12th STD.

Common Quarterly Examination September- 2019

Economics (With Answers)

Time Allowed : 2.30 Hours] [Maximum Marks : 90

Instructions :

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

PART - I

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

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

1. Who coined the word "Macro"?
(a) Adam Smith (b) J. M. Keynes
(c) Ragnar Frisch (d) Karl Marx

2. Identify the flow variable.
(a) Money supply (b) Assets
(c) Income
(d) Foreign Exchange reserves

3. National income is measured by using _______ methods.
(a) Two (b) Three
(c) Five (d) Four

4. The individuals income after the payment of income tax is known as _____
(a) nominal income
(b) disposable income
(c) real income
(d) per capita income

5. Income method means _______
(a) $y = w + r + i + \pi + (R - P)$
(b) $y = w + i + r + \pi + R - P$
(c) $y = w + r + \pi + i + R / P$
(d) $y = w + r + i + \pi + R \times P$

6. Aggregate demand equal to ________.
(a) C+I+G (b) C+I+G+X–M
(c) C+S+T+X–M (d) C+S+T+Rf

7. In disguised unemployment, the marginal productivity of labour is ________.
(a) zero (b) one
(c) two (d) positive

8. According to classical theory, rate of interest is a reward for ________.
(a) Investment (b) Demand
(c) Capital (d) Saving

9. As national income increases
(a) The APC falls and gets nearer in value to the MPC.
(b) The APC increases and the diverges in value from the MPC.
(c) The APC stays constant
(d) The APC always approaches infinity.

10. The sum of the MPC and MPS is _______.
(a) 1 (b) 2
(c) 0.1 (d) 1.1

11. **Match it:**

(a) MPS	-	1.	C+S
(b) K	-	2.	$\Delta I / \Delta C$
(c) Y	-	3.	$\Delta S / \Delta Y$
(d) β	-	4.	$\dfrac{1}{1 - MPC}$

(a) 1 2 3 4 (b) 2 1 4 3
(c) 3 4 1 2 (d) 1 4 3 2

12. The RBI Headquarters is located at _______.
(a) Delhi (b) Chennai
(c) Mumbai (d) Bengaluru

13. Inflation means _______.
(a) Prices are rising
(b) Prices are falling
(c) Value of money is increasing
(d) Prices are remaining the same

14. Who will act as the banker to the Government of India?
(a) SBI (b) NABARD
(c) ICICI (d) RBI

15. NABARD was set up in______.
(a) July 1962 (b) July 1972
(c) July 1982 (d) July 1992

16. 2016 Demonetization of currency includes denomination of
(a) ₹500 and ₹1000 (b) ₹1000 and ₹2000
(c) ₹200 and ₹500 (d) All the above

17. Exchange rates are determined in _______.
(a) Money market
(b) Foreign exchange market
(c) Stock market
(d) Government regulated

18. Net export equals to _______.
(a) Export × Import (b) Export + Import
(c) Export – Import
(d) Export of services only

19. International Monetary Fund is having its headquarters at _______.
(a) Washington D.C. (b) NewYork
(c) Vienna (d) Geneva

20. Which of the following countries is not member of SAARC?
(a) Pakistan (b) Sri Lanka
(c) Bhutan (d) China

PART - II

Answer any SEVEN questions. Question Number 30 is compulsory. **7 × 2 = 14**

21. Define the term "Inflation".

22. Write the formula for calculating GNP.

23. Give reasons for labour retrenchment at present situation.

24. Define average propensity to consume.

25. Define Money.

26. What is Plastic Money? Give example.

27. What is Monetary Policy?

28. What is devaluation?

29. Define Common Market.

30. Define Macro Economics.

PART - III

Answer any SEVEN questions. Question Number 40 is compulsory. **7 × 3 = 21**

31. Describe the different types of Economic systems.

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

33. What do you mean by Aggregate demand? Mention its components.

34. What are the kinds of multiplier?

35. Explain Demand - pull and Cost push inflation.

36. What are the functions of NABARD?

37. Describe the subject matter of international Economics.

38. What are trade blocks?

39. Write short note on the Implications of Say's Law.

40. Write a short note on per capita Income.

PART - IV

Answer all the questions:. **7 × 5 = 35**

41. a) Discuss the scope of Macro Economics.

