NIOS Class 12 Economics Sample Paper-6

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 best describes the fundamental economic problem? **(1)**

(A) Insufficient government revenue

(B) Unlimited wants and scarce resources

(C) Inflation in the economy

(D) Unemployment of workers

Q2. The branch of economics that studies the behavior of individual consumers and firms is: **(1)**

(A) Macroeconomics

(B) Microeconomics

(C) Political economy

(D) Development economics

Q3. When a consumer's total utility is maximized, marginal utility is: **(1)**

(A) Positive

(B) Zero

(C) Negative

(D) Constant

Q4. Which of the following causes a movement along the demand curve rather than a shift? **(1)**

(A) Change in consumer income

(B) Change in price of the commodity

(C) Change in consumer preferences

(D) Change in price of substitute goods

Q5. If demand for a good increases when the price of another good increases, the two goods are: **(1)**

(A) Complementary goods

(B) Substitute goods

(C) Inferior goods

(D) Normal goods

Q6. Supply curve usually slopes: **(1)**

(A) Downward from left to right

(B) Upward from left to right

(C) Horizontally

(D) Vertically

Q7. In the long run, all costs are: **(1)**

(A) Fixed costs

(B) Variable costs

(C) Semi-variable costs

(D) Opportunity costs

Q8. The minimum point of average total cost coincides with: **(1)**

(A) Marginal cost curve cutting average cost from above

(B) Average fixed cost reaching zero

(C) Marginal cost equaling average cost

(D) Total cost becoming zero

Q9. Perfect competition is characterized by: **(1)**

(A) One dominant firm

(B) Product differentiation

(C) Free entry and exit of firms

(D) Significant barriers to entry

Q10. Under which market structure is price discrimination possible? **(1)**

(A) Perfect competition

(B) Monopoly

(C) Perfect information market

(D) Zero profit market

Q11. The concept of comparative advantage was developed by: **(1)**

(A) Adam Smith

(B) David Ricardo

(C) John Keynes

(D) Alfred Marshall

Q12. Which of the following is a flow variable in economics? **(1)**

(A) Wealth

(B) Capital stock

(C) Income

(D) Money supply

Q13. The value of money and price level relationship is: **(1)**

(A) Directly proportional

(B) Inversely proportional

(C) Not related

(D) Depends on employment

Q14. Which instrument of monetary policy is used most frequently by central banks? **(1)**

(A) Reserve ratio changes

(B) Qualitative restrictions

(C) Open market operations

(D) Direct controls

Q15. A fiscal deficit occurs when government: **(1)**

(A) Collects more taxes than it spends

(B) Spends more than it collects in revenue

(C) Maintains balanced accounts

(D) Increases tax rates

Q16. The velocity of money refers to: **(1)**

(A) Speed of money circulation in the economy

(B) Amount of money in circulation

(C) Rate of interest on money

(D) Value of currency in foreign exchange

Q17. Balance of Payments surplus means: **(1)**

(A) Exports exceed imports

(B) Imports exceed exports

(C) Exports equal imports

(D) Current account is negative

Q18. Which of the following shifts the production possibility curve outward? **(1)**

(A) Unemployment

(B) Technological improvement

(C) Inflation

(D) Inefficient allocation

Q19. Opportunity cost is defined as: **(1)**

(A) Actual cost paid for goods

(B) Value of next best alternative foregone

(C) Total cost of production

(D) Fixed cost of production

Q20. Which economic system relies primarily on markets for resource allocation? **(1)**

(A) Planned economy

(B) Market economy

(C) Command economy

(D) Mixed economy only

Q21. Define 'Ceteris Paribus' and explain its importance in economic analysis. **(2)**

Q22. Fill in the blank: The rate at which one currency exchanges for another is called the ..... **(2)**

Q23. Write the formula for calculating the income elasticity of demand and classify a good as normal or inferior when coefficient is positive. **(2)**

Q24. Write Yes or No: Can marginal cost be lower than average cost at all levels of output? **(2)**

Q25. Identify any two FALSE statements from the following:

(i) Scarcity is a problem only in poor nations

(ii) Inferior goods have negative income elasticity

(iii) Monopoly always results in higher prices than perfect competition

(iv) All economic systems face the problem of scarcity **(2)**

Q26. Fill in the blanks: The relationship between price and quantity demanded is .. called the ..... of demand. **(2)**

Q27. Write Yes or No: Is it possible for a firm to earn zero economic profit in perfect competition in the long run? **(2)**

Q28. Distinguish between stocks and flows in economic terminology with one example of each. **(2)**

Q29. Fill in the blanks: GDP at factor cost equals GDP at market prices minus plus . **(2)**

Q30. Define 'Inflation' and explain its relationship with purchasing power of money. **(2)**

Q31. Fill in the blank: A tax imposed on goods at the point of sale is called tax. **(2)**

Q32. Explain the concept of 'Absolute Advantage' in international trade with suitable example. **(2)**

Q33. Correct the following statement: "All changes in income levels must lead to changes in consumption in the same direction." **(2)**

Q34. Write the full form of: (i) MPC (ii) APC **(2)**

Q35. Write Yes or No: Can the Lorenz curve ever be a straight diagonal line? **(2)**

Section: B

Q36. Analyze how a change in consumer preferences shifts the demand curve for a particular commodity. **(2)**

Q37. The following table shows the relationship between price and quantity supplied. Calculate the price elasticity of supply: **(2)**

Price (Rs.)	Quantity Supplied (units)
10	50
15	100

Q38. Draw a diagram showing the market equilibrium and indicate what happens when price is set above the equilibrium level. **(2)**

Q39. (i) Explain the concept of 'Economies of Scale' and how they help reduce average costs.

