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TAMILNADU STATE BOARD

(+2) HSE -2022-23

ECONOMICS - CHAPTER 1 to 12

BOOK BACK ALL QUESTION / ANSWER

NAME :

STANDARD :

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TAMILNADU STATE BOARD – HSE-2022-23

12th ECONOMICS – Chap 1 – 12 BOOK BACK QUESTION ANSWER

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1.INTRODUCTION TO MACRO ECONOMICS

1. The branches of the subject Economics is **d) micro and macro**
2. Who coined the word 'Macro'? **c) Ragnar Frisch**
3. Who is regarded as Father of Modern Macro Economics? **b) J M Keynes**
4. Identify the other name for Macro Economics. **b) Income Theory**
5. Macro economics is a study of _____. **d) aggregates**
6. Indicate the contribution of J M Keynes to economics. **b) General Theory**
7. A steady increase in general price level is termed as _____. **c) Inflation**
8. Identify the necessity of Economic policies. **d) all the above**
9. Indicate the fundamental economic activities of an economy. **c) Production and Consumption**
10. An economy consists of. **d) All the above**
11. Identify the economic system where only private ownership of production exists.
a) Capitalistic Economy
12. Economic system representing equality in distribution is _____. **d) Socialism**
13. Who is referred as 'Father of Capitalism'? **a) Adam Smith**
14. The country following Capitalism is _____. **b) America**
15. Identify The Father of Socialism. **b) Karl Marx**
16. An economic system where the economic activities of a nation are done both by the private and public together is termed as _____. **d) Mixed Economy**
17. Quantity of a commodity accumulated at a point of time is termed as _____. **b) stock**
18. Identify the flow variable. **c) income**
19. Identify the sectors of a Two Sector Model. **a) Households and Firms**
20. The Circular Flow Model that represents an open Economy. **c) Four Sector Mode**

II. Very Short Answer Questions:

21. Define Macro Economics.

- ❖ The word 'Macro' is derived from the Greek word 'Makros' meaning 'large'.
- ❖ Hence, Macro Economics is the study of the economy as a whole.
- ❖ Macro Economics is also known as 'Income Theory'.

22. Define the term 'Inflation'.

- ❖ Inflation refers to steady increase in general price level.
- ❖ Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

23. What is meant by an 'Economy'?

- ❖ J. R. Hicks defined as, "An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers."
- ❖ an economy is referred to any system or area where economic activities are carried out. Each economy has its own character. Accordingly, the functions or activities also vary.

24. Classify the economies based on status of development.

1. Developed economies
2. Underdeveloped economies
3. Undeveloped economies
4. developing economies

25. What do you mean by Capitalism?

- ❖ Adam Smith is the 'Father of Capitalism'.
- ❖ Capitalistic economy is also termed as a free economy (Laissez faire, in Latin) or market economy where the role of the government is minimum and market determines the economic activities.

26. Define 'Economic Model'.

- ❖ A model is a simplified representation of real situation.
- ❖ Economists use models to describe economic activities, their relationships and their behaviour.
- ❖ A model is an explanation of how the economy, or part of the economy, works.

27. 'Circular Flow of Income' - Define.

- ❖ The circular flow of income is a model of an economy - showing connections between different sectors of an economy.
- ❖ Factors of production between - economic agents such as firms, house- holds, government and nations
- ❖ The circular flow analysis is the basis of national accounts and macroeconomics.

III. Answer the following questions in one paragraph**28. State the importance of Macro Economics.**

- ❖ Understanding the future problems, needs and challenges of an economy as a whole is important to evolve precautionary measures.
- ❖ Macro economics provides ample opportunities to use scientific investigation to understand the reality.
- ❖ Macro economics helps to make meaningful comparison and analysis of economic indicators.
- ❖ Macro economics helps for better prediction about future and to formulate suitable policies to avoid economic crises.

29. Describe the different types of economic systems.

There are three major types of economic systems. They are:

- A. Capitalistic Economy (Capitalism),
- B. Socialistic Economy (Socialism)and
- C. Mixed Economy (Mixedism)

A. Capitalistic Economy:

- ❖ It is the system where the means of production are privately owned and market determines the economic activities. **Ex.** USA, West Germany, Australia etc.

B. Socialistic Economy:

- ❖ It is the system where the major economic activities are owned and controlled by the government; Social welfare is a main motive of it. **Ex.** Russia, China, Poland etc.

C. Mixed Economy:

- ❖ In a mixed economic system, both private and public sectors coexist and work together towards economic development. **Ex.:** India, England, France, etc.

30. Outline the major merits of capitalism.**1. Automatic Working:**

Without any government intervention, the economy works automatically.

2. Efficient Use of Resources:

All resources are put into optimum use.

3. Incentives for Hard work:

Hard work is encouraged and entrepreneurs get more profit for more efficiency.

4. Economic Progress:

Production and productivity levels are very high in capitalistic economies.

31. Indicate the demerits of socialism.**1. Red-Tapism and Bureaucracy:**

- ❖ As decision are taken by government agencies, approval of many officials and movement of files from one table to other takes time and leads to red tapism.

2. Absence of Incentive:

- ❖ The major limitation of socialism is that this system does not provide any incentive for efficiency. Therefore, productivity also suffers.

3. Limited Freedom of Choice:

- ❖ Consumers do not enjoy freedom of choice over the consumption of goods and services.

32. Enumerate the features of mixed economy.**Features of Mixed Economy****Ownership of property and means of production:**

- ❖ Both the public and private have rights over property and means of production.

Co-existence of public and private sector:

- ❖ Public sector aims at social welfare whereas a private sector aims at for profits.

Economic plan:

- ❖ National plans are drawn up by the government and both public and private sectors abide.

33. Distinguish between Capitalism and Globalism.

| Basis of Difference | Capitalism | Globalism |
|-----------------------|--|--|
| Term coined by | Adam Smith is the 'Father of Capitalism' (1776). Capitalistic economy is also termed as a free economy (Laissez faire, in Latin) or market economy | The term coined by Manfred D Steger (2002) to denote the new market ideology of globalization |
| Meaning | The system where the means of production are privately owned and market determines the economic activities. | An economic system where the economic activities of a nation are inter Connected and inter dependent on each other nation. |
| Feature | The role of the government is minimum and market determines the economic activities. | Connects nations together through International trade and aiming at global Development. This ideology is also termed as 'Extended Capitalism'. |

34. Briefly explain the two sector circular flow model.

There are only two sectors namely, household sector and firm sector.

(i) Household Sector:

- ❖ The household sector is the sole buyer of goods and services, and the sole supplier of factors of production, i.e., land, labour, capital and organization. The household sector receives income from firm sector by providing the factors of production owned by it.

(ii) Firms:

- ❖ The firm sector generates its revenue by selling goods and services to the household sector. It hires the factors of production, i.e., land, labour, capital and organisation, owned by the household sector.

IV. Long Answer Questions:**35. Discuss the scope of Macro Economics.**

The study of macro economics has wide scope and it covers the major areas as follows

i. National Income:

- ❖ Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis. The trends in National Income and its composition provide a long term understanding of the growth process of an economy.

ii. Inflation:

- ❖ Inflation refers to steady increase in general price level. Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

iii. Business Cycle:

- ❖ Almost all economies face the problem of business fluctuations and business cycle. The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.

iv. Poverty and Unemployment:

- ❖ The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes. A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

v. Economic Growth:

- ❖ The growth and development of an economy and the factors determining them could be understood only through macro analysis.

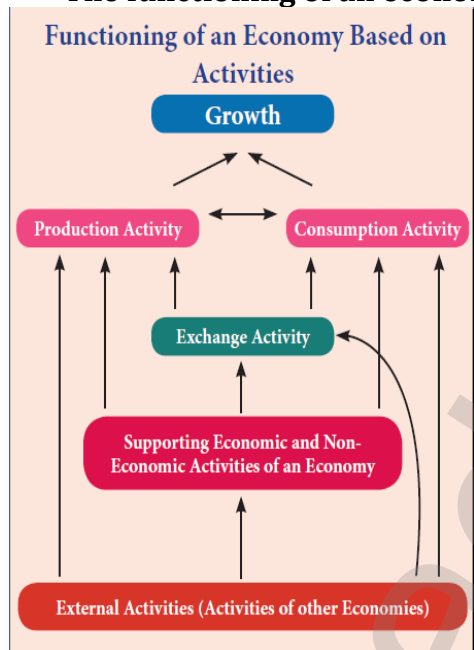
vi. Economic Policies:

- ❖ Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

36. Illustrate the functioning of an economy based on its activities.**Introduction**

Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area.

The functioning of an economy by its activities is explained in the following flow chart.



- 1) In an economy, the fundamental economic activities are production and consumption. These two activities are supported by several other activities.
- 2) The ultimate aim of these activities is to achieve growth.
- 3) The 'exchange activity' supports the production and consumption activities. These activities are influenced by several economic and non-economic activities.
- 4) The major economic activities include transportation, banking, advertising, planning, government policy and others.
- 5) The major non-economic activities are environment, health, education, entertainment, governance, regulations etc.
- 6) In addition to these supporting activities, external activities from other economies such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc. also influence the entire functioning of the economy.

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37. Compare the features of capitalism and socialism.

| S.No. | Features | Capitalism | Socialism |
|-------|----------------------------------|---------------------------|-------------------------|
| 1 | Ownership of Means of Production | Private Ownership | Public Ownership |
| 2 | Economic Motive | Profit | Social Welfare |
| 3 | Solution of Central Problems | Free Market System | Central Planning System |
| 4 | Government Role | Interanal Regulation only | Complete Involvement |
| 5 | Income Distribution | Unequal | Equal |
| 6 | Nature of Enterprise | Private Enterprise | Government Enterprise |
| 7 | Economic Freedom | Complete Freedom | Lack of Freedom |
| 8 | Major Problem | Inequality | Inefficiency |

38. Compare the feature among Capitalism, Socialism and Mixedism.

| S.No. | Features | Capitalism | Socialism | Mixedism |
|-------|----------------------------------|---------------------------|-------------------------|--|
| 1 | Ownership of Means of Production | Private Ownership | Public Ownership | Private Ownership and Public Ownership |
| 2 | Economic Motive | Profit | Social Welfare | Social Welfare and Profit Motive |
| 3 | Solution of Central Problems | Free Market System | Central Planning System | Central Planning System and Free Market System |
| 4 | Government Role | Interanal Regulation only | Complete Involvement | Limited Role |
| 5 | Income Distribution | Unequal | Equal | Less unequal |
| 6 | Nature of Enterprise | Private Enterprise | Government Enterprise | Both Private and State Enterprises |
| 7 | Economic Freedom | Complete Freedom | Lack of Freedom | Limited Freedom |
| 8 | Major Problem | Inequality | Inefficiency | Inequality and Inefficiency |

2.NATIONAL INCOME

1. Net National product at factor cost is also known as. **a) National Income**
2. Primary sector is **c) Agriculture**
3. National income is measured by using methods. **b) Three**
4. Income method is measured by summing up of all forms of **d) Income**
5. Which is the largest figure? **d) GNP**
6. Expenditure method is used to estimate national income in **a) Construction sector**
7. Tertiary sector is also called as Sector. **a) Service**
8. National income is a measure of the performance of an economy. **c) Economic**
9. Per capita income is obtained by dividing the National income by **b) Population of a country**
10. $GNP = \dots + \text{Net factor income from abroad}$. **c) GDP**
11. NNP stands for **a) Net National Product**
12. is deducted from gross value to get the net value. **b) Depreciation**
13. The financial year in India is **a) April 1 to March 31**
14. When net factor income from abroad is deducted from NNP, the net value is
c) Net Domestic Product
15. The value of NNP at production point is called **a) NNP at factor cost**
16. The average income of the country is **b) Per capita income**
17. The value of national income adjusted for inflation is called **d) Real national income**
18. Which is a flow concept ? **c) Monthly income**
19. PQLI is the indicator of **b) Economic welfare**
20. The largest proportion of national income comes from **a) Private sector**

II. Very Short Answer Questions:

21. Define National Income.

- ❖ According to Alfred Marshall, "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend"

22. Write the formula for calculating GNP.

$GNP \text{ at Market Prices} = GDP \text{ at Market Prices} + \text{Net Factor income from Abroad}$.

23. What is the difference between NNP and NDP?

| Basis of Difference | NNP | NDP |
|---------------------|---|---|
| Meaning | Net National Product refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation, or replacement allowance of the capital assets from the GNP. | NDP is the value of net output of the economy during the year. Some of the country's capital equipment wears out or becomes outdated each year during the production process. |
| Formula | $NNP = GNP - \text{depreciation allowance}$. | Net Domestic Product = GDP - Depreciation. |

24. Trace the relationship between GNP and NNP.

| Basis of Relationship | GNP | NNP |
|------------------------|--|---|
| At Market price | GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad. | Net National Product refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation, or replacement allowance of the capital assets from the GNP. |

| | | |
|----------------|--|-------------------------------------|
| Formula | GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad. | NNP = GNP – depreciation allowance. |
|----------------|--|-------------------------------------|

25. What do you mean by the term 'Personal Income'?

- ❖ Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.
- ❖ Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.
- ❖ Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments

26. Define GDP deflator.

- ❖ GDP deflator is an index of price changes of goods and services included in GDP.
- ❖ It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100.
- ❖ GDP deflator = Nominal GDP/Real GDP × 100

27. Why is self-consumption difficult in measuring national income?

- ❖ Farmers keep a large portion of food and other goods produced on the farm for self consumption.
- ❖ The problem is whether that part of the produce which is not sold in the market can be included in national income or not.

28. Write a short note on per capita income.

- ❖ The average income of a person of a country in a particular year is called Per Capita Income. Per capita income is obtained by dividing national income by population.
- ❖ Per Capita income = National Income / Population.

III. Answer the following questions in one paragraph

29. Differentiate between personal and disposable income.

| Basis of Difference | Personal Income | Disposable Income |
|---------------------|--|--|
| Meaning | Personal income is the total income received by the individuals before payment of direct taxes in a year | Disposable Income is the individuals income after the payment of income tax |
| Implication | Personal income is never equal to the national income. | This is the amount available for households for consumption |
| Formula | Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments | Disposable Income = Personal income – Direct Tax. As the entire disposable income is not spent on consumption, Disposal income = consumption + saving. |

30. Explain briefly NNP at factor cost.

- ❖ NNP refers to the market value of output. Whereas NNP at factor cost is the total of income payment made to factors of production.
- ❖ Thus from the money value of NNP at market price or NNI, we deduct the amount of indirect taxes and add subsidies to arrive at the net national income at factor cost.
- ❖ NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.

31. Give short note on Expenditure method.

- ❖ Under this method, the total expenditure incurred by the society in a particular year is added together. To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.

Symbolically, $GNP = C + I + G + (X-M)$

C - Private consumption expenditure

G - Government expenditure

I - Private Investment Expenditure

X-M = Net exports

32. What is the solution to the problem of double counting in the estimation of national income?

- ❖ To avoid double counting, either the value of the final output should be taken into the estimate of GNP or the sum of values added should be taken.
- ❖ Double counting is to be avoided under value added method.
- ❖ Any commodity which is either raw material or intermediate good for the final production should not be included. At every stage value added only should be calculated.

33. Write briefly about national income and welfare

- ❖ National Income is considered as an indicator of the economic wellbeing of a country.
- ❖ The economic progress of countries is measured in terms of their GDP per capita and their annual growth rate.
- ❖ A country with a higher per capita income is supposed to enjoy greater economic welfare with a higher standard of living.
- ❖ But the rise in GDP or per capita income need not always promote economic welfare.

34. List out the uses of national income.

- i. To know the relative importance of the various sectors of the economy and their contribution towards national income
- ii. To formulate the national policies such as monetary policy, fiscal policy and other policies
- iii. To formulate planning and evaluate plan progress
- iv. To build economic models both in short - run and long - run.

IV. Long Answer Questions:**35. Explain the importance of national income.**

National income is of great importance for the economy of a country. Nowadays the national income is Regarded as accounts of the economy, which are known as social accounts.

It enables us,

- ❖ To know the relative importance of the various sectors of the economy and their contribution towards national income; from the calculation of national income.
- ❖ To formulate the national policies such as monetary policy, fiscal policy and other policies; the proper measures can be adopted to bring the economy to the right path with the help of collecting national income data.
- ❖ To formulate planning and evaluate plan progress; it is essential that the data pertaining to a country's gross income, output, saving and consumption from different sources should be available for economic planning.
- ❖ To build economic models both in short - run and long - run.
- ❖ To know a country's per capita income which reflects the economic welfare of the country.
- ❖ To know the distribution of income for various factors of production in the country.

36. Discuss the various methods of estimating the national income of a country.**Introduction**

National Income can be computed at any of three levels, viz., production, income and expenditure.

1. Production or value added method
2. Income method or factor earning method
3. Expenditure method

$$\text{Output} = \text{Income} = \text{Expenditure}$$

1. Product Method

Product method measures the output of the country. It is also called inventory method. Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce, etc., is obtained for the entire economy during a year.

Steps Involved

The value of the final product is derived by the summation of all the values added in the productive process. To avoid double counting, either the value of the final output.

Precautions

1. Double counting is to be avoided under value added method.
2. The value of output used for self consumption should be counted while measuring national income.

2. Income Method (Factor Earning Method)

This method approaches national income from the distribution side. Under this method, national income is calculated by adding up all the incomes generated in the course of producing national product.

Steps involved 1. The enterprises are classified into various industrial groups.

i) Labour income - Wages and salaries, fringe benefits, employer's contribution to social security.

ii) Capital income - Profit, interest, dividend and royalty

iii) Mixed income - Farming, sole proprietorship and other professions.

Precautions

Items not to be included- Transfer payments are not to be included in estimation of national income

Items to be included- Imputed value of rent for self occupied houses or offices is to be included.

37. What are the difficulties involved in the measurement of national income?

1. Transfer payments

Government makes payments in the form of pensions, unemployment allowance, subsidies, etc. These are government expenditure. But they are not included in the national income.

2. Difficulties in assessing depreciation allowance

The deduction of depreciation allowances, accidental damages, repair and replacement charges from the national income is not an easy task.

3. Unpaid services

A housewife renders a number of useful services like preparation of meals, serving, tailoring, mending, washing, cleaning, bringing up children, etc.

4. Income from illegal activities

Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor, etc., is not included in national income.

5. Production for self-consumption and changing price

Farmers keep a large portion of food and other goods produced on the farm for self consumption.

6. Capital Gains

The problem also arises with regard to capital gains. Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc.

38. Discuss the importance of social accounting in economic analysis.

National Income and Social Accounting

- ❖ National income is also being measured by the social accounting method.
- ❖ Under this method, the transactions among various sectors such as firms, households, government, etc.,
- ❖ Social Accounting and Sector Under this method, the economy is divided into several sectors.

The Importance of social accounting are as follows:

(1) In Classifying Transactions:

Economic activity in a country involves innumerable transactions relating to buying and selling, paying and receiving income, exporting and importing, paying taxes, etc.

(2) In Understanding Economic Structure:

Social accounting helps us to understand the structure of the body economic.

(3) In Understanding Different Sectors and Flows:

Social accounts throw light on the relative importance of the different sectors and flows in the economy.

(Eg): production sector, consumption sector, investment sector and the rest of the world sector

(4) In Clarifying Relations between Concepts:

Social accounts help in clarifying the relationships between such related concepts as net national product at factor cost and gross national product at market prices.

(5) In Guiding the Investigator:

Social accounts are a guide for the economic investigator by indicating the type of data which might be collected for analysing the behaviour of the economy.

3.THEORIES OF EMPLOYMENT AND INCOME

1. Every able bodied person who is willing to work at the prevailing wage rate is employed called as **a) Full employment**
2. Structural unemployment is a feature in a **c) Dynamic society**
3. In disguised unemployment, the marginal productivity of labour is **a) Zero**
4. The main concention of the Classical Economic Theory is
b) Economy is always in the state of equilibrium
5. J.B. Say is a **b) Classical Economist**
6. According to Keynes, which type of unemployment prevails in capitalist economy ?
d) Under employment
7. The core of the classical theory of employment is **c) Law of Markets**
8. Keynes attributes unemployment to **b) A lock of effective demand**
9. Flexibility brings equality between saving and investment. **d) Interest**
10. theory is a turning point in the development of modern economic theory. **a) Keynes**
- 11.The basic concept used in Keynes Theory of Employment and Income is..... **c) Effective demand**
12. The component of aggregate demand is **b) Government expenditure**
13. Aggregate supply is equal to **d) C + S + T + Rf**
14. Keynes theory pursues to replace laissez faire by **c) State intervention in certain situation**
15. In Keynes theory of employment and income, is the basic cause of economic depression.
d) Less aggregate demand in relation to productive capacity.
16. Classical theory advocates **a) Balanced budget**
17. Keynes theory emphasized on equilibrium. **b) Short run**
18. According to classical theory, rate of interest is a reward for **d) Saving**
19. In Keynes theory , the demand for and supply of money are determined by **a) Rate of interest**
20. Say's law stressed the operation of in the economy. **b) Automatic price mechanism**

II. Very Short Answer Questions:

21. Define full employment.

- ❖ Keynes defines full employment as the absence of involuntary unemployment.
- ❖ Lerner defines full employment as "that level of employment at which any further increase in spending would result in an inflationary spiral of wages and prices".

22. What is the main feature of rural unemployment?

- ❖ India's rural economy has both unemployment and underemployment.
- ❖ The main feature of rural unemployment is the existence of unemployment in the form of disguised unemployment and seasonal unemployment.

23. Give short note on frictional unemployment.

- ❖ Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
- ❖ This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.

24. Give reasons for labour retrenchment at present situation.

- ❖ The Industrial Dispute Act, 1947 states that 'retrenchment means termination of service of a workman by an employer for any reason whatsoever.
- ❖ Labour saving devices are responsible for technological unemployment.

25. List out the assumptions of Say's law.

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.
3. People are motivated by self interest and self – interest determines economic decisions.
4. Money acts only as a medium of exchange.

26. What is effective demand ?

Effective demand denotes money actually spent by the people on products of industry. The money which entrepreneurs receive is paid in the form of rent, wages, interest and profit. Therefore effective demand equals national income.

$$\mathbf{ED = Y = C + I = Output = Employment}$$

27. What are the components of aggregate supply ?

1. Aggregate (desired) consumption expenditure (C)
2. Aggregate (desired) private savings (S)
3. Net tax payments (T) (Total tax payment to be received by the government minus transfer payments, subsidy and interest payments to be incurred by the government) and
4. Personal (desired) transfer payments to the foreigners (Rf) (eg. Donations to international relief efforts) Aggregate Supply = C + S + T + Rf = Aggregate income generated in the economy

III. Short Answer Questions:**28. Explain the following in short****(i) Seasonal unemployment**

This type of unemployment occurs during certain seasons of the year. In agriculture and agro based industries like sugar, production activities are carried out only in some seasons. These industries offer employment only during that season in a year.

