

A COMMON QUARTERLY EXAMINATION - 2023**Standard - XII
ECONOMICS**

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Marks: 90**Time: 3.00 hrs.****PART - A****Answer all questions. Choose the most appropriate answer: 20×1=20**

- Indicate the contribution of J.M. Keynes to Economics
 - Wealth of Nations
 - General theory
 - Capital
 - Public Finance
- In country following Capitalism is _____.
 - Russia
 - America
 - India
 - China
- Tertiary Sector is also called as _____.
 - Service
 - Income
 - Industrial
 - Production
- The financial year in India is _____.
 - April 1 to March 31
 - March 1 to April 30
 - March 1 to March 16
 - January 1 to December 31
- Aggregate supply is equal to _____.
 - $C + I + G$
 - $C + S + G + (X - M)$
 - $C + S + T + (X - M)$
 - $C + S + T + R_f$
- Classical theory Advocates _____.
 - Balanced budget
 - Unbalanced budget
 - Surplus budget
 - Deficit budget
- Lower Interest Rate are likely to
 - Decrease in consumption
 - Increasing cost of borrowing
 - Encourage saving
 - Increase borrowing and spending
- The sum of MPC and MP_s is _____.
 - 1
 - 2
 - 0.1
 - 1.1
- Irving Fisher quantity theory of Money was popularized in
 - 1908
 - 1910
 - 1911
 - 1914
- V in $MV = PT$ equation stands for
 - Volume of Trade
 - Velocity of circulation of Money
 - Volume of Transaction
 - Volume of bank and Credit Mo
- Who will act as the banker to the Government of India.
 - SBI
 - NABARD
 - ICICI
 - RBI

12. EXIM Bank was established in
 a) June 1982 b) April 1982 c) May 1982 d) March 1982
13. Net Exports equals _____
 a) Export \times Imports b) Exports + Imports
 c) Exports - Imports d) Exports of Services only
14. Bop includes
 a) Visible item only b) Invisible item only
 c) both visible and invisible items d) Merchandise trade only
15. The other name of special Drawing Rights is
 a) Paper gold b) Quotas
 c) Voluntary Exports Restrictions d) None of these
16. Which of the following does not come under "Six dialogue Partner's of ASEAN."
 a) China b) Japan c) India d) North Korea
17. A quantity of commodity that is constant at a point of time
 a) stock b) flow c) stock and flow d) none of these
18. Government Makes payments in the form of unemployment allowances.
 a) Expenditure b) Revenue c) Transfer Payments d) All of them
19. The combined Effect of Interaction of multiplier and accelerator
 a) Multiplier b) Super Multiplier c) Accelerator d) All of these
20. M_1 and M_2 are combined _____
 a) Narrow money b) Broad money c) Velocity money
 d) None of above

PART - B

Answer any seven questions. Question No.30 is compulsory. $7 \times 2 = 14$

21. Define the term Inflation.
22. Define Economic Model.
23. Why is Self Consumption difficult in measuring national Income.
24. List out the Assumption of Say's law.
25. Define Accelerator.
26. What is Gold standard.
27. Define Central Bank.

28. Define Terms of Trade.
29. Mention Any two objectives of ASEAN.
30. Explain Exchange Rate.

PART - C

Answer any 7 questions and question No.40 is compulsory: 7×3=21

31. Enumerate the features of mixed Economy.
32. Write a short note on Per capital income.
33. Give short note on Expenditure method.
34. What do you mean by Aggregate demand? Mention its components.
35. Differentiate autonomous and induced investment.
36. Explain Demand pull and cost push inflation.
37. Mention the objectives of demonetizations.
38. State the objective of Foreign Direct Investments.
39. State briefly the functions of SAARC.
40. Write the secondary functions of Commercial Banks.

PART - D

Answer all the questions:

7×5=35

41. a) Discuss the scope of Macro Economics.
(OR)
b) Compare the features among capitalism, secularism and mixedism.
42. a) Explain the Importance of National Income.
(OR)
b) Discuss the various methods of estimating the national income of a country.
43. a) Write the following in short.
 - i) Seasonal unemployment
 - ii) Frictional unemployment
 - iii) Educated unemployment(OR)
b) Narrate the equilibrium between ADF and ASF with Diagram.

