B. ANALYSIS OF PERFORMANCE

PART I (30 Marks)

*Answer **all** questions.*

Question 1

Answer briefly *each* of the following questions: **[15×2]**

(i) What does zero cross elasticity of demand between two goods imply? Give an example to explain.

(ii) Why is the marginal cost curve U shaped?

(iii) Differentiate between *monopoly* and *monopsony*. Give an example for each.

(iv) What is *market period?* What is the shape of the supply curve in this period?

(v) Give *two* assumptions of the law of Variable Proportions.

(vi) Explain the meaning of *price ceiling* with the help of a diagram.

(vii) Why is the Central Bank considered to be the *lender of the last resort*?

(viii) What is *Vote-on-account budget*?

(ix) Explain how taxation can be used to reduce inequality of income.

(x) What is meant by *unlimited legal tender*?

(xi) Distinguish between CRR and SLR.

(xii) Calculate the value of multiplier if MPC is equal to MPS.

(xiii) Define *GNP at factor cost*. How is it different from national income?

(xiv) Explain with the help of an example, how inflation affects the debtors.

(xv) How does an increase in the price of a commodity affect its quantity demanded? Show it with the help of a diagram.

Comments of Examiners

(i) A few candidates defined 'Cross elasticity of demand' instead of 'zero cross elasticity of demand.

(ii) The answer to 'the law of variable proportions' was stated correctly by a large number of candidates but some did not explain the impact of the behaviour of marginal product in the stages of the Law.

Suggestions for teachers

– The concept of zero cross elasticity of demand that two goods are not related to each other should be explained with the help of examples.

– Clarify the difference between monopoly and monopsony with proper examples.

(iii) Many candidates were not aware of the term ‘monopsony’. Errors were also found in the example.

(iv) ‘Market period’ was confused with short period by some candidates. In some cases, the behaviour of supply was not explained properly.

(v) A few candidates wrote that a few factors are variable whereas it is only one factor which is variable.

(vi) Candidates failed to mention ‘legal price’ or ‘price set by the Government’. Some did not label the position of price ceiling in the diagram.

(vii) A large number of candidates did not mention ‘financial emergency’ or ‘financial crises. They simply wrote that the Central Bank lends money to commercial banks.

(viii) Many candidates were confused with vote on account under budget procedure and vote on account as a type of budget.

(ix) Several candidates gave an incomplete answer - they did not mention progressive tax system.

(x) A number of candidates failed to classify the meaning of ‘unlimited legal tender’.

(xi) Candidates did not explain CRR as a proportion of cash deposit; a large number of candidates had no concept of SLR.

(xii) Many candidates failed to understand the question. They could not calculate value of MPC=1/2. The formula for multiplier was also not known to many candidates.

(xiii) GNPfc was defined by many candidates from the point of view of product method and NIT was subtracted from it, which was incorrect.

(xiv) Some candidates were confused between ‘debtors’ and ‘creditors’. They missed writing essential words like, fall in the purchasing power of money during inflation.

(xv) A number of candidates did not draw the correct diagram to show the relation between increase in price and quantity demanded. Some drew both demand and supply which was not required.

– Effects of time periods should be taught to students. They should also be told that supply is perfectly inelastic in market period.
– Explain all assumptions of variable proportions to students for better understanding.
– Explain that price ceiling is the maximum legal price which can be charged. The difference between price ceiling and floor price should also be explained.
– Students should be taught the importance of the words ‘last resort’, ‘financial emergency/ crisis.’
– Tell students to read the syllabus thoroughly and to avoid selective study.
– Candidates should be taught the meaning of each term limited/ unlimited legal tender, separately.
– Candidates should be told that CRR is the ratio of cash deposits received by commercial bank which is to be kept in cash with Central bank. SLR is the ratio of cash deposits received by commercial banks that is to be kept in the form of liquid securities and gold with itself.
– Teach the correct relation between MPC and MPS and the formula for the multiplier (K=1/1–MPC) should also be taught.
– Explain to students that it is the fall in the purchasing power of money during inflation that makes the debtors gain.

– Students should be told that GNPfc is the sum total of factor income in the form of rent, interest, wages and profit received by normal residents. The difference can be shown in the form of an equation.
– Explain the difference between extension and contraction of demand with the help of a diagram.

