

ECONOMICS

HIGHER SECONDARY FIRST YEAR

Study Material



Name: _____

Class & Section: _____

PREPARED BY:

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Chapter 1

II. Very Short Answer Questions:

21. What is meant by Economics?

1. The term or word 'Economics' comes from the Ancient Greek oikonomikos
2. Oikos means "households"; and, nomos means "management".
3. Thus, the term 'Economics' means 'management of households'.

22. Define microeconomics.

Micro Economics is the study of the economic actions of individual units, say individual households, individual firms or individual industries.

23. What are goods?

- ▲ In Economics, the term 'goods' implies the term 'services' also, unless specified otherwise.
- ▲ Goods (also called 'products', 'commodities', 'things' etc),

24. Distinguish goods from services.

| S.no | Goods | Services |
|------|--------------------------|---------------|
| 1 | Tangible | Intangible |
| 2 | Have physical dimensions | Heterogeneous |
| 3 | Transferable | Perishable |

25. Name any two types of utility.

- ◇ Form Utility,
- ◇ Time Utility,
- ◇ Place Utility,
- ◇ Service Utility,
- ◇ Possession Utility,
- ◇ Knowledge Utility

26. Define positive economics.

Positive economics means, it analyses a problem on the basis of facts and examines its causes. For example, at the time of a price increase, its causes are analysed.

27. Give the meaning of deductive method.

- ★ It is also named as analytical or abstract method.
- ★ It consists in deriving conclusions from general truths; it takes few general principles and applies them to draw conclusions.

III. Short Answer Questions:

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

Definition:

"Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

Major Features.

- a. Ends refer to human wants.
- b. Resources or means that got to satisfy the unlimited human wants.

Criticism:

1. Robbins does not make any distinction between goods conducive to human welfare and goods that are not.
2. Robbins reduces Economics merely to theory of resource allocation.

29. What are the crucial decisions involving ‘what is produced?’

- ✧ Whether to produce more of food, clothing and housing or to have more luxury goods
- ✧ Whether to have more agricultural goods or to have industrial goods and services
- ✧ Whether to use more resources in education and health or to use more resources in military services
- ✧ Whether to have more consumption goods or to have investment goods

30. Explain different types of economic activities.❖ **Consumption:**

Human wants coming under consumption is the starting point of economic activity.

❖ **Production:**

Production is the process of transformation of inputs into output.

❖ **Exchange:**

Exchange is concerned with price determination in different market forms.

31. Elucidate different features of services.

- ✧ **Intangible:** Intangible things are not physical objects but exist in connection to other things, for example, brand image, goodwill etc.
- ✧ **Heterogeneous:** Services vary across regions or cultural backgrounds.
- ✧ **Inseparable from their makers:** Services are inextricably connected to their makers.
- ✧ **Perishable:** Services cannot be stored as inventories like assets.

32. What are the important features of utility?

1. Utility is psychological.
2. Utility is not equivalent to usefulness.
3. Utility is not the same as pleasure.
4. Utility is the function of the intensity of human want.

33. Distinguish between microeconomics and macroeconomics.

| S.No. | Micro Economics | Macro Economics |
|-------|--|--|
| 1 | Micro means small | Macro means large. |
| 2 | Micro Economics is the study of individuals households, firms etc. | Macro Economics concerned with the economy as a whole. |
| 3 | It covers value theory and Theory of economic welfare. | It is the study of aggregates such as national output, unemployment and taxes. |
| 4 | Price theory.- Alfred Marshall | Income theory.- J.M. Keynes |

34. Compare positive economics and normative economics.

| S. No | Positive Economics | Normative Economics |
|-------|---|---|
| 1 | Positive science deals with 'what it is' | Normative science concerned with 'what ought to be'. |
| 2 | It analyses problem on the basis of facts and examines its causes | Here the conclusions and results are not based on facts, but on different considerations. |
| 3 | Positive science, would be looked into why and how? | Normative science it would be seen whether good or bad. |

IV. Long Answer Questions:**35. Compare and contrast various definitions of Economics.**

| PART I | Wealth Definition | Welfare Definition |
|--------------|--------------------------------------|--|
| Author | Adam Smith | Alfred Marshal |
| Year | 1776 | 1890 |
| “Definition” | “Economics as the science of wealth” | “Economics is a study of mankind in the ordinary business of life” |

| | | |
|---------------------|--|--|
| Key Concepts | <ol style="list-style-type: none"> 1. Individual in the society wants to promote his own gain and in this process 2. Man is guided and led by an “invisible hand”. 3. It means that each person works for his own good. | <ol style="list-style-type: none"> 1. Economics studies on one side a study of wealth, on the other side, a part of the study of man 2. Man promotes primarily welfare and not wealth. 3. Economics contains the concerns of ordinary people. |
| Criticisms | <ol style="list-style-type: none"> 1. Economics as a ‘dismal science’, “pig science” etc. 2. As it teaches selfishness which is against ethics. | <ol style="list-style-type: none"> 1. Does not consider immaterial things, 2. Welfare varies from person to person, country to country and one period to another. |

| | | |
|---------------------|--|--|
| PART II | Scarcity definition | Growth definition |
| Author | Lionel Robbins | Paul Samuelson |
| Year | 1932 | 1948 |
| “Definition” | “Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”. | “Economics is the study of how men and society choose, with or without the use of money, to produce various commodities over time, and distribute them for consumption, now and in the future” |
| Key Concepts | <ol style="list-style-type: none"> 1. Human beings have unlimited wants 2. Resources are limited or scarce. 3. the scarce means are capable of having alternative uses. | <ol style="list-style-type: none"> 1. Samuelson makes his definition dynamic. 2. Covers various aspects like production, distribution and consumption. |
| Criticisms | 1. Does not make any distinction between goods conducive to human welfare and goods that are not | 1. Samuelson’s definition is applicable also in a barter economy, where money is not used. |

36. Explain various divisions of Economics.

Economics has been divided into some branches.

1. Consumption

Human wants coming under consumption is the starting point of economic activity.

2. Production

Production is the process of transformation of inputs into output. the factors of production namely Land, Labour, Capital and Organization

3. Exchange

Exchange is concerned with price determination in different market forms. This division covers trade and commerce.

4. Distribution

Production is the result of the coordination of factors of production. The reward for factors of production is studied in this division under rent, wages, interest and profit. Distribution studies about the pricing of factors of production.



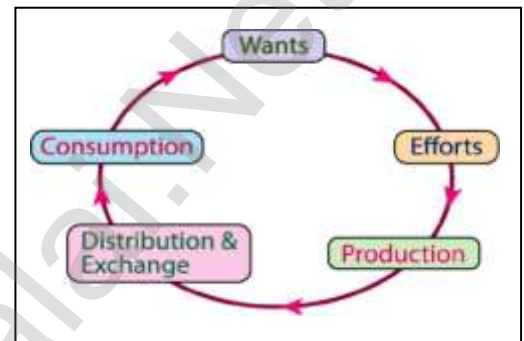
37. Elaborate the nature and scope of Economics.

I. Nature of Economics:

1. A Law expresses a causal relation between two or more than two phenomena.
2. Marshall states that the Economic laws are statement of tendencies the laws function with cause and effect.
3. Economic laws are not as precise and certain
4. Economic laws are not inviolable
5. The use of the assumption 'other things remaining the same'
6. Economics makes the Economic laws hypothetical.
7. Laws in economics are more exact, precise and accurate than the other social sciences.
8. Some economic laws are simply truisms.

II. The scope of the subject of Economics refers to on the subject-matter of Economics.

1. All human activities related to wealth constitute the subject-matter of Economics.
2. Production, consumption and capital formation are called the basic economic activities of an economy.
3. The flow chart give the scope of economics.
4. Economics focuses on the behaviour and interactions among economic agents, individuals and groups belonging to an economic system.
5. Human activities not related to wealth (non- economic activities) are not treated in Economics. For example, playing cricket for pleasure, mother's child care.



38. Explain basic problems of the economy with the help of production possibility curve.

Production Possibility Curve

Meaning

Production possibility curve shows the menu of choice along which a society can choose to substitute one good for another.

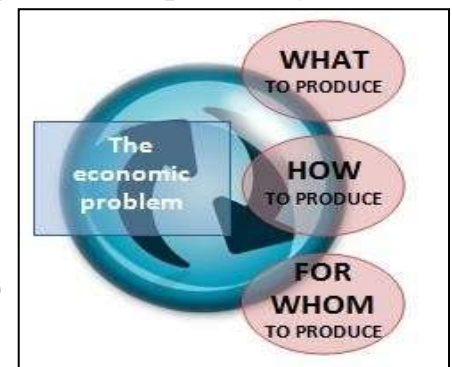
- Choice between relatively scarce commodities due to
- limited productive resources with the help of
- a "Geometric Device" (that is production possibility curve)

Assumptions

- (i) The time period does not change.
- (ii) Techniques of production are fixed.
- (iii) There is full employment in the economy.
- (iv) Only two goods can be produced from the given resources.
- (v) Resources of production are fully mobile.

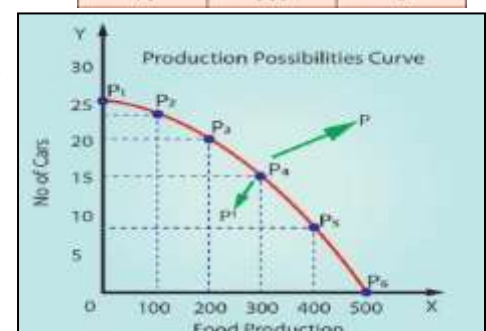
Explanation

1. The quantity of food is shown on x-axis and the number of cars is shown on y-axis
2. The different six production possibilities are being shown as point P1 P2 P3 P4 P5 & P6.
3. A maximum of 500 tons of food can be produced, given the existing technology.
4. If on the other hand, all resources are instead used for producing cars, 25 cars can be produced.
5. In between these two extremes, possibilities exist.



Production possibilities schedule

| Production possibilities | Quantity of food production in tons | No of car production |
|--------------------------|-------------------------------------|----------------------|
| I | 0 | 25 |
| II | 100 | 23 |
| III | 200 | 20 |
| IV | 300 | 15 |
| V | 400 | 8 |
| VI | 500 | 0 |



Chapter 2

II. Very Short Answer Questions:

21. Define Utility.

- ◆ In Economics, utility is the want-satisfying power of a commodity or a service.
- ◆ It is in the goods and services for an individual consumer at a particular time and at a particular place.

22. Mention the classifications of wants.

- **Necessaries** : - For example, food, clothing and shelter.
- **Comforts** : - Example: TV, Fan, Refrigerator and Air conditioner.
- **Luxuries** : - Example: Jewelry, Diamonds and Cars.

23. Name the basic approaches to consumer behaviour.

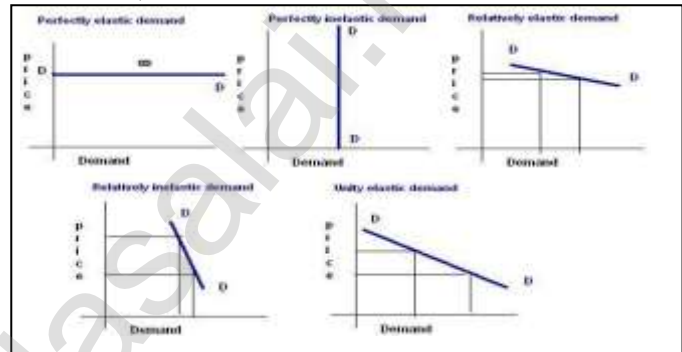
The basic approaches to consumer behaviour are

- (i) Cardinal Approach
- (ii) Ordinal Approach

24. What are the degrees of price elasticity of Demand?

The degrees of price elasticity of Demand are five as follow,

1. Perfectly Elastic Demand ($E_p = \infty$)
2. Perfectly Inelastic Demand ($E_p = 0$)
3. Relatively Elastic Demand ($E_p > 1$)
4. Relatively Inelastic Demand ($E_p < 1$)
5. Unitary Elastic Demand ($E_p = 1$)



25. State the meaning of indifference curves.

- ➔ An indifference curve is the locus of all combinations of commodities from which the consumer derives the same level of satisfaction.
- ➔ It is also called “Iso- Utility Curve” or “Equal Satisfaction Curve”.

26. Write the formula of consumers surplus.

$$\text{Consumer's surplus} = \text{Potential price} - \text{Actual price}$$

$$\text{Consumer's Surplus} = TU - (P \times Q)$$

27. What are Giffen goods? Why?

- ✘ The Giffen good or inferior good is an exception to the law of demand.
- ✘ When the price of an inferior good falls, the poor will buy less and vice versa.

III. Short Answer Questions:

28. Describe the feature of human wants.

a. Wants are unlimited

Human wants are countless in number and various in kinds.

b. Wants become habits

Wants become habits; for example, when a man starts reading news paper in the morning, it becomes a habit.

c. Wants are Alternative

There are alternative ways to satisfy a particular want

d. Wants are Competitive

All our wants are not equally important.

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

| | MARGINAL UTILITY | TOTAL UTILITY |
|----|--|---|
| 1. | Marginal utility is the addition made to the total utility by consuming one more unit of commodity ($MU_n = TU_n - TU_{n-1}$) | Total utility refer to the sum of utilities of all units of a commodity consumed ($TU = \sum MU$) |
| 2. | It declines | It increases |
| 3. | It reaches zero | It reaches maximum |
| 4. | It becomes negative | It declines |

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

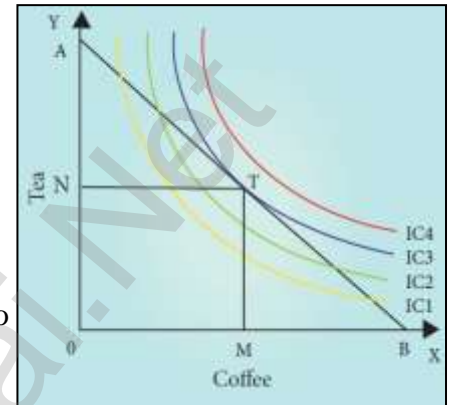
Meaning ; Consumer will attain equilibrium when he gets maximum satisfaction from his expenditure on different goods is highest.

Consumer Equilibrium : $MRS_{xy} = P_x / P_y$

→ T is the point of equilibrium as budget line AB is tangent on indifference curve IC3 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 AB 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& 33. Explain the theory of “consumer’s surplus” .

“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.”

