



# ECONOMICS

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**Maximum Marks: 80**

**Time Allotted: Three Hours**

**Reading Time: Additional Fifteen Minutes**

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## Instructions to Candidates

- You are allowed **additional fifteen minutes** for **only** reading the question paper.
- You must **NOT** start writing during reading time.
- This question paper has **9 printed pages**.
- It is divided into **three sections** and has **13 questions** in all.
- All questions are compulsory. Answer **all** questions.
- **Section A** has **sixteen subparts** which are very short answer questions. Each question carries 1 mark.
- While attempting **Multiple Choice Questions** in Section A, you are required to **write only ONE option as the answer**.
- **Section B** has **eight questions** which are short answer questions. Each question carries 4 marks.
- **Section C** has **four questions** which are long answer questions. Each question carries 8 marks.
- **Internal choices** have been provided in **two questions in Section B** and in **one question in Section C**.
- The intended marks for questions are given in brackets [ ].

## Instruction to Supervising Examiner

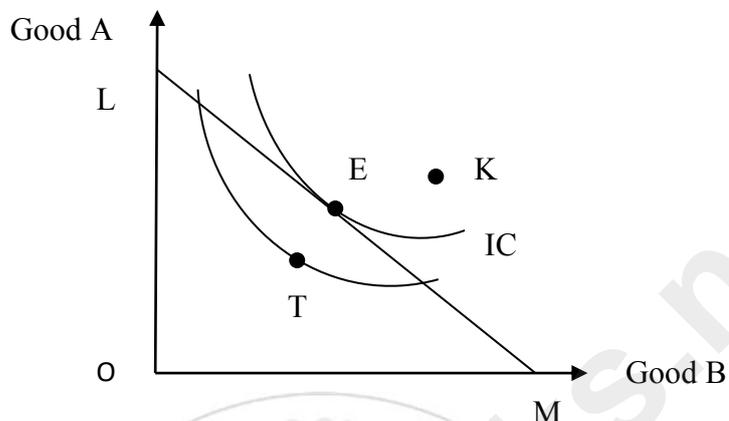
- Kindly read **aloud** the Instructions given above to all the candidates present in the examination hall.

## SECTION A – 16 MARKS

### Question 1

(i)

[1]



Points K and T will **NOT** be attained by the consumer. Select the reason from the options given below. **(Understanding)**

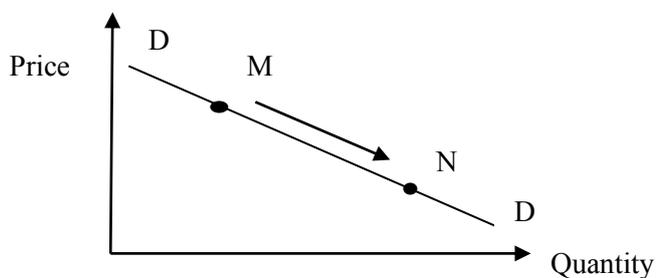
- (a) K does not lie on any IC and entire money is not spent at T.
- (b) K is beyond the financial capacity of the consumer and T provides a lower level of satisfaction.
- (c) Equilibrium should be unique and that is point E.
- (d) K gives more of both the goods A and B and T gives less B.

(ii) Utility maximising consumers would like to decrease the consumption when **(Understanding)** [1]

- (a)  $MU_x = P_x$
- (b)  $MU_x > P_x$
- (c)  $MU_x < P_x$
- (d)  $MU_x = P_y$

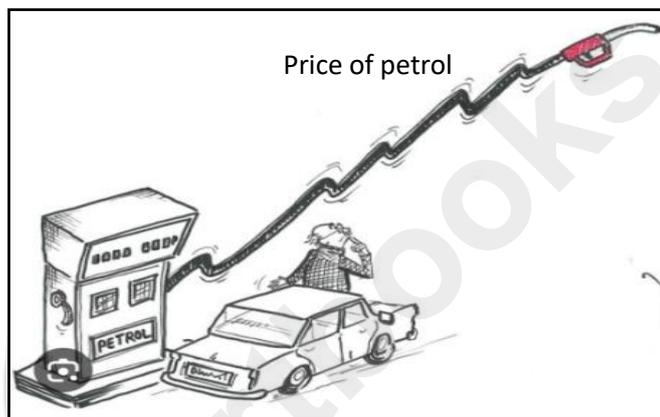
(iii)

[1]



With reference to the diagram shown above, select the reason for the movement from point M to N from the following options. **(Analysis)**

- (a) Increase in the real income of the consumer and rise in relative price of the commodity.
  - (b) Increase in the real income of the consumer and fall in relative price of the commodity.
  - (c) Decrease in the real income of the consumer and rise in relative price of the commodity.
  - (d) Decrease in the real income of the consumer and fall in relative price of the commodity.
- (iv) Naseer is planning to buy a car for his family. Observe the image shown below and select the **MOST** rational reaction of Naseer. **(Application)** [1]



