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**Author :**

**A. Mohammed, M.A., M.Phil., B.Ed.,**  
PG Assistant

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### Head Office:

#### Sura Publications

1620, 'J' Block, 16th Main Road,  
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## CONTENTS

Chapter	Contents	Page No.	Month
1.	Introduction To Micro-Economics	1 - 19	June
2.	Consumption Analysis	20 - 37	June
3.	Production Analysis	38 - 58	June
4.	Cost and Revenue Analysis	59 - 75	July
5.	Market Structure and Pricing I Mid-term Lessons 1-5	76 - 92	July
6.	Distribution Analysis	93 - 110	August
7.	Indian Economy	111 - 130	August
8.	Indian Economy Before and After Independence Quarterly Lessons 1-8	131 - 148	September
9.	Development Experiences in India	149 - 162	October
10.	Rural Economy	163 - 178	October
11.	Tamil Nadu Economy II Mid Term Lessons 9-11	179 - 193	November
12.	Mathematical Methods for Economics	194 - 212	November
Instant Supplementary Exam - August 2022 Question Paper (With Answer)		213 - 220	

# 1

# INTRODUCTION TO MICRO-ECONOMICS

## CHAPTER SNAPSHOT

### Introduction to Micro Economics

#### 1.1 Introduction

#### 1.2 Economics : Meaning

#### 1.3 Economics : Its Nature

1.3.1 Wealth Definition : Adam Smith

1.3.2 Welfare Definition :

Alfred Marshall

1.3.3 Scarcity Definition :

Lionel Robbins

1.3.4 Growth Definition : Samuelson

#### 1.4 Scope of Economics

1.4.1 Economics : Its Subject Matter

1.4.2 Economics is an Art and a Science

1.4.3 Economics : Positive Science and  
Normative Science

#### 1.5 Basic Concepts in Economics

1.5.1 Goods and Services

1.5.2 Utility

1.5.3 Price

1.5.4 Market

1.5.5 Cost

1.5.6 Revenue

1.5.7 Equilibrium

1.5.8 Income

#### 1.6 Economics : Its Methods, Facts, Theories and Laws

1.6.1 Methods of Economics :

Deduction and Induction

1.6.2 Economics : Facts, Theories

1.6.3 Nature of Economic Laws

#### 1.7 Economics : Its Sub Divisions

1.7.1 Consumption

1.7.2 Production

1.7.3 Exchange

1.7.4 Distribution

#### 1.8 Economics : Its Types

1.8.1 Micro-Economics

1.8.2 Macro - Economics

1.8.3 International Economics

1.8.4 Public Economics

1.8.5 Developmental Economics

1.8.6 Health Economics

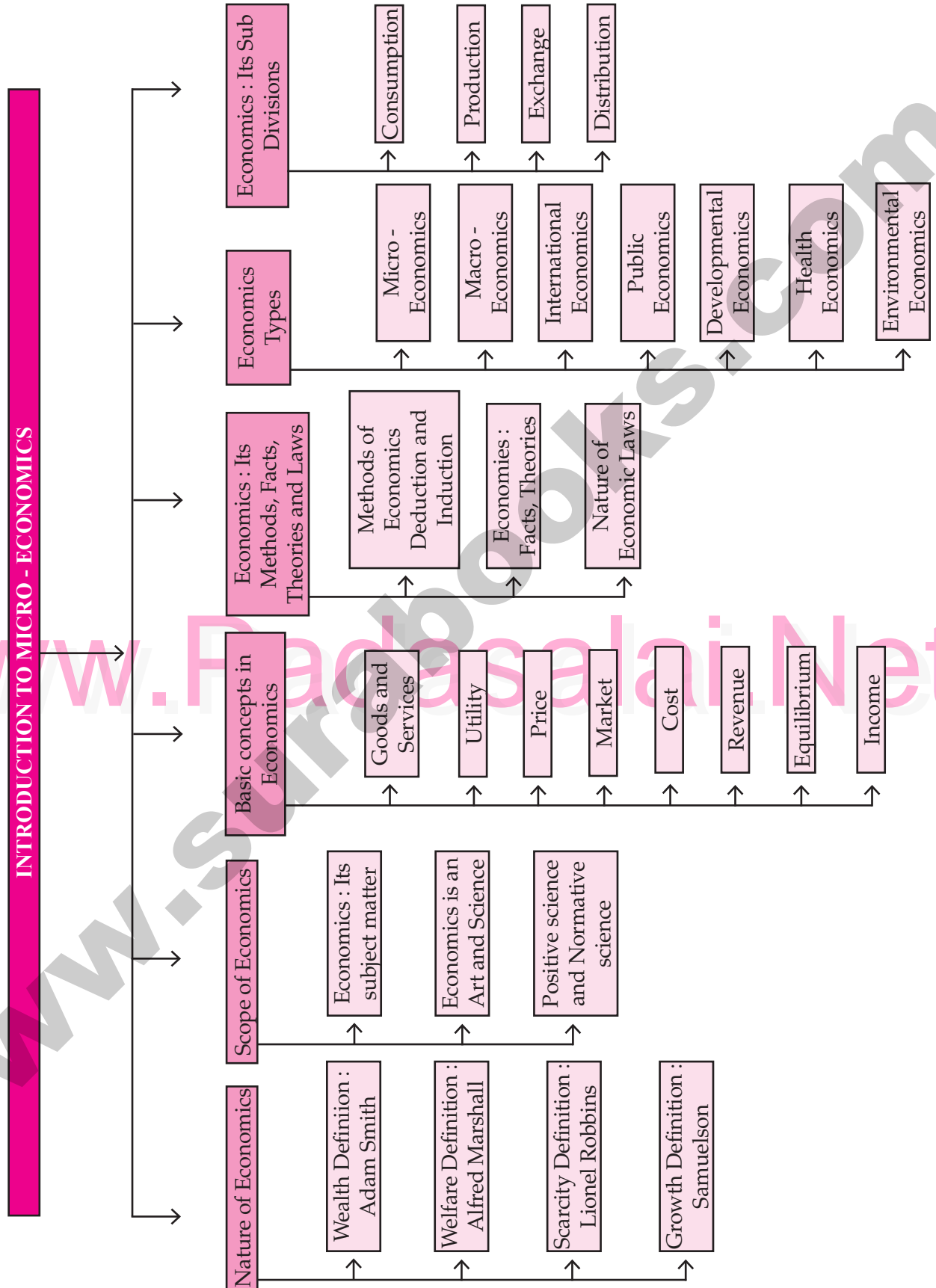
1.8.7 Environmental Economics

#### 1.9 Basic Economic Problems

#### 1.10 Production Possibility Curve

#### 1.11 Conclusion

CONCEPT MAP



## IMPORTANT TERMS

<b>Nature of Economics</b>	: Nature of economics is understood by studying the various definition given by the notable economists.
<b>Economics its subject matter</b>	: Economics focuses on the behaviour and interactions among economic agents, individuals and groups belonging to economic system.
<b>Positive science</b>	: Positive science deals with 'What it is'.
<b>Normative Science</b>	: Normative science responses to a question like 'what ought to be'.
<b>Basic concepts in Economics</b>	: Economics also has concepts to explain its theories.
<b>Goods and Services</b>	: In economics both goods and services satisfy human wants.
<b>Free Goods</b>	: Resources that are not scarce are called free goods
<b>Economic Goods</b>	: Goods which scarce are called economic goods.
<b>Consumer Goods</b>	: Consumer goods directly satisfy human wants.
<b>Capital Goods</b>	: Capital Goods help to produce consumer goods.
<b>Perishable Goods</b>	: Perishable goods are short lived.
<b>Durable Goods</b>	: Durable goods and semi-durable goods have a little longer life-time than the perishable goods.
<b>Utility</b>	: In economics, Utility is the want-satisfying power of a commodity or a service.
<b>Price</b>	: Price is the value of the goods expressed in terms of money.
<b>Market</b>	: Market means a place where commodities are bought and sold.
<b>Cost</b>	: Cost is the value of money incurred to produce or acquire a given quantum of goods.
<b>Revenue</b>	: Revenue is income obtained from the sale of goods and services
<b>Deductive Method</b>	: It consists in deriving conclusions from general truths, it takes few general principles and applies them to draw conclusions.
<b>Inductive Method</b>	: It involves the process of reasoning from particular facts to general principle.
<b>Consumption</b>	: Consumption deals with the satisfaction of human wants.
<b>Production</b>	: Production is the process of transformation of inputs into output.
<b>Exchange</b>	: Exchange is concerned with price determination in different market forms
<b>Distribution</b>	: Distribution studies about the pricing of factors of production.
<b>Micro Economics</b>	: Micro Economics is the study of the economic actions of small groups of individuals say households, firms or industries.
<b>Macro economics</b>	: It is concerned with the economy as a whole.
<b>Public Economics</b>	: Public finance is concerned with the income as revenue raising and expenditure incurring activities of the public authorities.
<b>Health Economics</b>	: Health economics is on area of applied economics.

## MUST KNOW DEFINITIONS

- Definition of Deductive and Inductive Method** : According to Alfred Marshall "Inductive and Deductive Methods are both needed for scientific thought as the right and left foot are both needed for walking"
- Defination of free Goods** : According to Milton Freidman, popularises a saying "There is no such thing as a free lunch".
- Wealth Definition** : Adam Smith (1723 - 1790), in his book "An Inquiry into the Nature and Causes of Wealth of Nations" (1776) defines "Economics as the science of wealth".
- Definition of Economics** : "Economics is everywhere, and understanding economics can help you make better decisions and lead a happier life" - Tyler Gowen.
- Welfare Definition** : Alfred Marshall defines Economics is a study of mankind in the Ordinary business of life it examines that part of individual and social actions which is most closely connected with the attainment and with the use of the material requisities of well being. Thus, it is on one side a study of wealth; and on the other and more important side, a part of the study of man."
- Scarcity Definition** : According to Lionel Robbins, "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."
- Growth Definition** : Prof. Paul Samuelson defines economics as "the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption, now and in the future among various people and groups of society."
- Define Equilibrium** : Prof. Stigler states that "equilibrium is a position from which there is no net tendency to move."



## TEXTUAL QUESTIONS AND ANSWERS

### MODEL QUESTIONS

#### PART - A

#### MULTIPLE CHOICE QUESTIONS.

**1. 'Economics is a study of mankind in the ordinary business of life' - It is the statement of.**

*[BEQ ; May-'22]*

- (a) Adam Smith                      (b) Lionel Robbins  
(c) Alfred Marshall                (d) Samuelson

**[Ans. (c) Alfred Marshall]**

**2. The basic problem studied in Economics is**

(a) Unlimited wants                      *[BEQ ; QY-2018]*

- (b) Unlimited means  
(c) Scarcity  
(d) Strategy to meet all our wants

**[Ans. (c) Scarcity]**

**3. Microeconomics is concerned with**

*[First Mid-2018; Sep-2020]*

- (a) The economy as a whole  
(b) Different sectors of an economy  
(c) The study of individual economic units behaviour  
(d) The interactions within the entire economy

**[Ans. (c) The study of individual economic units behaviour]**

**4. Which of the following is a microeconomics statement?**

*[BEQ; Govt. MQP-2018]*

- (a) The real domestic output increased by 2.5 percent last year  
(b) Unemployment was 9.8 percent of the labour force last year  
(c) The price of wheat determines its demand  
(d) The general price level increased by 4 percent last year

**[Ans. (c) The price of wheat determines its demand]**

**5. Find the odd one out :**

*[BEQ; Govt. MQP-2018; First Mid-2018; QY-2018]*

- (a) "An inquiry into the nature and the causes of the Wealth of Nations".  
(b) "Principles of Economics"  
(c) "Nature and Significance of Economic Science"  
(d) "Ceteris Paribus" **[Ans. (d) "Ceteris Paribus"]**

**6. The equilibrium price is the price at which**

- (a) Everything is sold                      *[HY-2019; CRT-'22]*  
(b) Buyers spend their money  
(c) Quantity demanded equals quantity supplied  
(d) Excess demand is zero

**[Ans. (c) Quantity demanded equals quantity supplied]**

**7. Author of "An Inquiry into the Nature and Causes of Wealth of Nations"**

*[Aug-'22]*

- (a) Alfred Marshall                      (b) Adam Smith  
(c) Lionel Robbins                      (d) Paul A Samuelson

**[Ans. (b) Adam Smith]**

**8. "Economics studies human behaviour as a relationship between ends and scarce means which have alternative uses" is the definition of economics of**

- (a) Lionel Robbins                      (b) Adam Smith  
(c) Alfred Marshall                      (d) Paul A Samuelson

**[Ans. (a) Lionel Robbins]**

**9. Who is the Father of Economics?**

*[BEQ; HY-2018; Mar-2020; CRT-'22]*

- (a) Max Muller                              (b) Adam Smith  
(c) Karl Marx                              (d) Paul A Samuelson

**[Ans. (b) Adam Smith]**

**10. "Economics is a science" The basis of this statement is \_\_\_\_\_.**

*[BEQ]*

- (a) Relation between cause and effect  
(b) Use of deductive method and inductive method for the formations of laws  
(c) Experiments  
(d) All of the above **[Ans. (d) All of the above]**

**11. Utility means**

*[Mar-2019]*

- (a) Equilibrium point at which demand and supply are equal  
(b) Want - satisfying capacity of goods and services  
(c) Total value of commodity.  
(d) Desire for goods and services

**[Ans. (b) Want - satisfying capacity of goods and services]**

**12. A market is** [QY-2019; May-'22]

- (a) Only a place to buy things
- (b) Only a place to sell things
- (c) Only a place where prices adjust
- (d) A system where persons buy and sell goods directly or indirectly

**[Ans. (d) A system where persons buy and sell goods directly or indirectly]**

**13. Which one of the following is not a point in the Welfare Definition of Economics?**

- (a) Study of an ordinary man
- (b) Economics does not focus on wealth alone
- (c) Economics is the study of material welfare
- (d) Economics deals with unlimited wants and limited means

**[Ans. (d) Economics deals with unlimited wants and limited means]**

**14. Growth definition takes into account**

- (a) The problem of choice in the dynamic frame work of Economics.
- (b) The problem of unlimited means in relation to wants
- (c) The production and distribution of wealth
- (d) The material welfare of human beings

**[Ans. (a) The problem of choice in the dynamic frame work of Economics]**

**15. Which theory is generally included under micro economics?** [Sep-2021]

- (a) Price Theory
- (b) Income Theory
- (c) Employment Theory
- (d) Trade Theory

**[Ans. (a) Price Theory]**

**16. \_\_\_\_ have exchange value and their ownership rights can be established and exchanged**

- (a) Goods
- (b) Services
- (c) Markets
- (d) Revenue

**[Ans. (a) Goods]**

**17. Identify the correct characteristics of utility** [BEQ]

- (a) It is equivalent to 'usefulness'
- (b) It has moral significance
- (c) It is same as pleasure
- (d) It depends upon consumer's mental attitude

**[Ans. (d) It depends upon consumer's mental attitude]**

**18. Who has given scarcity definition of economics?** [QY-2019]

- (a) Adam Smith
- (b) Marshall
- (c) Robbins
- (d) Robertson

**[Ans. (c) Robbins]**

**19. The process of reasoning from particular to general is** [First Mid-2018]

- (a) Deductive method
- (b) Inductive method
- (c) Positive economics
- (d) Normative economics

**[Ans. (b) Inductive method]**

**20. Total revenue is equal to total output sold multiplied by** [CRT & Aug-'22]

- (a) Price
- (b) Total cost
- (c) Marginal revenue
- (d) Marginal cost

**[Ans. (a) Price]**

## PART - B

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES.**

**21. What is meant by Economics?**

[BEQ; QY-2019; Sep-2020; Aug-'22]

**Ans. (i)** The word 'Economics' comes from the ancient greek **oikonomikos**.

**(ii)** The term 'Economics' means "**Management of households**".

**(iii)** The 'Political Economy' is renamed as economics.

**22. Define microeconomics.** [HY-2019; CRT-'22]

**Ans. (i)** Microeconomics is the study of the economic actions of small group of individuals say **households, firms, or industries**.

**(ii)** It studies how business firms operate under different market conditions and how the combined actions of buyers and sellers determine prices.

**23. What are goods?** [Mar-2020]

**Ans. (i)** In Economics, the term '**goods**' and '**services**' also implies, unless specified otherwise.

**(ii)** Goods are also called '**products**', '**commodities**', '**things**' etc.

**(iii)** Goods and services satisfies human wants.

**24. Distinguish goods from services.**

[BEQ; First Mid-2018; QY-2018]

Ans.

S. No.	Goods	Services
1	Goods are produced	Services are performed
2	Goods are tangible and homogeneous in nature	Services are intangible and heterogeneous in nature
3	Goods are physical things and involves production	Services are more like a process

**25. Name any two types of utility.**

[BEQ; First Mid-2018; HY-2018; May-'22]

- Ans. (i) Time Utility  
(ii) Place Utility

**26. Define positive economics.**

- Ans. (i) Positive science deals with what it is.  
(ii) Which means analyses a problem on the basis of facts and examines its causes.  
(iii) **For example :** at the time of a price increase, its causes are analysed.

**27. Give the meaning of deductive method.**

- Ans. (i) Deductive method it is also called as **analytical** (or) **abstract method**.  
(ii) It consists in deriving conclusions from general truths; it takes few general principles and applies them to draw conclusions.

## PART - C

### ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH.

**28. Explain the scarcity definition of Economics and assess it.**

[BEQ; First Mid-2018; Sep-2021]

Ans. Lionel Robbins published a book "An Essay on the Nature and Significance of Economic Science" in 1932. According to him, "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

**Major features of Robbins' definition are :**

- (i) Human beings have **unlimited number of wants**.  
(ii) Human wants are unlimited but supply is not sufficient so it become **scarcity**.

- (iii) The scarcity of a commodity is to be considered only in relation to its demand.  
(iv) The scarce means are capable of having alternative uses.

