and **Total cost**

33. The distinction between the fixed and variable factors is possible only in **Short run**

34. Total cost is the sum **total fixed cost and total variable cost**

35. The marginal cost curve is **'U'** shaped

Lesson 8

36. Under perfect competition, the firms are producing **homogeneous** product

37. when the average revenue of the firm is greater than its average cost, the firm is earning **Super normal profit**

38. The perfect competitive firms are **Price-taker**

39. Monopoly power achieved through patent right is called **Legal monopoly**

40. Firms realize the importance of **mutual co-operation** under oligopoly

Lesson 9

41. Marginal productivity theory is the **General** theory of distribution

42. Marginal productivity theory is based on the assumption of **Perfect** competition

43. Transfer earnings refer to **opportunity** cost

44. Money wages are also known as **nominal** wages

45. Organization is done by the **entrepreneur**

Lesson 10

46. The term consumption function explains the relationship between **Income** and **Consumption**

47. **Marginal Propensity to save** is the ratio of change in saving to a change in income

48. The Worldwide depression of 1930s was also caused by a **Fall in investment**

49. **Liquidity Preference** refers to the cash holdings of the people

50. The magnified effect of the initial investment on income is called **Multiplier** Effect.

Lesson 11

51. The direct exchange of goods for goods is known as **Barter**
52. Deflation is a period marked by **falling** prices
53. The equation of exchange (MV=PT) was given by **Irving Fisher**
54. Galloping inflation is also known as **hyper-inflation or Run-away inflation**
55. Monitory policy is usually effective in controlling **inflation**

Lesson 12

56. **Public revenue** means different sources of government income

57. The absence of direct and proportional benefit is **quid pro-quo**

58. **canons of taxation** are considered as fundamental principles of Taxation

59. The classification of direct and indirect taxes is based on criterion of **shifting of the incidence**

60. **Digressive** tax is a blend of progressive tax and proportional tax

III. MATCH THE FOLLOWING (60 Questions Each One Mark)

Lesson 1

1.	"Principles of Economics"	- Marshall
2.	First Nobel Prize	- Timbergen and Frisch
3.	Dynamic approach	- Time Element
4.	Wealth	- Stock
5.	Income	- Flow

Lesson 2

1.	Minimum cost	- Maximum Benefit
2.	Opportunity cost	- Next alternative forgone
3.	Private Property	- Laissez faire economy
4.	Bureaucratic expansion	- Socialism
5.	Market Forces	- Supply, Demand and Price

Lesson 3

1.	Wants	- Advertisements
2.	"Principles of Economics"	- Marshall
3.	Maximum social advantage	- Hicks and Dalton
4.	Indifference Curve	- Ordinal Ranking
5.	Luxuries	- Diamond Jewels

Lesson 4

1.	Positive relationship of Price and Demand	- Veblen effect
2.	Tea and coffee	- Substitutes
3.	Segment between two points	- Arc
4.	Ed>1	- inelastic demand
5.	Cross-elasticity is zero	- X and Y are not related.

Lesson 5

1.	Equilibrium	- pair of price and quantity
2.	Excess Demand	- D > S
3.	Price Discount	- Annual Stock clearance
4.	Long Period Supply Curve	- more elastic
5.	Short Period Price	- Demand and Supply

Lesson 6

1.	Entrepreneur, an innovator	- Schumpeter
2.	Division of Labour	- Adam Smith
3.	Production function	- Cobb- Douglas
4.	Bundle of risks	- Hawley
5.	Exertion of body or mind	- Marshall

Lesson 7

1.	Average cost	- cost per unit
2.	TC	- TFC+TVC
3.	The long run average cost curve	- planning curve
4.	MCn	- $TC_n - TC_{n-1}$
5.	Profit	- TR – TC

Lesson 8

1.	Global Market	- Gold and silver
2.	Consumer sovereignty	- Perfect competition
3.	South Africa	- Diamond
4.	Technical Monopoly	- coco cola
5.	Monopolistic competition	- E. H. Chamberlin

Lesson 9

1.	Residual claimant theory	- Walker
2.	Waiting theory of Interest	- Marshall
3.	Loanable Fund Theory	- Neo-classical theory
4.	Dynamic Theory of Profit	- Clark
5.	Risk-Bearing theory of profit	- Hawley

Lesson 10

1.	Aggregate Demand	- C+I+G+(X-M)
2.	Slope	- Vertical change / Horizontal change
3.	K	- 1 / 1-MPC
4.	Y	- C+S
5.	Keynes	- Liquidity Preference

