

Unit Test - 1 July 2024**11th Economics Key Answers****Part - I**

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|---|----------------------------|
| 01. c. Quantity demanded equals quantity supplied | 06. a. Indifference Curves |
| 02. c. Robbins | 07. c. Returns to Scale |
| 03. a. Price | 08. a. Marginal Product |
| 04. a. Original Approach | 09. d. Implicit |
| 05. d. Flatter | 10. a. Equal to |

Part - II**11. What are Goods?**

- (i) Goods satisfy human wants.
- (ii) Goods also called „products“, „commodities“, „things“ etc.
- (iii) The term „goods“ implies the term „services“ also, unless specified otherwise.

- Example: Rice, Ragi.

12. Define Cost.

Cost refers to the total expenses incurred in the production of a commodity.

15. Define Marginal Product of a factor

- Marginal Product is the addition or the increment made to the total product when one more unit of the variable input is employed.
- In other words, it is the ratio of the change in the total product to the change in the units of the input.
- It is expressed as $MP = \frac{\Delta TP}{\Delta N}$ (or) $MP = \frac{TP(n) - TP(n-1)}{n - (n-1)}$

13. Mention the Classification of Wants.

- (i) Necessaries (ii) Comforts (iii) Luxuries

16. What are the three basic Economic Problems studied in Economics?**14. What are Giffen Goods? Why is it called so?**

- 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.

- What and how much to produce?
- How to Produce?
- For whom to produce?

PART -III**17. What are the important features of Utility?**

- Utility is psychological.
- Utility is not equivalent to usefulness.
- Utility is not the same as pleasure.
- Utility is personal and relative.
- Utility is the function of the intensity of human want.
- Utility is a subjective concept.
- Utility has no ethical or moral significance.

18. Compare Positive Economics and Normative Economics.

Positive economics	Normative economics
It deals with what is.	It responds to a question. What ought to be?
It analyses a problem on the basis of facts and examines its causes.	Here, the conclusions and results are not based on facts, but on different considerations.
It is concerned with how? and why?	It would be seen as to whether it is good or bad.
An increase in money supply implies a price-rise in an economy.	Inflation is better than deflation.

19. Give the Marshall's definition of Consumer Surplus.

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

20. What are the properties of Indifference Curves?

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

21. What are the Characteristics of Land?

- a) Land is a primary factor of production.
- b) Land is a passive factor of production.
- c) Land is the free gift of Nature.
- d) Land has no cost of production.
- e) Land is fixed in supply. It is inelastic in supply.
- f) Land is permanent.
- g) Land is immovable.
- h) Land is heterogeneous as it differs in fertility.
- i) Land has alternative uses.
- j) Land is subject to Law of Diminishing Returns.

22. State the difference between Money Cost and Real Cost.

Money cost	Real cost
Production cost expressed in money terms is called as money cost.	Real cost refers to the payment made to compensate the efforts and sacrifices of all factor owners for their services in production.
Money cost includes the expenditures such as cost of raw materials, payment of wages and salaries, payment of rent, interest on capital, expenses on fuel and power and expenses on transportation.	It includes the efforts and sacrifices of landlords in the use of land, capitalists to save and invest, and workers in foregoing leisure.
Money costs are also called as Prime Cost or Direct Cost or Nominal Cost or Accounting Cost or Explicit Cost or Out of Pocket Cost, suiting to context.	Adam Smith regarded pains and sacrifices of labour as real cost of production.

PART - IV**23. a. Compare and Contrast various definitions of Economics.****I. Wealth Definition - Adam Smith**

- Adam Smith in his book "An Inquiry into Nature and Causes of Wealth of Nations" (1776) defines "Economics as the science of wealth".

Criticism

- For Smith, Economics consists of „wealth-getting“ activities and „wealth-spending“ activities.
- An undue emphasis is given to material wealth.
- This view leads him to ignore human welfare as an essential part of Economics.

- Ruskin and Carlyle regards Economics as a „dismal science“, as it teaches selfishness which is against ethics.

II. Welfare Definition - Alfred Marshall

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

Criticism

- Marshall regards only material things.
- He does not consider immaterial things.
- Marshall’s definition is based on the concept of welfare. But it is not clearly defined.
- The welfare of an individual or nation is dependent not only on the stock of wealth possessed but also on political, social and cultural activities of the nation.

