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MOST LIKELY QUESTION SETS

STD. XII

2026

An excellent book for the preparation of the Board's Examination

ECONOMICS

This book contains :

1. Question Paper Pattern at the beginning of the book
2. Study Tips for students
3. **Section 1 :** Board's July 2024 Question Paper with full Solution
4. **Section 2 :** Question Sets for Question-wise Study and Revision :
   (a) Guidance on how to attempt the Question
   (b) Solved Questions
5. **Section 3 :** Assignments – Additional Important Questions for Self-Practice
6. **Section 4 :** Board's July 2025 Question Paper for Practice (Solution on QR Code)

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(06/10/25)

STUDY TIPS

Dear Students,

1. It is certain that you have already started studying Economics systematically and have set your goal to achieve brilliant success in the forthcoming Board examination. Now, carefully study the Board's Question Papers and all types of questions based on the latest paper pattern.
2. In Economics, a question of Answer in Brief can also be asked for Do You Agree with Statements type question.
3. Thus, by careful analysis of the Solved Board's Question Paper (July 2024) and Board's Question Paper (July 2025) given for Practice, you will realise that your basic concepts of every chapter of Economics must be very clear. Speed, accuracy and writing practice are also very essential to master the art of answering the questions.
4. Keep in mind that Chapter nos. 3 (A), 3 (B), 7 and 8 are the most important as the Long Answer Questions in Board's Question Papers will be mostly based on these chapters.
5. Practise the diagrams from Chapter nos. 2, 3 (A), 3 (B), 4 and 5 thoroughly. The questions based on these chapters are to be answered with suitable diagrams, wherever necessary.
6. Try to make charts of important points for every chapter in Economics. These charts will help you to do quick, easy and thorough revision.
7. **NAVNEET PRACTICE PAPERS (COMMERCE) (For 2026 Examination)** includes March 2025 Question Paper with full solution and marking scheme and Five Papers for Practice in each subject. These question papers will surely help you to familiarise yourself with questions of different types and boost your confidence.

UNITWISE DISTRIBUTION OF MARKS

Ch. No.	Unit	Total Marks	Marks with Option
1	Introduction to Micro and Macro Economics	07	10
2	Utility Analysis	07	10
3 (A)	Demand Analysis	08	12
3 (B)	Elasticity of Demand	08	12
4	Supply Analysis	07	10
5	Forms of Market	07	10
6	Index Numbers	08	11
7	National Income	08	12
8	Public Finance in India	08	12
9	Money Market and Capital Market	08	11
10	Foreign Trade in India	04	06
	Total	**80**	**116**

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QUESTION PAPER PATTERN

Time : 3 Hours **Total Marks : 80**

Q. No.	Nature of Question	No. of Questions to Attempt	Marks without Option	Marks with Option
1.	**From the following types of sub-questions any 4 will be asked.** (1) Choose the Correct Option	5	5	5
	(2) Complete the Correlation	5	5	5
	(3) Give Economic Term	5	5	5
	(4) Find the Odd Word Out	5	5	5
	(5) Complete the following Statements	5	5	5
	(6) Assertion and Reasoning Questions	5	5	5
	Total Marks	**20**	**20**	**20**
2.	(A) Identify and Explain the Concept	Any 3 Out of 5	6	10
	(B) Distinguish Between	Any 3 Out of 5	6	10
3.	Answer the following Questions	Any 3 Out of 5	12	20
4.	State, with Reasons, Whether you Agree or Disagree with following Statements	Any 3 Out of 5	12	20
5.	Study the following Table, Figure, Passage and Answer the Questions Given Below It	Any 2 Out of 3	8	12
6.	Answer in Detail	Any 2 Out of 3	16	24
	Total Marks		**80**	**116**

1361971

CONTENTS

1361971

Section 1

BOARD'S QUESTION PAPER : JULY 2024
(With Full Solution and Marking Scheme)

Time : 3 Hours] **[Total Marks : 80**

Notes : (1) All questions are compulsory.
(2) Draw tables/diagrams wherever necessary.
(3) Figures to the right indicate full marks.
(4) Write answers to all new questions on a new page.

Q. 1. (A) Choose the correct option : **5**

> ***Note :*** *Five statements with four options each will be given in the question paper. Students are expected to write the proper alternative in the answer sheet.* ***Each correct answer carries 1 mark, Total 5 marks.***

(1) Method adopted in microeconomic analysis. **(Ch. 1)**
(a) Lumping method *(b) Aggregative method*
(c) Slicing method *(d) Inclusive method*
Options : *(1) a, b, c and d* *(2) b, c and d*
(3) only c *(4) only a*

(2) National income is a/an .... concept. **(Ch. 7)**
(a) stock *(b) final*
(c) intermediate *(d) flow*
Options : *(1) a and b* *(2) only d*
(3) b and c *(4) a, b and c*

(3) The source of India's petroleum import. **(Ch. 10)**
(a) Kuwait *(b) Saudi Arabia*
(c) China *(d) Singapore*
Options : *(1) a and b* *(2) c and d*
(3) a, b and c *(4) b, c and d*

(4) Obligatory functions of the government include. **(Ch. 8)**
(a) Provision of employment.
(b) Maintaining internal law and order.
(c) Welfare measures.
(d) Exporting goods and services.

Options : *(1) a and b* *(2) c and d*

(3) a, b and c *(4) only b*

(5) Commercial banks act as intermediaries in the financial system to .... **(Ch. 9)**

(a) make profits

(b) accelerate the country's economic growth

(c) mobilise the saving and allocating them to various sectors of the economy

(d) control the credit

Options : *(1) only a* *(2) a and b*

(3) b and c *(4) a, b, c and d*

Ans. (1) – (3) only c; (2) – (2) only d; (3) – (1) a and b; (4) – (4) only b; (5) – (1) only a.

(B) Complete the correlation : **5**

> ***Note :*** *Five questions will be given in the question paper. In each question, a pair of two words will be given on one side and one word and one blank space on other side. Students are expected to find the correlation between the two words on one side and think and write the exact word for the blank space.* ***Each correct answer carries 1 mark, Total 5 marks.***

(1) Money market : Short-term funds : : ☐ : Long-term funds. **[Ch. 9]**

(2) Table chair : Form utility : : Information about Computer : ☐ . **[Ch. 2]**

(3) ☐ : Cloth : : Indirect demand : Labour. **[Ch. 3 (A)]**

(4) Theoretical difficulty : Transfer payments : : ☐ : Valuation of inventories. **[Ch. 7]**

(5) Government expenditure > Government receipt : Deficit budget : : Government expenditure = Government receipt : ☐ . **[Ch. 8]**

Ans. (1) Capital market (2) Knowledge utility (3) Direct demand (4) Practical difficulties (5) Balanced budget.

(C) Find the odd word out : **5**

> ***Note :** Five questions with four words will be given in the question paper. Students are expected to find out the odd word from each question and write the same in the answer sheet. **Each correct answer carries 1 mark, Total 5 marks.***

(1) Necessary goods : Food grains, medicines, car, books. **[Ch. 3 (A)]**

(2) Types of index numbers : Weighted index number, price index number, quantity index number, value index number. **[Ch. 6]**

(3) Infrastructural facility : Transport, communication, water supply, subsidies. **[Ch. 4]**

(4) Types of bank accounts : Savings A/c, D-mat A/c, Recurring Deposit A/c, Current A/c. **[Ch. 9]**

(5) Theory of factor pricing : Profit, interest, unemployment allowance, rent. **[Ch. 1]**

Ans. (1) car (2) weighted index number (3) subsidies (4) D-mat A/c (5) unemployment allowance.

(D) Complete the following statements : **5**

> ***Note :** Five statements with four options each will be given in the question paper. Students are expected to write the proper alternative in the answer sheet. **Each correct answer carries 1 mark, Total 5 marks.***

(1) MU of the commodity becomes negative when TU of a commodity is .... **[Ch. 2]**

(a) rising *(b) constant*

(c) falling *(d) zero*

(2) Symbolically, the functional relationship between demand and price can be expressed as .... **[Ch. 3 (A)]**

(a) $D_x = f(P_x)$ (b) $D_x = f(P_z)$

(c) $D_x = f(Y)$ (d) $D_x = f(T_x)$

(3) Export trends of India's foreign trade include ....

(a) petroleum *(b) engineering goods* **[Ch. 10]**

(c) gold *(d) fertilisers*

(4) Demand curve is parallel to 'Y'-axis in the case of ....

(a) perfectly elastic demand **[Ch. 3 (B)]**

(b) perfectly inelastic demand

(c) relatively elastic demand

(d) relatively inelastic demand

(5) Net addition made to the total revenue by selling an extra unit of a commodity is .... **[Ch. 4]**

(a) Total Revenue *(b) Average Revenue*

(c) Marginal Cost *(d) Marginal Revenue*

Ans. (1) falling (2) $D_x = f(P_x)$ (3) engineering goods (4) perfectly inelastic demand (5) Marginal Revenue.

Q. 2. (A) Identify and explain the concepts from the given illustrations : *(any three)* **6**

Note :** Five questions will be given in the question paper. Students are expected to write answers to any three questions. However, answers for all five questions are given here. Write to the point answers.* ***Each correct answer carries 2 marks (1 mark each for identifying concept, 1 mark each for explaining concept) Total 6 marks.

(1) When the price of apples falls by 10%, Vinay increases his demand for apples by 10%. **[Ch. 3 (B)]**

Ans. (A) Identified concept : Unitary elastic demand.

(B) Explanation of concept : When the proportionate change in the price of a commodity brings about exactly equal proportionate change in its quantity demanded, the demand is said to be unitary elastic.

(2) Ramakant paid an income tax of ₹80,000 during the financial year 2021-2022. **[Ch. 8]**

Ans. (A) Identified concept : Direct tax.

(B) Explanation of concept : A tax which is levied on the income or property of an individual and so in which the impact and incidence of tax is on same head is called direct tax.

(3) Madhuri deposited a lumpsum amount of ₹1,00,000 in the bank for the period of five years. **[Ch. 9]**

Ans. (A) Identified concept : Fixed deposit.

(B) Explanation of concept : A fixed deposit is a type of deposit in which the saver deposits a certain amount in the form of deposit in a commercial bank for a fixed period of time and he can withdraw the amount from the deposit after a specified period.

(4) Sunita receives monthly pension of ₹30,000 from the state government. **[Ch. 7]**

Ans. (A) Identified concept : Transfer income.

(B) Explanation of concept : If the expenditure incurred by another person/organisation is received by an individual in the form of income without any form of productive work, then such income is called 'transfer income'.

(5) India purchased petroleum from Iran. **[Ch. 10]**

Ans. (A) Identified concept : Import trade.

(B) Explanation of concept : Purchase of goods and services by one country from another country is called import trade.

(B) Distinguish between : ***(any three)*** **6**

> ***Note :*** *Five questions will be given in the question paper. Students are expected to write answers to any three. However, answers for all five questions are given here. At least two points explaining the difference are to be written in the answer.* ***Each point carries 1 mark, Each correct answer carries 2 marks, Total 6 marks.***

(1) Desire and Demand : **(Ch. 3(A))**

Ans. Desire	Demand
(1) Meaning	
Desire refers to a mere wish of a person to have a particular commodity.	Demand refers to a desire backed by the ability to pay and the willingness to pay for a particular commodity.

2. Relation with price, place and time	
Desire has no relation with price, place and time.	Demand has relation with price, place and time.

(2) Internal Trade and International Trade : **[Ch. 10]**

Ans. Internal Trade	**International Trade**
(1) Meaning	
The sale and purchase of goods and services within the geographical boundaries of a nation is called internal trade.	The sale and purchase of goods and services outside the geographical boundaries of a nation (with other nations) is called international trade.
2. Use of Currency	
Domestic currency is used for buying and selling goods and services in internal trade.	Foreign currency is used for buying and selling goods and services in international trade.

(3) Price Index Number and Quantity Index Number : **[Ch. 6]**

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Ans. Price Index Number	**Quantity Index Number**
(1) Meaning	
Price index number is a type of index number derived by multiplying the ratio of sum of the prices of various commodities of the current year and sum of the prices of various commodities of the base year by 100.	Quantity index number is a type of index number derived by multiplying the ratio of sum of the quantities of the various goods of the current year and sum of the quantities of various goods of the base year by 100.
2. Formula	
Price Index Number $P_{01} = \frac{\sum p_1}{\sum p_0} \times 100$	Quantity Index Number $Q_{01} = \frac{\sum q_1}{\sum q_0} \times 100$

(4) Money Market and Capital Market : **[Ch. 9]**

Ans.

Money Market	**Capital Market**
(1) Meaning	
A type of financial market in which short-term finance is provided is called the money market.	A type of financial market in which the medium-term and long-term finance is provided is called the capital market.
2. Constituents	
The Reserve Bank of India, commercial banks, co-operative banks, development financial institutions, Discount and Finance House of India, indigenous bankers, money lenders, unregulated non-bank financial intermediaries, etc. are the constituents of money market in India.	Government securities market, industrial securities market, development financial institutions, financial intermediaries, etc. are the constituents of capital market in India.

(5) Oligopoly and Monopoly : **[Ch. 5]**

Ans.

Oligopoly	**Monopoly**
(1) Meaning	
A market where a few firms (sellers) sell their homogeneous product or heterogeneous product and for which there are a large number of buyers is known as oligopoly.	A market where a single seller sells his unique product and for which there are a large number of buyers is known as monopoly.
2. Selling Cost	
Sellers in oligopoly incur heavily on the selling cost.	Seller in monopoly incurs minimum on the selling cost.

Q. 3. Answer the following questions in brief : *(any three)* **12**

> **Note :** *In this question, five questions will be given. Students are expected to write answers to any three questions. However, answers of all five questions are given here. Write at least four points in the answer.* ***Each correct answer carries 4 marks, Total 12 marks.***

(1) Explain any four features of macroeconomics. **[Ch. 1]**

Ans. Features of macroeconomics are as follows :

(1) **Study of aggregates :** Macroeconomics deals with the study of a nation's economy as a whole. It is the study of very large, economy-wide aggregates such as national output or national income, total employment, aggregate demand, aggregate supply, total investment, total consumption, general price level, etc.

(2) **Known as Income Theory :** Macroeconomics is also known as theory of Income and Employment or Income Analysis. Macroeconomics explains the determination of the level of national income and employment and what causes fluctuations in them. Further it explains the growth of national income over a long period of time and social accounting.

(3) **Use of lumping method :** Macroeconomics deals with the behaviour of aggregates, i.e. total values of economic variables related to whole economy. It uses method of lumping to deal with macro variables such as aggregate demand, aggregate supply, national output, etc.

(4) **Policy-oriented :** Macroeconomics, according to Keynes, is a policy-oriented science. Macroeconomic analysis helps in formulating suitable economic policies to promote economic growth, to generate employment, to control inflation, to pull the economy out of depression, etc.

(2) Explain the types of demand. **[Ch. 3(A)]**

Ans. The types of demand are as follows :

(1) **Direct Demand :** Commodities and services satisfying the human wants directly are said to have direct demand.

Direct demand is also called conventional demand. For example, demand for clothes.

(2) **Indirect Demand :** Commodities and services satisfying human wants indirectly are said to have indirect demand. Indirect demand is also called derived demand. For example, demand for the factors of production.

(3) **Joint Demand :** Two or more commodities that are demanded together to satisfy a single want are said to have joint demand. Complementary commodities have joint demand. For example, demand for needle and thread.

(4) **Composite Demand :** Commodities that are used to satisfy several wants are said to have composite demand. For example, demand for electricity.

(3) Explain any four determinants of supply. **[Ch. 4]**

Ans. The determinants of supply are as follows :

(1) **Price :** Price is the most important factor influencing the supply of a commodity. Price and supply are directly related to each other, i.e. more is supplied at higher price and less is supplied at a lower price.

(2) **State of technology :** Technological improvements reduce the cost of production, which lead to an increase in production and supply. On the other hand, traditional and outdated technology reduces the supply.

(3) **Cost of production :** Cost of production and supply have inverse relation. For example, if the price of factors of production increases, the cost of production also increases. This in turn decreases the profit margin of a supplier and this in turn decreases the supply. On the other hand, fall in the cost of production increases the supply.

(4) **Government policies :** Government policies on taxation, subsidies, industrial policies, etc. influences the production process as well as supply. Inadequate infrastructural facilities decrease the supply and vice versa.

(4) Explain the classification of public expenditure. [Ch. 8]

Ans. The classification of public expenditure is as follows :

(1) **Revenue expenditure :** The expenditure which is incurred by the government for carrying out day-to-day functions of the government departments and various administrative services is called revenue expenditure. It is incurred regularly by the government. For example, administration costs of the government, payment of salaries, allowances and pensions of government employees, costs paid for providing medical and public health services, etc.

(2) **Capital expenditure :** The expenditure which is incurred by the government for boosting the economic growth and development of a country is called capital expenditure. For example, huge investments in different development projects, loans granted to the state governments and government companies, repayment of government loans, etc.

(3) **Developmental expenditure :** The expenditure of government which yields direct productive impact on the country is called developmental expenditure. Developmental expenditure results in generation of employment, increase in production, price stability, etc. For example, expenditure on health, education, industrial development, social welfare, Research and Development (R & D), etc.

(4) **Non-developmental expenditure :** The expenditure of government which does not yield any direct productive impact on the country is called non-developmental expenditure. For example, administration costs, war expenditure, etc.

(5) Explain any four limitations of index number. [Ch. 6]

Ans. The limitations of index number are as follows :

(1) **Based on samples :** Index numbers are generally based on samples. We cannot include all the items in the

construction of the index numbers. Hence, index numbers suffer from sampling errors.

(2) **Bias in the data :** Index numbers are constructed on the basis of various types of data which may be incomplete. There may be bias in the data collected. This is bound to affect the results of the index numbers adversely.

(3) **Misuse of index numbers :** Index numbers can be misused. They compare a situation in the current year with a situation in the base year. Hence, a person may choose a base year which will be suitable for his purpose. For example, while studying the trends in employment level, if a year of drought or recession is selected as a base year and the level of employment in the current year is checked with reference to employment level in the base year, we may get the misleading results.

(4) **Defects in formulae :** There is no perfect formula for the construction of an index number. It is only an average and so it has all the limitations of an average.

Q. 4. State with reasons whether you agree or disagree with the following statements : *(any three)* **12**

> ***Note :*** *Five statements will be given in the question paper. Students are expected to write answers to any three questions. However, answers for all five questions are given here. Write three points of explanations/reasons after stating 'agree' or 'disagree'.* ***Each correct answer carries 4 marks, 1 mark each for stating 'Agree' or 'Disagree', 3 marks each for writing correct reasons, Total 12 marks.***

(1) Large number of buyers and sellers is the only feature of perfect competition. **[Ch. 5]**

Ans. I disagree with this statement.

Reasons : The following are some of the features of perfect competition :

(1) **Homogeneous product :** In perfect competition, every firm produces and sells identical product, i.e. units of a commodity produced by each firm are uniform in respect to their size, shape, colour, quality, etc. Therefore, the

commodities sold in perfect market are perfect substitutes to one another.

(2) **Free entry and free exit :** In perfect competition, any firm can freely enter or can exit market without any restrictions. If three is a hope of profit, a new firm can easily enter the market. Similarly, if there is possibilities of losses, the existing firm can freely exit the market.

(3) **Single price :** In perfect competition, all units of commodity are sold by different sellers have uniform price and it is determined by the equilibrium of the market demand and market supply.

Perfect knowledge of market, perfect mobility of factors of production, absence of transport cost, no government intervention are some other features of perfect competition. Thus, large number of buyers and sellers is not the only feature of perfect competition.

(2) In India, the role of money market is very important.

[Ch. 9]

Ans. I agree with this statement.

Reasons :

(1) **Meeting the short-term requirements of the borrower :** Due to the money market, the short-term financial needs of the borrower are met at realistic interest rates.

(2) **Liquidity management :** Money market facilitates better management of liquidity and money in the economy by the monetary authorities. As a result, the country enjoys economic stability and economic development.

(3) **Portfolio management :** Money market deals with different types of financial instruments that are designed to suit the risk and return preferences of investors. This enables the investors to manage portfolios to minimise the risks and to maximise the returns.

Acting as an equilibrating mechanisms, meeting the financial requirements of the government, helping government in the implementation of monetary policy, economising the use of cash, promoting growth of commerce, industry and trade, etc. are some of the other important roles played by money market in India. Thus, in India the role of money market is very important.

(3) Theory of welfare economics is studied in micro-economics. **[Ch. 1]**

Ans. I agree with this statement.

Reasons :

(1) **Efficiency in production :** Efficiency in production means to produce maximum possible amount of goods from the given amount of resources. Microeconomics analyses how efficiency in production can be obtained.

(2) **Efficiency in consumption :** Efficiency in consumption means distribution of produced goods and services among the people for consumption in such a way as to maximise the total satisfaction of society. Microeconomics analyses how efficiency in consumption can be obtained.

(3) **Overall economic efficiency :** Overall economic efficiency means producing those goods which are most desired by people in society. Microeconomics analyses how overall economic efficiency can be obtained.

Thus, the theory of welfare economics is studied in microeconomics.

(4) Supply curve slopes upward from left to right. **[Ch. 4]**

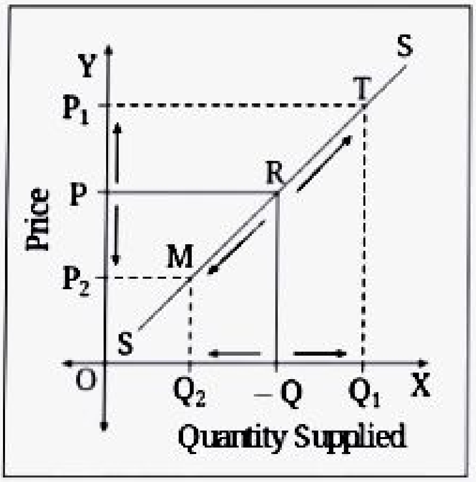
Ans. I agree with this statement.

Reasons :

(1) According to the Law of Supply propounded by **Dr. Alfred Marshall**, *"Other things being constant, the higher the price of a commodity, greater is the quantity supplied and lower the price of a commodity, smaller is the quantity supplied."*

(2) This statement can be explained with the help of the following diagram :

(3) From the diagram it can be seen that as price rises from OP to OP_1 supply rises from OQ to OQ_1. Similarly, as price falls from OP to OP_2 supply falls from OQ to OQ_2. Supply curve, i.e. SS indicates the direct relationship between the price and the quantity supplied of a commodity.



Therefore, supply curve slopes upward from left to right.

(5) Index number can be constructed without the base year.

[Ch. 6]

Ans. I disagree with this statement.

Reasons :

(1) Index numbers measures the changes in an economic variable in present times with reference to the year in the past. This year in the past is known as base year.

(2) For the calculation of index numbers, the normal year from the past is selected as the base year. The base year should be normal, i.e. it should be free from natural calamities, warlike conditions, emergencies, etc. Similarly, it should not be too distant in the past.

(3) While preparing index numbers with reference to the base year, it is denoted by the suffix '0'. The base year's index of a selected variable is assumed as 100. The index numbers are measured for the current year on the basis of the past year.

Thus, index number cannot be constructed without the base year.

Q. 5. Study the following table, diagram, passage and answer the questions given below : ***(any two)*** **8**

> ***Note :*** *One table, diagram, passage and questions based on them will be given in the question paper. Students are expected to write answers to any two questions. However, answers for all three questions are given here.* ***Each correct answer carries 4 marks, Total 8 marks.***

(1) **Observe the following table and answer the questions given below it :** **[Ch. 8]**

Bill : No. 05 Date : 14.08.2018

Table No. 01 Time : 10 : 30 A.M.

Staff : Amit

S. No.	Item Name	Qty.	Rate	Amount (₹)
(1)	Register	02	42.00	84.00
(2)	Pen	10	08.00	80.00
(3)	Pencil	10	04.40	44.00
(4)	Rubber/Eraser	10	04.40	44.00
(5)	Scale	03	08.00	24.00

(₹)

Sub Total = 276.00

SGST 6% = 16.56

CGST 6% = 16.56

Total = 309.12

GST. No. 27AAXPN3502E128

CUST. SIGN AUTHORISED SIGNATORY

1361971

Questions :

(1) Write the short form for goods and services tax. **(1)**

(2) What is the percentage of SGST and CGST in the above bill? **(1)**

(3) What is the basic price of pen in the above bill? **(1)**

(4) What is the GST No. of the seller? **(1)**

Ans.

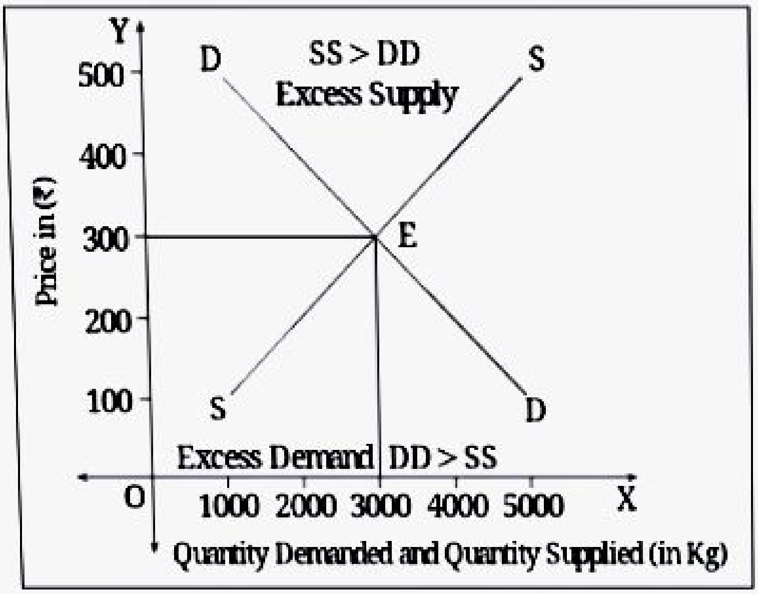
(1) The short form for goods and services tax is GST.

(2) The percentage of SGST and CGST in the given bill is 6% each.

(3) The basic price of pen in the given bill is ₹8.

(4) The GST number of the seller is 27AAXPN3502E128.

(2) **Observe the given diagram and answer the following questions :** **[Ch. 5]**



Questions :

(1) What is represented on 'X'-axis in the above diagram? **(1)**

(2) Which price shows equilibrium price of demand and supply? **(1)**

(3) What is represented on 'Y'-axis in the above diagram? **(1)**

(4) Which point represents the demand and supply equilibrium point in the above diagram? **(1)**

Ans.

(1) Demand and Supply is represented on 'X'-axis in the given diagram.

(2) Price ₹300 shows equilibrium price of demand and supply.

(3) Price is represented on 'Y'-axis in the given diagram.

(4) 'E' point represents the demand and supply equilibrium point in the given diagram.

(3) **Read the given passage and answer the questions :** **[Ch. 4]**

On-demand economy is defined as the economic activity created by digital market places and technology companies to fulfil consumer demand via immediate access to goods and services. The on-demand economy is also sometimes referred as the "access economy" because these companies provide outlets to the wholesalers, retailers and also consumers, the facilities of goods and services.

With consumers' behaviour changing to prioritise fast, simple and efficient experiences, convenience, speed and simplicity are at the top of the priority list to have their needs met. The ease of filling spare time and picking and choosing one's hours is also appealing to those with skills to meet growing consumer demand. So the on-demand economy is growing at an unparalleled pace.

Many of the popular services people use on a regular basis nowadays are examples of the on-demand economy. Ride-sharing platforms Uber and Ola, as well as grocery delivery services such as Big basket, Dunzo and Reliance JIO Mart are just some examples of services with the on-demand economy.

Questions :

(1) What is on-demand economy sometimes referred as? **(1)**

(2) Write any two examples based according to on-demand economy? **(1)**

(3) Write your opinion on the above passage. **(2)**

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Ans.

(1) On-demand economy is sometimes referred as Access Economy.

(2) Two examples based according to on-demand economy are (1) Uber (2) Reliance Jio Market.

(3) On-demand economy provides easy access to goods and services and therefore nowadays it is used on a large scale by wholesalers, retailers and consumers. It is growing at an unparalleled pace in India.

Q. 6. Answer the following questions in detail : *(any two)* **16**

Note : *Three questions will be given in the question paper. Students are expected to write answers to any two questions. However, answers for all three questions are given here. At least four big points or eight small points must be written in detail.* ***Each correct answer carries 8 marks, Total 16 marks.***

(1) Explain any two methods of measuring national income.

[Ch. 7]

Ans. The methods of measuring national income are as follows :

(A) **Income method :** Income method of measuring national income is also known as factor cost method. This method approaches national income from the distribution side. This method can be explained with the help of the following points :

(1) According to this method, the income payments received by all citizens of a country, in a given year are added up. The data pertaining to income are obtained from income tax returns, reports, books of accounts as well as estimates from small income.

(2) In this method, the incomes accrued to land, labour, capital and entrepreneur in the forms of rents, wages, interest and profits are all added together. The sum of factor income is treated as Gross National Product. However, in this method, the income received in the form of transfer payments is ignored.

(3) In India, the national income committee of the Central Statistical Organisation uses the income method for adding up the income arising from trade, transport, professional and liberal arts, public administration and domestic services.

(4) GNP according to income method is calculated as follows :
NI=Rent + Wages + Interest + Profit + Mixed Income +
Net income from abroad.

(B) **Expenditure method :** Expenditure method of measuring national income is also known as Outlay Method. According to this method, national income is calculated by summing up all consumption expenditure and investment expenditure made by all individuals, firms as well as the government of a country during a year. Thus, gross national product is found by using the following formula : $NI = C + I + G + (X - M) + (R - P)$. The expenditure method can be explained with the help of the following points :

(1) **Private Final Consumption Expenditure (C) :** Private final consumption expenditure by households may be on non-durable goods such as food which are used immediately, or on durable goods such as car, computer, television set,

washing machine, which are generally used for a longer period of time or on services such as transport services, medical services, etc. National income takes into account the private final consumption expenditure.

(2) **Gross Domestic Private Investment Expenditure (I) :** It refers to expenditure made by private businesses on replacement, renewals and new investments. National income takes into account the gross domestic private investment expenditure.

(3) **Government's Final Consumption and Investment Expenditure (G) :** Government's final consumption expenditure refers to the expenditure incurred by government on various administrative services like law and order, defence, education, etc. Government's investment expenditure refers to the expenditure incurred by government on creating infrastructural facilities such as construction of roads, railways, bridges, dams, canals, which are used by the business sector for production of goods and services in any economy. National income takes into account the government's final consumption expenditure and investment expenditure.

(4) **Net Foreign Investment/Net Exports (X – M) :** It refers to the difference between exports and imports of a country during a period of one year. National income takes into account the value of net exports.

(5) **Net receipts (R – P) :** It refers to the difference between expenditure incurred by foreigners in the country (R) and expenditures incurred abroad by residents (P). National income takes into account the value of net receipts.

(2) Explain the Law of Diminishing Marginal Utility and write its assumptions. [Ch. 2]

Ans. (A) Law of Diminishing Marginal Utility : The Law of Diminishing Marginal Utility (DMU) can be explained with the help of the following points :

(1) The Law of DMU was first proposed by Mr. Gossen. However, this law was further explained by Dr. Alfred Marshall in his famous book, 'Principles of Economics' in 1890.

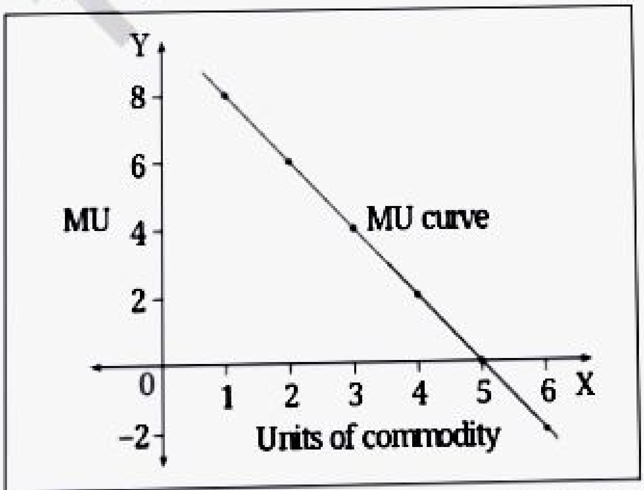
(2) Statement of Law : According to **Dr. Alfred Marshall**, *"Other things being equal, the additional benefit which a person derives from the increase in the stock of a thing diminishes with every increase in the stock that he already has."*

(3) The Law of DMU can be explained with the help of the following schedule :

Units of Commodity	MU
1	08
2	06
3	04
4	02
5	00
6	– 02

(4) From the schedule, it can be seen that as the stock of commodity increases from 1 to 6, the marginal utility diminishes from 8 to – 02.

(5) The Law of DMU can be explained with the help of the following diagram :



(6) In the diagram, the Y-axis represents the marginal utility and the X-axis represents the units of consumption. It can be seen that, the consumer derives the maximum utility from the first unit of the consumption. As consumer keeps

consuming the further units, the marginal utility keeps falling.

