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Important Questions (3 Mks)
IEFT (HUT-300)

1. Describe factors of production.

Production is the process by which inputs are transformed into output. In other words, it is the creation of utility. When inputs are transformed into finished products which satisfy human wants.

There are four major factors of production i.e. land, labour, capital and entrepreneurship.

Land: It is the free gift of nature

Labour: It is the physical or mental effort that is put into production.

Capital: It is the produced means of production. It can be in the form of machinery, building, etc.

Entrepreneurship: He is the person who combines the services of other factors and organizes production.

2. Describe opportunity cost.

It is the value of the next best alternative foregone when the best one is chosen. Suppose a farmer can cultivate either wheat or rice in his farm. If he decides to produce rice, the value of wheat given up is the opportunity cost of rice production. When a decision is made on the basis of opportunity cost, resource allocation becomes optimum and efficient.

3. Define Marginal Utility (MU).

It is the addition to total utility by the consumption of an additional unit. It is the utility derived from the last unit consumed.

$$MU = TU(n) - TU(n-1)$$

MU = Marginal Utility

TU_n = Total utility of n units

TU_{n-1} = Total utility of (n-1) units.

4. What are the features of perfect competition?

Perfect competition is a market situation in which there are a large number of buyers and sellers dealing in a homogeneous product with perfect knowledge about market conditions. Following are the important features,

- a. Large number of buyers and sellers.
- b. Homogeneous product.
- c. Freedom of entry and exit.
- d. Perfect Knowledge.
- e. Perfect mobility of goods and factors of production.
- f. Absence of transport cost.

5. Define Market Structure.

Market is a place where the interaction between buyers and sellers takes place in order to buy or sell a product. Market structure refers to the way that various markets are classified and differentiated in accordance with their degree and nature of competition for products and services. It consists of four types: perfect competition, Monopoly, monopolistic competition and oligopoly market.

6. Differentiate between GDP and GNP.

GDP (Gross Domestic Product) is the money value of a final goods and services produced within the domestic territory of a country during a financial year. Net factor income from abroad is not included in GDP the measure of national income. It measures only domestic production.

GNP (Gross National Product) is the aggregate money value of all final goods and services produced by nationals of a country in a year. Net factor income from abroad is included in GNP. It measures only the national production.

7. What is money market and its functions?

It refers to the market for short term funds, whose maturity period is up to one year. It is a market for low risk. The main objective of money market is to ensure liquidity. It plays a major role in the circulation of "short term funds in the economy" It enables the raising of short term funds for meeting the working capital requirement of business. The following are the important functions of the money market.

1. Financing Trade
2. Central Bank Policies
3. Growth of Industries
4. Commercial Banks Self-Sufficiency
5. Financial mobility

8. What do you mean by BOP?

BOP means Balance of Payments. It is a systematic record of all economic transactions of a nation with the rest of the world for a specific period of time. Usually, time period is taken as one year. The main purpose of balance of payments is to inform the governments regarding the international currency position of the nation and to help in the formation of policies accordingly. Balance of payments is also useful to banks, firms and individuals who directly or indirectly involved in international trade and finance. It involves Current account, Capital account, unilateral payments account and official reserves assets account.

9. What is free trade and its advantages?

Free trade is a trade policy that does not restrict imports or exports. It refers to the trade that is free from all artificial barriers to trade like tariffs, quota restrictions, exchange control etc. In the case of free trade the free market idea is applied to international trade.

Advantages:

1. Free trade leads to the better economic utilization of resources.
2. In free trade each country will specialize in the production of those goods in which it has comparative advantage. This leads to large scale production, division of labour and efficiency.
3. There is a competition in the free trade and hence inefficient firms cannot survive. Therefore firms try to increase their efficiency.

4. It avoids domestic monopolies by providing internationally available goods at cheaper price
5. It avoid corruption and red-tapism.
6. Large scale production and division of labour leads to economic growth.

10. What are the basic economic problems?

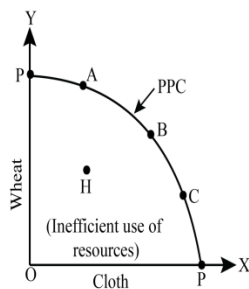
Economic problems arise in an economy because of the unlimited wants of human being, limited or scarce resources and alternative use of resources. The basic economic problems are:

1. What to produce and how much to produce: it has to decide what types of goods are to be produced, that is more consumer goods or capital goods, necessary items or luxury items. Once the types of goods are decided then their quantities are also to be decided.
2. How to produce: Having decided what to produce and how much to produce, the next decision relates to how to produce. It deals with the production technique. A given good can be produced by different techniques mainly with the help of labour intensive technique or Capital intensive technique.
3. For whom to produce: It is related to distribution of goods produced. Under Capitalism, it is based on the ability to pay, ie the people having enough income only can purchase goods. Where as in the socialism, decisions of goods and services are taken on the basis of requirement of the individual.

