NIOS Class 12 Economics Sample Paper-1

Duration: 180 Minutes **Maximum Marks: 100**

Instructions

- This paper contains **50 Questions** divided into **Section A** (50 marks) and **Section B** (50 marks).
- **Section A** consists of:
  - **Q.1 to Q.20** – Multiple Choice type questions (MCQs) carrying 1 mark each.
  - **Q.21 to Q.35** – Objective type questions carrying 2 marks each (fill in blanks, yes/no, definitions, etc.).
- **Section B** consists of:
  - **Q.36 to Q.42** – Short answer type questions carrying 2 marks each.
  - **Q.43 to Q.48** – Answer type questions carrying 4 marks each with internal choice.
  - **Q.49 to Q.50** – Long answer type questions carrying 6 marks each with internal choice.
- There is **No Negative marking**.
- Internal choices have been provided in some questions. Attempt only one choice.
- Use of mobile phones, calculators, or any electronic gadgets is strictly prohibited.

Section: A

Q1. Which of the following is NOT a tool of statistical analysis used in economics? **(1)**

(A) Mean and Median

(B) Standard Deviation

(C) Graphical Representation

(D) Qualitative Assessment only

Q2. The average of all values in a dataset is called the: **(1)**

(A) Mode

(B) Median

(C) Mean (Arithmetic Average)

(D) Range

Q3. If the correlation coefficient between two variables is -0.95, it indicates: **(1)**

(A) Very weak positive correlation

(B) Strong negative correlation

(C) Perfect positive correlation

(D) No correlation

Q4. Which method is used to measure the percentage change in price levels over time? **(1)**

(A) Index Number

(B) Variance

(C) Quartile Deviation

(D) Probability Distribution

Q5. The base year in index number construction is assigned a value of: **(1)**

(A) 50

(B) 100

(C) 200

(D) 150

Q6. Standard deviation is a measure of: **(1)**

(A) Central Tendency

(B) Dispersion

(C) Correlation

(D) Skewness

Q7. In economics, the central problem of allocation of resources arises because: **(1)**

(A) Resources are unlimited

(B) All wants are unlimited

(C) Wants are limited

(D) Both (b) and (c)

Q8. A consumer reaches equilibrium when: **(1)**

(A) Price is minimum

(B) Marginal Utility equals Price (or MU = Price)

(C) Total Utility is maximum

(D) Income is minimum

Q9. Price elasticity of demand measures: **(1)**

(A) Change in quantity demanded due to change in price

(B) Change in price due to change in income

(C) Change in quantity supplied due to change in cost

(D) Change in consumer satisfaction

Q10. Demand is said to be elastic when the elasticity coefficient is: **(1)**

(A) Greater than 1

(B) Equal to 1

(C) Less than 1

(D) Equal to 0

Q11. Which of the following represents the Law of Diminishing Marginal Returns? **(1)**

(A) As one input increases, output increases indefinitely

(B) As more units of a variable input are used, its marginal product eventually declines

(C) Fixed costs increase with production

(D) Supply exceeds demand

Q12. Average Cost is calculated as: **(1)**

(A) $\frac{\text{Total Cost}}{\text{Quantity}}$

(B) $\frac{\text{Total Cost}}{\text{Fixed Cost}}$

(C) Total Cost $\times$ Quantity

(D) Marginal Cost $\times$ Quantity

Q13. Under perfect competition, a firm's price equals: **(1)**

(A) Average Revenue

(B) Marginal Revenue

(C) Both (a) and (b)

(D) Total Cost

Q14. National Income is the sum of: **(1)**

(A) All money earned by individuals

(B) Factor incomes (Rent, Wages, Interest, Profit)

(C) Value of consumer expenditure only

(D) Government spending only

Q15. Disposable income is: **(1)**

(A) National Income minus Savings

(B) Personal Income minus Direct Taxes

(C) All income earned in the economy

(D) Income after investment

Q16. According to Keynesian theory, aggregate demand depends primarily on: **(1)**

(A) Supply of money

(B) Level of income (or consumption)

(C) Interest rate alone

(D) Population growth

Q17. The multiplier effect shows that: **(1)**

(A) An increase in investment leads to a proportionately larger increase in income

(B) All investments are profitable

(C) Income always decreases

(D) Consumption never changes

Q18. Which institution is responsible for controlling the money supply in the country? **(1)**

(A) Commercial Banks

(B) State Government

(C) Central Bank (RBI in India)

(D) Finance Ministry

Q19. A government budget deficit occurs when: **(1)**

(A) Government revenue exceeds expenditure

(B) Government expenditure exceeds revenue

(C) Both are equal

(D) Tax collection increases

Q20. Inflation can be controlled through: **(1)**

(A) Increasing money supply

(B) Open market operations to reduce liquidity

(C) Increasing government spending

(D) Reducing interest rates

Q21. Fill in the blank: The Measure of Central Tendency that is not affected by extreme values is the . . . . . **(2)**

Q22. Fill in the blank: When the degree of correlation is $r = 0$, it means the two variables have . . . . . relationship. **(2)**

Q23. State the formula for constructing a Simple Index Number using the Fixed Base Method: **(2)**

Q24. Write Yes or No: Are all human wants unlimited in nature? **(2)**

Q25. Identify any two false statements from the following: **(2)**

1. Marginal Utility is always positive
2. Supply curve slopes upward from left to right
3. Perfect competition exists in agricultural markets
4. Consumer's demand curve is always straight

Q26. Fill in the blank: A firm in the short run operates with both . and . costs. **(2)**

Q27. Write Yes or No: Does GDP include the value of second-hand goods sold? **(2)**

Q28. Fill in the blanks: National Income = Consumption + + (in Keynesian model). **(2)**

Q29. Fill in the blanks: The Propensity to Save (APS) = $\frac{\text{Saving}}{\cdots}$ **(2)**