(7) On the consumption of the 5th unit, the marginal utility becomes zero. Therefore on the consumption of 5th unit, the marginal utility curve touches the X-axis. At this point the total utility is maximum. Therefore, this point is called the point of satiety.

(8) On the consumption of the 6th unit, the marginal utility becomes negative. As its effect, the total utility also starts diminishing. From beginning to end, the marginal utility curve slopes downwards from the left to the right.

(B) The assumptions of the Law of Diminishing Marginal Utility : The assumptions of the Law of Diminishing Marginal Utility (DMU) are as follows :

(1) **Rationality :** The Law of DMU assumes that a consumer is a rational person and his behaviour is normal. The law assumes that a rational consumer wants to maximise his satisfaction.

(2) **Cardinal measurement :** The Law of DMU assumes that utility can be measured in numbers. It also assumes that utility derived from each unit of a commodity can be compared.

(3) **Homogeneity :** The Law of DMU assumes that units of a commodity consumed by a consumer are identical. It means all units of consumption of a commodity are perfectly uniform in respect of size, shape, taste, colour, quality, etc.

(4) **Continuity :** The Law of DMU assumes that all units of consumption are consumed in quick succession, one after another. Thus law assumes that there is no time gap between the consumption of any two units.

(5) **Reasonability :** The Law of DMU assumes that the size of unit of commodity of consumption is neither too small nor too big. Thus the law assumes that the size of unit of commodity of consumption is reasonable.

(6) **Constancy :** The law assumes that income, taste, habits, preferences, likings, etc. of a consumer as well as the price of commodity remains constant.

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(7) **Divisibility :** The law assumes that the commodity consumed by the consumer is divisible.

(8) **Single want :** The Law of DMU assumes that the commodity is used to satisfy only a single want, i.e. a want of consumption. Thus law assumes that a commodity is not used for any other use except consumption.

(9) **Constant marginal utility of money :** The law assumes that when the consumer spends his income on a commodity, the utility of remaining money income remains the same as his total income.

(3) Explain the concept of price elasticity of demand and explain the types of price elasticity of demand.

[Ch. 3(B)]

Ans. (A) Concept of price elasticity of demand :

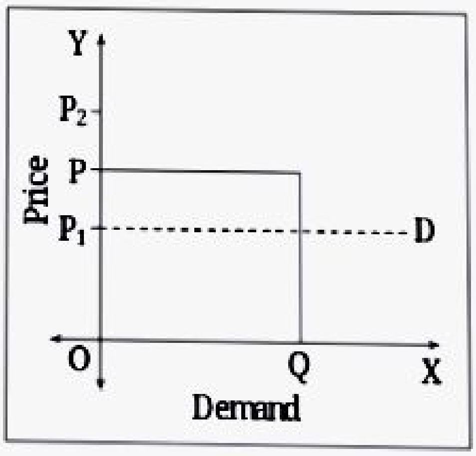
(1) **Meaning :** Price elasticity of demand can be defined as the percentage change in the quantity demanded of a commodity in response to a percentage change in the price of a commodity only.

(2) **Formula :** $Ed = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$

(B) Types of price elasticity of demand : The types of price elasticity of demand are as follows :

(1) **Perfectly/Infinite Elastic Demand :** When a proportionate change in the price of a commodity brings infinite (unlimited) proportionate change in the quantity demanded, the demand is said to be perfectly elastic.

Explanation of Diagram : From the diagram it can be seen that the original price of a commodity is OP and the original demand of a commodity is OQ. When the price of a commodity rises from OP to OP_2, the demand of a commodity falls and



becomes zero. When the price of a commodity falls from OP to OP_1, the demand of a commodity rises up to infinity. In the case of perfectly elastic demand, the demand curve is a horizontal straight line, parallel to X-axis.

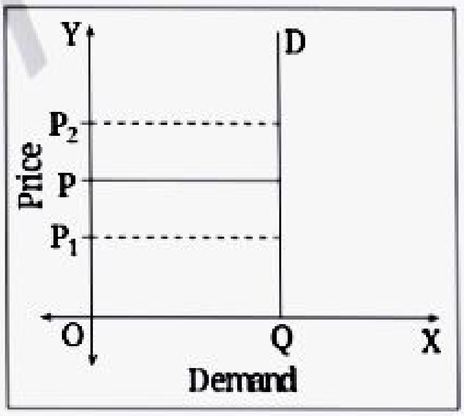
Measurement of Elasticity :

$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}} = \frac{\propto}{0} = \propto$$

The numerical value of perfectly elastic demand is infinity. ($Ed = \propto$). Perfectly elastic demand is only a theoretical possibility.

(2) **Perfectly Inelastic Demand :** When the proportionate change in the price of a commodity brings no (zero) proportionate change in its quantity demanded, the demand is said to be perfectly inelastic.

Explanation of Diagram :



From the diagram it can be seen that the original price of a commodity is OP and the original demand of a commodity is OQ. When the price of a commodity rises from OP to OP_2 (by 20 per cent) the demand remains constant i.e. OQ. Similarly, when the price of a commodity falls from OP to OP_1 (by 20 per cent) the demand remains constant. In the case of perfectly inelastic demand, the demand curve is a vertical straight line, parallel to Y-axis.

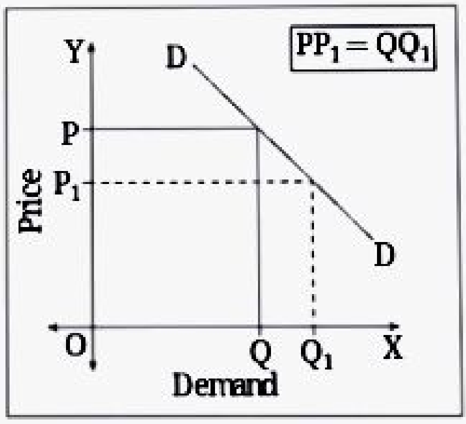
Measurement of Elasticity :

$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}} = \frac{0}{20} = 0$$

The numerical value of perfectly inelastic demand is zero ($Ed = 0$). Perfectly inelastic demand is also only a theoretical possibility.

(3) **Unitary Elastic Demand :** When the proportionate change in the price of a commodity brings about exactly equal proportionate change in its quantity demanded, the demand is said to be unitary elastic.

Explanation of Diagram : From the diagram it can be seen that the original price of a commodity is OP and the original demand of a commodity is OQ. When the price of a commodity falls from OP to OP_1 (by 25 per cent) the demand of a commodity rises from OQ to OQ_1 (by 25 per cent). In the case of unitary elastic demand, the demand curve is a rectangular hyperbola.



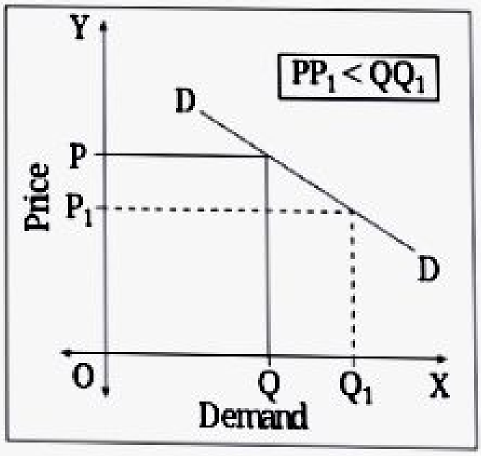
Measurement of Elasticity :

$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}} = \frac{25}{25} = 1$$

The numerical value of unitary elastic demand is one. (Ed = 1).

(4) **Relatively Elastic Demand :** When the proportionate change in the price of a commodity brings about greater than proportionate change in its quantity demanded, the demand is said to be relatively elastic.

Explanation of Diagram : From the diagram it can be seen that the original price of a commodity is OP and the original demand of a commodity is OQ. When the price of a commodity falls from OP to OP_1 (by 25 per



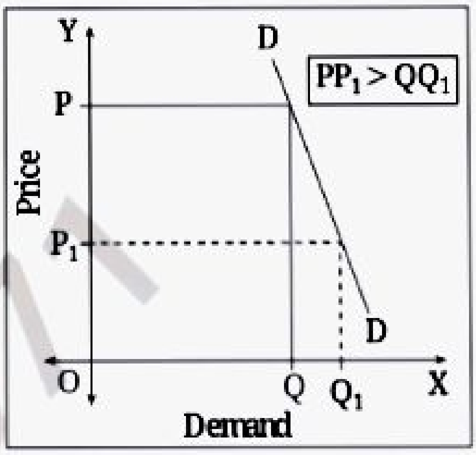
cent) the demand of a commodity rises from OQ to OQ_1 (by 50 per cent). In the case of relatively elastic demand, the demand curve is a flatter line.

Measurement of Elasticity :

$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}} = \frac{50}{25} = 2$$

The numerical value of relatively elastic demand is greater than one. (Ed > 1)

(5) **Relatively Inelastic Demand :** When the proportionate change in the price of a commodity brings about less than proportionate change in its quantity demanded, the demand is said to be relatively inelastic.



Explanation of Diagram : From the diagram it can be seen that the original price of a commodity is OP and the original demand of a commodity is OQ. When the price of a commodity falls from OP to OP_1 (by 50 per cent) the demand of a commodity rises from OQ to OQ_1 (by 10 per cent). In the case of relatively inelastic demand, the demand curve is a steeper line.

Measurement of Elasticity :

$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}} = \frac{25}{50} = 0.5$$

The numerical value of relatively inelastic demand is less than one. (Ed < 1)

Section 2 MOST LIKELY QUESTION SETS

Question Set 1 CHOOSE THE CORRECT OPTION

[Q. 1 : 1 Mark each; Total 5 Marks]

***Notes :** (1) Five questions with four options each will be given in the question paper. (2) Write only the correct option in the answer sheet. (3) Do not change the sequence of the answers.*

Q. Choose the correct option : ***(1 mark each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) The branch of economics that deals with the allocation of resources. ***(Sept. '21; July '22)***

(a) Microeconomics (b) Macroeconomics

(c) Econometrics (d) Monetary Economics

Options : *(1) a, b and c (2) a and b (3) only a (4) None of these*

(2) Method adopted in microeconomic analysis. ***(March '24)***

(a) Lumping method (b) Aggregative method

(c) Slicing method (d) Inclusive method

Options : *(1) a, c, d (2) b, c, d (3) only c (4) only a*

(3) Choose the wrongly matched pair :

(1) Adam Smith – (a) Father of Economics

(2) Microeconomics – (b) Lumping method

(3) Macroeconomics – (c) General equilibrium

(4) Alfred Marshall – (d) Principles of Economics

Options : *(1) – (a) (2) – (b) (3) – (c) (4) – (d)*

(4) Scope of macroeconomics.

(a) Consumption function (b) Investment function

(c) Individual demand (d) Employment level

Options : *(1) a, b and d (2) b, c and d (3) only d (4) only c*

Ans. (1) (3) only a **(2)** (3) only c **(3)** (2) – (b) **(4)** (1) a, b and d.

Chapter 2 : Utility Analysis

Q. Blood bank is an example of : *(March '24)*

(a) Place utility (b) Knowledge utility

(c) Service utility (d) Time utility

Options : *(1) a, b, c (2) b, c, d (3) a, b, d (4) only d*

Ans. (4) only d.

Chapter 3 (A) : Demand Analysis

(1) Two or more goods demanded jointly to satisfy a single want. *(Sept. '21)*

(a) Direct demand (b) Indirect demand

(c) Joint/Complementary demand (d) Composite demand

Options : *(1) a, d (2) a, b, c (3) a, c (4) only c*

(2) The relationship between demand for inferior goods and income.

(a) direct (b) inverse (c) zero (d) direct and inverse

Options : *(1) a, c (2) c, d (3) only b (4) only a*

Ans. (1) (4) only c **(2)** (3) only b.

Chapter 5 : Forms of Market

(1) Homogeneous product is the feature of this market :

(Sept. '21)

(a) Monopoly (b) Monopolistic competition

(c) Perfect competition (d) Oligopoly

Options : *(1) c and d (2) a, b and c (3) a, c and d (4) only c*

(2) Classification of markets is done on the basis of place :

(July '22)

(a) Local market, National market, International market

(b) Very short period market, Local market, National market

(c) Short period market, National market, International market

(d) Local market, National market, Short period market

Options : *(1) a, b and c (2) b, c and d (3) only a (4) a and d*

(3) Choose the wrongly matched pair :

(1) Perfect competition	–	(a) Many buyers
(2) Monopoly competition	–	(b) Many sellers
(3) Monopolistic competition	–	(c) Differentiated product
(4) Oligopoly	–	(d) Uncertainty

Options : *(1) – (a)   (2) – (b)   (3) – (c)   (4) – (d)*

(4) Under perfect competition, sellers are :

(a) Price makers   (b) Price takers

(c) Price discriminators   (d) None of these

Options : *(1) a, b and c   (2) only b   (3) only c   (4) a and c*

Ans. **(1)** (4) only c **(2)** (3) only a **(3)** (2) – (b) **(4)** (2) only b.

Chapter 6 : Index Numbers

(1) Statements that are incorrect in relation to index numbers :

(July '22)

(a) Index number is a geographical tool.

(b) Index numbers measure changes in the air pressure.

(c) Index numbers measure relative changes in an economic variable.

(d) Index numbers are specialised averages.

Options : *(1) c and d   (2) a and b   (3) b and c   (4) a and d*

(2) Statements that highlight the significance of index number :

(March '24)

(a) Index numbers are useful for making future predictions.

(b) Index numbers help in measurement of inflation.

(c) Index numbers help to frame suitable policies.

(d) Index numbers can be misused.

Options : *(1) b, c and d   (2) a, c and d   (3) a, b and d*

(4) a, b and c

(3) Statements that apply weighted index numbers :

(a) Every commodity is given equal importance.

(b) It assigns suitable 'weights' to various commodities.

(c) In most of the cases, quantities are used as weights.

(d) Laaspeyre's and Paasche's method is used in the calculation of weighted index numbers.

Options : *(1) b, c and d (2) a, c and d (3) a, b and d (4) a, b, c and d*

Ans. (1) (2) a and b **(2)** (4) a, b and c **(3)** (1) b, c and d.

Chapter 7 : National Income

(1) While estimating national income, we include only value of final goods and services in order to :

(a) make computation easier

(b) avoid double counting

(c) maximise national welfare of the people

(d) evaluate the total economic performance of a nation

Options : *(1) only a (2) only b (3) a and c (4) c and d*

(2) NDP is obtained by :

(a) deducting depreciation from GNP

(b) deducting depreciation from GDP

(c) including depreciation in GDP

(d) including depreciation in GNP

Options : *(1) only a (2) a and c (3) only b (4) b and d*

Ans. (1) (2) only b **(2)** (3) only b.

Chapter 8 : Public Finance in India

(1) Economist who is of the view that – "Public finance is one of those subjects which are on the borderline between economics and politics". ***(Sept. '21)***

(a) Adam Smith (b) Alfred Marshall

(c) Prof. Hugh Dalton (d) Prof. Findlay Shirras

Options : *(1) only a (2) only b (3) only c (4) only d*

(2) Non-tax sources of revenue : ***(July '22)***

(a) Direct and indirect tax (b) Direct tax and fees

(c) Fees (d) Special levy

Options : *(1) b and c (2) a and c (3) a, b, c and d (4) c and d*

(3) Identify the right group of pairs :

'A'	'B'
(1) Direct tax	(a) Non-tax revenue
(2) Indirect tax	(b) Inflation
(3) Fees and fines	(c) GST
(4) Surplus budget	(d) Personal income tax

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Options : *(1) 1 – d ; 2 – c ; 3 – b ; 4 – a*

(2) 1 – c ; 2 – d ; 3 – a ; 4 – b

(3) 1 – d ; 2 – c ; 3 – a ; 4 – b

(4) 1 – a ; 2 – b ; 3 – c ; 4 – d

(4) Optional functions of Government. ***(March '24)***

(a) Protection from external attack

(b) Provision of education and health services

(c) Provision of social security measures

(d) Collection of tax

Options : *(1) b, c (2) a, b, c (3) b, c, d (4) All of the above*

Ans. (1) (3) only c **(2)** (4) c and d **(3)** (3) 1 – d; 2 – c; 3 – a; 4 – b **(4)** (1) b, c

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Chapter 9 : Money Market and Capital Market in India

(1) Method of quantitative credit control. ***(July '22)***

(a) Bank rate (b) Open market operation

(c) Cash Reserve Ratio (d) Credit rationing

Options : *(1) a, b, c (2) b, c, d (3) a, b, d (4) a, c, d.*

(2) Factors which are working in unorganised money market. ***(March '24)***

(a) Money lenders (b) Commercial bank

(c) Hundi (d) Chit funds

Options : *(1) a, b, c (2) b, c (3) b, d (4) a, c, d*

Ans. (1) (1) a, b, c **(2)** (4) a, c, d

Chapter 10 : Foreign Trade of India

Q. Role of foreign trade. ***(Sept. '21)***

(a) To earn foreign exchange

(b) To encourage investment

(c) Leads to division of labour

(d) Bring change in composition of exports

Options : *(1) a and b (2) a, b and c*

(3) b and d (4) None of these

Ans. (2) a, b, and c

Question Set 2

COMPLETE THE CORRELATION

[Q. 1 : 1 Mark each; Total 5 Marks]

Notes : *(1) Five questions will be given in the question paper. (2) In each question two words on one side and one word and one blank space (Box) will be given on other side. (3) Write the correct answer in the blank space by understanding the correlation between the given two words. (4) Do not change the sequence of the answers.*

Q. Complete the correlation : ***(1 mark each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Microeconomics : Tree : : Macroeconomics : ☐. ***(Sept. '21; July '23)***

(2) Macroeconomics : ☐ : : Microeconomics : Price theory. ***(March '22)***

(3) Microeconomics : ☐ : : Macroeconomics : Forest. ***(July '22)***

(4) Macroeconomics : Income and employment theory : : Microeconomics : ☐.

(5) Makros : Macroeconomics : : Mikros : ☐.

(6) General equilibrium : Macroeconomics : : ☐ : Microeconomics. ***(March '24)***

Ans. (1) Forest (2) Income theory (3) Tree (4) Theory of product pricing/Theory of factor pricing/Theory of economic welfare (5) Microeconomics (6) Partial equilibrium.

Chapter 2 : Utility Analysis

(1) Furniture from wood : Form utility : : Study book : ☐.

(2) Form utility : Furniture : : ☐ : Doctor. ***(March '24)***

(3) Intra marginal unit : MU > Price : : ☐ : MU < Price.

(4) Alfred Marshall : Marginal utility : : Hicks and Allen : ☐.

(5) Water : Value in use > Value in exchange : : ☐ : Value in use < Value in exchange.

Ans. (1) Knowledge utility (2) Service utility (3) Extra marginal unit (4) Ordinal utility (5) Diamond.

Chapter 3 (A) : Demand Analysis

(1) Single consumer : Individual demand : : Many consumers : ☐. ***(Sept. '21)***

(2) Direct demand : Food and mobiles : : ☐ : Land. ***(March '22)***

(3) Price and demand for normal goods : Inverse relationship : : Giffen goods : ☐. ***(July '22)***

Ans. (1) Market demand (2) Indirect demand (3) Direct relationship.

Chapter 3 (B) : Elasticity of Demand

(1) Perfectly elastic demand : **Ed** $= \infty$: : ☐ : Ed = 1. ***(March '22)***

(2) Perfectly elastic demand : Ed $= \infty$: : ☐ : Ed = 0. ***(March '24)***

(3) Pen and ink : ☐ : : Tea and coffee : Substitute goods. ***(July '23)***

(4) Straight line demand curve : Linear demand curve : : ☐ : Non-linear demand curve.

Ans. (1) Unitary elastic demand (2) Perfectly inelastic demand (3) Complementary goods (4) Curved line demand curve.

Chapter 4 : Supply Analysis

(1) ☐ : Downward sloping curve : : Supply curve : Upward sloping curve. ***(Sept. '21)***

(2) Total Revenue : ☐ : : Average Revenue : $\frac{TR}{TQ}$. ***(July '22)***

(3) Total Cost : TFC + TVC : : Average Cost : ☐.

(4) Demand curve : ☐ : : Supply curve : Upward. ***(July '23)***

(5) ☐ : Change in Supply : : Other factors constant : Variation in Supply. ***(March '24)***

Ans. (1) Demand curve (2) $P \times Q$ (3) $\frac{TC}{TQ}$ (4) Downward (5) Price constant.

Chapter 5 : Forms of Market

(1) Perfect competition : ☐ : : Monopoly : Single seller. *(July '22)*

(2) Perfect competition : Free entry and exit : : ☐ : Barriers to entry.

(3) Price taker : ☐ : : Price maker : Monopoly.

(4) Discriminated prices : ☐ : : Single price : Perfect competition. *(March '25)*

(5) Wheat of Punjab : Natural monopoly : : Indian Railways : ☐.

(6) ☐ : Monopolistic competition : : Industry : Perfect competition.

Ans. (1) Large number of sellers (2) Monopoly (3) Perfect competition (4) Monopoly (5) Public monopoly (6) Group.

Chapter 6 : Index Numbers

(1) Price index : Inflation : : ☐ : Agricultural production. *(Sept. '21)*

(2) ☐ : Base year prices : : P_1 : Current year prices. *(July '23)*

(3) Laaspeyre's Index : ☐ : : Paasche's Index : Current year quantities.

(4) ☐ : Single variable : : Composite index : Group of variables.

(5) q_0 : Quantities of base year : : q_1 : ☐.

Ans. (1) Agricultural productivity index (2) P_0 (3) Base year quantities (4) Univariate index (5) Quantities of current year.

Chapter 7 : National Income

(1) Output method : Product method : : ☐ : Factor cost method. *(March '22)*

(2) Output method : ☐ : : Income method : Factor cost method. *(July '22; March '24 – '25)*

(3) Theoretical difficulty : Transfer payments : : ______ : Valuation of inventories. ***(July '23)***

(4) ______ : Export : : M : Import.

Ans. (1) Income method (2) Product/Inventory method (3) Practical difficulty (4) X.

Chapter 8 : Public Finance in India

(1) Personal income tax : ______ : : Goods and Services Tax (GST) : Indirect tax. ***(March '22)***

(2) The period of inflation : Surplus Budget : : The period of depression : ______. ***(March '25)***

(3) Administration costs : ______ : : Research and development : Developmental expenditure.

Ans. (1) Direct tax (2) Deficit Budget (3) Non-Developmental expenditure.

Chapter 9 : Money Market and Capital Market in India

(1) ______ : Central bank : : State Bank of India : Commercial bank. ***(Sept. '21; March '25)***

(2) Co-operative banks : Organised sector : : Indigenous bankers : ______.

(3) Primary market : ______ : : Secondary market : Old issues.

Ans. (1) The Reserve Bank of India (RBI) (2) Unorganised sector (3) New issues.

Chapter 10 : Foreign Trade of India

(1) Import of India : Petroleum : : ______ : Computer hardware.

(2) Internal trade : Home trade : : International trade : ______. ***(March '25)***

(3) Source of import of India : Kuwait : : ______ : China.

Ans. (1) Export of India (2) Foreign trade (3) Destination of export of India.

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Question Set 3

GIVE ECONOMIC TERM

[Q. 1 : 1 Mark each; Total 5 Marks]

Notes : *(1) Five statements will be given in the question paper. (2) Rewrite the complete statement followed by the answer against them. (3) Do not change the sequence of the sentences.*

Q. Give an economic term : ***(1 mark each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) A type of equilibrium that explains the equilibrium of the entire economy.

(2) The economic variables of macro quantities.

Ans. (1) General equilibrium (2) Macroeconomic variables.

Chapter 2 : Utility Analysis

(1) Quality in a commodity that is beneficial for the health.

(2) The sum of the utilities derived from the consumption of all the units of a commodity.

(3) Want satisfying capacity of a commodity. ***(July '23)***

(4) Swati purchased raincoat for her father in rainy season. ***(March '23)***

(5) Utility of a commodity increases with a change in its time of utilisation. ***(Sept. '21)***

(6) Additional utility derived by a consumer from an additional unit consumed. ***(March '22)***

Ans. (1) Usefulness (2) Total utility (3) Utility (4) Time utility (5) Time utility (6) Marginal utility.

Chapter 3 (A) : Demand Analysis

(1) The demand for a commodity which can be put to several uses. ***(Sept. '21)***

(2) Graphical representation of demand schedule.

(3) A desire which is backed by willingness, purchase and ability to pay. *(March '23 – '25; July '23)*

(4) Price being constant, demand falls due to unfavourable change in other factors. *(March '22)*

(5) More quantity is demanded due to changes in the favourable factors determining demand other than price. *(March '24)*

Ans. (1) Composite demand (2) Demand curve (3) Demand (4) Decrease in demand (5) Increase in demand.

Chapter 3 (B) : Elasticity of Demand

(1) Degree of responsiveness of a change of quantity demanded of a good to a change in its price. *(March '23)*

(2) Degree of responsiveness of a change in quantity demanded of one commodity due to change in the price of another commodity.

(3) Elasticity resulting from a proportionate percentage change in the quantity demanded due to a proportionate percentage change in price. *(March '25)*

(4) Degree of responsiveness of quantity demanded to change in income only. *(March '24)*

Ans. (1) Price elasticity of demand (2) Cross elasticity of demand (3) Unitary elasticity (4) Income elasticity of demand.

Chapter 4 : Supply Analysis

(1) Revenue per unit of output sold. *(March '22)*

(2) Net addition made to total cost by producing one more unit of output. *(March '24)*

(3) Cost incurred per unit of output.

(4) Cost incurred on raw material.

Ans. (1) Average revenue (2) Marginal Cost (3) Average Cost (4) Variable Cost.

Chapter 5 : Forms of Market

(1) The market where there are few sellers. *(Sept. '21)*

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(2) Period in which all factors of production are variable. *(March '22)*

(3) Very realistic competition in nature. *(March '23)*

(4) The cost incurred by the firm to promote sales. *(July '23)*

(5) The point where demand and supply curve intersect.

(6) Charging different prices to different consumers for the same product or services. *(March '24)*

Ans. (1) Oligopoly (2) Long period (3) Monopolistic competition (4) Selling cost (5) Equilibrium point (6) Price discrimination.

Chapter 6 : Index Numbers

(1) A statistical tool to measure changes in an economic variable over a period of time.

(2) An index number measuring the general changes in the prices of goods over a period of time.

(3) An index number measuring the general changes in the labour productivity over a period of time.

(4) An index number measuring the general changes in a single variable over a period of time.

(5) An index number measuring the general changes in a group of variables over a period of time.

Ans. (1) Index numbers (2) Price Index Number (3) Labour Productivity Index Number (4) Univariable Index Number (5) Composite Index Number.

Chapter 7 : National Income

(1) The gross market value of all final goods and services produced within the domestic territory of a country during a period of a year. *(March '22)*

(2) The volume of commodities and services turned out during a given period counted without duplication. *(March '23)*

(3) Factor payment received by land in the form of money.

(4) Wear and tear of capital assets, due to their use in the process of production. *(July '23; March '25)*

(5) The flow of goods and services produced in an economy during a year.

(6) The difference between the value of country's exports and imports for a given period. ***(March '25)***

Ans. (1) Gross Domestic Product (GDP) (2) National income (3) Rent (4) Depreciation (5) National income (6) Net exports.

Chapter 8 : Public Finance in India

(1) Financial statement showing the expected receipts and proposed expenditure of the government in the coming financial year. ***(Sept. '21)***

(2) Financial transactions made for the maximum benefit of the society.

(3) The tax which is paid by the taxpayer on his income and property. ***(July '23)***

(4) Debts raised by the government on the basis of financial resources outside the country.

Ans. (1) Government budget (2) Public finance (3) Direct tax (4) External debt.

Chapter 9 : Money Market and Capital Market in India

(1) Deposits withdrawable on demand.
(Sept. '21; March '24 – '25)

(2) Debt instrument issued by companies or the government as a means of borrowing long-term funds.

(3) Shares of a company held by an individual or a group.

Ans. (1) Demand deposits (2) Bonds (3) Equity shares.

Chapter 10 : Foreign Trade of India

(1) Purchase of goods and services by one country from another country.

(2) Sale of goods and services by one country to another country.

(3) The difference between the value of country's exports and imports for a given period.

Ans. (1) Import trade (2) Export trade (3) Balance of trade.

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Question Set 4

FIND THE ODD WORD

[Q. 1 : 1 Mark each; Total 5 Marks]

***Notes :** (1) Five questions with four words will be given in the question paper. (2) Students are expected to find out the odd word from each question and write the answer. (3) Do not change the sequence of the answers.*

Q. Find the odd word : ***(1 mark each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Scope of microeconomics : Theory of product pricing, Theory of factor pricing, Theory of Economic growth and development, Theory of Economic welfare. ***(March '23)***

(2) Individual demand, Individual Supply, Individual Income, Price level.

(3) Price level, Employment level, Determination of rent, National income.

(4) Theory of Economic Welfare : Theory of Income and Employment, Efficiency in Production, Efficiency in Consumption, Overall Economic Efficiency. ***(March '25)***

(5) Theory of economic growth and development, Theory of income and employment, Macro theory of distribution, Theory of economic welfare.

(6) Factors of production : Profit, Labour, Capital, Entrepreneur. ***(July '23)***

Ans. (1) Theory of Economic growth and development (2) Price level (3) Determination of rent (4) Theory of Income and Employment (5) Theory of economic welfare (6) Profit.

Chapter 2 : Utility Analysis

(1) Air, Water, Sunlight, Gold.

(2) Notebook, Textbook, Chalk, Alcohol.

(3) Teacher, Singer, Dentist, Chair.

(4) Car, Television set, Chapati, Ruler-Scale.

(5) Diamond, Gold, Silver, Water.

Ans. (1) Gold (2) Alcohol (3) Chair (4) Chapati (5) Water.

Chapter 3 (A) : Demand Analysis

(1) Notebook, Pen, Fan, Labour.

(2) Types of demand : Direct demand, Indirect demand, Composite demand, Market demand. ***(March '24)***

(3) Ruler-Scale, Pencil, Wheat, Paper.

(4) Land, Labour, Capital, Clothes.

(5) Exceptions to the Law of Demand : Giffen's paradox, Prestige goods, Price illusion, Supply of labour. ***(March '25)***

Ans. (1) Labour (2) Market demand (3) Wheat (4) Clothes (5) Supply of labour.

Chapter 3 (B) : Elasticity of Demand

(1) Type of elasticity of demand : Price elasticity, Income elasticity, Less/Unitary elasticity, Cross elasticity. ***(July '22 – '23)***

(2) Sweets, Biscuits, Fruits, Medicines.

(3) Perfume, *Vegetable ghee*, Clothes, Cold drinks.

(4) Cold drinks, Soap, Salt, Biscuits.

(5) Durable goods : Furniture, Cupboard, Washing Machine, Fish. ***(March '25)***

(6) Vegetables, Eggs, Television set, Fruits.

Ans. (1) Less/Unitary elasticity (2) Medicines (3) *Vegetable ghee* (4) Salt (5) Fish (6) Television set.

Chapter 4 : Supply Analysis

(1) Revenue concepts : Total Revenue, Average Revenue, Total Cost, Marginal Revenue. ***(March '23)***

(2) Clothes, Fans, Two wheelers, Eggs.

(3) Cost concepts : Total Cost, Average Cost, Marginal Cost, Selling Cost. ***(March '25)***

(4) Fruits, Fish, Flowers, Notebooks.

Ans. (1) Total Cost (2) Eggs (3) Selling Cost (4) Notebooks.

Chapter 5 : Forms of Market

(1) Selling cost : Free gifts, Advertisement hoardings, Window display, Patents.

(2) Market structure on the basis of competition : Monopoly, Oligopoly, Very Short Period Market, Perfect Competition.

(July '23)

(3) Feature of monopoly : Price maker, Entry barriers, Many sellers, Lack of substitutes.

(4) Legal monopoly : Patent, OPEC, Copyright, Trade mark.

(March '24 – '25)

(5) Market structure on the basis of place : Local market, Oligopoly, National market, International market.

Ans. (1) Patents (2) Very Short Period Market (3) Many sellers (4) OPEC (5) Oligopoly.

Chapter 6 : Index Numbers

- Types of Simple Index Number : Laaspeyre's index number, Price index number, Quantity index number, Value index number. ***(March '23)***

Ans. Laaspeyre's index number.

Chapter 7 : National Income

(1) Transfer income : Pension, Unemployment allowance, Wages, Gifts. ***(July '22)***

(2) Features of National Income : Financial year, Money value, Static concept, Flow concept. ***(March '24)***

Ans. (1) Wages (2) Static concept.

Chapter 8 : Public Finance in India

(1) External debt : Foreign banks, World Bank, International Monetary Fund, Central bank. ***(July '22)***

(2) Non-tax revenue : Fees, Penalty, Wealth tax, Special levy.

(March '23)

(3) Fees, Gifts, Grants, Goods and Services Tax.