**Criticism :**

- (i) Robbins **does not make any distinction between goods** conducive to human welfare and goods that are not.  
(ii) Economics deals not only with the micro-economic aspects of resource-allocation and the determination of the price of a commodity, but also with the macro-economic aspects like how national income is generated.  
(iii) Robbins' definition **doesn't cover the theory of economic growth and development**.

**29. What are the crucial decisions involved in 'what to produce?'**

[QY-2018]

- Ans. (i) Whether to produce **more of food or more luxury goods**.  
(ii) Whether to have **more agricultural goods or industrial goods**.  
(iii) Whether to use more resources in **education and health or more in military services**.  
(iv) Whether to have **more consumption goods or investment goods**.  
(v) Whether to spend more on basic education or higher education

**30. Explain different types of economic activities.**

[HY-2018 ; CRT-'22]

- Ans. (i) **Consumption:** Human wants coming under consumption is the starting point of economic activity.  
(ii) **Production:** Production is the process of transformation of inputs into output.  
(iii) **Exchange :** Human activities which are performed in exchange for money.  
(iv) **Distribution :** The produced wealth has to be distributed.

**31. What are the different features of services?**

Ans. Four features of services are, [Sep-2020; CRT-'22]

- (i) **Intangible :** Intangible things are **not physical objects** but exist in connection to other things.  
**For Example :** Brand Image, Goodwill etc.  
(ii) **Heterogeneous :** A single type services **yields multiple experiences**  
**For Example :** Music, consulting physicians etc.

## GOVERNMENT EXAM QUESTIONS AND ANSWERS

### PART - A

#### MULTIPLE CHOICE QUESTIONS. 1 MARK

#### (i) Choose the Correct Option

1. 'Oikos' means [First Mid-2018]

- (a) Police (b) Management  
(c) Household (d) All the above

**[Ans. (c) Household]**

2. Which one is not the basic Economic problem.

- (a) What to produce [QY-2018]  
(b) How to produce  
(c) For whom to produce  
(d) Environmental economics

**[Ans. (d) Environmental economics]**

3. The process of reasoning from general to particular is [HY-2018]

- (a) Deductive method (b) Inductive method  
(c) Positive economics (d) Normative economics

**[Ans. (a) Deductive method]**

4. "Economics as the science of wealth" - It is the statement of [Mar-2019]

- (a) Adam Smith (b) Lionel Robbins  
(c) Alfred Marshall (d) Samuelson

**[Ans. (a) Adam Smith]**

5. The author of the book "Political Economy" was \_\_\_\_\_ [QY-2019]

- (a) Adam Smith (b) Marshall  
(c) A.C. Pigou (d) F.A. Walker

**[Ans. (b) Marshall]**

6. Production is the process of \_\_\_\_\_ of input into output. [First Mid-2018]

- (a) Consumption (b) distribution  
(c) transformation (d) Public finance

**[Ans. (c) transformation]**

### PART - B

#### ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES. 2 MARKS

1. Name the Subdivisions of Economics.

[Govt. MQP-2018]

- Ans.** (i) Consumption  
(ii) Production  
(iii) Exchange  
(iv) Distribution

2. What is market? (or) Write a brief note on the term market in economics. [First Mid-2018]

- Ans.** (i) Market means a place or geographical area, where buyers and sellers meet together.  
(ii) Buyers and sellers who involve in the transaction of goods and services.

3. Define Engels law. [QY-2019]

- Ans.** According to Engel's Law "The proportion of total expenditure incurred on food items declines as total expenditure (which is proxy for income) goes on increasing"

4. Name the kind of goods [Mar-2020]

- Ans.** (i) Free and Economic goods  
(ii) Consumer and capital goods  
(iii) Perishable and durable goods

5. What are the basic economic problems that arise in a society? [CRT-'22]

- Ans.** The basic economic problems that arise in a society are:  
(i) What and how much to produce?  
(ii) How to Produce?  
(iii) For whom to Produce?

6. Mention the classification of Goods. [May-'22]

- Ans.** (i) Necessaries  
(ii) Comforts  
(iii) Luxuries

## PART - C

### ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH. 3 MARKS

1. State any three assumptions of production possibility curve. [First Mid-2018]

**Ans. Assumptions of production possibility curve:**

- (i) The time period does not change. It remains the same throughout the curve.
- (ii) Techniques of production are fixed.
- (iii) There is full employment in the economy.

2. What are the importance of micro economics?

**Ans. Micro Economics :** [QY-2018]

- (i) To understand the operation of an economy.
- (ii) To provide tools for economic policies.
- (iii) To examine the condition of economic welfare.
- (iv) Efficient utilization of resources.
- (v) Useful in international trade.
- (vi) Useful in decision making
- (vii) Optimal resources allocation
- (viii) Basis for prediction
- (ix) Price determination.

## PART - D

### ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE. 5 MARKS

1. Explain various divisions of Economics.

[First Mid-2018; QY-2019; Mar-2020]

**Ans.** Consumption, Production, Distribution, Exchange are the main divisions of economics.

**Consumption :**

- (i) **Human wants** coming under consumption.
- (ii) It serves as the starting point of economic activity.
- (iii) Characteristics of human wants based on the **behaviour of the consumer, the diminishing marginal utility and consumer surplus are dealt with.**

**Production :**

- (i) It is the process of **transformation of inputs into output.**
- (ii) This division covers the characteristics and role of the factors of production.

**Exchange :**

- (i) It is concerned with **price determination** in different market forms.
- (ii) It covers **trade and commerce.**

**Distribution :**

- (i) The produced wealth has to be distributed among the **co operating factors.**
- (ii) Distribution studies about the pricing of factors of production.

2. Elucidate the basic economic problems.

**Ans. The Economic Problem** [First Mid-2018]

- Wants, desires, unlimited
- Resources: Scarce
  - Not Freely available
- Economic Choice
- Economics
  - How people use scarce resources to satisfy unlimited wants

**What and how much to produce?**

Every society must decide on what goods it will produce and how much of these it will produce. In this process, the crucial decisions include:

- a. Whether to produce more of food, clothing and housing or to have more luxury goods
- b. Whether to have more agricultural goods or to have industrial goods and services
- c. Whether to use more resources in education and health or to use more resources in military services
- d. Whether to have more consumption goods or to have investment goods
- e. Whether to spend more on basic education or higher education

**How to Produce?**

Every society has to decide whether it will use labour-intensive technology or capital intensive technology; that is whether to use more labour and less more machines and vice versa.

**For whom to produce?**

Every society must also decide how its produce be distributed among the different sections of the society. It must also decide who gets more and who gets less. It should also decide whether or not a minimum amount of consumption be ensured for everyone in the society.

**3. Analyse the welfare definition of Alfred Marshall.**

*[First Mid-2018; Sep-2020]*

**Ans. Welfare Definition : Alfred Marshall**

Alfred Marshall (1842-1924) in his book "Principles of Economics" (1890) defines Economics thus: "Political Economy" or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being. Thus, it is on one side a study of wealth; and on the other, and more important side, a part of the study of man."

**The important features of Marshall's definition are:**

- a. Economics does not treat wealth as the be-all and end-all of economic activities. Man promotes **primarily welfare and not wealth.**
- b. The science of Economics contains the concerns of ordinary people who are moved by love and not merely guided or directed by the desire to get **maximum monetary benefit.**
- c. Economics is a social science. It studies people in the society **who influence one another.**

**Criticism**

- a. Marshall regards only material things. He does not consider immaterial things, such as the services of a doctor, a teacher and so on. They also promote people's welfare.
- b. In the theory of wages, Marshall ignores the amount of money that goes as reward for the services of 'immaterial' services.
- c. Marshall's definition is based on the concept of welfare. But it is not clearly defined. Welfare varies from person to person, country to country and one period to another. Marshall clearly distinguishes between those things that are capable of promoting welfare of people and those things that are not.
- d. However, welfare means happiness or comfortable living conditions of an individual or group of people.

**4. Explain the merits of production possibility curve.**

*[QY-2018]*

**Ans. Merits of production possibility curve :**

- ◆ The problem of choice
- ◆ The Notion of Scarcity
- ◆ Solution of central problems

**1. The problem of choice :**

The problem of choice arise because of the given limited resources and unlimited wants, may relate to the allocation of resources between the goods for the higher income group and the lower income group and the goods for the defense and the civilians.

**2. The Notion of Scarcity :**

We can explain the notion of scarcity with the help of PPC. We know that every society possesses only a specific amount of resources, which can produce only limited amount of output even with the help of best technology, economic scarcity of best fact of life.

**3. Solution of central problems :**

The central problems of an economy can be explained with the help of PPC. The solution of problem of what to produce involves the decision regarding the choice of location on the production possibility curves.

**5. What are the types of Economics? *[HY-2019]***

**Ans. Micro - economics :** Micro Economics is the study of the economic actions of individual units say households, firms or industries. It studies how business firms operate under different market conditions and how the combined actions of buyers and sellers determine prices.

**Macro - economics :** Macro economics is the obverse of micro economics. It is concerned with the economy as a whole. It is the study of aggregates such as national output, inflation, unemployment and taxes.

**International Economics :** In the modern world, no country can grow in isolation. Every country is having links with the other countries through foreign capital, investment (foreign direct investment) and international trade.

**Public Economics :** Public finance is concerned with the income or revenue raising and expenditure incurring activities of the public authorities and with the adjustment of the one with the other. The scope of Public Finance covers Public expenditure, Public revenue, Public debt, Financial administration and federal Finance.

# 2

## CONSUMPTION ANALYSIS

### CHAPTER SNAPSHOT

#### Consumption Analysis

- 2.1 Introduction
- 2.2 Human Wants
- 2.3 Characteristics of Human wants
- 2.4 Classification of Goods
- 2.5 Cardinal Utility Analysis
  - 2.5.1. The Law of Diminishing Marginal Utility(DMU)
- 2.6 The Law of Equi - Marginal utility
- 2.7 Consumer's Surplus
- 2.8 Law of Demand
  - 2.8.1 Characteristics of Demand
  - 2.8.2 Demand Function
  - 2.8.3 Law of Demand
  - 2.8.4 Determinants of Demand
  - 2.8.5 Exceptions to the law of demand
  - 2.8.6 Reasons for Exceptional Demand Curve
  - 2.8.7 Extension and Contraction of Demand
  - 2.8.8 Movement along Demand Curve
  - 2.8.9 Shift in the Demand Curve

#### 2.9 Elasticity of Demand

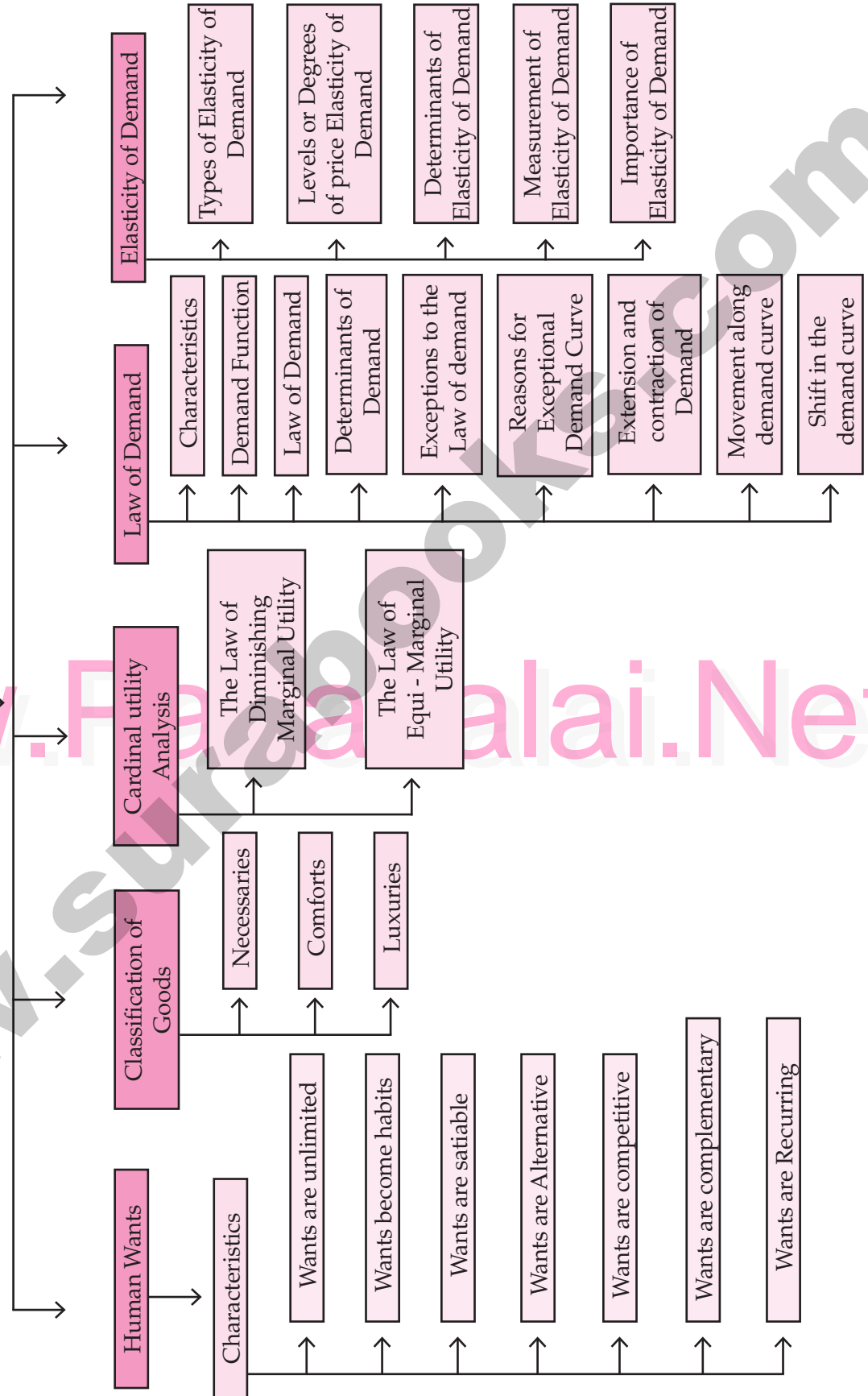
- 2.9.1 Types of Elasticity of Demand
- 2.9.2 Levels or Degrees of Price Elasticity of Demand
- 2.9.3 Determinants of Elasticity of Demand
- 2.9.4 Measurement of Elasticity of Demand
- 2.9.5 Importance of Elasticity of Demand

#### 2.10 Ordinal Analysis

- 2.11 An Indifference Curve
- 2.12 An Indifference Map
- 2.13 Diminishing Marginal Rate of Substitution
- 2.14 Properties of the Indifference curves
- 2.15 Price line or Budget line
- 2.16 Consumer Equilibrium
- 2.17 Conclusion

**CONCEPT MAP**

**CONSUMPTION ANALYSIS**





## IMPORTANT TERMS

- Characteristics of wants** : Man is a bundle of desires. There is no limits to human wants. If one set of wants are fulfilled, immediately another set of want would be felt.
- Classification of wants** : Wants are classified into three categories. viz necessities, comforts and luxuries.
- Utility** : "Utility" means 'usefulness', In economics utility is defined as the power of a commodity or a service to satisfy human wants.
- Law of Diminishing Marginal Utility** : The Law of diminishing marginal utility explains an ordinary experience of a consumer.
- Law of Equi-Marginal Utility** : The law of equi-marginal utility explains the behaviour of a consumer when he consumes more than one commodity.
- Cardinal Utility Analysis** : It involves the use of measurable (cardinal) utility to study consumer behaviour. It is otherwise known as Marginal (or) Marshallian Utility Analysis.
- Ordinal Utility Analysis** : Ordinal Utility approach means that the utility can be ranked qualitatively.
- Marginal Utility** : Marginal Utility is the addition made to the total utility by consuming one more unit of a commodity.
- $$\text{MU}_n = \text{TU}_n - \text{TU}_{n-1}$$
- Total Utility** : Total Utility refers to the sum of utilities of all units of a commodity consumed.
- Average Utility** : Average Utility is nothing but utility derived by per unit of consumption
- $$\text{AU} = \frac{\text{TU}}{\text{Q}}$$
- Indifference Map** : Indifference Map is a group of indifference curves for two commodities showing different levels of satisfaction.
- Budget Line** : It represents the various amounts the consumer can buy with his income; it is also known as the price - ratio line or simply the price line.
- Consumer Equilibrium** : The consumer gets the maximum possible satisfaction from his given income is called consumer equilibrium.
- Revealed Preference** : Revealed Preference theory regards utilities to be merely comparable and not quantifiable.
- Law of Demand** : The law of demand states that there is a negative (or) inverse relationship between the price and quantity demanded of a commodity over a period of time.
- Demand** : Demand for a commodity refers to backed by ability to pay and willingness to buy it.
- Exception to the law of demand** : There are certain peculiar cases in which the law of demand will not hold good. In those cases, more will be (demanded at higher price) less will be demanded at lower price.
- Giffen Paradox** : Sir Robert Giffen discovered that the poor people will demand more of inferior goods if their prices rise and demand less if their prices fall.

<b>Elasticity of Demand</b>	: The concept of elasticity of demand measures the rate of change in demand.
<b>Indifference Curve Approach</b>	: An indifference curve is the locus of different combination of two commodities giving the same level of satisfaction.
<b>Budget Line</b>	: Budget line is a line showing difference combinations of two goods which a consumer can attain at his given income and market price of the goods.
<b>Demand Schedule</b>	: The tabular presentation of price and quantity demand is called the demand schedule.

## MUST KNOW DEFINITIONS

<b>Law of Diminishing Marginal Utility</b>	: According to Marshall "The additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has".
<b>Law of Equi-Marginal Utility</b>	: In the words of Prof. Marshall, "If a person has a thing which can be put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all".
<b>Consumer's Surplus</b>	: Marshall defines consumer's surplus as follows : "The excess of price which a person would be willing to pay rather than go without the thing, over that which he actually does pay is the economic measure of this surplus of satisfaction. It may be called consumer's surplus.
<b>Define Utility</b>	: According to Prof. Waugh "Utility is the power of commodity to satisfy human wants".
<b>Define Revealed Preference Theory</b>	: Samuelson is revealed preference theory as "Behaviourist Ordinalist". The description "Behaviourist Ordinalist".
<b>Define Elasticity of Demand</b>	: According to Alfred Marshall "the elasticity (or responsiveness) of demand in a Market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for given rise in price".