- (a) Naseer will not change his decision to buy a car.
  - (b) He will postpone his plan to buy a car.
  - (c) Naseer will become indecisive.
  - (d) He will decide to purchase two cars instead of one.
- (v) Which one of the following statements is **CORRECT** with reference to government budget? **(Application)** [1]
- (a) Interest paid on government's borrowing reduces liability of the government.
  - (b) Financial aid received from the World Bank for cyclone affected areas is revenue receipt.
  - (c) Grants given by the central government to the state government is capital expenditure.
  - (d) Profits of BHEL, a PSU, increases the assets of the government.
- (vi) If the value of US Dollar increases continuously in terms of Yen, it will result in **(Understanding)** [1]
- (a) more import from USA by Japan.
  - (b) more import from Japan by USA.

- (c) more export of USA to Japan.
- (d) less export of Japan to USA.
- (vii) Sometimes, a firm considers the action and reaction of its rival firms while determining its price and output levels.  
Which market form does such firm belong to? **(Recall)** [1]
- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly
- (viii) Given below are two statements marked as Assertion and Reason. Read the statements carefully and choose the correct option. **(Analysis)** [1]
- Assertion:** A firm is able to sell more quantity of a commodity by reducing its price.
- Reason:** As it sells additional units of the commodity at a lower price, the firm's marginal revenue will be less than its average revenue.
- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true but Reason is not the correct explanation of Assertion.
- (c) Assertion is true and Reason is false.
- (d) Both Assertion and Reason are false.
- (ix) Given below are two statements marked as Assertion and Reason. Read the statements carefully and choose the correct option. **(Analysis)** [1]
- Assertion:** GST is a kind of Proportional tax.
- Reason:** The tax rate remains same irrespective of the level of income of the people.
- (a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true, but Reason is not the correct explanation of Assertion.
- (c) Assertion is true and Reason is false.
- (d) Both Assertion and Reason are false.
- (x) Oligopoly differs from monopolistic competition on the basis of number of sellers. [1]  
State any other difference between these two market forms. **(Recall)**
- (xi) APC can be greater than one, but MPC is always less than one. Give a reason to justify this phenomenon. **(Understanding)** [1]

- (xii) If aggregate demand exceeds aggregate supply in a situation of full employment, what will be its impact on the economy? **(Understanding)** [1]
- (xiii) If autonomous payments are higher than autonomous receipts, how can BOP be brought into balance? **(Understanding)** [1]
- (xiv) Monopsony is regarded as a buyers' market. Do you agree? Give a reason. **(Evaluate)** [1]
- (xv) Illustrate that Investment multiplier is inversely proportional to MPS. **(Understanding)** [1]
- (xvi) Cite *one* measure to overcome a deflationary gap. **(Recall)** [1]

## SECTION B – 32 MARKS

### Question 2

- (i) *Prices of air conditioners and refrigerators have shot up in the new year as consumer durables makers pass on the impact of rising raw material costs and higher freight charges to customers, while home appliances like washing machines may witness 5-10 per cent price hike later this month or by March.*  
(Source: *The Economic Times*)  
Explain the behaviour of supply of this consumer durable. Illustrate the same in a diagram. **(Understanding)** [2]
- (ii) If the price hike in the market is about 10% and this leads to the fall in the quantity demanded by 12%, calculate the price elasticity of demand. Mention the degree of price elasticity of demand. **(Application)** [2]

### Question 3

- (i) Union Finance Minister Mrs. Nirmala Sitharaman announced during her Budget speech that the Centre would reduce its fiscal deficit to 5.1% of gross GDP in 2024 – 25. (The present fiscal deficit is 5.8% of GDP.)  
(Source: *Union budget 2024-25*)  
What would be the impact of this decision on government borrowing? Why? **(Understanding)** [2]
- (ii) It is believed that increase in public expenditure leads to Inflation. Under what circumstances, may a government consider it prudent to increase public expenditure to control inflation? **(Understanding)** [2]

#### Question 4

- (i) Given that fixed cost is Rs.30. Calculate TVC and TC from the following data. [2]  
(Application)

<b>Output(units)</b>	0	1	2	3
<b>Marginal Cost</b>	0	10	15	25

- (ii) Cite *any two* differences between Returns to Factor and Returns to Scale. [2]  
(Understanding)

OR

- (i) Draw a well labelled diagram to show AFC and AC curves. State the nature of each curve. [2]  
(Understanding)
- (ii) Study the data given below and identify the laws followed in the production of A and B depicted in the Table I and Table II. Justify your answer with a reason for each. [2]  
(Analysis)

Table I			Table II		
Machines	Labour	Output of A (units)	Machines	Labour	Output of B (units)
5	10	1000	5	10	400
5	11	1150	10	20	800
5	12	1310	15	30	1200

