

UNIT- 1

Introduction

What is microeconomics?

Central problems of an economy, production possibility curve and opportunity cost.

An economy is a system that provides people with the means to work and earn a living in the process of production.

MICROECONOMICS_ It is that branch of economics theory which studies the behavior of individual economics units of the economy i.e. household, individual firms etc.

MACROECONOMICS_ It is that branch of economics theory which studies economy as a whole and behavior of aggregates such as total output, employment level, and aggregates price level.

ECONOMICS PROBLEM_ it is basically the problem of choice which arises because of (1) Resources are scarce. (2) Resources have alternative uses.

CENTRAL PROBLEM_ It is allocation of resources or making choices among alternative uses of scarce resources. All central problems of an economy arise due to scarcity of resources having alternative uses. Three fundamental central problems are

- (1) What to produce (2) How to produce (3) For whom to produce

These problems are solved through price mechanism in a capitalist economy and through central planning in a socialist economy.

PRODUCTION POSSIBILITY CURVE- It is a curve which depicts all possible combinations of two goods which an economy can produce with available technology and full and efficient use of resources.

OPPORTUNITY COST – It is equal to the value of next best alternative forgone.

MARGINAL OPPORTUNITY COST – MOC of particular good is the amount of other good which is sacrificed to produce an additional unit of that particular good. MOC is also called **MARGINAL RATE OF TRANSFORMATION**.

Part A-Introductory Microeconomics

Unit 1: Introduction

Q1 Why the problem of choice arises in an economy?

Q2 What are the two factors which define scarcity?

Q3 Why there is a need for economising of resources?

Q4 What do you mean by a production possibility curve?

Q5 What role PPC has in solving central problems of an economy?

Q6 Give a table showing the production of two commodities with the help of given resources?

Q7 Draw a production possibility curve.

Q8 What does a PPC show?

Q9 If we move from one point to another on PPC, what does it mean?

Q10 Why the production at a point towards left hand side from PPC is not desirable?

Q11 What do you mean by a point below PPC?

Q12 How is it possible to increase the production of one commodity without sacrificing the production of other commodity when all the resources are utilised fully?

Q13 Why do growth of resources and technological advances shift PPC to the right?

Q14 PPC shows the fuller utilisation of resources, then how is it possible to produce more with the help of same resources?

Q15 What is the meaning of growth of resources?

Q16 What is the role of improved technology on a production possibility curve?

Q17 What do you mean by under utilisation of resources?

Q18 If all the resources are not used fully to produce commodities, what is it called?

Q19 Explain the meaning of shift of PPC towards right hand side.

Q20 On which side PPC will shift due to growth of resources?

Q21 How an economy decides that what all should be produced with the help of given resources?

Q22 In which direction PPC will shift due to a massive unemployment in the country?

Q23 If some producing units are destroyed because of earthquake in the country, how will it affect the PPC?

Q24 If number of skilled labour increases in the country, how will it affect PPC?

UNIT II

CONSUMER'S EQUILIBRIUM WITH UTILITY APPROACH

1. **Utility.** It is 'want – satisfying capacity' of a commodity.
2. **Total Utility.** It is the sum total of utility derived from the consumption of all units of a commodity. $TU = \sum MU$
3. **Marginal Utility.** It is additional utility when one more unit of a commodity is consumed.
$$MU_n = TU_n - TU_{n-1} \text{ or } MU = \frac{\Delta TU}{\Delta Q_x}$$
4. **Law of Diminishing Marginal Utility.** It states that marginal utility tends to diminish as more and more units of a commodity are consumed by a consumer.
5. **Consumer's Equilibrium.** It is defined as a situation when a consumer maximizes his satisfaction given income and prices.

Equilibrium in case of one commodity X occurs where:

$$\frac{MU_X}{P_X} = MU_M$$

Equilibrium in case of two commodities X and Y occurs where :

$$\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y} = MU_M$$

Or

$$\frac{MU_X}{MU_Y} = \frac{P_X}{P_Y} = MU_M$$

subject to $P_X \cdot X + P_Y \cdot Y = M$

6. **Price Effect.** Price effect (PE) is split into two effects Substitution Effect (SE) and Income Effect (IE). In case of inferior goods, SE is stronger than IE, thus demand curve is downward sloping. In case of giffen goods, IE is stronger than SE, thus demand curve is upward sloping.

CONCEPT OF DEMAND

1. The demand for a commodity is the quantity of the commodity which the consumer is willing to buy at a certain price during any particular period of time.
2. In economics, demand means effective demand which means there should be desire to own the good, sufficient money to buy it and willingness to spend the money.
3. The determinants of an individual household demand are:
(i) price of the good (P_X), (ii) price of related goods (P_Z), (iii) income of the consumer (Y), and (iv) tastes and preferences of the consumer (T).

DEMAND AND PRICE

1. The law of demand states that there is an inverse relationship between price and quantity bought of a commodity, *ceteris paribus*.
2. The assumptions of the law of demand are that P_Z , Y and T are constant.
3. The demand schedule gives the data on changes in quantity bought at different prices in a particular time period.
4. Data is plotted on a price – quantity demanded axis to derive the demand curve.
The demand curve slopes downward because of:
 - i. law of diminishing marginal utility (as given by Marshall),
 - ii. income effect,
 - iii. substitution effect, and
 - iv. new consumers creating demand.

DEMAND AND PRICE OF OTHER GOODS

- i. An increase in the price of substitute will increase the demand of the other good or shift the demand curve rightward and the vice versa.
- ii. An increase in price of a complementary good will lead to decrease in demand of the other good or shift the demand curve leftward and vice versa.

DEMAND AND INCOME OF THE CONSUMER

- i. If the good is a normal good, than an increase in income will increase its demand and vice versa.
- ii. If the good is inferior, an increase in income will decrease its demand and vice versa.

CHANGE IN QUANTITY DEMANDED (MOVEMENT) VS. CHANGE IN DEMAND (SHIFT) OF DEMAND CURVE

1. Movement along a demand curve occurs due to changes in the price of the good (P_x) itself.

Shift of the demand curve occurs due to changes in

- i. price of other good (P_z),
 - ii. income of the consumers (Y)
 - iii. Tastes of the consumers (T).
2. Movement can be expansion or contraction of demand whereas shift can be increases or decrease in demand.

PRICE ELASTICITY OF DEMAND

Price elasticity of demand (e_D) measures percentage change in the quantity demanded of a good due to a percentage change in its price. Therefore, (e_D) can be calculated as:

$$(ed) = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$

Or

$$(ed) = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

FACTORS AFFECTING ELASTICITY OF DEMAND- the major determinants of price elasticity of demand are:

- i. Availability of substitutes
- ii. Income of the consumers
- iii. Luxuries versus necessities
- iv. Proportion of total expenditure spent on the product
- v. Number of uses of the commodity
- vi. Time period.

MEASUREMENT OF PRICE ELASTICITY OF DEMAND

The three methods of measuring (ed) are:

- i. Outlay or expenditure method
- ii. Percentage or proportionate method
- iii. Geometric or point method.
 - a. In the outlay method, the (e_d) is measured on the basis of change in total expenditure (i.e. $P \times Q$) due to change in the price (i.e. P) of the good. If the price of a good falls and, as a result, total outlay increases then (Ed) > 1; if total outlay remains unchanged, then $ed = 1$; and if total outlay falls, then $ed < 1$.