(4) Types of budget : Deficit budget, Zero budget, Balanced budget, Surplus budget. ***(March '24)***

(5) Classification of Public expenditure : Revenue expenditure, Capital expenditure, Consumption expenditure, Developmental expenditure. ***(July '23)***

Ans. (1) Central bank (2) Wealth tax (3) Goods and Services Tax (4) Zero budget (5) Consumption expenditure.

Chapter 9 : Money Market and Capital Market in India

(1) Organised sector : Money lender, Commercial bank, Co-operative bank, Reserve Bank of India. ***(July '22)***

(2) Quantitative Tools of credit control : Bank rate, Open market operations, Foreign exchange rate, Variable reserve ratios. ***(March '23)***

(3) Types of Bank Accounts : Savings A/c, D-mat A/c, Recurring Deposit A/c, Current A/c. ***(July '23)***

(4) Financial Assets : Bonds, Land, Government securities, Derivatives. ***(March '24)***

Ans. (1) Money lender (2) Foreign exchange rate (3) D-mat A/c (4) Land.

Chapter 10 : Foreign Trade of India

(1) Types of foreign trade : Local trade, Import trade, Export trade, Entrepot trade. ***(July '22)***

(2) A commodity exported by India : Gold, Readymade garments, Tea, Rice.

(3) A commodity imported by India : Petroleum, Jute, Steel, Fertiliser.

(4) Important trading partner of India : USA, Japan, Sri Lanka, Germany.

(5) Financial Assets : Bonds, Land, Government securities, Derivatives.

Ans. (1) Local trade (2) Gold (3) Jute (4) Sri Lanka (5) Land.

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Question Set 5

COMPLETE THE FOLLOWING STATEMENTS

[Q. 1 : 1 Mark each; Total 5 Marks]

***Notes :** (1) Five statements will be given in the question paper. (2) Students are expected to write the proper alternative in the answer sheet. (3) Do not change the sequence of the sentences.*

Q. Complete the following statements by choosing the correct alternatives : ***(1 mark each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Whole economy is studied in .... ***(March '22)***

(a) microeconomics *(b) macroeconomics*

(c) econometrics *(d) natural sciences*

(2) Microeconomics is also called as .... ***(March '23)***

(a) Income theory *(b) Price theory*

(c) Growth theory *(d) Employment theory*

(3) The branches of economics that deals with the allocation of resources is known as .... ***(July '23)***

(a) microeconomics *(b) macroeconomics*

(c) econometrics *(d) agricultural economics*

(4) The terms of microeconomics and macroeconomics were coined by Norwegian economist .... ***(March '25)***

(a) Adam Smith *(b) J. M. Keynes*

(c) J. B. Say *(d) Ragnar Frisch*

Ans. (1) macroeconomics (2) Price theory (3) microeconomics (4) Ragnar Frisch.

Chapter 2 : Utility Analysis

(1) When Marginal Utility (MU) is negative, Total Utility (TU) is .... ***(Sept. '21; March '23)***

(a) rising *(b) not changing*

(c) falling *(d) zero*

(2) Marginal Utility of the commodity becomes negative when Total Utility of a commodity is .... *(July '23)*

(a) *rising* (b) *constant*

(c) *falling* (d) *zero*

(3) When MU is falling (below zero), TU is ....

(a) *rising* (b) *falling*

(c) *not changing* (d) *maximum*

Ans. (1) falling (2) falling (3) falling.

Chapter 3 (A) : Demand Analysis

(1) When less units are demanded at high price it shows .... *(Sept. '21)*

(a) *increase in demand* (b) *expansion of demand*

(c) *decrease in demand* (d) *contraction in demand*

(2) The relationship between demand for a good and its price is .... *(July '22)*

(a) *direct* (b) *inverse*

(c) *no effect* (d) *can be direct and inverse*

(3) The relationship between income and demand for inferior goods is .... *(March '23)*

(a) *direct* (b) *inverse*

(b) *no effect* (d) *can be direct and inverse*

(4) The relationship between demand for a good and price of its substitute is ....

(a) *direct* (b) *inverse*

(b) *no effect* (d) *can be direct and inverse*

(5) Symbolically, the functional relationship between demand and price can be expressed as .... *(July '23)*

(a) $D_x = f(P_x)$ (b) $D_x = f(P_z)$

(c) $D_x = f(y)$ (d) $D_x = f(T)$

Ans. (1) contraction in demand (2) inverse (3) inverse (4) direct (5) $D_x = f(P_x)$.

Chapter 3 (B) : Elasticity of Demand

(1) When percentage change in quantity demanded is less than the percentage change in price, the demand curve is .... **(March '22)**

(a) flatter *(b) steeper*

(c) rectangular *(d) horizontal*

(2) Demand curve is parallel to X-axis, in case of .... **(July '22)**

(a) perfectly elastic demand

(b) perfectly inelastic demand

(c) relatively elastic demand

(d) relatively inelastic demand

(3) Price elasticity of demand on a linear demand curve at the X-axis is ....

(a) zero *(b) one* *(c) infinity* *(d) less than one*

(4) Price elasticity of demand on a linear demand curve at the Y-axis is equal to ....

(a) zero *(b) one* *(c) infinity* *(d) greater than one*

Ans. (1) steeper (2) perfectly elastic demand (3) zero (4) infinity.

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Chapter 4 : Supply Analysis

(1) Revenue per unit of output sold is .... **(Sept. '21)**

(a) total revenue *(b) marginal revenue*

(c) average revenue *(d) marginal expenditure*

(2) A rightward shift in supply curve shows .... **(July '22)**

(a) contraction of supply *(b) decrease in supply*

(c) expansion of supply *(d) increase in supply*

(3) Total Revenue ÷ Number of Units sold = ...

(a) Average Cost *(b) Average Revenue*

(c) Marginal Cost *(d) Total Cost*

(4) Net addition made to the total revenue by selling an extra unit of a commodity is .... **(July '23)**

(a) Total Revenue *(b) Marginal Revenue*

(c) Average Revenue *(d) Marginal Cost*

(5) The Law of Supply represents the general tendency of ....

(a) buyers (b) sellers (c) government (d) labourers

(6) The most significant factor affecting the supply of agricultural goods is ....

(a) government policies (b) cost of production

(c) climatic conditions (d) transport facilities

(7) When the supply curve is sloping upward, then its slope is .... ***(March '25)***

(a) positive

(b) negative

(c) first positive and then negative

(d) zero

Ans. (1) average revenue (2) increase in supply (3) Average Revenue (4) Marginal Revenue (5) sellers (6) climatic conditions (7) positive.

Chapter 5 : Forms of Market

- The cost incurred by the firm to promote sales .... ***(March '22)***

(a) total cost (b) average cost

(c) marginal cost (d) selling cost

Ans. selling cost.

Chapter 6 : Index Numbers

- The Price Index Number is used .... ***(March '25)***

(a) to measure the general changes in the prices of goods

(b) as a geographical tool

(c) to measure the air pressure

(d) in measurement of goods

Ans. to measure the general changes in the prices of goods.

Chapter 7 : National Income

- In India, National Income Committee establishment year is .... ***(July '23)***

(a) 1952 (b) 1949 (c) 1947 (d) 1950

Ans. 1949.

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Chapter 8 : Public Finance in India

(1) Budget that consists of revenue receipts and revenue expenditure .... ***(March '22)***

(a) capital budget *(b) government budget*

(c) revenue budget *(d) family budget*

(2) Public expenditure of any government shows .... ***(March '23)***

(a) constant trend *(b) increasing trend*

(c) decreasing trend *(d) fluctuating demand*

(3) Obligatory functions of the government is .... ***(March '25)***

(a) provision of education and health services

(b) provision of pensions

(c) maintaining internal law and order

(d) provision of welfare measures

Ans. (1) revenue budget (2) increasing trend (3) maintaining internal law and order.

Chapter 9 : Money Market and Capital Market in India

(1) Organised sector of money market in India includes .... ***(Sept. '21)***

(a) indigenous bankers

(b) money lenders

(c) commercial banks

(d) unregulated non-banking financial intermediaries

(2) Stock exchange is an important constituent of the .... ***(July '22)***

(a) capital market *(b) money market*

(c) local market *(b) international market*

(3) Money market faces the shortage of funds due to .... ***(March '23)***

(a) inadequate savings

(b) growing demand for cash

(c) presence of unorganised sector

(d) financial mismanagement

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(4) Development of financial institutions were established to .... *(March '25)*

(a) *provide short term funds*

(b) *develop industry, agriculture and other key sectors*

(c) *regulate the money market*

(d) *regulate the capital market*

Ans. (1) commercial banks (2) capital market (3) inadequate savings (4) develop industry, agriculture and other key sectors.

Chapter 10 : Foreign Trade of India

(1) Purchase of goods and services by one country from another country is .... *(Sept. '21)*

(a) *export trade* (b) *import trade*

(c) *entrepot trade* (d) *internal trade*

(2) Purchase of goods and services from one country and selling them to another country is .... *(March '22)*

(a) *entrepot trade* (b) *import trade*

(c) *export trade* (d) *national trade*

(3) Trade of goods and services within the geographical boundaries of a nation .... *(July '22)*

(a) *International trade* (b) *Internal trade*

(c) *Currency trade* (d) *Inter-continental trade*

Ans. (1) import trade (2) entrepot trade (3) *Internal trade*.

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Question Set 6

ASSERTION AND REASONING QUESTION

[Q. 1 : 1 Mark each; Total 5 Marks]

Notes : *(1) Five questions will be given in the question paper. (2) Each question will have one assertion sentence and one reasoning sentence and four options related to these two sentences. (3) Write the appropriate option related to the two sentences in the answer sheet. (4) Do not change the sequence of the answers.*

Q. Assertion and Reasoning questions : ***(1 mark each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Assertion (A) : Microeconomics has comparatively narrower scope.

Reasoning (R) : Microeconomics studies economic behaviour of only individual economic units of economy.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (3) Both (A) and (R) are True and (R) is the correct explanation of (A).

---

(2) Assertion (A) : Macroeconomics is also known as Income Analysis.

Reasoning (R) : Macroeconomics studies the income earned by a particular individual or a particular firm.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (1) (A) is True, but (R) is False.

Chapter 2 : Utility Analysis

(3) Assertion (A) : Marginal Utility (MU) goes on diminishing.

Reasoning (R) : Total Utility (TU) increases at diminishing rate.

(March '22)

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (4) Both (A) and (R) are True and (R) is not the correct explanation of (A).

Chapter 3 (B) : Elasticity of Demand

(4) Assertion (A) : A change in quantity demanded of one commodity due to a change in the price of the other commodity is cross elasticity.

Reasoning (R) : Changes in consumer's income leads to a change in the quantity demanded. ***(March '23)***

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (4) Both (A) and (R) are True and (R) is not the correct explanation of (A).

---

(5) Assertion (A) : Tea and coffee have positive cross elasticity of demand.

Reasoning (R) : As the price of coffee rises, the demand for tea falls.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (1) (A) is True, but (R) is False.

Chapter 4 : Supply Analysis

(6) Assertion (A) : With rising price, supply of a commodity falls.

Reasoning (R) : Seller earns more profit at higher price.

(March '22)

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (2) (A) is False, but (R) is True.

---

(7) Assertion (A) : Supply is a relative term.

Reasoning (R) : Supply is always expressed in relation to price, time and quantity. ***(March '23)***

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (3) Both (A) and (R) are True and (R) is the correct explanation of (A).

---

(8) Assertion (A) : Expenditure incurred on purchasing machinery is variable cost.

Reasoning (R) : Expenditure incurred on varying factors is known as variable cost.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (2) (A) is False, but (R) is True.

Chapter 5 : Forms of Market

(9) Assertion (A) : In perfect competition, price is determined by the forces of demand and supply.

Reasoning (R) : The number of buyers and sellers is so large that one person cannot influence prices. ***(March '23)***

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (3) Both (A) and (R) are True and (R) is the correct explanation of (A).

(10) Assertion (A) : In monopoly, usewise price can be discriminated.

Reasoning (R) : In India, the gas cylinder is priced the same for domestic and commercial use.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (1) (A) is True, but (R) is False.

Chapter 6 : Index Numbers

(11) Assertion (A) : Index number considers all factors.

Reasoning (R) : Index number is based on samples.

(March '22)

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Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (2) (A) is False, but (R) is True.

Chapter 7 : National Income

(12) Assertion (A) : Production for self consumption is not accounted for in the national income.

Reasoning (R) : The products kept for self consumption do not enter the market. ***(March '23)***

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (3) Both (A) and (R) are True and (R) is the correct explanation of (A).

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(13) Assertion (A) : Double counting leads to lower estimates of national income.

Reasoning (R) : Due to double counting, the value of a single commodity is calculated twice in the national income measurement.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (2) (A) is False, but (R) is True.

Chapter 8 : Public Finance in India

(14) Assertion (A) : Government sells bonds to its citizens.

Reasoning (R) : Selling bonds is important type of internal debt.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (3) Both (A) and (R) are True and (R) is the correct explanation of (A).

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(15) Assertion (A) : Debt raised by the government from borrowings from World Bank is an internal debt.

Reasoning (R) : Government of India borrowing (can borrow) funds from the World Bank for provision of water supply.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A).

Ans. (2) (A) is False, but (R) is True.

Chapter 9 : Money Market and Capital Market in India

(16) Assertion (A) : Money market economises use of cash.

Reasoning (R) : Money market does not deal with financial instruments that are close substitutes of money. ***(March '22)***

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (1) (A) is True, but (R) is False.

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(17) Assertion (A) : Foreign exchange management and control is undertaken by commercial banks.

Reasoning (R) : RBI has to maintain the official rate of exchange of rupee and ensure its stability. ***(March '23)***

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (2) (A) is False, but (R) is True.

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(18) Assertion (A) : Regional stock exchanges have witnessed a sharp decline in the volume of trade.

Reasoning (R) : Investors prefer to trade in securities listed in premier stock exchanges like BSE, NSE, etc.

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (3) Both (A) and (R) are True and (R) is the correct explanation of (A).

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Chapter 10 : Foreign Trade of India

(19) Assertion (A) : International trade leads to division of labour and specialisation.

Reasoning (R) : India's national trade is not increasing.

(March '22)

Options : *(1) (A) is True, but (R) is False*

(2) (A) is False, but (R) is True

(3) Both (A) and (R) are True and (R) is the correct explanation of (A)

(4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans. (1) (A) is True, but (R) is False.

Question Set 7

IDENTIFY AND EXPLAIN THE CONCEPT

[Q. 2 (A) : 2 Marks each; Total 6 Marks]

Note : *(1) Five concepts will be given in the question paper. Students are expected to write answers to any three questions. (2) This is a short answer type question. So write the exact definition/meaning of the term while explaining it. Write to the point answer.*

Q. Identify and explain the concepts from the given illustrations : ***(2 marks each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Madhav collected information about monthly expenditure of a family. ***(Sept. '21)***

Ans. (A) Identified concept : Study of individual economic unit/ Microeconomics.

(B) Explanation of concept : The study of economic behaviour of a particular unit by isolating it from the other forces of economy is known as the study of individual economic unit. For example, microeconomics deals with the study of individual economic unit such as individual firm, individual price, etc.

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(2) Asha/Savita collected the information about the income of a particular firm. ***(March '22; July '23)***

Ans. *For the answer, refer to Q. (1) from this Set.*

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(3) Shabana paid wages to workers in her factory and interest on her bank loan. ***OR***

Samir paid wages to workers in his factory and interest on his bank loan. ***(July '22)***

Ans. (A) Identified concept : Payment of factor price/reward.

(B) Explanation of concept : The factors of production, viz. land, labour, capital and entrepreneur are essential for the production of goods. These factors of production get rewards in the form of rent, wages, interest and profit respectively from the producer for participating in the production process.

(4) Rani collected the data of India's National Income for the purpose of study. ***(March '25)***

Ans. (A) Identified concept : Study of aggregate variables/ Macroeconomics.

(B) Explanation of concept : The study of a nation's economy as a whole or study of economy-wide aggregates is known as study of aggregate variables. For example, macroeconomics studies the aggregate variables such as national income, aggregate demand, aggregate supply, total employment, general price level, etc.

(5) Rajesh decided to count how many times he had to travel by rickshaw in a period of one month.

Ans. (A) Identified concept : Study of individual demand.

(B) Explanation of concept : Individual demand is a quantity of a particular commodity or service demanded by a consumer at a given price during a given period of time. Individual demand is studied in microeconomics.

Chapter 2 : Utility Analysis

(6) Salma purchased sweater for her father in the winter season. ***(July '22)***

Ans. (A) Identified concept : Time utility.

(B) Explanation of concept : Utility increased/derived by changing the time of utilisation of a commodity is called time utility.

(7) Pooja/Manisha satisfied her want of writing an essay by using pen and notebook. ***(Sept. '21; March '24)***

OR

Sunita madam satisfied her want to write on the blackboard by using a chalk. ***(March '25)***

Ans. (A) Identified concept : Utility.

(B) Explanation of concept : Utility refers to the capacity of a commodity to satisfy a human want.

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(8) Nilesh purchased ornaments for his sister.

Ans. (A) Identified concept : Possession utility.

(B) Explanation of concept : Utility increased/obtained from the transfer of ownership rights of goods from one person to another, is called possession utility.

(9) Kavita consumed five units of oranges one after the other.

Ans. (A) Identified concept : Continuity in consumption.

(B) Explanation of concept : Continuity in consumption is a type of consumption in which various units of a commodity are consumed in quick succession, one after another (i.e. without any time gap). Continuity in consumption is one of the important assumptions of Law of DMU.

Chapter 3 (A) : Demand Analysis

(10) Amar demanded milk, sugar and tea powder jointly to satisfy his want of the tea. ***(March '25)***

Ans. (A) Identified concept : Joint demand.

(B) Explanation of concept : Two or more commodities that are demanded together to satisfy a single want are said to have joint demand.

(11) Due to mandatory use of masks during corona epidemic, the demand for mask producing labour has increased. ***(March '24)***

Ans. (A) Identified concept : Indirect demand.

(B) Explanation of concept : Commodities or services satisfying human wants indirectly are said to have indirect or derived demand.

Chapter 3 (B) : Elasticity of Demand

(12) Fall in price of sugar by 50% results in 50% rise in demand. ***(Sept. '21)***

Ans. *For the answer, refer to Q. 2 (A) (1) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(13) Ramesh's demand for salt remained unchanged in spite of a 10% rise in its price. ***(March '22)* OR**

Price of salt increases by ₹20 to ₹50, still there is no change in demand for salt. ***(July '23)***

Ans. (A) Identified concept : Perfectly inelastic demand.

(B) Explanation of concept : When the proportionate change in price of a commodity brings no (zero) proportionate change in the quantity demanded, the demand is said to be perfectly inelastic. The numerical value of perfectly inelastic demand is zero.

Chapter 4 : Supply Analysis

(14) Out of 4000 kg of rice, the farmer offered to sell 1000 kg of rice in the market at ₹40 per kg. ***(March '22)***

Ans. (A) Identified concept : Supply.

(B) Explanation of concept : Supply refers to quantity of a commodity that a seller is willing and able to offer for sale at a particular price, during a certain period of time.

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(15) A table seller sold the table for ₹2,000 per piece. In this way he sold 15 tables and earned ₹30,000. ***(March '23)***

Ans. (A) Identified concept : Total Revenue (TR).

(B) Explanation of concept : Total Revenue (TR) is the total sales proceeds of a firm by selling a commodity at a given price. It is the total income of a firm.

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(16) Abhijeet sold 15 chairs for ₹3,000 for each chair he earned ₹200. ***(March '25)***

Ans. (A) Identified concept : Average Revenue (AR).

(B) Explanation of concept : Average Revenue (AR) refers to the revenue received per unit of output sold by a manufacturer or seller.

Chapter 5 : Forms of Market

(17) There are many firms producing soaps in India. ***(Sept. '21)***

Ans. (A) Identified concept : Monopolistic competition.

(B) Explanation of concept : Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes.

(18) Ramakant charged higher fees at computer training centres in urban areas and lower fees at computer training centres in rural areas.

Ans. (A) Identified concept : Placewise price discrimination.

(B) Explanation of concept : In a discriminating monopoly, a monopolist can charge placewise different prices to same product or same service.

Such price discrimination is known as placewise price discrimination.

Chapter 6 : Index Numbers

(19) Ramesh prepared share price index number. ***(Sept. '21)***

Ans. (A) Identified concept : Special purpose index number.

(B) Explanation of concept : Special purpose index number is constructed with same specific purpose to measure change in specific variable in an economy over a period of time.

(20) Shailesh calculated index numbers by compiling data on total production of steel, fertilisers, cement, mineral oil, medical equipment, natural gas, etc. for the years 2014 and 2018.

Ans. (A) Identified concept : Index of Industrial Production.

(B) Explanation of concept : Index of Industrial Production measures the general changes in the industrial production over a period of time. A list of various industrial goods like steel, fertilisers, cement, mineral oil, medical equipment, natural gas, etc. is prepared and the changes in the production of these products over a period of time is measured by the Index of Industrial Production.

Chapter 7 : National Income

(21) Shobha collected data regarding the money value of all final goods and services produced in the country for the financial year 2019 – 2020. ***(March '22)***

Ans. (A) Identified concept : Measure of national income by product method.

(B) Explanation of concept : Measurement of national income by summing the economic values of all final goods and services produced in a particular financial year is a measure of national income by product method.

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(22) Rajaram produced 25 quintals of wheat in his field, from it he kept aside 2 quintals of wheat for his own family use.

(March '25)

Ans. (A) Identified concept : Product for self-consumption.

(B) Explanation of concept : The product for self-consumption is the part of the product that is set aside to meet the needs of onself and one's family.

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(23) Anita/Prakash/Jagruti receives monthly pension of ₹15,000/5,000 from the State Government.

(July '22 – '23; March '24)

Ans. *For the answer, refer to Q. 2 (A) (4) of the Solved Question Paper of July 2024 given in Section 1 of this book.*

Chapter 8 : Public Finance of India

(24) Ashok paid the tax on his income and property.

(March '23)

Ans. *For the answer, refer to Q. 2 (A) (2) of the Solved Question Paper of July 2024 given in Section 1 of this book.*

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(25) Rohini used to have to pay less income tax when her income was low, but now she has to pay more income tax due to increase in income.

Ans. (A) Identified concept : Progressive tax structure.

(B) Explanation of concept : If the tax rates increase in proportion to the increase in the income of the individual, such a tax structure is called a progressive tax structure.

Chapter 9 : Money Market and Capital Market in India

(26) Raju's/Raghu's father invests his money in a market for long term funds both equity and debt raised within and outside the country.

(March '23 – '24)

Ans. (A) Identified concept : Capital market.

(B) Explanation of concept : A market for long term funds both equity and debt raised within and outside the country is called capital market.

(27) Lucy/Meena deposited a lump sum amount of ₹ 1,00,000/ 1,50,000 in the Bank of India for the period of one year.

(March '22; July '23)

Ans. *For the answer, refer to Q. 2 (A) (3) of the Solved Question Paper of July 2024 given in Section 1 of this book.*

(28) ABC bank provides D-mat facility, safe deposit lockers, internet banking facilities to its customers.

Ans. (A) Identified concept : Ancillary functions of commercial banks.

(B) Explanation of concept : Commercial banks provide many customer services to the customers. The function of providing these services is called ancillary functions of commercial banks.

Chapter 10 : Foreign Trade of India

(29) England imported cotton from India, made readymade garments from it and sold them to Malaysia. ***(March '23)***

Ans. (A) Identified concept : Entrepot trade.

(B) Explanation of concept : The process of processing goods imported from one country and exporting them to another country is called entrepot trade.

(30) India purchased petroleum from Iran. ***(July '23)***

Ans. *For the answer, refer to Q. 2 (A) (5) of the Solved Question Paper of July 2024 given in Section 1 of this book.*

(31) Maharashtra purchased wheat from Punjab. ***(March '24)***

Ans. (A) Identified concept : Internal/Home trade (inflow of goods)

(B) Explanation of concept : Internal trade is the purchase (inflow) and sale (outflow) of goods and services within the geographical boundaries of a nation.

Question Set 8

DISTINGUISH BETWEEN

[Q. 2 (B) : 2 Marks each; Total 6 Marks]

Notes : (1) Five questions will be given in the question paper. Students are expected to write answers to any three questions. (2) Students are expected to write only two points of differences in the answer.

Q. Distinguish between the following : ***(2 marks each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Microeconomics and Macroeconomics : ***(July '23; March '25)***

Ans. Microeconomics	**Macroeconomics**
(1) Meaning	
According to Maurice Dobb, "Microeconomics is in fact a microscopic study of the economy".	According to Prof. Carl Shapiro, "Macroeconomics deals with the functioning of the economy as a whole".
(2) Scope	
The scope of microeconomics includes the theory of product pricing, theory of factor pricing and theory of economic welfare.	The scope of macroeconomics includes theory of income and employment, theory of general price level, theory of economic growth and development and macroeconomic theory of distribution.

(2) Partial Equilibrium and General Equilibrium : ***(Sept. '21)***

Ans. Partial Equilibrium	**General Equilibrium**
(1) Meaning	
Partial equilibrium is a type of equilibrium used in microeconomics, which explains the equilibrium of a particular unit of an economy.	General equilibrium is a type of equilibrium used in macroeconomics, which explains the equilibrium of the entire economy.
(2) Nature	
Partial equilibrium neglects the functional relationship and interdependence between the economic variables by assuming 'other things being constant'.	General equilibrium assumes the functional relationship and interdependence between economic variables by assuming 'everything depends on everything else'.

(3) Slicing Method and Lumping Method :

(March '22; July '22)

Ans. Slicing Method	**Lumping Method**
(1) Meaning	
Slicing method is a method used by microeconomics, in which the entire economy is divided into small units for an intensive study.	Lumping method is a method used by macroeconomics, in which the entire economy is divided into big lumps (or sectors) for aggregative study.
(2) Nature	
Slicing method is used to study the micro quantities of economic variables.	Lumping method is used to study the macro quantities of economic variables.

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(4) Form Utility and Knowledge Utility : *(Sept. '21)*

Ans. Form Utility	**Knowledge Utility**
(1) Meaning	
Utility increased by changing the shape, size, colour, etc. of a commodity is called form utility.	Utility increased by acquiring knowledge is called knowledge utility.
(2) Creation	
Form utility is obtained by changing the structure of an existing material to another structure.	Knowledge utility is obtained by gaining knowledge of a particular thing or a concept.

(5) Total Utility and Marginal Utility : *(March '24)*

Ans. Total Utility	**Marginal Utility**
(1) Meaning	
Total utility refers to the sum of utilities derived from the consumption of all the units of a commodity.	Marginal utility refers to the utility derived from the consumption of the last unit of a commodity.
(2) Numerical value	
In normal case, the numerical value of total utility is always positive.	The numerical value of the marginal utility can be positive, zero or even negative.

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(8) Increase in Demand and Decrease in Demand :

Ans. Increase in Demand	**Decrease in Demand**
(1) Meaning	
A rise in demand caused by favourable changes in other factors than price is called increase in demand.	A fall in demand caused by unfavourable changes in other factors other than price is called decrease in demand.
(2) Causes	
Increase in demand is caused by : (1) Rise in income (2) Increased liking for a commodity (3) Decrease in taxes.	Decrease in demand is caused by : (1) Fall in income (2) Decreased liking for a commodity (3) Increase in taxes.

(9) Individual Demand and Market Demand : ***(March '22)***

Ans. Individual Demand	**Market Demand**
(1) Meaning	
Individual demand is the demand by a single consumer in a market for a given commodity at a given price and time.	Market demand is the demand by all consumers in a market for a given commodity at a given price and time.
(2) Interrelation	
Individual demand is always less than market demand.	Market demand is always greater than individual demand.

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(8) Increase in Demand and Decrease in Demand :

Ans. Increase in Demand	**Decrease in Demand**
(1) Meaning	
A rise in demand caused by favourable changes in other factors than price is called increase in demand.	A fall in demand caused by unfavourable changes in other factors other than price is called decrease in demand.
(2) Causes	
Increase in demand is caused by : (1) Rise in income (2) Increased liking for a commodity (3) Decrease in taxes.	Decrease in demand is caused by : (1) Fall in income (2) Decreased liking for a commodity (3) Increase in taxes.

(9) Individual Demand and Market Demand : ***(March '22)***

Ans. Individual Demand	**Market Demand**
(1) Meaning	
Individual demand is the demand by a single consumer in a market for a given commodity at a given price and time.	Market demand is the demand by all consumers in a market for a given commodity at a given price and time.
(2) Interrelation	
Individual demand is always less than market demand.	Market demand is always greater than individual demand.

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Chapter 3 (B) : Elasticity of Demand

(10) Perfectly Elastic Demand and Perfectly Inelastic Demand : *(Sept. '21; March '24 – '25)*

Ans.

Perfectly Elastic Demand	Perfectly Inelastic Demand
(1) Meaning	
When a slight proportionate change in the price of a commodity brings an infinite (unlimited) proportionate change in its quantity demanded, the demand is said to be perfectly elastic.	When the proportionate change in the price of a commodity brings no (zero) proportionate change in its quantity demanded, the demand is said to be perfectly inelastic.
(2) Numerical Value	
In the case of perfectly elastic demand, the numerical value of the elasticity of demand is infinite.	In the case of perfectly inelastic demand, the numerical value of the elasticity of demand is zero.

(11) Income Elasticity of Demand and Cross Elasticity of Demand :

Ans.

Income Elasticity of Demand	Cross Elasticity of Demand
(1) Meaning	
Income elasticity of demand can be defined as the percentage change in the quantity demanded of a commodity in response to a change in the income of the consumer.	Cross elasticity of demand can be defined as the percentage change in the quantity demanded of one commodity (say '*x*') in response to the change in the price of another commodity (say '*y*').

(2) Formula	
$Ey = \frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y}$ Where, (i) ΔQ = Change in demand (ii) ΔY = Change in income (iii) Y = Original income (iv) Q = Original demand.	$Ec = \frac{\Delta Q_x}{Q_x} \times \frac{P_y}{\Delta P_y}$ Where, (i) ΔQ_x = Change in demand for commodity x (ii) ΔP_y = Change in price of commodity y (iii) P_y = Original price of commodity y (iv) Q_x = Original demand for commodity x.

Chapter 4 : Supply Analysis

(12) Stock and Supply : ***(July '22; March '23)***

Ans. Stock	**Supply**
(1) Meaning	
Stock refers to the entire quantity of commodity which exists with the seller.	Supply refers to the quantity of a commodity offered for sale at a given price and at a point of time.
(2) Interrelationship	
Stock can exceed supply or stock and supply can be same.	Supply and stock can be same. But supply can never exceed stock.

(13) Total Revenue and Marginal Revenue : ***(March '22)***

Ans. Total Revenue	**Marginal Revenue**
(1) Meaning	
The total sales proceeds of a firm by selling a commodity at a given price is called Total Revenue.	The net addition made to Total Revenue by selling one more unit of output is called Marginal Revenue.
(2) Formula	
$TR = P \times Q$	$MR_n = TR_n - TR_{n-1}$

(14) Expansion of Supply and Increase in Supply : ***(March '25)***

Ans. Expansion of Supply	**Increase in Supply**
(1) Meaning	
A rise in supply caused by rise in price while other factors remaining constant is called expansion of supply.	A rise in supply caused by favourable changes in other factors than price is called increase in supply.
(2) Equilibrium point	
In expansion of supply, the new equilibrium point of price and supply moves upwards from the left to the right on the same supply curve.	In increase in supply, the new equilibrium point of price and supply shifts from the left to the right on the new supply curve.

Chapter 5 : Forms of Market

(15) Perfect Competition and Monopolistic Competition : ***(Sept. '21)***

Ans. Perfect Competition	**Monopolistic Competition**
(1) Meaning	
A market where a large number of sellers sell homogeneous product at a single price is known as perfect competition.	A market where many sellers sell differentiated products at different prices is known as monopolistic competition.
(2) Selling cost	
In perfect competition, a seller does not have to incur selling cost.	In monopolistic competition, a seller has to incur selling cost.

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Chapter 6 : Index Numbers

(16) Price Index Numbers and Quantity Index Numbers :

(March '22 – '24)

Ans. *For the answer, refer to Q. 2 (B) (3) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(17) Simple Index Numbers and Weighted Index Numbers :

(July '22; March '23; July '23)

Ans. Simple Index Number	**Weighted Index Number**
(1) Meaning	
Index number measured by giving equal importance (weight) to every commodity is known as simple index number.	Index number measured by giving suitable importance (weight) to every commodity on the basis of their quantity is known as weighted index number.
(2) Nature	
The measurement of simple index number is comparatively simple.	The measurement of weighted index number is comparatively complex.

(18) Quantity Index Number and Value Index Number :

(March '25)

Ans. Quantity Index Number	**Value Index Number**
(1) Meaning	
Quantity Index Number is a type of index number derived by multiplying the ratio of sum of the quantities of the various goods of the current year and sum of the quantities of various goods of the base year by 100.	Value Index Number is a type of index number derived by multiplying the ratio of sum of the values of the various goods of the current year and sum of the values of various goods of the base year by 100.

