# ISC 2023 EXAMINATION

# Specimen Question Paper

## ECONOMICS

## Class-12

*Maximum Marks: 80*

*Time allowed: Three hours*

*(Candidates are allowed **additional 15 minutes** for **only** reading the paper.*

*They must **NOT** start writing during this time).*

*Answer **all** questions in **Section A, Section B** and **Section C**.*
***Section A** consists of **objective/ very short answer** type questions.*
***Section B** consists of **short** answer questions.*
***Section C** consists of **long** answer questions.*
*The intended marks for questions or parts of questions are given in brackets [ ].*

### SECTION A – 16 MARKS

**Question 1.**

**(i)** Indifference curve is convex to the origin due to: **[1]**

**(a)** Axiom of transitivity.

**(b)** Law of DMU.

**(c)** Law of DMRS.

(d) Axiom of non-satiation.

**(ii)** When supply of a commodity increases by 24% following the rise in price by 8%, supply curve will be: **[1]**

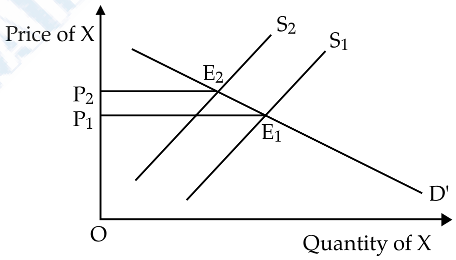
**(a)** positively sloped with positive intercept.

**(b)** positively sloped with negative intercept.

**(c)** horizontal.

(d) parallel to price axis

**(iii)** The diagram given below shows the market demand for and market supply of good X. **[1]**




The equilibrium point has been changed from $E_1$ to $E_2$.

Which one of the following statements is **NOT** correct?

**(a)** The supply has decreased because government has raised Goods and Services tax rate.

**(b)** D′ is a demand curve for a Giffen good.

**(c)** Equilibrium price has increased due to the rise in wage rate in the market.

**(d)** The number of firms has decreased.

**(iv)** Demand curve parallel to X axis signifies: **[1]**

**(a)** perfectly elastic. **(b)** perfectly inelastic.

**(c)** elastic. **(d)** inelastic.

**(v)** Which one of the following is a pair of direct taxes? **[1]**
- **(a)** Excise duty and Wealth Tax
- **(b)** Service Tax and Income Tax
- **(c)** Excise Duty and Service Tax
- **(d)** Wealth Tax and Income Tax

**(vi)** Which one of the following is included in the calculation of National Income? **[1]**
- **(a)** Transfer Earnings
- **(b)** Sale proceeds of Shares and Bonds
- **(c)** Black Money
- **(d)** None of the Above

**(vii)** Currency held by the public + Cash reserve with the commercial bank + Required reserve of commercial bank with the RBI + Other deposits with RBI is equal to: **[1]**
- **(a)** Broad money
- **(b)** Narrow money
- **(c)** High powered money
- **(d)** Standard money

**(viii)** Indian Railways charges lower freight rates for transporting essential products like food, coal etc., as compared to freight charges for other products like T.V., Air coolers etc. This is an example of: **[1]**
- **(a)** Price ceiling.
- **(b)** Price discrimination.
- **(c)** Price control.
- **(d)** Floor pricing.

**(ix)** As per the marginal revenue and marginal cost approach, it will be profitable for a firm to produce when: [1]
- **(a)** MR = AR
- **(b)** MR> MC
- **(c)** AR <MR
- **(d)** MC >MR

**(x)** Complete the following table: **[1]**

| INCOME (Y) ₹ | CONSUMPTION (C) ₹ | MPC ₹ | MPS ₹ |
|---|---|---|---|
| 8000/- | 6800/- | | |
| 10000/- | 8000/- | | |

**(xi)** Define autonomous investment expenditure. **[1]**

**(xii)** What is the difference between *revaluation of domestic currency* and *appreciation of domestic currency*? **[1]**

**(xiii)** State whether the following statement is True or False. Give one reason for your answer.
Undistributed profits are not a part of domestic factor income.

