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Kumbakonam - Thanjavur (D.T)

QL **QUARTERLY EXAMINATION - 2024**

11 - STD

ECONOMICS

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Time : 3.00 Hrs

Marks : 90

I Note : i) Answer all the questions. ii) Choose the most appropriate answer from the given four alternatives and write the option code and the corresponding answer. 20 X 1 = 20

1. Micro economics is concerned with
 - a) The economy as a whole
 - b) Different sectors of an economy
 - c) The study of individual economic units behaviour
 - d) The interactions within the entire economy
2. Who has given scarcity definition of economics?
 - a) Adam Smith
 - b) Marshall
 - c) Robbins
 - d) Robertson
3. When marginal utility reaches zero, the total utility will be
 - a) Minimum
 - b) Maximum
 - c) Zero
 - d) Negative
4. Increase in demand is caused by
 - a) increase in tax
 - b) higher subsidy
 - c) increase in interest rate
 - d) decline in population
5. Which factor is called the changing agent of the society
 - a) Labourer
 - b) Land
 - c) Organizer
 - d) Capital
6. The relationship between the price of a commodity and the supply of commodity is
 - a) Negative
 - b) Positive
 - c) Zero
 - d) Increase
7. The cost incurred by producing one more unit of output is cost.
 - a) Variable
 - b) Fixed
 - c) Marginal
 - d) Total
8. Revenue received from the sale of product is known as revenue.
 - a) Profit
 - b) Total revenue
 - c) Average
 - d) Marginal
9. Money cost is known as cost.
 - a) Explicit
 - b) Implicit
 - c) cost
 - d) Real
10. Equilibrium condition of a firm is
 - a) $MC = MR$
 - b) $MC > MR$
 - c) $MC < MR$
 - d) $MR = \text{Price}$
11. An example of selling cost is
 - a) Raw material cost
 - b) Transport cost
 - c) Advertisement cost
 - d) Purchasing cost
12. In Economics, distribution of income is among the
 - a) factors of production
 - b) individual
 - c) firms
 - d) traders
13. The reward for labour is
 - a) rent
 - b) wage
 - c) profit
 - d) interest
14. Mixed economy means
 - a) Private sectors and banks
 - b) co - existence of public and private sectors
 - c) Public sectors and banks
 - d) public sectors only
15. The number of births per thousand population is called as
 - a) Crude death rate
 - b) Mortality rate
 - c) morbidity rate
 - d) Crude birth rate
16. Thiruvalluvar economic ideas mainly dealt with
 - a) wealth
 - b) poverty is the curse in the society
 - c) agriculture
 - d) all of them
17. The father of green revolution in India was
 - a) M.S. Swaminathan
 - b) Gandhi
 - c) Visweswaraiah
 - d) N.R. Viswanathan

18. The main objective of nationalisation of banks was
 a) Private social welfare b) Social welfare
 c) To earn d) Industries monopoly
19. A book seller sold 40 books with the price of Rs.10 each. The total revenue of the seller is Rs.
 a) 100 b) 200 c) 300 d) 400
20. The concept of consumer's surplus associated with
 a) Adam Smith b) Marshall c) Robbins d) Ricardo

II Note : Answer any seven questions. Q. NO. 30 is compulsory.

21. Define Micro economics. 7 X 2 = 14
22. Distinguish goods from services.
23. Define utility.
24. What are Giffen goods? Why it is called like that?
25. Define Labour.
26. What are the reasons for upward sloping supply curve?
27. Define revenue.
28. What is meant by sunk cost?
29. What is selling cost?
30. Mention the types of distribution

III Note : Answer any seven questions. Q. No. 40 is compulsory.

31. What are the crucial decisions involved in what to produce? 7 X 3 = 21
32. Explain the concept of consumer's equilibrium with a diagram.
33. What are the functions of Entrepreneur?
34. Discuss the long run cost curves with suitable diagram..
35. What are the features of a market?
36. Distinguish between rent and quasi rent.
37. Define economic development.
38. State the reasons for nationalization of commercial banks.
39. State the differences between money cost and real cost.
40. What is PQLI?