Q30. Define the term 'Utility' in economics. **(2)**

Q31. Fill in the blanks: The rate at which one good is exchanged for another is called the . . . . . **(2)**

Q32. Define 'Supply' and name the factors that affect the supply of a commodity. **(2)**

Q33. Correct the following sentence: "Profit is the difference between Total Revenue and Variable Cost." **(2)**

Q34. State the full form of the following:
(i) NDP (ii) GNP **(2)**

Q35. Write Yes or No: Is money the only medium of exchange used in all modern economies? **(2)**

Section: B

Q36. State two differences between Microeconomics and Macroeconomics. **(2)**

Q37. A consumer has a budget of Rs. 100. The price of good X is Rs. 10 and price of good Y is Rs. 5. Calculate the maximum quantity of good X the consumer can purchase if they do not buy any of good Y. **(2)**

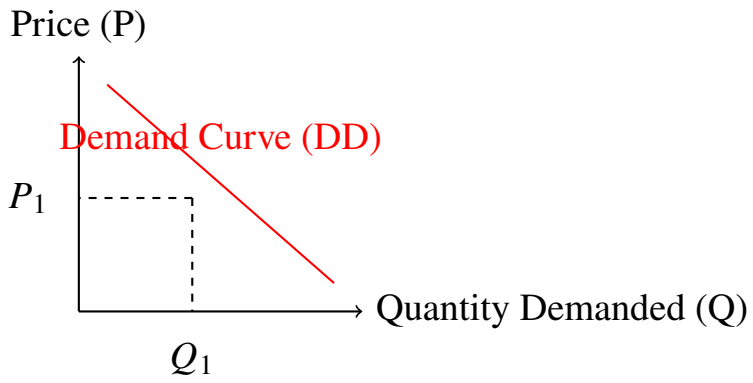
Q38. Draw a diagram showing the demand curve for a normal good and label it clearly. **(2)**

Q39. (i) Define the term 'Production Function' and explain its significance in economics.
OR
(ii) What is the relationship between Average Product and Marginal Product? **(2)**

Q40. (i) Distinguish between Fixed Cost and Variable Cost with one example of each.
OR
(ii) Explain what happens to Average Cost when Marginal Cost equals Average Cost. **(2)**

Q41. (i) State two characteristics of Perfect Competition.
OR
(ii) Explain why a monopolist can earn abnormal profits even in the long run. **(2)**

Q42. Explain the Law of Demand with the help of a diagram. State the assumptions of the Law of Demand. **(2)**



Q43. Explain the concept of Price Elasticity of Demand and calculate it using the formula: $PED = \frac{\%\text{ change in Quantity Demanded}}{\%\text{ change in Price}}$. Give two examples. **(4)**

Q44. (i) State and explain the Law of Diminishing Marginal Returns with the help of a suitable example.

OR

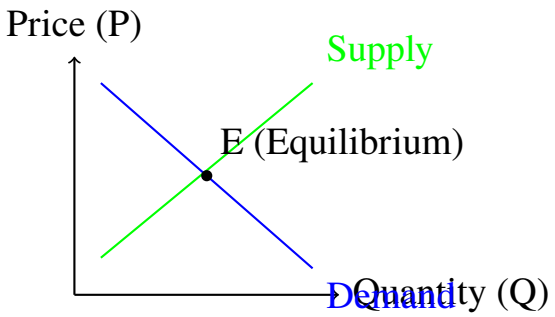
(ii) What is the relationship between Total Product, Marginal Product, and Average Product? Explain with a table. **(4)**

Q45. (i) Distinguish between Explicit Costs and Implicit Costs. Give suitable examples.

OR

(ii) Explain the relationship between Average Cost, Marginal Cost, and Total Cost with diagrams. **(4)**

Q46. Explain the determination of price under Perfect Competition using the diagram of demand and supply. Show the equilibrium point where price is determined. **(4)**



Q47. (i) Briefly explain the concept of National Income and list two methods of measuring it.

OR

(ii) Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP). **(4)**

Q48. Complete the following table showing the relationship between income and consumption: **(4)**

Income (Rs.)	Consumption (Rs.)	Saving (Rs.)	MPC
0	50	.....	..
100	130	.....	..
200	210	.....	..
300	290	.....	..

Q49. Describe the steps involved in measuring National Income using the Income Method. State the precautions to be taken to avoid double counting. **(6)**

Q50. (i) Analyse the role and functions of the Central Bank in an economy. Explain how it controls inflation through Open Market Operations.

OR

(ii) Explain the functions of Commercial Banks and their role in credit creation. Present a complete table showing the expansion of credit with the help of reserve ratio. **(6)**

Detailed Solutions

Q1.

Solution

Concept: Statistical analysis in economics relies on quantifiably measuring data, identifying trends, and analyzing distributions. Tools must be objective and measurable rather than purely descriptive or based on non-quantifiable characteristics.

Solution:

(a) Mean and median measure central tendencies, standard deviation measures dispersion, and graphical representation visualizes trends. All three are core tools of quantitative statistical analysis.

(b) Qualitative assessment focuses on non-numerical descriptions, such as behavioral observations or feelings, which lack mathematical metrics on their own.

(c) Economic statistics require measurable variables. Relying strictly on qualitative assessment does not involve numerical or statistical tool manipulation.

Final Answer: Qualitative Assessment only

Answer: (D)

Go Back to Question 1

Q2.

Solution

Concept: Measures of central tendency summarize a data distribution using a single representative value. Different measures represent either the center point, the most frequent value, or the mathematical average of the values.

Solution:

(a) Mode represents the value that appears most frequently in a given dataset.

(b) Median is the middlemost value when data is arranged in ascending order.

(c) The arithmetic mean is calculated by summing all individual observations and dividing by the total number of observations, giving the mathematical average.

(d) Range is a measure of dispersion, representing the gap between maximum and minimum values.

