

GOVERNMENT OF KARNATAKA
KARNATAKA STATE PRE-UNIVERSITY EDUCATION EXAMINATION BOARD
II YEAR EXAMINATION –JUNE-JULY 2017
SCHEME OF VALUATION

SUBJECT CODE:22

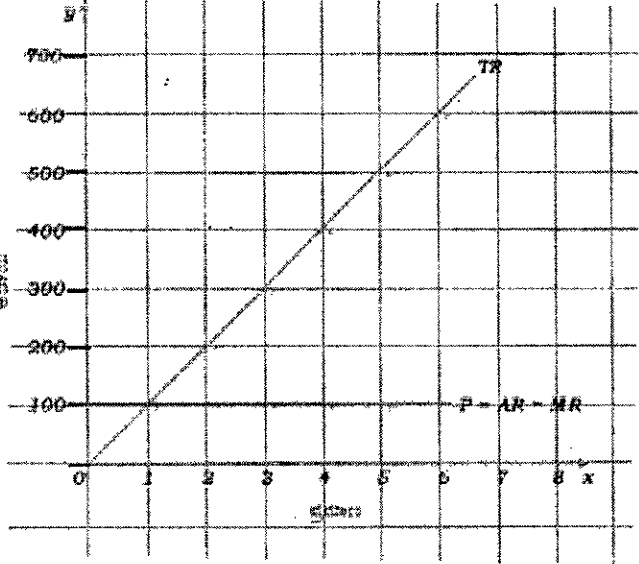
ECONOMICS

Q.No	ANSWERS	MARKS
	PART- A	
I	ANSWER THE FOLLOWING IN A SENTENCE EACH	10x1=10
01	Utility is want satisfying capacity of a commodity	1
02	P is the Independent Variable	1
03	Production Function explains the relationship between factor input and output under a given technology	1
04	In Perfect competition Firm is the Price Taker	1
05	Law of Supply states that when price rises Supply expands and when price falls Supply contracts other things remaining the same	1
06	Prof.J.M.Keynes is the Pioneer of Macro Economics	1
07	Gross Domestic Product	1
08	Income Tax Corporation Tax	1
09	Fiscal Deficit refers to excess of Government's total expenditures over its total revenue OR Fiscal Deficit= Total expenditure-(Revenue receipts+Non debt capital receipts)	1
10	Balance of Payment is the difference between the value of visible and the invisible items of exports and imports	1
II	ANSWER THE FOLLOWING IN FOUR SENTENCES EACH	
11	1. Positive Economics is the study of what was and what is under given set of circumstances. Normative Economics studies what ought to be. 2. Positive Economics explains the issues without personal judgement. Normative Economic statements pronounce value judgement. (Any Two)	2
12	No, Indifference Curve is always convex to the origin because of the Diminishing Marginal Rate of Substitution	