Lesson 11

1.	Quantitative credit control	- Bank rate
2.	Selective credit control	- Moral Suasion
3.	Cheap money policy	- Low rate of interest
4.	Wages and prices push one another	- Creeping inflation
5.	Value of money	- Purchasing power of money

Lesson 12

1.	Canons of taxation	- Adam Smith
2.	Progressive tax	- Best tax system
3.	Fiscal policy	- Rebate and subsidies
4.	Regressive tax	- tax rate decreases
5.	Balanced Budget	- Revenue and expenditure are equal

IV. ANSWER IN A WORD OR TWO (60 questions each one mark)

Lesson 1

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.**

Lesson 2

1. Is traditional economy a subsistence economy? - **Yes.**
2. What is the basic force that drives a capitalist economy? - **Profit Motive**
3. What is the result of over-Production? - **Depression**
4. Name any two successful socialist economies. - **China, Cuba.**
5. Is there planning under mixed economy? - **Yes.**

Lesson 3

1. Define Utility - **want satisfying power**
2. What is other name for the law of Equi-Marginal Utility? -**Gossen's Second Law**
3. What is Indifference Curve? - **Locus of different combination of two commodities**
4. What is Indifference Map? - **It is a group of Indifference curves for two commodities**
5. What is other name for budget line? - **Price Ratio Line**

Lesson 4

1. What is the basic assumptions of economic Theory? - **Other things being equal**
2. How does the demand change during boom and depression? - **During Boom demand increases and during Depression demand decreases**.
3. Give the formula for point method. –

$$\mathbf{ep} = \frac{\textbf{Lower segment of the demand curve}}{\textbf{Upper segment of the demand curve}}$$

4. What is income elasticity of demand? - **The degree of responsiveness of demand to change in income.**
5. When the demand for labour is inelastic, can a trade union raise wages - **Yes.**

Lesson 5

1. What is Equilibrium in general? - **State of rest / Balance**
2. What are the determinants of shift in demand curve? - **Income, taste, price of substitutes**
3. Who has introduced the time element ? - **Alfred Marshall**
4. Give an example for fixed input ? - **heavy machinery/building**
5. Is supply fixed in the market period ? - **yes.**

Lesson 6

1. Who is the changing agent of the society ? - **Entrepreneur**
2. How do internal economies arise ? - **From within the firm**
3. What is other name for isoquant ? - **Iso-Product curve**
4. Give the condition for producer's equilibrium ? - $\mathbf{MRTS_{xy}=P_x/P_y}$
5. State the Cobb-Douglas production function - $\mathbf{Q=b\,L^aC^b}$

Lesson 7

1. When average revenue remains constant what will be M.R. ? - **M. R. remains constant/coincide with A. R.**
2. What is Marginal Revenue ? - **Addition made to the total revenue**
3. What is break-even point ? - **No-profit no-loss point**
4. What is an envelope curve ? - **It is a group of short run cost curves/planning curve**
5. How will you calculate AC ? - **TC/Q**

Lesson 8

1. What is an industry? - **Group of firms**
2. Who undertakes the public utilities? - **state**

3. How does the government control monopoly?- **taxation/legislative method**
4. What is the essential feature of monopolistic competition? - **product differentiation**
5. In which year the MRTP Act was passed? - **1969**

Lesson 9

1. According to Ricardio, do all lands get rent ? - **No.**
2. Even if all lands are equally fertile, can rent arise ? - **Yes.**
3. Who is the author of Agio theory of interest ? - **Bohm-Bawerk**
4. Who is the author of the rent theory of profits ? - **Walker**
5. What is the name of Schumpeter's theory of profits ?- **Innovation Theory**

Lesson 10

1. What crippled the free enterprise economies of US and UK? - **Great Depression**
2. State J.B. Say's Law of Market. - **Supply creates its own demand**.
3. Who is the author of the "General Theory of Employment, Interest Money"? - **Keynes**
4. Name the point of intersection of Aggregate Demand and Aggregate Supply - **Keynesian cross**
5. Give the formula for Multiplier - **K=1/1-MPC**

Lesson 11

1. Name the bank which controls money supply in a country.–**Central Bank**
2. When is dear money policy followed ? -**During inflation**
3. What is the name of inflation without a rise in price level ? - **Suppressed inflation**
4. Is wage cut a remedy for depression? - **No**
5. Give the example of a country that experienced hyperinflation. -**Germany**

Lesson 12

1. What is a tax ? - **Compulsory contribution**
2. Give the expansion for VAT- **Value Added Tax**
3. What is the meaning of proportional tax ? - **Uniform tax rate**
4. What are the kinds of budget ? – **balanced and unbalanced budget**
5. What is public debt **? borrowing from the public**

PART B

3 MARK QUESTIONS & ANSWERS

Lesson 1

1. **State Alfred Marshall's definition of economics**
   Economics is a study of man's actions in the ordinary business of life.
2. **What are the main divisions of economics ?**
   1. Consumption,2. production,3. exchange 4. distribution 5. public finance.
3. **Describe the relationship between economics, mathematics and statistics.**
   Among other sciences, economics is related to mathematics and statistics. Statistics is the science of averages. It is the science of counting. Many tables and diagrams used in economics are based on statistical analysis. Mathematical methods are largely used in modern economics.