## TEXTUAL QUESTIONS AND ANSWERS

### MODEL QUESTIONS

#### PART - A

#### MULTIPLE CHOICE QUESTIONS

1. Pick the odd one out

*[BEQ; First Mid-2018; HY-2018; Sep-2020]*

- (a) Luxuries (b) Comforts  
(c) Necessaries (d) Agricultural goods

**[Ans. (d) Agricultural goods]**

2. Choice is always constrained or limited by the \_\_\_\_\_ of our resources.

- (a) Scarcity (b) Supply  
(c) Demand (d) Abundance

**[Ans. (a) Scarcity]**

3. The chief exponent of the Cardinal utility approach was \_\_\_\_\_

*[Govt. MQP-2018; QY-2018]*

- (a) J.R. Hicks (b) R.G.D. Allen  
(c) Marshall (d) Stigler

**[Ans. (c) Marshall]**

4. Marginal Utility is measured by using the formula of \_\_\_\_\_

*[BEQ] [First Mid-2018; Mar-2020]*

- (a)  $TU_n - TU_{n-1}$  (b)  $TU_n - TU_{n+1}$   
(c)  $TU_n + TU_{n+1}$  (d)  $TU_n - TU_{n+1}$

**[Ans. (a)  $TU_n - TU_{n-1}$ ]**

5. When marginal utility reaches zero, the total utility will be \_\_\_\_\_

*[QY-2019; Sep-2020; May-'22]*

- (a) Minimum (b) Maximum  
(c) Zero (d) Negative

**[Ans. (b) Maximum]**

6. Gossen's first law is known as \_\_\_\_\_

- (a) Law of equi-marginal utility  
(b) Law of diminishing marginal utility  
(c) Law of demand  
(d) Law of Diminishing returns

**[Ans. (b) Law of diminishing marginal utility]**

7. The basis for the law of demand is related to \_\_\_\_\_

- (a) Law of diminishing marginal utility  
(b) Law of supply  
(c) Law of equi-marginal utility  
(d) Gossen's Law

**[Ans. (a) Law of diminishing marginal utility]**

8. The concept of consumer's surplus is associated with \_\_\_\_\_

*[BEQ; CRT-'22]*

- (a) Adam Smith (b) Marshall  
(c) Robbins (d) Ricardo

**[Ans. (b) Marshall]**

9. Given potential price is Rs. 250 and the actual price is Rs. 200 find the consumer surplus.

- (a) 375 (b) 175 *[First Mid-2018]*  
(c) 200 (d) 50

**[Ans. (d) 50]**

10. Indifference curve approach is based on \_\_\_\_\_

*[QY-2018]*

- (a) Ordinal approach  
(b) Cardinal approach  
(c) Subjective approach  
(d) Psychological approach

**[Ans. (a) Ordinal approach]**

11. The concept of elasticity of demand was introduced by \_\_\_\_\_

*[BEQ; QY-2019; HY-2019]*

- (a) Ferguson (b) Keynes  
(c) Adam Smith (d) Marshall

**[Ans. (d) Marshall]**

12. Increase in demand is caused by \_\_\_\_\_

- (a) Increase in tax *[First Mid-2018; QY-2018; CRT-'22]*  
(b) Higher subsidy  
(c) Increase in interest rate  
(d) Decline in population

**[Ans. (b) Higher subsidy]**

13. The movement on or along the given demand curve is known as \_\_\_\_\_

- (a) extension and contraction of demand  
(b) shifts in the demand  
(c) increase and decrease in demand  
(d) all the above

**[Ans. (a) extension and contraction of demand]**

14. In case of relatively more elastic demand the shape of the curve is \_\_\_\_\_

- (a) Horizontal (b) Vertical  
(c) Steeper (d) Flatter

**[Ans. (d) Flatter]**

**15. A consumer is in equilibrium when marginal utilities from two goods are** [Aug-'22]

- (a) Minimum (b) Inverse  
(c) Equal (d) Increasing

[Ans. (c) Equal]

**16. Indifference curve was first introduced by** [BEQ]

- (a) Hicks (b) Allen  
(c) Keynes (d) Edgeworth

[Ans. (d) Edgeworth]

**17. Elasticity of demand is equal to one indicates**

- (a) Unitary Elastic Demand [May-'22]  
(b) Perfectly Elastic Demand  
(c) Perfectly Inelastic Demand  
(d) Relatively Elastic Demand

[Ans. (a) Unitary Elastic Demand]

**18. The locus of the points which gives same level of satisfaction is associated with**

- (a) Indifference Curves (b) Cardinal Analysis  
(c) Law of Demand (d) Law of Supply

[Ans. (a) Indifference Curves]

**19. Ordinal Utility can be measured by**

[HY-2019; CRT & Aug-'22]

- (a) Ranking (b) Numbering  
(c) Wording (d) None of these

[Ans. (a) Ranking]

**20. The indifference curve are**

[BEQ; First Mid-2018; QY-2019; Sep-2021]

- (a) vertical (b) horizontal  
(c) positive sloped (d) negatively sloped

[Ans. (d) negatively sloped]

## PART - B

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES.**

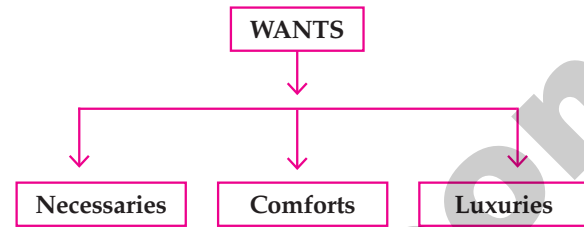
**21. Define Utility.** [BEQ; QY-2018; Sep-2020]

**Ans. (i)** Utility, the simple meaning of 'utility is usefulness'.

- (ii) In Economics utility is the capacity of a commodity to satisfy human wants.

**22. Mention the classifications of wants.**

**Ans.** Goods (or) wants are broadly classified into three categories. They are,



**23. Name the basic approaches to consumer behaviour.**

**Ans.** The basic approaches to consumer behaviour are

- (i) Cardinal Approach  
(ii) Ordinal Approach

**24. What are the degrees of price elasticity of demand?**

[HY-2019; CRT-'22]

- Ans. (i)** Perfectly Elastic Demand ( $E_p = \infty$ )  
(ii) Perfectly Inelastic Demand ( $E_p = 0$ )  
(iii) Relatively Elastic Demand ( $E_p > 1$ )  
(iv) Relatively Inelastic Demand ( $E_p < 1$ )  
(v) Unitary Elastic Demand ( $E_p = 1$ )

**25. State the meaning of indifference curves.**

[First Mid-2018; Mar-2020; Aug-'22]

- Ans. 1.** An indifference curve is the locus of all combinations of commodities from which the consumer derives the same level of satisfaction.  
**2.** It is also called "Iso- Utility Curve" or "Equal Satisfaction Curve".

**26. Write the formula of consumers surplus.** [Sep-2021]

**Ans.** Consumer surplus = what a person is willing to pay – what he actually pay. (OR)

Consumer's surplus = Potential price – Actual price.

Mathematically,

Consumer's surplus =  $TU - (P \times Q)$

TU = Total Utility, P = Price and Q = Quantity of the Commodity

**27. What are Giffen goods? Why it is called like that?**

[BEQ; First Mid-2018; QY-2019]

**Ans. (i)** The Giffen good or inferior good is an exception to the law of demand.

- (ii) A Giffen goods is typically an inferior product that does not have easily available substitutes.

- (iii) The unique characteristic that an increase in price actually increases the quantity of the good that is demanded.

## PART - C

### ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH.

**28. Describe the feature of human wants.**

[Mar-2019; CRT-'22; May-'22]

- Ans. (i)** Wants are Unlimited  
**(ii)** Wants become Habits  
**(iii)** Wants are Satiabale  
**(iv)** Wants are Alternative  
**(v)** Wants are Competitive  
**(vi)** Wants are Complementary  
**(vii)** Wants are Recurring  
**(viii)** Wants vary with time, place and person.

**29. Mention the relationship between marginal utility and total utility.**

[BEQ; First Mid-2018; HY-2018; QY-2019; Sep-2020]

- Ans. (i)** Total utility refers to the **sum of utility of all units of a commodity consumed.**  
**(ii)** Marginal utility is the addition made to the total utility by consuming one more unit of a commodity.

$$MU_n = TU_n - TU_{n-1}$$

#### Relationship between marginal utility and total utility

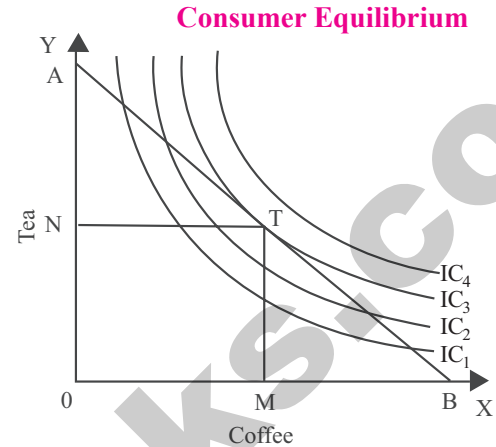
Marginal utility	Total utility
Marginal utility declines.	Total utility increases.
Marginal utility Reaches zero	Total utility Reaches maximum
Marginal utility becomes negative	Total utility declines.

**30. Explain the concept of consumer's equilibrium with a diagram.**

[BEQ; First Mid-2018]

- Ans. (i)** The consumer reaches equilibrium at the point where the **budget line is tangent on the indifference curve.**  
**(ii)** T is the point of equilibrium as budget line AB is tangent on indifference curve  $IC_3$  the upper IC which implies maximum possible level of satisfaction.

- (iii)** At equilibrium point, the slope of IC refers to  $MRS_{XY}$  and the slope of BL (Budget Line) refers to ratio of price of X to price of Y ie  $P_x/P_y$ . Therefore  $MRS_{x,y} = P_x/P_y$ .



**31. Explain the theory of "Consumer's surplus"**

[First Mid-2018; Mar-2020; May-'22]

- Ans.** Consumer surplus was originally introduced by classical economists and later modified by Jevons and Jule Dupit, the French Engineer Economist in 1844. But a most refined form of the concept of Consumer Surplus was given by Alfred Marshall.

#### Definition :

[Mar-2019]

According to Alfred Marshall "The excess of price which a person would be willing to pay a thing rather than go without the thing, over that which he actually does pay is the economic measure of this surplus satisfaction. This may be called as consumer's surplus.

#### Assumptions :

- (i)** Utility can be measured  
**(ii)** Marginal Utility of money remain constant.  
**(iii)** Taste, income and character of consumer does not change.

#### Measurement :

Consumer's surplus = Potential Price – Actual Price

Consumer surplus =  $TU - (P \times Q)$

**32. Distinguish between extension and contraction of demand.**

[QY-2019; HY-2019]

- Ans. (i)** The changes in the **quantity demanded for a commodity due to the change** in its price alone are called 'Extension and Contraction of Demand'.  
**(ii)** In other words, **buying more at a lower price and less at a higher price** is known as "Extension and Contraction of Demand"

**33. What are the properties of indifference curves?**

[QY-2018; CRT &amp; Aug-'22]

- Ans. (i)** Indifference curve must have **negative slope**.  
**(ii)** Indifference curves are **convex to the origin**.  
**(iii)** Indifference curve **cannot intersect**  
**(iv)** Indifference curve **do not touch the horizontal or vertical axis**.

**34. Briefly explain the concept of consumer's equilibrium.**

- Ans. (i)** The consumer reaches equilibrium at the point where the budget line is **tangent on the indifference curve**.  
**(ii)** T is the point of equilibrium as budget line AB is tangent on indifference curve IC<sub>3</sub> the upper most.  
**(iii)** IC which implies **maximum possible level of satisfaction**.  
**(iv)** At equilibrium point, the slope of IC refers to  $MRS_{xy}$  and the slope of BL refers to ratio of price of X to price of Y ie  $P_x / P_y$   
**(v)** Therefore  $MRS_{xy} = P_x / P_y$

**PART - D****ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE.****35. Explain the law of demand and its exceptions.**

[Govt. MQP, First Mid, QY &amp; HY-2018, QY-2019; Mar.-2019;

Sep-2021; CRT &amp; Aug-'22]

**Ans. Law of Demand :**

The Law of Demand was first stated by Augustin Cournot in 1838. Later it was refined and elaborated by Alfred Marshall.

**Definitions**

The Law of Demand says as “the quantity demanded increases with a fall in price and diminishes with a rise in price”.

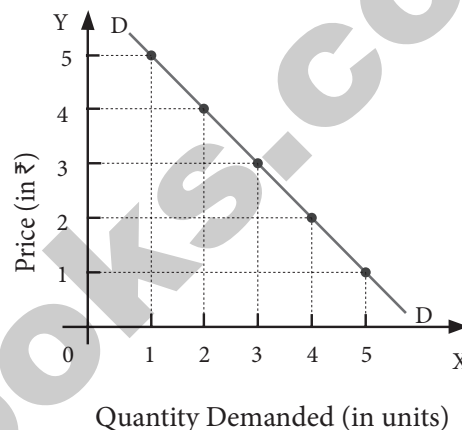
**Assumptions :-**

- (i)** The income of the consumer remains constant.  
**(ii)** The taste, habit and preference of the consumer remain the same.  
**(iii)** The prices of other related goods should not change.  
**(iv)** No substitutes for the commodity.  
**(v)** Demand for the commodity must be continuous.  
**(vi)** No change in the quality of the commodity.

If there is change even in one of these assumptions, the law will not operate.

**Table 2.4 Demand Schedule**

Price (₹)	Quantity Demanded(units)
5	1
4	2
3	3
2	4
1	5

**Explanation :-**

- (i)** The law of demand explains the relationship between the price of a commodity and the quantity demanded of it.  
**(ii)** This law states that quantity demanded of a commodity expands with a fall in price and contracts with rise in price.  
**(iii)** The law of demand states that there is an inverse relationship between the price and the quantity demanded of a commodity.  
**(iv)** X axis represents the quantity demanded and Y axis represents the price of the commodity.  
**(v)** DD is the demand curve, which has a negative slope i.e., slope downward from left to right.

**Exception to the law of demand :**

- (i)** Normally, the demand curve slopes downwards from left to right. But there are some unusual demand curves do not obey the law and reverse occurs.  
**(ii)** A fall in price brings a contraction of demand and a rise in price results in an extension of demand.  
**(iii)** Therefore the demand curve slopes upwards from left to right.  
**(iv)** It is known as exceptional demand curve.

**36. Elucidate the law of diminishing marginal utility with diagram. [QY-2019; Sep-2021; CRT, May & Aug-'22]**

- Ans. (i)** H.H. Gossen, and Austrian Economist was the first to formulate this law in Economics in 1854.
- (ii)** Jevons called this law as "Gossen's first law of consumption".

**Definition :-**

Marshall states the law as "the additional benefit which a person derives from a given increase of his stock of a thing, diminishes with every increase in the stock that he already has".

**Assumptions :-**

- (i)** The marginal utility of money of the consumer remains constant.
- (ii)** The consumer should be a rational consumer and his aim is to attain maximum satisfaction with minimum expenditure.
- (iii)** The units of the commodity consumed must be reasonable in size.
- (iv)** Uniform in character like weight, quality, taste, colour etc.
- (v)** Goods must take place made continuously at a given period of time.
- (vi)** No change in the taste, habits, preferences, fashions, income and character etc.

**Explanation :-**

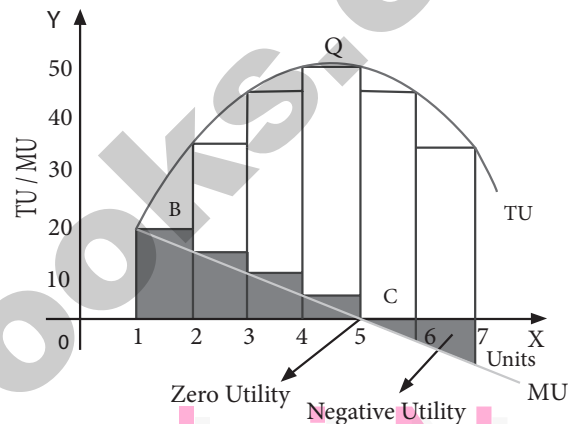
The law of Diminishing Marginal utility states that if a consumer continues to consume more and more units of the same commodity, its marginal utility diminishes.

**Illustrations :-**

- (i)** Suppose a consumer wants to consume 7 apples one after another.
- (ii)** The utility from the first apple is 20.
- (iii)** The second apple will be less than that of first (say 15), the third less than that of second (say 10) and so on. Finally the utility from the fifth apple becomes zero.
- (iv)** Utility from sixth and seventh apple are negative (or) disutility (or) disliking.
- (v)** This tendency is called the "The law of Diminishing marginal Utility".

**Table 2.1**

Number of Apple	Total Utility	Marginal Utility
1	20	20
2	35	15 (35 – 20)
3	45	10 (45 – 35)
4	50	5 (50 – 45)
5	50	0 (50 – 50)
6	45	–5 (45 – 50)
7	35	–10 (35 – 45)



- (vi)** When marginal utility becomes zero, the total utility is maximum and when marginal utility becomes negative, the total utility diminishes.

**37. Explain the law of Equi - marginal utility.**

[BEQ;QY-2018; Mar-2020; CRT-'22]

- Ans. (i)** The law of diminishing marginal utility is extended and is called "Law of equi - marginal The utility".
- (ii)** It is also called "Law of Substitution", "The Law of consumers equilibrium", "Gossen Second Law" and "The Law of maximum satisfaction".