**(xiv)** An oligopolist has an indeterminate demand curve. What is the reason for this feature of Oligopoly? **[1]**

**(xv)** When demand and supply increase by equal percentage, what happens to the equilibrium price? **[1]**

**(xvi)** What does $0<c<1$ signify? **[1]**

## SECTION B – 32 MARKS

**Answer the following questions briefly.**

**Question 2.**

**(i)** The following headline appeared in the newspaper – **[2]**
"Crop damage in Himachal Pradesh sent tomato prices soaring in Delhi." Analyse the statement with reference to the relationship between price and supply.

**(ii)** The initial demand for a commodity was 100 units. With a rise in price by ₹ 5, the demand for the quantity decreases by 5 units. The elasticity of demand is 1·2. Calculate the price before the change in demand. **[2]**

**Question 3.**

**(i)** State any two differences between a *direct tax* and an *indirect tax*. **[2]**

**(ii)** Refunding and Debt conversion are two methods of Debt redemption. Briefly explain these two methods of debt redemption. **[2]**

**Question 4.**

**(i)** What is *marginal cost* of a firm? **[1]**

**(ii)** Calculate Total fixed cost, Marginal cost and Average Cost from the following data: **[3]**

| Output (Units) | 0 | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| Total cost (₹) | 100 | 240 | 360 | 540 | 620 |

**Question 5.**

**(i)** Draw one graph each for substitute goods and complementary goods to show the relationship between price and demand for a good. **[2]**

**(ii)** Two indifference curves never intersect each other. Justify the statement. **[2]**

**OR**

**(i)** State the Law of Diminishing Marginal Utility. **[2]**

**(ii)** Explain how it causes negatively sloped demand curve. **[2]**

**Question 6.**

**(i)** The distance between ATC and AVC curves is larger in the beginning and gets shorter as output increases. Discuss the statement. **[2]**

**(ii)** Why do firms earn normal profit in the long run under Perfect competition? **[2]**

**Question 7.**

**(i)** What is meant by inflationary gap? **[1]**

**(ii)** Explain the role of 'repo rate' in reducing this gap. **[3]**

**Question 8.** **[4]**

**(i)** Illustrate the process of credit creation by Commercial banks with the help of a hypothetical numerical example.

**OR**

**(ii)** How does Central bank control credit by Qualitative methods?

**Question 9.**

Explain the equilibrium level of income and output determination by Aggregate demand and Aggregate supply approach with the help of a diagram. **[4]**

## SECTION C – 32 MARKS

**Question 10.**

**(i)** Mention any one difference between *cardinal utility* and *ordinal utility*. **[2]**

**(ii)** Show Consumer's equilibrium through Indifference curve approach mentioning the essential conditions. **[6]**

**(i)** State the *law of variable proportions*. Explain its three stages using a diagram. **[6]**

**(ii)** Briefly explain why the producer is comfortable in the second stage of production. **[2]**

**Question 11.**

**(i)** What is *minimum support price*? **[2]**

**(ii)** Explain the process of Maximum price legislation and rationing with the help of a diagram. **[6]**

**Question 12.**

**(i)** What is the difference between $GDP_{mp}$ and $NNP_{fc}$? **[2]**

**(ii)** Calculate *Domestic Income* and *National Income* from the following information: **[6]**

| | Items | ₹ (in Crore) |
|---|---|---|
| 1. | Rent | 120 |
| 2. | Interest | 15 |
| 3. | Profits | 45 |
| 4. | Wages & Salaries | 330 |
| 5. | Consumption of fixed capital | 150 |
| 6. | Factor income earned abroad | 30 |
| 7. | Factor income paid abroad | 60 |
| 8. | Mixed income of self-employed | 360 |
| 9. | Employer's contribution to social security schemes | 30 |

