

12th
STD

INSTANT SUPPLEMENTARY EXAM - 2023

Reg. No.

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PART - III

TIME ALLOWED : 3.00 Hours]

ECONOMICS (with Answers)

[MAX. MARKS : 90

Instructions:

1. Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.
2. 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.

1. The father of socialism is :
(a) J.M.Keynes (b) Karl Marx
(c) Adam Smith (d) Samuelson
2. National income is measured by using _____ methods.
(a) Two (b) Three
(c) Five (d) Four
3. The RBI Headquarters is located at :
(a) Delhi (b) Chennai
(c) Mumbai (d) Bengaluru
4. As income increases consumption will :
(a) fall (b) Not change
(c) fluctuate (d) increase
5. In disguised unemployment, the marginal productivity of labour is :
(a) Zero (b) One
(c) Two (d) Positive
6. NABARD was setup in :
(a) July 1962 (b) July 1972
(c) July 1982 (d) July 1992
7. Favourable Trade means value of exports are _____ than that of imports.
(a) More (b) Less
(c) More or Less equal (d) Equal
8. SAARC meets once in _____ years.
(a) 2 (b) 3 (c) 4 (d) 5
9. Which of the following is a direct tax?
(a) Excise duty (b) Income tax
(c) Customs duty (d) Service tax
10. Which one of the following is the cause of global warming?
(a) Earth gravitation force
(b) Oxygen
(c) Centripetal force
(d) Increasing temperature
11. Long term plan is also known as _____.
(a) Progressive plans
(b) Non-progressive plans
(c) Perspective plans
(d) Non-Perspective plans
12. The word 'Econometric' is coined by :
(a) Francis Galton (b) Ragnar Frisch
(c) Karl Pearson (d) Spearman
13. The other name for Special Drawing Right is :
(a) Paper gold (b) Quotas
(c) Voluntary Export Restrictions
(d) None of these
14. Electronic waste is commonly referred as _____.
(a) Solid waste
(b) Composite waste
(c) E-waste (d) Hospital waste
15. The term super multiplier was first used by :
(a) J.R. Hicks (b) R.G.D. Allen
(c) Kahn (d) Keynes
16. Inflation means :
(a) Prices are rising (b) Prices are falling
(c) Value of money is increasing
(d) Prices are remaining the same
17. Bank rate means :
(a) Re-discounting the first class securities
(b) Interest rate
(c) Exchange rate
(d) Growth rate

18. Aggregate supply =
 (a) $C + I + G$
 (b) $C + S + G + (x-m)$
 (c) $C + S + T + (x-m)$
 (d) $C + S + T + (Rf)$
19. In India, Planning Commission was set up in the year _____.
 (a) 1950 (b) 1951
 (c) 1947 (d) 1948
20. _____ is deducted from gross value to get the net value.
 (a) Income (b) Depreciation
 (c) Expenditure
 (d) Value of final goods

PART - II

Note : Answer **any Seven** questions. Question No.30 is Compulsory. $7 \times 2 = 14$

21. Classify the Economics based on status of development.
22. Define National Income.
23. Define full employment.
24. Define average propensity to save (APS).
25. What is plastic money? Give example.
26. Define Central Bank.
27. What is meant by Exchange Rate?
28. What is Public Revenue?
29. Specify the meaning of seed ball.
30. Distinguish between economic growth and development.

PART - III

Note : Answer **any Seven** questions. Question No. 40 is Compulsory. $7 \times 3 = 21$

31. State the importance of Macro Economics.
32. Write a short note on per-capita income.
33. Mention the objectives of demonetization.
34. State the concept of super multiplier.
35. Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.
36. Write any five differences between Classicism and Keynesianism.
37. State briefly the functions of SAARC.
38. Write the types of inflation. Explain any two of them.
39. What are the functions of NITI Aayog?
40. State the remedial measures to control noise pollution.

