ECONOMICS

Time allowed: 3 hours   *Maximum Marks: 100*

General Instructions:
   i.   **All** questions in both the sections are compulsory.
   ii.   Marks for questions are indicated against each question.
   iii. Questions No. **1 – 5** and **15 – 20** are very short-answer questions carrying **1** mark each. They are required to be answered in **one sentence** each.
   iv.   Questions No. **6 – 8** and **21 – 23** are short-answer questions carrying **3** marks each. Answers to them should normally not exceed **60** words each.
   v.   Questions No. **9 – 11** and **24 – 26** are also short-answer questions carrying **4** marks each. Answers to them should normally not exceed **70** words each.
   vi.   Questions No. **12 – 15** and **27 – 30** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **100** words each.
   vii. Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

SECTION A: MICROECOMICS

1	Let the production function of a firm be Q= 4 L ½ K ½ . Find out the maximum possible output that the firm can produce with 100 units of L and 100 units of K.	1
2	Ceteris paribus, if the government increases the charges of electricity bills, what would be the likely changes in the market demand of Air Conditioner?	1
3	The consumer is in equilibrium at a point where the budget line: a. Is above an indifference curve b. Is below an Indifference curve c. Cuts an indifference curve d. Is tangent to an indifference curve	1
4	Which of these statement is true about PPC? a. It shows various combinations of two goods which yield same level of satisfaction b. It shows various combinations of two goods which an economy can produce with a given amount of resources and technology. c. It shows various combinations of two goods which an economy can produce with a given budget. d. It shows various combination of two goods which an economy can produce with a given time.	1
5	Can there be some fixed cost in the long-run? If not, why?	1
6	At which point does the SMC curve cut the AVC curve at the minimum point of the AVC curve.	3
7	Explain 'black marketing' as a direct consequence of price ceiling. **OR** Explain the concept of buffer stock as a tool of price floor.	3
8	What happens to profits in the long run if firms are free to enter in the industry?	3
9	A consumer buys 20 units of a good at a price of Rs. 5 per unit. He incurs an expenditure of Rs. 120, when he buys 24 units. Calculate price elasticity of demand using percentage method. Comments upon the likely shape of demand curve based on this information.	2 + 2
10	Explain the concept of marginal rate of substitution by giving an example. What happens to MRS when consumer moves downwards along the Indifference curve? Give reasons for you answer.	4

	OR "A downward sloping curve will have different elasticities at different points on the same liner curve". Explain it with the help diagram.		
11	Define marginal rate of transformation. Explain the concept with a hypothetical numerical example.	4
12	What is meant by price rigidity, under oligopoly? The equality of marginal cost and marginal revenue is a condition necessary for equilibrium, but it is not by itself sufficient to assure the attainment of producer's equilibrium. Comments.	2 4
13	a. Complete the following:	3+3

Price	Output	TR	MR
-	1	-	5
4	-	8	-
-	3	-	1
2	-	8	-

b. Giving reasons identify the equilibrium level of output and find profit at this output using MC-MR approach from the following:

Output	TR	TC
1	11	10
2	19	18
3	24	25
4	28	30
5	30	36

14	State the different phases of changes in TP and MP in the law of variable proportions. Also show the same in a single diagram. Suppose the demand and supply curves of a commodity X is given by the following two equations simultaneously. Qd= 200 – p Qs = 50 + 2p Find the equilibrium price and equilibrium quantity. Suppose that the price of a factor of production producing the commodity has changed resulting in the new supply curve given by the equation Qs = 80 + 2p Analyse the new equilibrium price and new equilibrium quantity as against the original equilibrium price and the original equilibrium price and equilibrium quantity.	3+3
15	State the different phases of changes in TP and MP in the law of variable proportions. Also show the same in a single diagram.	4+2

SECTION B: MACROECONOMICS

16	If an economy is to control inflation, which of the following can be appropriate:
	    a. Increasing Bank Rate
	    b. Sale of securities
	    c. Both (i) and (ii)
	    d. None of this
		1

17	What is the value of money multiplier when initial deposits are Rs. 500 cr and LRR is 10%
	    a. 0.1
	    b. 0.2
	    c. 10
	    d. 20
		1

18	Flow of goods and services and factors of production across different sectors in a barter economy is known as:
	    a. Circular flow
	    b. Monetary flow
	    c. Real flow
	    d. Capital flow
		1

19	The government budget of a hypothetical economy presents the following information, calculate value of fiscal deficit (all fig. in crores)
	    a. Revenue expenditure 70,000
	    b. Borrowings 15,000
	    c. Revenue receipts 50,000
	    d. Interest payments 25% of revenue deficit
		1

20	The incidence of tax refers to:
	    a. Level and rate of taxation
	    b. Who ultimately bears to money burden of the tax
	    c. Growth of taxation
	    d. Way in which a tax is collected
		1

21	Are the concepts of demand for domestic goods and domestic demand for goods the same? Explain with valid reasons.	3
22	Using the equation of consumption function: $C = c + b(Y)$, calculate consumption expenditure at the income level of Rs. 500 crores, if autonomous consumption is Rs. 40 crores and 40% of additional income is saved. **OR** Explain the relationship between APC and APS. Can the value of APC be greater than 1? Give reasons for your answer	3
23	Explain how an economy will solve this situation to achieves equilibrium level of income when AD>AS.	3
24	The net domestic product at market price of an economy is Rs. 4500 crores. The capital stock is worth Rs. 4000 crores and it depreciate at the rate of 10% per annum. Indirect taxes amount to Rs. 150 crores, subsidies amount to Rs. 20 crores, factor income from the rest of the world is Rs. 400 crores and to rest of the world is Rs. 600 crores. Find out the gross national product at factor cost.	4
25	What are official reserve transactions? Explain their importance in the BOP.	4

26	State the various components of the income method that are used to calculate national income.	4
	OR	
	How can externalities be a limitation of using gross domestic product as an index of welfare?	
27	Explain credit creation by the commercial banks with the help of a numerical example.	6
28	Given below is the consumption function of an economy: $C=100 + 0.5Y$ With the help of a numerical example, show that in this economy, as income increase, APC will decrease.	6
29	a. What is meant by Repo Rate? How does the Central Bank use this measure to control inflationary conditions in an economy?	3
	b. What is meant by margin requirement?	1
	How does the central bank use this measure to control deflationary conditions in an economy?	2

30	Calculate 'Gross National Product at market price' and 'Net National Disposable Income'.	3+3

S.no.	Particulars	Rs. crores
1	Rent	100
2	Net current transfer to rest of the world	30
3	Social security contributions by employers	47
4	Mixed income	600
5	Gross domestic capital formation	140
6	Royalty	20
7	Interest	110
8	Compensation of employees	500
9	Net domestic capital formation	120
10	NFIA	(-)10
11	NIT	150
12	Profit	200

OR

Calculate national income by (i) income method and (ii) expenditure method from the following data:

S.no.	Particulars	Rs. crores
1	Profit	200
2	Private final consumption expenditure	440
3	Govt. final consumption expenditure	250
4	Compensation of employees	350
5	Gross domestic capital formation	90
6	Consumption of fixed capital	20
7	Net exports	(-) 20
8	Interest	60
9	Rent	70
10	NFIA	50
11	NIT	60