OR

(ii) What is the relationship between per unit cost and total output in short run production? **(2)**

Q40. (i) Distinguish between price ceiling and price floor with appropriate examples.

OR

(ii) Explain how subsidies affect market equilibrium and consumer surplus. **(2)**

Q41. (i) Describe the features of monopolistic competition that differentiate it from perfect competition.

OR

(ii) Explain why barriers to entry are essential for monopoly to persist in long run. **(2)**

Q42. Explain how technological advancement affects both supply curve position and firm profitability in competitive markets. **(2)**

Q43. A firm's revenue and cost data are provided. Analyze at what output level the firm maximizes profit and explain why. **(4)**

Output	Price (Rs.)	Total Revenue (Rs.)	Total Cost (Rs.)	Profit (Rs.)
0	20	0	30	.....
1	20	20	45	.....
2	20	40	55	.....
3	20	60	63	.....
4	20	80	75	.....
5	20	100	90	.....

Q44. (i) Discuss how changes in technology and factor prices affect the supply curve.

OR

(ii) Explain the relationship between marginal revenue product (MRP) and factor pricing in competitive markets. **(4)**

Q45. (i) Explain consumer surplus and producer surplus with the help of demand and supply diagram.

OR

(ii) Analyze how taxation affects consumer and producer surplus in competitive markets. **(4)**

Q46. Draw a diagram showing short-run and long-run equilibrium under perfect competition. Explain the adjustment process from short run to long run. **(4)**

Q47. (i) Explain the concept of National Income and discuss challenges in measuring

it accurately.

OR

(ii) Differentiate between Real GDP and Nominal GDP and explain why real GDP is more useful for comparison. **(4)**

Q48. Complete the following table showing the relationship between consumption, saving, and different income levels, then calculate MPC and MPS: **(4)**

Income (Rs.)	Consumption (Rs.)	Saving (Rs.)	MPC	MPS
0	60	.....	..	..
150	185	.....	..	..
300	310	.....	..	..
450	435	.....	..	..

Q49. Describe the process of money creation by commercial banks through credit expansion. Explain the role of the reserve ratio in limiting this expansion. **(6)**

Q50. (i) Analyze the functions of the Reserve Bank of India (RBI) and discuss how it uses different monetary policy instruments to control inflation.

OR

(ii) Explain the structure of Balance of Payments and discuss the implications of a persistent current account deficit for a nation's long-term economic stability and international creditworthiness. **(6)**

Detailed Solutions

Q1.

Solution

Concept: The fundamental economic problem is the core issue that all economies must address. It arises from the mismatch between unlimited human desires and the finite availability of resources.
Solution:

(a) Every society possesses limited resources including land, labor, capital, and technology.

(b) Human wants are virtually unlimited and continuously expanding without satiation.

(c) This creates the basic economic problem: how to allocate scarce resources among unlimited wants.

(d) The problem exists in all nations regardless of development level.

(e) Solving this problem requires making choices about production and consumption.

Final Answer: Unlimited wants and scarce resources

Answer: (B)

Go Back to question 1

Q2.

Solution

Concept: Economics is divided into different branches based on the scale of analysis. Microeconomics focuses on individual decision-making units.
Solution:

(a) Microeconomics examines how individual consumers make purchasing decisions to maximize satisfaction.

(b) It studies how individual firms determine production levels and pricing strategies.

(c) The analysis includes consumer behavior, firm behavior, and market mechanisms.

(d) This contrasts with macroeconomics which studies national aggregates.

Final Answer: Microeconomics

Answer: (B)

Go Back to question 2

Q3.

Solution

Concept: Total utility increases as long as marginal utility (additional satisfaction from one more unit) is positive. When total utility reaches its maximum point, additional consumption provides no additional satisfaction.

Solution:

(a) Marginal utility is the change in total utility from consuming one additional unit.

(b) When total utility is at its peak, it cannot increase further.

(c) Therefore, the next unit must contribute zero satisfaction.

(d) Any consumption beyond this point would decrease total utility.

Final Answer: Zero

Answer: (B)

Go Back to question 3

Q4.

Solution

Concept: Demand curves show the relationship between price and quantity demanded. Movements along the curve versus shifts of the entire curve represent different economic phenomena.

Solution:

(a) Changes in the price of the commodity itself cause movement along the demand curve.

(b) A change in price moves the consumer from one point to another on the same curve.

(c) Changes in other factors like income or preferences shift the entire curve.

(d) Only price changes cause movement, not shifts.

Final Answer: Change in price of the commodity

Answer: (B)

Go Back to question 4

Q5.

Solution

Concept: Goods can be classified based on how the demand for one is affected by price changes in another. This classification reveals consumption patterns.

Solution:

(a) When price of good A increases, if demand for good B also increases, they are substitutes.

(b) Example: If coffee price rises and tea demand increases, they are substitutes.

(c) Consumers shift to relatively cheaper alternatives.

(d) Complementary goods show opposite behavior.

Final Answer: Substitute goods

Answer: (B)

Go Back to question 5

Q6.

Solution

Concept: Supply curves reflect producer behavior and show the relationship between price and quantity supplied. The direction of slope indicates how production responds to price changes.

