

CANARA VIKAS PRE UNIVERSITY COLLEGE, MANGALURU

ECONOMICS ANSWER KEY -2025

PART –A

I. Choose the correct Answers:

5X1=5

1. c) Ranks
2. d) 225
3. a)1929
4. b)Investment
5. b)Output market linkage

II. Fill in the blanks.

5X1=5

6. Government
7. Perfect competition
8. Product
9. RBI
10. Financial

III. Match the following:

5X1=5

- | | | |
|------------------------|---|-----------------------------|
| 11. | A | B |
| a) Normative economics | | vi) Evaluation of mechanism |
| b) Wage rate | | i) VMP_L |
| c) Domestic service | | v) Non monetary exchange |
| d) M3 and M4 | | ii) Broad money |
| e)Raw materials | | iii) Intermediary goods |

IV. Answer the following questions in a sentence or word:

5X1=5

12. USA
13. $dm = 35 - 2p$
14. Consumer Price Index
15. Primary deficit is the fiscal deficit minus the interest payments.
16. It is one which interacts with the rest of the world through various channels.

PART –B

V. Answer any Six of the following in 4 sentences each

6X2=12

17. a) The price of the goods itself
b) The prices of the other goods
c) The consumer's income
d) The tastes and preferences of consumer.
18. The law of demand states that, when price of the commodity increases, demand for it falls and when price of the commodity decreases, demand for it rises, other factors remaining constant.
19. a) Constant Returns to scale
b) Increasing Returns to scale
c) Decreasing Returns to scale
20. a) Long Run Average Cost
b) Long Run Marginal cost

21. Land- Rent
 Labour- Wages
 Capital- Interest
 Organisation- Profit
- 22.

Nominal GDP	Real GDP
<ul style="list-style-type: none"> ➤ It is the value of GDP at current prevailing prices. ➤ It is not reliable ➤ It does not give real picture of economic development of a country. 	<ul style="list-style-type: none"> ➤ It is evaluated at constant set of prices i.e., by keeping base year's price index. ➤ It is reliable. ➤ It gives real picture of economic development of a country.

23. Cash Reserve Ratio (CRR) = Percentage of deposits which a bank must keep as cash reserves with RBI
 Statutory Liquidity Ratio (SLR) = Banks are required to keep some reserves in liquid form in the short term with themselves.

24. a) Transaction motive
 b) Speculative motive

25. Autonomous consumption=150
 Value of MPC= 0.5

26. If some users do not pay and it is difficult and sometime impossible to collect fees for the public goods, such non paying users are known as free riders.
 They are called so because consumers will not voluntarily pay for what they can get for free and for which there is no exclusive title to the property being enjoyed.

PART –C

VI. Answer any FIVE of the following in Twelve Sentence each 5x4=20

27. People in the society need many goods and services in their everyday life including food, clothing, shelter, transport facilities, postal services and various other services like that of teachers and doctors. In fact, the list of goods and services that any individual needs is so large that no individual in society has all the things he needs.

Every individual has some amount of only a few of the goods and services that he would like to use. A family farm may own a plot of land, some grains, farming implements, may be a pair of bullocks and also the labour services of the family members.

A weaver may have some yarn, some cotton and other instruments required for weaving cloth. The teacher in the local school has the skills required to impart education to the students.

Each of these decision making units can produce some goods or services by using the resources that it has and use part of the produce to obtain the many other goods and services which it needs.

For instance, the family farm can produce corn, use part of the produce for consumption purposes and procure clothing, housing and various services in exchange for the rest of the produce.

Similarly, the weaver can get the goods and services that he wants in exchange for the cloth he produces in his yarn. The teacher can earn some money by teaching students in the school and use the money for obtaining the goods and services that he wants.

Thus, each individual can use his resources to fulfill his needs. It is said that no individual has unlimited resources compared to his needs. The quantity of corn that the family farm can produce is limited by the quantity of resources it has and hence the amount of different goods and services that it can procure in exchange of corn is also limited. As a result, the family is forced to make a choice between the different goods and services that are available. It can have more of a good or service only by giving up some amounts of other goods or services.

28. The budget set is the collection of products that the consumer can buy with his income at the prevailing market prices. The Budget set is also known as opportunity set. It includes all the bundles (all possible combination of two goods) which the consumer can purchase with his given level of income.