Final Answer: Mean (Arithmetic Average)

Answer: (C)

Go Back to Question 2

Q3.

Solution

Concept: The correlation coefficient measures the strength and direction of the linear relationship between two variables, ranging from negative one to positive one.

Solution:

(a) A positive value indicates variables move together, while a negative value shows they move in opposite directions.

(b) The closer the value is to negative one, the stronger the inverse relationship.

(c) A value of negative zero point nine five indicates an extremely strong inverse relationship, meaning as one variable increases, the other decreases predictably.

Final Answer: Strong negative correlation

Answer: (B)

Go Back to Question 3

Q4.

Solution

Concept: Macroeconomic indicators track aggregate variations in prices, quantities, and values over different periods to measure inflation, deflation, or changes in the cost of living.

Solution:

(a) Variance and quartile deviation measure data dispersion or spread around a central value, not changes over time.

(b) Probability distribution describes the likelihood of different outcomes occurring within an experiment.

(c) Index numbers are specialized statistical devices designed specifically to measure net percentage changes in variables like price levels or production levels across different time periods.

Final Answer: Index Number

Answer: (A)

Go Back to Question 4

Q5.

Solution

Concept: An index number compares changes in data relative to a standard starting benchmark period, which acts as the reference point for all subsequent calculations.

Solution:

(a) The baseline period chosen for comparison is formally known as the base year.

(b) To simplify the tracking of percentage increases or decreases, the base year is always standardly assigned a convenient reference value of exactly one hundred.

(c) Current year values are then expressed as a ratio against this benchmark of one hundred.

Final Answer: 100

Answer: (B)

Go Back to Question 5

Q6.

Solution

Concept: Descriptive statistics are categorized into measures that pinpoint the middle of a dataset and measures that describe how spread out the individual data points are.

Solution:

(a) Central tendency finds the middle value, correlation looks at relationships, and skewness measures asymmetry.

(b) Standard deviation calculates the average distance of each data point from the arithmetic mean.

(c) This calculation directly reveals how scattered or dispersed the data points are around that mean value, making it a definitive measure of dispersion.

Final Answer: Dispersion

Answer: (B)

Go Back to Question 6

Q7.

Solution

Concept: The foundational problem of economics stems from the core imbalance between human desires and the availability of environmental and economic productive inputs.
Solution:

(a) Human wants and desires are fundamentally insatiable and expand continuously, making them completely unlimited.

(b) Conversely, the resources needed to satisfy these wants, such as land, labor, and capital, exist in finite quantities.

(c) Because resources are scarce while wants are unlimited, society must choose how to allocate these scarce resources optimally.

Final Answer: All wants are unlimited

Answer: (B)

Go Back to Question 7

Q8.

Solution

Concept: Consumer equilibrium represents a state of optimal satisfaction where a rational consumer has no incentive to change their spending pattern given their income and market prices.
Solution:

(a) A rational consumer maximizes satisfaction by equating the additional utility gained from the last unit bought to the sacrifice made in terms of price paid.

(b) Maximum total utility alone does not factor in the constraint of market price.

(c) Equilibrium is reached precisely when the marginal utility of a commodity matches its market price.

Final Answer: Marginal Utility equals Price (or MU = Price)

Answer: (B)

Go Back to Question 8

Q9.

Solution

Concept: Elasticity parameters quantify the responsiveness of market participants to changes in various economic determinants like price, income, or production costs.

Solution:

(a) Price elasticity of demand focuses specifically on consumer buying responses to variations in the item's own market price.

(b) It isolates how much the quantity demanded shifts when the unit price rises or falls.

(c) It ignores income changes or production costs to purely measure the percentage change in quantity demanded relative to the percentage change in price.

Final Answer: Change in quantity demanded due to change in price

Answer: (A)

Go Back to Question 9

Q10.

Solution

Concept: The price elasticity coefficient indicates how sharply buyers react to price fluctuations, classified into categories based on its numerical value.

Solution:

(a) A coefficient of zero means perfectly inelastic demand, while a coefficient less than one means inelastic demand.

(b) A value exactly equal to one indicates unitary elasticity where percentage changes match exactly.

(c) Demand is classified as elastic when the percentage change in quantity demanded is greater than the percentage change in price, which yields a coefficient greater than one.

Final Answer: Greater than 1

Answer: (A)

Go Back to Question 10

Q11.

Solution

Concept: The law of diminishing marginal returns is a fundamental economic rule that governs short-run production processes where at least one factor of production is kept fixed.

Solution:

(a) When a business keeps some production inputs constant, such as factory space or heavy machinery, it can only increase output by adding variable inputs like labor.

(b) Initially, adding more variable units might increase productivity due to specialization and better utilization of the fixed plant machinery.

(c) Eventually, a critical threshold is reached where the fixed input becomes overcrowded or over-utilized by the excess variable inputs.

(d) Beyond this optimal point, each additional unit of the variable input adds less to total production than the previous unit did, meaning its marginal product declines.

Final Answer: As more units of a variable input are used, its marginal product eventually declines

Answer: (B)

Go Back to Question 11

Q12.

Solution

Concept: Per-unit cost metrics are essential for a firm to evaluate its production efficiency and determine profitability margins relative to market selling prices.

Solution:

(a) Total cost comprises all expenditures incurred by a business entity during production, encompassing both fixed and variable expense obligations.

(b) To discover how much money is spent on average to produce a single unit of output, the total consolidated cost must be distributed evenly across all units produced.

(c) Mathematically, this relationship is established by dividing the total cost by the exact quantity of output units manufactured during that specific period.

Final Answer: $\frac{\text{Total Cost}}{\text{Quantity}}$

Answer: (A)

Go Back to Question 12

Q13.