- b. In the percentage method, Ed is calculated by the formula:

$$ed = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

- c. In the geometric method, e_D at a point on a linear (straight) demand curve is calculated as:

ELASTICITY OF DEMAND-----

Lower segment of the demand curve

Upper side segment of the demand curve

Or

$$Ed = \frac{\text{Right hand side segment}}{\text{Left hand side segment}}$$

There are five degrees of Ed

- i. Perfectly inelastic demand ($Ed = 0$)
- ii. Inelastic demand ($0 < Ed < 1$)
- iii. Unitary elastic demand ($Ed = 1$)
- iv. Elastic demand ($1 < Ed < \infty$)
- v. Perfectly elastic demand ($Ed = \infty$).

Unit 2: Consumer Behavior and Demand

Concept → Consumer's equilibrium- meaning and attainment of equilibrium through utility Approach One or two Commodities cases

Demand, Market demand determinate of demand Schedule Demand and movement along shift demand in curve, prior Elasticity of demand, percentage, to total expenditure geometry method

1. Differentiate between “desire” and “demand” for a commodity.
2. Why does an individual demand?
3. Define utility
4. What is meant by total utility?
5. What is meant by marginal utility?
6. State the law of Diminishing marginal utility?
7. a) How is total utility derived from marginal utilities?
b) Who has introduced the concept of “utility”?
8. What does the word equilibrium mean?
9. What is consumer's equilibrium?
10. State the condition of consumer's equilibrium?
11. What do you understand by “rational consumer”?
12. When does consumer buy more of commodity?
13. State the relationship between demand for a commodity and its price?
14. Why “other things being same” phrase is associated to law of demand.
15. How does individual demand related to market demand.
16. What are the factors that affect only market demand for the goods?
17. What is meant by one good being substitute of another?
18. What is meant by one good being complement of another?
19. If the demand for good Y increases as the price of another good X rises, how are the two goods related?
20. How will an increase in the price of coffee affect the demand for the tea?
21. How will an increase in the price of petrol affect the demand for the car?
22. Give two examples of normal goods
23. What are inferior goods?
24. How does an increase in income affect the demand curve for a normal good?
25. State the factors that can cause a rightward shift of demand curve of a commodity?
26. State the difference between changes in quality demanded and change in demand.
27. What is the basic difference between shift of demand curve and movement along the curve?
28. State the difference between decrease in demand and contraction of demand?
29. What does “Elasticity of Demand” show?
30. What will be the value of elasticity of demand If the demand is a horizontal line, parallel to x-axis?
31. The price elasticity is 0.5, the percentage change in quality is 4. What is percentage change in price?

32. What is price elasticity of demand for life saving drugs?
33. What is the relationship between slope and elasticity of a demand?
34. As the price of petrol increased by 5% the number of cars demanded falls by 8%. State the elasticity of demand.
35. Which of the following commodities have inelastic demand?
Salt, medicine, mobile phone, School uniform, cold drink.
36. The Demand curve has the slope of rectangular hyperbola. What is the elasticity of demand of that commodity?
37. How will you measure price elasticity of demand at a point on the demand curve? Give formula.
38. State the relationship between price of its substitute and demand for a commodity?
39. Explain the total expenditure method of finding the elasticity of demand.

Unit 3: Producer Behavior and Supply

PRODUCTION FUNCTION: -RETURN TO A FACTOR
AND RETURN TO SCALE

PRODUCTION FUNCTION: -

CONCEPT: - Production is defined as the transformation of inputs into output.

Production function is the process of getting the maximum output from a given quantity of inputs in a particular time period. It is expressed as:

$$Q=f(X_1, X_2, X_3, \dots, X_n)$$

TOTAL PRODUCT: Total quantity of goods & services produced by the firm with the given inputs during a specify period of time.

Average Product: It is the amount of output of produced per unit of the variable factor employed.

Marginal Product: It is the change in the Total Product resulting from the employment of an additional unit of a variable factor.

Return of a Factor: The Law Of Variable Factor; It states that when total output is increased by adding units of a variable input, while other inputs are held constant, the increase in the total production becomes after some point, smaller and smaller.

Return to scale: It states that when all factors of production an increas3d in the same proportion, the output will increase but the increase may be at increasing rate or constant or decreasing rate.

QUESTIONS:-

- Q.1 what is production?
- Q.2 Transformation of inputs into output what is called for That?
- Q.3 what are necessary inputs for production?
- Q.4 Inputs which a producer or a firm acquires for the Process of production?
- Q.5 What are factor inputs?
- Q.6 What are non factor inputs?
- Q.7 What is the process of production?
- Q.8 Express the relationship between inputs used and output produced by a firm.
- Q.9 What are factors of production?
- Q.10 Which factor whose quantity may be changed as the level of output changes. Give example.
- Q.11 What are variable factors?
- Q.12 In which period all the factors can be changed?
- Q.13 Which factor whose quantity cannot be changed as the level of output changes. Give example.
- Q.14 What are fixed factors?
- Q.15 What is short run and long run period?
- Q.16 Can supply of the commodity be adjusted in the short run? Give reason.
- Q.17 Explain the technical relationship of production function.
- Q.18 What is production function?

- Q.19 How does short run production function differ from the long run production function?
 Q.20 What is the relationship between the variable input and output, keeping all other inputs constant?
 Q.21 What is the Total Product of an input?
 Q.22 How is TPP derived from APP?
 Q.23 What is APP of an input?
 Q.24 What is MPP of an input?
 Q.25 How is TPP derived from MPP schedule?
 Q.26 When APP is at its maximum, what is the relationship between MPP & APP?
 Q.27 When only one factor is increased and all other inputs are held constant. Examine the effects on output.
 What happens with the marginal product?
 Q.28 Show the relationship between MP and AP of an Output with the help of diagram.
 Q.29 What happens to the MP curve when the TP starts declining?
 Q.30 MPP can be zero and negative (-) but APP never Becomes zero. Give reason.
 Q.31 What is the law of diminishing marginal product?
 Q.32 What does the law of variable proportion state?
 Q.33 Identify the three phases in the Law Of Variable Proportions from the following: -

Units of factor	1	2	3	4	5
TP (units)	20	50	70	80	60

- Q.34 Which of the stages of the Law of variable proportion is relevant for firm, which aims at maximum efficiency of profit?
 Q.35 What is return to scale?
 Q.36 What is called for all the factors when they are variable with the change in the level of output in the long run?
 Q.37 Make the difference between Return to a factor and Return to a scale.
 Q.38 How does Return to a factor differs from Returns to Scale?
 Q.39 Explain the three laws of return to scale.
 Q.40 What factors lead to Diseconomies, which cause Diminishing returns to scale?
 Q.41 Name two factors behind increasing return to scale.
 Q.42 How Specialization and division of labor lead to increasing return to scale?
 Q.43 Complete the following table: -

Units of Labour	TP	AP	MP
1	20	--	--
---	--	21	22
3	66	--	---
--	---	22	22
5	--	21	---

- Q.44 Two inputs Labour (L) and Capital (K) are used in Producing a product. Identify the various returns to scale From the following schedule. Give reasons also.

Input combination	1K+1L	2K+2L	3K+3L	4K+4L
Total Output(units)	100	240	360	450

COST

Concept of the cost:-It is the payment made to the factors of production, which are used in the production of that commodity. Time factor is very important in the theory of cost.

SHORT RUN COSTS: which are the costs over a period during which some factors are in fixed supply, like Plant, Machinery etc.

LONG RUN COSTS: Which are the costs over a period long enough to permit change in all factors of production.

TOTAL COST=TOTAL FIXED COST+TOTAL VARIABLE COST.

AVERAGE COST= TOTAL COST/ NO OF UNITS PRODUCED.