MARKING SCHEME

Question 1.

(i) If two goods are not related to each other, cross elasticity of demand will be zero.

Example: Petrol, bread

(ii) MC curve is U shaped due to law of variable proportions. In the first stage, there is increasing returns to factor.

MP increases with increase of output, so MC falls. When MP reaches maximum, MC falls to minimum. In the decreasing stage, MP falls and MC rises.

(iii) Difference between Monopoly and Monopsony:

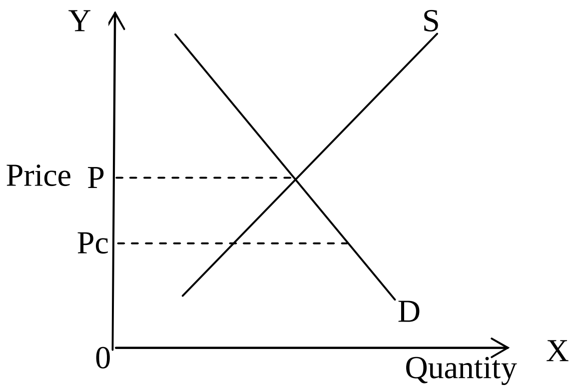
- Monopoly is a market condition where there is only one seller, however under Monopsony there are a large number of sellers.
- The number of buyers are large under Monopoly whereas under monopsony there is only one buyer.

(definition and example of each)

(iv) Very short period is termed as the market period. It is the period during which the quantity of a commodity available for supply is absolutely fixed. The supply curve is perfectly inelastic.

(v)
- Any two of the following :
- The state of technology is given and remains unchanged.
- It is assumed that there is one variable input and the others are fixed
- The technology is such that it is possible to change factor proportions.
- It is assumed that all the units of the variable factor are homogeneous and are equally efficient.

(vi) Price ceiling is the maximum legal price which the suppliers can charge for a particular good or service. This maximum permissible price is fixed by the government to make certain goods available at affordable prices to the lower income groups. The ceiling price has to be below the equilibrium price to be effective and it results in excess demand.



Pc is the ceiling. It is lower than equilibrium price.

(vii) Central banks lend to commercial banks, financial institutions etc. in times of unanticipated emergencies. The Central bank assumes the responsibility of meeting all the demands for funds by commercial banks in times of crisis.

(viii) Sometimes, the budget has to be split up during a particular year. The government may or may not continue for the full year on account of the fact that election is due. The budget covers part of the year which is called vote on account budget.

(ix) The government can impose progressive direct tax and progressive indirect tax to reduce inequality of income.

Progressive direct tax: when income increases, percentage of tax also increases.

Progressive indirect tax – more taxes on luxury items.

(x) Payment can be made at any extent. The receiver cannot refuse. Unlimited amount can be paid like paper currency.

(xi) Cash Reserve Ratio (CRR) refers to that portion of total deposits of commercial bank which it has to keep with the Reserve Bank of India in the form of cash reserves.

Statutory Reserve Ratio (SLR) refers to that part of the total deposits of a commercial bank which it has to keep with itself in the form of cash reserves, gold and government securities. This is in addition to CRR.

(xii) Since MPC + MPS = 1, when MPC = MPS it will mean that MPC = ½ as well as MPS = ½ . The value of K(multiplier) will be :

1 / (1- MPC) = 1/ 1-½ = 2

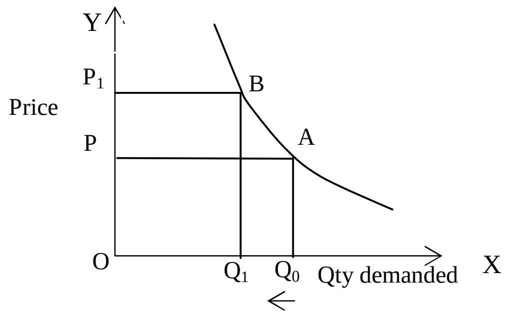
(xiii) Gross National Product at Factor Cost: It is the sum total of earnings received by various factors of production in terms of wages, rent, interest etc. by normal residents of a country in a year.

National income = NNP_{FC}, GNP_{FC} – depreciation = National Income.