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XII - ECONOMICS

44. a) Explain Keynes psychological law of consumption function with diagram.

(OR)

b) Write the difference between MEC and MEI.

45. a) Explain the functions of money.

(OR)

b) Describe the phases of Trade cycle.

46. a) Elucidate the functions of commercial Banks.

(OR)

b) Describe the functions of Reserve Bank of India.

47. a) Discuss the difference between Internal Trade and International Trade

(OR)

b) Write a note on :

a) SAARC

b) BRICS



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ECONOMICS – COMMON QUARTERLY ANSWER KEY FOR XII

PART – A

CHOOSE : 20X1=20

1. B. General theory
2. B. America
3. A. Service
4. A. April 1 to march 31
5. D. C+S+T+Rf
6. A. Balanced budget
7. D. Increase borrowing and spending
8. A. 1
9. C. 1911
10. B. Velocity of bank and credit money
11. D. RBI
12. D. March 1982
13. C. Exports- imports
14. C. Both visible and invisible items
15. A. Paper gold
16. D. North Korea
17. A. Stock
18. C. Transfer payments
19. B. Super multiplier
20. A. Narrow money.

PART – B (any 7 . Q.30 is compulsory)

7x2=14

21. Define the term 'Inflation'?

Answer: any 2 points

1. Inflation refers to steady increase in general price level.
2. Estimating the general price level by constructing various price index numbers such as wholesale Price.
3. Index, Consumer Price Index, etc, are needed.

22. Define 'Economic Model'?

Answer: any one point

1. A model is a simplified representation of real situation.
2. Economists use models to describe economic activities, their relationships and their behaviour.
3. A model is an explanation of how the economy, or part of the economy, works.
4. Most economic models are built with mathematics, graphs and equations, and attempt to explain relationships between economic variables.

23. Why is self consumption difficult in measuring national income?

Answer:

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.

24. List out the assumptions of Say's law?

Answer: any 2 points

The Say's Law of market is based on the following assumptions:

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.
3. People are motivated by self interest and self – interest determines economic decisions.
4. The laissez faire policy is essential for an automatic and self adjusting process of full employment equilibrium. Market forces determine everything right.
5. There will be a perfect competition in labour and product market.
6. There is wage-price flexibility.
7. Money acts only as a medium of exchange.
8. Long – run analysis.
9. There is no possibility for over production or unemployment.

25.

Define Accelerator?

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

Answer:

1. "The accelerator coefficient is the ratio between induced investment and an initial change in consumption."

26. What is gold standard?

Answer: any one point

1. Gold Standard is a system in which the value of the monetary unit or the standard currency is directly linked with gold.
2. The monetary unit is defined in terms of a certain weight of gold.
3. The purchasing power of a unit of money is maintained equal to the value of a fixed weight of gold.

27. Define Central bank?

Answer: any one point

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

28.

Define Terms of Trade?

Answer: any one point. with formula

Terms of Trade:

1. The gains from international trade depend upon the terms of trade which refers to the ratio of export prices to import prices.
2. It is the rate at which the goods of one country are exchanged for goods of another country'.
3. It is expressed as the relation between export prices and import prices.
4. Terms of trade improves when average price of exports is higher than average price of imports.

29. Mention any two objectives of ASEAN?

Answer:

1. To accelerate the economic growth, social progress and cultural development in the region;
2. To promote regional peace and stability and adherence to the principles of the United Nations Charter.

30. What is meant by Exchange Rate?

Meaning of Foreign Exchange (FOREX): 1 U.S Dollar = ₹ 70 , c

“FOREX is the system or process of converting one national currency into another, and of transferring money from one country to another”.

PART – C (any 7 . Q.40 is compulsory)

7x3=21

31.Enumerate the features of mixed economy?

Answer: any 3 points

Features of Mixed Economy:

1. Ownership of Property and Means of Production: The means of production and properties are owned by both private and public. Public and Private have the right to purchase, use or transfer their resources.

2. Coexistence of Public and Private Sectors:

In mixed economies, both private and public sectors coexist. Private industries undertake activities primarily for profit. Public sector firms are owned by the government with a view to maximize social welfare.