11. Explain PPC (Production Possibility Curve): The central problems of an economy can be analyzed by a geometrical tool called PPC Curve.

PPC curve shows various combinations of two commodities that can be produced with available

Technology and given resources which are fully and efficiently employed.



Possibilities	Good (X)- Cloth	Good (Y)- Wheat
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0

12. Explain expansion path.

It is a line connecting optimal input combinations as the scale of production expands. In other words it gives the least cost input combinations at every level of output. It is a long run concept. We can obtain the expansion path by joining the point of tangency between isoquants and isocost lines of a firm. It can be shown in the diagram.

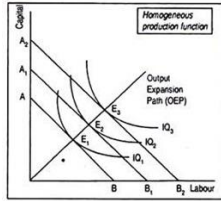


Fig. 3.9 : The Output Expansion Path

13. What is MOS? What happens when MOS is low?

Margin of Safety is the sales above the breakeven point. It is calculated as the difference between total sales and break even sales. It can be expressed as $MOS = \text{Sales} - \text{Break Even Sales}$. If MOS is low, any loss may be a serious matter. It is not a good situation.

14. What is collusive oligopoly?

Under oligopoly firms are interdependent and face cut throat competition. To avoid price war and loss, firms enter into an agreement regarding uniform price and output. This agreement is known as collusive oligopoly.

15. What is price skimming?

It is a strategy in which high price is charged at the time of introduction of the product and lower price during maturity. By experience producers know that high income consumers use the product as status symbol. Hence the producers charge a very high price from such consumers to skim the market and earn a very high profit. Once the product is established and reached maturity, producers will reduce the profit margin and charge a lower price. This will attract the lower income group. Eg: status symbol commodities.

16. How GDP is calculated?

It is the money value of a final goods and services produced within the domestic territory of a country during a financial year. To estimate GDP money value of final goods and services produced in the domestic territory alone will be taken in to account. Net factor income from abroad is not included in the measure of national income. That is goods produced outside the country by its nationals will not be considered.

17. Difference between money market and capital market.

Money Market refers to the market for short term funds while capital market is the market for long term funds. Objective of money market is to meet short term requirement of funds but in capital market to meet both medium and long term requirement of funds. Participants of money market are RBI, Commercial banks, Non banking financial institutions etc. In capital market participants are financial institutions, Foreign investors etc.

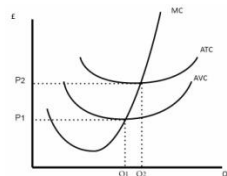
18. What is Devaluation?

Devaluation means deliberate reduction in the value of domestic currency in terms of foreign currency. A country which faces a serious problem of deficit in the balance of payments may lead to devaluation. This will stimulate exports and discourage import.

19. What do you mean by shut down point?

It is a point at which a company experiences no benefit for continuing operations and therefore decides to shut down temporarily or in some cases permanently. It is indicated as

when $\text{Price} = \text{AVC}$, it is the shut down point of a firm. That is the minimum point of AVC curve.



20. What is predatory pricing?

Under predatory pricing, the predator already set its prices too low for a sufficient period of time so that its competitors leave the market and others are refused from entering. This kind of predation is done on the expectation that these present losses will be compensated by future gains. It usually cause harm to the consumers.

21. What do you mean by Non price competition under oligopoly?

Under oligopoly there is a very tight competition between the firms. If the firms try to increase their market share through price competition, it may result in a price war. Hence they resort to non-price competition to increase sales. It is a marketing strategy that typically includes promotional expenditures such as sales promotions, special orders, free gifts, coupons and advertising etc. The following are some of the examples.

1. **Loyalty Card:** Loyalty cards give rewards or money back to customers who build up points. Eg: Super Market
2. **Subsidized delivery:** Big firms such as Amazon have been successful in offering free delivery for their customers.
3. **Offering good after sale service:** In order to retain customers firms have to provide after sales service.
4. **Coupons and free gifts:** Some sellers provide coupons and free gifts along with the product. This encourage more customers to buy from that seller.
5. **Cultivation of good reviews:** In an online world good reviews are increasingly important.

22. What are the important activities under primary sector?

It consists of activities related to the exploitation natural resources. The main activities under primary sector are agriculture, mining and quarrying, forestry, animal husbandry, poultry farming etc.

23. Difference between Bonds and Share.

Sl.No	Bonds	Share
1	In bonds investor lends money to the company	In share the investor owns part of the company
2	Bonds are issued by Govt. Institutions, Financial Institutions etc.	Shares are issued by Corporate companies.
3.	Bond holders get interest as a fixed payment	Share holders get dividend, which is not guaranteed.
4	Maturity period is fixed	The investor gets back the amount depends on share price.

24. What are the major components of BOP (Balance of payments)?

BOP means Balance of Payments. It is a systematic record of all economic transactions of a nation with the rest of the world for a specific period of time. Usually, four components in Balance of payments.