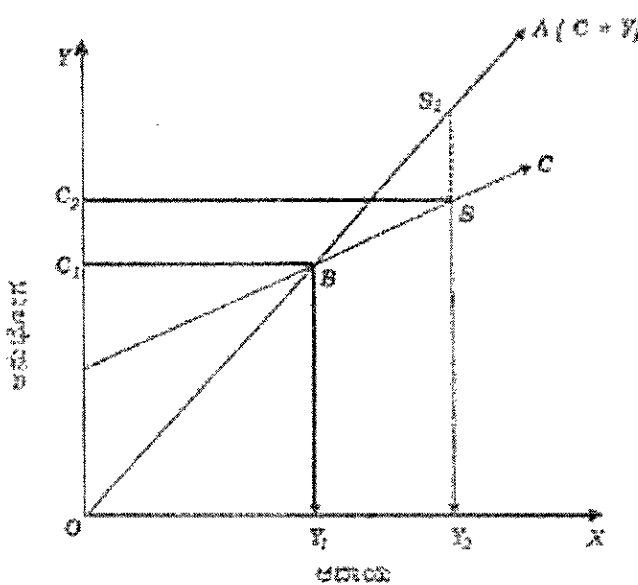
	<p>OR</p> <p>No, Indifference Curve cannot be concave to the origin. A Concave Indifference Curve would indicate increasing Marginal Rate of Substitution which is un realistic.</p>	2
13	<p>Four determinants of Demand</p> <ol style="list-style-type: none"> 1. Price of the commodity 2. Price of the related goods 3. Income 4. Consumer's taste and preference 5. Price and availability of the substitutes 6. Deferred Consumption <p>(Any Four)</p>	2
14	<p>Marginal Cost is the cost of producing an extra unit of a commodity</p> <p>OR</p> <p>Marginal Cost is the addition to the total cost by the production of an additional unit</p> <p>OR</p> $MC = TC_n - TC_{n-1}$ <p>Marginal Cost Curve is a U shaped Curve</p>	2
15	$P_{es} = \frac{\Delta Q_s}{\Delta P} \times \frac{P}{Q_s}$ $P_{es} = \frac{20}{5} \times \frac{20}{100}$ $P_{es} = \frac{4}{5}$ <p>$P_{es} = 0.8$ $P_{es} < 1$</p> <p>P_{es} is relatively inelastic</p>	2
16	Three forms of Imperfect Competition	

	<ol style="list-style-type: none"> 1. Monopoy 2. Monopoistic Competition 3. Duopoly 4. Oligopoly <p>(Any Three)</p>	2
17	<p>Consumer Goods are meant for final consumption e.g, food, clothing, furniture,etc.</p> <p>Capital Good are meant for further production e.g, machinery, tools, implements, etc.</p>	2
18	<p>Bank Deposits-Stock/Flow</p> <p>Salary- Flow</p> <p>Exports= Flow</p> <p>National Income= Flow</p>	2
19	<p>Open Market Operation is an instrument of Monetary Policy. It involves buying and selling of Govt securities in the open market to expand or contract the credit flow in economy.</p>	2
20	<p>The Value of the Multiplier is determined by Marginal Propensity to Consume. Multiplier varies directly with Marginal Propensity to Consume and it is reciprocal of Marginal Propensity to Save.</p>	2
21	<p>Objectives of Fiscal Poicy</p> <ol style="list-style-type: none"> 1. Mobilisation of Resources 2. Redistribution of income 3. Reduce regional disparities 4. Achieve Price Stability 5. Encourage Savings and Investment 6. Promotion of Economic Welfare <p>(Any Four)</p>	2
22	<p>An Open Economy is an economy which has economic relations with other countries of the World. It pursues the policy of free trade.</p>	2
Part C		
III.	ANSWER ANY EIGHT OF THE FOLLOWING IN FIFTEEN SENTENCES EACH :	8x5=40
23	<p>Features of capitalism as market economy are –</p> <ol style="list-style-type: none"> (i) Private ownership of factors of production. (ii) Price Mechanism or Market Mechanism. (iii) No interference by the government. (iv) Profit Motive. 	5

