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STUDY MATERIAL
BASED UPON
HIGH ORDER THINKING SKILLS (HOTS)
CLASS-XII
SUBJECT – ECONOMICS
2009-2010

UNIT -1

INTRODUCTION

1 MARK EACH

1. Why is PPC downward sloping from left to right?
2. Why does the problem of choice arise?
3. Why does PPC look concave to the origin?
4. What does slope of PPC show?
5. Why the problem of choice arises in an economy?
6. What are the two factors that contribute scarcity?
7. Senior citizens should be given free medical facilities- is it a positive or normative statement?
8. Study of sugar industry is the branch of micro or macro economics?
9. What shape will PPC take when marginal rate of transformation is decreasing?

3/4 MARKS EACH

10. Why does PPC look concave to the origin? Explain.
11. Calculate MRT_{xy} at different production possibilities from the following hypothetical data. Draw a PPC on the basis of the schedule.

Production Possibilities	Commodity X	Commodity Y
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0

12. Why is the production at a point towards left hand side from PPC not desirable?
13. Why do growth of resources and technological advances shift PPC to the right?

14. What is the shape of production possibility curve? Give reasons for its shape.
15. Why is production possibility curve called opportunity cost curve?
16. Explain the effect of Economic growth on PPC?
17. Distinguish between a centrally planned economy and a market economy.
18. Whether the following belongs to Micro or Macro economics?
 - a) Theory of Economic growth
 - b) Theory of supply
 - c) Welfare Economics
 - d) Theory of distribution

UNIT 2

Consumer Equilibrium and Demand

1 MARK EACH

1. When the price of good X rises, the demand for Good Y also rises. State the relationship between Good X and Good Y?
2. When the price of car rises the demand for petrol falls. How are they related?
3. What happens to the budget set if both the prices as well as the income double?
4. Mention difference between Giffin good and inferior good (any one)
5. What we call constant demand at higher price?
6. Mention the relationship between price and quantity demanded on the basis of the following equation –
$$d = 50 - 3p.$$
7. What does the budget constraint refer to?
8. Give the equation of budget line.

3/4 MARKS

9. Determine how the following changes (or shifts) will affect market demand curve for a product.
 - a) A new steel plant comes up in Jharkhand. People who were previously unemployed in the area are now employed. How will this affect the demand for colour T.V. and Black and White TV in the region.
 - b) In order to encourage tourism in Goa, the Govt. of India suggests Indian Airlines to reduce air fare to Goa from the four major cities of Chennai, Kolkata, Mumbai and New Delhi. If the Indian Airlines reduces the fare to Goa, How will this affect the market demand curve for air travel to Goa?
 - c) There are train and bus service between New Delhi and Jaipur, Suppose that the train fare between the two cities comes down. How will this affect demand curve for bus travel between the two cities?
10. If a good can be used for many purposes, the demand for it will be elastic. Why?
11. “If a product price increases, a family’s spending on the product has to increase.” Defend or refute.

12. Suppose there are 30 consumers for a good, having identical demand function: $d(p) = 10 - 3P$ for any price less than or equal to $10/3$ and $d(p) = 0$ for any price greater than $10/3$. Write the market demand function.
13. How would you comment on the elasticity of demand when 8% decrease in price of a commodity causes 2% increase in expenditure of the commodity?
14. A dentist charges Rs.300/- for a standard cleaning job and generates TR is equal to Rs.30, 000/- per month. She has since last month increased the price of dental cleaning to Rs,350/-. As a result fewer customers are now coming for dental cleaning, but the TR is now Rs.33, 250/-. From this, what can we conclude about the elasticity of demand for such dental service?
15. The elasticity of demand for X is twice the elasticity of demand for Y. Price of X falls by 5% and Price of Y rises by 5%. What will be the % change in the quantity demanded of X and Y?
16. If prices of salt and cigarettes, both rises by 10%, will the qt. demanded of both goods affected in an equal manner? Explain
17. Given $e_D = - 0.02$, and percentage increase in price = 20%, find change in expenditure on the commodity.
18. Given the market price of a good, how does a consumer decide as to how many units of that good to buy?
19. The price elasticity of demand is 0.5, the percentage change in quantity is 4. Calculate the percentage change in demand.
20. At what price lower or higher than the equilibrium price the demand will be deficient?
21. Explain why the budget line is downward sloping.
22. A consumer wants to consume two goods. The price of the two goods are Rs.4/- and Rs.5/- respectively. The consumer's income is Rs.20/-
 - i) Write down the equation of the budget line.
 - ii) How much goods can the consumer consume if he spends his entire income on those goods?
 - iii) What is the shape of the budget line?
23. How does the budget line change if the price of Good y decreases by a rupee but the price of Good x and the consumer's income remain unchanged in the above question?