**Definition :-**

Marshall states the law as, "If a person has a thing which he can put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all. For, if it had a greater marginal utility in one use than another he would gain by taking away some of it from the second use and applying it to first".

**Assumptions :-**

- (i)** The consumer is rational so he wants to get maximum satisfaction.

- (ii) The utility is measurable.
- (iii) Money remains constant.
- (iv) The income of the consumer is given.
- (v) There is perfect competition in the market.
- (vi) The prices of the commodities are given.
- (vii) The Law of diminishing marginal utility operates.

**Explanation :-**

- (i) Consumer wants to spend his limited income on Apple and Orange.
- (ii) He is said to be in equilibrium, only when he gets maximum satisfaction with his limited income.

(iii) 
$$\frac{\text{Marginal Utility of Apple}}{\text{Price of Apple}} =$$

$$\frac{\text{Marginal Utility of Orange}}{\text{Price of Orange}} = K$$

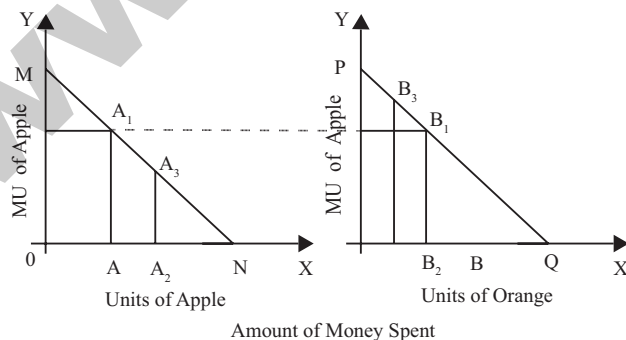
ie 
$$\frac{MU_A}{P_A} = \frac{MU_O}{P_O} = K$$

K = Constant Marginal Utility of Money

- (iv) He wants to spend his entire income on Apple and Orange.
- (v) The price of an Apple and Orange is Rs. 1 each.

**Table**

Apple			Orange	
Units of commodities	Total utility	Marginal utility	Total utility	Marginal utility
1	25	25	30	30
2	45	20	41	11
3	63	18	49	8
4	78	15	(54)	5
5	88	10	58	4
6	92	4	61	3

**Diagram Explanation**

- (vi) If the consumer wants to attain maximum utility he should buy 6 units of Apples and 5 units of Oranges.

$$\text{ie } \frac{4}{1} = \frac{4}{1}$$

- (vii) X - axis represent amount of money spent and Y - axis represent Marginal Utilities of Apple and Orange.

**38. What are the methods of measuring Elasticity of demand?** [BEQ; QY-2018; HY-2019; CRT-'22]

**Ans.** There are three methods of measuring price elasticity of demand.

**(i) The Percentage Method :-**

$$(1) e_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

- (2) It is also known as **ratio method**.

$$(3) e_p = \frac{\% \Delta Q}{\% \Delta P} \text{ where}$$

$\% \Delta Q$  = percentage change in demand

$\% \Delta P$  = percentage change in price

**(ii) Total Outlay Method :-**

- (1) Marshall suggested that the simplest way to decide whether demand is elastic or inelastic is to examine the change in total outlay of the consumer or total revenue of the firm.

$$(2) \text{ Total Revenue} = \text{Price} \times \text{Quantity}$$

$$(3) TR = P \times Q$$

Price	Quantity Demanded	Total outlay	Elasticity
150	3	450	} $e > 1$
125	4	500	
100	5	500	} $e = 1$
75	6	450	

**(iii) Point (or) Geometrical Elasticity :-**

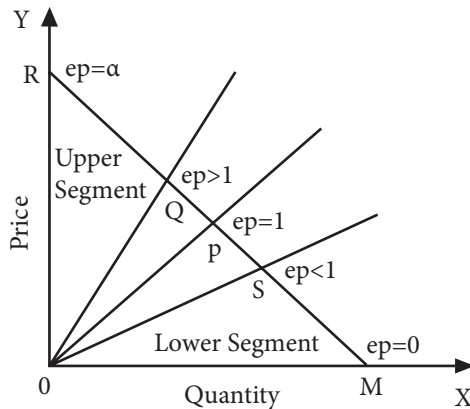
- (1) The point elasticity of linear demand curve is shown by the ratio of the segments of the line to the **right and left of the particular point**.
- (2) The demand curve is a straight line, it is said to be linear.



(3) Point elasticity =  $\frac{\text{Lower segment of the demand curve below the given point}}{\text{Upper segment of the demand curve above the given point}}$

$$ep = \frac{L}{U} \quad L = \text{Lower Segment}$$

U = Upper Segment



## GOVERNMENT EXAM QUESTIONS AND ANSWERS

### PART - A

#### MULTIPLE CHOICE QUESTIONS. 1 MARK

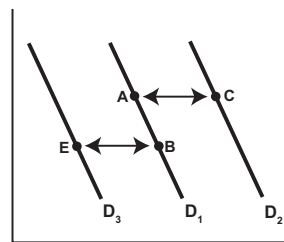
##### (i) Choose the Correct Option

1. The diagram below illustrates 3 possible demand curves for Tea. [Govt. MQP-2018]

Suppose that Tea and Coffee are substitutes. If the price of Coffee increases, which of the following

movements will represent the effect of this in the market for Tea?

- (a) A to C.  
(b) A to B.  
(c) B to A.  
(d) B to E.



[Ans. (a) A to C]

2. Given potential price is Rs.375 and the actual price is Rs.200. Find the consumer surplus. [Govt. MQP-2018]

- (a) 375      (b) 175      (c) 200      (d) 50

[Ans. (b) 175]

3. Given potential price is Rs. 350 and the actual price is Rs. 250 find the consumer surplus. [HY-2018]

- (a) 375      (b) 175      (c) 200      (d) 100

[Ans. (d) 100]

4. Given the consumer's surplus is ₹75 and the actual price is ₹372, find the potential price. [Mar.-2019]

- (a) 447      (b) 50      (c) 375      (d) 474

[Ans. (a) 447]

5. The law of Diminishing Marginal utility is otherwise known as \_\_\_\_\_. [QY-2019]

- (a) Law of demand  
(b) Law of Indifference curve  
(c) Gossen's first law of consumption  
(d) Law of Substitution

[Ans. (c) Gossen's first law of consumption]

6. The indifference curves are : [Mar-2020]

- (a) negatively sloped      (b) vertical  
(c) horizontal      (d) positively sloped

[Ans. (a) negatively sloped]

### PART - B

#### ANSWER THE FOLLOWING QUESTIONS IN

#### ONE OR TWO SENTENCES. 2 MARKS

1. The price of a commodity falls from ₹ 50 to ₹ 30, resulting in an increase in the purchase of the commodity from 200 units to 220 units. Calculate the price elasticity of demand. [Govt. MQP-2018]

Ans.

$$\text{Formula for calculating price elasticity of demand} \left. \vphantom{\begin{matrix} \text{Formula for calculating price} \\ \text{elasticity of demand} \end{matrix}} \right\} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$Q = 200 \quad \Delta Q = 20 \quad (220 - 200)$$

$$P = 50 \quad \Delta P = 20 \quad (50 - 30)$$

$$EP = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{20^1}{20} \times \frac{50^1}{200^1}$$

$$\therefore EP = 0.25$$

**2. Write the criticism of the law of Equi-Marginal Utility.** [First Mid-2018]

**Ans. Criticisms**

- (i) In practise, utility cannot be measured, only be felt.
- (ii) This law cannot be applied to durable goods.

**3. State the meaning of Elasticity of demand.**

[Mar-2020]

**Ans. Elasticity of Demand:** The Law of Demand explains the direction of change in demand due to change in the price. It fails to explain the rate of change in demand due to a given change in price. Elasticity of demand explains the rate of change in quantity demanded due to a given change in price.

## PART - C

**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH. 3 MARKS**

**1. Name the importance of elasticity of demand.**

[First Mid-2018]

**Ans. Importance of elasticity of demand :**

- |                          |                      |
|--------------------------|----------------------|
| (i) Price fixation       | (ii) Production      |
| (iii) Distribution       | (v) Public Finance   |
| (iv) International trade | (vi) Nationalization |

## PART - D

**ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE. 5 MARKS**

**1. Describe the feature of human wants.**

[Govt. MQP-2018]

**Ans. (i) Wants are unlimited :**

- (1) Human wants are countless in number and various in kinds. When one want is satisfied another want crops up.
- (2) Human wants multiply with the growth of civilization and development.

**(ii) Wants become habits :**

- (1) Wants become habits; for example, when a man starts reading news paper in the morning, it becomes a habit.
- (2) Same is the case with drinking tea or chewing pans.

**(iii) Wants are Satiabale :**

- (1) Though we cannot satisfy all our wants, at the same time we can satisfy particular wants at a given time.
- (2) When one feels hungry, he takes food and that want is satisfied.

**(iv) Wants are Alternative :**

There are alternative ways to satisfy a particular want eg. Idly, dosa or chappathi.

**(v) Wants are Competitive :**

- (1) All our wants are not equally important. So, there is competition among wants.
- (2) Hence, we have to choose more urgent wants than less urgent wants.

**(vi) Wants are Complementary :**

- (1) Sometimes, satisfaction of a particular want requires the use of more than one commodity.
- (2) **Example:** Car and Petrol, Ink and Pen.

**2. A consumer's total utility of apples consumed per day is given below. Derive the marginal utility schedule. Also find out the quantity of apples the consumer will purchase in his equilibrium given that marginal utility of a rupee for him is ₹8. Price of the apple is ₹2 per unit.** [Govt. MQP-2018]

Quantity of apple	Total Utility
1	20
2	38
3	54
4	68
5	80
6	90

**Solution :**

$$Mu_n = Tu_n - Tu_{n-1}$$

Quantity of Apples	Total Utility	Marginal Utility
1	20	20
2	38	(38-20)=18
3	54	(54-38)=16
4	68	(68-54)=14
5	80	(80-68)=12
6	90	(90-80)=10

Marginal Utility of Apples

	1,	2,	3,	4,	5,	6
Price of	2	2	2	2	2	2

Apple is ₹ 2.

2    4    6    8    10    12

When the consumer consumes 4 units of apples he derives maximum satisfaction for ₹ 8. When the consumer consumes 4th units of Apple.

**Illustration :**

- (i) This law can be illustrated with the help of table.
- (ii) Let us assume that the consumer has a given income of ₹ 8/- He wants to spend this entire income (ie. ₹ 8) on Apple. The price of an Apple is ₹ 2/- each.
- (iii) If the consumer wants to attain Maximum Utility he can use the following formula.

$$\frac{\text{Marginal Utility of Apple}}{\text{Price of Apple}}$$

$$\begin{aligned} \text{Marginal Utility of rupee is } ₹ 8 \\ \text{Price of Apple is } ₹ 2 \\ = \frac{8^4}{2_1} \end{aligned}$$

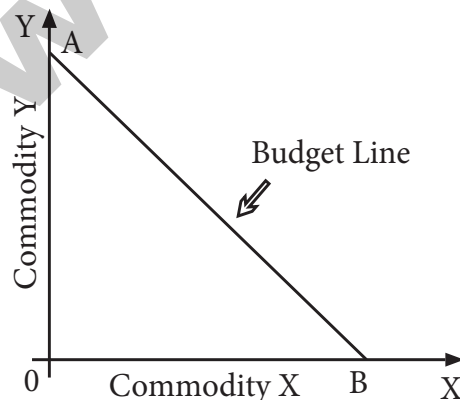
∴ 4 units of Apple

Therefore he should buy 4 units of apple to attain maximum utility.

**3. Explain the Price line or Budget line and consumer equilibrium with diagram. [Sep-2020]**

**Ans. Price line or Budget line :**

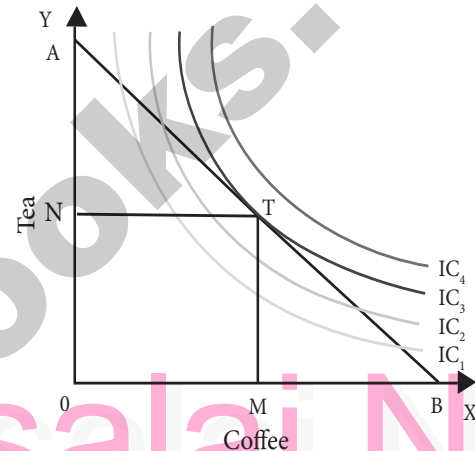
Demand for a good depends upon (i) preference for that good and (ii) purchasing power. The preference pattern is represented by set of indifference curves. The purchasing power depends on his money income and price of the goods. The money income and price level are represented by budget line. The budget line is a downward sloping straight line connecting X axis and Y axis as follows.



BA is the budget line with a given income (C). C/OA is the price of commodity Y and C/OB is the price of commodity X. The budget line is the line joining various combinations of the two goods which the consumer can buy at given prices and income.

**Consumer Equilibrium :**

The consumer reaches equilibrium at the point where the budget line is tangent on the indifference curve. T is the point of equilibrium as budget line AB is tangent on indifference curve IC<sub>3</sub>, the upper IC which implies maximum possible level of satisfaction.



At equilibrium point, the slope of IC refers to  $MRS_{XY}$  and the slope of BL (Budget Line) refers to ratio of price of X to price of Y ie  $P_x/P_y$ . Therefore  $MRS_{x,y} = P_x/P_y$ .

**ADDITIONAL  
QUESTIONS AND ANSWERS**

**PART - A**

**MULTIPLE CHOICE QUESTIONS. 1 MARK**

**(i) Choose the Correct Option**

1. Utility analysis was developed by [BEQ]
  - (a) Alfred Marshall and Adam Smith
  - (b) Alfred Marshall and Prof. J.R. Hicks
  - (c) Alfred Marshall and A.C. Pigou
  - (d) Alfred Marshall and J.K. Easthan

**[Ans. (c) Alfred Marshall and A.C. Pigou]**

- 2. According to the law of diminishing marginal utility, the utility from the consumption of each additional unit starts**  
 (a) increasing (b) diminishing  
 (c) multiplying (d) none of these  
**[Ans. (b) diminishing]**
- 3. Equi - Marginal Utility means equal marginal utilities derived from the consumption of more than**  
 (a) four goods (b) three goods  
 (c) two goods (d) one good  
**[Ans. (c) two goods]**
- 4. The concept of consumers surplus was introduced by**  
 (a) Alfred Marshall (b) J.R. Hicks  
 (c) A.C. Pigon (d) J.K. Easthan  
**[Ans. (a) Alfred Marshall]**
- 5. The Indifference curve analysis was presented by**  
 (a) Alfred Marshall (b) J.R. Hicks  
 (c) A.C. Pigon (d) J.K. Easthan  
**[Ans. (b) J.R. Hicks]**
- 6. The foundation for various other economic law is**  
 (a) Law of diminishing marginal utility  
 (b) Law of equi-marginal utility  
 (c) Consumer surplus  
 (d) None of these  
**[Ans. (a) Law of diminishing marginal utility]**
- 7. Supply curve is**  
 (a) an upward sloping curve  
 (b) a downward sloping curve  
 (c) a horizontal straight line  
 (d) a vertical line  
**[Ans. (a) an upward sloping curve]**
- 8. The term 'ceteris paribus' means**  
 (a) Speculation  
 (b) Other things remaining constant  
 (c) Veblen effect  
 (d) Antoine Augustin cournot.  
**[Ans. (b) Other things remaining constant]**
- 9. A change in the quantity supplied is response to a change in the price is called**  
 (a) Elasticity of supply (b) Elasticity of demand  
 (c) Concept of Elasticity  
 (d) Unitary Elastic of supply  
**[Ans. (a) Elasticity of supply]**
- 10. Human wants have the capacity to get satisfied only**  
 (a) Temporarily (b) Wants  
 (c) Comforts (d) None of these  
**[Ans. (a) Temporarily]**
- 11. In Marshallian analysis, it is assumed that utility can be measured quantitatively in terms of units. These units are called** [BEQ]  
 (a) Utils (b) Utility  
 (c) Luxuries (d) Comforts  
**[Ans. (a) Utils]**
- 12. Law of diminishing Marginal Utility assumes the marginal utility of money to be**  
 (a) Increasing (b) Decreasing  
 (c) Constant (d) None of these  
**[Ans. (c) Constant]**
- 13. A consumer buys two commodities x and y he would be in equilibrium when** [BEQ]  
 (a)  $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$  (b)  $\frac{MU_x}{MU_y} = MU_m$   
 (c)  $\frac{MU_x}{P_x} = \frac{MU_y}{P_x}$  (d)  $\frac{P_x}{P_y} = MU_m$   
**[Ans. (a)  $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ ]**
- 14. Higher Indifference curve indicates**  
 (a) Higher level of satisfaction  
 (b) Higher cost (c) Lower cost  
 (d) Lower level of satisfaction  
**[Ans. (a) Higher level of satisfaction]**
- 15. The point of intersection of demand and supply curves is known as**  
 (a) Equilibrium (b) Disequilibrium  
 (c) Partially equilibrium (d) General equilibrium  
**[Ans. (a) Equilibrium]**
- 16. Human wants are classified in to**  
 (a) Necessaries and Luxuries  
 (b) Luxuries and Comforts  
 (c) Necessaries and Comforts  
 (d) Necessaries, Comforts and Luxuries  
**[Ans. (d) Necessaries, Comforts and Luxuries]**
- 17. The Segment of a demand curve between two points is called**  
 (a) Straight line (b) Point  
 (c) Arc (d) percentage  
**[Ans. (c) Arc]**

**18. Given potential price is 500 and actual price is 320. Find the consumer surplus.**

- (a) 180 (b) 150  
(c) 320 (d) 820 [Ans. (a) 180]

**(ii) Match List I with List II and Select the Correct Answer using the Codes given below.**

- | 1.  |                                | List I | List II                             |
|-----|--------------------------------|--------|-------------------------------------|
| (A) | Characteristics of Human wants | (i)    | Necessaries                         |
| (B) | Classification of wants        | (ii)   | Law of equi-marginal utility        |
| (C) | Single commodity mode          | (iii)  | Unlimited                           |
| (D) | Gossen's second law            | (iv)   | Law of diminishing marginal utility |