3. Economic Planning:

The central planning authority prepares the economic plans. National plans are drawn up by the Government and both private and public sectors abide. In general, all sectors of the economy function according to the objectives, priorities and targets laid down in the plan.

4. Solution to Economic Problems:

The basic problems of what to produce, how to produce, for whom to produce and how to distribute are solved through the price mechanism as well as state intervention.

5. Freedom and Control:

Though private has freedom to own resources, produce goods and ' services and distribute the same, the overall control on the economic activities rests with the government.

32. Write a short note on per capita income?

Answer:

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

Per Capita Income:

1. The average income of a person of a country in a particular year is called Per Capita Income.
2. Per capita income is obtained by dividing national income by population.

33.Give short note on Expenditure method?

The Expenditure Method (Outlay method):

Answer:

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

$$\text{GNP} = C + I + G + (X - M)$$

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government expenditure

X-M = Net exports

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

Answer:

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

$$\text{AD} = C + I + G + (X - M)$$

35. Differentiate autonomous and induced investment?

Answer:

Autonomous Investment:

1. Independent
2. Income inelastic
3. Welfare motive

Induced Investment:

1. Planned
2. Income elastic
3. Profit Motive

36.Explain Demand-pull and Cost push inflation?

Answer:

Demand – Pull Vs Cost – Push inflation:

1. Demand – Pull Inflation:

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

2. Cost – Push Inflation:

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

37. Mention the objectives of demonetizations?

Answer:

Objectives of Demonetisation:

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

38. State the objectives of Foreign Direct Investment.

Answer:

Objectives of FDI:

FDI has the following objectives.

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

39. State briefly the functions of SAARC?

Answer:

Functions of SAARC:

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.

40. (b) Secondary Functions: headings alone.

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

1. Agency Functions:

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

(I) Collecting Cheques:

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

(II) Collecting Income:

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

(III) Paying Expenses:

Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents.

2. General Utility Functions:

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

(I) Providing Locker Facilities:

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

(II) Issuing Traveler's Cheques:

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

(III) Dealing in Foreign Exchange:

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

3. Transferring Funds:

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

4. Letter of Credit:

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

(I) Underwriting Securities:

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

(II) Electronic Banking:

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

PART – D

7x5=35

41.a. Discuss the scope of Macro Economics?

Answer: any 5 points

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

1. National Income:

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

2. Inflation:

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

3. Business Cycle:

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

4. Poverty and Unemployment:

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

5. Economic Growth:

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

6. Economic Policies:

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

41 b.

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

42.a. Explain the importance of national income

Importance of National Income Analysis

Answer: any 5 points

National income is of great importance for the economy of a country. Nowadays the national income is regarded as accounts of the economy, which are known as social accounts. It enables us:

1. To know the relative importance of the various sectors of the economy and their contribution towards national income; from the calculation of national income, we could find how income is produced, how it is distributed, how much is spent, saved or taxed.
2. To formulate the national policies such as monetary policy, fiscal policy and other policies; the proper measures can be adopted to bring the economy to the right path with the help of collecting national income data.
3. To formulate planning and evaluate plan progress; it is essential that the data pertaining to a country's gross income, output, saving and consumption from different sources should be available for economic planning.
4. To build economic models both in short – run and long – run.

5. To make international comparison, inter – regional comparison and inter – temporal comparison of growth of the economy during different periods.
 6. To know a country's per capita income which reflects the economic welfare of the country (Provided income is equally distributed)
 7. To know the distribution of income for various factors of production in the country.
 8. To arrive at many macro economic variables namely, Tax – GDP ratio, Current Account Deficit – GDP ratio, Fiscal Deficit – GDP ratio, Debt – GDP ratio etc.
- 42b. Discuss the various methods of estimating the national income of a country?

Answer:

There are three methods that are used to measure national income.

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

And if these methods are done correctly, the following equation must hold

Output = Income = Expenditure

This is because the three methods are circular in nature. It begins as production, through recruitments of factors of production, generating income and going as incomes to factors of production.

Product Method:

Product method measures the output of the country. It is also called inventory method. Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce, etc., is obtained for the entire economy during a year. The value obtained is actually the GNP at market prices. Care must be taken to avoid double counting.