IV Note : Answer all the questions.

7 X 5 = 35

41. a) Elaborate the nature and scope of Economics. (OR)
 b) Explain the law of demand and its exceptions.
42. a) List out the properties of iso - quants with the help of diagrams. (OR)
 b) Bring out the relationship between AR and MR curves under various price conditions.
43. a) Describe the features of oligopoly. (OR)
 b) Illustrate the Ricardian theory of rent.
44. a) Write the importance of mineral resources in India. (OR)
 b) Explain the role of SSIs in economic development?
45. a) Elucidate the law of diminishing marginal utility with diagram. (OR)
 b) Explain the internal and external economics of scale.
46. a) Elucidate the loanable funds theory of interest. (OR)
 b) Write a brief note on the Gandhian economic ideas.
47. a) Elucidate the laws of returns to scale. Illustrate. (OR)
 b) Bring out the features of perfect competitions.

QUARTERLY EXAM SEPTEMBER – 2024**XI STANDARD – ECONOMICS – ANSWER KEY - ENGLISH MEDIUM**

Time Allowed : 3 Hours

Maximum Marks : 90

I. Choose the most suitable from the given four alternatives and write the option code and the corresponding answer **20 x 1 = 20**

1	C	Study of individual economic units behaviour	11	C	Advertisement Cost
2	C	Robbins	12	A	Factors of production
3	B	Maximum	13	B	Wage
4	B	Higher Subsidy	14	B	Co-existence of public and private sectors
5	C	Organizer	15	D	Crude birth rate
6	B	Positive	16	D	All of them
7	C	Marginal	17	A	M.S.Swaminathan
8	B	Total Revenue	18	B	Social Welfare
9	A	Explicit	19	D	400
10	A	MC = MR	20	B	Marshall

II. Answer any seven questions. Question No.30 is compulsory. **7 x 2 = 14**

21) Micro – Economics – Definition:

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

22) Distinguish goods from services.

Goods	Services
Tangible	Indangible
Transferable	Non-transferable

23) Definition – Utility:

- Utility, the simple meaning of 'utility is usefulness'.
- In Economics utility is the capacity of a

24) Giffen Goods - Meaning:

- ♣ 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.

25) Labour – Definition:

- ♣ “According to Marshall, labour represents services provided by the factor labour, which helps in yielding an income to the owner of the labour-power”.

26) 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 from left to right.

27) Revenue – Definition:

- The amount of money that a producer receives in exchange for the sale of goods is known as revenue.
- In short, revenue means sales revenue.

28) Sunk Cost - Meaning:

- A cost incurred in the past and cannot be recovered in future is called as. **Sunk Cost.**

29) Selling Cost:

- ★ Firms compete with each other by incurring selling cost or expenditure on sales promotion of their products.

30) Types of Distribution:

- ★ Personal Distribution
- ★ Functional Distribution

PART - III

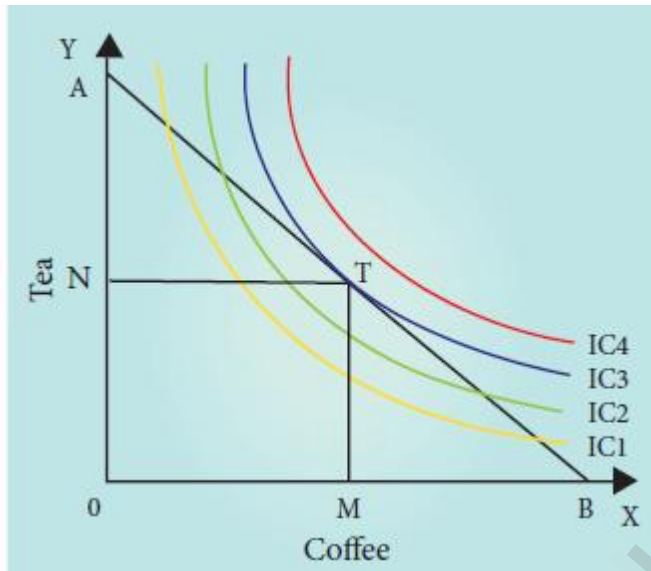
III. Answer any seven questions. Question No.40 is compulsory. 7 x 3 = 21