Solution

Concept: A perfectly competitive market structure features many small firms selling identical products, meaning individual sellers possess no power to influence market prices.
Solution:

(a) Because competitive firms are price takers, they must sell every single unit of their product at the prevailing equilibrium price determined by market supply and demand.

(b) Average revenue represents revenue earned per unit, which naturally equals the unit price since all units fetch the exact same market rate.

(c) Marginal revenue is the additional income gained from selling one extra unit, which also equals the fixed market price because price does not drop as sales expand.

Final Answer: Both (a) and (b)

Answer: (C)

Go Back to Question 13

Q14.

Solution

Concept: National income accounts track the total economic value generated within a country by examining payments made to resources for their contribution to production.
Solution:

(a) Production requires primary economic inputs known as factors of production, which are categorized as land, labor, capital, and entrepreneurship.

(b) Each factor receives a specific reward for its service: land earns rent, labor receives wages, capital accumulates interest, and entrepreneurs claim profits.

(c) Summing these individual streams provides total factor income, which accurately reflects national income by excluding non-productive transfers.

Final Answer: Factor incomes (Rent, Wages, Interest, Profit)

Answer: (B)

Go Back to Question 14

Q15.

Solution

Concept: Disposable income isolates the actual purchasing power remaining with households for consumption or saving after fulfillment of all statutory government mandates.
Solution:

(a) Personal income measures the total pre-tax earnings flowing directly to individuals from all sources across the economy.

(b) Households cannot freely spend all personal income because governments levy compulsory direct charges like personal income taxes.

(c) Subtracting direct taxes from personal income isolates the net funds that individuals can actively choose to either spend on consumption or put into savings.

Final Answer: Personal Income minus Direct Taxes

Answer: (B)

Go Back to Question 15

Q16.

Solution

Concept: Keynesian economic theory examines short-run economic fluctuations and emphasizes that total spending within the economy drives overall employment and production levels.
Solution:

(a) John Maynard Keynes argued that macro economies do not automatically self-correct to full employment purely based on flexible prices or money supply changes.

(b) Instead, output and employment depend directly on aggregate demand, which represents total planned spending on domestic goods and services.

(c) The largest component of aggregate demand is household consumption, which is fundamentally determined by the current level of national income.

Final Answer: Level of income (or consumption)

Answer: (B)

Go Back to Question 16

Q17.

Solution

Concept: The investment multiplier demonstrates how an initial change in autonomous spending ripples through the economy to generate a larger cumulative change in national output.
Solution:

(a) When a business injects new investment spending into the economy, that expenditure directly becomes new income for capital equipment suppliers and workers.

(b) These income recipients then spend a portion of their earnings on consumption, which creates fresh income for a secondary group of sellers.

(c) This repeating cycle of spending and earning ensures that the final increase in total national income exceeds the original investment amount.

Final Answer: An increase in investment leads to a proportionately larger increase in income

Answer: (A)
Go Back to Question 17

Q18.

Solution

Concept: Monetary policy involves regulating total currency circulation and banking credit to stabilize economic growth, manage price levels, and prevent financial crises.
Solution:

(a) While commercial banks create credit money through routine lending operations, they lack the legal authority to issue currency or formulate national monetary rules.

(b) Ministries oversee general economic policy but do not independently control banking system liquidity parameters on a day-to-day basis.

(c) The central bank functions as the ultimate monetary authority, utilizing specialized policy tools to directly control money supply and interest rates.

Final Answer: Central Bank (RBI in India)

Answer: (C)
Go Back to Question 18

Q19.

Solution

Concept: A government budget reflects planned financial operations over a fiscal year, comparing projected tax revenues against scheduled public expenditure programs.
Solution:

(a) A balanced budget occurs when current financial receipts exactly match public expenditures during the fiscal cycle.

(b) When public income collected from taxes exceeds spending, the state records a budget surplus.

(c) A budget deficit emerges precisely when government spending commitments outpace total revenue collections, forcing the government to borrow funds to cover the shortfall.

Final Answer: Government expenditure exceeds revenue

Answer: (B)

Go Back to Question 19

Q20.

Solution

Concept: High inflation occurs when too much money chases too few goods, requiring monetary interventions that reduce the total volume of disposable cash in circulation.
Solution:

(a) Boosting public spending or lowering interest rates injects extra liquidity, expanding demand and worsening inflationary pressures.

(b) To combat rising prices, central banks must intentionally absorb excess cash from the commercial banking network.

(c) Conducting open market operations to sell government securities removes liquid cash from banks, curtailing their lending capacity and tempering demand.

Final Answer: Open market operations to reduce liquidity

Answer: (B)

Go Back to Question 20

Q21.

Solution

Concept: Measures of central tendency summarize a dataset with a single value. However, outliers or extremely high or low values affect these statistical measures differently based on how they are calculated.

Solution:

(a) The arithmetic mean sums all values and divides by the total count, making it highly sensitive to extreme values or outliers.

(b) The mode identifies the most frequent value but may not exist or be unique in skewed data distributions.

(c) The median represents the exact middle value when a dataset is arranged in numerical order.

(d) Because the median depends purely on the positional order of data rather than the numerical magnitude of individual data points, extreme values at the tail ends do not alter its value.

Final Answer: Median

Answer: (See Above)

Go Back to Question 21

Q22.

Solution

Concept: The correlation coefficient measures the strength and direction of a linear relationship between two distinct numerical variables, ranging from negative one to positive one.

Solution:

(a) A positive value indicates a direct relationship, while a negative value signifies an inverse relationship.

(b) When the correlation coefficient reaches exactly zero, it implies that there is absolutely no observable linear pattern or trend connecting the data points.

(c) Therefore, changes in the independent variable provide no statistical basis for predicting changes in the dependent variable, indicating the absence of any linear relationship.

Final Answer: no linear

Answer: (See Above)

Go Back to Question 22

Q23.