(ii) Frictional unemployment

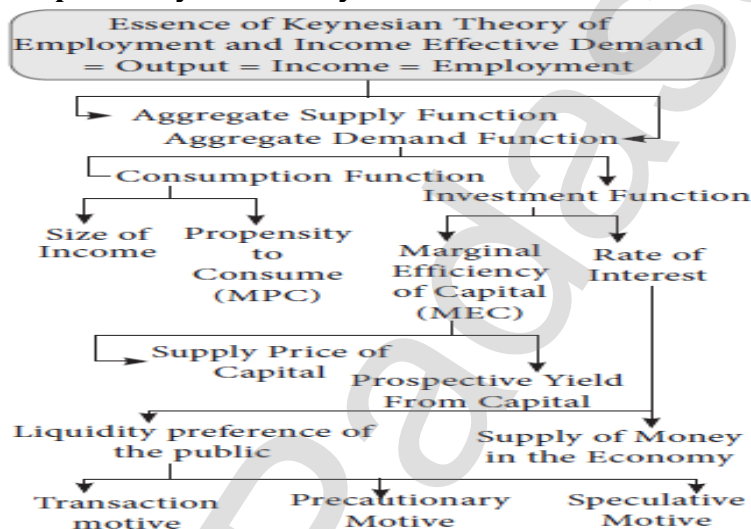
Frictional unemployment arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.

(iii) Educated unemployment

Sometimes educated people are underemployed or unemployed when qualification does not match the job. Faulty education system, lack of employable skills, mass student turnout and preference for white collar jobs are highly responsible for educated unemployment in India.

29. Write short note on the implications of Say's law.

1. There is no possibility for over production or unemployment.
2. If there exist unutilized resources in the economy, it is profitable to employ them up to the point of full employment.
3. As automatic price mechanism operates in the economy, there is no need for government intervention.
4. Interest flexibility brings about equality between saving and investment.

30. Explain Keynes' theory in the form of flow chart.**M.SAKTHIVEL.**

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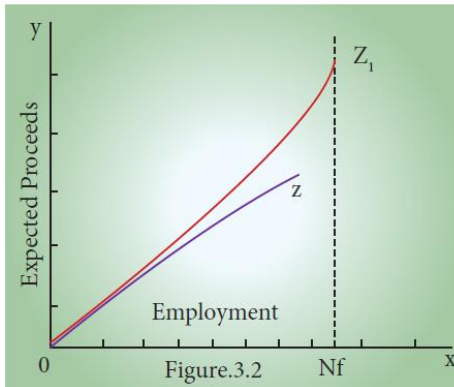
31. What do you mean by aggregate demand? Mention its components.

- ❖ The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.
- ❖ Therefore, it is the expected income or revenue from the sale of output at different levels of employment.
- ❖ Aggregate demand has the following four components:
- ❖ Consumption demand 2. Investment demand 3. Government expenditure and 4. Net Export (export - import) $AD = C + I + G + (X - M)$

32. Explain about aggregate supply with the help of diagram.

- ❖ Aggregate supply function is an increasing function of the level of employment.
- ❖ Aggregate supply refers to the value of total output of goods and services produced in an economy in a year.
- ❖ In other words, aggregate supply is equal to the value of national product, i.e., national income.
Aggregate Supply = C + S + T + Rf = Aggregate income generated in the economy

AGGREGATE SUPPLY CURVE



- i. The above figure shows the shape of the two aggregate supply curves drawn for the assumption of fixed money wages and variable wages.
- ii. Z curve is linear where money wages remains fixed;
- iii. Z1 curve is non - linear since wage rate increases with employment.
- iv. When full employment level of Nf is reached it is impossible to increase output by employing more men. So aggregate supply curve becomes inelastic (Vertical straight line).
- v. The slope of the aggregate supply curve depends on the relation between the employment and productivity.
- vi. The aggregate supply depends on t

33. Write any five differences between classism and Keynesianism.

| Sno | Keynesianism | Classicism |
|-----|------------------------------------|------------------------------------|
| 1 | Short-run Equilibrium | Long-run Equilibrium |
| 2 | Saving is a vice | Saving is a social virtue. |
| 3 | Macro approach to national problem | Micro foundation to macro problems |
| 4 | State intervention is advocated | Champions of Laissez-fair policy |

IV. Answer the following questions in about page.**35. Describe the types of unemployment.****Introduction**

Unemployment is problem faced when there are people, who are willing to work and able to work but cannot find suitable jobs. Types of unemployment In developing countries like India, the nature of unemployment is different from that of developed countries. in the developing countries, it is largely structural unemployment which is due to slow rate of capital formation.

Types of unemployment:-

1. Cyclical Unemployment
2. Seasonal Unemployment
3. Frictional Unemployment
4. Educated Unemployment
5. Technical Unemployment
6. Structural Unemployment
7. Disguised Unemployment

1. Cyclical Unemployment

This unemployment exists during the downturn phase of trade cycle in the economy. In a business cycle during the period of recession and depression, income and output fall leading to widespread unemployment.

2. Seasonal Unemployment

This type of unemployment occurs during certain seasons of the year. In agriculture and agro based industries like sugar production activities are carried out only in some seasons. These industries offer employment only during that season in a year.

3. Frictional Unemployment (Temporary Unemployment)

Frictional unemployment arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.

4. Educated Unemployment

Sometimes educated people are underemployed or unemployed when qualification does not match the job. Faulty education system, lack of employable skills, mass student turnout and preference for white collar jobs are highly responsible for educated unemployment in India.

5. Technical Unemployment

Modern technology being capital intensive requires less labourers and contributes to technological unemployment.

36. Critically explain Say's law of market.

Introduction

Say's law of markets is the core of the classical theory of employment. J.B.Say (1776– 1832) was a French Economist and an industrialist.

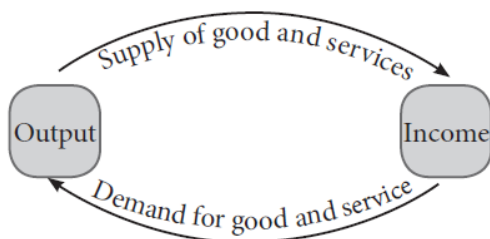
Say's Market Law

J.B. Say enunciated the proposition that "Supply creates its own demand". Hence there cannot be general over production or the problem of unemployment in the economy.

Explanation of Say's Market Law

- ❖ According to Say, "When goods are produced by firms in the economy, they pay reward to the factors of production.
- ❖ The households after receiving rewards of the factors of production spend the amount on the purchase of goods and services produced by them.
- ❖ Therefore, each product produced in the economy creates demand equal to its value in the market.

its value in the market.



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Assumptions of Say's law.

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.
3. There will be a perfect competition in labour and product market.
4. There is wage-price flexibility.
5. Money acts only as a medium of exchange.
6. Long - run analysis.
7. There is no possibility for over production or unemployment.

Implications of Say's law.

1. There is no possibility for over production or unemployment.
2. If there exist unutilized resources in the economy, it is profitable to employ them up to the point of full employment.
3. As automatic price mechanism operates in the economy, there is no need for government intervention.
4. Interest flexibility brings about equality between saving and investment.

Criticisms of Say's Law

1. According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.
2. Automatic adjustment process will not remove unemployment.
3. Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.

4. Say's law is based on wrong proposition that supply creates its own demand and there is no over production.

5. Keynes regards full employment as a special case because there is under - employment in capitalist economies.

37. Narrate the equilibrium between ADF and ASF with diagram.

Introduction

The relationship between employment and output of an economy depends upon the level of effective demand which is determined by the forces of aggregate supply and aggregate demand.

Effective Demand : Equilibrium between ADF and ASF

Effective Demand

Effective demand denotes money actually spent by the people on products of industry. The money which entrepreneurs receive is paid in the form of rent, wages, interest and profit. Therefore effective demand equals national income.

$$ED = Y = C + I = \text{Output} = \text{Employment}$$

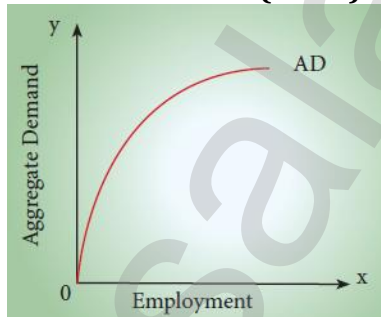
Aggregate Demand Function (ADF)

In the Keynesian model, output is determined mainly by aggregate demand. The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.

Aggregate demand has the following four components:

1. Consumption demand
2. Investment demand
3. Government expenditure and
4. Net Export (export - import)

$$AD = C + I + G + (X - M)$$



i. Figure explains that aggregate demand price increases or decreases with an increase or decrease in the volume of employment.

ii. Aggregate demand curve increases at an increasing rate in the beginning and then increases at a decreasing rate.

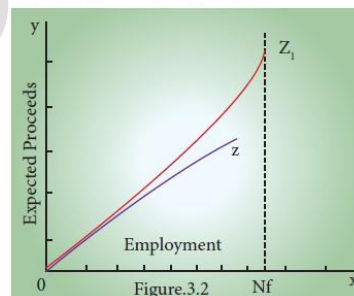
Aggregate supply function

Aggregate supply function is an increasing function of the level of employment. Aggregate supply refers to the value of total output of goods and services produced in an economy in a year.

In other words, aggregate supply is equal to the value of national product, i.e., national income.

$$\text{Aggregate Supply} = C + S + T + R_f = \text{Aggregate income generated in the economy}$$

AGGREGATE SUPPLY CURVE

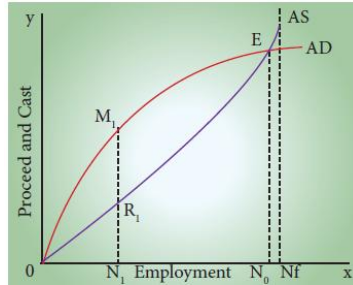


i. The above figure shows the shape of the two aggregate supply curves drawn for the assumption of fixed money wages and variable wages.

ii. Z curve is linear where money wages remains fixed;

iii. Z1 curve is non - linear since wage rate increases with employment.

iv. Under the Keynes theory of employment, a simple two sector economy consisting of the household sector and the business sector is taken to understand the equilibrium between ADF and ASF.



i. In the figure, the aggregate demand and aggregate supply reach equilibrium at point E. The employment level is N_0 at that point.

ii. At ON_1 employment, the aggregate supply is $N_1 R_1$.

iii. But they are able to produce $M_1 N_1$. The expected level of profit is $M_1 R_1$.

iv. It is important to note that the equilibrium level of employment need not be the full employment level (N_1) from the Figure, it is understood that the difference between $N_0 - N_f$ is the level of unemployment.

38. Explain the differences between classical theory and Keynes theory.

❖ Classical economists stressed the self-adjusting tendencies of the economy. They expressed that if there are no government policies, economy would achieve full employment and full potential

❖ On the other hand, Keynesians view the economy as unstable as a result of instability of aggregate demand, primarily due to private investment component.

A summary of the differences between the two theories is shown in table.

| S. NO | BASIS OF DIFFERENCES | CLASSICAL THEORY | KEYNES THEORY |
|-------|------------------------|---|---|
| 1 | Equilibrium | Long-run equilibrium | Short-run equilibrium |
| 2 | Savings and Investment | Saving and investment equilibrium through interest rate | Saving and investment equilibrium through income levels |
| 3 | Money | The function of money is to act as a medium of exchange | The function of money is a medium of exchange on the one side and a store of value on the other side. |
| 4 | Approach | Micro foundation to macro problems | Macro approach to national problems |
| 5 | Intervention | No government intervention | Government intervention is necessary for stabilization of economy |
| 6 | Employment | Full employment (under employment is voluntary and temporary) | Unemployment and under employment are possible |
| 7 | Output | Supply determined (Say's Law: Supply creates demand) | Aggregate demand determined (Demand creates supply. Model based on concept of aggregate demand) |
| 8 | Budget | Balanced budget | Budgeting should be adjusted to the requirements of economy. |

4.CONSUMPTION AND INVESTMENT FUNCTIONS

1. The average propensity to consume is measured by..... **a) C/Y**
2. An increase in the marginal propensity to consume will:
a) Lead to consumption function becoming steeper
3. If the Keynesian consumption function is $C=10+0.8 Y$ then, if disposable income is Rs 1000, what is amount of total consumption? **c) ₹ 810**
4. If the Keynesian consumption function is $C=10+0.8Y$ then, when disposable income is Rs 100, what is the marginal propensity to consume? **a) ₹ 0.8**
5. If the Keynesian consumption function is $C=10+0.8 Y$ then, and disposable income is ₹100, what is the average propensity to consume? **d) ₹0.9**
6. As national income increases.... **a) The APC falls and gets nearer in value to the MPC.**
7. As increase in consumption at any given level of income is likely to lead.....
a) Higher aggregate demand
8. Lower interest rates are likely to : **d) increase borrowing and spending**
9. The MPC is equal to : **c) Change in consumption /change in income**
10. The relationship between total spending on consumption and the total income is the _____
a) Consumption function
11. The sum of the MPC and MPS is _____ **a)1**
12. As income increases, consumption will _____ **d) increase**
13. When investment is assumed autonomous the slope of the AD schedule is determined by the ____
c) marginal propensity to consume
14. The multiplier tells us how much _____ changes after a shift in ____ **d) output, aggregate demand**
15. The multiplier is calculated as **a) $1/(1-MPC)$ b) $1/MPS$ c) $1/MPC$ d) a and b**
16. If the MPC is 0.5, the multiplier is _____ **a) 2**
17. In an open economy import _____ the value of the multiplier **a) Reduces**
18. According to Keynes, investment is function of the MEC and ____ **d) Rate of interest**
19. The term super multiplier was first used by **a) J.R.Hicks**
20. The term MEC was introduced by **b) J.M. Keynes**

II. Very Short Answer Questions:

21. What is consumption function?

- The consumption function or propensity to consume refers to income consumption relationship.
- It is a "functional relationship between two aggregates viz., total consumption and gross national income."
- Symbolically, the relationship is represented as $C= f(Y)$
Where, C = Consumption Y = Income F= Function

22. What do you mean by propensity to consume?

- Propensity to consume refers to income consumption relationship.
- It is a "functional relationship between two aggregates viz., total consumption and gross national income."

23. Define average propensity to consume(APC).

The average propensity to consume is the ratio of consumption expenditure to any particular level of income." Algebraically it may be expressed as under:

$$APC = C/Y \quad \text{Where,} \quad C = \text{Consumption} \quad Y = \text{Income}$$

24. Define marginal propensity to consume (MPC).

The marginal propensity to consume may be defined as the ratio of the change in the consumption to the change in income.

Algebraically it may be expressed as under: $MPC = \Delta C/\Delta Y$ Where,

ΔC = Change in Consumption ΔY = Change in Income MPC is positive but less than unity

25. What do you mean by propensity to save?

- The propensity to save refers to income savings relationship.
- Saving function is a “functional relationship between two aggregates viz., total savings and gross national income.”

Symbolically, the relationship is represented as:

$$S = f(Y)$$

Where, S = Savings Y = Income

F = Function

26. Define average propensity to save (APS).

- The average propensity to save is the ratio of saving to income.
 - APS is the quotient obtained by dividing the total saving by the total income. In other words, it is the ratio of total savings to total income.
 - It can be expressed algebraically in the form of equation as under: $APC = S/Y$
- Where, S = Saving Y = Income

27. Define Marginal Propensity to Save (MPS).

- Marginal Propensity to Save is the ratio of change in saving to a change in income.
- MPS is obtained by dividing change in savings by change in income.

$$MPS = \Delta S / \Delta Y$$

ΔS – Change in Saving

ΔY – Change in Income

Since $MPC + MPS = 1$

$MPS = MPC$ and $MPC = 1 - MPS$

Generally the average ie APC is expressed in percentage and the MPC in fraction.

28. Define Multiplier.

- The multiplier is defined as the ratio of the change in national income to change in investment.
- If ΔI stands for increase in investment and ΔY stands for resultant increase in income, the multiplier $K = \Delta Y / \Delta I$.
- Since ΔY results from ΔI , the multiplier is called investment multiplier.

29. Define Accelerator.

- Accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment. Accelerator (β) = $\Delta I / \Delta C$
- ΔI = Change in investment outlays (Say 100)
 ΔC = Change in consumption demand (Say 50)

The accelerator expresses the ratio of the net change in investment to change in consumption.

III. Short Answer Questions:**30. State the propositions of Keynes's Psychological Law of Consumption**

(1) When income increases, consumption expenditure also increases but by a smaller amount.

The reason is that as income increases, our wants are satisfied side by side, so that the need to spend more on consumer goods diminishes. So, the consumption expenditure

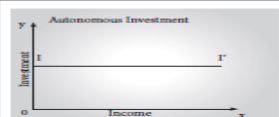
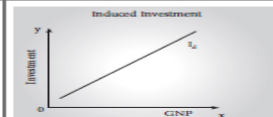
(2) The increased income will be divided in some proportion between consumption expenditure and saving.

This follows from the first proposition because when the whole of increased income is not spent on consumption, the remaining is saved.

(3) Increase in income always leads to an increase in both consumption and saving.

This means that increased income is unlikely to lead to fall in either consumption or saving. Thus with increased income both.

31. Differentiate autonomous and induced investment.

| Basics | Autonomous Investment | Induced Investment |
|------------|---|---|
| Meaning | Independent | Planned |
| Elasticity | Income inelastic | Income elastic |
| Motive | Welfare motive | Profit Motive |
| Diagram |  |  |

32. Explain any three subjective and objective factors influencing the consumption function.**A) Subjective Factors**

Subjective factors are the internal factors related to psychological feelings. Major subjective factors influencing.

1. The motive of precaution: To build up a reserve against unforeseen contingencies.

Eg. Accidents, sickness

2. The motive of foresight: The desire to provide for anticipated future needs. Eg. Old age

3. The motive of calculation: The desire to enjoy interest and appreciation.

4. The motive of improvement: The desire to enjoy for improving standard of living.

B) Objective Factors

Objective factors are the external factors which are real and measurable.

1) Income Distribution

If there is large disparity between rich and poor, the consumption is low because the rich people have low propensity to consume and high propensity to save.

2) Price level

Price level plays an important role in determining the consumption function. When the price falls, real income goes up; people will consume more and propensity to save of the society increases.

3) Wage level

Wage level plays an important role in determining the consumption function and there is positive relationship between wage and consumption.

4) Interest rate

Rate of interest plays an important role in determining the consumption function.

33. Mention the differences between accelerator and multiplier effect

| S.No | BASIS | ACCELERATOR | MULTIPLIER |
|------|---------|--|--|
| 1 | Meaning | The accelerator coefficient is the ratio Between induced investment and an initial change in consumption | The multiplier is defined as the ratio of the change in national income to change in investment. |
| 2 | Effect | Change in consumption expenditure forms the effect | Change in Investment forms the effect |
| 3 | Formula | $\beta = \Delta I / \Delta C$ | $K = \Delta Y / \Delta I$ |

34. State the concept of super multiplier.**Meaning of Super Multiplier:-**

- ❖ In order to measure the total effect of initial investment on income, Hicks has combined the k and β mathematically and given it the name of the Super Multiplier.
- ❖ The super multiplier is worked out by combining both induced consumption and induced investment.
- ❖ The combined name of the super multiplier and the accelerator is also called the leverage effect.

Leverage Effect:-

The combined effect of the multiplier and the accelerator is also called the leverage effect which may lead the economy to very high or low level of income propagation.

Symbolically:- $Y = C + IA + IP$

Y = Aggregate income.

C = Consumption expenditure

IA= autonomous investment

IP= induced private investment

The super – multiplier, tells us that if there is an initial increase in autonomous investment, income will increase by K times the autonomous investment.

35. Specify the limitations of the multiplier.

The multiplier assumes that those who earn income are likely to spend a proportion of their additional income on consumption. But in practice, people tend to spend their additional income on other items. Such expenses are known as leakages. These leakages are the limitations of the multiplier.

- Payment towards past debts.
- Purchase of existing wealth
- Import of goods and services
- Non availability of consumer goods
- Full employment situation

IV. Answer the following questions in about page.**36. Explain Keynes psychological law of consumption function with diagram.****Introduction:-**

Keynes propounded the fundamental Psychological Law of Consumption which forms the basis of the consumption function.

Meaning of Psychological law of consumption

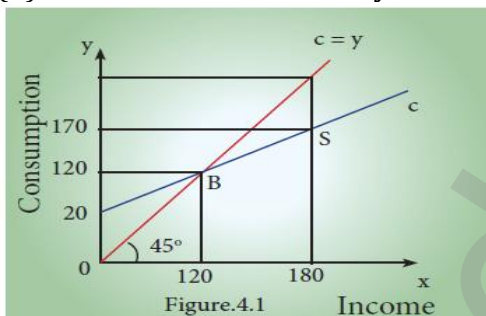
The law implies that there is a tendency on the part of the people to spend on consumption less than the full increment of income.

Assumptions:

1. The other variables such as income distribution, tastes, habits, social customs, price movements, population growth, etc. do not.
2. **Existence of Normal Conditions:** The law holds good under normal conditions. People may spend the whole of increased income on consumption.
3. **Existence of a Laissez-faire Capitalist Economy:** The law operates in a rich capitalist economy where there is no government intervention.

Propositions of the Law:

- (1) When income increases, consumption expenditure also increases but by a smaller amount.
- (2) The increased income will be divided in some proportion between consumption expenditure and saving.
- (3) Increase in income always leads to an increase in both consumption and saving.

**Explanations****Proposition (1):**

When income increases from 120 to 180 consumption also increases from 120 to 170 but the increase in consumption is less than the increase in income, 10 is saved.

Proposition (2):

When income increases to 180 and 240, it is divided in some proportion between consumption by 170 and 220 and saving by 10 and 20 respectively.

Proposition (3):

Increases in income to 180 and 240 lead to increased consumption 170 and 220 and increased saving 20 and 10 than before.

37. Briefly explain the subjective and objective factors of consumption function?

J.M Keynes has divided factors influencing the consumption function into two.

A) Subjective Factors

Subjective factors are the internal factors related to psychological feelings. Major subjective factors influencing.

1. The motive of precaution: To build up a reserve against unforeseen contingencies.
Eg. Accidents, sickness
2. The motive of foresight: The desire to provide for anticipated future needs. Eg. Old age
3. The motive of calculation: The desire to enjoy interest and appreciation.
4. The motive of improvement: The desire to enjoy for improving standard of living.
5. The motive of financial independence.
6. The motive of enterprise (desire to do forward trading).
7. The motive of pride.(desire to bequeath a fortune)
8. The motive of avarice.(purely miserly instinct)

The Government, institutions and business corporations and firms may also consume mainly because of the following four motives:

1. The motive of enterprise
2. The motive of liquidity
3. The motive of improvement
4. The motive of financial prudence

B) Objective Factors

Objective factors are the external factors which are real and measurable.

1) Income Distribution

If there is large disparity between rich and poor, the consumption is low because the rich people have low propensity to consume and high propensity to save.

2) Price level

Price level plays an important role in determining the consumption function. When the price falls, real income goes up; people will consume more and propensity to save of the society increases.

3) Wage level

Wage level plays an important role in determining the consumption function and there is positive relationship between wage and consumption.

4) Interest rate

Rate of interest plays an important role in determining the consumption function.

5) Fiscal Policy

When government reduces the tax the disposable income rises and the propensity to consume of community increases.

38. Illustrate the working of Multiplier Definition of Multiplier

- The multiplier is defined as the ratio of the change in national income to change in investment.
- If ΔI stands for increase in investment and ΔY stands for resultant increase in income, the multiplier $K = \Delta Y / \Delta I$.
- Since ΔY results from ΔI , the multiplier is called investment multiplier.

The value of multiplier depends on MPC**Multiplier $K = 1/1-MPC$**

- ❖ The multiplier is the reciprocal of one minus marginal propensity to consume. Since marginal propensity to save is $1 - MPC$. ($MPC + MPS = 1$).
- ❖ Multiplier is $1/ MPS$. The multiplier is therefore defined as reciprocal of MPS. Multiplier is inversely related to MPS and directly with MPC.

Working of Multiplier – Illustration

- ✓ Suppose the Government undertakes
 - a) investment expenditure equal to Rs.100crore on some public works, by way of wages, price of materials etc.