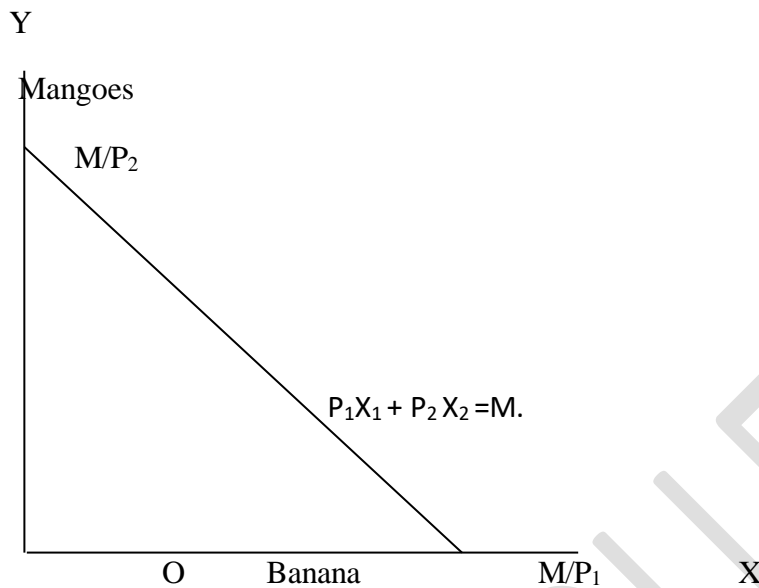
The budget equation can be written as follows: $P_1X_1 + P_2X_2 \leq M$.

Consider, for example, a consumer who has Rs.20 and suppose, both the goods are priced at Rs.5 and are available only in integral units. The bundles that this consumer can afford to buy are; (0,0), (0,1), (0,2), (0,3), (0,4), (1,0), (1,1), (1,2), (1,3), (2,0), (2,1), (2,2), (3,0), (3,1) and (4,0).

Among these bundles, (0,4), (1,3), (2,0), (2,2), (3,1) and (4,0) cost exactly Rs.20 and all the other bundles cost less than Rs.20.

If both the goods are perfectly divisible, the consumer's budget set would consist of all bundles (x_1, x_2) such that x_1 and x_2 are any numbers greater than or equal to 0 and $P_1X_1 + P_2X_2 \leq M$.

The budget set can be represented in a diagram as follows:



Quantity of bananas is measured along the horizontal axis and quantity of mangoes is measured along the vertical axis. Any point in the diagram represents a bundle of the two goods. The budget set consists of all points on or below the straight line having the equation $P_1X_1 + P_2X_2 = M$.

29.

Normal goods	Inferior goods
<ul style="list-style-type: none"> • These are the goods for which the demand increases with the increase in the income of consumer. • Example for normal goods are food, cloths, electronic goods, luxury goods etc. • There is positive relationship between income and demand. • Here the demand curve shifts towards right if the income of consumer increases. 	<ul style="list-style-type: none"> • These are the goods for which the demand decreases with the increase in the income of consumer. • Example for inferior goods are low quality of goods like unbranded products. • There is inverse relationship between income and demand. • Here the demand curve shifts towards left if the income of consumer increases.

30.

Quantity Sold (q)	TR (Rs.)	TC (Rs.)	Profit
0	0	5	-5
1	10	7	3
2	20	10	10
3	30	12	18
4	40	25	15
5	50	40	10
6	60	60	0
7	70	75	-5

Note: Profit =TR-TC.

31.

The following table shows the impact of simultaneous shifts on equilibrium

Shift in Demand	Shift in Supply	Quantity	Price
Leftward	Leftward	Decreases	May increase, decrease or remain constant
Rightward	Rightward	Increases	May increase, decrease or remain constant
Leftward	Rightward	May increase, decrease or remain constant	Decreases
Rightward	Leftward	May increase, decrease or remain constant	Increases

32. Role of Government:

- In both the developed and developing countries, apart from capitalist sector, there is the institution of State.
- The role of the state includes framing laws, enforcing them and delivering justice. The State here refers to the Government which performs various developmental functions for the society as whole.
- It undertakes production, apart from imposing taxes and spending money on building public infrastructure, running schools, providing health services etc. These economic functions of the state have to be taken into account when we want to describe the economy of the country.