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(2) Formula

Quantity Index Number	Value Index Number
$Q_{01} = \frac{\sum q_1}{\sum q_0} \times 100$	$V_{01} = \frac{\sum p_1 q_1}{\sum p_0 q_0} \times 100$

Chapter 7 : National Income

(19) Gross Domestic Product and Net Domestic Product :

Ans. Gross Domestic Product	**Net Domestic Product**
(1) Meaning	
Gross Domestic Product is the gross market value of all final goods and services produced within the domestic territory of a country during a financial year.	Net Domestic Product is the net value of all final goods and services produced within the domestic territory of a country during a financial year.
(2) Formula	
GDP = C + I + G + (X – M)	NDP = C + I + G + (X – M) – D

(20) Gross National Product and Net National Product :

Ans. Gross National Product	**Net National Product**
(1) Meaning	
Gross National Product is the total measure of flow of all goods and services at market value resulting from current production during a financial year in a country, including net income from abroad.	Net National Product is the net value of all goods and services at market value resulting from current production during a financial year in a country, including net income from abroad.
(2) Formula	
GNP = C + I + G + (X – M) + (R – P)	NNP = C + I + G + (X – M) + (R – P) – D

(21) Gross Domestic Product (GDP) and Gross National Product (GNP) : *(July '23)*

Ans. Gross Domestic Product (GDP)	**Gross National Product (GNP)**
(1) Meaning	
Gross Domestic Product (GDP) is the gross market value of all final goods and services produced within the domestic territory of a country during a financial year.	Gross National Product (GNP) is the total measure of flow of all goods and services at market price resulting from current production during financial year in a country, including net income from abroad.
(2) Formula	
$GDP = C + I + G + (X - M)$	$GNP = C + I + G + (X - M) + (R - P)$

Chapter 8 : Public Finance in India

(22) Direct Tax and Indirect Tax : *(Sept. '21; July '22)*

Ans. Direct Tax	**Indirect Tax**
(1) Meaning	
A tax which is levied on the income or property of an individual and so in which the impact and incidence of tax is on same head is called direct tax.	A tax which is levied on goods and services and so in which the impact of tax is on one person (seller) and the incidence of tax is on another person (buyer) is called indirect tax.
(2) Examples	
Income tax, property tax, etc. are the examples of direct tax.	Goods and Services Tax, Customs Duty, etc. are the examples of indirect tax.

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(23) Internal Debt and External Debt : ***(March '22 – '25)***

Ans. Internal Debt	**External Debt**
(1) Meaning	
Debt raised on the basis of financial resources within the economy is called internal debt.	Debt raised on the basis of financial resources outside the economy is called external debt.
(2) Nature	
Internal debt is repaid using domestic currency. It is less complicated to manage.	External debt is repaid using foreign currency. It is more complex to manage.

(24) Public Finance and Private Finance : ***(July '23)***

Ans. Public Finance	**Private Finance**
(1) Meaning	
The financial transactions carried out by the government with the objective of providing maximum social advantage to the society are called public finance.	The financial transactions carried out by an individual or a private enterprise to fulfil private interest are called private finance.
(2) Elasticity	
Public finance is comparatively more elastic. There is much scope for changes in public finance.	Private finance is comparatively less elastic. There is not much scope for changes in private finance.

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Chapter 9 : Money Market and Capital Market in India

(25) Demand Deposits and Time Deposits : ***(March '23)***

Ans. Demand Deposits	**Time Deposits**
(1) Meaning	
Deposits that are withdrawn on demand are called demand deposits.	Deposits that are withdrawn after a certain period of time are called time deposits.

(2) Types

Current deposits and savings deposits are the types of demand deposits.	Recurring deposits and fixed deposits are the types of time deposits.

Chapter 10 : Foreign Trade of India

(26) Trends in Imports of Foreign Trade and Trends in Exports of Foreign Trade :

Ans. Trends in Imports of Foreign Trade	**Trends in Exports of Foreign Trade**
	(1) Meaning
The import trend of foreign trade is the tendency of a country to reflect goods purchased from other countries, total dimensions of goods purchased from other countries, total value to be paid for goods purchased from other countries, etc.	The export trend of foreign trade is the tendency of a country to reflect goods sold to other countries, the total dimensions of goods sold to other countries, the total value derived from goods sold to other countries, etc.
	(2) Examples
Trends in imports of foreign trade of India include the commodities like petroleum, gold, fertilisers, iron and steel, sophisticated machinery, chemicals, etc.	Trends in exports of foreign trade of India include the commodities like engineering goods, petroleum products, chemical products, gems and jewellery, textiles and readymade garments, etc.

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Question Set 9

ANSWER IN BRIEF

[Q. 3 : 4 Marks each; Total : 12 Marks]

***Notes :** (1) Five questions will be given in the question paper. Students are expected to write answers to any three questions. (2) Write precise and to the point answers. (3) Write at least four points in the answer. (4) Draw diagrams, schedule wherever necessary.*

Q. Answer the following questions in brief : ***(4 marks each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Explain the scope of macroeconomics. ***(March '22)***

Ans. The scope of macroeconomics is as follows :

(1) Theory of Income and Employment : Macroeconomics explains how the level of national income and employment is determined. It also examines the causes for fluctuations in national income and employment. To understand the determination of the level of national income and employment, it also studies the consumption function, investment function and trade cycles. Macroeconomics studies the interrelationship between the level of output, national income and the employment level and suggests policies to solve the problems related to these macro variables.

(2) Theory of General Price Level and Inflation : Macroeconomics shows how the general price level is determined and further explains what causes fluctuations in it. The theory of general price level studies the causes and effects of inflation and depression and suggests economic policies to tackle these problems.

(3) Theory of Growth and Development : Macroeconomics studies the causes of underdevelopment and poverty in poor countries as well as developing countries and suggest theories and strategies for accelerating growth and development in them. It also explains how the higher rate of growth with stability can be achieved.

(4) Macro Theory of Distribution : Macroeconomics deals with determination of relative shares of various social classes in the total national income. Macro theory of distribution deals with the relative shares of rent, wages, interest and profit in the total national income.

(2) Explain any four features of microeconomics.

(July '22 – '23; March '25)

Ans. Features of microeconomics are as follows :

(1) Study of individual units : Microeconomics is concerned with the study of economic behaviour of small individual economic units of an economy. For example, microeconomics studies the economic behaviour of particular household, particular firm, price of a particular product, etc.

(2) Price theory : Microeconomics is primarily concerned with price determination of goods and services as well as factors of production, viz. land, labour, capital and entrepreneur. Therefore, microeconomics is also known as Price Theory.

(3) Partial equilibrium : Microeconomics isolates individual economic units from the other forces of economy. It analyses the equilibrium positions of individual economic units such as individual consumer, individual firm separately. Therefore, microeconomic analysis is a partial equilibrium analysis. Partial equilibrium analysis is based on the assumption of '*Ceteris Paribus*', i.e. other things remaining the same. Thus, partial equilibrium neglects the interdependence between economic variables of an economy.

(4) Based on certain assumptions : Microeconomics is based on certain assumptions such as full employment, pure capitalism, laissez-faire policy, perfect competition, etc. prevailing in an economy. But in reality, an economy with such conditions does not exist. Most of the theories of microeconomics are based on the '*Ceteris Paribus*' assumption, i.e. other things remaining the same.

(3) Explain any four points of importance of microeconomics.

(March '23)

Ans. *For the answer, refer to Q. (3) from Question Set 12.*

(4) Explain any four features of macroeconomics.

(March '24)

Ans. *For the answer, refer to Q. (4) from Question Set 12.*

Chapter 2 : Utility Analysis

(5) Elaborate any four features of utility. ***(March '22 – '24)***

Ans. *For the answer, refer to Q. (13) from Question Set 12.*

(Write any four points in the answer.)

(6) Explain any four exceptions of the law of Diminishing marginal utility. ***(March '23)***

Ans. *For the answer, refer to Q. (7) (B) from Question Set 12.*

(Write any four points in the answer.)

(7) Explain any four types of utility. ***(July '23)***

Ans. Types of utility are as follows :

(1) Form utility : Utility increased by changing the shape, size, colour, etc. of a commodity is called form utility. It refers to changing the structure of an existing material to another structure, which is more useful. For example, transforming a log of wood into table and chair.

(2) Place utility : Utility increased by changing the place of utilisation of a commodity is called place utility. It refers to transporting commodity from one place where it is available in plenty to another place where it is in scarcity. For example, grapes of Nashik are brought to Mumbai.

(3) Service utility : Utility obtained from the services of professional is called service utility. For example, a utility obtained from the services of teachers, doctors, chartered accountants, etc.

(4) Knowledge utility : Utility obtained from acquiring knowledge is called knowledge utility. For example, after completion of training, a person finds more utility in computers.

Chapter 3 (A) : Demand Analysis

(8) Explain any four types of demand. ***(March '24)***

Ans. *For the answer, refer to Q. 3 (2) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(9) Explain the Ratio Method of measuring price elasticity of demand. ***(March '22 – '23)***

Ans. (1) Ratio Method of measuring elasticity of demand is developed by Dr. Alfred Marshall. This method is also known as arithmetic method or percentage method or proportional method of measuring elasticity of demand.

(2) In this method, the elasticity of demand is measured by dividing the percentage change in the quantity demanded of a commodity by the percentage change in its price.

(3) The formula used for the measurement of the elasticity of demand is as follows :

$$Ed = \frac{\Delta Q}{Q} \times \frac{P_y}{\Delta P_y}, \text{ where}$$

(i) ΔQ = Change in the quantity demanded, i.e. $Q_1 - Q$. (New demand – Original demand) (ii) Q = Original demand (iii) ΔP = Change in the price, i.e. $P_1 - Q$. (New price – Original price) and (iv) P = Original price.

(4) Ratio Method can be explained with the help of the following example :

Price and Demand of a Commodity	Original	New	Change
Demand (per day in units)	10 (Q)	9 (Q_1)	01(ΔQ) $Q_1 - Q$
Price (₹)	20 (P)	25 (P_1)	05 (ΔP) $P_1 - P$

$$Ed = \frac{\Delta Q}{Q} \times \frac{P_y}{\Delta P_y}$$

$$\therefore Ed = \frac{1}{10} \times \frac{20}{5}$$

$$\therefore Ed = 0.4$$

$$\therefore Ed < 1.$$

As the numerical value of the elasticity of demand is less than one, the demand is relatively less elastic in this example.

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(10) Explain any four factors influencing elasticity of demand.

(July '23)

Ans. The factors influencing elasticity of demand are as follows :

(1) Nature of commodities : Nature of commodities is one of the important factors influencing the elasticity of demand. We can classify commodities as necessaries, comforts and luxury goods. The necessary goods like salt, medicines, etc. have less elastic demand. On the other hand, comfort and luxury goods like cars, perfumes, jewellery, etc. have more elastic demand.

(2) Availability of substitute goods : A commodity having larger number of substitutes tends to have elastic demand and vice versa. For example, due to the availability of larger number of substitutes, the demand for cold drinks tends to be elastic. Similarly, due to a lack of substitutes, the demand for salt is inelastic.

(3) Number of uses : A commodity which has specific use has less elastic demand. For example, a demand for a particular vegetable is less elastic. A commodity which can be put to several uses has elastic demand. When the price of such a commodity falls, it is put into various uses. Similarly, when the price of such a commodity rises, it is put only for important purposes. For example, electricity has elastic demand.

(4) Habits : The demand for habituated goods tends to be inelastic. For example, a smoker's demand for cigarettes is inelastic. On the other hand, the demand for non-habituated goods tends to be elastic. For example, demand for biscuits is more elastic.

Chapter 4 : Supply Analysis

(11) Explain the concept of Marginal Cost and Marginal Revenue.

Ans. [A] Marginal Cost :

(1) Meaning : Marginal cost is the net addition made to total cost by producing one more unit of output.

(2) Formula : Marginal cost is calculated as follows :

$MC_n = TC_n - TC_{n-1}$

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Where, TC_n = Total cost of producing n units, TC_{n-1} = Total cost of producing previous unit of n unit.

(3) Example : If a particular manufacturer's total cost of producing 20 units of fan is ₹90,000 and total cost of producing 19 units of fan is ₹87,000, then marginal cost of producing 20th fan can be calculated as follows :

$MC_n = TC_n - TC_{n-1}$

$\therefore MC_n = TC_{(20 \text{ units})} - TC_{(19 \text{ units})}$

$\therefore MC_n = 90{,}000 - 87{,}000$

$\therefore MC_n = 3{,}000$

$\therefore$ Marginal cost of producing nth (20th unit) of fan is ₹3,000.

[B] Marginal Revenue :

(1) Meaning : Marginal revenue is the net addition made to total revenue by selling an extra unit of the commodity.

(2) Formula : Marginal revenue is calculated as follows :

$MR_n = TR_n - TR_{n-1}$

Where, TR_n = Total Revenue of n units, TR_{n-1} = Total revenue of previous unit of n unit.

(3) Example : If a particular manufacturer receives ₹1,20,000 after selling 20 units of fan and receives ₹1,16,000 after selling 19 units of fan, then marginal revenue received by selling 20th fan can be calculated as follows :

$MR_n = TR_n - TR_{n-1}$

$\therefore MR_n = TR_{(20 \text{ units})} - TR_{(19 \text{ units})}$

$\therefore MR_n = 1{,}20{,}000 - 1{,}16{,}000$

$\therefore MR_n = 4{,}000$

$\therefore$ Marginal revenue received after selling nth (20th unit) of fan is ₹4,000.

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Chapter 5 : Forms of Market

(12) Explain the types (classification) of markets on the basis of time. ***(March '25)***

Ans. The types (classification) of markets on the basis of the time are as follows :

(1) Very Short Period : Very short period is a period in which supply is fixed and price is determined by the demand. It is a time period of a few hours to one week. The supply of commodity cannot be increased in very short period.

(2) Short Period : Short period is a period of less than one year. In this period, firms can only make adjustments in inputs like labour to increase the supply of goods and services. In short period supply can be increased to limited extent.

(3) Long Period : Long period is a period of time in which all factors of production and costs are variable. In the long run, firms can adjust all types of costs. It is a period of few years, generally up to five years. In long period, supply can be increased to a measurable extent.

(4) Very Long Period : Very long period is a period of time in which firms can vary all inputs fully. It is a period of more than five years. In very long period, supply can be increased fully.

(13) Explain any four features of perfect competition. ***(Sept. '21)***

Ans. *For the answer, refer to Q. (26) (B) from Question Set 12.*
(*Write any four points in the answer.*)

(14) Explain any four points related to the significance of index number. ***(July '22) OR***

Explain the significance of index numbers in economics.

Ans. The significance of index numbers in economics can be explained as follows :

(1) Helpful in framing suitable policies : Index numbers provide guidelines to policy makers in framing suitable economic policies. Index numbers are helpful in framing the economic policies such as agricultural policy and industrial policy. Index numbers also help in the fixation of wages and dearness allowances in accordance with the cost of living, etc.

(2) Helpful in studying trends and tendencies : Index numbers are widely used to measure changes in various economic variables such as production, prices, exports, imports, etc. over a period of time. For example, by examining the index of industrial production for the last five years, important conclusions about the trend of industrial production, i.e. whether the industrial production shows an upward tendency or a downward tendency can be drawn.

(3) Helpful in forecasting future economic activity : Index numbers helps in making predictions on the basis of analysis of the past and present trends in the economic activities. For example, by examining the data pertaining to exports of alphonso mangoes from the year 2009 to 2014 and from the year 2014 to 2019, if it is noticed that the export of alphonso mangoes has been increasing, it can be predicted that an increase in export will continue in future.

(4) Helpful in measurement of inflation : Index numbers are also used to measure changes in the price level from time to time. The measurement of inflation enables the government to undertake appropriate anti-inflationary measures. For example, there is a legal provision to pay the D.A. (dearness allowance) to the employees in organised sector on the basis of changes in Dearness Index. Thus, with the help of the Dearness Index, the government can increase the D.A. from time to time.

(5) Useful to present financial data in real terms : Rise in money supply over a period of time leads to inflation in an economy. Inflation has its effects on various economic variables such as total production, national income, price level, wage level, etc. Index numbers can exclude the effects of inflation by deflating the values of these various economic variables on the basis of their constant prices. Thus, index numbers can measure the changes in the values of various economic variables in real terms.

(Write any four points in the answer.)

(15) Explain the features of index numbers.

Ans. The features of index numbers are as follows :

(1) Statistical device : Index numbers are statistical devices.

(2) Specialised averages : Index numbers are specialized averages. Index numbers are capable of being expressed in percentages.

(3) Helpful to measure changes in the variables : Index numbers are helpful in measuring the net changes in one or more related variables over a period of time or between two different time periods or two different localities.

(4) Computed for a single variable or a group of variables : Index numbers are computed for measuring a net change in a single variable or a group of variables over a period of time. Index number which is computed from a single variable is called a 'univariate index'. An index number which is constructed from a group of variables is called a 'composite index'.

(5) Prepared for a current year : Index numbers are prepared for a current year. Index numbers measure a net change in a particular variable from the base year to the current year.

(6) Based on the base year : Index numbers are prepared with reference to the base year. Index numbers measure a net change in a particular variable by taking into account the values of a particular variable in the selected base year.

(7) Assumption of base year's index as 100 : While calculating the net change in the values of a particular variable, the base year's index of a selected variable is assumed as 100 and accordingly the value of the selected variable for the current year is calculated.

(8) Barometers of economic activity : Index numbers are also referred to as 'barometers of economic activity', since they are used to measure the trends and changes in the economy.

(*Write any four points in the answer*.)

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(16) Calculate value index number from the given data :

Commodity	Base Year		Current Year	
	Price	Quantity	Price	Quantity
A	40	15	70	20
B	10	12	60	22
C	50	10	90	18
D	20	14	100	16
E	30	13	40	15

Ans.

Commodity	Base Year			Current Year		
	p_0	q_0	p_0q_0	p_1	q_1	p_1q_1
A	40	15	600	70	20	1400
B	10	12	120	60	22	1320
C	50	10	500	90	18	1620
D	20	14	280	100	16	1600
E	30	13	390	40	15	600
Total	$\sum p_0q_0 = 1890$			$\sum p_1q_1 = 6540$		

Value Index Number $V_{01} = \dfrac{\sum p_1q_1}{\sum p_0q_0} \times 100$

$\therefore V_{01} = \dfrac{6540}{1890} \times 100$

$\therefore V_{01} = \dfrac{65400}{189}$

$\therefore V_{01} = 346.031$

$\therefore$ Value Index Number = **346.031.**

(17) Calculate quantity index number from the given data :

Commodity	P	Q	R	S	T
Base Year Quantities	170	150	100	195	205
Current Year Quantities	90	70	75	150	95

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Ans.

Commodity	Base Year Quantities (Base Year) q_0	Current Year Quantities (Current Year) q_1
P	170	90
Q	150	70
R	100	75
S	195	150
T	205	95
Total	$\sum q_0 = 820$	$\sum q_1 = 480$

Price Index Number $Q_{01} = \frac{\sum q_1}{\sum q_0} \times 100$

$\therefore Q_{01} = \frac{480}{820} \times 100$

$\therefore Q_{01} = \frac{24}{41} \times 100$

$\therefore Q_{01} = \frac{2400}{41}$

$\therefore Q_{01} = 58.536$

$\therefore$ Quantity Index Number $=$ **58.54**

(18) Calculate Paasche's Index Number from the given data :

Commodity	Base Year		Current Year	
	Price	Quantity	Price	Quantity
X	35	10	40	15
Y	50	22	60	25

Ans.

Commodity	Base Year		Current Year			
	p_0	q_0	p_1	q_1	p_1q_1	p_0q_1
A	35	10	40	15	600	525
B	50	22	60	25	1500	1250
Total					$\sum p_1q_1 = 2100$	$\sum p_0q_1 = 1775$

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Paasche's Index Number $P_{01} = \frac{\sum p_1 q_1}{\sum p_0 q_1} \times 100$

$\therefore P_{01} = \frac{2100}{1775} \times 100$

$\therefore P_{01} = \frac{84}{71} \times 100$

$\therefore P_{01} = \frac{8400}{71}$

$\therefore P_{01} = 118.309$

$\therefore$ Paasche's Index Number = **118.31**

Chapter 7 : National Income

(19) Explain any four features of national income.

(Sept. '21; March '23)

Ans. The features of national income are as follows :

(1) Macroeconomic concept : National income represents income of the economy as a whole rather than that of an individual. Therefore, national income is a macroeconomic concept.

(2) Inclusion of value of only final goods and services : In order to avoid double counting, the value of only final goods and services produced in the economy are considered while calculating national income. While calculating national income, the value of intermediate goods or raw materials is not considered. For example, while estimating the value of sugar, the value of sugar cane is not taken into account, as it is already included in the price of the sugar.

(3) Inclusion of net aggregate value : National income includes net value of goods and services produced and does not include depreciation cost (i.e. wear and tear of capital assets).

(4) Inclusion of net income from abroad : National income includes net income from abroad, i.e. difference between export value and import value (X – M) and net difference between receipts from abroad and payments made abroad (R – P).

(5) Expressed with reference to financial year : National income is always expressed with reference to a specific time period. In India, it is calculated for every financial year, i.e. from 1st April to 31st March.

(6) Flow concept : National income is a flow concept. It shows flow of goods and services produced in the economy during a financial year.

(7) Expressed in monetary terms : National income is always expressed in monetary terms. It represents only those goods and services which are exchanged for money.

(*Write any four points in the answer.*)

(20) Explain the importance of national income.

Ans. The importance of national income can be explained with the help of the following points :

(1) Useful for the economy : The information/data of national income is very important for the economy of a country. In present times, the national income data is regarded as accounts of the economy, which is known as 'Social Accounts'. It provides information about how the aggregates of a nation's income, output and product result from the income of different individuals, products of industries and transactions of international trade.

(2) Helpful in framing national policies : The statistical data of national income forms the basis of national policies such as employment policy, industrial policy, agricultural policy, etc. The information about national income enables to know the direction in which the industrial output, investment and saving, etc. change. National income also helps to generate economic models like growth model, investment models, etc. Thus, proper measures can be adopted to bring the economy to the right path.

(3) Helps in economic planning : For economic planning, data pertaining to national income is very essential. This includes data related to a country's gross income, output, savings, investment and consumption which can be obtained from different sources.

(4) Useful in economic research : National income data is also used by the research scholars of economics. For example, the data of the country's input, output, income, savings, consumption, investment, employment, etc. which are obtained from social accounts helps in economic research.

(5) Helpful in comparing standard of living : National income data helps to compare the standards of living of people in different countries and of people living in the same country at different times. For example, the data about national income of developed countries and undeveloped countries help in comparing the standard of living of people of these countries.

(6) Helpful in knowing the distribution of income : National income statistics enables to know about the distribution of income in the country from the data related to wages, rent, interest and profits. This data helps in understanding the economic disparities in the incomes of different sections of the society.

(*Write any four points in the answer.*)

(21) Explain the precautions to be taken while using product method of measuring national income.

Ans. The precautions to be taken while using product method of measuring national income are as follows :

(1) To avoid double counting, only the value of final goods and services must be taken into account while calculating national income.

(2) Goods used for self-consumption by farmers or manufacturer should be estimated by a guess work. Imputed value of goods produced for self-consumption is included in national income.

(3) Indirect taxes included in the market prices are to be deducted and subsidies given by the government to certain products should be added for accurate estimation of national income.

(4) While evaluating output, changes in the price level between different years must be taken into account.

(5) Value of exports should be added and value of imports should be deducted.

(6) Depreciation of capital assets should be deducted.

(7) Sale and purchase of second hand goods should be ignored as it is not a part of current production.

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(22) Explain the precautions to be taken while using income method of measuring national income.

Ans. The precautions to be taken while using income method of measuring national income are as follows :

(1) Transfer incomes or transfer payments like scholarships, gifts, donations, charity, old age pensions, unemployment allowance, etc. should be excluded from the measurement of national income.

(2) All unpaid services like services of a housewife, teacher teaching her/his child, should be ignored while calculating national income.

(3) Any income from sale of second-hand goods like car, house, etc. should be ignored.

(4) Income from sale of shares and bonds should be ignored, as they do not add anything to the real national income.

(5) Revenue received by the government through direct taxes, should be ignored, as it is only a transfer of income.

(6) Undistributed profits of companies, income from government property and profits from public enterprises such as water supply, should be included.

(7) Imputed value of production kept for self-consumption and imputed rent of owner occupied houses should be included.

(23) Explain the precautions to be taken while using expenditure method of measuring national income.

Ans. The precautions to be taken while using expenditure method of measuring national income are as follows :

(1) To avoid double counting, expenditure on all intermediate goods and services should be ignored while calculating national income.

(2) Expenditure on the repurchase of second-hand goods, should be ignored, as it is not incurred on currently produced goods.

(3) Expenditure on transfer payments like scholarships, old age pensions, unemployment allowance, etc. should be ignored.

(4) Expenditure on repurchase of financial assets such as shares, bonds, debentures, etc. should not be included, as such transactions do not add to the flow of goods and services.

(5) Indirect taxes should be deducted from the calculation of national income.

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(6) Expenditure on only final goods and services should be included.

(7) Subsidies should be included while measuring national income.

(24) Explain the income method of measuring national income.

Ans. *For the answer, refer to Q. (6) (1) (A) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(25) Explain the expenditure method of measuring national income.

Ans. *For the answer, refer to Q. (6) (1) (B) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(26) Explain the two sector model of circular flow of National Income. ***(July '23)***

Ans. *For the answer, refer to Q. 3 (iv) of the Solved Board's Question Paper of July 2025 given on QR Code in Section 4 of this book.*

Chapter 8 : Public Finance In India

(27) Explain the meaning of budget with its types. ***(July '23)***

Ans. (A) Meaning : Financial statement showing the expected receipts and proposed expenditure of the government in coming financial year is known as budget.

(B) Types : The types of government budget are as follows :

(1) Balanced budget : A budget in which government's estimated revenue and its anticipated expenditure is equal to each other is called balanced budget. Balanced budget is purely a theoretical concept.

(2) Surplus budget : A budget in which government's estimated revenue exceeds its anticipated expenditure is called surplus budget. Surplus budget is used during inflation to pull down the effective demand.

(3) Deficit budget : A budget in which government's anticipated expenditure exceeds its estimated revenue is called deficit budget. Deficit budget is used during depression to push up the effective demand.

(28) Explain any four reasons for the growth of public expenditure. ***(March '24)***

Ans. *For the answer, refer to Q. (37) from Question Set 12.*

(Write any four points in the answer.)

(29) Explain any four sources of non-tax revenue of the government. ***(Sept. '21)***

Ans. Non-tax sources of revenue of the government are as follows :

(1) Fees : Fee is paid by citizens in return for certain specific services rendered by the government. For example, education fee, registration fee, etc.

(2) Prices of public goods and services : Modern governments sell various types of commodities and services to the citizens. A price is a payment made by the citizens to the government for the goods and services sold to them. For example, railway fares, postal charges, etc.

(3) Special assessment : The payment made by the citizens of a particular locality in exchange for certain special facilities given to them by the authorities is known as 'special assessment'. For example, local bodies can levy a special tax on the residents of a particular area where extra/special facilities of roads, energy, water supply, etc. are provided.

(4) Fines and penalties : The government imposes fines and penalties on those who violate the laws of the country. The objective of the imposition of fines and penalties is not to earn income, but to discourage the citizens from violating the laws framed by the government. For example, fines for violating traffic rules. However, the revenue from this source is comparatively limited.

(5) Gifts, grants and donations : The government may also earn some income in the form of gifts by the citizens and others. The government may also receive grants from the foreign governments and institutions for general and specific purposes. Foreign aid has become an important source of development finance for a developing country like India. However, this source of revenue is uncertain in nature.

(6) Special levies : The government levies duties on those commodities, the consumption of which is harmful to the health and well-being of the citizens. Like fines and penalties, the objective of special levies is not to earn income, but to discourage citizens from the consumption of harmful commodities. For example, duties levied on wine, opium and other intoxicants.

(7) Borrowings : The government borrows from the citizens in the form of deposits, bonds, etc. Government also gets loans from foreign governments and international organisations such as IMF, World Bank, etc. In modern times, loans are becoming more and more popular source of revenue for the governments.

(*Write any four points in the answer.*)

(30) Explain the types of public expenditure. ***(July '24)***

Ans. The types of public expenditure are as follows :

(1) Revenue expenditure : The expenditure which is incurred by the government for carrying out day-to-day functions of the government departments and various administrative services is called revenue expenditure. It is incurred regularly by the government. For example, administration costs of the government, payment of salaries, allowances and pensions of government employees, costs paid for providing medical and public health services, etc.

(2) Capital expenditure : The expenditure which is incurred by the government for boosting the economic growth and development of a country is called capital expenditure. For example, huge investments in different development projects, loans granted to the state governments and government companies, repayment of government loans, etc.

(3) Developmental expenditure : The expenditure of government which yields direct productive impact on the country is called developmental expenditure. Developmental expenditure results in generation of employment, increase in production, price stability, etc. For example, expenditure on health, education, industrial development, social welfare, Research and Development (R & D), etc.

(4) Non-developmental expenditure : The expenditure of government which does not yield any direct productive impact on the country is called non-developmental expenditure. For example, administration costs, war expenditure, etc.

(31) Explain the function of acceptance of deposits of commercial banks. ***(Sept. '21)***

Ans. *For the answer, refer to Q. (34) from this Set.*

(32) Explain any four points related to the role of money market in India. ***(July '22)***

Ans. *For the answer, refer to Q. (40) from Question Set 12.*

(*Write any four points in the answer.*)

(33) Explain any four problems faced by the money market in India. ***(March '23)***

Ans. The problems faced by the money market in India are as follows :

(1) Dual structure : The money market in India has a dual structure, i.e. organised sector of money market and unorganised sector of money market. The organised sector of money market includes the Reserve Bank of India, commercial banks, co-operative banks, development financial institutions, Discount and Finance House of India, etc. The unorganised sector of money market in India includes money lenders, indigenous bankers, unregulated non-bank financing intermediaries, etc. Due to this dual structure of the money market, there is a lack of transparency and stability in the Indian money market. There is a lack of coordination in the unorganised sector of the Indian money market. Also, the unorganised sector of the Indian money market does not come under the direct control and supervision of the Reserve Bank of India.

(2) Lack of uniformity in the rates of interest : The interest rate charged on the debt in the unorganised money market in India is relatively high. In the organised money market of India, there exists a difference in the rate of interest of commercial banks, co-operative banks, non-bank finance companies, development finance institutions, investment companies, etc. This lack of similarity in interest rate adversely affects the efficiency of the money market of India.

(3) Shortage of funds : Due to limited per capita income, lack of banking habits among the general public, overemphasis on useless consumption expenditure, inadequate banking facilities in rural areas, etc. the savings rate among the people of India is low. Inadequate savings have led to a shortage of funds in the money market of India.

(4) Seasonal fluctuations : In India, during the peak season, i.e. from October to June, there is a huge demand for finance due to various reasons such as trading in agricultural products, investing in agro-based businesses, etc. During the peak season, the demand for finance in the money market is high and the supply is low, leading to an increase in lending rates. Demand for finance is relatively low in the post-harvest period, leading to lower borrowing rates. As a result, the money market of India, especially the unorganised sector, experiences significant fluctuations in seasonal interest rates and lending rates, adversely affecting the efficiency of the money market of India.

(5) Lack of financial inclusion : Banking facilities are not adequately accessible to the economically weaker lower income groups in India. As a result, people in this group do not have adequate savings and loan opportunities. As a result, there is a lack of financial inclusion in the money market of India.

(6) Delays in technological upgradation : It is essential to use the latest technology for the development and smooth functioning of the money market. Due to some delays in the improvement of technology in India, the functioning of the money market in India is hampered.

(*Write any four points in the answer.*)

(34) Explain the functions of commercial banks. ***(March '25)***

Ans. The functions of commercial banks are as follows :

(1) Accepting deposits : Deposits are the main source of funds for commercial banks. Commercial banks accept the following types of deposits :

(A) Demand deposits : Demand deposits are deposits that are withdrawn on demand. The following are the two types of demand deposits :

(a) Current deposits : Current deposits are generally kept in current account by businessmen, corporations and trusts. The accountholder can deposit money in the current deposit account any number of times and withdraw as many times as demanded. Current deposit accountholders are also given the facility of overdraft, i.e. facility to withdraw in excess of the balance in the account.

(b) Savings deposits : Savings deposits are held mainly by salaried class and small traders. The accountholder can deposit money in the savings deposit account at any number of times and withdraw money as and when required.

(B) Term deposits : Deposits held for a fixed period are called term deposits. The following are the two types of term deposits :

(a) Recurring deposits : Recurring deposits are regularly kept in the recurring deposit account, especially by small savers. Recurring deposits encourage regular savings.

(b) Fixed deposits : Fixed deposits are kept by the saver for a fixed period. The amount deposited by the saver can be withdrawn after the stipulated period. Interest is paid at the highest rate on fixed deposits.

(2) Providing loans and advances : Commercial banks use deposits accepted from depositors to lend to needy persons. Commercial banks provide short, medium and long-term loans to individuals and institutions for various purposes. The longer the loan period, the higher is the loan rate. Apart from this, commercial banks also offer cash credit, overdraft facility and also discount bills of exchange.