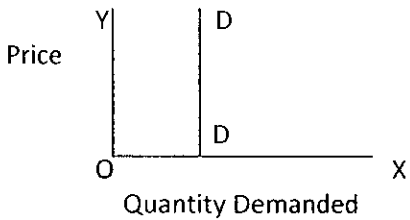
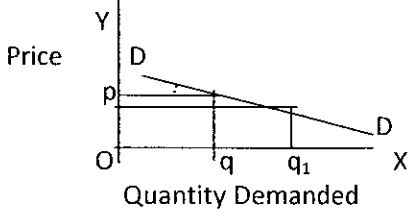
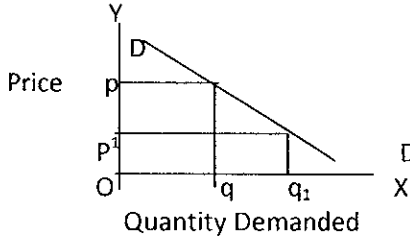
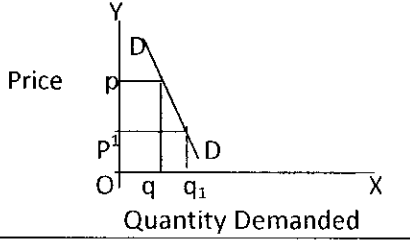
	Eg. U.S.A., Japan (Explanation required)	
24	Economic Problems arise because of unlimited wants, relatively scarce resources which have alternative uses Basic problems of economy are (i) What to produce and how much ? (ii) How to produce ? (iii) For whom to produce (Explanation required)	1 4
25	Law of Demand states that when price rises quantity demanded falls and vice versa Demand curve slopes downward because of (i) Price effect (ii) Income effect (iii) Substitution effect (iv) Operation of Law of Diminishing Marginal Utility (Explanation required)	1 4
26	Economies of Scale refers to advantages of large scale production. It includes (i) Internal economies (ii) External economies Diseconomies refer to disadvantages of large scale production. . It includes (i) Internal diseconomies (ii) External diseconomies (Explanation required)	1 2 2

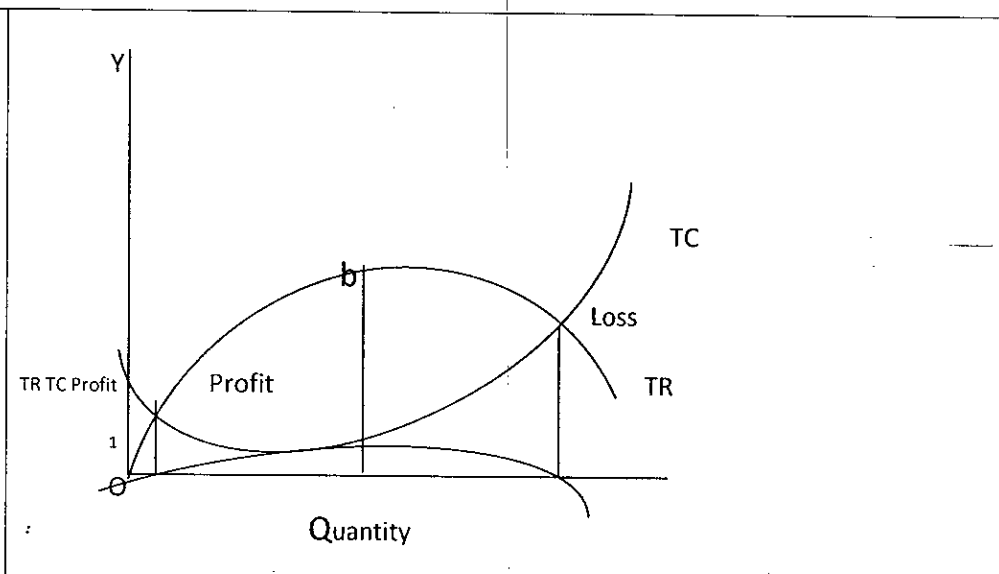
27	<p>Firms under perfect competition are the Price Takers. They sell different units of a product at the same price.</p> <table border="1" data-bbox="443 409 826 674"> <thead> <tr> <th>Q</th> <th>P</th> <th>TR</th> <th>AR</th> <th>MR</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>100</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>1</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> </tr> <tr> <td>2</td> <td>100</td> <td>200</td> <td>100</td> <td>100</td> </tr> <tr> <td>3</td> <td>100</td> <td>300</td> <td>100</td> <td>100</td> </tr> <tr> <td>4</td> <td>100</td> <td>400</td> <td>100</td> <td>100</td> </tr> </tbody> </table>  <p>(Explanation required)</p>	Q	P	TR	AR	MR	0	100	0	0	0	1	100	100	100	100	2	100	200	100	100	3	100	300	100	100	4	100	400	100	100	1 2 2
Q	P	TR	AR	MR																												
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2	100	200	100	100																												
3	100	300	100	100																												
4	100	400	100	100																												
28	<p>Oligopoly is form of imperfect competition dominated by small number of sellers</p> <p>Features</p> <ol style="list-style-type: none"> 1. Few large firms 2. Interdependence among firms 3. Advertisement cost 4. Homogenous or differentiated product. 5. Price rigidity 6. Group Behaviour <p>(Explanation required)</p>	1 4																														
29	<p>Macro economics is study of aggregates or large units.</p>	1																														