(OR)

b) Illustrate Fishers Quantity theory of money.

42. a) Explain circular flow of income in a four sector economy.

(OR)

b) Explain the Keynes psychological law of consumption function with diagram.

43. a) Explain the basic concepts of national income.

(OR)

b) Critically explain Say's law of market.

44. a) Discuss the various methods of estimating the national income of a country.

(OR)

b) What are the objectives of monetary policy? Explain.

45. a) Narrate the equilibrium between ADF and ASF with diagram.

(OR)

b) Discuss the difference between Internal Trade and International Trade.

46. a) Briefly explain the subjective and objective factors of consumption function.

(OR)

b) Bring out the functions of World Bank.

47. a) Discuss the phase of trade cycle.

(OR)

b) Describe the functions of Reserve Bank of India.

ANSWERS

PART - I

1. (c) Ragnar Frisch
2. (c) Income
3. (b) Three
4. (b) disposable income
5. (a) $y = w + r + i + \pi + (R - P)$
6. (b) C+I+G+X–M
7. (a) zero
8. (d) Saving
9. (a) The APC falls and gets nearer in value to the MPC.
10. (a) 1
11. (c) 3 4 1 2
12. (c) Mumbai
13. (a) Prices are rising
14. (d) RBI
15. (c) July 1982
16. (a) ₹500 and ₹1000
17. (b) foreign exchange market
18. (c) Export – Import
19. (a) Washington D.C.
20. (d) China

PART - II

21. Inflation refers to steady increase in general price level.

22. GNP at market prices = GDP at market prices + Net factor income from Abroad.

GNP = C + I + G + ((X–M) + (R – P))

C - Consumption Expenditure

I - Investment Expenditure

G - Government Expenditure

X–M - Difference between value exports and imports of goods.

R–P - Net factor income from abroad

23. (i) Employers must classify what the reason is for the possible retrenchment during the consultation process.

(ii) Israelstam explains that employers have to consult with labour unions as the representatives of employers in cases where there is unionisation.

24. (i) The average propensity to consume is the ratio of consumption expenditure to any particular level of Income.

(ii) $$\boxed{APC = \frac{C}{Y}}$$

25. (i) "Money is, what money does".

(ii) Money can be anything that is generally acceptable as a means of exchange and at the same time acts as a measure and a store of value.

26. (i) The latest type of money is plastic money.

(ii) Plastic money is one of the most evolved forms of financial products.

(iii) Plastic money is an alternative to the cash (or) the standard money.

For example : Cash cards, Credit cards, Debit cards, Pre-paid, Smart cards etc.

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

28. Devaluation means deliberate reduction of the official rate at which domestic currency is exchanged for another currency.

29. A group formed by countries within a geographical area to promote duty free trade and free movement of labour and capital among its members.

30. The word 'Macro' is derived from the Greek word 'Makros' meaning 'large' - Hence, Macro Economics is the study of the economy as a whole. In other words macro economics deals with aggregates such as national income, employment and output. Macro Economics is also known as "Income theory".

PART - III

31. There are three major types of economic systems. They are,

(i) **Capitalistic Economy (Capitalism) :**
Capitalistic economy is also known as and Market economy / free trade economy. Where in capitalistic economy the role of the government is minimum.

(ii) **Socialistic Economy (Socialism) :**
Socialism refers to a system of total planning, public and state control on economic activity.

(iii) **Mixed Economy (Mixedism) :**
In a mixed economy system both private and public sectors co-exist and work together towards economic development.

32. (i) Double counting is to be avoided under value added method.

(ii) Any commodity which is either raw material or intermediate good for the final production should not be included.

(iii) For example, value of cotton enters value of yarn as cost, and value of yarn in cloth and that of cloth in garments. At every stage value added only should be calculated.

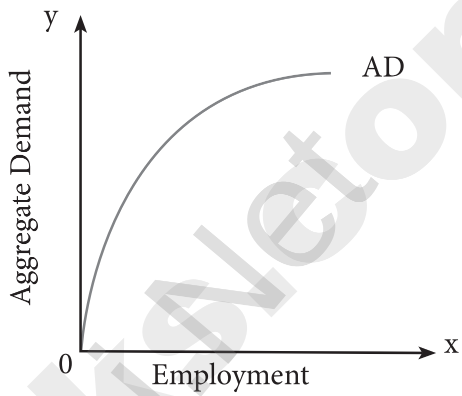
33. (i) In the Keynesian model, output is determined mainly by aggregate demand.