(3) Ancillary functions : Commercial banks provide various facilities like transfer of funds, collection of money, making periodical payments on behalf of the customers, safe deposit lockers, D-mat facility, internet banking facility, mobile banking facility, etc.

(4) Credit creation : Credit creation is an important function of commercial banks. Commercial banks create credit on the basis of primary deposits. Commercial banks use demand and term deposits to lend after meeting the cash reserve requirement. Commercial banks deposit the loan amount in the borrower's account when lending a loan. Thus, loans are made from primary deposits and secondary deposits are made while lending loans. Thus, commercial banks create credit.

(35) Write about the reforms introduced in the money market of India.

Ans. The major reforms introduced in the money market of India are as follows :

(1) Introduction of new instruments : New instruments like treasury bills, Commercial Papers (CPs), Certificates of Deposits (CDs) and Money Market Mutual Funds (MMMFs) have been introduced in the money market of India.

(2) Liquidity Adjustment Facility : The Liquidity Adjustment Facility (LAF) in the money market of India includes the Repos and Reverse Repos of the Reserve Bank of India.

(3) Mechanism of market forces : In the money market of India, the emphasis is mainly on determining interest rates by market forces.

(4) Facilities for faster transfer of funds : National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS) funds have been introduced to facilitate faster transfer of funds in the money market of India.

(5) Technological upgradation : An electronic dealing system has been introduced to bring technological upgradation in the money market of India.

(36) Explain the role of capital market in India.

Ans. The role of the capital market in India is explained in the following points :

(1) Mobilisation of long-term savings : Industrial organisations and the government need a large amount of funds for investment and financial resources. Availability of financial resources are insufficient to meet the demand for these funds. In such a case, the sale of securities by the capital market helps to bring together the long-term savings of different sections of the population.

(2) Provision of equity capital : The capital market provides equity capital to entrepreneurs. Entrepreneurs use the share capital to buy assets for the industry and to fund business operations.

(3) Operational efficiency : Capital market reduces the cost of transactions and simplifies the transaction process. Capital market helps financial transactions to achieve operational efficiency by reducing the time taken to buy and sell stocks.

(4) Quick valuation : Capital market helps to determine the fair and quick value of equities (shares) and debt (bonds and debentures).

(5) Integration : The capital market coordinates by consolidating the real and financial sector, equities and debt instruments, public sector and private sector, domestic and external funds, etc.

(37) Explain any four problems of the capital market in India. ***(March '24)***

Ans. The following are the problems of capital market in India :

(1) Financial Scams : Financial scams are on the rise in the Indian capital market. Rising financial scandals have increased the distrust of the general public and as a result, investors' confidence in investing in the capital market has waned. As a result, capital markets face irreparable losses in the form of declining public confidence.

(2) Insider trading and price manipulation : Since some individuals have access to confidential information of companies, such individuals, for personal gains, buy and sell securities on the basis of the unpublished confidential information of companies. Some individuals deliberately raise or lower the price of shares by buying and selling shares of certain companies for personal gain. Such illegal transactions are adversely affecting the smooth functioning of the capital market of India.

(3) Inadequate debt instruments : In the capital market of India, debt instruments include bonds, debentures, etc. Due to narrow investor base, high cost of issuance, restrictions on entry of small and medium enterprises into the capital market, etc. there is relatively few trading in debt securities.

(4) Decline in the volume of trade : Capital market investors can trade online. As a result, capital market investors in various parts of the country prefer to invest in securities listed in premier stock exchanges like in the Bombay Stock Exchange and in the National Stock Exchange. As a result, there has been a sharp decline in trade in regional stock exchanges in India.

(5) Lack of information efficiency : If the company's current stock price incorporates all the information about the company, then a market is said to be informationally efficient. However, the efficiency of information in the Indian stock market is relatively low compared to other developed countries. As a result, investors do not get the expected return on investment and thus lose faith in the capital market.

(38) Explain the reforms introduced in the capital market of India.

Ans. Capital market reforms in India are as follows :

(1) Establishment of SEBI : The Securities and Exchange Board of India (SEBI) was established in 1988 to improve capital market transactions in India and was given statutory recognition in 1992.

(2) Establishment of Stock Exchange : India's leading stock exchange, i.e. National Stock Exchange (NSE) was established in 1992 to improve capital market transactions in India.

(3) Adoption of computerised system : As part of modernization, Computerised Screen Based Trading System (SBTS) was introduced in the capital market of India.

(4) D-MAT account facility : D-MAT account facility has been made available to the investors in the capital market since 1996 so that investors can easily buy and sell shares.

(5) Increased access to global funds : Increased access to global funds by Indian companies is allowed through American Deposit Receipts (ADR) and Global Deposit Receipts (GDR).

(6) Establishment of Investor Education and Protection Fund : The Investor Education and Protection Fund (IEPF) was established in 2001 to raise the awareness of investors in the capital market and to safeguard the interests of investors.

Chapter 10 : Foreign Trade of India

(39) Explain any four points related to the role of foreign trade.
(July '22; March '25)

Ans. *For the answer, refer to Q. 41 (B) from Question Set 12. (Write any four points in the answer.)*

Question Set 10

STATE WITH REASONS; DO YOU AGREE/DISAGREE

[Q. 4 : 4 Marks each; Total : 12 Marks]

Notes : *(1) Five statements will be given in the question paper. Students are expected to write answers to any three questions. (2) Rewrite the statement in answer sheet followed by Agree or Disagree. (3) 1 mark is allotted for stating 'Agree' or 'Disagree'. 3 marks are allotted for writing correct reasons. (4) Draw diagrams, schedule wherever necessary.*

Q. Answer with reasons, whether you *Agree* or *Disagree* with the following statements : ***(4 marks each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) The scope of macroeconomics is unlimited. ***(Sept. '21)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (1) from Question Set 9.*

(2) Macroeconomics is different from microeconomics. ***(March '23 – '24)***

Ans. I agree with this statement.

Reasons : (1) Macroeconomics is the study of entire economy. On the other hand, microeconomics is a study of a particular segment of an economy.

(2) Macroeconomics studies aggregate demand, aggregate supply, national income, general price level, etc. On the other hand, microeconomics studies individual demand, individual supply, individual income, price determination of particular product, etc.

(3) Macroeconomics follows general equilibrium analysis. On the other hand, microeconomics follows partial equilibrium analysis. Macroeconomics uses lumping method. On the other hand, microeconomics uses slicing method.

Therefore, macroeconomics is different from microeconomics.

(3) The scope of microeconomics is unlimited.

Ans. I disagree with this statement.

Reasons : (1) The term 'microeconomics' is derived from the Greek word 'mikros' which means a small or millionth part. Thus, microeconomics studies particular unit of an economy.

(2) Microeconomics studies the economic behaviour of particular household, individual firm, individual demand, individual supply, individual income, price of a particular product, etc.

(3) Microeconomics studies how a particular consumer tries to attain maximum satisfaction and how a particular producer tries to attain maximum profit. Microeconomics does not include the study of the large aggregates. Thus, microeconomics is not aggregative but is individualistic in nature.

Therefore, the scope of microeconomics is not unlimited but it is limited.

(4) Macroeconomics deals with the study of individual behaviour.

Ans. I disagree with this statement.

Reasons : (1) Macroeconomics does not study the individual economic unit such as particular consumer, individual demand, particular seller, individual supply, price determination of particular good, etc.

(2) Microeconomics studies individual economic units and deals with how a particular consumer attain maximum satisfaction and how a particular producer attain maximum profit.

(3) Macroeconomics studies the economic behaviour of aggregates, their functional relationship, their interdependence, their determination and causes of fluctuations in them.

Thus, macroeconomics does not deal with the study of individual behaviour, rather it deals with the study of behaviour of aggregates.

(5) Microeconomics uses slicing method.

Ans. I agree with this statement.

Reasons : (1) Microeconomics studies the individual economic units of an economy. For example, study of a particular firm.

(2) For studying individual economic units, microeconomics splits the economy into small individual economic units.

(3) Then it studies the economic behaviour of each individual's economic unit separately in detail.

Therefore, microeconomics uses slicing method.

(6) Microeconomics is known as Income Theory.

Ans. I disagree with this statement.

Reasons : (1) Income Theory lies within the scope of macro-economics.

(2) Microeconomics explains how the prices of a variety of goods and services are determined. Thus, theories of demand, supply, production function and cost fall within the scope of microeconomics.

(3) Microeconomics also explains how the prices of factors of production, viz. land, labour, capital and entrepreneur are determined. Thus, theories of rent, wages, interest and profit fall within the scope of microeconomics.

Therefore, microeconomics, is not known as Income Theory but is known as Price Theory.

Chapter 2 : Utility Analysis

(7) The Law of Diminishing Marginal Utility is based on many assumptions. ***(July '23)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. 6 (2) (B) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book. (Write any three points in the answer.)*

(8) There are no exceptions to the Law of Diminishing Marginal Utility. ***(March '22)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (7) (B) from Question Set 12. (Write any three points in the answer.)*

Chapter 3 (A) : Demand Analysis

(9) Every desire of an individual is a demand. ***(July '22)***

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. 2 (B) (1) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

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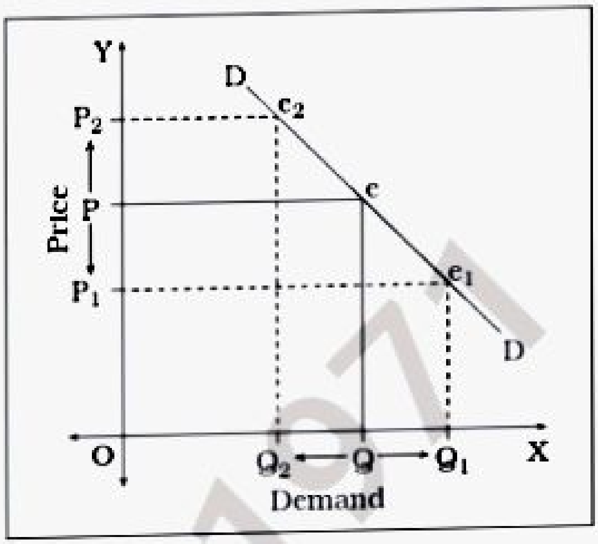
(10) Demand curve slopes downward from left to right.

(March '25)

Ans. I agree with this statement.

Reasons : (1) According to the Law of Demand propounded by **Dr. Alfred Marshall**, *"Other things being equal as price falls demand tends to rise and as price rises demand tends to fall."*

(2) This statement can be explained with the help of the following diagram :



From the diagram it can be seen that as price rises from OP to OP_2, demand falls from OQ to OQ_2. Similarly, as price falls from OP to OP_1, demand rises from OQ to OQ_1. Demand curve, i.e. DD indicates the inverse relationship between the price and the quantity demanded of a commodity.

(3) Diminishing marginal utility, income effect, substitution effect, multipurpose uses, new consumers, etc. are the reasons for demand curve sloping downward from left to right.

Thus, demand curve slopes downward from left to right.

(11) There are no exceptions to the Law of Demand.

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. (16) (B) from Question Set 12. (Write any three points in the answer.)*

(12) When price of Giffen goods falls, the demand for it increases.

Ans. I disagree with this statement.

Reasons : (1) Sir Robert Giffen from England noticed that in the case of inferior quality products (Giffen goods), the Law of Demand does not hold good. When the price of Giffen goods falls, buyer's real income gets increased. As its effect, they demand more of superior quality goods.

(2) For example, when the price of *vanaspati ghee* falls, (its demand remains less), the demand for pure ghee rises.

(3) Thus, fall in prices of Giffen goods leads to fall in their demand. Therefore Giffen goods are considered as exception to the Law of Demand. This phenomenon is known as Giffen's paradox.

Thus, when price of Giffen goods falls, the demand for it does not increase but decreases.

Chapter 3 (B) : Elasticity of Demand

(13) Elasticity of demand depends upon several factors.

(March '25)

Ans. I agree with this statement.

Reasons : The factors influencing elasticity of demand are as follows :

(1) Nature of commodities : Nature of commodities is one of the important factors influencing the elasticity of demand. We can classify commodities as necessities, comforts and luxury goods. The necessary goods like salt, medicines, etc. have less elastic demand. On the other hand, comfort and luxury goods like cars, perfumes, jewellery, etc. have more elastic demand.

(2) Availability of substitute goods : A commodity having larger number of substitutes tends to have elastic demand and vice versa. For example, due to the availability of larger number of substitutes, the demand for cold drinks tends to be elastic. Similarly due to a lack of substitutes, the demand for salt is inelastic.

(3) Number of uses : A commodity which has specific use has less elastic demand. For example, a demand for a particular vegetable is less elastic. A commodity which can be put to several uses has elastic demand. When the price of such a commodity falls, it is put into various uses. Similarly when the price of such a commodity rises, it is put only for important purposes. For example, electricity has elastic demand.

(4) Habits : The demand for habituated goods tends to be inelastic. For example, a smoker's demand for cigarettes is inelastic. On the other hand, the demand for non-habituated goods tends to be elastic. For example, demand for biscuits is more elastic.

(Write any three points in the answer.)

Chapter 4 : Supply Analysis

(14) Supply curve slopes downwards from left to right. ***(July '23)***

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. 4 (4) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(15) There are some exceptions to the Law of Supply. ***(Sept. '21; March '25)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (23) from Question Set 12.*

(16) Supply curve of labour is backward bending. ***(March '22)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (23) (a) from Question Set 12.*

(17) There are no exceptions to the Law of Supply. ***(March '23)***

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. (23) from Question Set 12.*

(18) There is a direct relationship between price and quantity supplied. ***(July '22)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (21) from Question Set 12.*

Chapter 5 : Forms of Market

(19) Price under perfect competition is decided by the interaction between demand and supply. ***(March '22)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (27) (B) from Question Set 12.*

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(20) Perfect competition means monopolistic competition.

Ans. I disagree with this statement.

Reasons : (1) In perfect competition, there are large number of sellers. In monopolistic competition there are fairly large number of sellers, but they are smaller than that in a perfect competitive market.

(2) In perfect competition, all sellers sell homogeneous products. On the other hand, in monopolistic competition, all sellers sell differentiated products.

(3) In perfect competition selling cost is not incurred by the sellers. On the other hand, in monopolistic competition, all sellers incur selling cost to attract consumers. In perfect competition, there is a uniform price of a product. On the other hand, in monopolistic competition, the price of the differentiated products of every seller is different.

Thus, perfect competition does not mean monopolistic competition. They are two different forms of market.

(21) Price maker is the only feature of monopoly market. ***(March '24)***

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. (25) (B) from Question Set 12. (Write any three points in the answer.)*

Chapter 6 : Index Numbers

(22) Index numbers can be constructed without the base year. ***(July '22)***

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. 4 (5) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(23) Index numbers are very significantly/important in economics. ***(March '23)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (14) from Question Set 9.*

(24) Index numbers are free from limitations. ***(July '23)* OR**
There are no limitations to the index numbers. ***(March '25)***

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. 3 (5) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*
(Write any three points in the answer.)

Chapter 7 : National Income

(25) Gross National Product and Gross Domestic Product are same concepts.

Ans. I disagree with this statement.

Reasons : (1) Gross National Product is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

(2) Gross Domestic Product is the gross market value of all final goods and services produced within the domestic territory of a country during a period of one year. Net income from abroad is excluded from Gross Domestic Product.

(3) The formula of Gross National Product is as follows :

$GNP = C + I + G + (X - M) + (R - P)$.

Whereas, the formula of Gross Domestic Product is as follows :

$GDP = C + I + G + (X - M)$.

Therefore, Gross National Product and Gross Domestic Product are not same concepts, but are different concepts.

Chapter 8 : Public Finance in India

(26) Obligatory function is the only function of the government. ***(Sept. '21)***

Ans. I disagree with this statement.

Reasons : (1) In modern times, modern government performs many other optional functions in addition to the traditional obligatory functions of defence and civic administration.

(2) The government performs optional functions for the purpose of boosting economic and social development in the country. The optional functions of the government are constantly increasing.

(3) Provision of education and health services, implementation of social security schemes, promotion of industrial development,

employment generation, etc. optional functions are carried out by the government.

Thus, obligatory function is not the only function of government; it is one of many functions.

(27) There are many sources of non-tax revenue. ***(March '24)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (29) from Question Set 9.*

(28) Fees, fines and penalties are a major source of revenue for the government. ***(July '23)***

Ans. I disagree with this statement.

Reasons : (1) Revenue from fees and penalties is non-tax revenue. The government receives less revenue from non-tax sources than it does from tax sources.

(2) The Government receives revenue in the form of fines and penalties only if a person violates the law.

(3) However, it cannot be said that many individuals will consistently violate the laws of the country.

Therefore, fines and penalties are not a major source of revenue for the government.

Chapter 9 : Money Market and Capital Market in India

(29) Reserve Bank of India performs various functions. ***(Sept. '21)*** ***OR***

There are many functions of the Reserve Bank of India.

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (39) from Question Set 12.*

(Write any three points in the answer.)

(30) Capital market plays an important role in India/Indian economy. ***(March '22 – '25)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (36) from Question Set 9.*

(Write any three points in the answer.)

(31) There are no problems faced by money market of India.

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. (33) from Question Set 9.*

(Write any three points in the answer.)

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(32) Many reforms have been introduced in the money market of India.

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (35) from Question Set 9.*

(Write any three points in the answer.)

(33) There are many problems faced by the capital market of India.

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (37) from Question Set 9.*

(Write any three points in the answer.)

(34) Many reforms have been introduced in the capital market of India.

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (38) from Question Set 9.*

(Write any three points in the answer.)

(35) Money market plays an important role in India.

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. (40) from Question Set 12.*

(Write any three points in the answer.)

Chapter 10 : Foreign Trade of India

(36) Balance of payment is same as Balance of trade.

(March '22 – '23)

Ans. I disagree with this statement.

Reasons : *For the answer, refer to Q. 4 (5) of the Solved Board's Question Paper of July 2025 given on QR Code in Section 4 of this book.*

(Write any three points in the answer.)

(37) Foreign trade plays an important role in economic development of country. ***(July '23)***

Ans. I agree with this statement.

Reasons : *For the answer, refer to Q. 41 (B) from Question Set 12.*

Question Set 11

TABLE, DIAGRAM, PASSAGE BASED QUESTIONS

[Q. 5 : 4 Marks each; Total 8 Marks]

Notes : (1) *One each Table, Diagram, Passage will be given with the question based on them.* (2) *Write answers to any two out of three sub-questions in answer sheet.*

Q. Study the following table and answer the questions given below it : ***(4 marks each)***

Chapter 2 : Utility Analysis

(1) Observe the following table and answer the questions given below it : ***(March '23)***

Unit of Commodity	Total Utility (TU) units	Marginal Utility (MU) units
1	6	$\square$
2	$\square$	5
3	15	4
4	15	$\square$
5	$\square$	– 1

Questions :

(1) Complete the above table. **(2)**

(2) (a) When total utility is Maximum, the marginal utility is – $\square$. **(1)**

(b) When total utility falls, the marginal utility becomes – $\square$. **(1)**

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Ans.

(1)

Unit of Commodity	Total Utility (TU) units	Marginal Utility (MU) units
1	6	$\boxed{6}$
2	$\boxed{11}$	5
3	15	4
4	15	$\boxed{0}$
5	$\boxed{14}$	– 1

(2) (a) Zero (b) Negative.

Chapter 3 (A) : Demand Analysis

(2) Observe the following table and answer the questions :

(March '25)

Price Per Kg (₹)	Quantity Demanded			Market Demand
	Consumer A	Consumer B	Consumer C	In Kg (A + B + C)
35	05	10	15	
30	10	15	20	
25	15	20	25	
20	20	25	30	

Questions :

(1) Complete the market demand schedule. **(2)**

(2) Draw market demand curve based on above market demand schedule. **(2)**

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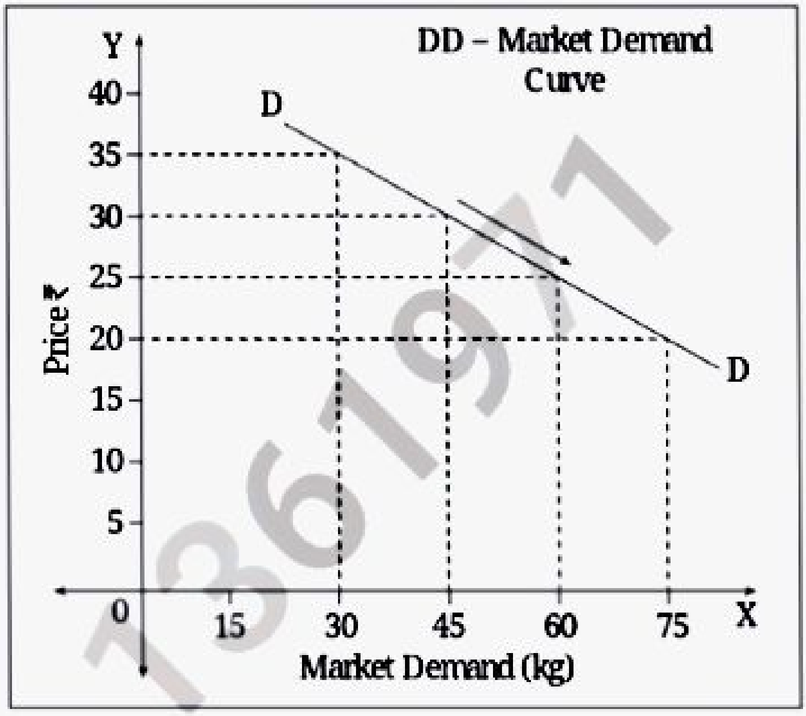
Ans. (1)

Price Per Kg (₹)	Quantity Demanded			Market Demand
	Consumer A	Consumer B	Consumer C	In Kg (A + B + C)
35	05	10	15	$\boxed{30}$
30	10	15	20	$\boxed{45}$
25	15	20	25	$\boxed{60}$
20	20	25	30	$\boxed{75}$

(2)



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Chapter 6 : Index Numbers

(3) Observe the following table and answer the questions given below it :

Commodities	Prices in 2006 (in ₹) (Base year) p_0	Prices in 2019 (in ₹) (Current year) p_1
A	20	30
B	30	45
C	40	60
D	50	75
E	60	90

Questions :

(1) Write the formula for calculation of price index.

(2) Find the value of $\sum p_0$ and $\sum p_1$.

(3) Find the price index P_{01}.

Ans. (1) $P_{01} = \dfrac{\sum p_1}{\sum p_0} \times 100$

(2) Value of $\sum p_0 = 200$ and value of $\sum p_1 = 300$

(3) $P_{01} = \dfrac{\sum p_1}{\sum p_0} \times 100$

$P_{01} = \dfrac{300}{200} \times 100$

$P_{01} = \boxed{150}$

Chapter 7 : National Income

(4) Study the following table and answer the questions given below it : ***(March '22)***

Components	₹Crores
Consumption (C)	800
Investment (I)	700
Government Expenditure (G)	400
Net Export (X – M)	–150
Depreciation (D)	100

Questions :

(1) Calculate GDP (Gross Domestic Product) on the basis of above table. **(2)**

(2) Calculate NDP (Net Domestic Product) on the basis of above table. **(2)**

Ans. (1) $\text{GDP} = C + I + G + (X - M)$

$= 800 + 700 + 400 + (-150)$

$= 1900 + (-150)$

$=$ ₹ 1750 crores

(2) NDP = GDP − Depreciation (D)

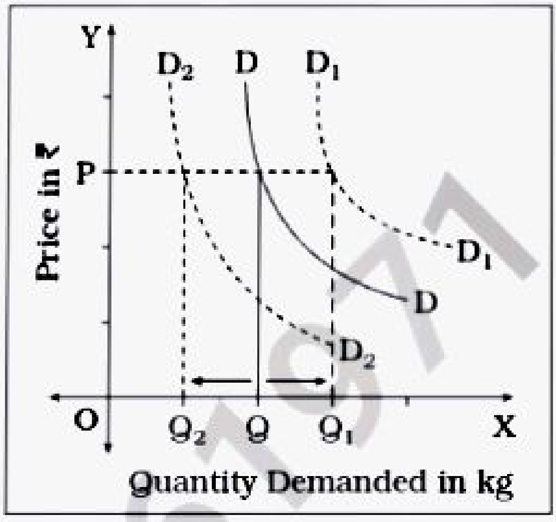
$= 1750 - 100$

$= ₹\,1650$ crores

Q. Study the following diagram and answer the questions given below it : ***(4 marks each)***

Chapter 3 (A) : Demand Analysis

(5) Observe the given diagram and answer the following questions :



Questions :

(1) Rightward shift in demand curve .... **(1)**

(2) Leftward shift in demand curve .... **(1)**

(3) Price remains .... **(1)**

(4) Increase and decrease in demand comes under .... **(1)**

Ans.

(1) Increase in demand (D_1D_1)

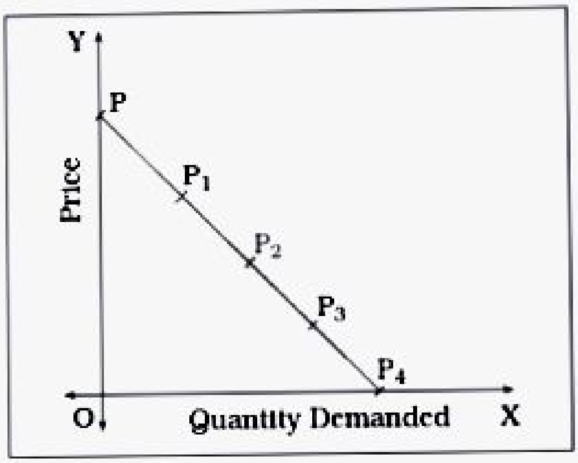
(2) Decrease in demand (D_2D_2)

(3) Constant (OP)

(4) Changes in demand

Chapter 3 (B) : Elasticity of Demand

(6) Following diagram is a linear demand curve. On the basis of the given diagram answer the following questions : ***(July '22)***



Questions :

(1) Demand at point 'P_2' is relatively inelastic. Is this statement true or false? **(1)**

(2) Identify the elasticity of demand at point 'P'. **(1)**

(3) What is denoted on 'X'-axis in the above diagram? **(1)**

(4) Which method of measuring elasticity of demand is denoted in the above diagram? **(1)**

Ans.

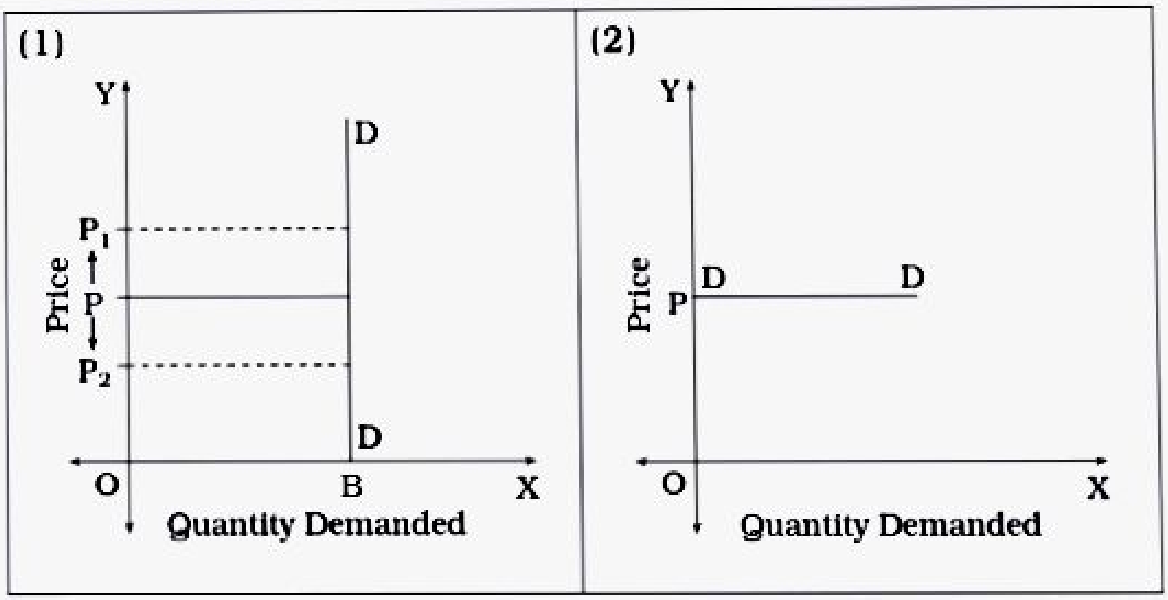
(1) False

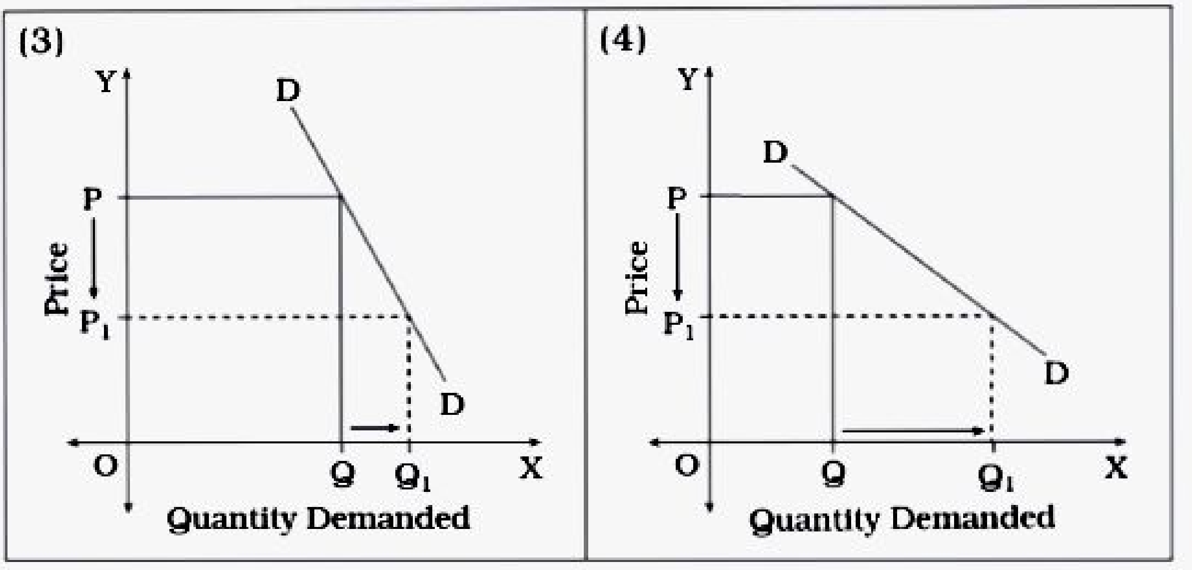
(2) Perfectly elastic demand (Ed $= \infty$)

(3) Quantity demanded

(4) Point or geometric method.

(7) Study the following diagram and answer the questions given below it : ***(March '22)***





Question :

Identify the price elasticity of demand from each diagram. **(4)**

Ans.

(1) Diagram (1) : perfectly inelastic.

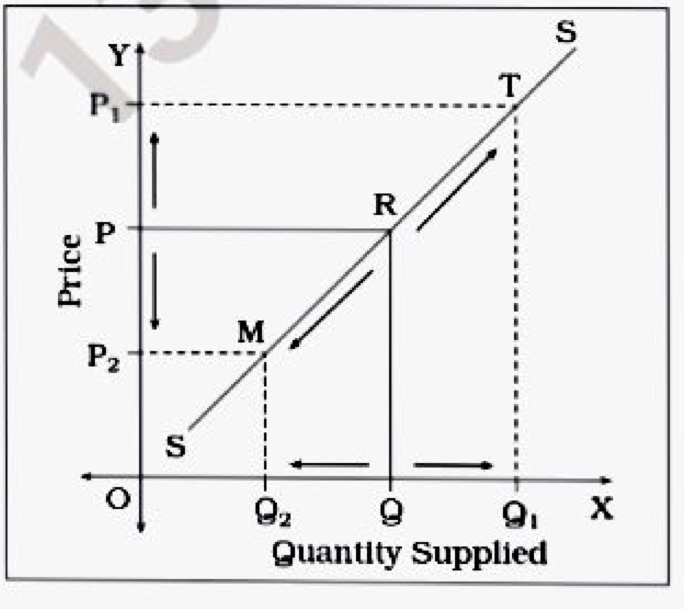
(2) Diagram (2) : perfectly elastic.

(3) Diagram (3) : less (relatively inelastic) elastic.

(4) Diagram (4) : is more (relatively elastic) elastic.

Chapter 4 : Supply Analysis

(8) Study the following diagram and answer the questions given below it : ***(Sept. '21)***



Questions :

(1) The diagram shows direct relationship between quantity supplied and ☐. **(1)**

(2) In diagram, supply curve 'SS' has [ ] slope. **(1)**

(3) Rise in price leads to upward movement of supply on the same supply curve from point 'R' to point 'T'. This movement is known as [ ]. **(1)**

(4) Fall in price leads to downward movement of supply on the same supply curve from point 'R' to point 'M'. This movement is known as [ ]. **(1)**

Ans. (1) Price (2) Positive (3) Expansion of supply (4) Contraction of supply.