**(i)** Differentiate between *personal income* and *national income*. **[2]**

**OR**

**(ii)** Calculate the $GNP_{mp}$ and $NDP_{fc}$ from the following data: **[6]**

| | **Items** | **₹ (in Crore)** |
|---|---|---|
| 1. | Government final consumption expenditure | 800/- |
| 2. | Net factor income earned from abroad | (-) 10/- |
| 3. | Import | 300/- |
| 4. | Export | 250/- |
| 5. | Net Indirect taxes | 70/- |
| 6. | Private final consumption expenditure | 1200/- |
| 7. | Net domestic capital formation | 385/- |
| 8. | Consumption of fixed capital | 85/- |

**Question 13.**

**Read the passage given below and answer the questions that follow.**

India is predominantly an agriculture based country. It is the second largest producer of wheat in the world and wheat export is also an important component in its international business transactions. Recently, Indian Government put a ban on the export of wheat to other countries to control inflation in the country. This decision of Indian Government may decrease the flow of foreign exchange in credit side of the balance of payments of our country in comparison to the debit side of it. This may affect the Balance of Payment as India has been following flexible exchange rate system, to some extent, since 1991-92.

**(i)** What is meant by *balance of payments*? **[1]**

**(ii)** State *any two* causes of adverse balance of payments. **[2]**

**(iii)** In the context of international business relations, what does *flexible exchange rate system* mean? **[2]**

**(iv)** Why does a country need foreign exchange? **[2]**

**(v)** What economic variables are measured along x-axis and y-axis for the determination of foreign exchange rate? **[1]**

■■

# ANSWERS

## Section-A

1. (i) **Option (c) is correct.**

*Explanation:* An indifference curve is convex to the origin because of diminishing Marginal Rate of Substitution. Marginal Rate of Substitution continuously decreases because of the law of diminishing marginal utility. The marginal rate of substitution is the rate at which a consumer gives up one good for another.

(ii) **Option (a) is correct.**

*Explanation:* Supply increases by 24 percent due to 8 percent increase in price means, price elasticity of supply is greater than unitary. Thus, supply curve will be positively sloped with positive intercept.

(iii) **Option (b) is correct.**

*Explanation:* From the above options, Statement (b) is not correct. A Giffen good has an upward-sloping demand curve but in the above diagram shows downward slopping of demand curve.

(iv) **Option (c) is correct.**

*Explanation:* A perfectly elastic price demand curve is parallel to the X axis. It means the quantity demanded changes without any change in the price of the commodity.

(v) **Option (d) is correct.**

*Explanation:* From the above options, Wealth Tax and Income Tax are direct taxes. A direct tax is a type of tax that a person or organization pays directly to the government and these are non-transferable taxes.

(vi) **Option (d) is correct.**

*Explanation:* From the above, no one should be included in national income. Transfer Earnings and Sale proceeds of Shares &Bonds is a financial claim and does not contribute to any productive activity. Black money includes all funds earned through illegal activity. That's why it is not included in the calculation of National Income.

(vii) **Option (c) is correct.**

*Explanation:* High powered Money includes, currency held by the people, cash reserves of the commercial banks with the RBI, and cash of the commercial banks. The use of high-powered money comprises of the demand of commercial banks for the legal limit or required reserves with the RBI and excess reserves and the demand of the public for currency.

(viii) **Option (a) is correct.**

*Explanation:* According to the above information, Indian Railways have set price ceilings on transporting essential products. A price ceiling is the mandated maximum amount a seller is allowed to charge for a product or service. Price ceilings prevent a price from rising above a certain level.

(ix) **Option (b) is correct.**

*Explanation:* The producer achieves equilibrium only when MR= MC, but according to the above options, if the firm is producing at a quantity where MR > MC, then it can increase profit by increasing output.

(x)

| Income | Consumption | Saving | ΔC | ΔY | ΔS | MPC (ΔC/ΔY) | MPS (ΔS/ΔY) |
|---|---|---|---|---|---|---|---|
| 8,000 | 6,800 | 1,200 | 6,800 | 8,000 | 1,200 | 0.85 | 0.15 |
| 10,000 | 8,000 | 2,000 | 1,200 | 2,000 | 800 | 0.6 | 0.4 |

(xi) Autonomous investment refers to that investment which is independent of the level of income in the economy. It is the investment which is independent of the rate of interest and the level of GDP in the economy. It is type of investment which is not affected by a change in the level of income in the economy.