Role of Household sector:

- By household we mean a single individual who takes decisions relating to her own consumption or a group of individuals for whom the decisions relating to consumption are jointly determined.
- Households consist of people. These people work in firms as workers and earn wages. They are the ones who work in government departments and earn salaries or they are the owners of firms and earn profits.
- Therefore, the market in which the firms sell their products could not have been functioning without the demand coming from the households. Further, they also earn rent by leasing land or earn interest by lending capital.

33. Externalities:

An externality is a cost or benefit conferred upon second or third parties as a result of acts of individual production and consumption. But the cost or benefit of an externality cannot be measured in money terms because it is not included in market activities.

In other words, Externalities refer to the benefits or harms a firm or an individual causes to another for which they are not paid or penalized. They do not have any market in which they can be bought and sold.

There are two types of externalities, namely:

- **Positive Externalities**
- **Negative Externalities.**

Positive Externality: For example, let us imagine that there is chemical fertilizer industry. It produces the chemical fertilizers required for agriculture. The output of the industry is taken for counting GDP of an economy. This is positive externality.

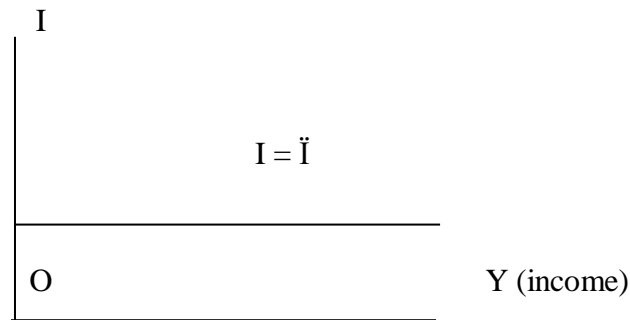
Negative externalities: While carrying out the production the chemical fertilizer industry may also be polluting the nearby river. This may cause harm to the people who use the water of the river. Hence their health will be affected. Pollution also may kill fish and other organisms of the river. As a result, the fishermen of the river may lose their livelihood. Such harmful effects that the industry is inflicting on others, for which it will not bear any cost are called negative externalities.

34. Investment is the addition to the stock of physical capital (such as machines, buildings, roads etc., i.e. anything that adds to the future productive capacity of the economy) and changes in the inventory (or the stock of finished goods) of a producer.

The 'investment goods' like machines are also part of the final goods. Machines produced in an economy in a given year are not 'used up' to produce other goods but yield their services over a number of years. Investment decisions by producers, such as whether to buy a new machine, depend, to a large extent, on the market rate of interest.

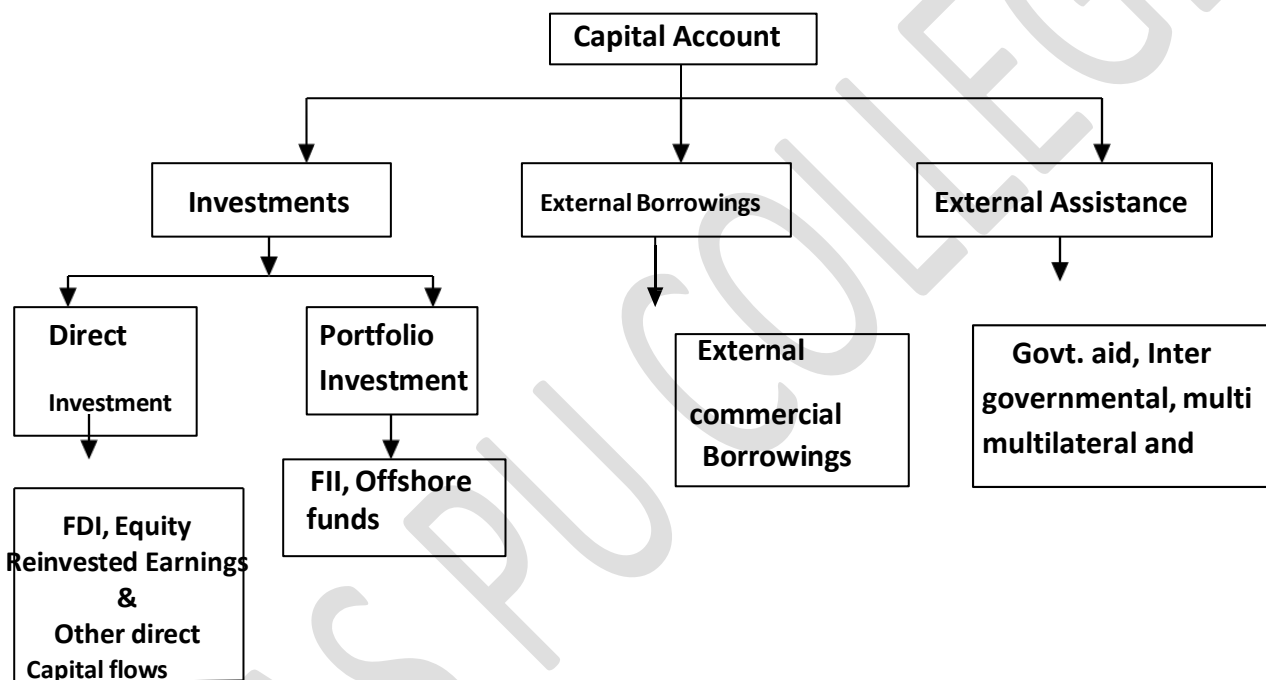
Here we assume here that firms plan to invest the same amount every year. We can write the ex-ante investment demand as $I = \bar{I}$ where I is a positive constant which represents the autonomous investment (\bar{I}) in the economy in a given year.