III. Scarcity Definition - Lionel Robbins

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

Criticism

- Robbins does not make any distinction between goods conducive to human welfare and goods that are not.
- Economics deals not only with the micro-economic aspects of resource-allocation but also with the macro-economic aspects like how national income is generated.
- Robbins’ definition does not cover the theory of economic growth and development.

IV. Growth Definition - Samuelson

- Paul Samuelson published a book "An Intradictory Analysis" in 1948.
- He defines Economics as “the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption, now and in the future among various people and groups of society”.

Criticism

- Like Robbins, Samuelson states that the means are scarce in relation to unlimited ends and that such means could be put to alternative uses.
- Samuelson makes his definition dynamic by including the element of time in it.
- Samuelson’s definition is applicable also in a barter economy, where money is not used.

23. b. Elucidate the Law of diminishing Marginal Utility with diagram.

Definition - Marshall

- The law as, “the additional benefit which a person derives from a given increase of his stock of a thing, diminishes with every increase in the stock that he already has”.

Assumptions

- Utility can be measured by cardinal numbers.
- The marginal utility of money of the consumer remains constant.

- (iii) The consumer should be a rational consumer.
- (iv) The units of the commodity consumed must be reasonable in size.
- (v) The commodity consumed should be homogeneous or uniform in character.
- (vi) The consumption of goods must take place continuously at a given period of time.
- (vii) No change in the taste, habits, preferences, fashions, income and character of the consumer during the process of consumption.

Explanation

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

Illustration

- The law can be explained with a simple illustration.
 - Suppose a consumer wants to consume 7 apples one after another.
 - (ii) The utility from the first apple is 20.
 - (iii) 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.
 - (iv) Finally, the utility from the fifth apple becomes zero and the utilities from sixth and seventh apples are negative (or disutility or disliking).
 - This tendency is called the "The Law of Diminishing Marginal Utility".

Table

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)

Diagram

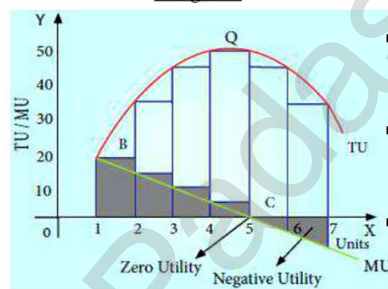


Diagram Explanation

- We find that the total utility goes on increasing but at a diminishing rate.
- On the other hand, marginal utility goes on diminishing.
- When marginal utility becomes zero, the total utility is maximum and when marginal utility becomes negative, the total utility diminishes.

Criticism

- Utility cannot be measured numerically, because utility is subjective.
- This law is based on the unrealistic assumptions.
- This law is not applicable to indivisible commodities.

24. a. Examine the Law of Variable proportions with the help of a diagram.

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".

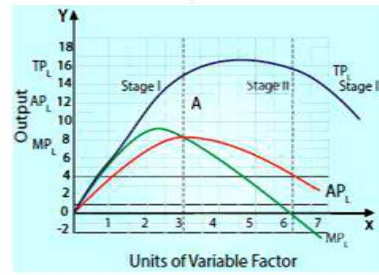
Assumptions

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

Table - Stages of Production

Units of variable factor (L)	Total Product (TP _L)	Marginal Product (MP _L)	Average Product (AP _L)	Stages
1	2	2	2	I
2	6	4	3	
3	12	6	4	
4	16	4	4	II
5	18	2	3.6	
6	18	0	3	III
7	16	-2	2.28	

Diagram

Table & Diagram ExplanationStage - I

- MPL increases up to third labourer and it is higher than the average product.
- So that total product is increasing at an increasing rate.

Stage - II

- MPL decreases up to sixth unit of labour where MPL curve intersects the X - axis.
- At fourth unit of labor MPL = APL.
- After this, MPL curve is lower than the APL.
- TPL increases at a decreasing rate.

Stage - III

- The sixth unit of labour is marked by negative MPL , the APL continues to fall but remains positive.
- After the sixth unit, TPL declines with the employment of more units of variable factor, labour.