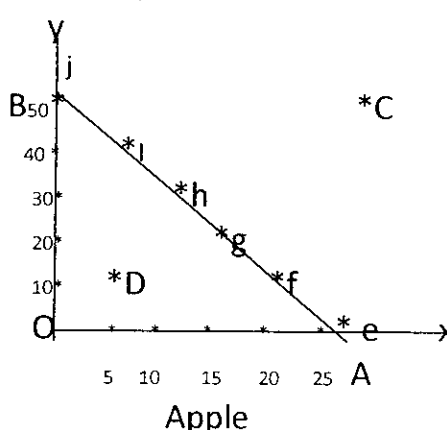
	<p>Scope :</p> <ul style="list-style-type: none"> (i) National income (ii) General employment (iii) Theory of General price (iv) Theory of Money (v) International trade. (vi) Major Sectors <p>(Explanation required)</p>	4												
30	<p>Aggregate money value of goods and services produced by a country in a year.</p> <p>Methods used in measurement are</p> <ul style="list-style-type: none"> (i) Income Method (ii) Expenditure Method (iii) Product Method <p>(Explanation required)</p>	1 4												
31	<p>According to Prof. Walker Money is what money does.</p> <p>Primary Function</p> <ul style="list-style-type: none"> (i) Medium of Exchange (ii) Measure of value <p>Secondary Function</p> <ul style="list-style-type: none"> (i) Standard of deferred payment (ii) Store of value (iii) Transfer of value <p>(Explanation required)</p>	1 2 2												
32	<p>Consumption function explains relationship between income and consumption $c = f(y)$</p> <p>Consumption Schedule</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Income (y) (In Crores)</th> <th>Consumption (c) (in Crores)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>20</td> </tr> <tr> <td>50</td> <td>60</td> </tr> <tr> <td>100</td> <td>100</td> </tr> <tr> <td>150</td> <td>140</td> </tr> <tr> <td>200</td> <td>180</td> </tr> </tbody> </table>	Income (y) (In Crores)	Consumption (c) (in Crores)	0	20	50	60	100	100	150	140	200	180	1 2
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	 <p style="text-align: center;">(Explanation required)</p>	2
33	<p>Budget is a financial statement of anticipated revenue and expenditure of the Government for the coming financial year</p> <p>Components</p> <p>(A) Revenue Accounts</p> <p>(i) Revenue receipts</p> <p>(ii) Revenue expenditure</p> <p>(B) Capital Accounts</p> <p>(i) Capital receipts</p> <p>(ii) Revenue expenditure</p> <p style="text-align: center;">(Explanation required)</p>	1 2 2
34	<p>Exchange rate is a rate at which one currency converted into another</p> <p>Exchange rate system are</p> <p>(i) Flexible exchange rate</p> <p>(ii) Fixed exchange rate</p> <p>(iii) Managed exchange rate</p> <p style="text-align: center;">(Explanation required)</p>	1 4