31. 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
- * Whether to spend more on basic education or higher education

32. Concept of consumer's equilibrium with a diagram.

- * The consumer reaches equilibrium at the point where the budget line is tangent on the indifference curve.



- * 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 BL (Budget Line) refers to ratio of price of X to price of Y ie P_x/P_y . Therefore $MRS_{x,y} = P_x/P_y$.

33) Functions of Entrepreneur:

1. Initiation:

- An organizer is the initiator of the business, by considering the situation and availability of resources and planning the entire process of business or production.

2. Innovation:

- A successful entrepreneur is always an innovator.
- He introduces new methods in the production process.

3. Coordination:

- An organizer applies a particular combination of the factors of production to start and run the business or production.

4. Control, Direction and Supervision:

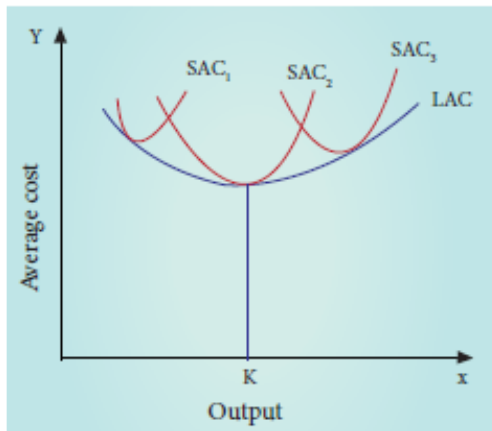
- An organiser controls so that nothing prevents the organisation from achieving its goal

5. Risk-taking and Uncertainty-bearing:

- There are risk-taking and uncertainty-bearing obstacles.

34) Long run cost curves with suitable diagram.

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



- * $LAC = LTC/Q$ where, LAC denotes Long-Run Average Cost, LTC denotes Long-run Total Cost and Q denotes the quantity of output.
- * The LAC curve is derived from short-run average cost curves.
- * It is the locus of points denoting the least cost curve of producing the corresponding output.
- * The LAC curve is called as Plant Curve or Boat shape Curve or Planning Curve or Envelop Curve.

35) Features of a market:

- * Buyers and sellers of a commodity or a service
- * A commodity to be bought and sold
- * Price agreeable to buyer and seller
- * Direct or indirect exchange.

36) Distinguish between rent and quasi-rent.

- * Rent is a payment for natural gifts of nature like land.
- * Quasi rent is a payment for man made appliances like machines.
- * Rent is permanent in nature while quasi rent is a temporary phenomenon.

37) Economic Development - Definition:

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. On the basis of the level of economic development, nations are classified as developed and developing economies.

38) Reasons for nationalization of commercial banks.

- ▲ After Independence, the Government of India adopted planned economic development.
- ▲ For this purpose, Five Year Plans came into existence since 1951.
- ▲ The main objective of the economic planning aimed at social welfare.
- ▲ Before Independence commercial banks were in the private sector.
- ▲ These commercial banks failed in helping the Government to achieve social objectives of planning.
- ▲ Therefore, the government decided to nationalize 14 major commercial banks on 19 July 1969. In 1980, again the government took over another 6 commercial banks.

39) Differences between money cost and real cost.**Money Cost**

- ▲ Production cost expressed in money terms is called as money cost.
- ▲ In other words, it is the total money expenses incurred by a firm in producing a commodity.
- ▲ Money cost includes the expenditures such as cost of raw materials, payment of wages and salaries.