MARGINAL COST= $TC_n - TC_{n-1}$

Relationship between MC&AC

QUESTIONS:

- Q.1 Give the name for payment made to the factors of production.
- Q.2 In order to produce output what does a firm choose?
- Q.3 What is the least cost combination of factors of production?
- Q.4 Name the cost which do not change with the change of level of output.
- Q.5 When does short- run cost occurs?
- Q.6 Does fixed cost exist in the long run?
- Q.7 Give two example of fixed cost.
- Q.8 What is that cost which is incurred on Building and Machinery.
- Q.9 Why is the TFC curve is parallel to the X-axis?
- Q.10 Which cost is incurred on production due to increase in the quantity of raw material & units of labour etc.
- Q.11 Define variable cost.
- Q.12 Name the cost which can be changed with the change in level of output.
- Q.13 When does long run cost occurs?
- Q.14 Why is the variable cost curve is sloping upward?
- Q.15 State one difference between fixed cost and variable cost.
- Q.16 Which cost is per unit cost of production of a commodity?
- Q.17 Express total cost in terms of fixed cost and variable and fixed cost.
- Q.18 Express ATC in terms of AFC & AVC.
- Q.19 What is an Average cost?
- Q.20 What is marginal cost?
- Q.21 How is MC derived from TVC?
- Q.22 What is marginal cost?
- Q.23 What does AFC curve look like?
- Q.24 How is TVC derived from a MC schedule?
- Q.25 What will happen to ATC when $MC > ATC$?
- Q.26 Why is MC curve in short-run U-shaped?
- Q.27 Which cost, fixed or variable, determines marginal cost? Give reason.
- Q.28 Classify the following into fixed cost and variable cost: -
- Expenditure on power and fuel.
 - Minimum electricity bill.
 - Wages to permanent staff.
 - Daily wages.
 - Interest on capital.
 - Payment for transportation of goods.
 - Telephone charges beyond the minimum.
 - Rent for a building.
 - Excise duty.
 - Premium of insurance company.
- Q.29 Output increases by 3 units to 4 units. As a result TC rises from Rs.19.60 to Rs.24.50. Find out MC.
- Q.30 A firm is producing 20 units. At this level of output, the ATC and AVC are respectively equal to RS.40 and Rs. 37. Find out the total fixed cost of the firm.
- Q.31 Show the relationship between MC and AC with the help Of diagram.
- Q.32 Complete the following table: -

Output Units	TVC	AVC	MC
1	10	--	--
--	--	8	6
3	27	--	--
--	--	10	13

REVENUE

CONCEPTS OF REVENUE: It is the money receipt from the sale of commodity.

Types of revenue

- Total Revenue: PRICE x QUANTITY
- Average Revenue: Per unit of the commodity sold.
- Marginal Revenue. Net addition made to the total revenue when one more unit of output sold.
- Relationship between TR&MR in competitive market and non-competitive market.

QUESTIONS:

- Q.1 Name the payment, which is received from the sale of goods.
- Q.2 What is revenue?
- Q.3 Let Q be the quantity of the good produced and therefore sold, by the firm at price P. How much a firm will get revenue?
- Q.4 How will a firm optimize its profit?
- Q.5 What is the objective of a firm?
- Q.6 Name the revenue, which is per unit of output sold.
- Q.7 How does AR differ from the MR?
- Q.8 Define marginal revenue.
- Q.9 Why is AR always equal to MR for a competitive firm?
- Q.10 Why MR and AR curves parallel to the X-axis in the competitive market?
- Q.11 What is the relationship between Price and MR in the competitive market?
- Q.12 What is Total Revenue?
- Q.13 Why is TR curve facing a competitive firm a straight line passing through the origin?
- Q.14 When TR falls what happens to MR in the non- competitive market?
- Q.15 Explain the relationship between TR and MR in the non- competitive market. Use diagram.
- Q.16 What is the effect of increasing TR at a decreasing rate upon the marginal revenue?
- Q.17 What is the shape of MR curve in Non-competitive market?
- Q.18 Complete the following table: -

Price (Rs)	10	11	12	13	14	15	16
Output (Rs)	--	9	---	7	---	5	--
TR (Rs)	100	--	96	---	84	---	64

PRODUCER'S EQUILIBRIUM

CONCEPTS: A producer is said to be in equilibrium when he produces the level of output at which his profits are maximum. Producer' equilibrium is where TR and TC is maximum or where both TR and TC have the same slope.

QUESTIONS

- Q.1 What is producer's equilibrium?
- Q.2 When a producer is said to be in equilibrium situation?
- Q.3 Express the difference between TR and TC?
- Q.4 What does profit mean?
- Q.5 Where TR=TC or AR=AC express the situation of Profits and Losses. Use suitable diagram.
- Q.6 What are Normal profit and Abnormal profit?
- Q.7 What is Break Even Point?
- Q.8 Explain the conditions of producer's equilibrium in case of TR &TC approach and MR &MC approach with the help of diagram.
- Q.9 Find out the maximum profit position of a producer by comparing MC &MR on the basis of the following data:-

Output (in units)	MR (Rs)	MC (Rs)
1	10	4
2	9	5
3	8	6
4	7	7
5	6	8

- Q.10 When does a producer earn maximum profit?
- Q.11 What do you mean by profit maximization of a producer?

Unit 4 & 5: Forms of Market and Price Determination, Simple application of Tools of demand and Supply

SUPPLY

Supply is the quantity of the commodity which is actually offered for sale at a given price during a period of time. Supply is a part of stock which is actually brought into the market for sale.

- Q 1) What do you mean by Supply ?
- Q 2) Define Supply ?
- Q 3) What is the difference between Stock and Supply?

LAW OF SUPPLY – It's states that other things remaining constant the quantity supplied of a commodity is directly related to its price.

- Q 1) Define the law of Supply ?
- Q 2) What is meant by law of Supply ?
- Q 3) What is the basis of law of Supply ?
- Q 4) What is the functional relationship between Supply and Price ?

Factors Affecting Supply

- Q 1) What are the factors affecting Supply ?
- Q 2) Explain briefly the determinants of Supply ?
- Q 3) How is the Supply of a commodity affected by the prices of other commodities ?
- Q 4) How does technological change affect the supply of the commodity ?
- Q 5) How does obsolete technology affects the supply ?
- Q 6) How is cost of production or price of inputs affecting the supply of the commodity ?
- Q 7) How does the technological improvement affect the supply ?
- Q 8) If the cost of factors of production falls how will this affect the supply of the commodity ?
- Q 9) What is relationship between marginal cost of a commodity and its supply ?.
- Q 10) An increase in excise tax will shift the supply curve to the left and vice versa. Explain ?

Supply Schedule

- Q 1) What do you mean by Supply Schedule ?
- Q 2) Define Supply Schedule ?

Supply Curve

- Q 1) What is a Supply Curve ?
- Q 2) Define a Supply Curve ?

Market Supply

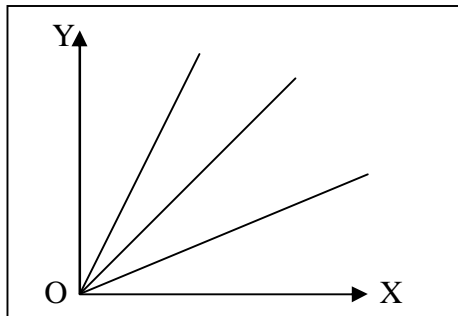
- Q 1) What is the difference between individual supply and market supply ?
- Q 2) How is market supply curve derived with the help of individual supply curves ?
- Q 3) What are the factors that affect market supply ?

Change in Supply – Change in quantity supplied occurs due to change in price and change in supply occurs due to change in other factors other than price.