- |     | A   | B   | C   | D  |
|-----|-----|-----|-----|----|
| (a) | iv  | iii | ii  | i  |
| (b) | i   | ii  | iii | iv |
| (c) | iii | i   | iv  | ii |
| (d) | iii | iv  | ii  | i  |

**Ans. (c) A - (iii) ; B - (i) ; C - (iv) ; D - (ii)**

- | 2.  |                              | List I | List II  |
|-----|------------------------------|--------|--|
| (A) | Gossen's first law           | (i)    | Price and demand have direct relation                    |
| (B) | Potential price-actual price | (ii)   | Law of diminishing marginal utility                      |
| (C) | Law of demand                | (iii)  | Consumer's surplus                                       |
| (D) | Giffen Effect                | (iv)   | Inverse relationship between price and quantity demanded |

- |     | A  | B   | C   | D  |
|-----|----|-----|-----|----|
| (a) | ii | iii | iv  | i  |
| (b) | ii | iii | i   | iv |
| (c) | i  | iv  | iii | ii |
| (d) | iv | iii | ii  | i  |

**Ans. (a) A - (ii) ; B - (iii) ; C - (iv) ; D - (i)**

- | 3.  |                                 | List I | List II          |
|-----|---------------------------------|--------|------------------|
| (A) | Exceptions to the law of demand | (i)    | Inelastic demand |

- (B) Elasticity demand (ii) Veblen effect

- (C)  $E_p < 1$  (iii)  $E_p = \frac{\text{Lower segment of the demand curve}}{\text{Upper segment of the demand curve}}$

- (D) Point method (iv) Alfred Marshall

- |     | A   | B   | C   | D   |
|-----|-----|-----|-----|-----|
| (a) | i   | ii  | iii | iv  |
| (b) | ii  | iv  | i   | iii |
| (c) | iv  | iii | ii  | i   |
| (d) | iii | i   | iv  | ii  |

**Ans. (b) A - (ii); B - (iv); C - (i) ; D - (iii)**

- | 4.  |                          | List I | List II                             |
|-----|--------------------------|--------|-------------------------------------|
| (A) | Utility is measurable    | (i)    | Marginal rate of substitution       |
| (B) | Ordinal analysis         | (ii)   | Types of Elasticity demand          |
| (C) | Indifference curve       | (iii)  | Law of diminishing marginal utility |
| (D) | Income Elasticity demand | (iv)   | J.R.Hicks and R.G.D. Allen.         |

- |     | A   | B   | C   | D  |
|-----|-----|-----|-----|----|
| (a) | iv  | iii | ii  | i  |
| (b) | iii | ii  | i   | iv |
| (c) | iv  | i   | iii | ii |
| (d) | iii | iv  | i   | ii |

**Ans. (d) A - (iii); B - (iv); C - (i); D - (ii)**

**(iii) Choose the correct option and fill in the blanks.**

**1. \_\_\_\_\_ is the other name given for Marshallian utility analysis. [BEQ]**

- (a) Total utility  
(b) Cardinal utility analysis  
(c) Marginal utility  
(d) All of these [Ans. (b) Cardinal utility analysis]

**2. The \_\_\_\_\_ principle is quite useful in explaining the "water diamond paradox"**

- (a) Equi - marginal (b) Marginal utility  
(c) Utility (d) Total utility

**[Ans. (a) Equi-marginal]**

3. \_\_\_ of the following constitute 'demand' in economics.

- (a) A desire to buy (b) A decision to buy  
(c) The purchasing power (d) All the above

[Ans. (d) All the above]

4. Giffen's goods are classified in to \_\_\_ and \_\_\_ goods.

- (a) Superior (b) Inferior  
(c) Both 'a' and 'b' (d) None

[Ans. (c) Both 'a' and 'b']

5. There are \_\_\_ kinds of price elasticity of demand.

- (a) Two (b) Three (c) Four (d) Five

[Ans. (d) Five]

6. \_\_\_ is a powerful factor that influence demand.

- (a) Expenses (b) Price  
(c) Income (d) Commodity

[Ans. (b) Price]

7. \_\_\_ does  $P_x$  denotes.

- (a) Demand of a commodity  
(b) Quantity of the demand  
(c) Price of a commodity  
(d) All the above

[Ans. (c) Price of a commodity]

8. If the co-efficient elasticity is equal to zero it represents \_\_\_ supply.

- (a) Perfectly elastic (b) Unitary inelastic  
(c) Relatively elastic (d) Perfectly inelastic

[Ans. (d) Perfectly inelastic]

(iv) Pick the Odd one Out.

1. (a) Advertising Elasticity of demand.  
(b) Cross elasticity of demand.  
(c) Price elasticity of demand.  
(d) Relatively elastic demand.

[Ans. (d) Relatively elastic demand]

**Reason:** Relatively elastic demand is degrees of price elasticity demand. Other three are types of elasticity of demand.

2. (a) Total outlay method.

- (b) Percentage method.  
(c) Inductive method.  
(d) Point method

[Ans. (c) Inductive method]

**Reason:** Inductive method, also called *empirical method*, is adopted by the "Historical School of Economists". Other three are measurement of elasticity of demand.

3. (a) Taste (b) Taxation  
(c) Consumer's surplus (d) Advertisement

[Ans. (c) Consumer's surplus]

**Reason:** Consumer Surplus is the difference between the potential price and actual price. Other three are determinants of demand.

4. (a) Marshall  
(b) F.W. Edgeworth  
(c) Vilfredo parefo  
(d) J.R Hicks and R.G.D. Allen

[Ans. (a) Marshall]

**Reason:** The concept of elasticity of demand was introduced by Marshall. But other three are criticised the cardinal utility approach.

(v) Choose the Correct Pairs

1. (a) Total revenue - Price × Quantity sold  
(b) Consumer's surplus - J.R. Hicks and R.G.D Allen  
(c) Types of price elasticity of demand - Production  
(d) Percentage method - Lower segment of the demand curve

$$E_p = \frac{\text{Upper segment of the demand curve}}{\text{Lower segment of the demand curve}}$$

[Ans. (a) Total revenue - Price × Quantity sold]

(vi) Consider the following statement.

1. **Assertion (A) :** Demand curve slope downward.  
**Reason (R) :** Due to law of diminishing Marginal utility.  
(a) Both A and R are true and R is the correct explanation of A  
(b) Both A and R are true and R is not the correct explanation of A  
(c) A is true but R is false  
(d) A is false but R is true

[Ans. (a) Both A and R are true and R is the correct explanation of A]

2. **Assertion (A) :** Indifference curve slope downwards from left to right.

**Reason (R) :** Group of indifference curve is known as indifference map.

- (a) Both A and R are true and R is the correct explanation of A  
(b) Both A and R are true and R is not the correct explanation of A  
(c) A is true but R is false  
(d) A is false but R is true

[Ans. (b) Both A and R are true and R is not the correct explanation of A]

**3. Assertion (A) :** Indifference curves are convex to the origin.

**Reason (R) :** The convexity of the indifference curves implies due to MRS.

- (a) Both A and R are true and R is the correct explanation of A  
 (b) Both A and R are true and R is not the correct explanation of A  
 (c) A is true but R is false  
 (d) A is false but R is true

**[Ans. (a) Both A and R are true and R is the correct explanation of A]**

**4. Assertion (A) :** Law of demand explain there is inverse relationship between price and quantity demanded.

**Reason (R) :** Other thing remains the same, when price increases quantity demanded decreases.

- (a) Both A and R are true and R is the correct explanation of A.  
 (b) Both A and R are true and R is not the correct explanation of A.  
 (c) A is true but R is false.  
 (d) A is false but R is true.

**[Ans. (a) Both A and R are true and R is the correct explanation of A]**

## PART - B

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES. 2 MARKS**

**1. Define total utility.**

**Ans.** It is the sum total of the marginal utilities obtained from the consumption of successive units of a commodity.

$$TU = MU_1 + MU_2 + MU_3 + \dots + MU_n \text{ or } \Sigma MU$$

**2. Define budget line.** [BEQ]

**Ans.** Budget line is a line showing different combinations of two goods which a consumer can attain at his given Income and Market price of the goods.

**3. What do you mean by indifference map?**

**Ans.** Indifference map refers to a set of indifference curves corresponding to different income levels of satisfaction.

**4. Define budget set.** [BEQ]

**Ans.** It refers to attainable combinations of a set of two goods at given prices of goods and income of the consumer.

**5. What is market demand?**

**Ans.** Market demand means the total quantity of a commodity that all its buyers are willing to purchase at different prices over a given period of time.

**6. When the demand is elastic?**

**Ans.** The demand is elastic when percentage change in quantity demanded is greater than percentage change in its price.

## PART - C

**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH. 3 MARKS**

**1. What are the assumptions of consumer's surplus?** [BEQ]

- Ans. (i)** Marshall assumed that utility can be measured.  
**(ii)** The marginal utilities of money of the consumer remain constant.  
**(iii)** There are no substitutes for the commodity in question.  
**(iv)** The taste, income and character of the consumer do not change.  
**(v)** Utility of one commodity does not depend upon the other commodities.

**2. Explain the relationship between price elasticity of demand and slope of a linear demand curve.**

**Ans.** The slope of a linear demand curve is given as  $\frac{\Delta p}{\Delta q}$

**(i)** While price elasticity of demand is given as

$$Ed = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} \quad \dots(1)$$

**(ii)** Hence, we can write above equation

$$\text{(iii) (1) as } Ed = \frac{1}{\text{Slope of Demand Curve}} \times \frac{P}{Q}$$

$$Ed = \frac{1}{\frac{P}{Q}} \times \frac{P}{Q} \quad \dots(2)$$

**(iv)** The above equation states that there exist an inverse relationship between slope of a linear demand curve and Price elasticity of demand.

**3. Write the classification of wants.** [BEQ]

**Ans. (i) Necessaries :**

Goods which are indispensable for the human beings to exist in the world are called "necessaries" (for example: food, clothing and shelter)

**(ii) Comforts :**

Goods which are not indispensable for life but to make our life easy, convenient and comfortable are called "comforts". (for example: TV, Fan and Refrigerator)

**(iii) Luxuries :**

Goods which are not very essential but are very costly are known as "Luxuries". (for example: Jewellery, Diamonds.)

## PART - D

### ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE 5 MARKS

#### 1. Explain the condition of consumer's equilibrium using indifference curve analysis.

**Ans. (i)** In terms of indifference curve analysis, the consumer achieves his optimum choice when he strikes a balance between what he wishes to buy and what he can buy.

**(ii)** According to indifference curve analysis, a consumer is in equilibrium at a point, where the slope of the indifference curve is equal to the slope of budget line.

**(iii)** Condition of consumer's Equilibrium

$$MRS_{xy} = \frac{P_x}{P_y}$$

**(iv)** Here,  $MRS_{xy}$  = Marginal Rate of substitution between good x and y

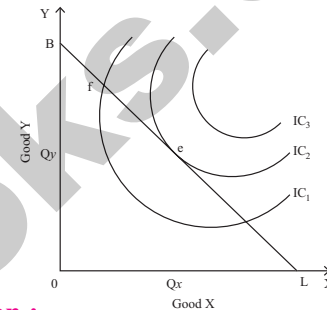
**(v)**  $\frac{P_x}{P_y}$  = Price Ratio between good x and good y

**(vi)**  $MRS_{xy} = \frac{\Delta Y}{\Delta X}$  = Slope of indifference curve.

**(vii)** At the point of equality between

$MRS_{xy} = \frac{P_x}{P_y}$  = Indifference curve must be convex to the origin.

**(viii)** It implies that at the point of equilibrium, MRS must be diminishing.

**Explanation :**

**(i)** In the above diagram BL - is Budget line.

**(ii)**  $IC_1, IC_2, IC_3$  = set of indifference curves.

**(iii)** Consumer is equilibrium at point 'e'. At this point, BL is tangent to  $IC_2$  signifying that

$$MRS_{xy} = \frac{P_x}{P_y}$$

**(iv)** Consumer will not be in equilibrium at point f and g because they belong to lower IC.



# 3

## PRODUCTION ANALYSIS

### CHAPTER SNAPSHOT

#### Production Analysis

##### 3.1 Introduction

##### 3.2 Features of the Factors of Production

3.2.1 Land

3.2.2 Labour

3.2.3 Capital

3.2.4 Organization

##### 3.3 Production Function

##### 3.4 Law of Variable Proportions

##### 3.5 Laws of Returns to Scale

##### 3.6 Economies of Scale

3.6.1 Internal Economies of Scale

3.6.2 External Economies of Scale

##### 3.7 Diseconomies of Scale

3.7.1 Internal Diseconomies of Scale

3.7.2 External Diseconomies of Scale

##### 3.8 Iso-quants

3.8.1 Definition of Iso-quant

3.8.2 Iso-quant Curve

3.8.3 Iso-quant Map

3.8.4 Properties of Iso-quant Curve

##### 3.9 The Iso-cost Line

##### 3.10 Producer's Equilibrium

##### 3.11 Cobb-Douglas Production Function

##### 3.12 Law of Supply

3.12.1 Supply Function

3.12.2 Supply Curve

3.12.3 Factors determining supply

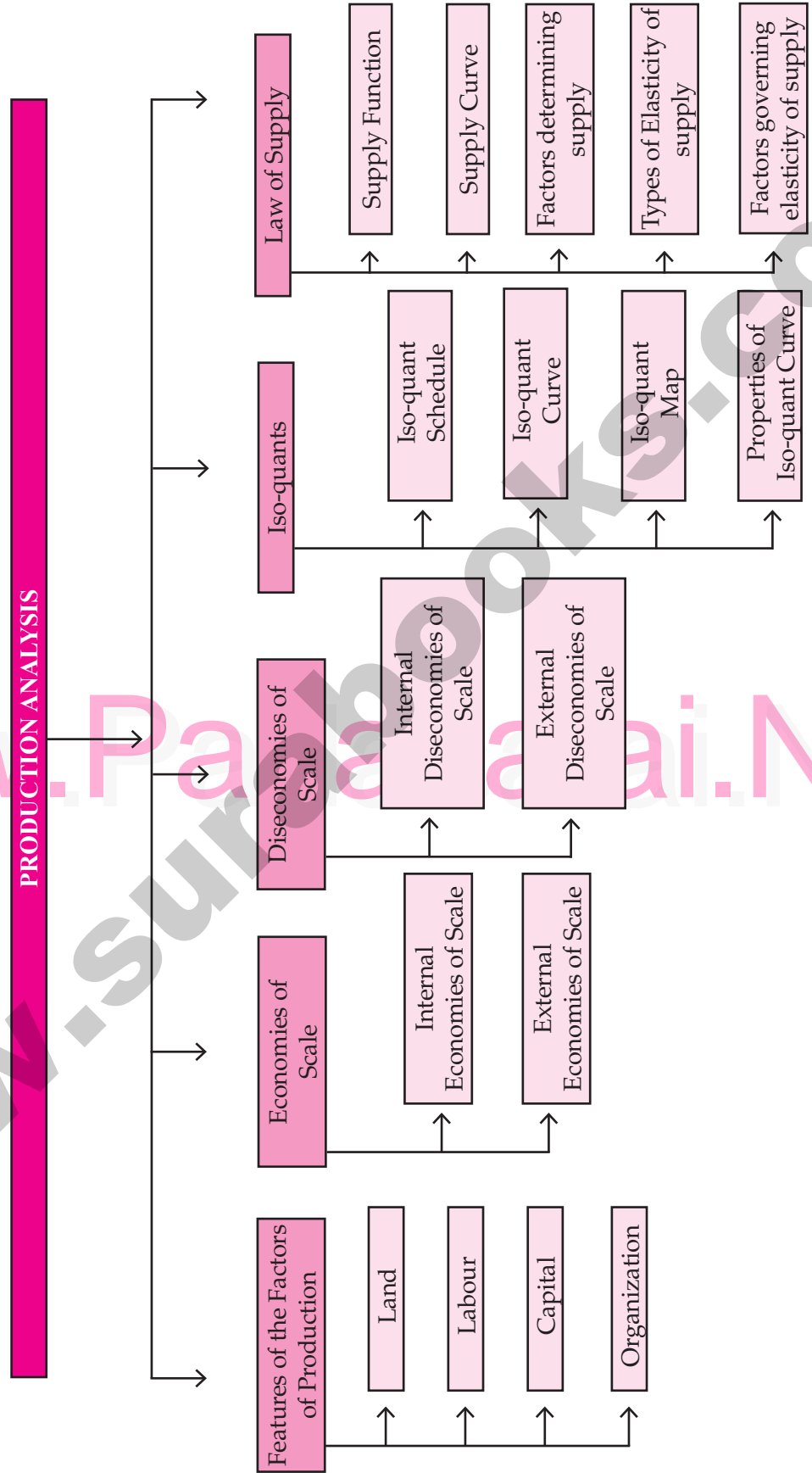
3.12.4 Elasticity of supply

3.12.5 Types of Elasticity of supply

3.12.6 Factors governing elasticity of supply

##### 3.13 Conclusion

**CONCEPT MAP**



## IMPORTANT TERMS

<b>Production</b>	:	Production process creates economic well being.
<b>Factors of production</b>	:	Factors of production mean resources used in the process of production of commodities
<b>Land</b>	:	Land is a free gift of nature.
<b>Labour</b>	:	Labour is the human input in the production process.
<b>Capital</b>	:	Capital is secondary means of production.
<b>An Entrepreneur</b>	:	An entrepreneur is a person who combines land, labour and capital in the production process to earn profit.
<b>Production functions</b>	:	Production functions are used to determine the most efficient combination of inputs to product a given amount of output.
<b>Total product</b>	:	It refers to the total amount of commodity produced by the combination of all inputs in a given period of time.
<b>Average product</b>	:	The average product refers to the average output produced by each input.
<b>Marginal product</b>	:	Marginal product is nothing but additional made to the total product.
<b>Law of variable proportion</b>	:	Short - run production function which is studies through law of variable proportion.
<b>Returns to scale</b>	:	Long-run production function which is explained by returns to scale.
<b>Internal economies of scale</b>	:	'Internal economies of scale' are advantages enjoyed within the production unit.
<b>External economies of scale</b>	:	Advantages enjoyed by all the firms in the industry are called external economies of scale.
<b>Diseconomies of scale</b>	:	The diseconomies are the disadvantages arising to firm or an industry or a group of firms due large scale production.
<b>ISO - quant</b>	:	Iso - quant or Iso product curve represents different combination of two factors of production that yield the same level of output.
<b>ISO - Cost line</b>	:	Iso cost line is also called "ISO - expenditure line".
<b>Supply</b>	:	Supply means the goods offered for all at a price during specific period of time.
<b>Primary Factors</b>	:	Land and Labour are naturally given and without them no goods can be produced. These are called primary factors.
<b>Derived Factors of Production</b>	:	Capital and Organisation are derived from the primary factors of production. These factors are called derived factors of production.
<b>Organisation (or) Entrepreneurship</b>	:	An entrepreneur is a person who combines the different factors of production in the right proportion and initiates the process of production and also bears the risk involved in it.