24. Suppose a consumer can afford to buy 6 units of Good x and 8 unit of Good Y, if he spends his entire income. The prices of the two goods are Rs.6/- and Rs.8/- respectively. How much is the consumer's income?
25. Suppose the price elasticity of demand for a good is $(-)0.2$. How will the expenditure on the good be affected if there is 10% increase in the price of the good?
26. How does the level of price of a good affect its price elasticity of demand? Explain.
27. The market demand for a good at a price of Rs.10/- per unit is 100 units. When the price changes, its market demand falls to 50 units. Find out the new price if the price elasticity of demand is $(-) 2$.
28. Explain the income effect of fall in the price of a commodity on its demand.
29. Explain the substitution effect of a fall in the price of a commodity.
30. Suppose there are two bundles (0,20) and (20,0) and they have equal weights. Tell the average bundle.
31. Consider the bundles (20,0) and (0,20). Calculate the weighted average of these bundles when the first bundle has 60% weight and the second bundle has 40% weight.
32. Give two reasons which may make a consumer buy more of a commodity even at higher prices.
33. Draw any three demand curves on which elasticity of demand at all points is same.
34. If two demand curves are intersecting which curve will be having higher elasticity of demand at the point of intersection and why?

UNIT – 3

PRODUCER BEHAVIOUR AND SUPPLY

1 mark each

1. What happens to TP when MP is zero?
2. What happens to MPP when TPP increases at decreasing rate?
3. As the variable input is increased by one unit, total output falls. What would you say about of marginal productivity labour?
4. Why MC curve is U-shaped in the short run?
5. Why does fixed cost not influence marginal cost?
6. When a seller sells his entire output at a fixed price, what will be the shape of AR & MR curves?
7. Show that average revenue equals price.
8. Why does average cost fall as output rises?
9. Does fixed cost affect marginal cost? Give the answer with reason.
10. What would be the effect of increase in the output on the TFC?
11. If marginal revenue falls, will total revenue fall?
12. What is the price elasticity of supply of a commodity whose straight line supply curve passes through the origin forming an angle of 75° ?
13. What is price elasticity of a supply curve which passes through the origin and makes an angle of 60° with OX axis?
14. When the supply curve passes through Y axis what is elasticity of supply?
15. What happens to MPP when TPP falls?
16. Why MP curve lies above AP curve in the phase of increasing returns to a factor?
17. Why AP keeps raising even when MP declines?
18. What happens to MP when TP is maximum?
19. Name the cost which does not change with the change of level of output.
20. Does fixed cost exist in the long run?
21. Why is the total variable cost curve is sloping upward?

22. What is the shape of AFC curve?
23. How is TVC derived from a MC schedule?
24. What will happen to ATC when $MC > ATC$?
25. Output increases by 3 units to 4 units. As a result TC rises from Rs.19.60 to Rs.24.50. Find out MC.
26. A firm is producing 20 units. At this level of output, the ATC and AVC are respectively equal to RS.40 and Rs.37. Find out the total fixed cost of the firm.
27. Name the payment, which is received from the sale of goods.
28. What happens to MR when TR falls?
29. In which market AR will be more than MR?
30. What is the shape of MR curve in Non-competitive market?
31. What is Break Even Point?
32. What are volume discounts?
33. When total product of a variable factor falls with the increase in the variable factor what will happen to its marginal product?
34. What is meant by supplementary costs?
35. What is meant by Prime cost?
36. Mention the nature of total cost at zero level of production?
37. Why the average fixed cost curve of a firm has the shape of a rectangular hyperbola?
38. Can average cost fall when marginal cost is rising?

3 / 4 Marks Each

39. What do you understand by returns to a factor? Why do diminishing returns to a factor operate?
40. What are the factors which give rise to increasing returns to variable factors?
41. Explain the relationship between AC & MC with diagram.
42. Why is AC curve in the short run U-shaped?
43. How do changes in MR affect TR?

44. What is MR? How is it related to AR?

45. What will be the price elasticity of supply if the supply curve is a positively sloped straight line?

46. Calculate TC and AVC

Output	1	2	3	4	5	6
AFC	60	30	20	15	12	10
MC	32	30	28	30	35	43

47. Calculate MC and AC if fixed cost is 40

Output	1	2	3	4	5	6
TVC	60	80	90	110	150	216

48. Find out TR and MR

Output	10	9	8
AR	6	7	8

49. Complete the following table :-

Output	1	2	3	4
Price	-	9	-	-
MR	10	-	-	4
TR	-	-	24	-

50. If the price elasticity of supply of a commodity is 5. A producer supplies 500 units of this product at a price of Rs.5/- per unit. How much quantity of this product will be supplied, at the price of Rs.6/- per unit?

51. Due to a 10 percent rise in the price of a commodity, its quantity supplied rises from 400 units to 450 units. Calculate its price elasticity of supply. Is the supply elastic?

52. When the price of a commodity rises from Rs.10/- to Rs.12/- per unit, its quantity supplied rises by 100 units. If $e_s = 2$, Calculate its quantity supplied at increased price.

53. If $e_s = 3$, A seller supplies 20 units of the commodity at a price of Rs.8/- per unit. How much quantity of the commodity will the seller supply when price rises by Rs.2/- per unit?

