SPECIMEN PAPER - 2 (With Solution)

[Time : 3 Hours] [Maximum Marks : 80]

Note:

(1) All questions are compulsory.
(2) Draw tables / diagrams wherever necessary.
(3) Figures to the right indicate full marks.
(4) Write answers to all question on new pages.

Q.1 (A) Choose the correct option. **(05)**

(1)

	Group A		Group B
(1)	Time utility	(a)	Transport
(2)	Place utility	(b)	Blood bank
(3)	Service utility	(c)	Mobile phone
(4)	Knowledge utility	(d)	Doctor

Options: *(a) 1-d, 2-b, 3-a, 4-c* *(b) 1-b, 2-a, 3-d, 4-c*
(c) 1-a, 2-b, 3-c, 4-d *(c) 1-b, 2-c, 3-d, 4-a*

(2)

	Group A		Group B
(1)	Price Index	(a)	$\Sigma p_1 q_1 \div \Sigma p_1 q_1 \times 100$
(2)	Value Index	(b)	$\Sigma q_1 \div \Sigma q_0 \times 100$
(3)	Quantity Index	(c)	$\Sigma p_1 q_1 \div \Sigma p_0 q_1 \times 100$
(4)	Paasche's Index	(d)	$\Sigma p_1 \div \Sigma p_0 \times 100$

Options: *(a) 1-d, 2-c, 3-a, 4-b* *(b) 1-d, 2-a, 3-d, 4-c*
(c) 1-b, 2-c, 3-d, 4-a *(c) 1-c, 2-d, 3-a, 4-b*

(3) Wrongly matched pair:

	Group A		Group B
(1)	National Income Committee	—	1949
(2)	Financial year	—	1st April to 31st March
(3)	Income method	—	National Income = Rent + Wages + Interest + Profit Mixed
(4)	Expenditure method	—	National Income = Rent + Wages + Interest + Profit

Options: *(1) a - 1* *(2) b - 2* *(3) c - 3* *(4) d - 4*

(4) Identify the right group of pairs from the given options.

	Group A		Group B
(1)	Direct tax	(a)	Non-tax revenue
(2)	Indirect tax	(b)	Inflation
(3)	Fees and Fines	(c)	GST
(4)	Surplus budget	(d)	Personal income tax

Options: *(a) 1-d, 2-c, 3-b, 4-a* *(b) 1-c, 2-d, 3-a, 4-b*
(c) 1-d, 2-c, 3-a, 4-b *(c) 1-a, 2-b, 3-c, 4-d*

(5) Wrongly matched pair:

Group A		Group B	
(1)	Supply of labour	(a)	Exception to the law of supply
(2)	Expansion of supply	(b)	Rise in the price - rise in the quantity
(3)	Average cost	(c)	Total cost ÷ total quantity
(4)	Supply rise	(d)	Less price

Options: (1) 1 (2) 2 (3) 3 (4) 4

Ans.	(1) (b)	(2) (b)	(3) (d)	(4) (c)	(5) (d)

Marking Scheme: *1 mark for each correct answer*

Q.1 (B) Give economic terms. **(05)**

(1) A situation where more quantity is demanded at lower price .....

(2) Degree of responsiveness of a change in quantity demanded of one commodity due to change in the price of another commodity.

(3) Cost incurred per unit of output.

(4) Number of firms producing identical product.

(5) Rohan has registered all its Import – Export transactions

Ans.	(1) Expansion of demand	(2) Price elasticity of demand	(3) Average Cost
	(4) Industry	(5) Foreign trade	

Marking Scheme: *1 mark for each correct answer*

Q.1 (C) Assertion and Reasoning type questions. **(05)**

(1) Assertion (A) : Degree of price elasticity is less than one in case of relatively inelastic demand.

Reasoning (R) : Change in demand is less then the change in price.

Options: (a) (A) is True, but (R) is False
(b) (A) is False, but (R) is True
(c) Both (A) and (R) are True and (R) is the correct explanation of (A)
(d) Both (A) and (R) are True and (R) is not the correct explanation of (A)

(2) Assertion (A) : Regional stock exchanges have witnessed a sharp decline in the volume of trade.

Reasoning (R) : Investors prefer to trade in securities listed in premier stock exchanges like BSE, NSE etc.

Options: (a) (A) is True, but (R) is False
(b) (A) is False, but (R) is True
(c) Both (A) and (R) are True and (R) is the correct explanation of (A)
(d) Both (A) and (R) are True and (R) is not the correct explanation of (A)

(3) Assertion (A) : The marginal utility is zero.

Reasoning (R) : Then total utility is highest.

Options: (a) (A) is True, but (R) is False
(b) (A) is False, but (R) is True
(c) Both (A) and (R) are True and (R) is the correct explanation of (A)
(d) Both (A) and (R) are True and (R) is not the correct explanation of (A)

(4) Assertion (A) : Simple Index Number , every commodity is given equal importance.
Reasoning (R) : Simple index number include price index, Quantity index.
Options: *(a) (A) is True, but (R) is False*
(b) (A) is False, but (R) is True
(c) Both (A) and (R) are True and (R) is the correct explanation of (A)
(d) Both (A) and (R) are True and (R) is not the correct explanation of (A).