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

(i) Total Cost	$TC = TFC + TVC$	(iii) Average Fixed Cost	$AFC = TFC/Q$
(ii) Average Variable Cost	$AVC = TVC/Q$	(iv) Average Cost	$AC = TC/Q$

Solutions**(i) Total Cost**

$$TC = 10 + Q^3$$

$$TC = 10 + 125$$

$$TC = 135$$

(ii) Total Variable Cost

$$135 = 10 + TVC$$

$$135 - 10 = TVC$$

$$TVC = 125$$

(iii) Total Fixed Cost

$$135 - 125 = 10$$

(iv) Average Fixed Cost

$$AFC = TFC/Q$$

$$AFC = 10/5$$

$$= 2$$

(v) Average Variable Cost

$$AVC = TVC/Q$$

$$AVC = 125/5$$

$$= 5$$

$$Q = 5$$

$$AVC = 25$$

(vi) Average Cost

$$AC = TC/Q$$

$$AC = 135/5$$

$$= 27$$

25. a. Explain the Law of Demand and its Exceptions.Definition - Marshall

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

Assumptions of Law of Demand

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

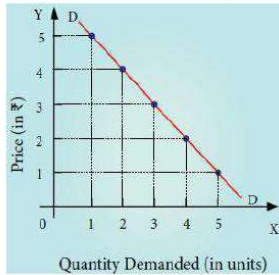
(v) The demand for the commodity must be continuous.

(vi) There should not be any change in the quality of the commodity.

Demand Schedule

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

Law of Demand Diagram



Schedule Explanation

- (i) The law of demand explains the relationship between the price of a commodity and the quantity demanded of it.
- (ii) This law states that quantity demanded of a commodity expands with a fall in price and contracts with a rise in price.
- (iii) The law of demand states that there is an inverse relationship between the price and the quantity demanded of a commodity.

Diagram Explanation

- (i) X axis represents the quantity demanded and Y axis represents the price of the commodity.
- (ii) DD is the demand curve, which has a negative slope i.e., slope downward from left to right which indicates that when price falls, the demand expands and when price rises, the demand contracts.

Exceptions to the law of demand

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

Diagram

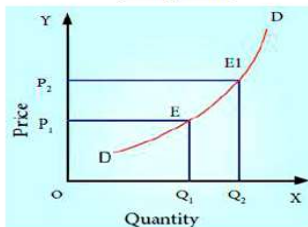


Diagram Explanation

- (i) DD is the demand curve which slopes upwards from left to right.
- (ii) It shows that when price is OP_1 , OQ_1 is the demand and when the price rises to OP_2 , demand also extends to OQ_2 .

25. b. Explain the Internal and External Economics of Scale.

Introduction

- Economies are broadly divided into two types by Marshall.
 - I. Internal Economies
 - II. External Economies
- Economies of scale reduce the cost of production.

I. Internal Economies of Scale

- The term Internal Economies of Scale refers to the advantages enjoyed by the production unit which causes a reduction in the cost of production of the commodity.

(i) Technical Economies

- When the size of the firm is large, large amount of capital can be used.
- There is a possibility to introduce up-to-date technologies.
- This improves productivity of the firm.
- Here research and development strategies can be applied easily.

(ii) Financial Economies

- Big firms can float shares in the market for capital expansion.
- While small firms cannot easily float shares in the market.

(iii) Managerial Economies

- Large scale production facilitates specialisation and delegation.

(iv) Labour Economies

- Large scale production implies greater and minute division of labour.
- This leads to specialisation which enhances the quality.
- This increases the productivity of the firm.

(v) Marketing Economies

- The producers can both buy raw-materials in bulk at cheaper cost and can take the products to distant markets.

(vi) Economies of Survival

- Product diversification is possible when there is large scale production.
- This reduces the risk in production.
- Even if the market for one product collapses, market for other commodities offsets it.

II. External Economies of Scale

- External Economies of Scale refer to changes in any factor outside the firm causing an improvement in the production process.
- Important external economies of scale are listed below.
 - (i) Increased transport facilities
 - (ii) Banking facilities
 - (iii) Development of townships
 - (iv) Development of information and communication

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