- ✓ Thus income of labourers and suppliers of materials increases by Rs.100 crore. Suppose the MPC is 0.8 that is 80%. A sum of Rs.80 crores is spent on consumption. (A sum of Rs.20 Crores is saved).
- ✓ As a result, suppliers of goods get an income of Rs.80 crores. They inturn spend Rs.64 crores (80% of Rs.80 cr).
- ✓ In this manner consumption expenditure and increase in income act in a chain like manner.

The final result is $\Delta Y = 100 + 100 \times 4/5 + 100 \times [4/5]^2 + 100 \times [4/5]^3$ or,

$$\Delta Y = 100 + 100 \times 0.8 + 100 \times (0.8)^2 + 100 \times (0.8)^3$$

$$= 100 + 80 + 64 + 51.2 \dots$$

$$= 500$$

that is $100 \times 1/1 - 4/5$

$$100 \times 1/1/5$$

$$100 \times 5 = \text{Rs.}500 \text{ crores}$$

For instance if $C = 100 + 0.8Y$, $I = 100$,

Then $Y = 100 + 0.8Y + 100$

$$0.2Y = 200$$

$$Y = 200/0.2 = 1000 \rightarrow \text{Point B}$$

If I is increased to 110, then

$$0.2Y = 210$$

$$Y = 210/0.2 = 1050 \rightarrow \text{Point D}$$

For Rs.10 increase in I , Y has increased by Rs.50.

At point A, $Y = C = 500$

$$C = 100 + 0.8(500) = 500; S = 0$$

At point B, $Y = 1000$

$$C = 100 + 0.8(1000) = 900; S = 100 = I$$

At point D, $Y = 1050$

$$C = 100 + 0.8(1050) = 940; S = 110 = I$$

When I is increased by 10, Y increases by 50. This is multiplier effect ($K = 5$) $K = 1 / 0.2 = 5$

39. Explain the operation of the Accelerator.

Meaning of Accelerator

Accelerator (β) = $\Delta I / \Delta C$

DI = Change in investment outlays (say 100)

DC = Change in consumption demand (Say 50)

The accelerator expresses the ratio of the net change in investment to change in consumption.

Operation of the Acceleration Principle

i. Let us consider a simple example. The operation of the accelerator may be illustrated as follows.

ii. Let us suppose that in order to produce 1000 consumer goods, 100 machines are required. Also suppose that working life of a machine is 10 years.

iii. This means that every year 10 machines have to be replaced in order to maintain the constant flow of 1000 consumer goods. This might be called replacement demand.

iv. Suppose that demand for consumer At point A, $Y = C = 500$

$$C = 100 + 0.8(500) = 500; S = 0$$

At point B, $Y = 1000$

$$C = 100 + 0.8(1000) = 900; S = 100 = I$$

At point D, $Y = 1050$

$$C = 100 + 0.8(1050) = 940; S = 110 = I$$

When I is increased by 10, Y increases by 50.

This is multiplier effect ($K = 5$)

$$K = 1 / 0.2 = 5$$

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39. Explain the operation of the Accelerator.

Meaning of Accelerator

$$\text{Accelerator } (\beta) = \Delta I / \Delta C$$

DI = Change in investment outlays (say 100)

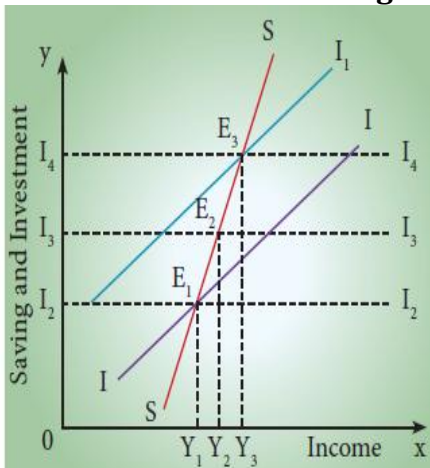
DC = Change in consumption demand (Say 50)

The accelerator expresses the ratio of the net change in investment to change in consumption.

Operation of the Acceleration Principle

- i. Let us consider a simple example. The operation of the accelerator may be illustrated as follows.
- ii. Let us suppose that in order to produce 1000 consumer goods, 100 machines are required. Also suppose that working life of a machine is 10 years.
- iii. This means that every year 10 machines have to be replaced in order to maintain the constant flow of 1000 consumer goods. This might be called replacement demand.
- iv. Suppose that demand for consumer to 1100). This results in increase in demand for 10 more machines.
- v. So that total demand for machines is 20. (10 for replacement and 10 for meeting increased demand). It may be noted here a 10 percent increase in demand for consumer goods causes a 100 percent increase in demand for machines (from 10 to 20).
- vi. So we can conclude even a mild change in demand for consumer goods will lead to wide change in investment.

Diagrammatic illustration: Operation of Accelerator.



- ✓ SS is the saving curve. II is the investment curve. At point E1, the economy is in equilibrium with OY1 income. Saving and investment are equal at OI2.
- ✓ Now, investment is increased from OI2 to OI4. This increases income from OY1 to OY3, the equilibrium point being E3. If the increase in investment by I2 I4 is purely exogenous, then the increase in income by Y1 Y3 would have been due to the multiplier effect.
- ✓ But in this diagram it is assumed that exogenous investment is only by I2 I3 and induced investment is by I3 I4.
- ✓ Therefore, increase in income by Y1 Y2 is due to the multiplier effect and the increase in income by Y2 Y3 is due to the accelerator effect. MPC is positive but less than unity.

40. What are the differences between MEC and MEI.

- ❖ Meaning of Marginal Efficiency of Capital (MEC) is the rate of discount which makes the discounted present value of expected income stream equal to the cost of capital.
- ❖ Meaning of Marginal Efficiency of Investment is the expected rate of return on investment as additional units of investment are made under specified conditions and over a period of time.

| Marginal Efficiency of Capital (MEC) | Marginal Efficiency of Investment (MEI) |
|--|--|
| 1) It is based on a given supply price for capital. | 1) It is based on the induced change in the price due to change in the demand for capital. |
| 2) It represents the rate of return on all successive units of capital without regard to existing capital. | 2) It shows the rate of return on just those units of capital over and above the existing capital stock. |
| 3) The capital stock is taken on the X axis of diagram. | 3) The amount of investment is taken on the X - axis of diagram. |
| 4) It is a "stock" concept. | 4) It is a "flow" concept. |
| 5) It determines the optimum capital stock in an economy at each level of interest rate. | 5) It determines the net investment of the economy at each interest rate given the capital stock. |

5. MONETARY ECONOMICS

1. The RBI Headquarters is located at..... **c) Mumbai**
2. Money is **c) the most liquid of all assets**
3. Paper currency system is managed by the..... **a) Central Monetary authority**
4. The basic distinction between M1 and M2 is with regard to..... **b) time deposits of banks**
5. Irving Fisher's Quantity Theory of Money was popularized in..... **c) 1911**
6. MV stands for..... **b) supply of legal tender money**
7. Inflation means..... **a) Prices are rising**
8. _____ inflation results in a serious depreciation of the value of money. **d) Hyper**
9. _____ inflation occurs when general prices of commodities increases due to increase in production costs such as wages and raw materials. **a) Cost-push**
10. During inflation, who are the gainers? **a) Debtors**
11. _____ is a decrease in the rate of inflation. **a) Disinflation**
12. Stagflation combines the rate of inflation with **a) Stagnation**
13. The study of alternating fluctuations in business activity is referred to in Economics as **d) Trade cycle**
14. During depression the level of economic activity becomes extremely..... **c) low**
15. "Money can be anything that is generally acceptable as a means of exchange and that The same time acts as a measure and a store of value", This definition was given by..... **a) Crowther**
16. Debit card is an example of..... **c) plastic money**
17. Fisher's Quantity Theory of money is based on the essential function of money as **c) medium of exchange**
18. V in $MV = PT$ equation stands for **b) Velocity of circulation of money**
19. When prices rise slowly, we call it..... **b) mild inflation**
20. _____ inflation is in no way dangerous to the economy. **c) creeping**

II. Very Short Answer Questions:

21. Define Money.

Definitions of Walker and Crowther are given below

- ❖ "Money is, what money does" - Walker.
- ❖ "Money can be anything that is generally acceptable as a means of exchange and at the same time acts as a measure and a store of value". - Crowther.

22. What is barter?

- ❖ Exchange of goods for goods is known as "Barter Exchange" or "Barter System".
- ❖ In a barter system, the commodities and services were directly exchanged for other commodities and services.

23. What is commodity money?

- ❖ In the past, most societies used a commodity with some intrinsic value for money.
- ❖ In order to function as money, the commodity had to be widely acceptable, which means that everyone had to be willing to accept it as a payment for goods or services.

24. What is gold standard?

- ❖ Gold Standard is a system in which the value of the monetary unit or the standard currency is directly linked with gold.
- ❖ The monetary unit is defined in terms of a certain weight of gold.

25. What is plastic money? Give example.

- ❖ The latest type of money is plastic money.
- ❖ Plastic money can come in many different forms such as Cash cards, Credit cards, Debit cards, Pre-paid Cash cards, Store cards, Forex cards and Smart cards.

26. Define inflation.

Definitions of Coulbourn and Gregorye are given below,

- ❖ "Too much of Money chasing too few goods" - Coulbourn
- ❖ "A state of abnormal increase in the quantity of purchasing power"- Gregorye

27. What is Stagflation?

- ❖ Stagflation is a combination of stagnant economic growth, high unemployment and high inflation.
- ❖ It is the co-existence of a high rate of unemployment and inflation. (derived from stag(nation) and (in) flation).

III. Short Answer Questions:**28. Write a note on metallic money.**

- ❖ Under metallic standard, some kind of metal either gold or silver is used to determine the standard value of the money and currency.
- ❖ Standard coins made out of the metal are the principal coins used under the metallic standard.
- ❖ These standard coins are full bodied or full weighted legal tender. Their face value is equal to their intrinsic metal value.

29. What is money supply?

- ❖ Money supply means the total amount of money in an economy.
- ❖ It refers to the amount of money which is in circulation in an economy at any given time.
- ❖ Money supply plays a crucial role in the determination of price level and interest rates.
- ❖ Money supply viewed at a given point of time is a stock and over a period of time it is a flow.

30. What are the determinants of money supply?

1. Currency Deposit Ratio (CDR); It is the ratio of money held by the public in currency to that they hold in bank deposits.

2. Reserve deposit Ratio (RDR); Reserve Money consists of two things (a) vault cash in banks and (b) deposits of commercial banks with RBI.

3. Cash Reserve Ratio (CRR); It is the fraction of the deposits the banks must keep with RBI.

4. Statutory Liquidity Ratio (SLR); It is the fraction of the total demand and time deposits of the commercial banks is the form of specified liquid assets.

31. Write the types of inflation.**On the basis of speed:**

- | | |
|-----------------------------|--|
| (i) Creeping inflation | (ii) Walking inflation |
| (iii) Running inflation and | (iv) Galloping inflation or Hyper-inflation. |

On the basis of demand and cost:

- | | |
|---------------------------|--------------------------|
| (i) Demand-Pull Inflation | (ii) Cost-Push Inflation |
|---------------------------|--------------------------|

On The Basis Of Inducement:

- | | |
|---------------------------------|-------------------------------|
| (i) Currency inflation | (ii) Credit inflation |
| (iii) Deficit induced inflation | (iv) Profit induced inflation |
| (v) Scarcity induced inflation | (vi) Tax induced inflation |

32. Explain Demand-pull and Cost push inflation.**(i) Demand-Pull Inflation:**

- ❖ Demand and supply play a crucial role in deciding the inflation levels in the society at all points of time. For instance, if the demand is high for a product and supply is low, the price of the products increases.

(ii) Cost-Push Inflation:

- ❖ When the cost of raw materials and other inputs rises inflation results. Increase in wages paid to labour also leads to inflation.

33. State Cambridge equations of value of money.**i) Marshall's Equation**

The Marshall equation is expressed as: $M = KPY$

Where **M** is the quantity of money
Y is the aggregate real income of the community
P is Purchasing Power of money
K represents the fraction of the real income which the public desires to hold in the form of money.

Thus, the price level $P = M/KY$ or the value of money (The reciprocal of price level) is $1/P = KY/M$

ii) Keynes' Equation

Keynes equation is expressed as: $n = pk$ (or) $p = n / k$

Where, n is the total supply of money

p is the general price level of consumption goods

k is the total quantity of consumption units the people decide to keep in the form of cash,

Keynes indicates that K is a real balance, because it is measured in terms of consumer goods.

34. Explain disinflation.

- Disinflation is the slowing down the rate of inflation by controlling the amount of credit (bank loan, hire purchase) available to consumers without causing more unemployment.
- Disinflation may be defined as the process of reversing inflation without creating unemployment or reducing output in the economy.

IV. Answer the following questions in about page.

35. Illustrate Fisher's Quantity theory of money.

Introduction:

- ❖ The credit for popularizing this theory in recent years rightly belongs to the well-known American economist, Irving Fisher who published his book, "The Purchasing Power of Money" in 1911.
- ❖ He gave it a quantitative form in terms of his famous "Equation of Exchange".

The general form of equation given by Fisher: $MV = PT$

Fisher points out that in a country during any given period of time, the total quantity of money (MV) will be equal to the total value of all goods and services bought and sold (PT). $MV = PT$

Supply of Money = Demand for Money This equation is referred to as "Cash Transaction Equation".

Where M = Money Supply/quantity of Money

V = Velocity of Money

P = Price level

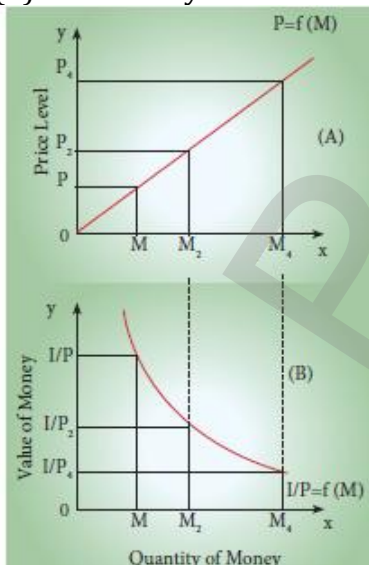
T = Volume of Transaction.

It is expressed as $P = MV / T$ which implies that the quantity of money determines the price level and the price level in its turn varies directly with the quantity of money, provided 'V' and 'T' remain constant.

Extended Form of equation

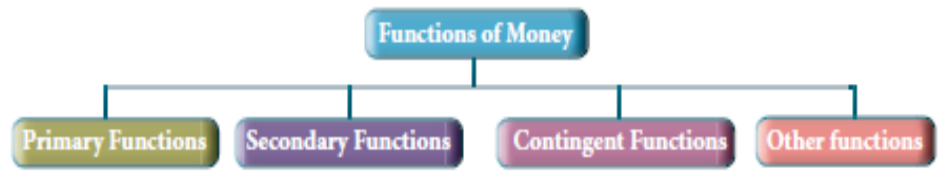
Fisher extended his original equation of exchange to include bank deposits M_1 and its velocity V_1 . The revised equation was: $PT = MV + M_1V_1$ $P = (MV + M_1V_1) / T$

From the revised equation, it is evident, that the price level is determined by (a) the quantity of money in circulation 'M' (b) the velocity of circulation of money 'V' (c) the volume of bank credit money M_1 (d) the velocity of circulation of credit money V_1 and the volume of trade (T)



- Figure (A) shows the effect of changes in the quantity of money on the price level. When the quantity of money is OM , the price level is OP .
- When the quantity of money is doubled to OM_2 , the price level is also doubled to OP_2 .
- Further, when the quantity of money is increased four-fold to OM_4 , the price level also increases by four times to OP_4 .
- Figure (B)** shows the inverse relation between the quantity of money and the value of money, where the value of money is taken on the vertical axis.
- With the quantity of money increasing by four-fold to OM_4 , the value of money is reduced by OI / P_4 .
- This inverse relationship between the quantity of money and the value of money is shown by downward sloping curve $1 / OP = f(M)$.

36. Explain the functions of money.



1. Primary Functions

i) Money as a medium of exchange: This is considered as the basic function of money. Money has the quality of general acceptability, and all exchanges take place in terms of money.

ii) Money as a measure of value: The second important function of money is that it measures the value of goods and services.

2. Secondary Functions:

i) Money as a Store of value: Savings done in terms of commodities were not permanent. But, with the invention of money, this difficulty has now disappeared and savings are now done in terms of money.

ii) Money as a Standard of Deferred Payments: Borrowing and lending were difficult problems under the barter system. In the absence of money, the borrowed amount could be returned only in terms of goods and services.

iii) Money as a Means of Transferring

Purchasing Power: The field of exchange also went on extending with growing economic development. The exchange of goods is now extended to distant lands.

3. Contingent Functions:

i) Basis of the Credit System: Money is the basis of the Credit System. Business transactions are either in cash or on credit.

ii) Money facilitates distribution of

National Income: The task of distribution of national income was exceedingly complex under the barter system.

iii) Money helps to Equalize Marginal

Utilities and Marginal Productivities:

Consumer can obtain maximum utility only if he incurs expenditure on various commodities in such a manner as to equalize marginal utilities accruing from them.

iv) Money Increases Productivity of Capital:

Money is the most liquid form of capital.

In other words, capital in the form of money can be put to any use.

4. Other Functions:

i) Money helps to maintain Repayment

Capacity: Money possesses the quality of general acceptability. To maintain its repayment capacity, every firm has to keep assets in the form of liquid cash.

ii) Money represents Generalized

Purchasing Power: Purchasing power kept in terms of money can be put to any use.

iii) Money gives liquidity to Capital: Money is the most liquid form of capital. It can be put to any use.

37. What are the causes and effects of inflation on the economy?

Meaning of Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and consequently the purchasing power of currency is falling.

The main causes of inflation in India are as follows:

i) Increase in Money Supply: Inflation is caused by an increase in the supply of money which leads to increase in aggregate demand.

ii) Increase in Disposable Income: When the disposable income of the people increases, it raises their demand for goods and services.

iii) Increase in Public Expenditure:

Government activities have been expanding due to developmental activities and social welfare programmes.

iv) Increase in Consumer Spending: The demand for goods and services increases when they are given credit to buy goods on hire-purchase and installment basis.

v) Cheap Monetary Policy: Cheap monetary policy or the policy of credit expansion also leads to increase in the money supply

vi) Deficit Financing: In order to meet its mounting expenses, the government resorts to deficit financing by borrowing from the public and even by printing more notes.

vii) Black Assets, Activities and Money: The existence of black money and black assets due to corruption, tax evasion etc., increase the aggregate demand. People spend such money, lavishly.

viii) Repayment of Public Debt: Whenever the government repays its past internal debt to the public, it leads to increase in the money supply with the public.

ix) Increase in Exports: When exports are encouraged, domestic supply of goods decline. So prices rise.

Effects of Inflation

The effects of inflation can be classified into two heads:

(1) Effects on Production and (2) Effects on Distribution.

1. Effects on Production:

When the inflation is very moderate, it acts as an incentive to traders and producers. The profit due to rising prices encourages and induces business class to increase their investments in production, leading to generation of employment and income.

i) However, hyper-inflation results in a serious depreciation of the value of money and it discourages savings

ii) When the value of money undergoes considerable depreciation, this may even drain out the foreign capital

iii) With reduced capital accumulation, the investment will suffer a serious set-back which may have an adverse effect on the volume of production

iv) Inflation also leads to hoarding of essential goods both by the traders as well as the consumers and thus leading to still higher inflation rate.

v) Inflation encourages investment in speculative activities rather than productive purposes.

2. Effects on Distribution

i) Debtors and Creditors: During inflation, debtors are the gainers while the creditors are losers.

ii) Fixed-income Groups: The fixed income groups are the worst hit during inflation because their incomes being fixed do not bear any relationship with the rising cost of living.

iii) Entrepreneurs: Inflation is the boon to the entrepreneurs whether they are manufacturers, traders, merchants or businessmen, because it serves as a tonic for business enterprise.

iv. Investors: The investors, who generally invest in fixed interest yielding bonds and securities have much to lose during inflation.

38. What are the causes and effects of inflation on the economy?**Meaning of Trade Cycle**

A Trade cycle refers to oscillations in aggregate economic activity particularly in employment, output, income, etc.

Phases of Trade Cycle

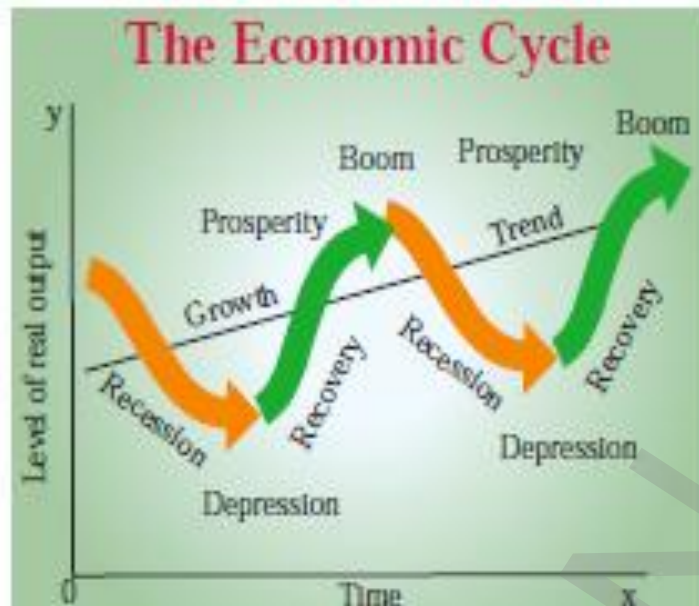
The four different phases of trade cycle is referred to as

(i) Boom

(ii) Recession

(iii) Depression and

(iv) Recovery.



i) Boom or Prosperity Phase: The full employment and the movement of the economy beyond full employment is characterized as boom period. During this period, there is hectic activity in economy. Money wages rise, profits increase and interest rates go up.

ii) Recession: The turning point from boom condition is called recession. This happens at higher rate, than what was earlier. Generally, the failure of a company or bank bursts the boom and brings a phase of recession.

iii) Depression: During depression the level of economic activity becomes extremely low. Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment. Interest prices, profits and wages are low.

iv. Recovery: After a period of depression, recovery sets in. This is the turning point from depression to revival towards upswing. It begins with the revival of demand for capital goods. Autonomous investments boost the activity. The demand slowly picks up and in due course the activity is directed towards the upswing with more production, profit, income, wages and employment.

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6.BANKING

1. A Bank is a **a) Financial institution**
2. A Commercial Bank is an institutions that provides services
a) Accepting deposit b) Providing loans **c) Both a and b** d) None of the above
3. The Functions of commercial banks are broadly classified into
a) Primary Functions b) Secondary functions c) Other functions **d) a, b, and c**
4. Bank credit refers to..... **c) Bank loans and advances**
5. Credit creation means. **a) Multiplication of loans and advances**
6. NBFI does not have. **a) Banking license**
7. Central bank is..... authority of any country. **a) Monetary**
8. Who will act as the banker to the Government of India? **d) RBI**
9. Lender of the last resort is one of the functions of. **a) Central Bank**
10. Bank Rate means... **a) Re-discounting the first class securities**
11. Repo Rate means..... **b) Rate at which the RBI is willing to lend to commercial banks**
12. Moral suasion refers..... **c) Persuasion**
13. ARDC started functioning from..... **d) July 1, 1963**
14. NABARD was set up in. **c) July 1982**
15. EXIM bank was established in..... **d) March 1982**
16. The State Financial Corporation Act was passed by **a) Government of India**
17. Monetary policy his formulated by..... **c) Central Bank**
18. Online Banking is also known as..... **b) Internet Banking**
19. Expansions of ATM..... **a) Automated Teller Machine**
20. 2016 Demonetization of currency includes denominations of..... **a) _500 and _1000**

II. Very Short Answer Questions:

21. Define Commercial banks.

Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/ middle-sized business - as opposed to individual members of the public/small business.