(5) Assertion (A) : Public Revenue includes Tax ,Non –Tax income.
Reasoning (R) : GST Also include
Options: *(a) (A) is True, but (R) is False*
(b) (A) is False, but (R) is True
(c) Both (A) and (R) are True and (R) is the correct explanation of (A)
(d) Both (A) and (R) are True and (R) is not the correct explanation of (A)

Ans.	(1) – (c) Both (A) and (R) are True and (R) is the correct explanation of (A).
	(2) – (c) Both (A) and (R) are True and (R) is the correct explanation of (A) .
	(3) – (c) Both (A) and (R) are True and (R) is the correct explanation of (A).
	(4) – (c) Both (A) and (R) are True and (R) is the correct explanation of (A) .
	(5) – (c) Both (A) and (R) are True and (R) is the correct explanation of (A).

Marking Scheme: *1 mark for each correct answer*

Q.1 (D) Complete the following statements. **(05)**

(1) Development financial institutions were established to _____.
(a) provide short term funds.
(b) develop industry, agriculture and other key sectors.
(c) regulate the money market.
(d) regulate the capital market

(2) NDP is obtained by _____.
(a) deducting depreciation from GNP *(b) deducting depreciation from GDP*
(c) including depreciation in GDP *(d) including depreciation in GNP.*

(3) Net addition made to the total revenue by selling an extra unit of a commodity is _____.
(a) total Revenue *(b) marginal Cost Revenue*
(c) average Revenue *(d) marginal Revenue*

(4) Symbolically, the functional relationship between Demand and Price can be expressed as _____.
(a) $Dx = f(Px)$ *(b)* $Dx = f(Pz)$ *(c)* $Dx = f(y)$ *(d)* $Dx = f(T)$

(5) Ed = 0 in case of _____.
(a) luxuries *(b) normal goods* *(c) necessities* *(d) comforts*

Ans.	(1) – (b) develop industry, agriculture and other key sectors.
	(2) – (b) deducting depreciation from GDP.
	(3) – (d) marginal Revenue.
	(4) – (a) $Dx = f(Px)$
	(5) – (c) necessities

Marking Scheme: *1 mark for each correct answer*

Q.2 (A) Identify and explain the concepts (Any three). (06)

(1) Viru kept aside 100 kgs. out of 500 kgs. Of wheat produced in his farm for his family.

Ans. Self-consumption.

Producers themselves consume the entire or a part of the output they produce is self-consumption.

(2) Gauri collected the information about the income of a particular firm.

Ans. Study of individual economic unit.

The study of economic behavior of a particular unit by isolating it from the other forces of economy is known as the study of individual economic unit.

(3) Charging different prices to different consumers for the same product or services.

Ans. Monopolistic Market.

"Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes".

(4) ABC bank provides demat facility, safe deposit lockers, internet banking facilities to its customers.

Ans. Commercial Banks .

Banking Regulation Act of 1949 : "Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, demand draft, order or otherwise".

OR

Prof. Cairncross – "*A bank is a financial intermediary, a dealer in loans and debts*".

(5) England imported cotton from India, made readymade garments from it and sold them to Malays.

Ans. Foreign Trade.

Foreign Trade is trade between the different countries of the world. It is called as International Trade or External Trade.

OR

According to Wasserman and Hultman, "*International Trade consists of transaction between residents of different countries*".

Marking Scheme: *1 mark to identify the correct concept and 1 mark for explanation of correct concept. Total = 2 marks each*

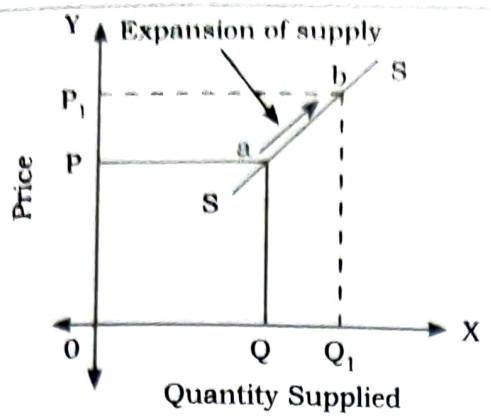
Q.2 (B) Distinguish between (Any three). (06)

(1) Expansion of Supply and Increase in Supply.

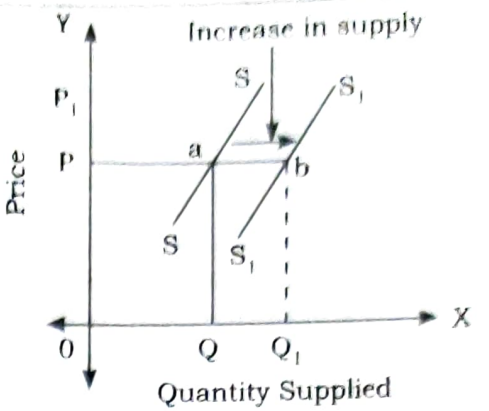
Ans.