(xii)

| Revaluation of domestic currency | Appreciation of domestic currency |
|---|---|
| A revaluation is a calculated upward adjustment to a country's official exchange rate relative to a chosen baseline. | Appreciation of domestic currency means a rise in the price of domestic currency (say, rupee) in terms of a foreign currency (say, $). |
| Example - suppose a foreign government has set 10 units of its currency equal to $1 in U.S. currency. To revalue, the government might change the rate to five units per dollar. | Example - 1$ = 60 ₹is changed to 1$ = 55₹. It is appreciation of domestic currency & now importing 1 dollar good has become cheaper so import will increase. |

**(xiii)** The above statement is false regarding undistributed profit. Undistributed profits are retained earnings of the firms. Profits include dividend, undistributed profit & corporation tax. That's why undistributed profits are an important part of domestic factor income.

**(xiv)** An oligopolist has an indeterminate demand curve because there is a high degree of interdependence among the firms. Interdependence means that action of one firm affect the actions of other firms.

**(xv)** When increase in demand is proportional equal to increase in supply, then rightward shift occurs with demand curve is proportionately equal to rightward shift in supply curve. Consequently, the equilibrium price remains the same. However, the equilibrium quantity rises.

**(xvi)** 0<c<1 it signify the autonomous consumption expenditure in consumption function. C stands for autonomous consumption level whether income level is zero.

## Section-B

**2. (i)** When production of tomato damaged, it means supply become scarce, their prices increase. In such case, the product can be sold at a price greater than the equilibrium price. This is the fundamental economic theory that when demand exceeds supply, prices tend to rise. There is an inverse relationship between the supply and prices of goods and services when demand is unchanged.

**(ii)** Given, Initial demand (Q) = 100 units

Rise in price = ₹ 5

Fall in demand = 5 units

New demand = 95 units

Elasticity of Demand = 1.2

Initial Price = ?

According to the formula

$$\text{Elasticity} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$1.2 = 5/5 \times P/100$$

$$P = 1.2 \times 5/5 \times 100$$

$$P = 120$$

Thus, Price before change in demand = Rs 120

**3. (i)**

| Direct Tax | Indirect Tax |
|---|---|
| A direct tax is a tax that a person or organization pays directly to the entity that imposed it. | Indirect tax is a tax imposed by the government on a taxpayer for goods and services rendered. |
| Examples: - Income tax, real property tax, personal property tax, and taxes on assets, all of which are paid by an individual taxpayer directly to the government. | Examples of indirect taxes are excise tax, VAT, and service tax. |
| Direct taxes are non-transferable taxes paid by the tax payer to the government | Indirect taxes are transferable taxes where the liability to pay can be shifted to others. |

**(ii)** Redemption of debt refers to the repayment of a public loan. The simplest measure of debt redemption is to impose new taxes and get the required revenue to repay the loan principal as well as the interest. Refunding and Debt conversion are two important methods of Debt redemption.

- Refunding of debt implies the issue of new bonds and securities by the government in order to repay the matured loans. Refunding is the process by which the government raises new bonds to pay off the maturing bonds. In the refunding process, usually short-term securities are replaced by issuing long-term securities. Under this method the money burden of public debt is not relinquished but it is accumulated owing to the postponement of debt redemption.
- Conversion of loans is another method of redemption of public debt. It means that an old loan is converted into a new loan. Under this system, high-interest public debt is converted into low-interest public debt. Dalton felt that debt conversion actually relaxes the debt burden.