Part.D																							
35	<p>Law Of Diminishing Marginal Utility</p> <p>1.Introduction</p> <p>2. Meaning-Statement of the Law</p> <p>3.Assumptions</p> <p>4.Schedule-Table</p> <table border="1"> <thead> <tr> <th>Units Consumed</th> <th>Total Utiity</th> <th>Marginal Utiity</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12</td> <td>12</td> </tr> <tr> <td>2</td> <td>20</td> <td>8</td> </tr> <tr> <td>3</td> <td>26</td> <td>6</td> </tr> <tr> <td>4</td> <td>30</td> <td>4</td> </tr> <tr> <td>5</td> <td>30</td> <td>0</td> </tr> <tr> <td>7</td> <td>28</td> <td>-2</td> </tr> </tbody> </table> <p>5.Diagram</p> <p>6.Limitations (Explanation Required-)</p>	Units Consumed	Total Utiity	Marginal Utiity	1	12	12	2	20	8	3	26	6	4	30	4	5	30	0	7	28	-2	<p>1</p> <p>1</p> <hr/> <p>2</p> <p>2</p>
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IV.36	<p>Classification of Price Elasticity of Demand</p> <p>1. Perfectly Elastic Demand-Small Change in Price leads to an infinite change in Demand</p> <p>2. Perfectly Elastic Demand-Small Change in Price leads to no</p>	<p>1</p> <p>1</p> <p>1</p>																					

	<p>change in Demand</p>  <p>Price Y O X Quantity Demanded</p> <p>Ped=0</p>	1
	<p>3. Relatively Elastic Demand-Percentage of change in demand is greater than the percentage of change in price.</p>  <p>Price Y O X Quantity Demanded</p> <p>Ped > 1</p>	1
	<p>4. Unitary Elastic Demand-Percentage of change in demand is Equal to the percentage of change in price.</p>  <p>Price Y O X Quantity Demanded</p> <p>Ped = 1</p>	1
	<p>5. Relatively inelastic Demand-Percentage of change in demand is less than the percentage of change in price.</p>  <p>Price Y O X Quantity Demanded</p> <p>Ped < 1</p>	1
IV 37	<p>Monopoly-Meaning</p> <p>Equilibrium conditions=Monopoly attains equilibrium at the point where the difference between TR and TC is the maximum, i.e, Maximum Profit</p>	1

	 <p data-bbox="288 851 1289 913">Explanation</p>	4
IV 38	<p data-bbox="288 913 1289 952">Functions of RBI</p> <p data-bbox="288 952 1289 990">1. Introduction</p> <p data-bbox="288 990 1289 1028">2. Functions</p> <p data-bbox="288 1028 1289 1066"> A. Traditional Functions</p> <p data-bbox="288 1066 1289 1104"> a. Monopoly of Note Issue- Section 22 of RBI Act</p> <p data-bbox="288 1104 1289 1142"> b. Banker to the Govt</p> <p data-bbox="288 1142 1289 1180"> c. Banker's Bank</p> <p data-bbox="288 1180 1289 1218"> d. Lender of Last Resort</p> <p data-bbox="288 1218 1289 1256"> e. Clearing House</p> <p data-bbox="288 1256 1289 1294"> f. Controller of Credit-Quantitative & Qualitative Methods</p> <p data-bbox="288 1294 1289 1332"> g. Custodian of Foreign Exchange Reserves</p> <p data-bbox="288 1332 1289 1370"> B. Developmental Functions</p> <p data-bbox="288 1370 1289 1408"> a. Agricultural Finance</p> <p data-bbox="288 1408 1289 1447"> b. Industrial Finance</p> <p data-bbox="288 1447 1289 1485"> C. Other Functions</p> <p data-bbox="288 1485 1289 1523"> a. Research Functions</p> <p data-bbox="288 1523 1289 1561"> b. Special Functions</p>	4 1 7 1 1
V	PART- E	