Solution

Concept: Index numbers measure net changes in variables like price or quantity over time relative to a designated baseline benchmark period that remains unchanging.

Solution:

(a) Under the fixed base method, a single historical year is selected as the permanent reference base point for all subsequent temporal comparisons.

(b) The price of the commodity in the current year is mathematically evaluated against the price of the commodity in that specific fixed base year.

(c) The index number is calculated by finding the ratio of the current price to the base price and multiplying by one hundred to express it as a percentage.

Final Answer: $P_{01} = \frac{P_1}{P_0} \times 100$

Answer: (See Above)

Go Back to Question 23

Q24.

Solution

Concept: The fundamental economic problem facing all societies stems from the core mismatch between available productive resources and human desires.

Solution:

(a) Human wants are naturally expansive and continuous, meaning that as soon as one desire is completely satisfied, new wants emerge immediately.

(b) This infinite expansion of desires means that aggregate human wants are classified as entirely unlimited in nature.

(c) Because the inputs required to satisfy these wants are scarce, choice becomes necessary, validating the premise that all human wants are indeed unlimited.

Final Answer: Yes

Answer: (See Above)

Go Back to Question 24

Q25.

Solution

Concept: Evaluating microeconomic statements requires analyzing consumer behavior, production constraints, market definitions, and the mathematical properties of demand and utility functions.
Solution:

(a) Statement one is false because marginal utility eventually turns negative as a consumer overconsumes a commodity and experiences dissatisfaction or disutility.

(b) Statement two is true because the law of supply dictates that producers offer more goods at higher market prices, leading to an upward slope.

(c) Statement three is true because agricultural markets closely mirror perfect competition due to numerous sellers and homogenous products.

(d) Statement four is false because consumer demand curves can be curved or non-linear depending on changing elasticities along the curve.

Final Answer: Statements 1 and 4

Answer: (See Above)
Go Back to Question 25

Q26.

Solution

Concept: The short run is a specific production timeframe during which a firm can change some inputs but lacks the time required to alter all production inputs.
Solution:

(a) Because certain inputs like factory size or heavy machinery cannot be changed quickly, they create expenses that remain constant regardless of output levels.

(b) Conversely, inputs like raw materials and casual labor can be scaled up or down, creating expenses that fluctuate directly with the volume of production.

(c) Therefore, a firm operating in the short run must simultaneously manage both fixed costs and variable costs during its daily operations.

Final Answer: fixed, variable

Answer: (See Above)
Go Back to Question 26

Q27.

Solution

Concept: Gross Domestic Product measures the total monetary value of all final goods and services produced within a country's boundaries during a single fiscal year.
Solution:

(a) GDP accounting is strictly designed to track and measure current productive output generated by the economy within the specified accounting period.

(b) Second-hand goods represent items that were already counted in national output during the specific historical year they were originally manufactured and sold.

(c) Including the sale value of second-hand goods again would cause double counting and falsely exaggerate the actual value of current domestic production.

Final Answer: No

Answer: (See Above)

Go Back to Question 27

Q28.

Solution

Concept: In the macroeconomic Keynesian framework, equilibrium national income is determined by evaluating total planned expenditures across different sectors of the economy.
Solution:

(a) Aggregate demand or total spending determines national income, which is broken down into expenditures by households, business firms, and public sectors.

(b) Households contribute to the economy through private consumption expenditures.

(c) Business firms contribute through planned investment expenditures, while public authorities add value through direct government spending on public goods and services.

Final Answer: Investment + Government Expenditure

Answer: (See Above)

Go Back to Question 28

Q29.

Solution

Concept: The average propensity to save measures the proportion of total income that households choose to set aside rather than expend on immediate consumption.

Solution:

(a) Total disposable income earned by households is fundamentally divided between immediate consumption spending and long-term saving.

(b) To discover what fraction of total earnings is saved, economists calculate the ratio of total savings to total national income.

(c) This relationship is expressed by dividing the total savings value by the corresponding total income value generated during that specific timeframe.

Final Answer: Income

Answer: (See Above)

Go Back to Question 29

Q30.

Solution

Concept: Utility serves as the foundational concept behind consumer demand theory, explaining why individuals purchase and consume specific goods and services.

Solution:

(a) Utility does not necessarily reflect usefulness or morality; instead, it purely reflects the capacity of an item to satisfy a consumer's active desire.

(b) It is defined as the want-satisfying power of a commodity, meaning the subjective level of satisfaction a consumer expects to receive from consuming it.

(c) Because utility is highly subjective, it varies significantly from person to person, place to place, and across different periods of time.

Final Answer: The want-satisfying power of a commodity

Answer: (See Above)

Go Back to Question 30

Q31.

Solution

Concept: In microeconomic consumer theory, the rate at which an individual or a market trades one commodity for another reflects either subjective consumer preferences or objective market valuation ratios.

Solution:

(a) When analyzing a consumer budget constraint, the market dictates the objective rate of exchange between two commodities based entirely on their prevailing prices.

(b) This market exchange rate is represented by the price ratio of the two commodities, which determines the slope of the budget line.

(c) Alternatively, from the perspective of consumer utility and indifference curves, the subjective rate at which a consumer is willing to exchange one good for another while maintaining the same level of satisfaction is defined as the marginal rate of substitution.

(d) Both interpretations describe the fundamental mechanism of exchanging one economic good for another within allocation models.

Final Answer: Marginal Rate of Substitution

Answer: (See Above)

Go Back to Question 31

Q32.

Solution

Concept: Supply represents a market force describing seller behavior, defining how much of a good producers are willing and able to manufacture and sell at various price levels.

Solution:

(a) Supply is formally defined as the specific quantity of a commodity that sellers are willing and able to offer for sale in the market at a given price during a specific period.

(b) The primary determinant of supply is the price of the commodity itself, as higher prices generally motivate firms to increase production to secure greater returns.

