Answer key

1. i) Monopoly – Indian Railway, KSEB
   ii) Monopolistic competition – Toothpaste, Soap
2.

Relative size of budget		Type of Budget
(i)	Revenue > Expenditure	Surplus Budget
(ii)	Revenue = Expenditure	Balanced Budget
(iii)	Revenue < Expenditure	Deficit Budget

3. Price elasticity of demand

$$Ep = \frac{\text{Proportionate change in quantity demanded}}{\text{Proportionate change in Price}}$$

$$Ep = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$\Delta Q = 8\text{-}6 = 2$

$\Delta P = 6\text{-}5 = 1$

$P = 5$

$Q = 8$

$$Ep = \frac{2}{1} \times \frac{5}{8} = \frac{10}{8}$$

$$= 1.25$$

4.

Concept	Term

(i)	Branch of economics which studies the behavior of individual economic units	Micro Economic
(ii)	The Govt. imposed lower limit on the price that may be changed for a particular good or service	Price Ceiling

5. i) Balance of Trade
ii)Balance of Payment

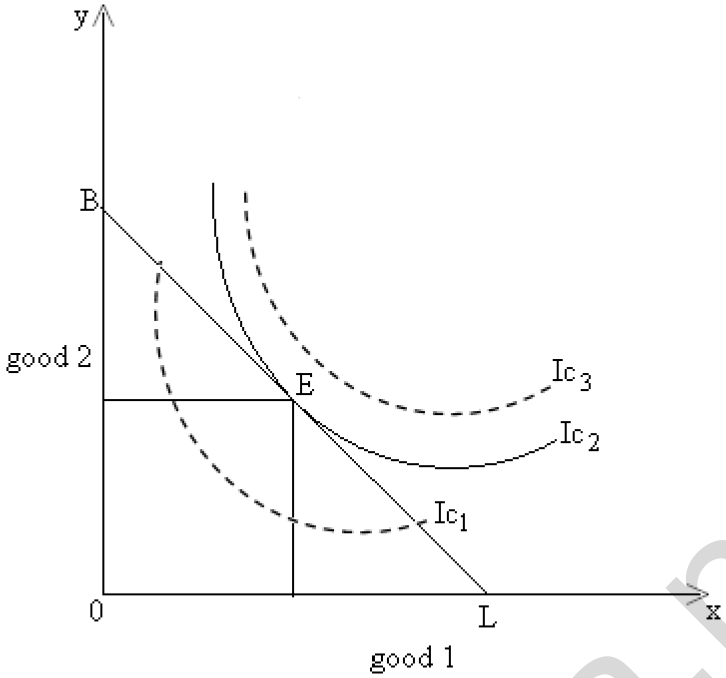
6.

Units of output	TFC	TVC	TC	AFC	AVC	AC	MC
1	50	30	80	50	30	80	-
2	50	50	100	25	25	50	20
3	50	60	110	16.67	20	36.67	10
4	50	65	115	12.5	16.25	28.75	5
5	50	75	125	10	15	25	10

7. (ii) 1936

8. Consumer's equilibrium is the optimum point. It is the point of maximum satisfaction. A consumer is said to be in equilibrium when he gets maximum satisfaction out of his limited income. Consumer is a rational person. He knows what is good or what is bad. In any given situation he chooses the bundle which he prefers the most. We can clearly explain the consumer's equilibrium with the help of indifference map and budget line. Indifference line shows different levels of satisfaction. Budget line shows budget set. The consumer would locate

the optimum point on the budget line where the budget line is tangent to one of the indifference curve. This is depicted below



Point 'E shows the consumer's optimum.

9.

Stock	Flows
Wealth	Income
Investment	Consumption
Capital stock	Expenditure

10.i) True
ii) False

11.GNP = GDP_{MP} – Net factor income from abroad
= 65665 – 750
= 64915crores

NDP = GDPMP – Depreciation
= 65665 – 2250
= 63415 crores

12. ii) A market situation with only a few sellers.