(xiv) During inflation the debtors as a group stand to gain.

(to be explained with an example)

(xv) When the price of a commodity increases, demand for the commodity falls. This is called contraction of demand.



PART II (70 Marks)

*Answer any **five** questions.*

Question 2

(a) Explain with the help of a well labelled diagram how a perfectly competitive firm earns normal profit in short run equilibrium. **[4]**

(b) Why does the TC curve start from the Y axis and the TVC curve from the Origin? **[4]**

(c) Discuss *four* features of *Oligopoly.* **[6]**

Comments of Examiners

(a) Many candidates drew average variable cost curve instead of average cost curve to show normal profit. Conditions of equilibrium were not shown and labelling of diagram was generally wrong.

(b) Several candidates did not mention that TFC remains constant. They simply wrote that TVC is zero at zero level of output. The explanation for the same was not satisfactory.

(c) The vital feature of Oligopoly, i.e. 'intense competition' was not mentioned by many candidates. There was confusion in understanding of Oligopoly amongst candidates.

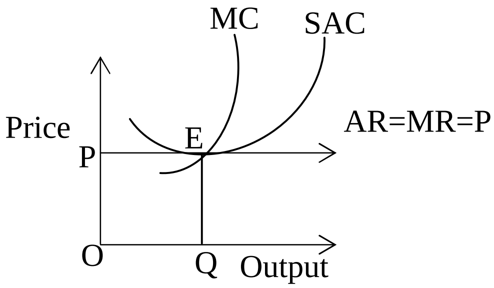
Suggestions for teachers

- Emphasise upon equilibrium conditions. The difference between average cost and average variable cost should be made clear. Students should be told to draw a well labelled diagram.
- Tell students to answer the question logically. They should be told that TFC does not change. The gap between TC and TVC should be explained.
- Students should be told the unique features of Oligopoly like, 'intense competition'. Examples should be taught from the real world.

MARKING SCHEME

Question 2.

(a) MC = MR and MC cuts MR from below.



The curve SAC is tangent to AR = MR = P line, the firm covers only SAC including normal profits. The firm is in equilibrium at point E. It earns Normal profits.

Normal profit means TC = TR

TC = AC × OQ

TC = PE QO

TR = AR × output

TR = PEQO

TR = TC = PE QO

(b) TC starts from Y axis because TC = TFC + TVC. TFC is constant and even at zero level of output TFC is incurred. TVC is the cost for variable factors, which is not incurred at zero level of output. Therefore, it starts from the origin.

(c) Four features of oligopoly - few sellers, intense competition, restricted entry, selling cost, indeterminant demand curve.

(any four)

Question 3

(a) Complete the following table and draw a supply curve for the firm A: **[4]**

Price per unit	Supply by firm A	Supply by firm B	Market Supply
2	5	5	?
3	?	10	17
4	9	?	24
5	11	20	?

(b) Explain what happens when the market price is less than the equilibrium price. **[4]**

(c) Explain the four determinants of supply of a commodity. **[6]**

Comments of Examiners

(a) Majority of the candidates were able to fill up the blank spaces correctly. Some drew the market supply curve instead of supply curve of firm A. In a few cases, the diagram was not labelled properly.

(b) Several candidates were confused with price ceiling. They failed to explain how equilibrium is restored by market forces of demand and supply.

(c) The explanation given by several candidates was not satisfactory. A few of candidates also explained 'determinants of demand'.

Suggestions for teachers

– Encourage students to apply their knowledge in conceptual questions. They should be told to read the question paper carefully.

– Explain the difference between market price and administered price. Emphasis should be on the mechanism which is taking place to reach equilibrium. Excess demand should be shown in diagram.

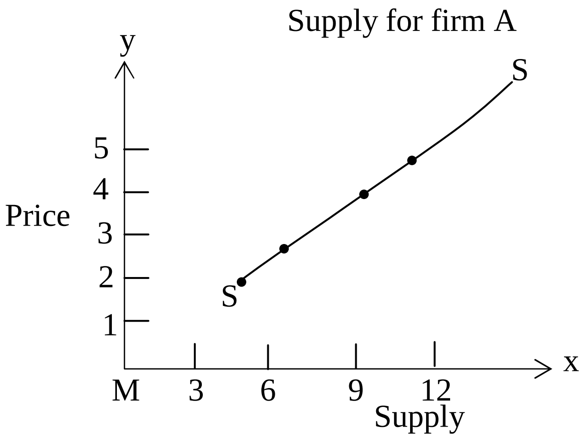
– Teach students the determinants of economic variables. They should explain these with proper reasoning. Clear cut demarcation must be made between factors affecting demand and factors affecting supply.