Income Method (Factor Earning Method):

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

National income is calculated as domestic factor income plus net factor incomes from abroad. In short,

$$Y = w + r + i + \pi + (R - P)$$

w = wages, r = rent, i = interest, n = profits,

This method is adopted for estimating the contributions of the remaining sectors, viz., small enterprises, banking and insurance, commerce and transport, professions, liberal arts and domestic service, public authorities, house property and foreign sector transaction.

The Expenditure Method (Outlay method): \

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

$$\text{GNP} = C + I + G + (X - M)$$

C – Private consumption expenditure

I – Private Investment Expenditure

G – Government expenditure

X – M = Net exports

43a. Seasonal Unemployment:

1. This type of unemployment occurs during certain seasons of the year.
2. In agriculture and agro based industries like sugar, production activities are carried out only in some seasons.
3. These industries offer employment only during that season in a year. Therefore people may remain unemployed during the off season.
4. Seasonal unemployment happens from demand side also; for example ice cream industry, holiday resorts etc.

.Frictional Unemployment (Temporary Unemployment):

1. Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
2. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.
3. The persons who lose jobs and in search of jobs are also included under frictional unemployment.

Educated Unemployment:

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

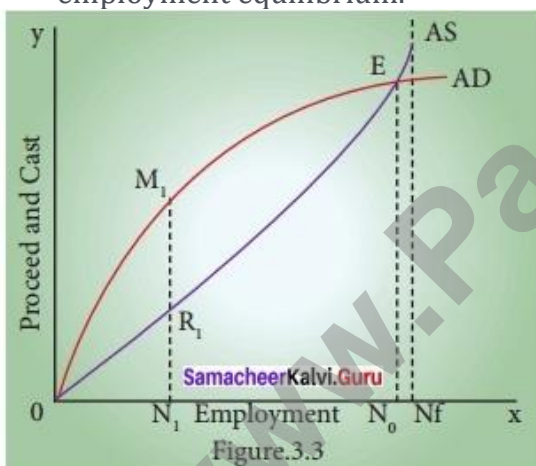
43b. Narrate the equilibrium between ADF and ASF with diagram? Equilibrium between ADF and ASF?

Answer:

- Under the Keynes theory of employment, a simple two sector economy consisting of the household sector and the business sector is taken to understand the equilibrium between ADF and ASF.
- All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment.
- 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 –

- In this chapter, out of these two, aggregate demand and aggregate supply approach is alone explained to understand the determination of equilibrium level of income and employment.
- The concept of effective demand is more clearly shown in the figure.
- In the figure, the aggregate demand and aggregate supply reach equilibrium at point E. The employment level is N_0 at that point.
- At ON_1 employment, the aggregate supply is N, R_r But they are able to produce $M_1 N_1$ The expected level of profit is M_1, R_1
- To attain this level of profit, entrepreneurs will employ more labourers.
- The tendency to employ more labour will stop once they reach point E.
- 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.
- Thus effective demand concept becomes a crucial point in determining the equilibrium level of output in the capitalist economy or a free market economy in the Keynesian system.
- It is important to note that the equilibrium level of employment need not be the full employment level ($N_{₁}$) from the Figure, it is understood that the difference between $N_0 - N_0$ is the level of unemployment.
- Thus the concept of effective demand becomes significant in explaining the under employment equilibrium.



44a.Explain Keynes psychological law of consumption function with diagram?

The three propositions of the law:

Income	Consumption	Savings
Y	C	$S = Y - C$
120	120	0
180	170	10
240	220	20

Proposition (1):

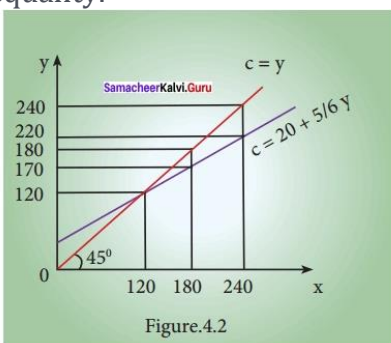
Income increases by ₹ 60 crores and the increase in consumption is by ₹ 50 crores.

Proposition (2):

The increased income of ₹ 60 crores in each case is divided in some proportion between consumption and saving respectively, (i.e., ₹ 50 crores and ₹ 10 crores).

