1A FUNDAMENTALS OF ECONOMICS, UTILITY, DEMAND AND SUPPLY

THIS CHAPTER INCLUDES	
• The Fundamentals of Economics • Utility, Wealth, Production • Theory of Demand (Meaning, Determinants of Demand, Law of Demand, Elasticity of Demand-	Price Income and Cross Elasticity Theory of Consumer Behaviour Demand Forecasting) and Supply (Meaning, Determinants, Law of Supply and Elasticity of Supply), Equilibrium

CHAPTER AT A GLANCE

1. Definition and Scope of Economics

Economics is one of the social sciences. It explains about the economic activities of a man. Any activity which is related to earning of the money and spending of the money is called economic activity.

In economics, a want is something that is desired. Want is the starting point of economic activity. Wants leads to efforts. An effort leads to satisfaction.

This is the subject matter of economics. This subject matter of economics is divided into four parts.

(i) Consumption
(ii) Production
(iii) Exchange
(iv) Distribution

2. Scope of Economics

Traditional Approach:

- Economics is a social science.
- It studies man's behaviour as a rational social being.
- It considered as a science of wealth in relation to human welfare.

Modern Approach: • An individual, either as a consumer or as a producer, can optimize his goal is an economic decision. • The scope of Economics lies in analyzing economic problems and suggesting policy measures. • Social problems can thus be explained by abstract theoretical tools or by empirical methods.
3. Meaning of Micro economics
The word Micro is derived from Greek work 'Mikros'. Which means very small or Millionth part? It studies about the behavior of Individual units. Individual units are a consumer, a producer, a firm or industry.
4. Macro Economics
The word "Macro" is derived from Greek word "Makros". Which means "large or very big"? The Macro economics studies the economy as a single unit. It does not deal with Individual units. It deals with the aggregates 'or' totals and averages.
5. Central Problems of All economies
1. What to produce 2. How to produce 3. For whom to produce
6. Wealth
The stock of goods under the ownership of a person 'or' a nation is called wealth. **Welfare:** Welfare means well-being 'or' happiness.
7. Money
Anything which is wide accepted in exchange of goods or in settling debts is regard as money. **Constituents of Money Supply:** 1. Rupee notes and coins to be public 2. Credit cards 3. Traveler cheques

8. Market
In ordinary language the term market refers to a place where the goods are bought and sold. But in economics it refers to a system by which the buyers and sellers establish contact with each other directly 'or' indirectly with a view to purchasing and selling the commodity. **Function of the Market:** 1. To determine the price of the goods. 2. To determine the quantity of goods [supply] **Market Mechanism:** Market Mechanism means the totality of all markets i.e. the markets were all goods and services in the market.
9. Investment
An increase in the capital stock is called Investment.
10. Production
It refers to creation of goods for the purpose of selling them into the market. **Factors of production:** 1.Land 2.Labour 3.Capital 4.Organization
11. Consumption
Consumption is defined as the satisfaction of human wants through the use of goods and services.
12. Saving
Saving is defined as income minus consumption. Whatever is left in the hands of an individual after meeting the consumption expenditure is called saving.
13. Income
The net inflow of money (purchasing power) of a person over a certain period of time is called income.

Wealth:

A person ('or' a nation) consumes a part of income and saves the rest. These savings are accumulated in the form of wealth. Wealth is a stock owned at a point of time.

14. The concept of consumer surplus

This concept was introduced by Alfred Marshall. Consumer surplus is the difference between willing price and actual price.

15. Law of Diminishing Marginal Utility

According to this law when a person goes on increasing in the consumption of any one commodity the additional utility derived from the additional unit goes on diminishing. It is called Gossans' first law of consumption.

Concepts in this law:

1. **Total Utility:** It is the total amount of satisfaction obtained by the consumer by the consumption of total units of a thing. The sum of marginal utilities is also called total utility.
2. **Marginal Utility:** It is the additional utility obtained by the consumer by the consumption of additional unit of a thing 'or' one more unit of a thing. The change in the total utility is also called marginal utility.

16. Demand Forecasting

Estimation of future demand for product at present is called demand forecasting.

Methods of Demand forecasting:

1. Expert opinion method
2. Survey of buyers intensions
3. Collective opinion method
4. Controlled experiments
5. Statistical method.

17. Production Possibility Curve (PPC)
The PPC is also called production possibility frontier, production possibility boundary and production transformation curve. The PPC curve shows the varies combinations of two commodities that can be produced by an economy with the given resources and given technology.
18. Demand
Demand means desire backed by the purchasing power and willing to pay the price.
19. Law of Demand
It explains the functional relationship between price and quantity demanded. According to law of demand when all other things remain constant. If the price rises demand is decreased. If the price falls demand will be increased. It means there is an inverse relationship between price and demand.
20. Demand Schedule
It shows the various quantities of the goods that are demanded at various levels of prices. There are two types of demand schedules: 1. Individual Demand Schedule 2. Market Demand Schedule.
21. Causes for falling nature of Demand Curve i.e. down ward sloping demand curve
1. Law of diminishing marginal utility. 2. Substitution effect. 3. Income effect. 4. New buyers. 5. Old buyers.
22. Exceptions of the Law of Demand
1. Giffen Paradox (Necessary goods) 2. Speculation. 3. Conspicuous. 4. Shares or Speculative market. 5. Bandwagon effect.

23. Demand Function
The demand function explains the functional relationship between demand for a commodity and determinants of the demands.
24. Determination of Demand
1. Price of the goods. 2. Prices of the substitute goods. 3. Prices of the complementary goods. 4. Income of the consumer. 5. Tastes and preferences of the consumer. 6. Population. 7. Climate.
25. Types of Demand
1. Price demand 2. Income demand 3. Cross demand **1. Price Demand:** Price demand explains the relationship between price of a commodity and demand for that commodity. There is an inverse relationship between price and demand. So, the price demand curve slopes downwards from left to right. **2. Income Demand:** Income demand explains the functional relationship between income of consumer and demand for goods. Generally if the level of income rises the consumer purchases more of goods. If the level of income decreases he purchases less quantity goods. It means there is a direct proportional relationship between income of consumer and demand of goods. In case of superior goods 'or' normal goods the income demand curve [I.D.] slopes upwards from left to right. Superior goods mean 'best quality goods'. In the case of Inferior goods the I.D. slopes downwards form left to right inferior goods means "less quality goods".

3. **Cross Demand:** It shows the relationship between price of one commodity and demand for another commodity. It means the demand for one commodity not only depend upon its price but also depend upon the prices its substitute goods and complementary goods.
26. Substitute goods
If one good is used in the place of other good to satisfy the same want they are called substitute goods.
27. Complementary goods
If two 'or' more goods are used to satisfy the single want they are called complementary goods.
28. Extension and Contraction of Demand
When all other things remain constant if there is a change in the price that leads to the change in demand. These changes in demand are called extension and contraction of demand. When the price is decreased the demand is extended when the price is increased the demand is contracted.
29. Increase and decrease of demand
When the price is constant. If there is a change in the other determinants that lends to change in demand. These changes in demand are called "Increase and decrease of demand". To explain the increase and decrease of demand single demand curve is not enough. It means new demand curves are formed.
30. Elasticity of Demand
Elasticity means sensitiveness 'or' responsiveness. Elasticity of Demand means response in demand. The elasticity of demand explains change in demand due to the change in the determinants of the demand.
31. Price Elasticity of Demand
It shows the relationship between proportionate change in the demand and proportionate change in the price. It means it explains how much change in the price and it leads to how much change in the demand. Types of price elasticity of demand:

1. **Perfectly elastic demand (EP= ∞):** When the price is constant if there is a change in demand it is said to be perfectly elastic demand. It means the demand may be increase 'or' decrease without change in price. Here the value of EP is infinity.
2. **Perfectly Inelastic demand (EP = 0):** When the price is changed if there is no change in the demand it is said to be perfectly inelastic demand. It means the price may be increase 'or' decrease but the demand is constant Here the value of EP = 0.
3. **Relatively elastic demand (ex: luxury goods):** If the proportionate change in demand is more than proportionate change in the price. It is said to be relatively elastic demand. It means a little change in the price leads to more change in demand. Here the value of EP is greater than one the demand curve in the case slopes downward from left to right.
4. **Relatively Inelastic demand (ex: necessary goods):** If the proportionate change in demand is less than proportionate change in the price. It is said to be relatively inelastic demand. It means a more change in the price leads to less change in demand. Here the value of EP is less than one. The demand curve in this case slopes down wards from left to right. But is steeper than relatively elastic demand.
5. **Unitary elastic demand:** If the proportionate change in the demand is equal to the proportionate change in the price. It is said to be unitary elastic demand. It means the change in the demand and change in price are same. Here the value of EP is 1.

32. Income elasticity of demand

It shows the proportionate change in demand and proportionate change in income. It means it explains how much change in the income and it leads to how much change in demand.

1. **Perfectly elastic Income Demand:** When the income is constant if there is a change in the demand. It is said to be perfectly elastic income demand. It means the demand may be increase 'or' decrease without change in income. Here the value of EY is infinity.

2. **Perfectly Inelastic Income demand:** When the income is changed if there is no change in the demand it is said to be perfectly inelastic income demand. It means the income may be increase 'or' decrease but the demand is constant Here the value of EY is zero.
3. **Relatively elastic Income Demand:** If the proportionate change in the demand is more than proportionate change in income. It is said to be relatively elastic income demand. It means a little change in the income leads to more change in demand. Here the value of EY is greater than one. The demand curve in this case slopes downwards from left to right.
4. **Relatively Inelastic Income Demand:** If the proportionate change in the demand is less than proportionate change in income. It is said to be relatively inelastic income demand. It means a more change in the income leads to less change in demand. Here the value of EY is less than one. The demand curve in this case slopes upwards from left to right.
5. **Unitary elastic income demand:** If the proportionate change in the demand is equal to proportionate change in Income. It is said to be unitary elastic income demand. It means the change in the income and changes in the demand are same. Here the value of EY is one.

33. Cross elasticity of demand

It shows proportionate change in the demand for one commodity and proportionate change in the price of other commodity. It means it explains how much change in the price of one commodity and it leads to how much change in the demand for another commodity.

34. Importance of Elasticity of Demand

(i) **Business Decision:** If the product has more elastic demand the business man fixes the less price, if the good has less elastic demand he will fix the more price.

(ii) **Monopolist:** The monopolist fixes the more price in one market in which the elasticity of demand is less. And less price in more elastic demand market for the same thing (or) same good.

(iii) **Determination of factor price:** The concept of elasticity of demand also helps in determining the price of various factors of production. Factor having in elastic demand gets higher price and factors having elastic demand gets lower price.

(iv) **Route for international trade:** If demand for exports of a country in inelastic, that country will enjoy a favorable terms of trade while if the exports are more elastic than imports, then the country will lose in the terms of trade.

(v) **To the government:** The concept of elasticity of demand also enable the government to decide as to what particular industries should be declared as 'public utilities' to be taken over and operated by the state.

35. Supply

There is a difference between stock of the goods and supply of goods. Supply means some of the part of stock of the goods which is prepared by a seller to sell at a particular price, at a particular market in a particular period of time.

Law of Supply: It explains the functional relationship between price of a good and supply of the good. When all other things remain constant. If the price rises supply also increase, if the price falls supply will be decrease. It means there is direct proportional relationship between price and supply.

Supply Schedule: It shows the various quantities of the goods that are supplied at various levels of prices.

36. Extension and contraction of the supply

When all other things remain constant if there is a change in the price that leads to change in the supply. These changes in the supply are called extension and contraction of the supply. When the price is increased the supply will extended, when the price is decreased the supply will be contracted. To explain the extension and contraction of the supply a single supply curve is enough.

37. Increase and decrease of supply
When the price is constant if there is a change in any one of the determinants that leads to change in supply. These changes in supply are called increase and decrease of supply. To explain the increase and decrease of the supply a single supply curve is not enough. It means new supply curves are formed.
38. Determinants of supply
1. **Price of the goods:** Producers supply more goods if the prices are high. They supply the fewer goods when the prices are low. 2. **Goals of the firm:** Firms may try to work on various goals for e.g. Profit maximization, sales maximization, employment maximization. If the objective is to maximize profit, then higher the profit from the sale of a commodity, the higher will be the quantity supplied by the firm and vice-versa. 3. **Inputs Prices:** The producers supply more when the inputs prices are low, that is at lower costs of production. At higher inputs rises they supply less. 4. **Technology:** New Technology generally helps to save inputs and reduces costs and time to produce the output. An improved technology enhances the supply of the goods. 5. **Government Policies:** Government policy of taxes and subsidies on goods brings about changes in supply, higher taxes on goods discourage producers and their supply will be less. On the other subsidies from government encourage producers to supply more. 6. **Expectation about future prices:** If the producers expect an increase in the price of a commodity, then they will supply less at the present price and hoard the stock in order to sell it at a higher price in the near future. This will be opposite in case if they anticipate fall in future price (e.g. Fruit seller). 7. **Prices of the other commodities:** Usually an increase in the prices of other commodities makes the production of that commodity whose price has not risen relatively less attractive we thus, expect that other things remaining the same, the supply of one commodity falls the price of other goods rises.

8. **Number of firms in the market:** Since the market supply is the sum of the suppliers made by individual firms, hence the supply varies with changes in the number of firms in the market. A decreases in the number of firm reduces the supply.
9. **Natural factors:** Supply of goods depends on favourable weather conditions. Conditions like drought, floods, extreme weather, pests and diseases disturb crop production and raw material supply. This will affect the supply of goods.

39. Elasticity of supply

It shows about the proportionate change in the supply and the proportionate change in price. It means it explains how much change in the price and it leads to how much change in the supply.

Types of elasticity of Supply:

1. **Perfectly elastic Supply (Es =∞):** When the price is constant if there is a change in Supply it is said to be perfectly elastic Supply. It means the Supply may be increase 'or' decrease without change in price.
2. **Perfectly Inelastic Supply (Es = 0):** When the price is changed if there is no change in the Supply. It is said to be perfectly inelastic Supply. It means the price may be increase 'or' decrease but the Supply is constant Here the value of Es = 0.
3. **Relatively elastic Supply (Es>1):** If the proportionate change in Supply is more than proportionate change in the price. It is said to be relatively elastic Supply. It means a little change in the price leads to more change in Supply. Here the value of Es is greater than one the Supply curve in the case upwards from left to right.
4. **Relatively Inelastic Supply (Es <1):** If the proportionate change in Supply is less than proportionate change in the price. It is said to be relatively inelastic Supply. It means a more change in the price leads to less change in Supply. Here the value of Es is less than one. The Supply curve in this case also slopes up wards from left to right.

5.	**Unitary elastic Supply:** If the proportionate change in the supply is equal to the proportionate change in the price. It is said to be unitary elastic supply. It means the change in the supply and change in price are same. Here the value of Es is 1.

40. Equilibrium
Equilibrium price means constant price (or) unchanged price. The equilibrium price is determined when the demand and supply are equal.

OBJECTIVE QUESTIONS

2009 - June [1] (a) Answer the following:

(i) Economics is:

(a) normative science
(b) positive science
(c) human science
(d) political science **(1 mark)**

Answer:

(b) positive science

2009 - June [1] (b) Fill in the blanks:

(vi) Cross elasticity of demand relates price of one good and demand for ________ good. **(1 mark)**

Answer:

Another related.

2009 - Dec [1] (a) Answer the following:

(i) Scarcity definition was given by:

(a) L. Robbins
(b) Alfred Marshall
(c) J. M. Keynes
(d) Adam Smith

(iii) Consumer's surplus was propounded by:
(a) Alfred Marshall
(b) Pigou
(c) Malthus
(d) Robbins

(iv) Law of demand explains:
(a) Quantitative relationship
(b) Qualitative relationship
(c) Functional relationship
(d) None of the above

(v) Exception to the law of supply is:
(a) Agricultural product
(b) Scarce goods
(c) Labour market
(d) All of the above **(1 × 4 = 4 marks)**

Answer:

(a) (i) (a) L. Robbins
(iii) (a) Alfred Marshall
(iv) (b) Qualitative relationship
(v) (a) Agricultural product.