- Q 1) What causes the downward movement on the supply curve?
- Q 2) What causes upward movement on the supply curve ?
- Q 3) What do you mean by movement along the same supply curve ?
- Q 4) What is meant by change in quantity supplied ?
- Q 5) What is the difference between change in supply and change in quantity supplied ?
- Q 6) What causes rightward shift of the supply curve ?
- Q 7) What causes leftward shift of supply curve ?
- Q 8) What will be the effect of increase in number of firms on the market supply curve of the commodity ?
- Q 9) Due to improvement in the technology the marginal cost of production goes down. How will this affect the supply curve of the commodity ?
- Q 10) What will be the affect of increase in cost of production of a commodity on the supply curve of that commodity ?
- Q 11) If government increases the excise tax on the commodity what will be the effect of it on the supply curve ?
- Q 12) If same resources are used for the production of two commodities, increase in price of one will affect the supply curve of other. How ?
- Q 13) Differentiate increase in supply and decrease in supply ?
- Q 14) What are the points of difference in decrease in supply and contraction in supply ?
- Q 15) Distinguish between increase in supply and extension in supply ?
- Q 16) Differentiate between extension and contraction in supply ?

Price Elasticity of Supply - E_s measures percentage change in the quantity supplied of a commodity due to change in its price.

- Q 1) Define E_s ?
- Q 2) What is the formula for calculating E_s ?
- Q 3) What does price elasticity of supply measure ?
- Q 4) Draw the supply curve of unitary elasticity ?
- Q 5) What is the price elasticity associated with a straight line curve starting from the point of origin and making an angle of 45° with ox axis ?
- Q 6) Draw a supply curve with elasticity less than 1 ?
- Q 7) When is the supply of a commodity called elastic ?
- Q 8) What is the price elasticity associated with the supply curve that is vertical ?
- Q 9) What is E_s of a curve passing through the point of origin making the angle of 75° with ox axis ?
- Q 10) E_s of a commodity is 1.2. Is its supply curve elastic or inelastic. Give reasons why ?
- Q 11) In the diagram given below mark the E_s of different curves. ?



- Q 12) Define E_s . Draw a diagram with five types of supply curves of different elasticity ?

Determinants of E_s

- Q 1) What are the different determinants of E_s ?
- Q 2) How does time period affect the elasticity of supply ?
- Q 3) If time period is short how will it affect the E_s of the commodity ?
- Q 4) If the time period is long how will it affect the E_s of the commodity ?
- Q 5) What is the E_s of perishable goods ?
- Q 6) How does production capacity affects the E_s of the commodity ?
- Q 7) How does technique and method of production affects the E_s of the commodity ?
- Q 8) If the producer expect price rise how will it affect the E_s of the commodity?
- Q 9) If an industry is producing many commodities how the price fall in other commodity will affect the E_s of the commodity in question ?
- Q 10) What is the meaning of perfectly elastic supply and perfectly inelastic supply ?
- Q 11) Define E_s . Explain the percentage method of measuring it ?
- Q 12) Explain the geometric method of measuring E_s ?
- Q 13) If two supply curves A and B intersect each other which one has higher price elasticity at the point of intersection.

MARKET

Market is a mechanism by which buyer and seller interact to determine price and quantity of a good or service.

Features of Market

- 1) Commodity 2) Buyers & Sellers 3) Communications 4) Place or Area
- Q 1) Define a market ?
- Q 2) Name two different forms of market ?
- Q 3) Give one example of perfect competitive market ?
- Q 4) Name any two forms of imperfectly competitive market ?

Perfect Competition

Perfect competition is defined as a market structure in which individual firm cannot influence the prevailing market price of the product on its own.

- Q 1) Define Perfect Competition ?

- Q 2) What is perfect markets and what are its conditions ?
- Q 3) What are the necessary conditions for perfect competition to prevail in the market ?
- Q 4) IN which market forms the products are homogeneous ?
- Q 5) Explain the term homogenous ?
- Q 6) Explain a feature of large number of buyers and sellers in perfect competitive market
- Q 7) industry price maker and firm is price taken. Explain ?
- Q 8) How is the supply curve of a firm determined under perfect competition ?
- Q 9) Explain the nature of AR/MR/D/P curves under perfect competition?
- Q 10) Explain the free entry and free exit feature of the perfect competition ?
- Q 11) What is the implication of perfect knowledge in perfect competitive market ?
- Q 12) What is the implication of perfect mobility of factors of production ?
- Q 13) What is the shape of demand curve under perfect competitive market ?
- Q 14) Can a firm under perfect competition incur losses. Explain ?
- Q 15) Prove that under perfect competitive market in the long run, the price of the commodity is equal to LAC and LMC and price cannot be higher or lower than the minimum average cost and all the firms would be earning zero abnormal profits or normal profits.
- Q 16) Compare perfect competition with monopolistic competition ?
- Q 17) Compare perfect competition with monopoly?

MONOPOLY

IN monopoly market there is no close substitute to the monopoly product or service available in the market.

- Q 1) Define monopoly ?
- Q 2) How many firms are there in a monopoly market ?
- Q 3) Explain the condition in a monopoly in the market ?
- Q 4) What are patent rights ?
- Q 5) What is patent life ?
- Q 6) What is the implication of barriers to entry in monopoly market form
- Q 7) What is cartel ?
- Q 8) What is the shape of D curve under monopoly ?
- Q 9) What are the shape of TR/AR/MR curves under monopoly market conditions ?
- Q 10) What is profit maximization condition for a monopoly firm?
- Q 11) How is price determined under monopoly?
- Q 12) What is price discrimination ? Why does monopolist want to practice it ?
- Q 13) What are the conditions necessary for the monopolist to be able to practice price discrimination ?
- Q 14) In which market form there is no close substitute of the product ?
- Q 15) IN which market there is a single seller of the product of the market ?
- Q 16) Discuss the various ways in which the monopoly market structure may arise ?
- Q 17) Can a monopolist sustain losses in the short period of time ?
- Q 18) Explain how price exceeds MC in monopoly or in monopolistic competition ?
- Q 19) Differentiate perfect competition with monopoly ?
- Q 20) Differentiate monopoly with monopolistic competition ?
- Q 21) Write merits and demerits of monopoly ?

Monopolistic Competition

In monopolistic competition there are large numbers of buyers and sellers. There is free entry and exit of the firms in the long run and there is product differentiation.

- Q 1) Give two examples of monopolistic competition ?
- Q 2) Explain the features of monopolistic competition ?
- Q 3) What is product differentiation ?
- Q 4) Which features of monopolistic competition is competitive in nature
- Q 5) What is selling cost ?
- Q 6) What is persuasive advertising ?
- Q 7) What is the shape of D curve under monopolistic market ?
- Q 8) What is the relationship between price and marginal cost in the monopolistic competitive market?

- Q 9) Which feature of monopolistic competition is monopolist in nature?
 Q 10) If firms are earning abnormal profits, how will the number of firms in the industry change.
 Q 11) If the firm are making abnormal losses, how will the firm in the industry change?
 Q 12) Mention the factor that would make competition imperfect ?
 Q 13) Why the demand curve is competitive elastic under monopolistic market?
 Q 14) Compare monopolistic competition with monopoly?

Equilibrium Price

Q1. Give the meaning of equilibrium Price .

Or

Define equilibrium price.

- Q2. How is equilibrium price determined under perfect competition?
 Q3. Who determines price under perfect competition?
 Q4. Give the meaning of excess demand for a product.
 Q5. Give the meaning of excess supply for a product.
 Q6. Define market equilibrium.
 Q7. How is equilibrium price affected by increase in demand?
 Q8. How is equilibrium price affected by increase in supply?
 Q9. How is equilibrium price affected by decrease in demand?
 Q10. How is the equilibrium of a commodity affected when demand increase more than the supply?
 Q11. How is the equilibrium of a commodity affected when demand increase less than the supply?
 Q12. What will be the effect on equilibrium price and production of an increase in equal proportion of demand and supply of a commodity?
 Q13. What will be the effect on equilibrium price and quantity of supply curve shifts rightward while demand curve remains constant?
 Q14. How does a favorable change of taste affect the market price and quantity exchanged?
 Q15. How does an increase in excise tax rate affect the market price and quantity exchanged?
 Q16. What is the relationship between the control price and equilibrium price?
 Q17. When demand is perfectly elastic if supply increases what happens to equilibrium price?

