

NIOS Class 12 Economics Sample Paper-4

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. When supply of a commodity exceeds demand, what happens to its price? (1)

- (A) Price increases
- (B) Price decreases
- (C) Price remains constant



(D) Price fluctuates randomly

Q2. At consumer equilibrium, relationship between Marginal Utility and Price is: **(1)**

(A) $MU > \text{Price}$

(B) $MU = \text{Price}$

(C) $MU < \text{Price}$

(D) MU is independent of Price

Q3. Which of the following is NOT a determinant of demand? **(1)**

(A) Consumer's income

(B) Price of the commodity

(C) Availability of substitute goods

(D) Cost of production

Q4. Price elasticity of demand is calculated as: **(1)**

(A) $\frac{\text{Change in Price}}{\text{Change in Quantity}}$

(B) $\frac{\% \text{ Change in Quantity}}{\% \text{ Change in Price}}$

(C) $\frac{\text{Total Quantity}}{\text{Total Price}}$

(D) $\frac{\text{Fixed Cost}}{\text{Variable Cost}}$

Q5. The relationship between Total Product and Marginal Product demonstrates the concept of: **(1)**

(A) Law of Demand

(B) Law of Supply

(C) Law of Diminishing Marginal Returns

(D) Law of Variable Proportions

Q6. In the short run, which of the following is NOT a cost incurred by a firm? **(1)**

(A) Variable Cost



- (B) Fixed Cost
- (C) Semi-variable Cost
- (D) Cost of land purchased recently

Q7. If the supply curve shifts to the right, it indicates: **(1)**

- (A) Decrease in supply
- (B) Increase in supply
- (C) No change in supply
- (D) Change in demand

Q8. A perfectly elastic supply curve is represented by: **(1)**

- (A) A horizontal line
- (B) A vertical line
- (C) A positively sloped line
- (D) A negatively sloped line

Q9. In a monopoly market, the firm faces: **(1)**

- (A) Perfectly elastic demand
- (B) Downward sloping demand curve
- (C) Perfectly inelastic demand
- (D) Vertical supply curve

Q10. The intersection of Demand and Supply curves determines: **(1)**

- (A) Equilibrium Price and Quantity
- (B) Only equilibrium price
- (C) Only equilibrium quantity
- (D) Consumer surplus only

Q11. Which of the following leads to Maximum Profit for a firm? **(1)**



- (A) When $MR = MC$
- (B) When $MR > MC$
- (C) When $MR < MC$
- (D) When $TR = TC$

Q12. National Income equals: (1)

- (A) $GDP + Depreciation$
- (B) $GDP - Depreciation + Net Factor Income from Abroad$
- (C) All income earned by individuals
- (D) Only wage income

Q13. Which of the following functions is performed by the Central Bank? (1)

- (A) Accepting deposits from public
- (B) Issuing currency notes
- (C) Providing loans for business
- (D) Preparing annual accounts

Q14. A budget deficit occurs when: (1)

- (A) Government revenue exceeds expenditure
- (B) Government expenditure exceeds revenue
- (C) Both are equal
- (D) Government savings increase

Q15. Comparative advantage theory in international trade suggests: (1)

- (A) All countries should be self-sufficient
- (B) Countries should specialize in commodities where they have lowest opportunity cost
- (C) Countries should trade only with developed nations
- (D) International trade is always disadvantageous



- Q16.** What defines a free economic system? (1)
- (A) Government controls all production
 - (B) Individuals and markets determine production and prices
 - (C) Central planning is mandatory
 - (D) Only agricultural goods are produced
- Q17.** The fundamental economic problem arises because: (1)
- (A) Resources are unlimited
 - (B) Human wants are infinite
 - (C) Both resources are limited and wants are infinite
 - (D) Production is always inefficient
- Q18.** Which of the following represents a normal good? (1)
- (A) Quantity demanded decreases when income increases
 - (B) Quantity demanded increases when income increases
 - (C) Price has no effect on quantity demanded
 - (D) Quantity demanded remains unchanged
- Q19.** A perfectly competitive market is characterized by: (1)
- (A) Few large sellers
 - (B) Homogeneous products and free entry/exit
 - (C) One dominant seller
 - (D) Government price controls
- Q20.** The Marginal Rate of Substitution represents: (1)
- (A) The rate at which price changes
 - (B) The rate at which consumer trades one good for another while maintaining same utility
 - (C) The rate of change in total utility



(D) The elasticity of demand

- Q21.** Fill in the blank: When marginal utility becomes negative, the consumer experiences (2)
- Q22.** Fill in the blank: The Law of Demand states that as price increases, quantity demanded (2)
- Q23.** Write the formula for calculating Price Elasticity of Demand (PED) and classify demand as elastic or inelastic when $PED > 1$. (2)
- Q24.** Fill in the blanks: In the short run, when Marginal Product is greater than Average Product, Average Product (2)
- Q25.** Identify any two FALSE statements from the following:
 (i) Fixed costs vary with production levels
 (ii) Total profit is maximized when $MR = MC$
 (iii) Average Cost decreases throughout all levels of output
 (iv) Semi-variable costs remain completely constant (2)
- Q26.** Fill in the blank: The upward sloping supply curve indicates that as price increases, quantity supplied (2)
- Q27.** Write Yes or No: Does price determination under perfect competition occur at the intersection of demand and supply curves? (2)
- Q28.** Distinguish between Average Revenue (AR) and Marginal Revenue (MR) in economics. (2)
- Q29.** Fill in the blanks: National Income is measured using three methods: Income Method, Method, and Method. (2)
- Q30.** Define Saving and explain how it differs from Savings. (2)



- Q31.** Fill in the blank: Open Market Operations conducted by the Central Bank involve buying and selling of (2)
- Q32.** Explain the concept of Comparative Advantage in international trade with one example. (2)
- Q33.** Correct the following statement: "Ceteris Paribus means that all factors affecting demand remain constant, but supply is allowed to change." (2)
- Q34.** Write the full form of: (i) GDP (ii) Balance of Payments (2)
- Q35.** Write Yes or No: Is the consumption function always linear in real-world economic scenarios? (2)

Section: B

- Q36.** A consumer buys 100 units of a commodity at Rs. 5 per unit. When price changes to Rs. 4 per unit, quantity demanded increases to 150 units. Calculate the price elasticity of demand. (2)
- Q37.** Complete the following table showing the relationship between Total Product and Marginal Product: (2)

Units of Labour	Total Product	Marginal Product
1	10	.....
2	.....	12
3	35	.....
4	44	.....