#### Question 5

- (i) A perfectly competitive firm always enjoys normal profit in the long run irrespective of the situation it faces in the short run. Discuss the statement in brief. [2]  
(Understanding)
- (ii) A car company 'W' hired an international cricket player for its endorsement in India while two other car companies 'Y' and 'R' hired two famous Bollywood film stars for this purpose. Explain the feature of the competitive market indicated above. [2]  
(Understanding)

#### Question 6

- (i) A firm under perfect competition is a price taker but the industry is the price maker. Defend or refute this statement by giving a reason. [2]  
(Evaluate)
- (ii) Normal profits for a firm imply that the firm is breaking even. Explain. [2]  
(Understanding)

#### Question 7

- (i) India has been operating on a managed floating exchange rate regime since March 1993. Explain the statement. [2]  
(Understanding)
- (ii) List different components of Balance of Payment on current account and capital account. [2]  
(Recall)

### Question 8

- (i) With the help of a reason, explain why the following are included in calculation of National Income. [2]  
(a) Goods supplied free of cost by the government (Understanding)  
(b) Own account production
- (ii) Outline *any two* precautions that should be taken in estimation of National income by Expenditure method. [2]  
(Understanding)

OR

- (i) Differentiate between Personal income and Private income. [2]  
(Understanding)
- (ii) Why are net exports added in the total expenditure in measuring National income by Expenditure method? [2]  
(Understanding)

### Question 9

With the help of a diagram, determine the equilibrium level of output and income by using Aggregate demand and Aggregate supply approach. [4]  
(Understanding)

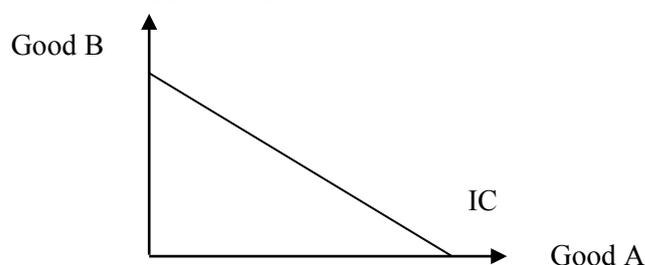
## SECTION C – 32 MARKS

### Question 10

- (i) What are Average product and Marginal product? With the help of a suitable diagram, discuss the relationship between Average product and Marginal Product. [6]  
(Understanding)
- (ii) Which stage of the Law of Variable proportions will be the best for the producer? Explain with a reason. [2]  
(Understanding)

### Question 11

- (i) Will you defend or refute the case depicted in the following diagram? Provide a rationale in support of your view. [2]  
(Evaluate)



- (ii) Name the law which deals with the behaviour of marginal utility when the consumer consumes a commodity continuously at a given time. Explain this law with the help of a diagram. [6]  
(Understanding)

### Question 12

- (i) Discuss the categories of Factor income considered in calculating the National income by Income method. **[4]**  
**(Understanding)**
- (ii) Calculate  $GDP_{mp}$  and  $NNP_{fc}$  from the following data. **[4]**  
**(Application)**

	<u>Items</u>	<u>₹ (in Crore)</u>
(i)	Wages & salaries	170
(ii)	Rent	10
(iii)	Interest	20
(iv)	Profits	25
(v)	Dividend	12
(vi)	Royalty	5
(vii)	Employer's contribution to social security	30
(viii)	Net factor income from abroad	(-3)
(ix)	Consumption of fixed capital	34
(x)	Net indirect tax	38

**OR**

- (i) Explain the different components of Final Expenditure in calculating the National income by Expenditure method. **[4]**  
**(Understanding)**
- (ii) Calculate  $GNP_{mp}$  using Income method and Expenditure method from the following data. **[4]**  
**(Application)**

	<u>Items</u>	<u>₹ (in Crore)</u>
(i)	Private final consumption expenditure	800
(ii)	Net exports	20
(iii)	Rent	40
(iv)	Interest	60
(v)	Government final consumption expenditure	200
(vi)	Profit	120
(vii)	Net domestic capital formation	100
(viii)	Compensation of employees	800
(ix)	Net indirect taxes	100
(x)	Consumption of fixed capital	20
(xi)	Net factor income from abroad	(-) 30

### Question 13

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

In India, Fixed deposits have long been a favourite investment choice of people especially senior citizens as it promises steady returns. It attracts those people who are seeking a stable income. But it's an illusion in the period of inflation.

Inflation is the rate at which the general level of prices for goods and services rises, subsequently eroding the purchasing power of money. In simple terms, what money could buy today, it might not a few years down the line. Fixed deposits are financial instruments offered by banks where you deposit a lump sum amount for a fixed period at a predetermined rate of interest. Consider an investment of Rs 1 crore in a fixed deposit at a 6% annual interest rate and the annual rate of inflation is 5%. By the 10<sup>th</sup> year your pre inflation return is 1.79 crore, but post inflation it's just 1.10 crore. The nominal value of investment in fixed deposits may appear to grow, inflation significantly diminishes their real value and purchasing power over time.