PART - IV

Note: Answer **all** the questions. $7 \times 5 = 35$

41. (a) Discuss the scope of macro economics.
 (OR)
 (b) What are the difficulties involved in the measurement of National Income?
42. (a) Narrate the equilibrium between ADF and ASF with diagram.
 (OR)
 (b) Explain the operation of the Accelerator.
43. (a) Explain the role of Commercial Banks in the economic development of a country.
 (OR)
 (b) Find the regression equation Y on X and X on Y for the following data.

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

44. (a) Explain the importance of Sustainable development and its goals.
 (OR)
 (b) Describe the various types of deficit in budget.
45. (a) Bring out the arguments against planning.
 (OR)
 (b) Discuss the modern theory of International Trade.
46. (a) Explain the objectives of IMF.
 (OR)
 (b) Explain the functions of money.
47. (a) Critically explain Say's law of market.
 (OR)
 (b) Explain the phases of Trade cycle.

ANSWER

PART - I

1. (b) Karl Marx
2. (b) Three
3. (c) Mumbai
4. (d) increase
5. (a) Zero
6. (c) July 1982
7. (a) More

- 8. (a) 2
- 9. (b) Income tax
- 10. (d) Increasing temperature
- 11. (c) Perspective Plans
- 12. (b) Ragnar Frisch
- 13. (a) Paper gold
- 14. (c) E-waste
- 15. (a) J.R. Hicks
- 16. (a) Prices are rising
- 17. (a) Re-discounting the first class securities
- 18. (d) C + S + T + RF
- 19. (a) 1950
- 20. (b) Depreciation

PART - II

- 21. (i) Developed economies
(ii) Under developed economies
(iii) Undeveloped economies
(iv) Developing economies
- 22. According to Alfred Marshall, "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend".
- 23. Lerner defines full employment as "that level of employment at which any further increase in spending would result in an inflationary spiral of wages and prices".
- 24. (i) The average propensity to save is the ratio of saving to income.
(ii) APS is the quotient obtained by dividing the total saving by the total income.
(iii) It can be expressed algebraically in the form of equation as under

$$APS = \frac{S}{Y}$$

Where, S = Saving Y = Income

- 25. (i) The latest type of money is plastic money.
(ii) Plastic money is one of the most evolved forms of financial products.
(iii) Plastic money is an alternative to the cash (or) the standard money.
For example : Cash cards, Credit cards, Debit cards, Pre-paid, Store cards, Smart cards etc.
- 26. A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries.
- 27. FOREX refers to foreign currencies. The mechanism through which payments are effected between two countries having different currency systems is called FOREX system. It covers methods of payment, rules and regulations of payment and the institutions facilitating such payments.
- 28. Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

29. (i) A seed ball (or seed bomb) is a seed that has been wrapped in soil materials usually a mixture of clay and compost, and then dried.
 (ii) Seed balls are an easy and sustainable way to cultivate plants that provide a larger window of time when the sowing can occur.

30.

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

PART - III

31. The importance and the need for introducing a macro outlook of an economy are given below.
 (i) There is a need to understand the functions of an economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
 (ii) Understanding the future problems, needs and challenges of an economy as a whole.
 (iii) Macro economics provides ample opportunities to use scientific investigation to understand the reality.
 (iv) Macro economics helps to make meaningful comparison and analysis of economic indicators.
 (v) Macro economics helps for better prediction about future.
32. (i) The average income of a person of a country in a particular year is called Per Capita Income.
 (ii) Per capita income is obtained by dividing national income by population.

$$\text{Per Capita Income} = \frac{\text{National income}}{\text{Population}}$$

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

Objectives of Demonetisation :

- (i) Removing Black Money from the country.
- (ii) Stopping of corruption.
- (iii) Stopping terror funds.
- (iv) Curbing fake notes.

34. Super Multiplier : (K and β interaction)

- (i) In order to measure the total effect of initial investment on income, Hicks has combined the K and β mathematically and given it the name of the Super Multiplier.
- (ii) It is worked out by combining both induced consumption and induced investment.
- (iii) The super multiplier is greater than simple multiplier which includes only autonomous investment and no induced investment while Super multiplier includes induced investment.