2010 - June [1] (a) Answer the following:

(ii) An individual demand curve slopes downward to the right because:
(a) Income effect of fall in price
(b) Substitution effect of decrease in price
(c) Diminishing marginal utility
(d) All of the above **(1 mark)**

(b) Fill in the blanks:

(v) In case of perfectly ___________ demand, a slight change in the price will make greater change in demand.

(viii) When the quantity supplied of a commodity rises with a rise of price of that commodity, other determinants of supply remaining unchanged, it is known as ___________. **(1 × 1 = 2 marks)**

(c) State whether the following statement is true or false:

(iv) The law of demand operates in every situation. **(1 mark)**

(d) Define the following terms in not more than two lines:

(v) Increase and decrease in demand

(vi) Expansion and contraction of demand **(1 × 2 = 2 marks)**

Answer:

(a) (ii) (d) All of the above

(b) (v) Elastic

(viii) Extension of supply or movement along the same supply curve towards the right.

(c) (iv) False

(d) (v) **Increase and decrease in demand:** Increase and decrease in demand is caused by change in factors other than price of the commodity.

(vi) **Expansion and contraction of demand:** Expansion and contraction of demand is caused by change in price.

2010 - Dec [1] (a) Answer the following:

(i) Micro economics is also known as:
- (a) Product theory
- (b) Price theory
- (c) Process theory
- (d) Projection theory.

(ii) Demand can be defined as:
- (a) Desire to buy
- (b) Willingness to buy
- (c) Ability to pay
- (d) Desire and willingness to buy backed by adequate purchasing power.

(iii) In case of normal goods the income effect is:
- (a) Zero
- (b) Positive
- (c) Negative
- (d) None of the above

(iv) The formula $E = \frac{P_X}{Q_Y} = \frac{\Delta Q_Y}{\Delta P_X}$ represents:

(a) Cross-elasticity of demand for Y
(b) Price-elasticity of demand for X
(c) Cross-elasticity of demand for X
(d) None of the above

(v) When the utility is increasing at an increasing rate, marginal utility is:

(a) Constant (b) Negative
(c) Increasing (d) Decreasing

(vi) Consumer's surplus is also known as:

(a) Elasticity of demand
(b) Differential surplus
(c) Buyer's surplus
(d) Indifference surplus **(1 × 5 = 5 marks)**

Answer:

(i) (b)
(ii) (d)
(iii) (c)
(iv) (b)
(v) (c)
(vi) (c)

2010 - Dec [1] (b) Fill in the blanks:

(i) Complementary goods like tea and sugar have a cross elasticity.
(ix) ______is the founder of Macro Economics. **(1 × 2 = 2 marks)**

Answer:

(i) Negative
(ix) Adam Smith.

2010 - Dec [1] (c) State which of the following statement is true and which is false:

(ii) Demand for a commodity refers to quantity demanded of that commodity.
(iii) Total utility is maximum when marginal utility is at its highest point.

(2 marks)

Answer:

(ii) False

(iii) False

2011 - June [1] (a) Answer the following:

(i) Economics is

(a) Normative science

(b) Positive science

(c) Human science

(d) Political science

(viii) The law 'supply creates its own demand' was put forth by:

(a) Marshall

(b) Pigou

(c) Robbins

(d) J. B. Say **(1 × 2 = 2 marks)**

Answer:

(a) (i) (b) Positive Science;

(viii) (d) J.B. Say;

2011 - June [1] (c) State which of the following statements is True and which is False:

(i) Giffen goods are otherwise known as superior goods.

(ii) When total utility is zero, marginal utility is maximum.

(1 × 2 = 2 marks)

Answer:

(i) False

(ii) False

2011 - June [1] (d) Define the following terms in not more than two lines:

(i) Consumer's surplus **(1 mark)**

Answer:

Consumer surplus is the difference between the maximum price a consumer is willing to pay and the actual price they do pay.

2011 - Dec [1] (a) Answer the following:

(i) Effective demand is:
(a) Demand exceeds supply
(b) Aggregate demand is equal to aggregate supply
(c) Elasticity of demand for a product is high
(d) Difference between actual and forecast demand

(iii) Cross elasticity of demand relates:
(a) Price of one commodity and demand for another commodity
(b) Substitutes and complementary goods
(c) Market and supply
(d) Production and cost

(v) Central Problem of all Economies are:
(a) What to produce?
(b) How to produce?
(c) For whom to produce?
(d) All of the above

(vi) Exceptions to the law of demand are:
(a) Conspicuous goods
(b) Giffen goods
(c) Shares' speculative market
(d) All if the above **(1 mark)**

Answer:

(i) (b) **Reason:** It is called 'effective' as it is this level of AD which actually determines the equilibrium between AS and AD; AS just converges with AD, because AS is assumed to be perfectly elastic.

(iii) (a) **Reason:** In this case we can check the demand of one commodity due to change in the price of another commodity.

(v) (d) All of the above

(vi) (d) **Reason:** In all these goods even the price falls, demand for these goods not rises.

2012 - June [1] (a) Answer the following:

(ii) The concept of consumer's surplus was propounded by:

(a) Malthus
(b) Alfred Marshall
(c) Robbins
(d) Pigou

(iii) Law of Demand Explains:

(a) Qualitative relationship
(b) Quantitative relationship
(c) Functional Relationship
(d) None of the above

(iv) Economics is a:

(a) Positive science
(b) Normative science
(c) Exact science
(d) Both (a) and (b)

(v) Utility is:

(a) Cardinal
(b) Ordinal
(c) Neutral
(d) Both (a) and (b)

(vii) We cannot produce:

(a) Any thing
(b) Every thing
(c) Useless things
(d) Good things **(1 × 5 = 5 marks)**

(b) Fill in the blanks:

(i) Utility is ________ in nature.

(ii) The want satisfying power of a thing is called ________. **(2 marks)**

(c) State whether the following statement is 'True' or 'False':

(v) Increase and decrease in demand is the same as expansion and contraction of demand.

(vii) Micro economics deals with behaviour of individual units.

(1 × 2 = 2 marks)

(d) Define the following terms in not more than two lines:

(iv) Price Elasticity of Demand; **(1 mark)**

Answer:

(a) (ii) (b) Alfred Marshall.

(iii) (b) Quantitative relationship.

(iv) (d) Both (A) Positive science & (B) Normative science.

(v) (d) Both (A) Cardinal & (B) Ordinal.

(vii) (a) Anything.

(b) **(i)** Subjective.

(ii) Utility.

(c) (v) False.

(vii) True.

(d) (iv) Price Elasticity of Demand means that change in the quantity demanded of a commodity due to change in its price, other factors remaining constant.

QUESTION AND ANSWER OF JUNE 2013

1. When marginal utility begins to be negative, the total utility starts to :
   (a) become zero
   (b) become negative
   (c) increase
   (d) decrease **(1 mark)**

   Answer: (d)

2. In the case of a straight-line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:
   (a) 0
   (b) 1
   (c) 1.5
   (d) 2 **(1 mark)**

   Answer: (b)

3. In the case of inferior goods, the income elasticity of demand is:
   (a) positive (b) zero
   (c) negative (d) infinite **(1 mark)**
   Answer: (c)
4. Elasticity of supply refers to the degree of responsiveness of supply of a goods to change in its:
   (a) demand
   (b) price
   (c) cost of production
   (d) state of technology **(1 mark)**
   Answer: (b)
5. The law of demand enumerates that
   (a) increase in quantity demanded results in increase in price
   (b) increase in price results in decrease in quantity demanded
   (c) decrease in demand results in decrease in price
   (d) both (b) and (c) **(1 mark)**
   Answer: (b)
6. In case of substitutes the cross elasticity of demand will be:
   (a) positive (b) zero
   (c) negative (d) infinite **(1 mark)**
   Answer: (a)

QUESTIONS AND ANSWERS OF SEPTEMBER 2014

1. In a Mixed Economy which sector is found?
   (a) Private only
   (b) Public sector only
   (c) None
   (d) Both (a) & (b) **(1 mark)**
   Answer: (d)
2. The law of diminishing marginal utility states that:
   (a) It will take larger & larger amounts of resources beyond some point to produce successive units of a product
   (b) Total utility is maximized when consumers obtain the same amount of utility per unit of each product consumed

(c) Price must be lowered in order to induce firms to supply more of a product.
(d) Eventually additional units of a given product will yield less and less extra satisfaction to a consumer. **(1 mark)**

Answer: (d)

3. Equilibrium State is achieved at:
(a) The Peak point of Supply curve
(b) The Bottom point of Demand curve
(c) The Inflection point of Demand curve
(d) The Intersection of demand & Supply curve **(1 mark)**

Answer: (c)

4. Substitution and Income effects of a change in the price of a good may be used to explain the:
(a) Direct relationship between price and quantity purchased
(b) Inverse relationship between price and quantity purchased
(c) Direct relationship between income & demand
(d) Direct relationship between price and quantity supplied **(1 mark)**

Answer: (b)

5. A supply curve parallel to X axis means the product supply is:
(a) Limited
(b) Unlimited
(c) Not available
(d) None **(1 mark)**

Answer: (b)

QUESTION AND ANSWER OF DECEMBER 2014

1. Any point beyond PPF is:
(a) Attainable
(b) Unattainable
(c) Attainable with increase in production facilities
(d) None. **(1 mark)**

Answer: (c)

2. A typical demand curve will normally have a:
   (a) Positive slope
   (b) Horizontal slope
   (c) Vertical slope
   (d) Negative slope **(1 mark)**
   Answer: (d)
3. An imposition of excise duty would effect the demand of a product due to ______.
   (a) Income effect
   (b) Substitution effect
   (c) Both
   (d) None **(1 mark)**
   Answer: (c)
4. Tea and Coffee are:
   (a) Complementary goods
   (b) Alternative goods
   (c) Unrelated goods
   (d) None of these. **(1 mark)**
   Answer: (b)
5. Complementary goods are those which are ________.
   (a) Consumed Simultaneously
   (b) Close Competitive
   (c) Both
   (d) Unrelated **(1 mark)**
   Answer: (a)
6. Goods which are perfect substitute of each other will have elasticity of substitution ________.
   (a) Unity
   (b) Less than 1
   (c) More than 1
   (d) Infinite **(1 mark)**
   Answer: (d)

QUESTIONS AND ANSWERS OF MARCH 2015

1. Who defined economics as "Science which deals with wealth"?
   (a) J. B. Say
   (b) A. C. Pigou
   (c) Alfred Marshall
   (d) Robbins **(1 mark)**
   Answer: (a)
2. Economics cannot be given the status of science because:
   (a) Of non-uniformity of opinion and approach of economist
   (b) Economic behaviour of human being is unpredictable
   (c) Measuring rod of money is unstable
   (d) All the three. **(1 mark)**
   Answer: (d)
3. The central problem of how to produce is resolved by:
   (a) Demand and supply of factor inputs
   (b) Demand and supply of goods
   (c) Relative prices and availability of factors of production
   (d) Government intervention. **(1 mark)**
   Answer: (c)
4 Equilibrium relates to which of these:
   (a) Market condition which oscillate
   (b) Market state of falling price
   (c) Market condition of rising price
   (d) Market conditions which once achieved tends to persist **(1 mark)**
   Answer: (d)
5. If the price of burger rises from ₹12 per piece to ₹20 per piece as a result of which the daily sales decreases from 300 to 200 pieces per day.
   The price elasticity of demand can be estimated as:
   (a) 0.5
   (b) 0.8
   (c) 0.25
   (d) 2.10 **(1 mark)**
   Answer: (a)

6. If the price elasticity of demand for wine is estimated to be -.6, then a 20% increase in price of wine will lead to ………………….in quantity demanded of wine at that price:
   (a) 12% increase
   (b) 12% decrease
   (c) 19.6% increase
   (d) 20.6% decrease **(1 mark)**

   Answer: (b)
7. If a dealer is prepared to supply 1000 sets of a 29″ Color TV if the price is ₹12,000 per set, however if the price raises to ₹15,000 he is prepared to supply 1,500 pieces. The elasticity of supply of TV set is:
   (a) 1
   (b) 2
   (c) 0.75
   (d) 1.4 **(1 mark)**

   Answer: (b)
8. If two goods are not substitutes at all for one another, the elasticity of substitution will be:
   (a) Infinite
   (b) Zero
   (c) > 1
   (d) < 0 **(1 mark)**

   Answer: (b)
9. The demand function of a product x is as dx = 12 – 2Px, where Px stand for price. The quantity demanded corresponding to price of ₹2 will be________.
   (a) 8
   (b) 6
   (c) 5
   (d) 10 **(1 mark)**

   Answer: (a)
10. Market demand curve for a commodity is a:
   (a) Horizontal summation of all the individual demand curve for that product
   (b) Summation of demand curve of competitive products

(c) Demand curve of average demand and price of previous six months
(d) Projected demand schedule for next three months. **(1 mark)**
Answer: (a)

11. If supply and demand both shift outward, but demand shifts outward more than supply, the equilibrium price:
(a) will increase and quantity will increase
(b) will increase and quantity will decrease
(c) will decrease and quantity will decrease
(d) will decrease and quantity will increase **(1 mark)**
Answer: (a)

QUESTIONS AND ANSWERS OF JUNE 2015

1. Micro economics theory deals with:
(a) Economics behaviour of individual economic decision making units
(b) Economy as a whole
(c) Trade relations
(d) Economics growth of the society. **(1 mark)**
Answer: (a)

2. Economic resources are:
(a) Unlimited
(b) Limited in supply and use
(c) Limited in supply but have alternative uses
(d) Unproductive. **(1 mark)**
Answer: (c)

3. In economic goods includes material things which …………………....
(a) Can be transferred
(b) Can be exchanged for one another
(c) Both
(d) None. **(1 mark)**
Answer: (c)

4. Which of the following is not a central problem of a society?
   (a) What to produce
   (b) How to produce
   (c) For whom to produce
   (d) What to eat. **(1 mark)**
   Answer: (d)
5. PPF is negative sloped due to:
   (a) Scarcity of production resources
   (b) Unlimited wants
   (c) Improvement in technology
   (d) Increasing opportunity cost. **(1 mark)**
   Answer: (a)
6. The _________ price that a customer is willing to pay for a given quantity is called demand price.
   (a) Maximum
   (b) Minimum
   (c) Bargained
   (d) Floor **(1 mark)**
   Answer: (a)
7. Goods or Services that are necessary for living are:
   (a) Needs
   (b) Desires
   (c) Wants
   (d) Essentials. **(1 mark)**
   Answer: (a)
8. If the price of burger rises from ₹ 12 per piece to ₹ 20 per piece as a result of which the daily sales decreases from 300 to 200 pieces per day. The price elasticity of demand can be estimated as.
   (a) 0.5
   (b) 0.8
   (c) 0.25
   (d) 2.10. **(1 mark)**
   Answer: (a)

9. Point elasticity concept was propounded by:
   (a) Marshal
   (b) Lipsey
   (c) Hicks
   (d) Samulson. **(1 mark)**
   Answer: (a)
10. If the cross price elasticity of demand for two product is negative, then the two products are:
    (a) Complementary to each other
    (b) Perfectly substitute for each other
    (c) Completely competitive
    (d) Unrelated. **(1 mark)**
    Answer: (a)
11. Goods which are not perfect substitute of each other but have to be consumed in a fixed ratio will have rate of substitution:
    (a) Unity
    (b) Less than 1
    (c) More than 1
    (d) Zero. **(1 mark)**
    Answer: (d)
12. If prices of petrol rises from ₹ 40 to ₹ 48 per it. The demand for cars falls from 60 per month to 45 per month, the cross elasticity of petrol and car is:
    (a) 1.5
    (b) 1.25
    (c) 1.0
    (d) 1.59. **(1 mark)**
    Answer: (b)
13. If the disposal income of a household increases by 10% and the demand for bread falls by 5%. The income elasticity of bread is:
    (a) 0.5 (b) -0.5
    (c) 1.0 (d) -1.0. **(1 mark)**
    Answer: (b)

