

EDUMATE

XII

ECONOMICS



Government of Kerala

DEPARTMENT OF EDUCATION

State Council of Educational Research and Training (SCERT), Kerala

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Foreword

As part of the comprehensive revision of curriculum from pre-primary to the Higher Secondary sector, new textbooks have been developed for Std. XI and Std XII during the years 2014 -15 and 2015-16 respectively. Evaluation activities should go hand in hand with the new curriculum. Real learning takes place by constructing knowledge through various learning processes.

In a constructive classroom, learners have opportunities to engage in a number of activities in which a range of attributes can be developed. The same activities provide the learner with scope for assessing development of these attributes. Hence there has been a shift from assessing only the products of learning to the process of learning. Anyhow it is to be noted that term end assessment is a part of continuous and comprehensive evaluation.

The main objective of this book is to help the learners to face the public examination with confidence. In this context, questions from all chapters of each subject of Std. XII have been developed along with the scoring indicators. Hope that this question bank titled “Edumate” will be helpful to learners as well as teachers.

Your comments and suggestions are welcome and will assist us in improving the content of this book.

Wish you all the best.

Dr. J. Prasad
Director

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INTRODUCTORY MICRO ECONOMICS

Learning Outcomes

- Defines PPC and draws and interprets PPC with the help of an imaginary schedule.

Q. 1 Suppose a country uses its entire resources to provide educational and health facilities required for the people. Given the resources, the country can provide various combinations of number of schools and hospitals as shown in the table below.

Combination	No. of Hospitals	No. of schools
A	0	70
B	3	65
C	5	55
D	7	39
E	9	0

- Define PPC and represent the above schedule on a diagram.
- Suppose the country has already attained near total literacy. If so, will the country prefer points on upper portion of PPC or points on the lower portion of PPC? Substantiate your answer.
- Which mechanism will you advice to utilise the resources to provide more heath facilities- planning or market?
Give reasons.

Scoring Indicators

- Draws a suitable diagram.
- Point corresponding to combination D. It represents priority to health in resource utilisation.
- Can approach the issue from different perspectives. There should be points justifying either planning or market.

Score : 5

Time : 7 mts

Learning Outcomes

- Analyses the various central problems of an economy.
- Compares and contrasts the features of centrally planned economies and market economies.

Q. 2 Different economic systems solve basic economic problems using different mechanisms. Complete the following table by writing the basic economic

problems as well as the mechanisms used. Also give one example for each economic system.

Basic economic problems	Capitalism	Socialism	Mixed economy
1.			
2.			
3.			
Example for each economic system.			

 **Scoring Indicators**

Column 1. What, how & for whom to produce.
 Column 2, 3 & 4. Market mechanism, Planning mechanism, Both
 Example - Japan, China, India

Score : 4
 Time : 3 mts

Learning Outcomes

- Classifies and gives examples for micro and macro economics.

Q.3 A few statements are given below. Classify them under two branches of economics.

- 1) RBI formulated its new monetary policy.
- 2) National Income recorded highest growth during last year.
- 3) Shyam purchased a new mobile phone.
- 4) Inflation adversely affect fixed income people.
- 5) Total Fixed Cost of a firm remain constant even if output increases.

 **Scoring Indicators**

Classifies the given statements under micro economics & macro economics. Score : 3
 Time : 5 mts

Learning Outcomes

- Defines PPC.
- Compares and contrasts the features of centrally planned economies and market economies.
- Distinguishes between positive and normative economics.

Q.4 Read the following statements and write the terms used in economics.

1. The curve representing various combinations of any two goods the economy can produce with the available resources and technology.
2. An investigation in economics concerned with what it is rather than what ought to be.
3. An economic system in which basic problems are solved through planning.

 **Scoring Indicators**

1. PPC

2. Positive Economics
3. Socialist economy

Score : 1

*Time : 1 mts***Learning Outcomes**

- Draws PPC and interprets the shift in PPC.

Q. 5 As a result of liberalisation policy, the inflow of foreign capital has increased. What is its impact on production possibility frontier?

**Scoring Indicators**

PPC shifts upward as a result of the increase in the availability of capital resource.

Score : 1

*Time : 1 mts***Learning Outcomes**

- Classifies and gives examples for micro and macro economics.
- Distinguishes between positive and normative economics.

Q. 6 "Study of aggregates is equally important to study of individual units." Substantiate the above statement by distinguishing the two branches of Economics. Give two examples for each.

**Scoring Indicators**

1. Micro economics which is the study of individual units is helpful in analysing a micro economy, whereas macro economics is helpful in understanding the working of macro economy.
- 2) Micro economics- any two examples.
Macro economics- any two examples.

Score : 3

*Time : 5 mts***Learning Outcomes**

- Analyses a point on, within and beyond PPC.

Q. 7 The table below shows the production possibility schedule for an economy.

Production Alternatives	Capital Goods per period	Consumer Goods per Period
A	0	40
B	1	36
C	2	28
D	3	16
E	4	0

- a. Draws a suitable diagram.
- b. If the economy is producing at alternative B, what is the opportunity cost of producing at alternative A instead?

- c. Is it possible for the economy to produce 30 units of consumer goods per period while producing 1 unit of capital good? What does it imply? Plot that point as F.
- d. Does the combination F represent efficient or inefficient use of resources.? Substantiate.



Scoring Indicators

- a. Draws PPC based on the given schedule.
- b. 1 : 6
- c. Yes, its possible. Under utilisation of resources. The point will be inside the PPC.
- d. Inefficient use because resources are not fully utilised.

Score : 6

Time : 5 mts

THEORY OF CONSUMER BEHAVIOUR

Learning Outcomes

- Defines budget set, and budget line equation.
- Explains the budget line and why the budget line is shifting.
- Distinguishes the different changes in the budget set with the help of a diagram.
- Defines price ceiling and floor price.

Q.1 Read the following case of a consumer and answer the questions that follows. Mr Babu wants to buy rice and sugar with income Rs60 and market prices Rs.10 & Rs.20 respectively.

- Write the budget line equation for the above consumer.
- What are the constraints here?
- At what minimum level of income, can the consumer buy 10 kg of rice or 5 kg of sugar?
- Write the budget equation corresponding to this new level of income.
- Also draw the budget line and show the corresponding change in the budget line when income increases.
- If income do not rise, the Govt has to come forward for the rescue of Mr Babu.
 - Calculate the subsidised prices of the two goods affordable to Mr. Babu to buy 10kg of rice & 5kg of sugar. ii) What these prices are known in Economics?
- Construct the budget line equation corresponding to the subsidised prices of the two goods.



Scoring Indicators

- | | |
|--|------------------------|
| a) $60 = 10X_1 + 20X_2$ | e) Draws the diagram |
| b) Income of the consumer and prices of Goods 1 and 2. | f) i. Rs.6 and Rs12 |
| c) Rs 100/ | ii. Price ceiling |
| d) $100 = 10X_1 + 20X_2$ | g) $60 = 6X_1 + 12X_2$ |

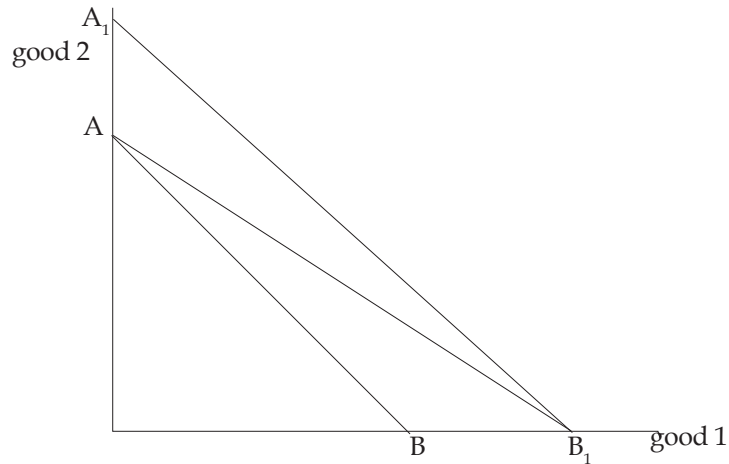
Score : 8

Time : 10 mts

Learning Outcomes

- Distinguishes the different changes in the budget set with the help of a diagram.

Q.6 Observe the three budget lines drawn below.



If AB is the initial budget line, what causes the shift in budget line.

- a. from AB to AB_1 &
- b. from AB to A_1B_1

 **Scoring Indicators**

- a) Fall in price of good 1
- b) A rise in income or fall in prices of both good 1 & good 2.

Score : 2

Time : 2 mts

Learning Outcomes

- Defines indifference curve and constructs indifference curve map.
- Explains the concept of monotonic preference.

Q.3 Various combinations of two goods giving the same level of satisfaction are given below.

Combination	Good 1	Good 2
A	1	12
B	2	8
C	3	5
D	4	3
E	5	2

- a. Find the marginal rate of substitution between the two goods.
- b. Construct an indifference curve for the above schedule.
- c. What shape do you get for the indifference curve and why?
- d. Suppose another combination, namely 1 unit of good 1 and 15 units of good 2 is available to the consumer. Will the consumer prefer this bundle to bundle A in the above table? Why?
- e. What is this preference called in indifference curve analysis?

 **Scoring Indicators**

- a. -, 4, 3, 2, 1
- b. Draws diagram

- c. Convex to origin
- d. Yes, contains more of at least one good.
- e. Monotonic preference

Score : 5

*Time : 5 mts***Learning Outcomes**

- Explains consumers' equilibrium.