- Q38.** Draw a diagram showing the relationship between demand curve and consumer surplus. (2)
- Q39.** (i) State and explain the Law of Diminishing Marginal Utility with a suitable example.



OR

(ii) What is the difference between Cardinal and Ordinal utility analysis? (2)

Q40. (i) Explain the concept of economies of scale and how it affects production costs.

OR

(ii) What is the relationship between Average Cost and Marginal Cost at the point of minimum AC? (2)

Q41. (i) List three characteristics of oligopoly market structure.

OR

(ii) Explain how a monopolistic competitor achieves equilibrium in the long run. (2)

Q42. Draw a diagram showing demand and supply curves meeting at equilibrium point and explain how excess supply leads to price decrease. (2)

Q43. A firm has the following cost and revenue data. Calculate: (i) Total Profit at each output level, (ii) Identify the output at which profit is maximum. (4)

Output (units)	Total Cost (Rs.)	Total Revenue (Rs.)	Total Profit (Rs.)
1	50	60	.....
2	90	120	.....
3	130	180	.....
4	175	240	.....
5	230	300	.....

Q44. (i) Explain the Law of Diminishing Marginal Returns with the help of a table showing values of TP, MP, and AP.

OR

(ii) State and explain the relationship between Total Revenue, Marginal Revenue, and Average Revenue. (4)

Q45. (i) Distinguish between Implicit Costs and Explicit Costs with suitable examples for each.

OR



(ii) Explain the various phases of short-run production function using a diagram. (4)

Q46. Draw a diagram illustrating how price is determined under perfect competition. Show the equilibrium point and explain the adjustment process when price is above equilibrium. (4)

Q47. (i) Explain the concept of National Income and discuss the Income Method of measuring it.

OR

(ii) What is the difference between Gross National Product (GNP) and Net National Product (NNP)? (4)

Q48. Complete the following table and calculate the Average Propensity to Consume (APC) and Average Propensity to Save (APS) for each income level: (4)

Income (Rs.)	Consumption (Rs.)	Saving (Rs.)	APC	APS
0	40	.....	..	..
200	180	.....	..	..
400	320	.....	..	..
600	460	.....	..	..

Q49. Describe the various steps involved in the measurement of National Income using the Expenditure Method. What are the precautions taken to avoid double counting? (6)

Q50. (i) Analyse the functions and importance of commercial banks in creating money supply through the credit creation process. Present your analysis with the help of a credit expansion table using different reserve ratios.

OR

(ii) Explain the Balance of Payments account structure and discuss how a country's balance of payments deficit affects its international economic position and future trading relationships. (6)



Detailed Solutions

Q1.

Solution

Concept: Market equilibrium is achieved when quantity supplied equals quantity demanded. When one force exceeds the other, market pressures push the price toward equilibrium. Excess supply indicates that at the current price level, producers are willing to supply more than consumers are willing to purchase.

Solution: When supply exceeds demand at a given price, the following sequence occurs:

- (a) Producers find themselves with unsold inventory that cannot be sold at prevailing market prices.
- (b) This creates competitive pressure as sellers attempt to reduce their stock by offering lower prices.
- (c) Lower prices reduce the opportunity cost for potential buyers, increasing quantity demanded.
- (d) Simultaneously, lower prices reduce incentive for producers, decreasing quantity supplied.
- (e) This adjustment continues until quantity supplied equals quantity demanded at the new equilibrium price.

Final Answer: Price decreases

Answer: (B)

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Q2.

Solution

Concept: Consumer equilibrium represents a state where rational consumers have no incentive to change their purchasing patterns. The equilibrium condition balances satisfaction gained against money spent.

Solution:

- (a) A consumer achieves maximum satisfaction when the utility obtained from the last rupee spent on each commodity is equal.
- (b) Marginal utility represents the satisfaction from consuming one additional unit.
- (c) Price represents the cost of obtaining that additional unit.
- (d) At equilibrium, the marginal utility obtained must equal the price sacrificed, ensuring optimal resource allocation.

Final Answer: $MU = Price$

Answer: (B)

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Q3.

Solution

Concept: Demand determinants are factors that shift the entire demand curve. They differ from price, which causes movement along the curve rather than shifting it.

Solution:

- (a) Consumer income affects purchasing power and demand for goods.
- (b) Price of the commodity causes movement along the demand curve, not a shift.
- (c) Availability of substitutes influences which commodity consumers prefer.
- (d) Cost of production affects supply decisions, not consumer demand directly.

Final Answer: Cost of production

Answer: (D)

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Q4.

Solution

Concept: Price elasticity measures the sensitivity of quantity demanded to price changes. It isolates the price effect by using percentage changes, which removes measurement unit bias.

Solution:

- (a) Using absolute changes is problematic because it depends on measurement units.
- (b) Percentage changes normalize values regardless of units used.
- (c) The elasticity coefficient shows how much percentage quantity changes for each percentage price change.
- (d) The formula divides percentage change in quantity by percentage change in price.

Final Answer: $\frac{\% \text{ Change in Quantity}}{\% \text{ Change in Price}}$

Answer: (B)

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Q5.

Solution

Concept: Production function analysis with a fixed input reveals how adding more variable input affects total output. Initially, the variable input is underutilized, but eventually, it becomes excessively crowded around the fixed input.

Solution:

- (a) Total Product increases when more labor is added to fixed land.
- (b) Marginal Product is the change in total product from one additional worker.
- (c) When marginal product continues to increase, workers are increasingly productive.
- (d) When marginal product starts declining while remaining positive, the law demonstrates that additional units become progressively less productive.
- (e) This pattern of rising then falling marginal returns is the Law of Diminishing Marginal Returns.

Final Answer: Law of Diminishing Marginal Returns

Answer: (C)

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Q6.

Solution

Concept: The short run is defined as a period where some inputs cannot be changed. Fixed costs exist because certain inputs (like factory buildings) cannot be adjusted. Costs of newly purchased land represent investment decisions made in the current period, not historical fixed costs.

Solution:

- (a) Fixed costs are payments for inputs that existed before the current period and cannot be changed.
- (b) Variable costs change with output volume.
- (c) Semi-variable costs have both fixed and variable components.
- (d) Cost of recently purchased land is a capital investment, not a current operational cost in the short run.