22. What is credit creation?

- ❖ Credit Creation means the multiplication of loans and advances.
- ❖ Commercial banks receive deposits from the public and use these deposits to give loans.
- ❖ However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Credit Creation'.

23. Define Central bank.

- ❖ A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates.
- ❖ Central banks also usually oversee the commercial banking system of their respective countries.

| BASIS FOR COMPARISON | CRR | SLR |
|-------------------------|---|--|
| Meaning | CRR is the percentage of money which the bank has to keep with the Central Bank of India in the form of cash. | The bank has to keep a certain percentage of their Net Time and Demand Liabilities in the form of liquid assets as specified by RBI. |
| Form | Cash | Cash and other assets like gold and Government securities viz. Central and State government securities |
| Effect | It controls excess money flow in the economy. | It helps in meeting out the unexpected demand of any depositor by selling the bonds. |
| Maintenance With | Central Bank of Indi. Ex.: RBI. | Bank itself |

25. Write the meaning of Open market operations.

In narrow sense, the Central Bank starts the purchase and sale of Government securities in the money market.

In Broad Sense, the Central Bank purchases and sells not only Government securities but also other proper eligible securities like bills and securities of private concerns.

26. What is rationing of credit?

- ❖ This is the oldest method of credit control.
- ❖ It aims to control and regulate the purposes for which credit is granted by commercial banks. It is generally of two types.
 - a) The variable portfolio ceiling:
 - b) The variable capital asset ratio

27. Mention the functions of agriculture credit department.

- a) To maintain an expert staff to study all questions on agricultural credit;
- b) To provide expert advice to Central and State Government, State Co-operative Banks and other banking activities.
- c) To finance the rural sector through eligible institutions engaged in the business of agricultural credit and to coordinate their activities.

III. Short Answer Questions:**28. Write the mechanism of credit creation by commercial banks.**

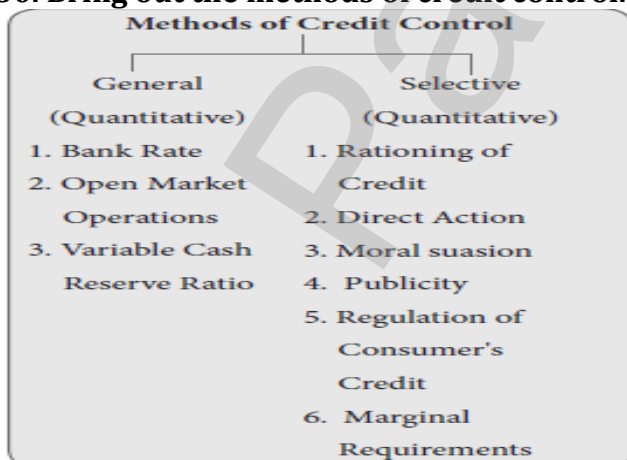
- i. Credit Creation means the multiplication of loans and advances.
- ii. Banks have the power to expand or contract demand deposits and they exercise this power through granting more or less loans and advances and acquiring other assets.
- iii. This power of commercial bank to create deposits through expanding their loans and advances is known as credit creation.
- iv. The modern banks create deposits in two ways. They are **primary deposit** and **derived deposit**.
- v. When a customer gives cash to the bank and the bank creates a
- vi. book debt in his name called a deposit, it is known as a "primary deposit".
- vii. But when such a deposit is created, without there being any prior payment of equivalent cash to the bank, it is called a 'derived deposit'.

29. Give a brief note on NBFIs.

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by the central bank.

Example: GIC Re, UTI Mutual Funds

- ❖ The NBFIs do not carry on pure banking business, but they will carry on other financial transactions. they are institutions which undertake borrowing and lending. They operate in both the money and the capital markets.
- ❖ NBFIs can be broadly classified into two categories. Viz., (1) Stock Exchange; and (2) Other Financial institutions.

30. Bring out the methods of credit control.

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31. What are the functions of NABARD?

- (i) NABARD acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts
- (ii) It provides short-term, medium-term and long-term credits to state cooperative Banks (SCBs), RRBs, LDBs
- (iii) NABARD gives long-term loans (upto 20 Years) to State Government to enable them to subscribe to the share capital of co-operative credit societies.
- (iv) NABARD gives long-term loans to any institution approved by the Central Government or any institution concerned with agriculture and rural development.
- (v) NABARD has the responsibility of coordinating the activities of Central and State Governments, NITI Aayog
- (vi) It has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies.
- (vii) It maintains a Research and Development Fund to promote research in agriculture and rural development.

32. Specify the functions of IFCI.

- i) Long-term loans; both in rupees and foreign currencies.
- ii) Underwriting of equity, preference and debenture issues.
- iii) Subscribing to equity, preference and debenture issues.
- iv) Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India; and
- v) Guaranteeing of loans raised in foreign currency from foreign financial institutions.

33. Distinguish between money market and capital market.

| So | BASIS FOR COMPARISON | BASIS FOR COMPARISON | CAPITAL MARKET |
|----|-----------------------|---|---|
| 1 | Meaning | The mechanism through which short term funds are loaned and borrowed. | System which is concerned with raising capital by dealing in shares, bonds and other long term investments. |
| 2 | Nature of Market | Informal | Formal |
| 3 | Financial Instruments | Treasury Bills, Commercial Papers, Certificate of Deposit, Trade Credit etc. | Shares, Debentures, Bonds, Retained Earnings, Asset Securitization, Euro Issues etc. |
| 4 | Institutions | Central bank, Commercial bank, nonfinancial institutions, bill brokers, acceptance houses, and so on. | Commercial banks, Stock exchange, non-banking institutions like insurance companies etc. |
| 5 | Liquidity | High | Low |
| 6 | Purpose | To fulfill short term credit needs of the business. | To fulfill long term credit needs of the business. |
| 7 | Time Limit | Within a year | More than a year |
| 8 | Merit | Increases liquidity of funds in the economy. | Mobilization of Savings in the economy. |
| 9 | Return on Investment | Less | Comparatively High |

34. Mention the objectives of demonetizations. (Meaning of Demonitisation)

Demonitisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency.

Objectives of Demonetisation

1. Removing Black Money from the country.
2. Stopping of Corruption.
3. Stopping Terror Funds.
4. Curbing Fake Notes

IV. Answer the following questions in about page.**35. Explain the role of Commercial Banks in economic development.****1. Capital Formation**

Banks play an important role in capital formation, which is essential for the economic development of a country. They mobilize the small savings of the people scattered over a wide area through their network of branches all over the country and make it available for productive purposes.

2. Creation of Credit

Banks create credit for the purpose of providing more funds for development projects. Credit creation leads to increased production, employment, sales and prices and thereby they bring about faster economic development.

3. Channelizing the Funds towards Productive Investment

Banks invest the savings mobilized by them for productive purposes. Capital formation is not the only function of commercial banks. Pooled savings should be allocated to various sectors of the economy with a view to increase the productivity. Then only it can be said to have performed an important role in the economic development.

4. Encouraging Right Type of Industries

Many banks help in the development of the right type of industries by extending loan to right type of persons. In this way, they help not only for industrialization of the country but also for the economic development of the country.

5. Banks Monetize Debt

Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities. Manufacturers and wholesale traders cannot increase their sales without selling goods on credit basis. But credit sales may lead to locking up of capital.

6. Finance to Government

Government is acting as the promoter of industries in underdeveloped countries for which finance is needed for it. Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills.

7. Employment Generation

After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.

8. Banks Promote Entrepreneurship

In recent days, banks have assumed the role of developing entrepreneurship particularly in developing countries like India by inducing new entrepreneurs to take up the well-formulated projects and provision of counseling services like technical and managerial guidance.

36. Elucidate the functions of Commercial Banks.**Functions of Commercial Banks**

Commercial banks are institutions that conduct business with profit motive by accepting public deposits and lending loans for various investment purposes.

(A) PRIMARY FUNCTIONS:**1. Accepting Deposits**

It implies that commercial banks are mainly dependent on public deposits. There are two types of deposits, which are discussed as follows

(i) Demand Deposits

It refers to deposits that can be withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.

(ii) Time Deposits

It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits. These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

2. Advancing Loans

It refers to granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(B) SECONDARY FUNCTIONS

The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

1. Agency Functions

It implies that commercial banks act as agents of customers by performing various functions.

(i) Collecting Cheques Banks collect cheques and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

(ii) Collecting Income Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

(iii) Paying Expenses Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents. Similar to credit voucher, a debit voucher is sent to customers for information when expenses are paid by the bank.

(2) General Utility Functions

It implies that commercial banks provide some utility services to customers by performing various functions.

(i) Providing Locker Facilities

Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items. This minimizes the risk of loss due to theft at homes. Banks are not responsible for the items in the lockers.

(ii) Issuing Traveler's Cheques

Banks issue traveler's cheques to individuals for traveling outside the country. Traveler's cheques are the safe and easy way to protect money while traveling.

(iii) Dealing in Foreign Exchange

Commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the Central Bank for dealing in foreign exchange.

3. Transferring Funds

It refers to transferring of funds from one bank to another. Funds are transferred by means of draft, telephonic transfer, and electronic transfer.

4. Letter of Credit

Commercial banks issue letters of credit to their customers to certify their creditworthiness.

(i) Underwriting Securities

Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.

(ii) Electronic Banking

It includes services, such as debit cards, credit cards, and Internet banking.

(C) OTHER FUNCTIONS:

(i) Money Supply

It refers to one of the important functions of commercial banks that help in increasing money supply. For instance, a bank lends Rs.5 lakh to an individual and opens a demand deposit in the name of that individual. Bank makes a credit entry of Rs.5 lakh in that account. This leads to creation of demand deposits in that account. The point to be noted here is that there is no payment in cash. Thus, without printing additional money, the supply of money is increased.

(ii) Credit Creation

Credit Creation means the multiplication of loans and advances. Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Credit Creation'.

(iii) Collection of Statistics:

Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers and the public authorities on financial matters.

37. Describe the functions of Reserve Bank of India.**Introduction RBI**

The Reserve Bank of India (RBI) is India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on **1 April 1935** in accordance with the **Reserve Bank of India Act, 1934**. Following India's independence on **15 August 1947**, the RBI was nationalized on **1 January 1949**.

- 1. Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.
- 2. The issuer of currency:** The objective is to maintain the currency and credit system of the country. It is the sole authority to issue currency. It also takes action to control the circulation of fake currency.
- 3. The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.
- 4. Banker to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government securities. It advises the government on banking and financial subjects.
- 5. Banker's Bank:** RBI is the bank of all banks in India as it provides loan to banks, accept the deposit of banks, and rediscount the bills of banks.
- 6. Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.
- 7. Act as clearing house:** For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.
- 8. Custodian of foreign exchange reserves:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.
- 9. Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.
- 10. Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.
- 11. Regulator and Supervisor of Payment and Settlement Systems:** The Payment and Settlement Systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.
- 12. Developmental Role:** This role includes the development of the quality banking system in India and ensuring that credit is available to the productive sectors of the economy.
- 13. Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.
- 14. Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund [IMF]. Most of the commercial banks are authorized dealers of RBI.
- 15. Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the Ombudsman against the awards and the other decisions of the Banks.
- 16. Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI has set up the Banking Codes and Standards Board of India (BCSBI).

38. What are the objectives of Monetary Policy? Explain.

Meaning of Monetary Policy

Monetary Policy is the macroeconomic policy being laid down by the Central Bank towards the management of money supply and interest rate.

The specific objectives of monetary policy are:

- (i) Neutrality of money
- (ii) Stability of exchange rates
- (iii) Price stability
- (iv) Full Employment
- (v) Economic Growth
- (vi) Equilibrium in the Balance of Payments.

1. Neutrality of Money:- Economists like Wicksteed, Hayek and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Monetary changes could be the root cause of all economic fluctuations.

2. Exchange Rate Stability:- Exchange rate stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements.

3. Price Stability:- Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy. Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence.

4. Full Employment:- During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment was considered as the main goal of monetary policy.

5. Economic Growth:- Economic growth is the process whereby the real per capita income of a country increases over a long period of time. It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants.

6. Equilibrium in the Balance of Payments:- Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.

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7. INTERNATIONAL ECONOMICS

1. Trade between two countries is known astrade. **a) External**
2. Which of the following factors influence trade?
a) The stage of development of a product b) The relative price of factors of productions.
c) Government. **d) All of the above.**
3. International trade differs from domestic trade because of
a) Trade restrictions b) Immobility of factors c) Different government policies **d) All the above**
4. In general, a primary reason why nations conduct international trade is because
b) Resources are not equally distributed among all trading nations
5. Which of the following is a modern theory of international trade?
c) Factor endowment theory
6. Exchange rates are determined in.... **b) foreign exchange market**
7. Exchange rate for currencies is determined by supply and demand under the system of
b) Flexible exchange rate
8. Net export equals **c) Export – Import**
9. Who among the following enunciated the concept of single factorial terms of trade? **a) Jacob Viner**
10. Terms of Trade of a country show..... **c) Ratio of prices of exports and imports**
11. Favorable trade means value of exports are than that of imports. **a) More**
12. If there is an imbalance in the trade balance (more imports than exports), it can be reduced by
c) stimulating exports
13. BOP includes..... **c) both visible and invisible items**
14. Components of balance of payments of a country includes
a) Current account b) Official account c) Capital account **d) All of above**
15. In the case of BOT, **a) Transactions of goods are recorded.**
16. Tourism and travel are classified in which of balance of payments accounts? **b) services account**
17. Cyclical disequilibrium in BOP occurs because of
a) Different paths of business cycle.
b) The income elasticity of demand or price elasticity of demand is different.
c) long-run changes in an economy **d) Both (a) and (b).**
18. Which of the following is not an example of foreign direct investment?
c) the purchase of bonds or stock issued by a textile company overseas
19. Foreign direct investments not permitted in India..... **b) Atomic energy**
20. Benefits of FDI include, theoretically
a) Boost in Economic Growth b) Increase in the import and export of goods and services
c) Increased employment and skill levels **d) All of these**

II. Very Short Answer Questions:

21. What is International Economics?

- ❖ International Economics is that branch of economics which is concerned with the exchange of goods and services between two or more countries.
- ❖ Hence the subject matter is mainly related to foreign trade.

22. Define international trade.

- ❖ International trade refers to the trade or exchange of goods and services between two or more countries.
- ❖ In other words, it is a trade among different countries or trade across political boundaries.
- ❖ It is also called as 'external trade' or 'foreign trade' or 'inter-regional trade'.

23. State any two merits of trade.

- ❖ Trade is one of the powerful forces of economic integration.
- ❖ International trade helps a country to export its surplus goods to other countries and secure a better market for it.
- ❖ Similarly, international trade helps a country to import the goods which cannot be produced at all or can be produced at a higher cost.

24. What is the main difference between Adam Smith and Ricardo with regard to the emergence of foreign trade?

According to Ricardo, a country can gain from trade when it produces at relatively lower costs.

- ❖ Even when a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods which are relatively more advantageous.

25. Define Terms of Trade.

- ❖ Terms of Trade is the rate at which the goods of one country are exchanged for goods of another country.
- ❖ It is expressed as the relation between export prices and import prices.
- ❖ Terms of Trade (TOT) = $100 \text{ Index of Export prices} / \text{Index of Import prices} \times 100$

26. What do you mean by balance of payments?

- ❖ Balance of payment is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.
- ❖ When a payment is received from a foreign country, it is a credit transaction while a payment to a foreign country is a debit transaction.

27. What is meant by Exchange Rate?

- ❖ Exchange rate may be defined as the price paid in the home currency (say Rs. 75) for a unit of foreign currency (say 1 US \$).
- ❖ The transactions in the exchange market are carried out at exchange rates. It is the external value of domestic currency.

III. Short Answer Questions:

28. Describe the subject matter of International Economics.

1. Pure Theory of Trade

This component explains the causes for foreign trade, composition, direction and volume of trade, determination of the terms of trade and exchange rate, issues related to balance of trade and balance of payments.

2. Policy Issues

Under this part, policy issues such as free trade vs. protection, methods of regulating trade, capital and technology flows, use of taxation, subsidies and dumping, exchange control and convertibility, foreign aid, external borrowings and foreign direct investment, measures of correcting disequilibrium in the balance of payments etc are covered.

3. International Cartels and Trade Blocs

This part deals with the economic integration in the form of international cartels, customs unions, monetary unions, trade blocs, economic unions and the like. It also discusses the operation of Multi National Corporations (MNCs).

4. International Financial and Trade Regulatory Institutions

The financial institutions like International Monetary Fund IMF, IBRD, WTO etc which influence international economic transactions and relations shall also be the part of international economics.

29. Compare the Classical Theory of international trade with Modern Theory of International trade.

| S.No | Classical Theory of International Trade | Modern Theory of International Trade |
|------|--|--|
| 1 | The classical theory explains the phenomenon of international trade on the basis of labour theory of value. | The modern theory explains the phenomenon of international trade on the basis of general theory of value. |
| 2 | It presents a one factor (labour) model | It presents a multi-factor (labour and capital) model. |
| 3 | It attributes the differences in the comparative costs to difference in the productive efficiency of workers in the two countries. | It attributes the differences in comparative costs to the differences in factor endowments in the two countries. |

30. Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.

1. Net Barter Terms of Trade

This type was developed by Taussig in 1927. The ratio between the prices of exports and of imports is called the "net barter terms of trade". It is named by Viner as the 'commodity terms of trade'. It is expressed as:

$$T_n = (P_x / P_m) \times 100, \quad \text{Where,}$$

T_n = Net Barter Terms of Trade,

P_x = Index number of export prices

P_m = Index number of import prices

2. Gross Barter Terms of Trade

This was developed by Taussig in 1927 as an improvement over the net terms of trade. It is an index of relationship between total physical quantity of imports and the total physical quantity of exports.

$$T_g = (Q_m / Q_x) \times 100$$

Where, Q_m = Index of import quantities, Q_x = Index of export quantities

31. Distinguish between Balance of Trade and Balance of Payments.

| S.No | BASIS FOR COMPARISON | BALANCE OF TRADE | BALANCE OF PAYMENT |
|------|----------------------|--|---|
| 1 | Meaning | Balance of Trade (BOT) refers to the total value of a country's exports of commodities and total value of imports of commodities | BoP is a systematic record of a country's economic and financial Transactions with the rest of the world over a period of time. |
| 2 | Records | Transactions related to goods only | Transactions related to both goods and services are recorded. |
| 3 | Capital Transfers | Are not included in the Balance of Trade. | Are included in Balance of Payment. |
| 4 | Limit | It gives a partial view of the country's Economic status. | It gives a full view of the economic position of the country. |
| 5 | Effect | It can be Favorable, Unfavorable or balanced. | Both the receipts and payment sides tallies. |
| 6 | Component | It is a component of Current Account of Balance of Payment. | Current Account and Capital Account. |

32. What are import quotas?

i. Meaning

- ❖ The import quota means physical limitation of the quantities of different products to be imported from foreign countries within a specified period of time, usually one year.
- ❖ The import quota may be fixed either in terms of quantity or the value of the product.

ii. Example

- ❖ For instance, the government may specify that 60,000 colour T.V. sets may be imported from Japan.
- ❖ Alternatively, it may specify that T.V. sets of the value of Rs. 50 crores can be imported from that country during a given year.

33. Write a brief note on flexible exchange rate.

- ❖ Under the flexible exchange rate (also known as floating exchange rate) system, exchange rates are freely determined in an open market by market forces of demand and supply.
- ❖ The economic position of the country determines the market demand and supply for its currency.
- ❖ In this system, the currency price is market determined, concerning other currencies, i.e. the higher the demand for a particular currency, the higher is its exchange rate and the lower the demand, the lesser is the value of currency compared to other currencies.
- ❖ Therefore, the exchange rate is not under the control of the government or central bank.

34. State the objectives of Foreign Direct Investment.**FDI has the following objectives.**

1. Sales Expansion
2. Acquisition of resources
3. Diversification
4. Minimization of competitive risk.

IV. Answer the following questions in about page.**35. Discuss the differences between Internal Trade and International Trade.**

| Sl.No. | Internal Trade | International Trade |
|--------|---|---|
| 1. | Trade takes place between different individuals and firms within the same nation. | Trade takes place between different individuals and firms in different countries. |
| 2. | Labour and capital move freely from one region to another. | Labour and capital do not move easily from one nation to another. |
| 3. | There will be free flow of goods and services since there are no restrictions. | Goods and services do not easily move from one country to another since there are a number of restrictions like tariff and quota. |
| 4. | There is only one common currency. | There are different currencies. |
| 5. | The physical and geographical conditions of a country are more or less similar. | There are differences in physical and geographical conditions of the two countries. |
| 6. | Trade and financial regulations are more or less the same. | Trade and financial regulations such as interest rate, trade laws differ between countries. |
| 7. | There is no difference in political affiliations, customs and habits of the people and government policies. | Differences are pronounced in political affiliations, habits and customs of the people and government policies. |

36. Explain briefly the Comparative Cost Theory.**Introduction**

David Ricardo, the British economist in his 'Principles of Political Economy and Taxation' published in 1817, formulated a systematic theory called 'Comparative Cost Theory'.

Meaning of Comparative Cost

Ricardo demonstrates that the basis of trade is the comparative cost difference. In other words, trade can take place even if the absolute cost difference is absent but there is comparative cost difference.

Explanation

- i. According to Ricardo, a country can gain from trade when it produces at relatively lower costs.
- ii. Even when a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods which are relatively more advantageous.
- iii. Similarly, even when a country has absolute disadvantage in production of both goods, the country would specialize in production and export of the commodity in which it is relatively less disadvantageous.

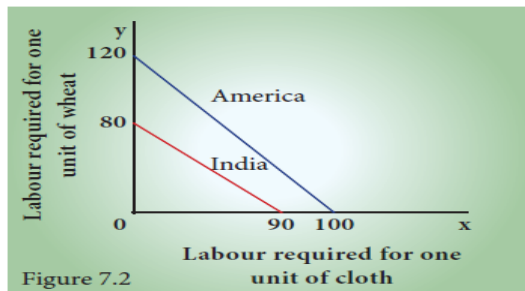
Assumptions

1. There are only two nations and two commodities (2x2 model)
2. Labour is the only element of cost of production.
3. All labourers are of equal efficiency.
4. Labour is perfectly mobile within the country but perfectly immobile between countries.

5. Production is subject to the law of constant returns.
6. Foreign trade is free from all barriers.
7. No change in technology.
8. No transport cost.
9. Perfect competition.
10. Full employment.
11. No government intervention.

Table and Diagrammatic Illustration

| Country | Cloth | Wheat | Domestic Exchange Ratios |
|---------|-------|-------|--------------------------|
| America | 100 | 120 | 1 wheat = 1.2 cloth |
| India | 90 | 80 | 1 wheat = 0.88 cloth |



It is evident from the example that India has an absolute advantage in production of both cloth and wheat.