9. Study the following passage and answer the questions given below it : ***(4 marks each)***

(9) Study the following passage and answer the questions given below it : ***(July '23)***

> Maharashtra is the largest producer of *tur dal*, the principle source of protein in a vegetarian diet in India. The state produces nearly 28% of National output with Latur and Hingoli districts in Marathwada and Akola district in Vidarbha producing the lion's share.
>
> In 2019–20, production of *tur dal* in Maharashtra was 37.36 lakh tonnes and in 2020–21, it has been increased to 42.24 lakh tonnes. But in the current year 2021–22, due to unfavourable climatic conditions, production of *tur dal* reduced by 20% to 25% as a result of which the prices of *tur dal* has increased.
>
> Last season, the state government has purchased *tur* at minimum base price. As the production was not predictable, the government was in trouble while buying *tur* under guaranteed price. Due to limited number of godowns, the government has now decided to sell *tur* in the form of dal to minimise the increasing loss due to storage, maintenance problems, etc.

Questions :

(1) Name the largest *tur dal* producer districts in Maharashtra. **(1)**

(2) What was the production of *tur dal* in the year 2020–21 of Maharashtra? **(1)**

(3) Express your opinion about the given passage. **(2)**

Ans. (1) Latur, Hingoli, Akola

(2) 42.24 lakh tonnes

(3) About 28 per cent of the total production of *tur dal* is produced by the state of Maharashtra. Unfavourable natural conditions increase the prices of *tur dal*.

(10) Study the following passage and answer the questions given below it : ***(March '22)***

Commercial banks act as intermediaries in the country's financial system to bring the savers and investors together. They are profit-seeking financial institutions. Due to bank nationalisation in 1969, there was increase in loan disbursement in urban and rural areas. Agriculture and retail traders started getting more loans. Those sectors which were not getting loans before 1969, started getting loans in post-nationalisation period. After nationalisation of banks branch expansion took place. There has been diversification in the functions of banks. Commercial banks are providing different types of services like safe deposit lockers, D-mat facility, internet banking, mobile banking, etc.

Questions :

(1) Write any two benefits of Bank nationalisation. **(1)**

(2) Write various services provided by banks. **(1)**

(3) Write your opinion about the passage. **(2)**

Ans.

(1) Benefits of bank nationalisation :

(a) Increase in loan disbursement to urban and rural areas.

(b) Agriculture and retail traders started getting more loans.

(2) Various services provided by banks : Safe deposit lockers, D-mat facility, internet banking, mobile banking, etc.

(3) Commercial banks of profit-seeking financial institutions, Nationalisation of commercial banks helped in diversification in the functions of banks.

(11) Study the following passage and answer the questions given below it : ***(Sept. '21)***

> India's economy is very diverse. This includes agriculture, handicrafts, textile mills, industries, manufacturing and a variety of services. Two third of the people working in India still depend on agriculture or agro-based industries for their livelihood, but a wide range of services are also contributing to the economy, and more recently services based businesses are playing a very important role in the economy. In recent years, with the advancement of computer technology and information technology in India, as well as the growing number of highly educated and English speaking young people, India has gradually started playing the role of an outsourcing service to the whole world. India is the world's largest exporter of highly skilled technicians. At the same time, India's potential in manufacturing, pharmaceuticals, biotechnology, microtechnology, telecommunications, shipbuilding, aviation and tourism is growing rapidly.
>
> Since the early 1990s, India has begun to open up its economy through economic reforms, gradually reducing its control over foreign investment and trade.

Questions :

(1) What is the prime source of livelihood for the majority of population in India? **(1)**

(2) Which sector is developing very fast in India in the recent years? **(1)**

(3) Give your opinion about India's economy with reference to the above passage. **(2)**

Ans.

(1) Agriculture or agro-based industries.

(2) Service sector.

(3) There is diversity in Indian economy. Most of the people working in India are dependent on agriculture or agro-based industries. The contribution of service sector in India's economy is also increasing.

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Question Set 12

ANSWER IN DETAIL

[Q. 6 : 8 Marks each; Total 16 Marks]

Notes : *(1) This is a long answer type question. (2) Three questions will be given in the question paper. Students are expected to write answer to any two questions. (3) At least four big points or eight small points must be written in detail. (4) Draw diagrams, schedule wherever necessary.*

Q. Answer the following questions in detail : ***(8 marks each)***

Chapter 1 : Introduction to Microeconomics and Macroeconomics

(1) Explain the features of microeconomics.

Ans. The following are the features of microeconomics :

(a) Study of individual units : Microeconomics is concerned with the study of economic behaviour of small individual economic units of an economy. For example, microeconomics studies the economic behaviour of particular household, particular firm, price of a particular product, etc.

(b) Price theory : Microeconomics is primarily concerned with price determination of goods and services as well as factors of production, viz. land, labour, capital and entrepreneur. Therefore, microeconomics is also known as Price Theory.

(c) Partial equilibrium : Microeconomics isolates individual economic units from the other forces of economy. It analyses the equilibrium positions of individual economic units such as individual consumer, individual firm separately. Therefore, microeconomic analysis is a partial equilibrium analysis. Partial equilibrium analysis is based on the assumption of '*Ceteris Paribus*', i.e. Other things remaining the same. Thus, partial equilibrium neglects the interdependence between economic variables of an economy.

(d) Based on certain assumptions : Microeconomics is based on certain assumptions such as full employment, pure capitalism, *laissez-faire* policy, perfect competition, etc. prevailing in an economy. But in reality, an economy with such conditions does not exist. Most of the theories of microeconomics are based on the '*Ceteris Paribus*' assumption, i.e. Other things remaining the same.

(e) Slicing method : Microeconomics splits the economy into small individual units. Then it studies the economic behaviour of each individual unit separately in detail. Thus, microeconomics uses slicing method for its analysis.

(f) Use of marginalism principle : Consumers as well as producers take all important microeconomic decisions at the margin. Therefore, microeconomics uses marginalism principle as a tool of analysis.

(g) Analysis of market structures : Microeconomics studies market structures such as perfect competition, monopoly, oligopoly, monopolistic competition, etc. It also describes how the prices of goods and services are determined in these markets.

(h) Limited scope : Microeconomics does not deal with national economic problems such as poverty, unemployment, inflation, depression, deficit in balance of payments, etc. Therefore, microeconomics has limited scope.

(2) Explain the scope of microeconomics.

Ans. The scope of microeconomics is mainly confined to price theory and resource allocation. Microeconomics seeks to obtain solutions to the basic economic questions such as what goods are to be produced, how many goods are to be produced, who should produce goods, how the goods are to be produced, how the produced goods are to be distributed, how the resources are to be efficiently allocated to production and consumption, etc. Thus, the scope of microeconomics can be explained as follows :

(A) Price Theory : The scope of microeconomics is confined to price theory. It includes following price theories :

(a) Product pricing : Microeconomics explains how the prices of variety of goods and services are determined. The prices of various goods and services get determined by the equilibrium of their demand and supply forces. Thus, theories of demand, supply, cost and production function are within the scope of microeconomics.

(b) Factor pricing : Microeconomics also explain how the prices of factors of production, viz. land, labour, capital and entrepreneur are determined. The prices of factors of production also get determined by equilibrium of their demand and supply forces. Thus, theories of rent, wages, interest and profit lie within the scope of microeconomics.

(B) Theory of welfare : Theory of welfare also lies within the scope of microeconomics. Theory of welfare basically deals with efficiency in the allocation of resources. Efficiency in allocation of resources is attained when it results in the maximum satisfaction of people in an economy. Therefore, microeconomics studies the following three efficiencies :

(a) Efficiency in production : Efficiency in production means to produce maximum possible amount of goods from the given amount of resources. Microeconomics analyses how efficiency in production can be obtained.

(b) Efficiency in consumption : Efficiency in consumption means distribution of produced goods and services among the people for consumption in such a way as to maximise total satisfaction of society. Microeconomics analyses how efficiency in consumption can be obtained.

(c) Overall economic efficiency : Overall economic efficiency means producing those goods which are most desired by people in society. Microeconomics analyses how overall economic efficiency can be obtained.

From these points, it can be noticed that the scope of microeconomics is mainly concerned only with price theory and resource allocation. It does not study the aggregates relating to whole economy. It does not study national economic problems such as unemployment, poverty, inequality in income, etc. It does not include study of theory of growth, monetary policy, fiscal policy, etc. Therefore, the scope of microeconomics is comparatively limited and narrower.

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(3) Explain the importance of microeconomics.

Ans. The importance of microeconomics can be explained with the help of the following points :

(a) Helpful in explaining price determination : Microeconomics helps in explaining the price determination of goods and services as well as factors of production.

(b) Helpful to understand the working of free market economy : Microeconomics helps to understand how free market economy works and gets regulated by demand and supply principles. Microeconomics helps producers to take business decisions about what to produce, how to produce, how much to produce, etc. at individual levels. There is no intervention by government or any other agency in this decision-making process.

(c) Helpful in foreign trade : Microeconomics is useful in studying the aspects related to foreign trade such as effects of tariff, determination of exchange rate, gains from international trade, etc.

(d) Helpful in economic model building : Microeconomics helps in understanding complex economic situations with its variety of models. Many terms, concepts, terminologies, tools of economic analysis of microeconomics have valuably contributed to the science of economics.

(e) Helpful to businessmen in taking business decisions : Microeconomics help businessmen in formulating prices of products or services, minimising the cost of production, analysing profitability of investment, attainment of maximum productivity, etc. It also helps businessmen in demand forecasting.

(f) Useful to government : Microeconomics is useful to government in framing economic policies such as tax policy, public expenditure policy, price policy, etc. Microeconomics also guides government in attaining the goal of efficient allocation of resources and economic welfare of society.

(g) Basis of welfare economics : Microeconomics provides explanation for the conditions of economic welfare. It explains how

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the maximum welfare of people in society can be achieved by avoiding wastage of resources.

Thus, microeconomics has many theoretical and practical importance as well as uses.

(4) Explain the concept of macroeconomics and its features.

Ans. The word macro is derived from the Greek word 'makros', meaning large or aggregate (total). Macroeconomics therefore is the study of aggregates covering the entire economy. It is also known as Theory of Income and Employment or simply as Income Analysis. The following are the features of macroeconomics :

(a) Study of aggregates : Macroeconomics deals with the study of a nation's economy as a whole. It is the study of very large, economy-wide aggregates such as national output or national income, total employment, aggregate demand, aggregate supply, total investment, total consumption, general price level, etc.

(b) Income theory : Macroeconomics is also known as Theory of Income and Employment or Income Analysis. Macroeconomics explains the determination of the level of national income and employment and what causes fluctuations in them. Further it explains the growth of national income over a long period of time and social accounting.

(c) General equilibrium analysis : Macroeconomic analysis is based on general equilibrium analysis. This analysis deals with entire economy in the context of equilibrium. It studies the behaviour of number of economic variables at a time and takes into consideration their functional relationship and interdependence. It explains how aggregate supply and aggregate demand are brought into equality and how equilibrium between these forces determine price level as well as level of income and employment. This whole analysis involves the study of number of variables and their interactions.

(d) Based on interdependence : Macroeconomics takes accounts of interdependence between aggregative economic variables such as national income, total output, employment level, total investment and price level, etc. For example, it explains how change in the level of total investment will finally change the level of national income, total output, employment level and eventually level of economic growth.

(e) Use of lumping method : Macroeconomics deals with the behaviour of aggregates, i.e. total values of economic variables related to whole economy. It uses method of lumping to deal with macro variables such as aggregate demand, aggregate supply, national output, etc.

(f) Study of growth models : Macroeconomics studies in detail various factors that contribute to economic growth and development. Macroeconomics is useful in developing economic growth models. These economic growth models are used for studying economic development. For example, Mahalanobis growth model emphasised on basic heavy industries.

(g) Study of general price level : Macroeconomics studies the determination of general price level. General price level is the average of all prices of goods and services currently being produced in the economy. Macroeconomics also studies the changes in the general price level, i.e. trade cycles.

(h) Policy-oriented : Macroeconomics, according to Keynes, is a policy-oriented science. Macroeconomic analysis helps in formulating suitable economic policies to promote economic growth, to generate employment, to control inflation, to pull the economy out of depression, etc.

(5) Explain the importance of macroeconomics.

Ans. The importance of macroeconomics can be explained with the help of the following points :

(a) Explanation of functioning of an economy : Macroeconomic analysis gives an idea of the functioning of an economic system. It helps to understand the economic behaviour patterns of aggregative variables in a large and complex economic system.

(b) Explanation of economic fluctuations : Macroeconomics helps to analyse the causes of fluctuations in national income, total output, trade cycle and employment level and makes an attempt to control them or reduce their severity.

(c) Study of national income : Study of macroeconomics is of immense importance as it is related to the study of national income and social accounts. Without a study of national income, it is not possible to formulate correct economic policies.

(d) Consideration of economic development : Macroeconomic theories and models help to understand the economic and social problems of poor and developing countries such as poverty, inequalities of income and wealth, differences in the standards of living of the people, etc. It suggests important steps to achieve economic development in these countries.

(e) Helpful in measuring the performance of an economy : Macroeconomics helps to analyse the performance of an economy. National Income (NI) estimates are used to measure the performance of an economy over time by comparing the production of goods and services in one period with that of the other period.

(f) Study of macroeconomic variables : To understand the working of the economy, macroeconomics focuses upon the study of macroeconomic variables. In India, main economic problems are related to the macroeconomic variables such as total income, total output, employment level and general price level in the economy. Macroeconomics studies the problems related to these macroeconomic variables.

(g) Study of level of Employment : Macroeconomics helps to analyse the general level of employment and output in an economy.

(6) Write in brief about the historical review of macro-economics.

Ans. The historical review of macroeconomics can be explained with the help of the following points :

(1) Macro approach to study economy is comparatively new and is of recent origin.

(2) Though it is a modern approach, it did prevail even before the evolution of microeconomics.

(3) In the 16th and 17th century, followers of Mercantilists (a group of English merchants) advocated policies to the government which were based on macro approach.

(4) In the 18th century, Physiocrats (French Thinkers) tried to analyse the concept of national income and wealth.

(5) The Classical Economic theories of Prof. Adam Smith, Prof. Ricardo and Prof. J. S. Mill discussed the determination of national income into total wages, total rent and total profit. But their macro analysis was combined with micro analysis.

(6) The Neo-classical economists especially Dr. Marshall and Pigou, relegated macroeconomics to the background. Their micro analysis ruled the world of economics till the Great Depression of 1930s.

(7) After the Great Depression, revolutionary and fundamental changes took place in the economic thinking. Lord John Maynard Keynes published his very famous book the "General Theory of Employment, Interest and Money" in 1936. Keynes used macro approach to analyse economic problems. After the publication of Keynesian theory, macroeconomic analysis became the more important and popular approach to economic analysis. Therefore, the credit for the development of macroeconomic approach goes to Lord Keynes.

(8) Besides Keynes, Malthus, Karl Marx, Wicksell, Walrus, Irving Fisher are other economists who have participated in the development of macroeconomics.

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Chapter 2 : Utility Analysis

(7) State and explain the law of DMU and explain its exceptions. ***(July '22)***

Ans. (A) The law of DMU : *For the answer, refer to Q. 6 (2) (A) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(B) Exceptions to the law of DMU : There are no real exceptions to the law of DMU. In the following some cases it is considered that the law of DMU is not valid :

(a) Hobbies : It is said that in case of certain hobbies such as collection of stamps, rare coins, etc. an individual derives more and more utility from every additional stamp or coin. It is also said that people who are fond of music derive more and more utility from every additional listening of music. It is also said that people who are fond of reading books derive more and more utility from every additional reading of book. But in fact as per the assumptions of homogeneity and continuity of the law of DMU, if an individual is asked to collect same type of stamp continuously or to listen same song continuously or to read the same book continuously, the marginal utility will fall and the law will become applicable.

(b) Misers : It is said that for a miser, the marginal utility of money increases with every increase in the stock of money. But the miser's behaviour is irrational. Thus, he violates the rationality assumption of the law. Therefore, misers are not real exception to the law.

(c) Addictions : It is said that, a drunkard derives more and more marginal utility from consumption of every additional unit of liquor. But the drunkard's behaviour is irrational. Thus, he violates the rationality assumption of the law. Therefore, the drunkards are not real exception to the law.

(d) Power : It is said that a person derives more and more utility from every additional acquisition of power. But a person's lust for power is irrational. Thus, he violates the rationality assumption of the law. So power is not a real exception to the law.

(e) Money : It is said that a person derives more and more marginal utility with every additional unit of a money. But in fact the marginal utility of money also diminishes as its stock increases. For example, a poor person will get more marginal utility from a 5-rupee note, but a rich person will get less marginal utility from the same 5-rupee note.

Thus, in fact, there are no real exceptions to the law of DMU. It has universal applicability.

(8) State and explain the law of DMU.

Ans. *For the answer, refer to Q. 6 (2) (A) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(9) Explain the assumptions of the law of DMU.

Ans. *For the answer, refer to Q. 6 (2) (B) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(10) State and explain the Law of Diminishing Marginal Utility with its assumption. ***(March '25)***

Ans. (A) The Law of DMU : *For the answer, refer to Q. 6 (2) (A) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(B) Assumptions of the Law of DMU : *For the answer, refer to Q. 6 (2) (B) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(11) State and explain the Law of DMU. What are its limitations ?

Ans. (A) The Law of DMU : *For the answer, refer to Q. 6 (2) (A) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(B) Limitations :

(a) Unrealistic assumptions : The law of DMU is based on unrealistic assumptions such as homogeneity of units, continuity in consumption, rationality of consumer, etc. but it is difficult to fulfil all these conditions at a point of time.

(b) Cardinal measurement : The law of DMU wrongly assumes that utility can be measured in numbers, but in reality cardinal measurement of utility is not possible as utility is a psychological concept.

(c) Indivisible goods : The law is not applicable to bulky and indivisible goods like T.V., cars, houses, etc. as they are purchased in single unit at a time.

(d) Constant marginal utility of money : The law of DMU wrongly assumes that the marginal utility of money remains constant.

(e) A single want : The law of DMU wrongly assumes that a person wants to satisfy a single want at a time.

(12) Explain the relationship between Marginal Utility and Price.

Ans. The law of demand is based on the law of DMU. In order to understand how the law of demand is based on the law of DMU, it is necessary to understand the relationship between marginal utility and price first. To understand the relationship between marginal utility and price, it is essential to convert marginal utility in terms of price. Marginal utility in terms of price can be derived by assuming certain monetary value per unit of marginal utility. For example, one unit of Marginal Utility = 10 R. The relationship between marginal utility in terms of money and price can be explained with the help of the following schedule :

No. of Units	MU/ Units of X	MU in Terms of Money 1 unit = 10	Market Price/Unit of X = 50	Comparison between MU and Price
1	10	100 (10 × 10 ₹)	50	100 MU > 50 ₹
2	08	80 (8 × 10 ₹)	50	80 MU > 50 ₹
3	07	70 (7 × 10 ₹)	50	70 MU > 50 ₹
4	05	50 (5 × 10 ₹)	50	50 MU = 50 ₹
5	03	30 (3 × 10 ₹)	50	30 MU < 50 ₹
6	01	10 (1 × 10 ₹)	50	10 MU < 50 ₹

(1) From the table, it can be seen that, initially due to greater intensity of want, for initial units of consumption (1st, 2nd and 3rd units), marginal utility in terms of money is greater than the price paid. All these units of consumption will be demanded by a rational consumer.

(2) Units which a rational consumer is willing to buy (demand) and consume for which he has to pay less than the MU in terms of money are called as "Intra-marginal units" ($MU_x > P_x$).

(3) Due to continuity in consumption, at a certain point (At 4th unit) marginal utility in terms of money and price becomes equal. This is the state of consumer's equilibrium. At this point, the want of a rational consumer gets fully satisfied and therefore he stops demanding further units of consumption.

(4) Unit which a rational consumer is willing to buy (demand) and consume for which he has to pay equal to the MU in terms of price is called "Marginal Unit" ($MU_x = P_x$).

(5) Beyond the state of consumer's equilibrium, if consumer continues to consume the further units of consumption (5th and 6th unit), MU in terms of money is less than the price paid. Therefore, all these units of consumption will not be demanded by a rational consumer.

(6) Units which a rational consumer is not willing to buy (demand) and consume for which he has to pay more than the MU in terms of money are called as "Extra-marginal units" ($MU_x < P_x$).

(7) From the schedule, it can be seen that, if consumer consumes various units of consumption of a commodity in quick succession, the marginal utility diminishes. Therefore, consumer is willing to buy initial units of consumption at comparatively higher price, but the further units of consumption only at a comparatively low price.

(8) Thus, the relationship between marginal utility and price paves way for law of demand.

(13) Explain the features or characteristics of utility.

Ans. The following are the important features or characteristics of utility :

(a) Relative concept : Utility changes from time to time and from place to place. For example, woollen clothes possess more utility during winter and less utility during summer. Similarly, they possess more utility in Kashmir and less utility in Mumbai.

(b) Subjective concept : Utility gets influenced by person's likes, dislikes, habits, preferences, etc. Therefore, utility changes from person to person. For example, a non-vegetarian finds utility in mutton, but the vegetarian does not find utility from it.

(c) Ethically neutral concept : The concept of utility is morally and ethically colourless. Utility never takes into account the concepts such as good or bad, moral or immoral, etc. For example, in economics, milk as well as wine possesses utility.

(d) Utility differs from usefulness : Commodity possessing utility may not always possess usefulness. Utility and usefulness are totally different concepts. For example, a harmful product like poison possesses utility but it does not possess usefulness.

(e) **Utility differs from pleasure :** A commodity possessing utility may not always provide pleasure to the consumer. Thus, utility and pleasure are totally different concepts. For example, injection possesses utility, but its consumption does not give pleasure to the patient.

(f) **Utility differs from satisfaction :** Utility and satisfaction are totally different concepts. Utility is the starting point of consumption, whereas satisfaction is derived after consumption. For example, for a thirsty person a glass of water has utility. When he drinks that glass of water he derives satisfaction from it.

(g) **Measurement of utility is hypothetical :** Utility is a psychological concept. It has no physical existence. Therefore, it cannot be measured in numbers. Therefore, only hypothetical measurement of utility is possible.

(h) **Utility is multipurpose :** A particular commodity can satisfy many wants of a particular individual or more than one individual at a time. For example, one individual can make use of electricity for operating washing machine, another individual can make use of electricity to operate air-conditioning unit.

(i) **Depends upon the intensity of want :** Utility has direct relation to intensity of want. Individual finds more utility in a commodity if his want is more intense and vice versa. For example, hungry individual finds more utility in food than a person who is not so hungry.

(j) **It is the basis of demand :** Utility forms the basis for demand. Generally, an individual demands a commodity when it has utility for him. Unless a commodity provides utility, it is not demanded.

(*Write any eight points in the answer.*)

Chapter 3 (A) : Demand Analysis

(14) State the Law of Demand with its assumptions.

(Sept. '21)

Ans. (A) The Law of Demand : *For the answer, refer to Q. (16) (A) from this Question Set.*

(B) **Assumptions :** *For the answer, refer to Q. (17) from this Question Set.*

(Write any six points in the answer.)

(15) Explain the concepts of variations and changes in demand with the help of diagrams. ***(March '22)***

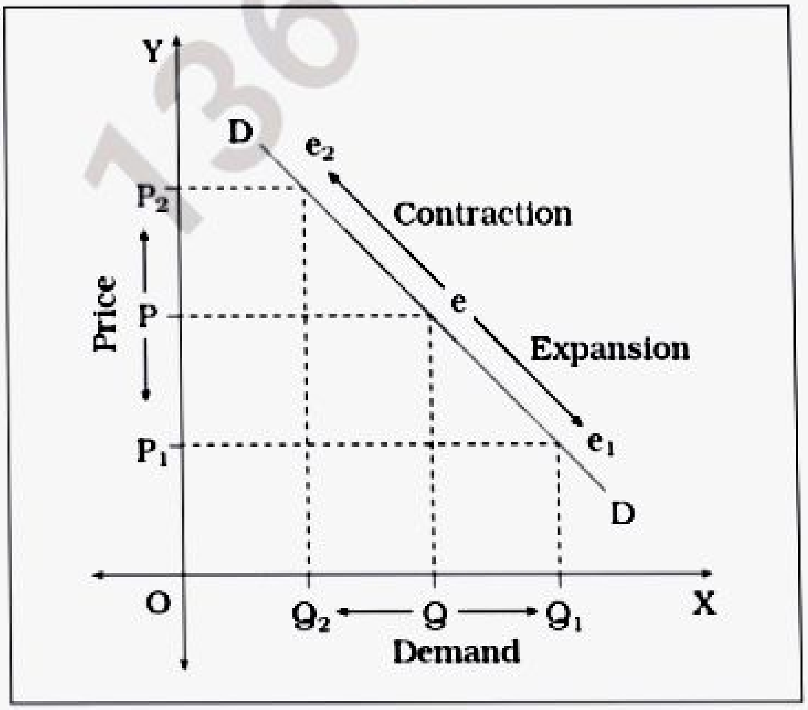
Ans. (A) Variations in demand : Variations in demand can be explained with the help of the following points :

(1) **Meaning :** Other factors remaining constant, a rise or fall in demand due to the change in the price of a commodity, is called variation in demand. Variation in demand is of the following two types :

(2) **Expansion in Demand :** Other factors remaining constant, a rise in demand due to fall in the price of a commodity, is called expansion in demand.

(3) **Contraction in Demand :** Other factors remaining constant, a fall in demand due to a rise in the price of a commodity, is called contraction in demand.

(4) **Diagram :** Variation in demand can be explained with the help of the following diagram :



From the given diagram, it can be seen that, other things being equal, as price falls from OP to OP_1, demand rises from OQ to OQ_1. This rise in demand is called expansion in demand. In expansion in demand,

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the equilibrium point of price and demand moves downwards from the left to the right (e to e_1) on the same demand curve.

On the other hand, as price rises from OP to OP_2, demand falls from OQ to OQ_2. This fall in demand is called contraction in demand. In contraction in demand, the equilibrium point of price and demand moves upwards from the right to the left (e to e_2) on the same demand curve.

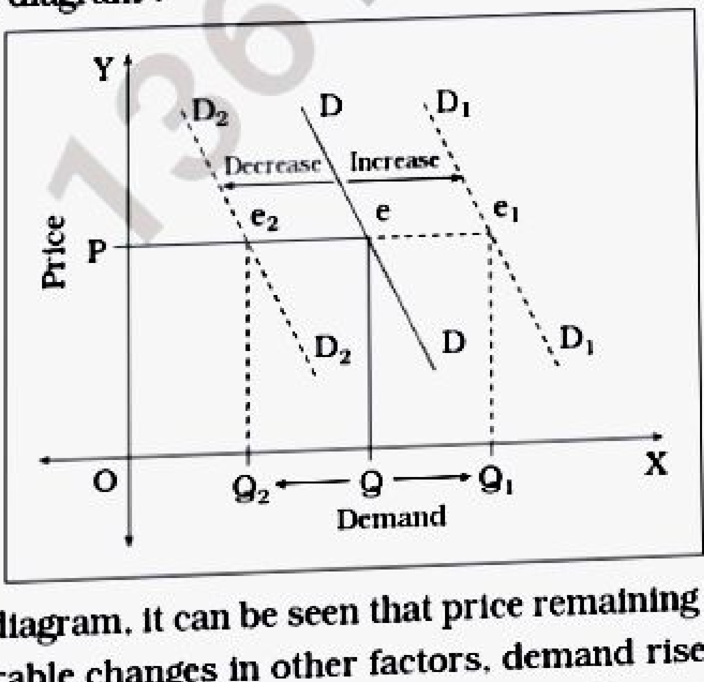
(B) Changes in demand : Change in demand can be explained with the help of the following points :

(1) Meaning : Price remaining constant, a rise or fall in demand due to the change in the other factors, is called change in demand. Change in demand is of the following two types :

(2) Increase in Demand : Price remaining constant, a rise in demand due to favourable changes in other factors, is called increase in demand.

(3) Decrease in Demand : Price remaining constant, a fall in the demand due to unfavourable changes in other factors is called decrease in demand.

(4) Diagram : Change in demand can be explained with the help of the following diagram :



From the diagram, it can be seen that price remaining equal, i.e. OP due to favourable changes in other factors, demand rises from OQ to OQ_1. This rise in demand is called as increase in demand. In increase in demand, demand curve shifts to the right of the original demand curve and the equilibrium point of price and demand shifts from the left to the right (e to e_1) on the new demand curve.

On the other hand, price remaining equal, i.e. OP due to unfavourable changes in other factors, demand falls from OQ to OQ_2. This fall in demand is called as decrease in demand. In decrease in demand, demand curve shifts to the left of the original demand curve and the equilibrium point of price and demand shifts from the right to the left (e to e_2) on the new demand curve.

(16) State and explain the Law of Demand with exceptions.

(March '23; July '23)

Ans. (A) Law of Demand : The Law of Demand can be explained with the help of the following points :

(1) **Law of Demand :** The Law of Demand is one of the fundamental laws of consumption. It was propounded by Dr. Alfred Marshall in his famous book, 'Principles of Economics'. The Law of Demand explains the inverse relationship between the price and the quantity demanded.

(2) **Statement of Law :** "Other things being equal, the amount demanded rises with a fall in price; and diminishes with a rise in price."

(3) **Symbolical Representation :** The Law of Demand is expressed symbolically as follows :

$$\boxed{D_x = f(P_x)}$$

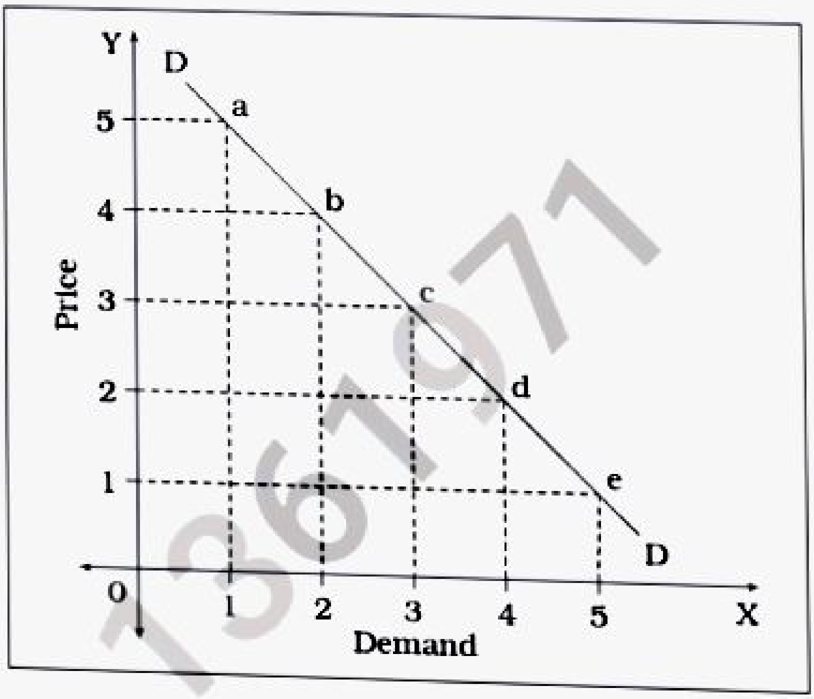
Where, D_x stands for demand for a commodity x, f stands for function of, P_x stands for the price of the commodity x.

(4) **Individual Demand Schedule :** The Law of Demand is explained in the following individual demand schedule :

Price (₹) of commodity *x*	**Individual Demand of Commodity *x* (per day in units)**
1	5
2	4
3	3
4	2
5	1

(5) **Explanation of Individual Demand Schedule :** From the individual demand schedule, it can be observed that at a lesser price (₹1) more units of commodity *x* are demanded (5 units). Similarly, at a higher price (₹5) less units of commodity *x* are demanded (1 unit). Thus, there exists an inverse relationship between the price and the quantity demanded.

(6) **Individual Demand Curve :** The Law of Demand can be explained with the help of the following diagram of the individual demand curve :



(7) **Explanation of Individual Demand Curve :** In the diagram, Y-axis represents the price of the commodity *x* and X-axis represents demand of commodity *x*. From the diagram, it can be seen that the demand curve, i.e. DD slopes downwards from the left to the right. Price and demand are inversely related to each other. Therefore, the demand curve has negative slope.

(B) Exceptions : The following are the exceptions to the Law of Demand :

(1) **Giffen goods :** Sir Robert Giffen from England noticed that in the case of inferior quality products (Giffen goods), the Law of

Demand does not hold good. When the price of Giffen goods falls, buyers' real income gets increased. As its effect, buyers demand more of superior quality goods. Thus, a fall in the prices of Giffen goods leads to fall in their demand. For example, as the price of bread falls, people demand less of bread and more of meat.