Q. 4 Given the level of income and market prices, the rational consumer wants to attain the maximum level of satisfaction. Using the budget line and indifference curve that you have studied, answer the following questions.

- a. Construct a diagram showing the consumer's equilibrium.
- b. What condition is satisfied at this equilibrium point?

**Scoring Indicators**

- a. Draws diagram
- b. Price ratio = Marginal Rate of Substitution

Score : 3

*Time : 3 mts***Learning Outcomes**

- Analyses the factors influencing demand for a product.

Q. 5 One important factor influencing demand is price of the product.

- a. Can you make a list of four other factors that influence the demand for a good.
- b. Also establish the relationship between the factor identified and the demand for the product.

Factor influencing Demand	Relationship between demand and the factor
Price of the product	Inversely related

**Scoring Indicators**

Column 1. Income, price of substitutes, advertisement, tastes & preferences.

Column 2. Positive, Negative, Positive, Positive

Score : 4

*Time : 5 mts***Learning Outcomes**

- Defines law of demand and draw demand curve with the help of an imaginary schedule.
- Analyses shift in demand curve.

Q. 6 As we know people in general 'buy more at lower price and vice versa, other factors remaining constant'.

- a. What is this statement called in economics?

- b. Prepare a schedule showing the inverse relationship between price and demand.
- c. Represent the schedule on a diagram to derive the demand curve.
- d. If it is a straight line, we use the equation $Q_d = a - b P_x$. What are 'a' and 'b' in this equation?



Scoring Indicators

- a. Law of demand
- b. Prepares a schedule
- c. Draws a diagram
- d. Demand independent of price, slope of demand curve

Score : 5

Time : 3 mts

Learning Outcomes

- Analyses shift in demand curve.

Q. 7 A few goods are given below. State whether the demand for the product is elastic or inelastic. Justify your answer.

Rice, salt, Car, life saving drugs, computer, electricity



Scoring Indicators

- Rice -Inelastic -Essential good
- Car - Elastic- Luxury good.
- Salt - Inelastic- Insignificant share in total expenditure.
- Life saving drugs- Inelastic- Not possible to postpone purchase.
- Computer - Elastic demand,Non essential good.
- Electricity-Inelastic-No substitutes

Score : 3

Time : 5 mts

Learning Outcomes

- Analyses the elasticity of demand.

Q. 8 As you know elasticity of demand is influenced by several factors. Observing the nature of good given in the first column, complete the following table. Write whether the demand for the product is elastic or inelastic and also the reason.

Commodity	Degree of elasticity	Reasons
Car		
Soft drinks		
Electricity		
Rice		
Life saving drugs		



Scoring Indicators

Column 2

- Elastic
- Elastic
- Elastic
- Elastic
- Elastic

Column 3

- luxury product
- close substitutes are available
- no substitute
- Essential good
- Essential good

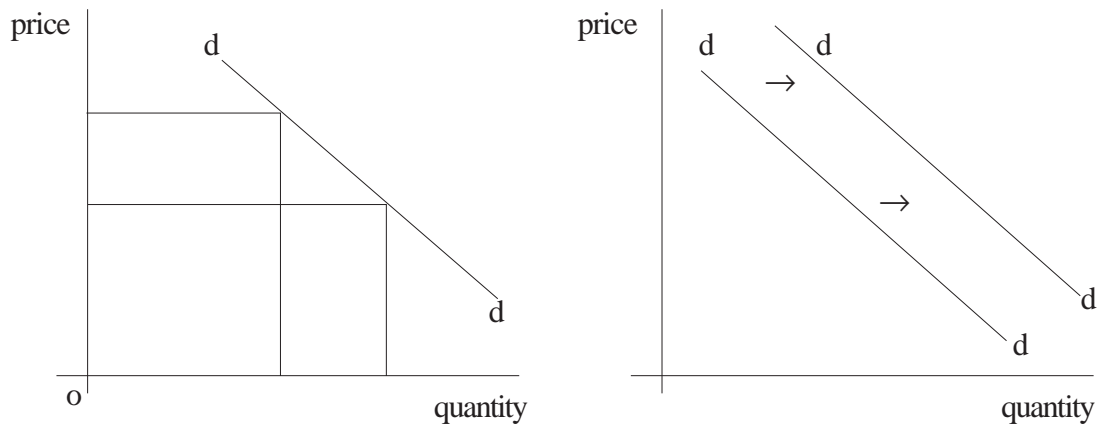
Score : 5

Time : 5 mts

Learning Outcomes

- Analyses shift in demand curve.

Q.9 Two diagrams related to demand are given below. What do they represent?



Scoring Indicators

Figure 1 - Movement along the demand curve due to change in price.

Figure 2 - Shift in demand due to change in non price factor.

Score : 2

Time : 2 mts

Learning Outcomes

- Analyses various degrees of price elasticity of demand.

Q.10 Elasticity of demand varies from product to product. So economists have put forward five degrees of elasticity.

- Which are the two extreme degrees.
- Which one is graphically represented by drawing rectangular hyperbola? Draw the diagram.
- Demand for some goods is represented by drawing steep demand curve? Name the degree of elasticity and give one example.
- Certain goods have flat demand curve. Name the degree of elasticity and give one example.



Scoring Indicators

- Perfectly elastic and perfectly inelastic.
- Unit elastic demand & draws diagram.
- Less elastic demand & gives example.
- More elastic demand & gives example.

Score : 4

Time : 5 mts

Learning Outcomes

- Defines budget set.
- Explains the budget line and why the budget line is downward sloping.
- Explains the slope of the budget line.
- Distinguishes different changes in the budget set with the help of a diagram.
- Defines indifference curve.
- Explains the consumers' equilibrium.

Q.11 Read the case of a consumer given below and answer the questions. Mr John wants to buy rice and sugar with income Rs100 and market prices Rs.10 & Rs.5 respectively.

- i. Write the budget line equation for the above consumer.
- ii. What are the constraints faced by the consumer when he tries to maximise satisfaction?
- iii. Find the slope of the budget line.
- iv. Draw a suitable diagram to represent the above equation.
- v. Draw indifference curve in the same diagram and explain consumer's equilibrium.

Scoring Indicators

- i. $100=10X_1+5X_2$
- ii. income and prices
- iii. $P_1/P_2=10/20=0.5$
- iv. Draws the budget line
- v. Explains consumer equilibrium

Score : 8

Time : 15 mts

Learning Outcomes

- Analyses the elasticity of demand.

Q. 12 Choose the correct answer from the given multiple choices.

- i) Which of the following goods has more elastic demand?
 - a) Rice b) Computer e) Salt
 - c) Electricity d) Life saving drugs
- ii) Identify the nature of demand curve when elasticity of demand is equal to one.
 - a) Perfectly elastic demand b) Rectangular hyperbola
 - c) Parallel to Vertical axis. d) Perfectly inelastic demand
 - d) Parallel to horizontal axis

Scoring Indicators

- i. computer
- ii. rectangular hyperbola.

Score : 2

Time : 2 mts

Learning Outcomes

- Analyses the elasticity of demand.

Q. 13 When the price of a good increases from Rs 5 to Rs 6 , its demand falls from 25 units to 20 units. Calculate price elasticity of demand using the proportionate method. What can you say about price elasticity of demand of the good through expenditure approach?

 **Scoring Indicators**

Calculates elasticity of demand using the equation. $E_p=1$
Expenditure falls and hence relatively elastic.

Score : 3

*Time : 5 mts***Learning Outcomes**

- Analyses shift in demand curve.

Q. 14 If other things remaining same, graphically explain what happens to the demand curve for chicken if there is

- An increase in the price of fish.
- A decrease in family income.
- An increase in the price of chicken.

 **Scoring Indicators**

Draws the diagram and shows

- Rightward shift
- Rightward shift
- Moves up along the demand curve.

Score : 3

*Time : 5 mts***Learning Outcomes**

- Analyses shift in demand curve.

Q.15 A fall in the price of a commodity, holding everything else constant, results in and is referred to as

- An increase in demand
- A decrease in demand
- An increase in quantity demanded
- A decrease in quantity demanded

 **Scoring Indicators**

- An increase in quantity demanded

Score : 1

Time : 1 mts

Learning Outcomes

- Analyses the behaviour of output in the short run.
- Compares the levels of output when input changes.
- Compares the trends and patterns of TP, AP & MP with respect to change in input.

Q.1 Theory of production deals with producer's behaviour, and according to this theory output produced by a firm passes through three stages in the short run.

- Which are the three stages of production?
- Analyse and bring out the salient features of each stage.
- Which stage of production is very important as far as a firm is concerned? Why?
- Give suitable diagram by drawing the Total Product, Average Product & Marginal Product curves.

**Scoring Indicators**

- Increasing, diminishing & negative
- First output increases at increasing rate, then at diminishing rate & finally starts falling.
- Second stage, profit maximisation occurs in this stage.
- Draws the diagram demarcating the three stages. Explains the relationship between TP, AP & MP

Score : 8

Time : 10 mts**Learning Outcomes**

- Identifies the types of returns to scale.

Q.2 The long run behaviour of output is explained by the laws of returns to scale. Based on this theory, complete the following table.

Stage	Percentage change in inputs	Percentage change in outputs	$a + \beta = ?$	Nature of returns to scale
I	10			
II	10			
III	10			

**Scoring Indicators**

Column 3: more than 10, equal to 10, less than 10.