	Expansion of Supply		Increase in Supply.
(i)	A rise in supply caused by in the price while other factors remaining constant is called expansion in supply.	(i)	A rise in supply caused by favourable changes in other factors than price is called increase in supply.
(ii)	In expansion of supply the new equilibrium point of price and supply moves upwards from the to the right on the same supply curve.	(ii)	In increase in supply the new equilibrium point of price and supply shifts from the left to the right on the new supply curve.

(iii)

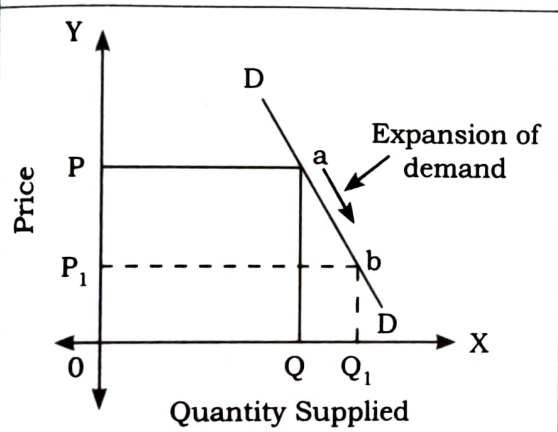
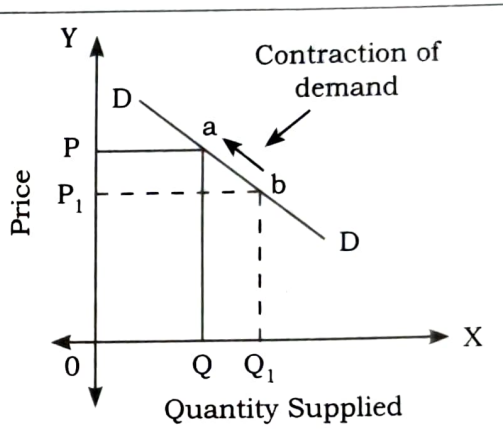


(iii)



(2) Expansion of demand and contraction of demand.

Ans.

	Expansion of demand		Contraction of demand
(i)	A rise in demand due to a fall in price is called expansion of demand.	(i)	A fall in demand due to a rise in price is called contraction in demand.
(ii)	In expansion of demand equilibrium point of price and demand moves downwards from the to the left to right on the same demand curve.	(ii)	In contraction in demand equilibrium point of price and demand moves upward from the right to the left on the same demand curve.
(iii)		(iii)	

(3) Direct Tax and Indirect tax.

Ans.

	Direct Tax		Indirect tax
(i)	It is paid by the taxpayer on his income and property.	(i)	It is levied on goods or services.
(ii)	The burden of tax is borne by the person on whom it is levied.	(ii)	It is paid at the time of production or sale and purchase of a commodity or a service.
(iii)	For example: Personal income tax, Wealth tax etc.	(iii)	For example: Goods and Services Tax [GST].

(4) Money market and Capital market.

Ans.

	Money market		Capital market
(i)	Money market is a market for lending and borrowing of short term funds.	(i)	Capital market is a market for long term funds both equity and debt raised within and outside the country.

(ii)	It is a market for "near money", i.e. short term instruments such as trade bills, government securities, promissory notes etc.	(ii)	It is also an important constituent of the financial system. Government Securities Market, Industrial Securities Market, Development Financial Institutions and Financial Intermediaries.
(iii)	Such instruments are highly liquid, less risky and easily marketable with a maturity period of one year or less than one year.	(iii)	Individual savers, corporate savings, banks, insurance companies, specialized financial institutions are the suppliers of long term funds.

(5) Internal trade and International trade.

Ans.

	Internal trade		International trade
(i)	Buying and selling of goods and services within the boundaries of a nation are referred to as 'Internal Trade' or 'Domestic Trade' or 'Home Trade'.	(i)	Foreign Trade is trade between the different countries of the world. It is called as International Trade or External Trade.
(ii)	For example, if goods produced in Maharashtra are sold to states like West Bengal, Uttar Pradesh, Tamil Nadu etc	(ii)	For example , if goods produced in Maharashtra are sold to Bhutan, Nepal,etc.
(iii)	Internal trade is divided into the two types: (1) Local (2) National level.	(iii)	Foreign trade is divided into the three types: (1) Import Trade (2) Export Trade, (3) Entrepot Trade.

Marking Scheme: *1 mark for each correct point. Any two points needed. Total = 2 marks each*

Q.3 Answer the following (Any three). **(12)**

(1) Explain the features of Micro economics.