**4. (i)** Marginal costs refer to addition to total cost when one more unit of output is produced.

$$MC_n = TC_n - TC_{n-1}$$

Marginal costs are based on cost of hiring/ purchasing factors of production that are variable, like – labour, materials, and equipment, for example – and not fixed costs the company will have whether it increases production or not. Marginal cost is the change in total cost when one more unit of output is produced. However, when change in unit produced is more than one, then marginal cost can also be calculated as –

$$MC = \frac{\text{Change in Total Cost}}{\text{Change in units of Output}} = \frac{\Delta TC}{\Delta Q}$$

**(ii)**

| Output (Units) | Total Cost (₹) | Total Fixed Cost | Marginal Cost | Average Cost |
|---|---|---|---|---|
| 0 | 100 | 100 | | |
| 1 | 240 | 100 | 140 | 240 |
| 2 | 360 | 100 | 120 | 180 |
| 3 | 540 | 100 | 180 | 180 |
| 4 | 620 | 100 | 80 | 155 |

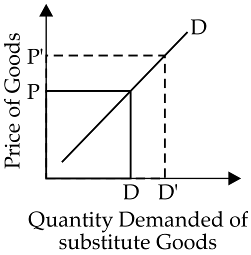
Formula for the above calculation

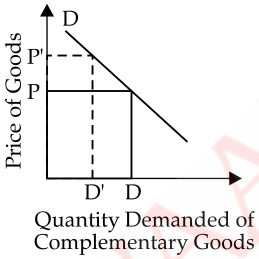
$$MC_n = TC_n - TC_{n-1}$$

$$AC = \frac{TC}{Q}$$

Note – Total cost of Zero level of output will be the Total fixed cost for entire unit of production in short run.

**5. (i)** Diagrammatic representation of both substitute goods and complementary goods

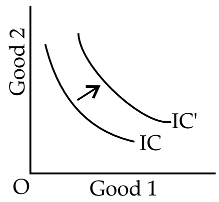



***Relationship between price and demand for a substitute good -*** Price of one substitute goods has positive relationship with quantity demanded of another substitute good which is represented in the above diagram.

***Relationship between price and demand for a Complementary good -*** Price of a complementary goods has negative relationship with quantity demanded of another complementary good.

**(ii)** As two indifference curves cannot represent the same level of satisfaction, they cannot intersect each other. It means, only one indifference curve will pass through a given point on a indifference map. They do not intersect because at the point of tangency, the higher curve will give as much as of the next commodities as is given by the lower indifference curve.




**OR**

**(i)** Law of diminishing marginal utility states that as we consume more units of a commodity, the utility derived from each successive unit goes on decreasing. It means, as consumption increases, the marginal utility derived from each additional unit declines. Law of diminishing marginal utility has universal applicability and applies to all goods and services. This law was first given by a German economist H.H Gossen. That's why it is also known as Gossen's first law of consumption.

**(ii)** When the quantity is more, the prices will fall and demand will increase. Hence, consumers will demand more goods when prices are less. This is why the demand curve slopes downwards. Diminishing marginal utility explains that as we use more of a product, the amount which we are willing to pay decreases. This is the reason that the demand curve is downward sloping. People will not pay as much for the second and third product as they will for the first.

**6. (i)** The distance between the average total cost curve and the average variable cost curve gets smaller as production increases. The vertical distance between AC and AVC curves continues to fall with increase in output because the gap between them is AFC, which continues to decline with rise in output. ATC curve is always far above the AVC curve at early levels of output because the average fixed cost is high percentage of the average total cost.

**(ii)** In a perfect market the sellers operate at zero economic surpluses sellers make a level of return on investment known as normal profits. A firm is at equilibrium when it is earning maximum profits. However, under perfect competition and monopolistic competition, firms can earn only normal profits in the long run due to freedom of entry and exit. In the long run, a firm under perfect competition earns normal profits due to freedom of entry and exit. AR = MR and both coincide in a horizontal straight line parallel to x – axis.

**7. (i)** Inflationary gap is the gap showing excess of current aggregate demand over 'aggregate supply at the level of full employment'. Excess demanded causes "inflationary gap" in the economy. In fact, it cannot rise because factors are already fully employed. Inflationary gap is measured as the difference between Planned AD which is beyond full employment level and AD that corresponds to full employment.

**(ii)** The repo rate is the rate at which the RBI gives loans to commercial banks. In order to reduce inflation, repo rate is increased which in turn increase the rate of interest for loans. Market rate of interest is raised by the commercial bank. Cost of borrowing rises. It lowers the demand for credit leading to a cut in consumption and investment expenditure in the economy.

Implying a cut in AD, as desired to curb excess demand or inflationary gap.