Column 4: greater than 1, equal to 1, less than 1.

Column 5: Increasing returns to scale, Constant returns to scale, Decreasing returns to scale.

Score : 4.5

Time : 3 mts

Learning Outcomes

- Classifies various types of costs.
- Compares/differentiates/distinguishes various cost concepts.

Q.3 In the short run, Total Variable Cost is zero when output is zero. When output rises, Total Cost also rises. Draw a suitable diagram and explain the relationship between Total Fixed Cost, Total Variable Cost & Total Cost.



Scoring Indicators

Draws diagram

Explains relationship between TC, TFC & TVC

Score : 3

Time : 4 mts

Learning Outcomes

- Classifies various types of costs.
- Compares/differentiates/distinguishes various cost concepts.

Q.4 Both Short run Average Cost (SAC) & Short run Marginal Cost (SMC) curves are U-shaped.

- Give reasons for this U-shape.
- Represent the curves on a diagram.
- Write the relationship between SAC & SMC.



Scoring Indicators

- Behaviour of output as explained by the law of variable proportions.
- Draws diagram
- Explains relationship between SAC & SMC

Score : 4

Time : 5 mts

Learning Outcomes

- Classifies of various types of costs.
- Compares/differentiates/distinguishes various cost concepts.

Q.5 "Average Fixed Cost (AFC) curve is a continuously falling curve."

- Substantiate this statement by giving the reasons.
- Graphically represent the AFC curve.



Scoring Indicators

- TFC is constant & hence AFC falls
- Draws diagram

Score : 2

Time : 2 mts

Learning Outcomes

- Classifies various types of costs.
- Compares/differentiates/distinguishes various cost concepts.

Q. 6 Both short run and long run average and marginal cost curves are U-shaped. But reasons for the U-shape are not the same. Bring out the differences.

 **Scoring Indicators**

Behaviour of output in the short run as explained by the law of variable proportions
 Behaviour of output in the long run as explained by the laws of returns to scale. Score : 2
Time : 2 mts

Learning Outcomes

- Explain the slope of the budget line.
- Define indifference curve.

Q. 7 Read the following statements and write the terms used in economics.

a. Curve representing various combinations of any two goods giving the same level of satisfaction.

b) Locus of points of various combinations of any two goods the consumer can buy with the given entire income and prices of two goods.

 **Scoring Indicators**

a) Indifference curve.
 b) budget line. Score : 2
Time : 2 mts

Learning Outcomes

- Compares the levels of output when input changes.
- Compares the trends and patterns of TP<AP &MP with respect to change in input.
- Compares/differentiates/distinguishes various cost concepts.

Q. 8 Total Output schedule of a firm in the short run is given below. Assume cost of one unit of labour is Rs10 and cost of one unit of capital is Rs 100.

a) Complete the table by deriving the AP, TC & AC schedules.

Capital	Labour	Total Product	Average product	Total Cost	Average Cost
10	0	0			
10	1	1			
10	2	3			
10	3	6			
10	4	10			
10	5	13			
10	6	15			
10	7	16			
10	8	16			
10	9	15			

- b) Compare and contrast output and cost schedules.
- i. What relationship do you find between AP & AC schedules?
 - ii. What shapes of curves do you get when AP & AC are represented on a graph?
 - iii. Which law in economics describe the shape of AP & AC curves ?

Scoring Indicators

- a) Calculates the AP,TC & AC schedules.
- b)
 - i. AP rises at first,and starts falling after reaching maximum. AC curve exhibits just the opposite behaviour.
 - ii. AP -Inverse U
AC -U shaped
 - iii. Law of variable proportions.

Learning Outcomes

- Compares the levels of output when input changes.
- Explains the production function.

Q.9 What does the law of variable proportions show? State the behaviour of marginal product, average product and total product according to this law.Use appropriate diagram.

Scoring Indicators

The law operates in the short run- the firm is allowed to change only one factor,namely labour-other factors constant-additional units of labour employed bring change in total output-three stages-first increases at increasing rate, then at diminishing rate,finally decreases-Corresponding to this both MP&AP increase at first,become maximum and start falling,but with a difference-Graph-relationship-law applicable to all different types of production-conclusion.

Score : 8

Time : 15 mts

Learning Outcomes

- Analyses and interprets the the changes in the market supply curve.

Q. 10 If other things remaining same, graphically explain what happens to the supply curve for readymade shirts if there is

- a) An increase in the wages paid to the tailors.
- b) An increase in the price of readymade Shirts.

Scoring Indicators

- a) Supply curve shifts leftward
- b) Move up along the given supply curve

Score : 3

Time : 5 mts

Learning Outcomes

- Lists out the features of perfect competitive market.

Q. 11 "Perfect Competition is a myth and not a reality.". Do you agree? Substantiate your argument by analysing its features.

 **Scoring Indicators**

Yes. I agree with this argument.

The assumptions of perfect competition are never satisfied in a real market economy. The theory is highly elegant, but not relevant. Hence perfect competition is a myth and not a reality.

Score : 3

Time : 5 mts

Learning Outcomes

- Lists out the factors influencing the market supply.
- Analyses and interprets the changes in the market supply curve.

Q. 12 How each of the following events would affect the marginal cost curve and thus the supply curve in a perfectly competitive market in the short run? Graphically illustrate.

- a) An increase in wages.
- b) A tax of Rs. 2/- per unit of output imposed on the seller.
- c) The introduction of cost reducing technology.

 **Scoring Indicators**

- a) MC increases and hence Supply decreases-Leftward shift of Supply Curve.
- b) MC increases and hence Supply decreases-Leftward shift of Supply Curve.
- c) MC decreases and hence Supply increases-Rightward shift of Supply Curve.

Score : 6

Time : 10 mts

Learning Outcomes

- Classifies various types of costs.
- Compares/differentiates/distinguishes various cost concepts.

Q. 13 All the following curves are U shaped except

- a) the AVC Curve
- b) the AFC curve
- c) the AC curve
- d) the MC curve

 **Scoring Indicators**

- b) the AFC curve

Score : 1

Time : 1 mts

THEORY OF FIRM UNDER PERFECT COMPETITION

Learning Outcomes

- Proves that $AR=MR=price$.
- Lists out the features of perfect competitive market.

Q. 1 Choose the correct answer from the given multiple choices.

- Identify the equilibrium condition of a firm under perfect competition.
 - $AC=MR$, & AC cuts MR from above.
 - $MC=MR$, & AC cuts MR from below.
 - $AC=MR$, & MC cuts MR from below.
 - $MC=MR$, & MC cuts MR from above.
 - $MC=MR$, & MC cuts MR from below.
- The demand for the product of a firm is perfectly elastic in one of the following markets. Identify the market.
 - monopoly
 - monopolistic competition.
 - oligopoly
 - perfect competition
 - monopsony



Scoring Indicators

- e
- c

Score : 8

Time : 18 mts

Learning Outcomes

- Lists out the conditions of profit maximisation.
- Interprets the diagram that shows profit maximisation.

Q. 2 How are price and output determined under perfect competition in the short run? Compare the profit of a firm in the short run and long run and bring out the difference. Give suitable diagram.



Scoring Indicators

Under perfect competition, market determines the price-price taker and not price maker- firms produce the output that maximises its profit- a firm may get abnormal profit or normal profit or loss in the short run-only normal profit will prevail in the long run-due to free entry and exit-Draws separate diagram for short run and long run-explains price & output determination as well as profit in short run and long run.

Score : 2

Time : 2 mts

Learning Outcomes

- Lists out the features of perfect competitive market.
- Calculates TR,AR,and MR.

Q. 3 The following table gives you certain information about a firm.

Output	Price	Total revenue	Marginal cost
1		8	12
2		16	9
3		24	8
4		32	9
5		40	10

- Find the price at which output is sold and identify the form market.
- Is this firm a price -taker or price- maker? Give reasons.
- Find the firm's equilibrium level of output in terms of MC &MR. Give reasons.
- Also find profit of the firm at this level of output.

Scoring Indicators

- Price=8
- Price taker, a firm has no influence on price determination under perfect competition.
- Equilibrium quantity is 3. At this level of output MC=MR.

Score : 6

Time : 10 mts

Learning Outcomes

- Lists out the features of perfect competitive market.
- Defines profit maximisation.
- Lists out the conditions of profit maximisation.

Q. 4 Information about a firm is given in the following table.

Output	Total revenue	Total cost
1	6	7
2	12	13
3	18	17
4	24	23
5	30	31

Find out the equilibrium level of output in terms of MC & MR. Give reasons for your answer.

Scoring Indicators

Equilibrium quantity is 4. At this level of output MC=MR & MC cuts MR from below.

Score :3

Time : 5 mts

Learning Outcomes

- Proves that $AR = MR = \text{price}$.

Q. 5 A firm can sell any quantity of the output it produces at a given price. If so, what is the behaviour of marginal revenue and average revenue. Draw the two curves in a single diagram.



Scoring Indicators

The demand curve facing the firm is perfectly elastic. MR and AR are one and the same—draws the diagram and shows the curves.

Score : 3

Time : 5 mts

Learning Outcomes

- Calculates TR, AR, and MR.

Q. 6 A firm is able to sell any quantity of the good at a given price. The firm's marginal revenue will be

- Greater than AR
- Less than AR
- Equal to AR
- Zero



Scoring Indicators

- Equal to AR

Score : 1

Time : 1 mts

Learning Outcomes

- Lists out the features of perfect competitive market.