54. Why does the difference between ATC and AVC decrease with an increase in the level of output?

55. Giving reasons state whether the following statements are true or false.
- AC falls only when MC falls
 - The difference between ATC & AVC is constant
 - When TR is maximum MR is also maximum
56. Explain the likely behaviour of total product and marginal product when only one input is increased while all other inputs are kept unchanged.
57. Prove that AR is equal to price, why AR curve is perfectly elastic under perfect competition?
58. Why the demand curve is relatively elastic in monopolistic market?
59. How does the selling costs influence the monopolistic market?
60. Complete the following:

Output(in units)	Price (Rs)	MR(Rs)	TR(Rs)
1	-	16	-
2	12	-	24
3	-	6	-
4	7	-	28

61. What change will take place in the MR when:
- Total revenue increases at a increasing rate
 - Total revenue increases at a decreasing rate
 - Total revenue is constant
62. Give the relation between AFC & AVC. How do they behave with the increase in the output?
63. Why price remains unaffected when supply curve is perfectly elastic and demand curve shifts?
64. Why more of a commodity is offered at a higher price?

65. Complete the following table: -

Units of Labour	TP	AP	MP
1	20	--	--
---	--	21	22
3	66	--	---
--	---	22	22
5	--	21	---

66. How is MC derived from TVC? Explain with the help of example.

67. Which cost, fixed or variable, determines marginal cost? Give reason.

68. Classify the following into fixed cost and variable cost: -

- Expenditure on power and fuel.
- Minimum electricity bill.
- Wages to permanent staff.
- Daily wages.
- Interest on capital.
- Payment for transportation of goods.
- Telephone charges beyond the minimum.
- Rent for a building.
- Excise duty.

69. Show the relationship between MC and AC with the help of diagram.

70. Complete the following table: -

Output Units	TVC	AVC	MC
1	10	--	--
--	--	8	6
3	27	--	--
--	--	10	13

71. Complete the following table: -

Price (Rs)	10	11	12	13	14	15	16
Output (Rs)	--	9	---	7	---	5	--
TR (Rs)	100	--	96	---	84	---	64

72. When will the producer will be in equilibrium. Explain with the help of a schedule.

73. Explain the conditions of producer's equilibrium in case of MR & MC approach (with the help of diagram).

74. Find out the maximum profit position of a producer by comparing MC &MR on the basis of the following data:-

Output (in units)	MR (Rs)	MC (Rs)
1	10	4
2	9	5
3	8	6
4	7	7
5	6	8

75. When does a producer earn maximum profit?

76. A new technique of production reduces the marginal cost of producing stainless steel. How will this affect the supply curve of stainless utensils?

77. How does the imposition of a unit tax affect the supply curve of a firm?

78. Prove that for profit maximization:-

- 1) The market price (P) = MC.
- 2) MC curve is non-decreasing

79. What is the relationship between AVC and MC curves?

80. Why do the SMC curve cut the AVC curve at the minimum point of the AVC curve?

81. If you are an entrepreneur and working under conditions of perfect competition when would you decide to leave the industry in the long run?

UNIT IV & V

FORMS OF MARKET AND PRICE DETERMINATION

1 mark each

1. If the firms are earning abnormal profits, how will the number of firms in the industry change?
2. How much loss can a firm bear?
3. Explain the motivation behind granting patent rights?
4. Which features of monopolistic competition are monopolistic in nature?
5. How does an increase in the price of a substitute good in consumption affect the equilibrium price?
6. A severe drought results in a drastic fall in the output of wheat. Analyze how will it affect the market price of wheat?
7. Suppose the demand for jeans increases. At the same time, because of an increase in price of cotton, the supply of jeans decreases. How will it affect the price and quantity sold of jeans?
8. In which market situation, the influence of an individual seller is zero?
9. How is a single buyer a price taker in perfect competition?
10. Give an example of perfectly competitive market?
11. What is the shape of demand curve in oligopoly?
12. How many firms are there in a monopoly market?
13. What is patent life?
14. What is cartel?
15. What is profit maximization condition for a monopoly firm?
16. In which market form there is no close substitute of the product?
17. Which feature of monopolistic competition is monopoly in nature?
18. Name the feature of competitive market found in monopolistic competition.
19. What is persuasive advertising?
20. If firms are earning abnormal profits, how will the number of firms in the industry change.
21. If the firm is making abnormal losses, how will the number of firms in the industry change?

22. What Are volume discounts?
23. When do we say there is excess supply for a commodity in the market?
24. What is shut down point?

3 /4 mark each

25. The technology is such that the LAC is minimized at the firm output equal to 10 and minimum LAC is Rs. 15. Suppose the demand schedule for the product is given as follows:

Price (Rs.)	Aggregate Quantity Demanded
10	1800
12	1440
15	1200
18	1000
20	760

- (a) What will be total quantity sold in the market and how many firms will operate in the long run competitive equilibrium?
- (b) Suppose that because of technological progress the LAC curve shifts down such that the minimum average cost is equal to Rs. 12 and it occurs at output level 8. How many firms will now operate in the market in the long run?
26. Explain how the efficiency may increase if two firms merge?
27. Why is the demand curve facing a monopolistically competitive firm likely to be very elastic?
28. Why is the demand curve facing a firm perfectly elastic under perfect competition but less than perfectly elastic under monopolistic competition?
29. 'Changes in both demand any supply of a commodity may or may not affect its equilibrium price.' Explain.
30. When will the equilibrium price of a commodity not change even if its demand and supply both increase? Explain with the help of a diagram.
31. China is a big manufacturer of technology of telephone instruments. It has recently become a member of W.T.O., which means it can sell its products in other member

countries like India. Suppose that it does export a large number of telephone instruments to India:

(A) How will it affect the price and quantity sold of telephone instruments in India?