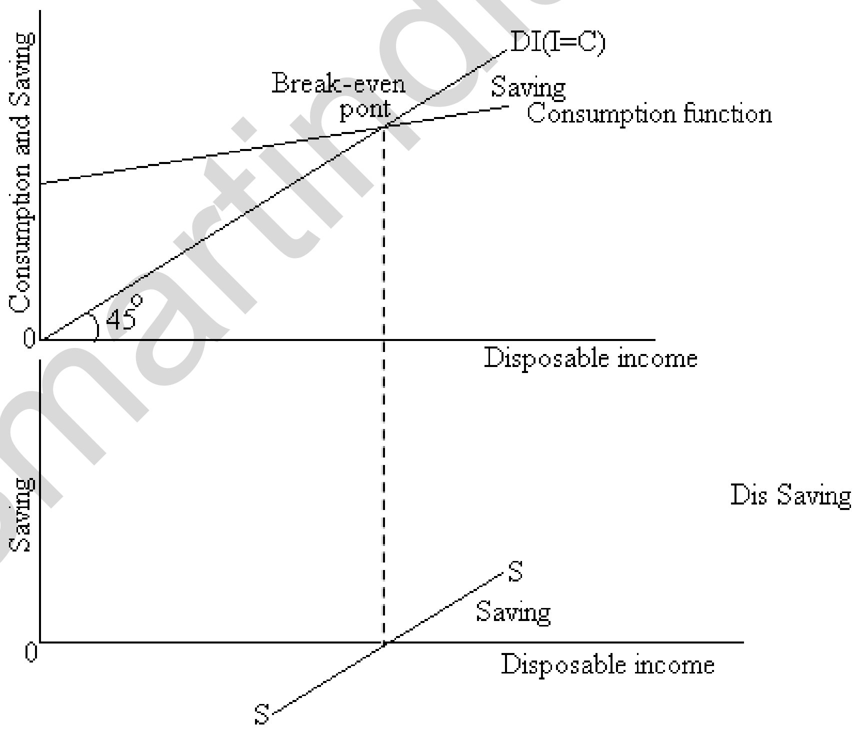
13. –

14. Example :- Agricultural price support programmes and the minimum wage legislation.

15. Aggregate demand is the total demand for goods and services in the economy. Aggregate demand consists of four components.

(i) Household consumption demand:

Household consumption demand depends on the level of disposable income. As the disposable income increases, consumption demand also increases. The relationship between income and consumption is called consumption function. Generally, as the level of disposable income increases, consumption also increases, but by less than the increase in income. The unspent part of income represents savings. So it implies that saving increases as income increases and rate of increase in saving is higher than that of income. The following diagram illustrates consumption function and saving function.



(ii). Private investment demand :

The second component of aggregate demand is investment. Investment means addition to the existing stock of capital goods in the nature of equipment, residential structures and inventory. Entrepreneurs invest capital, expecting profits. Therefore, they will make investment only if the return from investment is more than the cost of investment.

(iii). Government demand :

Government expenditure of government's demand for goods and services is the third component of aggregate demand. Expenditure on defense, law and order, administration, education etc. are major items of government expenditure. Varying government expenditure is an important tool for demand management.

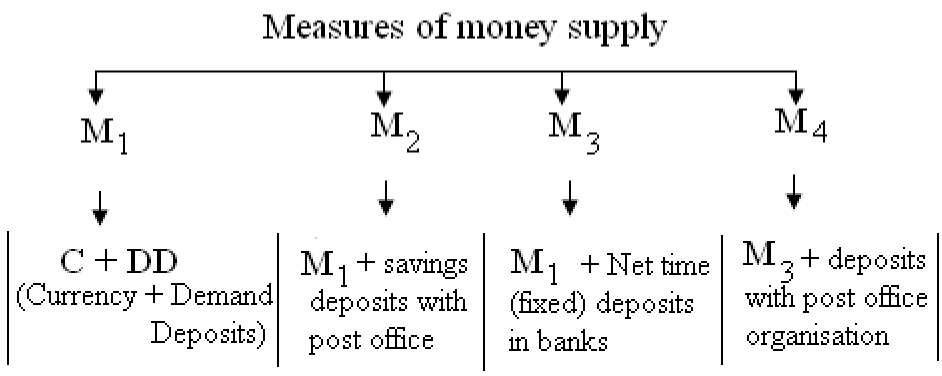
(iv). Net export :

The fourth component of aggregate demand is net exports. Net exports is the difference between exports and imports. Net exports represent the external demand for goods and services produced by a country.