UNIT-6

NATIONAL INCOME AGGREGATE

National Income and Related Agreements

Basic concepts:

Micro Economics: It satisfies the behavior of an individual units of in an economy as a consumer, a firm, an industry, a market.

Macro Economics: deal with the of the economy as a whole with behavior of the economy as a whole with respect to output, income, the general price level, foreign trade unemployment, and other aggregates economics Variables.

A Production Unit: means the owners of factors of production joining hands by firming a unit with the objective of producing a good or a service.

Factor income: refers to the income created in production units as a joint effort of factor of factor owners.

Leakages: In the process circular flow of income, firms and households save a part of their income, this is called leakages.

Injection: when firms borrow for investment is plant and equipment etc. it increases production capacity and is called Injections.

National Income Accounts: It is the systematic statistical records of the money value of goods and services produced by various producing sectors of an economy . It also shows distribution of national income among the various factors of production as well as final consumption expenditure incurred. The estimation of national income accounts is based on double entry system of accounting.

Functions of national income Account:- It has the following two main functions.

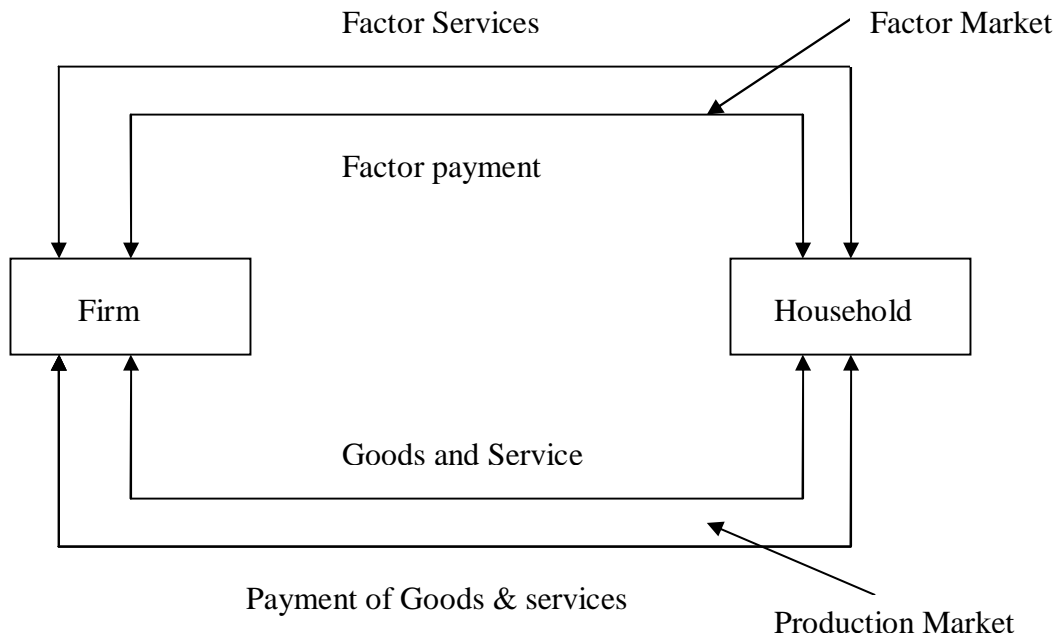
1. It shows the special economic achievements of the country.
2. Provides basis for the critical evaluation and appraisal of the economic policies.

Uses of national income accounting:-

1. It shows the distribution of national income among various factors of production.
2. Provides information about the contribution of various sectors to national income.
3. It provides information about the changes in the structure of an economy.
4. It helps in the appraisal of strength and weaknesses of an economy.
5. It provides information about the changes taking place in standard of living, distribution of income and structural changes in national income.
6. It enables to compare the national income of one country with others countries of the world.

Circular flow of National Income: It is a pictorial illustration of interdependency between the major sectors of economic activities.

Two –Sector Economy



Circular Flow of income in a Two Sector Economy

1. The circular flow in a two sector economy will keep on flowing without end as there is no leakage from and injection in the income stream.
2. Whatever is produced by firms is consumed by the household sector.
3. Factor payments by firms is consumed by the household sector.
4. Whatever is the factor income of the household sector is spent on consumption.

ECONOMICS TERRITORY

Economic territory includes the following-

- a) Political frontiers including territorial waters and air space.
- b) Embassies, consultants, military bases etc. located aboard.
- c) Ships, aircrafts etc., operated by the residents between two or more countries
- d) Fishing vessels, oil and natural gas rigs etc, operated by residents in the international waters or other areas over which country enjoys exclusive rights or jurisdiction.

RESIDENT

A resident, whether a person or an institution, is one whose centre of economic interest lies in the economic territory of the country. In which he lives or is located.

DEPRECIATION (Consumption of fixed capital)

It refers to fall in the value of fixes capital goods due to normal wear and tear and foreseen obsolescence.

INDIRECT TAXES

The burden of these taxes is shifted to buyers. Since the burden indirectly falls on buyers. They are called Indirect taxes e.g Sales tax, excises duty etc.

SUBSIDIES

Subsidies are financial assistance by government to an enterprise on production of a certain commodity.

The effect of subsidies is to bring down the price like: indirect tax it is also generally passed on to the consumers.

NET FACTOR INCOME FROM ABROAD (NFIA)

NFIA equals factor income received by resident from abroad less factor income paid to non residents.

GDP_{mp} is the values of contribution to production by all the production units located with in the economic territory of a country, undiminished by consumption of fixed capital and indirect tax.

NDP_{mp} is the value of contribution to production by all the production units located with in the economic territory of a country. Diminished by consumption of fixed capital but undiminished by net indirect tax.

NDP_{fc} is the value of contribution to production by all the production units located with in the economic territory of a country, diminished by consumption of fixed capital and net indirect tax.

$GDP_{mp} - \text{Consumption of fixed capital} = NDP_{mp}$

$NDP_{mp} - \text{net indirect tax} = NDP_{fc}$

$GDP_{fc} - \text{net indirect tax} = GDP_{fc}$

A National aggregate is a statistical measure of the contribution of residents of a country towards economic production carried out both inside and outside the economics territory of the country.

GNP_{mp} is the values of the contribution of residents of a country towards economic production undiminished by consumption of fixed capital and net indirect tax.

NNP_{mp} is the values of the contribution of residents of a country towards economic production diminished by the consumption of fixed capital and net indirect tax.

NNP_{fc} is the values of the contribution of residents of a country towards economic production diminished by consumption of fixed capital and net indirect tax.

Part B-Introductory Macroeconomics

Unit 6: National Income and related aggregates

INTRODUCTION

- Q1. Aggregate income, employment and output is subject matter of micro economics and macro economics ?
- Q2. Is employment an example of micro economic variable?
- Q3. Why is Aggregate income considered a macro economic variable ?
- Q4. What is the significance of national income accounting?
- Q5. How do we study the economic performance of an economy?
- Q6. What is the basic purpose of national income accounting?
- Q7. What criterion is used by the govt. to frame policies to maximize material welfare?
- Q8. What is macro economic theory?
- Q9. What do macroeconomic economic theory deal with ?
- Q10. Define macroeconomics?
- Q11. Discuss the subject matter of macroeconomics .
- Q12. What do you understand by microeconomics?
- Q13. What do microeconomic theory deal with ?
- Q14. Give examples of microeconomic variables.