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 of landlords in the use of land.

40) PQLI :

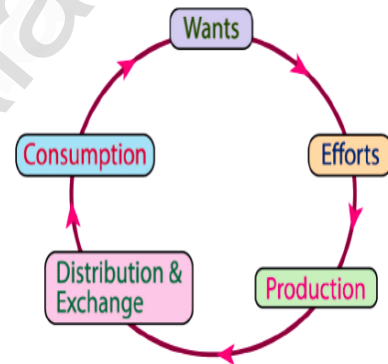
- ★ Morris D Morris developed the Physical Quality of Life Index (PQLI).
- ★ The PQLI is a measure to calculate the quality of life (well being of a country).
- ★ For this, he included three indicators such as life expectancy, infant mortality rate and literacy rate.
- ★ A scale of each indicator ranges from the number 1 to 100.
- ★ Number 1 represents the worst performance by any country. 100 is the best performance
- ★ For example, in case of life expectancy, the upper limit of 100.
- ★ This was assigned to 77 years which was achieved by Sweden in 1973.
- ★ The lower limit of 1 was assigned to 28 years which was achieved by Guinea-Bissau in 1960.

PART - IV**IV. Answer all the questions.****7 x 5 = 35****41.a. Nature and Scope of Economics:****I. Nature of Economics:**

1. A Law expresses a causal relation between two or more than two phenomena.
2. Economic laws are not as precise and certain
3. Economic laws are not inviolable
4. The use of the assumption 'other things remaining the same'
5. Economics makes the Economic laws hypothetical.

II. Scope 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.

**[OR]****41.b) Law of demand and its exceptions.**

★ The Law of Demand says as —the quantity demanded increases with a fall in price and diminishes with a rise in price.—Marshall

★ **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.
5. The demand for the commodity must be continuous.
6. There should not be any change in the quality of the commodity.

Demand Schedule

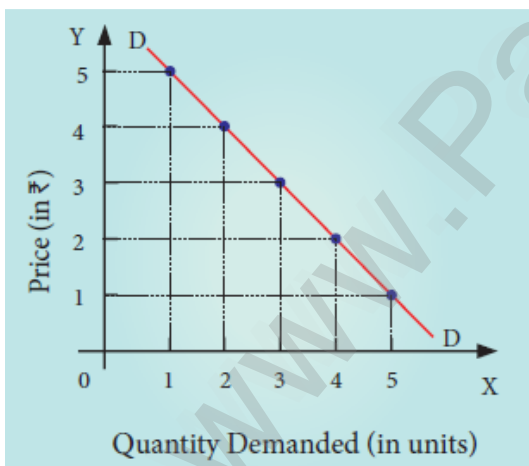
Price	Quantity Demanded
5	1
4	2
3	3
2	4
1	5

★ Explanation

- * The law of demand explains the relationship between the price of a commodity and the quantity demanded of it.
- * This law states that quantity demanded of a commodity expands with a fall in price and contracts with a rise in price.
- * In other words, a rise in price of a commodity is followed by a contraction demand and a fall in price is followed by extension in demand.

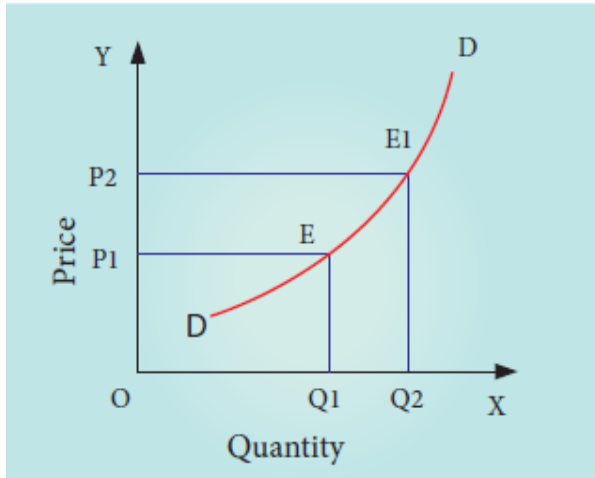
★ Demand Curve

- * In the diagram, X axis represents the quantity demanded and Y axis represents the price of the commodity.
- * 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

