

2. At OM, the price charged is OP (we find this by extending line EM till it touches AR or demand curve).
3. Also at OM, the cost per unit is MS.
4. Therefore, profit per unit is SQ or total profit is PQRS.

$$\text{Total profit} = (\text{Average Revenue} - \text{Average Cost}) \times \text{Total output}$$

39. Explain price and output determined under monopolistic competition with help of diagram.

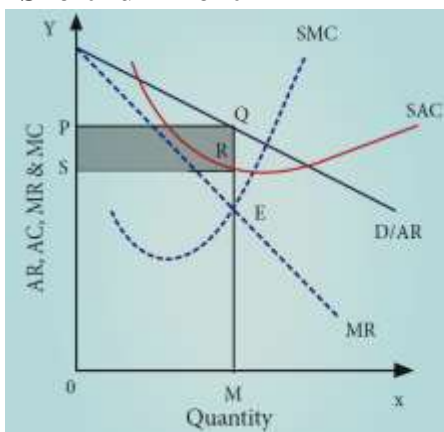
Meaning

Monopolistic competition refers to a market situation where there are many firms selling a differentiated product.

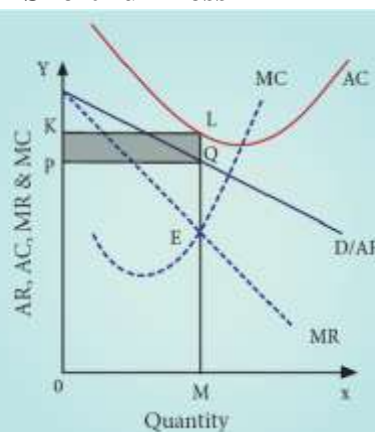
Important Features

1. Large number of buyers and many sellers.
2. Firms produce differentiated products.
3. Firms compete with each other by incurring selling cost
4. Non – price competition

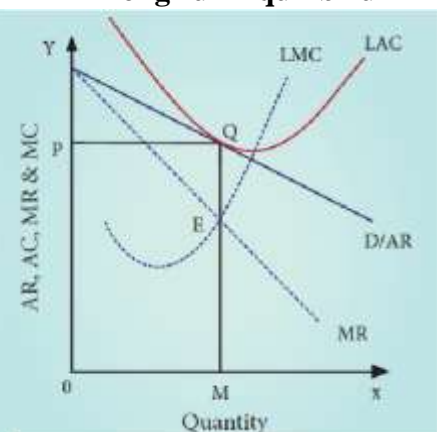
Short run Profit



Short run Loss



Long run Equilibrium



Explanation

1. The profit maximisation is achieved when $MC=MR$.
2. Total profit is 'PQRS'. This is super normal profit under short-run.
3. Total loss is 'PQLK'. This firm incurs loss in the short run.
4. In the long run AR curve is more elastic
5. At E' point = $AR=AC$ and $MC=MR$. It means that a firm earns normal profit. AR is tangent to the Long Run Average Cost (LAC) curve at point 'Q'.

Chapter 6

II. Very Short Answer Questions:

21. What is meant by distribution?

- ▲ Distribution means division of income among the four factors of production.
- ▲ Distribution is given in terms of rent to landlords, wage to labour, interest to capital and profit to entrepreneurs.

22. Mention the types of distribution.

1. **Personal Distribution:** Personal Distribution is the distribution of national income among the individuals.
2. **Functional Distribution:** Functional Distribution means the distribution of income among the four factors of production.

23. Define 'Rent'.

According to **David Ricardo**, Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil.

24. Distinguish between real and money wages.

S.NO	Money / Nominal Wages	Real Wages
1	Money wages are referred to the wages paid in terms of money.	Real wages are the wages paid in terms of goods and services.
2	Example: Money received by a worker per unit of time or quantum of work etc.,	Example: Real Wages = Money Wages – Effect of inflation on the purchasing power.

25. What do you mean by interest?

- ✧ According to **Alfred Marshall**, "Interest is the price paid for the use of capital in any market"
- ✧ Interest is the reward paid by the borrower to the lender for the use of capital.

26. What is profit?

- ★ Profit is a return to the entrepreneur for the use of his entrepreneurial ability.
- ★ It is the net income of the organizer.

27. State the meaning of liquidity preference.

Liquidity preference means the preference of the people to hold wealth in the form of liquid cash other than bonds, securities, gold and etc.,.