35. (I) Net Barter Term of Trade :

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

Where Tn = Net Barter Terms of Trade

Px = Index number of export prices

Pm = Index number of import prices

(II) Gross Barter Terms of Trade :

- (i) This was developed by Taussig in 1927 as an improvement over the net terms of trade.
- (ii) It is an index of relationship between total physical quantity of imports and the total physical quantity of exports.
- (iii) $T_g = (Q_m / Q_x) \times 100$

Where, Qm = Index of import quantities

Qx = Index of export quantities

36.

S. No.	Keynesianism	Classicism
1.	Saving is a vice	Saving is a social virtue
2.	Short-run equilibrium	Long-run equilibrium
3.	Macro approach to national problems	Micro foundation to Macro problems
4.	Capitalism has inherent contradictions	Capitalism is well and good
5.	Rate of interest is a flow	Rate of interest is a stock

37. The main functions of SAARC are as follows.

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

38. The types of inflation are indicated below.

(i) **On the basis of speed:**

- (1) Creeping inflation
- (2) Walking inflation
- (3) Running inflation and
- (4) Galloping inflation or Hyper-inflation.

(ii) **On the basis of demand and cost:**

- (1) Demand-Pull Inflation
- (2) Cost-Push Inflation

(iii) **On The Basis Of Inducement:**

- (1) Currency inflation
- (2) Credit inflation
- (3) Deficit induced inflation
- (4) Profit induced inflation
- (5) Scarcity induced inflation
- (6) Tax induced inflation

(1) **Creeping Inflation:** Creeping inflation is slow-moving and very mild. The rise in prices will not be perceptible but spread over a long period. This type of inflation is in no way dangerous to the economy. This is also known as mild inflation or moderate inflation.

(2) **Walking Inflation:** When prices rise moderately and the annual inflation rate is a single digit (3% - 9%), it is called walking or trolling inflation.

39. The function of NITI Aayog are

- (i) Co-operative and competitive Federalism
- (ii) Shared National Agenda
- (iii) Decentralized planning
- (iv) Vision and scenario planning
- (v) Network of Expertise
- (vi) Harmonization
- (vii) Conflict Resolution
- (viii) Co-ordinating Interface with the world
- (ix) Internal Consultancy
- (x) Capacity building
- (xi) Monitoring and Evaluation

40. Remedial measures to control Noise Pollution:

- (i) Use of noise barriers.
- (ii) Newer roadways for surface transport.
- (iii) Traffic control.
- (iv) Regulating times for heavy vehicles.
- (v) Installations of noise barriers in the work place.
- (vi) Regulation of Loudspeakers.

PART - IV

41. (a) The study of macro economics has wide scope and it covers the major areas as follow.

National Income :

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

Inflation :

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

Business Cycle :

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

Poverty and Unemployment :

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

Economic Growth : The growth and development of an economy and the factors determining them could be understood only through macro analysis.

Economic Policies :

- (i) Macro Economics is significant for evolving. Suitable economic policies.
- (ii) Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

(OR)

(b) **Difficulties in measuring National Income :**

In India, a special conceptual problem is posed by the existence of a large, unorganised and non-monetised subsistence sector where the barter system still prevails for transacting goods and services. Here, a proper valuation of output is very difficult.

(i) **Transfer payments :**

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

(ii) **Difficulties in assessing depreciation allowance :**

- (1) The deduction of depreciation allowances, accidental damages, repair and replacement charges from the national income is not an easy task.
- (2) It requires high degree of judgement to assess the depreciation allowance and other charges.

(iii) **Unpaid services :**

- (1) A housewife renders a number of useful services like preparation of meals, serving, tailoring, cleaning, washing etc.,
- (2) She is not paid for these services. Her services are not directly included in national income.
- (3) Such services performed by paid servants are included in the national income.

(iv) **Income from illegal activities :**

- (1) Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor etc., is not included in national income.
- (2) Such activities have value and satisfy the wants of the people, but they are not considered as productive from the point view of society.