Q. 7 The implication of freedom of entry and exit of firms under perfect competition is that

- Firms will get only normal profit in the short run
- Firms will get only normal profit in the long run
- Firms will get abnormal profit in the long run.
- Firms will get abnormal profit in the short run.



Scoring Indicators

- Firms will get only normal profit in the long run

Score : 1

Time : 1 mts

Learning Outcomes

- Lists out the features of perfect competitive market.

Q. 8 "In a perfectly competitive market, no single producer or group of producers and no single consumer or group of consumers can determine the price of commodities." Do you agree with this? Substantiate.

Learning Outcomes

- Explains how supply and demand determine equilibrium price and quantity in competitive market.
- Draws the diagram of market equilibrium.
- Solves the equation and calculates equilibrium price and quantity.

Q.1 Suppose we have two equations, one for demand and other for supply.
Demand equation: $Q_x^d = 100 - 10P_x$ Supply equation : $Q_x^s = 60 + 10P_x$

- Calculate equilibrium price and quantity using the equations.
- Construct demand and supply schedules by assigning various prices. Obtain equilibrium price and quantity graphically.

**Scoring Indicators**

- equilibrium price = 2, equilibrium quantity = 80
- Demand & supply schedules

price	demand	supply
0	100	60
1	90	70
2	80	80
3	70	90
4	60	100

Draws the graph and shows equilibrium price and quantity.

Score : 6

Time : 10 mts

Learning Outcomes

- Explains how supply and demand determine equilibrium price and quantity in competitive market.

Q.2 Let us take market of commodity 'X', which is in equilibrium. Suppose demand for the commodity increases. Explain the chain of effects of this change till the market again reaches equilibrium. Use diagram.

**Scoring Indicators**

Increase in demand leads to disequilibrium- price increases -super profit -new firms enter the industry-or existing firms expand production-increase in output-supply increases-supply curve shifts -the process continue until price returns the to the equilibrium level. Draws the diagram, and explains the process.

Score : 5

Time : 8 mts

Learning Outcomes

- Explains how supply and demand determine equilibrium price and quantity in competitive market.

Q.3 A perfectly competitive market for a good is in equilibrium. Explain the chain of reactions in the market if the price is

- Higher than equilibrium price.
- Lower than equilibrium price.

Scoring Indicators

- Increase in price leads to disequilibrium- price increase means abnormal profit -new firms enter the industry-or existing firms expand production-increase in output-supply increases-supply curve shifts -the process continue until price returns the to the equilibrium level. Draws the diagram, and explains the process.
- Fall in price also leads to disequilibrium- price decrease means loss-loss making firms leave the industry-decrease in output-supply decreases-supply curve shifts -the process continue until price returns the to the equilibrium level. Draws the diagram, and explains the process.

Score : 6

Time : 10 mts

Learning Outcomes

- Analyses the impact of change in demand and supply on equilibrium price and quantity.

Q.4 Under perfect competition, a market for a good is in equilibrium. There is simultaneous "decrease" both in demand and supply, but there is no change in market price. Explain with the help of a diagram how it is possible.

Scoring Indicators

The decrease in demand and supply is the same, and hence the price remain the same. Shows this by drawing appropriate diagram.

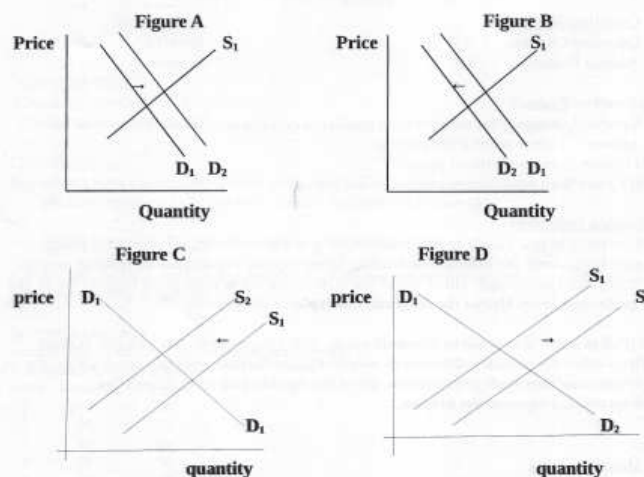
Score : 3

Time : 5 mts

Learning Outcomes

- Analyses the impact of change in demand and supply on equilibrium price and quantity.

Q.5 The diagrams below indicate four possible shifts in demand or in supply that could happen in particular markets .Relate each of the events described below to one of the them. Also give reason for the shift.



- a) How does the lorry strike in Karnataka and Tamilnadu affect the market for vegetables in Kerala?
- b) People become aware of the fact that Birds Eye Chilly is very much helpful to prevent Cholesterol. What happens to the market for Birds Eye Chilly?
- c) How do you think the rising income affect the market for fish?
- d) A new technique is discovered for manufacturing computer that greatly lowers their production cost. What happens to the market for computers?

 **Scoring Indicators**

- a) figure C, supply falls and price rises.
- b) figure A, demand increases and price rises.
- c) figure B, demand increases and price rises.
- d) figure D, supply increases and price falls.

Score : 4

Time : 4 mts

NON COMPETITIVE MARKETS

Learning Outcomes

- Calculates Average Revenue, Marginal Revenue and Total Revenue.

Q.1 Two tables are given below.

Table 1

Price	Qty	TR	AR	MR
6	1			
5	2			
4	3			
3	4			
2	5			
1	6			

Table 2

Price	Qty	TR	AR	MR
1	5			
2	5			
3	5			
4	5			
5	5			
6	5			

- Find TR, AR & MR.
- There are five variables in each of the above table. Which two variables in both the tables have the same values? Give reasons.
- The two tables are related to two market forms. Identify the form of market for each table. Give reasons.

 Scoring Indicators

- Calculates TR, AR & MR
- Price & AR, $AR = TR/Q$, where $TR = P \times Q$. Therefore $AR = P$
- Table 1 related to monopoly market, where as table 2 related to perfect competition.

Score : 6

Time : 10 mts

Learning Outcomes

- Defines oligopoly & distinguishes its various forms.

Q.2 Distinguish between non-collusive and collusive oligopoly. Explain the following features.

- Price leadership
- Non price competition

 Scoring Indicators

- Makes distinction by analysing price leadership & non-price competition.

Learning Outcomes

- Analyses the equilibrium of a monopolistic firm in the short run.

Q.3 Differentiated products is a characteristic of

- Monopolistic competition only
- Oligopoly only
- Both Monopolistic competition & Oligopoly
- Monopoly

Scoring Indicators

- Both Monopolistic competition & Oligopoly

Score : 1

Time : 1 mts

Learning Outcomes

- Compares and establishes the relationship between TR, AR & MR.

Q.4 Examine the behaviour of average revenue and marginal revenue of a firm which can sell more units of a good only by lowering the price of that good. Explain with the help of a diagram.

Scoring Indicators

A monopolist can sell more units of the good only by lowering the price. Therefore AR & MR will be downward sloping. Draws the appropriate diagram.

Score : 3

Time : 5 mts

Learning Outcomes

- Compares monopoly and perfect competition.

Q.5 Categorize the following features under two headings Perfect Competition & Monopolistic Competition.

Large Number of Producers, Differentiated products, Some Pricing power, Productive Efficiency in the Long run, Low Barriers, Homogeneous products, Long run Price = MC, Many producers, Zero Barriers, Productive Inefficiency in the Long run, Price Takers, Long run Price >MC.

Scoring Indicators

Classifies under the two markets.

Score : 6

Time : 6 mts

Learning Outcomes

- Lists out the features of perfect competitive market.
- Defines monopoly.

Q.6 Consider the commodities given below. Identify the most likely market situation in which they are produced. Substantiate.

- a) Airline industry.
- b) Potatoes.
- c) Toilet Soap.

 **Scoring Indicators**

- a) Oligopoly - only a few producers
 - b) Perfectly Competitive Market -large number of producers
 - c) Monopolistic Competition-Many sellers producing differentiated products
- Score : 3
Time : 3 mts

Learning Outcomes

- Compares monopoly and perfect competition.

Q.7 Does the statement below better describe a firm operating in a Perfectly Competitive market or a firm that is Monopoly?

- a) The demand curve faced by the firm is downward sloping.
- b) The demand curve and the MR curve are the same.
- c) Entry and exit are relatively difficult.
- d) Price Taker
- e) Price Maker

 **Scoring Indicators**

- a) Monopoly
 - b) Perfectly Competitive Market
 - c) Monopoly
 - d) Perfectly Competitive Market
 - e) Monopoly
- Score : 5
Time : 5 mts

Learning Outcomes

- Explains the features of monopoly.
- Calculates Average Revenue, Marginal Revenue and Total Revenue.

Q.8 A table related to a particular market is given below

Quantity	Total Revenue	Average Revenue	Marginal Revenue
1	18		
2	32		
3	42		
4	48		
5	50		
6	48		
7	42		

- i) Find AR & MR.
- ii) Identify the market related to the table.
- iii) Establish the relationship between TR, AR & MR.

 **Scoring Indicators**

- i) Calculates AR & MR
- ii) Monopoly
- iii) Writes the relationship between TR, AR & MR.

Score : 5

*Time : 8 mts***Learning Outcomes**

- Compares monopoly and perfect competition.

Q. 9 Under perfect competition firm is a price taker while under monopoly it is price maker. How does it happen? Give reasons.