## MUST KNOW DEFINITIONS

- Definition of production** : According to J.R.Hicks "Production is any activity diverted to the satisfaction of other people" wants through exchange".
- Definition of labour** : Alfred Marshall defines labour as 'the use or exertion of body or mind, partly or wholly, with a view to secure an income apart from the pleasure derived from the work.
- Definition of production function** : According to George J. Stigler production function is the relationship between input of productive services per unit of time & output of production per unit of time".
- Definition of Law of variable proportions** : According to G.Stigler, "As equal increments of one input are added, the inputs of other productive services being held constant beyond a certain point the resulting increments of product will decrease, i.e., the marginal products will diminish.
- Definition of capital** : Marshall says "Capital consists of all kinds of wealth other than free gifts of nature, which yield income" Bohm-Bawerk defines it as 'a produced means of production'.
- Definition of ISO - Quant** : According to Ferguson, "An ISO-Quant is a curve showing all possible combinations of inputs physically capable of producing a given level of output".
- Definition of Law of Supply** : "Other things remaining the same, as the price of commodity rises, its supply expands and as the price falls, its supply contracts.
- Definition for factors of production** : According to the traditional classification, there are four factors of production. They are Land, Labour, Capital and Organisation.

## TEXTUAL QUESTIONS AND ANSWERS

### MODEL QUESTIONS

### PART - A

#### MULTIPLE CHOICE QUESTIONS.

1. The primary factors of production are :

[BEQ; QY-2019; HY-2019]

- (a) Labour and Organisation  
 (b) Labour and Capital  
 (c) Land and Capital  
 (d) Land and Labour [Ans. (d) Land and Labour]

2. The man-made physical goods used to produce other goods and services are referred to as

- (a) Land (b) Labour  
 (c) Capital (d) Organization

[Ans. (c) Capital]

3. Formula for calculating AP is

[BEQ]

[HY-2018; Sep-2020]

- (a)  $\frac{\Delta TP}{N}$  (b)  $\frac{\Delta TP}{\Delta N}$  (c)  $\frac{TP}{MP}$  (d)  $\frac{TP}{N}$

[Ans. (d)  $\frac{TP}{N}$ ]

4. Which factor is called the changing agent of the Society?

[Mar-2019; CRT-'22]

- (a) Labourer (b) Land  
 (c) Organizer (d) Capital

[Ans. (c) Organizer]

5. Who said, that one of the key of an entrepreneur is "uncertainty -bearing"

[BEQ]

- (a) J.B. Clark (b) Schumpeter  
 (c) Knight (d) Adam Smith

[Ans. (c) Knight]

6. The functional relationship between "inputs" and "outputs" is called as

[May-'22]

- (a) Consumption Function  
 (b) Production Function (c) Savings Function  
 (d) Investment Function

[Ans. (b) Production Function]

7. In a firm 5 units of factors produce 24 units of the product. When the number of factor increases by one, the production increases to 30 units. Calculate the Average Product

- (a) 30 (b) 6 (c) 5 (d) 24

[Ans. (c) 5]

8. The short-run production is studied through

[Mar-2020 ; May-'22]

- (a) The Laws of Returns to Scale  
 (b) The Law of Variable Proportions  
 (c) Iso - quants  
 (d) Law of Demand

[Ans. (b) The Law of Variable Proportions]

9. The long-run production function is explained by

[QY-2019; Aug-'22]

- (a) Law of Demand  
 (b) Law of Supply  
 (c) Returns to Scale  
 (d) Law of Variable Proportions

[Ans. (c) Returns to Scale]

10. An Iso - quant curve is also known as [BEQ; CRT-'22]

- (a) Inelastic Supply Curve  
 (b) Inelastic Demand Curve  
 (c) Equi Marginal Utility  
 (d) Equal Product Curve

[Ans. (d) Equal Product Curve]

11. Mention the economies reaped from inside the firm

- (a) financial (b) technical  
 (c) managerial (d) all of the above

[Ans. (d) all of the above]

12. Cobb - Douglas production function assumes.

- (a) Increasing returns to scale [HY-2019]  
 (b) Diminishing returns to scale  
 (c) Constant returns to scale  
 (d) All of the above

[Ans. (c) Constant returns to scale]

13. Name the returns to scale when the output increases by more than 5%, for a 5% increase in the inputs,

- (a) Increasing returns to scale  
 (b) Decreasing returns to scale  
 (c) Constant returns to scale  
 (d) All of the above

[Ans. (a) Increasing returns to scale]

**14. Which of the following is not a characteristic of land?** [BEQ; QY-2018; Mar-2019; Sep-2020; Aug-'22]

- (a) Its limited supply      (b) It is mobile  
(c) Heterogeneous      (d) Gift of Nature

[Ans. (b) It is mobile]

**15. Product obtained from additional factors of production is termed as** [Sep-2021]

- (a) Marginal product      (b) Total product  
(c) Average product      (d) Annual product

[Ans. (a) Marginal product]

**16. Modern economists have propounded the law of** [Mar-2020; CRT-'22]

- (a) Increasing returns      (b) Decreasing returns  
(c) Constant returns      (d) Variable proportions

[Ans. (a) Increasing returns]

**17. Producer's equilibrium is achieved at the point where :**

- (a) Marginal rate of technical substitution (MRTS) is greater than the price ratio  
(b) MRTS is lesser than the price ratio  
(c) MRTS and price ratio are equal to each other  
(d) The slopes of iso quant and iso cost lines are different

[Ans. (c) MRTS and price ratio are equal to each other]

**18. The relationship between the price of a commodity and the supply of commodity is** [QY-2019]

- (a) Negative      (b) Positive  
(c) Zero      (d) Increase

[Ans. (b) Positive]

**19. If average product is decreasing, then marginal product** [QY-2018]

- (a) must be greater than average product  
(b) must be less than average product  
(c) must be increasing      (d) both a and c

[Ans. (b) must be less than average product]

**20. A production function measures the relation between.**

- (a) input prices and output prices  
(b) input prices and the quantity of output  
(c) the quantity of inputs and the quantity of output  
(d) the quantity of inputs and input prices

[Ans. (c) the quantity of inputs and the quantity of output]

## PART - B

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES.**

**21. Classify the factors of production.** [Aug-'22]

**Ans. Land, Labour :** 'primary factors of production'.

**Capital and Organisation :** 'secondary factors of production'.

**22. Define Labour.**

**Ans.** According to Marshall, labour represents **services provided by the factor labour**, which helps in **yielding an income** to the owner of the labour-power.

**23. State the production function.** [QY-2019; May-'22]

**Ans.** According to George J. Stigler, "Production function is the relationship between inputs of productive services per unit of time and outputs of product per unit of time."

Production function may be expressed as:

$$Q = f(N, L, K, T)$$

Where, Q = Quantity of output, N = Land; L = Labour; K = Capital; and T = Technology.

**24. Define Marginal Product of a factor.** [BEQ, CRT-'22]

**Ans. (i)** Marginal product is the addition or the increment made to the total product when one more unit of the variable input is employed.

**(ii)** In other words, it is the ratio of the change in the total product to the change in the units of the input.

$$\text{(iii) } MP = \Delta TP / \Delta N \text{ or } MP_n = TP_n - TP_{n-1}$$

**25. What is Iso- cost line?**

**Ans. (i)** The iso - cost line is an important component in analysing producer's behaviour.

**(ii)** The iso-cost line illustrates all the **possible combinations of two factors** that can be used at given costs and for a given producer's budget.

**(iii)** It is otherwise called as "**Iso-Price line**" or "**Iso-income line**" or "**Iso-expenditure line**" or "**Total outlay curve**".

**26. What are the conditions for producer's equilibrium?** [QY-2018]

**Ans.** The two conditions that are to be fulfilled for the attainment of producer equilibrium are :

**(i)** The Iso - cost line must be tangent to iso - quant curve.

**(ii)** At point of tangency, the **Iso - quant curve must be convex to the origin** or  $MRTS_{LK}$  must be declining.

**27. What are the reasons for upward sloping supply curve?** [HY-2018; QY-2019; Aug-'22]

- Ans. (i)** As the price of the commodity increases, the **quantum supplied of the commodity** also increases.
- (ii)** Thus the supply curve has a **positive slope** from left to right.

## PART - C

**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH.**

**28. What are the characteristics of land?**

[Sep-2020; CRT-'22]

- Ans. (i)** Land is a primary factor of production.
- (ii)** Land is a passive factor of production.
- (iii)** Land is the free gift of nature.
- (iv)** Land has no cost of production.
- (v)** Land is fixed or inelastic in supply.
- (vi)** Land is permanent.
- (vii)** Land is immovable.
- (viii)** Land is heterogeneous as it differs in fertility

**29. What are the factors governing elasticity of supply?** [HY-2019; CRT-'22]

**Ans.** Factors governing elasticity of supply are

- (i) Nature of the commodity :** Durable goods can be stored for a long time. So, the producers can wait until they get a high price. Once they get higher price, larger supply is possible. The elasticity of supply of durable goods is high. But perishables are to be sold immediately. So perishables have low elasticity of supply
- (ii) Cost of production :** When production is subject to either constant or increasing returns, additional production and therefore increased supply is possible. So elasticity of supply is greater. Under diminishing returns, increase in output leads to high cost. So elasticity of supply is less.
- (iii) Technical condition :** In large scale production with huge capital investment, supply cannot be adjusted easily. So elasticity of supply is lesser. Where capital equipment is less and technology simple, the supply is more elastic.

- (iv) Time factor :** During very short period when supply cannot be adjusted, elasticity of demand is very low. In short period, variable factors can be added and so supply can be adjusted to some extent. So elasticity of supply is more. In long period, even the fixed factors can be added and hence supply is highly elastic.

**30. What are the functions of Entrepreneur?**

[BEQ; QY-2019; Mar-2020; Sep-2021; May-'22]

**Ans. (i) Initiation :**

An organizer is the initiator of the business, by considering the situation and availability of resources and planning the entire process of business or production.

- (ii) Innovation :** A successful entrepreneur is always an innovator. He introduces new methods in the production process.
- (iii) Coordination :** An organizer applies a particular combination of the factors of production to start and run the business or production.
- (iv) Control, Direction and Supervision :** An organiser controls so that nothing prevents the organisation from achieving its goal. He directs the factors to get better results and supervises for the efficient functioning of all the factors involved in the process of production.
- (v) Risk-taking and Uncertainty-bearing :** There are risk-taking and uncertainty bearing obstacles. Risks may be insured but uncertainties cannot be insured. They reduce the profit.

**31. State and explain the elasticity of supply. [QY-2018]**

**Ans. (i)** Elasticity of supply may be defined as the **degree of responsiveness** of change in supply to change in price on the part of sellers.

Elasticity of supply =  $\frac{\text{proportionate change in supply}}{\text{proportionate change in price}}$

**(ii)** 
$$e_s = \frac{\Delta Q_s}{Q_s} \div \frac{\Delta P}{P}; e_s = \frac{\Delta Q_s}{\Delta P} \times \frac{P}{Q_s}$$

**(iii)**  $Q_s$  = Supply  $P$  = Price,  $\Delta$  = Changes.

**32. Bring out the Relationship among Total, Average and Marginal Products.** [Govt. MQP-2018]

**Ans.** Relationship among Total, Average and Marginal Products.

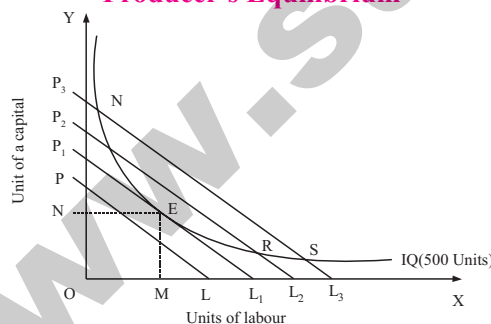
Stages	Total Product	Marginal Product	Average Product
Stage - I	Initially it increases at an increasing rate and then increases at a decreasing rate.	At the beginning it increases, then reaches a maximum and starts to decrease.	At the first instant it increases, then attains maximum.
Stage - II	It continues to increase at a diminishing rate and reaches maximum.	It continues to diminish and becomes equal to zero.	It is equal to MP and then begins to diminish.
Stage - III	It diminishes.	It becomes negative.	It continues to diminish but always greater than zero (positive).

### 33. Illustrate the concept of Producer's Equilibrium.

#### Ans. Introduction

- (i) Producer equilibrium implies the situation where **producer maximizes his output**.
- (ii) It is also known as optimum combination of the factors of production.
- (iii) Producer's attain equilibrium (or least cost combination of factors is attained by the firm) where the iso-cost line is tangent to an iso product curve.

#### Producer's Equilibrium



- (iv) In the above figure, profit of the firm (or the producer) is maximised at the point of equilibrium E.
- (v) At the point of equilibrium, the slope of the iso cost line is equal to the slope of iso product curve.
- (vi) At point E, the firm employs OM units of labour and ON units of capital.

### 34. State the Cobb-Douglas Production Function.

[BEQ;QY & HY-2018; Mar-2020]

**Ans. (i)** The Cobb - Douglas production function was developed by **Charles W.Cobb** and **Paul H. Douglas**.

**(ii)** It is a linear homogeneous production function which implies that the factors of production can be substituted for one another up to a certain extent only.

**(iii)** The Cobb-Douglas production function can be expressed as follows.

$$Q = AL^\alpha K^\beta$$

**(iv)** Where, Q = output; A = positive constant; K = capital; L = Labor  $\alpha$  and  $\beta$  are positive fractions showing, the elasticity coefficients of outputs for the inputs labor and capital, respectively.

**(v)**  $\beta = (1 - \alpha)$  since  $\alpha + \beta = 1$ . denoting constant returns to scale.

**(vi)** Factor intensity can be measured by the ratio  $\beta/\alpha$ .

## PART - D

### ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE.

#### 35. Examine the Law of Variable Proportions with the help of a diagram. [Sep-2020 & 21]

#### Ans. Definition :

According to G.Stigler, As equal increments of one input are added, the inputs of other productive services being held constant, beyond a certain point the resulting increments of product will decrease, i.e the marginal products will diminish.

#### Assumptions:

- (i) Only one factor is variable while others are held constant.
- (ii) All units of the variable factor are homogeneous.
- (iii) The product is measured in physical units
- (iv) No change in the state of technology.
- (v) No change in the price.



- (iii) Price of factors.
- (iv) Price expectations.
- (v) Technology.
- (vi) Natural factors.
- (vii) Discovery of new raw materials.
- (viii) Taxes and Subsidies.
- (ix) Objective of the firm.

**4. Distinguish between internal and external economies**

Ans.

Internal Economies of Scale	External Economies of Scale
Expansion of the firm itself	Expansion of the industry
Lower long run average cost	Benefits most all firms
Range of economies e.g. Technical and Financial	Helps to explain the rapid growth of many cities.

**5. Bring out the differences between short run and long run production function.**

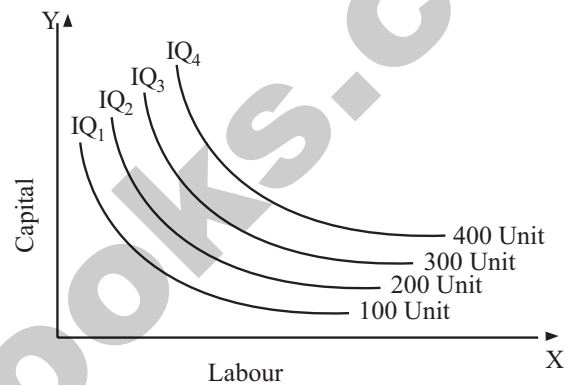
Ans.

Basic for comparison	Short - run production function	Long - run production function
Meaning	Short run production function alludes to the time period in which at least one factor of production is fixed.	Long run production function connotes the time period in which all the factors of production are variable.
Law	Law of variable proportions.	Law of returns to scale.
Scale of production	No change in scale of production.	change in scale of production.
Factor - ratio	Changes	Does not change.
Entry and exit	There are barriers to entry and the firms can shut down but cannot fully exit.	Firm are free to enter and exit.

**6. Explain Iso-quant map with the help of diagram.**

- Ans. (i) An Iso-quant map has different iso-quant curves representing the different combinations of factors of production, yielding the different levels of output.
- (ii) An Iso-quant is a family of iso-quant
- (iii) More than one iso-quant is called Iso-quant map.

**Iso-quant Map**



- (iv) Higher the Iso-quant denotes higher level of output and lower the Iso-quant denotes lower level of output.