(v) **Production for self-consumption and charging price :**

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

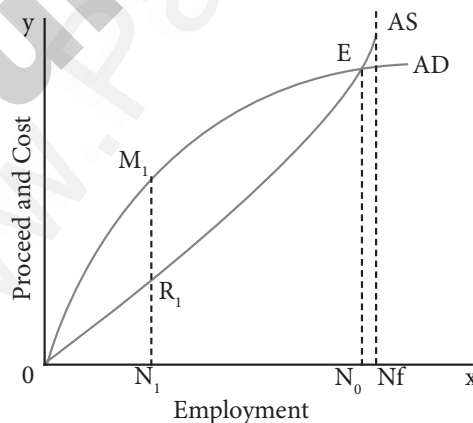
(vi) **Capital gains :**

- (1) The problem also arises with regard to capital gains.
- (2) Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc. is sold at higher price than was paid for it at the time of purchase.
- (3) Capital gains are excluded from national income.

(vii) **Statistical problems :**

- (1) There are statistical problems, too. Great care is required to avoid double counting. Statistical data may not be perfectly reliable, when they are compiled from numerous sources.
- (2) Skill and efficiency of the statistical staff and cooperation of people at large are also equally important in estimating national income.

42. (a)
- (i) Under the Keynes theory of employment, a simple two sector economy consisting of the households sector and the business sector is taken to understand the equilibrium between ADF and ASF.
 - (ii) All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment.
 - (iii) It is also assumed that consumption function is linear and planned investment is autonomous.



There are two approaches to determination of the equilibrium level of income in Keynesian theory these are :

1. Aggregate demand - Aggregate supply approach
2. Saving - Investment approach

Diagram explanation :

- (i) In the figure, the aggregate demand and aggregate supply reach equilibrium at point - E.
- (ii) The employment level is N_0 at that point.
- (iii) At ON_1 employment, the aggregate supply is $N_1 R_1$.

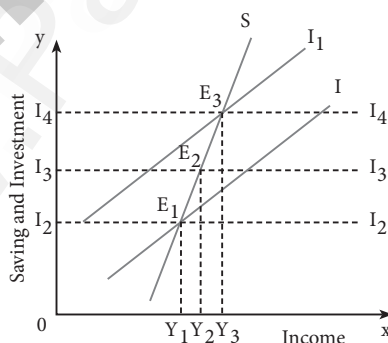
- (iv) But they are able to produce $M_1 N_1$.
- (v) The expected level of profit is $M_1 R_1$.
- (vi) To attain this level of profit, entrepreneurs will employ more labourers.
- (vii) The tendency to employ more labour will stop once they reach point E.
- (viii) At all levels of employment beyond ON_0 , the aggregate demand curve is below the aggregate supply curve indicating loss to the producers. Hence they will never employ more than ON_0 labour.
- (ix) Thus the concept of effective demand becomes significant in explaining the under employment equilibrium.

(OR)

(b) Operation of the Accelerator Principle :

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

Diagrammatic illustration
Operation of Accelerator



- (i) SS is the saving curve.
- (ii) II is the investment curve.
- (iii) At point E_1 , the economy is in equilibrium with OY_1 income. Saving and investment are equal at OI_2 .
- (iv) Investment is increased from OI_2 to OI_4 . This increases income from OY_1 to OY_3 the equilibrium point being E_3 .
- (v) In this diagram, it is assumed that exogenous investment is only by I_2I_3 and induced investment is by I_3I_4 .
- (vi) Therefore, increase in income by Y_1Y_2 is due to the multiplier effect and the increase in income by Y_2Y_3 is due to the accelerator effects.

43. (a) **Role of Commercial Banks in Economic Development of Country :**

(1) **Capital Formation :**

- (i) Banks play an important role in capital formation which is essential for the economic development of a country.
- (ii) It is utilized for productive purpose.

(2) **Creation of Credit :**

- (i) Banks create credit for the purpose of providing more funds for development project.
- (ii) Credit Creation leads to increased production, employment, sales and prices and thereby they bring about faster economic development.