**8. (i)** Commercial bank receive deposits from the public. The depositors are free to withdraw, in part or full , their deposit amounts by writing cheques. The bank use the money in these deposits to give loans. These functions of the commercial banking system are the basis of deposit creation or money creation.

Suppose initially people deposit 100. The bank use this money for giving loan. But the banks cannot use the whole of deposit for this purpose. Suppose initially people deposit 100 and the LRR is 20 percent. Further suppose that banks keep only now free to lend the remainder 80. Suppose they lend 80. This increase demand deposits in banks by 80. It is 80 percent of the initial deposit. These deposits of 80 have resulted on account of loan given by the bank. Let's see this process in the below table

| **Round** | **Deposit** | **Loan** | **Cash Reserve (LRR = 0.2)** |
|---|---|---|---|
| Initial | 100 | 80 | 20 |
| | 80 | 64 | 16 |
| | 64 | 51.20 | 12.80 |
| | | | |
| | | | |
| Total | 500 | 400 | 100 |

In the above illustration, LRR is 0.2, therefore

$$\text{Money multiplier} = \frac{1}{LRR} \text{ or } \frac{1}{0.2} = 5$$

$$\text{The total money creation} = \text{initial deposit} \times \frac{1}{\text{LR}}$$

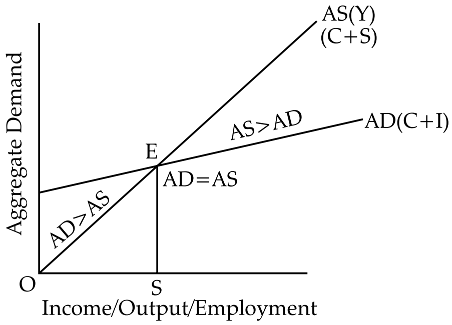
$$100 \times \frac{1}{0.2} = 500$$

**(ii)** Qualitative Methods of credit control refers to the monetary policy by the central bank which includes those instruments that focus on the selected sectors of the economy to control and regulate the money supply in these sectors. RBI implies Qualitative Methods of credit control by following ways –

- **Changes in margin requirements:** Changes in margin requirements are designed to influence the flow of credit against specific commodities. The commercial banks generally advance loans to their customers against some security or securities offered by the borrower and acceptable to banks. A rise in the margin requirement results in a contraction in the borrowing value of the security and similarly, a fall in the margin requirement results in expansion in the borrowing value of the security.
- **Regulation of Consumer Credit:** Regulation of consumer credit is designed to check the flow of credit for consumer durable goods. This can be done by regulating the total volume of credit that may be extended for purchasing specific durable goods and regulating the number installments through which such loan can be spread. Central Bank uses this method to restrict or liberalize loan conditions accordingly to stabilize the economy.
- **Credit Rationing:** Rationing of credit is a method by which the Central Bank seeks to limit the maximum amount of loans and advances and, also in certain cases, fix ceiling for specific categories of loans and advances.
- **Moral Suasion:** Moral suasion and credit monitoring arrangement are other methods of credit control. The policy of moral suasion will succeed only if the Central Bank is strong enough to influence the commercial banks.

**9.** According to Keynes, equilibrium level of income is determined by that point where aggregate demand is equal to aggregate supply. Symbolically, the equilibrium condition is given as AD = AS

C+I = C+S




In the figure,

AD = The aggregate demand curve is the vertical summation of consumption (C) and investment (I) demand schedule at each level of income.

AS = The aggregate supply or national income curve is the sum total of consumption and saving.

E = The point of Equilibrium or point of effective demand, where AD = AS or C+I = C+S

Equilibrium occurs when planned spending equals planned output.

## Section-C

**10. (i)** Cardinal Utility refers to the utility where the satisfaction derived by consuming a product can be expressed numerically. Ordinal Utility is the utility where the satisfaction derived by consuming a product cannot be expressed numerically.