## PART - D

**ANSWER THE FOLLOWING QUESTIONS IN  
ABOUT A PAGE. 5 MARKS**

**1. What are the Characteristics of Labour?**

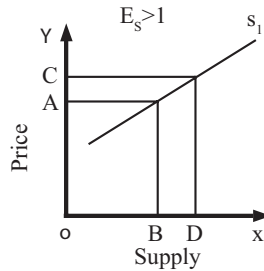
- Ans. (i) Labour is the animate factor of production.
- (ii) It is an active factor of production
- (iii) Labour implies several types
- (iv) Labour is perishable
- (v) Labour is inseparable from the labourer
- (vi) Labour is less mobile between places and occupations.
- (vii) Labour is a means as well as an ends
- (viii) Labour units are heterogeneous.
- (ix) Labour supply determines its reward (wage)
- (x) Labour has weak bargaining power.

**2. Explain the types of elasticity supply with the help of diagram. [BEQ]**

**Ans.** There are five types of elasticity supply. There are,

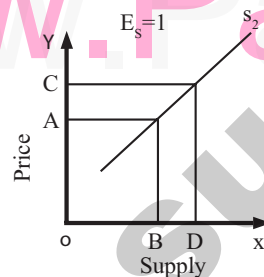
**(1) Relatively Elastic Supply : ( $E_s > 1$ )**

- (i) The co-efficient of elastic supply is greater than 1 ( $E_s > 1$ )
- (ii) One percent change in the price of a commodity causes more than one per cent change in the quantity supplied of the commodity.



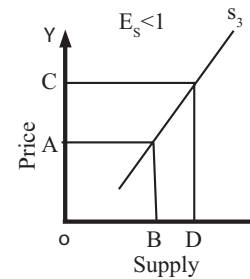
**(2) Unitary Elastic Supply : ( $E_s = 1$ )**

- (i) The co-efficient of elastic supply is equal to one ( $E_s = 1$ )
- (ii) One percent change in the price of a commodity causes an equal (one per cent) change in the quantity supplied of the commodity.



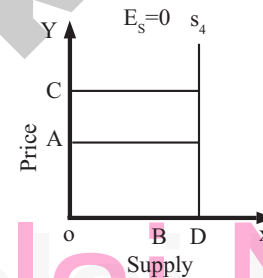
**(3) Relatively Inelastic Supply : ( $E_s < 1$ )**

- (i) The co-efficient of elasticity is less than one ( $E_s < 1$ )
- (ii) One percent change in the price of a commodity causes a less than one per cent change in the quantity supplied of the commodity.



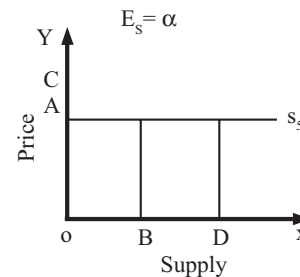
**(4) Perfectly Inelastic Supply : ( $E_s = 0$ )**

- (i) The co efficient of elasticity is equal to zero ( $E_s = 0$ )
- (ii) One percent change in the price of a commodity causes no change in the quantity supplied of the commodity.



**(5) Perfectly elastic supply : ( $E_s = \infty$ )**

- (i) The co-efficient of elasticity of supply is infinity ( $E_s = \infty$ )
- (ii) One percent change in the price of a commodity causes an infinite change in the quantity supplied of the commodity.



## 8

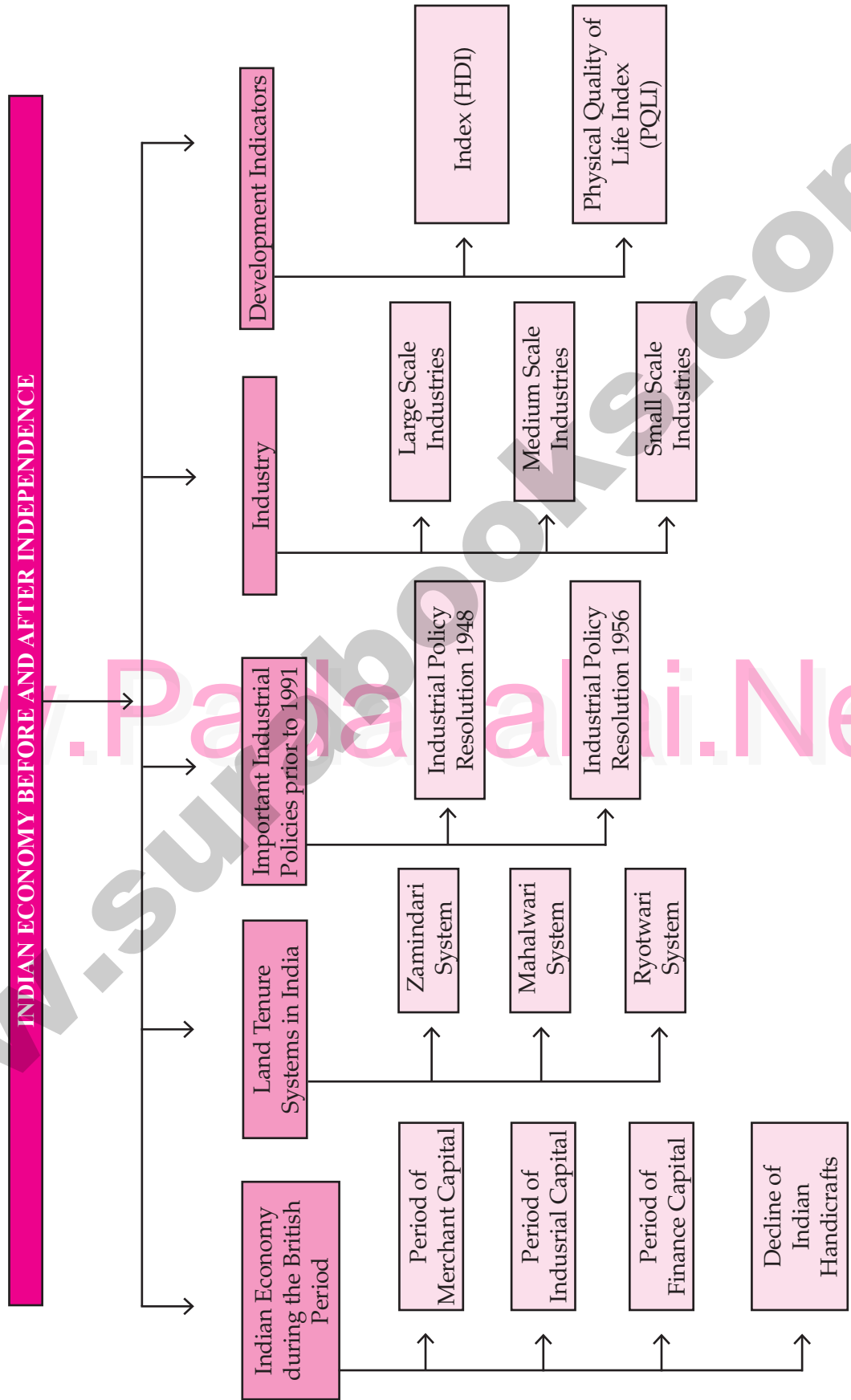
# INDIAN ECONOMY BEFORE AND AFTER INDEPENDENCE

## CHAPTER SNAPSHOT

### Indian Economy Before and After Independence

- |            |  |             |   |
|------------|--|-------------|---|
| <b>8.1</b> | Introduction   | <b>8.5</b>  | Problems of British Rule                    |
| <b>8.2</b> | Indian Economy during the British period                 | <b>8.6</b>  | Important Industrial Policies prior to 1991 |
| 8.2.1      | Period of Merchant Capital                               | 8.6.1       | Industrial Policy Resolutions 1948          |
| 8.2.2      | Period of Industrial Capital                             | 8.6.2       | Industrial Policy Resolutions 1956          |
| 8.2.3      | Period of Finance Capital                                | <b>8.7</b>  | Green Revolution                            |
| 8.2.4      | Decline of Indian Handicrafts                            | <b>8.8</b>  | Large Scale Industries                      |
| <b>8.3</b> | The Land Tenure Systems in India                         | <b>8.9</b>  | Small Scale Industries                      |
| 8.3.1      | Zamindari System or the Land lord-Tenant System          | <b>8.10</b> | Micro, Small and Medium Enterprises (MSMEs) |
| 8.3.2      | Mahalwari System or Communal System of Farming           | <b>8.11</b> | Public sector and Private sector banks      |
| 8.3.3      | Ryotwari System or the Owner-Cultivator System           | <b>8.12</b> | Nationalisation of Banks                    |
| <b>8.4</b> | Process of Industrial Transition and Colonial Capitalism | <b>8.13</b> | Performance of India's five year plans      |
|            |  | <b>8.14</b> | Development Indicators                      |
|            |  | 8.14.1      | Human Development Index (HDI)               |
|            |  | 8.14.2      | Physical Quality of Life Index (PQLI)       |
|            |  | <b>8.15</b> | Conclusion                                  |

**CONCEPT MAP**



## IMPORTANT TERMS

<b>Period of Finance Capital</b>	:	The British finance capital found its entry into the main sector as Railway and plantation of tea etc.
<b>Indian Handicrafts</b>	:	The Indian handicrafts products had a worldwide market.
<b>Land Tenure</b>	:	Land Tenure refers to the system of land ownership and management.
<b>Zamindars System</b>	:	Zamindars system was created by the British East India Company.
<b>Mahalwari System</b>	:	Mahalwari system was introduced by Lord William Bentick in 1820.
<b>Ryotwari System</b>	:	In Ryotwari system there was the direct relationship between owners.
<b>Green Revolution</b>	:	Modern agricultural technology, seed - fertilizer - water technology is simply called green revolution.
<b>Jute Industry</b>	:	Jute industry is an important industry for a country like India.
<b>Cotton and Textile Industry</b>	:	Oldest industry of India and employs largest number of workers.
<b>Sugar Industry</b>	:	Sugar industry is the agricultural based industry.
<b>Medium Scale Industries</b>	:	The industries which produce the goods in large amount by using the improved technology, efficient man-power and more capital are known as medium and large scale industries.
<b>Small Manufacturing Enterprises</b>	:	The investment in Plant and Machinery is more than twenty five lakhs but does not exceed Rs. 5 Crores.
<b>Medium Manufacturing Enterprises</b>	:	The investment in Plant and Machinery is more than Rs. 5 Crores but not exceeding Rs. 10 Crores.
<b>Nationalisation of Banks</b>	:	Nationalisation of Banks was required to reduce the regional imbalance where the banking facilities were not available.
<b>Human Development Index</b>	:	Human development index helped the government to real uplifting of standard of living of the people.
<b>Public Sector Banks</b>	:	A bank in which the government holds a major portion of the shares.
<b>Private Sector Banks</b>	:	"Private Sector Banks" are banks where greater parts of shares or equity are not held by the government but by private share holders.
<b>Nationalisation</b>	:	The process of transforming private assets ownership into government ownership.
<b>Physical Quality of Life Index</b>	:	It is a measure to calculate the quality of life.
<b>Performance of India's Five Year Plans</b>	:	Economic planning in India is the process in which the limited natural resources are used skillfully so as to achieve the desired goals.
<b>Iron and Steel Industry</b>	:	"The Iron and Steel industry" is one of the most important industries in India. Most iron and steel in India is produced from iron ore.

## MUST KNOW DEFINITIONS

- Definition of Small Scale Industries** : These are the industrial undertakings having fixed investment in plant and Machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 Crore.
- Definition of large Scale Industry** : The term "large scale industry" refers to factories that combine at least three characteristics.
- Use of Machinery
  - Employment of wage labour, and
  - The application of regulatory measures such as factory Act etc.
- Land Tenure System** : Land Tenure refers to the system of land ownership and management.
- Definition of Economic Planning** : "As a co-ordinating mechanism for socialist economics, economic planning substitutes factor markets and is defined as a direct allocation of resources. This is contrasted with the indirect allocation mechanism of a market economy... An economy primarily based on central planning is referred to as a planned economy.
- Definition of Mahalwari System** : "Mahalwari system, one of the three main revenue system of land tenure in British India, the other two being the Zamindar and Ryotwari. The word Mahalwari is derived from, the Hindi Mahal, meaning a house or, by extension, a district".
- Definition of Indian Economy** : The Indian economy is the tenth largest in the world by nominal GDP and the third - largest by purchasing power parity (PPP). The country is one of the G-20 major economies, a member of BRICS and a developing economy among the top 20 global traders according to the WTO Circular Flow of Income."

## TEXTUAL QUESTIONS AND ANSWERS

### MODEL QUESTIONS PART - A

#### MULTIPLE CHOICE QUESTIONS

1. The arrival of Vasco da Gama in Calicut, India

[Aug-'22]

- (a) 1498 (b) 1948  
(c) 1689 (d) 1849 [Ans. (a) 1498]

2. In 1614 Sir Thomas Roe was successful in getting permission from

- (a) Akbar (b) Shajahan  
(c) Jahangir (d) Noorjahan

[Ans. (c) Jahangir]

3. The power for governance of India was transferred from the East India Company (EIC) to the British crown in

- (a) 1758 (b) 1858 (c) 1958 (d) 1658

[Ans. (b) 1858]

4. Ryotwari system was initially introduced in

[BEQ; May-'22]

- (a) Kerala (b) Bengal  
(c) Tamil Nadu (d) Maharashtra

[Ans. (c) Tamil Nadu]

5. First World War started in the year [HY-2018&2019]

- (a) 1914 (b) 1814 (c) 1941 (d) 1841

[Ans. (a) 1914]

- 6. When did the Government of India declared its first Industrial Policy?**  
(a) 1956 (b) 1991 (c) 1948 (d) 2000  
[Ans. (c) 1948]
- 7. The objective of the Industrial policy 1956 was \_\_\_\_\_**  
[BEQ; Govt. MQP-2018]  
(a) Develop heavy industries  
(b) Develop agricultural sector only  
(c) Develop private sector only  
(d) Develop cottage industries only  
[Ans. (a) Develop heavy industries]
- 8. The industry which was de-reserved in 1993?**  
(a) Railways  
(b) Mining of copper and zinc  
(c) Atomic energy  
(d) Atomic minerals  
[Ans. (b) Mining of copper and zinc]
- 9. The father of Green Revolution in India was \_\_\_\_\_**  
(a) M.S. Swaminathan (b) Gandhi [BEQ]  
(c) Visweswaraiiah (d) N.R. Viswanathan  
[Ans. (a) M.S. Swaminathan]
- 10. How many commercial banks were nationalised in 1969?**  
[Sep-2020]  
(a) 10 (b) 12 (c) 14 (d) 16  
[Ans. (c) 14]
- 11. The main objective of nationalisation of banks was \_\_\_\_\_**  
[Aug-'22]  
(a) Private social welfare (b) Social welfare  
(c) To earn (d) Industries monopoly  
[Ans. (b) Social welfare]
- 12. The Planning Commission was setup in the year \_\_\_\_\_**  
(a) 1950 (b) 1955 (c) 1960 (d) 1952  
[Ans. (a) 1950]
- 13. In the first five year plan, the top priority was given to \_\_\_\_\_ Sector**  
(a) Service (b) Industrial  
(c) Agriculture (d) Bank  
[Ans. (c) Agriculture]
- 14. Tenth five year plan period was \_\_\_\_\_** [BEQ]  
(a) 1992 - 1997 (b) 2002 - 2007  
(c) 2007 - 2012 (d) 1997 - 2002  
[Ans. (b) 2002 - 2007]
- 15. According to HDR (2016), India ranked \_\_\_\_\_ out of 188 countries.**  
(a) 130 (b) 131 (c) 135 (d) 145  
[Ans. (b) 131]
- 16. Annual plans formed in the year \_\_\_\_\_**  
[BEQ ; May-'22]  
(a) 1989 - 1991 (b) 1990 - 1992  
(c) 2000 - 2001 (d) 1981 - 1983  
[Ans. (b) 1990 - 1992]
- 17. The Oldest large scale industry in India \_\_\_\_\_**  
[Mar-2019; Sep-2021]  
(a) cotton (b) jute (c) steel (d) cement  
[Ans. (a) cotton]
- 18. Human development index (HDI) was developed by \_\_\_\_\_**  
(a) Jawaharlal Nehru (b) M.K. Gandhi  
(c) Amartiya Sen (d) Tagore  
[Ans. (c) Amartiya Sen]
- 19. The main theme of the Twelfth Five Year Plan \_\_\_\_\_**  
(a) faster and more inclusive growth  
(b) growth with social Justice  
(c) socialistic pattern of society  
(d) faster, more inclusive and sustainable growth  
[Ans. (d) faster, more inclusive and sustainable growth]
- 20. The PQLI was developed by \_\_\_\_\_** [BEQ; Sep-2021]  
(a) Planning Commission (b) Nehru  
(c) Morris (d) Morris D. Biswajeet  
[Ans. (c) Morris]

## PART - B

### ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES.

- 21. What are the Phases of colonial exploitation of India?**  
**Ans.** The three phases of colonial exploitation of India are  
(i) The period of merchant capital.  
(ii) The period of industrial capital.  
(iii) The period of finance capital.
- 22. Name out the different types of land tenure existed in India before Independence.** [BEQ; Govt. MQP-2018]  
**Ans.** (i) The three different types of land tenure existed in India before independence.  
(ii) They were **Zamindari system, Mahalwari system and Ryotwari system.**
- 23. State the features that distinguish a land tenure system from other system.**  
**Ans.** Land Tenure refers to the system of land ownership and management. The features that distinguish a land tenure system from the others relate to the following.  
(a) Who owns the land?  
(b) Who cultivates the land?  
(c) Who is responsible for paying the land revenue to the government?

**24. List out the weaknesses on Green Revolution.**

[BEQ; HY-2018 &amp; 2019]

- Ans. (i)** Indian Agriculture was still a **gamble in the monsoons.**
- (ii)** This strategy needed heavy **investment in seeds, fertilizers, pesticides and water.**
- (iii)** Gap between irrigated and rain fed areas has widened.