Consumer’s surplus = Potential price – Actual price

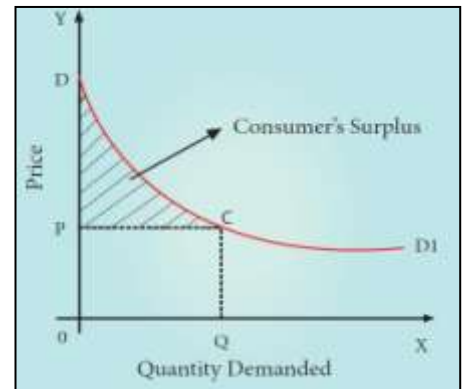
Consumer’s Surplus = $TU - (P \times Q)$

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

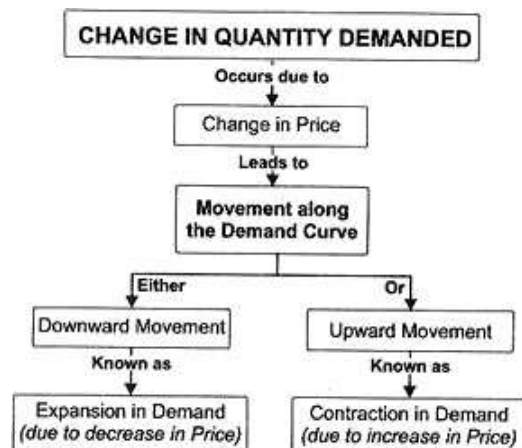
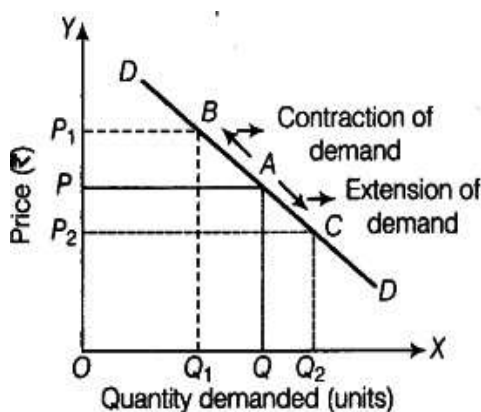
Assumptions

1. X axis shows the amount demanded and Y axis represents the price.
2. DD1 shows the utility which the consumer derives from the purchase of different amounts of commodity.
3. When price is OP, the amount demanded is OQ.
4. Hence, actual price is OPCQ (OP x OQ). Potential Price (Total Utility) is ODCQ.

Therefore, Consumer’ Surplus = $ODCQ - OPCQ = PDC$ (the shaded area)



31. Distinguish between extension and contraction of demand.



The changes in the quantity demanded for a commodity due to the change in its price alone are called "Extension and Contraction of Demand".

32. What are the properties of indifference curves?

1. Indifference curve must have negative slope
2. Indifference Curves are convex to the origin
3. Indifference curve cannot intersect
4. Indifference curves do not touch the horizontal or vertical axis.

IV. Long Answer Questions:

34. Explain the law of demand and its exceptions.

Definition

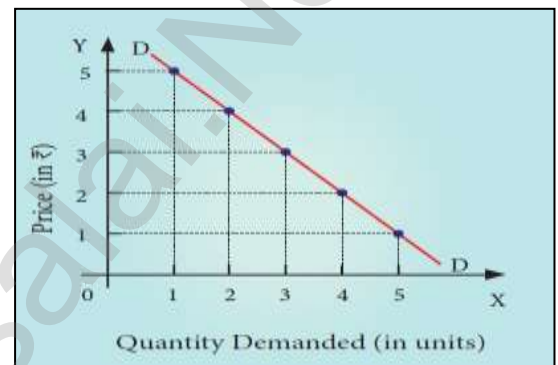
According to Alfred Marshall, The Law of Demand said as "the quantity demanded increases with a fall in price and diminishes with a rise in price".

Assumptions of Law of Demand

1. The income of the consumer remains constant.
2. The taste, habit and preference of the consumer remain the same.
3. The prices of other related goods should not change.
4. There should be no substitutes for the commodity in study.

Table 2.4 Demand Schedule

| Price | Quantity Demanded |
|-------|-------------------|
| 5 | 1 |
| 4 | 2 |
| 3 | 3 |
| 2 | 4 |
| 1 | 5 |



Explanation

1. Quantity demanded and Y axis represents the price of the commodity.
2. DD is the demand curve, which has a negative slope.
3. Slope downward from left to right which indicates that when price falls, the demand expands and when price rises, the demand contracts.

Conclusion

Therefore, the law of demand states that **there is an inverse relationship between the price and the quantity demanded** of a commodity.

35. Elucidate the law of diminishing marginal utility with diagram.

Definition

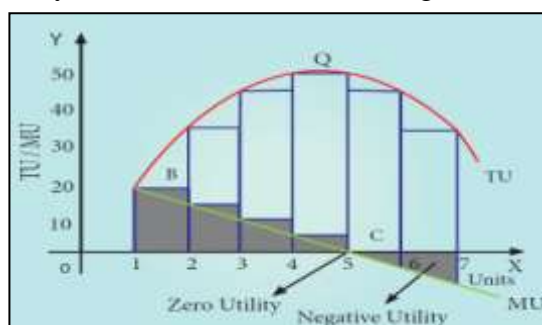
Marshall states the law as, "the additional benefit which a person derives from a given increase of his stock of a thing, diminishes with every increase in the stock that he already has".

Assumption

1. Utility can be measured by cardinal number (Eg:1,2, 3..)
2. The marginal utility of money remains constant.
3. The consumer should be a rational consumer
4. The units of the commodity must be reasonable in size.
5. The commodity consumed should be homogeneous

Diminishing Marginal Utility

| Units 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) |



Explanation

1. Suppose a consumer wants to consume 7 apples one after another.
2. The utility from the first apple is 20. But the utility from the second apple will be less than that of the first (say 15), the third less than that of the second (say 10) and so on.
3. Finally, the utility from the fifth apple becomes zero and the utilities from sixth and seventh apples are negative.

Criticisms

1. Utility cannot be measured numerically.
2. This law is based on the unrealistic assumptions.
3. This law is not applicable

36. Explain the law of Equi-marginal utility.**Meaning**

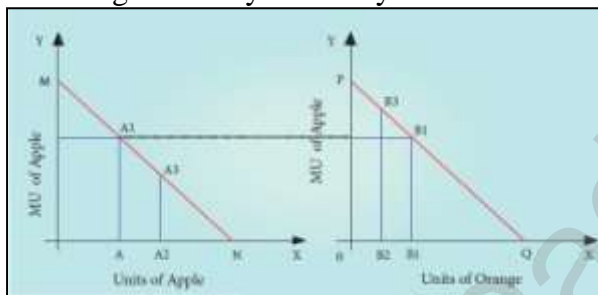
The law of equi-marginal utility states that the consumer will distribute his money income between the goods in such a way that the utility derived from the last rupee spend on each good is equal.

- In other words, consumer is in equilibrium position when marginal utility of money expenditure on each goods is the same.

$$\text{Equi-marginal} = \frac{MU_A}{P_A} = \frac{MU_O}{P_O} = K$$

Assumption

1. The consumer is rational in the sense that he wants to get maximum satisfaction.
2. The utility of each commodity is measurable in cardinal numbers.
3. The marginal utility of money remains constant. law of Equi-marginal utility.

**Explanation**

1. X axis represents the amount of money spent and Y axis represents the marginal utilities of Apple and Orange respectively.
2. If the consumer spends ₹6 on Apple and ₹5 on Orange, the marginal utilities of both are equal i.e., AA1=BB1 (4=4).
3. Hence, he gets maximum utility.

37. What are the methods of measuring Elasticity of demand?**Methods of measuring Elasticity of Demand:**

- ★ The Percentage Method
- ★ Total Outlay Method
- ★ Point or Geometrical Elasticity

1. The Percentage Method

$$e_p = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

It is also known as ratio method, when we measure the ratio as:

$$e_p = \frac{\% \Delta Q}{\% \Delta P} \text{ where, } \begin{array}{l} \% \Delta Q = \text{percentage change in demand} \\ \% \Delta P = \text{Percentage change in price} \end{array}$$

2. Total Outlay Method

This examines the change in total outlay of the consumer or total revenue of the firm.

$$\text{Total Revenue} = (\text{Price} \times \text{Quantity Sold}) \text{ TR} = (\text{P} \times \text{Q})$$

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

3. Point or Geometrical Elasticity

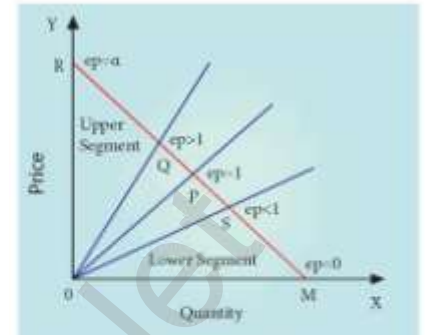
The point elasticity of a linear demand curve is shown by the ratio of the segments of the line to the right and to the left of the particular point.

Where 'ep' stands for point elasticity, 'L' stands for the lower segment and 'U' for the upper segment.

$$E_p = L / U$$

Lower segment of the demand curve below the given point

$$\text{Point Elasticity} = \frac{\text{Lower segment of the demand curve below the given point}}{\text{Upper segment of the demand curve above the given point}}$$



Chapter 3

II. Very Short Answer Questions:

21. Classify the factors of production.

Land, Labour - 'primary factors of production'.

Capital and Organisation - 'secondary factors of production'.

22. Define Labour. Labour refers to any work undertaken for securing an income or reward.

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.

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, $Q = \text{Quantity of output}$, $N = \text{Land}$; $L = \text{Labour}$; $K = \text{Capital}$; and $T = \text{Technology}$.

24. Define Marginal Product of a factor.

It is the addition or the increment made to the total product when one more unit of the variable input is employed.

25. What is Iso-cost line?

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.

26. What are conditions for producer's equilibrium?

- ❖ The iso-cost line must be tangent to iso-quant curve.
- ❖ At point of tangency, the iso-quant curve must be convex to the origin.

27. What are the reasons for upward sloping supply curve?

- ▲ As the price of the commodity increases, the quantum supplied of the commodity also increases.
- ▲ Thus the supply curve has a positive slope (upward slop) from left to right.

III. Short Answer Questions:**28. What are the characteristics of land?**

- 1) Land is a primary factor of production.
- 2) Land is a passive factor of production.
- 3) Land is the free gift of Nature.
- 4) Land has no cost of production.
- 5) Land is fixed in supply. It is inelastic in supply.
- 6) Land is permanent.

29. What are the factors governing elasticity of supply?

- ★ Nature of the commodity
- ★ Cost of production
- ★ Technical condition
- ★ Time factor

30. What are the functions of Entrepreneur?

- **Initiation:** An organizer is the initiator of the business,
- **Innovation:** A successful entrepreneur is always an innovator.
- **Coordination:** An organizer applies a particular combination of the factors of production.
- **Control, Direction & Supervision:** An organizer prevents the organisation from achieving its goal.
- **Risk-taking and Uncertainty-bearing:**

31. State and explain the elasticity of supply.

Elasticity of supply may be defined as the degree of responsiveness of change in supply to change in price on the part of sellers.

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

It is mathematically expressed as: $e_s = (\Delta Q_s / Q_s) / (\Delta P / P)$; $e_s = \Delta Q_s / \Delta P \times P / Q_s$

Where Q_s represents the supply, P represents price, Δ denotes a change.

32. Bring out the Relationship among Total, Average and Marginal Products.

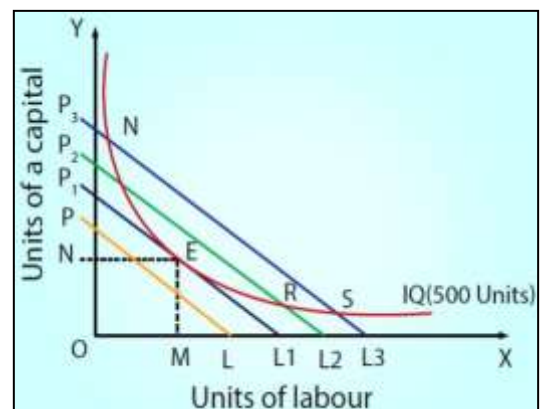
| Stages | TP | MP | AP |
|-----------|---|--|--|
| Stage I | increases at an increasing rate | Beginning it increases, reaches a maximum and starts to decrease | increases, then attains maximum |
| Stage II | increase at adiminishing rate and reaches maximum | diminish and becomes equal to zero | equal to MP and then begins to diminish |
| Stage III | Diminishes | becomes negative | Continues to diminish but always greater than zero |

33. Illustrate the concept of producer's Equilibrium

The producer manufactures a given amount of output with 'least cost combination of factors', with his given budget.

Conditions for Producer Equilibrium:

- ➔ The iso-cost line must be tangent to iso-quant curve.
- ➔ At point of tangency, the iso-quant curve must be convex to the origin or $MRTS_{LK}$ must be declining.
- ➔ At point E, the firm employs OM units of labour and ON units of capital.
- ➔ The other points such as H, K, R and S lie on higher iso cost lines indicating that a larger outlay is required, which exceeds the financial resources of the firm.



34. State the Cobb-Douglas Production Function.

Meaning

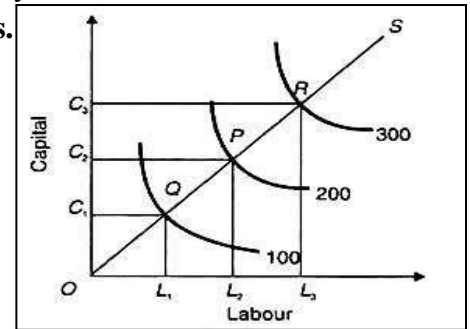
According to Cobb-Douglas, “Linear homogeneous production function implies that the factors of production can be substituted for one another up to a certain extent only.”

The Cobb-Douglas production function can be expressed as follows.

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

Where, Q = output; A = positive constant; K = capital; L = Labor
 α and β are positive fractions showing, the elasticity coefficients of outputs for the inputs labor and capital, respectively.

- $\beta = (1 - \alpha)$ since $\alpha + \beta = 1$. denoting constant returns to scale.
- Factor intensity can be measured by the ratio β / α .



IV. Long Answer Questions:

35. Examine the Law of Variable Proportions with the help of a diagram.

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 product will diminish”.

Meaning

The law of variable proportions states that as the quantity of one factor is increased, keeping the other factors fixed, the marginal product of that factor will eventually decline.

Assumptions

1. Only one factor is variable while others are held constant.
2. All units of the variable factor are homogeneous.
3. The product is measured in physical units.

Total Product (TP)

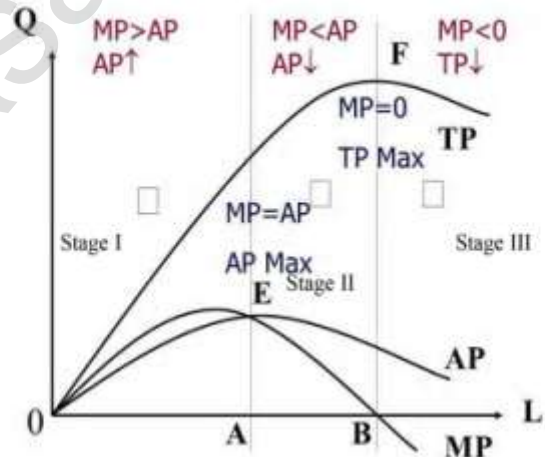
It refers to the total amount of commodity produced by the combination of all inputs. $TP = \sum MP$

Average Product (AP)

It is the result of the total product divided by the total units of the input employed. $AP = TP/N$

Marginal Product (MP)

It is the addition or the increment made to the total product. $MP = \Delta TP / \Delta N$ (or) $MP = TP(n) - TP(n-1)$



In diagram, the number of workers is measured on X axis while TP, AP MP are denoted on Y axis. The diagram explains the three stages of production as given in the below table.