Graphically, the investment function is shown as a horizontal line at a height equal to \bar{I} above the X axis.



In this model, I is autonomous investment which means, it is the same no matter whatever is the level of income.

35.



FDI – Foreign Direct Investment; FII – Foreign Institutional Investment

PART –D

VII. Answer any Three of the following in Twenty sentence each.

3x6=18

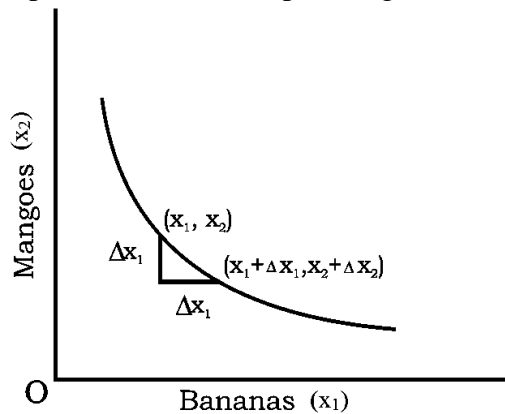
36. Features of Indifference Curve:

The main features of the indifference curve are as follows:

1. Indifference curve slopes downwards from left to right.
2. Higher indifference curve gives greater level of utility.
3. Two indifference curves never intersect each other.

1. Indifference curve slopes downwards from left to right:

An indifference curve slopes downwards from left to right because, the consumer in order to have more of one product, he has to forego some units of other product. This can be explained with the help of diagram.

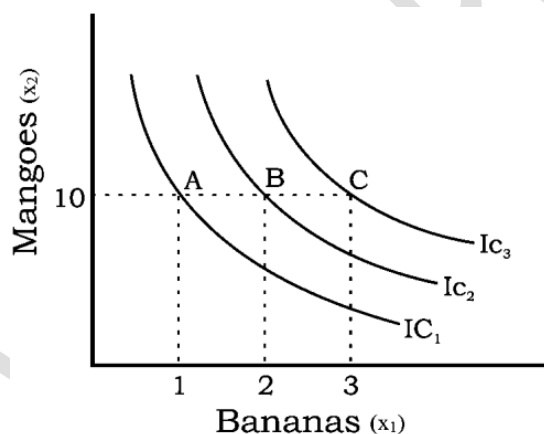


The indifference curve slopes downward. An increase in the amount of bananas along the indifference curve is associated with a decrease in the amount of mangoes. If $\Delta x_1 > 0$ then $\Delta x_2 < 0$.

2. Higher indifference curve gives greater level of utility:

Combinations A, B and C consist of same quantity of mangoes but different quantities of bananas. Since combination B has more bananas than A, B will provide the individual a higher level of satisfaction than A.

Therefore, B will lie on a higher indifference curve than A, depicting higher satisfaction. Likewise, C has more bananas than B (quantity of mangoes is the same in both B and C). Therefore, C will provide higher level of satisfaction than B, and also lie on a higher indifference curve than B.