Ans. (i) **Study of Individual Units:** Micro economics is the study of the behavior of small individual economic units, like individual firm, individual price, individual household etc.

(ii) **Price Theory:** Micro economics deals with determination of the prices of goods and services as well as factors of production. Hence, it is known as price theory.

(iii) **Partial Equilibrium:** Equilibrium is the balance between two factors. Micro economic analysis deals with partial equilibrium which analyses equilibrium position of an individual economic unit i.e. individual consumer, individual firm, individual industry etc. It isolates an individual unit from other forces and studies its equilibrium independently.

(iv) **Based on Certain Assumptions:** Micro economics begins with the fundamental assumption, "Other things remaining constant" (Ceteris Paribus) such as perfect competition, laissez-faire policy, pure capitalism, full employment etc. These assumptions make the analysis simple.

(v) **Slicing Method:** Micro economics uses slicing method. It splits or divides the whole economy into small individual units and then studies each unit separately in detail. For example, study of individual income out of national income, study of individual demand out of aggregate demand etc.

(vi) **Use of Marginalism Principle:** The concept of Marginalism is the key tool of micro economic analysis. The term 'marginal' means change brought in total by an additional unit. Marginal analysis helps to study a variable through the changes. Producers and consumers take economic decisions using this principle.

(vii) **Analysis of Market Structure:** Micro economics analyses different market structures such as Perfect Competition, Monopoly, Monopolistic Competition, Oligopoly etc.

(viii) **Limited Scope:** The scope of micro economics is limited to only individual units. It doesn't deal with the nationwide economic problems such as inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.

Marking Scheme: *1 mark for each correct point. Four points expected. Total = 4 marks*

(2) Explain the law of diminishing marginal utility with exceptions.

Ans. Introduction: This law was first proposed by Prof. Gossen but was discussed in detail by Prof. Alfred Marshall in his book 'Principles of Economics' published in 1890. The law of diminishing marginal utility is universal in character. It is based on the common consumer behaviour that utility derived diminishes with the reduction in the intensity of a want.

Statement of the Law:

According to Prof. Alfred Marshall, "Other things remaining constant, the additional benefit which a person derives from a given increase in his stock of a thing, diminishes with every increase in the stock that he already has."

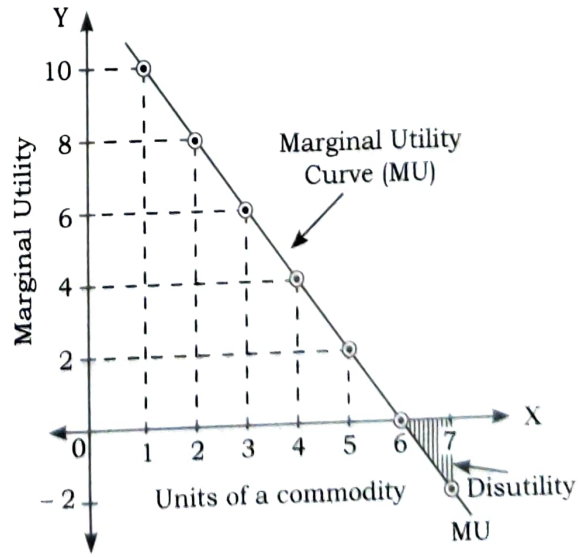
In other words, marginal utility that any consumer derives from successive units of a particular commodity goes on diminishing as his or her total consumption of that commodity increases. In short, the more of a thing you have, the less you want to have more of it. The following table explains the Law of Diminishing Marginal Utility.

Unit of '*x*'	Marginal Utility (MU)
1	10
2	8
3	6
4	4
5	2
6	0
7	– 2

The table shows that marginal utility keeps on diminishing with increase in consumption, further it becomes zero and then negative.

Explanation of the Diagram:

In the diagram, units of commodity *x* are measured on X axis and marginal utility is measured on Y axis. Various points of MU are plotted on the graph as per the given schedule. When the locus of all the points is joined, MU curve is derived. MU curve slopes downwards from left to right which shows that MU goes on diminishing with every successive increase in the consumption of a commodity. When MU becomes zero, MU curve intercepts the X axis. Further consumption of a commodity brings disutility (negative utility) which is shown by the shaded portion in the diagram.



Exceptions to the Law of Diminishing Marginal Utility :

(i) **Hobbies:** In certain hobbies like collection of various stamps and coins, rare paintings, music, reading etc., the law does not hold true because every additional increase in the stock gives more pleasure. This increases marginal utility. However, this violates the assumption of homogeneity and continuity.

(ii) **Miser:** In the case of a miser, every additional rupee gives him more and more satisfaction. Marginal utility of money tends to increase with an increase in his stock of money. However, this situation ignores the assumption of rationality.

(iii) **Addictions:** It is observed in case of a drunkard that the level of intoxication increases with every additional unit of liquor consumed. So MU received by drunkard may increase. Actually it is only an illusion. This condition is similar to almost all addictions. However, this violates the assumption of rationality.