Final Answer: Cost of land purchased recently

Answer: (D)

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Q7.

Solution

Concept: Supply curves shift when determinants of supply change. A rightward shift means suppliers are willing to supply more at each price level, indicating an increase in supply. Leftward shift indicates decrease.

Solution:

- (a) A rightward supply curve shift shows that supply has increased.
- (b) Producers now offer more output at the same price levels.
- (c) This could result from improved technology, lower input costs, or reduced taxes.
- (d) The rightward shift itself represents the increase; movement along the curve would be called change in quantity supplied.

Final Answer: Increase in supply

Answer: (B)

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Q8.

Solution

Concept: Supply elasticity measures how responsive quantity supplied is to price changes. Perfectly elastic supply means suppliers are willing to supply unlimited quantity at one specific price but zero at any other price.

Solution:

- (a) A horizontal supply curve represents infinite responsiveness to price.
- (b) A vertical curve represents no responsiveness to price.
- (c) Perfect elasticity means one price point triggers unlimited supply.
- (d) This occurs in agriculture with perfectly competitive homogeneous crops.

Final Answer: A horizontal line

Answer: (A)

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Q9.

Solution

Concept: Market structure determines the demand curve facing a firm. In monopoly, the firm is the sole supplier, so it faces the market demand curve itself.

Solution:

- (a) Perfect competition firms face perfectly elastic demand because products are identical.
- (b) Monopoly firms face downward-sloping demand because they are the only supplier.
- (c) As the monopolist increases output, price must fall to sell more units.
- (d) This creates the characteristic downward-sloping demand curve facing the monopoly firm.

Final Answer: Downward sloping demand curve

Answer: (B)

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Q10.

Solution

Concept: Equilibrium occurs where market forces balance. The demand and supply curves physically intersect at the equilibrium point, determining both the market-clearing price and quantity.

Solution:

- (a) The demand curve shows quantities demanded at each price.
- (b) The supply curve shows quantities supplied at each price.
- (c) These curves intersect at only one point in a simple market.
- (d) At this intersection, quantity demanded equals quantity supplied.
- (e) Both the price and quantity coordinates of the intersection are determined simultaneously.

Final Answer: Equilibrium Price and Quantity

Answer: (A)

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Q11.

Solution

Concept: Profit maximization occurs where the difference between revenue and cost is greatest. This condition can be expressed as the point where marginal revenue equals marginal cost.

Solution:

- (a) Marginal revenue is the additional revenue from selling one more unit.
- (b) Marginal cost is the additional cost of producing one more unit.
- (c) When MR exceeds MC, producing another unit adds more to revenue than to cost.
- (d) When MR falls below MC, producing another unit costs more than it adds to revenue.
- (e) Maximum profit occurs exactly where MR equals MC.

Final Answer: When $MR = MC$

Answer: (A)

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Q12.

Solution

Concept: National income measures the aggregate income earned by productive factors. Different calculation methods account for depreciation and international income flows differently.

Solution:

- (a) GDP measures output produced within borders.
- (b) Depreciation represents wear on capital assets.
- (c) NNP is the net figure after depreciation.
- (d) Net Factor Income from Abroad accounts for income earned by residents outside the country.
- (e) National Income = NNP at Factor Cost = $GDP - \text{Depreciation} + \text{Net Factor Income from Abroad}$.

Final Answer: $GDP - \text{Depreciation} + \text{Net Factor Income from Abroad}$

Answer: (B)

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Q13.

Solution

Concept: The Central Bank holds a unique position in the financial system. It possesses powers that distinguish it from commercial banks.

Solution:

- (a) Commercial banks accept deposits and provide loans.
- (b) The Central Bank is the only institution empowered to issue currency notes.
- (c) Only the Central Bank can set reserve requirements and conduct monetary policy.
- (d) Commercial banks cannot issue currency; they accept deposits and lend.

Final Answer: Issuing currency notes

Answer: (B)

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Q14.

Solution

Concept: Government budget is the annual financial plan. The relationship between revenue and expenditure determines budget status.

Solution:

- (a) A balanced budget occurs when revenue equals expenditure.
- (b) A surplus exists when revenue exceeds expenditure.
- (c) A deficit occurs when expenditure exceeds revenue.
- (d) Deficits require government borrowing from the public.

Final Answer: Government expenditure exceeds revenue

Answer: (B)

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Q15.

Solution

Concept: Comparative advantage theory explains why trade benefits all parties. It focuses on opportunity costs rather than absolute costs.

Solution:

- (a) Even if one country is more efficient at producing all goods, trade benefits both parties.
- (b) Specialization should occur in commodities where opportunity cost is lowest.
- (c) Opportunity cost measures what is sacrificed to produce one good.
- (d) Countries export goods with lower opportunity cost and import those with higher opportunity cost.

Final Answer: Countries should specialize in commodities where they have lowest opportunity cost

Answer: (B)

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Q16.

Solution

Concept: Economic systems vary in how they allocate resources. Free market systems rely on individual decisions and price signals rather than central direction.

Solution:

- (a) In free economic systems, individuals make production and consumption choices.
- (b) Markets determine prices through supply and demand interaction.
- (c) Private property rights are protected.
- (d) Government intervention is minimal.
- (e) This contrasts with planned economies where government controls production decisions.

Final Answer: Individuals and markets determine production and prices

Answer: (B)

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Q17.

Solution

Concept: The central economic problem is the starting point for all economic analysis. It stems from the fundamental imbalance between means and ends.

Solution:

- (a) Human wants are virtually unlimited, continuously expanding.
- (b) Resources available are limited and finite.
- (c) Every society must choose which wants to satisfy.
- (d) This creates the fundamental problem of scarcity.
- (e) No economy has sufficient resources to satisfy all wants simultaneously.

Final Answer: Both resources are limited and wants are infinite

Answer: (C)

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Q18.

Solution

Concept: Goods are classified based on how quantity demanded responds to income changes. Normal goods show direct relationship, while inferior goods show inverse relationship.

Solution:

- (a) Normal goods experience increased demand when consumer income increases.
- (b) This reflects that consumers desire higher quality when they can afford it.
- (c) Inferior goods see decreased demand when income increases.
- (d) The income effect is fundamental to demand theory.

Final Answer: Quantity demanded increases when income increases

Answer: (B)

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Q19.