14. The minimum price that a supplier expect to make available a specific quantity for sale is called:
    (a) Demand price
    (b) Administered price
    (c) Cost price
    (d) Supply price. **(1 mark)**

    Answer: (d)
15. Shift in Demand curve or change in demand curve occurs due to:
    (a) Increases in price
    (b) Decrease in cost of production
    (c) Change in cetris paribus conditions
    (d) All the three. **(1 mark)**

    Answer: (c)
16. The Supply function of a product is as $S_x = 5_{px} + 3$. Where p_x stand for price. The quantity supplied corresponding to price of ₹ 2 will be ....
    (a) 18
    (b) 13
    (c) 15
    (d) 23. **(1 mark)**

    Answer: (b)
17. The quantity of a commodity which an individual is willing to purchase over a specific period of time is a function of:
    (a) Price of the product
    (b) Disposal income
    (c) Taste and price of other commodities
    (d) All the three. **(1 mark)**

    Answer: (d)
18. The price of Ford Automobiles increases and the price of Chevrolets remains constant, the demand for Chevrolets will:
    (a) Increase
    (b) Decrease
    (c) Decrease then increase
    (d) Increase then decrease. **(1 mark)**

    Answer: (a)

QUESTIONS AND ANSWERS OF SEPTEMBER 2015

1. Which of the following is a central problem of every economy.
   (a) Abundance of resources
   (b) Scarcity of economic resources
   (c) Poverty
   (d) Moral and ethical **(1 mark)**
   Answer: (c)
2. Who defined economics as "Science which deals with wealth?"
   (a) J. B. Say
   (b) A. C. Pigou
   (c) Alferd Marshall
   (d) Robbins. **(1 mark)**
   Answer: (a)
3. Human wants are:
   (a) Unsatistiable
   (b) Unlimited
   (c) Undefined
   (d) Limited **(1 mark)**
   Answer: (b)
4. Goods or services that are necessary for living are:
   (a) Needs
   (b) Desires
   (c) Wants
   (d) Essentials **(1 mark)**
   Answer: (a)
5. If the price of burger rises from ₹ 12 per piece to ₹ 20 per piece as a result of which the daily sales decrease from 300 to 200 pieces per day. The price elasticity is:
   (a) 0.5
   (b) 0.8
   (c) 0.25
   (d) 2.10 **(1 mark)**
   Answer: (a)

6. If the price of coffee falls by 8% and the demand for tea declines by 2%. The cross price elasticity of demand for tea is:
   (a) 0.45
   (b) 0.25
   (c) + 0.44
   (d) - 0.30 **(1 mark)**

   Answer: (a)
7. A supply curve parallel to X axis means the product supply is:
   (a) Limited
   (b) Unlimited
   (c) Not available
   (d) None **(1 mark)**

   Answer: (b)
8. The quantity of a commodity that an individual is willing to purchase over a specified period of time is a function of expect:
   (a) Price of the commodity
   (b) Price of the competitive products
   (c) His disposal income
   (d) Price of factor of production **(1 mark)**

   Answer: (b)

QUESTIONS AND ANSWERS OF DECEMBER 2015

1. In a mixed economy which sector(s) is are found:
   (a) Private only
   (b) Public sector only
   (c) None
   (d) Both (a) & (b) **(1 mark)**

   Answer: (a)
2. The Terms Micro economics and Macro economics were coined by:
   (a) Professor A Samulson
   (b) Griffen

(c) Professor, Ranger Frish
(d) Eagle **(1 mark)**
Answer: (d)

3. The famous book “An enquiry into the nature and Courses of wealth of nation” was published in:
(a) 1776
(b) 1750
(c) 1850
(d) 1886 **(1 mark)**
Answer: (a)

4. Point elasticity of demand is not affected by:
(a) Nature of the Commodity
(b) Availability of close substitute
(c) Cost of production
(d) Consumption Habits **(1 mark)**
Answer: (d)

5. If two goods are perfect substitutes for one another the elasticity of substitution will be:
(a) Infinite
(b) Zero
(c) >1
(d) < 0 **(1 mark)**
Answer: (a)

6. Increase in price of a product reduces the purchasing power as a result of which demand for Tea is:
(a) 0.45
(b) 0.25
(c) + 0.44
(d) - 0.30 **(1 mark)**
Answer: (a)

7. Increase in price of a product reduces the purchasing power as a result of which demand for a product goes up. This effect is known as:

(a) Substitution effect
(b) Income effect
(c) Not available
(d) Law of diminishing returns **(1 mark)**

Answer: (b)

8. If price of Chaco bar decrease we expect.
(a) The quantity demanded to increase
(b) Quantity demanded to decrease
(c) Demand Curve to shift left
(d) No change in quantity demand. **(1 mark)**

Answer: (c)

9. If demand of a product decreases and supply remains constant equilibrium price will be:
(a) Constant
(b) Move downward
(c) Move upward
(d) No effect **(1 mark)**

Answer: (b)

QUESTIONS AND ANSWERS OF MARCH 2016

1. Which event will shift the butter/guns production possibilities frontier outward?
(a) an increase in the production of guns
(b) a reduction in the production of butter
(c) a new and superior method of producing butter
(d) a decrease in the resources devoted to the production of investment goods. **(1 mark)**

Answer: (c)

2. The price of good X is ₹ 1.50 and that of good Y is ₹ 1. If a particular consumer's marginal utility for Y is 30 and he is currently maximizing his total utility, then his marginal utility of X must be:
(a) 30 units
(b) 45 units

(c) 15 units
(d) 20 units **(1 mark)**

Answer: (b)

3. Economics cannot be given the status of science because:
(a) of non-uniformity of opinion and approach of economist
(b) economic behaviour of human being is unpredictable
(c) measuring rod of money is unstable
(d) all of these. **(1 mark)**

Answer: (d)

4. Suppose the price of a certain good fell from ₹ 1 to ₹ 1.50 and the quantity demanded increased from 250 to 750 units. Over this range of the demand curve the elasticity of demand is:
(a) 1
(b) 0.75
(c) 1.5
(d) 1.2 **(1 mark)**

Answer: (c)

5. The cross elasticity of complementary goods is generally:
(a) > 1
(b) < 1
(c) < 0
(d) = 0 **(1 mark)**

Answer: (c)

QUESTIONS AND ANSWERS OF JUNE 2016

1. Micro economics theory deals with:
(a) Economics behaviour of individual economics decision making units
(b) Economy as a whole
(c) Trade relations
(d) Economics growth of the society **(1 mark)**

Answer: (a)

2. Human wants are______.
   (a) Unsatisfiable
   (b) Unlimited
   (c) Under fined
   (d) Limited **(1 mark)**

   Answer: (b)
3. Who defined by economics as "Science which deals with wealth".
   (a) J. B Say
   (b) A C Pigou
   (c) Alfred Marshall
   (d) Robbins **(1 mark)**

   Answer: (a)
4. In economics goods includes material thing with_______.
   (a) Can be transferred
   (b) Can be exchanged for one another
   (c) Both
   (d) None **(1 mark)**

   Answer: (c)
5. The terms "micro" is derived from the ______ word which means ___.
   (a) Latin, Small
   (b) Greek, Small
   (c) English, Tiny
   (d) Roman, Small **(1 mark)**

   Answer: (b)
6. Which of the following issue relates to micro-economic:
   (a) Impact of crude price hike on inflation
   (b) Impact of change in bank rate on bank saving and investment
   (c) Impact of information technology on economics growth
   (d) Impact of shortage of wheat production on wheat prices **(1 mark)**

   Answer: (d)
7. Production possibility curves show maximum combinations of ________ products. **(1 mark)**
   (a) 1
   (b) 2

(c) 3
(d) 4
Answer: (b)

8. Market equilibrium of a commodity is determined by:
(a) Balancing of demand and supply position
(b) Aggregate demand
(c) Aggregate supply
(d) Government intervention **(1 mark)**
Answer: (b)

9. Point elasticity concept was propounded by _________.
(a) Marshal
(b) Lipsey
(c) Hicks
(d) Samulson **(1 mark)**
Answer: (a)

10. Luxury goods have ________ degree of elasticity.
(a) High
(b) Low
(c) Moderate
(d) Completely inelastic **(1 mark)**
Answer: (a)

11. Which of the following is not factor is market supply of product ______.
(a) Cost of productions
(b) Numbers of buyers
(c) Market price of the product
(d) Price of related products **(1 mark)**
Answer: (b)

12. If the price of coffee falls by 8% and demand for tea declines by 2%. The cross price elasticity of demands for tea is:
(a) 0.45
(b) 0.25

(c) + 0.44
(d) - 0.30 **(1 mark)**

Answer: (b)

13. A supply curve passing through the origin will have elasticity _____.
(a) Less than – 1 (b) More than – 1
(c) Just one (d) Zero **(1 mark)**

Answer: (c)

14. Cross elasticity of complementary products will be _________.
(a) Infinite (b) Zero
(c) >1 (d) < Zero **(1 mark)**

Answer: (d)

15. The maximum price that a supplier expert the make available a specific quantity for sale is called _________.
(a) Demand price
(b) Administered price
(c) Cost price
(d) Supply price **(1 mark)**

Answer: (d)

16. Under law of supply, ceteris paribus is:
(a) Cost of production (b) Production technology
(c) None (d) Both **(1 mark)**

Answer: (d)

QUESTIONS AND ANSWERS OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:
(i) ______ defined "Economics as a science which inquired into the nature and cause of wealth of Nations".
(a) Adam Smith
(b) Alfred Marshall
(c) Robbins
(d) Paul. A. Samuelson **(1 mark)**

(ii) ______ changed the name of the subject from political economy to Economics.
(a) Adam Smith
(b) Alfred Marshall
(c) Robbins
(d) Paul. A. Samuelson **(1 mark)**

(iii) ______ tells us the rate of change in demand.
(a) Elasticity of demand
(b) Consumption analysis
(c) Demand analysis
(d) Consumer surplus **(1 mark)**

Answer:
(i) **(a)** Adam Smith
(ii) **(b)** Alfred Marshall
(iii) **(a)** Elasticity of demand

2. Fill in the blank:
(i) ______ creates form utility. **(1 mark)**

Answer:
Production

4. State whether the following statement is True or False:
(i) The income elasticity of demand is positive for all normal goods. **(1 mark)**

Answer:
True

5. Give the answer in one sentence from the following:
(i) Law of supply.
(iii) Scarcity definition
(iv) Consumer surplus
(vi) Investment. **(1 mark each)**

Answer:
(i) Law of Supply: It explains the functional relationship between price of a good and supply of the good. When all other things remain

constant. If the price rises supply also increase, if the price falls supply will be decrease. It means there is direct proportional relationship between price and supply.

(iii) Scarcity Definition/Robbins definitions:

This definition was given by Lionel Robbins. He wrote a famous book "an essay on the nature and significance of economic science" (1932).

Definitions: "Economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses". ***Robbins***

Main Points:

In the above definition

1. Wants are unlimited
2. Limited resources
3. Alternative uses of limited resources
4. Problem of choice

Merits:

1. According to this definition economics is an analytical science.
2. Economic turn into universal science.
3. According to Robbins. It is a positive science.
4. Neutral between ends.

(iv) The concept of consumer surplus:

This concept was introduced by Alfred Marshall. This concept is derived from law of diminishing marginal utility. Consumer surplus is the difference between willing price and actual price.

C.S. = Willing Price – Actual Price

or

C.S. = Demand Price – Market Price

(vi) Investment: An Investment is an asset or item i.e. purchased with the hope, that it will generate income or will appreciate in future. In an economic sense, an investment is a purchase of goods that are not consumed today but are used in the future to create well.

QUESTIONS AND ANSWERS OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives.
   (i) Wealth was defined by:
   (a) Alfred Marshall
   (b) Adam Smith
   (c) Robbins
   (d) Jacob **(1 mark)**
   (ii) Income minus Savings is equal to _____.
   (a) Consumption
   (b) Production
   (c) Investment
   (d) Demand **(1 mark)**
   (iii) ______ means the desire backed by the necessary purchasing power.
   (a) Consumption
   (b) Production
   (c) Investment
   (d) Demand **(1 mark)**
   (iv) If the proportionate change in the supply is equal to the proportionate change in price, it is said to be _______ supply.
   (a) Unitary Elastic
   (b) Perfectly Inelastic
   (c) Perfectly Elastic
   (d) Relatively Inelastic **(1 mark)**
   (v) Production creates _____ utility.
   (a) Place
   (b) Time
   (c) Form
   (d) Possession **(1 mark)**
   (c) State whether the following statement is True or False:
   (iv) Macro-economics is also called as Income and Employment Theory.
   (v) The Price Demand curve slopes downwards from left to right.
   (1 × 2 = 2 marks)

Answer:

(a) (i) (b) Adam Smith
(ii) (a) Consumption
(iii) (d) Demand
(iv) (a) Unitary Elastic
(v) (c) Form

(c) (iv) True
(v) True

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.

(i) ______ is the father of Economics.
(a) Adam Smith
(b) Alfred Marshall
(c) Lionel Robbins
(d) J. R. Hicks **(1 mark)**

(ii) ______ is an act to use the goods or service to satisfy the wants.
(a) Production
(b) Consumption
(c) Savings
(d) Distribution **(1 mark)**

(iii) The Law of Diminishing Marginal utility was developed by ______.
(a) Stanley Jevons
(b) Alfred Marshall
(c) Adam Smith
(d) J. R. Hicks **(1 mark)**

(iv) ______ demand is also known as Direct Demand.
(a) Derived
(b) Autonomous
(c) Individual
(d) Consumption **(1 mark)**

(v) Total Outlay Method of measuring Elasticity of Demand was introduced by ______.
(a) Stanley Jevons
(b) Alfred Marshall
(c) Adam Smith
(d) J. R. Hicks **(1 mark)**

(vi) When two or more different goods are produced together by a single firm, it is called as ______ supply.
(a) joint
(b) composite
(c) excess
(d) short **(1 mark)**

(c) State whether the following statement is True or False:
(i) Macro-economics studies the economy as a single unit.
(ii) Law of Supply explains the functional relationship between the supply of goods and the demand for goods. **(2 marks)**

Answer:

(a) (i) (a) Adam Smith
(ii) (b) Consumption
(iii) (b) Alfred Marshall
(iv) (c) Individual
(v) (b) Alfred Marshall
(vi) (a) joint

(c) (i) False
(ii) False

QUESTIONS AND ANSWERS OF JUNE 2018

1. (a) Choose the correct answer from the given *four* alternatives.
(i) The 'Welfare definitions' of Economics was introduced by _____.
(a) Adam Smith (b) Alfred Marshall
(c) Lioned Robbins (d) J.R. Hicks **(1 mark)**

(ii) Micro-economics deals with the ___________.
  (a) economics behaviour of the individual
  (b) economy as a whole
  (c) trade relations
  (d) economic growth of the society **(1 mark)**

(iii) Point Elasticity was propounded by ___________.
  (a) Alfred Marshall (b) Adam Smith
  (c) Lioned Robbins (d) Jacob Viner **(1 mark)**

(iv) If the proportionate change in the supply is equal to the proportionate change in the price, it is said to be _______ supply.
  (a) unitary elastic
  (b) perfectly inelastic
  (c) perfectly elastic
  (d) relatively inelastic **(1 mark)**

(c) State whether the following statement are *true* or *false* **(1 mark)**
All economic goods are called as wants.