Year	Beginning Amount (in Rs Crore)	Interest Earned (in Rs Crore)	End of Year Total (in Rs Crore)	Adjusted for Inflation (in Rs Crore)
1	1	0.06	1.06	1.01
10	1.69	0.10	1.79	1.10
20	3.03	0.18	3.21	1.21

Assumptions: i. FD at a 6 percent annual interest rate  
ii. Annual inflation rate of 5 percent

(Source: <https://www.linkedin.com>)

- (i) What is the theme of the extract? **(Interpretation)** [2]
- (ii) Differentiate between Demand pull and Cost push inflation. **(Understanding)** [2]
- (iii) What are the *demand deposits* and *time deposits*? **(Recall)** [2]
- (iv) Since 1998 RBI has been using new measures of money supply,  $M_0$ ,  $M_1$ ,  $M_2$  and  $M_3$ . Which *one* of these measures incorporates fixed deposit as one of its components? Mention the other components of that measure. **(Understanding)** [2]



# ECONOMICS

## ANSWER KEY

### SECTION A – 16 MARKS

#### Question 1

**In answering Multiple Choice Questions, candidates have to write either the correct option number or the explanation against it. Please note that only ONE correct answer should be written.**

- (i) (b) K is beyond the financial capacity of the consumer and T provides a lower level of satisfaction. [1]
- (ii) (c)  $MU_x < P_x$  [1]
- (iii) (b) Increase in the real income of the consumer and fall in relative price of the commodity. [1]
- (iv) (b) He will postpone his plan to buy a car. [1]
- (v) (b) Financial aid received from the World Bank for cyclone affected areas is revenue receipt. [1]
- (vi) (b) more import from Japan by USA. [1]
- (vii) (d) Oligopoly [1]
- (viii) (b) Both Assertion and Reason are true but Reason is not the correct explanation of Assertion. [1]
- (ix) (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion. [1]
- (x) [1]

Basis	Monopolistic competition	Oligopoly
Type of product	Firms sell differentiated products	Firms sell homogeneous or differentiated products
Entry and Exit	There is a free entry of firms.	Entry of firms is restricted.
Control over market price	Every firm has fairly large control over price of its own product	Each firm exercises substantial control over price.

*(Candidates are required to state any one difference between the two market forms. The differences must be written in a complete sentence and not in a phrase or captions. There must be a common basis of contrast.)*

- (xi) When  $C > Y$ ,  $APC = C/Y > 1$ ; but MPC is always less than 1 because increase in consumption expenditure is always less than increase in income as a part of increased income is used for saving as well. [1]
- (xii) It will generate inflationary gap or will lead to inflation. [1]

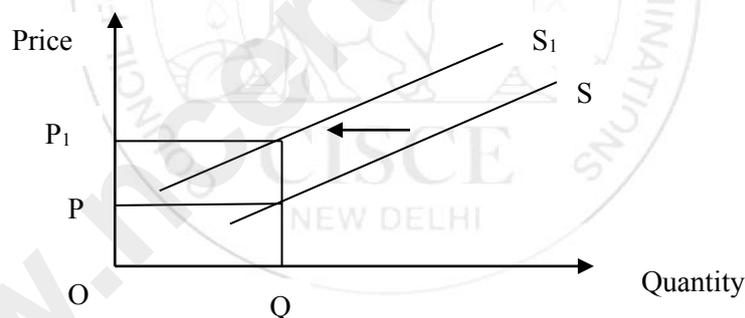
- (xiii) Through accommodating capital receipt. [1]
- (xiv) As there is a single buyer in the market, the buyer influences the market in determination of price of the product. So it's regarded as buyers' market for the dominance of buyer. [1]
- (xv) Investment multiplier  $(k) = \frac{1}{MPS}$ . Higher MPS reduces  $k$  and lower MPS raises  $k$ . [1]
- (xvi)
  - Direct tax rate is to be reduced. [1]
  - Government can increase its expenditure.
  - Policy of deficit financing can be followed.
  - Central bank can reduce bank rate, repo rate, CRR, SLR.
  - Central bank can purchase government securities from open market.

*(Candidates have to mention one measure through which deflationary gap can be reduced. Any other relevant measure will be accepted.)*

### SECTION B – 32 MARKS

#### Question 2

- (i) Supply will decrease as the same supply will be at higher price (or lower supply at the same price) due to an increase in the cost of production and transportation. Supply curve will shift leftwards as shown below. [2]



*(Candidates are required to briefly explain the impact on supply as a result of the change in other factors. The explanation given must be in relation to the situation given in the extract.)*

- (ii)  $e_p = \frac{\% \text{ change in Quantity demanded}}{\% \text{ change in price}} = \frac{12}{10} = 1.2$  [2]

Here  $e_p > 1$ . Therefore, demand is (relatively) elastic.