Solution:

(a) Higher prices increase profit margins on each unit sold.

(b) Producers are motivated to increase production when prices rise.

(c) This creates a positive relationship between price and quantity supplied.

(d) The resulting curve slopes upward from left to right.

Final Answer: Upward from left to right

Answer: (B)

Go Back to question 6

Q7.

Solution

Concept: The long run is defined as a time period long enough to allow adjustment of all production inputs. This creates different cost structures compared to the short run.

Solution:

(a) In the long run, firms can adjust all inputs including factory size and equipment.

(b) There are no constraints on input changes.

(c) All costs vary with the level of production.

(d) There are no fixed commitments that must be paid regardless of output.

Final Answer: Variable costs

Answer: (B)

Go Back to question 7

Q8.

Solution

Concept: The relationship between marginal cost and average total cost determines the shape of the average cost curve. At the minimum point, these two values must be equal.

Solution:

(a) When marginal cost is below average cost, it pulls the average down.

(b) When marginal cost exceeds average cost, it pulls the average up.

(c) At the intersection point, neither pulling occurs.

(d) Therefore, average cost reaches its minimum when MC equals AC.

Final Answer: Marginal cost equaling average cost

Answer: (C)

Go Back to question 8

Q9.

Solution

Concept: Market structures are characterized by specific conditions regarding number of firms, product type, and entry conditions. Perfect competition represents the most competitive market.
Solution:

(a) Perfect competition has many firms with homogeneous products.

(b) Any firm can freely enter or exit the market.

(c) Buyers and sellers have perfect information.

(d) No single firm can influence market price.

(e) Free entry and exit is a defining characteristic.

Final Answer: Free entry and exit of firms

Answer: (C)

Go Back to question 9

Q10.

Solution

Concept: Price discrimination is the practice of charging different prices to different customers for the same product. This is only possible under certain market conditions.
Solution:

(a) In perfect competition, all firms must charge the market price.

(b) Individual firms have no power to set different prices.

(c) In monopoly, the single seller can identify and separate customer groups.

(d) Different groups can be charged different prices if the product can be prevented from moving between groups.

Final Answer: Monopoly

Answer: (B)

Go Back to question 10

Q11.

Solution

Concept: Comparative advantage theory explains the basis for mutually beneficial international trade. Different economists contributed to developing this theory.

Solution:

(a) Adam Smith introduced the concept of absolute advantage in production.

(b) David Ricardo extended this theory to develop comparative advantage.

(c) Ricardo showed that trade benefits both countries even if one is more efficient.

(d) Comparative advantage focuses on opportunity costs of production.

Final Answer: David Ricardo

Answer: (B)

Go Back to question 11

Q12.

Solution

Concept: Economic variables are classified as stocks or flows based on whether they are measured at a point in time or over a period. Income is measured as an amount earned during a period.

Solution:

(a) A stock variable is measured at a specific point in time.

(b) A flow variable is measured over a specific time period.

(c) Income is earned continuously over months and years.

(d) It accumulates during the time period, making it a flow variable.

Final Answer: Income

Answer: (C)

Go Back to question 12

Q13.

Solution

Concept: The quantity theory of money establishes fundamental relationships in macroeconomics. Value of money is inversely related to the general price level.

Solution:

(a) When price level increases, each unit of currency purchases less goods.

(b) This means the value of money decreases.

(c) Conversely, when price levels fall, money becomes more valuable.

(d) The relationship is inverse: as prices rise, money value falls.

Final Answer: Inversely proportional

Answer: (B)

Go Back to question 13

Q14.

Solution

Concept: Central banks employ various monetary policy instruments to regulate the economy. Some are quantitative while others are qualitative. Usage frequency varies.

Solution:

(a) Open market operations involve buying and selling government securities.

(b) This is the most frequently used tool by central banks.

(c) It allows quick and continuous adjustment of money supply.

(d) Other tools like reserve ratio changes are used less frequently due to their dramatic impact.

Final Answer: Open market operations

Answer: (C)

Go Back to question 14

Q15.

Solution

Concept: A fiscal deficit occurs when government expenditures exceed revenue. This requires borrowing to finance the shortfall.

Solution:

(a) Government revenue comes from taxes and other sources.

(b) Government expenditure includes spending on goods, services, and transfers.

(c) When spending exceeds revenue, a deficit emerges.

(d) The government must borrow money to cover this gap.

Final Answer: Spends more than it collects in revenue

Answer: (B)

Go Back to question 15

Q16.

Solution

Concept: Money velocity is a critical concept in macroeconomic theory and monetary policy. It measures economic activity intensity.

Solution:

(a) Velocity measures how many times money changes hands in the economy.

(b) It represents the speed at which money circulates.

(c) Higher velocity means money moves faster through transactions.

(d) This is calculated as the ratio of total spending to money supply.

Final Answer: Speed of money circulation in the economy

Answer: (A)

Go Back to question 16

Q17.

Solution

Concept: Balance of Payments records all international transactions. Surplus or deficit indicates the net position in international trade.

Solution:

(a) A balance of payments surplus means more foreign currency was earned than spent.

(b) This occurs when the value of exports exceeds imports.

(c) The country is a net creditor to the rest of the world.

(d) This accumulates foreign currency reserves.

Final Answer: Exports exceed imports

Answer: (A)

Go Back to question 17

Q18.

Solution

Concept: The production possibility curve shows the maximum combinations of goods an economy can produce. Changes in this boundary reflect changes in productive capacity.