NATIONAL INCOME AND ACCOUNTING

- Q1. Name the process which transforms the resources?
- Q2. What do you mean by production process?
- Q3. Name the factors of production that participates in the production process?
- Q4. Which factor of production is responsible for combining the factors of production?
- Q5. Why do factors of production render their services in the production process?
- Q6. What do you mean by 'labour' as factor of production?
- Q7. Do we consider the services of doctor as labour?
- Q8. Do we consider the services of potter as labour? Give reason in support of your answer?

- Q9. Define the term 'land'?
- Q10. What is the payment given to the land for utilizing its services?
- Q11. Name the reward for the use of capital in production process?
- Q12. Why an entrepreneur pays interest for the use of capital in production process?
- Q13. What is capital?
- Q14. Is money kept in the locker of your house capital?
- Q15. Is the service of tractor used by farmer to plough the field be considered capital ?
- Q16. What are the different components of profit?
- Q17. Name the tax deducted by the govt from the profit?
- Q18. What is the name given to the residue which remains with the enterprise after paying dividend and corporation tax?
- Q19. Why is the part of profit retained by the entrepreneur called undistributed profit?
- Q20. What is the difference in the services of a doctor treating his own at home and patients in the hospital?
- Q21. Give the definition of an economic activity?
- Q22. What does an economic activity leads to?

Intermediate & Final Goods

- Q23. What is the difference in milk used by a house wife and in a restaurant?
- Q24. What is the name given to the goods which are meant for resale in the market?
- Q25. What are those goods called which are used for further production?
- Q26. How is an intermediate goods different from a final goods?
- Q27. What is the difference between sale of a shirt to a retailer & to an individual consumer?
- Q28. Does the expenditure on fertilizers and pesticides by a farmer include the value of output of wheat? Give reasons
- Q29. What will you call it if the value of the commodity is counted more than once in the production process?
- Q30. Why is it necessary to avoid double counting?
- Q31. How can double counting be avoided?

CIRCULAR FLOW

- Q1. Name the sector of an economy which produces goods and services?
- Q2. Which economic activity is performed by firms?
- Q3. From where do the firms get the factors of production?
- Q4. Name the sectors which supplies the factor of production?
- Q5. In a two sector model what is the function of firms?
- Q6. In a two sector model what is the function of H.H sector?
- Q7. Explain the circular flow with the two sector economy?
- Q8. Explain how the two sector firms and household depend on each other?
- Q9. What do you understand by circular flow of income?
- Q10. Explain how the amount of goods and services produced in the economy equals the income generated?
- Q11. Distinguish between money flow and real flow?
- Q12. Is real flow equal to money flow in a two sector model?
- Q13. Give the meaning of injection and leakage?
- Q14. How are the saving equal to investment in a two sector economy?
- Q15. Say whether the following is a leakage or injection – Give reason also
- (a) saving (b) payment for expenditure (c) Taxes
(d) Investment (e) payment for export (f) Govt. expenditure

MEASUREMENT OF NI

- Q1. What is the income approach to measure domestic factor income?
- Q2. What are the components of net domestic product?
- Q3. What type of data is require to measure domestic income by income method?

- Q4. Is net value added at factor cost equal to NDP_{fc} (use income approach)
- Q5. Are wages in kind included in compensation to employees?
- Q6. Employees contribution to social security part of compensation or not?
- Q7. Is employees contribution to social security included in compensation?
- Q8. Do we include transfer payments in compensation?
- Q9. What are the three components of profit?
- Q10. Explain the value added method with the help of an example?
- Q11. Name the step involved in estimating NDP_{fc} by product method?
- Q12. What type of data is required to measure national income by value added method?
- Q13. What items are to be excluded from value of output to find out NDP_{fc} ?
- Q14. Explain with the help of a suitable example the value of final goods is equal to value added at each stage of production?
- Q15. What are the different category of expenditure included in expenditure method?
- Q16. Find out NDP_{fc} by expenditure method?
- Q17. What are the four basic categories of investment?
- Q18. What is business fixed investment?
- Q19. How do we obtain net business fixed investment from gross business fixed investment?
- Q20. What is public investment?
- Q21. Apart from sales what else has to be added to arrive at value of output?
- Q22. What is the difference between national income and domestic income?
- Q23. When is (a) GNP_{fc} = GDP_{fc}
 (b) NNP_{fc} = NDP_{fc}
 (c) GNP_{mp} = GDP_{mp}
 (d) QNNP_{mp} = NDP_{mp}
- Q24. When is (a) GNP_{mp} = GNP_{fc}
 (b) NDP_{mp} = NDP_{fc}
 (c) NNP_{mp} = NNP_{fc}
- Q25. What is the difference between national income (NNP_{fc}) and Domestic income (NDP_{mp})?
- Q.26. Why is the income earned by foreigners working in a branch of a foreign bank in India a part of the domestic factor income of India?
- Q 27. Will the following be a part of domestic factor income of India? Give reason for your answer.
- (i) Old age pension given by the govt.
 - (ii) Factor incomes from abroad.s
 - (iii) Salaries to Indian residents working in Russian embassy in India.
 - (iv) Profits earned by a company in India, which is owned by a non-resident.
- Q28. Will the following factor income be included in domestic factor income of India? Give reasons for your answer.
- (i) Compensation of employees to the residents of Japan working in Indian embassy in Japan.
 - (ii) Profit earned by a branch of foreign bank in India.
 - (iii) Rent received by a Indian resident from Russian embassy in India.
 - (iv) Profits earned by a branch of state bank of India in England.
- Q29 What is the difference between NI at current prices & NI at constant prices?
- Q30 How do we convert NI at current prices to NI at constant prices?
- Q31 under what circumstances NI at current prices be less than NI at constant prices?
- Q32 What precautions are taken while estimating national income by expenditure method ?
- Q33 What are the items to be excluded while estimating national income by expenditure method ?
- Q34 What precautions are taken while estimating national income by income method ?

CONCEPT OF DEPRECIATION

- Q1. What should be added to net investment to make it gross investment?
- Q2. What is the amount called which is spent for wear and tear, maintenance and replacement of capital goods.
- Q3. How do we get net investment from gross investment?
- Q4. What should be deducted from gross value added to get net value added?
- Q5. When is $GDP_{mp} = NDP_{mp}$.
- Q6. How can we obtain Net National Disposable Income from Gross National Disposable Income?

PRIVATE INCOME

- Q1. What is the relationship between NDP_{fc} and private income?
- Q2. If we are given income from domestic product accruing to private sector then what steps are followed to arrive at private income?
- Q3. If NDP_{fc} is given then what other variables are required to find out private income.
- Q4. What are the components of private income?
- Q5. How can we find out private income if GDP_{mp} is given?
- Q6. Write down the steps to find out national income if private income is given.

PERSONAL INCOME

- Q1. How is personal income different from private income?
- Q2. Why are corporation tax and undistributed profit not included in personal income?
- Q3. What variables are to be included in personal income to find out private income.
- Q4. What is the relationship between NDP_{fc} and private income?

PERSONAL DISPOSABLE INCOME

- Q1. How is personal disposal income related to personal income?
- Q2. Why are direct taxes fines +fees etc deducted from personal income to arrive at PDI.
- Q3. What variables are to be added to PDI to find out personal income?
- Q4. Do the house holds spends all the personal income received by them?
- Q5. How to the H.H dispose off the income actually available to them?
- Q5. Apart from consumption on what other head do the H.H spend their income?