*(Candidates must write the mathematical expression and then deduce the price elasticity of demand.)*

### Question 3

- (i) Decision of reduction of fiscal deficit will lead to a decrease in government borrowing because [2]

Fiscal deficit = Total expenditure of the government — (Revenue receipt + Recoveries of loan + other receipts of the government) = Borrowing and other liabilities of the government.

Therefore, reduction of fiscal deficit will lead to reduction of borrowing.  
(Candidates have to

- (ii) In the situation of emergency, like natural calamity, pandemic (COVID 19) etc. government can provide subsidies to the sellers or producers of the basic necessities to control the upward pressure on prices of these commodities. In this situation government has to increase its expenditure for providing this subsidy. [2]

*(Candidates have to mention a specific situation when the government has to adopt policies to take this unusual step.)*

### Question 4

- (i) [2]

Output	Marginal Cost	TVC	TC
0	0	0	30
1	10	10	40
2	15	25	55
3	25	50	80

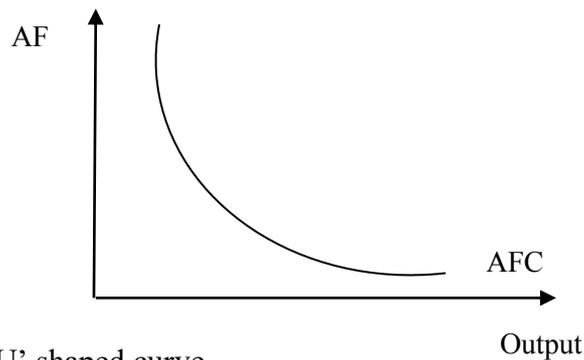
- (ii) [2]

Basis	Returns to a Factor	Returns to Scale
Law	It means or indicates a change in the level of output due to change in any one factor, keeping other factors constant.	It means or indicates a change in the level of output due to change in all the factors of production at a particular rate.
Variability of factors	Here factor proportion i.e. K/ L, changes.	In this case, factor proportion, i.e. K/L, remains constant.
Types of returns	Three possible returns to a factor are, increasing return, constant return and diminishing return to a factor	There are three types of returns to scale, like, increasing returns to scale, constant returns to scale and decreasing returns to scale.
Applicability	It's applicable in the short run.	It's applicable in the long run.

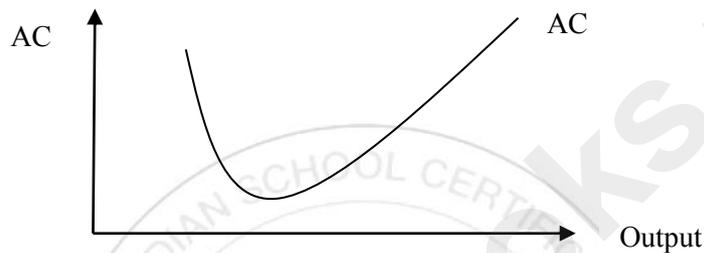
*(Candidates are required to write any two distinctions between the two laws. The differentiation should be done on a common basis.)*

OR

- (i) AFC curve is a rectangular hyperbolic curve or it's asymptotic. [2]



AC curve is a 'U' shaped curve.



- (ii) Table I depicts the Law of Variable proportions. Here, output increases due to change in K/L ratio, i.e., due to change in labour only while machine remains constant. [2]  
Table II depicts the law of Returns to Scale as  $K/L = 1/2$  i.e. constant. Here output increases due to change in labour and machine at the same rate.  
*(Candidates are required to first identify the behaviour of the output in relation to the changes in factors. They have to then provide a reason to support the laws identified by them.)*

### Question 5

- (i) If firms enjoy supernormal profit in the short run, new firms will enter the industry in the long run which will cause an increase in the market supply. [2]  
This will lead to a fall in price of the commodity till it becomes equal to AC and each firm enjoys normal profit.  
If firms face loss in the short run, they will exit the industry in the long run which will cause a decrease in the market supply. This will lead to a rise in price of the commodity till it becomes equal to AC and each firm enjoys normal profit.  
*(Candidates have to briefly explain both the cases of supernormal profit and loss in the short run and how the firm achieves normal profit in the long run.)*
- (ii) It is a sales promotion measure in view of intense competition and interdependence of firms under oligopoly. Every firm under this market form enjoys a large market share due to small number of firms. Every firm's action affects its rival firms. So, while taking decision a firm has to take into account the impact on and reaction of its rivals. This phenomenon has been reflected in the example. [2]  
*(Candidates have to explain sales promotion measure with reference to intense competition and inter dependence.)*

### Question 6

- (i) Price of the commodity is determined by the interaction of market demand and market supply. So, market or the industry is the price maker. But no individual firm under this industry can influence this price for its insignificant market share. It only has to accept the market determined price and can sell any amount of the commodity. So firm is the price taker. Therefore, the statement is to be defended. [2]  
*(Candidates have to agree or disagree with the statement. They must support their stance with a valid reason.)*
- (ii) Normal profit is the minimum profit which is required by the organiser to continue the production. This is a part of total cost of production of a firm. Break-even point is the point where  $TR=TC$ , i.e., neither loss nor profit. A firm enjoys normal profit when the total revenue of the firm is enough to cover its cost only since normal profit is a part of total cost. [2]  
*(Candidates have to explain normal profit and then relate it to break even point.)*