 **Scoring Indicators**

Writes reason for lack of pricing power under perfect competition compared to monopoly.

Score : 2

*Time : 3 mts***Learning Outcomes**

- Explains the features of monopoly.
- Calculates Average Revenue, Marginal Revenue and Total Revenue.

Q. 10 The total revenue equation of a firm is given by the equation, $TR = 20Q - 2Q^2$

- i) Calculate TR, AR & MR.
- ii) Identify the market form related to this equation.

 **Scoring Indicators**

- i) Calculates TR, AR, MR.
- ii) Monopoly

Score : 4

Time : 6 mts

INTRODUCTION TO MACRO ECONOMICS

Learning Outcomes

- Lists out the important features of Great Depression of 1930's

Q.1



The pictures are related to the impacts of recession in 2008. Can you identify some impacts of the Great Depression of 1930's?

Scoring Indicators

Unemployment, Fall in aggregate Demand.etc.

Score : 3

Time : 5 mts

Learning Outcomes

- Classifies and gives examples of micro and macro economics.
- List out various economic agents

Q.2 Some variables are given below. Classify them under two branches of economics

1) Utility

2) GDP

3) Inflation

4) Demand for pen

5) Aggregate Consumption

6) Taxes

Scoring Indicators

Micro Economics - Utility & Demand for pen

Score : 6

Time : 6 mts

Learning Outcomes

- Explains various concepts of National Income

Q.1 There are three terms in GDP_{MP} . They are 'gross', 'domestic' and 'market price'. Describe how these are changed into 'net', 'national', and 'factor cost' so as to derive the national income.

**Scoring Indicators**

$$GDP_{MP} - \text{Depreciation} = NDP_{MP}$$

$$NDP_{MP} + NFIA = NNP_{MP}, \quad NNP_{MP} - NIT = NNP_{FC} \text{ (NI)}$$

Score : 1

*Time : 2 mts***Learning Outcomes**

- Distinguishes between stock and flows

Q.2 Some variables are given below. Classify them into Stock and Flow

- | | | |
|----------------|--------------------------|----------------------|
| 1) Wealth | 2) Income of a household | 3) Consumption |
| 4) Capital | 5) Money Supply | 6) Capital formation |
| 7) Inventories | 8) Saving of a household | |

**Scoring Indicators**

Stock - Wealth, Inventories, Capital, Money Supply

Score : 5

*Time : 8 mts***Learning Outcomes**

- Distinguish between stock and flows

Q.2 Some variables are given below Classify them into Stock and Flow

- | | | |
|----------------|--------------------------|----------------------|
| 1) Wealth | 2) Income of a household | 3) Consumption |
| 4) Capital | 5) Money Supply | 6) Capital formation |
| 7) Inventories | 8) Saving of a household | |

**Scoring Indicators**

Stock - Wealth, Inventories, National Capital, Money Supply

Score : 5

*Time : 8 mts***Learning Outcomes**

- Explains various concepts of National Income

Q.3 When does net factor income from abroad become negative?

- a) $NDP < NNP$ b) $NNP < NDP$

- c) $NDP = NNP$ d) none of the above

 **Scoring Indicators**

- b) $NNP < NDP$

Score : 1

Time : 2 mts

Learning Outcomes

- Explains various concepts of National Income.

Q. 4 When does GDP and GNP of an economy become equal?

- a) When net factor income from abroad is positive
 b) When net factor income from abroad is negative
 c) When net factor income from abroad is zero
 d) None of the above.

 **Scoring Indicators**

- c) When net factor income from abroad is zero

Score : 1

Time : 2 mts

Learning Outcomes

- Explains various concepts of National Income

Q. 5 1. Rent 2. Consumption Expenditure 3. wage,
 4. Investment expenditure, 5. Interest 6. government expenditure,
 7. Profit 8. Net Export.

Classify the items under Income Method and Expenditure method.

 **Scoring Indicators**

$$GDP = R+W+I+P = C+I+G + (X-M)$$

Score : 4

Time : 6 mts

Learning Outcomes

- Evaluates GDP of a country as an index of welfare of a country

Q. 6 Classify the following under consumer price index and GDP deflator.

- a) Does not include prices of imported goods
 b) Weights are different c) It include all goods and services
 d) Include prices of imported goods e) Weights are constant
 f) Does not include all goods and services

 **Scoring Indicators**

GDP Deflator - Does not include prices of imported goods, It include all goods and services,
 Weights are different

Score : 3

Time : 5 mts

Learning Outcomes

- Evaluate GDP of a country as an index of welfare of a country

Q.7 Assume that there are three goods produced in an economy and they are sold at different prices in different years. Calculate GDP Deflator.

	Cloth		Rice		Edible Oil	
Year	Price	Quantity	Price	Quantity	Price	Quantity
2014	160	10	25	20	80	5
2015	190	10	30	20	100	5

Scoring Indicators

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 = \quad \times 100 = 120 \quad \text{Score : 3}$$

Time : 5 mts

Learning Outcomes

- Analyses the various methods of measuring National Income

Q.8 From the following data about firm X, calculate the Gross Value Added at factor cost.

Sales	-	5000	Opening Stock	-	300
Closing stock	-	500	Purchase of Intermediate goods	-	1000
Subsidy	-	100			

Scoring Indicators

$$\text{GVA}_{\text{FC}} = \text{GV} - \text{Intermediate Consumption} - \text{Subsidy} \quad \text{Score : 2}$$

Time : 3 mts

Learning Outcomes

- Lists out the important features of great depression
- Explains various concepts of National Income
- Distinguishes between nominal exchange rate and real exchange rate

Q.9 The economic recession of 2008 affected the market economics in general and the US in particular. Thousands of Indians working abroad lost their job especially in IT and banking sectors and they returned to India. Evaluate its consequences on Indian economy with regard to the following macro variables.

- The value of GNP
- General unemployment level
- Foreign exchange rate

Scoring Indicators

- The value of GNP decreases due to reduction in NFIA
- General unemployment level increases
- Foreign exchange rate increases

Score : 3

Time : 5 mts

Learning Outcomes

- Distinguishes between stock and flows

Q. 10 The textile owner increases his inventory stock of cloth more than his expected sale for the expansion of his shop. Which of the following terms used to denote this.

- a) Planned Deccumulation b) Planned Accumulation
c) Unplanned Accumulation d) Un planned deccumulation

Scoring Indicators

- b) Planned Accumulation

Score : 1

Time : 1 mts

Learning Outcomes

- Analyse the various methods of measuring National Income

Q. 11 $GDP = C + I + G + (X - M) = C + S + T$

Derive the Budget Deficit and Trade Deficit equations from the above identity.

Scoring Indicators

G-T , M-X

Score : 2

Time : 3 mts

Learning Outcomes

- Analyses the various methods of measuring National Income

Q. 12 $GDP_{MP} = 11300$, $NDP_{MP} = 10300$, $NDP_{FC} = 10000$, $NFIA = 1500$

Calculate Depreciation, Net Indirect Tax and NNP_{FC} from the above data.

Scoring Indicators

$$\text{Depreciation} = GDP_{MP} - NDP_{MP}, \text{ NIT} = NDP_{MP} - NDP_{FC}$$

$$NNP_{FC} = NDP_{FC} + NFIA$$

Score : 1

Time : 1 mts

Learning Outcomes

- Analyses the various methods of measuring National Income

Q. 13 In a group discussion, Mr.Ratheesh argued that GNP_{MP} is always greater than GDP_{MP} . What do you think about it? Substantiate.

Scoring Indicators

Need not always be true. It depends on changes in Net Factor Income Abroad. Score : 2

Time : 3 mts

Learning Outcomes

- Explains various motives for keeping money

Q. 14 Production generates income. Prove this statement with the help of a simple two sector model of circular flow of income.

Scoring Indicators

Draws circular flow of income and explains the flows.

Score : 6

Time : 6 mts

Learning Outcomes

- Explains various motives for keeping money

Q.1 Mr. Ramu is a farmer. He has a surplus of rice which he wishes to exchange for clothing. But he may not be able to find any person who demand rice with a surplus of clothing. This is one of the problems in Barter System.

- Can you identify other drawbacks of Barter System.
- How did invention of money help to overcome these drawbacks of Barter System.

Scoring Indicators

- Drawbacks of Barter System.
- Functions of Money

Score : 6

*Time : 8 mts***Learning Outcomes**

- Appreciates the role of Central Bank in maintaining macro economic stability

Q.2 Observe the various instruments of RBI policies given in the table. What will be the effect of these instruments on money supply and general Price level.

Bank Rate*	6.75% [w.e.f. 04/10/2016)	Decreased from 7.00% which was continuing since 05/04/2016
Cash Reserve Ratio (CRR)	4.00% (w.e.f 09/02/2013) announced on 29/01/2013	Decreased from 4.25% which was continuing since 30/10/2012
Statutory Liquidity Ratio (SLR)	20.75%(w.e.f 04/10/2016) (announced on 04/10/2016)	Decreased from 21.00% which was continuing since 09/07/2016

Scoring Indicators

- Impact of Monetary policy related to Bank Rate, CRR, SLR

Score : 3

*Time : 4 mts***Learning Outcomes**

- Identifies and differentiates various forms of money

Q.3 Identify the agency responsible for issuing ₹ 1 currency note in India?