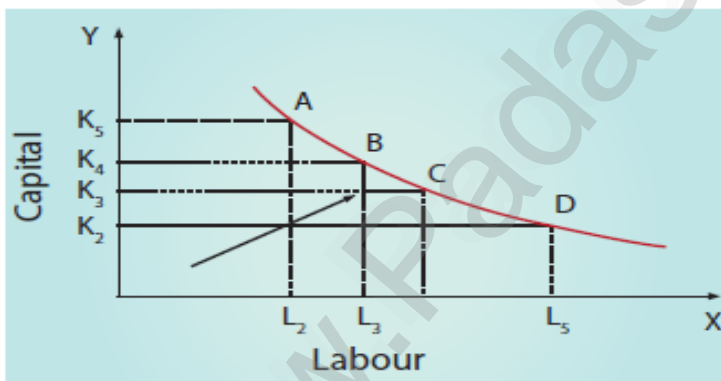
- * Normally, the demand curve slopes downwards from left to right.
- * But there are some unusual demand curves which do not obey the law and the reverse occurs.
- * A fall in price brings about a contraction of demand and a rise in price results in an extension of demand. Therefore the demand curve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



42.a) The properties of iso-quants with the help of diagrams:

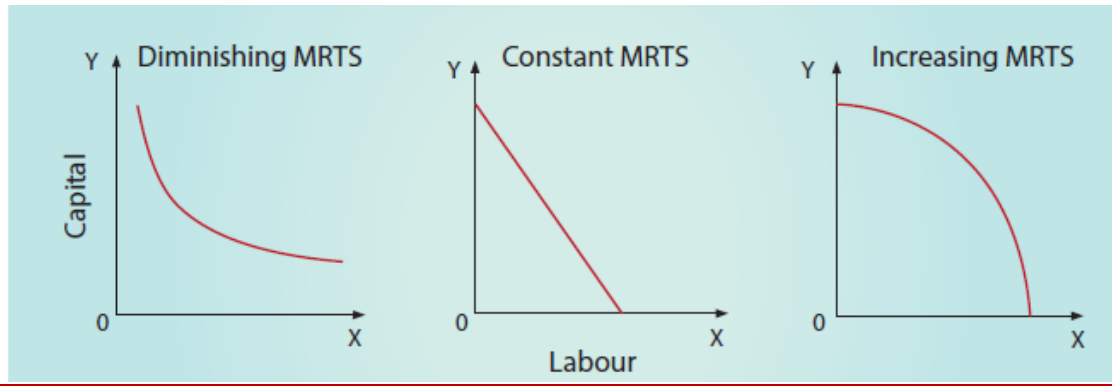
1. The iso-quant curve has negative slope.

- It slopes downwards from left to right indicating that the factors are substitutable.
- If more of one factor is used, less of the other factor is needed for producing the same level of output.
- In the diagram combination A refers to more of capital K5 and less of labour L2.
- As the producer moves to B, C, and D, more labour and less capital are used.



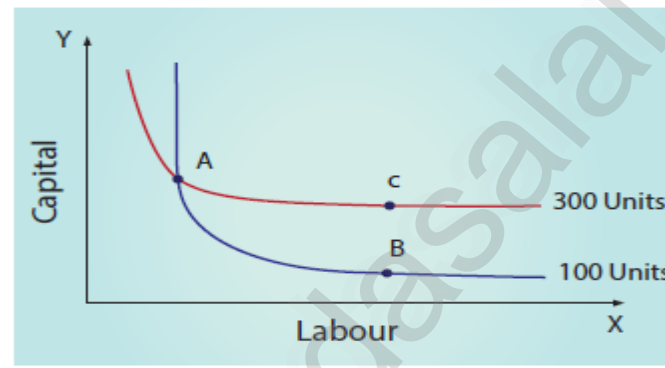
2. Convex to the origin.