Solution:

(a) The PPC is determined by available resources and technology.

(b) Unemployment moves a point inside the PPC but doesn't shift it.

(c) Technological improvements increase productive efficiency.

(d) Better technology allows more output from the same resources.

(e) This shifts the entire PPC outward.

Final Answer: Technological improvement

Answer: (B)

Go Back to question 18

Q19.

Solution

Concept: Opportunity cost is a fundamental concept in economics. It represents the trade-off of choosing one alternative over another.

Solution:

(a) When someone makes a choice, they forgo other alternatives.

(b) Opportunity cost is the value of the next best alternative foregone.

(c) It is not the actual payment made, but what is given up.

(d) Example: Cost of attending college includes the wages foregone from not working.

Final Answer: Value of next best alternative foregone

Answer: (B)

Go Back to question 19

Q20.

Solution

Concept: Economic systems differ in how they allocate resources and make production decisions. Market mechanisms play different roles in different systems.

Solution:

(a) Market economies rely on price signals and profit motives.

(b) Supply and demand determine production and prices.

(c) Individual decisions drive economic outcomes.

(d) This contrasts with planned economies where government decides production.

(e) Market allocation is the primary mechanism.

Final Answer: Market economy

Answer: (B)

Go Back to question 20

Q21.

Solution

Concept: Ceteris Paribus is a Latin term meaning "all other things constant." It is essential for economic analysis.

Solution:

(a) Ceteris Paribus means holding all variables except one constant.

(b) It allows economists to isolate the effect of one variable.

(c) Without this assumption, multiple simultaneous changes would confuse analysis.

(d) For example, when analyzing demand, we assume income and preferences constant.

(e) This helps identify the pure price effect on quantity demanded.

Final Answer: All other factors remaining constant

Answer: (See Above)

Go Back to question 21

Q22.

Solution

Concept: International trade requires converting one currency to another. The rate at which this conversion occurs is fundamental.

Solution:

(a) The exchange rate determines how much of one currency equals another.

(b) It fluctuates based on supply and demand for currencies.

(c) Example: One dollar might equal 75 Indian rupees.

Final Answer: Exchange rate

Answer: (See Above)

Go Back to question 22

Q23.

Solution

Concept: Income elasticity of demand measures how consumption changes when income changes. Different classifications depend on the coefficient value.

Solution:

(a) Income elasticity formula: YED = (Percentage change in quantity demanded) / (Percentage change in income)

(b) When coefficient is positive, quantity demanded increases with income.

(c) This indicates a normal good that people buy more of when richer.

(d) When coefficient is negative, goods are inferior.

Final Answer: YED = Change in Qd / Change in Income; Positive coefficient = Normal good

Answer: (See Above)

Go Back to question 23

Q24.

Solution

Concept: Marginal cost and average cost have a specific mathematical relationship that depends on output levels.

Solution:

(a) When MC is below AC, it pulls the average down.

(b) This means MC can only equal or exceed AC at minimum AC point.

(c) MC cannot remain below AC at all output levels.

(d) After the minimum point, MC exceeds AC.

Final Answer: No

Answer: (See Above)

Go Back to question 24

Q25.

Solution

Concept: Evaluating economic statements requires understanding core economic principles and their universal applicability.

Solution:

(a) Statement (i) is FALSE: Scarcity exists in all nations, rich or poor.

(b) Statement (ii) is TRUE: Inferior goods have negative income elasticity.

(c) Statement (iii) is TRUE: Monopolies typically charge higher prices.

(d) Statement (iv) is TRUE: All economic systems face scarcity.

(e) Two false statements: Only (i) is clearly false.

Final Answer: Statement (i) is false

Answer: (See Above)

Go Back to question 25

Q26.

Solution

Concept: The demand curve represents the fundamental relationship in microeconomics. This relationship has a specific name and direction.

Solution:

(a) The inverse relationship between price and quantity demanded is well-established.

(b) This inverse relationship is called the Law of Demand.

(c) As price increases, quantity demanded decreases.

(d) The curve slopes downward reflecting this relationship.

Final Answer: Inverse, Law of Demand

Answer: (See Above)

Go Back to question 26

Q27.

Solution

Concept: In perfect competition, long-run equilibrium is characterized by zero economic profit but not zero accounting profit.

Solution:

(a) Economic profit includes opportunity costs.

(b) In long-run perfect competition, firms earn normal profit.

(c) Normal profit equals opportunity cost of capital.

(d) No abnormal economic profit exists due to free entry.

(e) Yes, this is possible and actually the typical outcome.

Final Answer: Yes

Answer: (See Above)

Go Back to question 27

Q28.

Solution

Concept: Stocks and flows are fundamentally different types of economic variables measured in different ways.

Solution:

(a) Stock variables are measured at a specific point in time.

(b) Example of stock: The capital stock in an economy on December 31.

(c) Flow variables are measured over a time period.

(d) Example of flow: Annual income earned during a year.

(e) Stocks accumulate into larger stocks, flows add to stocks.

Final Answer: Stock: measured at a point (e.g., capital); Flow: measured over period (e.g., income)

Answer: (See Above)

Go Back to question 28

Q29.

Solution

Concept: Converting between different GDP measures requires adjusting for indirect taxes and subsidies.

Solution:

(a) GDP at market prices includes indirect taxes on goods.

(b) Indirect taxes increase the market price above factor cost.