Solution

Concept: Market structures are classified by number of sellers, product homogeneity, and ease of entry. Perfect competition represents the most competitive structure.

Solution:

- (a) Many buyers and sellers prevent any individual from influencing price.
- (b) Products are homogeneous so consumers are indifferent among sellers.
- (c) Perfect information exists about prices and product qualities.
- (d) Firms can freely enter and exit the market.
- (e) No government price controls are present.

Final Answer: Homogeneous products and free entry/exit

Answer: (B)

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Q20.

Solution

Concept: Consumer theory measures how much of one good a consumer is willing to give up to obtain another. This rate reflects utility preferences.

Solution:

- (a) Marginal Rate of Substitution (MRS) is the rate at which utility remains constant when trading goods.
- (b) It shows the slope of the indifference curve.
- (c) Higher MRS means consumer values one good much more than the other.
- (d) The rate typically decreases as consumer obtains more of the preferred good.

Final Answer: The rate at which consumer trades one good for another while maintaining same utility

Answer: (B)

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Q21.

Solution

Concept: Marginal utility represents the satisfaction from consuming one additional unit. When this utility turns negative, consumption creates dissatisfaction rather than satisfaction.

Solution:

- (a) Total utility increases as long as marginal utility is positive.
- (b) When marginal utility becomes zero, total utility reaches maximum.
- (c) When marginal utility turns negative, each additional unit makes consumer worse off.
- (d) This negative utility is called disutility or dissatisfaction.
- (e) For example, eating additional food when already full creates discomfort.

Final Answer: Disutility (or negative satisfaction)

Answer: (See Above)

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Q22.

Solution

Concept: The Law of Demand is a fundamental principle establishing the inverse relationship between price and quantity demanded. All else remaining constant, this relationship always holds.

Solution:

- (a) As price increases, consumers find the good less affordable.
- (b) Quantity demanded represents how much consumers are willing to buy at each price.
- (c) The income effect shows consumers can buy less when prices rise.
- (d) The substitution effect shows consumers shift toward cheaper alternatives.
- (e) Both effects work together, causing quantity demanded to decrease.

Final Answer: Decreases

Answer: (See Above)

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Q23.

Solution

Concept: Price elasticity of demand quantifies demand responsiveness to price changes. The measurement unit-free approach allows cross-commodity and cross-market comparisons.

Solution:

- (a) The formula for PED is: $PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$
- (b) Alternatively: $PED = \frac{\Delta Q/Q}{\Delta P/P}$ where Δ represents change
- (c) Demand is elastic when the absolute value of PED exceeds 1.
- (d) This means percentage change in quantity exceeds percentage change in price.
- (e) Elastic demand indicates price increases cause significant quantity decreases.

Final Answer: $PED = \frac{\% \text{ change in quantity}}{\% \text{ change in price}}$; Elastic demand when $PED > 1$

Answer: (See Above)

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Q24.

Solution

Concept: The relationship between marginal and average quantities is fundamental in production theory. When the marginal exceeds the average, the average must be rising.

Solution:

- (a) Average Product is Total Product divided by units of input.
- (b) Marginal Product is the change in Total Product from one additional input unit.
- (c) When MP exceeds AP, each new unit added is above average.
- (d) Adding above-average units pulls the average upward.
- (e) When MP equals AP, the average reaches its maximum.
- (f) When MP falls below AP, the average starts declining.

Final Answer: Rises (or increases)

Answer: (See Above)

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Q25.

Solution

Concept: Evaluating statements about costs and profit requires understanding the definitions and relationships among different cost and revenue concepts.

Solution:

- (a) Statement (i) is FALSE: Fixed costs remain constant regardless of production levels.
- (b) Statement (ii) is TRUE: Profit is indeed maximized where $MR = MC$.
- (c) Statement (iii) is FALSE: Average Cost is U-shaped, first decreasing then increasing.
- (d) Statement (iv) is FALSE: Semi-variable costs have both constant and variable components.
- (e) Two false statements are (i) and (iii).

Final Answer: Statements (i) and (iii) are false

Answer: (See Above)

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Q26.

Solution

Concept: Supply curves have positive slopes reflecting producer behavior. Higher prices incentivize increased production to earn greater revenues.

Solution:

- (a) Producers seek to maximize profits.
- (b) Higher prices increase profit margin on each unit sold.
- (c) This motivates producers to increase production and supply.
- (d) The upward slope shows this positive relationship between price and quantity supplied.
- (e) This is the Law of Supply.

Final Answer: Increases

Answer: (See Above)

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Q27.

Solution

Concept: Price determination under perfect competition is a crucial macroeconomic outcome. The market-clearing price emerges from the intersection of aggregate demand and supply.

Solution:

- (a) Demand curve slopes downward showing inverse price-quantity relationship.
- (b) Supply curve slopes upward showing direct price-quantity relationship.
- (c) These curves necessarily intersect at exactly one point in equilibrium.
- (d) At the intersection, quantity demanded equals quantity supplied.
- (e) This intersection point determines both equilibrium price and quantity.

Final Answer: Yes

Answer: (See Above)

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Q28.

Solution

Concept: Revenue concepts are essential in understanding firm behavior. Average and marginal revenues differ depending on market structure.

Solution:

- (a) Average Revenue (AR) is total revenue divided by quantity sold: $AR = \frac{TR}{Q}$
- (b) Marginal Revenue (MR) is the additional revenue from selling one more unit: $MR = \frac{\Delta TR}{\Delta Q}$
- (c) Under perfect competition, AR equals price because all units sell at the same price.
- (d) Under imperfect competition, MR falls below AR as price must decrease to sell more units.
- (e) The distinction is crucial for profit maximization analysis.

Final Answer: $AR = \text{Total Revenue} / \text{Quantity}$; $MR = \text{Change in TR} / \text{Change in Quantity}$

Answer: (See Above)

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Q29.

Solution

Concept: National Income can be measured through three distinct but theoretically equivalent approaches. Each method starts from different data points but reaches the same total.

Solution:

- (a) The Income Method sums factor payments (wages, rent, interest, profit).
- (b) The Expenditure Method sums spending on final goods: $C + I + G + (X-M)$.
- (c) The Product (or Value Added) Method sums value added at each production stage.
- (d) All three methods should yield identical results for national income.
- (e) Using multiple methods provides cross-verification of national income accuracy.