   Now we have a new science called **econometrics**. It makes use of statistics and mathematics in economics. The econometric societywas founded in 1930, and the first Nobel prize in economics was awarded to Jan Tinberen and Ragnar Frisch for their contribution to econometrics

4. Distinguish between free goods and economic goods

Goods can be classified into free goods and economic goods. Goods like air and sunlight which are the gifts of nature are free goods. They are not scarce. So they do not command a price in the market. They are known as free goods. Economic goods command a price in the market. In other words, they have value-in-exchange. For, they are scarce in relation to demand.

5. Explain the difference between value-in-use and value-inexchange.

Value is of two kinds (1) value–in–use and (2) value–in– exchange. Although air, rain and sunshine have value–in–use, they do not have value–in–exchange. In economics, we are interested only in 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. In other words, all economic goods have value-in-exchange

Lesson 2

1. What are the basic issues of any society ?

a. What to produce and in what quantities ?

b. How shall goods be produced?

c. For whom shall the goods be produced ?

2. Name the important general economic systems ?

1. Traditional Economy, 2. Capitalist Economy, 3. Socialist Economy 4. Mixed Economy

3. List the basic features of socialism.

1. Social welfare motive, 2. Limited right to private property, 3. Central planning, 4. No market forces

4. Is India a mixed economy ?

Yes. India is a mixed economy. In India, both public and private institutions exercise economic control.

5. What is opportunity cost ?

When you choose a particular alternative, the next best alternative must be given up. For example, if you choose to watch cricket highlights in T.V., you must give up an extra hour study. The choice of watching cricket in T.V. results in the loss of the next best alternative an extra hour study instead. Thus by watching T.V., you have forgone the opportunity of scoring an extra five or ten marks in examination.

Lesson 3

1. What are the causes for wants ?

1. Wants may arise due to elementary and psychological causes. The wants for food, clothing and housing are elementary and psychological.
2. Wants may arise due to social causes. As members of society, we may require a particular type of dress and food.
3. Wants arise due to customs and habits like drinking tea and chewing.
4. Wants may arise due to advertisements.

2. **What are the classifications of goods ?**

1. Necessaries, 2. Comforts, 3. Luxuries

3. **Define the Law of Diminishing Marginal Utility.**

According to Marshall, "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".

4. **What are the properties of Indifference curve ?**

1. Indifference curves slope downwards to the right
2. Indifference curves are convex to the origin
3. No two indifference curves can ever cut each other.

5. **Define "consumer's 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. It may be called consumer's surplus. Consumer's surplus = Potential price – Actual price

Lesson 4

1. **What is demand ?**

Demand for a commodity refers to the desire backed by ability to pay and willingness to buy it.

2. **Enumerate the determinants of demand**

1.Tastes and preferences of the consumer, 2. Income of the consumer, 3. Price of substitutes, 4. Number of consumers,

3. **Why does the demand curve slope downwards ?**

The demand curve slopes downwards mainly due to the law of diminishing marginal utility.

4. **Write a note on Giffen Paradox.**

Sir Robert Giffen discovered that the poor people will demand more of inferior goods if their prices rise and demand less if their prices fall. Inferior goods are those goods which people buy in large quantities when they are poor and in small quantities when they become rich. For example, poor people spend the major part of their income on coarse grains (e.g. ragi, cholam) and only a small part on rice.

5. **What are the types of elasticity of demand ?**

1. Price elasticity of demand;
2. Income elasticity of demand; and
3. Cross-elasticity of demand

Lesson 5

1. **What is equilibrium price ?**

At that point the quantity demanded of a commodity by the buyer is equivalent to the quantity the seller is willing to sell. This price is called as the equilibrium price and it occurs at the point of intersection of the supply curve and the demand curve.

2. **Distinguish between change in demand and shift in demand.**

When change in demand for a commodity is due to a change in its price, it is called extension or contraction of demand.

When change in demand for a commodity is due to a change in his income and taste and preference . It is called shift in demand.