MARKING SCHEME

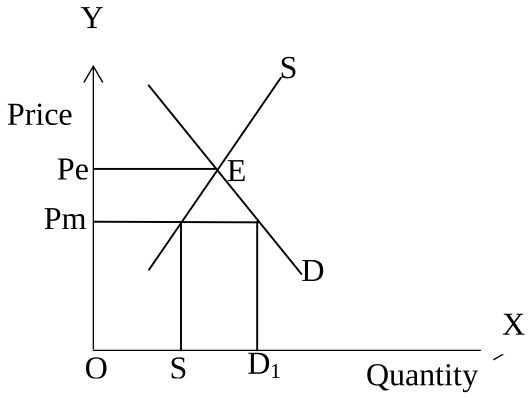
Question 3.

(a)

Price per unit	Supply by firm 'A'	Supply by firm 'B'	Market Supply
2	5	5	**10**
3	**7**	10	17
4	9	**15**	24
5	11	20	**31**



(b) If the market price is less than equilibrium price, then there will be excess demand. Supply is OS and demand is OD_1. Excess demand = SD_1. Price increases, demand will fall, supply will increase and equilibrium will be reached.



(c) Four determinants of supply are:

(i) Price of the commodity

(ii) Price of inputs

(iii) Technology

(iv) Goals of the firm

(v) Government policy. [*any four can be explained*]

Question 4

(a) Explain the nature of the AR and MR curves under perfect and imperfect competition. **[4]**

(b) Explain any one *internal* and any one *external* economy of scale. **[4]**

(c) How does a producer attain equilibrium under perfect competition through the MR and MC approach? **[6]**

Comments of Examiners

(a) In case of imperfect competition, wrong position of AR and MR was shown by some candidates. The role of price, the determining factor or the nature of AR/MR curves in the two market conditions were not explained correctly in several cases.

(b) Many candidates mentioned the correct points but the explanation for the same was not satisfactory.

(c) A number of candidates did not write the conditions of equilibrium correctly. Some wrote about break-even point and shut down point unnecessarily. In a few cases, the MC curve was not drawn correctly.

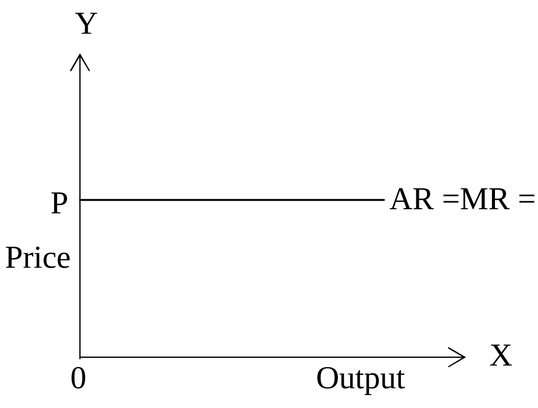
Suggestions for teachers

- Students should be taught to draw proper diagrams under perfect competition, price remaining same at all levels of output and curve a horizontal straight line. Under imperfect competition firm is required to reduce price if it wants to sell more. AR falls, MR falls and can become zero or even negative.
- Candidates should be told to draw correct diagrams and conditions for equilibrium should be explained.

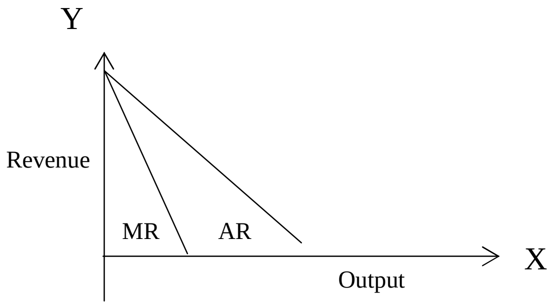
MARKING SCHEME

Question 4.