Final Answer: Expenditure Method (or Spending Method), Product Method (or Value Added Method)

Answer: (See Above)

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Q30.

Solution

Concept: Saving and savings are related but distinct concepts. Understanding the difference is crucial for macroeconomic analysis.

Solution:

- (a) Saving is the act of not spending current income; it is a flow concept measured over a time period.
- (b) Savings refers to accumulated stock of resources built up from past saving behavior.
- (c) Saving (flow) adds to Savings (stock) over time.
- (d) For example, saving Rs. 1000 this month adds to total savings accumulated.
- (e) Saving is consumption forgone to build wealth.
- (f) Savings represents accumulated wealth available for investment.

Final Answer: Saving is income not spent currently (flow); Savings is accumulated stock of money/assets (stock)

Answer: (See Above)

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Q31.

Solution

Concept: Open Market Operations are the primary tool of monetary policy. The Central Bank uses these operations to control money supply and influence economic activity.

Solution:

- (a) Open Market Operations involve buying and selling government securities.
- (b) When Central Bank buys securities, it injects money into the banking system.
- (c) When Central Bank sells securities, it absorbs money from the banking system.
- (d) Securities refer to government bonds and treasury bills.
- (e) These operations directly affect banking system liquidity and lending capacity.

Final Answer: Government securities (or bonds/treasury bills)

Answer: (See Above)

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Q32.

Solution

Concept: Comparative advantage is the theoretical foundation for international trade. It explains why trade benefits all parties even when one party is more efficient at everything.

Solution:

- (a) Comparative advantage compares opportunity costs, not absolute production efficiency.
- (b) A country has comparative advantage in a commodity when it sacrifices less of other goods.
- (c) Example: If India can produce textiles at lower opportunity cost than electronics, it should specialize in textiles.
- (d) Meanwhile, a country with lower opportunity cost for electronics should specialize there.
- (e) Both countries gain by specializing and trading, even if one is more efficient overall.

Final Answer: Comparative advantage means specializing where opportunity cost is lowest. Example: India specializes in textiles due to lower opportunity cost

Answer: (See Above)

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Q33.

Solution

Concept: Ceteris Paribus means "all other things constant" or "holding other factors constant." This principle is fundamental to economic analysis.

Solution:

- (a) Ceteris Paribus allows economists to isolate the effect of one variable.
- (b) The statement incorrectly suggests supply can change while demand factors are held constant.
- (c) The principle correctly means when analyzing demand, all demand determinants except one are held constant.
- (d) Similarly, when analyzing supply, all supply determinants except one are held constant.
- (e) The corrected statement should be: "Ceteris Paribus means all factors affecting supply or demand remain constant except the one being analyzed."

Final Answer: The statement is false. Ceteris Paribus applies equally to supply and demand. The correct version: "When analyzing demand, all demand determinants except price remain constant; similarly for supply."

Answer: (See Above)

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Q34.

Solution

Concept: Macroeconomic aggregates and international accounts are measured using standardized definitions. Understanding acronyms is essential for studying national accounting.

Solution:

- (a) GDP stands for Gross Domestic Product, measuring output within geographic boundaries.
- (b) Balance of Payments is the comprehensive record of all international transactions.
- (c) BOP includes current account, capital account, and financial account transactions.
- (d) Proper terminology ensures clear communication in economics.

Final Answer: (i) Gross Domestic Product; (ii) Balance of Payments

Answer: (See Above)

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Q35.**Solution**

Concept: Economic relationships are often represented mathematically. The consumption function relationship may display different properties in real-world scenarios compared to simplified models.

Solution:

- (a) In simplified Keynesian models, the consumption function is linear.
- (b) Real-world consumption behavior exhibits non-linear patterns.
- (c) As income increases, the marginal propensity to consume may change.
- (d) At very high income levels, consumption patterns change.
- (e) Demographic factors and psychological considerations introduce non-linearity.
- (f) Therefore, actual consumption functions are often non-linear in practice.

Final Answer: No

Answer: (See Above)

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Q36.

Solution

Concept: Price elasticity of demand measures quantity responsiveness to price changes. The calculation uses percentage changes to obtain a unit-free measure.

Solution Part 1: Calculation

- (a) Initial quantity demanded: $Q_1 = 100$ units at Price $P_1 = \text{Rs.} 5$
- (a) New quantity demanded: $Q_2 = 150$ units at Price $P_2 = \text{Rs.} 4$
- (a) Change in quantity: $Q = 150 - 100 = 50$ units
- (b) Change in price: $P = 4 - 5 = -\text{Rs.} 1$
- (c) Percentage change in quantity: $\frac{\Delta Q}{Q_1} \times 100 = \frac{50}{100} \times 100 = 50\%$
- (d) Percentage change in price: $\frac{\Delta P}{P_1} \times 100 = \frac{-1}{5} \times 100 = -20\%$
- (e) Price Elasticity of Demand: $\text{PED} = \frac{50\%}{-20\%} = -2.5$
- (f) Absolute value: $|\text{PED}| = 2.5$

Solution Part 2: Interpretation

- (a) The negative sign indicates the inverse relationship (normal for demand).
- (b) The coefficient 2.5 indicates elastic demand.
- (c) This means a 1% price decrease leads to 2.5% quantity increase.
- (d) Demand is highly price responsive.

Final Answer: $\text{PED} = -2.5$ (or absolute value 2.5, indicating elastic demand)

Answer: (See Above)

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Q37.

Solution

Concept: Total Product represents cumulative output from using increasing quantities of input. Marginal Product is the incremental change in output. These concepts are related mathematically.

Solution:

(a) For the first row: $MP_1 = TP_1 = 10 \text{ units}$ (*MP at first unit equals TP*)

(a) For the second row: $TP_2 = TP_1 + MP_2 = 10 + 12 = 22 \text{ units}$

(a) For the third row: $MP_3 = TP_3 - TP_2 = 35 - 22 = 13 \text{ units}$

(a) For the fourth row: $MP_4 = TP_4 - TP_3 = 44 - 35 = 9 \text{ units}$

(a) Note: MP initially increases (10 → 12 → 13) then decreases (13 → 9), showing diminishing returns

Completed Table:

Units of Labour	Total Product	Marginal Product
1	10	10
2	22	12
3	35	13
4	44	9

Final Answer: See completed table above

Answer: (See Above)

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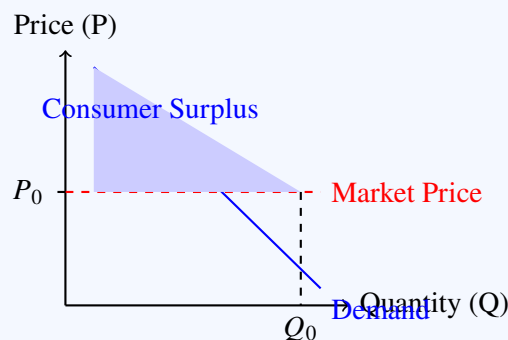
Q38.