(c) Subsidies reduce the market price below factor cost.

(d) To convert: GDP at factor cost = GDP at market prices minus indirect taxes plus subsidies.

Final Answer: Indirect taxes, Subsidies

Answer: (See Above)

Go Back to question 29

Q30.

Solution

Concept: Inflation is a macroeconomic phenomenon with direct consumer impacts. Understanding its relationship with purchasing power is essential.

Solution:

(a) Inflation is a sustained increase in the general price level of goods and services.

(b) When inflation occurs, each unit of currency purchases fewer goods.

(c) Purchasing power is the quantity of goods money can buy.

(d) Higher inflation means lower purchasing power.

(e) This relationship is inverse.

Final Answer: Sustained increase in price level; inversely related to purchasing power

Answer: (See Above)

Go Back to question 30

Q31.

Solution

Concept: Taxes can be classified based on when they are collected. The point of collection determines tax type classification.

Solution:

(a) Taxes collected at the point of sale are called sales taxes or excise taxes.

(b) These are indirect taxes paid by consumers through sellers.

(c) They are levied at the final sale stage.

Final Answer: Sales (or Excise)

Answer: (See Above)

Go Back to question 31

Q32.

Solution

Concept: Absolute advantage and comparative advantage are different concepts in international trade. Understanding this distinction is crucial.

Solution:

(a) Absolute advantage means producing more output with same resources.

(b) Or producing same output with fewer resources.

(c) Example: Country A produces 100 units of wheat with 10 workers; Country B produces 80 units with 10 workers.

(d) Country A has absolute advantage in wheat.

(e) This determines who can produce more efficiently.

Final Answer: Ability to produce more with same resources; Example provided

Answer: (See Above)

Go Back to question 32

Q33.

Solution

Concept: The consumption function shows how consumption depends on income. Changes in income may have different effects depending on the type of goods.

Solution:

(a) While typically consumption increases with income, this isn't universal.

(b) For inferior goods, consumption decreases when income increases.

(c) Consumption can also be affected by wealth, expectations, and interest rates.

(d) Correct statement: Most goods show positive income consumption relationship, but not all.

Final Answer: Income changes affect consumption direction, but not uniformly for all goods

Answer: (See Above)

Go Back to question 33

Q34.

Solution

Concept: Economic abbreviations are shorthand notations for important consumption and income concepts.

Solution:

(a) MPC stands for Marginal Propensity to Consume.

(b) It measures the additional consumption from additional income.

(c) APC stands for Average Propensity to Consume.

(d) It measures the proportion of total income spent on consumption.

Final Answer: (i) Marginal Propensity to Consume; (ii) Average Propensity to Consume

Answer: (See Above)

Go Back to question 34

Q35.

Solution

Concept: The Lorenz curve graphically shows income distribution in a population. Its shape depends on the equality or inequality of distribution.

Solution:

(a) The Lorenz curve shows cumulative population percentage against cumulative income percentage.

(b) A straight diagonal line would mean perfectly equal distribution.

(c) Each person earns exactly the same amount.

(d) This represents zero inequality.

(e) Yes, this is theoretically possible though never observed in practice.

Final Answer: Yes

Answer: (See Above)

Go Back to question 35

Q36.

Solution

Concept: Consumer preferences are fundamental determinants of demand. Changes in these preferences shift the entire demand relationship.

Solution Part 1:

(a) Consumer preferences determine which goods are desired and in what quantities.

(b) When preferences shift, the demand curve moves to a new position.

(c) A shift toward a commodity increases demand at every price level.

(d) Example: Increased preference for healthy foods shifts the demand curve for organic products rightward.

(e) Decreased preference shifts the curve leftward.

Final Answer: Preference changes shift entire demand curve rightward (increase) or leftward (decrease)

Answer: (See Above)

Go Back to question 36

Q37.

Solution

Concept: Price elasticity of supply measures how responsive supply is to price changes. The calculation uses percentage changes for comparability.

Solution:

(a) Change in quantity supplied: 100 - 50 = 50 units

(b) Change in price: 15 - 10 = Rs. 5

(c) Percentage change in quantity: (50/50) × 100 = 100%

(d) Percentage change in price: (5/10) × 100 = 50%

(e) Price elasticity of supply = 100% / 50% = 2

(f) Coefficient of 2 indicates elastic supply

Final Answer: PES = 2 (Elastic supply)

Answer: (See Above)

Go Back to question 37

Q38.

Solution

Concept: Market equilibrium is the point where quantity demanded equals quantity supplied. Deviations from equilibrium create pressures toward adjustment.

Solution:

When price is above equilibrium:

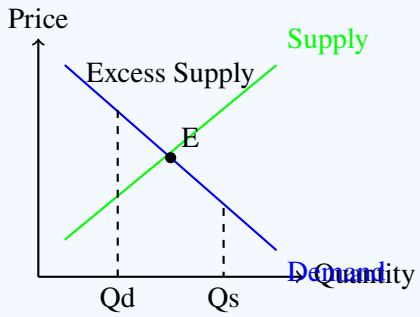
(a) Quantity supplied exceeds quantity demanded.

(b) Surplus inventory accumulates at sellers.

(c) Sellers reduce prices to clear excess stock.

(d) Lower prices increase demand and reduce supply.

(e) Market adjusts back to equilibrium.



Final Answer: Diagram shows excess supply above equilibrium E

Answer: (See Above)

Go Back to question 38

Q39.