(c) Several external factors also significantly shift the entire supply curve, including the cost of production inputs like labor and raw materials, the state of production technology, government tax and subsidy policies, and the total number of competing sellers operating within the market.

Final Answer: Supply is the quantity offered at a price; factors include price, input costs, and technology.

Answer: (See Above)

Go Back to Question 32

Q33.

Solution

Concept: Economic profit measures the net financial gain realized by a business entity, which requires accounting for all expenditures incurred during the production process.

Solution:

(a) Total revenue represents the total aggregate money received by a firm from selling its output in the product market.

(b) Variable costs only include expenses that change with output, such as raw materials and direct factory wages, completely ignoring fixed commitments.

(c) Subtracting only variable cost from total revenue yields accounting metrics like the contribution margin rather than final net profit.

(d) To correctly identify true economic or accounting profit, a business must subtract total cost, which encompasses the sum of both fixed and variable expenses, from its total revenue.

Final Answer: Profit is the difference between Total Revenue and Total Cost.

Answer: (See Above)

Go Back to Question 33

Q34.

Solution

Concept: National income accounting utilizes specific macroeconomic abbreviations to classify and distinguish between aggregate domestic output and net wealth generated across international borders.

Solution:

(a) Macroeconomic aggregates track output based on geographic borders or based on the institutional residency of the production factors involved.

(b) The abbreviation NDP stands for Net Domestic Product, which represents the total economic output produced within domestic borders minus capital depreciation.

(c) The abbreviation GNP stands for Gross National Product, which measures the total value of final goods and services produced by the permanent residents of a country, regardless of their physical geographic location, over a given time period.

Final Answer: (i) Net Domestic Product, (ii) Gross National Product

Answer: (See Above)

Go Back to Question 34

Q35.

Solution

Concept: A medium of exchange is an intermediary instrument used to facilitate the sale, purchase, or trade of goods and services between economic agents.

Solution:

(a) While standard fiat currency issued by a central bank functions as the primary and official legal tender within modern economic frameworks, it is not the exclusive mechanism utilized for transactions.

(b) Modern financial markets extensively employ alternative non-monetary instruments and digital mechanisms to finalize trade agreements and settle obligations.

(c) Transactions are regularly settled using mechanisms like trade credit, direct commodity bartering in specialized corporate networks, digital cryptocurrencies, and the direct exchange of financial securities or shares, demonstrating that standard money is not the single unique medium used.

Final Answer: No

Answer: (See Above)

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Q36.

Solution

Concept: Economics is divided into two primary branches based on the level of aggregation and the scope of economic decision-making.

Solution:

(a) The first key difference lies in the unit of study. Microeconomics analyzes the economic behavior of individual decision-making units, such as a single consumer, household, or firm. In contrast, macroeconomics studies the economy as a whole, looking at aggregate variables like national income, total employment, and inflation.

(b) The second difference centers on the primary objective and tools used. Microeconomics focuses on price determination and resource allocation in specific markets, utilizing tools like consumer demand and firm supply curves. Conversely, macroeconomics aims to maintain stability and promote long-run economic growth, using comprehensive fiscal and monetary policies.

Final Answer: Microeconomics studies individual units and market pricing; Macroeconomics studies aggregate variables and national stability.

Answer: (See Above)

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Q37.

Solution

Concept: The budget constraint constraint limits a consumer's spending options to combinations of goods whose total cost does not exceed their available household income.

Solution:

(a) A consumer can allocate their total budget between good X and good Y. The standard equation is price of X times quantity of X plus price of Y times quantity of Y equals total budget.

(b) The problem states the consumer spends their entire budget exclusively on good X, meaning the quantity of good Y purchased is zero.

(c) This simplifies the budget constraint equation to price of X times quantity of X equals total budget. Substituting the numbers gives ten times quantity of X equals one hundred.

(d) Dividing the total budget of one hundred by the price of ten results in a maximum purchase of ten units of good X.

Final Answer: 10 units

Answer: (See Above)

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Q38.

Solution

Concept: The demand curve graphically illustrates the behavioral response of consumers to changes in the price of a standard market commodity.

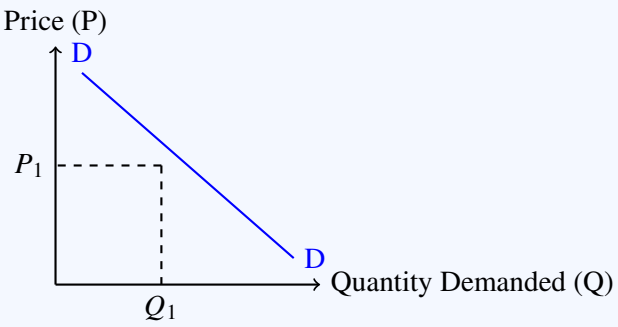
Solution:

(a) For a normal good, the law of demand applies, establishing an inverse relationship between the unit price and the quantity demanded.

(b) The visual representation plots unit price on the vertical axis and the quantity demanded on the horizontal axis.

(c) Because a drop in price prompts consumers to buy more units, the resulting demand curve slopes downward from left to right.

(d) The following TiKZ diagram models this behavior, featuring standard downward-sloping path DD with market price P1 corresponding to quantity Q1.



Final Answer: Downward-sloping demand curve labeled DD

Answer: (See Above)

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Q39.

Solution

Concept: Production theory relates physical input combinations to maximum output volumes, defining the technical boundaries of a firm's operational capacity.

Alternative (i): Production Function Definition Solution:

(a) A production function mathematically models the technological relationship between physical inputs like labor and capital and the resulting output.

(b) It establishes the maximum volume of output achievable from any specific combination of production factors given current technology.

(c) Its economic significance lies in helping managers minimize waste and optimize resource utilization to achieve maximum production efficiency.