(3) **Channelizing the Funds towards Productive Investment :**

- (i) Banks invest the savings mobilized by them for productive purposes.
- (ii) Pooled savings should be allocated to various sector of the economy with a view to increase the productivity.

(4) **Encouraging Right type of Industries :**

- (i) Money banks help in the development of the right type of Industries by extending loan to right type of persons.
- (ii) It helps not only for industrialization of the country but also the economic development of the country.

(5) **Bank monetize debt :**

- (i) Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities.
- (ii) Manufacturers and wholesale traders cannot increase their sales without selling goods on credit basis.

(6) **Finance to Government**

Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills.

(7) **Employment Generation**

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

(8) **Banks promote entrepreneurship**

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

(OR)

(b)

X	Y	$d_x = X-45$	$d_y = Y-65$	d_x^2	d_y^2	$d_x d_y$
25	45	-20	-20	400	400	400
30	48	-15	-17	225	289	255
35	50	-10	-15	100	225	150
30	55	-15	-10	225	100	150
40	65	-5	0	25	0	0
50	70	5	5	25	25	25
45	75	0	10	0	100	0
55	72	10	7	100	49	70
60	80	15	15	225	225	225
65	85	20	20	400	400	400
		-15	-5	1725	1813	1675

$$b_{xy} = \frac{N \sum d_x d_y - (\sum d_x)(\sum d_y)}{N \sum d_y^2 - (\sum d_y)^2}$$

$$= \frac{(10)(1675) - (-15)(-5)}{(10)(1813) - (-5)^2}$$

$$= \frac{16750 - 75}{18130 - 25} = \frac{16675}{18105}$$

$$= \frac{3335}{3621} = 0.92$$

$$N = 10$$

$$\bar{X} = \frac{\sum X}{N} = \frac{435}{10} = 43.5$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{645}{10} = 64.5$$

$$b_{xy} = \frac{N \sum d_x d_y - (\sum d_x)(\sum d_y)}{N \sum d_y^2 - (\sum d_y)^2}$$

$$= \frac{16675}{17250 - 225} = \frac{16675}{17025} = 0.98$$

X on Y

$$X - \bar{X} = b_{xy}(Y - \bar{Y})$$

$$X - 43.5 = 0.92(Y - 64.5)$$

$$X - 43.5 = 0.92Y - 59.34$$

$$\boxed{X = 0.92Y - 15.84}$$

Y on X

$$Y - \bar{Y} = b_{yx}(X - \bar{X})$$

$$Y - 64.5 = 0.98(X - 43.5)$$

$$Y = 0.98X - 42.63 + 64.5$$

$$\boxed{Y = 0.98X + 21.87}$$

44. (a) Meaning:

- (i) Sustainable development is concerned with the welfare of not only present generation but also future generation.
- (ii) It aims at not only satisfying the luxury wants of the upper class i.e. the rich but also the basic necessities of the poor like food, sanitation, health care, education etc.

Important goals of sustainable development

- (1) End poverty in all its forms everywhere.
- (2) End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
- (3) Ensure healthy lives and promote well being for all at all ages.
- (4) Ensure inclusive and equality education for all and promote lifelong learning.
- (5) Achieve gender equality and empower women and girls.
- (6) Ensure access to water and sanitation for all.

- (7) Ensure access to affordable, reliable sustainable and modern energy for all.
- (8) Promote inclusive and sustainable, economic growth, employment and decent work for all.
- (9) Build resilient infrastructure, promote sustainable industrialization and foster innovation.
- (10) Reduce inequality within and among countries.
- (11) Make cities inclusive, safe, resilient and sustainable.
- (12) Ensure sustainable consumption and production pattern.

(OR)

- (b) Budget deficit is a situation where budget receipts are less than budget expenditures. This situation is also known as government deficit.

The Indian Government budget refers. The Budget deficit is of four major types.