36. List out the properties of iso-quants with the help of diagrams.

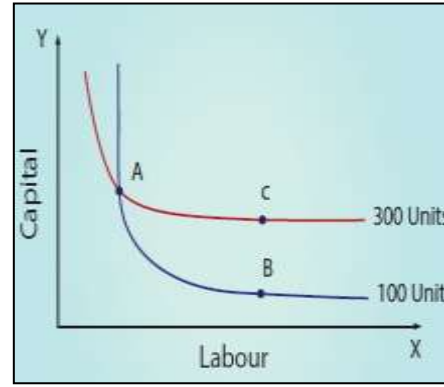
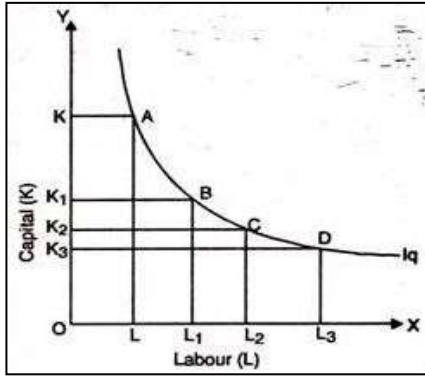
Meaning

An iso-quant curve can be defined as the locus of points representing various combinations of two inputs capital and labour yielding the same output.

The iso-quant is also called as the “Equal Product Curve” or the “Product Indifference Curve”

Properties of Iso-quant Curve

1. The iso-quant curve has negative slope.
2. Convex to the origin.
3. Non inter-section of Iso-quant curves.
4. An upper iso-quant curve represents a higher level of output.
5. Iso-quant curve does not touch either X axis Y axis.



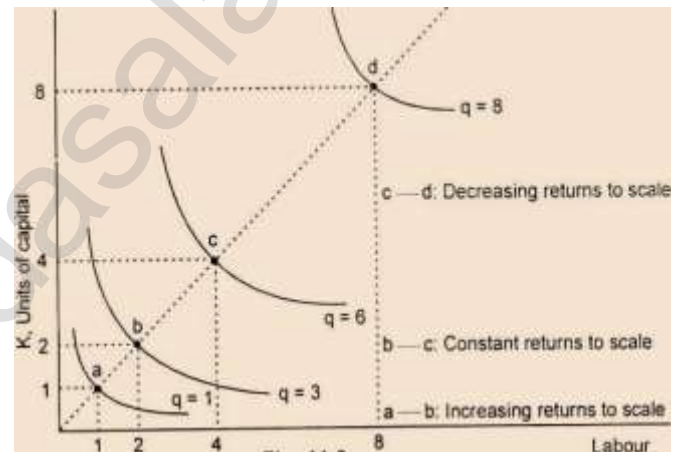
37. Elucidate the Laws of Returns to Scale. Illustrate. Meaning

The laws of returns to scale explain the relationship between output and the scale of inputs in the long-run when all the inputs are increased in the same proportion.

Assumption

1. All the factors of production are variable but organization is fixed.
2. There is no change in technology.
3. There is perfect competition in the market.
4. Outputs or returns are measured in physical quantities.

| Stages | Input | Output | Returns to Scale |
|--------|--------|----------|------------------|
| a to b | 100% ↑ | 200% ↑ | Increasing |
| b to c | 100% ↑ | 100% ↑ | Constant |
| c to d | 100% ↑ | 33.33% ↑ | Decreasing |



Three Phases of Returns to Scale

- ▲ Increasing Returns to Scale:
- ▲ Constant Returns to Scale:
- ▲ Diminishing Returns to Scale:

Explanation

1. In the the movement from point a to point b represents increasing returns to scale.
2. The law of constant returns to scale is implied by the movement from the point b to point c.
3. Decreasing returns to scale are denoted by the movement from the point c to point d.

38. Explain the internal and external economies of scale.

| Basic Difference | Internal Economies | External Economies |
|---------------------------------|--|--|
| 1. Technical Economies: | There is a possibility to introduce up- to-date technologies | Increased transport facilities |
| 2. Financial Economies: | Big firms can float shares in the market for capital expansion, | Banking facilities |
| 3. Managerial Economies: | Large scale production facilitates specialisation and delegation. | Development of townships |
| 4. Labour Economies: | Large scale production implies greater and minute division of labour. | Development of information and communication |
| 5. Marketing Economies: | The producers can both buy raw-materials in bulk at cheaper cost and can take the products to distant markets. | Expansion of the Plant size |

Chapter 4

II. Very Short Answer Questions:

21. Define cost.

- Cost refers to the total expenses incurred in the production of a commodity.
- Cost analysis refers to the study of behaviour of cost in relation to one or more production

22. Define cost function.

The functional relationship between cost and output is expressed as 'Cost Function'.

$$C = f(Q)$$

where, C=Cost and Q=Quantity of output.

23. What do you mean by fixed cost?

- ▲ Fixed Cost does not change with the change in the quantity of output.
- ▲ Fixed cost is also called as 'Supplementary Cost' or 'Overhead Cost'.

24. Define Revenue.

The amount of money that a producer receives in exchange for the sale of goods is known as

$$TR = P \times Q$$

revenue. In short, **revenue means sales revenue.**

25. Explicit Cost - Define.

It refers to the actual expenditures of the firm to purchase or hire the inputs the firm needs.

Examples: i) wages, ii) payment for raw material and etc.,

26. Give the definition for 'Real Cost'.

- ◇ Real cost refers to the payment made to compensate the efforts and sacrifices of all factor owners for their services in production.
- ◇ It includes the efforts and sacrifices landlords in the use of land.

27. What is meant by Sunk cost?

- ★ A cost incurred in the past and cannot be recovered in future is called as Sunk Cost.
- ★ It is called as sunk because, they are unalterable, unrecoverable, and if once invested it should be treated as drowned or disappeared. Example : Cost of specialized equipments.

III. Short Answer Questions:

28. Distinguish between fixed cost and variable cost.

| Fixed Cost | Variable Cost |
|--|--|
| It refers to the cost incurred on the fixed factors of production | Its refer to the cost incurred on the variable factors of production |
| This cost remains constant irrespective of the levels of outputs | It varies with levels of outputs |
| Even if the outputs is nil, fixed cost will be incurred | This cost will increase /decrease with the levels of outputs. |
| This is also known as supplementary costs or overhead costs | This is also known as prime costs. |
| Its includes: a) Rent for the building b) Interest paid on capital | It includes a) Prices of raw materials b) Wages of labours |

29. State the differences between money cost and real cost.

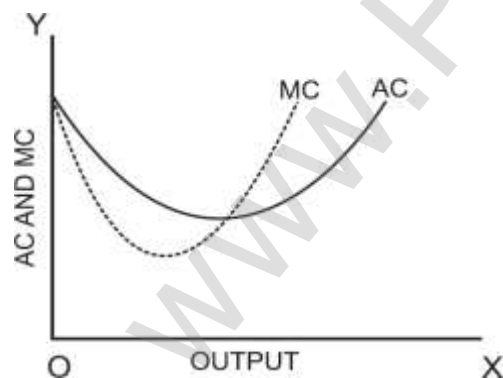
| Money Cost | Real Cost |
|--|---|
| Production cost expressed in money terms is called as money cost. | The efforts and sacrifices of all factor owners for their services in production. |
| It includes the expenditures such as cost of raw materials, payment of wages and salaries, | It includes the efforts and sacrifices of landlords in the use of land, capitalists |
| These costs are considered as out of pocket expenses. | Adam Smith regarded pains and sacrifices of labour as real cost of production. |
| Money costs are also called as Prime Cost or Direct Cost or Nominal Cost | It is also called opportunity cost or displacement cost |

30. Distinguish between explicit cost and implicit cost.

| Explicit Cost | Implicit Cost |
|--|--|
| It includes actual money expenditure incurred by a firm in hiring or buying the factors it needs in the production process | It is not actual money expenditure but is the cost of factors owned by the firm and used by the firm in its production process |
| It is explicitly shown in the firm's books of accounts and is thus, called accounting costs | It does not enter in the firm's books of accounts |
| It is a payment concept | It is a receipt concept, i.e., the payments are received by producer for supplied services |
| Examples: Wages, rent, interest, insurance, etc | Examples: Wages of self labor, rent for self owned premises, etc |

31. Define opportunity cost and provide an example.

1. It refers to the cost of next best alternative use.
2. In other words, it is the value of the next best alternative foregone.
3. For example, a farmer can cultivate both paddy and sugarcane in a farm land.
4. Opportunity Cost is also called as 'Alternative Cost' or 'Transfer Cost'.



- When $MC < AC$, AC falls
- When $MC = AC$, AC is constant and at its minimum point
- When $MC > AC$, AC rises

32. State the relationship between AC and MC.

- When AC is falling, MC lies below AC.
- When AC becomes constant, MC also becomes equal to it.
- When AC starts increasing, MC lies above the AC.
- MC curve always cuts AC at its minimum point from below.

33. Write a short note on Marginal Revenue.

Marginal cost is the addition made to the total cost by producing one extra unit of output.

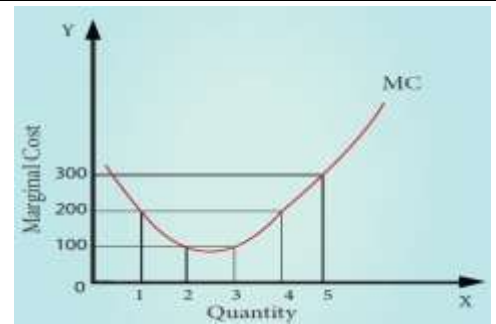
$$MC = \Delta TC / \Delta Q$$

where MC denotes Marginal Cost, ΔTC denotes change in total cost and ΔQ denotes change in total quantity.

The other method of estimating MC is :

$$MC = TC_n - TC_{n-1} \text{ or } TC_{n+1} - TC_n$$

where, 'MC' denotes Marginal Cost, 'TC_n' denotes Total cost of 'n'th item, TC_{n-1} denotes Total Cost of 'n-1' th item, TC_{n+1} denotes Total Cost of n+1 th item.



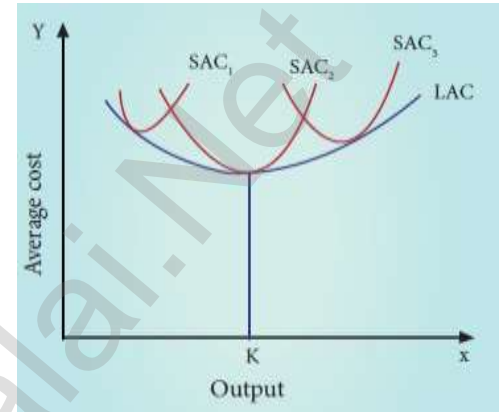
34. Discuss the Long run cost curves with suitable diagram.

1. In the long run all factors of production become variable.
2. The existing size of the firm can be increased in the case of long run.
3. There are neither fixed inputs nor fixed costs in the long run.

1. $LAC = LTC/Q$ where, LAC denotes Long-Run Average Cost, LTC denotes Long- run Total Cost and Q denotes the quantity of output.
2. The LAC curve is derived from short- run average cost curves.
3. It is the locus of points denoting the least cost curve of producing the corresponding output.

Other names of LAC:

The LAC curve is called as 'Plant Curve' or 'Boat shape Curve' or 'Planning Curve' or 'Envelop Curve'.



IV. Long Answer Questions:

35. If total cost = $10 + Q^3$, find out AC, AVC, TFC, AFC when $Q=5$.

$$TC = TFC + TVC$$

$$AVC = \frac{TVC}{Q}$$

$$AFC = \frac{TFC}{Q}$$

$$AC = \frac{TC}{Q}$$

(i) $TC = 10 + Q^3$. Total cost has two components TFC and TVC.

(ii) TFC = is the total fixed cost which does not change with the level of output.

(iii) It is determined by putting the value of Q.

(iv) Given the total cost function $TC = 10 + Q^3$

Q = units of output where $Q = 5$

Here TFC = 10 (TFC will not change when output changes)

$$TC = 10 + (5)^3$$

$$TC = 10 + 125$$

$$TC = 135$$

$$135 = 10 + TVC$$

$$135 - 10 = TVC$$

$$125 = TVC$$

$$TVC = 125, TC = 135, \text{ therefore TFC ?}$$

$$TC = TFC + TVC$$

$$135 = x + 125$$

$$135 - 125 = 10$$

$$\boxed{TFC = 10}$$

$$AFC = \frac{TFC}{Q}$$

$$AFC = \frac{10}{5}$$

$$\boxed{AFC = 2}$$

$$AVC = \frac{TVC}{Q}$$

$$AVC = \frac{125}{5}$$

$$\boxed{AVC = 25}$$

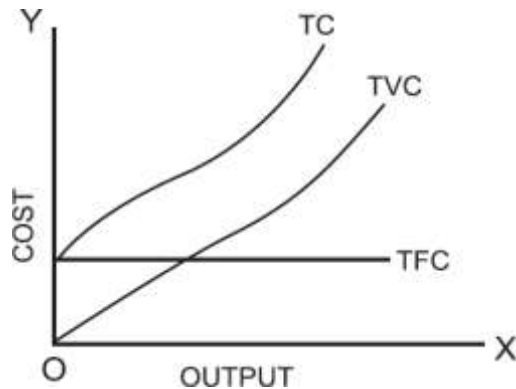
$$AC = \frac{TC}{Q}$$

$$AC = \frac{135}{5}$$

$$\boxed{AC = 27}$$

36. Discuss the short run cost curves with suitable diagram.**Short run cost curves:**

1. **TFC** - Total Fixed Cost Curve
2. **TVC** - Total Variable Cost Curve
3. **TC** - Total Cost Curve
4. **AFC** - Average Fixed Cost Curve
5. **AVC** - Average Variable Cost Curve
6. **AC OR ATC** - Average Cost or Average Total Cost
7. **MC** - Marginal Cost

Total Cost Curves**Total cost**

Total cost is the sum of total fixed cost and total variable cost.

TC = Total cost

$$TC = TFC + TVC,$$

where

TFC = Total Fixed cost (cost of fixed factors)

TVC = Total variable cost (Cost of Variable Factors)

Short run average cost curves**Average Fixed Cost (AFC)**

The average fixed cost is the fixed cost per unit of output. It is obtained by dividing the total fixed cost by the number of units of the commodity produced.

$$AFC = TFC / Q$$

Average Variable cost (AVC)

Average variable cost is the variable cost per unit of output. It is the total variable cost divided by the number of units of output produced.

$$AVC = TVC / Q$$

Average Total Cost or Average Cost

Average total cost is simply called average cost which is the total cost divided by the number of units of output produced.