(iv) **Power:** This is an exception to the law because when a person acquires power, his lust for power increases. He desires to have more and more of it. However, this again violates the rationality assumption.

(v) **Money:** It is said that the MU of money never becomes zero. It increases when the stock of money increases. This is because money is a medium of exchange which is used to satisfy various wants. However, according to some economists, this law is applicable to money too. For example, marginal utility of money is more to a poor person than to a rich person.

Marking Scheme: *2 marks for law explanation and 2 marks for exception. Total = 4 marks*

(3) Explain the concept of total cost and total revenue.

Ans. When an entrepreneur undertakes an act of production, he has to use various inputs like raw material, labour, capital etc. He has to make payments for such inputs. The expenditure incurred on these inputs is known as the cost of production.

Total Cost (TC): Total cost is the total expenditure incurred by a firm on the factors of production required for the production of goods and services. Total cost is the sum of total fixed cost and total variable cost at various levels of output.

$$TC = TFC + TVC$$

where, TC = Total cost, TFC = Total Fixed Cost, TVC = Total Variable Cost

Total Fixed Cost (TFC): Total fixed costs are those expenses of production which are incurred on fixed factors such as land, machinery etc.

Total Variable Cost (TVC): Total variable costs are those expenses of production which are incurred on variable factors such as labour, raw material, power, fuel.

Revenue: The term 'revenue' refers to the receipts obtained by a firm from the sale of certain quantities of a commodity at given price in the market. The concept of revenue relates to total revenue, average revenue and marginal revenue.

Total Revenue (TR): Total revenue is the total sales proceeds of a firm by selling a commodity at a given price. It is the total income of a firm. Total revenue is calculated as follows:

$$\text{Total Revenue} = \text{Price} \times \text{Quantity}$$

Marking Scheme: *2 marks for each correct point. Total = 4 marks*

(4) Explain the meaning of Monopolistic competition with its features.

Ans. According to Chamberlin, "Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes."

Following are the main features of monopolistic competition:

(i) **Fairly large number of sellers:** In monopolistic competition, the number of sellers is large but comparatively it is less than that of perfect competition. Due to this reason sellers' behaviour is like monopoly.

(ii) **Fairly large number of buyers:** In this market there are fairly large number of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.

(iii) **Product differentiation:** Product differentiation is the main feature of monopolistic competition. In this market, there are many firms producing a particular product, but the product of each firm is in some way differentiated from the product of every other firm in the market. This is known as product differentiation. Product differentiation may take the form of brand names, trade marks, peculiarity of package or container, shape, quality, cover, design, colour etc. This means that the product of a firm may find close substitutes and its cross elasticity of demand is very high. For example, mobile handsets, cold drinks etc.

(iv) **Free entry and exit:** Under monopolistic competition there is freedom of entry and exit, that is new firms are free to enter the market if there is profit. Similarly, they can leave the market, if they find it difficult to survive.

(v) **Selling Cost:** Selling cost are peculiar to monopolistic competition only. It refers to the cost incurred by the firm to create more demand for its product and thus increase the volume of sales. It includes expenditure on advertisements, readio and television broadcasts, hoardings, exhibitions, window display, free gifts, free samples etc.

(vi) **Close substitutes:** In monopolistic competition, goods have close substitutes to each other. For example, different brands of soaps, toothpastes etc.

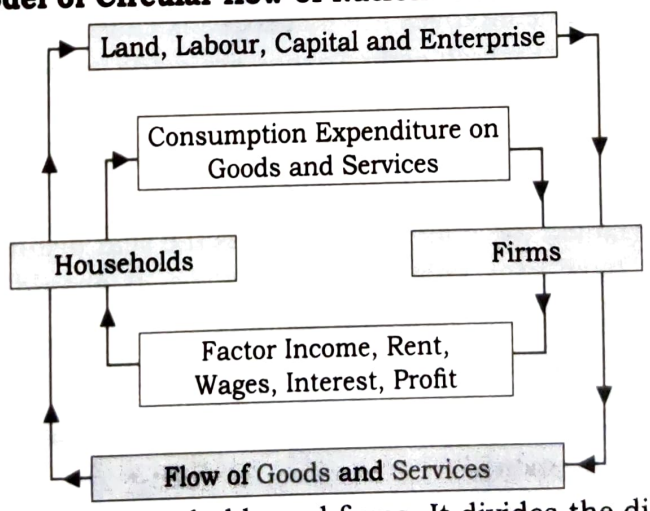
(vii) **Concept of group:** Under monopolistic competition, Chamberlin introduced the concept of 'Group' in place of industry. Industry means the number of firms producing identical products. A 'Group' means a number of firms producing differentiated products which are closely related. For example, group of firms producing medicines, automobiles etc.

Marking Scheme: *1 mark for monopolistic competition and 3 marks for any six points. Total = 4 marks*

(5) Explain the two sector model of circular flow of national income.