(2) **Prestige goods :** Diamonds, luxury cars, posh bungalows, etc. are considered as prestige goods. Such goods have a snob appeal. Therefore, prestige goods are demanded in greater quantities at higher prices and vice versa.

(3) **Speculation :** Some consumers anticipate a fall in the price of a commodity in the near future, so the demand for the commodity in question falls at the present price. Similarly, some consumers anticipate a rise in the price of the commodity in the near future, so the demand for the commodity in question rises at the present price.

(4) **Price illusions :** Many consumers wrongly assume that high priced goods are of better quality. Due to this illusion, such buyers demand costlier goods in greater quantities.

(5) **Ignorance :** Many times the buyers do not have a complete knowledge of a market. Due to such ignorance, they demand costlier goods in greater quantities.

(6) **Habitual goods :** Certain goods like tobacco, cigarettes, etc. are consumed due to the habits. Therefore, demand of such goods remains constant even if their prices change.

In all these cases, the Law of Demand becomes inapplicable. Therefore, they are considered as exceptions to the Law of Demand. The exceptions to the Law of Demand can be explained with the help of the following diagram :

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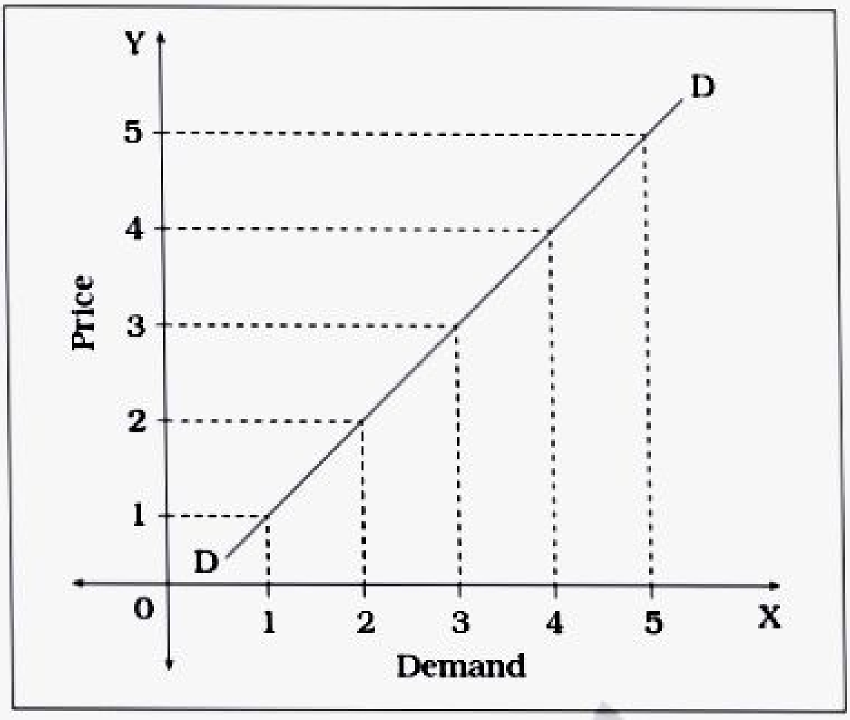


In the diagram, Y-axis represents the price of a commodity and X-axis represents the demand of commodity *x*. From the diagram, it can be seen that the exceptional demand curve, i.e. DD slopes upwards from the left to the right. In exceptional cases the price and demand are directly related to each other. Therefore, the exceptional demand curve has a positive slope.

(17) Explain the assumptions to the Law of Demand.

Ans. The following are the assumptions to the Law of Demand :

(a) Constant level of income : If there is rise in the income of a consumer, demand for different goods and services tends to rise even at a higher prices. In that case, the law becomes inapplicable. Therefore, to prove the law, it is assumed that there is no change in consumer's income.

(b) No change in the size of population : Due to a rise in the size of population, the demand for all goods and services tends to rise at their constant prices. In such a situation, the Law of Demand becomes inapplicable. Therefore, to prove the validity of the law, it is assumed that the size and the composition of population remain constant.

(c) No change in prices of substitute goods : Due to the availability of cheaper substitute goods, the demand for a commodity in question tends to fall at its existing price and vice versa. Therefore, the law assumes that there is no change in the prices of substitute goods of a commodity in question.

(d) No change in prices of complementary goods : If the prices of complementary goods rise, the demand for a commodity in question tends to fall at its existing price and vice versa. Therefore, the law assumes that there is no change in the prices of complementary goods of a commodity in question.

(e) No expectations regarding future price : If a consumer anticipates a fall in price of the commodity in the near future, the demand for the commodity in question falls at the present price and vice versa. Therefore, the law assumes that consumers do not have any expectations regarding rise or fall in the price of a commodity in the near future.

(f) No change in tastes, habits, fashions : If consumer's liking for a particular commodity increases, then the demand for such a commodity tends to rise even at a higher price and vice versa. In such circumstances, the Law of Demand does not hold good. Therefore, to maintain the validity of the law, it is assumed that there is no change in tastes, habits, preferences of the consumer.

(g) No change in government policy : Rise in the taxes leads to decrease in the disposable income of the consumer. This in turn decreases the demand for goods and services at their current prices and vice versa. Therefore, to prove the law, it is assumed that there is no change in government's taxation policy.

(18) What are the exceptions to the Law of Demand.

Ans. *For the answer, refer to Q. (16) (B) from this Question Set.*

Chapter 3 (B) : Elasticity of Demand

(19) Explain the concept of price elasticity with its types.

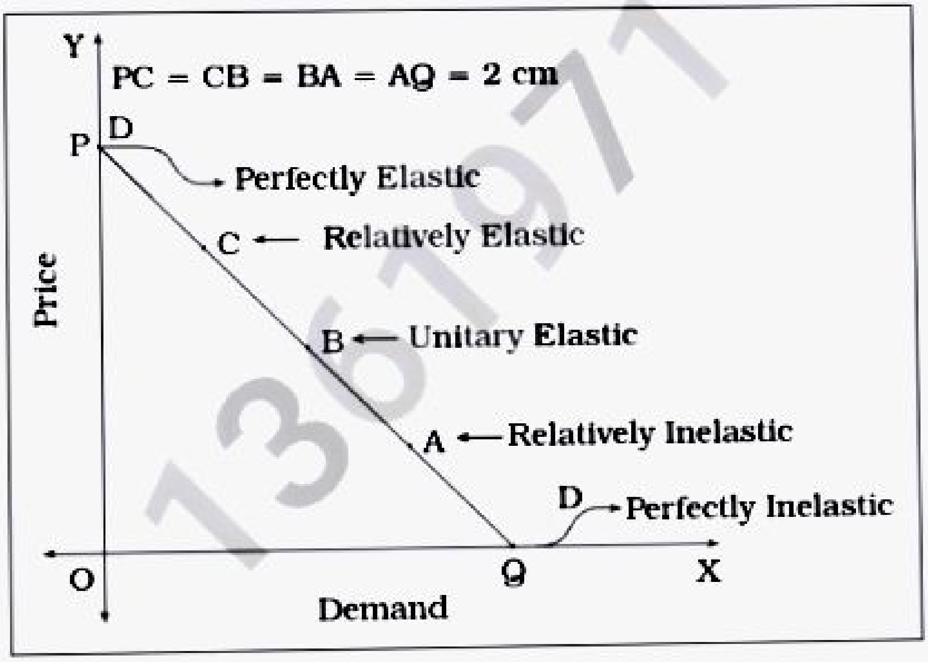
(Sept. '21; March '24)

Ans. *For the answer, refer to Q. (6) (3) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(20) Explain the geometric method of measuring elasticity of demand.

Ans. (1) Geometric method of measuring elasticity of demand is also developed by Dr. Alfred Marshall. This method is also known as point method of measuring elasticity of demand. The ratio method and total outlay method are unable to measure elasticity of demand at a given point on a demand curve. Geometric method is therefore used to find out the elasticity of demand at any given point on a demand curve.

(2) For measuring the elasticity of demand at a given point on the linear demand curve, the linear demand curve can be extended to meet the Y-axis at P and X-axis at Q as follows :



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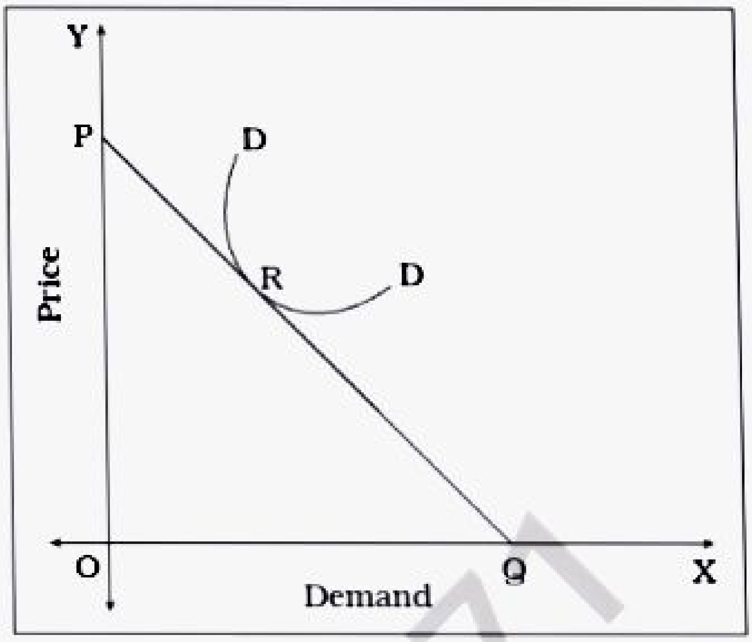
The price elasticity of demand at a point 'A' can be calculated with the help of the following formula :

$$Ed = \frac{\text{Lower segment of the demand curve below the given point}}{\text{Upper segment of the demand curve above the given point}}$$

$$\therefore Ed = \frac{AQ}{AP} = \frac{2}{6} = 0.33$$

At point 'A' the numerical value of elasticity of demand is less than one (Ed = 0.33). Therefore at point 'A' the demand is relatively inelastic.

(3) For measuring the elasticity of demand at a given point on the non-linear demand curve, tangent from a given point touching the Y-axis and X-axis is drawn as follows : RQ = 6 cm, RP = 2 cm



The price elasticity of demand at a point 'R' can be calculated with the help of the following formula :

$$\text{Ed} = \frac{\text{Lower segment of the tangent below the given point}}{\text{Upper segment of the tangent above the given point}}$$

$$\therefore \text{Ed} = \frac{RQ}{RP} = \frac{6}{2} = 3$$

At point 'R' the numerical value of elasticity of demand is greater than one (Ed = 3). Therefore at point 'R' the demand is relatively elastic.

(4) The following conclusions can be drawn with the help of the geometrical method of measuring elasticity of demand :

A position of a given point with reference to Y-axis and X-axis	Value of Elasticity of Demand	Type of Elasticity of Demand
1. Given point on a Y-axis.	Infinity (Ed = ∞)	Perfectly elastic demand
2. Given point is relatively close to Y-axis	Greater than one (Ed > 1)	Relatively elastic demand

3. Given point is equally close to (equally away from) Y-axis and X-axis	One (Ed = 1)	Unitary elastic demand
4. Given point is relatively close to X-axis	Greater than one (Ed < 1)	Relatively inelastic demand
5. Given point on the X-axis	Zero (Ed = 0)	Perfectly inelastic demand

Chapter 4 : Supply Analysis

(21) State and explain the Law of Supply.

Ans. The Law of Supply can be stated and explained with the help of the following points :

(a) Law of Supply : The Law of Supply was propounded by Dr. Alfred Marshall in his famous book, 'Principles of Economics'. The Law of Supply explains the direct relationship between the price and the supply.

(b) Statement of Law : "Other things being constant, the higher the price of a commodity, greater is the quantity supplied and lower the price of a commodity, smaller is the quantity supplied."

(c) Symbolic Representation : The Law of Supply can be expressed symbolically as follows :

$$\boxed{S_x = f(P_x)}$$

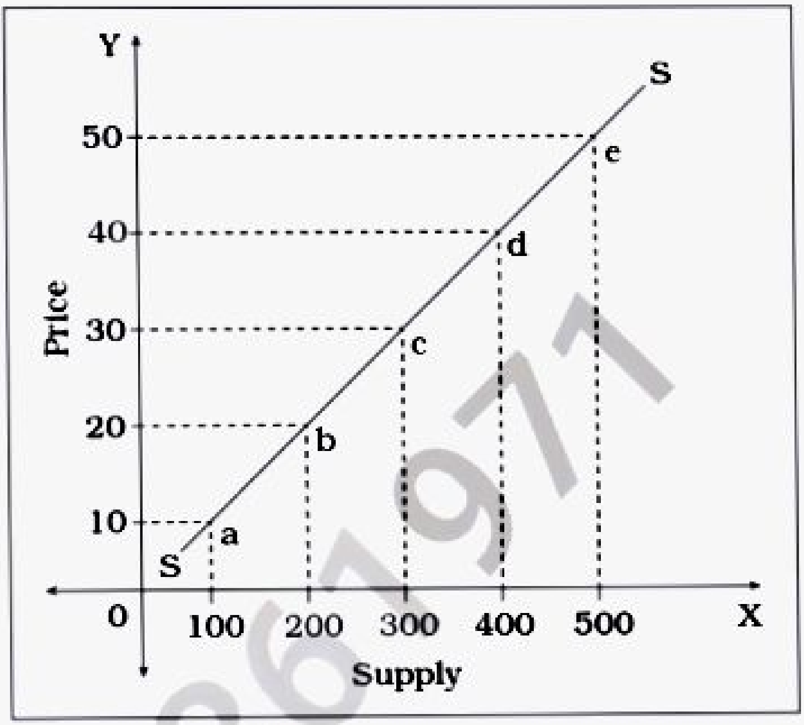
Where, S_x stands for supply of a commodity x, f stands for function of and P_x stands for the price of a commodity x.

(d) Individual Supply Schedule : The Law of Supply can be explained with the help of the following individual supply schedule :

Price (₹)	Quantity Supplied (in units)
10	100
20	200
30	300
40	400
50	500

(e) Explanation : From the above individual supply schedule it can be observed that at a lesser price (₹ 10) less units of commodity *x* are supplied (100 units). Similarly, at a higher price (₹50) more units of commodity *x* are supplied (500 units). Thus, there exists a direct relationship between the price and the quantity supplied.

(f) Individual Supply Curve : The Law of Supply can be explained with the help of the following diagram of the individual supply curve :



(g) Explanation : In the above diagram, Y-axis represents price of a commodity *x* and X-axis represents supply of a commodity *x*. From the above diagram it can be seen that the supply curve, i.e. SS slopes upwards from the left to the right. The supply curve has positive slope as there is direct relationship between the price and the supply.

(22) Explain the Law of Supply with assumptions.

(March '24)

Ans. (a) Law of Supply : *For the answer, refer to Q. (21) (A) from this Question Set.*

(b) Assumptions : The following are the assumptions of the Law of Supply :

(1) Constant cost of production : If the cost of production rises, producer's profit margin decreases. In such case, supply may decrease at a constant price. Similarly, if the cost of production falls, producer's profit margin increases. In such case, supply may increase at a constant price. In such conditions, the Law of Supply does not hold good. Therefore, to verify the law, it is assumed that the cost of production remains constant.

(2) Constant technique of production : Improved technique of production may lead to an increase in production. This in turn may lead to increase in the supply at a constant price. Similarly, outdated technique of production may lead to decrease in production. This in turn may lead to decrease in supply at a constant price. In such conditions, the Law of Supply becomes invalid. Therefore, to verify the law, it is assumed that techniques of production remain constant.

(3) No change in weather conditions : Natural calamities like floods, earthquakes, etc. may decrease supply at constant prices. Similarly, due to favourable weather conditions production of agricultural goods may increase which may increase supply of agricultural goods at constant prices. Therefore, to verify the law it is assumed that there is no change in the weather conditions.

(4) No change in Government policy : Increased taxes decrease the profit margin of the sellers. Therefore supply may decrease even at high price. Similarly, decreased taxes increases the profit margin of sellers. Therefore, supply may increase even at lower price. Similarly, government's financial assistance to particular industry may increase the supply of goods at a constant price. Therefore, to verify the law, it is assumed that government policies like taxation policy, trade policy, etc. remain unchanged.

(5) No change in transport cost : Speedy transportation facilities saves the time and cost of transporting goods. This in turn may lead to increase in supply at constant prices. Similarly, slow transportation facilities increases the time and cost of transporting goods. This in turn may lead to decrease in supply at constant prices. Therefore, to verify the law, it is assumed that there is no change in transport cost.

(6) Prices of other goods remain constant : If the prices of other products increase, the producer may transfer his resources to the production of these products. This in turn may lead to decrease in supply of the original product in question at its constant price. In such situation the Law of Supply will not hold True. Therefore, to verify the law, it is assumed that prices of other goods remain constant.

(7) No future expectations : If the seller expects the price of a good to rise in the near future, he may not supply more of a good even its current price is high and vice versa. Thus, the future expectations regarding the change in the price make the law inapplicable. Therefore, the law assumes that the sellers do not expect future changes in the price of the product.

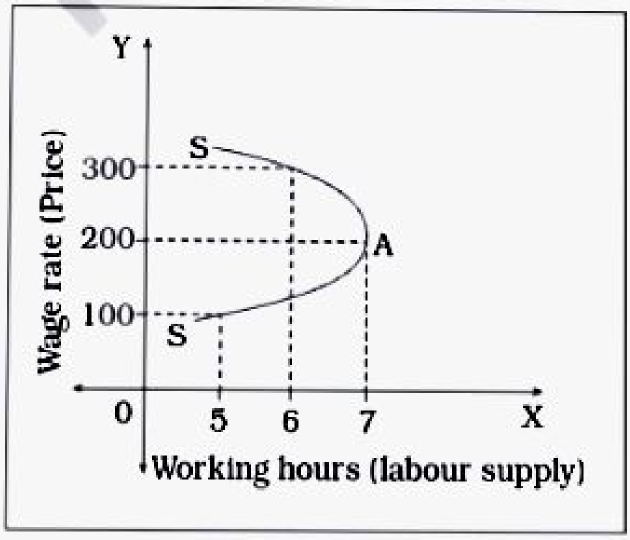
(23) Explain the exceptions to the Law of Supply.

Ans. The exceptions to the Law of Supply are as follows :

(a) Labour supply : In the initial stages, labour supply increases as wage rate increases. However, at a later stage, workers would prefer leisure to work. They prefer to earn same amount of income by working for less hours.

Therefore, in the initial stage, the labour supply curve slopes upwards from the left to the right. However, in the later stage, the labour supply curve bends backward. This is explained in the following schedule and diagram :

Wage Rate (₹) (Per Hour)	Hours of Work (Per Day)
100	5
200	7
300	6



From the schedule and diagram, it can be seen that in the initial stages as wage rate rises from ₹100 to ₹200, the supply of labour also rises from 5 hours to 7 hours. However, when the wage rate rises from

₹200 to ₹300, the supply of labours do not rise further; rather it is reduced from 7 hours to 6 hours. Thus, after the wage level ₹200, the supply curve slopes backwards from the point A towards Y-axis indicating that at higher prices fewer labour hours are supplied.

(b) Agricultural goods : Agricultural goods require suitable climatic conditions and sufficient period of growth. Therefore, the supply of agricultural goods cannot be increased overnight though their prices rise. Similarly, due to favourable conditions, the supply of agricultural goods may rise even at their constant prices. Therefore, in case of agricultural goods the law is inapplicable. Therefore, agricultural goods are exception to the Law of Supply.

(c) Urgent need for cash : If a seller needs cash urgently he is forced to sell more even at less prices/below market prices. Therefore, the sale of goods influenced by the need for cash is considered as an exception to the Law of Supply.

(d) Perishable goods : Perishable goods like vegetables, flowers, eggs, etc. cannot be stored for a long period of time. Seller has to bear a huge loss, if perishable goods do not get sold. Therefore, in case of perishable goods, the supplier would offer to sell more quantities at lower prices to avoid losses. Therefore, the sale of perishable goods at low price is considered as an exception to the Law of Supply.

(e) Rare goods : The seller shows less willingness to sell the rare and precious articles like rare paintings, old coins, antique goods, etc. even though their prices are high. The supply of rare articles remains unchanged though their prices are high. Therefore, rare articles are exceptions to the Law of Supply.

(24) Explain the determinants of supply.

Ans. The determinants of supply are as follows :

(a) Price : Price is the most important factor influencing the supply of a commodity. Price and supply are directly related to each other, i.e. more is supplied at a higher price and less is supplied at a lower price.

(b) State of technology : Technological improvements reduce the cost of production, which lead to an increase in production and supply.

On the other hand, traditional and outdated technology reduced the supply.

(c) Cost of production : Cost of production and supply have inverse relation. For example, if the price of factors of production increases, the cost of production also increases. This in turn decreases the profit margin of supplier and this in turn decreases the supply. On the other hand, fall in the cost of production increases the supply.

(d) Infrastructural facilities : Infrastructure in the form of transport, communication, power, etc. influences the production process as well as supply. Inadequate infrastructural facilities decrease the supply and vice versa.

(e) Government policy : Government policies on taxation, subsidies, industrial policies, etc. may encourage or discourage production and supply depending upon government policy measures. For example, government subsidies tend to increase the supply.

(f) Natural conditions : The supply of agricultural products depends on the natural conditions. For example, a good monsoon and favourable climatic condition will produce a good harvest, so the supply of agricultural products will increase. On the other hand, unfavourable climatic conditions will lead to poor harvest and thus to a decrease in supply of agricultural goods.

(g) Future expectations about price : If the prices are expected to rise in the near future, the producer may withhold the stock. This will reduce the supply though the current prices are high. On the other hand, if the prices are expected to fall in the near future, the producer sells more though current prices are low.

(h) Other factors : Other factors like nature of the market, relative prices of other goods, export and imports, industrial relations, availability of factors of production, etc. determine the supply of various goods. For example, availability of factors of production increases the supply. On the other hand, shortage of factors of production decreases the supply.

(25) Explain the meaning of monopoly with its features.

(March '23)

Ans. (A) Meaning : 'Mono' means single and 'poly' means seller. Thus monopoly means single seller who has complete control over the supply of the commodity. According to Prof. E.H. Chamberlin, *"A monopoly refers to a single firm which has control over the supply of a product which has no close substitute."*

(B) Features : The following are the important features of monopoly :

(a) Single seller : In a monopoly market, there is a single seller (monopolist). The monopolist has no rivals and therefore he faces no competition.

(b) No close substitute : There are no close substitutes for the commodity sold in the monopoly market. Therefore, buyers in a monopoly market have no choice. They have to buy a product from a monopolist or go without it. The cross elasticity of demand for a commodity sold by monopolist is zero.

(c) Barriers to entry : Under monopoly, the entry of rival firms is restricted due to natural, legal or technical barriers. Thus, rival firms are not allowed to enter in a monopoly market.

(d) Complete control over the market supply : The monopolist has the complete hold over the market supply as he is a sole producer of the commodity.

(e) Price maker : The firm/monopolist in a monopoly market is a price maker and not a price taker. Monopolist can set any price of a commodity as he has complete control over the market supply of the product.

(f) Price discrimination : Being a single seller, monopolist can charge consumerwise, placewise, timewise and usewise different prices for the same product. Price discrimination is an important feature of monopoly market. For example, Indian Railways provides railway tickets at concessional rates to the students and senior citizens.

(g) No discrimination between firm and industry : As monopolist is the only seller in the monopoly market, a monopolist's firm itself is an industry in a monopoly market.

(26) Explain the meaning of Perfect Competition with its features.

(July '23)

Ans. (A) Meaning : A perfectly competitive market is one which has a large number of buyers and sellers of a homogeneous product. According to Mrs. Joan Robinson, "Perfect competition prevails when the demand for the output of each producer is perfectly elastic".

(B) Features : The following are the features of perfect competition :

(1) Large number of buyers and sellers :

(a) Large number of buyers : In perfect competition, there is a large number of potential buyers buying commodity in market. Their number is so large that a single buyer cannot influence the market price. Thus, in perfect competition, a buyer is a price taker.

(b) Large number of sellers : In perfect competition, there is a large number of potential sellers selling their commodity in the market. Their number is so large that the single seller cannot influence the market price. The price of the product is determined by the interaction of market demand and market supply of a commodity. Thus, in perfect competition, a seller is a price taker.

(2) Homogeneous product : In perfect competition, every firm produces and sells identical products, i.e. units of a commodity produced by each firm are uniform in respect of their size, shape, colour, quality, etc. Therefore, the commodities sold in perfect market are perfect substitutes to one another.

(3) Free entry and exit : In perfect competition, any firm can freely enter or can exit the market without any restrictions. If there is a hope of profit, a new firm can easily enter the market. Similarly, if there is possibility of losses, the existing firm can freely exit the market.

(4) **Single price :** In perfect competition, all units of a commodity have uniform price and it is determined by the equilibrium of the market demand and market supply.

(5) **Perfect knowledge of market :** In perfect competition, the buyers as well as sellers have perfect knowledge of market conditions such as price of product, quality of product, source of supply of product, etc.

(6) **Perfect mobility of factors of production :** In perfect competition, land has occupational mobility and other factors of production viz. labour, capital and entrepreneur have occupational mobility as well as geographical mobility.

(7) **Absence of transport cost :** It is assumed that there is no transport cost in perfect competition. Therefore, uniform price prevails in perfect competition.

(8) **No government intervention :** Laissez-faire policy prevails under perfect competition. It means that there is no government intervention in economic activities.

(27) What is Perfect Competition? Explain price determination under perfect competition.

Ans. (A) Meaning : A perfectly competitive market is one which has a large number of buyers and sellers of a homogeneous product. According to Mrs. Joan Robinson, "*Perfect competition prevails when the demand for the output of each producer is perfectly elastic.*"

(B) Price Determination :

(1) The price of the product in perfect competition is determined by the interaction of market demand and market supply forces. This price is called an equilibrium price.

(2) According to Alfred Marshall, market demand and market supply are like two blades of a pair of scissors. Just as cutting cloth is not possible with the use of one blade, equilibrium price of a commodity cannot be determined either by the forces of market demand or by market supply alone.

(3) The equilibrium price determination under perfect competition is explained in the following schedule :

Price Per Kg of Apples (in ₹)	Quantity Demanded (in Kg)	Quantity Supplied (in Kg)	Relation Between DD and SS
100	5000	1000	DD > SS
200	4000	2000	DD > SS
300	**3000**	**3000**	**DD = SS**
400	2000	4000	DD < SS
500	1000	5000	DD < SS

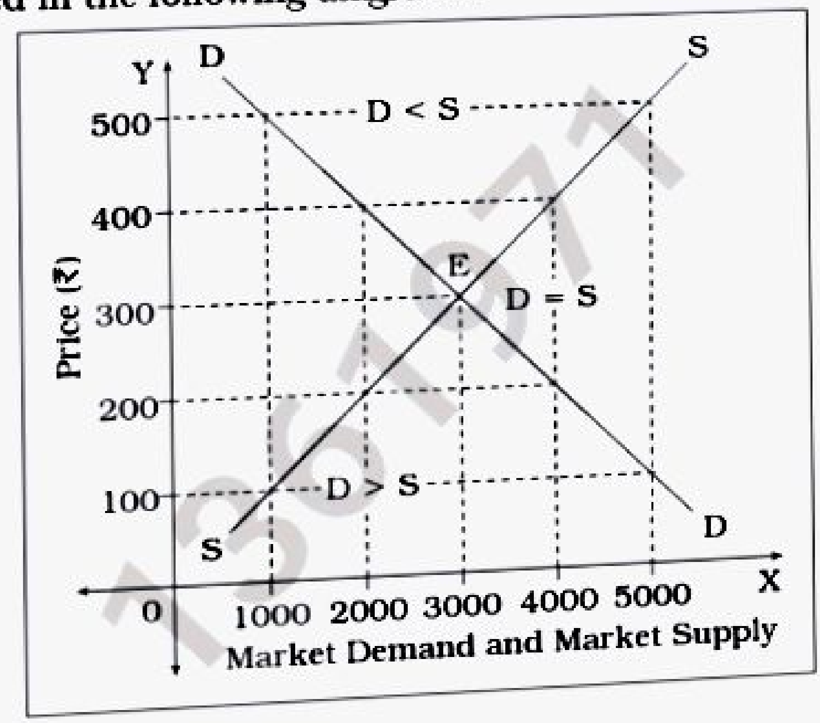
(4) **Explanation :**

(a) From the schedule, it can be seen that when the price of the commodity is low, the quantity demanded is more and quantity supplied is less. (For example, at price of apples ₹100, quantity demanded is 5000 > quantity supplied is 1000. Similarly, at price of apples ₹200, quantity demanded is 4000 > quantity supplied is 2000.) In this condition of excess of market demand, the price of the commodity starts rising. Due to a rise in the price, the market demand starts contracting and market supply starts expanding. In this way, the process of equilibrium in market demand and market supply gets initiated.

(b) From the schedule, it can be seen that when the price of the commodity is high, the quantity demanded is less and quantity supplied is more. (For example, at price of apples ₹400, quantity demanded is 2000 < quantity supplied is 4000. Similarly, at price of apples ₹500, quantity demanded is 1000 < quantity supplied is 5000.) In this condition of excess of market supply, the price of the commodity starts falling. Due to a fall in the price, the market demand starts expanding and market supply starts falling. In this way, the process of equilibrium in market demand and market supply gets initiated.

(c) From the schedule, it can be seen that at a particular price, the market demand and market supply are equal to each other. (For example, at price of apples ₹300, quantity demanded is 3000 = quantity supplied is 3000.) This is called an equilibrium price. An equilibrium price is the price at which quantity demanded is equal to the quantity supplied. In this way an equilibrium price is determined in perfect competition. This equilibrium price is accepted by the large number of buyers as well as large number of sellers.

(5) The equilibrium price determination under perfect competition is explained in the following diagram :



(6) **Explanation :**

(a) In the diagram, Y-axis represents the price of apples and the X-axis represents the market demand and market supply of apples. In the diagram, DD is a downward sloping demand curve indicating the inverse relationship between the price and quantity demanded. SS is an upward sloping supply curve indicating the direct relationship between the price and the quantity supplied.

(b) From the diagram, it can be seen that both the curves intersect each other at point E which is the equilibrium price of apples. In this example, the equilibrium price is ₹300.

(28) Explain the types of monopoly.

Ans. The following are the types of monopoly :

(a) Private monopoly : Private monopoly refers to sole ownership of the supply of goods or services by the private firm or individual. The main objective of private monopoly is earning the maximum profit. For example, Tata Group.

(b) Public monopoly : Public monopoly refers to sole ownership of the supply of goods or services by the government. The main objective of public monopoly is not to earn the profit but to provide the maximum welfare to the society. For example, Indian Railways.

(c) Legal monopoly : The monopoly that emerges on account of legal provisions like patents, trade mark, copy rights, etc. is called legal monopoly. In a legal monopoly, the law forbids the potential competitors to imitate the design, form or shape of a product which is registered with a particular trade mark. If any firm violates the rights of the trade mark, legal action is taken against them. For example, Amul's products.

(d) Natural monopoly : The monopoly created on the basis of natural conditions like climate, rainfall, specific location, etc. is known as natural monopoly. For example, monopoly created by the state of Punjab in the production of wheat due to favourable climatic conditions and fertile soil.

(e) Simple monopoly : It is a type of monopoly, in which a monopolist charge consumerwise, placewise, timewise and usewise uniform price to the same product.

(f) Discriminating monopoly : It is a type of monopoly, in which a monopolist charge consumerwise, placewise, timewise and usewise different prices to the same product. For example, In India, the electricity charges are comparatively less for its domestic use and comparatively high for its commercial use.

(g) Voluntary monopoly : It is a type of monopoly where some monopolists voluntarily come together and form a group of monopolists to avoid cut-throat competition. This facilitates them to maximise the profit. For example, Organisation of Petroleum Exporting Countries (OPEC).

(29) What is meant by Oligopoly? Explain the features of Oligopoly.

Ans. (A) Meaning : The term oligopoly is derived from the Greek words *'Oligo'* which means few and 'poly' which means sellers. Thus, oligopoly is a market where there are a few firms (sellers) in the market producing and selling either a homogeneous product or a differentiated product. For example, few firms providing mobile services.

(B) Features : The features of oligopoly are as follows :

(a) Few firms or sellers : Under oligopoly market, there are few firms or sellers. From these few firms, some firms dominate the market and enjoy a considerable control over the price of a product.

(b) Interdependence : Under oligopoly market, every seller has to be cautious with respect to any action taken by the competing firms. Since there are few sellers in the market, if any firm makes the change in the price, all other firms in the industry also try to follow the same to remain in the competition.

(c) Advertising : Advertising is a powerful instrument in the hands of oligopolist. A firm under oligopoly uses aggressive and attractive advertising campaign with the intention of capturing a large part of the market. The cost incurred on advertising is called selling cost.

(d) Entry barriers : Under oligopoly market, any firm can easily exit from the industry whenever it wants or when there is possibility of losses. On the other hand, a new firm has to face certain natural, technical entry barriers as well as legal entry barriers like government licence, patents, etc.