3. **What are the determinants of shift in supply ?**

The 'other things' which affect supply include number of sellers in the market, factor prices, etc. These factors affect quantity supplied independently of price. Price is the major determinant of supply. However, a fall in the price of factor (s) of production (land and labour) will reduce the cost of production.

4. **Differentiate the short period from the long period.**

As mentioned earlier short period is the one during which at least one of the factors will be a fixed input and the supply will be adjusted by changing the variable inputs.

In the long period supply can be changed by changing all the inputs (both the fixed and variable inputs). Any amount of change in demand will be met by changing the supply, to the extent of changing the plant, machinery and the quantum of technology.

5. **Write a short note on market period.**

Market period is the period during which the ability of the firms to affect any changes in supply in response to any change in demand is extremely limited or almost nil.

<u>Lesson 6</u>

1. **Name the types of utility.**

1.Form utility, 2. Place utility, 3. Time utility, 4. Possession utility

2. **Define labour.**

Labour is the human input into the production process. Alfred Marshall defines labour as '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'.

3. **What is meant by division of labour?**

Division of Labour means dividing the process of production into distinct and several component processes and assigning each component in the hands of a labour or a set of labourers, who are specialists in that particular process.

4. **What are the forms of capital ?**

1. Physical Capital or Material Resources
2. Money Capital or Monetary Resources, and
3. Human Capital or Human Resources

5. **What is production function ? and what are its classification ?**

The functional relationship between inputs and outputs is known as production function.$Q = f(x_1, x_2, x_3 \ldots x_n)$

1. Short-run production function which is studied through Law of Variable Proportions
2. Long-run production function which is explained by Returns to Scale

Lesson 7

1. **What are economic costs ?**
The economic cost includes not only the explicit cost but also the implicit cost Economic cost = Explicit cost + Implicit cost.
2. **Define marginal cost ?**
Marginal cost is defined as the addition made to the total cost by the production of one additional unit of output. $MC_n = TC_n - TC_{n-1}$
3. **Mention the relationship between MC and AC**
1) When marginal cost is less than average cost, average cost is falling
2) When marginal cost is greater than the average cost, average cost is rising
3) The marginal cost curve must cut the average cost curve at AC's minimum point from below. Thus at the minimum point of AC, MC is equal to AC.

Lesson 9

1. **Distinguish between real wages and money wages.**
Wages are the reward for labour. There are two main kinds of wages. (1) money wages and (2) real wages. Money wages are also known as nominal wages. Real wages refer to the commodities and services which the money wages command. They depend mainly on the purchasing power of money, which in turn depends upon the price level.
2. **What are the three motives of liquidity preference ?**
1. Transaction motive 2. Precautionary motive and 3. Speculative motive.

Lesson 10

1. **Write a note on multiplier.**
Thus the concept of multiplier expresses the relationship between an initial investment and the final increment in the GNP. That is, the magnified or amplified effect of initial investment on income is called as the multiplier effect.

$$K = \frac{\Delta Y}{\Delta I}$$

2. **Give the factors on which the aggregate demand depends.**
1. Propensity to consume (Consumption function)
2. Inducement to invest (Investment function).

Lesson 11

1. **Define Money.**
prof. Walker has said: "money is that which money does".
2. **What are the instruments of quantitative credit control ?**
Quantitative credit control instruments include bank rate policy, variation of cash reserve ratios and open market operations.

Lesson 12

1. **What is the subject matter of Public Finance ?**

   1.Public expenditure 2. Public Revenue 3. Public debt 4. Financial administration and 5. Federal finance

2. **What are the canons of taxation ?**

   a) Canon of equity b) Canon of certainty c) Canon of convenience d) Canon of economy

3. **What is zero based budget ?**

   In zero based budgeting, every year is considered as a new year thus providing a connecting link between the previous year and the current year. The past performance and programmes are not taken into account.

10 Marks Question and Answers

Lesson – 6

1. **Explain the merits and demerits of division of labour.**

   Merits of Division of Labour

   1. Division of labour improves efficiency of labour when labour repeats doing the same tasks.
   2 . Facilitates the use of machinery in production, resulting in inventions. e.g. More's telegraphic codes.
   3. Time and materials are put to the best and most efficient use.

   Demerits of Division of Labour

   1. Repetition of the same task makes labour to feel that the work is monotonous and stale. It kills the humanity in him.
   2. Narrow specialisation reduces the possibility of labour to find alternative avenues of employment. This results in increased unemployment.
   3. Kills the growth of handicrafts and the worker loses the satisfaction of having made a commodity in full.

