

12 ECONOMICS
UNIT TEST - 1 JULY 2024

Part - A

01. b. J M Keynes
02. c. Income
03. c. GDP
04. b. Economic Welfare
05. a. Zero
06. c. Effective Demand
07. b. J M Keynes
08. c. 1911
10. a. Debtors

Part - B**11. Define Macro Economics.**

- The word „Macro“ is derived from the Greek word „Makros“ meaning „large“.
- Hence, Macro Economics is the study of the economy as a whole.
- It deals with aggregates such as national income, employment and output.
- Macro Economics is also known as „Income Theory“.

12. What is the difference between NNP and NDP?

Basic difference	NNP	NDP
Meaning	NNP refers to the market value of output.	NDP is the value of net output of the economy during the year.
Formula	NNP = GNP - Depreciation allowance	NDP = GDP - Depreciation

13. Define GDP deflator.

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

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

14. List out the assumptions of Say's Law.

- No single buyer or seller of commodity or an input can affect price.
- Full employment
- There will be a perfect competition in labour and product market.
- Money acts only as a medium of exchange.
- Long - run analysis.

15. What is Plastic Money? Give example.

- Plastic money is a term that is used predominantly in reference to the hard plastic cards used every day in place of actual bank notes.
- Plastic money can come in many different forms such as Cash cards, Credit cards, Debit cards, Pre-paid Cash cards, Store cards, Forex cards and Smart cards.

16. Classify the Economics based on the level of National Income

- Developed economies
- Undeveloped economies
- Underdeveloped economies
- Developing economies

PART - C**17. State the importance of Macro Economics.**

- There is a need to understand the functioning of the economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
- Understanding the future problems, needs and challenges of an economy as a whole is important to evolve precautionary measures.
- Macro economics provides ample opportunities to use scientific investigation to understand the reality.
- Macro economics helps to make meaningful comparison and analysis of economic indicators.
- Macro economics helps for better prediction about future and to formulate suitable policies to avoid economic crises.

18. Give short note on Expenditure method.

- The total expenditure incurred by the society in a particular year is added together.
- To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.
- $GNP = C + I + G + (X - M)$

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government expenditure

X - M - Net exports

19. Write any five differences between Classicism and Keynesianism.

S. No.	Keynesianism	Classicism
1.	Short-run equilibrium	Long-run equilibrium
2.	Saving is a vice	Saving is a social virtue
3.	Macro approach to national problems	Micro foundation to macro problems
4.	State intervention is advocated	Champions of Laissez-fair policy
5.	Capitalism has inherent contradictions	Capitalism is well and good

20. What are the determinants of Money Supply?**(i) Currency Deposit Ratio (CDR)**

It is the ratio of money held by the public in currency to that they hold in bank deposits.

(ii) Reserve deposit Ratio (RDR)

Reserve Money consists of two things (a) vault cash in banks and (b) deposits of commercial banks with RBI.

(iii) Cash Reserve Ratio (CRR)

It is the fraction of the deposits the banks must keep with RBI.

(iv) Statutory Liquidity Ratio (SLR)

It is the fraction of the total demand and time deposits of the commercial banks in the form of specified liquid assets.

21. Differentiate Autonomous and Induced investment.

S. No.	Autonomous Investment	Induced Investment
(i)	Independent	Planned
(ii)	Income inelastic	Income elastic
(iii)	Welfare motive	Profit Motive

22. What is the difference between Factor Cost and Market Price.

S.No.	Factor Cost	Market Price
1	The factor cost refer to the cost of production that is incurred by a firm when producing goods and services.	The market price is the price that consumers will pay for the product when they purchase it from the sellers.
2	Producers of goods and services incur a cost for using these factors of production. These costs are ultimately added onto the price of the product.	Once goods and services are produced they are sold in a market place at a set market price.
3	Examples of such production costs include the cost of renting machines, purchasing machinery and land, paying salaries and wages, cost of obtaining capital, and the profit margins that are added by the entrepreneur.	Taxes charged by the government will be added onto the factor price while subsidies provided will be reduced from the factor price to arrive at the market price.

PART - D**23. a. Compare the features of Capitalism and Secularism and Mixedism.**

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

23. b. What are the difficulties involved in the measurement of National Income.

- (a) Transfer payments
 - (b) Difficulties in assessing depreciation allowance
 - (c) Unpaid services
 - (d) Income from illegal activities
 - (e) Production for self-consumption and changing price
 - (f) Capital Gains
 - (g) Statistical problems
- (Explain any 5)

24. a. Describe the types of Unemployment.

- (i) Cyclical Unemployment
 - (ii) Seasonal unemployment
 - (iii) Frictional unemployment
 - (iv) Educated unemployment
 - (v) Technical Unemployment
 - (vi) Structural Unemployment
 - (vii) Disguised Unemployment
- (Explain any 5)

24. b. Explain Keynes Psychological law of Consumption function with diagram.

- Keynes's Psychological Law of Consumption
Keynes propounded the fundamental Psychological Law of Consumption which forms the basis of the consumption function.
- Assumptions
- Propositions of the Law
- Table
- Diagram
- Explanation (3 propositions)

25. a. What are the causes and Effects on Inflation on the Economy.**I. Causes of Inflation**

- (i) Increase in Money Supply
- (ii) Increase in Disposable Income
- (iii) Increase in Public Expenditure
- (iv) Increase in Consumer Spending
- (v) Cheap Money Policy

II. Effects of Inflation

- (A) Effects on Production
- (B) Effects on Distribution

25. b. What are the differences between MEC and MEI.

S. No.	Marginal Efficiency of Capital (MEC)	Marginal Efficiency of Investment (MEI)
1.	It is based on a given supply price for capital.	It is based on the induced change in the price due to change in the demand for capital.
2.	It represents the rate of return on all successive units of capital without regard to existing capital.	It shows the rate of return on just those units of capital over and above the existing capital stock.
3.	The capital stock is taken on the X axis of diagram.	The amount of investment is taken on the X axis of diagram.
4.	It is a "stock" concept.	It is a "flow" concept.
5.	It determines the optimum capital stock in an economy at each level of interest rate.	It determines the net investment of the economy at each interest rate given the capital stock.