(e) Lack of uniformity : Under oligopoly, there is a lack of uniformity among the firms in terms of their size. Under oligopoly, some firms may be small with respect to its business operations while others may be of bigger size with respect to their business operations.

(f) Uncertainty : Uncertainty is an important feature of oligopoly market. There is a considerable element of uncertainty due to change in demand of products as an effect of advertisements as well as different behaviour patterns shown by various firms. For example, in oligopoly market, rivals may join hands and co-operate or may try to fight each other.

(30) Explain the features of monopolistic competition.

Ans. The features of monopolistic competition are as follows :

(a) Fairly large number of sellers : Although the number of sellers in a monopolistic competition is large, it is still smaller than that in a perfectly competitive market. Since number of sellers is large, each seller has a limited control over the market supply. However, each seller has monopoly over his brand. Thus, in monopolistic competition each producer enjoys an element of monopoly on one hand and on the other they have to face competition from sellers selling close substitutes.

(b) Fairly large number of buyers : In monopolistic market, there are fairly large number of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.

(c) Product differentiation : Product differentiation is the main feature of monopolistic competition. In monopolistic competition, there are many firms producing differentiated products. In this market, the product of each firm is in some way differentiated from the product of every other firm in the market. Product differentiation may take the form of brand names, trademarks, peculiarity of package or container, shape, quality, cover, design, colour, etc. This means that the product of each firm may find close substitutes and the cross elasticity of demand for each firm's product is very high. For example, mobile handsets, soaps, toothpastes, two wheelers, etc.

(d) Free entry and exit : Under monopolistic competition there is freedom of entry and exit. The new firms are free to enter the market if there is opportunity of earning profit. Similarly, existing firms can exit the market, if they find it difficult to survive due to possibility of losses.

(e) Selling Cost : Selling cost is a peculiar feature of monopolistic competition. Selling cost refers to the cost incurred by the firm to create more demand for its product and thus increase the volume of sales. Selling cost includes expenditure on advertisements, radio and

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television broadcasts, hoardings, exhibitions, window display, free gifts, free samples, etc.

(f) Close substitutes : In monopolistic competition, goods have close substitutes to each other. For example, different brands of cold drinks, biscuits, tea, etc.

(g) Concept of group : Under monopolistic competition, Chamberlin introduced the concept of 'Group' in place of industry. Industry means the number of firms producing identical products. On the other hand, a 'Group' means a number of firms producing differentiated products which are closely related to each other. For example, group of firms producing medicines, automobiles, etc.

(31) Explain the meaning of monopolistic competition with its features.

Ans. (A) Meaning : Monopolistic competition is very realistic in nature. In this market, there are some features of perfect competition and some features of monopoly acting together. Prof. E. H. Chamberlin coined the concept of monopolistic competition in his book "Theory of Monopolistic Competition" which was published in 1933. According to **Chamberlin**, *"Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes."*

(B) Features : *For the features, refer to Q. (30) from this Question Set.*

Chapter 6 : Index Numbers

(32) Explain the meaning of Index Number. Explain the steps involved in the construction of index numbers. ***(March '22)***

Ans. (A) Meaning : According to **Spiegel** : *"An index number is a statistical measure designed to show changes in a variable or a group of related variables with reference to time, geographical location and other characteristics such as income, profession, etc."*

(B) Steps : The steps involved in the construction of index numbers are as follows :

(a) Deciding the purpose of index numbers : Deciding the purpose of index numbers is the first important step in the construction of index numbers. The purpose for constructing the index number, its scope as well as which variable is intended to be measured should be clearly decided to achieve fruitful results. For example, if the purpose of constructing index numbers is to find out the changes in the wholesale prices of a particular commodity, then collecting the retail prices of a particular commodity will not be fruitful.

(b) Selecting the base year : Base year is also called the reference year. It is the year against which comparisons are made. The base year should be normal, i.e. it should be free from natural calamities, warlike conditions, emergencies, etc. It should not be too distant in the past.

(c) Selecting items : It is necessary to select a representative sample of the number of items to be included in the construction of index numbers. The representative sample of number of items should represent the tastes, habits and customs of the people. Similarly, only standardised or graded items should be included to give better results. For example, while measuring the trends in consumption pattern of poor people, the data related to quantities of essential goods consumed by poor people over a period of time is to be collected. The collection of data related to quantities of luxury goods consumed by rich people will not be fruitful.

(d) Selecting price quotations : Prices of the selected commodities may vary from place to place and shop to shop in the same market. Therefore, while calculating index numbers, it is desirable that price quotations should be obtained from an unbiased price reporting agency. Proper selection of representative places and persons is required to achieve accuracy in the construction of index numbers.

(e) Choosing suitable average : Construction of index numbers requires choice of a suitable average. Generally, Arithmetic mean is used in the construction of index numbers as compared to other averages, it is simple to compute.

(f) Assigning proper weights : Weight refers to the relative importance of the different items in the construction of an index number. Weights are of two types, viz. (1) Quantity weights (q) and (2) Value weights ($p \times q$). Since all items are not of equal importance, while constructing index numbers, specific weights are assigned to various commodities for achieving better results.

(g) Selecting an appropriate formula : Various formulae are devised for the construction of index numbers. According to the purpose of index number and availability of data, a suitable formula is chosen for constructing index numbers.

Chapter 7 : National Income

(33) Explain income method and expenditure method of measuring national income. ***(Sept. '21)***

Ans. (A) Income method : *For the answer, refer to Q. (6) (1) (A) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(B) Expenditure method : *For the answer, refer Q. (6) (1) (B) of the Solved Board's Question Paper of July 2024 given in Section 1 of this book.*

(34) Explain the concept (meaning) of national income and explain the features of national income. ***(July '22; March '25)***

Ans. (A) Meaning of national income : *For the answer, refer to Q. (35) (A) from this Question Set.*

(B) Features of national income : *For the answer, refer to Q. (19) from Question Set 9.*

(35) Define national income. Explain the final goods approach to avoid double counting of goods and services in the estimation of national income.

Ans. (A) National income : According to NIC *"A national estimate measures the volume of commodities and services turned out during a given period counted without duplication."*

(B) The final goods approach to avoid double counting of goods and services in the estimation of national income : The national income is calculated by various methods. The output method is one of the methods of measuring national income. In this method, the national income is calculated either by valuing all the final goods and services, produced during a year at their market price or by adding up all the values at each higher stage of production until these products are turned into final products. To avoid double counting, this method uses either the final goods approach or the value added approach for estimation of national income. The final goods approach can be explained with the help of the following points :

(1) Final goods are those goods which are ready for final consumption.

(2) According to final goods approach, the value of all final goods and services produced in primary, secondary and tertiary sectors are included and the value of all intermediate goods are ignored.

(3) For example, bread is the final good. The price of bread includes the cost of wheat, making of flour, etc.

(4) Wheat and flour are both intermediate goods. Their values are paid up during the process of production of bread.

(5) In the value of the final product, i.e. bread, the values of intermediate goods are already included.

(6) A separate accounting of the values of intermediate goods (wheat, flour, etc.) along with the accounting of the value of final product (bread) would lead to double counting.

(7) To avoid this double counting, the value of only final product is computed.

(36) Explain the concept of National Income and explain the practical difficulties involved in the measurement of National Income. ***(March '24)***

Ans. (a) Meaning : *For the answer, refer to Q. (35) (A) from this Question Set.*

(b) Practical difficulties : Practical difficulties in measuring national income are also known as statistical difficulties in measuring national income. The practical difficulties in measuring national income are as follows :

(1) Problem of double counting : The greatest difficulty in calculating national income is of double counting. It arises from the failure to distinguish properly, between a final and an intermediate product. For example, flour used by a bakery is an intermediate product and that by a household is final product. Therefore, sometimes the flour used by bakery is taken wrongly as a final product. This results in the problem of double counting. Double counting leads to overestimation of national income.

(2) Existence of non-monetised sector : In a developing country like India, especially in rural areas, there exists the non-monetised sector. In India, agriculture, still being in the nature of subsistence farming, a major part of production is consumed at the farm itself and a very small part produced is exchanged for other goods and services. Thus, exchange activities are carried out without the use of money. Therefore, they are not calculated in national income.

(3) Inadequate and unreliable data : In developing country like India, no permanent machinery exists for the collection of data. Therefore, adequate and correct data on production and cost data relating to crops, fisheries, animal husbandry, forestry, construction workers, small enterprises, etc. are not available. Besides this, data on unearned incomes, consumption and investment expenditure of rural and urban population are also not available. This does not reveal the actual size of national income and it leads to underestimation of national income.

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(4) Depreciation : Depreciation refers to wear and tear of capital assets, due to their use in the process of production. There are no uniform, common or accepted standard rates of depreciation applicable to the various capital assets. Thus, it is difficult to make correct deductions for depreciation due to an element of subjectivity.

(5) Capital gains or losses : Capital gains or capital losses, which accrue to the property owners by increase or decrease in the market value of their capital assets or changes in demand, are not included in the national income because these changes do not result from current economic activities.

(6) Illiteracy and ignorance : Due to illiteracy and ignorance, small producers do not keep an account of their production. So they cannot give information about the quantity or value of their output. This distorts the estimation of national income.

(7) Difficulties in the classification of working population : In India, working population is not clearly defined. For instance, farmers in India are not engaged in agriculture all round the year. Obviously, in the off season, they engage themselves in alternative occupations. In such a case, it is very difficult to identify their incomes from a particular occupation. This leads to underestimation of national income.

(8) Valuation of inventories : Raw materials, intermediate goods, semi-finished and finished products in the stock of the producers are known as inventories. Valuation of inventories requires careful assessment. Any mistake in measuring the value of inventory, distorts the value of the final production of the producer which in turn distorts the estimation of national income.

Chapter 8 : Public Finance In India

(37) Explain various reasons for the growth of public expenditure. ***(July '22; March '23)***

Ans. The reasons for the growth of public expenditure are as follows :

(a) Increase in the activities of the Government : For the economic and social development of the country, the modern government is continuously spending a large amount on activities like dissemination of education, provision of health facilities, provision of recreational services, implementation of social welfare schemes. The government is adopting new optional functions and performing traditional obligatory functions more efficiently. The government has to spend a lot to carry out all these functions. As a result, public expenditure is rising.

(b) Rapid increase in population : As India is a developing country, population growth in India is accelerating. According to the 2011 census, India's population was 121.02 crore. Public expenditure is increasing as the government has to spend heavily to meet the various needs of the growing population.

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(c) Growing urbanisation : In modern times, the pace of urbanisation is increasing in many countries of the world. In newly emerging and developed urban areas, the government has to provide water supply, electricity supply, transportation facilities, sanitation facilities, recreational facilities. For providing these various facilities, the government has to incur continuous expenditure and as a result public expenditure is increasing.

(d) Increasing defence expenditure : In modern times, unstable and hostile international relations have increased. Many countries around the world are increasing defence spending to cope with potential foreign aggression and war. As a result, public expenditure is rising.

(e) Spread of democracy : Most of the countries of the world have adopted the system of democracy. In a democratic system, the process of forming a government is carried out by holding general elections after a certain period of time. In a country like India, which is large in size and population, huge expenses have to be incurred for elections. As a result, public expenditure is rising.

(f) Inflation : Just as a person spends money on purchasing various goods and services to meet his personal needs, so the government spends money on purchasing various goods and services to meet the needs of the society. Prices of most goods and services continue to rise. As a result, public expenditure is rising.

(g) Industrial development : In order to achieve the objectives of increase in production, increase in employment and overall growth in the economy, large scale industrial development is required in the country. As a result, in developing countries like India, a large amount of money is being spent on industrial development schemes to boost industrial development. As a result, public expenditure is rising.

(h) Disaster management : The modern government is spending heavily on managing natural disasters like floods, earthquakes, hurricanes and man-made disasters like social unrest, riots, wars, etc. As a result, public expenditure is rising.

(38) Explain various sources of public revenue. ***(March '22)***

Ans. (A) Tax sources : *For the answer, refer to Q. (22) from Question Set 8.*

(B) Non-Tax sources : *For the answer, refer to Q. (29) from Question Set 9.*

Chapter 9 : Money Market and Capital Market in India

(39) Explain the functions of the RBI. ***(July '23)***

Ans. The functions of Reserve Bank of India are as follows :

(1) Issue of currency notes : The Reserve Bank of India has a monopoly on printing of all rupee notes except one rupee note and all coins. According to the Minimum Reserve Policy of 1957, the Reserve Bank of India has to reserve at least ₹200 crores. Of this, ₹115 crores are kept in terms of gold and ₹85 crores are kept in terms of foreign currency.

(2) Acting as a banker to the government : The Reserve Bank of India acts as a banker to the government. The Reserve Bank of India accepts deposits from the Central and State Governments and makes payments on their behalf as a representative of the Government. The Reserve Bank of India assists the government in managing public debt and provides advice on a number of financial issues.

(3) Acting as a banker to banks : The Reserve Bank of India has statutory control over all banks in India. All Scheduled Banks in India are required to reserve minimum cash with the Reserve Bank of India as per their demand and term liabilities. The Reserve Bank of India provides financial assistance to banks by discounting of eligible bills, providing advances against approved securities.

(4) Acting as a custodian of foreign exchange reserves : The Reserve Bank of India acts as the custodian of foreign exchange reserves. The Reserve Bank of India conducts the buying and selling of currencies of all member countries of the International Monetary Fund. The Reserve Bank of India helps in maintaining the official rate of exchange of rupee as well as ensure its stability.

(5) Controlling credit : As the Supreme bank in the country, the Reserve Bank of India controls the credit creation process of commercial banks. The Reserve Bank of India uses quantitative techniques to control the volume of credit, such as bank rates, open market operations, Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). The Reserve Bank of India uses qualitative tools to regulate the use of credit, such as fixing margin requirements, credit rationing, moral suasion, etc.

(6) **Collection and publication of data :** The Reserve Bank of India collects and publishes statistical information related to banking and other financial sectors of the economy.

(7) **Carrying out promotional and developmental functions :** The Reserve Bank of India carries out promotional and developmental functions such as extending banking services in semi-urban and rural areas of India, providing financial securities to depositors, providing agricultural credit to farmers, providing industrial credit to boost industries.

(8) **Performing other functions :** The Reserve Bank of India acts as a clearing house for settling the accounts between its member banks. The Reserve Bank of India acts as the lender of last resort to all banks in India and provides liquidity to banks experiencing financial difficulties.

(40) **Explain the role of money market in India.**

Ans. The role of money market in India can be explained with the help of the following points :

(a) **Meeting the short-term requirements of the borrower :** Due to the money market, the short-term financial needs of the borrower are met at realistic interest rates.

(b) **Liquidity management :** Money market facilitates better management of liquidity and money in the economy by the monetary authorities. As a result, the country enjoys economic stability and economic development.

(c) **Portfolio management :** Money market deals with different types of financial instruments that are designed to suit the risk and return preferences of investors. This enables the investors to manage portfolios to minimise the risks and to maximise the returns.

(d) **Equilibrating mechanism :** Money market leads to rational allocation of financial resources. The money market accelerates savings in the investment stream. The money market helps to strike a balance between the demand for and the supply of short-term funds.

(e) Meeting the financial requirements of the government : Money market helps the government to fulfil its short-term financial needs on the basis of the Treasury Bills.

(f) Implementation of monetary policy : The main objective of monetary policy is to manage the quantity of money in the economy. In India, monetary policy is implemented by the Reserve Bank of India. Monetary policy makes it possible to meet the economic needs of different sectors of the economy and accelerate economic growth. The money market guides the Reserve Bank of India in developing appropriate interest rates. Thus, a fully developed money market in the economy helps in the successful implementation of monetary policy.

(g) Economising the use of cash : The money market is not about the actual money but about various financial instruments that are the close substitutes to money. As a result, the money market helps to use cash sparingly.

(h) Promoting the growth of commerce, industry and trade : Local traders as well as international traders who are in the need of short-term funds have the facility to discount bills of exchange in the money market. Money market provides working capital for agro-industries and small scale industries. As a result, the money market drives the growth of commerce, industry and trade in the country.

Chapter 10 : Foreign Trade of India

(41) Explain the meaning and role of foreign trade.

Ans. (A) Meaning of foreign trade : The meaning of the foreign trade can be explained with the help of the following points :

(1) Foreign trade is trade between different countries of the world. Foreign trade is also called international trade or external trade.

(2) According to **Wasserman and Hultman,** "International trade consists of transactions between residents of different countries."

(B) Role of foreign trade : The role of foreign trade can be explained with the help of the following points :

(a) To earn foreign exchange : Foreign exchange is earned through foreign trade. The foreign exchange received can be used for various productive activities. Foreign trade promotes the production and market expansion of domestic goods and services.

(b) Encourages investment : Foreign trade provides an opportunity for producers to sell goods and services in the domestic market as well as export to the world market. As a result, the production of various goods and services in the country is boosted and investment is encouraged.

(c) Division of labour and specialisation : Foreign trade leads to division and specialisation of labour at the global level. For example, if workers in country 'A' are skilled in agricultural production and workers in country 'B' are skilled in making electronic products, then country 'A' can export agricultural products to country 'B' by acquiring specialisation in agricultural products. 'B' country can export electronic products to 'A' country by acquiring specialisation in electronic products.

(d) Optimum allocation and utilisation of resources : Due to foreign trade, each country channelised the available resources to the production of the same goods from which maximum benefit can be obtained at minimum production cost. For example, if it would be possible to produce wheat at the lowest cost based on the resources available in country 'A' and if it would be possible to produce medicines at the lowest cost based on the production resources in country 'B', then country 'A' manufactures wheat and export wheat to country 'B'. Similarly, country 'B' manufactures drugs and exports drugs to country 'A'. Thus, foreign trade leads to adequate allocation and utilisation of resources internationally.

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(e) **Stability in price level :** Foreign trade helps in balancing the demand and supply of goods and hence brings stability in price level in the economy.

(f) **Availability of multiple choices :** Foreign trade provides multiple choices of imported commodities. It thus creates competition in the market and hence high quality goods can be made available to the consumers at reasonable prices. Thus, foreign trade helps in raising the standard of living.

(g) **Brings reputation and helps earn goodwill :** Exporting countries get reputation and goodwill in the international market. For example, Japan and Switzerland have gained a great deal of goodwill in the international market by exporting electronic goods worldwide.

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Section 3

ASSIGNMENTS

[Q. 2 (A) : Total Marks 6]

Q. Identify and explain the concepts from the given illustrations :

(1) Ramesh decided to take all decisions related to production, such as what and how to produce. **(Ch. 1)**

(2) A poor person wants to buy a car. **[Ch. 3 (A)]** ***(March '23)***

(3) Sanket's demand for consumer goods increased by 20% due to an increase in his income by 5%. **[Ch. 3 (B)]** ***(July '22)***

(4) John produces 5 units of mobile in his factory at ₹50,000. When he produced the 6th unit of mobile his total cost was ₹58,000. **(Ch. 4)** ***(July '22)***

(5) Sheetal purchased wheat flour for her bakery from the flour mill. **(Ch. 7)**

[Q. 2 (B) : Total Marks 6]

Q. Distinguish between the following :

(1) Individual Demand and Market Demand. **[Ch. 3 (A)]** ***(July '22)***

(2) Unitary Elastic Demand and Relatively Elastic Demand. **[Ch. 3 (B)]** ***(March '23)***

(3) Contraction of Supply and Decrease in Supply. **(Ch. 4)**

(4) Average Cost and Average Revenue. **(Ch. 4)**

(5) Perfect Competition and Monopoly. **(Ch. 5)**

(6) Output Method of Measuring National Income and Income Method of Measuring National Income. **(Ch. 7)** ***(March '23)***

(7) Recurring Deposits and Fixed Deposits. **(Ch. 9)** ***(March '24)***

***Note :** For the answers to above questions, refer to Navneet Economics Digest : Std. XII.*

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[Q. 3 : Total Marks 12]

Q. Answer the following questions in brief :

(1) Why does the demand curve slope downward? **[Ch. 3 (A)]**

(2) Explain features of oligopoly. **(Ch. 5)**

(3) Explain any four features of monopoly. **(Ch. 5)**

(March '22; July '22)

(4) Calculate Quantity Index Number from the given data : **(Ch. 6)**

(Sept. '21)

Commodity	**Quantity in 2010 (q_0)**	**Quantity in 2010 (q_1)**
A	20	55
B	35	60
C	75	110
D	70	75

(5) Write any four practical difficulties in national income estimation. **(Ch. 7)**

(March '22)

(6) Explain the concept of foreign trade and its types. **(Ch. 10)**

[Q. 4 : Total Marks 12]

Q. State, with reasons, whether you Agree or Disagree with the following statements :

(1) Slope of relatively elastic demand curve is steeper. **[Ch. 3 (B)]**

(July '22)

(2) Price Index Number is the only type of Index Number. **(Ch. 6)**

(Sept '21)

(3) There are many types of index numbers. **(Ch. 6)** ***(March '24)***

(4) There are no theoretical difficulties in the measurement of national income. **(Ch. 7)**

(March '23)

(5) Commercial bank performs various functions. **(Ch. 9)**

(July '22)

(6) Commercial banks accept various types of deposits. **(Ch. 9)**

(7) Over the last 75 years, India's foreign trade has undergone a complete change in terms of composition and direction.

(Ch. 10) ***(March '24)***

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(8) During British rule, indigenous handicrafts suffered a severe blow. **(Ch. 10)**

[Q. 5 : Total Marks 8]

Q. Study the following table, diagram, passage and answer the questions given below :

(1) Observe the following table and answer the questions given below it : **[Ch. 6]** ***(July '23)***

Commodity	Base Year		Current Year			
	Price p_0	Quantity q_0	Price p_1	Quantity q_1	p_1q_1	p_0q_1
A	2	10	5	8	40	
B	4	5	8	3		12
C	1	7	2	10	20	
D	5	8	10	5		25
Total					**134**	**63**

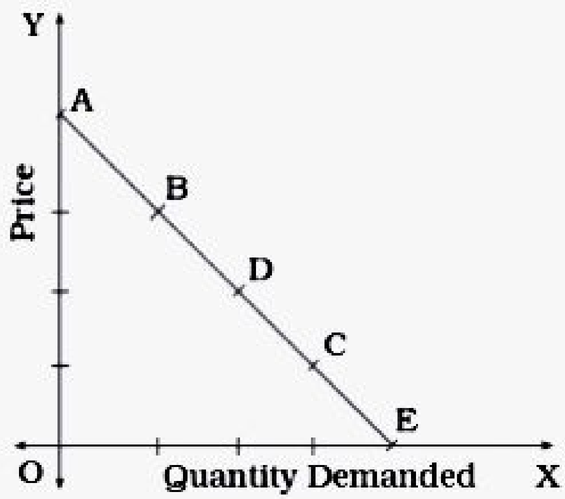
Questions :

(1) Fill in the blank boxes of the above schedule.

(2) Apply the given formula and find out Paasche's Index Number.

$$P_{01} = \frac{\sum p_1q_1}{\sum p_0q_1} \times 100$$

(2) On the basis of the given diagram, state whether the following statements are True or False : **[Ch. 3 (B)]** ***(July '23)***



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Questions :

(1) Demand at point 'C' is relatively elastic demand.

(2) Demand at point 'B' is unitary elastic demand.

(3) Demand at point 'D' is perfectly inelastic demand.

(4) Demand at point 'A' is perfectly elastic demand.

(3) Read the following passage and answer the questions given below : **(Ch. 4)** ***(March '25)***

> Regulated market is wholesale market where buying and selling are regulated and controlled by the state government through the market committee.
>
> Regulated market aims at the elimination of unhealthy and unscrupulous practices regarding charges and providing facilities to producers and sellers in the market. The poor standards of primary and secondary markets in agricultural market are cash transactions, short weights, excessive market charges, unauthorised deduction, and the absence of machinery to settle disputes between sellers and buyers. These defects and malpractices can be recovered by the establishment of Regulated market. According to the Bombay Agricultural Product Market Act, 1939, this market is controlled. In this market mainly the trade of cereals, fruits, tobacco, cotton, groundnut, coconut, betel nut, potatoes and turmeric, etc. are controlled.

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Questions :

(1) Which act regulates the market?

(2) What are the poor standards in primary and secondary markets?

(3) Give your opinion with reference to above passage.

[Q. 6 : Total Marks 16]

Q. Answer the following questions in detail :

(1) Explain the functions of commercial banks. **(Ch. 9)**

(2) Explain the recent trends in India's export. **(Ch. 10)**

Section 4 BOARD'S QUESTION PAPER : JULY 2025

Time : 3 Hours] **Answers on QR Code** **[Max. Marks : 80**

Note : (1) All questions are compulsory.

(2) Draw neat tables/diagrams wherever necessary.

(3) Figures to the right indicate full marks.

(4) Write answers to all main questions on new pages.

Q. 1. (A) Choose the correct option : **5**

(i) Methods adopted in microeconomic analysis :

(a) Lumping method *(b) Aggregative method*

(c) Slicing method *(d) Inclusive method*

Options : *(1) a, c and d* *(2) a, b and d*

(3) Only c *(4) Only a*

(ii) Under perfect competition, sellers are:

(a) Price makers *(b) Price takers*

(c) Price discriminators *(d) None of these*

Options : *(1) a, b and c* *(2) Only b*

(3) Only c *(4) a and c*

(iii) Statements that are correct in relation to Index Numbers :

(a) Index numbers are a geographical tool.

(b) Index numbers measure changes in the air pressure.

(c) Index numbers measure relative changes in an economic variable.

(d) Index numbers are specialised average.

Options : *(1) c and d* *(2) a and b*

(3) b and c *(4) a and d*

(iv) Obligatory functions of the government :

(a) Protection from external attacks

(b) Maintaining internal law and order

(c) Welfare measures

(d) Exporting goods and services

Options : *(1) c and d* *(2) a and b* *(3) Only b* *(4) a, c and d*

(v) Types of foreign trade are as follows :

(a) Import trade *(b) Export trade*

(c) Entrepot trade *(d) Internal trade*

Options : *(1) a and b* *(2) a, b and c* *(3) a, b, c and d* *(4) None of these*

(B) Give Economic terms : **5**

(i) A desire which is backed by willingness to purchase and ability to pay.

(ii) The net addition made to total cost by producing one more unit of output.

(iii) The type of market where there are few sellers.

(iv) The gross market value of all final goods and services produced within the domestic territory of a country during a period of one year.

(v) Buying and selling of goods and services within the boundaries of a nation.

(C) Complete the following statements : **5**

(i) Microeconomics is also known as ....

(a) Price Theory *(b) Income Theory*

(c) Growth Theory *(d) Development Theory*

(ii) When total utility is maximum, then marginal utility is ....

(a) Positive *(b) Negative*

(c) Zero *(d) One*

(iii) Demand curve is parallel to 'X', axis in case of ....

(a) Perfectly elastic demand

(b) Perfectly inelastic demand

(c) Relatively elastic demand

(d) Relatively inelastic demand

(iv) In India, National Income is estimated by Central Statistical Organisation (CSO) using ....

(a) Output method *(b) Income method*

(c) Expenditure method

(d) Combination of Output and Income method

(v) A market for lending and borrowing of short-term funds is known as ....
   (a) *Money market* (b) *Capital market*
   (c) *Labour market* (d) *Product market*

(D) Find the odd word : **5**

(i) Types of utility :
Form utility, Place utility, Marginal utility, Service utility.

(ii) Determinants of demand :
Price, Income, Prices of substitute goods, Giffen's paradox.

(iii) Methods of measuring price elasticity of demand :
Income method, Percentage method, Total Expenditure method, Point method/Geometric method.

(iv) Exceptions to the law of supply :
Supply of labour, Agricultural goods, Prestige goods, Perishable goods.

(v) Non-Tax Revenue Sources :
Fees, Customs duty, Special Assessment, Fines and penalties.

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Q. 2. (A) Identify and explain the following concepts : ***(any three)*** **6**

(i) Raju collected the information about total consumption, total savings and total investment of Indian economy.

(ii) Rise in price by 20% of a commodity 'X' leads to fall in the demand of the same commodity 'X' by 20%.

(iii) Swara receives monthly pension of ₹ 8,000 from the State Government of Maharashtra.

(iv) Tushar deposited a lumpsum amount of ₹ 1,00,000 in the bank for a period of three years.

(v) Sharad was able to supply less paper to market due to technical problems in paper making factory although the price of paper remained constant.

(B) Distinguish between : *(any three)* **6**

(i) Slicing method and Lumping method

(ii) Expansion of demand and Increase in demand
(iii) Stock and Supply
(iv) Simple Index Number and Weighted Index Number
(v) Public Finance and Private Finance.

Q. 3. Answer the following questions : *(any three)* **12**

(i) Explain any four features of Microeconomics.
(ii) Explain any four features of perfect competition.
(iii) Explain any four functions of Reserve Bank of India.
(iv) Explain the two sector model of the circular flow of National Income.
(v) Explain the types of Index Number.

Q. 4. State with reasons whether you Agree or Disagree with the following statements : *(any three)* **12**

(i) There are no real exceptions to the Law of Diminishing Marginal Utility.
(ii) There are many features of monopolistic competition.
(iii) There are no limitations of Index Number.
(iv) Money market plays important role in India.
(v) There is no difference between the concepts of Balance of Trade and Balance of Payment.

Q. 5. Study the following table, figure, passage and answer the questions given below it : *(any two)* **8**

(i) Observe the given table and answer the questions :

Units of Commodity	Total Utility	Marginal Utility
1	10	☐
2	18	8
3	☐	6
4	28	4
5	30	☐
6	30	0
7	☐	−2

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Questions :

(a) Complete the above table. **(2)**

(b) When total utility increases at a diminishing rate, then marginal utility goes on ☐ **(1)**

(c) After consuming six units of the commodity. MU becomes ☐. **(1)**

(ii) Observe the following diagrams and answer the questions given below :

DIAGRAM A

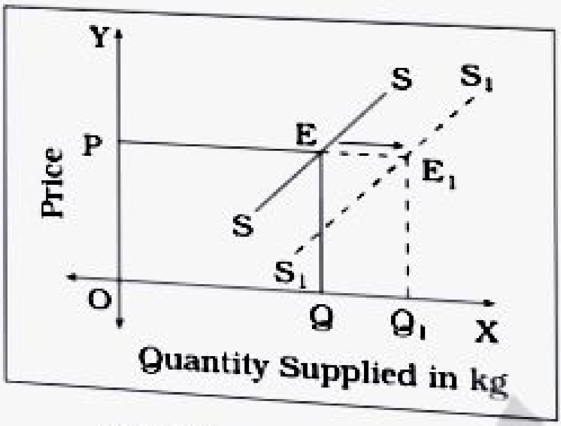
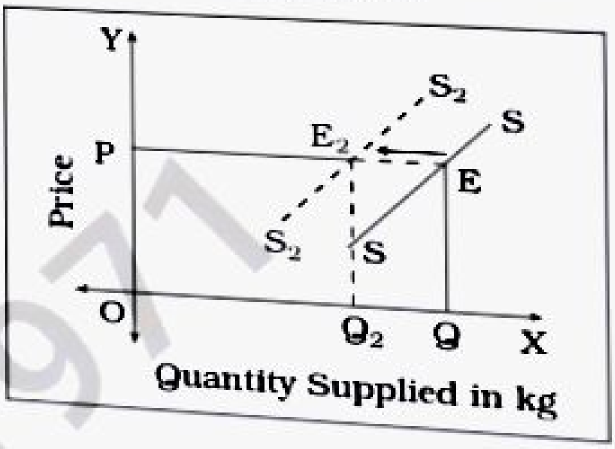


DIAGRAM B



Questions :

(1) Diagram 'A' represents .... in supply.

(2) Diagram 'B' represents .... in supply. **(1)**

(3) In diagram 'A', the supply curve shifts .... side of the original supply curve. **(1)**

(4) In diagram 'B', the supply curve shifts .... side of the original supply curve. **(1)**

(iii) Read the given passage and answer the questions : **(1)**

The Government of India and various agencies continuously monitor and calculate the National Income using different methods such as output, income and expenditure methods, etc. These methods help in providing a comprehensive picture of India's economic performance.

From 2001 to 2021, India's GDP grew at an average annual rate of around 6 to 7%. The country saw a significant shift from primarily agriculture-based to a more diverse economy with services and industrial sectors playing a more prominent role in GDP composition.

However it is important to note that there were fluctuations and challenges along the way, including the global financial crisis in 2008 and the COVID-19 pandemic in 2020 which temporarily disrupted growth trends.

In recent years, India has aimed for sustainable economic development, focusing on information technology. The initiatives such as "Make in India" and "Digital India" have been launched to boost economic activities and create employment opportunities which in turn impact the National Income positively.

Questions :

(1) What is the average annual growth rate of India for the period from 2001 to 2021? **(1)**

(2) Which factors disrupted the growth trends of India's National Income? **(1)**

(3) Express your opinion about the given passage. **(2)**

Q. 6. Answer the following questions in detail : *(any two)* **16**

(i) State and explain the law of demand with its assumptions.

(ii) Explain the factors influencing the elasticity of demand.

(iii) Explain the reasons for the growth in public expenditure in India.

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