(ii) The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.

(iii) Aggregate demand has the following four components.

(1) Consumption Demand
(2) Investment Demand
(3) Government Expenditure and
(4) Net Export (export - import)

$\boxed{AD = C + I + G + (X–M)}$



34. (i) Tax Multiplier
(ii) Employment Multiplier
(iii) Foreign Trade Multiplier
(iv) Investment Multiplier

35. (i) **Demand - pull Inflation :**

(1) Demand and supply a crucial role in deciding the inflation levels in the society at all the points of time.

(2) For instance, if the demand is high for a product and supply is low, the price of the products increases.

(ii) **Cost - push Inflation :**
When the cost of raw materials and other inputs rises inflation results. Increase in wages paid to labour also leads to inflation.

36. (i) NABARD has inherited its apex role from RBI.

(ii) It is performing all the functions performed by RBI with regard to agricultural credit.

(iii) NABARD acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts and rural crafts and other allied economic activities with a view to promoting integrated rural development.

(iv) It provides short-term, medium term and long-term credit to state cooperative Banks, RRB, LDBs and other financial institutions approved by RBI.

(v) NABARD gives long-term loans (upto 20 years) to State government.

(vi) NABARD gives long-term loans to any institution approved by the Central Government.

(vii) NABARD has the responsibility of co-ordinating the activities of Central and State Governments, NITI Aayog, etc.

37. The subject matter of International Economics are,

(i) **Pure Theory of Trade :**

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

(ii) **Policy Issues :**

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

(iii) **International Cartels and Trade Blocs :**

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

(iv) **International Financial and Trade Regulatory Institutions :**

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

38. (i) Some Countries create business opportunities for themselves by integrating their economies in order to avoid unnecessary competition among them.

(ii) Trade block covers different kinds of arrangements between countries for mutual benefits.

39. (i) There is no possibility for over production or unemployment.

(ii) If there exist unutilized resources in the economy it is profitable to employ them upto the point of full employment.

(iii) As automatic price mechanism operates in the economy, there is no need for government intervention.

(iv) Interest flexibility brings about equality between saving and investment.

(v) Money performs only the medium of exchange function in the economy, as people will not hold idle money.

40. (i) The average income of a person of a country in a particular year is called per capita income.

(ii) Per capita income is obtained by dividing national income by population.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

PART - IV

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

(i) Measurement of national income and its composition by sectors are the basic aspects of macro economic analysis.

(ii) The trends in National Income and its composition provide a long term understanding at the growth process of an economy.

Inflation :

(i) Inflation refers to steady increase in general price level.

(ii) Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

Business Cycle :

(i) Almost all economies face the problem of business fluctuations and business cycle.

(ii) The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.

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

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

Economic Policies :

(i) Macro Economics is significant for evolving. Suitable economic policies.

(ii) Economic policies are necessary to solve the basic problems, to over come the obstacles and to achieve growth.

(OR)

(b) Quantity theories of money explain the relationship between quantity of money and value of money.

Here, we are given two approaches of Quantity Theory of Money, viz, Fisher's Transaction Approach and Cambridge Cash Balance Approach.

Fisher's Quantity Theory of Money :

(1) The quantity theory of money is a very old theory.

(2) It was first propounded in 1588 by an Italian economist, Davanzatti.

The general form of equation given by Fisher is

MV = PT

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

MV = PT

Supply of Money = Demand for Money

This equation is referred to as "Cash Transaction Equation".

Where M = Money supply / Quantity of Money

V = Velocity of Money

P = Price Level

J = Volume of Transaction

It is expressed as P = MV/T which implies that the quantity of money determines the price level and the price level in its turn varies directly with the quantity of money, provided "V" and "T" remain constant.