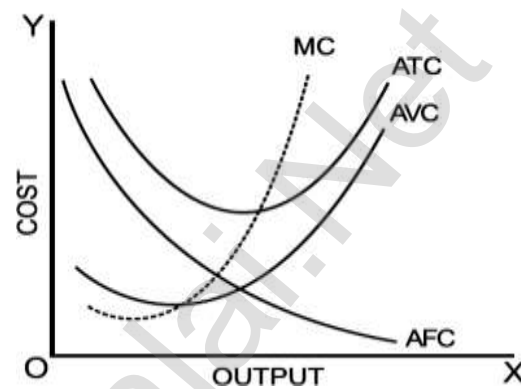
$$AC = TC / Q \text{ (or)}$$

$$AC = AFC + AVC$$

Marginal Cost

Marginal cost is defined as the addition made to the total cost by the production of one additional unit of output.

$$MC_n = TC_n - TC_{n-1}$$

Short run average cost curves

37. Bring out the relationship between AR and MR curves under various price conditions.**Average Revenue**

Average revenue is the revenue per unit of the commodity sold. It is calculated by dividing the total revenue by the number of units sold.

$$AR = TR / Q$$

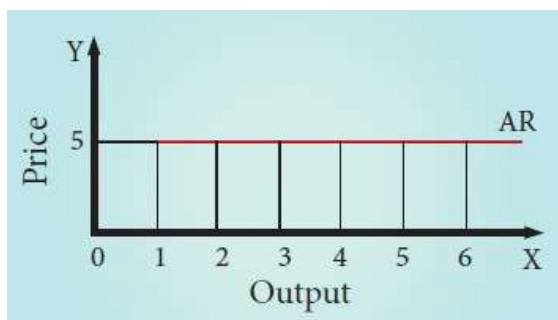
Marginal Revenue

Marginal Revenue is the addition made to the total revenue by selling one more unit of a commodity.

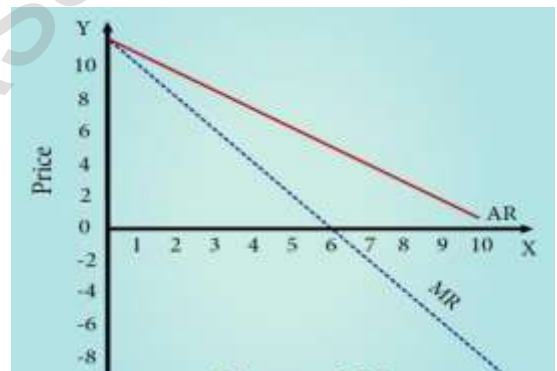
$$MR_n = TR_n - TR_{n-1}$$

Constant AR and MR (at Fixed Price)

| Quantity Sold (Q) | Price (P) ₹ | Total Revenue (TR) ₹ | Average Revenue (AR) ₹ | Marginal Revenue (MR) ₹ |
|-------------------|-------------|----------------------|------------------------|-------------------------|
| 1 | 5 | 5 | 5 | 5 |
| 2 | 5 | 10 | 5 | 5 |
| 3 | 5 | 15 | 5 | 5 |
| 4 | 5 | 20 | 5 | 5 |
| 5 | 5 | 25 | 5 | 5 |
| 6 | 5 | 30 | 5 | 5 |

**Declining AR and MR (at declining Price)**

| Quantity Sold (Q) | Price (P)/ Average Revenue (AR) ₹ | Total Revenue (TR) ₹ | Marginal Revenue (MR) ₹ |
|-------------------|-----------------------------------|----------------------|-------------------------|
| 1 | 10 | 10 | - |
| 2 | 9 | 18 | 8 |
| 3 | 8 | 24 | 6 |
| 4 | 7 | 28 | 4 |
| 5 | 6 | 30 | 2 |
| 6 | 5 | 30 | 0 |
| 7 | 4 | 28 | -2 |
| 8 | 3 | 24 | -4 |
| 9 | 2 | 18 | -6 |
| 10 | 1 | 10 | -8 |

**Explanation**

1. If a firm is able to sell additional units at the same price then AR and MR will be constant and equal.
2. If the firm is able to sell additional units only by reducing the price, then both AR and MR will fall and be different.

Chapter 5**II. Very Short Answer Questions:****21. Define Market.**

In Economics, the term 'market' refers to a system of exchange between the buyers and the sellers of a commodity, directly or indirectly.

22. Who is price-taker?

1. A **price taker** is a seller who has no control to fix **prices** for a good or service.
2. A price taker simply has to accept the market price.

23. Point out the essential features of pure competition.

- a. Large Number of Buyers and Sellers
- b. Homogeneous Product and Uniform Price
- c. Free Entry and Exit
- d. Absence Of Transport Cost

24. What is selling cost?

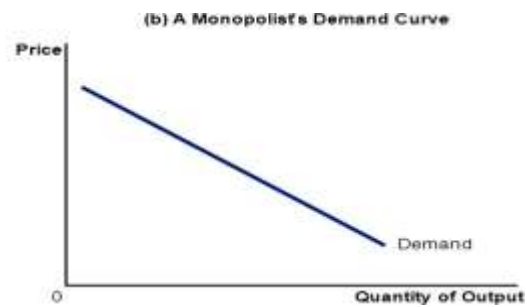
Selling costs refer to those expenses which are incurred for popularizing the differentiated product and increasing the demand for it.

25. Draw demand curve of a firm for the following:

a) Perfect Competition



b) Monopoly



26. Mention any two types of price discrimination

- (i) **Personal** – Different prices are charged for different individuals (*Ex: Railways Ticket*)
 (ii) **Geographical** - Different prices are charged at different places for the same product (*Ex: same book sold in different countries at different prices*)

27. Define “Excess capacity”.

A monopolistic firm produces deliberately output which is less than the optimum output that is the output corresponding to the minimum average cost.

III. Short Answer Questions:

28. What are the features of a market?

1. Buyers and sellers of a commodity or a service
2. A commodity to be bought and sold
3. Price agreeable to buyer and seller
4. Direct or indirect exchange.

29. Specify the nature of entry of competitors in perfect competition and monopoly.

| Nature of Entry of competitor | |
|--|--|
| Perfect Competition | Monopoly |
| It is possible for the very efficient producer, producing the product at a very low cost, to earn super normal profits. Attracted by such a profit, new firms enter into the industry. | There is strict barrier for entry of any new firm; |

30. Describe the degrees of price discrimination.

According to A.C.Pigou, there are three degrees of price discrimination.

(i) **First degree price discrimination**

A monopolist charges the maximum price that a buyer is willing to pay. Example: Auctions

(ii) **Second degree price discrimination**

Under this degree, buyers are charged prices in such a way that a part of their consumer's surplus is taken away by the sellers. Example: Cinema theatres .

(iii) **Third degree price discrimination**

The monopolist splits the entire market into a few sub-market and charges different price in each sub-market. Example : Railways Ticket

31. State the meaning of selling cost with an example.

1. It was Chamberlin who introduced the analysis of selling costs.
2. Selling costs play the key role in monopolistic competition. The firms have to compete to promote their sale by spending on advertisements and publicity ads to the demand of the product.
3. In selling costs we include the salaries of sales persons, allowances to retailers to display the products etc. besides the advertisements.

32. Mention the similarities between perfect competition and monopolistic competition.

| s.no | Basis of Similarities | Perfect Competition | Monopolistic Competition |
|------|-----------------------------|--|--|
| 1 | Number of Producers/sellers | Innumerable | Large |
| 2 | Entry / Exit | Free | Free |
| 3 | Profit | Abnormal profit in short-run, Normal profit in long-run | Abnormal profit in short-run, Normal profit in long run |
| 4 | Quantity | Very large | Substantial |

33. Differentiate between 'firm' and 'industry'.

| | Firm | Industry |
|-------------------|--|--|
| Meaning | A firm refers to a single production unit in an industry | An industry refers to a group of firms |
| Production | Producing a large or a small quantum of a commodity or service | Producing the same product or service in an economy. |
| Example | A single cement firm | Cement Industry (group of firms) |

34. State the features of duopoly.

1. Each seller is fully aware of his rival's motive and actions.
2. Both sellers may collude (they agree on all matters regarding the sale of the commodity).
3. They may enter into cut-throat competition.
4. They fix the price for their product with a view to maximising their profit.

IV. Long Answer Questions:**35. Bring out the features of perfect competition.****Meaning of Perfect Competition**

Perfect Competition market is that type of market in which the number of buyers and sellers is very large, all are engaged in buying and selling a homogenous product at uniform price.

Features**1. Large Number of Buyers and Sellers**

The term, 'large number of sellers' implies that share of each individual seller is a very, very small quantum of a product.

2. Homogeneous Product and Uniform Price

All the units of the product are identical (ie) of the same size, shape, colour, quality etc. Therefore, a uniform price prevails in the market.

3. Free Entry and Exit

Efficient producer producing the product at a very low cost, to earn super normal profits. Attracted by such a profit, new firms enter into the industry.

4. Absence Of Transport Cost

The prevalence of the uniform price is also due to the absence of the transport cost.

5. Perfect Knowledge of the Market

All buyers and sellers have a thorough knowledge of the quality of the product, prevailing price etc.

6. No Government Intervention

There is no government regulation on supply of raw materials, and in the determination of price etc.

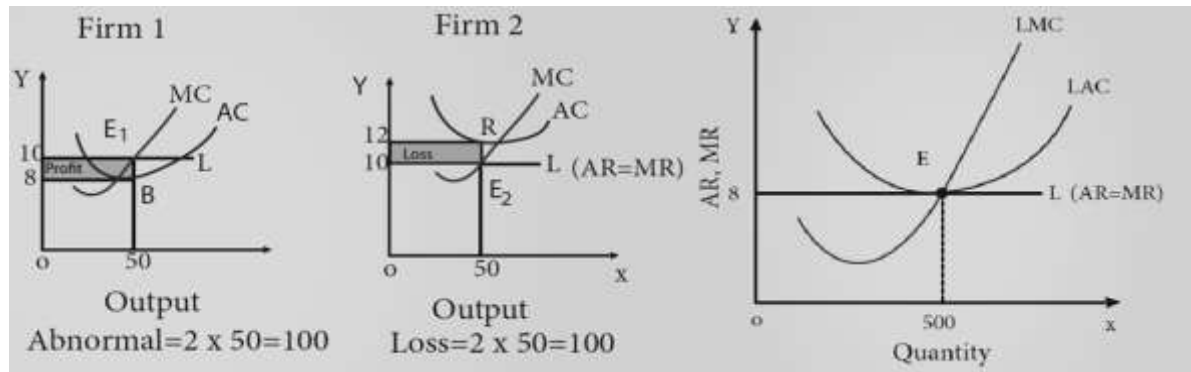
35. How price and output are determined under the perfect competition?**Meaning of Perfect Competition**

Perfect Competition market is that type of market in which the number of buyers and sellers is very large, all are engaged in buying and selling a homogenous product at uniform price.

Important Features

1. Large Number of Buyers and Sellers
2. Free Entry and Exit
3. Homogeneous Product and Uniform Price
4. Absence Of Transport Cost

Price & Output Determination-Perfect Competition during Short Run



| | |
|-----------------------|--------------------|
| AR – Average Revenue | AC – Average Cost |
| MR – Marginal Revenue | MC – Marginal Cost |

The firms under Perfect Competition take the price (10) from the industry and start adjusting their quantities produced.

For example $Q_d = 100 - 5P$ and $Q_s = 5P$. At equilibrium $Q_d = Q_s$. Therefore $100 - 5P = 5P$.

$100 = 10P$; $100/10 = P$ $Q_d = \text{demand}$ $P = 10$ $P = \text{Price}$

$Q_d = 100 - 5(10)$ $Q_s = \text{Supply}$ $100 - 50 = 50$

$Q_s = 5(10) = 50$

Therefore $50 = 50$

Its total revenue is $50 \times 10 = 500$. Its total cost is $50 \times 12 = 600$. Therefore, its total loss is $600 - 500 = 100$.

Price = AR = MR = Minimum AC

37. Describe the features oligopoly.

1. Few large firms

Very few big firms own the major control of the whole market by producing major portion of the market demand.

2. Interdependence among firms

The price and quality decisions of a particular firm are dependent on the price and quality decisions of the rival firms.

3. Group behaviour

The firms under oligopoly realise the importance of mutual co-operation.

4. Advertisement cost

The oligopolist could raise sales either by advertising or improving the quality of the product.

5. Nature of product

Perfect oligopoly means homogeneous products and imperfect oligopoly deals with heterogeneous products.

6. Price rigidity

The oligopolistic firms do not change their prices due to the fear of rivals' reaction.

38. Illustrate price and output determination under Monopoly.

Meaning

Monopoly is a market structure characterized by a single seller, selling the unique product with the restriction for a new firm to enter the market.

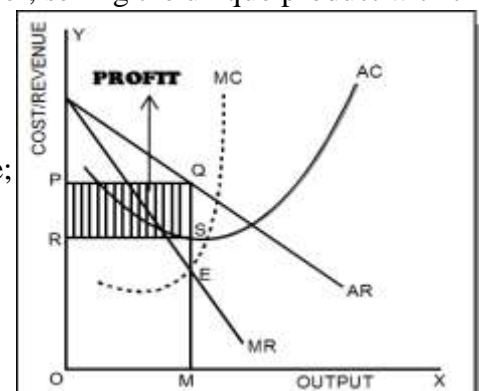
Features of Monopoly

1. There is a single producer / seller of a product;
2. The product of a monopolist is unique and has no close substitute;
3. There is strict barrier for entry of any new firm;
4. The monopolist is a price-maker

Price & Output Determination Under Monopoly

Explanation

1. The Diagram shows that MC cuts MR at E to give equilibrium output as OM.



2. At OM, the price charged is OP (we find this by extending line EM till it touches AR or demand curve).
3. Also at OM, the cost per unit is MS.
4. Therefore, profit per unit is SQ or total profit is PQRS.

$$\text{Total profit} = (\text{Average Revenue} - \text{Average Cost}) \times \text{Total output}$$

39. Explain price and output determined under monopolistic competition with help of diagram.

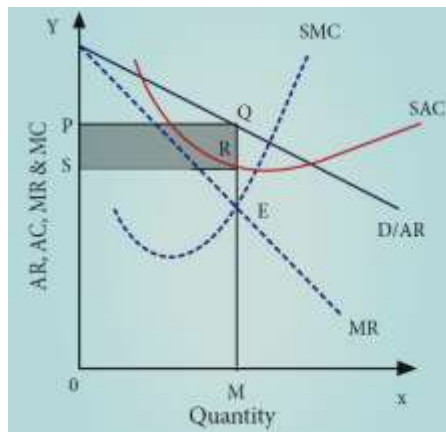
Meaning

Monopolistic competition refers to a market situation where there are many firms selling a differentiated product.

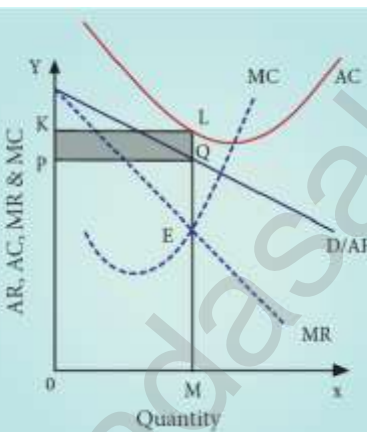
Important Features

1. Large number of buyers and many sellers.
2. Firms produce differentiated products.
3. Firms compete with each other by incurring selling cost
4. Non – price competition

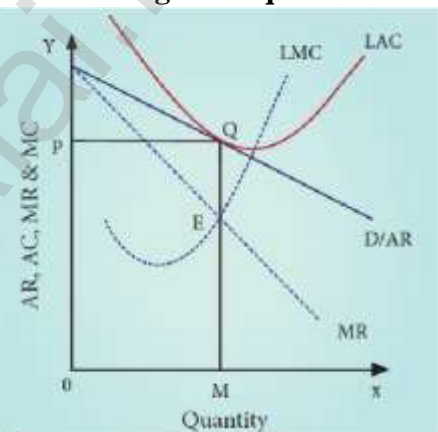
Short run Profit



Short run Loss



Long run Equilibrium



Explanation

1. The profit maximisation is achieved when $MC=MR$.
2. Total profit is 'PQRS'. This is super normal profit under short-run.
3. Total loss is 'PQLK'. This firm incurs loss in the short run.
4. In the long run AR curve is more elastic
5. At E' point = $AR=AC$ and $MC=MR$. It means that a firm earns normal profit. AR is tangent to the Long Run Average Cost (LAC) curve at point 'Q'.