Ans. This sector model is explained below.

Two sector model of Circular flow of National Income:



There are two sectors, households and firms. It divides the diagram into two parts. The upper half represents the factor market and the lower half represents the commodity market.

Circular flow of income and expenditure in a two sector model. Land, Labour, Capital and Enterprise Households Firms Flow of Goods and Services Factor Income, Rent, Wages, Interest, Profit Consumption Expenditure on Goods and Service the factors of production flow from the households to the firms. The firms use these factors to produce goods and services required by the households.

Thus, goods flow from the households to the firms and from the firms back to the households. It is called product flows. In the same way, money flows from the firms to the households in the form of factor payments such as rent, wages, interest and profit. Households use this income to purchase goods and services. Thus, money flows from the firms to the households and from the households back to the firms. It is called money flows

In the circular flow of income, production generates factor income, which is converted into expenditure. This flow of income continues as production is a continuous activity due to never ending human wants. It makes the flow of income circular

Marking Scheme: *1 mark for circular flow and 3 marks for explanation; Total = 4 marks*

Q.4 State with reasons whether you agree or disagree with the following statements (Any three). **(12)**

(1) When price of Giffen goods fall, the demand for it increases.

Ans. No, I **disagree** with statement. The following reasons explain the disagreement:

Reasons: (i) Sir Robert Giffen from England noticed that in the case of inferior goods /giffen goods . the law of demand does not hold good .when the price of giffen goods falls, buyers real income gets increased . as its effect they demand more of superior goods.

(ii) For example, when the price of red wheat falls ,the demand for wheat increased.

(iii) Thus, fall in prices of giffen goods are leads to fall in their demand . therefore giffen goods are considered as exception to the law of demand .This phenomenon is known as Giffen's paradox.

Thus, when price of giffen goods falls the demand for it does not increase but decreases

(2) Index numbers can be constructed without the base year.

Ans. No, I **disagree** with statement. The following reasons explain the disagreement:

Reasons: (i) Main features are index number is selection of the base year.

(ii) The year with which the changes are measured is called the base year. Base Year : The year with respect to which comparisons are made is the base year. It is denoted by the suffix 'o'.

(iii) The base year's index is assumed as 100 and accordingly the value of the current year is calculated.

(iv) Base year is also called the reference year. It is the year against which comparisons are made. Then base year should be normal i.e. it should be free from natural calamities. It should not be too distant in the past.

So, I disagree with this statement.

(3) Foreign trade leads to division of labour and specialization at world level.

Ans. Yes, I **agree** with statement.

Reasons: (i) Foreign trade leads to division of labour and specialization at world level. Because Some countries have abundant natural resources.

(ii) They should export raw material and import finished goods from countries which are advanced in skilled manpower.

(iii) Thus, foreign trade gives benefits to all countries thereby leading to division of labour and specialization.

So, I agree with the statement.

(4) There are no close substitute in the monopoly market.

Ans. Yes, I **agree** with statement.

Reasons: (i) There are no close substitutes for the product of the monopolist. Therefore, the buyers have no choice.

(ii) They have to either buy the product from the monopolist or go without it.

(iii) The cross elasticity of demand for his product is either zero or negative.

So, I agree with the statement.

(5) Credit creation is the function of commercial bank.

Ans. Yes, I **agree** with statement.

Reasons: (i) Credit creation is an important function of commercial banks. Commercial banks are creators of credit. Demand and time deposits constitute the primary deposits of banks.

(ii) After meeting the reserve requirements out of the net demand and time liabilities, the balance amount is used for giving loans.

(iii) Thus, secondary deposits or 'derivative deposits' are created out of the loans given by the banks. For instance, when the bank provides loan to its customer, the loan amount is credited into the bank account of the customer.

(iv) The bank that receives the loan amount as a deposit, keeps aside a certain portion in the form of reserves.

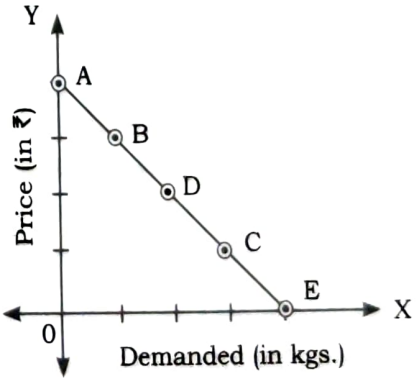
So, I agree with the statement.

Marking Scheme: *1 mark for writing correct agree or disagree; 3 marks for giving any three correct reasons Total = 4 marks each*

Q.5 Study the following and answer the questions given below it (Any two). **(08)**

(A) Observe the following figure and answer the questions

In the diagram, 'AE' is the linear demand curve of a commodity.
On the basis of the given diagram state whether the following statements are True or False.
Give reasons to your answer.



(1) Demand at point 'C' is relatively elastic demand.