Alternative (ii): AP and MP Relationship Solution:

(a) Average product represents per-unit output, while marginal product tracks the extra output from adding one more variable input unit.

(b) When marginal product exceeds average product, the average product curve rises. When marginal product falls below average product, average product declines.

(c) Marginal product intersects average product precisely at its maximum point, where the two values are equal.

Final Answer: See above for selected alternative solution

Answer: (See Above)

Go Back to Question 39

Q40.

Solution

Concept: A firm's cost structure changes across production horizons, determined by whether individual inputs can be adjusted as output levels fluctuate.

Alternative (i): Fixed vs Variable Costs Solution:

(a) Fixed costs are overhead expenses that remain constant regardless of the volume of goods produced, such as factory rent or insurance premiums.

(b) Variable costs are operational expenses that change directly with production volume, such as spending on raw materials or factory electricity.

Alternative (ii): MC equals AC Relationship Solution:

(a) Average cost is total cost divided by quantity, while marginal cost is the cost added by manufacturing one additional unit.

(b) When marginal cost matches average cost, it acts as a neutral pull that neither drags the average up nor down.

(c) Consequently, average cost stops falling and reaches its absolute minimum point, remaining constant at this exact intersection.

Final Answer: See above for selected alternative solution

Answer: (See Above)

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Q41.

Solution

Concept: Market structures are classified by the level of competition, the number of firms, and the presence of barriers to market entry.

Alternative (i): Perfect Competition Characteristics Solution:

(a) Perfect competition features a very large number of buyers and sellers, meaning no single participant can influence market prices.

(b) Firms sell a completely homogenous or identical product, ensuring consumers are indifferent about which seller they buy from.

(c) There is complete freedom of entry and exit, allowing firms to move resources in or out of the industry easily.

Alternative (ii): Monopolist Long Run Profit Solution:

(a) A monopoly market contains a unique single seller of a product that has no close substitutes available.

(b) This firm is protected by high barriers to entry, such as exclusive legal patents, government licenses, or ownership of raw materials.

(c) These barriers prevent new competitors from entering the market to compete away excess returns, allowing the monopolist to sustain abnormal profits in the long run.

Final Answer: See above for selected alternative solution

Answer: (See Above)

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Q42.

Solution

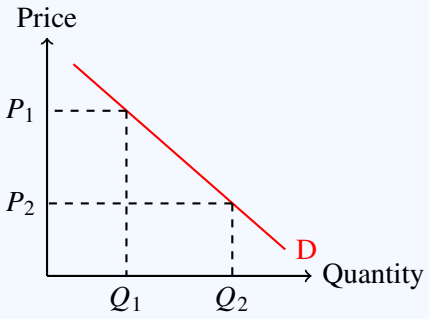
Concept: The law of demand forms the cornerstone of price theory, outlining how consumers adjust purchasing quantities when product prices fluctuate.

Solution:

(a) The law states that, keeping other factors constant, the quantity demanded of a commodity expands when its price falls and contracts when its price rises.

(b) Key assumptions include constant consumer income levels, fixed preferences and tastes, unchanged prices of related goods, and no expectations of future price shocks.

(c) The downward-sloping curve shown below illustrates this inverse relationship, mapping higher purchase quantities directly to lowered unit prices.



Final Answer: The Law of Demand states price and quantity move inversely, assuming ceteris paribus parameters hold.

Answer: (See Above)

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Q43.

Solution

Concept: Price elasticity of demand measures consumer price sensitivity, quantifying how much buying patterns shift when prices change.

Solution:

(a) Price elasticity equals the percentage change in quantity demanded divided by the percentage change in price, yielding a numerical coefficient of responsiveness.

(b) For example, if a business raises its product price by ten percent and quantity demanded drops by twenty percent, the elasticity coefficient equals two, indicating elastic demand.

(c) Conversely, if a basic food staple faces a ten percent price increase and quantity demanded drops by only five percent, the coefficient equals zero point five, indicating inelastic demand.

Final Answer: Price elasticity measures responsiveness using percentage ratios; examples include luxury items and basic necessities.

Answer: (See Above)

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Q44.

Solution

Concept: Short-run production models trace variations in total, marginal, and average output when a variable input is added to fixed capital.

Alternative (i): Diminishing Returns Law Solution:

(a) The law states that adding units of a variable factor to a fixed factor eventually yields smaller increases in total output.

(b) For example, if extra farmers are added to a fixed acre of land, the extra output per worker eventually falls due to crowding.

Alternative (ii): TP, MP, and AP Relationship Solution:

(a) Total product is total output, average product is output per worker, and marginal product is the change in total output from an extra worker.

(b) When marginal product increases, total product rises at an increasing rate. When marginal product falls but stays positive, total product rises at a diminishing rate.

(c) The data table below tracks these trends across variable inputs.

Labor Units	Total Product	Marginal Product	Average Product
1	10	10	10
2	25	15	12.5
3	33	8	11

Final Answer: See above for selected alternative solution

Answer: (See Above)

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Q45.

Solution

Concept: Firms must track explicit out-of-pocket costs alongside implicit opportunity costs to properly assess economic profitability.

Alternative (i): Explicit vs Implicit Costs Solution:

(a) Explicit costs are direct cash outlays made to external parties during business operations, such as paying worker wages or purchasing raw materials.

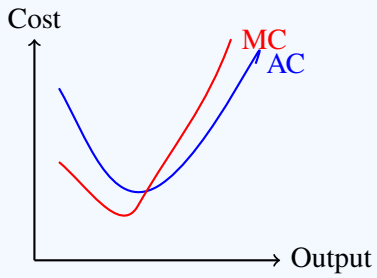
(b) Implicit costs are the opportunity costs of using self-owned resources without direct cash payments, such as a business owner using their personal building without paying rent.

Alternative (ii): AC, MC, and TC Relationship Solution:

(a) Total cost reflects cumulative spending, average cost tracks cost per unit, and marginal cost is the cost added by the last unit.