Chapter 6

II. Very Short Answer Questions:

21. What is meant by distribution?

- ▲ Distribution means division of income among the four factors of production.
- ▲ Distribution is given in terms of rent to landlords, wage to labour, interest to capital and profit to entrepreneurs.

22. Mention the types of distribution.

1. **Personal Distribution:** Personal Distribution is the distribution of national income among the individuals.
2. **Functional Distribution:** Functional Distribution means the distribution of income among the four factors of production.

23. Define 'Rent'.

According to David Ricardo, Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil.

24. Distinguish between real and money wages.

| S.NO | Money / Nominal Wages | Real Wages |
|------|--|---|
| 1 | Money wages are referred to the wages paid in terms of money. | Real wages are the wages paid in terms of goods and services. |
| 2 | Example: Money received by a worker per unit of time or quantum of work etc., | Example: Real Wages = Money Wages – Effect of inflation on the purchasing power. |

25. What do you mean by interest?

- ◇ According to Alfred Marshall, "Interest is the price paid for the use of capital in any market"
- ◇ Interest is the reward paid by the borrower to the lender for the use of capital.

26. What is profit?

- ★ Profit is a return to the entrepreneur for the use of his entrepreneurial ability.
- ★ It is the net income of the organizer.

27. State the meaning of liquidity preference.

Liquidity preference means the preference of the people to hold wealth in the form of liquid cash other than bonds, securities, gold and etc.,.

III. Short Answer Questions:**28. What are the motives of demand for money?**

- ❖ **The Transaction Motive** The transaction motive relates to the desire of the people to hold cash for the current transactions. $M_t = f(y)$
- ❖ **The Precautionary Motive** The precautionary motive relates to the desire of the people to hold cash to meet unexpected or unforeseen expenditures. $M_p = f(y)$
- ❖ **The Speculative Motive** The speculative motive relates to the desire of the people to hold cash in order to take advantage of market movements. $M_s = f(i)$.

29. List out the kinds of wages.

- **Nominal Wages or Money Wages:** Nominal wages are referred to the wages paid in terms of money.
- **Real Wages:** Real wages are the wages paid in terms of goods and services.
- **Piece Wages:** Wages that are paid on the basis of quantum of work done.
- **Time Wages:** Wages that are paid on the basis of the amount of time.

30. Distinguish between rent and quasi-rent.

| S.NO | RENT | QUASI-RENT |
|------|--------------------------------------|--|
| 1. | Rent accrues to land | Quasi-rent accrues to manmade appliances. |
| 2. | The supply of land is fixed forever. | The supply of manmade appliances is fixed for a short period only. |
| 3. | It enters into price | It does not enter into price |

31. Briefly explain the Subsistence Theory of Wages.

1. According to this theory, wage must be equal to the subsistence level of the labourer and his family
2. Subsistence means the minimum amount of food, clothing and shelter which workers and their family require for existence.
3. If workers are paid higher wages than the subsistence level, the workers would be better off and they will have large families.

32. State the Dynamic Theory of Profit.

According to J.B Clark profit is the reward for dynamic changes in society. Profit cannot arise in a static (unchanged) society.

- ◆ Population is increasing
- ◆ Volume of Capital is increasing.
- ◆ Methods of production are improving.
- ◆ Forms of industrial organization are changing.
- ◆ The wants of consumer are multiplying.

33. Describe briefly the Innovation Theory of Profit.

According to Schumpeter profit is the reward for “innovation”. Innovation means invention put into commercial practice. An innovation may consist of the following:

- ✗ Introduction of a **new product**.
- ✗ Introduction of a **new method of production**.
- ✗ Opening up of a **new market**.
- ✗ Discovery of **new raw materials**
- ✗ Reorganization of an **industry / firm**.

34. Write a note on Risk bearing theory of profit

According to Hawley profit is the reward for “risk taking” in business. Risk taking is an essential function of the entrepreneur and is the basis of profit.

1. **Since the entrepreneur undertakes the risks, he receives profits.**
2. If the entrepreneur does not receive the reward, he will not be prepared to undertake the risks.

Thus, **higher the risks, the greater are the profit.**

3. It is the profit that induces the entrepreneurs to undertake such risks.

IV. Long Answer Questions:**35. Explain the Marginal Productivity Theory of Distribution.****Meaning**

According to the Marginal Productivity Theory of Distribution, the price or the reward for any factor of production is equal to the marginal productivity of that factor. In short, each factor is rewarded according to its marginal productivity.

Assumption

1. All the factors of production are homogenous.
2. Factors of production can be substituted for each other.
3. There is perfect competition both in the factor market and product market.
4. There is perfect mobility of factors of production.

Marginal Product

The Marginal product of a factor of production means the addition made to the total product by employment of an additional unit of that factor. The Marginal Product may be expressed as MPP, VMP and MRP.

Marginal Physical Product (MPP)

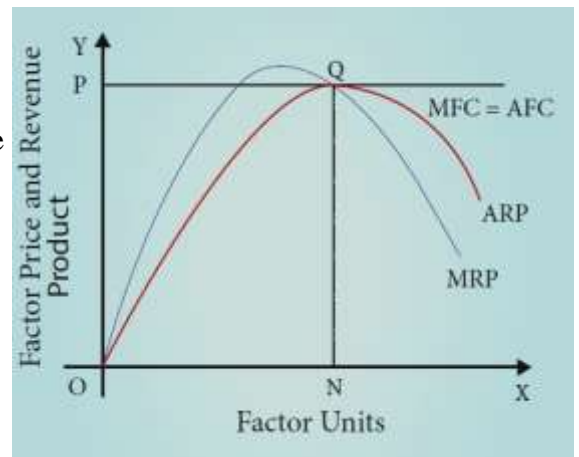
Value of Marginal Product = VMP = MPP x Price Marginal Revenue Product MRP = MPP x MR

MP :Under Perfect Competition

1. When there is perfect competition in the factor market, the firm is in equilibrium (i.e., earning maximum profits) only when $MFC = MRP$.
2. Hence, in the diagram, the firm reaches equilibrium at point Q by employing ON units of factors

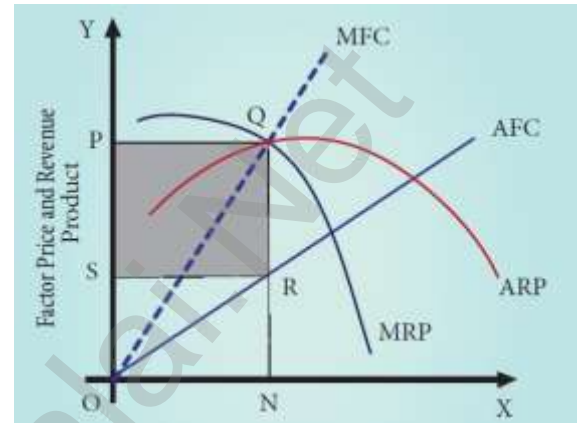
and paying OP price (NQ) where $MFC = MRP$.
At the point Q, $MRP = ARP$.

- The price paid to the factor (NQ) is also equal to marginal revenue product (NQ) and average revenue product (NQ).



Under Imperfect Competition

- Under imperfect competition, At the point Q, $MFC = MRP$, where the employer attains his maximum profit and so he stops employment of the factors at the point.
- The total exploitation of factor by the employer is $RQ \times SR = \text{“PQRS”}$ (shaded area).
- Thus, under imperfect competition, factor is exploited at the equilibrium position.



36. Illustrate the Ricardian Theory of Rent.

Definition

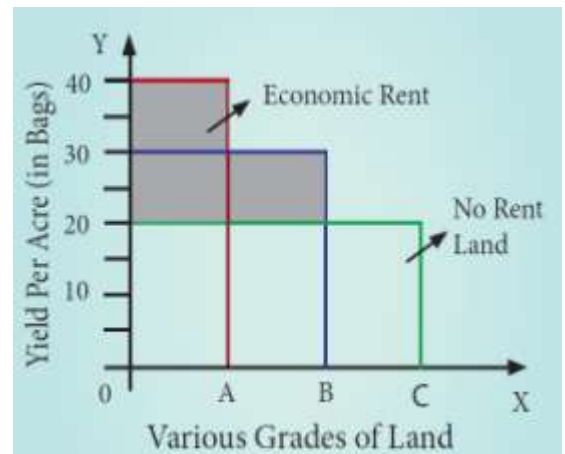
According to Ricardo, “Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil”.

Assumption

- Land differs in fertility.
- The law of diminishing returns operates in agriculture.
- Rent depends upon fertility and location of land.
- Theory assumes perfect competition.

Schedule of Ricardian Theory of Rent

| Grades of lands | Production | Surplus |
|-----------------|------------|----------------|
| A | 40 | $40 - 20 = 20$ |
| B | 30 | $30 - 20 = 10$ |
| C | 20 | $20 - 20 = 0$ |



Explanation

- In diagram, X axis represents various grades of land and Y axis represents yield per acre (in bags).
- OA, AB and BC are the ‘A’ grade, ‘B’ grade and ‘C’ grade lands respectively.
- The application of equal amount of labour and capital on each of them gives a yield represented by the rectangles standing just above the respective bases.
- The ‘C’ grade land is the “no-rent land” ‘A’ and ‘B’ grade lands are “intra – marginal lands”.

37. Elucidate the Loanable Funds Theory of Interest.

Definition

According to Loanable Funds theory, The rate of interest is determined by the equilibrium between demand for and supply of loanable funds in the credit market.

Demand for Loanable Funds

1. Demand for Investment (I)
2. Demand for Consumption (C)
3. Demand for Hoarding (H)

Supply of Loanable Funds

1. Savings (S)
2. Bank Credit (BC)
3. Dishoarding (DH)
4. Disinvestment (DI)

➤ The Loanable Funds Theory, also known as the “Neo-Classical Theory”,

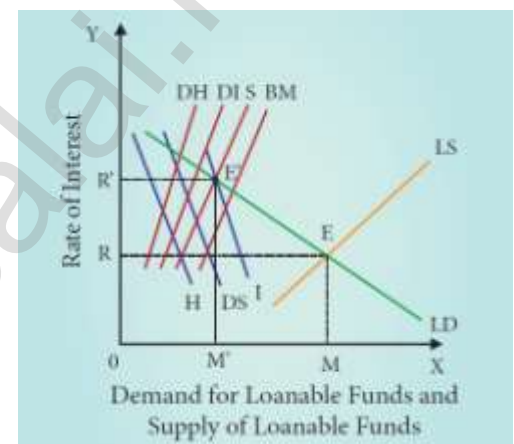
Equilibrium

The rate of interest is determined by the equilibrium between the total demand for and the total supply of loanable funds.

Supply of loanable funds = $S + BC + DH + DI$ Demand for loanable funds = $I + C + H$

$$E = S + BC + DH + DI = I + C + H$$

1. In Diagram, X axis represents the demand for and supply of loanable funds and Y axis represents the rate of interest.
2. The LD and LS curves, intersect each other at the point “E” the equilibrium point. At this point, OR rate of interest and OM is the amount of loanable funds.



Criticisms

1. The loanable funds theory is “indeterminate” unless the income level is already known.
2. Difficult to combine real factors like savings and investment with monetary factors like bank credit

38. Explain the Keynesian Theory of Interest.

Meaning

Liquidity preference means the preference of the people to hold wealth in the form of liquid cash rather than in other non-liquid assets like bonds, securities, bills of exchange, land, building, gold etc.

Motives of Demand for Money

1. The Transaction Motive

The desire of the people to hold cash for the current transactions (day-to-day expenses) $M_t = f(y)$

2. The Precautionary Motive

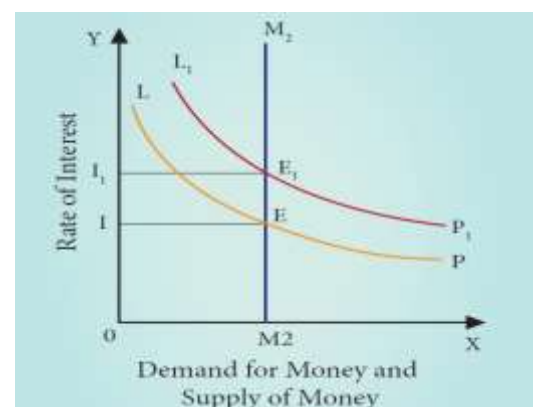
Desire of the people to hold cash to meet unexpected or unforeseen expenditures (sickness, accidents). $M_p = f(y)$

3. The Speculative Motive

The speculative motive relates to the desire of the people to hold cash in order to take advantage of market movements regarding the future. $M_s = f(i)$

Equilibrium between Demand and Supply of Money

- ▲ The rate of interest is determined by the demand for money and the supply of money.
- ▲ If liquidity preference increases from LP to L_1P_1 the supply of money remains constant,



- ▲ The rate of interest would increase from OI to OI_1 .
- ▲ The supply of money remains constants.
- ▲ Total demand for money = $M_t + M_p + M_s$

Demand for money = supply of money at equilibrium point ;

Equilibrium Point 1 = $E = LP = M_2 = I = \text{Rate of Interest} \dots (1)$

Equilibrium Point 2 = $E_1 = L_1 P_1 = M_2 = I_1 = \text{Rate of Interest} \dots (2)$

Chapter 7

II. Very Short Answer Questions:

21. Write the meaning of Economic Growth

1. A country's economic growth is usually measured by National Income, indicated by **Gross Domestic Product (GDP)**.

22. State any two features of developed economy

- | | |
|----------------------------|---------------------------|
| 1. High national income | 2. High per capita income |
| 3. High standard of living | 4. Full employment |

23. Write the short note on natural resources

1. Any stock or reserve that can be drawn from nature is a Natural Resource.
2. The major natural resources are -land, forest, water, mineral and energy.

24. Point out any one feature of Indian Economy.

India has a mixed economy :

Indian economy is a typical example of mixed economy. This means both private and public sectors co-exist and function smoothly.

25. Give the meaning of non-renewable energy

As the name suggests, the sources of energy which cannot be renewed or re-used are called non-renewable energy sources. coal, oil, gas etc.

26. Give a short note on Sen's 'Choice of Technique'.

Sen's 'Choice of Technique' was a research work where he argued that in a labour surplus economy (like India), generation of employment cannot be increased at the initial stage by the adaptation of capital-intensive technique.