2 . **Describe the characteristics of capital.**

   Characteristics of capital

   (i) Capital is a passive factor of production
   (ii) Capital is man-made
   (iii) Capital is not an indispensable factor of production, i.e. Production is possible even without capital
   (iv) Capital has the highest mobility
   (v) Supply of capital is elastic
   (vi) Capital is productive
   (vii) Capital lasts over time (A plant may be in operation for a number of years)
   (viii) Capital involves present sacrifice (cost) to get future benefits.

3 . **What are the functions of entrepreneur?**

   1. Identifying Profitable Investible Opportunities

   Conceiving a new and most promising and profitable idea or capturing a new idea available in the market is the foremost function of an entrepreneur.

2. Deciding the size of unit of production

An entrepreneur has to decide the size of the unit – whether big or small depending upon the nature of the product and the level of competition in the market.

3. Deciding the location of the production unit

A rational entrepreneur will always locate his unit of production nearer to both factor market and the end-use market. This is to be done in order to bring down the delay in production and distribution of products and to reduce the storage and transportation cost.

4. Identifying the optimum combination of factors of production

The entrepreneur, after having decided to start a new venture, takes up the task of hiring factors of production. Further, he decides in what combinations he should combine these factors so that maximum output is produced at minimum cost.

5. Making innovations

According to Schumpeter, basically an entrepreneur is an innovator of new markets and new techniques of production. A new market increases the sales volume whereas a new cost cutting production technique will make the product cheaper

6. Deciding the reward payment

The factors used in production have to be rewarded on the basis of their productivity. Measuring the productivity of the factors and the payment of reward is the crucial function of an entrepreneur.

7. Taking Risks and facing uncertainties

According to Hawley, a business is nothing but a bundle of risks. One who is ready to accept the risk becomes a successful entrepreneur. A prudent entrepreneur forecasts the future risks scientifically and take appropriate decision in the present to overcome such risks. According to Knight one of the important functions of entrepreneur is uncertainty bearing.