As long as marginal utility of a commodity is positive, an individual will always prefer more of that commodity, as more of the commodity will increase the level of satisfaction i.e., $IC_1 < IC_2 < IC_3$.

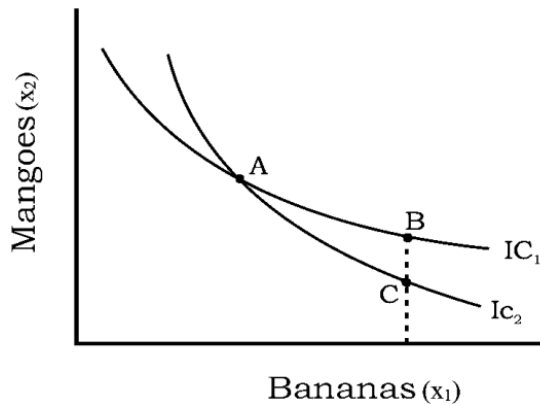
3. Two indifference curves never intersect each other:

Two indifference curves intersecting each other will lead to conflicting results.

- To explain this, let us allow two indifference curves to intersect each other as shown in the figure. As points A and B lie on the same indifference curve IC_1 , utilities

derived from combination A and combination B will give the same level of satisfaction.

- Similarly, as points A and C lie on the same indifference curve IC₂, utility derived from combination A and from combination C will give the same level of satisfaction.



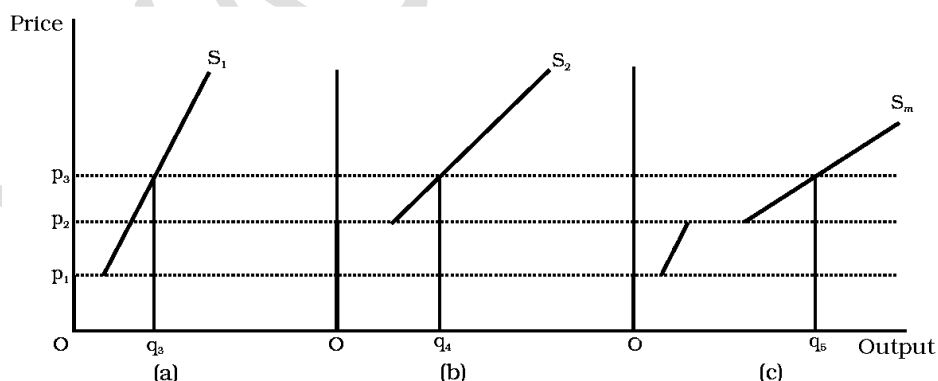
From this, it follows that utility from point B and from point C will also be the same. But this is clearly an absurd result, as on point B, the consumer gets a greater number of mangoes with the same quantity of bananas.

So, consumer is better off at point B than at point C. Therefore, it is clear that intersecting indifference curves will lead to conflicting results. Thus, two indifference curves cannot intersect each other.

37. Market supply curve:

The market supply curve represents levels of the output which firms in the market produce in aggregate corresponding to different market prices. In other words market supply curve is the summation of the supplies of individual firm's at different, market prices.

Let us construct the market supply curve with just two firms in the market—firm 'a' and firm 'b'. Suppose that two firm's have different cost structures. Firm 'a' will not produce anything if the price is below p_1 . While firm 'b' will not produce anything if the market price is less than p_2 . Again assume that p_2 is greater than p_1 .



The Market Supply Curve Panel. (a) Shows the supply curve of firm 1. Panel (b) shows the supply curve of firm 2. Panel (c) shows the market supply curve, which is obtained by taking a **horizontal summation** of the supply curves of the two firms.

The interpretation of $S_2(p)$ is identical to that of $S_1(p)$, and is, hence, omitted. Now, the market supply curve, $S_m(p)$, simply sums up the supply curves of the two firms; in other words:

$$S_m(p) = S_1(p) + S_2(p)$$

When the supply curve is vertical the **elasticity of supply is zero**.

38.