27. List out the reasons for low per capita income as given by V.K.R.V. Rao.

- ❖ Uneconomic holdings with sub-divisions and fragmentation;
- ❖ Low levels of water availability for crops;
- ❖ Excess population pressure on agriculture due to the absence of a large industrial sector;
- ❖ Absence of capital;

III. Short Answer Questions:

28. Define Economic Development.

1. The level economic development is indicated not just by GDP, but by an increase in citizens' quality of life or well-being.
2. The quality of life is being assessed by several indices such as Human Development Index (HDI), Physical Quality of Life Index (PQLI) and Gross National Happiness Index (GNHI).
3. The level of economic development, nations are classified as developed and developing economics

29. State Ambedkar's Economic ideas on agricultural economics.

- ★ In 1918, Ambedkar published a paper "Small Holding in India and their Remedies".
- ★ Citing Adam Smith's 'Wealth of Nations', he made a fine distinction between "Consolidation of Holdings" and "Enlargement of Holdings".
- ★ This paper attempts to deal with the problem of the size of holding it affects agricultural

productivity.

30. Write on short note on village sarvodaya.

- ✧ According to Gandhi, “Real India was to be found in villages and not in towns or cities.”
- ✧ So he suggested the development of self- sufficient, self-dependent villages.
- ✧ **Sarvodaya** is a Sanskrit term meaning 'universal uplift' or 'progress of all'.

31. Write the strategy of Jawaharlal Nehru in India’s planning.

- ▲ The Plan was essentially an integrated approach for development.
- ▲ The essence of planning is to find the best way to utilize all resources of manpower, of money and so on.
- ▲ Economic growth on a self- accelerating growth.

32. Write the V.K.R.V.Rao’s contribution on multiplier concept.

- ❖ Rao’s examination of the “interrelation between investment, income and multiplier in an under developed economy”.
- ❖ Dr. Rao argued that whereas a primary increase in investment would take place, a subsequent, secondary and tertiary affects through the expansion of output in the consumption goods sector would not take place.
- ❖ Consequently, the multiplier process would not be operation.

33. Write a short note on Welfare Economics given by Amartya Sen.

1. Sen’s major point has been that the distribution of income/ consumption among the persons below the poverty line is to be taken into account.
2. The concept of capabilities developed by Sen has been cited as a better index of wellbeing than commodities or utilities.
3. Sen has included the concept of entitlement items like nutrition, food, medical and health care, employment, security of food supply in times of famine etc.

34. Explain Social infrastructure.

- ❖ Social infrastructure refers to those structures which are improving the quality of manpower and contribute indirectly towards the growth of an economy.
- ❖ These structures are outside the system of production and distribution.
- ❖ The development of these social structures help in increasing the efficiency and productivity of manpower. *For example, schools, colleges, hospitals and other civic amenities.*

IV. Long Answer Questions:

35. Explain strong features Indian economy

Important Strong features of Indian Economy

1. India has a mixed economy

Indian economy is a typical example of mixed economy. This means both private and public sectors co-exist and function smoothly.

2. Agriculture plays the key role

Around 60% of the people in India depend upon agriculture for their livelihood. In fact, about 17% of our GDP today is contributed by the agricultural sector.

3. An emerging market

India has a high potential for prospective growth. This also makes it an emerging market for the world.

4. Fast Growing Economy

India has emerged as the world’s fastest growing economy in the year 2016-17 with the growth rate of 7.1% in GDP next to sChina.

5. Fast growing Service Sector

The service sector, contributes a lion’s share of the GDP in India. There has been a high rise growth in the technical sectors like Information Technology, BPO etc.

6. Demographic dividend

The human capital of India is young. This means that India is a pride owner of the maximum

percentage of youth.

36. Write the importance of mineral resources in India.

a. Iron-Ore:

India possesses high quality iron-ore in abundance. Hematite iron is mainly found in Chattisgarh, Jharkhand, Odisha, Goa and Karnataka.

b. Coal and Lignite:

India ranks third in the world after China and USA in coal production. The main centres of coal in India are the West Bengal, Bihar, Madhya Pradesh, Maharashtra, Odisha and Andhra Pradesh.

c. Bauxite:

Major reserves are concentrated in the East Coast bauxite deposits of Odisha and Andhra Pradesh.

d. Mica:

India stands first in sheet mica production and contributes 60% of mica trade in the world.

e. Crude Oil:

Oil is being explored in India at many places of Assam and Gujarat.

f. Gold

India possesses only a limited gold reserve. There are only three main gold mine regions—Kolar Goldfield, Hutti Goldfield (both in Karnataka) and Ramgiri Goldfield (Andhra Pradesh).

37. Bring out Jawaharlal Nehru's contribution to the idea of economic development.

- ▲ Jawaharlal Nehru, one of the chief builders of Modern India,
- ▲ He was a great patriot, thinker and statesman.
- ▲ His views on economics and social problems are found in the innumerable speeches he made and in the books he wrote.
- ▲ Jawaharlal Nehru was a firm believer in democracy.
- ▲ Secularism is another significant contribution of Nehru to India.
- ▲ To Jawaharlal Nehru, the Plan was essentially an integrated approach for development.
- ▲ Jawaharlal Nehru was responsible for the introduction of planning in our country.
- ▲ It was during his period, many IITs and Research Institutions were established.
- ▲ Socialism is another contribution of Nehru to India. Nehru's socialism is democratic socialism.

38. Write a brief note on the Gandhi an economic ideas.

| s.no | Gandhian Thought | Gandhian Economics is based on ethical foundations. |
|------|------------------------------------|--|
| 1. | Village Republics | To Gandhi, India lives in villages. He was interested in developing the villages as self-sufficient units. |
| 2. | On Machinery | Gandhi described machinery as 'Great sin'. |
| 3. | Industrialism | Gandhi considered industrialism as a curse on mankind. |
| 4. | Decentralization | He advocated a decentralized economy, |
| 5. | Village Sarvodaya | He suggested the development of self-sufficient, self-dependent villages. |
| 6. | The Doctrine of Trusteeship | Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one |

Chapter 8

II. Very Short Answer Questions:

21. What are the Phases of colonial exploitation of India?

- ▲ Period of merchant capital
- ▲ The period of industrial capital and
- ▲ The period of finance capital

22. Name out the different types of land tenure existed in India before Independence.

1. Zamindari system
2. Mahalwari system
3. Ryotwari system

23. State the features that distinguish a land tenure system from other system.

- ★ Who owns the land ;
- ★ Who cultivates the land;
- ★ Who is responsible for paying the land revenue to the government.

24. List out the weaknesses on Green Revolution.

- ◇ Indian Agriculture was still a gamble of the monsoons.
- ◇ This strategy needed heavy investment in seeds, fertilizers, pesticides and water.
- ◇ The income gap between large,
- ◇ Widespread unemployment among agricultural labourers in the rural areas.

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

Main Objectives 10th FYP (2002-2007)

1. This plan aimed to double the per capita income of India in the next 10 years.
2. It aimed to reduce the poverty ratio to 15% by 2012.
3. Its growth target was 8.0% but it achieved only 7.2%.

26. What is the difference between HDI and PQLI ?

| Points | 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 |
| Based on | PQLI is based on a) Life expectancy indicator b) Infant mortality indicator c) Basic Literacy indicator | HDI is based on a) Life expectancy indicator b) Educational attainment indicator c) Standard of Living indicator |

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

1. Life expectancy at birth
2. Adult literacy rate
3. Gross Enrollment ratio
4. GDP Per capita (PPP US \$)

III. Short Answer Questions:

28. Explain about the Period of Merchant Capital.

1. The period of merchant capital was from 1757 to 1813.
2. The only aim of the East India Company was to earn profit.
3. India had been considered as the best hunting ground for capital by EIC
4. The company administration succeeded in generating huge surpluses which were repatriated to England.

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

- Through discriminatory tariff policy, the British Government purposefully destroyed the handicrafts.
- With the disappearance of nawabs and kings, there was no one to protect Indian handicrafts.
- Indian handicraft products could not compete with machine-made products.
- The 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.❖ **Zamindari System or the Land lord-Tenant System**

Zamindars were declared as the owners of the land and they were responsible to pay the land revenue to the government.

❖ **Mahalwari System or Communal System of Farming**

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

❖ **Ryotwari System or the Owner-Cultivator System**

Under this system the ownership rights of use and control of land were held by the tiller himself.

31. State the reasons for nationalization of commercial banks.

- The main objective of nationalization was **to attain social welfare**.
- Nationalisation of banks helped **to curb private monopolies**
- Needed **to encourage the banking habit among the rural population**.
- **To reduce the regional imbalances** where the banking facilities were not available.
- **Credit facilities mainly to the agriculture sector** and its allied activities

32. Write any three objectives of Industrial Policy 1991.**Objectives:**

- ★ Reduce disparities in income and wealth
- ★ Higher employment generation
- ★ Focus on development of small scale sector
- ★ Rural industrialization

33. Give a note on Twelfth Five Year Plan.

1. Its main theme is "Faster, More Inclusive and Sustainable Growth".
2. Its growth rate target is 8%.

Major Objectives:

- ❖ For growth to be more inclusive we need: Better performance in agricultural
- ❖ Faster creation of jobs, especially in manufacturing
- ❖ Stronger efforts at health, education and infrastructure

34. What is PQLI ?

- ✘ Morris D Morris developed the Physical Quality of Life Index (PQLI).
- ✘ The PQLI is a measure to calculate the quality of life (well being of a country).
- ✘ For this, he included three indicators such as life expectancy, infant mortality rate and literacy rate.
- ✘ A scale of each indicator ranges from the number 1 to 100.

IV. Long Answer Questions:**35. Discuss about the Indian economy during British Period.**

On the basis of the form of colonial exploitation, economic historians have divided the British period into three phases: namely,

1. The period of merchant capital
2. The period of industrial capital
3. The period of finance capital

| Periods under British Rule | Period | State of Indian Economy |
|------------------------------|----------------------------|---|
| Period of merchant capital | From 1757 TO 1813 | 4. Aim of the East India Company was to earn profit 5. The best hunting ground for capital 6. The officers of the company were unscrupulous and corrupt. |
| Period of Industrial Capital | From 1813 To 1858 | 4. India had become a market for British textiles. 5. Indians were exploited 6. India's traditional handicrafts were thrown out of gear. |
| Period of Finance Capital | From 1858 To 1947 | 4. Finance imperialism began to entrench itself 5. Britain decided to make massive investments in various fields 6. Railway construction policy of the British led to unimaginable as well as uneconomic. |

36. Explain the role of SSIs in economic development?

1. Provide Employment

SSIs use labour intensive techniques. Hence, they provide employment opportunities to a large number of people.

2. Bring Balanced Regional Development

SSIs promote decentralized development of industries as most of the SSIs are set up in backward and rural areas.

3. Help in Mobilization of Local Resources

SSIs help to mobilize and utilize local resources like small savings, entrepreneurial talent etc.,

4. Pave for Optimisation of Capital

SSIs require less capital per unit of output. They provide quick return on investment

5. Promote Exports

SSIs do not require sophisticated machinery. There is a great demand for goods produced by SSIs in international market.

6. Develop Entrepreneurship

SSIs help to develop a class of entrepreneurs in the society

37. Explain the objectives of nationalization of commercial banks.

- ▲ The main objective of nationalization was to attain social welfare.
- ▲ Nationalisation of banks helped to curb private monopolies in order to ensure a smooth supply of credit
- ▲ To encourage the banking habit among the rural population.
- ▲ To reduce the regional imbalances where the banking facilities were not available.
- ▲ After nationalization, new bank branches were opened in both rural and urban.
- ▲ Credit facilities mainly to the agriculture sector and its allied activities

38. Describe the performance of 12th five year plan in India.

- ➔ Its main theme is "Faster, More Inclusive and Sustainable Growth".
- ➔ Its growth rate target is 8%.

Major Objectives:

- ★ For growth to be more inclusive we need; Better performance in agriculture
- ★ Faster creation of jobs, especially in manufacturing
- ★ Stronger efforts at health, education and infrastructure.

- * Special plans for disadvantaged/backward regions

Major Achievements (Performance of 12th Five Year Plan)

- ❖ Implementation of Pandit Madan Mohan Malaviya National Mission on Teachers & Teaching.
- ❖ Uchcharat Aavishkar Abhiyan programme to promote industry-specific need-based research.
- ❖ The National Mission on Education through Information and Communication Technology for making the best use of ICT
- ❖ Rashtriya Uchcharat Shiksha Abhiyan (RUSA) has been approved which aims to achieve equity, access and excellence in higher education.
- ❖ Free and compulsory education to all children in the age group of 6 to 14 years
- ❖ Construction of school toilets under Swachh Vidyalay initiative
- ❖ Implementation of Udaan programme to ensure quality education for girl child
- ❖ Padhe Bharat Badhe Bharat initiative to increase learning outcomes in children.

Chapter 9

II. Very Short Answer Questions:

21. Why was structural reform implemented in Indian Economy?

Indian economy responded to the crisis by introducing a set of policies known as Structural Reforms.

22. State the reasons for implementing LPG.

Basic reasons behind liberalization, privatization could be summarized as nations believe that globalization and nation - states are not in contradiction.

23. State the meaning of Privatization.

Privatization means transfer of ownership and management of enterprises from public sector to private sector.

24. Define disinvestment

Disinvestment means selling of government securities of Public Sector Undertakings (PSUs) to other PSUs or private sectors or banks.

25. Write three policy initiative introduced in 1991 – 92 to correct the fiscal imbalance.

- ❖ Reduction in fertilizer subsidy
- ❖ Abolition of subsidy on sugar
- ❖ Disinvestment of a part of the government holdings

26. State the meaning of Special Economic Zones.

A special economic zone (SEZ) is an area in which business and trade laws are different from the rest of the country. and their aims include: increased trade, increased investment, job creation

27. State the various components of Central sector schemes under post - harvest measures.

The ministry of food processing Industries (MOFPI) has implemented various components of central sector schemes, namely :

- (i) Mega Food Parks
- (ii) Scheme for Quality Assurance.

III. Short Answer Questions:

28. How do you justify the merits of Privatisation?

- ❖ Helps in reducing the burden on government.
- ❖ Makes the public sector units competitive.
- ❖ Greater autonomy for public sector units.
- ❖ Industrial growth.

29. What are the measures taken towards Globalization?

“Globalization refers to the integration of the domestic (Indian) economy with the rest of the world”

Measures of globalization

- ➔ Import liberalization through reduction of tariff and non-tariff barriers,
- ➔ opening the doors to Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are some of the measures towards globalization.
- ➔ The economic activity of multinational firms and the internationalisation of technology.

30. Write a note on Foreign investment policy?

Red carpet welcome to foreign investment and foreign technology Enhanced the industrial competition and improved business, including FDI and FPI were allowed Automatic permission was granted for a specified list of high-technology and high- investment priority industries

31. Give short note on Cold storage.

- ➔ India is the largest producer of fruits and second largest producer of vegetables in the world.
- ➔ Most of the problems relating to the marketing of fruits and vegetables can be traced to their perishability.
- ➔ In order to overcome this constraint, the Government of India and the Ministry of Agriculture promulgated an order known as “Cold Storage Order, 1964”

32. Mention the functions of APMC.

- ❖ To promote public private partnership in the ambit of agricultural markets.
- ❖ To provide market led extension services to farmer.
- ❖ To bring transparency in pricing system and transactions taking place in a transparent manner.
- ❖ To promote agricultural activities.