Solution

Concept - Alternative (i): Economies of Scale

Large-scale production offers cost advantages through efficiency gains.

Solution:

(a) Economies of scale reduce per-unit costs as output increases.

(b) Spreading fixed costs over more units lowers unit cost.

(c) Bulk purchasing of inputs reduces input prices.

(d) Specialized labor becomes efficient only at large scales.

(e) Technical advantages like automation become viable only at large volumes.

(f) Example: Mass production reduces cost per car below handcrafted cars.

Final Answer for (i): Economies of scale spread costs and improve efficiency, reducing average costs

—OR—

Concept - Alternative (ii): Per Unit Cost and Output

In the short run, per unit cost varies with production due to fixed cost spreading.

Solution:

(a) Fixed costs remain constant but spread across more units.

(b) Average fixed cost = Total fixed cost / Quantity.

(c) As output increases, AFC decreases significantly.

(d) Variable costs increase but at a decreasing rate initially.

(e) Overall, per unit cost initially falls then rises at high output.

(f) This creates a U-shaped average cost curve.

Final Answer for (ii): Per unit cost initially falls (AFC spreading), then rises (increasing variable costs)

Answer: (See Above)

Go Back to question 39

Q40.

Solution

Concept - Alternative (i): Price Controls

Government sometimes intervenes in markets to stabilize prices. Different interventions create different effects.

Solution:

(a) Price ceiling is a maximum legal price set below equilibrium.

(b) Example: Rent control limiting maximum apartment rental prices.

(c) This creates shortages as quantity demanded exceeds quantity supplied.

(d) Price floor is a minimum legal price set above equilibrium.

(e) Example: Minimum wage laws creating a wage floor.

(f) This creates surpluses as quantity supplied exceeds quantity demanded.

Final Answer for (i): Ceiling limits price below equilibrium (shortage); Floor sets minimum above equilibrium (surplus)

—OR—

Concept - Alternative (ii): Subsidies and Market Equilibrium

Subsidies are government payments that reduce effective prices for consumers or producers.

Solution:

(a) Subsidies lower the cost to producers or the price for consumers.

(b) Supply increases as production becomes more profitable.

(c) Supply curve shifts rightward.

(d) Equilibrium quantity increases and price decreases.

(e) Consumer surplus increases due to lower price and higher consumption.

(f) Producer surplus may increase or decrease depending on subsidy size.

Final Answer for (ii): Subsidies shift supply right, lowering price and increasing quantity; consumer surplus rises

Answer: (See Above)

Go Back to question 40

Q41.

Solution

Concept - Alternative (i): Monopolistic Competition

Monopolistic competition combines elements of both competition and monopoly.

Solution:

(a) Both have many firms, but monopolistic competition has product differentiation.

(b) Products are similar but not identical in monopolistic competition.

(c) Perfect competition has identical homogeneous products.

(d) Monopolistic competition has some price-setting power due to differentiation.

(e) Perfect competition firms are price takers.

(f) Free entry and exit exist in both.

Final Answer for (i): Product differentiation in monopolistic competition vs homogeneous products in perfect competition

—OR—

Concept - Alternative (ii): Monopoly Persistence

Barriers to entry explain why monopolies can sustain long-run profits.

Solution:

(a) Without barriers, new entrants compete away monopoly profits.

(b) Patents give exclusive production rights for a period.

(c) Natural monopolies have economies of scale preventing competition.

(d) Ownership of unique resources creates monopoly power.

(e) Government licenses restrict entry to the industry.

(f) High capital requirements deter new entrants.

(g) These barriers prevent erosion of abnormal profits.

Final Answer for (ii): Barriers prevent entry, protecting long-run abnormal profits

Answer: (See Above)

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Q42.

Solution

Concept: Technological progress is crucial for economic growth. It affects both production possibilities and competitive markets.

Solution Part 1: Supply Curve Effects

(a) Better technology reduces production costs.

(b) At each price level, firms are willing to supply more.

(c) The entire supply curve shifts rightward.

(d) Equilibrium quantity increases and price decreases.

(e) Consumers benefit from lower prices.

Solution Part 2: Profitability Effects

(a) Short-run: Early adopters earn abnormal profits from lower costs.

(b) Long-run: Free entry in competitive markets allows other firms to adopt technology.

(c) Competition drives prices down to eliminate abnormal profits.

(d) Firms that don't adopt technology become unprofitable and exit.

(e) Eventually, all firms operate at the same cost using new technology.

Final Answer: Technology shifts supply right and lowers prices; creates short-run profits but long-run zero profit

Answer: (See Above)

Go Back to question 42

Q43.

Solution

Concept: Profit maximization occurs where marginal revenue equals marginal cost. The firm chooses output at this point.

Solution Part 1: Complete the Table

(a) Output 0: Profit = 0 - 30 = -30

(b) Output 1: Profit = 20 - 45 = -25

(c) Output 2: Profit = 40 - 55 = -15

(d) Output 3: Profit = 60 - 63 = -3

(e) Output 4: Profit = 80 - 75 = 5 (Maximum)

(f) Output 5: Profit = 100 - 90 = 10

Solution Part 2: Profit Maximization Analysis

(a) Calculate MR and MC at each output level.

(b) MR = Price = 20 (constant for perfect competition).

(c) MC values: 15, 10, 8, 12, 15.

(d) MR = MC between output 3 and 4 indicates profit maximization.

(e) At output 4: MR = 20, MC 12 (still rising but below MR).