III. Short Answer Questions:

28. What are the motives of demand for money?

- ❖ **The Transaction Motive** The transaction motive relates to the desire of the people to hold cash for the current transactions. $M_t = f(y)$
- ❖ **The Precautionary Motive** The precautionary motive relates to the desire of the people to hold cash to meet unexpected or unforeseen expenditures. $M_p = f(y)$
- ❖ **The Speculative Motive** The speculative motive relates to the desire of the people to hold cash in order to take advantage of market movements. $M_s = f(i)$.

29. List out the kinds of wages.

- **Nominal Wages or Money Wages:** Nominal wages are referred to the wages paid in terms of money.
- **Real Wages:** Real wages are the wages paid in terms of goods and services.
- **Piece Wages:** Wages that are paid on the basis of quantum of work done.
- **Time Wages:** Wages that are paid on the basis of the amount of time.

30. Distinguish between rent and quasi-rent.

S.NO	RENT	QUASI-RENT
1.	Rent accrues to land	Quasi-rent accrues to manmade appliances.
2.	The supply of land is fixed forever.	The supply of manmade appliances is fixed for a short period only.
3.	It enters into price	It does not enter into price

31. Briefly explain the Subsistence Theory of Wages.

1. According to this theory, wage must be equal to the subsistence level of the labourer and his family
2. Subsistence means the minimum amount of food, clothing and shelter which workers and their family require for existence.
3. If workers are paid higher wages than the subsistence level, the workers would be better off and they will have large families.

32. State the Dynamic Theory of Profit.

According to J.B Clark profit is the reward for dynamic changes in society. Profit cannot arise in a static (unchanged) society.

- ♦ Population is increasing
- ♦ Volume of Capital is increasing.
- ♦ Methods of production are improving.
- ♦ Forms of industrial organization are changing.
- ♦ The wants of consumer are multiplying.

33. Describe briefly the Innovation Theory of Profit.

According to **Schumpeter profit is the reward for “innovation”**. Innovation means invention put into commercial practice. An innovation may consist of the following:

- ✕ Introduction of a **new product**.
- ✕ Introduction of a **new method of production**.
- ✕ Opening up of a **new market**.
- ✕ Discovery of **new raw materials**
- ✕ Reorganization of an **industry / firm**.

34. Write a note on Risk bearing theory of profit

According to **Hawley profit is the reward for “risk taking” in business**. Risk taking is an essential function of the entrepreneur and is the basis of profit.

1. **Since the entrepreneur undertakes the risks, he receives profits.**
2. If the entrepreneur does not receive the reward, he will not be prepared to undertake the risks.

Thus, **higher the risks, the greater are the profit.**

3. It is the profit that induces the entrepreneurs to undertake such risks.

IV. Long Answer Questions:

35. Explain the Marginal Productivity Theory of Distribution.

Meaning

According to the Marginal Productivity Theory of Distribution, the price or the reward for any factor of production is equal to the marginal productivity of that factor. In short, each factor is rewarded according to its marginal productivity.

Assumption

1. All the factors of production are homogenous.
2. Factors of production can be substituted for each other.
3. There is perfect competition both in the factor market and product market.
4. There is perfect mobility of factors of production.

Marginal Product

The Marginal product of a factor of production means the addition made to the total product by employment of an additional unit of that factor. The Marginal Product may be expressed as MPP, VMP and MRP.

Marginal Physical Product (MPP)

Value of Marginal Product = VMP = MPP x Price
Marginal Revenue Product MRP = MPP x MR

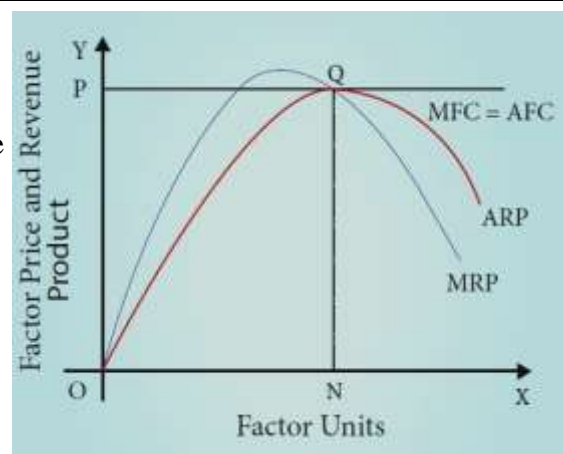
MP :Under Perfect Competition

1. When there is perfect competition in the factor market, the firm is in equilibrium (i.e., earning maximum profits) only when $MFC = MRP$.
2. Hence, in the diagram, the firm reaches equilibrium at point Q by employing ON units of factors

and paying OP price (NQ) where $MFC = MRP$.