33. List out the features of new trade policy.

- ➔ **Free imports and exports:** Prior to 1991, in India imports were regulated. From 1992, imports were regulated by a limited negative list.
- ➔ **Rationalization of tariff structure and removal of quantitative restrictions**
 - ▲ Free imports and exports
 - ▲ Reducing tariffs
 - ▲ Liberalization of the exchange rate regime

34. What is GST? Write its advantages.

“Goods and Services Tax (GST) is defined as the tax levied when a consumer buys a good or service”

- ➔ The Act came into effect on 1st July 2017. *The motto is one nation, one market, one tax.*

Advantages

- Removing cascading tax effect
- Single point tax
- Higher threshold for registration
- Composition scheme for small business

IV. Long Answer Questions:**35. Discuss the important initiatives taken by the Government of India towards Industrial Policy.****Meaning of Industrial Policy:**

- ❖ **Any government action aimed at affecting industry** may be considered to be part of industrial policy, which makes it a limitless field.
- ❖ It usually means government action to influence the ownership and structure of industry and its performance, paying subsidies or providing finance, or of regulation.

| Industrial Policy | Important Initiatives |
|---|---|
| Industrial Policy Resolutions 1948 | <ol style="list-style-type: none"> 1. It ushered India as a the system of mixed economy. 2. Industries were classified into four groups such as public sector, public-cum-private Sector, controlled private sector, private and co-operative sectors. 3. This policy endeavoured to protect cottage and small scale industries. |
| Industrial Policy Resolution 1956 | <ol style="list-style-type: none"> 1. It assured a fair treatment to the private sector 2. Support and encourage cottage and small scale enterprises 3. Indianisation of foreign concerns |
| The New Industrial Policy of 1991 | <ol style="list-style-type: none"> 1. Industrial licensing will be abolished for all projects except for a short list of industries 2. The policy provides for automatic clearance for import of capital goods |

36. Explain the objectives and characteristics of SEZs.

Meaning of Special Economic Zones.

1. A **special economic zone (SEZ)** is an area in which business and trade laws are different from the rest of the country.
2. SEZs are located within a country's national borders, and their aims include: increased trade, increased investment, job creation and effective administration.

Major Objectives of SEZs

- ▲ To enhance foreign investment (especially FDI)
- ▲ To increase shares in Global Export
- ▲ To generate additional economic activity.
- ▲ To create employment opportunities.
- ▲ To develop infrastructure facilities.

Main Characteristics of SEZ

1. Geographically demarked area with physical security
2. Administrated by single body/ authority
3. Streamlined procedures
4. Having separate custom area
5. Governed by more liberal economic laws.

37. Describe the salient features of EXIM policy (2015 – 2020)

1. Reduce export obligations by 25% and give boost to domestic manufacturing supporting the "Make in India" concept.
2. As a step to Digital India concept, online procedure to upload digitally signed document by CA/CS/Cost Accountant are developed and further mobile app for filing tax, stamp duty has been developed.
3. Repeated submission of physical copies of documents available on Exporter Importer Profile is not required.
4. Export obligation period for export items related to defence, military store, aerospace and nuclear energy to be 24 months.
5. EXIM Policy 2015-2020 is expected to double the share of India in World Trade from present level of 3% by the year 2020. This appears to be too ambitious.

Chapter 10

21. Define Rural Economy.

- ✧ Rural areas are geographical areas located outside towns and cities.
- ✧ Rural economy refers to villages, and rural community refers to people living in villages.

22. What do you mean by Rural Development?

- Rural Development is a strategy designed to improve the economic and social life of a specific group of people - rural poor'.
- In short, rural development is a process of improving the rural areas, rural people and rural living.

23. Rural Poverty – Define.

Poverty in India has been defined as the situation in which an individual fails to earn sufficient income to buy the basic minimum of subsistence.

24. Define Open Unemployment.

1. In **Open Unemployment**, unemployed **persons** are identified as **they remain without work**.
2. This type of unemployment is found among **agricultural labours**.

25. What is meant by Disguised Unemployment?

In Rural areas, many are **employed below their productive capacity** and even if they are withdrawn from work the output will not diminish. It is called Unemployment

26. Define Cottage Industry.

Cottage industries are generally associated with agriculture and provide both part- time and full-time jobs in rural areas. Examples: Pottery, Basket Weaving, Coir products and etc.,

27. What do you mean by Micro Finance?

Micro finance, also known as micro credit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who do not have access to traditional sources of capital, like banks or investors.

28. State any two causes of housing problem in rural areas.

- Rapid adaptation of nuclear families
- Lack of proper water supply
- Lack of good sanitation and
- Lack of proper disposal of sewage

29. Define Rural Electrification.

The main aims of rural electrification are to provide electricity to agricultural operations and to enhance agricultural productivity,

30. State any two factors hindering Rural Electrification in India.

1. Lack of Funds
2. Inter-state Disputes
3. Uneven Terrain
4. High Transmission Loss

III. Short Answer Questions:

31. State the importance of Rural Development.

1. A major share of population contributions are very much supportive for the nation building activities.
2. The rural economy supports the urban sectors
3. Improvements in education, health and sanitation in villages can help avoid many urban problems
4. providing gainful employment in rural areas and improving overall food production.
5. rural-urban migration can be reduced

32. Explain the causes for rural development.

- ❖ The distribution of land is highly skewed in rural areas.
- ❖ Non-farm employment opportunities do not match the increasing labour force.
- ❖ Lack of public sector investment on human resource development.
- ❖ Steady increase in prices affects the purchasing power
- ❖ Low productivity of rural labour

33. Enumerate the remedial measures to Rural Poverty.

- (i) Creation of employment opportunities.
- (ii) To help the poor to become more productive.
- (iii) Necessary changes in the economic structure as well as occupational structure.
- (iv) Control the unproductive expenditures by villagers.
- (v) Effective implementation of assets.

34. What are the remedial measures for Rural Unemployment?

1. To reduce the seasonal unemployment rural people should be encouraged to adopt subsidiary occupations.
2. Rural Works Programme such as construction and maintenance of roads, digging of drains, canals, etc
3. The increased cropping intensity creates additional demand for labour.
4. To provide employment new industries should be set up in rural areas.

35. Write a note on Regional Rural Banks.

1. Regional Rural Banks came into existence in 1975.
2. At present, there are 64 Regional Rural Banks in India.
3. To develop rural economy by providing credit and,
4. Other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs

36. Mention the features of SHGs.

1. SHG is generally an economically homogeneous group formed through a process of self-selection based upon the affinity of its members.
2. Most SHGs are women's groups with membership ranging between 10 and 20.
3. SHGs have well-defined rules and by-laws, hold regular meetings and maintain records and savings and credit discipline.
4. SHGs are self-managed institutions characterized by participatory and collective decision making.

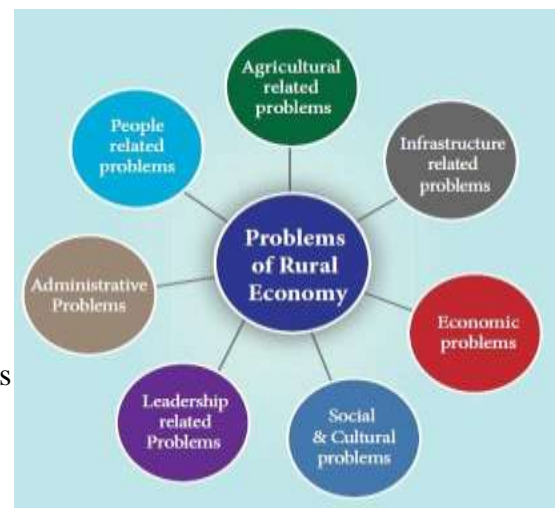
37. List out the objectives of MUDRA Bank.

1. Regulate the lender and the borrower of microfinance
2. bring stability to the microfinance system .
3. lend money to small businesses, retailers, self-help groups and individuals.
4. introduce a system of performance rating and accreditation for the first time.

IV. Long Answer Questions:**38. The features of Rural Economy are peculiar? - Argue.****Meaning**

Rural economy refers to villages, and rural community refers to people living in villages. **Village is an Institution:** The Village is a primary institution and it satisfies almost all the needs of the rural community.

1. **Dependence on Agriculture:** The rural economy depends much on nature and agricultural activities.
3. **Life of Rural People:** Lifestyles in villages are very simple.



Public services like education, housing, health and sanitation, transport and communication, banking, roads and markets are limited and unavailable.

4. **Population Density:** Population density, measured by number of persons living per sq. km is very low and houses are scattered in the entire villages.
5. **Employment:** Exists unemployment, seasonal unemployment and underemployment in rural areas.
6. **Poverty:** About 22 crores of people in rural areas are poor and live below the poverty line.

39. Discuss the problems of Rural Economy.

1. The problems related to individuals and their standard of living consist of illiteracy etc.,
2. Agricultural problems as 1.Lack of expected awareness, knowledge, skill and attitude, Unavailability of inputs and so on.
3. Poor infrastructure facilities like, water, electricity, transport, educational institutions, communication, health and etc.,
4. The economic problems related to rural areas are: inability to adopt high cost technology, high cost of inputs and so on.
5. Leadership among the hands of inactive and incompetent people, self-interest of leaders.

40. Analyse the causes for Rural Indebtedness.

Meaning

Rural indebtedness refers to the **situation of the rural people unable to repay the loan** accumulated over a period.

1. Poverty of Farmers:

The vicious circle of poverty forces the farmers to borrow for consumption, cultivation and celebrations. Thus, poverty, debt and high rates of interest hold the farmer in the grip of money lenders.

2. Failure of Monsoon:

Frequent failure of monsoon is a curse to the farmers and they have to suffer due to the failure of nature. Therefore, farmers find it difficult to identify good years to repay their debts.

3. Litigation:

Due to land disputes litigation in the court compels them to borrow heavily. Being uneducated and ignorant they are caught in the litigation process and dry away their savings and resources.

4. Money Lenders and High Rate of Interest:

The rate of interest charged by the local money lenders is very high and the compounding of interest leads to perpetuate indebtedness of the farmer.

Chapter 11

II. Very Short Answer Questions:

21. State any two districts with favorable sex ratio. Indicate the ratios.

| S.No | District | Sex Ratio (No. of Females per 1000 Males) |
|------|--------------|---|
| 1 | The Nilgiris | 1041 |
| 2 | Thanjavur | 1031 |
| 3 | Nagapattinam | 1025 |
| 4 | Tirunelveli | 1024 |
| 5 | Thoothukkudi | 1024 |

Source : Census of India, 2011

22. Define GSDP.

1. The Gross State Domestic Product refers to the total money value of all the goods and services produced annually in the State.
2. Tamil Nadu is the second largest economy (GSDP) in India

23. Mention any four food crops which are favourable to Tamil Nadu.

1. Rice,
2. Kambu,
3. Corn,
4. Groundnut,
5. Oil Seeds
6. Sugarcane

24. What are major ports in Tamil Nadu?

Tamil Nadu has three major ports, - Chennai, Ennore, and Tuticorin

25. What is heritage tourism?

“Heritage tourism is traveling to experience the places, artifacts and activities that authentically represent the stories and people of the past and present. It includes cultural, historic, and natural resources.”

26. What are the nuclear power plants in Tamil Nadu?

The Kalpakkam Nuclear Power Plant and the Koodankulam Nuclear Power Plant are the major nuclear energy plants for the energy grid.

27. Define Micro industry

The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are: Enterprise with a capital investment, not exceeding 25 lakhs is called micro industry

III. Short Answer Questions:**28. Write a note on mineral resources in Tamil Nadu.**

- ▲ Tamil Nadu has a few mining projects based on Titanium, Lignite, Magnesite, Graphite, Limestone, Granite and Bauxite.
- ▲ The first one is the Neyveli Lignite Corporation that has led development of large industrial complex around Neyveli in Cuddalore district with Thermal power plants.
- ▲ Magnesite mining is at Salem from which mining of Bauxite ores are carried out at Yercaud and this region is also rich in Iron Ore at Kanjamalai.

29. Explain GSDP in Tamil Nadu.

- ★ Tamil Nadu is the second largest economy in India with a GSDP of \$ 207.8 billion in 2016-17 according to the Directorate of Economics and Statistics, Tamil Nadu.
- ★ The GSDP of Tamil Nadu is equal to the GDP of Kuwait on nominal term and GDP of UAE on PPP terms.
- ★ The GSDP of Tamil Nadu is far higher compared to many countries as shown below. This is mainly due to population effect.

30. Describe development of textile industry in Tamil Nadu.

1. Tamil Nadu is the largest textile hub of India.
2. Tamil Nadu is known as the “Yarn Bowl” of the country accounting for 41% of India’s cotton yarn production.
3. Employment to an estimated 35 million people
4. The textile sector contributes to 14% of the manufacturing sector.

31. Compare productivity of any two food crops between Tamil Nadu and India.

1. The Government of Tamil Nadu lays emphasis on agricultural production and productivity.
2. As a result, Tamil Nadu tops in productivity, in food crops as well as non-food crops, among the States in India.

32. Explain the prospect for development of tourism.

1. Tamil Nadu has since ancient past been a hub for tourism. In recent years, the state has emerged as one of the leading tourist destinations for both domestic and foreign tourists.
2. The State currently ranks the highest among Indian States with about 25 crore arrivals
3. Approximately 28 lakh foreign and 11 crore domestic tourists visit the State.

33. What are the renewable sources of power in Tamil Nadu?

1. Hydel Energy

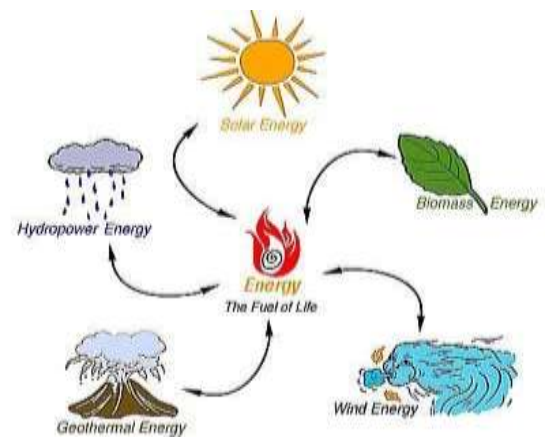
There are about 20 hydro electric units in TamilNadu. The prominent units are Hundah, Mettur, Periyar, Maravakandy, Parson Valley etc.

2. Solar Energy

Southern Tamil Nadu is considered as one of the most suitable regions in the country for developing solar power projects.

3. Wind Energy

Tamil Nadu has the highest installed wind energy capacity in India. The State has very high quality of off shore wind energy.



34. Describe the performance of Tamil Nadu economy in health.

- ➔ Tamil Nadu has a three – tier health infrastructure comprising hospitals, primary health centres, health units, community health centres and sub-centres.
- ➔ As of March 2015, the State had 34 district hospitals, 229 sub-divisional hospitals, 1,254 primary health centres, 7,555 Sub-centres and 313 community health centres.

IV. Long Answer Questions:

35. Describe the qualitative aspects of population.

Meaning

Quantitative aspects include composition, density, distribution, growth, movement, size, and structure of the population.

1. Sex ratio (Number of female per 1000 males)

Balanced sex ratio implies improvement in quality of life of female population. The sex ratio in Tamil Nadu is nearing balance with 995 which is far better compared to most of the States and all India level.