Proposition (3):

As income increases consumption as well as saving increase. Neither consumption nor saving has fallen. Diagrammatically, the three propositions are explained in figure. Here, income is measured horizontally and consumption and saving are measured on the vertical axis. C is the consumption function curve and 45° line represents income consumption equality.



Proposition (1):

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

Proposition (2):

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

Proposition (3):

Increases in income to 180 and 240 lead to increased consumption 170 and 220 and increased saving 20 and 10 than before. It is clear from the widening area below the C curve and the saving gap between 45° line and C curve.

44b. What are the differences between MEC and MEI?

Answer:

Marginal Efficiency of Capital (MEC):

1. It is based on a given supply price for capital.

2. It represents the rate of return on all successive units of capital without regard to existing capital.
 3. The capital stock is taken on the X axis of diagram.
 4. It is a “stock” concept.
 5. It determines the optimum capital stock in an economy at each level of interest rate.
- Marginal Efficiency of Investment (MEI):

1. It is based on the induced change in the price due to change in the demand for capital.
2. It shows the rate of return on just those units of capital over and above the existing capital stock.
3. The amount of investment is taken on the X – axis of diagram.
4. It is a “flow” concept.
5. It determines the net investment of the economy at each interest rate given the capital stock.

45a. Explain the functions of money?

Answer: 1. Primary Functions:

(I) Money as a medium of exchange:

This is considered as the basic function of money. Money has the quality of general acceptability, and all exchanges take place in terms of money.

(II) Money as a measure of value:

The second important function of money is that it measures the value of goods and services. In other words, the prices of all goods and services are expressed in terms of money. Money is thus looked upon as a collective measure of value.

2. Secondary Functions:

(I) Money as a Store of value:

Savings done in terms of commodities were not permanent. But, with the invention of money, this difficulty has now disappeared and savings are now done in terms of money. Money also serves as an excellent store of wealth, as it can be easily converted into other marketable assets, such as, land, machinery, plant etc.

(II) Money as a Standard of Deferred Payments:

Borrowing and lending were difficult problems under the barter system. In the absence of money, the borrowed amount could be returned only in terms of goods and services. But the modern money – economy has greatly facilitated the borrowing and lending processes.

(III) Money as a Means of Transferring Purchasing Power:

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

3. Contingent Functions:

(I) Basis of the Credit System:

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

(II) Money facilitates distribution of National Income:

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

(III) Money helps to Equalize Marginal Utilities and Marginal Productivities:

Consumer can obtain maximum utility only if he incurs expenditure on various commodities in such a manner as to equalize marginal utilities accruing from them. Now in equalizing these marginal utilities, money plays an important role, because the prices of all commodities are expressed in money.

(IV) Money Increases Productivity of Capital:

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

4. Other Functions:

(I) Money helps to maintain Repayment Capacity:

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

(II) Money represents Generalized Purchasing Power:

Purchasing power kept in terms of money can be put to any use. It is not necessary that money should be used only for the purpose for which it has been served.

(III) Money gives liquidity to Capital:

Money is the most liquid form of capital. It can be put to any use.



45b. Describe the phases of Trade cycle?

Answer:

Phases of Trade Cycle

The four different phases of trade cycle is referred to as

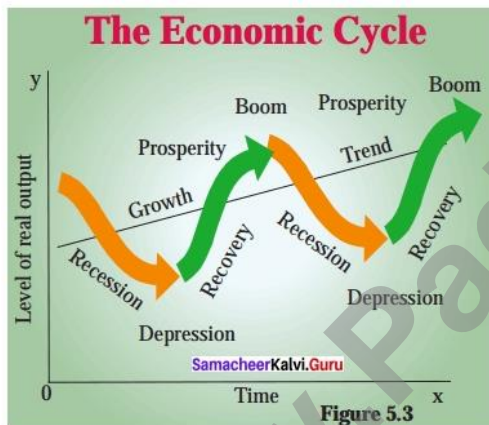
1. Boom
2. Recession
3. Depression and
4. Recovery. These are illustrated in the figure:

Phases of Trade Cycle:

1. Boom or Prosperity Phase:

The full employment and the movement of the economy beyond full employment is characterized as boom period.