(B) Suppose that the demand for telephone instruments is relatively elastic. How will it affect India's total expenditure on telephone instruments?

32. Mrs. Ramgopal says that economists say inconsistent things: as price falls, demand rises, but as demand rises, price rises. Defend or refute.
33. Answer all the questions in terms of shifts in or movements along the demand and supply curves.
(A) In 2001, the Supreme Court of India banned smoking in public places. How is this likely to affect the average price of cigarettes and the quantity sold?
(B) New discoveries of oil reduce the price of petrol and diesel. Consider their effects on the market for new cars.
(C) New environmental regulations require the drug industry to use a more environment friendly technology whose running cost are higher but which discharges less chemicals than before. How would it affect the price of drug?
34. In a state of equilibrium, price greater than MC is ruled out for a perfectly competitive firm. Show diagrammatically.
35. In a state of equilibrium, price lesser than MC is ruled out for a perfectly competitive firm. Show diagrammatically.(Question for practice)
36. What is firm's supply curve in the short run, operating under perfect competition?
37. Normal profit means zero economic profit. Why?
38. Differentiate between short and long period.
39. How do changes in MR affect TR?
40. A firm is contemplating whether to produce its 10th unit of output and finds its marginal cost for 10th unit is Rs.50/- and its marginal revenue for the 10th unit equals Rs.30/-. What advice would you give this firm?
41. Identify the sources of monopoly power.
42. Why AR curve is called the demand curve of a firm.
43. Show that –
i) TR is the sum total of all MR values.
ii) TC is not the sum total of all MC values

44. At the quantity where MR equals MC, the following data apply : AFC = Rs.8/-
AVC=Rs.15/-; Price = Rs.20/- Should the firm produce in the short run? or In the long run?

UNIT VI

NATIONAL INCOME & RELATED AGGREGATES

1 mark

1. When is the national income less than domestic income?
2. When is the national income larger than domestic factor income?
3. What is the effect of an indirect tax and a subsidy, on the price of the commodity?
4. Are the wages and salaries received by Indians working in American Embassy in India a part of Domestic Product of India?
5. Why is the study of the problem of unemployment in India considered a macro economic study?
6. When is gross domestic product of an economy equal to gross national product?
7. Why factor cost does not include indirect taxes?
8. Why are subsidies included in factor costs?
9. What is the difference between Gross Investment and Net Investments?
10. Why expenditure on depreciation is not included in National Income?
11. Tell whether goods lying with the traders are intermediate goods or final goods.

3/4 Mark each

12. Will the following be included in gross domestic product / Domestic Income of India? Give reasons for each answer.
 - (i) Consultation fee received by a doctor.
 - (ii) Purchase of new shares of a domestic firm.
 - (iii) Profits earned by a foreign bank from its branches in India.
 - (iv) Services charges paid to a dealer (broker) in exchange of second hand goods.
13. How will you treat the following while estimating domestic product of India? Give reasons.
 - (i) Rent received by a resident Indian from his property in Singapore.
 - (ii) Profits earned by a branch of an American Bank in India.
 - (iii) Salaries paid to Koreans working in Indian embassy in Korea.
14. State whether the following is a stock or flow:
 - (a) Wealth, (b) Cement production, (c) Saving of a household, and (d) Income of household.

15. State whether the following is a stock or flow:
(a) National capital, (b) Exports, (c) Capital formation, and (d) Expenditure on food by households.
16. Are the following included in the estimation of National Income a country? Give reasons.
(i) Bonus received by employees.
(ii) Government expenditure on defence.
(iii) Money sent by a worker working abroad to his family.
(iv) Profit earned by a branch of Indian Bank in London.
17. Are the following included in the estimation of National Income a country? Give reasons.
(i) Rent free house to an employee by an employer.
(ii) Purchases by foreign tourists.
(iii) Purchase of a truck to carry goods by a production unit.
(iv) Payment of wealth tax by a household.
18. Is net export a part of NFIA? Explain.
19. Will the following be included in gross domestic product / Domestic Factor Income of India? Give reasons for each answer.
(i) Old age pension given by govt.
(ii) Factor income from abroad.
(iii) Salaries to Indian residents working in American embassy in India.
(iv) Compensation of employees given to residents of china working in Indian embassy in China.
(v) Profit earned by a company in India, which is owned by a non-resident.
(vi) Profit earned by an Indian company from its branch in Singapore.
20. Why are exports included in the estimation of domestic product by the expenditure method? Can gross domestic product be greater than gross national product? Explain.
21. Are the following included in the estimation of National Income of India? Give reasons for each answer.
(i) Profit earned by a foreign company/bank in India.
(ii) Money received from sale of shares.
(iii) Salary paid to Americans working in Indian embassy in America.
(iv) Salary paid to Indians working in Indian embassy in America.
(v) Scholarship received by a student.
(vi) Remittances from aboard.