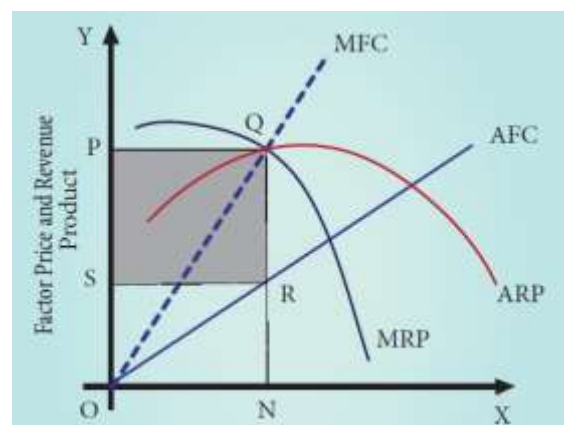
At the point Q, $MRP = ARP$.

3. The price paid to the factor (NQ) is also equal to marginal revenue product (NQ) and average revenue product (NQ).



Under Imperfect Competition

1. Under imperfect competition, At the point Q, $MFC = MRP$, where the employer attains his maximum profit and so he stops employment of the factors at the point.
2. The total exploitation of factor by the employer is $RQ \times SR = \text{“PQRS”}$ (shaded area).
3. Thus, under imperfect competition, factor is exploited at the equilibrium position.



36. Illustrate the Ricardian Theory of Rent.

Definition

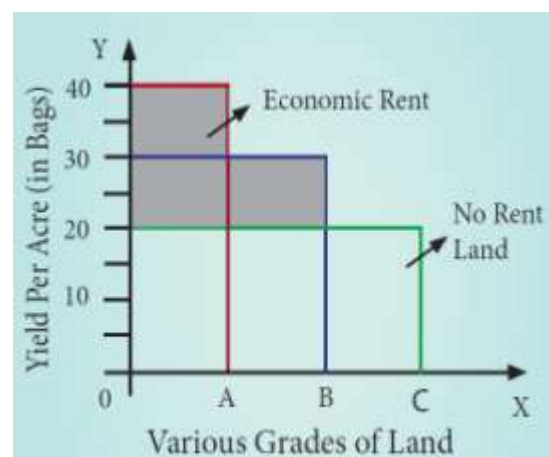
According to Ricardo, “Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil”.

Assumption

1. Land differs in fertility.
2. The law of diminishing returns operates in agriculture.
3. Rent depends upon fertility and location of land.
4. Theory assumes perfect competition.

Schedule of Ricardian Theory of Rent

Grades of lands	Production	Surplus
A	40	$40 - 20 = 20$
B	30	$30 - 20 = 10$
C	20	$20 - 20 = 0$



Explanation

1. In diagram, X axis represents various grades of land and Y axis represents yield per acre (in bags).
2. OA, AB and BC are the ‘A’ grade, ‘B’ grade and ‘C’ grade lands respectively.
3. The application of equal amount of labour and capital on each of them gives a yield represented by the rectangles standing just above the respective bases.
4. The ‘C’ grade land is the “no-rent land” ‘A’ and ‘B’ grade lands are “intra – marginal lands”.

37. Elucidate the Loanable Funds Theory of Interest.

Definition

According to Loanable Funds theory, The rate of interest is determined by the equilibrium between demand for and supply of loanable funds in the credit market.

Demand for Loanable Funds

1. Demand for Investment (I)
2. Demand for Consumption (C)
3. Demand for Hoarding (H)

Supply of Loanable Funds

1. Savings (S)
2. Bank Credit (BC)
3. Dishoarding (DH)
4. Disinvestment (DI)

➤ The Loanable Funds Theory, also known as the “Neo-Classical Theory”,

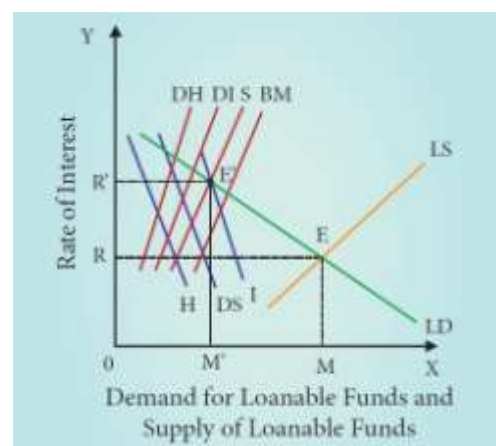
Equilibrium

The rate of interest is determined by the equilibrium between the total demand for and the total supply of loanable funds.