V 39	<p>Meaning of Budget Set and Budget Line Given Income Rs.100</p> <table border="1" data-bbox="303 362 1260 748"> <thead> <tr> <th>Combination of Apple & Banana</th> <th>Price of Apple – Rs.4 each</th> <th>Price of Banana Rs.2 each</th> <th>Money Income Spent</th> </tr> </thead> <tbody> <tr> <td>E</td> <td>25</td> <td>0</td> <td>$(25 \times 4) + (0 \times 2) = 100$</td> </tr> <tr> <td>F</td> <td>20</td> <td>10</td> <td>$(20 \times 4) + (10 \times 2) = 100$</td> </tr> <tr> <td>G</td> <td>15</td> <td>20</td> <td>$(15 \times 4) + (20 \times 2) = 100$</td> </tr> <tr> <td>H</td> <td>10</td> <td>30</td> <td>$(10 \times 4) + (30 \times 2) = 100$</td> </tr> <tr> <td>I</td> <td>05</td> <td>40</td> <td>$(05 \times 4) + (40 \times 2) = 100$</td> </tr> <tr> <td>J</td> <td>0</td> <td>50</td> <td>$(0 \times 4) + (50 \times 2) = 100$</td> </tr> </tbody> </table> 	Combination of Apple & Banana	Price of Apple – Rs.4 each	Price of Banana Rs.2 each	Money Income Spent	E	25	0	$(25 \times 4) + (0 \times 2) = 100$	F	20	10	$(20 \times 4) + (10 \times 2) = 100$	G	15	20	$(15 \times 4) + (20 \times 2) = 100$	H	10	30	$(10 \times 4) + (30 \times 2) = 100$	I	05	40	$(05 \times 4) + (40 \times 2) = 100$	J	0	50	$(0 \times 4) + (50 \times 2) = 100$	5														
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V 40	<p>Calculate the Missing costs</p> <table border="1" data-bbox="303 1542 1260 1814"> <thead> <tr> <th>Output</th> <th>TFC</th> <th>TVC</th> <th>TC</th> <th>AFC</th> <th>AVC</th> <th>AC</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>50</td> <td>20</td> <td>70</td> <td>50</td> <td>20</td> <td>70</td> </tr> <tr> <td>2</td> <td>50</td> <td>30</td> <td>80</td> <td>25</td> <td>15</td> <td>40</td> </tr> <tr> <td>3</td> <td>50</td> <td>40</td> <td>90</td> <td>16.66</td> <td>13.33</td> <td>30</td> </tr> <tr> <td>4</td> <td>50</td> <td>60</td> <td>110</td> <td>12.5</td> <td>15</td> <td>27.5</td> </tr> <tr> <td>5</td> <td>50</td> <td>90</td> <td>140</td> <td>10</td> <td>18</td> <td>28</td> </tr> </tbody> </table>	Output	TFC	TVC	TC	AFC	AVC	AC	1	50	20	70	50	20	70	2	50	30	80	25	15	40	3	50	40	90	16.66	13.33	30	4	50	60	110	12.5	15	27.5	5	50	90	140	10	18	28	5
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4	50	60	110	12.5	15	27.5																																						
5	50	90	140	10	18	28																																						
V 41	<p style="text-align: center;">Qd=Qs Then $250 - 50P = 25 + 25P$</p>																																											

$$-50P - 25P = 25 - 250$$

$$-75P = -225$$

$$-225$$

$$P = \frac{-225}{-75} = 3$$

$$-75$$

Equilibrium Price is 3

5

$$QD = 250 - 50P$$

$$= 250 - 50(3)$$

$$= 250 - 150$$

$$QD = 100$$

$$QS = 25 + 25P$$

$$= 25 + 25(3)$$

$$= 25 + 75$$

$$QS = 100$$

$$QD = QS$$

So at equilibrium Price '3' $QD = 100$

And $QS = 100$ i.e $QD = QS$

If the Price is greater than 3, then there will be excess supply.

Suppose $P = 4$

Then $QD = 250 - 50P$

$$= 250 - 50(4)$$

$$= 250 - 200$$

$$QD = 50$$

$$QS = 25 + 25P$$

$$= 25 + 25(4)$$

$$= 25 + 100$$

$$QS = 125$$

$$QD = 50$$

$$QS > QD$$

If the Price is less than 3, there will be excess demand

Suppose $P = 2$

Then $QD = 250 - 50P$

	$= 250 - 50(2)$ $= 250 - 100$ $QD = 150$ $QS = 25 + 25P$ $= 25 + 25(2)$ $= 25 + 50$ $QS = 75$ $QD > QS$ $150 > 75$	