22. Will the following be included in National Income? Give reasons for each answer.
- (i) Services of owner occupied houses.
 - (ii) Purchase of new shares of a domestic firm.
 - (iii) Purchase of second-hand machine from a domestic firm.
 - (iv) Consultancy fee paid to a foreign expert.
 - (v) Commission paid to agent for the sale and purchase of shares.
 - (vi) Dividend received on shares.
23. Will the following be included in National Income? Give reasons for each answer.
- (i) Free Medical facility to employees by the employer.
 - (ii) Money received from sale of old house.
 - (iii) Government expenditure on street lighting.
 - (iv) Interest received by a household from a commercial bank.
 - (v) Receipts from sale of land.
 - (vi) Interest on public debt
24. Are the following included in the estimation of National Income a country? Give reasons.
- (i) Services rendered by family members to each other.
 - (ii) Wheat grown by a farmer but used entirely for family's consumption.
 - (iii) Expenditure by government on providing free education.
 - (iv) Payment of fees to a lawyer engaged by a firm.
 - (v) Man of the match award to a player of the Indian cricket team.
 - (vi) Payment of the match fee to players of Indian cricket team.
25. Are the following included in the estimation of National Income a country? Give reasons.
- (i) Unemployment allowance under NREGA.
 - (ii) Indirect tax (Sale tax/excise duty).
 - (iii) Salary received by the workers under NREGA.
 - (iv) Income tax.
 - (v) Corporation tax.
 - (vi) Travelling expenses paid to salesman by the employer.

26. Calculate private income, personal income, personal disposable income and National disposable income from the following data:

	(Rs. in Crores)
(i) National income	3000
(ii) Savings of private corporate sector	30
(iii) Corporate tax	80
(iv) Current transfer from government	60
(v) Income from property and entrepreneurship to government	150
(vi) Current transfers from rest of the world	50
(vii) Savings of non-departmental government sector	40
(viii) Net indirect taxes	250
(ix) Direct taxes paid by household	100
(x) Net factor income from abroad	(-) 10

27. Calculate NI by income and expenditure method:

	(Rs. in Crores)
(i) Subsidies	5
(ii) Private final consumption expenditure	100
(iii) NFIA	(-) 10
(iv) Indirect Tax	25
(v) Rent	5
(vi) Government final consumption expenditure	20
(vii) Net domestic fixed capital formation	30
(viii) Operating surplus	20
(ix) Wages	50
(x) Net export	(-) 5
(xi) Addition to stock	(-) 5
(xii) Social security contribution by employers	10
(xiii) Mixed income	40

28. Calculate the value added by Firm A and Firm B from the following data: -

	(Rs. in Lakhs)
(i) Purchase by Firm A from the rest of the world	40
(ii) Sales by Firm B	100
(iii) Purchases by Firm A from Firm B	60
(iv) Sales by Firm A	120
(v) Exports by Firm A	40
(vi) Opening stock of Firm A	45
(vii) Closing stock of Firm A	30
(viii) Opening stock of Firm B	40
(ix) Closing stock of Firm B	30
(x) Purchases by Firm B from Firm A	60

29. Estimate (i) Personal Income, (ii) Private Income and (iii) Personal Disposable Income with the help of the following data.

	(Rs. in Crores)
(i) National income	1300
(ii) Corporate tax	15
(iii) Direct personal taxes	40
(iv) Savings of private corporate sector	25
(v) Income from property and entrepreneurship accruing to Government Administrative Departments	35
(vi) Current transfer from government administrative departments	30
(vii) National Debt Interest	10
(viii) Savings of non departmental government enterprises	5
(ix) Current transfers from rest of the world	15

30. Estimate (i) Personal Disposable Income, (ii) Private Income and (iii) National Income from the following data:

	(Rs. in Crores)
(i) Personal income	1225
(ii) Saving of private corporate sector	12
(iii) Corporate tax	23
(iv) Current transfer from government administrative departments	30
(v) Current transfer from rest of the world	25
(vi) Income from property and entrepreneurship accruing to Government Administrative Departments	25
(vii) Savings of non departmental government enterprises	20
(viii) Net indirect tax	195
(ix) Direct tax paid by the households	25

31. Estimate the following with the help of given data:

- (i) GDP_{MP} ,
- (ii) Net Value Added at factor cost; and (iii) prove that it is equal to the income generated.

	(Rs. in Crores)
(i) Increase in the stock of unsold goods	1000
(ii) Sales	10,000
(iii) Net indirect tax	800
(iv) Purchase of raw materials from other firms	1650
(v) Purchase of fuel and power	850
(vi) Consumption of fixed capital	500
(vii) Rent	700
(viii) Wages and salaries	3500
(ix) Interest payment	1000
(x) Dividend	1500
(xi) Corporate gain tax	300
(xii) Undistributed profit	200

32. Make the difference between: -

- i) GDP at FC and NNP at MP
- ii) National Income and Net National disposable income.