1. During this period, there is hectic activity in economy.
2. Money wages rise, profits increase and interest rates go up.
3. The demand for bank credit increases and there is all - round optimism.



2. Recession:

1. The turning point from boom condition is called recession.
2. This happens at higher rate, than what was earlier.
3. Generally, the failure of a company or bank bursts the boom and brings a phase of recession.
4. Investments are drastically reduced, production comes down and income and profits decline.
5. There is panic in the stock market and business activities show signs of dullness.
6. Liquidity preference of the people rises and money market becomes tight.

3. Depression:

1. During depression the level of economic activity becomes extremely low.

2. Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment.
3. Interest prices, profits and wages are low. The agricultural class and wage earners would be worst hit.
4. Banking institutions will be reluctant to advance loans to businessmen.
5. Depression is the worst phase of the business cycle.
6. Extreme point of depression is called as “trough”, because it is a deep point in business cycle.

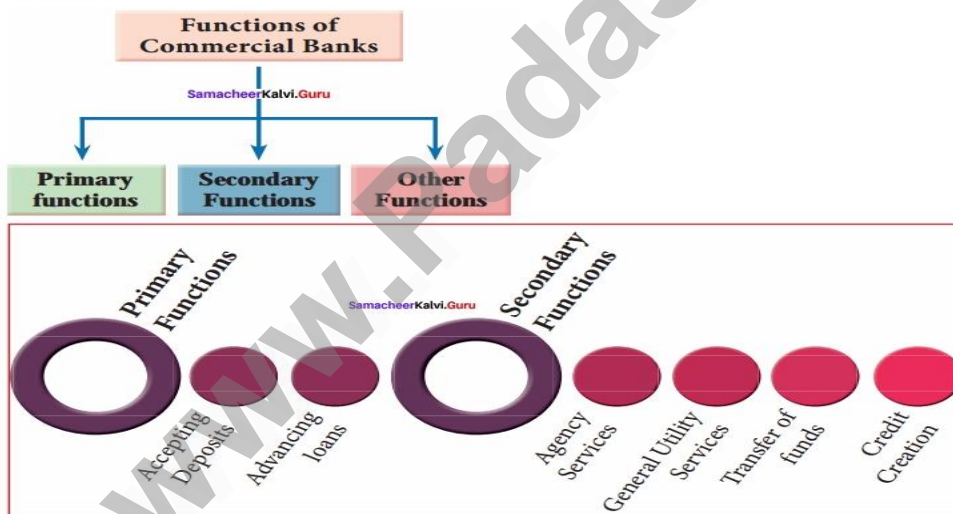
4. Recovery:

1. After a period of depression, recovery sets in.
2. This is the turning point from depression to revival towards upswing.
3. It begins with the revival of demand for capital goods.
4. Autonomous investments boost the activity.
5. The demand slowly picks up and in due course the activity is directed towards the upswing with more production, profit, income, wages and employment.
6. Recovery may be initiated by innovation or investment or by government expenditure (autonomous investment).

46a. Elucidate the functions of Commercial Banks?

Answer:

The functions of commercial banks are broadly classified into primary functions and secondary functions.



Functions of Commercial Banks

(a) Primary Functions:

1. Accepting Deposits:

It implies that commercial banks are mainly dependent on public deposits.

There are two types of deposits

(I) Demand Deposits:

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

(II) Time Deposits:

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

2. Advancing Loans:

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

(b) Secondary Functions:

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

1. Agency Functions:

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

(I) Collecting Cheques:

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

(II) Collecting Income:

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

(III) Paying Expenses:

Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents.

2. General Utility Functions:

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

(I) Providing Locker Facilities:

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

(II) Issuing Traveler's Cheques:

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

(III) Dealing in Foreign Exchange:

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

3. Transferring Funds:

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

4. Letter of Credit:

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

(I) Underwriting Securities:

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

(II) Electronic Banking:

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

(c) Other Functions:

(I) Money Supply:

It refers to one of the important functions of commercial banks that help in increasing money supply.

(II) Credit Creation:

Credit Creation means the multiplication of loans and advances. Commercial banks receive deposits from the public and use these deposits to give loans.

46b. Describe the functions of Reserve Bank of India?