16.

Variable input	T.P.	Stage of Production
0	0	Ist phase
1	10	Ist phase
2	20	Ist phase
3	30	IIst phase
4	30	IIst phase
5	28	IIIst phase
6	26	IIIst phase

17. (iii) Monopoly
18. (a) .



(b).

Narrow Money	Broad Money
M_1	M_3
M_2	M_4

(c). Most → M_1

Liquid → M_4

Qty. of Good X	TR	TC	Profit	Price good x
0	0	10	-10	-
1	10	14	-4	10
2	20	20	0	10
3	30	24	6	10
4	40	30	10	10
5	50	46	4	10
6	60	66	-6	10
7	70	80	-10	10

19.

$$\text{GDP deflator} = \frac{\text{Normal GDP}}{\text{Base year GDP}} \times 100$$

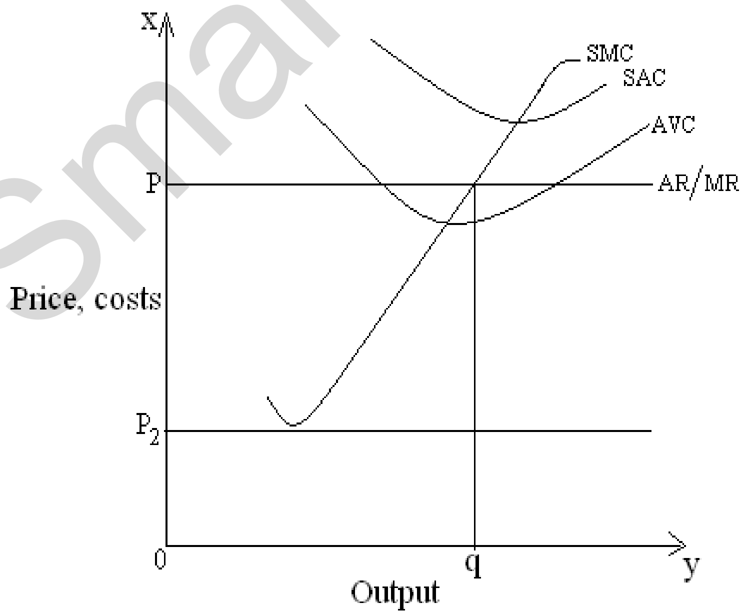
$$= \frac{2800}{3200} \times 100$$

$$= 0.875 \times 100$$

$$= \underline{\underline{87.5 \text{ crores}}}$$

20. The firm maximizes its profit at a certain level of output, which satisfies the following there conditions.

i) The market price 'p' is equal to the marginal cost. ie, p=Mc =MR
ii) The marginal cost is non-decreasing.
iii) In the short run the market price p, must be greater than or equal to the average variable cost.