33. Give the meaning of Normal Residents.

34. Write any two things which are included in National Income, but not in Domestic Income.

35. Define personal income. How does it differ from private income?

36. Define consumer goods and capital goods

37. Explain National income at current price and constant price.
38. Explain National Disposable Income.
39. Write various components of National Income while computing by expenditure method
40. Define leakages and injection in circular flow.
41. From the following information about firm A, calculate NVA_{FC} .
- | | |
|-----------------------------|-----|
| I) Purchase of raw material | 250 |
| II) Gross capital formation | 100 |
| III) Subsidies | 30 |
| IV) Closing Stock | 20 |
| V) Sales | 400 |
| VI) Net capital formation | 90 |
| VII) Opening stock | 25 |
42. From the data given below, calculate operating surplus –
- | | |
|--------------------------------------|------|
| I) Gross value added at market price | 1500 |
| II) Wages & salaries | 500 |
| III) Net indirect tax | 75 |
| IV) Consumption of fixed capital | 25 |
43. Calculate Gross Domestic Capital Formation –
- | | |
|---|-----|
| I Closing Stock | 60 |
| II Net domestic fixed capital formation | 400 |
| III Net indirect tax | 30 |
| IV Consumption of fixed capital | 40 |
| V Opening Stock | 70 |
44. Calculate Personal Disposable Income from the following data: -
- | | |
|---|-----|
| I Net current transfer from the rest of the world | 3 |
| II Private Income | 200 |
| III Personal Taxes | 30 |
| IV National Debt Interest | 5 |
| V Corporate profit tax | 20 |
| VI Undistributed profit | 10 |

45. From the following data, calculate Private Income: -

I	Income from domestic product accruing to private sector	4000
II	Saving of non departmental public enterprises	200
III	Current transfers from govt. administrative department	150
IV	Saving of private sector	400
V	Current transfer from rest of the world	50
VI	Net factor income from abroad	-(40)
VII	Corporate tax	60
VIII	Direct personal tax	140

46. Find out Personal Income from the following data: -

I)	Income from domestic product accruing to private sector	224
II)	Net current transfer from the rest of the world	3
III)	Net current transfer from govt.	9
IV)	Interest on national debt	8
V)	Undistributed profit	1
VI)	Corporation Tax	3

47. From the following data find out the Compensation of Employees: -

I)	Gross domestic product at factor cost	350
II)	Rent	30
III)	Interest	20
IV)	Profit	10
V)	Consumption of fixed capital	30

48. On the basis of the following data, calculate value added by firm C: -

I)	Sales by Industry A to Industry B	40
II)	Value added by industry B	80
III)	Final sales	260
IV)	Sales by industry C to Industry D	140
V)	Value added by industry D	60

49. Calculate value of output from the following data: -

I)	Net value added at factor cost	200
II)	Intermediate consumption	150
III)	Excise duty	40
IV)	Subsidy	10
V)	Depreciation	20

50. Calculate the disposable income if personal income is Rs.10,000/- and rate of income tax is 15%.
51. Identify the concept X in each of the following:-
- i) $X = \text{Sum of net value added} + \text{CFC}$
 - ii) $X = \text{Domestic income} + \text{CFC}$
 - iii) $X = \text{GDP at factor cost} + \text{Net indirect taxes}$
 - iv) $X = \text{GNP at market prices} - \text{NFIA}$
 - v) $X = \text{GNP at market prices} - \text{CFC}$
 - vi) $X = \text{NNP at market prices} - \text{NIT}$
52. Under what conditions the following is true?
- 1) $\text{NDP} = \text{NNP}$
 - 2) $\text{GDP} = \text{NDP}$
 - 3) $\text{Value of output} = \text{Value added}$
 - 4) $\text{NNP}_{\text{MP}} = \text{NNP}_{\text{FC}}$
 - 5) $\text{Private Income} = \text{Personal income}$
 - 6) $\text{Personal Income} = \text{Disposal income}$
53. What is the difference between planned and unplanned inventory accumulation? Explain the relation between change in inventories and value added of a firm?
54. What are the important limitations of using GDP as an index of welfare of a country? Explain.
55. How do we calculate Net Exports? How is it different from NIFA?
56. What are the non-marketed goods and services and why are they not included in GDP?
57. What is meant by externalities? Give an example of negative externality which is not taken into consideration while estimating GDP.
58. What are the role of leakages and injections in the circular flow of income?

UNIT – 7

DETERMINATION OF INCOME & EMPLOYMENT

1 mark

1. Why can the value of MPC be not greater than 1?
2. Does an excess of AD over AS always imply a situation of inflationary gap?
3. Show a point on the consumption curve at which $APC = 1$.
4. In what respect foreign trade will be useful in removing the adverse economic effects of deficient demand?
5. What happens in an economy, when credit availability is restricted and credit is made costlier?
6. If $MPC = 0.65$, what will be the values of MPS?
7. If $APS = 0.25$, what will be the value of APC?
8. How much be the aggregate saving in an economy at Zero level of Income?
9. Given $MPS = 0.2$, if the income increases from Rs.10,000/- crores to 12,000/- crores, What will be the additional consumption in the economy?
10. What can be maximum value of MPS?

3/4 mark

11. What happens if $AD > AS$ prior to full employment level of employment?
12. Can AD be equal to AS in short run? Explain
13. Compare classical theory and modern theory of income output and employment determination.
14. Define aggregate demand; show the aggregate demand in a diagram
15. Define aggregate supply. Explain the classical concept of aggregate supply with the help of a diagram.
16. Define Aggregate supply
17. Define aggregate demand. What are its components?
18. What is marginal propensity to consume? How does it affect the level of income in an economy?