2. Infant Mortality Rate (mortality before completing 1 year)

3. Maternal Mortality Rate (MMR) (Mother's death at the time of delivery per 1 lakh)

4. Life Expectancy at birth

The average period that a person may expect to live is called life expectancy.

5. Literacy

The literacy rate of Tamil Nadu is higher than in many States.

36. Explain the various sources of energy in Tamil Nadu.

- ❖ Tamil Nadu **tops in power generation** among the southern States
- ❖ Tamil Nadu is in the **forefront of all other Indian States in installed capacity.**
- ❖ There are about **20 hydro electric units in Tamil Nadu.**
- ❖ The **Kalpakkam Nuclear Power Plant and the Koodankulam Nuclear Power Plant** are the major nuclear energy plants for the energy grid.
- ❖ The thermal power plants are at **Athippattu (North Chennai) Ennore, Mettur, Neyveli and Thoothukudi.**
- ❖ Tamil Nadu has the **highest installed wind energy capacity in India.**

37. Explain the public transport system in Tamil Nadu.

Tamil Nadu Public Transport System

Tamil Nadu has a well established transportation system that connects all parts of the State.

- a. Road:** There are 28 national highways in the State, covering a total distance of 5,036 km. It ranks second in India with a share of over 20% in total road projects under operation.

b. Rail: Tamil Nadu has a well-developed rail network as part of Southern Railway, Headquartered at Chennai. Tamil Nadu has a total railway track length of 6,693 km and there are 690 railway stations in the State.

d. Ports: Tamil Nadu has three major ports; one each at Chennai, Ennore, and Tuticorin, as well as one intermediate port in Nagapattinam, and 23 minor ports.

Chapter 12

II. Very Short Answer Questions:

21. If $62 = 34 + 4x$ what is x ?

Solution :

$$62 = 34 + 4x$$

$$62 - 34 = 4x$$

$$28 = 4x$$

$$x = \frac{28}{4}$$

$$\therefore x = 7$$

23. Find the average cost function where

$$TC = 60 + 10x + 15x^2$$

[BE

Solution :

$$TC = 60 + 10x + 15x^2$$

$$\text{Formula} = \frac{TC}{x}$$

$$\begin{aligned} \text{Average cost function} &= \frac{60}{x} + \frac{10x}{x} + \frac{15x^2}{x} \\ &= \frac{60}{x} + 10 + 15x \end{aligned}$$

22. Given the demand function $q = 150 - 3p$, derive a function for MR.

Solution :

$$\text{Demand function } q = 150 - 3p, \text{ MR} = ?$$

$$\frac{dq}{dp} = -3$$

$$\eta_d = \frac{-p}{q} \frac{dq}{dp} = \frac{-p}{150-3p} (-3)$$

$$= \frac{3p}{150-3p}$$

$$MR = p \left[1 - \frac{1}{\eta_d} \right] = p \left[1 - \frac{1}{\frac{3p}{150-3p}} \right]$$

$$= p \left[1 - \frac{(150-3p)}{3p} \right]$$

$$= p \left[\frac{3p-150+3p}{3p} \right]$$

$$= p \left[\frac{6p-150}{3p} \right]$$

$$= \frac{6}{3} [p-25]$$

$$= 2[p-25]$$

$$\boxed{MR = 2p - 50}$$

24. The demand function is given by $x = 20 - 2p - p^2$ where p and x are the price and the quantity respectively. Find the elasticity of demand for $p = 2.5$

[Govt. MQP-2018]

Solution :

$$\eta_d = \frac{p}{x} \frac{dx}{dp}$$

$$\frac{dx}{dp} = -2 - 2p$$

$$\eta_d = \frac{-p}{20-2p-p^2} (-2-2p)$$

$$= \frac{2p(p+p)}{20-2p-p^2}$$

When $p = 2.5$

$$\eta_d = \frac{2(2.5)(1+2.5)}{20-2(2.5)-(2.5)^2}$$

$$= \frac{5(3.5)}{20-5-6.25}$$

$$= \frac{17.5}{15-6.25}$$

$$\eta_d = \frac{17.5}{8.75}$$

$$\boxed{\text{Ans.} = 2}$$

25. Suppose the price p and quantity q of a commodity are related by the equation $q = 30 - 4p - p^2$ find

(i) e_d at $p = 2$ (ii) MR

Solution :

$$(i) \quad \frac{dq}{dp} = (-4 - 2p)$$

$$\eta^d = \frac{-p}{q} \left(\frac{dq}{dp} \right)$$

$$= \frac{-p}{30 - 4p - p^2} (-4 - 2p)$$

$$= \frac{4p + 2p^2}{30 - 4p - p^2}$$

Put $p = 2$,

$$= \frac{4(2) + 2(2)^2}{30 - 4(2) - 2^2} = \frac{8 + 8}{30 - 8 - 4}$$

$$= \frac{16}{18} = \frac{8}{9}$$

(ii) MR = ?

$$MR = \frac{dq}{dp} (-4 - 2p)$$

$$R = pq$$

$$= p(30 - 4p - p^2)$$

$$= 30p - 4p^2 - p^3$$

$$MR = \frac{dR}{dp}$$

$$= 30(1) - 4(2p) - 3(p)^2$$

$$= 30 - 8p - 3p^2$$

$$MR = 30 - 8p - 3p^2$$

26. What is the formula for elasticity of supply if you know the supply function? [BEQ]

Solution :

$$\text{Elasticity of supply} = \frac{p}{q} \frac{dq}{dp}$$

$P_s = X_0 P_0$ - integration of supply function within limited

$$= X_0 P_0 - \int_0^{x_0} g(x) dx$$

27. What are the Main menus of MS Word?

- ❖ Home menu
- ❖ Insert
- ❖ Page Layout
- ❖ Reference
- ❖ Review
- ❖ View

III. Short Answer Questions:

28. Illustrate the uses of Mathematical Methods in Economics.

1. Mathematical Methods help to present the economic problems in a more precise form.
2. Mathematical Methods help to explain economic concepts.

3. Mathematical Methods help to use a large Number variables in economic analyses.
4. Mathematical Methods help to quantify the impact or effect of any economic activity implemented by Government or anybody.

29. Solve for x quantity demanded if $16x - 4 = 68 + 7x$

Solution :

$$16x - 4 = 68 + 7x$$

$$16x - 7x = 68 + 4$$

$$9x = 72$$

$$x = \frac{72}{9}$$

$$\therefore x = 8$$

30. A firm has the revenue function $R = 600q - 0.03q^2$ and the cost function is $C = 150q + 60,000$, where q is the number of units produced. Find AR, AC, MR and MC. [BEQ]

Solution :

$$MR = \text{Marginal Revenue} = \left(R, \frac{1}{q} \right)$$

$$R = 600q - 0.03q^2$$

$$R' = 600 - (0.03) 2(q) = 600 - 0.06q$$

$$AR = \frac{R}{q}$$

$$= \frac{600q - 0.03q^2}{q}$$

$$= \frac{600 \cancel{q} - 0.03q \cancel{q}}{\cancel{q}}$$

$$AR = 600 - 0.03q$$

$$\text{Average cost (AC)} = \frac{\text{Total cost}}{\text{output}}$$

$$= \frac{150q + 60000}{q}$$

$$AC = \frac{150 \cancel{q} + 60000}{\cancel{q}}$$

$$AC = 150 + \frac{60000}{q}$$

$$\text{Marginal cost (MC)} = \frac{d}{dq} (C)$$

$$= \frac{d}{dq} (150q + 60000)$$

$$MC = 150$$

31. Solve the following linear equations by using Cramer's rule.

$$\begin{aligned}x_1 - x_2 + x_3 &= 2; \\x_1 + x_2 - x_3 &= 0; \\-x_1 - x_2 - x_3 &= -6\end{aligned}$$

Solution :

$$\begin{aligned}x_1 - x_2 + x_3 &= 2; & (1+4-3) \\x_1 + x_2 - x_3 &= 0; \\-x_1 - x_2 - x_3 &= -6\end{aligned}$$

$$\begin{bmatrix} 1 & -1 & 1 \\ 1 & 1 & -1 \\ -1 & -1 & -1 \end{bmatrix} \begin{bmatrix} x_1 \\ x_2 \\ x_3 \end{bmatrix} = \begin{bmatrix} 2 \\ 0 \\ -6 \end{bmatrix}$$

$$AX = B$$

$$A = \begin{bmatrix} 1 & -1 & 1 \\ 1 & 1 & -1 \\ -1 & -1 & -1 \end{bmatrix}$$

$$\begin{aligned}\Delta &= \begin{vmatrix} 1 & -1 & 1 \\ 1 & 1 & -1 \\ -1 & -1 & -1 \end{vmatrix} \\ &= 1(-1-1) + 1(-1-1) + 1(-1+1) \\ &= -2-2+0\end{aligned}$$

$$\therefore \Delta = -4$$

32. If a firm faces the total cost function $TC = 5 + x^2$ where x is output, what is TC when x is 10?

Solution :

$$\begin{aligned}TC &= 5 + (10)^2 \\ &= 5 + 100\end{aligned}$$

$$\therefore TC = 105$$

33. If $TC = 2.5q^3 - 13q^2 + 50q + 12$ derive the M_c function and AC function.

Solution :

$$\frac{dc}{dq} = M.C.$$

$$A.C = \frac{\text{Total cost}}{\text{output}}$$

$$\frac{dc}{dq} = 2.5(3)q^2 - (13 \times 2)q + 50$$

$$M.C = 7.5q^2 - 26q + 50$$

$$\begin{aligned}A.C &= \frac{2.5q^3 - 13q^2 + 50q + 12}{q} \\ &= \frac{2.5q^3}{q} - \frac{13q^2}{q} + \frac{50q}{q} + \frac{12}{q}\end{aligned}$$

$$\therefore A.C = 2.5q^2 - 13q + 50 + \frac{12}{q}$$

34. What are the steps involved in executing a MS Excel sheet?

- i) Plan the keystrokes needed to complete the tasks.
- ii) Click Tools.
- iii) Assign a Name for the Macro.
- iv) Assign a shortcut key for the Macro.
- v) Click Ok.
- vi) Perform the steps needed to create your report.
- vii) Click on the stop button on the Macro toolbar to stop recording and save the Macro.

35. A Research scholar researching the market for fresh cow milk assumes that $Q_t = f(P_t, Y, A, N, P_c)$ where Q_t is the quantity of milk demanded, P_t is the price of fresh cow milk, Y is average household income, A is advertising expenditure on processed pocket milk, N is population and P_c is the price of processed pocket milk.

(a) What does $Q_t = f(P_t, Y, A, N, P_c)$ mean in words?

(b) Identify the independent variables.

(c) Make up a specific form for this function. (Use your knowledge of Economics to deduce whether the coefficients of the different independent variables should be positive or negative.)

a) i) Q_t is the functions of P_t, Y, A, N, P_c .

ii) Other determinants of demand are,

- ❖ P_t - Price of fresh cow milk. Y - Average household Income.
- ❖ A - Advertising expenditure on processed pocket milk.
- ❖ N - Population.
- ❖ P_c - Price of processed pocket milk.

(b) i) 'Y' (Average household Income and population) and 'N' are independent variables.

ii) P_c is depending on P_t, A and N .

iii) 'A' is depending on 'N'.

(c) When price of fresh cow milk increases quantity of milk demanded decreases.

- When average household income increases and quantity of milk demanded is also increases.

36. Calculate the elasticity of demand for the demand schedule by using differential calculus method $P = 60 - 0.2Q$ where price is

(i) zero (ii) Rs. 20 (iii) Rs. 40.

Solution : [Govt. MQP-2018; HY-20]

Elasticity of demand

$$e_d = \frac{q}{p} \frac{dp}{dq}$$

$$p = 60 - 0.2q$$

$$\frac{dp}{dq} = 0 - 0.2(1)$$

$$\frac{dp}{dq} = -0.2$$

(i) $q = 0$

$$p = 60 - 0.2(0) = 60 - 0$$

$$e_d = \frac{0}{60} \times (-0.2)$$

$$e_d = 0$$

(ii) $q = 20$

$$p = 60 - 0.2(20)$$

$$p = 60 - 4$$

$$p = 56$$

$$e_d = \frac{20}{56} \times (-0.2) = \frac{-4}{56}$$

$$e_d = 0.071$$

(iii) $q = 40$

$$p = 60 - 0.2(40)$$

$$p = 60 - 8$$

$$p = 52$$

$$e_d = \frac{40}{52} \times -0.2 = \frac{8}{52}$$

$$e_d = 0.153$$

37. The demand and supply functions are $P_d = 1600 - x^2$ and $P_s = 2x^2 + 400$ respectively. Find the consumer's surplus and producer's Surplus at equilibrium point. [BEQ]

Solution :

$$P_d = 1600 - x^2$$

$$P_s = 2x^2 + 400$$

$$P_d = P_s$$

$$1600 - x^2 = 2x^2 + 400$$

$$1600 - x^2 - 2x^2 - 400 = 0$$

$$-3x^2 + 1200 = 0$$

$$+3x^2 = +1200$$

$$x^2 = \frac{1200}{3}$$

$$x = \pm\sqrt{400}$$

$$x_0 = 20$$

$$q = \frac{60}{0.2} \times \frac{10}{10} = \frac{600}{2} = 300$$

$$q = 300$$

$$\eta_d = \frac{-p}{q} \cdot \frac{dq}{dp} = \frac{-0}{300} \times \frac{-1}{0.2}$$

$$= \frac{0}{60} = 0$$

$$\eta_d = 0$$

$$\text{When } P = 20$$

$$0.2q = 60 - 20$$

$$0.2q = 40$$

$$q = \frac{40}{0.2} \times \frac{10}{10} = \frac{400}{2}$$

$$q = 200$$

$$\eta_d = \frac{-p}{q} \cdot \frac{dq}{dp} = \frac{-20}{200} \times \frac{1}{0.2}$$

$$= \frac{20}{400} = \frac{1}{2} = 0.5$$

$$\eta_d = 0.5$$

$$\text{When } P = 40$$

$$0.2q = 60 - 40$$

$$0.2q = 20$$

$$q = \frac{20}{0.2} \times \frac{10}{10} = \frac{200}{2} = 100$$

$$q = 100$$

$$\eta_d = \frac{-p}{q} \cdot \frac{dp}{dq} = \frac{-40}{100} \times \frac{1}{0.2} = \frac{40}{20}$$

$$\eta_d = 2$$

| P | 0 | 20 | 40 |
|----------|-----|-----|-----|
| q | 300 | 200 | 100 |
| η_d | 0 | 0.5 | 2 |

38. What are the ideas of information and communication technology used in economics?

Introduction :

(i) Information and communication Technology (ICT) is the infrastructure that enables computing faster and accurate.

(ii) The following tables gives an idea of range of technologies that fall under the category of ICT.

| S.No | Information | Technologies |
|------|-------------|--|
| 1 | Creation | Personal Computers, Digital Camera, Scanner, Smart Phone |
| 2 | Processing | Calculator, PC, Smart Phone |
| 3 | Storage | CD, DVD, Pen Drive, Microchip, Cloud |
| 4 | Display | PC, TV, Projector, Smart Phone |

Best of Luck