Solution

Concept: Consumer surplus represents the difference between what consumers are willing to pay and what they actually pay. It reflects the consumer's gain from market transactions.

Solution:

- (a) The demand curve shows the maximum price consumers are willing to pay at each quantity.
- (b) The actual market price is lower than the maximum for most quantities.
- (c) Consumer surplus is the triangular area between the demand curve and the price line.
- (d) Higher on the curve means greater willingness to pay relative to actual price.
- (e) This demonstrates consumer benefit from participating in markets.



Final Answer: Diagram showing consumer surplus as shaded area

Answer: (See Above)

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Q39.

Solution

Concept - Alternative (i): Law of Diminishing Marginal Utility

Marginal utility is the satisfaction from consuming one additional unit. As quantity increases, this satisfaction typically decreases, though never negative utility occurs.

Solution:

- (a) As consumption increases, each additional unit provides less marginal satisfaction.
- (b) Initially, marginal utility is high when scarcity is acute.
- (c) As more units are consumed, the marginal utility progressively declines.
- (d) Example: First cup of coffee provides high satisfaction ($MU = 20$ utils); second cup provides less ($MU = 12$ utils); third cup even less ($MU = 5$ utils).
- (e) This declining pattern reflects satiation—consumer becomes satisfied with quantity already consumed.
- (f) The principle explains why consumers are willing to pay less as they consume more.

Final Answer for (i): Law states that as quantity increases, marginal utility decreases. Example: Coffee cups provide declining satisfaction

—OR—

Concept - Alternative (ii): Cardinal vs Ordinal Utility

Utility analysis approaches differ in whether utility is measurable or merely rankable.

Solution:

- (a) Cardinal utility assumes utility is measurable in absolute units (utils).
- (b) Ordinal utility only requires ranking preferences (1st, 2nd, 3rd choice).
- (c) Cardinal approach allows comparisons like "Good A gives twice the utility of Good B."
- (d) Ordinal approach only permits statements like "Consumer prefers Good A to Good B."
- (e) Modern economics typically uses ordinal utility theory.
- (f) Indifference curves embody ordinal utility analysis.

Final Answer for (ii): Cardinal: Utility is measurable in units; Ordinal: Only preference ranking matters

Answer: (See Above)

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Q40.

Solution

Concept - Alternative (i): Economies of Scale

Economies of scale occur when average cost decreases as production increases. Firms achieve cost advantages through expanded operations.

Solution:

- (a) Economies of scale arise from spreading fixed costs across larger output.
- (b) Technical improvements become viable only at larger scales.
- (c) Bulk purchasing of inputs reduces unit input costs.
- (d) Specialization of labor becomes possible with larger workforce.
- (e) Impact: As production increases from 100 to 1000 units, average cost drops significantly.
- (f) Example: Manufacturing 10,000 cars costs less per unit than producing 100 cars.
- (g) This explains why large firms dominate many industries.

Final Answer for (i): Economies of scale reduce average cost as output expands through fixed cost spreading and operational efficiency

—OR—

Concept - Alternative (ii): AC and MC Relationship

The relationship between average and marginal cost at the minimum average cost point is a fundamental production principle.

Solution:

- (a) When $MC < AC$, each additional unit costs less than average, pulling average downward.
- (b) When $MC > AC$, each additional unit costs more than average, pulling average upward.
- (c) Exactly where $MC = AC$, the average cost reaches its minimum point.
- (d) At this intersection, average cost neither rises nor falls.
- (e) This is the most efficient production point for the firm.
- (f) Beyond this point, increasing production increases per-unit cost.

Final Answer for (ii): At minimum AC, $MC = AC$ exactly; Beyond this point, $MC > AC$ causing AC to increase

Answer: (See Above)

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Q41.

Solution

Concept - Alternative (i): Oligopoly Characteristics

Oligopoly is characterized by relatively few large firms producing either homogeneous or differentiated products.

Solution:

- (a) Few dominant firms control the majority of market sales.
- (b) Products may be differentiated (automobiles) or homogeneous (aluminum).
- (c) Mutual interdependence exists—each firm's decisions affect others.
- (d) Barriers to entry protect existing firms from competition.
- (e) Non-price competition through advertising is common.

Final Answer for (i): Few large firms, mutual interdependence, barriers to entry
—OR—

Concept - Alternative (ii): Monopolistic Competition Long-run Equilibrium

Monopolistic competitors face long-run adjustments due to ease of entry and exit.

Solution:

- (a) Monopolistic competition has many sellers with differentiated products.
- (b) Short-run equilibrium may show economic profits.
- (c) Free entry allows new firms to attract customers.
- (d) Existing firm profits decline as market share erodes.
- (e) Long-run equilibrium occurs where price equals average cost.
- (f) Each firm earns zero economic profit in the long run.
- (g) Despite zero profit, firms remain in business earning normal profit.

Final Answer for (ii): Long-run equilibrium: $P = AC$, zero economic profits, but firms maintain normal profit and remain in market

Answer: (See Above)

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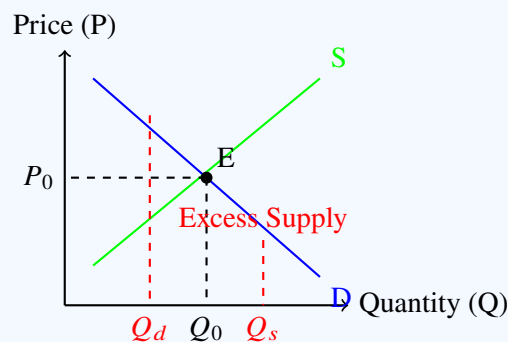
Q42.

Solution

Concept: Market equilibrium occurs at the intersection of demand and supply. At this point, forces are balanced. When price is too high, excess supply creates downward pressure.