19. Define investment multiplier. How is it related to marginal propensity to consume?
20. Define consumption function with the help of a consumption schedule or curve; bring out the meaning of break even point
21. Define inflationary Gap. Explain with the help of a diagram
22. Explain with the help of a diagram how equilibrium level of income is determined by aggregate demand and aggregate supply?
23. Explain briefly three monetary policy measures for correcting deficient demand
24. Explain three fiscal measures by which excess in an economy can be reduced.
25. Explain a concept of deflationary gap with the help of a diagram.
26. In an economy saving function $S = -50 + 0.5Y$ where S = saving and Y = National income and Investment expenditure is 7000. Calculate the following: -
 - a) National Income at equilibrium level
 - b) Consumption expenditure at equilibrium National Income.
27. The following information for an economy were given as : -
 - i) National income at equilibrium level,
 - ii) Saving at equilibrium National Income
 Consumption function = $C = 200 + 0.9 Y$
 Where C = Consumption expenditure
 And Y = National Income
 Investment expenditure = $I = 300$
28. In an economy the actual level of income is Rs. 800 crores whereas the full employment level of income is Rs. 1200 crores. The MPC is 0.80. Calculate the increase in investment to achieve the full employment level of income.
29. “Equilibrium level of output is determined where planned spending is equal to the output” Explain.
30. “The size of multiplier varies directly with the size of the MPC.” Explain with an example.
31. “Equilibrium level of output is determined where planned saving is equal to the planned investment” Explain with the help of a diagram
32. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram.
33. When planned investment is greater than planned saving, how does it affect the level of income and employment? Explain with diagram

34. If an increase of Rs. 10000 is investment in an economy results in an increase in income of Rs. 40000. Calculate the marginal propensity to save in the economy.
35. Calculate the change in Income when
i) $MPC = 0.8$
ii) Change in Investment = Rs. 1000
36. Calculate the change in income when i) $MPS = 0.8$,
ii) Change in investment = Rs. 1000 Crores
37. In an economy investment increases by Rs. 200 crores. As a result of it total income increases by Rs. 1000 crores. Calculate MPC.
38. Suppose the level of planned investment in an economy is Rs. 200 crores and following saving function is given $S = -80 + 0.25 Y$
Find the equilibrium level of income.
39. If increase in investment is Rs. 125 crores and increase in national income is Rs.500 crores. Calculate marginal propensity to save.
40. If the value of multiplier is 5, calculate the value of MPC.
41. In an economy, the marginal propensity to consume is 0.9. Investment increased by Rs. 100 crores. Calculate the total increase in Income and consumption expenditure.
42. If $MPC = 1/2$, What is the value of K.
43. If disposable Income is Rs. 500 and saving Rs. 100, find out the average propensity to consume.
44. If an economy plans to generate Rs. 1000 crores of additional income, How much investment will be required if $MPC = 0.6$?
45. In an economy every time income rises, 75% of increase in Income is spent on consumption. Now suppose in the same economy, investment rises by Rs. 750 crores, calculate the following: -
i) Change in Income
ii) Change in saving
46. In an economy an increase in investment loads to an increase in national income three times more than the increase in investment. Calculate MPC.

47. Complete the following table: -

Income (Rs.)	Consumption Expenditure	APC	MPS
800	750		
1000	930		
1200	1100		
1400	1260		

48. In an economy $C = 500 + 0.9 Y$ and $I = 1000$ (Where $C =$ Consumption, $Y =$ Income, $I =$ Investment), calculate the following: -
1) Equilibrium level of income
2) Consumption expenditure at equilibrium level of income.
49. Examine the determinants of induced investment in an economy?
50. Examine the determination of the equilibrium level of income and employment with the help of the concept of effective demand.
51. Illustrate graphically the concept investment multiplier
52. Explain the equilibrium level of output through consumption plus investment approach.
53. Explain paradox of thrift with an example.
54. Explain the concepts of consumption function and saving function with an example and diagram.
55. Construct the AD curve with the help of consumption curve and the Investment curve.
56. What happens when the level of output is more or less than the equilibrium level of output?
57. Distinguish between:
i) Planned savings and Actual savings
ii) Planned investment and actual investment

UNIT 8

MONEY & BANKING

1 mark

1. What is the main function of money in an economy?
2. Name the System of Note-issue in India.
3. Define open Market operation.
4. Name the additional facility which the businessman gets in the current deposit account of the bank.
5. Distinguish between money and near money.
6. Distinguish between standard money and subsidiary money.
7. What is credit money?

3 / 4 mark

8. Money acts as a yardstick of standard measure of value to which all other things can be compared. Discuss it.
9. The central bank acts as lender of the last resort. How?
10. Central bank performs the function of a clearing house. How?
11. Write a note on situation of liquidity trap with the help of diagram.
12. What is speculative demand for money?
13. State the Contingent function of Money.
14. What is high powered money?
15. State the money multiplier?
16. What is the difference between demand deposit and time deposits?
17. Define overdraft facility?
18. Describe issue of currency function?
19. What are the instruments of monetary policy of the RBI?
20. Do you consider a commercial bank as a 'creator of money'?
21. What role of RBI is known as lender of last resort?
22. Mention the items excluded from Narrow Money.
23. How does a Central bank act as a Clearing House?
24. Why are all financial institutions not commercial bank?