Diagrammatic Explanation

- i. However, India should concentrate on the production of wheat in which she enjoys a comparative cost advantage. ($80/120 < 90/100$).
- ii. For America the comparative cost disadvantage is lesser in cloth production.
- iii. Hence America will specialize in the production of cloth and export it to India in exchange for wheat. (Any exchange ratio between 0.88 units and 1.2 units of cloth against one unit of wheat represents gain for both the nations).
- iv. With trade, India can get 1 unit of cloth and 1 unit of wheat by using its 160 labour units. In the absence of trade, for getting this benefit, India will have to use 170 units of labour. America also gains from this trade.
- v. With trade, America can get 1 unit of cloth and one unit of wheat by using its 200 units of labour.
- vi. Otherwise, America will have to use 220 units of labour for getting 1 unit of cloth and 1 unit of wheat.

37. Discuss the Modern Theory of International Trade.

Introduction

The modern theory of international trade was developed by Swedish economist Eli Heckscher and his student Bertil Ohlin in 1919. This model was based on the Ricardian theory of international trade.

Meaning

This theory says that the basis for international trade is the difference in factor endowments. It is otherwise called as 'Factor Endowment Theory'.

The Factor endowment model

- ❖ Developed by Heckscher and Ohlin
- ❖ Countries with a relative factor abundance can specialise and trade.
- ❖ Abundance of skilled labour → specialisation → export → exchange for goods are services produced by countries with abundance of unskilled labour

The Theory

The modern theory of international trade explains the causes for such comparative cost difference. This theory attributes to:

- i) difference in the endowments of factors of production between countries, and
- ii) differences in the factor proportions required in production.

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Assumptions

1. There are two countries, two commodities and two factors. (2x2x2 model)
2. Countries differ in factor endowments.
3. Commodities are categorized in terms of factor intensity.
4. Countries use same production technology.
5. Countries have identical demand conditions.
6. There is perfect competition in both product and factor markets in both the countries.

Explanation

According to Heckscher - Ohlin, “a capital-abundant country will export the capital –intensive goods, while the labourabundant country will export the labourintensive goods”. A factor is regarded abundant or scare in relation to the quantum of other factors. A country can be regarded as richly endowed with capital only if the ratio of capital to other factors is higher than other countries.

| Particulars | India | America |
|----------------------|-------------|--------------|
| Supply of Labour | 50 | 24 |
| Supply of Capital | 40 | 30 |
| Capital-Labour Ratio | 40/50 = 0.8 | 30/24 = 1.25 |

In the above example, even though India has more capital in absolute terms, America is more richly endowed with capital because the ratio of capital in India is 0.8 which is less than that in America where it is 1.25. The following diagram illustrates the pattern of word trade.

H-O: Illustration Chart



38. Explain the types of Terms of Trade given by Viner.

1. Net Barter Terms of Trade or Commodity terms of trade.

This type was developed by Taussig in 1927. The ratio between the prices of exports and of imports is called the “net barter terms of trade”. It is named by Viner as the ‘commodity terms of trade’. It is expressed as: $T_n = (P_x / P_m) \times 100$ Where,

T_n = Net Barter Terms of Trade

P_x = Index number of export prices

P_m = Index number of import prices

This is used to measure the gain from international trade. If ‘ T_n ’ is greater than 100, then it is a favourable terms of trade which will mean that for a rupee of export, more of imports can be received by a country.

2. The Single Factoral Terms of Trade

Viner has devised another concept called “the single factoral terms of trade” as an improvement upon the commodity terms of trade. It represents the ratio of export-price index to the import-price index adjusted for changes in the productivity of a country’s factors in the production of exports.

Symbolically, it can be stated as $T_f = (P_x / P_m) \times 100$ Where,

T_f stands for single factoral terms of trade index.

F_x stands for productivity in exports (which is measured as the index of cost in terms of quantity of factors of production used per unit of export).

3. Double Factoral Terms of Trade

Viner constructed another index called “Double factoral terms of Trade”. It is expressed as

$T_{ff} = (P_x / P_m) (F_x / F_m)$ which takes into account the productivity in country’s exports, as well as the productivity of foreign factors. Here, F_m represents import index (which is measured as the index of cost in terms of quantity of factors of production employed per unit of imports).

39. Bring out the components of balance of payments account.

Components of BOPs:-

The credit and debit items are shown vertically in the BOP account of a country. Horizontally, they are divided into three categories, i.e. a) The current account, b) The capital account and c) The official settlements account or official reserve assets account.

a) The Current Account:

It includes all international trade transactions of goods and services, international service transactions (i.e. tourism, transportation and royalty fees) and international unilateral transfers. (i.e. gifts and foreign aid).

b) The Capital Account:

Financial transactions consisting of direct investment and purchases of interest-bearing financial instruments, non-interest bearing demand deposits and gold fall under the capital account.

c) The Official Reserve Assets Account:

Official reserve transactions consist of movements of international reserves by governments and official agencies to accommodate imbalances arising from the current and capital accounts.

40. Discuss the various types of disequilibrium in the balance of payments.

Occurs when: Disequilibrium $\text{Demand} \neq \text{Supply}$ $\text{Debit} > \text{Credit} \rightarrow \text{Deficit}$

Types BOP Disequilibrium:

There are three main types of BOP Disequilibrium, which are discussed below.

(a) Cyclical Disequilibrium, (b) Secular Disequilibrium, (c) Structural Disequilibrium.

a) Cyclical Disequilibrium:

Cyclical disequilibrium occurs because of two reasons. First, two countries may be passing through different phases of business cycle. Secondly, the elasticities of demand may differ between countries.

b) Secular Disequilibrium:

The secular or long-run disequilibrium in BOP occurs because of long-run and deep seated changes in an economy as it advances from one stage of growth to another. In the initial stages of development, domestic investment exceeds domestic savings and imports exceed exports, as it happens in India since 1951.

c) Structural Disequilibrium:

Structural changes in the economy may also cause such structural changes include development of alternative sources of supply, development of better substitutes, exhaustion of productive resources or changes in transport routes and costs.

41. How the Rate of Exchange is determined?

Illustrate.

The equilibrium rate of exchange is determined in the foreign exchange market in accordance with the general theory of value, i.e., by the interaction of the forces of demand and supply. Thus, the rate of exchange is determined at the point where demand for forex is equal to the supply of forex.

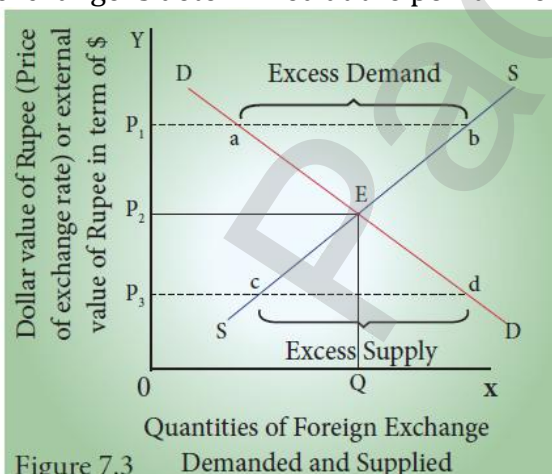


Figure 7.3 Demanded and Supplied

In the above diagram, Y axis represents exchange rate, that is, value of rupee in terms of dollars.

- X axis represents demand and supply of forex.
- E is the point of equilibrium where DD intersects SS.
- The exchange rate is P2.

42. Explain the relationship between Foreign Direct Investment and economic development

1. FDI may help to increase the investment level and thereby the income and employment in the host country.
2. Direct foreign investment may facilitate transfer of technology to the recipient country.
3. FDI may also bring revenue to the government of host country when it taxes profits of foreign firms or gets royalties from concession agreements.
4. A part of profit from direct foreign investment may be ploughed back into the expansion, modernization or development of related industries.
5. It may kindle a managerial revolution in the recipient country through professional management and sophisticated management techniques.
6. Foreign capital may enable the country to increase its exports and reduce import requirements. And thereby ease BoP disequilibrium.
7. Foreign investment may also help increase competition and break domestic monopolies.
8. If FDI adds more value to output in the recipient country than the return on capital from foreign investment, then the social returns are greater than the private returns on foreign investment.
9. By bringing capital and foreign exchange FDI may help in filling the savings gap and the foreign exchange gap in order to achieve the goal of national economic development.
10. Foreign investments may stimulate domestic enterprise to invest in ancillary industries in collaboration with foreign enterprises.
11. Lastly, FDI flowing into a developing country may also encourage its entrepreneurs to invest in the other LDCs. Firms in India have started investing in Nepal, Uganda, Ethiopia and Kenya and other LDCs while they are still borrowing from abroad. Larger FDI to India comes from a small country (Mauritius).

8.INTERNATIONAL ECONOMIC ORGANIZATIONS

1. International Monetary Fund was an outcome of..... **c) Bretton Woods Conference**
2. International Monetary Fund is having its headquarters at..... **a) Washington D.C.**
3. IBRD is otherwise called..... **b) World Bank**
- 4.The other name for Special Drawing Rights is..... **a) Paper gold**
5. The organization which provides long term loan is..... **a) World Bank**
6. Which of the following countries is not a member of SAARC? **b) Japan**
7. International Development Association is an affiliate of..... **b) World Bank**
8. relates to patents, copyrights, trade secrets, etc., **a) TRIPS**
9. The first ministerial meeting of WTO was held at..... **a) Singapore**
10. ASEAN meetings are held once in every _____ years. **b) 3**
11. Which of the following is not the member of SAARC? **d) China**
12. SAARC meets once in ----- years. **a) 2**
13. The headquarters of ASEAN is..... **a) Jakarta**
14. The term BRIC was coined in..... **a) 2001**
15. ASEAN was created in..... **b) 1967**
16. The Tenth BRICS Summit was held in July 2018 at..... **c) Johannesburg**
17. New Development Bank is associated with..... **a) BRICS**
18. Which of the following does not come under 'Six dialogue partners' of ASEAN? **d) North Korea**
19. SAARC Agricultural Information Centre (SAIC) works as a central information institution for agriculture related resources was founded on..... **b) 1988**
20. BENELUX is a form of..... **d) Customs union**

II. Very Short Answer Questions:**21. Write the meaning of Special Drawing rights.**

- ❖ Special Drawing Rights are a form of international reserves created by the IMF in 1969 to solve the problem of international liquidity.
- ❖ They are allocated to the IMF members in proportion to their Fund quotas.
- ❖ SDRs are used as a means of payment by Fund members to meet balance of payments deficits and their total reserve position with the Fund.
- ❖ Thus SDRs act both as an international unit of account and a means of payment.
- ❖ Special Drawing Rights (SDRs) is otherwise called as 'Paper Gold'.

22. Mention any two objectives of ASEAN. (write any two)

- ❖ To accelerate the economic growth, social progress and cultural development in the region;
- ❖ To promote regional peace and stability and adherence to the principles of the United Nations Charter;
- ❖ To promote cooperation among the members of ASEAN through the exchange of knowledge and experience in the field of public sector auditing.
- ❖ To provide a conducive environment and facilities for research, training, and education among the members
- ❖ To serve as a centre of information and as an ASEAN link with other international organizations.

23. Point out any two ways in which IBRD lends to member countries.

The Bank advances loans to members in three ways

- i) Loans out of its own fund,
- ii) Loans out of borrowed capital and
- iii) Loans through Bank's guarantee.

24. Define Common Market.

- ❖ Common market is established through trade pacts.
- ❖ A group formed by countries within a geographical area to promote duty free trade and free movement of labour and capital among its members. E.g. European Common Market (ECM)

25. What is Free trade area?

- ❖ A free trade area is the region encompassing a trade bloc whose member countries have signed a free trade agreement (FTA).
- ❖ Such agreements involve cooperation between at least two countries to reduce trade barriers. E.g. SAFTA, EFTA.

26. When and where was SAARC Secretariat established?

- ❖ The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.

27. Specify any two affiliates of World Bank Group. (write any two)

- ❖ International Bank for Reconstruction and Development (IBRD)
- ❖ International Development Association (IDA)
- ❖ International Finance Corporation (IFC)
- ❖ Multilateral Investment Guarantee Agency (MIGA)
- ❖ International Centre for Settlement of Investment Disputes (ICSID)

III. Short Answer Questions:**28. Mention the various forms of economic integration.**

i. Economic integration takes the form of Free Trade Area, Customs Union, Common Market and Economic Union.

ii. A free trade area is the region encompassing a trade bloc whose member countries have signed a free-trade agreement (FTA). Such agreements involve cooperation between at least two countries to reduce trade barriers. e.g. SAFTA, EFTA.

iii. A customs union is defined as a type of trade block which is composed of a free trade area with no tariff among members and (zero tariffs among members) with a common external tariff. e.g. BENELUX (Belgium, Netherland and Luxumburg).

iv. Common market is established through trade pacts. A group formed by countries within a geographical free movement of labour and capital among its members.

e.g. European Common Market (ECM)

v. An economic union is composed of a common market with a customs union. The participant countries have both common policies on product regulation, freedom of movement of goods, services and the factors of production and a common external trade policy.

(e.g. European Economic Union) **EU > CM > CU > FTA**

29. What are trade blocks?

- ❖ Trade blocks are a set of countries which engage in international trade together and are usually related through a free trade agreement or other associations.
- ❖ Trade blocks cover different kinds of arrangements between or among countries for mutual benefit.
- ❖ Some countries create business opportunities for themselves by integrating their economies (through trade blocks) in order to avoid unnecessary competition among them.

30. Mention any three lending programmes of IMF. (write any three headings)

The IMF has created several new credit facilities (lending programmes) for its members.

Chief among them are:

(i) Basic Credit Facility:

The IMF provides financial assistance to its member nations to overcome their temporary difficulties relating to balance of payments. A member nation can purchase from the Fund other currencies or SDRs, in exchange for its own currency, to finance payment deficits.

(ii) Extended Fund Facility

Under this arrangement, the IMF provides additional borrowing facility up to 140% of the member's quota, over and above the basic credit facility.

(iii) Compensatory Financing Facility

IMF established compensatory financing facility to provide additional financial assistance to the member countries, particularly primary producing countries facing shortfall in export earnings.

(iv) Buffer Stock Facility

The purpose of this scheme was to help the primary goods (food grains) producing countries to finance contributions to buffer stock arrangements for the stabilization of primary product prices.

(v) Supplementary Financing Facility

Under the supplementary financing facility, the IMF makes temporary arrangements to provide supplementary financial assistance to member countries facing payments problems relating to their present quota sizes.

(vi) Structural Adjustment Facility

The purpose of Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF) is to force the poor countries to undertake strong macroeconomic and structural programmes to improve their balance of payments positions and promote economic growth.

31. What is Multilateral Agreement?

- ❖ Multilateral Agreements or Multilateral Trade Agreements are trade agreements between three or more nations.
- ❖ The agreements reduce tariffs and make it easier for businesses to import and export.
- ❖ Since they are among many countries, they are difficult to negotiate.
- ❖ It is a multi national legal or trade agreements between countries. It is an agreement between more than two countries but not many.

32. Write the agenda of BRICS Summit, 2018.

- ❖ The agenda for BRICS summit 2018 includes,
 - i. Inclusive growth,
 - ii. Trade issues,
 - iii. Global governance,
 - iv. Shared Prosperity,
 - v. International peace and security.

The Tenth BRICS summit hosted by South Africa at Johannesberg in July 2018. The agenda of BRICS as follow, as per the declaration – Press Information Bureau, Government of India

- i. Strengthening multilateralism, reforming global governance and addressing common challenges
- ii. Strengthening and consolidating BRICS cooperation in international peace and security
- iii. BRICS partnership for global economic recovery, reform of financial and economic global governance institutions, and the fourth industrial revolution
- iv. People-to-people cooperation

33. State briefly the functions of SAARC.

1. Maintenance of the co operation in the region
2. Prevention of common problems associated with the member nations.
3. Ensuring strong relationship among the member nations.
4. Removal of the poverty through various packages of programmes.
5. Prevention of terrorism in the region.

34. List out the achievements of ASEAN.

- ❖ The main achievement of ASEAN has been the maintenance of an uninterrupted period of peace and stability during which the individual Member Countries have been able to concentrate on promoting rapid and sustained economic growth and modernization.
- ❖ ASEAN's modernization efforts have brought about changes in the region's structure of production.
- ❖ ASEAN has been the fourth largest trading entity in the world after the European Union, the United States and Japan.
- ❖ Industrial and service sectors have rapidly become the region's major sources of employment.
- ❖ These developments have advanced ASEAN members' efforts to attain a status of newly-industrializing economies.

IV. Answer the following questions in about page.

35. Explain the objectives of IMF.

- i. To promote international monetary cooperation among the member nations.
- ii. To facilitate faster and balanced growth of international trade.
- iii. To ensure exchange rate stability by curbing competitive exchange depreciations.
- iv) To eliminate or reduce exchange controls imposed by member nations.
- iv. To establish multilateral trade and payment system in respect of current transactions instead of bilateral trade agreements.
- v. To promote the flow of capital from developed to developing nations.
- vi. To solve the problem of international liquidity.

36. Bring out the functions of World Bank.

1. Investment for productive purposes

The World Bank performs the function of assisting in the reconstruction and development of territories of member nations through facility of investment for productive purposes. It also encourages the development of productive facilities and resources in less developed countries.

2. Balanced growth of international trade

Promoting the long range balanced growth of trade at international level and the maintaining equilibrium in BOPs of member nations by encouraging international investment.

3. Provision of loans and guarantees

Arranging the loans or providing guarantees on loans by various other channels so as to execute important projects.

4. Promotion of foreign private investment

The promotion of private foreign investment by means of guarantees on loans and other investment made by private investors. The Bank supplements private investment by providing finance for productive purpose out of its own resources or from borrowed funds.

5. Technical services

The World Bank facilitates different kinds of technical services to the member countries through Staff College and experts.

37. Discuss the role of WTO in India's socio economic development.

India benefited from WTO on following grounds:

1. By reducing tariff rates on raw materials, components and capital goods, it was able to import more for meeting her developmental requirements. India's imports go on increasing.
2. India gets market access in several countries without any bilateral trade agreements.
3. Advanced technology has been obtained at cheaper cost.
4. India is in a better position to get quick redressal from the trade disputes.
5. The Indian exporters benefited from wider market information

38. Write a note on a) SAARC b) BRICS**a) SAARC**

- i. The South Asian Association for Regional Co-operation (SAARC) is an organization of South Asian nations, which was established on 8 December 1985.
- ii. The SAARC Group (SAARC) comprises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. In April 2007, Afghanistan became its eighth member.
- iii. The basic aim of the organisation is to accelerate the process of economic and social development of member states through joint action in the agreed areas of cooperation.
- iv. The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.

b) BRICS

- i. BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.
- ii. Originally the first four were grouped as "BRIC" before the induction of South Africa in 2010. The term 'BRIC' was coined in 2001.
- iii. It's headquarters is at Shanghai, China. The New Development Bank (NDB) formerly referred to as the BRICS Development Bank was established by BRICS States.
- iv. The BRICS countries make up 21 percent of global GDP. They have increased their share of global GDP threefold in the past 15 years.
- v. The BRICS are home to 43 percent of the world's population.
- vi. The BRICS countries have combined foreign reserves of an estimated \$4.4 trillion.

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9.FISCAL ECONOMICS

1. The modern state is..... **c) Welfare state**
2. One of the following is NOT a feature of private finance..... **d) Publicity**
3. The tax possesses the following characteristics
 - a) Compulsory b) No quid pro quo c) Failure to pay is offence **d) All the above**
4. Which of the following canons of taxation was not listed by Adam smith? **d) Canon of simplicity**
5. Consider the following statements and identify the correct ones.
 - i. Central government does not have exclusive power to impose tax which is not mentioned in state or concurrent list.
 - ii. The Constitution also provides for transferring certain tax revenues from union list to states.
 - a) i only **b) ii only** c) both d) none
6. GST is equivalence of..... **a) Sales tax**
7. The direct tax has the following merits except..... **b) convenient**
8. Which of the following is a direct tax? **b) Income tax**
9. Which of the following is not a tax under Union list? **c) Agricultural Income Tax**
10. "Revenue Receipts" of the Government do not include..... **d) Rent from property**
11. The difference between revenue expenditure and revenue receipts is..... **a) Revenue deficit**
12. The difference between total expenditure and total receipts including loans and other liabilities is called..... **a) Fiscal deficit**
13. The primary purpose of deficit financing is..... **a) Economic development**
14. Deficit budget means

c) An excess of government's total expenditure over its total revenue
15. Methods of repayment of public debt is
 - a) Conversion b) Sinking fund c) Funded debt **d) All these**
16. Conversion of public debt means exchange of.... **b) low interest bonds for higher interest bonds**
17. The word budget has been derived from the French word "bougette" which means....

a) A small bag
18. Which one of the following deficits does not consider borrowing as a receipt? **c) Fiscal deficit**
19. Finance Commission determines..... **b) The resources transfer to the states**
20. Consider the following statements and identify the right ones.
 - i. The finance commission is appointed by the President
 - ii. The tenure of Finance commission is five years
 - a) i only b) ii only **c) both** d) none

II. Very Short Answer Questions:

21. Define public finance.

According to Hume Dalton "Public finance is one of those subjects that lie on the border line between Economics and Politics. It is concerned with income and expenditure of public authorities and with the adjustment of one to the other".

22. What is public revenue?

Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

23. Differentiate tax and fee.

| Topic | Tax | Fee |
|-------------------|---|---|
| Meaning | Tax is a compulsory payment by the citizens to the government to meet the public expenditure. | Fee is charged by public authorities for rendering a service to the citizens. |
| Compulsion | It is legally imposed by the government on the tax payer | There is no compulsion involved in case of fees |
| Benefit | the tax payer cannot claim any specific benefit against the payment of tax. | The government provides certain services and charges certain fees for them. |

24. Write a short note on zero based budget.

- ❖ It involves fresh evaluation of expenditure in the Government budget, assuming it as a new item.
- ❖ The review has been made to provide justification or otherwise for the project as a whole in the light of the socio-economic objectives which have been already set up for this project and as well as in view of the priorities of the society.

25. Give two examples for direct tax.

- i. Corporation Tax ii. Income Tax iii. Property Tax and iv. Gift Tax.

26. What are the components of GST?

The component of GST are of 3 types. They are: CGST, SGST & IGST.

- ❖ CGST: Collected by the Central Government on an intra-state sale (Eg: Within state/ union territory)
- ❖ SGST: Collected by the State Government on an intra-state sale (Eg: Within state/ union territory)
- ❖ IGST: Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

27. What do you mean by public debt?

According to Philip E. Taylor "The debt is the form of promises by the Treasury to pay to the holders of these promises a principal sum and in most instances interest on the principal. Borrowing is resorted to in order to provide funds for financing a current deficit."

III. Short Answer Questions:**28. Describe canons of Taxation.**

The characteristics or qualities which a good tax should possess are described as canons of taxation. According to Adam Smith, there are four canons or maxims of taxation. They are as follows:

1. Economical 2. Equitable 3. Convenient 4. Certain

(1) Canon of Ability: The Government should impose tax in such a way that the people have to pay taxes according to their ability.

(2) Canon of Certainty: The Government must ensure that there is no uncertainty regarding the rate of tax or the time of payment.

(3) Canon of Convenience: The method of tax collection and the timing of the tax payment should suit the convenience of the people.

(4) Canon of Economy: The Government has to spend money for collecting taxes, for example, salaries are given to the persons who are responsible for collecting taxes.

29. Mention any three similarities between public finance and private finance.

(1) Rationality: Both public finance and private finance are based on rationality. Maximization of welfare and least cost factor combination underlie both.