Answer: . any 5 points

Functions of Central Bank (Reserve Bank of India):

The Reserve Bank of India (RBI) is India's central banking institution, which controls the monetary policy of the Indian rupee.

1. Monetary Authority:

It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.

2. The issuer of currency:

The objective is to maintain the currency and credit system of the country. It is the sole authority to issue currency. It also takes action to control the circulation of fake currency.

3. The issuer of Banking License:

As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

4. Banker to the Government:

It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government securities. It advises the government on banking and financial subjects.

5. Banker's Bank:

RBI is the bank of all banks in India as it provides loan to banks, accept the deposit of banks, and rediscount the bills of banks.

6. Lender of last resort:

The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

7. Act as clearing house:

For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.

8. Custodian of foreign exchange reserves:

It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.

9. Regulator of Economy:

It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.

10. Managing Government securities:

RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.

11. Regulator and Supervisor of Payment and Settlement Systems:

The Payment and Settlement Systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.

12. Developmental Role:

This role includes the development of the quality banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objectives.

It also includes establishing institutions designed to build the country's financial infrastructure. It also helps in expanding access to affordable financial services and promoting financial education and literacy.

13. Publisher of monetary data and other data:

RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.

14. Exchange manager and controller:

RBI represents India as a member of the International Monetary Fund [IMF], Most of the commercial banks are authorized dealers of RBI.

15. Banking Ombudsman Scheme:

RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the Ombudsman against the awards and the other decisions of the Banks.

16. Banking Codes and Standards Board of India:

To measure the performance of banks against Codes and standards based on established global practices, the RBI has set up the Banking Codes and Standards Board of India (BCSBI).

47a. Discuss the differences between Internal Trade and International Trade?

Answer:

Internal Trade: any 5

1. Trade takes place between different individuals and firms within the same nation.
2. Labour and capital move freely from one region to another.
3. There will be free flow of goods and services since there are no restrictions.
4. There is only one common currency.
5. The physical and geographical conditions of a country are more or less similar.
6. Trade and financial regulations are more or less the same.
7. There is no difference in political affiliations, customs and habits of the people and government policies.

International Trade:

1. Trade takes place between different individuals and firms in different countries.
2. Labour and capital do not move easily from one nation to another.
3. Goods and services do not easily move from one country to another since there are a number of restrictions like tariff and quota.
4. There are different currencies.
5. There are differences in physical and geographical conditions of the two countries.
6. Trade and financial regulations such as interest rate, trade laws differ between countries.
7. Differences are pronounced in political affiliations, habits and customs of the people and government policies

47b. Write a note on? any 3 and 3 points

(a) SAARC

(b) BRICS.

Answer:

(a) South Asian Association For Regional Co – Operation (SAARC):

- The South Asian Association for Regional Co – operation (SAARC) is an organisation of South Asian nations, which was established on 8 December 1985 for the promotion of economic and social progress, cultural development within the South Asia region and also for friendship and co-operation with other developing countries.
- The SAARC Group (SAARC) comprises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka.
- In April 2007, Afghanistan became its eighth member.
- The basic aim of the organisation is to accelerate the process of economic and social development of member states through joint action in the agreed areas of cooperation.
- The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.
- The first SAARC summit was held at Dhaka in the year 1985.

- SAARC meets once in two years. Recently, the 20th SAARC summit was hosted by Srilanka in 2018.

(b) BRICS:

- BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.
- Since 2009, the BRICS nations have met annually at formal summits.
- South Africa hosted the 10th BRICS summit in July 2018.
- The agenda for BRICS summit 2018 includes Inclusive growth, Trade issues, Global governance, Shared Prosperity, International peace and security.
- It's headquarters is at Shanghai, China.
- The New Development Bank (NDB) formerly referred to as the BRICS Development Bank was established by BRICS States.
- The first BRICS summit was held at Moscow and South Africa hosted the Tenth Conference at Johanesberg in July 2018.
- India had an opportunity of hosting fourth and Eighth summits in 2009 and 2016 respectively.
- The BRICS countries make up 21 percent of global GDP. They have increased their share of global GDP threefold in the past 15 years.
- The BRICS are home to 43 percent of the world's population.
- The BRICS countries have combined foreign reserves of an estimated \$ 4.4 trillion

THANK YOU

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