(b) The marginal cost curve cuts through both the average cost and average variable cost curves at their absolute minimum points.

(c) The diagram below shows the typical U-shaped paths of marginal and average costs.



Final Answer: See above for selected alternative solution

Answer: (See Above)

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Q46.

Solution

Concept: Market equilibrium under perfect competition is achieved at the price level where the aggregate choices of consumers align perfectly with the production decisions of suppliers.

Solution:

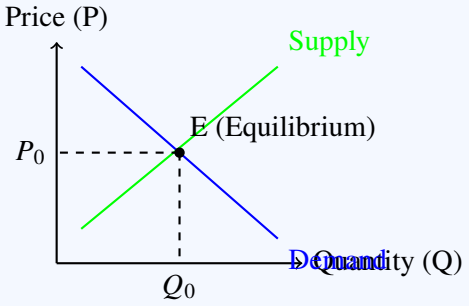
(a) The market demand curve reflects consumer behavior and slopes downward from left to right, illustrating that buyers purchase greater quantities as the unit price falls.

(b) The market supply curve represents producer choices and slopes upward from left to right, indicating that sellers are motivated to offer more units at higher prices.

(c) Equilibrium is established at the exact intersection where the downward-sloping demand curve crosses the upward-sloping supply curve, labeled as point E.

(d) At this specific intersection point, the quantity of goods that buyers are willing to purchase matches the quantity that producers are willing to supply.

(e) The price corresponding to this intersection is the equilibrium price, and any deviation triggers market forces that pull the price back to this stable point.



Final Answer: Equilibrium price is determined at the intersection of demand and supply curves.

Answer: (See Above)

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Q47.

Solution

Concept: National income accounting uses specialized metrics to measure aggregate economic output based either on geographic boundaries or on national residency status.

Alternative (i): National Income Concept Solution:

(a) National Income represents the total net value of all factor incomes earned by the normal residents of a country for their productive services during a year.

(b) The primary methods used to calculate this aggregate value include the Income Method, the Expenditure Method, and the Value Added or Product Method.

Alternative (ii): GDP versus GNP Solution:

(a) Gross Domestic Product measures the total market value of all final goods and services produced strictly within the domestic geographic boundaries of a nation.

(b) Gross National Product measures the total economic output produced by the normal residents of a nation, regardless of where the production occurs globally.

(c) Mathematically, Gross National Product is derived by taking Gross Domestic Product and adding the Net Factor Income from Abroad.

Final Answer: See above for selected alternative solution

Answer: (See Above)

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Q48.

Solution

Concept: The consumption function shows how household spending and saving habits respond to systematic changes in disposable national income levels.

Solution:

(a) Total income is divided between consumption and saving, meaning that saving always equals the total income minus consumption expenditures.

(b) At zero income, autonomous consumption is fifty, which results in a saving value of negative fifty, while the marginal propensity to consume cannot be calculated for the initial row.

(c) When income rises to one hundred and consumption becomes one hundred and thirty, saving equals negative thirty, and the marginal propensity to consume equals eighty divided by one hundred, which simplifies to zero point eight.

(d) At an income of two hundred, consumption is two hundred and ten, saving equals negative ten, and the marginal propensity to consume remains zero point eight.

(e) At an income of three hundred, consumption is two hundred and ninety, saving equals positive ten, and the marginal propensity to consume remains constant at zero point eight.

Income (Rs.)	Consumption (Rs.)	Saving (Rs.)	MPC
0	50	-50	–
100	130	-30	0.8
200	210	-10	0.8
300	290	10	0.8

Final Answer: Completed schedule showing savings values of -50, -30, -10, 10 and MPC values of 0.8.

Answer: (See Above)

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Q49.

Solution

Concept: The income method measures national output by summing all monetary payments distributed to productive factors for their services during the manufacturing process.

Solution:

(a) The first step involves identifying and classifying all producing enterprises into primary, secondary, and tertiary economic sectors.

(b) The second step requires tracking factor payments, which are divided into compensation of employees, operating surplus containing rent, interest, and profit, and mixed income of self-employed individuals.

(c) Summing these components yields Net Domestic Product at Factor Cost, and adding Net Factor Income from Abroad gives Net National Product at Factor Cost.

(d) To avoid double counting, accountants must strictly exclude transfer payments like old-age pensions because they do not reflect any current production.

(e) Additionally, the sale value of second-hand goods must be excluded since their value was captured during their original year of manufacture.

Final Answer: Net factor income payments are aggregated while transfer expenditures and second-hand sales are omitted.

Answer: (See Above)

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Q50.

Solution

Concept: Monetary systems rely on a central bank to govern currency flow and commercial banks to expand money availability via credit creation.

Alternative (i): Central Bank Functions Solution:

(a) The central bank regulates the financial system, issues national currency, and serves as the financial agent for the central government.

(b) To control inflation, the central bank conducts open market operations by selling government bonds to commercial banks and the public.

(c) This sale absorbs excess liquidity from the banking system, reducing total cash reserves, contractionary lending, and overall aggregate demand.

Alternative (ii): Commercial Banks and Credit Creation Solution:

(a) Commercial banks accept public deposits and use those primary funds to create credit by issuing loans that generate derivative bank deposits.

(b) Given an initial deposit of one thousand rupees and a ten percent cash reserve ratio, the total credit expansion tracking process is outlined below.

Round	Deposits (Rs.)	Required Reserves (Rs.)	Loans (Rs.)
Initial	1000	100	900
Round 1	900	90	810
Total	10000	1000	9000

Final Answer: See above for selected alternative solution

Answer: (See Above)

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Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	D	2	C	3	B	4	A	5	B
6	B	7	B	8	B	9	A	10	A
11	B	12	A	13	C	14	B	15	B
16	B	17	A	18	C	19	B	20	B