(a) A firm under Perfect competition is able to sell additional units of the output at the ruling prices. Since the price is given and remains same, the average revenue is price; it remains constant at all levels of output. Since every additional unit is sold at the same price, it follows that the firm's marginal revenue is also constant and equal to the price of the product.



A firm under imperfect competition is required to reduce the price if it wants to sell more output. As it increases the output it must reduce the price more and more to sell additional output. Hence the average revenue falls continuously as the output increases. It cannot become zero. Marginal revenue falls continuously, can become zero or even negative.



(b) Any one of the following internal economy to be explained:

Technical, Managerial, Marketing, Financial economy, etc.

Any one of the following external economy to be explained:

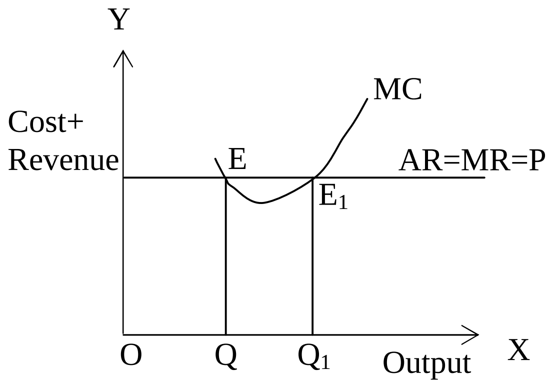
Cheaper inputs, Technological economy, Supply of skilled labour, Flow of information, Localisation, etc.

(c) MR and MC approach conditions are:

(i) MR and MC = P in perfect competition (necessary condition). If MR or P is not equal to MC then MR or P will be greater or less than MC. MR = MC.

MR or P > MC $\Rightarrow$ addition to revenue is more than addition to cost. Hence, it is profitable for the firm to continue production. Output goes beyond OQ. If MR or P < MC then addition to cost is more than addition to revenue. Profit will reduce. Hence, firm will reduce output. Beyond OQ, firm reduces output.

(ii) MC curve should be rising at point of equilibrium or MC should cut MR from below at point E_1.



Question 5

(a) Explain how the *income effect* and the *substitution effect* are the reasons for the downward slope of the demand curve. **[4]**

(b) Price elasticity of demand for a product is unity. A household buys 50 units of this product when its price is ₹10 per unit. If its price rises to ₹12 per unit, how much quantity of the product will be bought by the household? **[4]**

(c) A marginal utility schedule of a person is given below. Discuss the law underlying the given schedule: **[6]**

Pen (units)	1	2	3	4	5
MU (utils)	25	20	15	10	5

Comments of Examiners

(a) Under 'income effect', instead of real income or purchasing power, effect of change in income on demand was explained by some candidates. This was conceptually incorrect.

(b) Some of the candidates used wrong formula i.e. writing P in place of Q. In many cases ΔQ was added to the original quantity instead of subtracting it.

(c) Very few candidates could answer this part correctly. Most of candidates were confused between the Law of Diminishing Marginal Utility and Consumer's Equilibrium. Labelling of diagrams was also not correct in some cases.

Suggestions for teachers

- Use of essential words like 'real income' or 'purchasing power' is required in explaining income effect. For substitution effect, words like 'relatively cheaper' or 'costlier' and 'relative price change' was required.
- Give plenty of practice in problems on price elasticity of demand in various forms. The operation of Law of demand needs to be kept in mind.
- Tell candidates that the explanation of the Law must be with reference to the diagram drawn. Candidates should write the statement, assumptions, draw the proper diagram and explain it.

MARKING SCHEME

Question 5.

(a) Income effect: A change in demand on account of change in real income resulting from change in the price of the commodity is known as income effect. When the price of the commodity falls the consumer can buy more of it because of the increase in his purchasing power.

Substitution effect: The substitution effect is the effect that a change in the relative prices of substitute goods has on the quantity demanded. The consumers substitute the cheaper good for the costlier one demanding more of the good whose price has fallen.