UNIT – 9

GOVT. BUDGET & THE ECONOMY

1 mark

1. Which type of revenue receipts are treated as legally compulsory payment imposed on the people by the govt.? Give example also.
2. When the liability to pay a tax is on one person and the burden of tax falls on some other person, state the type of tax?
3. What happens to aggregate demand when the govt. budget is in deficit?
4. Why is tax treated as revenue receipt?
5. Find out the value of total receipts of govt. Budget if budget deficit is Rs 2,000 crores and the total expenditure is Rs 3,000 crores.
6. What will be the value of fiscal deficit if primary deficit is 53,000 crores and interest on borrowings is Rs 5,000 crores?
7. What indicates zero primary deficit?
8. What indicates revenue deficit?
9. All non-plan expenditures are non-developmental. Do you agree?
10. From the point of view of economic growth in a developing economy what will you prefer – surplus budget or a deficit budget?
11. Why is borrowings considered as a capital receipt?

3 / 4 mark

12. Classify the borrowings and recovery of loans into revenue and capital receipts of govt. budget. Give reason also.
13. How government reallocates the resources and redistributes the income through Budget?
14. What are the basis of classifying receipts into revenue receipts and capital receipts?
15. State which budget expenditure does not result in creation of assets or reduction of liability. Give examples also.
16. Define Govt. Budget. State any three objections of it.

17. Define 'revenue' & 'capital' receipt in a government budget. Give one example of each.
18. State the basis of classifying govt. expenditure into revenue and capital expenditure. Give an example of each.
19. Distinguish between fiscal deficit and revenue deficit. What does fiscal deficit depict?
20. Define a Tax. Distinguish between direct tax and indirect tax. Give examples of each.
21. Define Budget deficit and Primary deficit. How is budgetary deficit met?
22. Differentiate between plan expenditure and non-plan expenditure.
23. Distinguish between development and non-development expenditure
24. Differentiate between balance budget and surplus budget
25. Give measures to reduce fiscal deficit- especially in the context of Indian Economy.
26. State three implications of fiscal deficit.
27. What is a tax? What are its characteristics?
28. What is the significance of revenue deficit?
29. From the point of view of economic growth in a developing economy, what will you prefer : surplus budget or a deficit budget?
30. Distinguish between:
 - a) Progressive taxation
 - b) Proportional taxation
 - c) Regressive taxation
 - d) Degressive taxation
31. Give the relationship between the revenue deficit and the fiscal deficit.
32. Are fiscal deficits necessarily inflationary?
33. Does public debt impose a burden? Explain.
34. Is a balanced budget good for India?

UNIT 10

FOREIGN EXCHANGE RATE

1 MARK

1. State which type of exchange rate has no official intervention in the foreign exchange market? How it is determined?
2. State which of the following a visible item is and which is an invisible item in Balance of payments.
a) Export of jute product b) Software services export
3. Name the items which are not included in the current account of India's Balance of payment
4. In which account of balance of payment tourism services to tourist are included?
5. Which transactions- autonomous or accommodating bring balance in the balance of payments.
6. When exchange rate of foreign currency falls its supply also falls. Explain how?
7. When exchange rate of foreign currency falls, its demand rises. Explain how?
8. What is nominal exchange rate? Why it is called so?
9. Suppose 1.25 Yen is required to buy a rupee. Calculate the exchange rate of rupee per Yen. Hint – 0.8 rupee per yen.
10. Suppose India trades only with the USA (Share 70%) and England (Share 30%) and NERs of the rupee are Rs.50/- per dollar and Rs.80/- per pound. Calculate the nominal effective exchange rate. Hint $NEER = 35+24=Rs.59/-$
11. Differentiate between devaluation and depreciation.
12. If there is increase in domestic income, how does it affect the imports?
13. How does the difference of interest rates between two countries affect the exchange rate?
14. Why is the open economy autonomous expenditure multiplier smaller than the closed economy one?

15. What are the factors responsible for inflow of foreign currency?
16. What will be the value of imports, if the net imports are Rs 160 crores and the value of exports are Rs 400 crores.
17. If Balance of payment of a country is Rs (-) 100 crores and total payment are Rs 500 crores. Find out its total receipts.
18. Balance of payments always balances. Discuss it.
19. Explain merits and demerits of fixed exchange rate system
20. What do you understand by rate of exchange? Write different types of exchange rate system. Discuss the importance of exchange in the economy
21. Suppose it takes 1.50 yen to buy a rupee and the price level in Japan is 6 and the price level in India is 2. Calculate the real exchange rate between India and Japan. Hint: $RER = 2$.
22. Distinguish between domestic demand for goods and demand for domestic goods.
23. If the exchange rate of rupee in terms of dollar falls, what will be its impact on India's import?
24. What is current account? How is it distinguished from BOT?
25. How do you classify the balance of payment accounts? What are the components of capital account of BOP in India?
26. Should a current account deficit be a cause for concern? Explain.