SMC = Short run Marginal Cost

SAC = Short run Average Cost

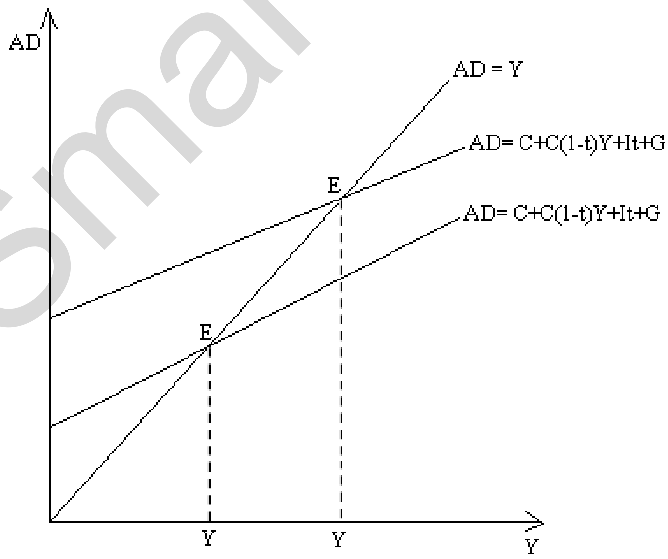
AVC = Average Variable Cost

AR = Average Revenue, MR = Marginal Revenue

When the market price is P, the output level of the firm is 'oq' and at p2 the firm produces 'zero' level of output which means the firm chooses 'p' as the market price.

21. The price of one currency in terms of the other is known as the exchange rate.
Rate of exchange = 300/6 = 50.

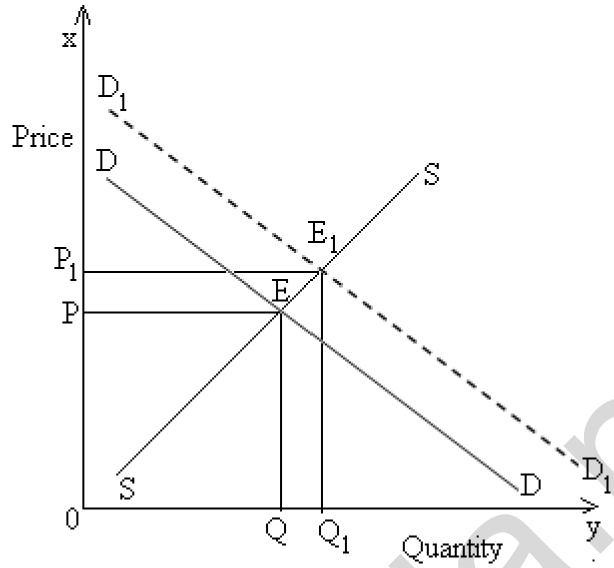
22.



Increase in Government Expenditure.

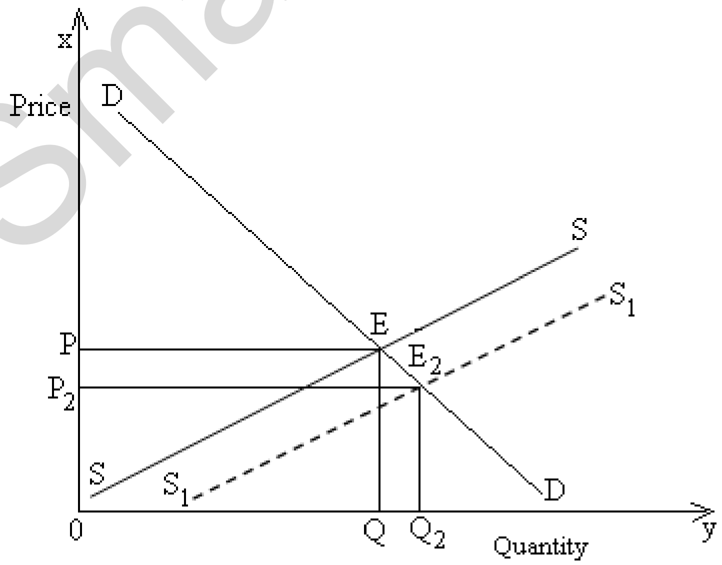
When income rose as a result of an increase in government spending in the case of lump-sum taxes, consumption increased by C times.

23. (iii) Theory of Income and Employment
24. i) Increase in demand



D, D_1 shows rightward shift in demand curve. Due to this it creates a new equilibrium position E_1 which determines a new equilibrium price (P_1) and equilibrium quantity (Q_1). These are greater than the initial equilibrium price (P) and quantity (Q).

ii) Increase in supply



Increase in supply (S, S_1) causes increases in equilibrium quantity (Q_1) and decrease in equilibrium price (P_1).