(b)	$E_p = \frac{\Delta Q}{\Delta P} \cdot P/Q$ $1 = \frac{50-X}{10} \times \frac{10}{50}$ $\Delta P = 2$ P = 10 $1 = \frac{50-X}{10}$ $\Delta Q = ?$ Q = 50 e = 1 10 = 50-X X = 40 units OR $1 = \frac{\Delta Q}{2} \times \frac{10}{50}$ $\Delta Q = \frac{1 \times 2 \times 50}{10} = 10$ At rise in price Quantity bought = 50 – 10 = 40 Units.
(c)	The law underlying is the Law of Diminishing Marginal Utility. Statement; Assumption; Explanation and then the diagram.

Question 6

(a) Calculate MPC, MPS and APC from the following data: **[4]**

Income (Y)	Consumption
100	95
110	104

(b) Discuss the fiscal measures used to solve the situation of *deficient demand*. **[4]**

(c) Explain how the equilibrium level of income can be determined by *aggregate demand* and *aggregate supply*. **[6]**

Comments of Examiners

(a) Candidates calculated APC once, whereas they should have calculated it twice. In some cases, APC was calculated as a ratio of total consumption expenditure (95+104) at different levels of income to total income (100+110) i.e. APC= 95+104/100+110. This was a wrong solution.
(b) The fiscal measures were not well explained by a number of candidates. Some wrote monetary measures under fiscal measures. There was confusion with excess demand.
(c) Few candidates could attempt this question correctly. They were confused with the diagram used to explain multiplier process. Some candidates unnecessarily made C+I line upwards. Some showed the 45° line as the C+I line.

Suggestions for teachers

– Give more practice to students in calculation of MPC, MPS & APC. These basic concepts should be made clear to students.
– Give students a clear idea regarding the fiscal and monetary measures. The difference between deficient and excess demand should be highlighted. The role of taxation and public expenditure under different economic conditions should be explained.
– The shapes of curves of AD and AS should be explained with great care.

MARKING SCHEME

Question 6.

(a)

Income (Y)	Consumption	APC=C/Y	Δ C	Δ Y	MPC= Δ C/ Δ Y	MPS=1-MPC
100	95	95/100-0.95	-	-	-	-
110	104	104/110=0.94	9	10	9/10=0.9	0.1

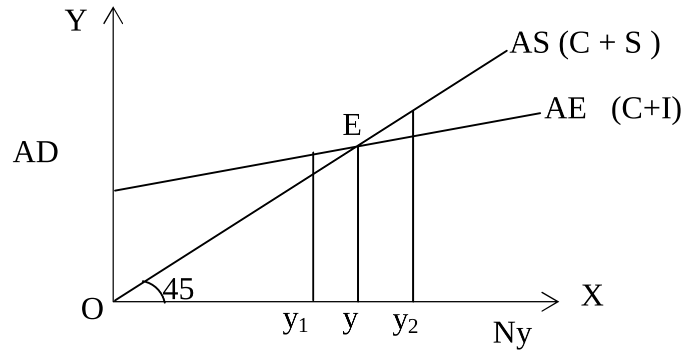
(b) Deficient demand is defined as the amount by which aggregate expenditure falls short of the aggregate output at full employment level.

Fiscal measures are:

(a) Reduce taxation so that the purchasing power can be increased.

(b) Increase public expenditure – more income generated. More money comes into the economy.

(c) In terms of aggregate demand-aggregate supply approach, equilibrium level of income and output in the economy is where the demand for goods and services is equal to the aggregate supply. (*to be explained in detail with the help of the diagram).*



Question 7

(a) Explain the following functions of money: **[4]**

(i) Medium of exchange

(ii) Store of value

(b) Explain how *bank rate* and *open market operations* can be used by the Central Bank to control credit. **[4]**

(c) How do commercial banks create credit? Explain with the help of an example. **[6]**

<u>Comments of Examiners</u>

(a) (i) Many of the answers given by candidates were not satisfactory.

(ii) A few candidates did not mention that money is stored for future use. Some candidates wrote that money is saved in the bank.

(b) Improper definitions of 'bank rate', e.g. it is the rate at which banks give loans to common people, were given by some candidates. In case of 'open market operations', instead of sale and purchase of Government securities or bonds, candidates mentioned shares and debentures.

(c) Candidates had no concept of primary and derivative deposits. Creation of credit undertaken by multiple banking system, balance sheet and formula were not explained.