Answer:

(a) (i) (b) Alfred Marshall
(ii) (a) economics behaviour of the individual
(iii) (a) Alfred Marshall
(iv) (a) unitary elastic

(c) (i) False

QUESTIONS AND ANSWERS OF DECEMBER 2018

1. (a) Choose the correct answer from the given *four* alternatives.
  (i) _________ defined economics as a science which deals with wealth.
    (a) J. B. Say
    (b) A. C. Pigou
    (c) Alfred Marshall
    (d) Lionel Robbins **(1 mark)**

(ii) ___________ goods are known as scarce goods.
(a) Economic (b) Durable
(c) Free (d) Consumer **(1 mark)**

(iii) ___________ is the first Law of Consumption.
(a) The Law of Diminishing Marginal Utility
(b) The Law of Demand
(c) The Law of Increasing Returns
(d) All of the above **(1 mark)**

(iv) When two or more different goods are produced together by a single firm, it is called as _______ supply.
(a) joint (b) composite
(c) excess (d) short **(1 mark)**

(viii) The supply curve always slopes ________.
(a) upwards (b) downwards
(c) both (a) and (b) (d) neither (a) nor (b) **(1 mark)**

(xiv) When the price of a complementary product falls, the demand for the other product will___________.
(a) fall
(b) increase
(c) remain stable
(d) drop by 25 per cent. **(1 mark)**

(c) State whether the following statement are True or False:
(i) According to Adam Smith, man is an economic man. **(1 mark)**

Answer:

(a) (i) (a) J.B. Say
(ii) (a) Economic
(iii) (a) The Law of Diminishing Marginal Utility
(iv) (a) joint
(viii) (a) upwards
(xiv) (b) increase

(c) (i) True

QUESTION AND ANSWER OF JUNE 2019

1. (a) Choose the correct answer from amongst the four alternatives given (You may write only the Roman numeral and Alphabet chosen for your answer):

   (i) The Growth definition of Economics was introduced by:
   - (a) J.M. Keynes and P.A. Samuelson
   - (b) Adam Smith
   - (c) Alfred Marshall
   - (d) Lionel Robbins **(1 mark)**

   (ii) According to the Law of Demand, demand varies ______ with price.
   - (a) directly (b) indirectly
   - (c) proportionately (d) inversely **(1 mark)**

   (iii) When excess demand occurs in an unregulated market, there is a tendency for:
   - (a) price to rise
   - (b) quantity supplied to decrease
   - (c) quantity demanded to increase
   - (d) price to fall **(1 mark)**

   (iv) In the case of inferior goods, the consumer:
   - (a) purchases less with increase in income
   - (b) purchases less with decrease in price
   - (c) purchases more with increase in income
   - (d) purchases more with decrease in price. **(1 mark)**

   (c) State whether the following statements are *True* or *False*.

   (iii) An increase in price will cause a demand curve to shift to the right. **(1 mark)**

Answer:

(a) (i) (a) J. M. Keynes and P. A. Samuelson.
(ii) (d) inversely.
(iii) (d) price to fall.
(iv) (a) purchases less with increase in income.

(c) (iii) False.

QUESTIONS AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given *four* alternatives.

(i) The subject matter of economics is distributed into _________ parts.

(a) two (b) three

(c) four (d) five **(1 mark)**

(ii) The concept of 'Consumer Surplus' was introduced in Economics by:

(a) Prof. Robbins.

(b) Prof. Samuelson.

(c) Prof. Smith.

(d) Prof. Marshall. **(1 mark)**

(iii) If the price elasticity of demand is |0.5|, then the commodity is:

(a) luxury

(b) necessary

(c) inferior

(d) giffen **(1 mark)**

(iv) In the case of rare coins, supply curve will be:

(a) horizontal

(b) vertical

(c) backward bending

(d) positively sloped **(1 mark)**

(v) When the price elasticity of demand is equal to one, the demand curve is:

(a) rectangular hyperbola

(b) parallel to the horizontal axis

(c) parallel to the vertical axis

(d) negatively sloped straight line. **(1 mark)**

(c) State whether the following statement are *True* or *False:*

(i) 'Scarcity' definition of Economics is given by P.A. Samuelson. **(1 mark)**

Answer:

(a) (i) (a) two

(ii) (d) Prof. Marshall.

(iii) (b) necessary

(iv) (b) vertical

(v) (a) rectangular hyperbola.

(c) (i) False

QUESTIONS AND ANSWERS OF DECEMBER 2022

1. Which one of the following techniques is not included in the methods of Demand Forecasting?

   (a) Expert Opinion Method (b) Market Value added

   (c) Statistical Method (d) Collective Option Method

   (1 mark)

   Answer:

   (b) Market Value added

2. The production Possibility Curve (PPC) shows:

   (a) The various combinations of two commodities is that can be produced by an economy

   (b) The maximum production of goods

   (c) Both (a) and (b)

   (d) None of the above **(1 mark)**

   Answer:

   (a) The various combinations of two commodities is that can be produced by an economy

3. When total utility becomes maximum, then marginal utility is:

   (a) Maximum

   (b) Negative

   (c) Minimum

   (d) Zero

   Answer:

   (d) Zero

4. Price Elasticity of Demand for a product is more elastic if it
   (a) Has no close substitute
   (b) Has more number of substitutes
   (c) Is a highly essential product
   (d) Is an item of necessity **(1 mark)**

   Answer:

   (b) Has more number of substitutes
5. If the Price Elasticity of Demand is equal to one, the demand curve is
   (a) Positively sloped Straight Line
   (b) Rectangular Hyperbola
   (c) Parallel to the Vertical Axis
   (d) Perpendicular to the vertical Axis **(1 mark)**

   Answer:

   (b) Rectangular Hyperbola
6. In case of a perfectly elastic demand curve, the value of elasticity will be:
   (a) Ed = 1 (b) Ed = 0
   (c) Ed = ∞ (d) Ed > 1 **(1 mark)**

   Answer:

   (c) Ed = ∞

SHORT NOTES

2009 - June [3] Write short note on the following:

(a) Factors affecting supply; **(6 marks)**

Answer:

The quantity offered for sale depends upon a number of factors. Important ones are:

(a) **Price of goods:** Ceteris paribus, the higher price of a good the greater the quantity of it that will be produced and offered for sale. This is because, increase in price promises increased profits to the producers and provide them with a greater incentive to produce it and offer it for sale.

(b) **Production technology:** The supply of a particular commodity depends upon the state of technology and changes in it.

(c) **Price of factors:** Another important factor which influences the supply of a commodity is cost of inputs (prices of factors of production). Decrease in the prices of these inputs make it possible to produce commodities more cheaply, so that firms may be willing to supply a given amount at a lower price than formerly.

(d) **Price of other commodities:** The supply of a commodity depends not only on the price of the commodity but also on prices of other commodities. For example, if price of sugarcane rises, farmers may shift to sugarcane production away from oilseeds production and cotton production.

(e) **Objective of the firm:** The objectives of the firm and business policy pursued by it also affect the supply of the product produced by it. Some firms want to maximise their profits. For maximizing profits they will produce and supply that much quantity which fetches maximum profits to them.

(f) **Number of producers:** If the number of firms producing a product increases, the market supply will increases. Conversely, when the number of firms reduces, the market supply will decrease.

(g) **Time:** Supply is a function of time also. Generally, it is not possible to adjust supply to the conditions of demand in a short period. But if the time period is sufficiently long, supply can fully adjust to demand.

(h) **Government policy:** The supply of a product is also influenced by the policy followed by the Government. The Government may levy taxes in the form of excise duty, sales-tax or import duty or may grant subsidies. If an excise duty or sales-tax is levied on a product, its cost of production will go up and the quantity supplied will go down. The supply under such condition will increase only if its price in the market rises.

(i) **Future price expectations:** The supply of a commodity is also influenced by the expectations of sellers with regard of its future price. During inflation, the sellers normally expect the prices to rise further in future. Therefore, they will tend to hoard the commodity to sell it at a future date. This will reduce the supply of the commodity and will cause its price to increase further.

2010 - Dec [2] Write short note on the following:

(a) Determinants of Demand **(4 marks)**

Answer:

(i) **Availability of Substitutes:** The first, and most important, factor affecting elasticity of demand is the extent to which fairly close substitutes are available for a commodity. If for a commodity close substitutes are available, then a small rise in its price will have a relatively large effect on its consumption, as people will switch to other commodities which are fairly similar but whose prices have not changed. Conversely, a commodity having no close substitute is likely to have an inelastic demand, because in such a case it is almost impossible to switch over to other commodities on a substantial scale. An increase in their prices may cause a smaller decrease in their quantities demanded.

(ii) **Number of uses to which a commodity can be put:** A second major factor influencing the elasticity of demand for a commodity is the number of uses to which it can be put. Generally, a commodity, which has various uses, will have a relatively elastic demand. For example, electricity can be used for various purposes such as cooking, lighting, space-heating and motive power. If the price of electricity falls down, its consumption for various purposes will increase. On the other hand, if the price for electricity rises, its consumption will be restricted to very essential purposes. Conversely, if a commodity has restricted uses, it tends to have inelastic demand. For example, with wheat we cannot do much except to make flour of one kind or another, so a change in its price will have insignificant effect on its quantity demanded.

(iii) **Relative importance of a commodity in the total expenditure of consumers:** If the purchase of a commodity forms a significant percentage of a person's total expenditure, either because its price is high or because the amount consumed is large, then his demand for it is likely to have more elastic demand. Whereas commodities on which a smaller portion of income is spent is likely to have less elastic demand.

(iv) **Nature of the need that a commodity satisfies:** Generally, for necessities demand is relatively inelastic while for luxury goods it is relative elastic. Thus, it has been found that while demand for food and housing is inelastic, the demand for cellular phone is elastic.

(v) **The time allowed for adjustment:** The longer any price change remains, the greater the price elasticity of demand. Conversely, the shorter any price change remains, the lesser the price elasticity of demand.

(vi) **Habits:** Habits tend to make demand for goods, (of which the person is habitual) inelastic. For example, if a person is habitual of smoking, an increase in the price of cigarettes will not have any large effect on its consumption and thus demand for cigarettes will tend to be relatively inelastic.

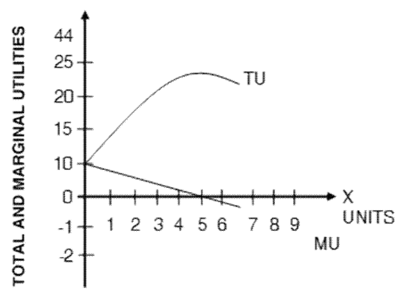
(vii) **Joint Demand:** Certain goods are demanded because they are used jointly with other goods. Such goods tend to have inelastic demand because normally consumers are less sensitive to price changes in them. Besides, it has been found that commodities, which are either in very high or in very low range tend to have inelastic demand compared to the commodities which are in moderate or medium range.

DESCRIPTIVE QUESTIONS

2009 - June [4] Explain the law of diminishing marginal utility. What are the limitations of the law? **(8 + 4 = 12 marks)**

Answer:

The law of Diminishing Marginal Utility can be stated as follows: "The additional benefit which a person derives from a given increase in stock of a thing or commodity diminishes with every increase in the stock that he already has."



TOTAL AND DIMINISHING MARGINAL UTILITIES

The law of diminishing marginal utility can be explained with the help of the following illustration:

Units of commodities	Total Utility	Marginal Utility
1	10	10
2	15	15 – 10 = 5
3	18	18 – 15 = 3
4	20	20 – 18 = 2
5	20	20 – 20 = 0
6	19	19 – 20 = - 1
7	17	17 – 19 = - 2

From the above table we can clearly see that as the consumer consumes the first unit of a commodity, his propensity to consume the second unit of that commodity increases. This continues so long till the consumers achieves full satisfaction by consuming the commodities and reaches the saturation point. Thereafter his propensity to consume that commodity decreases instead of increasing. Therefore we can see in the above table that the total utility increases till 4th unit of the commodity and remains constant in the 5th unit. Thereafter it decreases. At the same time if we take a look on the marginal utility we will notice that the MU decreases when the TU increases and when the TU is maximum MU is zero. When the TU starts decreasing the MU becomes negative. Thus, we see that the Marginal Utility decreases throughout. The law of diminishing marginal utility can be explained graphically from the given above figure.

The limitation of law of diminishing marginal utilities is as follows:

1. Cardinal measurability of utility is unrealistic - Cardinal utility analysis of demand is based on the assumption that utility can be measured in numbers such as 1, 2, 3, 4 and so forth. But in real life utility cannot be measured in such quantitative or cardinal terms, because utility is a psychic feeling and a subjective thing.
2. Hypothesis of independent utilities is wrong - Utility analysis also assumes that utilities derived from various goods are independent. This means that the utility which a consumer derives from a good is the function of the quantity of that good and of that good alone.
3. Assumption of constant cardinal utility of money is not valid - An important assumption of cardinal utility analysis is that when a consumer spends varying amount on a good or various goods or when the price of a good changes, the marginal utility of money remains unchanged. But in actual practice this is not correct. As a consumer spends his money income on the goods, money income left with him declines.

   Thus, in case of a Giffen good quantity demanded varies directly with the price and the Marshall's law of demand does not hold good.
4. Cardinal utility analysis assumes too much and explains too little - Cardinal utility analysis is also criticized on the ground that it takes more assumptions and also more restrictive ones. Therefore it is not realistic in nature.
5. Not applicable for luxurious commodities - This law is not applicable for luxurious commodities because for luxurious commodities the satisfaction level never reaches. Its propensity increases when more and more units are consumed.

2016 - Dec [6] Answer the following question:

(i) Analyse the factors which determine supply function. **(10 marks)**

Answer:

Determine of elasticity of supply:

1. **Nature of the commodity:**
   If the goods is durable the elasticity of supply will be more [ES > 1], the perishable goods have less elastic [EP <1].
2. **Time factor:**
   In the long period the elasticity of supply will be more [ES > 1] in the short period the elasticity of supply will be less [ES<1].
3. **Availability of facilities:**
   If they are more facilities [ES>1] (or) [ES<1].
4. **Cost of production:**
   If the cost of production is more the elasticity of supply will be less, if the cost of production is less [ES>1].
5. **Nature of inputs:**
   If the inputs are available in the market there is a more elastic supply otherwise less elastic supply.
6. **Risk taking:**
   If the entrepreneur takes the risks the elasticity of supply will be more otherwise less.

2016 - Dec [7] Answer the following:

(i) Discuss the importance of elasticity of demand. **(5 marks)**

Answer:

Importance of Elasticity of Demand: The concept of elasticity of demand is of great practical importance in the sphere of government finance as well as in trade and commerce.

- **(i) Business Decision:** If the product has more elastic demand the business man fixes the less price, if the goods has less elastic demand he will fix the more price.
- **(ii) Monopolist:** The monopolist fixes the more price in one market in which the elasticity of demand is less. And less price in more elastic demand market for the same thing (or) same good.

(iii) **Determination of factor price:** The concept of elasticity of demand also helps in determining the price of various factors of production. Factor having in elastic demand gets higher price and factors having elastic demand gets lower price.

(iv) **Route for international trade:** If demand for exports of a country in inelastic, that country will enjoy a favorable terms of trade while if the exports are more elastic than imports, then the country will lose in the terms of trade.

(v) **To the government:** The concept of elasticity of demand also enable the government to decide as to what particular industries should be declared as 'public utilities' to be taken over and operated by the state.

2017 - June [2] State the determinants of market demand. **(5 marks)**

Answer:

Determination of demand: The demand for any commodity is depend upon so many factors.

These factors are called determinants of demand. They are:

1. **Price of the goods:** The demand for any commodity firstly depends upon its price. When the price rises demand decreases, when the prices falls demand increases.
2. **Prices of the substitute goods:** The demand for any commodity not only depends upon its price but also the prices of its substitute goods. For example, tea and coffee. Here the demand for tea depends upon price of coffee.
3. **Prices of the complementary goods:** The demand for a commodity also depends upon the price of its complementary goods. For example, car and petrol. Here demand for petrol depends upon price of the car.
4. **Income of the consumer:** The income of the consumer also influences the demand for a commodity. When the income rises people purchase the more quantity of goods. When the income falls they purchase less quantity of goods.

5. **Tastes and preferences of the consumer:** The tastes and preference of the consumer can also determine the demand for a commodity. When the tastes are changed, the demand for goods also changed.
6. **Population:** When the population is increased, the demand for goods also increases. When the population decreases demand also decreases.
7. **Climate:** The climate conditions also can influence the demand. In hot climatic conditions cool drinks are demanded. In rainy season umbrellas are demanded.

2017 - Dec [2] Discuss briefly the branches of Economics. **(5 marks)**

Answer:

Micro and Macro Economics:

The terms 'Micro' and 'Macro' are introduced by Ragnar Frisch in economics. He is the Prof. of Oslo University in Britain. According to him the economics is studied in two ways i.e., Micro level and Macro level.