Ans. False. On the demand curve AE,the distance of CE is less than that of CA. Thus point C is close to X axis. Therefore , the demand at point C is not relatively elastic, but is relatively inelastic.

(2) Demand at point 'B' is unitary elastic demand.

Ans. False. on the demand curve AE ,the distance of BE is greater than that BA. Thus point B is close to Y axis. Therefore, the demand at point B is not unitary elastic, but is relatively elastic.

(3) Demand at point 'D' is perfectly inelastic demand.

Ans. False. On the demand curve AE, the distance of DE is equal to that of DA. Thus point D is equally close to X-axis and Y-axis. Therefore the demand at point D is not perfectly inelastic ,but is unitary elastic.

(4) Demand at point 'A' is perfectly elastic demand.

Ans. True. On the demand curve AE, at point A the lower segment of the demand curve is AE and there is no upper segment of the demand curve. Thus at point A the numerical value of upper segment of the demand curve is zero. So, at point A the distance AE is greater than that of zero. Thus point A lies on the Y axis. Therefore, the demand at point A is perfectly elastic.

Marking Scheme: *1 mark for each correct answer. Total = 4 marks*

(B) Calculate Price Index number from the given data.

Commodity	A	B	C	D
Price in 2005 (₹)	6	16	24	4
Price in 2010 (₹)	8	18	28	6

Ans. Price Index Number $P_{01} = \frac{\Sigma p_1}{\Sigma p_0} \times 100$

where, Σp_1 = Sum total of the prices of the current year

Σp_0 = Sum total of the prices of the base year

Commodity	Price in 2005 (₹)	Price in 2010 (₹)
A	6	8
B	16	18
C	24	28
D	14	6
Total Σ	**50**	**60**

$\therefore P_{01} = \frac{60}{50} \times 100 = 120$

Marking Scheme: *1 mark for formula and 3 marks for calculation. Total = 4 marks*

(C) Read the given passage and answer the questions.

The conventional notion of social security is that the government would make periodic payments to look after people in their old age, ill-health, disability and poverty. This idea should itself change from writing a cheque for the beneficiary to institutional arrangements to care for beneficiaries, including by enabling them to look after themselves, to a large extent. The write-a-cheque model of social security is a legacy from the rich world at the optimal phase of its demographic transition, when the working population was numerals enough and earning enough to generate the taxes to pay for the care of those not working. This model is ill-suited for less, well- off India with growing life expectancy, increasing urbanization and resultant migration. Social security under urbanization will be different from social security in a static society.

(1) State the conventional notion of social security.

Ans. The conventional notion of social security is that the government would make periodic payments to look after people in their old age, ill-health, disability and poverty.

(2) What kind of conceptual change is suggested in the given paragraph.

Ans. This idea should itself change from writing a cheque for the beneficiary to institutional arrangements to care for beneficiaries, including by enabling them to look after themselves.

(3) What is a legacy of social security from the rich world?

Ans. The write-a-cheque model of social security is a legacy from the rich world at the optimal phase of its demographic transition.

(4) Which features of India make the traditional model of social security ill-suited for the economy?

Ans. This model is ill-suited for less, well- off India with growing life expectancy, increasing urbanization and resultant migration.

Marking Scheme: *1 mark each for correct answer Total = 4 marks each*

Q.6 Answer in detail (Any two). **(16)**

(1) Explain the functions of RBI.

Ans. Functions of Reserve Bank of India as follows:

(i) **Issue of Currency Notes:** RBI has the sole right to issue currency notes of all denominations, except one rupee note and coins. As per the 'Minimum Reserve System' of 1957, RBI is required to maintain minimum gold and foreign exchange reserves of Rs 200 crores, out of which at least ₹115 crores should be in gold and the remaining ₹85 crores should be in terms of foreign currency and government securities.

(ii) **Banker to the Government:** RBI acts as a banker, agent and advisor to the Government. It transacts the business of both, the Central and State Governments. It accepts money as well as makes payments on behalf these Governments. It also undertakes the management of public debt. It advises the Government on a wide range of economic issues.

(iii) **Banker's Bank:** RBI exercises statutory control over the commercial banks. All scheduled banks are compulsorily required to maintain a certain minimum of cash reserves with the RBI against their demand and time liabilities. RBI provides financial assistance to banks in the form of discounting of eligible bills. Loans and advances are also provided against approved securities.

(iv) **Custodian of Foreign Exchange Reserves:** RBI acts as a custodian of the country's foreign exchange reserves. It has to maintain the official rate of exchange of rupee as well as ensure its stability. RBI also undertakes to buy and sell the currencies of all the members of the International Monetary Fund (IMF).

(v) **Controller of Credit:** As a supreme banking authority of the country, RBI has the power to influence the volume of credit created by commercial banks. It also monitors the purpose or use of credit. Quantitative such as bank rate, open market operations, variable reserve ratios such as Cash Reserve Ratio (CRR), Statutory Liquid Ratio (SLR) etc. control the volume of credit created. Qualitative methods such as fixing margin requirements, credit rationing, moral suasion etc. regulate the purpose or use of credit.