<u>Suggestions for teachers</u>

– Highlight how and why money has evolved to solve problems of barter system.
– Explain the difference between 'measure of value' and 'store of value'.
– Clearly explain the terms 'bank rate' and 'open market operations' and how are these used by the Central bank to control credit.
– Explain the process of credit creation as – primary and derivative deposit, credit creation by multiple banking system, process and explanation of the formula.

MARKING SCHEME

Question 7.

(a) Following functions to be explained :

- Medium of exchange - Money commands the general purchasing power to purchase goods and services which people want. It is generally and widely accepted as the medium through which most all purchases and sales are made.
- Store of Value - People keep their wealth in the form of money. Storing of money has solved the difficulties of barter system.

(b) The two important methods to be discussed in detail:

Bank Rate- The bank rate or the discount rate is the rate at which the central bank gives loans to the commercial banks or rediscounts the approved first class bills of exchange and government securities held by the commercial banks. The central bank can control the volume of credit by making changes in the bank rate. For example when there is inflation in the economy the bank rate can be increased to contract credit.

Open Market Operations-It refers to the sale and purchase of government and other approved securities by the central bank in the money and capital markets. The central bank will sell the securities when it wants to reduce credit and buys them when it wants to increase the money supply.

(c) A very important and unique function of the Commercial banks is that they have the power of credit creation. In the process of acceptance of deposits and granting of loans, commercial banks are able to create credit.

(The process to be discussed with the help of an example.)

Question 8

(a) Explain *any two* objectives of the fiscal policy in a developing economy. **[4]**

(b) What is *primary deficit* and *fiscal deficit* in a government budget? What is the implication of the primary deficit on the economy? **[4]**

(c) Explain *cost-push inflation* with the help of a diagram. **[6]**

<u>Comments of Examiners</u>

(a) The answers to this question were not satisfactory. Some candidates wrote about Economic growth, but did not mention why we need economic growth i.e. how it leads to improvement of standard of living. Reasons to support the objectives were also not given in some cases.

(b) For ‘fiscal deficit’ under capital receipt, candidates failed to mention ‘excluding borrowing’. The implication of primary deficit was not properly explained.

<u>*Suggestions for teachers*</u>

– Students should be taught the rationality of the objectives. They should be told why economic growth is taken as an objective i.e. it leads to high production, more consumption, better standard of living and employment.

(c) Many candidates were confused between the diagrams of demand pull and cost push inflation. The point of full employment was not shown. In some cases, labeling of the diagram was incorrect.

- Explain the terms with the statement and equations.
- Explain the demand pull and cost push inflation clearly to students. Proper AD and AS curves must be drawn showing how prices will rise.

MARKING SCHEME

Question 8.

(a) Any two of the following to be explained:

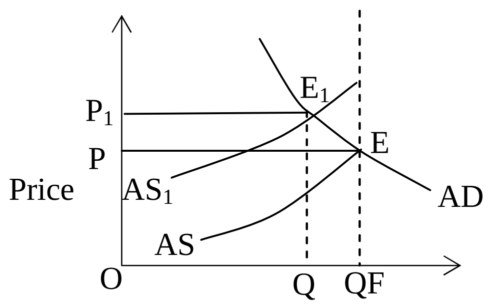
- To attain high rate of economic growth.
- To achieve price stability.
- Aim at reducing inequalities of income and wealth.
- To attain equilibrium in balance of payments.

(b) Fiscal Deficit = Total budgetary expenditure-Revenue receipts - Capital receipts excluding borrowings.

Primary Deficit refers to the difference between the fiscal deficit and the interest payments. Primary deficit = Fiscal Deficit - Interest payment.

Primary deficit is a measure of the Fiscal discipline of the government, i.e. The way the government is conducting its affairs. The interest burden grows with higher borrowing by the government. This growing interest burden is estimated by primary deficit. Excluding interest burden will show the real position of the Government.

(c) Cost push inflation refers to the inflationary rise in the prices which arise due to increase in costs. It is mainly caused by increase in the wage costs and increase in profit margin. (To be explained with the help of diagram)



Increase in cost has shifted the aggregate supply from AS to AS_1.

Equilibrium has also shifted from E to E_1.

The output reduces and price increases from OP to OP_1.