- RBI
- Ministry of Finance
- Ministry of Commerce
- Niti Aayog

 **Scoring Indicators**

Ministry of Finance

Score : 1

Time : 1 mts

Learning Outcomes

- Explains the circular flow of income in a two sector model
- Identifies and differentiates various forms of money

Q. 4 Flow of factors of production, goods and services across different sectors in a barter economy is known as

- a) Monetary Flow b) Real Flow c) Capital Flow d) Inflow

 **Scoring Indicators**

Real Flow

Score : 1

Time : 1 mts

Learning Outcomes

- Explains the various methods of money measurement

Q. 5 $K = \frac{1}{2}$, GDP Deflator =1.2, Real GDP = 1000. Calculate Transaction Demand for Money.

 **Scoring Indicators**

kPY where $k=1/v$, P =GDP Deflator, Y = Real GDP

Score : 3

Time : 5 mts

Learning Outcomes

- Explains various motives for keeping money

Q. 6 When $r = \min$ Speculative Demand for Money become

- a) Zero b) One c) Infinity d) Greater than One

 **Scoring Indicators**

Infinity

Score : 1

Time : 1 mts

Learning Outcomes

- Lists out the components of money supply.

Q. 7 RBI publishes four alternatives of money supply i.e., M1, M2, M3, M4. Identify them and complete the Table.

Broad Money

..... = M1 +

M4 = +

Narrow Money

M1 = +

..... = M1 +

 **Scoring Indicators**

M1, M2, M3, M4

Score : 6

Time : 10 mts

Learning Outcomes

- Explains the meaning of money creation mechanism.
- Appreciates the role of Central Bank in maintaining macro economic stability

Q. 8 In 2016, the 4th Bi-monthly Monetary Policy review, RBI reduced the Bank Rate from 7% to 6.75%. Consequently the High powered money in the economy increases.

- What is the impact of this policy?
- Suppose the High Powered Money increases by Rs.1000 crores, find out the Money Multiplier and changes in the stock of money supply, If $cdr = 3$ and $rdr = 0.2$

Scoring Indicators

- Increase in Money Supply and Aggregate Demand
- Money Supply = $(1 + cdr) / (cdr + rdr) \times$ High Powered Money

Score : 6

Time : 10 mts

Learning Outcomes

- Explains the various functions of the commercial bank

Q. 9 "Credit Cards increase the velocity of money" Do you agree? Justify.

- What is the impact of this policy?
- Suppose the High Powered Money increases by Rs.1000 crores, find out the Money Multiplier and changes in the stock of money supply, If $cdr = 3$ and $rdr = 0.2$

Scoring Indicators

Yes. The velocity of circulation of money increases, Credit cards can be used with more convenience in transaction.

Score : 2

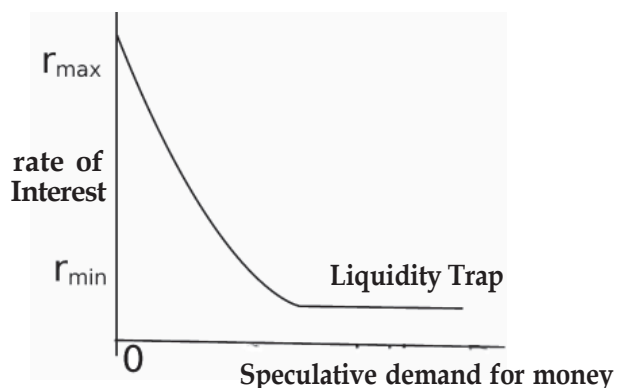
Time : 3 mts

Learning Outcomes

- Explains various motives for keeping money.

Q. 10

- Identify and explain the theory behind the diagram.
- When the economy reaches to Liquidity trap, how does it affect the Speculative demand for money.



Scoring Indicators

- Speculative demand- Liquidity preference Theory
- Increase in Speculative demand for money- it become infinite.

Score : 6

Time : 6 mts

Learning Outcomes

- Appreciates the role of Central Bank in maintaining macro economic stability

Q. 11 A sample Balance Sheet of RBI is given below.

Asset (Sources)	In Rs. Crores	Liability (Uses)	In Rs. Crores
Gold	100	Currency held by Public	500
Foreign Currency	200	Vault Cash held by Commercial Bank	100
Government Securities	450	Deposit of Commercial Bank with RBI	250
Loan to Commercial Bank	250	Treasury Deposit of Government	150
Total	1000	Total	1000

Suppose the foreign investors are attracted by the bright prospects of Indian economy, and as a result there is an inflow of foreign currency worth ₹ 50 crores to Indian economy.

- What changes occur in the sample Balance sheet due to the inflow of foreign currency?
- How do RBI stabilize the imbalances in the economy using its sterilization policy?
- What is the impact of the inflow of foreign currency on Indian economy?

Scoring Indicators

- Foreign currency & Deposit of Commercial Bank with RBI increases.
- Open Market Operation and other policies of RBI.
- Changes in High Powered Money, Money Supply & Aggregate Demand

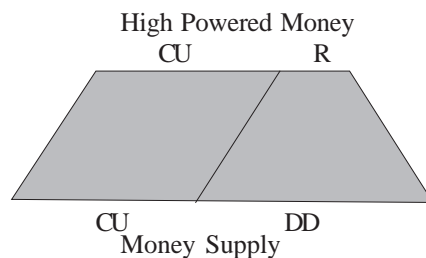
Score : 6

Time : 6 mts

Learning Outcomes

- Explains the meaning of money creation mechanism.
- Realise the importance of banking in the economy

Q. 12



In the Above diagram Money Supply is greater than High Powered Money.

- Analyse the role of Commercial Bank in increasing the money supply in an economy through credit creation.
- When $cdr=1$, $rdr=0.3$ and High Powered Money = ₹ 2000 crores. Calculate the Money Supply in the economy.

Scoring Indicators

- Credit creation process of Commercial Bank
- Money Supply = $(1 + cdr) / (cdr + rdr) \times$ High Powered Money

Score : 4

Time : 6 mts

Learning Outcomes

- Analyses the impact of saving proportion (mps) and explains the paradox of thrift

Q.1 According to Keynesian model, as saving propensity increases, the equilibrium income decreases. Since the level of income is reduced, the volume of savings also comes down automatically.

- Can you associate the above statement with any Keynesian proposition? Name it.
- Substantiate with an example.

**Scoring Indicators**

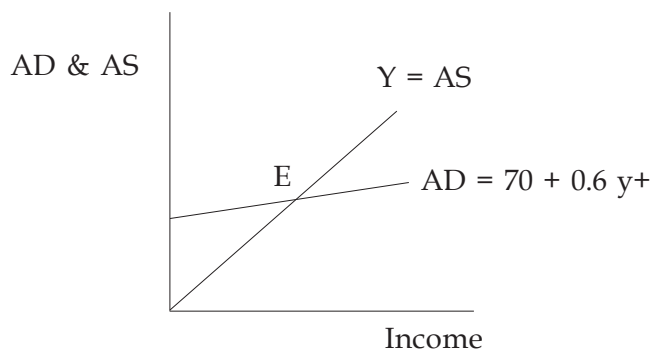
- Paradox of Thrift.
- $Y = \frac{I}{1-mpc}$ or $\frac{I}{mps}$. Use the hypothetical values.

Score : 3

Time : 5 mts**Learning Outcomes**

- Distinguishes the various stages of macro economic equilibrium and disequilibrium in an economy.

Q.2 The following diagram shows the equilibrium income situation of a hypothetical economy with mpc 0.6 and $I = 70$



Analyse the following situations and represent the resulting change in the diagram

- Income of the economy increases due to a good harvest. Consequently the mpc increased to 0.7
- An amount of 50 million is planned to invest for the construction of a new multi purpose dam in the economy.
- Calculate the new equilibrium income of the economy.

Scoring Indicators

- a) Change in the slope parameter. AD curve swings upward
- b) Change in the intercept parameter. AD curve shift upward
- c) Draws the new diagram.

Score : 6

Time : 10 mts

Learning Outcomes

- Interprets 'a' as autonomous change and 'b' as mpc

Q.3 Observe the table which shows the consumption behaviour of 3 households

Which part of the table represent Keynesian consumption function?
Substantiate.

Scoring Indicators

Table of Household C represent Keynesian Consumption function. As income increases consumption also increases, but the increase in consumption is less than the increase in income.

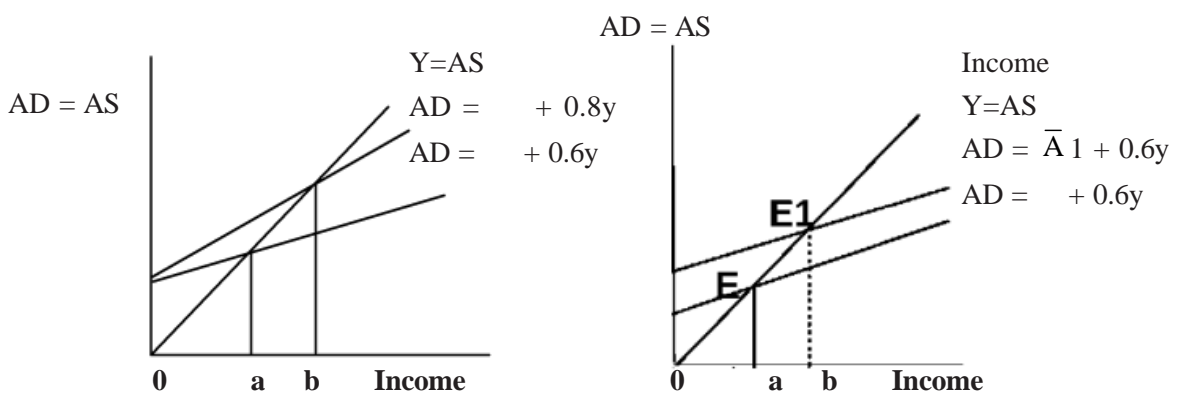
Score : 6

Time : 10 mts

Learning Outcomes

- Explains various motives for keeping money

Q.4 Compare the diagrams given below.