Supply of loanable funds = $S + BC + DH + DI$ Demand for loanable funds = $I + C + H$

$$E = S + BC + DH + DI = I + C + H$$

1. In Diagram, X axis represents the demand for and supply of loanable funds and Y axis represents the rate of interest.
2. The LD and LS curves, intersect each other at the point “E” the equilibrium point. At this point, OR rate of interest and OM is the amount of loanable funds.



Criticisms

1. The loanable funds theory is “indeterminate” unless the income level is already known.
2. Difficult to combine real factors like savings and investment with monetary factors like bank credit

38. Explain the Keynesian Theory of Interest.

Meaning

Liquidity preference means the preference of the people to hold wealth in the form of liquid cash rather than in other non-liquid assets like bonds, securities, bills of exchange, land, building, gold etc.

Motives of Demand for Money

1. The Transaction Motive

The desire of the people to hold cash for the current transactions (day-to-day expenses) $M_t = f(y)$

2. The Precautionary Motive

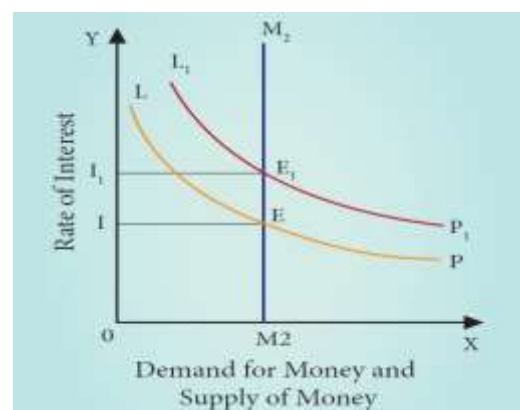
Desire of the people to hold cash to meet unexpected or unforeseen expenditures (sickness, accidents). $M_p = f(y)$

3. The Speculative Motive

The speculative motive relates to the desire of the people to hold cash in order to take advantage of market movements regarding the future. $M_s = f(i)$

Equilibrium between Demand and Supply of Money

- ▲ The rate of interest is determined by the demand for money and the supply of money.
- ▲ If liquidity preference increases from L_P to L_1 the supply of money remains constant,



- ▲ The rate of interest would increase from OI to OI_1 .
- ▲ The supply of money remains constants.
- ▲ Total demand for money = $M_t + M_p + M_s$

Demand for money = supply of money at equilibrium point ;

Equilibrium Point 1 = $E = LP = M_2 = I = \text{Rate of Interest} \dots (1)$

Equilibrium Point 2 = $E_1 = L_1 P_1 = M_2 = I_1 = \text{Rate of Interest} \dots (2)$

Chapter 7

II. Very Short Answer Questions:

21. Write the meaning of Economic Growth

1. A country's economic growth is usually measured by National Income, indicated by **Gross Domestic Product (GDP)**.

22. State any two features of developed economy

1. High national income
2. High per capita income
3. High standard of living
4. Full employment

23. Write the short note on natural resources

1. Any stock or reserve that can be drawn from nature is a Natural Resource.
2. The major natural resources are -land, forest, water, mineral and energy.

24. Point out any one feature of Indian Economy.

India has a mixed economy :

Indian economy is a typical example of mixed economy. This means both private and public sectors co-exist and function smoothly.

25. Give the meaning of non-renewable energy

As the name suggests, the sources of energy which cannot be renewed or re-used are called non-renewable energy sources. coal, oil, gas etc.

26. Give a short note on Sen's 'Choice of Technique'.

Sen's 'Choice of Technique' was a research work where he argued that in a labour surplus economy (like India), generation of employment cannot be increased at the initial stage by the adaptation of capital-intensive technique.

27. List out the reasons for low per capita income as given by V.K.R.V. Rao.

- ❖ Uneconomic holdings with sub-divisions and fragmentation;
- ❖ Low levels of water availability for crops;
- ❖ Excess population pressure on agriculture due to the absence of a large industrial sector;
- ❖ Absence of capital;

III. Short Answer Questions:

28. Define Economic Development.

1. The level economic development is indicated not just by GDP, but by an increase in citizens' quality of life or well-being.
2. The quality of life is being assessed by several indices such as Human Development Index (HDI), Physical Quality of Life Index (PQLI) and Gross National Happiness Index (GNHI).
3. The level of economic development, nations are classified as developed and developing economics

29. State Ambedkar's Economic ideas on agricultural economics.

- ★ In 1918, Ambedkar published a paper "Small Holding in India and their Remedies".
- ★ Citing Adam Smith's 'Wealth of Nations', he made a fine distinction between "Consolidation of Holdings" and "Enlargement of Holdings".
- ★ This paper attempts to deal with the problem of the size of holding it affects agricultural