- (1) Revenue Deficit
- (2) Budget Deficit
- (3) Fiscal Deficit and
- (4) Primary Deficit

(1) **Revenue Deficit :**

- (i) It refers to the excess of the government revenue, expenditure over revenue receipt.
- (ii) It doesn't consider capital receipts and capital expenditure.

$$\text{Revenue Deficit (RD)} = \text{Total Revenue Expenditure (RE)} - \text{Total Revenue Receipts (RR)}$$

(2) **Budget Deficit :**

- (i) Budget deficit is the difference between total receipts and total expenditure.
- (ii) Budget deficit = Total Expenditure - Total Revenue

(3) **Fiscal Deficit :**

Fiscal Deficit (FD) = Budget deficit - Government's market borrowings and liabilities.

(4) **Primary Deficit :**

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

$$\text{Primary Deficit (PD)} = \text{Fiscal Deficit (FD)} - \text{Interest Payments (IP)}$$

45. (a) **Argument against planning :**

The failure of market mechanism invited state intervention in economic activities through planning. The arguments against planning are discussed below.

(i) **Loss of Freedom :**

- ♦ The absence of freedom in decision making may act as an obstacle for economic growth.
- ♦ Regulations and restrictions are the backbone of a planned economy.
- ♦ The decision by the Government are not always rational.
- ♦ Freedom to private producers will be misused. Profit will be given top priority welfare will be relegated.

(ii) **Elimination of Initiative :**

- ♦ Under centralized planning, there will be no incentives and innovations.
- ♦ The absence of private ownership and profit motive discourage entrepreneurs from taking bold decisions and risk taking.

- ♦ As all enjoy equal reward under planned economy irrespective of their effort efficiency and productivity.
 - ♦ The bureaucracy and red tapism which are the features of planned economy cripple the initiative as they cause procedural delay and time loss.
- (iii) **High cost of management :**
- ♦ No doubt the fruits of planning such as industrialization, social justice and regional balance are good.
 - ♦ The cost of management of the economic affairs outweighs the benefits of planning.
 - ♦ Plan formulation and implementation involve engagement of an army of staff for data collection and administration.
- (iv) **Difficulty in advance calculations :**
- ♦ Price mechanism provides for the automatic adjustment among price demand and supply in Laissez Faire economy.
 - ♦ Excess supply and excess demand can also happen in the market oriented economy.
 - ♦ The arguments against planning are mostly concerned with centralized and totalitarian planning
 - ♦ The democratic planning, Planning by inducement and decentralized planning especially under mixed economics give equal role for private sector and public sector.

(OR)

(b) Introduction :

- (i) The modern theory of international trade was developed by Swedish economist Eli Heckscher and his student Bertil Ohlin in 1919.
- (ii) This model was based on the Ricardian theory of international trade.
- (iii) This theory says that the basis for international trade is the difference in factor endowments.
- (iv) It is otherwise called as 'Factor endowment theory'.

The Theory :

- (i) The classical theory argued that the basis for foreign trade was comparative cost difference and it considered only labour factor.
- (ii) But the modern theory of international trade explains the causes for such comparative cost difference.

Differences in comparative cost :

- (i) Difference in the endowments of factors of production between countries.
- (ii) Differences in the factor proportions required in production.

Assumptions :

- (i) There are two countries, two commodities and two factors ($2 \times 2 \times 2$ model)
- (ii) Countries differ in factor endowments.
- (iii) Commodities are categorized in terms of factor intensity.
- (iv) Countries use same production technology.
- (v) There is perfect competition in both product and factor markets.

Explanation :

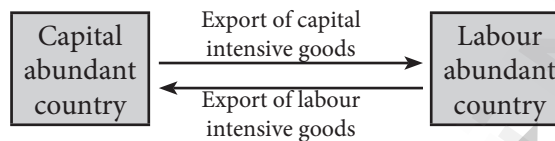
According to Heckscher - Ohlin, a capital abundant country will export the capital intensive goods while the labour abundant country will export the labour intensive goods.

The following diagram illustrates the pattern of word trade.