Fisher extended his original equation of exchange to include bank deposits M1 and its velocity V1. The revised equation was:

$$PT = MV + M1V1$$

$$P = \frac{MV + M1V1}{T}$$

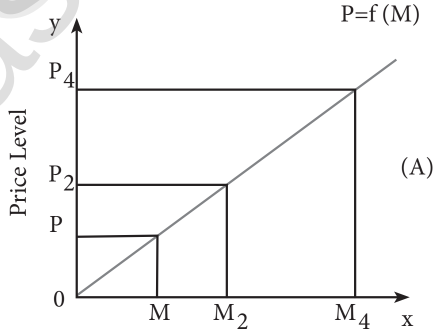
From the revised equation, it is evident, that the price level is determined by

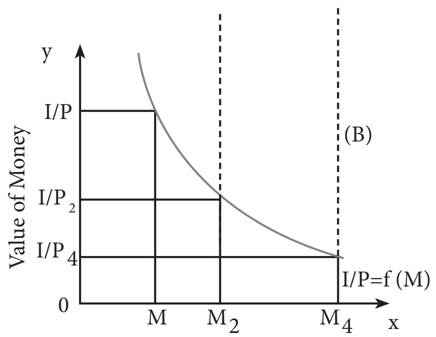
(a) The quantity of money in circulation 'M'

(b) The velocity of circulation of money 'V'

(c) The volume of bank credit money M1

(d) The velocity of circulation of credit money V1 and the volume of trade (T).





Quantity of Money

Figure (A) shows the effect of changes in the quantity of money on the price level.

(1) The quantity of money is OM, the price level is OP.

(2) When the quantity of money is doubled to OM_2, the price level is also doubled to OP_2. when the quantity of money is increased four fold to OM_4, the price level also increases by four times to OP_4.

Figure (B), shows the inverse relation between the quantity of money and the volume of money, where the value of money is taken on the vertical axis.

But, with the quantity of money increasing by four fold to OM_4, the value of money is reduced by OI/P_4

This inverse relationship between the quantity of money and the value of money is shown by downward sloping curve

IO / P = f(M).

42.(a)**(1)** Circular flow of income in a four sector economy.

(2) In a four sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included.

(3) In real life, only four-sector economy is exists.

(4) This model is composed of four sectors namely.

(i) Households

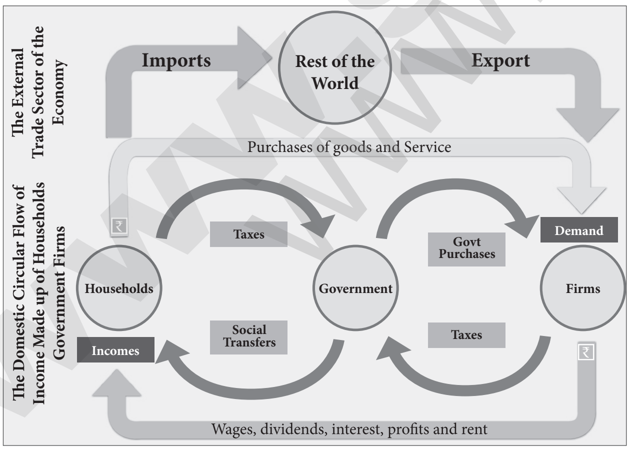
(ii) Firms

(iii) Government

(iv) External

(5) The external sector comprises exports and imports.

(6) It is illustrated in the flow chart.



(7) In four sector economy, expenditure for the entire economy include domestic expenditure.

(C + I + G) and net exports (X–M)

(8) Therefore four sector model expressed as

$\boxed{Y = C + I + G + (X-M)}$

(OR)

(b). Keynes's Psychological Law of consumption :

Keynes propounded the fundamental psychological law of consumption which forms the basis of the consumption function.

Assumptions :

Keynes's law is based on the following assumptions.

(i) Ceteris paribus (constant extraneous variables)

(ii) Existence of Normal conditions.

(iii) Existence of a Laissez - faire capitalist economy.

Propositions of the law :

This law has three propositions.