### Question 7

- (i) India has been following flexible exchange rate system for many decades, where foreign exchange rate is determined by the forces of demand for and supply of foreign exchange. Since 1993, RBI has been intervening to purchase and sell foreign currencies when foreign exchange rate is very low or high, i.e., India is now following the managed floating exchange rate system for controlling the fluctuation of foreign exchange rate. [2]  
*(Candidates have to explain flexible exchange rate system and refer to government intervention since 1993.)*
- (ii) Components of current account are as follow: [2]
- Export of goods & import of goods
  - Export of services & import of services
  - Unilateral transfer receipt & Unilateral transfer payments
  - Income receipts & income payments
- OR
- Balance of trade
  - Balance of invisible trade
  - Balance of unilateral transfer
- Components of capital account are capital receipt & capital payment.
- OR
- Balance of capital account.

### Question 8

- (i) (a) Because it is a part of government's final consumption expenditure. [1]
- (b) Because it constitutes a portion of current production of the economy. [1]

- (ii) • All final products irrespective of whether these are marketed or not, are to be included. [2]  
 • Expenditure on intermediate goods is to be excluded.  
 • Expenditure on second hand goods is to be excluded.  
 • Expenditure on financial assets is to be excluded.  
 • Government expenditure on transfer payments is to be excluded.  
 (Any two precautions to be written in complete sentences. Any other relevant precaution will be accepted.)

OR

(i)

Personal Income	Private income
It is the income which individuals actually receive from all the sources	It is the income accruing to the private sector from all the sources.
Corporate savings and corporate taxes remain excluded from personal income.	Both corporate savings and corporate taxes are the parts of private income.

[2]

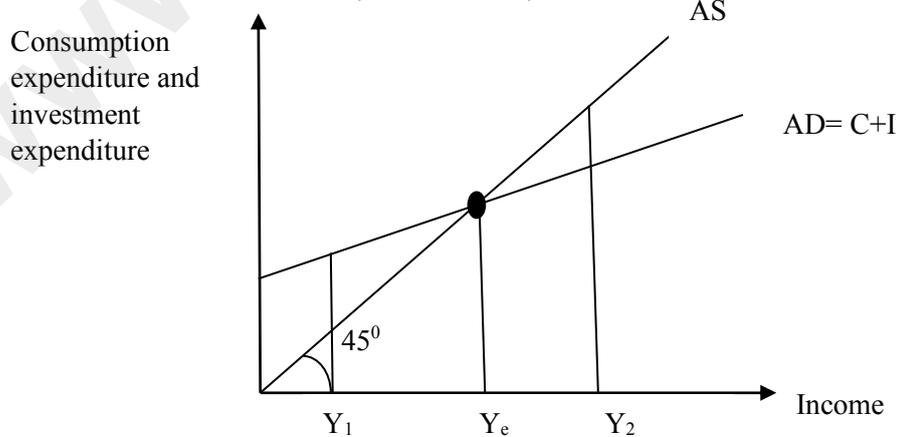
(Candidates may write the differences in either tabular or paragraph form.)

- (ii) Exports represent the expenditure by foreigners on the goods and services exported by the country. It is to be added to get GDP because goods and services exported are the part of domestic product. Again, imports represent the expenditure made by the residents of the country on imported goods and services. It should be subtracted from the total expenditure as the goods and services imported are not the part of domestic production of the country. Hence, it cannot be a part of GDP. Therefore, (exports — import) i.e. net export is a part of GDP and hence of NI. [2]

**Question 9**

[4]

Equilibrium income refers to the level of real income or the level of output for which aggregate demand and aggregate supply become equal. Therefore, the equilibrium condition is stated as,  $AS=AD$  i.e.,  $Y = C+I$ .



$Y_e$  is the equilibrium income because for this level of income equilibrium condition  $Y=C+I$ , has been satisfied. At  $Y = Y_1$ ,  $C+I > Y$ , i.e., a situation of excess demand which induces the producers to produce more and this leads to rise in  $Y$  until  $Y=$

