

1. Compare perfect Competition and monopolistic Competition.

Ans. Perfect Competition

- There is generally large number of buyers and sellers.
- Buyers and sellers sell identical products.
- Each buyer and seller act independently.
- Competitors are free to enter into the market.
- Market demand and market supply determine the market price and quantity.
- Marginal revenue equals the market price.
eg: local vegetable farmers, grocery retailers, etc.

Monopolistic competition

- There are large no. of buyers and sellers.
- Freedom of entry and exit.
- The principal goal is to maximize profit.
- The products sold by sellers are differentiated, yet they are close substitutes.

→ The products of different sellers are differentiated on the basis of brands.

→ Brands are generally so much advertised.

2. Define inflation. What are the different methods to control inflation. Explain.

Ans: Inflation

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time or inflation is the process of rising prices. The value of money varies inversely with the price level.

There are two ways to control inflation:

i) Monetary policy measures

These are measures adopted by central bank of a country to control credit and money supply. It includes measures like:

→ raises the bank rate

→ Open market operations

→ Variable ~~of~~ reserve ratio.

ii) Fiscal policy measures

These are measures taken by government to control the aggregate demand in the economy. The fiscal policy includes:

→ Cut down the expenditure ~~on~~ on developmental activities and welfare programmes.

→ Increasing tax

→ Government will delay repayment of public debt.

→ Government should borrow more money from the public.

3. What is BOP? Explain its structure.

Ans:

Balance of Payments is a record of all economic transactions made between residents of one country ~~world~~ and rest of world over a specific time period.

It is divided into two main accounts:

1) Current Account

It records transactions involving goods, ~~services~~

Services, income and current transfers. It includes exports & imports of goods & services, income earned from investment abroad, and transfers like foreign aid and remittances.

(ii) Capital account

This account tracks international capital transfers, including financial investments and loans. It includes foreign direct investments, portfolio investment and changes in reserve assets held by central banks.