SECOND TERM EXAMINATION, 2011–2012
ECONOMICS

Time Allowed : 3 hrs. CLASS-XII

General Instructions:
(i) All questions are compulsory.
(ii) Q. 1–5 and Q. 17–21 are very short answer type questions. They must be
answered with 20 words.
(iii) Q. 6–10 and Q. 22–26 are short answer type questions carrying 3 marks each,
their word limit is 60–70 words.
(iv) Q. 11–13 and Q. 27–29 are short answer type questions carrying 4 marks
each. Their word limit is 70–80 words.
(v) Q. 14–16 and Q. 30–32 are long answer type questions carrying 6 marks
each. Their word limit is 100–110 words.
(vi) Numerical problems are free of word limit.

Section A : (Introductory Micro Economic Theory)

1. What gives rise to central problems of an economy? (1)
2. State the law of diminishing marginal utility. (1)
3. At a particular level of output a producer finds that MC < MR. What will he do to
maximise his profit? (1)
4. What is meant by producer's equilibrium? (1)
5. Which feature separates monopolistic competition from perfect competition? (1)
6. What is the opportunity cost of a given activity? Explain with the help of an
example. (3)
7. At a price of Rs. 5 per unit a consumer spends Rs. 30 for a commodity. When
the price falls to Rs. 3 per unit, then the expenditure on that commodity decreases
to Rs. 24. Calculate price elasticity of demand by percentage method. (3)
8. Explain the relation between Average Revenue and Marginal Revenue of a firm,
which is free to sell any quantity of a goods at a given price. Use numerical
example and diagram to explain. (3)
9. Give three reasons for an increase in supply of a commodity. (3)
   Or
   If two straight line supply curves intersect each other, which of them will have a
   higher elasticity of supply at the point of intersection? Explain. (3)
10. Why do firms in monopolistic market face indeterminate demand curve? (3)

P.T.O.
11. Complete the table:

<table>
<thead>
<tr>
<th>Output (Units)</th>
<th>Average variable cost (Rs.)</th>
<th>Total cost (Rs.)</th>
<th>Marginal cost (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>18</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>120</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>22</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

12. Define indifference curve. Prove that two indifference curve never intersect each other.

"If a good can be put/used for many purposes, the demand for it will be elastic". Explain by giving suitable two examples.

13. What is the impact of the following on the demand curve for goods X? Give reasons:
   (i) Consumer's income fall and goods X is a normal good.
   (ii) Price of complementary goods Y rises.

14. Explain the meaning of 'increase in demand' and 'increase in quantity demanded'. With the help of a numerical example. Give two causes of increase in demand.

15. To increase the production of a good, only one input is increased and other inputs are held constant. Explain its impact on Total Physical Product. Give reasons.

16. A shift in demand curve has a large effect on price and smaller effect on quantity when number of firms is fixed, compared to a situation when free entry and exit is permitted. Explain with suitable diagram.

17. Under what circumstances 'Gross National Product at Market Prices' is equal to 'Gross Domestic Product' at market prices?

18. What is the difference between citizen and resident?

19. Why can the value of 'Marginal Propensity to Consume' not be greater than one?

20. What is the relationship between 'Average Propensity to Save' and 'Marginal Propensity to Save'?
21. Why is ‘recovery of loans’ a capital receipt? (1)

22. What is the difference between net national disposable income and personal disposable income? (3)

Or

Distinguish between stock and flow by giving suitable examples.

23. Calculate ‘Gross Domestic Fixed Capital Formation’ from the following data: (3)

<table>
<thead>
<tr>
<th>Items</th>
<th>Rs. (Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Private final consumption expenditure</td>
<td>1,000</td>
</tr>
<tr>
<td>(ii) Govt. final consumption expenditure</td>
<td>500</td>
</tr>
<tr>
<td>(iii) Net exports</td>
<td>(-) 50</td>
</tr>
<tr>
<td>(iv) Net factor income from abroad</td>
<td>20</td>
</tr>
<tr>
<td>(v) Gross Domestic Product at market price</td>
<td>2,500</td>
</tr>
<tr>
<td>(vi) Opening Stock</td>
<td>300</td>
</tr>
<tr>
<td>(vii) Closing Stock</td>
<td>200</td>
</tr>
</tbody>
</table>

24. State whether the following statements are true or false. Give reasons for your answer: (3)

(i) When ‘Marginal Propensity to Consume’ is greater than ‘Marginal Propensity to Save’, the value of investment multiplier is greater than 5.

(ii) The value of ‘Marginal Propensity to Save’ can never be negative.

25. Differentiate between capital expenditure and revenue expenditure. Give 2 examples of each. (3)

26. How has emergence of money solved the problem of double coincidence of wants, of the barter system? (3)

27. How will you treat the following while estimating domestic factor income of India? Give reasons: (4)

(i) Remittances from non-residents Indians to their families in India.

(ii) Profit earned by branches of foreign bank in India.

28. In an economy, the actual level of income is Rs. 500 crores, whereas the full employment level is Rs. 800 crore. The marginal propensity to consume is 0.75. Calculate the increase in investment to achieve full employment level of output. (4)

29. What is fiscal deficit? What are the implications of higher fiscal deficit in the economy? (4)

Or

Distinguish between revenue deficit and fiscal deficit. Also signify their inter-relationship.
30. Why should planned investment be equal to planned savings for the economy to be in equilibrium? (6)

Or

In an economy consumption function \( C = 20 + 0.4 \, y \), show that in such economy as income increases, Average propensity to consume falls. Use numerical example.

31. How do commercial banks create credit in the economy. Show working of credit multiplier. (6)

32. Calculate Gross National Product at market price and personal income from the following data: (6)

<table>
<thead>
<tr>
<th>Items</th>
<th>Rs. In Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Corporation Tax</td>
<td>35</td>
</tr>
<tr>
<td>(ii) Wages and Salaries</td>
<td>200</td>
</tr>
<tr>
<td>(iii) National debt interest</td>
<td>25</td>
</tr>
<tr>
<td>(iv) Operating surplus</td>
<td>400</td>
</tr>
<tr>
<td>(v) Net current transfers from abroad</td>
<td>15</td>
</tr>
<tr>
<td>(vi) Net factor income from abroad</td>
<td>-10</td>
</tr>
<tr>
<td>(vii) Consumption of fixed capital</td>
<td>20</td>
</tr>
<tr>
<td>(viii) Social security contribution by employer</td>
<td>30</td>
</tr>
<tr>
<td>(ix) Net Indirect tax</td>
<td>40</td>
</tr>
<tr>
<td>(x) NDPFC accruing to Private Sector</td>
<td>500</td>
</tr>
<tr>
<td>(xi) Current transfers from Government</td>
<td>5</td>
</tr>
</tbody>
</table>