Identities	Values
GDP_{MP}	4000
GDP_{FC}	$GDP_{MP} - NIT = 4000 - 300 = 3700$
NDP_{MP}	$GDP_{MP} - Dep = 4000 - 450 = 3550$
NDP_{FC}	$NDP_{MP} - NIT = 3550 - 300 = 3250$
GNP_{MP}	$GDP_{MP} + NFIA = 4000 + 500 = 4500$
GNP_{FC}	$GNP_{MP} - NIT = 4500 - 300 = 4200$
NNP_{MP}	$GNP_{MP} - Dep = 4500 - 450 = 4050$

39. Μονεψ ις τηε χομμονλψ αχχεπτεδ μεδιυμ οφ εξχηανγε. Ιν αν εχονομψ ωηιχη χονσιςιςτ οφ ονλψ ονε ινδιπιδυαλ τηερε χαννοτ βε ανψ εξχηανγε οφ χομμοδιτ ιεσ ανδ ηενχε τηερε ις νο ρολε φορ μονεψ. Τηε μαιν φυνχτιονς οφ μονεψ αρε ας φολλοωσ:

a) **Medium of Exchange:** Money plays an important role as a medium of exchange. It facilitates exchange of goods for money. It has solved the problems of barter system.

Barter exchanges become extremely difficult in a large economy because of the high costs people would have to incur looking for suitable persons to exchange their surpluses. It helps the people to sell in one place and buy in another place. Money has widened the scope of market transactions. Money has become a circulating material between buyers and sellers.

b) **Measure of Value/Unit of account:** The money acts as a common measure of value. The values of all goods and services can be expressed in terms of money. As a measure of value, money performs following functions:

- The value of all goods and services measured and expressed in terms of the money.
- Rate of exchange of goods and services expressed in money.
- Helps in maintenance of accounts.
- It facilitates price mechanism.
- It makes goods and services comparable in terms of price.

For instance, when we say that the value of a book is Rs.500 we mean that the book can be exchanged for 500 units of money where a unit of money is rupee in this case. If the price of a pencil is Rs.5 and that of a pen is Rs.10 we can calculate the relative price of a pen with respect to a pencil i.e., a pen is worth $10/5=2$ pencils.

If prices of all commodities increase in terms of money i.e., there is a general increase in the price level, the value of money in terms of any commodity must have decreased – in the sense that a unit of money can now purchase less of any commodity.

- a) **Store of value:** People can save part of their present income and hold the same for future. Money can be stored for precautionary motives needed to overcome financial stringencies.

Money solves one of the deficiencies of barter system i.e., difficulty to carry forward one's wealth under the barter system.

For instance, we have an endowment of wheat which we do not wish to consume today entirely. We may regard this stock of surplus wheat as an asset which we may wish to consume or even sell off, for acquiring other commodities at some future date. But wheat is a perishable item and cannot be stored beyond a certain period. Also, holding the stock of rice required a lot of space. We may have to spend considerable time and resources looking for people with a demand for wheat when we wish to exchange our stock for buying other commodities. This problem can be solved if we sell our wheat for money. Money is not perishable and its storage costs are also less.

- b) **Transfer of value:** Money acts as a transfer of value from person to person and from place to place. As a transfer of value, money helps us to buy goods, properties or anything from any part of the country or the world. Further, money earned in different places can be brought or transferred to anywhere in the world.

Now a days countries have made an attempt to move towards an economy which use less of cash and more of digital transactions. A cashless society describes an economic state whereby financial transactions are not connected with money in the form of physical bank notes or coins. In India government has been consistently investing in various reforms for greater financial inclusion. During the last few years' initiatives such as Jan Dhan accounts, Aadhar enabled payment systems, e –Wallets, National financial Switch etc.

40. **Flexible exchange rate:** The flexible exchange rate is determined by the market forces of demand and supply. Here, the exchange rate is determined at that point where the demand curve intersects with the supply curve.

Merits of Flexible exchange rate:

- The flexible exchange rate system gives the government more flexibility and they do not need to maintain large stocks of foreign exchange reserves.
- The movements in the exchange rate automatically take care of the surpluses and deficits in the Balance of payments.

Demerits of Flexible Exchange rate:

- It is subject to international market fluctuations as the rate of exchange is determined by market forces demand and supply.
- It may lead to uncertainties in foreign exchange market due speculations.

Fixed exchange rate: Under this exchange rate system, the Government fixes the exchange rate at a particular level. Here, the central monetary authority or the Government decides the exchange rate in accordance with the international market requirements.