Meaning of Micro Economics:

The word Micro is derived from Greek work 'Mikros'. Which means very small or Millionth part. It studies about the behavior of Individual units. Individual units are a consumer, a producer, a firm or industry. Marshall developed the Micro economics very well. According to Marshall, the Micro economics divide the economy into small units or small parts each part is studied. It explains how a consumer gets maximum satisfaction how the producer gets maximum output and how the firm gets maximum profits.

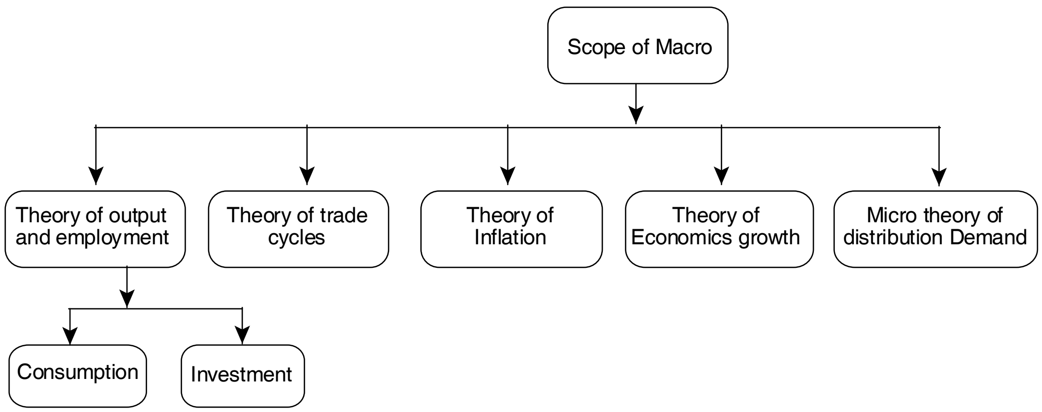
Definition:

"Micro economics is study of particular firm particular household, individual prices, wages, incomes, individual Industries, particular commodities".

K. E. Boulding

Scope of Micro Economics:

The Micro economics explains how the price of a good is determined and how the price per unit of factors of production is determined and it is also deals with theories of economics welfare. So, Micro economics is called "Price theory".



Users or Significance of Micro Economics:
1. Understanding the operations of economy
2. Economic welfare of people
3. Managerial economics

Macro Economics: The word "Macro" is derived from Greek word "Makros". Which means "large or very big". The Macro economics studies the economy as a single unit. It does not deal with Individual units. It deals with the aggregates 'or' totals and averages.

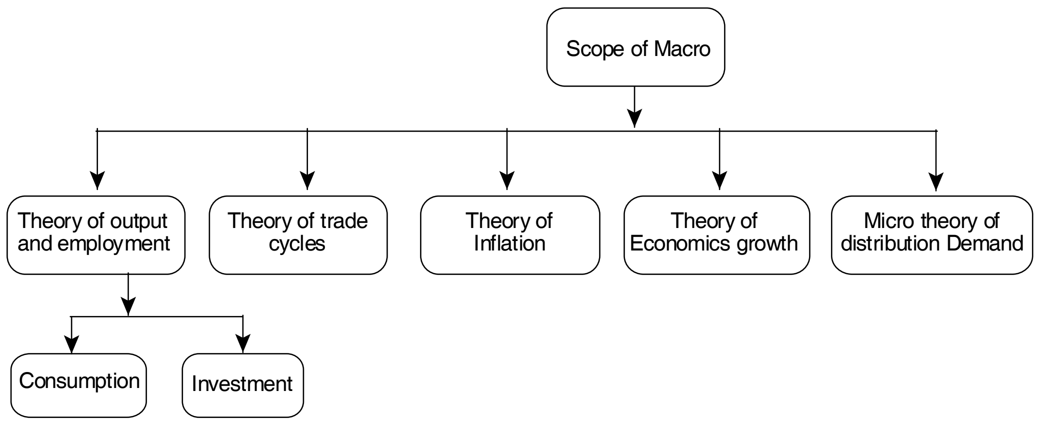
For Example: National income, full employment, total output, total investment, total consumption etc.

Definition: According to Gardner Ackaly, "Macro economics is concerned with such variables as a aggregate volume of output of a economy with the extend to this resources are employed with the size of the National Income and with the general price level.

Scope of Macro Economics: Macro economics studies about the National Income i.e. calculation of the national income, trends in the national income etc., It also deals with total employment (full employment), total output etc., It also studies about trade cycles, Inflation etc., It also deals with theories of economic growth and macro theory of distribution. It is also called Income and Employment theory.

Both Micro and macro economics are interdependent. From 1930 onwards there is an importance to the Macro economics.

Scope of Macro economics can be explained by the following chart:



The Macro economics analysis some problems of the economy:

1. Level of output and employment
2. Fluctuate in level of output, employment and National Income
3. Changes in the general price level
4. Economic growth and economic development
5. Theories of distribution.

2017 - Dec [3] Discuss the assumptions of the Law of Demand.

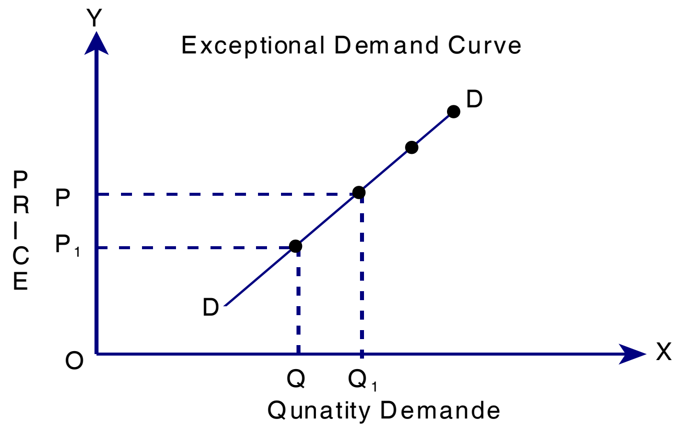
(5 marks)

Answer:

Assumptions of the law:

1. There is no change in income of consumers.
2. There is no change in the price of product.
3. There is no change in quality of product.
4. There is no substitute of the commodity.
5. The prices of related commodities remain the same.
6. There is no change in customs.
7. There is no change in taste and preference of consumers.
8. The size of population remains the same.
9. The climate and weather conditions are same.
10. The tax rates and other fiscal measures remain the same.

2018 - June [2] Explain the exceptions to the Law of Demand. **(5 marks)**
Answer:
Exceptions of the Law of Demand:
The law of demand is a general statement stating that price and quantity demanded of a commodity are inversely related. But in certain situations, more will be demanded at a higher price and less will be demanded at a lower price. In such cases, the demand curve slopes upward from left to right which is called an exceptional demand curve as shown in the following diagram.



When price increases from OP to OP1, quantity demanded also increases from OQ to OQ1. This is contrary to the Law of Demand. The following are the exceptions to the Law of Demand.

1. **Giffen Paradox (Necessary goods):**
   In the case of necessary goods the law of demand cannot be operated. This is observed by British economist, the Sir Robert Giffen. He observed in London the law paid workers purchases more of bread when its price rises. That's why, this situation is known as Giffen Paradox.
2. **Speculation:**
   Some times the price of a commodity might be increasing and it is expected to increase still further. The consumer will buy more of the commodity at the higher price than they did at the lower price. It is contrary to law of demand.

3. **Conspicuous:**
   These are certain goods which are purchases to project the status and prestige of the consumer. For e.g.: expensive cars, diamond jewellery, etc. such goods will be purchased more at a higher price and less at a lower price.
4. **Shares or Speculative market:**
   It is found that people buy shares of that company whose price is rinsing on the anticipation that the price will rise further. On the other hand, they buy less shares in case the prices are falling as they a expect a further fall in price so such shares. Here, the law of demand fails to apply.
5. **Bandwagon effect:**
   Here, the consumer demand of a commodity is affected by the taste and preference of the social class to which he belongs to. If playing golf is fashionable among corporate executive, then as the price of golf accessories rises, the business man may increase the demand for such goods to project his position in the society.
6. **Illusion:**
   Sometimes, consumers develop a false idea that high priced goods will have a better quality instead of a low priced good. If the price of such a good falls, they feel that its quality also deteriorates and they do not buy, which is contrary to the law of demand.

2018 - Dec [2] Enumerate any five features of want. **(5 marks)**

Answer:

Characteristics of Wants:

1. **Human wants are unlimited:** Man's mind is so made that he never completely satisfied and hence there is no end to human wants. One want is satisfied another want will crop up to take its place and thus it is never ending cycle of want.
2. **Any particular want is satiable:** Though the wants are unlimited, but it is possible to satisfy a particular want, provided has the means (resource).

3. **Want are complementary:** It is a common experience that we want things in groups. A single article out of group can not satisfy human wants by it self. It needs other things of complete its use e.g. a motor-car needs petrol and mobile oil it starts working. Thus the relationship between motor-car and petrol is complementary.
4. **Wants are competitive:** Some wants competes to other. We all have a limited amount of money at our disposal; therefore we must choose some things and reject the other. E.g. sugar and jaggery, tea and coffee.
5. **Some Wants are both complimentary and competitive:** When use of machinery is done the use of labour needs to be reduced. This indicates competitive nature. But to run the machinery the labour is also required and as such it indicates complimentary relationship.
6. **Wants are alternative:** There are several ways of satisfying a particular wants. If we feel thirsty, we can have water, lassi, in summer while coffee, tea in winter. The final choice depends upon availability of money and the relative prices.
7. **Wants vary with time place and person:** Wants are not always the same. It varies with individual to individual. People want different things at different times and in different places.

2018 - Dec [3] State the determinants of supply. **(5 marks)**

Answer:

Determinants of Supply:

The supply of any commodity is depending upon some factors. They are called determinants of the supply. They are:

1. **Price of the goods:** Price of the goods is main determinant of supply. Producers supply more goods if the prices are high. They supply the fewer goods when the prices are low.
2. **Goals of the firm:** Firms may try to work on various goals for e.g. Profit maximization, sales maximization, employment maximization. If the objective is to maximize profit, then higher the profit from the sale of a commodity, the higher will be the quantity supplied by the firm and vice-versa.

3. **Inputs Prices:** The producers supply more when the inputs prices are low, that is at lower costs of production. At higher inputs rises they supply less.
4. **Technology:** New Technology generally helps to save inputs and reduces costs and time to produce the output. An improved technology enhances the supply of the goods.
5. **Government Policies:** Government policy of taxes and subsidies on goods brings about changes in supply, higher taxes on goods discourage producers and their supply will be less. On the other subsidies from Government encourage producers to supply more.
6. **Expectation about future prices**: If the producers expect an increase in the price of a commodity, then they will supply less at the present price and hoard the stock in order to sell it at a higher price in the near future. This will be opposite in case if they anticipate fall in future price (e.g. Fruit seller).
7. **Prices of the other commodities:** Usually an increase in the prices of other commodities makes the production of that commodity whose price has not risen relatively less attractive we thus, expect that other things remaining the same, the supply of one commodities falls the price of other goods rises.
8. **Number of firms in the market:** Since the market supply is the sum of the suppliers made by individual firms, hence the supply varies with changes in the number of firms in the market. A decreases in the number of firm reduces the supply.
9. **Natural factors:** Supply of goods depends on favourable weather conditions. Conditions like drought, floods, extreme weather, pests and diseases disturb crop production and raw material supply. This will affect the supply of goods.

2019 - June [2] State whether the Economics is Science or Art. **(5 marks)**

Answer:

Meaning of Science:

The term science implies:

(1) A systematic body of knowledge which traces the relationship between cause and effect

(2) Observation of certain facts, systematic collection and classification and analysis of facts
(3) Making generalization on the basis of relevant facts and formulating laws or theories there by
(4) Subjecting in the theories to the test of real world observations.
(5) Like the physics, chemistry and botany economics also satisfy the above four characteristics. Economics is regard as science.

Economics as an Art:

Keynes defines Art as 'a system of rules for the attainment of a given end". The object of Art is to formulate rules to be used for the formulation of policies.

Difference between science and Art:

(1) Science is theoretical but art is practical.
(2) A science teaches us "to know", an Art teacher us "to do".
(3) Economics as a science in methodology and Art in its application.
(4) Economics is both science and Art.

2019 - June [3] Briefly discuss the importance of Elasticity of Demand.

(5 marks)

Answer:

Importance of Elasticity of Demand:

The concept of elasticity of demand is of great practical importance in the sphere of government finance as well as in trade and commerce.

(i) **Business Decision:**
If the product has more elastic demand the business man fixes the less price, if the good has less elastic demand he will fix the more price.

(ii) **Monopolist:**
The monopolist fixes the higher price in one market in which the elasticity of demand is less. And lower price in more elastic demand market for the same thing (or) same good.

(iii) **Determination of Factor Price:**
The concept of elasticity of demand also helps in determining the price of various factors of production. Factor having inelastic demand gets higher price and factors having elastic demand gets lower price.

(iv) **Route for International Trade:**
If demand for exports of a country in inelastic, that country will enjoy a favorable terms of trade while if the exports are more elastic than imports, then the country will lose in the terms of trade.

(v) **To the Government:**
The concept of elasticity of demand also enable the government to decide as to what particular industries should be declared as 'public utilities' to be taken over and operated by the state.

2019 - Dec [2] Briefly discuss the various determinants of Demand.

(5 marks)

Answer:

Some of the important determinants of demand are as follows,

1. **Price of the Product:**
People use price as a parameter to make decisions if all other factors remain constant or equal. According to the law of demand, this implies an increase in demand follows a reduction in price and a decrease in demand follows an increase in the price of similar goods. The demand curve and the demand schedule help determine the demand quantity at a price level. An elastic demand implies a robust change quantity accompanied by a change in price. Similarly, an inelastic demand implies that volume does not change much even when there is a change in price.
2. **Income of the Consumers:**
Rising incomes lead to a rise in the number of goods demanded by consumers. Similarly, a drop in income is accompanied by reduced consumption levels. This relationship between income and demand is not linear in nature. Marginal utility determines the proportion of change in the demand levels.
3. **Prices of related goods or services:**
Complementary products – An increase in the price of one product will cause a decrease in the quantity demanded of a complementary product. **Example:** Rise in the price of bread will reduce the demand for butter. This arises because the products are complementary in

nature. Substitute Product – An increase in the price of one product will cause an increase in the demand for a substitute product. **Example:** Rise in price of tea will increase the demand for coffee and decrease the demand for tea.

4. **Consumer Expectations:**
   Expectations of a higher income or expecting an increase in prices of goods will lead to an increase the quantity demanded. Similarly, expectations of a reduced income or a lowering in prices of goods will decrease the quantity demanded.
5. **Number of Buyers in the Market:**
   The number of buyers has a major effect on the total or net demand. As the number increases, the demand rises. Furthermore, this is true irrespective of changes in the price of commodities.

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

DISTINGUISH BETWEEN

Q1. What is the difference between market economy and planned economy?

Answer:

The difference between market economy and planned economy can be summarized as follows:

Market Economy	Planned Economy
1. Economic resources are owned by private individuals. The right to own private property exists.	1. All economic resources are owned by the State. The right to own private property is absent.
2. Producers, resource owners and consumers are free to take economic decisions relating to production, allocation of resources and consumption respectively.	2. There is loss of economic freedom with regard to consumers' choice and allocation of resources by individuals.

3. Price mechanism is allowed to operate freely.	3. Price mechanism is not allowed to operate.
4. Price or market mechanism is the basic coordinating mechanism. All economic decisions are taken through price mechanism.	4. Planning takes the place of market mechanism. All important economic decisions are taken by the central planning authority.
5. Maximisation of profit is the principal objective of producers.	5. Maximisation of social welfare is the chief motivating force behind all economic activities.
6. Competition is an essential part of a capitalistic economy.	6. Competition of all types is eliminated from this type of economy.

Q2. Distinguish between "total utility" and "marginal utility".

Answer:

The utility means satisfaction derived by the consumer from the consumption of a commodity. It is also defined as want-satisfying power of a commodity.