**(ii)** Consumers Equilibrium refers to the situation when a consumer is having maximum satisfaction with limited income and has no tendency to change his way of existing expenditure. The point of maximum satisfaction is achieved by studying indifference map and budget line together. On an indifference map, higher indifference curve represents a higher level of satisfaction than any lower indifference curve. So, a consumer always tries to remain at the highest possible indifference curve, subject to his budget constraint.

Conditions of consumers equilibrium

- $MRS_{xy}$ = Ratio of price or $\frac{Px}{Py}$

  Lets the two goods be x and Y. The first condition is that $MRS_{xy} = \frac{Px}{Py}$
- The second condition for consumer's equilibrium is that MRS must be diminishing at the point of equilibrium, i.e, the indifference curve must be convex to the origin at the point of equilibrium. Unless MRS continuously falls, the equilibrium cannot be established.

**OR**

**(i)** Law of variable proportion is one of the most important law of production. It states that as we increase quantity of only one input keeping other input fixed, total product initially increases at an increasing rate, then at a decreasing rate and finally at a negative rate.

| Unit of Land (Acres) | Unit of Labour | Total Production | Average Production | Marginal Production |
|---|---|---|---|---|
| 10 | 0 | - | | |
| 10 | 1 | 20 | 20 | 20 |
| 10 | 2 | 50 | 25 | 30 Stage - I |
| 10 | 3 | 90 | 30 | 40 |
| 10 | 4 | 120 | 30 | 30 |
| 10 | 5 | 140 | 25 | 20 |
| 10 | 6 | 150 | 28 | 10 Stage - II |
| 10 | 7 | 150 | 25 | 0 |
| 10 | 8 | 140 | 21.3 | -10 Stage-III |

From the above table it is clear that there are three stages of the law of variable proportion. In the first stage average production increases as there are more and more doses of labour and capital employed with fixed factors (land). We see that total product, average product, and marginal product increases but average product and marginal product increases up to 40 units. Later on, both start decreasing because proportion of workers to land was sufficient and land is not properly used. This is the end of the first stage.

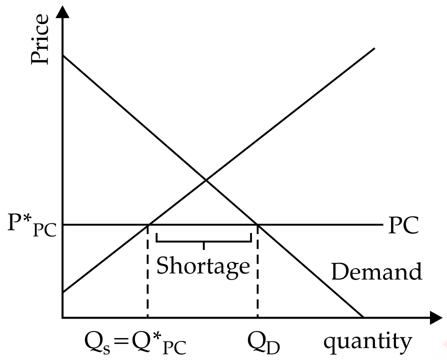
The second stage starts from where the first stage ends or where AP=MP. In this stage, average product and marginal product start falling. We should note that marginal product falls at a faster rate than the average product. Here, total product increases at a diminishing rate. It is also maximum at 70 units of labour where marginal product becomes zero while average product is never zero or negative.

The third stage begins where second stage ends. This starts from 8th unit. Here, marginal product is negative and total product falls but average product is still positive. At this stage, any additional dose leads to positive nuisance because additional dose leads to negative marginal product.

**(ii)** The producer is comfortable in the second stage of production because In this stage, total product increases at diminishing rate and is at its maximum point correspondingly marginal product diminishes rapidly and becomes 'zero'. Average product is maximum at point and thereafter it begins to decrease. Also, in this stage, the labour units do not utilize the fixed factors to the optimum level as higher labours implies higher output. Thus, if a producer starts producing in the first stage, then in an attempt to raise the production by increasing the labour inputs, he will surely reach the second stage of production.

**11. (i)** Minimum support price are the prices which is determined by the government for procuring certain crops from farmers to insure them against any sharp fall in prices. It is an integral component of Agriculture Price Policy and it strives to ensure support price to farmers and affordable prices to the consumer. "It is important because all farmers are assured at least the minimum price for their produce,"

**(ii)** Government Plays an important role in controlling the prices of essential commodities when the equilibrium price determined by free play of demand and supply is too high for the poor people. In order to protect the interest of the consumers the government imposes price ceiling or maximum price above which no one will sell the commodity. This is called 'price ceiling' or 'maximum price legislation'. Whenever the forces of demand and supply are allowed to fix market prices of commodities in a competitive market, some of the prices may be unfairly high to buyers or unfairly low to sellers. In such instances, the government may attempt to regulate or limit prices through legislation. Definition – A maximum price occurs when a government sets a legal limit on the price of a good or service – with the aim of reducing prices below the market equilibrium price. If the maximum price is set below the equilibrium price, it will cause a shortage – demand will be greater than supply. Price ceiling (maximum price) – the highest possible price that producers are allowed to charge consumers for the good/service produced/provided set by the government. It must be set below the equilibrium price to have any effect.