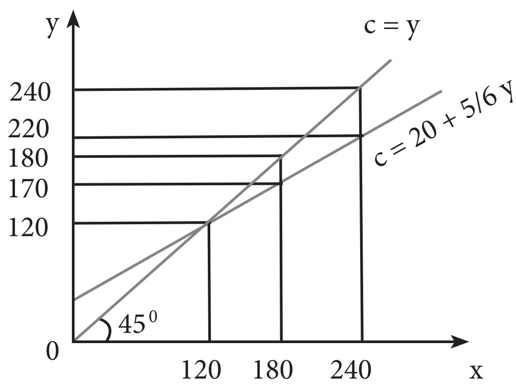
(i) When income increase consumption expenditure also increases but by a smaller amount.

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

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

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

The Three Propositions



Figure

(i) Diagrammatically, the three propositions are explained with the help of above diagram.

(ii) Here, income is measured horizontally and consumption and saving are measured on the vertical axis.

(iii) C is the consumption function curve and 45° line represents income consumption equality.

Proposition (1) :

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

Proposition (2) :

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

Proposition (3) :

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

43.(a). The following are some of the concepts used in measuring national income.

Gross Domestic Product (GDP): GDP is the total market value of final goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices.

GDP by expenditure method at market prices = C + I + G + (X – M)

Gross National Product (GNP) : GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.

Net National Product (NNP) (at Market price): Net National Product refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation, or replacement allowance of the capital assets from the GNP. It is expressed as,

NNP = GNP – depreciation allowance.

NNP at Factor cost : NNP refers to the market value of output. Whereas NNP at factor cost is the total of income payment made to factors of production.

NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.

Personal Income : Personal income is derived from national income by deducting undistributed corporate profit, and employees' contributions to social security schemes and adding transfer payment.

Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments

Disposable Income : Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax.

Disposable Income = Personal income – Direct Tax.
As the entire disposable income is not spent on consumption,
Disposal income = consumption + saving.

Per Capita Income: The average income of a person of a country in a particular year is called Per Capita Income.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

Real Income : National income is the final value of goods and services produced and expressed in terms of money at current prices.

National Income at constant price = National Income at current price ÷ P_1 / P_0

GDP deflator: GDP deflator is an index of price changes of goods and services included in GDP.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

(OR)

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

Criticisms of say's law :

The following are the criticisms against say's law.

(i) According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.

(ii) Automatic adjustment process will not remove unemployment.

(iii) Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.

(iv) Say's law is based on the proposition that supply creates its own demand and there is no over production.

(v) Keynes regards full employment as a special case because there is under employment in capitalist economies.

(vi) The need for state intervention arises in the case of general over production and mass unemployment.

44.(a). There are three methods of measuring national Income. They are,

(i) Production (or) Value added method.

(ii) Income method (or) Factor earning method.

(iii) Expenditure method.

(i) Production Method :

(1) Product method measures the output of the country.

(2) It is also called inventory method.

(3) In this method, the gross value of output from different sectors like agriculture, industry and commerce etc. is obtained for the entire economy during a year.

(4) The value obtained is actually the GNP at market prices.

(5) Care must be taken to avoid double counting.

(6) The value of the final product is derived by summation of all the values added in the productive process.

(7) To avoid double counting, either the value of the final output should be taken into the estimate of GNP.

(8) Double counting is to be avoided under value added method.

(9) Any commodity which is either raw material or intermediate good for the final production should not be included.

(ii) Income Method : (Factor Earning Method)

(1) This method approaches national income from the distribution side.

(2) In this method national income is calculated by adding up all the incomes generated in the course of producing national product.

(3) Factor incomes are grouped under labour income, capital income and mixed income.

(4) National Income is calculated as domestic facors income plus net factor incomes from abroad.

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

w - wages, r-rent, i-interest,
π - profit, R - exports and
P - imports.

(iii) The Expenditure Method : (Outlay method)

(1) Under this method, the total expenditure incurred by the society in a particular year is added together.

(2) To calculate the expenditure of a society it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.

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

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government Expenditure

X–M - Net Exports

(OR)

(b). **Objectives of Monetary Policy :**

(1) **Neutrality of Money :** The monetary authority should aim at neutrality of money and it is the root cause of all economic fluctuation.

(2) **Exchange rate stability :** Exchange rate stability, gold standard among different countries are the main objectives.

(3) **Price stability :**

(i) Price stability is considered the most genuine objectives of monetary policy.

(ii) Stable prices repose public confidence.

(iii) It promotes business activity and ensure equitable distribution of income and wealth.