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

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

H-O : Illustration Chart



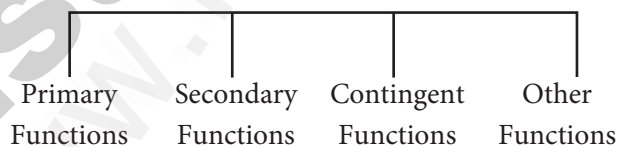
46. (a) Objectives of IMF:

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

(OR)

(b) The main functions of money can be classified into four categories.

Functions of Money



(I) Primary Functions :

(1) Money as a medium of Exchange :

- (i) This is considered as the basic function of money.
- (ii) Money has the quality of general acceptability and all exchanges take place in terms of money.

(2) Money as a measure of value :

The second important function of money is that it measures the value of goods and services.

(II) Secondary Functions :

(1) Money as a Store of value :

- (i) Savings done in terms of commodities were not permanent. But, with the invention of money, this difficulty has now disappeared and savings are now done in terms of money.
- (ii) It can be easily converted into other marketable assets, such as, land, machinery, plant etc.

(2) **Money as a Standard of Deferred Payments :**

- (i) Borrowing and lending were difficult in Barter system.
- (ii) In the absence of money, the borrowed amount could be returned only in terms of goods and services.
- (iii) But money acts as the standard of deferred payments.

(III) **Contingent Functions :**

- (i) **Basis of the Credit System :** Business transactions are either in cash or on credit. Money is at the back of all credits.
- (ii) **Money facilitates distribution of national income :** The task of distribution of national income was exceedingly complex under the barter system.
- (iii) **Money helps to Equalize Marginal Utilities and Marginal Productivities :** Consumer can obtain maximum utility only if he incurs expenditure on various commodities in such a manner as to equalize marginal utilities accruing from them.
- (iv) **Money increases productivity of capital :** Money is the most liquid form of capital. In other words, capital in the form of money can be put to any use.

(IV) **Other Functions :**

- (i) **Money helps to maintain repayment capacity :** Money possesses the quality of general acceptability.
- (ii) **Money represents generalized purchasing power :** Purchasing power kept in terms of money can be put to any use.
- (iii) **Money gives liquidity to capital:** Money is the most liquid form of capital. It can be put to any use.

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

Criticisms of say's law :

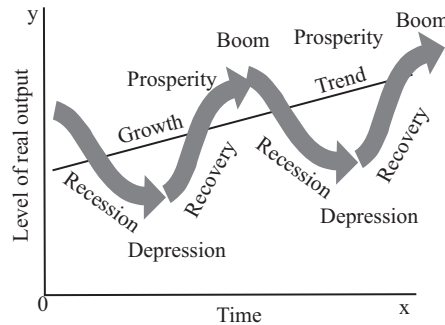
The following are the criticisms against say's law.

- (i) According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.
- (ii) Automatic adjustment process will not remove unemployment. Unemployment can be removed by increase in the rate of investment.
- (iii) Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.
- (iv) Say's law is based on the proposition that supply creates its own demand and there is no over production.
- (v) Keynes regards full employment as a special case because there is under employment in capitalist economies.
- (vi) The need for state intervention arises in the case of general over production and mass unemployment.

(OR)

(b) **Measuring of Trade Cycle :** A Trade cycle refers to oscillations in aggregate economic activity particularly in employment, output, income, etc.

Phases of Trade Cycle : The four different phases of trade cycle is referred to as (1) Boom (2) Recession (3) Depression and (4) Recovery.



(1) **Boom (or) Prosperity Phase :**

- (i) The full employment and the movement of the economy beyond full employment is characterized as boom period.
- (ii) During this period, there is hectic activity in economy.
- (iii) Money wages rise, profits increase and interest rates go up.

(2) **Recession :**

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

(3) **Depression :**

- (i) During depression the level of economic activities becomes extremely low.
- (ii) Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment.
- (iii) Interest prices, profits and wages are low.

(4) **Recovery :**

- (i) After a period of depression, recovery sets in.
- (ii) It begins with the revival of demand for capital goods.
- (iii) The demand slowly picks up and in due course the activity is directed towards the upswing with more production, profit, income, wages and employment.
- (iv) Recovery may be initiated by innovation or investment or by government expenditure.