Shortage = $Q_D - Q_S$

To meet the excess demand, Government may also enforce the Rationing system. Rationing is a technique adopted by the government to sell a minimum quota of essential commodities at a price less than equilibrium price to supply goods to the poor community at a cheaper price. Under this system, consumer is given ration card/coupons to buy commodities at a cheaper price from ration shop.

**12. (i)**

| $GDP_{MP}$ | $NNP_{FC}$ |
|---|---|
| $GDP_{mp}$ is the money value of all final goods and services produced within the domestic territory of a country during an accounting year. | $NNP_{fc}$ is defined as the measure of the factor earnings of the residents of a country, both from economic territory and abroad. |
| It can be calculated as follows: $GDP_{mp} = \Sigma GVA$ (of all sectors). | It can be calculated as follows: $NNP_{fc} = NDP_{fc} + NFIA$. |

**(ii)** Domestic Income (NDPFC) = Rent + interest + Profit + Wage and salaries + Mixed income of self-employed + Employer's contribution to social security schemes - Consumption of fixed capital

= (1) + (2) + (3) + (4) + (8) + (9) – (5)

= 120 + 15 + 45 + 330 + 360 + 30 – 150

= ₹ 750 crore

National Income (NNPFC) = Domestic Income + Net factor income from abroad

= NDPFC + (Factor income earned abroad - Factor income paid abroad)

= 750 + (30 – 60)

= 720

**OR**

**(i)**

| *Personal income* | *National income* |
|---|---|
| Personal income measures national level income to persons and non-profit corporations | National income is the total market value of production in a country's economy during a year. |
| Personal income is a concept related to the receipts of income. | National income is a concept related to the generation of income |
| Personal income includes both factor incomes as well as transfer payments. | National income comprises factor incomes only |

**(ii)** $GNP_{MP}$ = Government final consumption expenditure + Net factor income earned from abroad + (Export – Import) + Private final consumption expenditure + Net domestic capital formation + Consumption of fixed capital.

= 800 + (-) 10 + (250 – 300) + 1200 + 385 + 85

= 2410

$NDP_{FC}$ = $GNP_{MP}$ - (Export – Import) - Consumption of fixed capital - Net Indirect taxes

= 2410 + 50 – 85 – 70

= 2305

**13. (i)** The balance of payments of a country is a systematic record of all economic transactions between its residents and rest of the world during a given period of time.

**(ii)** As per the above information, Deficit in the balance of payments may be caused due to number of factors.

**(a)** The most important factor is Domestic inflation. When there is inflation in the domestic economy, foreign goods become relatively cheaper as compared to domestic goods. It increases imports which causes a deficit in the BOP.

**(b)** When the domestic economy is going through a phase of boom, then domestic production may be unable to satisfy the domestic demand. It leads to a deficit in BOP, due to increase in imports.

**(iii)** A flexible exchange-rate system is a monetary system that allows the exchange rate to be determined by supply and demand. It is also called 'free exchange rate' as it is determined by the free play of supply and demand forces in the international money market.

**(iv)** Foreign Currency is the spine of international investments and global trading. Without it, it would be nearly impossible to determine the value of goods and services imported and exported by different countries to each other. A country, like India need reserves to pay external debts, affords capital to fund sectors of the economy, and profit from diversified portfolios. Countries use foreign currency reserves to keep a fixed rate value, maintain competitively priced exports, remain liquid in case of crisis, and provide confidence for investors.

**(v)** For the determination of foreign exchange rate under floating regime, the market forces of supply and demand for foreign exchange economic variables are represented along x-axis and y-axis.

■■