ECONOMICS

(Three hours)

(Candidates are allowed additional 15 minutes for *only* **reading the paper.**

They must NOT start writing during this time.)

Answer *Question 1* ***(compulsory) from*** *Part I* ***and five*** *questions* ***from*** *Part II.*

The intended marks for questions or parts of questions are given in brackets [ ].

PART I (20 Marks)

*Answer **all** questions.*

Question 1

Answer briefly *each* of the following questions **(i)** to **(x)**:   **[10 × 2]**

(i)   Define *private cost* and *social cost*.

(ii)   What is meant by *balance of payment?*

(iii)   Differentiate between *exante* and *expost demand*.

(iv)   Explain the meaning of *gross national disposable income*.

(v)   Why is the AR curve parallel to the x axis in a perfectly competitive market?

(vi)   What is meant by *utility*? Explain how *total utility* can be obtained from *marginal utility*.

(vii)   Define *budget*. When can there be a deficit in the budget?

(viii) Explain the meaning of *price discrimination* in monopoly market.

(ix)   Define *cross elasticity of demand*.

(x)   How does Central Bank use *moral suasion* as a tool to control credit?

PART II (60 Marks)

*Answer any **five** questions.*

Question 2

(a)   Discuss how the following can affect the demand curve of a commodity: **[3]**

    (i)   Change in the taste and preferences of a consumer.

    (ii)   Change in the income of a consumer.

(b)   Explain *marginal rate of substitution* with the help of an example.   **[3]**

(c)   Explain with the help of a diagram the relationship between *total utility* and *marginal utility*.   **[6]**

Question 3

(a)   Derive a market demand schedule from two hypothetical individual demand schedules.   **[3]**

(b)   Explain the *percentage method* of calculating elasticity of supply.   **[3]**

(c)   Discuss with the help of diagrams, how equilibrium price and equilibrium quantity change when demand and supply curves decrease simultaneously.   **[6]**

Question 4

(a)   What is the relationship between AR and MR in imperfect competition? Explain with the help of a diagram.   **[3]**

(b)   State the *law of variable proportions*. Explain *any two* assumptions of the law.   **[3]**

(c)   Explain the shapes of TFC, TVC and TC curves, with the help of a diagram.   **[6]**

Question 5

(a)   Differentiate between *short run production function* and *long run production function*.   **[3]**

(b)   Explain the meaning of *break-even point* and *shut down point* in a firm.   **[3]**

(c)   Discuss *four* characteristics of perfect competition.   **[6]**

Question 6

(a)   Differentiate between *devaluation* and *depreciation* of currency.   **[3]**

(b)   Discuss *any two* measures to correct the disequilibrium in the balance of payment.   **[3]**

(c)   Explain *any four* main functions of the Central Bank.   **[6]**

Question 7

(a) Define *public expenditure*. Explain how public expenditure can be used to reduce regional imbalances. **[3]**

(b) Differentiate between *revenue receipts* and *capital receipts* in a government's budget. **[3]**

(c) Define *direct tax*. Discuss *any three* differences between *direct* and *indirect* tax. **[6]**

Question 8

(a) Distinguish between *real* and *nominal Gross Domestic Product*. **[3]**

(b) Discuss *two* difficulties in calculating national income by income method. **[3]**

(c) Calculate national income and GDP_{MP} from the following data: **[6]**

		Rs. in crores
(i)	Mixed income of self employed.	800
(ii)	Corporation tax	50
(iii)	Interest	100
(iv)	Rent	80
(v)	Undistributed profit	150
(vi)	Employer's contribution to Social security	120
(vii)	Compensation to employees	1200
(viii)	Net factor income earned from abroad	20
(ix)	Net indirect tax	100
(x)	Consumption of fixed capital	50

Question 9

(a) Explain the *consumption function* with the help of a hypothetical consumption schedule. **[3]**

(b) Differentiate between *average propensity to consume* and *marginal propensity to consume*. **[3]**

(c) Explain the concept of inflationary gap with the help of a diagram. **[6]**