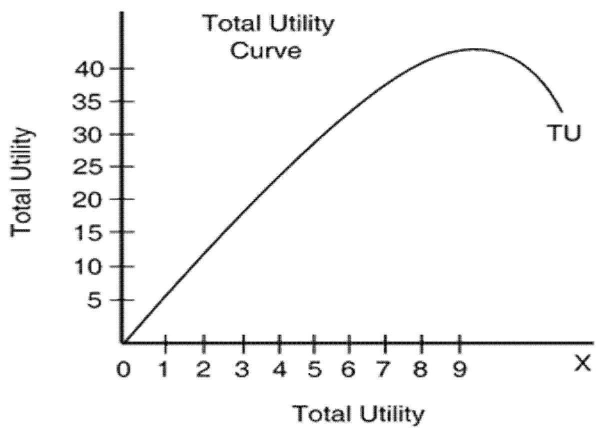
The marginal utility can be defined as the change in total utility due one extra unit of consumption of a commodity.

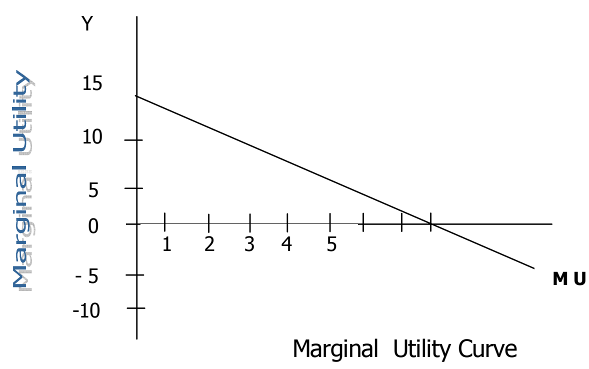
Total utility and marginal utility can be distinguished as follows:

Total Utility	Marginal Utility
1. Total utility of a commodity to a consumer is the sum of utilities which he obtains from consuming a certain number of units of the commodity per period.	1. Marginal utility is the utility derived by a consumer from consumption of an extra unit of a commodity.
2. If a person consumes 10 units and receives utility of 15 and on consuming 11 units he derives utility of 18. Then 15 and 18 are the total utility derived from consuming 10 and 11 units.	2. Marginal utility is 3 i.e., (18 – 15) which is change in total utility.

3. Total utility is the sum of individual utilities derived from consumption of a commodity.	3. Marginal utility is the addition made to the total utility when one more unit of a commodity is consumed by an individual.
4. In terms accounting equation total utility can be expressed as the utility derived from consumption of "n" no. of units.	4. Marginal utility can be expressed as MUn= TUn-TUn – 1 , where n is the no. of units consumed.

The Total Utility Curve and the marginal utility curve can be graphically shown as below:





Q3. What are the points of difference between Macro economics and Micro economics?

Answer:

The major differences between micro and macro economics can be summarized as below:

Micro economics	Macro economics
1. Micro economics has been derived from the Greek word 'micros' which means 'small'.	1. Macro economics has been derived from the Greek word 'macros' which means 'large'.
2. Micro economics studies the individual units of an economic system.	2. Macro economics studies the entire economy as a whole.
3. Micro economics is concerned with small segments of the total economy – individual consumer and producer, groups of consumers and producers that are known as market or industry.	3. Macro economics is concerned with broad economic aggregates, such as total employment, total income, total consumption etc.
4. Micro economics covers areas such as theory of consumers behavior, theory of production, pricing of goods, pricing of factor services, welfare economics etc.	4. Macro economics covers theory of income and employment, economics of growth, monetary economics.
5. Micro economics determines the price of individual economic units.	5. Macro economics determines the general price level of the economy.

DESCRIPTIVE QUESTIONS

Q1. Explain the main features of a mixed economy.

Answer:

A mixed economy is an economy which combines the elements of both the capitalist and socialist economies. A mixed economy is characterized by coexistence of both the private sector and the public (government) sector.

The main features of a mixed economy can be summarized as follows:

1.	**Coexistence of public and private sectors**	The main feature of a mixed economy is the coexistence of public and private sectors. Public sector represents that part of the economy which is operated and managed by the State or the government. The private sector, on the other hand, includes that part of the economy which is owned, managed and operated by the private individuals.
2.	**Coexistence of capitalist and socialist features**	A mixed economy combines the features of both the capitalist and socialist economies. It is characterized by the presence of private property, profit motive, competition, price mechanism etc. On the other hand, there is the presence of economic planning, state regulation of economic activities and emphasis on economic equality, which characterizes a socialist economy.
3.	**Economic planning**	An important feature of a mixed economy is economic planning. Economic planning is essential to promote economic development, to ensure smooth and systematic operation of the

		economy, to regulate the entire economy and to have coordinated operations of the public and private sectors.
4.	**Regulation and control of the private sector**	The government plays an important part in the mixed economy by regulating the private sector. The government tries to regulate the private sector so as to promote the larger welfare interest of the entire economy.
5.	**Promotion of social welfare**	Promotion of social welfare is a very important objective of a mixed economy. The government makes efforts to promote the welfare of the entire community. It provides various facilities like education, health, sanitation, etc., free of cost. It tries to minimize economic and regional inequalities.
6.	**Profit motive**	Though the public sector is guided largely by social welfare motive, profit motive remains the guiding motive for the private sector. Profit motive and private sector go together. However, the private sector cannot maximize profit at the cost of social interest.

1B THEORY, COST AND MEANS OF PRODUCTION

THIS CHAPTER INCLUDES	
• Theory of Production (Meaning, Factors, Laws of Production - Law of Variable Proportion, Laws of Returns to Scale) • Means of Production	• Cost of Production (Concept of Costs, Short-run and Long-run Costs, Average and Marginal Costs, Total, Fixed and Variable Costs)

CHAPTER AT A GLANCE

1. Theory of Production
Generally production means a process to change the raw materials into final goods (or) finished goods. But in economics making of the goods (or) creation of goods (material and immaterial) for the purpose of selling them in the market is called production.
2. Land
Land in common usage is soil or surface of the earth. As a factor of production it refers to all natural resources like forests, water, climate, minerals etc. It mainly supplies food to people, provides space for work and supplies raw material to industry.
3. Labour
In the ordinary usage, labour stands for only physical labour. In economics, labour means physical as well as mental services engaged in production to earn income.
4. Capital
In the ordinary sense capital means money for an individual or a firm. Money is a form of capital when it is used to purchase machinery, tools, raw materials etc. Ultimately it is these man made goods i.e. Machinery, tools etc. that help in the production of goods. These are vital in raising productivity in different sectors.

5. Entrepreneur
The person who organizes the production is called an entrepreneur. He is considered as a separate factor because he performs specific functions different from those of other factors. Now-a-days an entrepreneur is not considered as a separate factor but as special types of human labourer.
6. ProductionFunction
Production function expresses the relationship between the physical inputs and physical output of a firm for a given state of technology.
7. Law of Variable Proportion
It explains the relationship between inputs and outputs in the short period. According to this law output can be changed by changing the some factors (variable factors) while other factors are constant. So it is called law of variable proportions. This law was developed by "Alfred Marshall". **1. Total Product:** It refers to the total output of the firm per period of time. **2. Average Product:** Average Product is total output per unit of the variable input. Thus Average Product is total product divided by the number of units of the variable factor. **3. Marginal Product:** Marginal Product is the change in total product resulting from using an addtional unit of the variable factor.
8. Law of Returns to Scale
It shows the relationship between inputs and outputs in the long period. The change in the quantity of the factors is called scale. Change in the output is called returns. So law of returns to scale explains changes in the output due to changes in the inputs in the long period. **Increasing returns to scale:** If the proportionate increase in the output is more than proportionate increase in the inputs, it is said to be increasing returns to scale. It means when we double the inputs the output will be more than double.

Constant returns to scale: If the proportionate increase in the output and proportionate increase in the inputs are same. it is said to be constant returns to scale, It means when we double the inputs the output also will be double.
9. Meaning of Cost
It is the expenditure incurred by the producer (or) firm to produce the goods and services. But it is the remunerations (or) income of factors of production pointZ of view.
10. Money
If the remunerations of the factors of production are paid in the form of money it is called money cost. For example rent paid to the land, wages to the labourers etc.
11. Real Cost
The concept of real cost was introduced by Alfred Marshall. Exertions of all kinds of labour that are already indirectly involved in production process. All these efforts and sacrifices together will be called as real cost of production.
12. Economic Cost
Total expenses incurred by a firm (or) producer in producing a commodity are called economic costs. **Explicit costs:** Actual payments made by a firm for purchasing or hiring resources are called explicit costs. These costs are actual money expenses directly incurred for purchasing the resources for example rent to the land, wages to the labourer, expenditure on raw material interest on borrowed money etc. **Implicit costs:** These costs are imputed costs of the factors of productions owned by the producer himself which are generally left out in the calculation of expenses of the firm. For example rent for the use own land, interest on his own capital etc. Normal profits: The minimum amount which is required to keep an entrepreneur in the production process is known as normal profit.

13. Opportunity cost
The opportunity cost of anything is next best alternative cost which is forgone. Individual point of view (or) nation point of view the resources are scarce. At that time to get the one commodity we have to forgo the another commodity. This is called opportunity costs.
14. Cost Function
The cost function explains the functional relationship between cost of production and physical quantity of output. **Fixed costs:** The costs which don't change with change of the output are called fixed costs. It means output may be increase (or) decrease but no change in these costs. When the output is stopped the producer must incurred this cost. Even the output is zero the fixed cost is positive. **Variable costs:** Costs which are changed with change of the output are called variable costs. It means when the output is increased these costs are also increased, when the output is decreased these costs are also decreased. When the output is zero these costs are also zero. **Average fixed cost:** It is the average total fixed cost per unit of output when TFC is divided with no. of units of output AFC can be obtained. The AFC curve slopes downwards from left to right and it is Rectangular hyperbola. **Average variable cost:** It is the average total variable cost per unit of output when the TVC are divided with no. of units of output AVC can be obtained. The AVC curve will be in 'U' shape. **Average cost:** It is the average total cost per unit of the output. When the total cost is divided with no. of units of outputs AC can be obtained. The average total cost curve is in 'U' shape.
15. Economies of large scale production
When the factors of production [inputs] are employed in larger quantities then the output is in larger quantities. It is called large scale production. When the output is carried on larger quantities there are some advantages. These advantages are called economies of the large scale production.

16. Internal Economies

When a firm expands its size of business (or) increases its output, it gets some advantages. They are called internal economies. These internal economies are related to a single firm and not related to all other firms in the industry.

17. Types of the Internal Economies

1. Labour economies
2. Technical economies
3. Managerial economies
4. Marketing economies
5. Financial economies
6. Research and Development
7. Economies Related to Transport and Storage costs
8. Risk bearing economies.

18. Internal diseconomies

1. Management diseconomies
2. Technical diseconomies
3. Risk bearing diseconomies
4. Marketing diseconomies
5. Financial diseconomies

19. External Economics

Firm is a unit, the group of firms is called industry. When industry is expended they are some advantages. These advantages are enjoyed by all the firms in the industry so they are called external economies. These economics are opened for all the firms it means they are not related to a single firm.

20. Types of external economics

1. Economies of localization (or) concentration
2. Economies of disintegration (or) specialization
3. Economies of related to information services
4. Economies of producers' organization.

21. External diseconomies
Diseconomies which accrue to the firms as a result of the expansion in the output of the whole industry are termed external diseconomies. The main external diseconomies are as follows: 1. Increase in the input prices. 2. Pressure on infrastructure facilities. 3. Economics due to exhaustible natural resources. 4. Diseconomies of disintegration.
22. Concepts of Revenue
It is the income obtained by the firm or producer by the sale of goods and services in the market. There are three concepts in revenue. Total Revenue: It is the total amount of income obtained by the firm 'or' producer by the selling of total goods and services in the market. The sum of all marginal revenue is also called total revenue Average Revenue: It is the revenue per unit of output to be sold in the market. When the total revenue divided with no. of units of output AR can be obtained. Marginal Revenue: It is the additional revenue obtained by the firm (or) producer by the selling of additional unit of a thing (or) one more unit of a thing. The change in the total revenue is also called marginal revenue.

OBJECTIVE QUESTIONS

2009 - June [1] (b) Fill in the blanks:

(ii) Total economic costs = Explicit costs + ___________+ Normal profit.

(iii) Internal economics accrue to a firm when it___________.

(1 × 2 = 2 marks)

Answer:

(ii) Implicit cost

(iii) Expands

2009 - Dec [1] (a) Answer the following:

(vi) Economic costs comprise of:
- (a) Explicit costs
- (b) Implicit costs
- (c) Normal profit
- (d) All of the above **(1 mark)**

(d) Define the following terms in not more than two lines:

(v) Marginal Cost. **(1 mark)**

Answer:

(a) (vi) (d) All of the above.

(d) (v) **Marginal Cost:** Marginal cost is the addition made to the total cost by production of an additional unit of output.

2010 - June [1] (a) Answer the following:

(iv) Marginal cost is calculated as:
- (a) $\Delta TC/\Delta$ output
- (b) TC/output
- (c) AC/output
- (d) None of the above **(1 mark)**

(b) Fill in the blank:

(ix) Law of variable proportions applies in the ________. **(1 mark)**

(c) State which of the following statements are true and which are false:

(vi) The law of variable proportions operates in the short run.

(vii) Average cost is equal to AFC + AVC.

(viii) A producer may keep on employing workers so long as marginal cost is not more than marginal revenue.

(ix) Land includes not only the surface of the earth but also includes every thing beneath and above it. **(1× 2 = 2 marks)**

Answer:

(a) (iv) (a) "TC"/output

(b) (ix) Short-run

(c) (vi) True

(vii) True

(viii) True

(ix) True

2010 - Dec [1] (a) Answer the following:

(vii) 'The law of diminishing return is applied to all fields of production'. This statement was given by:

(a) Walras
(b) A.C. Pigou
(c) Alfred Marshall
(d) David Recardo **(1 mark)**

Answer:

(c) Alfred Marshall

2011 - June [1] (a) Answer the following:

(vi) Total revenue is equal to:

(a) Price x Quantity sold
(b) $\frac{\Delta TR}{\Delta Q}$
(c) $\frac{TR}{Q}$
(d) All of the above **(1 mark)**

(b) Fill in the blank:

(vii) Labour is a ________ factor. **(1 mark)**

(c) State whether the following statement is True or False:

(iii) Average Fixed cost can never be zero. **(1 mark)**

Answer:

(a) (vi) (a) Price x Quantity sold;
(b) (vii) Perishable
(c) (iii) True

2011 - Dec [1] (a) Answer the following:

(iv) Average variable cost is:

(a) L shaped
(b) U shaped
(c) Dish shaped **(1 mark)**
(d) Horizontal straight line

(vii) Labour is a:

(a) Vital factor
(b) Non-essential factor
(c) Permanent factor
(d) Perishable factor **(1 mark)**

(ix) Marginal Revenue is calculated as:

(a) $\frac{\Delta TR}{\Delta Q}$

(b) $\frac{\Delta TC}{\Delta Q}$

(c) $\frac{\Delta TC}{\Delta AC}$

(d) $\frac{\Delta TC}{\Delta S}$ **(1 mark)**

Answer:

(iv) (b)

(vii) (d)

(ix) (a)

2012 - June [1] (c) State which of the following statements are 'True' and which are 'False':

(viii) Under the law of variable proportions one factor is variable and others are fixed.