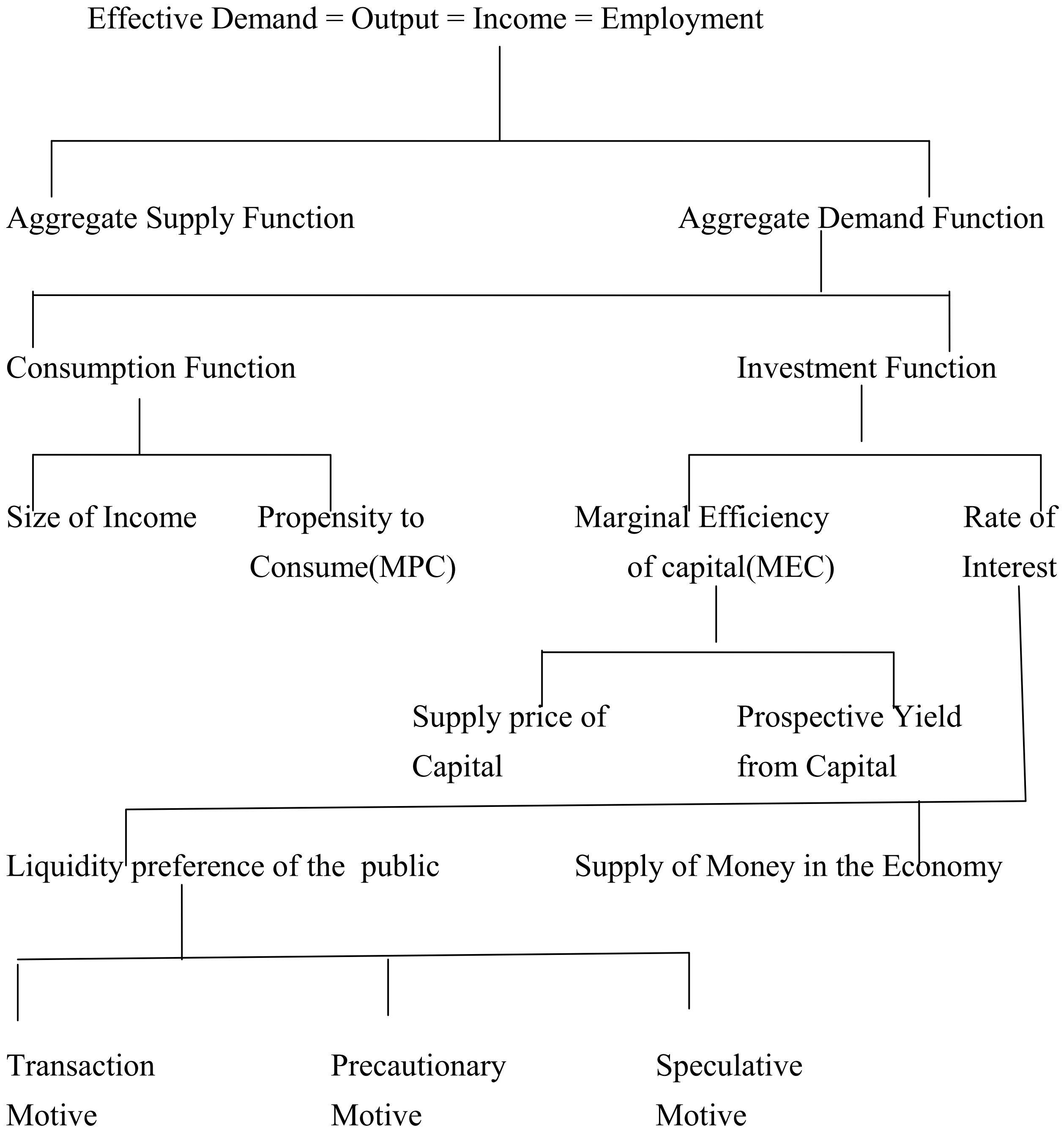
Lesson 10

1. What are the criticisms of Say's Law?

1. Great Depression made Say's law unpopular
2. All incomes earned are not always spent on consumption
3. Similarly whatever is saved is not automatically invested
4. The Law was based on wrong analysis of market
5. It 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. The law is applicable only for long period
12. Say's law holds goods only in a barter economy

2 Draw the flow chart to depict the essence of Keynes theory.

Essence of Keynesian Theory of Employment and Income

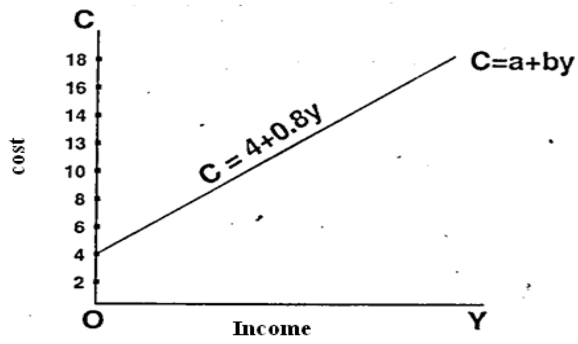


3. Describe the consumption function with a diagram

The term 'consumption function' explains the relationship between income and consumption. A function is the link between two or more variables

$$\text{Consumption Function} = \frac{\text{Consumption}}{\text{Income}}$$

Diagram



Explanation

Keynes made it clear that there is a direct relation between income and consumption. In mathematical form the relation can be expressed as,

$C = a + b y$ $C = 4 + 0.8Y$

The above Equation simply says that consumption (C) depends on income (Y)All these points or the income-consumption relationship can also be expressed in the above diagram. The vertical axis ‘ C’ shows the consumption expenditure and the horizontal axis ‘Y’ shows income The consumption curve CC is a short run curve. In this case consumption takes place even when income is zero. 4 is the level of initial consumption when income is zero and it is not affected by income. This consumption which is not related to income is called as autonomous consumption. That is the reason why curve C starts from 4 on the vertical axis. .8 indicates that 80 percent of additional incomes spent on consumption and it is called as marginal propensity to consume (MPC).

$$MPC = \frac{\text{Change in consumption}}{\text{Change in income}}$$

$$\text{(or) } MPC = \frac{\Delta C}{\Delta Y}$$

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?

1. There are only two sectors viz. consumers (C) and firms (I).
2. Government influence on the economy is nil. (G=0)
3. The economy is a closed (X-M=0)
4. Wages and prices remain constant.
5. Less than full employment
6. There is no variation in the rate of interest.
7. Investment is autonomous
8. The consumption expenditure is stable.

PART D (20 MARK QUESTIONS AND ANSWERS)

Lesson 4

1. Discuss the law of demand.

1. **DEMAND:**
   1. Willingness to buy
   2. Desire to buy
   3. Ability to buy
2. **LAW OF DEMAND**
   1. If price decreases, demand increases
   2. If price increases, demand decreases
   3. Inverse relationship between price and demand
3. **DEFINITION**

   According to Ferguson, the law of demand is that the quantity demanded varies inversely with price.

4. **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. **Demand Schedule**

1. Individual demand schedule

Meaning : Individual demand schedule tells the quantities demanded by an individual consumer at different prices.