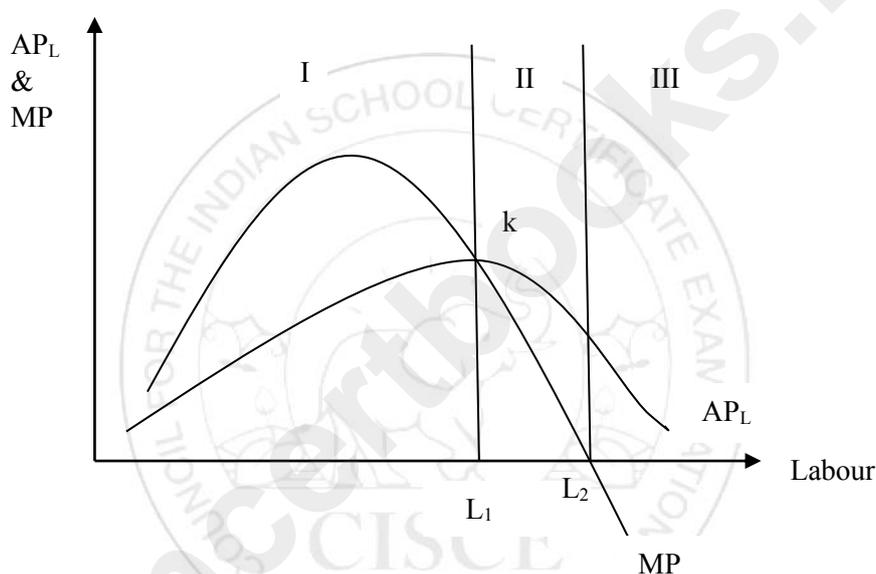
C+I i.e. Equilibrium is restored.

Again, at  $Y = Y_2$ ,  $C+I < Y$  i.e. a situation of excess supply which induces the producers to reduce the current production and this leads to fall in  $Y$  until  $Y = C+I$  i.e. Equilibrium is restored.

## SECTION C – 32 MARKS

### Question 10

- (i) Average product is the production per unit of a factor, such as labour. It is expressed as  $AP_L = TP/L$  or  $Q/L$  [6]  
 Marginal product is the change in production for one unit change in variable factor, say labour. It's expressed as,  $MP_L = \Delta Q / \Delta L$ .



In Stage I (under law of increasing return) – When AP rises,  $MP > AP$ . MP curve lies above AP curve in the above diagram when later slopes positively. At the end of the stage I, When AP is maximum for  $L_1$  of labour,  $MP = AP$  and MP curve intersects AP curve at its maximum point, k.

In Stage II (under law of diminishing return) – When AP falls,  $MP < AP$  and MP curve lies below AP curve and intersects labour axis, i.e.  $MP = 0$ , for  $L_2$  level of labour at the end of the stage II.

In stage III (under law of negative return) – AP continues to fall, but never becomes zero for positive labour.  $MP < 0$  and the curve lies under labour axis.

***(Candidates must mark the stages correctly on the diagram. Explanation must correspond with the stages or the law and the diagram as well.)***

- (ii) Producer will take the decision of his operation, among these three stages, through the process of elimination. Stage III will be eliminated as  $MP < 0$ . If producer operates at any point in stage I before it ends, he won't be able to enjoy the full advantage of maximum productivity as AP is continuously rising over the entire stage. Therefore, a rational producer will operate only in stage II. [2]

***(Candidates must specify Stage II and then give the reason for the elimination of Stage I and Stage III.)***

**Question 11**

- (i) The diagram shows a straight line Indifference curve which is to be refuted. IC cannot be a straight line in general for imperfect substitute goods. Here always a same amount of good B is sacrificed for every additional unit of good A. That is MRS is constant. But the concept of indifference curve, in general, is based on the assumption of DMRS. Therefore, the case depicted in the diagram should be refuted on the ground of violation of the assumption of DMRS. [2]

*(Candidates must agree or disagree with the situation depicted in the diagram and provide a valid argument in support.)*

- (ii) The Law of Diminishing Marginal Utility states that with continuous increase in consumption of a commodity, total utility increases at a diminishing rate, i.e. marginal utility declines. [6]

Assumptions

- Utility is measured cardinally
- Every unit of the commodity is homogeneous.
- Law of satiety holds.
- Consumption is continuous.

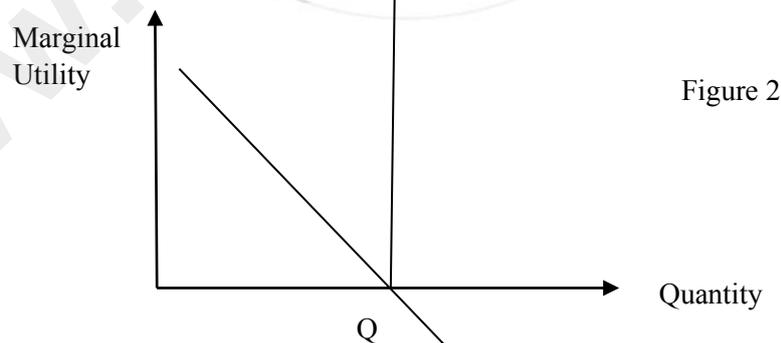
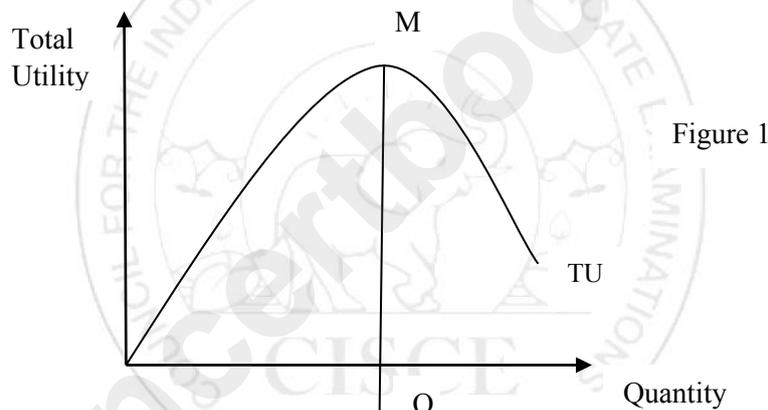