Solution:

- (a) The downward-sloping demand curve shows inverse price-quantity relationship.
- (b) The upward-sloping supply curve shows direct price-quantity relationship.
- (c) Equilibrium occurs where these curves intersect at point E.
- (d) At equilibrium price P_0 and quantity Q_0 , quantity demanded equals quantity supplied.
- (d) When actual price exceeds P_0 , quantity supplied exceeds quantity demanded.
- (d) Excess supply motivates sellers to reduce prices to clear inventory.
- (e) Lower prices increase quantity demanded and decrease quantity supplied.
- (f) Price falls until equilibrium is restored.



Final Answer: Diagram showing equilibrium at E and excess supply above equilibrium price

Answer: (See Above)

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Q43.

Solution

Concept: Profit is the difference between total revenue and total cost. Identifying the maximum profit point requires calculating profit at each output level and selecting the highest value.

Solution Part 1: Profit Calculations

Output	TC	TR	Profit	MR	MC
1	50	60	10	60	50
2	90	120	30	60	40
3	130	180	50	60	40
4	175	240	65	60	45
5	230	300	70	60	55

Solution Part 2: Profit Analysis

- (a) Profit at output 1: $TR_1 - TC_1 = 60 - 50 = Rs.10$
- (a) Profit at output 2: $TR_2 - TC_2 = 120 - 90 = Rs.30$
- (a) Profit at output 3: $TR_3 - TC_3 = 180 - 130 = Rs.50$
- (a) Profit at output 4: $TR_4 - TC_4 = 240 - 175 = Rs.65$
- (a) Profit at output 5: $TR_5 - TC_5 = 300 - 230 = Rs.70$
- (a) Maximum profit of Rs. 70 occurs at output level 5 units
- (b) Note: MR remains constant at 60, while MC increases beyond output 3
- (c) Using MR = MC rule: $MC_3 = 40 < MR = 60$, continue production; $MC_5 = 55 < MR$, continue; MC would exceed MR if production continued beyond 5

Final Answer: Total Profits: 10, 30, 50, 65, 70; Maximum profit = Rs. 70 at output level 5 units

Answer: (See Above)

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Q44.

Solution

Concept - Alternative (i): Law of Diminishing Marginal Returns

Output behavior as a variable input increases while fixed inputs remain constant, showing three distinct phases.

Solution with Table:

Labour	TP	MP	AP
0	0	–	–
1	10	10	10
2	25	15	12.5
3	36	11	12
4	44	8	11

Explanation:

- (a) Phase 1 (Increasing Returns): Units 1-2; MP rises (10 → 15).
- (b) Phase 2 (Diminishing Returns): Units 2-4; MP falls (15 → 11 → 8).
- (c) Phase 3 (Negative Returns): MP becomes negative (beyond unit 4).
- (d) Caused by fixed factors becoming overcrowded by variable inputs.

Final Answer for (i): See table. Output increases at decreasing rate as variable input is added to fixed land.

—OR—

Concept - Alternative (ii): TR, MR, AR Relationship

Solution:

- (a) $TR = P \times Q$ | $AR = TR/Q = P$ | $MR = \Delta TR / \Delta Q$.
- (b) Perfect Competition: Price is constant → $P = AR = MR$.
- (c) Monopoly: Price falls to sell more → $MR < AR$.
- (d) Behavioral Link: When $MR > 0$, TR rises; when $MR = 0$, TR is maximum; when $MR < 0$, TR falls.

Final Answer for (ii): $TR = P \times Q$; $AR = P$; $MR = \Delta TR / \Delta Q$. Competition: $MR = AR$; Monopoly: $MR < AR$. Max TR when $MR = 0$.

Answer: (See Above)

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Q45.

Solution

Concept - Alternative (i): Implicit vs Explicit Costs

Solution:

- (a) **Explicit Costs:** Actual cash payments to outsiders (e.g., wages, rent, raw materials).
- (b) **Implicit Costs:** Opportunity costs of self-owned resources (e.g., foregone interest, own labor/building value).
- (c) **Economic Profit:** Revenue minus both explicit and implicit costs.
- (d) **Accounting Profit:** Revenue minus explicit costs only (always higher than economic profit).

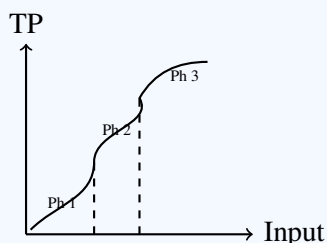
Final Answer for (i): Explicit: Cash outlays (wages, rent). Implicit: Value of self-owned resources (owner labor, foregone interest).

—OR—

Concept - Alternative (ii): Short-run Production Phases

Solution:

- (a) **Phase 1 (Increasing Returns):** MP rises, TP increases at an increasing rate.
- (b) **Phase 2 (Diminishing Returns):** MP falls but is positive, TP increases at a decreasing rate. Rational zone.
- (c) **Phase 3 (Negative Returns):** MP becomes negative, TP begins to decline.



Final Answer for (ii): Phase 1: MP rises (TP accelerates); Phase 2: MP falls (TP decelerates); Phase 3: $MP < 0$ (TP drops).

Answer: (See Above)

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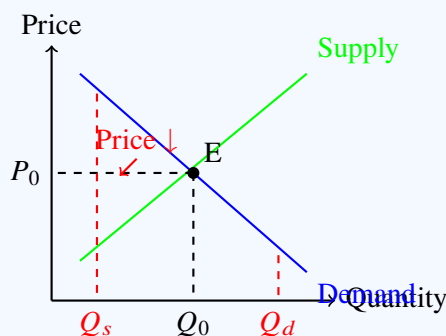
Q46.

Solution

Concept: Under perfect competition, no individual firm or consumer can influence price. The market as a whole determines equilibrium through demand and supply interaction. Price serves as the information signal coordinating millions of independent decisions.

Solution:

- (a) Demand curve slopes downward showing consumer behavior.
- (b) Supply curve slopes upward showing producer behavior.
- (c) Curves intersect at equilibrium point E, determining equilibrium price P_0 and quantity Q_0 .
- (c) At P_0 , quantity demanded exactly equals quantity supplied.
- (c) Above equilibrium price: Excess supply exists, putting downward pressure on price.
- (d) Sellers with unsold inventory reduce prices.
- (e) Lower prices increase quantity demanded and decrease quantity supplied.
- (f) Below equilibrium price: Excess demand exists, putting upward pressure on price.
- (g) Buyers unable to find goods offered willingly pay higher prices.
- (h) Higher prices increase quantity supplied and decrease quantity demanded.
- (i) These market forces automatically move price toward equilibrium.