1. Current Account (2) Capital Account (3) Unilateral Payments Account and (4) Official Reserve Assets Account.

1. Current Account: Current account consists of two major items (1) Merchandise (Visible) exports and imports (ii) Invisible exports and imports

2. Capital Account: The Capital Account includes short term and long term capital transactions etc.

3. Unilateral Payment Account: Unilateral payment means the one way transfer of an item from one person to another. Such one way transfers are without any expectations of anything in return. It includes, (a) Humanitarian aid (b) Aid by one country to another etc.

4. The Official Reserve account: It is the sub division of the capital account. It is the foreign currency and securities held by the government.

25. What are the arguments in favour of protection?

Protection on the other hand is the policy of protecting domestic industries against foreign competition against by means of tariffs, subsidies; import quotas etc. It affects mainly the imports of a country. **ARGUMENTS IN FAVOUR OF FREE TRADE:**

1. Free trade leads to the better economic utilization of resources.
2. In free trade each country will specialize in the production of those goods in which it has comparative advantage. This leads to large scale production, division of labour and efficiency.
3. There is a competition in the free trade and hence inefficient firms cannot survive. Therefore firms try to increase their efficiency.
4. It avoids domestic monopolies by providing internationally available goods at cheaper price.
5. It avoid corruption and red-tapism
6. Large scale production and division of labour leads to economic growth.

26. What is the significance of National Income calculation?

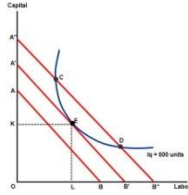
National Income is the total amount of income acquiring to a country from economic activity in a year. It can be defined as the sum total of the factor incomes received by the residents of a country in the form of rent, interest, wages and profit over a period of one year.

Significance:

- To evaluate performance of the economy
- Help in the formulation of economic policies.
- Make comparison between economic performances of two countries.
- To understand the contribution of each sector towards national income

27. What do you mean by Producer equilibrium?

A producer will be in equilibrium when he is able to produce a given quantity of output with least cost or when he produces maximum output with a given amount of inputs. In other words, least cost combination of inputs is that combination which least cost to the firm in producing a certain quantity of output. It is attained at that point where the Isoquant is tangent to the Isocost line. This is shown in the diagram



28 What is the relation between price and demand?

Demand for a commodity is the quantity of that commodity a consumer is willing to buy at a given price in a given period of time. The first demand determinant of a product is its own price. There is an inverse relation between price and quantity demanded for a product. When price rises demand falls and when price falls demand is rises.

29. Why does the problem of choice arise?

All resources are scarce. Having scarcity of resources, we need to choose which resources to use and how to utilize them- this is the concept of choice. The scarce resources have alternative uses. Alternative uses of the resources means problem of choice. For example a piece of land can be used for the construction of park or a factory building or growing vegetables. But at a time it can be one use only. These create another important problem that is the problem of choice.

30. Explain Break Even Point?

Break even analysis is a method that is used to analyse the relationship between total cost, total revenue and profit of an organization at different levels of output. It is an important tool for managerial decision making. The most important objective of Break Even Analysis is identifying the break-even point. It is the point at which total revenue of a firm equals total cost. In other words it is the point at which there is no profit or no loss for the firm.

31. Briefly explain International trade.

International trade or foreign trade means trade between countries. In other words, it is the exchange of goods or services between two or more countries. The branch of economics which deal with foreign trade is International Economics. International Economics deal with the economic and financial transactions among nations. It analyses the flow of goods, services, payments and money between nations. It also concerned with international policies and their effect on economic welfare of the nation. More specifically, it deals with international trade theory, international trade policy, the balance of payments and foreign exchange markets.

32. What is Industrial Economics?

Industrial economics is the branch of economics which deals with the economic problems of firms and industries, and their relationship with society. There are two broad elements of Industrial Economics. The first one, known as the descriptive element, is concerned with the information content of the subject. It provides information to the industrialist or business man regarding industrial organizations, natural resources, factors of production etc. The second element of the subject is concerned with the business policy and decision making. This is the analytical part dealing with topics such as market analysis, pricing, choice of techniques etc.

33. What is going rate pricing?

It is a method adopted by the firms wherein the product is priced as per the rates prevailing in the market rate on par with the competitors. Packaged drinking water is an example. This kind of strategy is adopted when the product has reached maturity and generic in nature. That is buyer ask for a product in general rather than a particular brand. By adopting this strategy firms can avoid a price war like situation.

34. What are the merits of quota restrictions?

A quota represents a ceiling or limit on the volume of exports or imports

Merits

1. Price effect: As quotas restrict imports and domestic supply, it increases prices in the domestic economy.
2. Consumption effect: Since quotas raise the price, it reduces consumption.
3. Balance of payments effect: As quotas restrict imports, balance of payments position will be improved.
4. Protective effects: Quotas restrict imports and guard domestic industries from foreign competition.

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