(ix) Only physical capital is essential for production. **(1 × 2 = 2 marks)**

Answer:

(viii) True

(ix) False

QUESTION AND ANSWER OF JUNE 2013

1. Which of the following will have a relatively flat supply curve?
   (a) Land
   (b) Labour
   (c) Capital
   (d) Raw materials **(1 mark)**

   Answer: Either of the four options are correct.
2. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?
   (a) ₹ 60
   (b) ₹ 30

(c) ₹ 40
(d) ₹ 20 **(1 mark)**
Answer: (b)

3. Economists are concerned with:
(a) explicit costs only
(b) implicit costs only
(c) both (a) and (b)
(d) accounting costs only **(1 mark)**
Answer: (c)

QUESTION AND ANSWER OF SEPTEMBER 2014

1. Marginal Revenue Product (MRP) Equals:
(a) The Product's price times marginal product
(b) The Product's price times marginal cost
(c) Marginal Revenue times the product's price
(d) Marginal Revenue times the marginal product **(1 mark)**
Answer: (d)

QUESTION AND ANSWER OF DECEMBER 2014

1. Labour Costs Consists of:
(a) All people officially employed or unemployed
(b) All people over the age of 18 but less than 58 years of age
(c) All youth having passed Matriculate Examination
(d) All the three. **(1 mark)**
Answer: (a)

2. If marginal cost lies below average total cost, then:
(a) average fixed cost must be rising
(b) average total cost must be rising
(c) average total cost must be falling
(d) marginal cost must be falling
(e) marginal cost must be rising. **(1 mark)**
Answer: (c)

QUESTIONS AND ANSWERS OF MARCH 2015

1. Which of these costs will increase or decrease with increase in production?
   (a) Marginal costs
   (b) Financial costs
   (c) Fixed costs
   (d) All the three **(1 mark)**
   Answer: (a)
2. Which of the following statement is true about average cost function?
   (a) ATC = AFC-AVC
   (b) AVC = AFC + ATC
   (c) AFC = ATC+AVC
   (d) ATC = AFC + AVC **(1 mark)**
   Answer: (d)
3. The demand for a product is 25 units when the price is ₹10, however the demand rises to 26 when the price is reduced to ₹9.9 per unit. The marginal revenue from production and sale of additional unit from 25 to 26 is:
   (a) ₹ 7.4
   (b) ₹ (16)
   (c) ₹ 10
   (d) ₹ 257.6 **(1 mark)**
   Answer: (a)

QUESTION AND ANSWER OF JUNE 2015

1. Total output is maximum when:
   (a) MP = 0
   (b) MP is increasing
   (c) MP is decreasing
   (d) MP is constant. **(1 mark)**
   Answer: (a)

2. Which of the following statement is true about average cost function?
   (a) ATC = AFC – AVC
   (b) AVC = AFC + ATC
   (c) AFC = ATC + AVC
   (d) ATC = AFC + AVC. **(1 mark)**

   Answer: (d)
3. Which of these curve never touch X-axis?
   (a) AVC
   (b) AFC
   (c) TC
   (d) MC. **(1 mark)**

   Answer: (b)

QUESTION AND ANSWER OF SEPTEMBER 2015

1. Quasi rent is:
   (a) Greater than firm's total profit
   (b) Equal to firm's total profit
   (c) Less than firm's total profit
   (d) It is not related to firm's total profit. **(1 mark)**

   Answer: (b)
2. Which of the following statement is true about average cost function:
   (a) ATC = AFC – ATC
   (b) AVC = AFC + ATC
   (c) ATC = AFC + AVC
   (d) AFC = ATC + AVC **(1 mark)**

   Answer: (a)
3. The slope of total variable costs curve equals.
   (a) AVC
   (b) MC
   (c) AC
   (d) MPP **(1 mark)**

   Answer: (b)

4. In economics, in the long run all the cost ______.
   (a) Are Fixed
   (b) Are Variable
   (c) Except labour are variable
   (d) Are non controllable **(1 mark)**

   Answer: (b)

QUESTIONS AND ANSWERS OF DECEMBER 2015

1. TVC curve begins to _______ with the onset of diminishing returns:
   (a) Rise at on increasing rate
   (b) Rise at on decreasing rate
   (c) Fall at on increasing rate
   (d) Stabilize **(1 mark)**

   Answer: (a)
2. Marginal Cost Curve is:
   (a) Positively sloped (b) Negatively sloped
   (c) Parallel to X axis (d) Parallel to Y axis
   (1 mark)

   Answer: (a)
3. Which statement is a true statement?
   (a) C = f (y) (b) C = f (x)
   (c) C = f (d) (d) C = f (R) **(1 mark)**

   Answer: (a)

QUESTIONS AND ANSWERS OF MARCH 2016

1. A driver wishes to buy gasoline and have his car washed. He finds that the market price of gasoline is ₹ 1.08 and that the wash costs ₹ 1.00 when he buys 19 gallons but that if he buys 20 gallons, the car wash is free. The marginal cost of the twentieth gallon is:
   (a) ₹ 1.00 (b) Zero
   (c) 8 paisa (d) ₹ 1.08 **(1 mark)**

   Answer: (c)

2. The factors which cause economies and diseconomies of scale help explain:
   (a) why the firm's long-run average total cost curve is U shaped
   (b) the profit maximizing level of production
   (c) the distinction between fixed and variable costs
   (d) why the firm's short-run marginal cost curve cuts the short-run average variable cost curve at its minimum point. **(1 mark)**

   Answer: (a)

QUESTION AND ANSWER OF JUNE 2016

1. When a firm enters the law of diminishing returns to scale:
   (a) TVC Curve begins to fall at a decreasing rate
   (b) TVC Curve begins to fall at an increasing rate
   (c) TVC Curve begins to increase at an increasing rate
   (d) TVC Curve begins to increase at a decreasing rate. **(1 mark)**

   Answer: (a)
2. Which of the following statement is true about average cost function ________?
   (a) ATC = AFC – AVC
   (b) AVC = AFC + ATC
   (c) AFC = ATC + AVC
   (d) ATC = AFC + AVC **(1 mark)**

   Answer: (d)
3. Which of these is not a factor of cost functions of a product ________.
   (a) Market price of product
   (b) Size of the plants
   (c) Output level
   (d) Prices of inputs **(1 mark)**

   Answer: (a)
4. Marginal cost curve is ______.
   (a) Positively sloped (b) Negatively sloped
   (c) Parallel + to X axis (d) Parallel + Y axis **(1 mark)**

   Answer: (a)

QUESTION AND ANSWER OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:
   (iv) The Law of variable proportion has ______ stages.
   (a) 2 (b) 3
   (c) 4 (d) 5 **(1 mark)**
   (v) The average ______ and output will have inverse functional relationship.
   (a) fixed cost
   (b) variable cost
   (c) total cost
   (d) marginal cost **(1 mark)**

Answer:

(iv) (b) 3

(v) (a) fixed cost

2. Fill in the blank:
   (ii) ______ cost is also known as overhead cost. **(1 mark)**

Answer:

Indirect

4. State whether the following statement is True or False:
   (ii) Total cost is the aggregate of expenditures incurred by a firm producing a given level of output. **(1 mark)**

Answer:

True

5. Give the answer of the following:
   (ii) Marginal cost. **(1 mark)**

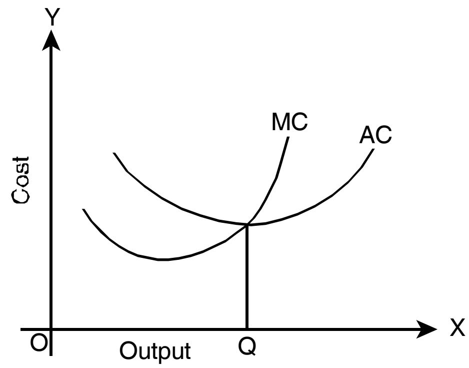
Answer:

Marginal Cost: It is the additional cost to produce the additional unit of a thing (or) one more unit of a thing. The change in the total cost is also called marginal cost.

MC = $\triangle TC / \triangle Q$ (or) $TC_n - TC_{n-1}$ units

Marginal cost curve is also in 'U' shape

The difference between MC and AC can be explained by the following diagram:



In the above diagram in the 1st stage both MC and AC go on diminishing. The MC is less than AC, so in the 1st stage MC curve is below and AC curve is above. In the second stage when MC and AC go on increasing. The MC is more than the AC. So in this stage the MC curve is above and AC curve is below. Changes in the MC are more than changes in AC. MC curve cuts the AC curve when the AC is minimum (abnormal profits).

QUESTION AND ANSWER OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives.

(vi) Law of variables proportions was developed by ________.

(a) Alfred Marshall
(b) Adam Smith
(c) Robbins
(d) Jacob **(1 mark)**

(vii) The average ____ and output have inverse functional relationship.

(a) fixed cost (b) variable cost
(c) marginal cost (d) total cost **(1 mark)**

(viii) Economies of scales are divided into_____ types.

(a) 2
(b) 3
(c) 4
(d) 5 **(1 mark)**

(c) State whether the following statement is True or False:

(i) Production function expresses the relationship between the physical inputs and physical output of a firm for a given state of technology. **(1 mark)**

Answer:

(a) (vi) (a) Alfred Marshall

(vii) (a) fixed cost

(viii) (a) 2

(c) (i) True

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.

(vii) ______ is a gift of nature.

(a) Land
(b) Labour
(c) Capital
(d) Organisation **(1 mark)**

(viii) There are ______ stages of the Law of Variable Proportions.

(a) 2
(b) 3
(c) 4
(d) 5 **(1 mark)**

(ix) Which factor of production is considered as a produced means of production?

(a) Land
(b) Labour
(c) Capital
(d) Organisation **(1 mark)**

(x) ______ means transformation of physical inputs into output.

(a) Marketing
(b) Production
(c) Finance
(d) Money **(1 mark)**

(xi) ______ Cost is also known as Alternative Cost.
(a) Opportunity (b) Actual
(c) Real (d) Money **(1 mark)**

(xii) The additional cost incurred to produce an additional unit of output is ______.
(a) Marginal Cost
(b) Variable Cost
(c) Fixed Cost
(d) Opportunity Cost **(1 mark)**

(c) State whether the following statement is True or False:
(iii) When the output is zero, Variable Cost is also zero. **(1 mark)**

Answer:

(vii) (a) Land
(viii) (b) 3
(ix) (b) Labour
(x) (b) Production
(xi) (a) Opportunity
(xii) (a) Marginal Cost

(c) (iii) True

QUESTIONS AND ANSWERS OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:
(v) Production creates ________ utility.
(a) place
(b) time
(c) form
(d) possession **(1 mark)**

(vi) A Production Function refers to ___________.
(a) scale of production
(b) relationship between resources
(c) relationship between inputs and output
(d) relationship between costs and output **(1 mark)**

(vii) ______ cost remains constant even if production is stopped.
(a) Fixed
(b) Variable
(c) Semi-variable
(d) Marginal **(1 mark)**

(c) State whether the following statement is True or False:
(iii) When the output is zero, the fixed cost is also zero. **(1 mark)**

Answer:

(v) (c) form
(vi) (c) relationship between inputs and output.
(vii) (a) Fixed

(c) (iii) False

QUESTIONS AND ANSWERS OF DECEMBER 2018

1. (a) Choose the correct answer from the given four alternatives.
(v) Factors of production may be of ________ types.
(a) 4
(b) 3
(c) 2
(d) 5 **(1 mark)**

(vi) The Law of Variable Proportions relates to _________ only.
(a) long-run
(b) short-run
(c) very long-run
(d) very short-run **(1 mark)**

(vii) The Total ________ Curve will be a horizontal line.
(a) Variable Cost
(b) Fixed Cost
(c) Marginal Cost
(d) Cost **(1 mark)**

(c) State whether the following statements are True or False:
(iii) When the output is zero, variable cost is also zero. **(1 mark)**

Answer:

(a) (v) (a) 4

(vi) (b) short-run

(vii) (b) Fixed Cost

(c) (iii) True

QUESTIONS AND ANSWERS OF JUNE 2019

1. (a) Choose the correct answer from amongst the four alternatives given (You may write only the Roman numeral and Alphabet chosen for your answer):

(v) Let a firm employs 10 labourers to produce 150 units of output. If 11 labourers are employed to produce 166 units of output, then the marginal product is

(a) 11
(b) 16
(c) 150
(d) 166 **(1 mark)**

(vi) A rational producer produces in that region where:

(a) marginal physical product of the fixed input becomes negative
(b) marginal physical product of the variable input becomes negative
(c) marginal physical product of the fixed input becomes increasing
(d) marginal physical product of the variable input becomes declining. **(1 mark)**

(vii) If a firm doubles all inputs, and output doubles as well, the firm is subject to:

(a) constant returns to scale
(b) increasing returns to scale
(c) decreasing returns to scale
(d) economies of scale. **(1 mark)**

(viii) As output increases, AFC of a firm:
(a) increases
(b) remains constant
(c) continuously declines
(d) initially increases, afterwards declines. **(1 mark)**

(x) Opportunity cost is measured in terms of the
(a) optional cost that has been avoided
(b) negative cost that has been sacrificed
(c) accounting cost that has been paid
(d) next best alternative that has been foregone. **(1 mark)**

(xi) Due to the operation of 'Laws of return to scale' LAC curve is:
(a) Rectangular hyperbola
(b) U-shaped
(c) Parallel to the horizontal axis
(d) Parallel to the vertical axis. **(1 mark)**

(c) State whether the following statements are *True* or *False*.
(i) The Law of Variable Proportions is relevant to Short Run. **(1 mark)**

Answer:

(a) (v) (b) 16
(vi) (d) marginal physical product of the variable input becomes declining.
(vii) (a) constant returns to scale.
(viii) (c) continuously declines.
(x) (d) next best alternative that has been foregone.
(xi) (b) U-shaped.

(c) True.

QUESTIONS AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given *four* alternatives.
(vi) Which one of the following is not a factor of production?
(a) Land (b) Labour
(c) Capital (d) Bank Loan **(1 mark)**

(vii) The 'Law of Variable Proportions' was first developed by:
(a) Prof. Mill (b) Prof. Marshall
(c) Prof. Ricardo (d) Prof. Smith. **(1 mark)**

(viii) Which one of the following cost can never become zero?.
(a) Average Cost (b) Fixed Cost
(c) Marginal Cost (d) Variable Cost **(1 mark)**

(ix) All the factors of production become variable in the:
(a) short-run
(b) long-run
(c) very short-run
(d) very long-run. **(1 mark)**

(x) Marginal Cost is defined as
(a) the change in total cost due to one unit change in output
(b) the change in total cost due to one unit change in input
(c) the ratio of total cost to total output
(d) the ratio of total cost to total input. **(1 mark)**

(xi) If a firm produces 200 units of commodity X by employing 10 workers and 240 units of the same commodity by employing 12 workers, then the Average Product of the worker is:
(a) 20 (b) 40
(c) 200 (d) 240. **(1 mark)**

(c) State whether the following statement are *True* or *False:*
(ii) The Law of Return to Scale is relevant in the long-run.
(1 mark)

Answer:

(a)(vi) (d) Bank Loan
(vii) (b) Prof. Marshall
(viii) (b) Fixed Cost
(ix) (b) long-run
(x) (a) the change in total cost due to one unit change in output
(xi) (a) 20

(c) True.

QUESTION AND ANSWER OF DECEMBER 2022

1. The Law of Variable proportions is applicable in ______ only.
   (a) Very long run
   (b) Very short run
   (c) Short run
   (d) Long run **(1 mark)**
   Answer:
   (c) Short run
2. A firm has a variable cost of ₹ 1000 at 5 units of output and if fixed costs are ₹ 400 then what will be the total cost?
   (a) ₹ 5200
   (b) ₹ 5400
   (c) ₹ 5100
   (d) ₹ 5000 **(1 mark)**
   Answer:
   (b) ₹ 5400
3. Choose the correct answer from the given four alternatives.
   The Total ________ Curve will be a horizontal line.
   (a) Variable Cost
   (b) Fixed Cost
   (c) Marginal Cost
   (d) Cost **(1 mark)**
   Answer:
   (b) Fixed Cost
4. Choose the correct answer from amongst the four alternatives given (You may write only the Roman numeral and Alphabet chosen for your answer):
   As output increases, AFC of a firm:
   (a) increases
   (b) remains constant
   (c) continuously declines
   (d) initially increases, afterwards declines.
   Answer:
   (c) continuously declines **(1 mark)**

SHORT NOTES

2009 - June [3] Write short note on the following:

(b) Cost-output relationship during short period. **(6 marks)**

Answer:

Cost-output relationship during short period:

There are two types of costs - fixed cost and variable cost. Fixed costs do not vary with output. They are incurred on the fixed factors of production. Rent, interest, insurance premium, salaries of permanent employees etc. are the examples of such costs. Variable costs vary directly with the output. They arise on the variable factors of production. Raw materials, power, fuel, wages, etc., are variable costs.