Table

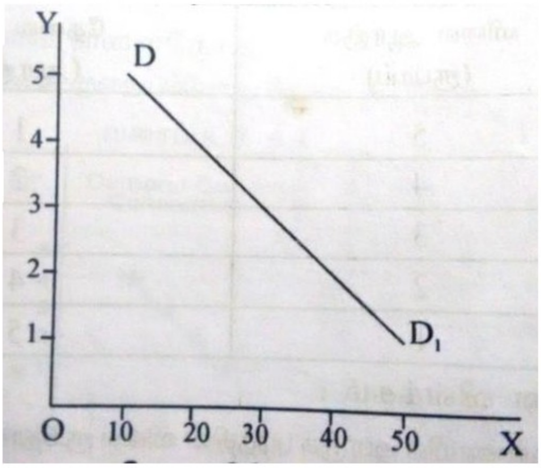
Price(Rs.)	Quantity Demanded(Units)
5	10
4	20
3	30
2	40
1	50

Table Explanation:

If the price 5 the quantity demanded is 10. Price reduces from 5 to 1 by step by step quantity demanded increases 10 to 50 by step by step.

Diagram

Price



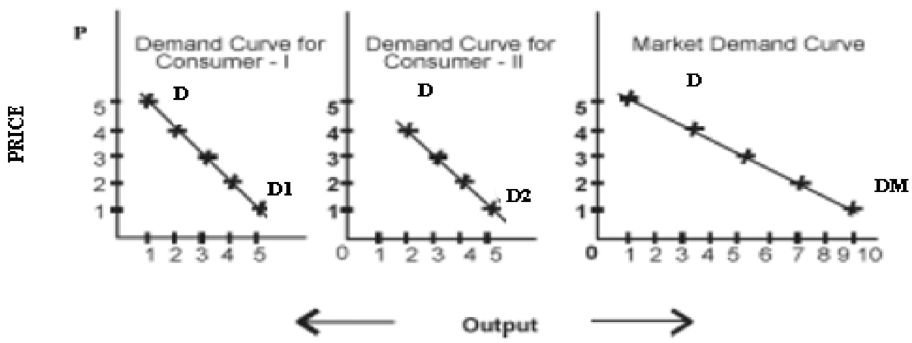
Quantity Demanded

2. Market Demand Schedule

Meaning: 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.

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

Diagram:



In the above diagram the quantity demanded by consumer I and consumer II are measured on the horizontal axis and the market price is measured on the vertical axis. The total demand of these two consumers i.e D1 +D2 = DDM.

2. Explain the methods of measurement of price elasticity of demand in Detail.

1. Price elasticity of demand

"The degree of responsiveness of quantity demanded to a change in price is called price elasticity of demand"

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

Measurement of price elasticity of demand

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

Percentage method

a) Elastic demand, if the value of elasticity is greater than 1

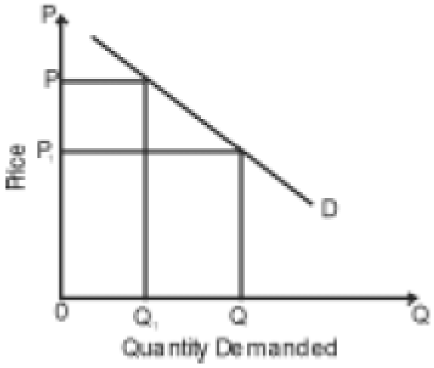
b) Inelastic demand, if the value of elasticity is less than 1

c) Unitary elastic demand, if the value of elasticity is equal to 1.

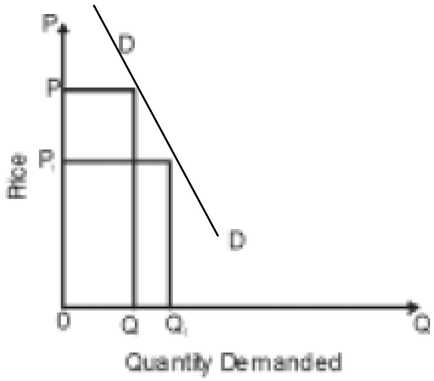
d) Perfectly inelastic demand, if the value of elasticity is zero.