Final Answer: Diagram Equilibrium at intersection; Above E: Excess supply causes price to fall

Answer: (See Above)

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Q47.



Solution

Concept - Alternative (i): National Income and Income Method

National income measures the aggregate earning of productive factors. The income method directly sums these factor payments.

Solution:

- (a) National Income is the total net value of final goods and services produced.
- (b) It equals the sum of factor incomes earned in production: wages (labor) + rent (land) + interest (capital) + profit (entrepreneurship).
- (c) The Income Method involves:
 - i. Identifying all producing units in the economy
 - ii. Summing wages paid to employees
 - iii. Adding rent payments for land and property
 - iv. Adding interest payments on borrowed capital
 - v. Adding profits earned by entrepreneurs
 - vi. Subtracting depreciation to get Net National Income
- (d) Advantage: Directly measures income generated
- (e) Disadvantage: Requires detailed income data collection

Final Answer for (i): NI = Sum of factor incomes; Income method: Wages + Rent + Interest + Profit - Depreciation

—OR—

Concept - Alternative (ii): GNP vs NNP

These macroeconomic aggregates differ in geographic scope and depreciation treatment.

Solution:

- (a) Gross National Product (GNP) measures output by nationals regardless of location.
- (b) $GNP = GDP + \text{Net Factor Income from Abroad}$
- (c) NNP adjusts for capital depreciation: $NNP = GNP - \text{Depreciation}$
- (d) Example: Indian citizens earning abroad adds to GNP but not GDP.
- (e) GNP is "Gross" (includes depreciation), NNP is "Net" (deducts depreciation).
- (f) NNP is theoretically the correct measure of sustainable income.

Final Answer for (ii): GNP includes nationals' income globally; NNP deducts depreciation from GNP; $NNP = GNP - \text{Depreciation}$

Answer: (See Above)

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Q48.

Solution

Concept: The consumption function shows how consumption and saving depend on income levels. APC and APS show what fraction of income is devoted to each at different income levels.

Solution Part 1: Table Completion

- (a) At Income = 0: Consumption = 40, Saving = $40 - 0 = -40$
- (b) At Income = 200: Saving = $200 - 180 = 20$
- (c) At Income = 400: Saving = $400 - 320 = 80$
- (d) At Income = 600: Saving = $600 - 460 = 140$

Solution Part 2: APC and APS Calculations

- (a) $APC = \text{Consumption} / \text{Income}$; $APS = \text{Saving} / \text{Income}$
- (b) At $Y = 0$: $APC = 40/0 = \text{undefined}$; $APS = -40/0 = \text{undefined}$ (autonomous consumption exceeds zero income)
- (c) At $Y = 200$: $APC = 180/200 = 0.90$; $APS = 20/200 = 0.10$
- (d) At $Y = 400$: $APC = 320/400 = 0.80$; $APS = 80/400 = 0.20$
- (e) At $Y = 600$: $APC = 460/600 = 0.767$; $APS = 140/600 = 0.233$
- (f) Note: $APC + APS = 1$ at all positive income levels
- (g) As income increases, APC decreases while APS increases

Completed Table:

Income (Rs.)	C (Rs.)	S (Rs.)	APC	APS
0	40	-40	–	–
200	180	20	0.90	0.10
400	320	80	0.80	0.20
600	460	140	0.767	0.233

Final Answer: See completed table above with all values calculated

Answer: (See Above)

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Q49.

Solution

Concept: The Expenditure Method measures national income (Y) by summing all spending on final goods, requiring a strict distinction between final and intermediate goods to prevent double counting.

Solution Part 1: Steps

- (a) **Identify Components:** Consumption (C), Investment (I), Government Spending (G), and Net Exports ($X - M$).
- (b) **Collect & Sum Data:** Compute GDP using the identity: $Y = C + I + G + (X - M)$.
- (c) **Filter Output:** Count only final goods; exclude intermediate stages and track across periods.

Solution Part 2: Precautions Against Double Counting

- (a) **Final Goods Only:** Exclude intermediate inputs (e.g., count consumer bread, not flour sold to a baker).
- (b) **Exclude Transfer Payments:** Pensions or unemployment benefits reflect income redistribution, not new production.
- (c) **Exclude Second-Hand Sales:** These transactions represent exchanges of existing assets counted in prior years.
- (d) **Adjustments:** Account for inventory changes and focus exclusively on current-period production.

Final Answer: $Y = C + I + G + (X - M)$. Precautions: Count only final goods; exclude transfer payments, second-hand transactions, and intermediate good values.

Answer: (See Above)

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Q50.

Solution

Concept - Alternative (i): Commercial Banks & Credit Creation

Banks expand money supply by accepting public deposits and extending credit.

Solution:

- (a) **Core Functions:** Accept public deposits, grant loans to earn interest, and create credit.
- (b) **Money Creation Process:** (With initial Rs. 10,000 and 20% reserve ratio)

Round	Deposits	Reserve (20%)	Loans
Initial	10,000	2,000	8,000
Round 1	8,000	1,600	6,400
...	...	...	...
Total	50,000	10,000	40,000

- (c) **Calculations:** Multiplier = $\frac{1}{\text{Reserve Ratio}} = \frac{1}{0.20} = 5$; Total Money = $10,000 \times 5 = 50,000$.

Final Answer for (i): Multiplier = 5; Initial deposit of 10,000 creates 50,000 total money supply through credit expansion.

—OR—

Concept - Alternative (ii): Balance of Payments (BoP)

Solution:

- (a) **Structure:**
- **Current Account:** Trade balance, services, remittances, factor income.
 - **Capital & Financial Account:** FDI, portfolio flows, loans, reserve changes.
 - **Identity:** Current Account + Capital/Financial Account = 0.
- (b) **Deficit Impact:** Outpaces foreign earnings, leading to forex reserve depletion, currency depreciation, higher external debt, and vulnerability to global economic shocks.

Final Answer for (ii): BoP deficit leads to depleted forex reserves, currency depreciation, and increased debt risk.

Answer: (See Above)

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Answer Key

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