NET NATIONAL DISPOSABLE INCOME

- Q1. Name the national income aggregate that gives an idea of maximum amount of goods and services that the domestic economy has at its disposal?
- Q2. What is the sum of NNP_{mp} and other current transfers from the rest of the world called?
- Q3. What are the components of national disposable income?
- Q4. What is the relationship between national income and national disposable income?
- Q5. List down the variables that are to be added to NDP_{fc} to find out National Disposable Income?

Unit 7: Determination of Income and Employment

Content : Aggregate Demand, Aggregate Supply and their components.

- 1) What is meant by aggregate?
- 2) What will be total demand for goods and services called?
 - 3) What is the relationship between price level and demand?
 - 4) What does inverse relationship mean?
 - 5) What will be the shape of AD curve when there is inverse relation between AD and price level?
- 6) What is meant by supply?
- 7) What is aggregate supply?
 - 8) When there is no change in quantity supplied with respect to the price level which type of price elasticity is it?
 - 9) What is Say's Law of Markets?
 - 10) What does flexibility mean?
 - 11) What is Wage –price Flexibility?
- 12) What does perfectly elastic aggregate supply means?
- 13) What is meant by rigidity?

- 14) What does the word marginal mean?
- 15) What does marginal product mean?
- 16) What does constant marginal product of labour mean?
- 17) What is the theoretical basis of the Keynesian aggregate supply curve?
- 18) What is the fundamental difference between Classical Theory of Employment and Keynesian Theory of Employment?
- 19) What are the components of AD?
- 20) What will be the expenditure by the household on demand for food, clothing books, furniture etc. called?
- 21) Will expenditure on purchase of existing shares or securities be considered as investment?
- 22) What will expenditure on buildings, plants and equipment be called?
- 23) What determines the level of household consumption?
- 24) What determines investment in private enterprise economy?
- 25) Why does Govt. demands for goods and services?
- 26) How does AD affect the level of income in an economy?
- 27) What is the effect of increase in AD on level of income?
- 28) Can consumption be greater than income? If so what does it indicate?
- 29) From where does/ which point consumption curve originate/starts? Why?/What does it indicates?
- 30) What does MEI stands for?
- 31) What is meant by MEI?
- 32) What is the relationship between volume of investment and MEI?
- 33) What is the relationship between rate of interest and investment demand?
- 34) AS curve is shown by a 45° line .Why?
- 35) What is the difference between Classical concept and Keynesian concept of aggregate Supply?

Content: Propensity to consume and propensity to save (average and marginal).

- 36) What is meant by consumption demand?
- 37) Name two variables which affect consumption demand.
- 38) What is consumption function?
- 39) State the fundamental psychological law of Keynes.
- 40) What is autonomous consumption?
- 41) What is meant by APC?
- 42) What is meant by MPC?
- 43) Why MPC is less than 1 ($MPC < 1$)?
- 44) Can value of APC be greater than one?
- 45) The value of which APC and MPC can be greater than One and When?
- 46) How does MPC affect level of income?
- 47) What is the relationship between saving and level of income?
- 48) What happens to the part of income which is not spent on consumption?
- 49) Can value of APS be negative? If so, when?
- 50) The value of which of these two APS and MPS can be negative and when?
- 51) Why can value of MPC be not greater than one?
- 52) What can be maximum value of MPS?
- 53) What is the value of MPC when MPS is equal to zero?
- 54) Draw a hypothetical propensity to consume curve and from it draw the propensity to save curve.
- 55) Diagrammatically derive saving function from consumption function.
- 56) Draw on a diagram a straight line saving curve for an economy. From it derive a consumption curve explaining the method of derivation.
- 57) Show a point on consumption curve at which APC is equal to 1.

Content:

Meaning of involuntary unemployment and full employment.

- 58) What does employment mean?
- 59) When a person is not able to get a suitable job then what is that person called?
- 60) How many types of unemployment are there?
- 61) What does voluntary unemployment mean?
- 62) What does involuntary unemployment mean?
- 63) If all persons /resources who are willing to work have got the work or are engaged what is that situation called?

Content: Determination of income and employment:

- 64) What does equilibrium mean?
- 65) What is meant by effective demand?
- 66) Where will the equilibrium level of income and employment be determined?
- 67) What will happen if AD is less than AS?
- 68) What will happen if AD is more than AS?
- 69) What is meant by effective demand?
- 70) What will happen if AD is less than AS?
- 71) What will happen if AD is more than AS?
- 72) What is the effect of difference between planned saving and planned investment?
- 73) At what level of income, planned saving is equal to planned investment?

Content: Concept of Investment multiplier and its working

- 74) What is the relationship between investment and national income?
- 75) How does an increase in investment affect level of income?
- 76) What does investment multiplier indicate?
- 77) How does multiplier works?
 - 78) What can be minimum value of multiplier and why?
 - 79) What is the relationship of K with MPC and MPS?
 - 80) What will be the effect on K if MPC increases?
 - 81) What will be the effect on K if MPC decreases?
 - 82) What will be the effect on K if MPS increases?
 - 83) What will be the effect on K if MPS decreases?
 - 84) If value of MPS is 0.25, what is the value of multiplier?
 - 85) If value of MPC is 0.8, find out value of multiplier(K).
 - 86) Calculate: Change in Income when MPC=0.8 and change in investment = Rs. 1,000.
 - 87) In an economy MPC is 0.75. If investment expenditure is increased by Rs 100 crore, calculate total increase in income and consumption expenditure.

Content: Problem of excess and deficient demand.

- 88) Why must aggregate demand be equal to aggregate supply at equilibrium level of income and output.
Explain with the help of a diagram.
- 89) What happens to the level of national income when AD falls short of AS?
- 90) When is there full employment equilibrium?
- 91) Will there always be full employment at equilibrium level of income?
- 92) Why should planned saving and planned investment be equal at equilibrium level of income? Use diagram.
- 93) Can there be unemployment at equilibrium level of income?
- 94) Can deflationary gap exist at equilibrium level of income?
- 95) Explain that equilibrium level of income is not necessarily at full employment level?
- 96) Explain the concept of under employment equilibrium with the help of a diagram. Show on the same diagram the additional investment expenditure required to reach full employment equilibrium.
- 97) What happens in the economy if there is excess of aggregate demand over the available output at full employment?

Content: Measures to correct Excess and Deficient Demand—availability of credit, change in Government spending.

- 98) What is meant by excess demand?
- 99) How does the introduction of government sector affect the economy?
- 100) What is meant by Fiscal Policy?
- 101) How do (a) changes in Govt. expenditure
(b) Change in tax rate affect demand in the economy?
- 102) Would you advocate expansion or contraction of credit supply in a situation of excess demand?/deficient demand?
- 103) What happens to the economy when credit availability is restricted and credit made costlier?
- 104) What is bank rate?
- 105) What is the role of bank rate in reducing excess demand?
- 106) What is meant by open market operation?
- 107) How do open market operations affect availability of credit?
- 108) What is meant by CRR?
- 109) How do change in cash reserve ratio (CRR) affects availability of credit?
- 110) What is meant by deficient demand?
- 111) What happens to the level of income when there is deficient demand?
- 112) What are the Quantitative measures of Monetary Policy?
- 113) How the Govt.'s expenditure policy and Revenue policy help in rectifying the situation of deficient demand?