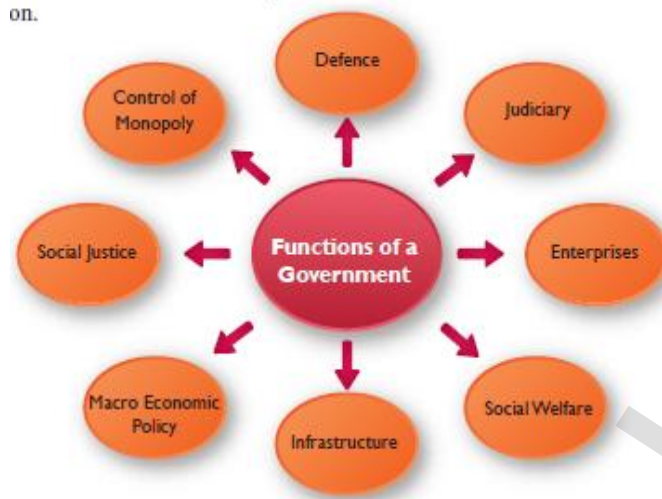
(2) Limit to borrowing : Both have to apply restraint with regard to borrowing. The Government also cannot live beyond its means. There is a limit to deficit financing by the state also.

(3) Resource utilisation: Both the private and public sectors have limited resources at their disposal. So both attempt to make optimum use of resources.

(4) Administration: The effectiveness of measures of the Government as well as private depends on the administrative machinery. If the administrative machinery is inefficient and corrupt it will result in wastages and losses.

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30. What are the functions of a modern state?



(i) Defence: The primary function of the Government is to protect the people from external aggression and internal disorder.

(ii) Judiciary: Rendering justice and settlement of disputes are the concern of the government.

(iii) Enterprises: The regulation and control of private enterprise fall under the purview of the modern State.

(iv) Social Welfare: It is the duty of the state to make provisions for education, social security, social insurance, health and sanitation for the betterment of the people in the country.

(v) Infrastructure: Modern States have to build the base for the economic development of the country by creating social and economic infrastructure.

(vi) Macro-economic policy: The Government has to administer fiscal policy and monetary policy to achieve macro-economic goals.

(vii) Social Justice: The Government needs to intervene with fiscal measures to redistribute income.

(viii) Control of Monopoly: Concentration of economic power is another evil to be corrected by the Government.

31. State any three characteristics of taxation.

1. A tax is a compulsory payment made to the government. People on whom a tax is imposed must pay the tax. Refusal to pay the tax is a punishable offence.

2. There is no quid pro quo between a taxpayer and public authorities. This means that the tax payer cannot claim any specific benefit against the payment of a tax.

3. Every tax involves some sacrifice on part of the tax payer.

4. A tax is not levied as a fine or penalty for breaking law.

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32. Point out any three differences between direct tax and indirect tax. (write any three)

| Basis For Comparison | Direct Tax | Indirect Tax |
|---------------------------|--|--|
| Meaning | Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government. | Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government. |
| Nature | Progressive | Regressive |
| Incidence and Impact | Falls on the same person. | Falls on different persons. |
| Tax base | Income or wealth of the assessee | Purchase/sale/manufacture of goods and provision of services |
| Evasion | Tax evasion is possible. | Tax evasion is hardly possible because it is included in the price of the goods and services. |
| Inflation | Direct tax helps in controlling the inflation. | Indirect taxes push up price inflation. |
| Imposition and collection | Imposed on and collected from assesses, i.e. Individual, HUF (Hindu Undivided Family), Company, Firm etc. | Imposed on and collected from consumers of goods and services but paid and deposited by the assessee. |
| Burden | Cannot be shifted. | Can be shifted |

33. What is primary deficit?

- ❖ Primary deficit is equal to fiscal deficit minus interest payments.
- ❖ It shows the real burden of the government and it does not include the interest burden on loans taken in the past.
- ❖ Thus, primary deficit reflects borrowing requirement of the government exclusive of interest payments.

$$\text{Primary Deficit (PD)} = \text{Fiscal deficit (PD)} - \text{Interest Payment (IP)}$$

34. Mention any three methods of redemption of public debt. (write any three headings)**(1) Sinking Fund**

Under this method, the Government establishes a separate fund known as "Sinking Fund". The Government credits every year a fixed amount of money to this fund. By the time the debt matures, the fund accumulates enough amount to pay off the principal along with interest.

(2) Conversion

Conversion of loans is another method of redemption of public debt. It means that an old loan is converted into a new loan. Under this system a high interest public debt is converted into a low interest public debt.

(3) Budgetary Surplus

When the Government presents surplus budget, it can be utilised for repaying the debt.

(4) Terminal Annuity

In this method, Government pays off the public debt on the basis of terminal annuity in equal annual installments.

(5) Repudiation

It is the easiest way for the Government to get rid of the burden of payment of a loan. In such cases, the Government does not recognize its obligation to repay the loan.

(6) Reduction in Rate of Interest

Another method of debt redemption is the compulsory reduction in the rate of interest, during the time of financial crisis.

(7) Capital Levy

When the Government imposes levy on the capital assets owned by an individual or any institution, it is called capital levy. The fund so collected can be used by the Government for paying off war time debt obligations.

IV. Answer the following questions in about page.**35. Explain the scope of public finance.**

The subject 'Public Finance' includes five major sub-divisions, viz., Public Revenue, Public Expenditure, Public Debt, Financial Administration and Fiscal Policy.

1. Public Revenue

Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

2. Public Expenditure

This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.

3. Public Debt

Public debt deals with the methods of raising loans from internal and external sources. The burden, effects and redemption of public debt fall under this head.

4. Financial Administration

This part deals with the study of the different aspects of public budget. The budget is the Annual master financial plan of the Government. The various objectives and steps in preparing a public budget, passing or sanctioning, allocation evaluation and auditing fall within financial administration.

5. Fiscal Policy

Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

36. Bring out the merits of indirect taxes over direct taxes.**(1) Wider Coverage**

All the consumers, whether they are rich or poor, have to pay indirect taxes. For this reason, it is said that indirect taxes can cover more people than direct taxes. For example, in India everybody pays indirect tax as against just 2 percent paying income tax.

(2) Equitable

The indirect tax satisfies the canon of equity when higher tax is imposed on luxuries used by rich people.

(3) Economical

Cost of collection is less as producers and retailers collect tax and pay to the Government. The traders act as honorary tax collectors.

(4) Checks harmful consumption

The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc. They are known as sin taxes.

(5) Convenient

Indirect taxes are levied on commodities and services. Whenever consumers make purchase, they pay tax along with the price. They do not feel the pinch of paying tax.

37. Explain the methods of debt redemption.**(1) Sinking Fund**

Under this method, the Government establishes a separate fund known as "Sinking Fund". The Government credits every year a fixed amount of money to this fund. By the time the debt matures, the fund accumulates enough amount to pay off the principal along with interest.

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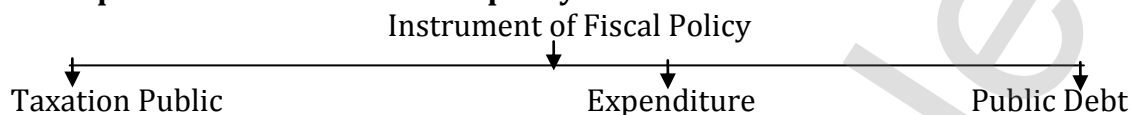
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38. State and explain instruments of fiscal policy.**Fiscal Instruments**

Fiscal Policy is implemented through fiscal instruments also called 'fiscal tools' or fiscal levers: Government expenditure, taxation and borrowing are the fiscal tools.

i) Taxation:

Taxes transfer income from the people to the Government. Taxes are either direct or indirect. An increase in tax reduces disposable income. So taxation should be raised to control inflation. During depression, taxes are to be reduced.

ii) Public Expenditure:

Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services. Hence public expenditure is raised to fight recession and reduced to control inflation.

iii) Public debt:

When Government borrows by floating a loan, there is transfer of funds from the public to the Government. At the time of interest payment and repayment of public debt, funds are transferred from Government to public.

39. Explain the principles of federal finance.**1. Principle of Independence**

Under the system of federal finance, a Government should be autonomous and free about the internal financial matters concerned. It means each Government should have separate sources of revenue, authority to levy taxes, to borrow money and to meet the expenditure.

2. Principle of Equity

From the point of view of equity, the resources should be distributed among the different states so that each state receives a fair share of revenue.

3. Principle of Uniformity

In a federal system, each state should contribute equal tax payments for federal finance. But this principle cannot be followed in practice because the taxable capacity of each unit is not of the same.

4. Principle of Adequacy of Resources

The principle of adequacy means that the resources of each Government i.e. Central and State should be adequate to carry out its functions effectively.

5. Principle of Fiscal Access

In a federal system, there should be possibility for the Central and State Governments to develop new source of revenue within their prescribed fields to meet the growing financial needs.

6. Principle of Integration and coordination

The financial system as a whole should be well integrated. There should be perfect coordination among different layers of the financial system of the country.

7. Principle of Efficiency

The financial system should be well organized and efficiently administered. There should be no scope for evasion and fraud.

8. Principle of Administrative Economy

Economy is the important criterion of any federal financial system. That is, the cost of collection should be at the minimum level

9. Principle of Accountability

Each Government should be accountable to its own legislature for its financial decisions i.e the Central to the Parliament and the State to the Assembly.

40. Describe the various types of deficit in budget.

Budgetary Deficits

Budget deficit is a situation where budget receipts are less than budget expenditures. This situation is also known as government deficit. In reference to the Indian Government budget, budget deficit is of four major types.

(A) Revenue Deficit

It refers to the excess of the government revenue expenditure over revenue receipts. It does not consider capital receipts and capital expenditure. Revenue deficit implies that the government is living beyond its means to conduct day-to-day operations.

Revenue Deficit (RD) = Total Revenue Receipts (RR),

Expenditure (RE) - Total Revenue
When RE - RR > 0

(B) Budget Deficit

Budget deficit is the difference between total receipts and total expenditure (both revenue and capital)

Budget Deficit = Total Expenditure - Total Revenue

(C) Fiscal Deficit

Fiscal deficit (FD) = Budget deficit + Government's market borrowings and liabilities

D Primary Deficit

Primary deficit is equal to fiscal deficit minus interest payments. It shows the real burden of the government and it does not include the interest burden on loans taken in the past. Thus, primary deficit reflects borrowing requirement of the government exclusive of interest payments.

Primary Deficit (PD) = Fiscal deficit (PD) - Interest Payment (IP)

41. What are the reasons for the recent growth in public expenditure?

1. Population Growth

During the past 67 years of planning, the population of India has increased from 36.1 crore in 1951, to 121 crore in 2011. The growth in population requires massive investment in health and education, law and order, etc.

2. Defence Expenditure

There has been enormous increase in defence expenditure in India during planning period. The defence expenditure has been increasing tremendously due to modernisation of defence equipment.

3. Government Subsidies

The Government of India has been providing subsidies on a number of items such as food, fertilizers, interest on priority sector lending, exports, education, etc.

4. Debt Servicing

The government has been borrowing heavily both from the internal and external sources, As a result, the government has to make huge amounts of repayment towards debt servicing.

5. Development Projects

The government has been undertaking various development projects such as irrigation, iron and steel, heavy machinery, power, telecommunications, etc. The development projects involve huge investment.

6. Urbanisation

There has been an increase in urbanization. In 1950-51 about 17% of the population was urban based. Now the urban population has increased to about 43%. There are During the past 67 years of planning, the population of India has increased from 36.1 crore in 1951, to 121 crore in 2011. The growth in population requires massive investment in health and education, law and order, etc.

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6. Urbanisation

There has been an increase in urbanization. In 1950-51 about 17% of the population was urban based. Now the urban population has increased to about 43%. There are more than 54 cities above one million population. The increase in urbanization requires heavy expenditure on law and order, education and civic amenities.

7. Industrialisation

Setting up of basic and heavy industries involves a huge capital and long gestation period. It is the government which starts such industries in a planned economy.

8. Increase in grants in aid to state and union territories

There has been tremendous increase in grant-in-aid to state and union territories to meet natural disasters

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10. ENVIRONMENTAL ECONOMICS

1. The term environment has been derived from a French word..... **C) Environia**
2. The word biotic means environment. **a) living**
3. Ecosystem is smallest unit of..... **c) Biosphere**
4. Who developed Material Balance Models? **b. Alen Kneese and R.V. Ayres**
5. Environmental goods are **b) Non-market goods**
6. In a pure public good, consumption is **b) Non-rival**
7. One of the most important market failures is caused by..... **b) Negative externalities**
8. The common source of outdoor air pollution is caused by combustion processes from the following..... **b) Traditional stoves**
9. The major contributor of Carbon monoxide is..... **a) Automobiles**
10. Which one of the following causes of global warming? **d) Increasing temperature**
11. Which of the following is responsible for protecting humans from harmful ultraviolet rays?
c) Ozone layer
12. Global warming also refers to as
a) Ecological change b) Climate Change c) Atmosphere change **d) None of the above**
13. Which of the following is the anticipated effect of Global warming?
b) Changing precipitation
14. The process of nutrient enrichment is termed as **a) Eutrophication**
15. Primary cause of Soil pollution is **d) Chemical fertilizer**
16. Which of the following is main cause for deforestation?
a) Timber harvesting industry
17. Electronic waste is commonly referred as **c) e-waste**
18. Acid rain is one of the consequences of **a) Air pollution**
19. Sustainable Development Goals and targets are to be achieved by **c) 2030**
20. Alkali soils are predominantly located in the ----- plains?
a) Indus-Ganga b) North-Indian c) Gangetic plains **d) All the above**

II. Very Short Answer Questions:

21. State the meaning of environment.

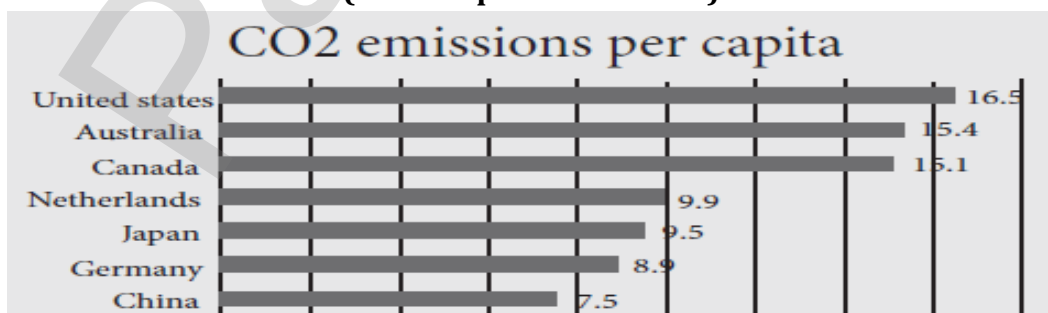
- ❖ Environment means “all the conditions, circumstances, and influences surrounding and affecting the development of an organism or group of organisms”.
- ❖ It also means that the complex of physical, chemical and biotic factors that act upon an organism or an ecological community ultimately determine its form and survival.

22. What do you mean by ecosystem?

- ❖ An ecosystem includes all living things (plants, animals and organisms) in a given area, interacting with each other, and also with their non-living environments (weather, earth, sun, soil, climate, atmosphere).
- ❖ Ecosystems are the foundations of the Biosphere and they determine the health of the entire earth system.

23. Mention the countries where per capita carbondioxide emission is the highest in the world.

(Write top five Countries)



24. What are environmental goods? Give examples.

- ❖ Environmental goods are typically non-market goods, including clear air, clean water, and scape, green transport infrastructure (footpaths, cycle ways, greenways, etc.), public parks, urban parks, rivers, mountains, forests, and beaches.
- ❖ Concerns with environmental goods focus on the effects that the exploitation of ecological systems have on the economy, the well-being of humans and other species, and on the environment.

25. What are the remedial measures to control noise pollution?

1. Use of noise barriers
2. Newer roadway for surface transport
3. Traffic control
4. Regulating times for heavy vehicles
5. Installations of noise barriers in the work place
6. Regulation of Loudspeakers

26. Define Global warming.

- ❖ Global warming is the current increase in temperature of the Earth's surface (both land and water) as well as its atmosphere. Ex: Average temperatures around the world have risen by 0.75°C (1.4°F) over the last 100 years.

27. Specify the meaning of seed ball.

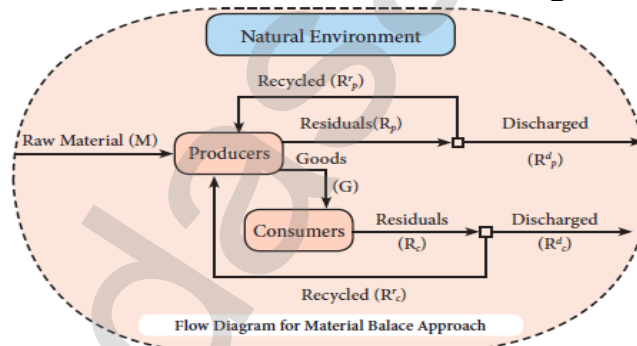
- ❖ A seed ball (or seed bomb) is a seed that has been wrapped in soil materials, usually a mixture of clay and compost, and then dried.
- ❖ Essentially, the seed is 'pre-planted' and can be sown by depositing the seed ball anywhere suitable for the species, keeping the seed safely until the proper germination window arises.

III. Short Answer Questions:

28. Brief the linkage between economy and environment.

- ❖ The relationship between the economy and
- ❖ The environment is generally explained in the form of a "Material Balance Model" developed by AlenKneese and R.V. Ayres.
- ❖ The model considers the total economic process as a physically balanced flow between inputs and outputs.

The interdependence of economics and environment is given in the flow diagram.



- ❖ The environment provides both a direct value as well as raw material intended for economic activity, thus making the environment and the economy interdependent.
- ❖ Environment provides land, water, air, energy resources, coal, oil, forests, minerals and metals and so many other natural resources which are essential for the economic development of economy.
- ❖ It provides services which are directly used by the consumers i.e. air we breathe and water we drink as a liquid of life.
- ❖ It provides forests, water reservoirs, rivers etc. and wildlife sanctuaries which also play economic roles for the mankind.

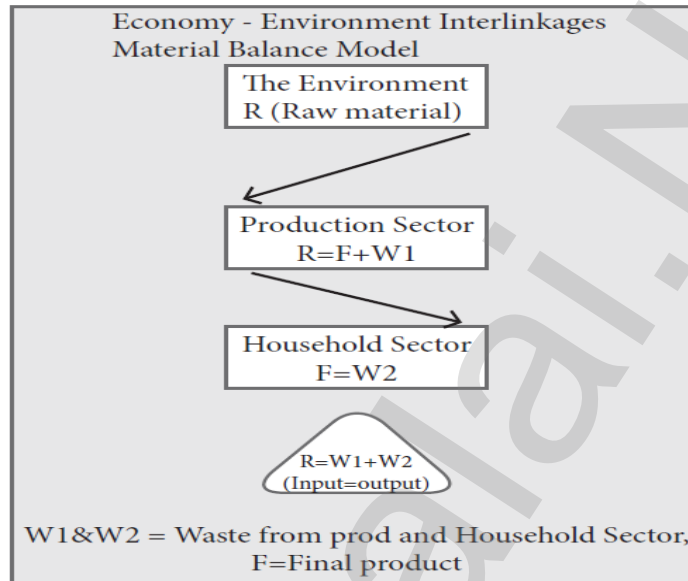
29. Specify the meaning of material balance principle.

Meaning

- ❖ The material balance principle considers the total economic process as a physically balanced flow between inputs and outputs.
- ❖ Inputs are bestowed with physical property of energy which is received from the environment.

Explanation

- ❖ The first law of thermodynamics, i.e. the law of conservation of matter and energy, emphasizes that in any production system “what goes in must come out”.
- ❖ This is known as the Material Balance Approach or Material Balance Principle.
- ❖ The material flow diagram implies that mass inputs must equal mass outputs for every process.
- ❖ Moreover, all resources extracted from the environment eventually become unwanted wastes and pollutants.
- ❖ Production of output by firms from inputs resulting in discharge of solid, liquid and gaseous wastes.
- ❖ Similarly, waste results from consumption activities by households.
- ❖ In short, material and energy are drawn from environment, used for production and consumption activities and returned back to the environment as wastes.



In its simple form the Material Balance Approach can be put in form equation.

$$M = G - RC - RP + RrP + Rrc = Rdc + Rdc$$

| | | | | |
|---|---|--|---|---|
| Material and Energy Inflow from Natural World (M) | = | Economic Activities of Goods and Service Production (G) - Consumption and Production Residual Discharges from Consumption and Production activities ($R_C + R_P$) + Recycles from Production and Consumption ($R^r_P + R^r_C$) | = | Final Residual Discharge from Production and Consumption into Natural World ($R^d_C + R^d_C$) |
|---|---|--|---|---|

30. Explain different types of air pollution. Indoor Air Pollution:

It refers to toxic contaminants that we encounter in our daily lives in our homes, schools and workplaces. For example, cooking and heating with solid fuels on open fires or traditional stoves results in high levels of indoor air pollution.

Outdoor Air Pollution:

It refers to ambient air. The common sources of outdoor air pollution are caused by combustion processes from motor vehicles, solid fuel burning and industry.

31. Distinguish between Balance of Trade and Balance of Payments.

Water pollution is caused due to several reasons. Here are the few major causes of water pollution:

1. Discharge of sewage and waste water:

Sewage, garbage and liquid waste of households, agricultural runoff and effluents from factories are discharged into lakes and rivers.

2. Dumping of solid wastes:

The dumping of solid wastes and litters in water bodies cause huge problems.

3. Discharge of industrial wastes:

Industrial waste contains pollutants like asbestos, lead, mercury, grease oil and petrochemicals, which are extremely harmful to both people and environment.

4. Oil Spill:

Sea water gets polluted due to oil spilled from ships and tankers while travelling.

5. Acid rain

When the acidic particles caused by air pollution in the atmosphere mix with water vapor, it results in acid rain.

6. Global warming:

Due to global warming, there is an increase in water temperature as a result aquatic plants and animals are affected.

7. Eutrophication

Eutrophication is an increased level of nutrients in water bodies. This results in bloom of algae in water.

32. State the meaning of e-waste.

- ❖ Electronic waste which is commonly referred as “e-waste” is the new byproduct of the Info Tech society.
- ❖ It is a physical waste in the form of old discarded, end of life electronics.
- ❖ It includes a broad and growing range of electronic devices from large household appliances such as refrigerators, air conditioners, cellular phones, computers and other electronic goods”.
- ❖ Similarly, e-waste can be defined as the result when consumer, business and household devices are disposed or sent for re-cycling example, television, computers, audio-equipments, VCR, DVD, telephone, etc.,

33. What is land pollution? Mention the causes of land pollution.**Definition**

- ❖ The land pollution is defined as, “the degradation of land because of the disposal of waste on the land”.
- ❖ Any substance (solid, liquid or gaseous) that is discharged, emitted or deposited in the environment in such a way that it alters the environment causes land pollution

Causes of Land Pollution**i. Deforestation and soil erosion:**

Deforestation carried out to create dry lands is one of the major concerns.

ii. Agricultural activities:

With growing human and pet animal population, demand for food has increased considerably.

iii. Mining activities:

During extraction and mining activities, several land spaces are created beneath the surface.

iv. Landfills:

Each household produces tones of garbage each year due to changing economic lifestyle of the people.

v. Industrialization:

Due to increasing consumerism more industries were developed which led to deforestation.

vi. Construction activities:

Large waste articles like wood, metal, bricks, plastic are dumped at the outskirts of urban areas that lead to land pollution.