e) Perfectly elastic demand, if the value of elasticity is infinity

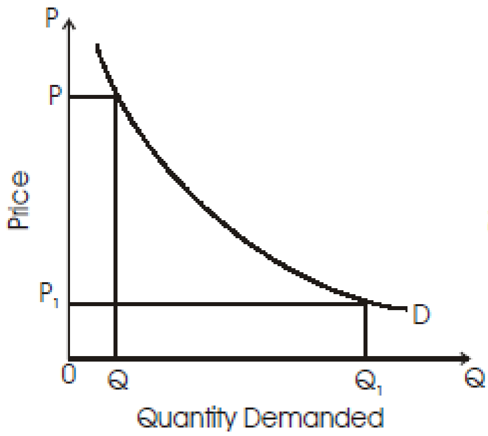
Elastic demand curve



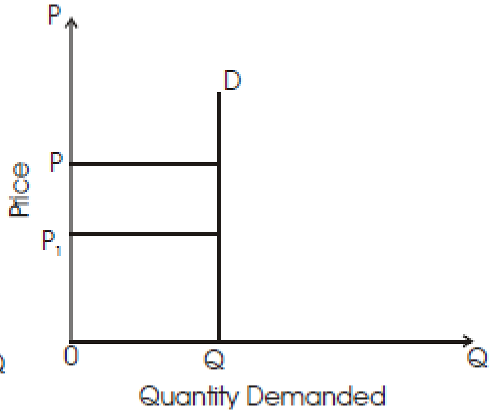
Inelastic Demand curve



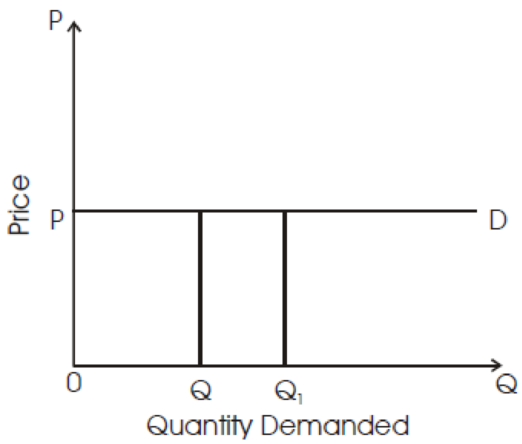
Unitary elastic demand curve



Perfectly inelastic demand curve



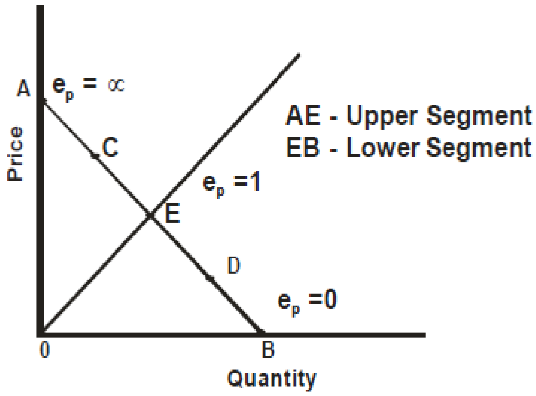
Perfectly Elastic Demand curve



2. Point method

We can calculate the price elasticity of demand at a point on the linear demand curve. Formula to find out ep through point method is,

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



Total outlay method:

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

Arc method

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

$$Ep = \frac{q1-q2}{q1+q2} \div \frac{P1-P2}{P1+P2}$$

$$= \frac{\Delta q}{q1+q2} \div \frac{\Delta P}{P1+P2}$$

$$= \frac{\Delta q}{q1+q2} \times \frac{P1+P2}{\Delta P}$$

$$= \frac{\Delta q}{\Delta P} \times \frac{P1+P2}{Q1+q2}$$

Where

ΔQ = change in quantity demanded

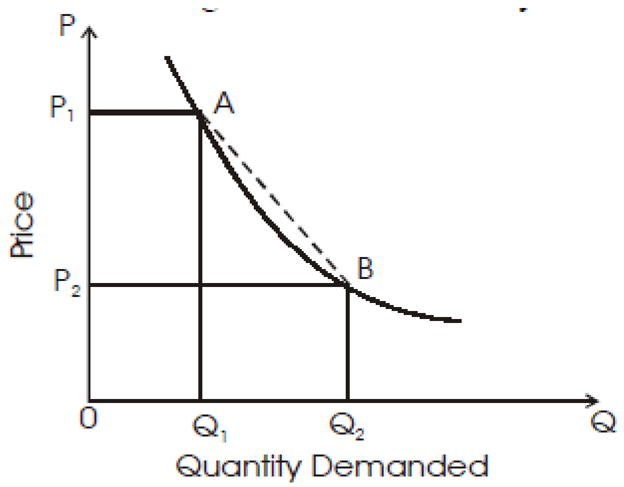
ΔP = change in price of the commodity

P1 = original price

P2 = New price

Q1 = original quantity

Q2 = new quantity



we can measure arc elasticity between points A and B on the demand curve; we will have to take the average prices of OP1and OP2 and average of the two quantities demanded

ALL THE BEST