(4) **Full employment :** Full employment was considered as the main goal of monetary policy.

(5) **Economic Growth :** Monetary policy promote sustained and continuous economic growth by maintaining equilibrium between the total demand for money and total production capacity and further creating favourable conditions for saving and investment.

(6) **Equilibrium in the balance of payments:**

(i) Increasing of deficit in the balance of payments reduces the ability of an economy to achieve other objectives.

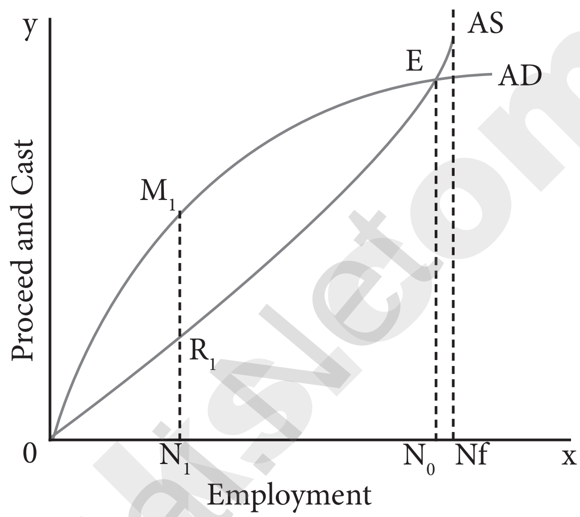
(ii) As a result many less developed countries have to curtail their imports which adversely affects development activities.

(iii) Monetary authority makes efforts to maintain equilibrium in the balance of payments.

45.(a)**(i)** Under the Keynes theory of employment, a simple two sector economy consisting of the households sector and the business sector is taken to understand the equilibrium between ADF and ASF.

(ii) All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment.

(iii) It is also assumed that consumption function is linear and planned investment is autonomous.



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

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

Diagram explanation :

(i) In the figure, the aggregate demand and aggregate supply reach equilibrium at point - E.

(ii) The employment level is N_0 at that point.

(iii) At ON_1 employment, the aggregate supply is $N_1 R_1$

(iv) They are able to produce $M_1 N_1$

(v) The expected level of profit is $M_1 R_1$

(vi) To attain this level of profit, entrepreneurs will employ more labourers.

(vii) The tendency to employ more labour will stop once they reach point E.

(viii) At all levels of employment beyond ON_0, the aggregate demand curve is below the aggregate supply curve indicating loss to the producers.

(ix) Thus the concept of effective demand becomes significant in explaining the under employment equilibrium.

(OR)

(b.)

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

46.(a) J.M. Keynes has divided factors influencing the consumption function into two namely, subjective factors and objective factors.

Subjective Factors :

Subjective factors are the internal factors related to psychological feelings.

(i) **The motive of precaution :** To build up a reserve against unforeseen contingencies. Eg. Accident, Sickness.

(ii) **The motive of foresight :** The desire to provide for anticipated future needs. Eg. Old age.

(iii) **The motive of calculation :** The desire to enjoy interest and appreciation.

(iv) **The motive of improvement :** The desire to enjoy for improving standard of living.

(v) **The motive of financial independence.**

(vi) **The motive of enterprise :** Desire to do forward trading.

(vii) **The motive of pride :** Desire to bequeath a fortune.

(viii) **The motive of avarice :** Purely miserly instinct.

Objective Factors :

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

(i) **Income Distribution :** If there is large disparity between rich and poor, the consumption is low because the rich people have low propensity to consume and high propensity to consume and high propensity to save.

(ii) **Price Level :** Price Level plays an important role in determining the consumption function.

(iii) **Wage Level :** Wage Level plays an important role in determining the consumption function and there is positive relationship between wage and consumption.

(iv) **Interest Rate :** Higher rate of interest will encourage people to save more money and reduces consumption.

(v) **Fiscal policy :** The progressive tax system increases the propensity to consume of the people by altering the income distribution in favour of poor.

(vi) **Consumer credit :** The availability of consumer credit at easy installments will encourage households to buy consumer durables like automobiles, fridge, computer. This pushes up consumption.

(vii) **Demographic factors :** Ceteris paribus, the larger the size of the family, the greater is the consumption.