Merits of Fixed Exchange rate:

- There is more credibility that the government will be able to maintain the exchange rate at the level specified.
- In case of deficit balance of payments, the governments will interfere to take care of the gap by use of its official reserves.

Demerits of Fixed exchange rate:

- If the foreign exchange reserves are inadequate, people would begin to doubt the ability of the government.
- There may be aggressive buying of one currency forcing the government to devalue, so there may be speculative attack on a currency.

Part-E

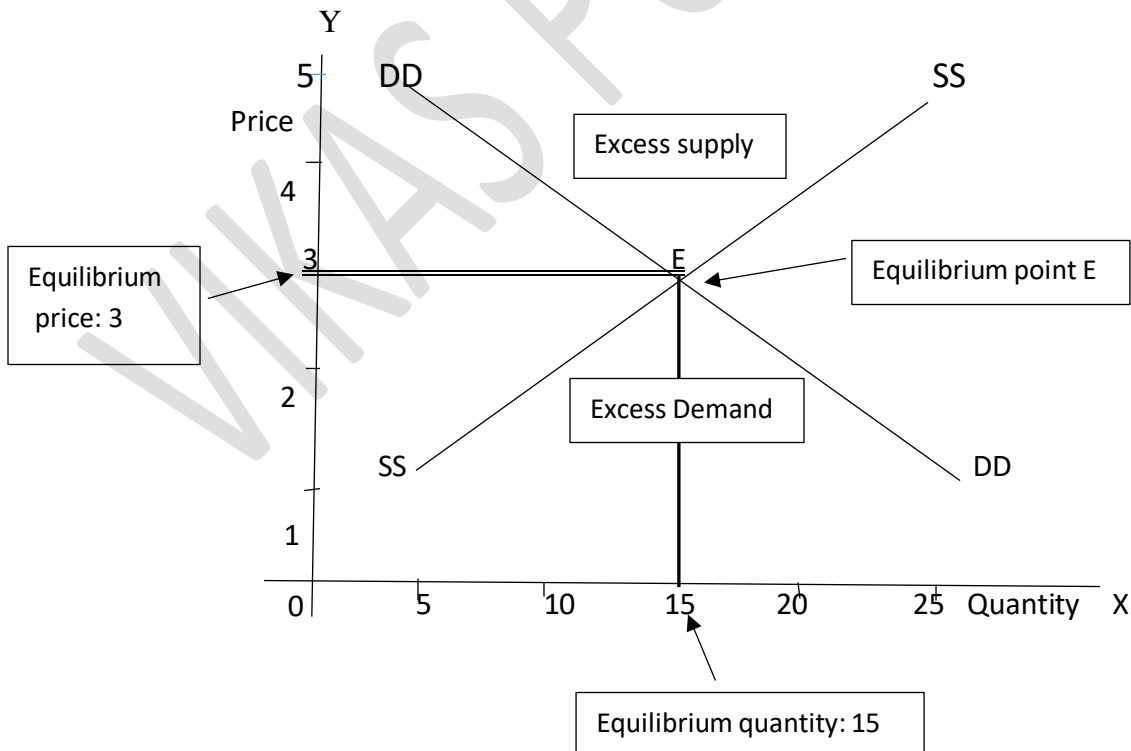
VIII. Answer any two of the following Projects and assignment oriented questions.

2X5=10

41.

Factor (L)	TP _L	MP _L	AP _L
0	0	0	0
1	15	15	15
2	25	10	12.5
3	50	25	16.66
4	60	10	15
5	68	8	13.6

42.



The equilibrium point is obtained at point E where DD curve intersects SS curve. In the table, Demand and Supply are equal at 15. Therefore, Equilibrium quantity is 15. The equilibrium price is 3 at which equilibrium quantity of 15 is bought and sold.

43. Budget for the month of June

Income		Expenditure	
• Father's salary	Rs.30,000	• Food	Rs.10,000
• Rent from house	Rs.20,000	• Water	Rs. 1,000
• Income from Business	Rs.10,000	• Transportation	Rs. 6,000
		• School fees	Rs. 10,000
		• Milk	Rs. 1,000
		• Medicines	Rs. 2,000
Total : Rs.60,000		Total : Rs.30,000	

This family has surplus budget as its income is more than expenditure.