- a) What difference do you find between the two diagrams?
- b) State the reasons behind the changes in AD curves.

Scoring Indicators

- a) Difference lies in the nature of shift in aggregate demand curve.

b) Distinguishes slope parameter & intercept parameter.

Score : 2

Time : 2 mts

Learning Outcomes

- Interprets 'a' as autonomous change and 'b' as mpc

Q.5 The world wars adversely affected the European economy. Hence consumption and savings were low. But the ratio of consumption to income was high.

a) Can you connect the above situation with any Keynesian proposition? Name it.

Scoring Indicators

a) Consumption function with high mpc.

Score : 1

Time : 2 mts

Learning Outcomes

- Interprets 'a' as autonomous change and 'b' as mpc

Q.6 Some values of mpc are given below. Choose the possible mpc value of a lower income group.

Justify mpc value : 0.4, 0.2, 0.9, 0.6

Scoring Indicators

The lower income group have the highest mpc (0.9). They spend a major portion of their income for consumption. Score : 2

Time : 3 mts

Learning Outcomes

- Interprets 'a' as autonomous change and 'b' as mpc

Q.7 One among the following is not a characteristic of Keynesian consumption function.

- The aggregate real consumption expenditure is a stable function of real income.
- The mpc must lie in between zero and One
- The consumption is a function of rate of interest.
- The $mpc = 1 - mps$

Scoring Indicators

c) The consumption is a function of rate of interest.

Score : 1

Time : 2 mts

Learning Outcomes

- Interprets the output multiplier

Q.8 Suppose that there is an increase in autonomous investment. If so which of the following situations represent greater multiplier effect on income.

- a relatively high MPC or
- a relatively low MPC? Substantiate.

 **Scoring Indicators**

- a) A relatively high MPC - Larger size of Multiplier.

Score : 1

Time : 2 mts

Learning Outcomes

- Examines the process involved in the working of multiplier mechanism

Q. 8 Nowadays, all governments of third world economies try to attract domestic and foreign investors by providing financial concessions and establishing Special Economic Zones.

- a) Do you think that investment is an essential component of economic growth? Why?
- b) Suppose an investor proposed to invest Rs.300 crores in an economy with the mpc value of 0.7. Calculate the impact of this investment on the equilibrium income (Multiplier Effect) of the economy?

 **Scoring Indicators**

- a) Yes.- Investment has a multiplier effect on Income
- b) $Y = I / 1 - mpc$

Score : 6

Time : 10 mts

GOVERNMENT BUDGET AND ECONOMY

Learning Outcomes

- Classifies the components of government budget

Q.1 Reducing inequalities is an objective of Indian Five year plans. Observe the following tax proportions in the total tax revenue.

Ratio	Direct Tax	Indirect Tax
A	80	20
B	50	50
C	20	80

- Which of the above tax proportions help to reduce the economic inequality in the society? How?
- Direct taxes are progressive and Indirect taxes are regressive in nature. Substantiate



Scoring Indicators

- A, The higher income group contribute more.
- In progressive taxes more income contributed by the richer sections In regressive taxes more income contributed by the poor sections.

Score : 3

Time : 4 mts

Learning Outcomes

- Explains various types of multipliers.

Q.2 MGNREGA aims to increase the purchasing power of the lower income group.

- How does this affect the value of mpc and Aggregate Demand of our economy?
- Can the government reduce economic inequality through this scheme? How?



Scoring Indicators

- High value of mpc and AD increases
- Yes. Income of poor sections increases.

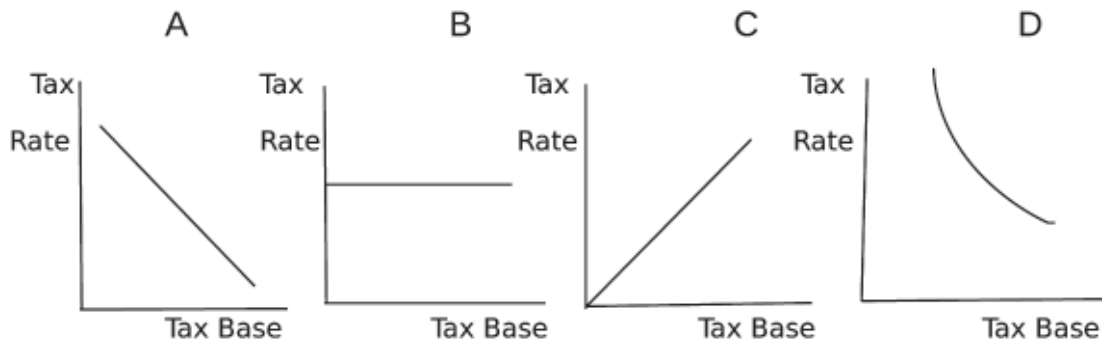
Score : 2

Time : 3 mts

Learning Outcomes

- Classifies the components of government budget

Q.3 Which of the following diagrams represent proportional taxation? Substantiate your answer.



Scoring Indicators

C. Because tax rate increases in proportion to the change in income.

Score : 6

Time : 10 mts

Learning Outcomes

- Classifies the components of government budget

Q. 4 Name the economic terms

- The receipts of the government which are non-redeemable
- The receipts of the government which creates liability

Scoring Indicators

- Revenue Receipts
- Capital Receipts

Score : 2

Time : 3 mts

Learning Outcomes

- Explains various types of multipliers.

Q. 5 The government of India spent ₹ 27000 crores under the scheme MGNREGA in 2015-16. Suppose the mpc of India is 0.6. Calculate the impact of this spending on the equilibrium income of the economy.

Scoring Indicators

Multiplier x Autonomous Government Expenditure

Score : 2

Time : 3 mts

Learning Outcomes

- Distinguish between Fiscal Deficit, Revenue Deficit and Primary Deficit

Q. 6 The following data shows the Central Government Budget at a glance (In crores of ₹) - Revised estimates for the year 2015-16

1. Revenue Receipts	-	1206084
2. Revenue Expenditure	-	1547673
3. Capital Receipts	-	579307
4. Recoveries of Loan	-	18905
5. Other Receipts	-	25312

6. Borrowings and other liabilities	-	535090
7. Capital Expenditure	-	237718
8. Interest Payments	-	442620

- Calculate Revenue Deficit, Fiscal Deficit and Primary Deficit
- Which type of deficit shows the real financial position of the economy?

Scoring Indicators

- Revenue Deficit = Revenue Expenditure - Revenue Receipts, Fiscal Deficit = Total Expenditure - (Revenue Receipts + Non Debt Creating Capital Receipts), Primary Deficit = Fiscal Deficit - Interest Payments
- Fiscal Deficit

Score : 6

Time : 10 mts

Learning Outcomes

- Distinguishes private good and public good.

Q.7 All the Modern governments are welfare government. Provision of public goods is an essential function of such governments.

- Identify the two distinct aspects of public good.
- Write down the appropriate examples for public goods
- How does Private good differ from public good? Write two examples of Private Good?

Scoring Indicators

- Non excludable and Non rivalrous
- National Defence, Public Park
- Private goods are rivalrous and excludable. Private goods are provided by market mechanism where as public goods are provided by Govt.

Score : 4

Time : 6 mts

Learning Outcomes

- Analyses various measures of fiscal policy.

Q.8 The rise in general price levels adversely affect the fixed income groups. Therefore the government tries to maintain the general price level constant.

- What are the policy measures adopted by the government to maintain price stability?
- How do the government control depression by regulating these instruments?
- The monetary authority also control depression by using its own instruments. In your opinion which policy is more effective in controlling depression? Substantiate.

Scoring Indicators

- Fiscal policy instruments
- Public expenditure increases, Public debt reduces, Reduction in Taxes
- Fiscal Policy, gives reasons.

Score : 5

Time : 8 mts

Learning Outcomes

- Explains the different functions of government.

Q.9 Through the budget government operates three distinct functions - Allocation Function, Distribution Function and Stabilisation function - Classify the following measures under three heads

- Starting a Multi- Speciality Hospitals in Public Sector
- Increase the corporate income tax
- Increases subsidies to Handloom textile sectors
- Make an additional investment to widen National Highway Networks.
- Introduce a special package to overcome depression
- Government plans to spend an amount for the beautification of public park.



Scoring Indicators

Allocation Function - a,f Distribution Function - b,c Stabilisation Function -d,e Score : 3

Time : 5 mts

Learning Outcomes

- Critically evaluates the role of market.

Q. 10 "Provision of Public good is inevitable to maintain social justice."

Evaluate the statement in the light of the experience of our State in General Education and Public Health.



Scoring Indicators

Health and Education Indicators of Kerala. Government can achieve this which Market economy can't

Score : 3

Time : 5 mts

Learning Outcomes

- Analyses the structure of revenue expenditure.

Q. 11 Which of the following is not a major item of revenue expenditure?

- defence service
- subsidies
- interest payment
- acquisition of land



Scoring Indicators

d) acquisition of land

Score : 1

Time : 2 mts

Learning Outcomes

- Examines the process involved in the working of multiplier mechanism

Q. 12 The proportionate income tax acts as an automatic stabilizer. Evaluate it.



Scoring Indicators

When income increases income tax amount also increases.