Question 9

(a) Classify the following as final or intermediate goods. Give reasons for your answer. **[4]**

(i) A car purchased by a company for business purposes.

(ii) Pen or paper purchased by a consumer.

(b) Discuss two reasons why the per capita real income is considered to be a better index of economic welfare than gross domestic product. **[4]**

(c) Calculate national income and GDP_{mp} by the income method using the following information: **[6]**

	Items	₹ in crores
(i)	Private final consumption expenditure	1300
(ii)	Net factor income earned from abroad	50
(iii)	Mixed income of self employed	500
(iv)	Subsidies	100
(v)	Indirect tax	200
(vi)	Consumption of fixed capital	1000
(vii)	Operating surplus	5000
(viii)	Compensation of employees	1500

Comments of Examiners

(a) The reasons for why a car purchased by a company for business purposes is an intermediate good or why a pen or paper purchased by a consumer is a final good were not justified by many candidates.

(b) Many candidates did not explain real per capita income with reference to economic welfare correctly. They misinterpreted the question as gross domestic product and economic welfare.

(c) Several candidates were confused between income method and expenditure method.

Suggestions for teachers

– Students should be taught that nature of use of product determines the type of a product, whether it is a final product or an intermediate product.

– Students should be told the relevance of per capita income and real per capita income as a measure of economic welfare and how it would lead to a better standard of living.

– More practice of different types of problems should be given to students. Using one line equation for calculation of national income causes problems, therefore stepwise calculation is advisable.

MARKING SCHEME

Question 9.

(a)
- A car purchased by a company is an intermediate good as it is used for further production.
- Pen or paper purchased is a final good as consumer uses it.

(b) Per capita real income is considered to be a better index of economic welfare than GDP due to the following reasons:

1. From the point of view of economic welfare, what is important is the availability of goods and services on average and this is indicated by per capita availability of goods and services will fall as a result of higher growth rate of population. This will result in the fall of people's standard of living and thereby fall in the economic welfare.
2. While taking national income as an indicator of economic welfare, national income should be taken in real terms and not in nominal terms. Real income is a better index because it eliminates the impact of price changes on national income.

(c) CoE + O.S. + Mixed income of self-employed = NDP_{FC}

1500 + 5000 + 500 = NDP_{FC}

Rs. 7000 cr = NDP_{FC}

NNP_{FC} or national income = 7000 + NFIA

= 7000 + 50 = Rs.7050 Cr.

GDP_{MP} = NDP_{FC} + consumption of fixed capital + Net Indirect Tax

7000 + 1000 + (200 – 100) = Rs 8100 Cr

GDP_{MP} = NNP_{FC} + Depreciation - NFIA + NFI (NIT)

= 7050 + 1000 - 50 + (200 – 100) =

= 8100 Cr

GENERAL COMMENTS:

(a) Topics found difficult by candidates in the Question Paper:

- Why is the marginal cost curve U-shaped? Q1(ii)
- Explain the meaning of price ceiling with the help of a diagram. Q1(vi)
- Vote on account budget. Q1(viii)
- Why does the TC curve start from the Y-axis and TVC curve from the origin? Q2(b)
- Explain what happens when the market price is less than the equilibrium price? Q3(b)
- How does a producer attain equilibrium under perfect competition through MR and MC approach? Q4(c)
- Explain how the equilibrium level of income can be determined by aggregate demand and aggregate supply? Q6(c)
- How do commercial banks create credit? Q7(c)
- Discuss two reasons why the per capita real income is considered to be a better index of economic welfare than gross domestic product? Q9(b)

(b) Concepts between which candidates got confused:

- Price ceiling and market price, confusion between administered price and market price.
- CRR and SLR
- Vote on account budget and vote on account as a budget procedure.
- Income effect and effect of change in income on demand.
- Aggregate demand curve and aggregate supply curve.
- Determination of equilibrium income and multiplier process.

(c) Suggestions for students:

- Study the syllabus thoroughly. Avoid selective study.
- Understand the meaning of each economic term.
- Ask questions from teachers to clear all doubts. Understanding of terms and concepts should be clear.
- Make full use of the reading time allotted.
- Practice drawing and labelling diagrams.
- Practice solving numericals.
- Give precise and to the point answers.