

General Instructions:

- i) Questions 1-3 and 15-19 are multiple choice questions carrying 1 mark each. Write the correct option on your answer sheet.
- ii) Questions 4-8 and 20-22 are short answer questions carrying 3 marks each. They are to be answered in 60 words each.
- iii) Questions 9-10 and 23-25 are short answer questions carrying 4 marks each. They are to be answered in 70 words each.
- iv) Questions 11-14 and 26-29 are long answer questions carrying 6 marks each. They are to be answered in 100 words each.

**SECTION - A (MICRO ECONOMIC THEORY)**

1. When equilibrium price is greater than market price, there exists a situation of  
a) excess demand    b) excess supply    c) price ceiling    d) both (a) and (b)    1
2. Consumer maximises satisfaction when price is equal to  
a) average utility    b) marginal utility    c) total utility    d) total gain    1
3. Rent control is an example of-  
a) price ceiling    b) price floor    c) equilibrium price    d) none of the above.    1
4. Using diagram explain the mechanism of a price control that is meant to protect the interests of consumers.  
(OR)  
Explain the use of price controls to protect the profits of producers. Use diagram.    3
5. Explain the implications of freedom of entry and exit of firms under monopolistic competition.    3
6. Define a PPF and describe the features of a normal PPF.    3
7. State the central problems and explain the reasons behind them.    3
8. 'A fall in price of a product may or may not lead to rise in demand for a related good.'  
Explain using examples.    3
9. 'Crop damaged in Maharashtra sends onion prices soaring in Delhi.'  
Analyse the statement using diagram.  
(OR)  
'Cheaper imports from China send the prices of Indian toys spiralling down.'  
Explain the statement using diagram.    4
10. A firm earns revenue of Rs. 1,500/- when the market price of the good is Rs.15/-. The market price decreases to Rs. 10/- and the revenue of the firm decreases by Rs. 1000/-. Find the price elasticity of supply.    4
11. State whether the following statements are true or false. Justify your answer.  
a) Average cost falls only when marginal cost falls.  
b) Total product falls only when marginal product falls.  
c) Average product is maximum when marginal product is zero.  
d) Total fixed cost is equal to total variable cost at zero level of output.    6

12. Describe the conditions of producer's equilibrium using a schedule. 6
13. State and explain any four factors that affect price elasticity of demand. (OR)  
Describe the geometric method of measuring price elasticity of demand. 6
14. State and explain the conditions of consumer's equilibrium using the indifference curve approach. 6

**SECTION - B (MACRO ECONOMIC THEORY)**

15. The autonomous investment is 200 and the consumption is  $C = 90 + .7Y$ . This economy will be at equilibrium when planned savings will be –  
a) 90                      b) 10                      c) 200                      d) none of the above. 1
16. The value of the investment multiplier ranges between  
a) 0 and +1              b) 1 and infinity              c) -1 and +1              d) 0 and infinity 1
17. The rate of interest at which the central bank lends to commercial banks on a long term basis is termed as-  
a) bank rate              b) repo- rate              c) reverse-repo rate              d) lending rate 1
18. Which of these excludes interest payments?  
a) Primary deficit              b) Fiscal deficit              c) Revenue deficit              d) Both (a) and(b) 1
19. The value of the deposit multiplier is inversely related to  
a) CRR                      b) SLR                      c) both (a) and (b)              d) neither (a) nor (b) 1
20. There is a rise in real GDP per capita of a country. Does this mean that there is an increase in the level of welfare? Justify giving three reasons. 3
21. In the government of India's budget for the year 2014-15, the finance minister proposed to reduce the sales tax on medicines as well as a decrease in the income tax on individuals earning less than Rs.2 lakh per annum. What possible objectives could the government be considering to achieve? 3
22. Describe the components of Revenue and Capital expenditures of the government. (OR)  
Explain the components of Revenue receipts of government budget. 3
23. Explain giving two examples why there is a decrease in the demand for foreign currency when the exchange rate rises. (OR)  
Explain the difference between Depreciation and Devaluation of domestic currency. 4
24. In an economy planned AD is less than planned AS. Use diagram to explain how the economy attains equilibrium level of national income again. 4
25. Identify whether the following transactions of BOP belong to the current or capital account. Justify your answer-  
a) Investment income paid abroad.  
b) Export of machines  
c) Foreign direct investment in real estate by India in ROW.  
d) Borrowing from rest of the world. 4

26. a) Discuss any four precautions to be used while calculating national income using the value added method.  
b) What are the components of domestic income? (4+2)
27. Assuming a constant value of mpc, draw a consumption curve. From it derive the savings curve explaining the process. On the diagram, show:  
a) The level of income at which  $aps = 0$ .  
b) The level of income at which  $apc > 1$ . 6
28. a) What is meant by LRR? How can it be used to reduce deflation in the economy?  
b) What do you understand by Open market operations? How is it used to reduce inflation in the economy? (3+3)
29. Find (a) GNP at market price, and (b) Net national disposable income. 6

	Items	Rs. Crore
1.	Net current transfers from abroad	80
2.	Private final consumption expenditure	2000
3.	Subsidies	20
4.	Net factor income to abroad	100
5.	Net domestic fixed capital formation	680
6.	Government final consumption expenditure	500
7.	Changes in stock	10
8.	Exports	100
9.	Consumption of fixed capital	80
10.	Excise duty	60
11.	Net imports	(-)100

(OR)

- Find (a) Private income, and (b) National income.

	Items	Rs. Crore
1.	Personal disposable income	380
2.	Income from property and entrepreneurship of government departments	60
3.	Savings of non dept enterprises	125
4.	Direct personal tax	10
5.	Net factor income paid abroad	25
6.	Indirect taxes	25
7.	Current transfers to ROW	20
8.	Savings of private corporate sector	25
9.	Corporation tax	150
10.	Current transfers from government	80