34. Write a note on a) Climate change and b) Acid rain**Climate Change**

- ❖ The climate change refers to seasonal changes over a long period with respect to the growing accumulation of greenhouse gases in the atmosphere.
- ❖ Recent studies have shown that human activities since the beginning of the industrial revolution.

Acid Rain

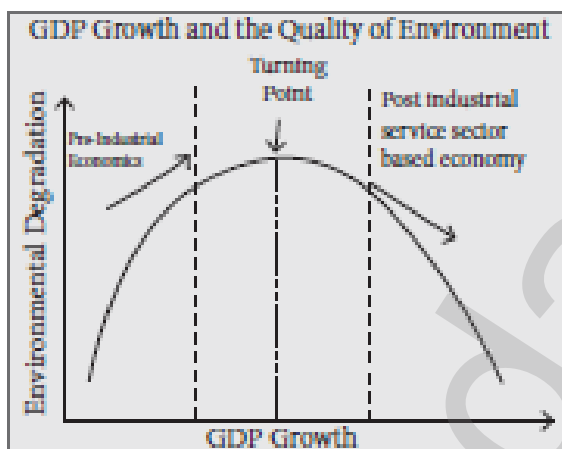
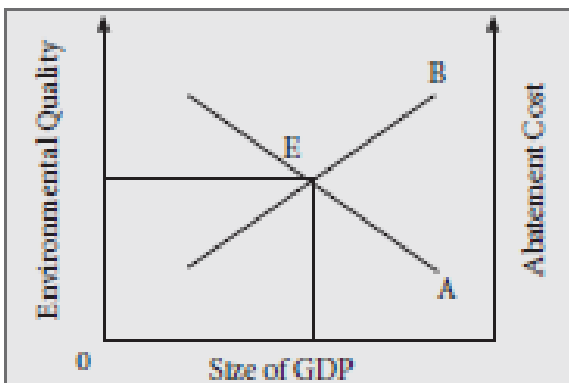
- ❖ Acid rain is one of the consequences of air pollution.
- ❖ It occurs when emissions
- ❖ from factories, cars or heating boilers contact with the water in the atmosphere.
- ❖ These emissions contain nitrogen oxides, sulphur dioxide and sulphur trioxide which when mixed with water becomes sulfurous acid, nitric acid and sulfuric acid.
- ❖ This process also occurs by nature through volcanic eruptions.

IV. Answer the following questions in about page.

35. Briefly explain the relationship between GDP growth and the quality of environment.

Environmental quality

- ❖ Environmental quality is a set of properties and characteristics of the environment either generalized or local, as they impinge on human beings and other organisms.
- ❖ It is a measure of the condition of an environment relative to the requirements of one or more species and to any human need.
- ❖ Environmental quality has been continuously declining due to capitalistic mode of functioning.



- ❖ Environment is a pure public good that can be consumed simultaneously by everyone and from which no one can be excluded.
- ❖ A pure public good is one for which consumption is non-rival and from which it is impossible to exclude a consumer.
- ❖ Pure public goods pose a free-rider problem. As a result, resources are depleted.
- ❖ The contribution of the nature to GDP as well as depletion of natural resources are not accounted in the present system of National Income Enumeration.
- ❖ Economic growth is often pointed out to be the cause of environmental issues based on the notion that increased production equals increased pollution.

36. Explain the concepts of externality and its classification.

Meaning of Externalities

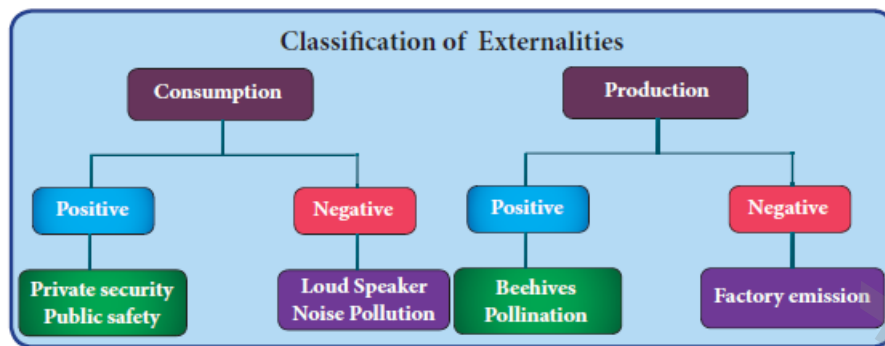
Externalities refer to external effects or spillover effects resulting from the act of production or consumption on the third parties.

Definitions

Externalities may be defined as “the cost or benefit imposed by the consumption and production activities of the individuals on the rest of the society not directly involved in these activity and towards which no payment is made”.

Classification

Beneficial externalities are called “positive externalities” and adverse ones are called “negative externalities”.



Positive Consumption Externality

When some residents of a locality hire a private security agency to patrol their area, the other residents of the area also benefit from better security without bearing cost.

Negative Consumption Externality

A person smoking cigarette gets may gives satisfaction to that person, but this act causes hardship (dissatisfaction) to the non-smokers who are driven to passive smoking.

Positive Production Externality

The ideal location for beehives is orchards (first growing fields). While bees make honey, they also help in the pollination of apple blossoms. The benefits accrue to both producers (honey as well as apple). This is called 'reciprocal untraded interdependency. Suppose training is given for the workers in a company. If those trained workers leave the company to join some other company, the later company gets the benefit of skilled workers without incurring the cost of training.

Negative Production Externality

Negative production externalities include pollution generated by a factory that imposes costs on others. The emissions and effluents of a factory cause air and water pollution. Water becomes contaminated and unfit for drinking e.g. Tanneries. The innocent community bears the external cost for which it is not compensated.

37. Explain the importance of sustainable development and its goals.

Meaning

Sustainable development is concerned with the welfare of not only present generation but also future generation.

Definitions

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

Importance of Sustainable Development

- ❖ Economic growth – building a strong, competitive economy, by ensuring that sufficient land of the right type is available in the right places and at the right time to support growth and innovation; and identifying then coordinating development requirements.
- ❖ Environmental protection – contributing to protecting and enhancing our natural and developed environment, while helping to improve biodiversity, use natural resources wisely, minimizing waste and pollution, and adapting to and helping to decrease climate change, including a global shift to low-carbon economy
- ❖ Social inclusion – supporting strong, vibrant and healthy communities by providing the supply of housing required to meet the needs of present and future generations; and by creating a high-quality of development, with accessible local services that reflect the community's needs and support its health, social and cultural well-being.

The Global Goals For Sustainable Development

1. End Poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote wellbeing for all at all ages
4. Ensure inclusive and quality education for all and promote lifelong learning
5. Achieve gender equality and empower women and girls

6. Ensure access to water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote inclusive and sustainable economic growth, employment and decent work for all
9. Build resilient infrastructure, promote sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries
11. Make cities inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production pattern
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources
15. Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss
16. Promote just, peaceful and inclusive societies
17. Revitalize the global partnership for sustainable development

11. ECONOMICS OF DEVELOPMENT AND PLANNING

1. "Redistribution with Growth" became popular slogan of which approach?
b) New welfare oriented approach
2. Which is not the feature of economic growth? **d) Wider concept**
3. Which among the following is a characteristic of underdevelopment? **a) Vicious circle of poverty**
4. The non-economic determinant of economic development. **b) Human resource**
5. Economic growth measures the **c) Increase in output**
6. The supply side vicious circle of poverty suggests that poor nations remain poor because
d) a and b above
7. Which of the following plan has focused on the agriculture and rural economy?
c) Gandhian Plan
8. Arrange following plans in correct chronological order
a) People's Plan b) Bombay Plan c) Jawaharlal Nehru Plan d) Vishveshwarya Plan
Answer choices: b) (iv) (iii) (ii) (i)
9. M.N. Roy was associated with **b) People's Plan**
10. Which of the following country adopts indicative planning? **a) France**
11. Short-term plan is also known as..... **a) Controlling Plans**
12. Long-term plan is also known as **c) Perspective Plans**
13. The basic philosophy behind long term planning is to bring----- changes in the economy?
d) Structural
14. Sarvodaya Plan was advocated by..... **b) J.P. Narayan**
15. Planning Commission was set up in the year **a) 1950**
16. Who wrote the book 'The Road to Serfdom'? **a) Friedrich Hayek**
17. Perspective plan is also known as **c) Long-term plan**
18. NITI Aayog is formed through..... **c) Cabinet resolution**
19. Expansion of NITI Aayog? **d) National Institution for Transforming India**
20. The Chair Person of NITI Aayog is..... **a) Prime Minister**

II. Very Short Answer Questions:

21. Define economic development

- ❖ The traditional approach defines development strictly in economic terms.
- ❖ The increase in GNP is accompanied by decline in share of agriculture in output and employment while those of manufacturing and service sectors increase.
- ❖ It emphasizes the importance of industrialization.

22. Mention the indicators of development.

- ❖ Gross National Product (GNP)
- ❖ GNP per capita
- ❖ Welfare
- ❖ Social Indicators - health, education, food, water, sanitation and housing facilities.

23. Distinguish between economic growth and development

| Differences between Economic Growth and Economic Development | |
|--|---|
| Economic Growth | Economic Development |
| Deals with the problems of Developed countries | Deals with the problems of UDCs |
| Change is gradual and steady | Change is discontinuous and spontaneous |
| Means more output | Means not only more output but also its composition |
| Concerns Quantitative aspects i.e. increase in per capita income | Quantitative as well as Qualitative |
| Narrow | Wider concept Development = Growth + Change |

24. What is GNP?

GNP is the total market value of all final goods and services produced within earned by its citizens (including income of those located abroad), minus income of non-residents located in that country.

25. Define economic planning.

- ❖ According to Robbins, "Economic Planning is "collective control or suppression of private activities of production and exchange".
- ❖ According to Dalton, "Economic Planning in the widest sense is the deliberate direction by persons incharge of large resources of economic activity towards chosen ends".

26. What are the social indicators of economic development?

The basic needs for development such as health, education, sanitation, water, food etc.

| Sno | Basic need | Indicators |
|-----|--------------|--|
| 1 | Health | Life expectancy at Birth |
| 2 | Education | Literacy signifying primary school enrollment as percent of population. |
| 3 | Food | Calorie supply per head |
| 4 | Water supply | infant mortality and percentage of population with access to potable water |
| 5 | Sanitation | Infant mortality and percentage of population with access of sanitation. |

27. Write a short note on NITI Aayog.

- ❖ NITI Aayog (National Institution for Transforming India) was formed on January 1, 2015 through a Union Cabinet resolution.
- ❖ NITI Aayog is a policy think-tank (a body of experts providing advice and ideas on specific economic problems) of the Government of India.
- ❖ It replaced the Planning Commission from 13th August, 2014.
- ❖ NITI Aayog is based on the 7 pillars of effective governance –

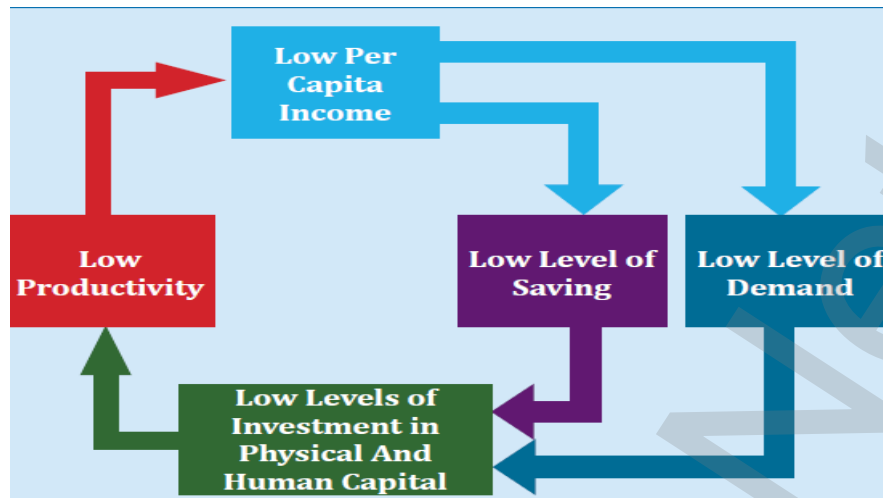
| | |
|----------------------|------------------|
| (1) Pro-People | (2) Pro-Activity |
| (3) Participation | (4) Empowering |
| (5) Inclusion of all | (6) Equality |
| (7) Transparency | |

III. Short Answer Questions:

28. Elucidate major causes of vicious circle of poverty with diagram

VICIOUS CIRCLE OF POVERTY:

MEANING



The reasons of vicious circle of poverty can be classified into two groups:

(a) Supply side of vicious circle.

(b) Demand side of vicious circle.

On the supply side, the low level of real income means low savings. The low level of saving leads to low investment and to deficiency of capital. The deficiency of capital, in turn, leads to low levels of productivity and back to low income. **Low Income → Low Saving → Low Investment → Low Production → Low Income** The demand-side of the vicious circle is that the low level of real income leads to a low level of demand which, in turn, leads to a low rate of investment and hence back to deficiency of capital, low productivity and low income. **Low Income → Low Demand Low Investment → Low Productivity → Low Income**

29. What are the non-economic factors determining development?

1.Human Resource 2.Technical Know-how 3.Political Freedom 4.Social Organization 5.Corruption free administration 6.Desire for Development 7. Moral, ethical and social values 8. Casino Capitalism 9. Patrimonial Capitalism

30. How would you break the vicious circle of poverty?

- ❖ To break the vicious circle on the demand side, Nurkse suggested the strategy of balanced growth.
- ❖ If investment is made in several industries simultaneously the workers employed in various industries will become consumers of each other's products and will create demand for one another.
- ❖ The balanced growth i.e. simultaneous investment in large number of industries creates mutual demand.
- ❖ Thus, through the strategy of balanced growth, vicious circle of poverty operating on the demand side of capital formation can be broken.

31. Trace the evolution of economic planning in India.

1. Sir M. Vishveshwarya (1934): a prominent engineer and politician made his first attempt in laying foundation for economic planning in India in 1934 through his book, "**Planned Economy of India**". It was a 10 year plan.

2. Jawaharlal Nehru (1938): set-up "**National Planning Commission**" by a committee but due to the changes in the political era and second World War, it did not materialize.

3. Bombay Plan (1940): The 8 leading industrialists of Bombay presented "**Bombay Plan**". It was a 15 Year Investment Plan.

4. S. N Agarwal (1944) gave the "**Gandhian Plan**" focusing on the agricultural and rural economy.

5. M.N. Roy (1945) drafted "**People's Plan**". It was aiming at mechanization of agricultural production and distribution by the state only.

6. J.P. Narayan (1950) advocated, “**Sarvodaya Plan**” which was inspired by Gandhian Plan and with the idea of VinobaBhave. It gave importance not only for agriculture, but encouraged small and cottage industries in the plan.

32. Describe the case for planning.

1. To accelerate and strengthen market mechanism:
2. To remove unemployment:
3. To achieve balanced development
 - i) Development of Agriculture and Industrial Sectors
 - ii) Development of Infrastructure
 - iii) Development of Money and Capital Markets
4. To remove poverty and inequalities

33. Distinguish between functional and structural planning.

| Basis of Difference | Functional Planning | Structural Planning |
|---------------------|---|---|
| Meaning | Functional planning refers to that planning which seeks to remove Economic difficulties | The structural planning refers to a good deal of changes in the socioeconomic framework of the country. |
| Approach | Attempt within the existing socioeconomic framework | Attempt to change the economic structure Fundamentally |
| Nature | Functional planning is evolutionary | Structural planning is therefore revolutionary |
| Example | Planning in India s is functional | Planning in China is structural |
| Scope | Narrow | Wider concept Development = Growth +Change |

34. What are the functions of NITI Aayog?

1. **Cooperative and Competitive Federalism:** To enable the States to have active participation in the formulation of national policy.
2. **Shared National Agenda:** To evolve a shared vision of national development priorities and strategies with the active involvement of States.
3. **Decentralized Planning:** To restructure the planning process into a bottom-up model.
4. **Vision and Scenario Planning:** To design medium and long-term strategic frameworks towards India’s future.
5. **Network of Expertise:** To mainstream external ideas and expertise into government policies and programmes through a collective participation.
6. **Harmonization:** To facilitate harmonization of actions across different layers of government, especially when involving cross-cutting and overlapping issues across multiple sectors;
7. **Conflict Resolution:** To provide platform for mutual consensus to inter-sectoral, inter-departmental, inter-state as well as centre-state issues for all speedy execution of the government programmes.
8. **Coordinating Interface with the World:** It will act nodal point to harness global expertise and resources coming from International organizations for India’s developmental process.
9. **Internal Consultancy:** It provides internal consultancy to Central and State governments on policy and programmes.
10. **Capacity Building:** It enables to provide capacity building and technology up-gradation across government, benchmarking with latest global trends and providing managerial and technical know-how.
11. **Monitoring and Evaluation:** It will monitor the implementation of policies and programmes and evaluate the impacts.

IV. Answer the following questions in about page.

35. Discuss the economic determinants of economic development.

Economic Determinants of Economic Development are as follow,

1. Natural Resource
2. Capital Formation
3. Size of the Market
4. Structural Change
5. Financial System
6. Marketable surplus
7. Foreign Trade
8. Economic System

1. Natural Resource: The principal factor affecting the development of an economy is the availability of natural resources. The existence of natural resources in abundance is essential for development.

2. Capital Formation: Capital formation is the main key to economic growth. It facilitates adoption of advanced techniques of production. It leads to better utilization of natural resources, industrialization and expansion of markets which are essential for economic progress.

3. Size of the Market: Large size of the market would stimulate production, increase employment and raise the National per capita income.

4. Structural Change: Structural change refers to change in the occupational structure of the economy. Any economy of the country is generally divided into three basic sectors: Primary sector, Secondary sector and Tertiary sector. Any economy which is predominantly agricultural tends to remain backward.

5. Financial System: Financial system implies the existence of an efficient and organized banking system in the country. There should be an organized money market to facilitate easy availability of capital.

6. Marketable Surplus: Marketable surplus refers to the total amount of farm output cultivated by farmers over and above their family consumption needs. This is a surplus that can be sold in the market for earning income.

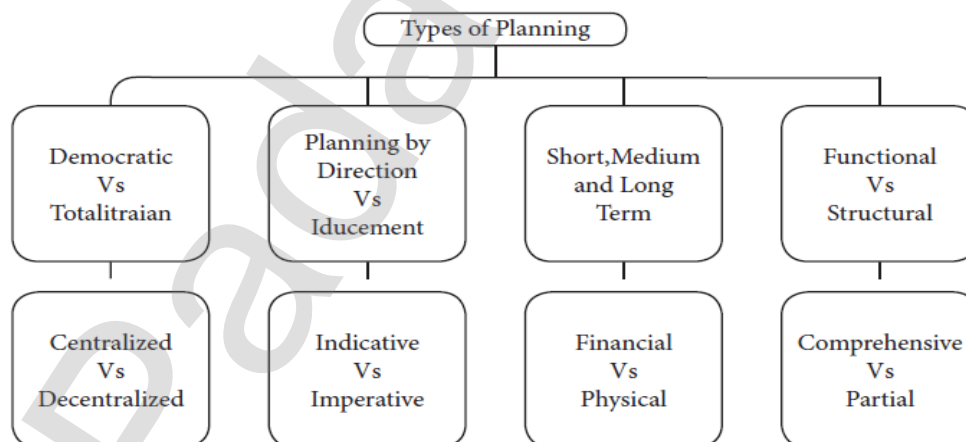
7. Foreign Trade: The country which enjoys favorable balance of trade and terms of trade is always developed. It has huge forex reserves and stable exchange rate.

8. Economic System: The countries which adopt free market mechanism (laissez faire) enjoy better growth rate compared to controlled economies. It may be true for some countries, but not for every country.

36. Describe different types of Planning.

Planning - Definition

“Economic Planning in the widest sense is the deliberate direction by persons incharge of large resources of economic activity towards chosen ends”.



1. Democratic Vs Totalitarian

| Democratic Plan | Totalitarian Plan |
|---|--|
| Democratic planning implies planning within Democracy | Under totalitarian planning, there is central control and direction of all economic activities in accordance with a single plan. |
| People are associated at every step in the formulation and implementation of the plan | In authoritarian planning, the planning authority is the supreme body. |

| 2. Centralized Vs Decentralized | | |
|--|---|---|
| Centralized Plan | | Decentralized Plan |
| Under centralized planning, the entire planning process in a country is under a central planning authority | | Under decentralized planning local organizations and institutions formulate, adopt, execute and supervise the plan without interference by the central authorities. |
| In other words, it is called 'planning from above'. | | In other words, it is called 'planning from below' |
| 3. Planning by Direction Vs Inducement: | | |
| Planning by Direction | | Planning by Inducement |
| There is a central authority which plans, directs and orders the execution of the plan in accordance with pre-determined targets and priorities. | | The people are induced to act in a certain way through various monetary and fiscal measures. |
| 4. Indicative Vs Imperative Planning: | | |
| Indicative Plan | | Imperative Plan |
| Indicative planning is peculiar to the mixed economies. It has been in practice in France | | The state is all powerful in preparation and implementation of the plan. |
| 5. Short, Medium and Long term Planning: | | |
| Short Term Plan | Medium Term Plan | Long Term Plan |
| Short - term upto 1 year | Medium - term 3 - 7 years | Long - term over 10 year |
| Short - term planning concerns the plans in a time period of 1 year - operational planning. | Medium - term planning is considered for a time period of 5 years - tactical planning | Long - term planning is considered for a time period over 10 years - strategic planning. |
| 6. Financial Vs Physical Planning: | | |
| Financial Plan | | Physical Plan |
| Financial planning refers to the technique of planning in which resources are allocated in terms of money | | Physical planning pertains to the allocation of resources in terms of men, materials and machinery. |
| 7. Functional Vs Structural Planning: | | |
| Functional Plan | | Structural Plan |
| Functional planning refers to that planning which seeks to remove economic difficulties | | The structural planning refers to a good deal of changes in the socio-economic framework of the country |
| 8. Comprehensive Vs Partial Planning: | | |
| Comprehensive Plan | | Partial Plan |
| General planning which concerns itself with the major issues for the whole economy is known as comprehensive planning | | Partial planning is to consider only the few important sectors of the economy. |

37. Bring out the arguments against planning.

Introduction

- ❖ The failure of market mechanism invited state intervention in economic activities through planning. But the economic planning also is not free from limitations.
- ❖ It may retard private initiatives, hamper freedom of choice, involve huge cost of administration and stop the automatic adjustment of price mechanism.
- ❖ The arguments against planning are mostly concerned with centralized and totalitarian planning.

1. Loss of freedom

- ❖ The absence of freedom in decision making may act as an obstacle for economic growth. Regulations and restrictions are the backbone of a planned economy.
- ❖ Under planning, the crucial decisions are made by the Central Planning Authority. The consumers, producers and the workers enjoy no freedom of choice.
- ❖ Therefore, Hayek explains in his book 'Road to Serfdom' that centralized planning leads to loss of personal freedom and ends in economic stagnation.

2. Elimination of Initiative

Under centralized planning, there will be no incentive for initiatives and innovations. Planning follows routine procedure and may cause stagnation in growth. The absence of initiatives may affect progress in following ways.

- a. The absence of private ownership and profit motive discourages entrepreneurs.
- b. As all enjoy equal reward under planned economy irrespective of their effort
- c. The bureaucracy and red tapism which are the features of planned economy, cripple the initiative as they cause procedural delay and time loss.

3. High cost of Management

- ❖ No doubt the fruits of planning such as industrialization, social justice and regional balance are good.
- ❖ But the cost of management of the economic affairs outweighs the benefits of planning.
- ❖ Plan formulation and implementation involve engagement of an army of staff for data collection and administration.