**25. What are the objectives of Tenth five year plan?**

[Aug-'22]

- Ans. (i)** This plan aimed to double the per capital income of India in the next 10 years.
- (ii)** It aimed to reduce the **poverty ratio of 15% by 2012.**
- (iii)** Its **growth target was 8.0%** but it achieved only **7.2%.**

**26. What is the difference between HDI and PQLI?****Ans.**

[BEQ; Sep-2021]

Basis	PQLI	HDI
Meaning	It refers to overall well being of people	It refers to composite measure of economic & social progress to find out the quality of human life.
Made by	Morris D. Morris in 1979	Mahabub-ul-Haq in 1990 for UNDP

**27. Mention the indicators which are used to calculate HDI.**

[Aug-'22]

**Ans.** HDI is based on the following three indicators

- (i)** Longevity is measured by life expectancy at birth,
- (ii)** Educational attainments,
- (iii)** Standard of living, measured by real GDP per capita (PPP\$).

## PART - C

**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH.****28. Explain about the Period of Merchant Capital.**

- Ans. (i)** The period of merchant capital was from 1757 to 1813.
- (ii)** The only aim of the East India Company was to earn profit by establishing monopoly trade.
- (iii)** India had been considered as the best hunting ground for capital by EIC

**(iv)** The company administration succeeded in generating huge surpluses which were repatriated to England.

**(v)** The objective of monopoly trade was fulfilled by achieving political control.

**29. The Handicrafts declined in India in British Period. Why?**

[BEQ]

- Ans. (i)** Through **discriminatory tariff policy**, the British Government purposefully destroyed the handicrafts.
- (ii)** **Indian handicraft products couldn't compete with machine - made products.**
- (iii)** There is no one like nawab, kings to protect Indian handicrafts.
- (iv)** Introduction of **railways in India increased the domestic market** for the British goods.

**30. Elucidate the different types of land tenure system in colonial India.**

- Ans. (i)** The three different types of land tenure existed in India.
- (ii)** They were Zamindari system, Mahalwari system, and Ryotwari system.

**Zamindari system (or) Land lords :**

- (i)** The landlords or the zamindars were declared as the **owners of the land.**
- (ii)** They were responsible to **pay the land revenue to the government.**
- (iii)** The share of the government in total rent collected and fixed at 10/11<sup>th</sup>, the balance going to the zamindars as remuneration.

**Mahalwari System :**

The ownership of the land was maintained by the collective body usually the villagers which served as **a unit of a management.**

**Ryotwari system or the owner cultivator system :**

- (i)** The rights of **ownership and control of land** were held by the tiller.
- (ii)** There was the direct relationship between owners and tillers.
- (iii)** This system was the **least oppressive system.**

**31. State the reasons for nationalization of commercial banks.**

[Govt. MQP-2018; May-'22]

- Ans. (i)** After Independence, the Government of India adopted planned economic development.
- (ii)** For this purpose, Five Year Plans came into existence since 1951. The main objective of the economic planning aimed at social welfare.



## ADDITIONAL QUESTIONS AND ANSWERS

### PART - A

#### MULTIPLE CHOICE QUESTIONS. 1 MARK

##### (i) Choose the Correct Option

- 1. The East Indian Company had captured political power to secure maximum goods for**  
 (a) Maximum payment (b) Minimum payment  
 (c) Normal payment (d) None of these

**[Ans. (b) Minimum payment]**

- 2. Mahalwari System was introduced by** [BEQ]

- (a) Lord Cornwallis  
 (b) Lord William Bentinck  
 (c) Sir Thomas Munro  
 (d) Captain Alexander Reed

**[Ans. (b) Lord William Bentinck]**

- 3. Ryotwari System was introduced by** [BEQ]

- (a) Lord Cornwallis  
 (b) Lord William Bentinck  
 (c) Sir Thomas Munro and Captain Alexander Reed  
 (d) All of these

**[Ans. (c) Sir Thomas Munro and Captain Alexander Reed]**

- 4. Mahalwari System was introduced in** [BEQ]

- (a) 1820 (b) 1800 (c) 1993 (d) 1793

**[Ans. (d) 1793]**

- 5. Example for cash crops**

- (a) Sugarcane (b) Cotton and Jute  
 (c) Oil seeds and potatoes  
 (d) All of these

**[Ans. (d) All of these]**

- 6. The First large scale steel plant was**

- (a) TISCO (b) IISCO  
 (c) SAIL (d) All of these

**[Ans. (a) TISCO]**

- 7. The first public sector unit was**

- (a) TISCO (b) IISCO  
 (c) Vishveshvaraya (d) SAIL

**[Ans. (c) Vishveshvaraya]**

- 8. Steel Authority of India Ltd (SAIL) was established in** [BEQ]

- (a) 1864 (b) 1854 (c) 1818 (d) 1974

**[Ans. (d) 1974]**

- 9. Oil and Natural Gas commission (ONGC) was established in** [BEQ]

- (a) 1950 (b) 1952 (c) 1956 (d) 1960

**[Ans. (c) 1956]**

- 10. Plan Holiday**

- (a) 1960 - 1965 (b) 1963 - 1966  
 (c) 1966 - 1969 (d) 1969 - 1972

**[Ans. (c) 1966 - 1969]**

- 11. The Sarva Shiksha Abiyan was introduced in the**

- (a) First five year plan  
 (b) Tenth five year plan  
 (c) Third five year plan  
 (d) Ninth five year plan

**[Ans. (b) Tenth five year plan]**

- 12. The aim of Securities and Exchange Board of India is**

- (a) To protect consumers  
 (b) To protect people  
 (c) To promote weaker sections  
 (d) To protect the interest of investors

**[Ans. (d) To protect the interest of investors]**

- 13. Green Revolution started in India** [BEQ]

- (a) 1950 (b) 1960 (c) 1980 (d) 1990

**[Ans. (b) 1960]**

- 14. Bombay stock exchange was established in the year**

- (a) 1875 (b) 1975 (c) 1775 (d) 1675

**[Ans. (a) 1875]**

- 15. HDI represents**

- (a) Physical attributes  
 (b) Financial attributes  
 (c) Physical and financial attributes  
 (d) Cost of living

**[Ans. (c) Physical and financial attributes]**

**(vi) Consider the following statement.**

1. **Assertion (A)** : Government of India declared its first industrial policy on 6th April 1948.

**Reason (R)** : The main importance of first policy was that it ushered in India the system of mixed economy.

- (a) Both A and R are true and R is the correct explanation of A  
 (b) Both A and R are true and R is not the correct explanation of A  
 (c) A is true but R is false  
 (d) A is false but R is true

**[Ans. (a) Both A and R are true and R is the correct explanation of A]**

2. **Assertion (A)** : SSIs play a complementary role to large scale sector and support the large scale industries.

**Reason (R)** : SSIs does not save as ancillaries to large scale units.

- (a) Both A and R are true and R is the correct explanation of A.  
 (b) Both A and R are true and R is not the correct explanation of A.  
 (c) A is true but R is false.  
 (d) A is false but R is true.

**[Ans. (c) A is true but R is false.]**

3. **Assertion (A)** : Morris D Morris developed the physical quality of life index.

**Reason (R)** : The PQLD is a measure to calculate the quality of life being of a country.

- (a) Both A and R are true and R is the correct explanation of A  
 (b) Both A and R are true and R is not the correct explanation of A  
 (c) A is true but R is false  
 (d) A is false but R is true

**[Ans. (b) Both A and R are true and R is not the correct explanation of A]**

4. **Assertion (A)** : SSIs promote decentralized development of industries as most of the SSIs are set up in backward and rural areas.

**Reason (R)** : They help to reduce the problems of congestion, slums, sanitation and pollution in cities.

- (a) Both A and R are true and R is the correct explanation of A  
 (b) Both A and R are true and R is not the correct explanation of A  
 (c) A is true but R is false  
 (d) A is false but R is true

**[Ans. (a) Both A and R are true and R is the correct explanation of A]**

**(vii) Choose the Correct Statement.**

1. (i) The period of industrial capital was from 1757 to 1813.

- (ii) The period of merchant capital was from 1813 to 1858.

- (a) Only (i) is true  
 (b) Both (i) and (ii) are true  
 (c) Only (ii) is true  
 (d) Both (i) and (ii) are false

**[Ans. (d) Both (i) and (ii) are false]**

2. (i) Through discriminatory tariff policy the British government purposefully destroyed the handicrafts.

- (ii) Indian handicraft products could not compete with machine - made products.

- (a) Only (i) is true  
 (b) Both (i) and (ii) are true  
 (c) Only (ii) is true  
 (d) Both (i) and (ii) are false

**[Ans. (b) Both (i) and (ii) are true]**

3. Cotton and textile industry

- (i) Oldest industry of India and employs largest number of workers.

- (ii) The first Indian modernised cotton cloth mill was established in 1818 at fort Gloaster near Calcutta.

- (a) Only (i) is true  
 (b) Both (i) and (ii) are true  
 (c) Only (ii) is true  
 (d) Both (i) and (ii) are false

**[Ans. (b) Both (i) and (ii) are true]**

4. Objectives of Nationalization.

- (i) The main objective of nationalization was to attain social welfare.

- (ii) Nationalization of banks helped to curb private monopolies in order to ensure a smooth supply of credit to socially desirable sections.

- (a) Only (i) is true  
 (b) Both (i) and (ii) are true  
 (c) Only (ii) is true  
 (d) Both (i) and (ii) are false

**[Ans. (b) Both (i) and (ii) are true]**

**5. Problems of British rule.**

- (i) The British rule stunted the growth of Indian enterprises.
- (ii) The economic policies of British checked and increase capital formation in India.
- (a) Only (i) is true  
(b) Both (i) and (ii) are true  
(c) Only (ii) is true  
(d) (i) is true and (ii) is false

[Ans. (d) (i) is true and (ii) is false]

## PART - B

### ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES. 2 MARKS

**1. What do you mean by Rolling Plan? [BEQ]**

- Ans. (i)** This plan was started with an annual plan for 1978 - 79.
- (ii)** It is a continuation of the terminated fifty year plan.

**2. Write a note on plan holiday. [BEQ]**

- Ans. (i)** The main reason behind plan holiday was the Indo-Pakistan war & failure of third plan.
- (ii)** Annual plans were made and equal priority was given to agriculture allied and industry sector.

**3. What is Mahalanobis model? [BEQ]**

- Ans.** The main focus on industrial development of country is called mahalanobis model.

**4. What are the classification of public sector banks?**

- Ans.** Public sector banks are classified into 2 categories. They are,
- (i)** Nationalised Banks  
**(ii)** State Bank and its Associates.

**5. Write down the some service enterprises?**

- Ans. (i)** Micro Service Enterprises  
**(ii)** Small Service Industries  
**(iii)** Medium Service Enterprises

**6. What is Medium Scale Industries?**

- Ans. (i)** The industries which produce the goods in a large amount.
- (ii)** An Industry which using the improved technology, efficient man-power and more capital are known as medium and large scale industries.

**7. Who established jute mills in India?**

- Ans. (i)** The British capitalists who established jute mills in Bengal.
- (ii)** It had a virtual monopoly over the supplies of jute products in international markets.
- (iii)** They earned huge profits in jute products.

**8. Which sector you can find finance capital?**

- Ans.** The British finance capital found its entry into the main sector such as,
- (i)** Railway  
**(ii)** Plantation of tea and coffee and  
**(iii)** Rubber in mid-nineteenth century.

**9. Who introduced Zamindari System?**

- Ans.** Zamindari system was introduced by Cornwallis in 1793 through Permanent Settlement Act.

**10. What are the two industrial Transition in India during British period?**

- Ans. (i)** Industrial growth during the 19<sup>th</sup> Century.  
**(ii)** Industrial progress during the 20<sup>th</sup> Century.

## PART - C

### ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH. 3 MARKS

**1. Explain the small scale industries in Indian economy. [BEQ]**

- Ans. (i)** Small scale industries play an important role in an Indian economy in many ways.
- (ii)** 60 to 70% of the total innovations in India comes from the SSIs.
- (iii)** Small Scale Industries provide employment, Balanced regional development, optimisation of capital, utilize the local resources, promote exports, to meet consumer demand, to develop entrepreneurship, complement to large scale industries.

**2. Explain about Industrial resolution policy (1956).**

- Ans. (i)** It sought to give a dominant role to public sector.
- (ii)** It assured a fair treatment to the private sector.
- (iii)** The government would support and encourage cottage and small scale industry by restricting volume of production in the large scale sector by differential taxation or by direct subsidies.

**(v) Independent Management:**

Small scale enterprises are generally managed by the owners only. So there is the advantage of direct motivation, personal care, secrecy, flexibility, sound judgement etc.

**7. What is Green revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.**

**Ans. (i)** The term Green revolution refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice.

**(ii)** It was implemented because at independence, about 75% of the country's population was dependent on agriculture. But the productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers.

**(iii)** India's agriculture vitally depends on the monsoon and if monsoon fell short the farmers were in trouble unless they had access to irrigation facilities which very few had.

**(iv)** By the use of HYV seeds the productivity of food grains increased remarkably and a good proportion of the rice and wheat produced during the green revolution period was sold by the farmers in the market.

**(v)** India achieved self-sufficiency and self-reliability in food grains.

**8. Distinguish between central bank and commercial bank.**

**Ans.** The central bank is basically different from commercial banks in the following respects.

Sl. No.	Central Bank	Commercial Bank
1	The central bank is the apex institution of the monetary and banking system of the country.	A commercial bank is only a constituent unit of the banking system and a subordinate to the central bank.
2	The central bank possesses the monopoly of note-issue.	Commercial banks do not have this right.
3	The central bank is not a profit making institution its aim is to promote the general economic policy of the government.	The primary objective of commercial bank is to earn profit for their shareholders.
4	The central bank maintains the foreign exchange reserves of the country.	The commercial banks only deal in foreign exchange under the directions of the central bank.
5	The central bank is an organ of the government and acts as its banker and the financial advisor.	Commercial banks act as advisors and bankers to the general public only.



**11<sup>th</sup>  
STD**

**INSTANT SUPPLEMENTARY EXAM - August 2022  
PART - III ECONOMICS**

Reg. No.

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TIME ALLOWED : 3.00 Hours]

(with Answers)

[MAX. MARKS : 90

**INSTRUCTIONS**

- Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.
- Use **Blue** or **Black** ink to write and underline and pencil to draw diagrams.

**PART - I**

**Note :** (i) Answer **all** the questions. [20 × 1 = 20]

(ii) Choose the most appropriate answer from the given **four** alternatives and write the option code and the corresponding answer.

- The author of "An inquiry into the nature and causes of wealth of Nations".  
(a) Alfred Marshall (b) Adam Smith  
(c) Lionel Robbins (d) Paul A Samuelson
- Total revenue is arrived by multiplying total output with \_\_\_\_\_.  
(a) Price (b) Total cost  
(c) Marginal revenue (d) Marginal cost
- A consumer is in equilibrium when marginal utilities are:  
(a) Minimum (b) Inverse  
(c) Equal (d) Increasing
- Ordinal utility can be measured by:  
(a) Ranking (b) Numbering  
(c) Wording (d) None of these
- Which of the following is not a characteristic of land?  
(a) Its limited supply (b) It is movable  
(c) Heterogeneous (d) Gift of nature
- The long-run production function is explained by:  
(a) Law of demand  
(b) Law of supply  
(c) Law of returns to scale  
(d) Law of variable proportions
- The cost of self owned resources used for firm is \_\_\_\_\_.  
(a) Real cost (b) Explicit cost  
(c) Money cost (d) Implicit cost
- Marginal revenue is the addition made to the:  
(a) Total sales (b) Total revenue  
(c) Total production (d) Total cost
- In monopolistic competition the essential feature is:  
(a) Same product (b) Selling cost  
(c) Single seller (d) Single buyer
- The reward given for the use of capital:  
(a) Rent (b) Wage  
(c) Interest (d) Profit
- A scientific study of the characteristics of population is \_\_\_\_\_.  
(a) Topography (b) Demography  
(c) Geography (d) Philosophy
- The position of Indian Economy among the other strongest economies in the world is \_\_\_\_\_.  
(a) Fourth (b) Seventh  
(c) Fifth (d) Tenth

- The arrival of Vasco da Gama in Calicut, India :  
(a) 1498 (b) 1848 (c) 1489 (d) 1849
- The main objective of nationalisation of banks was \_\_\_\_\_.  
(a) Private social welfare (b) Social welfare  
(c) To earn (d) Industries monopoly
- The new Foreign Trade Policy was announced in the year \_\_\_\_\_.  
(a) 2000 (b) 2002 (c) 2010 (d) 2015
- Agricultural produce market committee is a \_\_\_\_\_.  
(a) Advisory body (b) Statutory body  
(c) Both (a) and (b) (d) None of the above
- Identify the agriculture related problem of rural economy.  
(a) Poor communication  
(b) Small size of land holding  
(c) Rural poverty  
(d) Poor banking network
- Which district in Tamil Nadu has the highest sex ratio?  
(a) Nagapattinam (b) Nilgiris  
(c) Trichy (d) Thanjavur
- In India's total cement production, Tamil Nadu ranks:  
(a) Third (b) Fourth (c) First (d) Second
- Function with single independent variable is known as :  
(a) Multivariate function (b) Bivariate function  
(c) Univariate function (d) Polynomial function

**PART - II**

**Note:** Answer **any seven** questions. Q.No. 30 is **Compulsory**.  
7 × 2 = 14

- What is meant by economics?
- State the meaning of indifference curves.
- Classify the factors of production.
- What is meant by sunk cost?
- Mention the types of distribution.
- Give a short note on sen's choice of technique.
- What are the objectives of tenth Five Year Plan?
- State any two factors hindering rural electrification in India.
- Which are the nuclear power plants in Tamil Nadu?
- What are the reasons for upward sloping supply curve?

**PART - III**

**Note:** Answer **any seven** questions. Q. No. 40 is **Compulsory**.  
7 × 3 = 21

- What are the important features of utility?
- What are the properties of indifference curves?
- Write a note on marginal revenue.