Total Cost = Total Fixed Cost + Total variable Cost

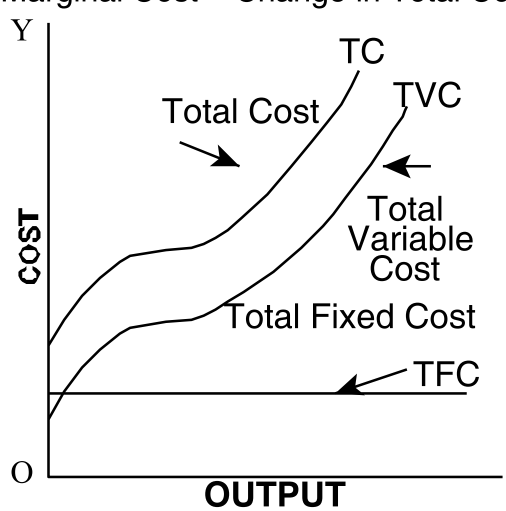
Average cost = Total Cost / Output

= Average Fixed Cost + Average Variable Cost

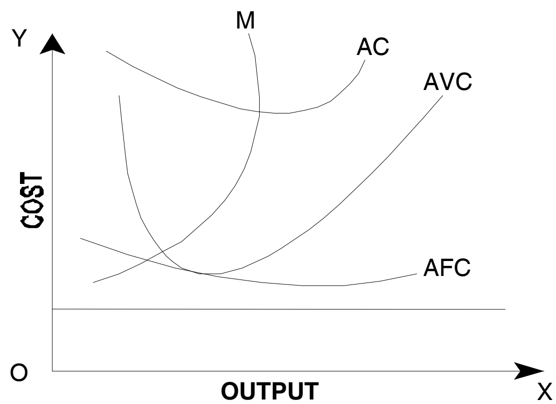
Average Cost = Total Fixed Cost / Output

Average variable cost = Total variable cost / Output

Marginal Cost = Change in Total Cost / Change in Output



These costs can be shown by the following graphs:



2012 - June [2] Write short note on the following:
(b) Implicit cost **(4 marks)**

Answer:

Implicit Cost: Implicit cost refers to the imputed (estimated) value of inputs owned by the firm and used by it in its own production units. Besides purchasing or hiring resources from others, a producer may also use his own factor services in the process of production. The owner or the entrepreneur may own certain factor services which he may use in his own business. For example, the entrepreneur may contribute his own land, his own capital and may provide entrepreneurial and managerial services. As such, he is entitled to receive rent on his land, interest on the capital contributed by him and payment for other such services. Thus, in case of such factors of production that the firm neither purchases nor hires, the cost must also be calculated. Such costs need to be imputed or estimated from what they could earn in their best alternative use. Such cost is known as implicit cost.

DISTINGUISH BETWEEN

2018 - June [4] Differentiate fixed costs from variable costs. **(5 marks)**

Answer:

Fixed costs	Variable costs
1. Fixed costs do not vary with quantity of output.	1. Variable costs vary with the quantity of output.
2. They are related with the fixed factors.	2. They are related with the variable factors.
3. They do not become zero. They remain same even when production is topped.	3. They can become zero when production is stopped.
4. A firm can continue production costs are not recovered even fixed costs.	4. Production should at least recover the variable cost.

DESCRIPTIVE QUESTIONS

2016 - Dec [7] Answer the following:

(ii) Explain the relationship between Average cost and Marginal cost.

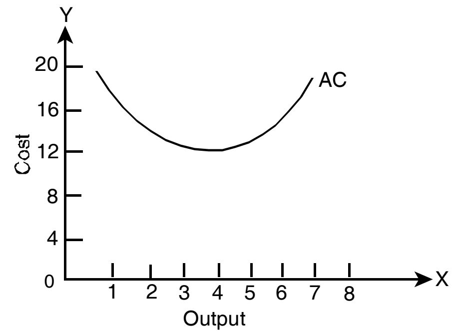
(5 marks)

Answer:

Average Cost: It is the average total cost per unit of the output. When the total cost is divided with no. of units of outputs AC can be obtained.

AC = TC/Q (Or) AFC + AVC

- **The average total cost curve is in 'U' shape**

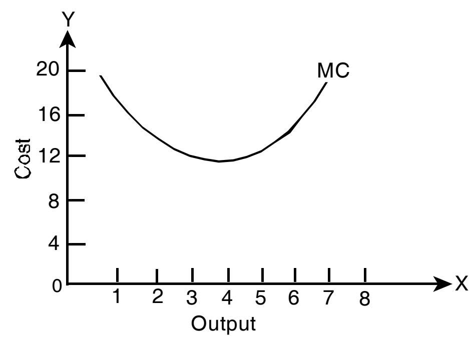


Marginal Cost:

It is the additional cost to produce the additional unit of a thing (or) one more unit of a thing. The change in the total cost is also called marginal cost.

MC = $\Delta TC/\Delta Q$ (or) $TC_n - TC_{n-1}$ units

Marginal cost curve is also in 'U' shape:



2017 - June [3] Analyse the causes for increasing returns. **(5 marks)**

Answer:

Cause for increasing returns:

1. Specialization (or) Division of labour
2. Indivisible factors
3. Dimensional economics
4. Volume discounts etc.

2017 - June [4] State the types of internal economics. **(5 marks)**

Answer:

Types of the internal economies:

1. **Labour economies:** Division of labour and specialization are possible more in large-scale operations. Different types of workers can specialize and do the job for which they are more suited. As a result of this quality and speed of work both improve.
2. **Technical economies:** A large firm will be able to install large capacity of machines in place of small sized machines. It also adopts latest technologies. These will give mechanical advantage over small firms and costs will be minimum.
3. **Managerial economies:** Highly talented managers of specialized skills will be employed by large firms. It helps to makes better decisions in the production.
4. **Marketing economies:** Large scale purchase of raw materials and sale of finished goods gives the advantage of transport concessions to the firm. Advertisement costs will be less due to large output sales.
5. **Financial economies:** Large firms will be able to borrow credit easily. These firms will be able to offer securities and their goodwill in the market enables them to borrow at reasonable rate of interest. They also raise capital by attracting investors.
6. **Research and Development:** Improvements in technology efficient use of resources improvement in quality of products depend on research. Only large firms can afford to bear the expenditure on research.
7. **Economies Related to Transport and Storage costs:** Large firms are able to enjoy freight concession from railways and road transport. Because a large firm uses its own transport means and large vehicles, the per unit transport costs would fall. Similar, a large firm can also have its own storage godowns and can save storage costs.
8. **Risk bearing economies:** Generally large firms diversify their production into different goods and services. Therefore, even if there is a loss in one item of good it can be covered by profit in other goods.

2017 - Dec [4] Explain the causes for increasing Returns to Scale. **(5 marks)**

Answer:

Increasing returns to scale:

If the proportionate increase in the output is more than proportionate increase in the inputs it is said to be increasing returns to scale. It means when we double the inputs the output will be more than double.

Cause for increasing returns:

1. Specialization (or) Division of labour
2. Indivisible factors
3. Dimensional economics
4. Volume discounts etc.,

2018 - June [3] Explain the causes for Diminishing Returns to Scale. **(5 marks)**

Answer:

Diminishing returns to scale:

If the proportionate increase in the output is less than proportionate increase in the inputs it is said to be diminishing returns. It means when we double the inputs the output will be less than double.

Cause for diminishing returns:

1. Management problems
2. Limit to human factor
3. Lack of corporation and co-ordination
4. Rise of the prices of inputs.

2018 - Dec [4] Enumerate the features of fixed costs. **(5 marks)**

Answer:

Fixed Costs: The costs which don't change with change of the output are called fixed costs. It means output may be increase (or) decrease but no change in these costs. Irrespective of the Level of output Quantity the producer must incur this cost. Even the output is zero the fixed cost is positive. The fixed cost curve (TFC) will be parallel to ox-axis.

Feature of Fixed Costs:

1. Fixed costs do not vary with quantity of output.
2. They are related with the fixed factors.
3. They do not become zero. They remain same even when production is topped.
4. A firm can continue production costs are not recovered even fixed costs.

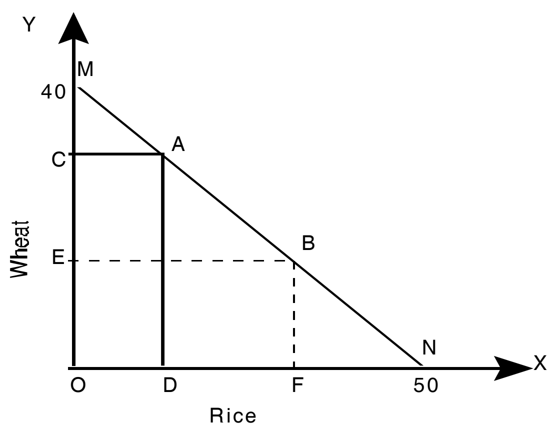
2019 - June [4] "The concept of opportunity cost has been widely used by modern economists in various fields" — Briefly explain different applications of opportunity cost. **(5 marks)**

Answer:

Opportunity cost:

The opportunity cost of anything is next best alternative cost which is forgone. Individual point of view (or) nation point of view the resources are scarce. At that time to get the one commodity we have to forgo the another commodity. This is called opportunity costs.

Suppose a price of land can be used for growing wheat or rice. If the land is used for growing rice, it is not available for growing wheat. Therefore, the opportunity cost for rice is the wheat crop foregone. This is illustrated with the help of the following diagram.



Suppose the farmer, using a price of land can b produce either 50 quintals (ON) of rice of 40 quintals (OM) of wheat. If the farmer produced 50 quintals of rice (ON), he cannot produce wheat. Therefore, the opportunity cost of 50 quintals (ON) of rice is 40 quintals (OM) of wheat. The farmer can also produce any combination of the two crops on the production possibility curve MN. Let us assume that the farmer is operating at point A on the production possibility curve where he produces OD amount of rice and OC amount of wheat. Now, he decides to operate at point B on the production possibility curve. Here, he has to reduce the production of wheat from OC to OE in order to increase the production of rice form OD to OF. It means the opportunity cost of DF amount of rice is the CE amount of wheat.

Applications of Opportunity cost:

The concept of opportunity cost has been widely used by modern economists in various fields.

(1) Determination of factor prices:
The factors of production need to be paid a price that is at least equal to what they command for alternative uses. If the factor price is less than factor's opportunity cost, the factor will quit and get employed in the better-paying alternative.

(2) Determination of economic rent:
The concept of opportunity cost is widely used by modern economists in the determination of economic rent. According to them economic rent is equal to the factor's actual earning minus its opportunity cost (or transfer earnings).

(3) Decisions regarding consumption pattern:
The concept of opportunity cost suggests that with given money income, if a consumer chooses to have more of one thing, he has to have more of one thing; he has to have less of the other. Hence with the help of opportunity cost he decides the consumption pattern, that is, which goods should be consumed and in what quantities.

(4) Decisions regarding production plan:
With given resources and given technology if a producer decides to produce greater amount of one commodity, he has to sacrifice some amount of another commodity.

(5) Decisions regarding national priorities:
If a country decides that more resources must be devoted to arms production then less will be available to produce civilian goods. In this situation a choice will have to be made between arms production and civilian goods. The concept of opportunity cost helps in making such choices.

2019 – Dec [3] Define Variable Costs. Distinguish between Fixed Costs and Variable Costs. **(1+4=5 marks)**

Answer:

The Variable cost is the cost proportionally related to the level of output, i.e. it increases with the increase in the production and contracts with the decrease in the total output. Simply, the cost which varies with the change in the total output is called the variable cost.

Let us examine the main points of distinction in fixed costs and variable costs:

1. **Fixed Costs can Never be Zero:**
   In the short-run when production is temporarily stopped, there will be no variable costs. Thus, the variable costs will be zero. But, the fixed costs can never be zero whether a firm produces or not. The fixed costs are always positive.
2. **Price Determination:**
   In short, due to fall in demand, the producer is forced to sell the commodity at low price. In such a situation, the producer will sell the product so long as it covers the variable costs. He will not bother about the fixed costs because he has to bear these costs even at zero level of output.
3. **Determinant Factors:**
   The fixed costs include interest on fixed capital, license fees, wages to permanent staff etc. These factors have no bearing on volume of production. On the other hand, variable costs include electricity and fuel charges, wages to casual employees, interest on working capital etc. which are closely related to the volume of production. Thus, it is clear from the above observation that variable costs are the determinant factors.

4. **Relation with Output:**
   Fixed costs have no relation with output because these costs remain constant whatever be the level of output. On the contrary, variable costs are positively related to output. If output is zero, variable costs will also be zero and *vice-versa*.
5. **Nature of Average Fixed Costs and Average Variable Costs:**
   Average fixed costs fall with an increase in output whereas average variable costs fall less with the increase in output. The average fixed cost falls throughout and forms the shape of rectangular hyperbola. The average variable cost initially falls as the output increases and later on, it starts rising upward, hence, assumes the shape of "U".

2019 - Dec [4] Define Capital. Explain the different functions of Capital (any four). **(1+4=5 marks)**

Answer:

Capital is defined as "All those man-made goods which are used in further production of wealth." Thus, capital is a man-made resource of production. Machinery, tools and equipment of all kinds, buildings, railways and all means of transport and communication, raw materials, etc., are included in capital. Capital has a number of related meanings in economics, capital generally refers to financial wealth especially that used to start a business.

1. **Provision for Subsistence:**
   Capital provides food, cloth and shelter to the workers engaged in production, because in actual practice, production is a long drawn out affair and has to pass through many stages before it reaches the market and brings income to manufacturer. But the workers have to subsist during this period, for which the wages are paid from the capital money (capital fund). Subsequently, when money from consumers reaches the producer, it is again accumulated as capital money.
2. **Provision for tools and machinery:**
   Capital is used to obtain tools and implements for use by the workers, when they are needed. It is clear that these things are essential for production, without their aid, large-scale production is impossible.

3. **Provision for Raw Materials:**
A part of the capital is used for procuring raw materials for production purposes. Every concern must be regarding a sufficient supply of raw materials of good quality and in adequate quantity.
4. **Provision for Marketing and Sales Promotion:**
The producer of goods has to arrange for the sale of the goods produced. For this, the goods produced are to be transported to the market. Simultaneously, the publicity and advertisements about the products has to be made. All these activities are met out with the help of the capital fund (capital money).
5. **Economic Development:**
The most important function of the capital is to promote the economic growth of the country. For a satisfactory development of the country, adequate funds are very essential. The progress of many undeveloped and under-developed countries gets retarded, because of the paucity, of funds.

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

DISTINGUISH BETWEEN

Q1. Distinguish Between:
Fixed factors and Variable factors of production.
Answer:

Fixed factors of production	Variable factors of production
1. The factor inputs which cannot be varied in the short period, as and when required are called fixed factors of production.	1. The factor inputs which can easily be varied, in the short period as and when required, are called variable factors.

2. Examples: Plant, Machinery, heavy equipments etc.	2. Examples: labour, raw material, power, fuel etc.
3. Fixed factors of production cannot be changed in short run.	3. Variable factors can be changed in short run.
4. In short run all factors of production are fixed and only one of the factors of production is variable.	4. In long run all the factors of production are variable.

DESCRIPTIVE QUESTIONS

Q1. How is capital different from land and labour as a factor of production?
Answer:
Capital can be distinguished from land and labor as following:
1. Capital is a produced means of production whereas land and labor are no produced means of production.
2. Land and labor are not produced by the original factors of production whereas capital has been produced by man by working with nature.
3. The labor and his laborer cannot be separated from each other but capital and the owner of capital can be separated from each other.
4. Land is a free gift of nature but capital is not a free gift of nature rather it is produced by man.
5. In short run the supply of capital is elastic whereas in short run the supply of labor and land is inelastic.