(viii) Duesenberry hypothesis : Duesenberry has made two observations regarding the factors affecting consumption.

(1) The consumption expenditure depends not only on his current income but also past income and standard of living.

(2) Consumption is influenced by demonstration effect. The consumption standards of low income groups are influenced by the consumption standards of high income groups

(OR)

(b) **(i)** The World Bank performs the major role of providing loans for development works to member countries, especially to under developed countries.

(ii) The World Bank provides long-term loans for various development projects.

(1) **Investment for productive purpose :** The World Bank performs the function of assisting in the reconstruction and development of territories of member nations through facility of investment for productive purposes.

(2) **Balanced Grow of International Trade :** Promoting the long range balanced growth of trade at international level.

(3) **Provision of Loans and Guarantees:** Arranging the loans or providing guarantees on loans by various other channels so as to execute important projects.

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

(5) **Technical services :** The World Bank facilitates different kinds of technical services to the member countries through Staff College and experts.

47.(a) **Measuring of Trade Cycle :**

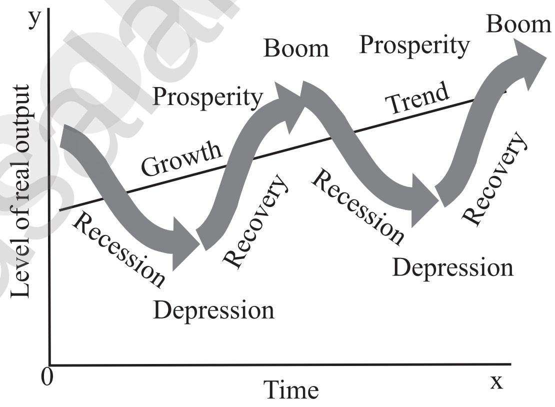
A Trade cycle refers to oscillations in aggregate economic activity particularly in employment, output, income, etc.

Definition :

"A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentages altering with periods of bad trade characterised by falling prices and high unemployment percentages".

Phases of Trade Cycle :

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



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

(i) The full employment and the movement of the economy beyond full employment.

(ii) During this period, there is hectic activity in economy.

(iii) Money wages rise, profits increase and interest rates go up.

(iv) It is characterized as boom period.

(2) **Recession :**

(i) The turning point from boom condition is called recession.

(ii) This happens at higher rate, than what was earlier.

(iii) The failure of a company or bank bursts the boom and brings a phase of recession.

(iv) Investments are drastically reduced production comes down and income and profits decline.

(v) Liquidity preference of the people rises and money market becomes tight.

(3) **Depression :**

(i) During depression the level of economic activities becomes extremely low.

(ii) Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment.

(iii) Interest prices, profits and wages are low.

(iv) Depression is the worst phase of the business cycle.

(v) Extreme point of depression is called as 'trough'.

(vi) Keynes advocated that autonomous investment of the government alone can help the economy to come out from the depression.

(4) **Recovery :**

(i) After a period of depression, recovery sets in.

(ii) It begins with the revival of demand for capital goods.

(iii) The demand slowly picks up and in due course the activity is directed towards the upswing with more production, profit, income, wages and employment.

(iv) Recovery may be initiated by innovation (or) investment (or) by government expenditure.

(OR)

(b). **Functions of RBI :**

(1) **Monetary Authority :**

(i) It controls the supply of money.

(ii) To stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.

(2) **The issue of currency :**

(i) To maintain the currency and credit.

(ii) It is the sole authority to issue currency.

(iii) To control the circulation of fake currency.

(3) **The issuer of banking licence :** As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

(4) **Bankers to the Government :** It acts as banker both to the Central and the State Government.

(5) **Banker's Bank :** RBI is the bank of all banks in India.

(6) **Lender of last resort :** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.

(7) **Act as clearing house :** RBI manages 14 clearing houses.

(8) Custodian of foreign exchange reserves.

(9) Regulator of economy.

(10) Managing government securities.

(11) Regulator and supervisor of payment and settlement system.

(12) Developmental Role.

(13) Publisher of monetary data and other data.

(14) Exchange manager and controller.

(15) Banking Ombudsman Scheme.

(16) Banking Codes and Standards Boards of India.

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