Fig 1. shows that TU curve slopes positively MU at M indicating rising TU with increase in consumption up to Q and it becomes maximum at M. Beyond it, TU curve slopes negatively, i.e, beyond the satiation point TU decreases with further increase in consumption. TU curve is concave to the horizontal axis as TU increases at diminishing rate.

MU curve slopes negatively in Fig 2. It indicates that MU falls continuously with increase in consumption of the commodity. As consumer fails to derive

any additional utility from consumption of additional unit of commodity at the point of saturation, MU becomes zero and MU curve intersects the quantity axis for OQ level of consumption. Beyond Q, MU becomes negative with further increase in consumption.

*(Candidates required to state the law first, assumptions, draw the diagram and explain with reference to the diagram.)*

### Question 12

- (i) Broad categories of factor income are [4]
- Compensation of employees
  - Operating surplus
  - Mixed income of self employed

Compensation of employees comprises all types of payment made by the employers for their employees. It includes the following:

Wages and salaries in cash inclusive of bonus, DA, LTC, house rent allowance etc.

Payment in kind, like free medical facilities, rent-free accommodation, subsidized food etc.

Supplementary labour income in form of employers' contribution toward social security benefit such as group insurance, provident fund, gratuity etc.

Operating surplus is the income earned from the ownership of capital and entrepreneurship. It comprises rent, interest, profit and royalty.

Mixed income of self-employed covers total income of the own- account workers and the profits generated in the unincorporated enterprises.

(ii)  $NNP_{fc} = (i) + (ii) + (iii) + (iv) + (vi) + (vii) + (viii)$  [4]  
 $= 170 + 10 + 20 + 25 + 5 + 30 + (-) 3$   
 $= ₹ 257 Cr.$

$GDP_{mp} = (i) + (ii) + (iii) + (iv) + (vi) + (vii) + (ix) + (x)$   
 $= 170 + 10 + 20 + 25 + 5 + 30 + 34 + 3$   
 $= ₹ 332 Cr.$

**OR**

- (i) The components of final expenditure are as follow: [4]

Private final consumption expenditure [Brief description]

Gross investment expenditure (inclusive of government investment expenditure) [Brief description along with its categories of gross domestic capital formation, inventory accumulation or change in stock and residential investment]

Government final consumption expenditure [Brief description]

Net exports [Brief description with the meaning of 'Net']

- (ii) Following Income method : [4]

$$\begin{aligned}\text{GNPmp} &= (\text{iii}) + (\text{iv}) + (\text{vi}) + (\text{viii}) + (\text{ix}) + (\text{x}) + (\text{xi}) \\ &= 40 + 60 + 120 + 800 + 100 + 20 + (-) 30 \\ &= ₹ 1110 \text{ Cr.}\end{aligned}$$

Following Expenditure method:

$$\begin{aligned}\text{GNPmp} &= (\text{i}) + (\text{ii}) + (\text{v}) + (\text{vii}) + (\text{x}) + (\text{xi}) \\ &= 800 + 20 + 200 + 100 + 20 + (-) 30 \\ &= ₹ 1110 \text{ Cr.}\end{aligned}$$

### Question 13

- (i) The theme of the extract is fixed deposit is a myth during the time of inflation. As Inflation is a continuous rise in price level in the economy, it causes a decline in the purchasing power of money and hence the real value of return from the fixed deposit. [2]

*(Candidates have to interpret the theme of the extract briefly in their own words.)*

- (ii) Demand pull inflation originates from demand forces, i.e., when aggregate demand rises and exceeds aggregate supply of goods and services, it will lead to rise in price level in the economy. [2]

Cost push inflation refers to the continuous increase in price level due to increase in cost of production caused by increase in wage rate, profit margin etc.

- (iii) Demand deposits are the deposits in bank account where the deposited money can be withdrawn by cheques at any time. Current account deposits and saving account deposit are the demand deposits. [2]

Time deposits are the deposits in bank account where the deposited money cannot be withdrawn before the time of its maturity. Cheque is not issued on this deposit. Fixed deposit and recurring deposit are the time deposits.

- (iv)  $M_3$  incorporates fixed deposit. [2]  
Other components are currency held by the public (C), demand deposits with commercial bank (DD) and other deposits with the RBI (OD).