Score : 2

Time : 10 mts

Learning Outcomes

- Classifies the components of government budget

Q. 13 Classify the following items into Revenue Expenditure and Capital Expenditure

- a) Expenditure on Defence equipments b) Interest Payment
 c) Salary Expenditure, d) Expenditure on Acquisition of Land
 e) Loans and Advance to States and Union Territories f) Subsidy



Scoring Indicators

Revenue Expenditure (b,c,f) Capital Expenditure (a,d,e)

Score : 6

Time : 10 mts

Learning Outcomes

- Classifies the components of government budget

Q. 14 The various sources of public revenue as per the budget of central government for the year 2015 is given below.

Rupee comes from

- Non debt Capital Receipts - ₹ 3 crores
- Non Tax Revenue - ₹ 13 crores
- Service Tax and Other Taxes - ₹ 9 crores
- Union Excise Duties - ₹ 12 crores
- Customes Duty - ₹ 9 crores
- Borrowing and Other Liabilities - ₹ 21 crores
- Corporation tax - ₹ 19 crores
- Income Tax - ₹ 14 crores

Study the data given above and attempt the questions

- a) Identify the single largest item of Revenue Receipts
 b) Classify the items in to Revenue Receipts and Capital Receipts.
 c) Identify any two direct taxes from the above list.



Scoring Indicators

- a) Corporate Tax
 b) Capital Receipts - Non debt capital receipts and borrowing and other liabilities Revenue Receipts - Tax revenue and non tax revenue
 c) Income Tax, Corporation Tax

Score : 4

Time : 6 mts

Learning Outcomes

- Classifies the components of government budget

Q. 15

- a) If mpc is 0.8, find the Tax Multiplier, Autonomous Expenditure Multiplier and Transfer income multiplier.
 b) If government Expenditure increased by ₹ 40 crores, what will be the impact on equilibrium income?

- c) If a transfer worth ₹ 30 crores introduced by government, what will be the impact on equilibrium income?
- d) If a Lump sum Tax cut equal to ₹ 10 crores is made by government, what will be the impact on equilibrium income?

Scoring Indicators

Tax Multiplier = $-c/(1-c)$, Autonomous Expenditure Multiplier $1/(1-c)$ and Transfer income multiplier $c/(1-c)$.

Score : 5

Time : 6 mts

Learning Outcomes

- Explains various types of multipliers.

Q. 16 Consider an economy described by the following function.

$$C = 30 + 0.75Y, \quad I = 40, \quad G = 60, \quad TR = 100$$

- a) Find the equilibrium level of income and autonomous expenditure multiplier in the model.
- b) What will be the impact on equilibrium income if the Government Expenditure increased by ₹ 40?
- c) What will be the impact on equilibrium income If a Lump sum Tax cut equal to ₹ 30 is added to pay for the Government purchase?

Scoring Indicators

Tax Multiplier = $-c/(1-c)$, Government Expenditure Multiplier $1/(1-c)$

Score : 4

Time : 5 mts

Learning Outcomes

- Explains the keynesian model of income determination

Q. 17 Graphically illustrate the effect of the following in Keynesian model

- a) An increase in government expenditure
- b) A decrease in Lump sum Tax

Scoring Indicators

Draw the Aggregate Equilibrium. Increase in Income due to Government Expenditure is greater than Tax cut.

Score : 1

Time : 2 mts

Learning Outcomes

- Explains various types of multipliers.

Q. 17 Prove that the value of Balanced Budget Multiplier is equal to one.

Scoring Indicators

$$1/1-c + -c/1-c = 1$$

Score : 1

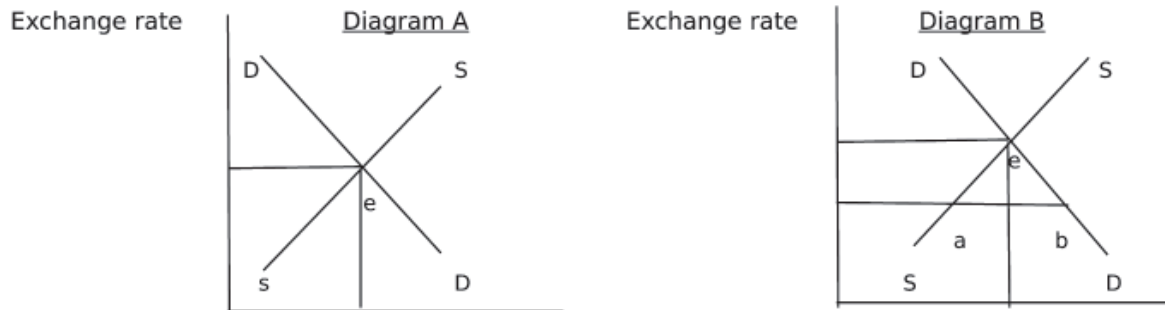
Time : 2 mts

OPEN ECONOMY - MACRO ECONOMICS

Learning Outcomes

- Evaluates various exchange rate determination system

Q.1 Exchange rate is determined through different methods. Diagrams related with exchange rate are given below.



- Identify the Exchange rate system corresponding to each diagram
- Distinguish between the two.



Scoring Indicators

- Diagram A is Flexible Exchange Rate System and Diagram B is Fixed Exchange Rate System
- Comparison

Score : 4

Time : 5 mts

Learning Outcomes

- Distinguishes nominal exchange rate and real exchange rate concepts.
- Evaluates various exchange rate determination system

Q.2 Mr. Amal is a Non Resident Indian working in US. He plans to return to India in next month. He has decided to purchase the following commodities. He compared the prices of these commodities, which are available to him as follows.

Commodity	Price in US(\$)	Price in India (₹)
Laptop	500	50000
Cotton Shirt	90	4000
Diamond Necklace	2000	120000

Current Exchange Rate \$1 = ₹ 60

- Can you suggest the concept which helps him to make a decision? How? Explain the concept with equation.
- By applying the equation, Identify the most suitable country for Mr. Amal to purchase these items.

Scoring Indicators

- Real Exchange Rate and Equation
 - Laptop - US, Cotton Shirt - India, Diamond Necklace - Indifferent
- Score : 4
Time : 5 mts

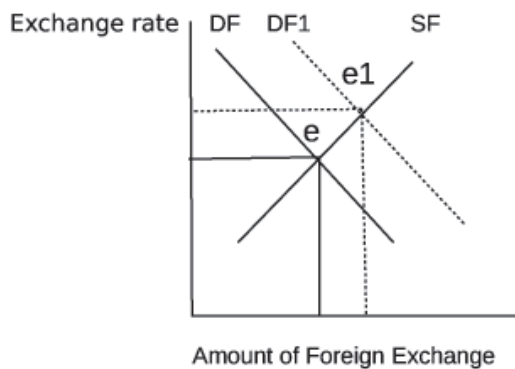
Learning Outcomes

- Evaluate various exchange rate determination system

- Q.3
- Recently the government of UK decided to relax the visa norms to Indian visitors.
 - The government of India approved a purchase of weapon for Indian defence from rest of the world for an amount of ₹ 82000 crores
- How does these decisions affect the demand for foreign exchange?
 - Analyse the consequences in the foreign exchange market with the help of a diagram. (supply curve of foreign exchange remain the same)

Scoring Indicators

- Demand for foreign exchange increases
- diagram



Score : 3
Time : 4 mts

Learning Outcomes

- Distinguish between balance of trade and balance of payment

- Q.4
- Which of the following would be an appropriate policy to reduce a Balance of Payment Deficit.
- An increase in government spending.
 - A cut in the level of indirect taxes
 - An increase in interest rates.
 - A decrease in interest rates

Scoring Indicators

- c) An increase in interest rates., Reduces the level of Aggregate Demand Score : 1

Time : 1 mts

Learning Outcomes

- Evaluates various exchange rate determination system

Q. 5 Analyse the effect of the following on imports and exchange rate.

- Appreciation of domestic currency.
- Depreciation of domestic currency
- Increase in foreign direct investment.
- Increase in import duty.

Scoring Indicators

- Increase in Imports, Fall in Exchange Rate
- Decrease in Imports, Rise in Exchange Rate
- Increase in Imports, Fall in Exchange Rate
- Decrease in Imports, Fall in Exchange Rate

Score : 4

Time : 6 mts

Learning Outcomes

- Distinguishes balance of trade and balance of payments.

Q. 6 Observe the Following table which shows the Balance of Payment Account 2015-16.

I. Current Account	
1. Export	135.6
2. Import	207.2
a. service	35.3
b. Transfers	32.4
c. Income	-10.5
II Capital Account	
1. External Assistance	0.2
2. ECBs	-0.9
3. Short Term Debt	-1.2
4. Banking Capital of Which	18.4
5. Foreign Investment	7.9
6. Other Flows	1
7. Errors and Omission	-0.4
Capital Account Balance	24.9

Attempt The following questions

- Identify the components of Current Account Records.

- b) Whether the Balance of Trade is surplus or Deficit? Find the value of Trade Balance.
- c) Calculate Current Account Balance
- d) Find the Balance of Payment.

 **Scoring Indicators**

- a) Trade Balance, Invisibles
- b) Deficit, Trade Balance = -71.6
- c) Current Account Balance = -14.4
- d) Balance of Payment = 10.5

Score : 3
Time : 5 mts