Unit 8: Money and Banking

1. Why direct exchange of services is difficult without the user of money?
2. What do you mean by 'money is what money does'?
3. Give reasons, why no body can refuse to accept the payments in terms of currency of the country?
4. Why money is called the most liquid form of assets?
5. How money is helpful to measure the marginal utility of different commodities?
6. How does a price tag of a good shows the use of money?
7. Was large scale production possible without the use of money? Give reasons to your answer.
8. What happens if goods other than money are used for store of value?
9. What is the difference between money and currency?
10. Why money is called the base of whole credit system?
11. Differentiate between money and money supply?
12. What is the relation between the money supply of a country at a point of time and total stock of money in circulation?
13. Why demand deposits with banks are included in money supply?
14. Why the stocks of monetary gold held in reserves as a backing to paper currency is not included in money supply?
15. Why central bank of country is called an apex bank?
16. Why central bank has got the authority to issue currency notes?
17. Who regulates the volume of currency and credit in the economy government or central bank?
18. Why central bank is called the banker to the government?
19. Who has got the right of printing one- rupee note in India?
20. If the government wants to take loan, who will advance temporary loans in the country?
21. Give reasons why central bank acts as a financial adviser to the government.
22. Central bank acts as the 'lender of last resort' explain.
23. Why there is a need of clearing house between different commercial banks?
24. How does a central bank act to control the situation of inflation in a country?
25. Why do people deposit their funds with commercial banks?
26. Why a higher rate of interest is paid by the bank on fixed deposit than a saving deposit?
27. What are the two essential functions which constitute a bank?
28. What do you mean by bank rate? How is it different from rate of interest?
29. How an increase in CRR reduces the money in circulation?
30. If central bank reduces CRR what will be the effect on money supply?

Unit 9: Government Budget and the Economy

Public goods, as different from private goods are collectively consumed. Two important features of public goods are they are non-competition in that one person can increase her satisfaction from the good without reducing that obtained by others and they are non excludable, and there is no feasible way of excluding anyone enjoying the benefits of the good.

Name some private goods and public goods.

Or

Classify the following as public or private goods: National defense, roads, govt. administration, clothes, car, and food-items.

Why is it difficult to collect fees for the use of public goods?

Or

Why public goods in general will not be provided by private sector?

Or

Why does the government only provide public goods?

Or

Differentiate between public goods and private goods.

The three functions of government fiscal policy/ budgetary policy are allocation, redistribution and stabilization, which are regulated through the revenue and expenditure of the government

What is the role of government in mixed economy?

Or

Explain the distribution function of the government?

Or

Explain the allocation / stabilization function of the government.

Or

Why there is need to stabilize the economy?

Or

Which policy performs stabilization function in an economy?

COMPONENTS OF BUDGET

The budget comprises

- a) **Revenue budget – revenue receipts and revenue expenditure**
- b) **capital budget – capital receipts and capital expenditure**

Revenue receipts – tax revenue and non-tax revenue

Differentiate between direct tax and indirect tax?

Or

Identify the following as direct tax or indirect tax **gift tax, wealth tax, sales tax**

Or

Is income tax a direct tax or indirect tax? Why?

Or

Differentiate direct tax and indirect tax on the basis of incidence.

Or

Name the type of tax in which burden of tax can be shifted. Tax is a compulsory payment. Discuss.

What is progressive income taxation/regressive income taxation?

What is tax on proportional basis?

Differentiate / categorise into revenue receipts and capital receipts. Give reason.

1. Receipt of debt
2. Corporate tax
3. Dividend on public investment
4. Sale of govt. enterprises

REVENUE EXPENDITURE AND CAPITAL EXPENDITURE

PLAN AND NON PLAN EXPENDITURE

DEVELOPMENTAL AND NON DEVELOPMENTAL EXPENDITURE

What is the basis of classifying the govt. expenditure into revenue expenditure and capital expenditure?

What is the significance of public expenditure?

Why is there a provision for both – plan and non plan expenditure?

OBJECTIVES OF GOVT. BUDGET

Redistribution objective of the budget is sought to be achieved through progressive income taxation. Comment?

What is the impact of budget on economy?

Or

Describe the importance of budget in an economy?

Or

Why is there need of budget in an economy?

Or

Describe the objectives of the budget?

BALANCED, SURPLUS AND DEFICIT BUDGET

A Budget is balanced or imbalanced explain?

How a surplus budget is disadvantageous for an economy?

The budget is not merely statement of receipts and expenditure. Comment

REVENUE DEFICIT, FISCAL DEFICIT AND PRIMARY DEFICIT

What is revenue / Fiscal / primary deficit?

Or

When the government incurs a revenue deficit what does it imply?

What problems arise due to fiscal deficit?

Or

What does fiscal deficit indicate?

The fiscal deficit gives the borrowing requirement of the government. Elucidate.

How does government directly affect the level of equilibrium income in an economy?

Deficits are necessarily inflationary. Explain?

Budgetary deficit may be financed by either taxation, borrowings (govt. or public debt) or printing money.

Public debt acts as a burden on future generations. How?

How deficit can be reduced in an economy?

INSTRUMENTS OF FISCAL POLICY

1. CHANGES IN GOVT. EXPENDITURE

2. CHANGES IN TAXATION

3. TRANSFER PAYMENTS

Discuss the fiscal policy instruments as an automatic stabilizer?

Or

What is discretionary fiscal policy?

Unit 10: Balance of Payments

Q1. Define Balance of Payments

Or

What is meant by Balance of payment account?

Q2. Name Visible and invisible terms of exports and imports

Or

What are Visible and invisible terms of exports and imports

Q3. What is meant by balance of trade?

Or

Define balance of trade

Q4. What is the difference between the value of exports and value of imports called?

Q5. Which two transactions determine balance of trade?

Q6. When will balance of trade show a deficit?

Or

What does deficit in balance of trade indicate?

Q7. When will balance of trade show a surplus?

Q8. Define balance of trade and balance of payments.

Q9. Define balance of payments on capital account.

Q10. Define balance of payment of current account.

Q11. List four items each of current account and capital account of balance of payment account

Or

State the components of (a) Current Account (b) Capital Account

Q12. Give the structure of balance of Payments account in India.

Q13. State the specific terms that are recorded in the India's B.O.P. account

Q14. State the terms of current account of India's B.O.P.

Q15. Give the meaning of favorable balance of payments

Q16. Give the meaning of unfavorable balance of payments

Q17. Balance of payment always balance, Explain.

Q18. What is meant by disequilibrium of balance of payments? What are its different types?

Q19. Describe the causes of disequilibrium in the balance of payments.

Foreign Exchange Rate

- 1) What is Foreign Exchange?
- 2) What is Foreign Exchange Rate?
- 3) What is meant by Foreign exchange market?
- 4) What is the role played by Foreign exchange market?
- 5) What are spot markets in foreign exchange?
- 6) What are forward markets in foreign exchange?
- 7) What is NEER?
- 8) What is REER?
- 9) What is RER?
- 10) Name two ways of expressing the foreign exchange rate.
- 11) Ten US dollars are exchanged for five hundred Indian rupees. What is the exchange rate of Indian currency?
- 12) If \$9 are needed to buy £2, what is the exchange rate for US dollar?
- 13) What is meant by appreciation/depreciation?
- 14) What does a change from \$3= £1 to \$2=£1 represent?
- 15) What does a change from \$3= £1 to \$5=£1 represent?
- 16) Why people desire to have foreign exchange?
- 17) Why does the demand for foreign exchange rise when its price falls?
- 18) Why is the demand curve for foreign exchange negatively sloped?
- 19) Why does a rise in foreign exchange cause a rise in its supply?
- 20) Why is the supply curve of foreign exchange positively sloped?
- 21) How is Foreign Exchange rate determined?
- 22) What is meant by fixed exchange rate?
- 23) What are the advantages of fixed exchange rate system?
- 24) What is meant by flexible exchange rate?
- 25) What are the advantages of flexible foreign exchange system?
- 26) What are the sources of supply of foreign exchange ?
- 27) What is parity value?
- 28) What is meant by Crawling peg?
- 29) What is meant by Managed float?
- 30) What can be the effect of instability in the exchange rate?
- 31) What can give rise to worst currency crises?