4. Difficulty in advance calculations

- ❖ There is no such mechanism in a planned economy.
- ❖ Advance calculations in a precise
- ❖ manner are impossible to make decisions regarding the consumption and production.
- ❖ It is also very difficult to put the calculations into practice under planning.

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12.INTRODUCTION TO STATISTICAL METHODS AND ECONOMETRICS

1. The word 'statistics' is used as _____. **c) Singular and Plural**
2. Who stated that statistics as a science of estimates and probabilities. **d) Boddington**
3. Sources of secondary data are _____.
a) Published sources. b) Unpublished sources.
c) neither published nor unpublished sources. **d) Both (A) and (B)**
4. The data collected by questionnaires are _____. **a) Primary data**
5. A measure of the strength of the linear relationship that exists between two variables is called:
c) Correlation coefficient
6. If both variables X and Y increase or decrease simultaneously, then the coefficient of correlation will be: **a) Positive**
7. If the points on the scatter diagram indicate that as one variable increases the other variable tends to decrease the value of r will be: **c) Negative**
8. The value of the coefficient of correlation r lies between: **c) -1 and +1**
9. The term regression was used by: **d) Galton**
10. The purpose of simple linear regression analysis is to:
a) Predict one variable from another variable
11. A process by which we estimate the value of dependent variable on the basis of one or more independent variables is called: **b) Regression**
12. If $Y = 2 - 0.2X$, then the value of Y intercept is equal to..... **b) 2**
13. In the regression equation $Y = \beta_0 + \beta_1 X$, the Y is called: **b) Dependent variable**
14. In the regression equation $Y = \beta_0 + \beta_1 X$, the X is called: **a) Independent variable**
15. Econometrics is the integration of **c) Economics, Mathematics and Statistics**
16. Econometric is the word coined by..... **b) Ragnar Frish**
17. The raw materials of Econometrics are: **a) Data**
18. The term Uiin regression equation is..... **c) Stochastic error term**
19. The term Uiiis introduced for the representation of..... **a) Omitted Variable**
20. Econometrics is the amalgamation of **a) 3 subjects**

II. Very Short Answer Questions:

21. What is Statistics?

According to Croxton and Cowden, "Statistics may be defined as the collection, organization, presentation, analysis and interpretation of numerical data"

22. What are the kinds of Statistics?

There are two major types of statistics named as Descriptive Statistics and Inferential Statistics. Statistics types are, i. Descriptive Statistics, ii. Inferential Statistics

Descriptive Statistics

The branch of statistics devoted to the summarization and description of data is called Descriptive Statistics

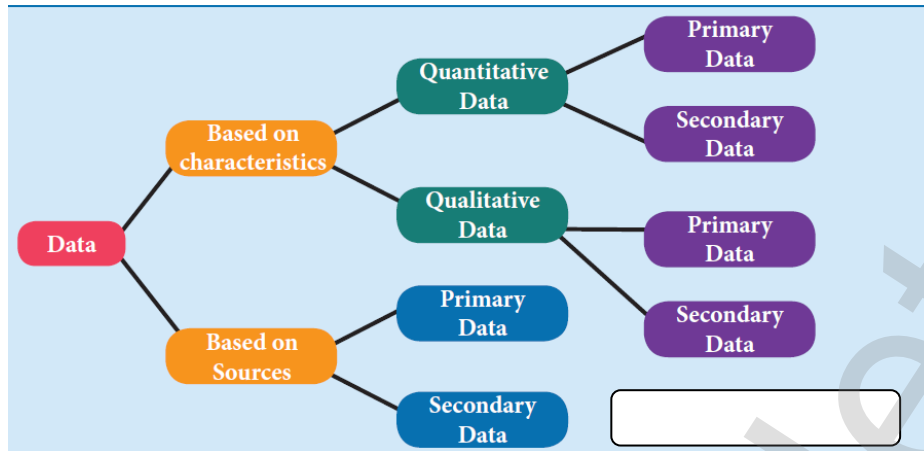
Inferential Statistics

The branch of statistics concerned with using sample data to make an inference about a population of data is called Inferential Statistics.

23. What do you mean by Inferential Statistics?

The branch of statistics concerned with using sample data to make an inference about a population of data is called Inferential Statistics.

24. What are the kinds of data?



25. Define Correlation.

- ❖ Correlation is a statistical device that helps to analyse the covariation of two or more variables.
- ❖ Sir Francis Galton, is responsible for the calculation of correlation coefficient.
- ❖ Regression means going back and it is a mathematical measure showing the average relationship between two variables.
- ❖ If Y is the dependent variable and X is independent variable, the linear relationship between the variable is called the regression equation of Y on X.
- ❖ The literal meaning of the word “regression” is “Stepping back towards the average”.

26. What is Econometrics?

In the words of Arthur S. Goldberger,

“Econometrics may be defined as the social science in which the tools of economic theory, mathematics and statistical inference are applied to the analysis of economic phenomena”.

III. Short Answer Questions:

28. What are the functions of Statistics?

- ❖ Statistics presents facts in a definite form.
- ❖ It simplifies mass of figures.
- ❖ It facilitates comparison.
- ❖ It helps in formulating and testing.
- ❖ It helps in prediction.
- ❖ It helps in the formulation of suitable policies.

29. Find the Standard Deviation of the following data: 14, 22, 9, 15, 20, 17, 12, 11

| S. No | X | (x - \bar{x}) | (x - \bar{x}) ² |
|--------------------------------------|------------------|------------------|-------------------------------|
| 1 | 14 | -1 | 1 |
| 2 | 22 | 7 | 49 |
| 3 | 9 | -6 | 36 |
| 4 | 15 | 0 | 0 |
| 5 | 20 | 5 | 25 |
| 6 | 17 | 2 | 4 |
| 7 | 12 | -3 | 9 |
| 8 | 11 | -4 | 16 |
| N = 8 (No. of Frequency occurred) | $\Sigma X = 120$ | 0 | $\Sigma(x - \bar{x})^2 = 140$ |

$$N = 8$$

$$\bar{x} = \frac{120}{8} = 15$$

$$\sigma = \sqrt{\frac{\Sigma(x - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{140}{8}}$$

$$= \sqrt{17.5}$$

$$\sigma = 4.18$$

30. State and explain the different kinds of Correlation.

Positive Correlation:

The correlation is said to be positive if the values of two variables move in the same direction.

$$\text{Ex. } Y = a + bx$$

Negative Correlation:

The Correlation is said to be negative when the values of variables move in the opposite directions.

$$\text{Ex. } Y = a - bx$$

Simple Correlation:

If only two variables are taken for study then it is said to be simple correlation. **Ex. $Y = a + bx$**

Multiple Correlations:

If three or more than three variables are studied simultaneously, then it is termed as multiple correlation. **Ex : $Qd = f(P, Pc, Ps, t, y)$**

Partial Correlation:

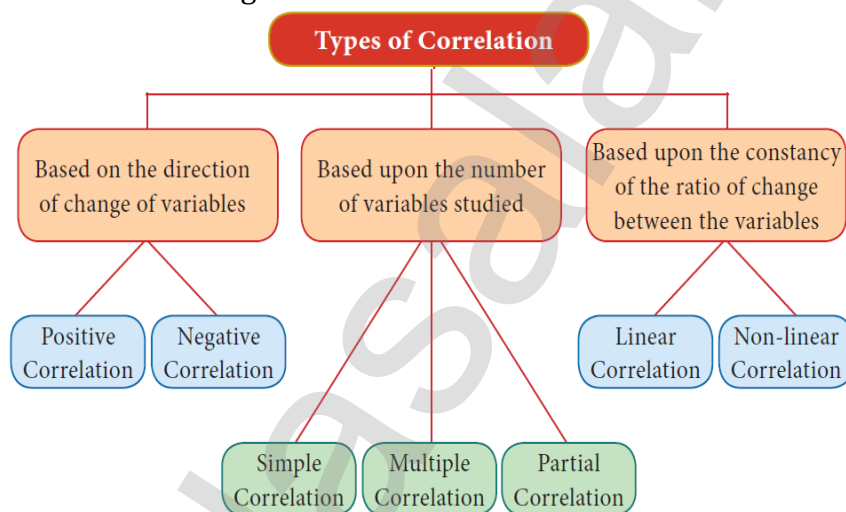
If there are more than two variables but only two variables are considered keeping the other variables constant, then the correlation is said to be Partial Correlation.

Linear Correlation:

Correlation is said to be linear when the amount of change in one variable tends to bear a constant ratio to the amount of change in the other. **Ex. $Y = a + bx$**

Non Linear:

The correlation would be non-linear if the amount of change in one variable does not bear a constant ratio to the amount of change in the other variables. **Ex. $Y = a + bx^2$**



31. Mention the uses of Regression Analysis.

- ❖ It indicates the cause and effect relationship between the variables and establishes functional relationship.
- ❖ Besides verification it is used for the prediction of one value, in relation to the other given value.
- ❖ Regression coefficient is an absolute figure. If we know the value of the independent variable, we can find the value of the dependent variable.
- ❖ It has wider application, as it studies linear and nonlinear relationship between the variables.
- ❖ It has wider application, as it studies linear and nonlinear relationship between the variables

32. Specify the objectives of econometrics.

The general objective of Econometrics is to give empirical content to economic theory. The specific objectives are as follows:

1. It helps to explain the behaviour of a forthcoming period that is forecasting economic phenomena.
2. It helps to prove the old and established relationships among the variables or between the variables
3. It helps to establish new theories and new relationships.
4. It helps to test the hypotheses and estimation of the parameter.

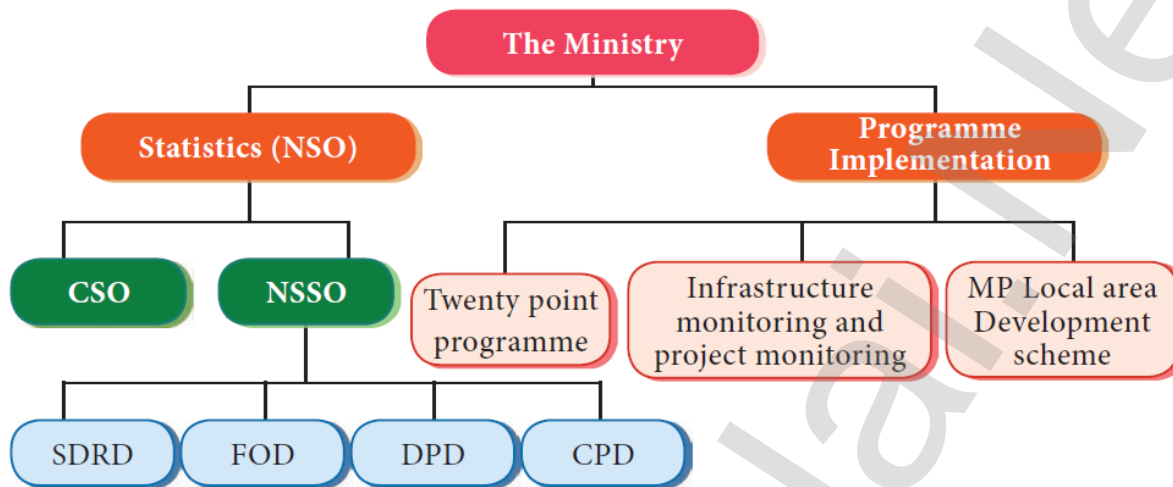
33. Differentiate the economic model with econometric model.

1. Models in Mathematical Economics are developed based on Economic Theories, while, Econometric Models are developed based on Economic Theories to test the validity of Economic Theories in reality through the actual data.

2. Regression Analysis in Statistics does not concentrate more on error term while Econometric Models concentrate more on error terms, Statistics Regression : $Y_i = \beta + \beta_1 X_i$ Economic Regression : $Y_i = \beta_0 + \beta_1 X_i + U_i$ (with more than 2 variables) or $Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + U_i$

Systematic Part: $\beta_0 + \beta_1 X_i$ or explained part and Random Part: U_i unexplained part in a regression. U_i represents the role of omitted variables in specifying a regression relationship of Y on X. Hence, the U_i cannot and should not be ignored.

34. Discuss the important statistical organizations (offices) in India.



The Ministry has two wings, Statistics and Programme Implementation.

The Statistics Wing called the National Statistical Office (NSO) consists of the Central Statistical Office (CSO), the Computer Centre and the National Sample Survey Office (NSSO).

Central Statistical Office (CSO)

- The Central Statistical Office is one of the two wings of the National Statistical Organisation (NSO).
- It is responsible for co-ordination of statistical activities in the country and for evolving and maintaining statistical standards.
- National Sample Survey Organisation (NSSO)
- The National Sample Survey Organisation, now known as National Sample Survey Office, is an organization under the Ministry of Statistic of the Government of India.
- It is the largest organisation in India, conducting regular socio-economic surveys.

The Programme Implementation Wing has three Divisions, namely,

- Twenty Point Programme
- Infrastructure Monitoring and Project Monitoring
- Member of Parliament Local Area Development Scheme.

IV. Answer the following questions in about page.

35. Elucidate the nature and scope of Statistics.

Definition of Statistics

According to Croxton & Cowden "Statistics may be defined as the collection, organisation, presentation, analysis and interpretation of numerical data"

Nature of Statistics

Different Statisticians and Economists differ in views about the nature of statistics, some call it a science and some say it is an art. Tipett on the other hand considers Statistics both as a science as well as an art. As numerical statement of facts, 'statistics' should possess the following nature.

- Statistics are an aggregate of facts.
- Statistics are numerically enumerated, estimated and expressed.
- Statistics should be collected in a systematic manner for a predetermined purpose.

4. Should be capable of being used as a technique for drawing comparison
5. Statistics are numerated or estimated according to reasonable standard of accuracy.
6. Statistics are affected to a marked extent by a multiplicity of causes.

Scope of Statistics: Statistics is applied in every sphere of human activity – social as well as physical – like Biology, Commerce, Education, Planning, Business Management, Information Technology, etc.

Statistics and Economics: Statistical data and techniques are immensely useful in solving many economic problems such as fluctuation in wages, prices, production, distribution of income and wealth and so on.

Statistics and Firms: Statistics is widely used in many firms to find whether the product is conforming to specifications or not.

Statistics and Commerce: Statistics are life blood of successful commerce. Market survey plays an important role to exhibit the present conditions and to forecast the likely changes in future.

Statistics and Education: Statistics is necessary for the formulation of policies to start new course, according to the changing environment.

Statistics and Planning: Statistics is indispensable in planning. In the modern world, which can be termed as the “world of planning”, almost all the organisations in the government are seeking the help of planning for efficient working, for the formulation of policy decisions and execution of the same. In order to achieve the above goals, various advanced statistical techniques are used for processing, analyzing and interpreting data.

Statistics and Medicine: In Medical sciences, statistical tools are widely used. In order to test the efficiency of a new drug or to compare the efficiency of two drugs or two medicines, t - test for the two samples is used.

Statistics and Modern applications: Recent developments in the fields of computer and information technology have enabled statistics to integrate their models and thus make statistics a part of decision making procedures of many organisations.

36. Calculate the Karl Pearson Correlation Co-efficient for the following data

| | | | | | | | | | | |
|-----------------------|----|----|----|----|----|----|----|----|----|----|
| Demand of Product X : | 23 | 27 | 28 | 29 | 30 | 31 | 33 | 35 | 36 | 39 |
| Sale of Product Y: | 18 | 22 | 23 | 24 | 25 | 26 | 28 | 29 | 30 | 32 |

Solution: Let A = 30 and B = 26 then $dx = X - A$ $dy = Y - B$

| X | Y | d_x | d_y | d_x^2 | d_y^2 | $d_x d_y$ |
|----|----|-------|-------|---------|---------|-----------|
| 23 | 18 | -7 | -8 | 49 | 64 | 56 |
| 27 | 22 | -3 | -4 | 9 | 16 | 12 |
| 28 | 23 | -2 | -3 | 4 | 9 | 6 |
| 29 | 24 | -1 | -2 | 1 | 4 | 2 |
| 30 | 25 | 0 | -1 | 0 | 1 | 0 |
| 31 | 26 | 1 | 0 | 1 | 0 | 0 |
| 33 | 28 | 3 | 2 | 9 | 4 | 6 |
| 35 | 29 | 5 | 3 | 25 | 9 | 15 |
| 36 | 30 | 6 | 4 | 36 | 16 | 24 |
| 39 | 32 | 9 | 6 | 81 | 36 | 54 |
| | | 11 | -3 | 275 | 159 | 175 |

$$\begin{aligned}
 r(x,y) &= \frac{N\sum d_x d_y - \sum d_x \sum d_y}{\sqrt{N\sum d_x^2 - (\sum d_x)^2} \sqrt{n\sum d_y^2 - (\sum d_y)^2}} \\
 &= \frac{10(175) - (11)(-3)}{\sqrt{10(275) - (11)^2} \sqrt{10(159) - (-3)^2}} \\
 &= \frac{1750 + 33}{\sqrt{2150 - 121} \sqrt{1590 - 9}} \\
 &= \frac{1783}{\sqrt{(45.044)} \sqrt{(39.761)}} \\
 &= \frac{1783}{1790.94}
 \end{aligned}$$

Ans: $r(x,y) = 0.9955$

37. Find the regression equation Y on X and X on Y for the following data:

| | | | | | | | | | | |
|----|----|----|----|----|----|----|----|----|----|----|
| X: | 45 | 48 | 50 | 55 | 65 | 70 | 75 | 72 | 80 | 85 |
| Y: | 25 | 30 | 35 | 30 | 40 | 50 | 45 | 55 | 60 | 65 |

| X | Y | U=X-65 | U=Y-45 | U ² | UV | V ² |
|------------------|------------------|----------------|-----------------|---------------------|--------------------|---------------------|
| 45 | 25 | -20 | -20 | 400 | 400 | 400 |
| 48 | 30 | -17 | -15 | 289 | 255 | 225 |
| 50 | 35 | -15 | -10 | 225 | 150 | 100 |
| 55 | 30 | -10 | -15 | 100 | 150 | 225 |
| 65 | 40 | 0 | -5 | 0 | 0 | 25 |
| 70 | 50 | 5 | 5 | 25 | 25 | 25 |
| 75 | 45 | 10 | 0 | 100 | 0 | 0 |
| 72 | 55 | 7 | 5 | 49 | 35 | 25 |
| 80 | 60 | 15 | 15 | 225 | 225 | 225 |
| 85 | 65 | 20 | 20 | 400 | 400 | 400 |
| $\Sigma X = 645$ | $\Sigma Y = 435$ | $\Sigma U = 5$ | $\Sigma V = 20$ | $\Sigma U^2 = 1813$ | $\Sigma UV = 1415$ | $\Sigma V^2 = 1675$ |

We have,

$$\bar{x} = \frac{\Sigma X}{N} = \frac{645}{10} = 64.5 \quad \text{and} \quad \bar{y} = \frac{\Sigma Y}{N} = \frac{435}{10} = 43.5$$

$$b_{yx} = \frac{N \Sigma UV - (\Sigma U \Sigma V)}{N \Sigma U^2 - (\Sigma U)^2}$$

$$= \frac{(10) \times 1415 - (5) \times (-20)}{(10) \times 1813 - (5)^2}$$

$$= \frac{14150 + 100}{18130 - 25} = \frac{14250}{18105} = 0.787$$

Regression equation of Y on X is

$$y - \bar{y} = b_{yx}(x - \bar{x})$$

$$y - 43.5 = 0.787(X - 64.5)$$

$$\text{or } Y = 0.787X + 7.26$$

Similarly b_{xy} can be calculated as

$$b_{xy} = \frac{N \Sigma UV - (\Sigma U \Sigma V)}{N \Sigma V^2 - (\Sigma V)^2}$$

$$= \frac{(10) \times 1415 - (5) \times (-20)}{(10) \times 1675 - (-20)^2}$$

$$= \frac{14150 + 100}{16750 - 400} = \frac{14250}{16350} = 0.87$$

Regression equation of X on Y will be

$$x - \bar{x} = b_{xy}(y - \bar{y})$$

$$x - 64.5 = 0.87(Y - 43.5)$$

$$\text{or } X = 0.87Y + 26.65$$

38. Describe the application of Econometrics in Economics (write any five)

1. Forecasting macroeconomic indicators:

Some macroeconomists are concerned with the expected effects of monetary and fiscal policy on the aggregate performance of the economy. Time-series models can be used to make predictions about these economic indicators.

2. Estimating the impact of immigration on native workers:

Immigration increases the supply of workers, so standard economic theory predicts that equilibrium wages will decrease for all workers. However, since immigration can also have positive demand effects, econometric estimates are necessary to determine the net impact of immigration in the labor market.

3. Identifying the factors that affect a firm's entry and exit into a market:

The microeconomic field of industrial organization, among many issues of interest, is concerned with firm concentration and market power. Theory suggests that many factors, including existing profit levels, fixed costs associated with entry/exit, and government regulations can influence market structure. Econometric estimation helps determine which factors are the most important for firm entry and exit.

4. Determining the influence of minimum wage laws on employment levels:

The minimum wage is an example of a price floor, so higher minimum wages are supposed to create a surplus of labor (higher levels of unemployment). However, the impact of price floors like the minimum wage depends on the shapes of the demand and supply curves. Therefore, labor economists use econometric techniques to estimate the actual effect of such policies.

5. Finding the relationship between management techniques and worker productivity:

The use of high-performance work practices (such as worker autonomy, flexible work schedules, and other policies designed to keep workers happy) has become more popular among managers. At some point, however, the cost of implementing these policies can exceed the productivity benefits. Econometric models can be used to determine which policies lead to the highest returns and improve managerial efficiency.

6. Measuring the association between insurance coverage and individual health outcomes:

One of the arguments for increasing the availability (and affordability) of medical insurance coverage is that it should improve health outcomes and reduce overall medical expenditures. Health economists may use econometric models with aggregate data (from countries) on medical coverage rates and health outcomes or use individual-level data with qualitative measures of insurance coverage and health status.

7. Deriving the effect of dividend announcements on stock market prices and investor behavior:

Dividends represent the distribution of company profits to its shareholders. Sometimes the announcement of a dividend payment can be viewed as good news when shareholders seek investment income, but sometimes they can be viewed as bad news when shareholders prefer reinvestment of firm profits through retained earnings. The net effect of dividend announcements can be estimated using econometric models and data of investor behavior.

8. Predicting revenue increases in response to a marketing campaign:

The field of marketing has become increasingly dependent on empirical methods. A marketing or sales manager may want to determine the relationship between marketing efforts and sales. How much additional revenue is generated from an additional dollar spent on advertising? Which type of advertising (radio, TV, newspaper, and so on) yields the largest impact on sales? These types of questions can be addressed with econometric techniques.

9. Calculating the impact of a firm's tax credits on R&D expenditure:

Tax credits for research and development (R&D) are designed to provide an incentive for firms to engage in activities related to product innovation and quality improvement. Econometric estimates can be used to determine how changes in the tax credits influence R&D expenditure and how distributional effects may produce tax-credit effects that vary by firm size.

10. Estimating the impact of cap-and-trade policies on pollution levels:

Environmental economists have discovered that combining legal limits on emissions with the creation of a market that allows firms to purchase the "right to pollute" can reduce overall pollution levels. Econometric models can be used to determine the most efficient combination of state regulations, pollution permits, and taxes to improve environmental conditions and minimize the impact on firms.

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ECONOMICS - CHAPTER 1 to 12

BOOK BACK ALL QUESTION / ANSWER

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