(vi) **Collection and Publication of Data:** RBI collects and compiles statistical information related to banking and other financial sectors of the economy.

(vii) **Promotional and Developmental Functions:** RBI also performs certain promotional and developmental functions such as extending banking services to semi- urban and rural areas, providing security to depositors, development of specialized institutions for agricultural credit, industrial finance etc.

(viii) **Other Functions:** RBI acts as a clearing house for settling the accounts between its member banks. As a lender of last resort, it also provides liquidity to banks experiencing financial difficulty.

Marking Scheme: *1 mark for each correct point. 8 points are required. Total = 8 marks*

(2) Explain various reasons for the growth of public expenditure.

Ans. Reasons for Growth in Public Expenditure: It is observed that there is a continous growth in public expenditure in a developing country like India.

(i) **Increase in the Activities of the Government:** As mentioned earlier, the modern government performs many functions for the social and economic development of the country. These functions include spread of education, public health, public works, public recreation, social welfare schemes etc. It is observed that new functions are continuously being undertaken and old functions are being performed more efficiently on a large scale by the government. This leads to increase in public expenditure.

(ii) **Rapid Increase in Population:** Population of developing countries like India is increasing fast. In 2011 Census, it was 121.02 crores. As a result, the government has to incur greater expenditure to fulfil the needs of the increasing population.

(iii) **Growing Urbanization:** Spread of urbanization is a global phenomenon of the day. This leads to increase in the government expenditure on water supply, roads, energy, schools and colleges, public transport, sanitation etc.

(iv) **Increasing Defence Expenditure:** In modern times, defence expenditure of the government is increasing even in the peace time due to unstable and hostile international relationships.

(v) **Spread of Democracy:** Majority of the countries in the world are democratic in nature. A democratic form of government is expensive due to regular elections and other such activities. This results in the increase in total expenditure of the government.

(vi) **Inflation:** Just like a private individual, the government has to buy goods and services from the market for the spread of economic and social development. Normally, prices show a rising trend. Due to this, the government has to incur increasing costs.

(vii) **Industrial Development:** Industrial development leads to an increase in production, employment and overall growth in the economy. Hence, the government makes huge efforts for implementing various schemes and programmes for industrial development. This results in increase in government expenditure.

(viii) **Disaster Management:** Many natural and man-made calamities like earthquakes, floods, cyclones, social unrest etc. are occurring more frequently. The government has to spend a huge amount for the disaster management which increases total expenditure. Modern governments are working for 'welfare state'. Hence, there is a continuous increase in the public expenditure.

Marking Scheme: *1 mark for each correct point. Atleast 8 points required. Total = 8 marks*

(3) Explain the elasticity of demand and its types.

Ans. The law of demand does not explain the extent of a change in demand due to a change in the price. Thus, law of demand fails to explain the quantitative relationship between price and quantity demanded. Therefore, Prof. Alfred Marshall explained the concept of elasticity of demand.

Concept of Elasticity of Demand:

The term elasticity indicates responsiveness of one variable to a change in the other variable. Elasticity of demand refers to the degree of responsiveness of quanitity demanded to a change in its price or any other factor.

According to Prof. Marshall, "Elasticity of demand is great or small according to the amount demanded which rises much or little for a given fall in price and quantity demanded falls much or little for a given rise in price." It is clear from the above definition that elasticity of demand is a technical term which describes the responsiveness of change in quantity demanded to fall or rise in its price. In other words, it is the ratio of percentage change in quantity demanded of a commodity to a percentage change in price.

Types of Elasticity of Demand:

(i) Income elasticity (ii) Cross elasticity (iii) Price elasticity

(i) **Income elasticity:** It refers to the degree of responsiveness of a change in quantity demanded to a change in the income only, other factors including price remain unchanged. It is expressed as :

$$Ec = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Income}}$$

(ii) **Cross elasticity:** It refers to a change in quantity demanded of one commodity due to a change in the price of other commodity. (Complementary goods or substitutes)

$$Ey = \frac{\text{Percentage change in Quantity Demanded of A}}{\text{Percentage change in Price of B}}$$

(A = Original commodity, B = Other commodity)

(iii) **Price elasticity:** According to Prof. Alfred Marshall, price elasticity of demand is a ratio of proportionate change in the quantity demanded of a commodity to a given proportionate change in its price.

$$Ed = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}}$$

There are five types of Price Elasticity of Demand:

(a) Perfectly Elastic Demand (Ed)

(b) Perfectly inelastic demand (Ed = 0)

(c) Unitary elastic demand (Ed = 1)

(d) Relatively elastic demand (Ed >1)

(e) Relatively inelastic demand (Ed < 1).

Marking Scheme: *2 marks for meaning and definition,*
2 marks for each point, 3 points expected.