(f) Firm continues producing until MR no longer exceeds MC.

(g) Actually, profit is highest at output 5 (profit = 10).

(h) MR = 20, MC at 5 is 15, still below MR, so production continues.

(i) Profit actually peaks before MR = MC in this discrete case.

Final Answer: Profits: -30, -25, -15, -3, 5, 10; Maximum at output 5 units

Answer: (See Above)

Go Back to question 43

Q44.

Solution

Concept - Alternative (i): Technology and Supply

Supply depends on production technology and factor prices. These determine firms' willingness to supply.

Solution:

(a) Better technology reduces production costs for given output.

(b) Lower costs increase profitability at each price level.

(c) Supply curve shifts rightward (increase in supply).

(d) Higher factor prices increase production costs.

(e) Supply curve shifts leftward (decrease in supply).

(f) These shifts change equilibrium price and quantity.

(g) Technology improvements benefit consumers through lower prices.

Final Answer for (i): Better technology shifts supply right; higher factor prices shift left

—OR—

Concept - Alternative (ii): Marginal Revenue Product and Factor Pricing

Firms demand factors based on their productivity. The value of output they produce determines their price.

Solution:

(a) MRP = Marginal product × Price of output.

(b) MRP represents the additional revenue from hiring one more factor unit.

(c) A competitive firm hires factors until MRP equals factor price.

(d) Higher productivity (MP) increases MRP and factor demand.

(e) Higher output prices increase MRP and factor prices.

(f) Factor prices are determined by supply and demand for factors.

(g) In competitive markets, factor price equals MRP.

Final Answer for (ii): MRP determines factor demand; Factor price = MRP in equilibrium

Answer: (See Above)

Go Back to question 44

Q45.

Solution

Concept - Alternative (i): Consumer and Producer Surplus

Surpluses measure the benefits to market participants from trade. They appear as triangular areas in supply-demand diagrams.

Solution:

(a) Consumer surplus is the difference between willingness to pay and actual price.

(b) Consumers benefit when they pay less than maximum acceptable price.

(c) Graphically: Area above price line and below demand curve.

(d) Producer surplus is the difference between actual price and willingness to sell.

(e) Producers benefit when they receive more than minimum acceptable price.

(f) Graphically: Area below price line and above supply curve.

(g) Equilibrium maximizes total surplus (consumer + producer surplus).

(h) Taxes and monopoly reduce total surplus creating deadweight loss.

Final Answer for (i): Consumer surplus = benefit from paying less than max price; Producer surplus = benefit from receiving more than min price

—OR—

Concept - Alternative (ii): Taxation Effects on Surpluses

Taxes create deadweight loss by reducing beneficial trades. Surpluses decline as tax rates increase.

Solution:

(a) Taxes raise prices for consumers and lower them for producers.

(b) Quantity decreases as higher prices reduce demand and lower prices reduce supply.

(c) Consumer surplus decreases due to higher prices and reduced quantity.

(d) Producer surplus also decreases despite higher producer prices.

(e) Total consumer + producer surplus falls by the deadweight loss.

(f) Deadweight loss represents the value of lost mutually beneficial trades.

(g) Tax revenue collected is less than the total loss in surplus.

(h) The difference is the inefficiency cost of taxation.

Final Answer for (ii): Taxation increases prices and reduces both consumer and producer surplus, creating deadweight loss

Answer: (See Above)

Go Back to question 45

Q46.

Solution

Concept: Perfect competition exhibits different equilibrium conditions in short and long runs. The adjustment process reveals fundamental market mechanisms.

Solution:

(a) Short-run equilibrium: Firms can earn abnormal profits.

(b) Existing firms cannot exit; entry is restricted.

(c) Long-run equilibrium: New firms enter attracted by profits.

(d) Entry increases market supply shifting supply curve right.

(e) Price falls as supply exceeds demand at old price.

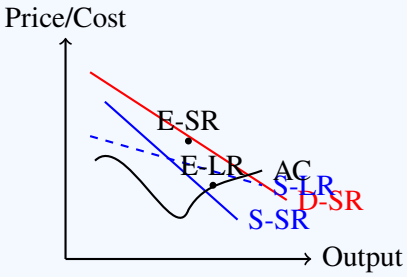
(f) Falling prices eliminate abnormal profits.

(g) Entry continues until price equals minimum AC (zero economic profit).

(h) Long-run: Firms earn only normal profit.

(i) Quantity per firm adjusts, total market quantity changes.

(j) At long-run equilibrium, price = minimum AC for all firms.



Final Answer: Diagram shows adjustment from short-run equilibrium with abnormal profit to long-run with zero economic profit

Answer: (See Above)

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Q47.

Solution

Concept - Alternative (i): National Income Concept

National income is the net domestic income earned by productive factors. Measurement requires careful accounting.

Solution Part 1:

(a) National income represents the aggregate income of all factors.

(b) Measurement challenges include: informal economy participation, home production valuation.

(c) Double counting must be avoided (only final goods counted).

(d) Depreciation adjustment from gross to net values.

(e) International income flows adjustments needed.

Solution Part 2: Measurement Methods

(a) Income Method: Sums all factor payments (wages, rent, interest, profit).

(b) Expenditure Method: Sums spending (consumption, investment, government, net exports).

(c) Product Method: Sums value added at each production stage.

(d) All three should yield the same national income figure.

(e) Discrepancies indicate measurement errors.

Final Answer for (i): NI = aggregate income; Methods: Income, Expenditure, Product

Solution

—OR—

Concept - Alternative (ii): Real vs Nominal GDP

GDP can be measured at current prices (nominal) or constant prices (real). Real comparisons are more meaningful.

Solution:

(a) Nominal GDP uses current year prices.

(b) It increases when either quantity or price increases.

(c) Cannot distinguish between real growth and inflation.

(d) Real GDP uses base year constant prices.

(e) Changes in real GDP reflect only quantity changes.

(f) Real GDP is adjusted for inflation effects.

(g) Comparing real GDP across years shows true growth.

(h) Nominal GDP comparisons are misleading due to inflation.

(i) Example: 10% nominal growth could be 5% real growth plus 5% inflation.

Final Answer for (ii): Real GDP uses constant prices, removes inflation distortion; Nominal uses current prices

Answer: (See Above)

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Q48.

Solution

Concept: The consumption function describes how household spending responds to income changes. MPC and MPS are key behavioral parameters.

Solution Part 1: Complete the Table

(a) Income 0: Saving = 0 - 60 = -60 (dissaving)

(b) Income 150: Saving = 150 - 185 = -35

(c) Income 300: Saving = 300 - 310 = -10

(d) Income 450: Saving = 450 - 435 = 15

Solution Part 2: Calculate MPC and MPS

(a) MPC = Change in C / Change in Income

(b) From 0 to 150: MPC = 125/150 = 0.833, MPS = 25/150 = 0.167

(c) From 150 to 300: MPC = 125/150 = 0.833, MPS = 0.167

(d) From 300 to 450: MPC = 125/150 = 0.833, MPS = 0.167

(e) Constant MPC and MPS indicate linear consumption function

(f) Note: MPC + MPS = 1 at all income levels

Final Answer: Savings: -60, -35, -10, 15; MPC = 0.833, MPS = 0.167 throughout

Answer: (See Above)

Go Back to question 48

Q49.

Solution

Concept: Commercial banks create money through a multiplier process. Initial deposits get multiplied as banks lend and deposits cycle.

Solution Part 1: Credit Creation Process

(a) Bank receives initial deposit of Rs. X from public.

(b) Bank must keep reserve ratio (say 20%) in central bank.

(c) Remaining 80% can be lent to borrowers.

(d) Borrowers spend the loan, which becomes income for others.

(e) Others deposit this income in banks.

(f) Banks again keep 20% and lend 80%.

(g) This cycle continues, creating multiple rounds of money creation.

(h) Total money created = Initial deposit × (1 / Reserve Ratio).

Solution Part 2: Reserve Ratio Effect

(a) Lower reserve ratio allows more lending and greater expansion.

(b) Higher reserve ratio restricts lending and contraction.

(c) With 10% reserve ratio, multiplier = 10 times.

(d) With 20% reserve ratio, multiplier = 5 times.

(e) Central bank uses reserve ratio changes to control money supply.

Solution

Solution Part 3: Example with 20% Reserve Ratio

(a) Initial deposit: Rs. 1000

(b) Bank reserves: Rs. 200

(c) Loans extended: Rs. 800

(d) Cycle repeats with 800 becoming new deposits

(e) Second round reserves: Rs. 160, Loans: Rs. 640

(f) Total money ultimately created = 1000 × 5 = Rs. 5000

(g) Each round successively smaller until negligible amounts remain

Final Answer: Banks multiply deposits through lending; Lower reserve ratio increases multiplication

Answer: (See Above)

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Q50.

Solution

Concept - Alternative (i): Reserve Bank Functions and Inflation Control

The central bank regulates the financial system and manages monetary policy. Different tools control inflation effectively.

Solution Part 1: RBI Functions

(a) Regulator of the banking system and issues currency notes.

(b) Manager of government accounts and banker to commercial banks.

(c) Formulates monetary policy and manages foreign exchange reserves.

(d) Controls inflation and promotes financial system development.

Solution Part 2: Inflation Control Through OMO

(a) Open Market Operations (OMO) involve the RBI selling government securities.

(b) Sale absorbs liquidity from commercial banks and the public.

(c) Reduced liquidity limits credit expansion, lowering aggregate spending.

(d) Demand reduction puts downward pressure on prices, lowering inflation rates.

Final Answer for (i): RBI functions include currency issuance and banking regulation; OMO sells securities to reduce money supply and control inflation.

Solution

OR

Alternative (ii) (Continued) - Balance of Payments Structure and Deficit Implications

The Balance of Payments (BoP) records international transactions. Deficits have serious macroeconomic implications.

Solution Part 1: BoP Structure

(a) **Current Account:** Tracks trade in goods/services, income flows, and transfers.

(b) **Capital & Financial Account:** Tracks investments, loans, and official reserve changes.

(c) **Identity:** Overall BoP must balance: Current Account + Capital/Financial Account = 0.

Solution Part 2: Deficit Implications

(a) A persistent deficit means spending exceeds earnings, forcing reserve depletion or foreign borrowing.

(b) Creates foreign currency debt obligations that must be serviced from future income.

(c) Reduces long-term economic growth capacity and triggers currency depreciation pressures.

(d) Declining international creditworthiness limits policy independence and risks severe structural adjustment.

Final Answer for (ii): BoP deficit forces external borrowing, creating future repayment obligations, currency depreciation pressure, and reduced policy autonomy.

Answer: (See Above)

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Answer Key

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