- This explains the concept of diminishing Marginal Rate of Technical Substitution (MRTSLK).
- For example, the capital substituted by 1 unit of labour goes on decreasing when moved from top to bottom.
- If so, it is called diminishing MRTS. Constant MRTS (straight line) and increasing MRTS (concave) are also possible.
- It depends on the nature of iso-quant curve.



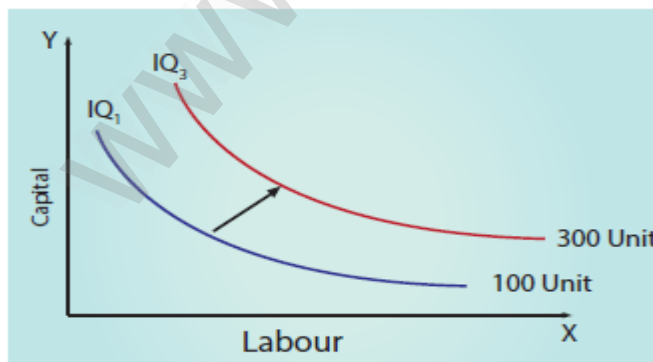
3. Non inter-section of Iso-quant curves.

- For instance, point A lie on the iso-quants IQ1 and IQ2. But the point C shows a higher output and the point B shows a lower level of output IQ1. If $C=A$, $B=A$, then $C=B$.
- But $C > B$ which is illogical.



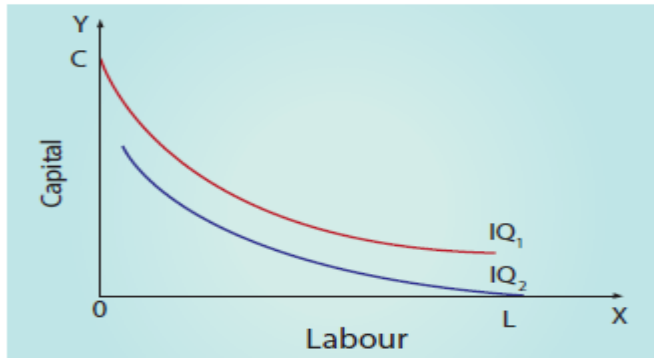
4. An upper iso-quant curve represents a higher level of output.

- Higher IQs show higher outputs and lower IQs show lower outputs, for upper iso-quant curve implies the use of more factors than the lower iso-quant curve.



5. Iso-quant curve does not touch either X axis or Y axis.

- No iso-quant curve touches the X axis or Y axis because in IQ1, only capital is used, and in IQ2 only labour is used.

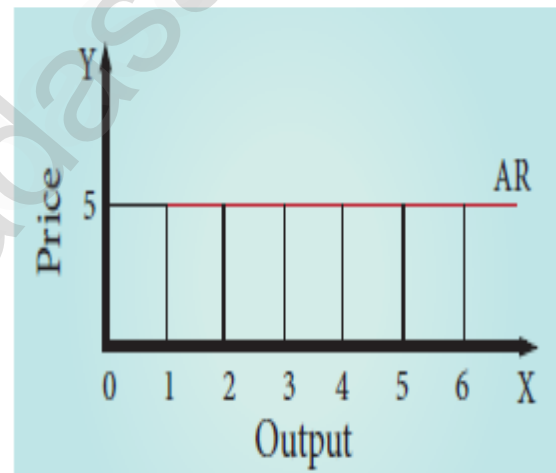


[OR]

42.b). Relationship between AR and MR curves under various price conditions.**Constant AR and MR (at Fixed Price)**

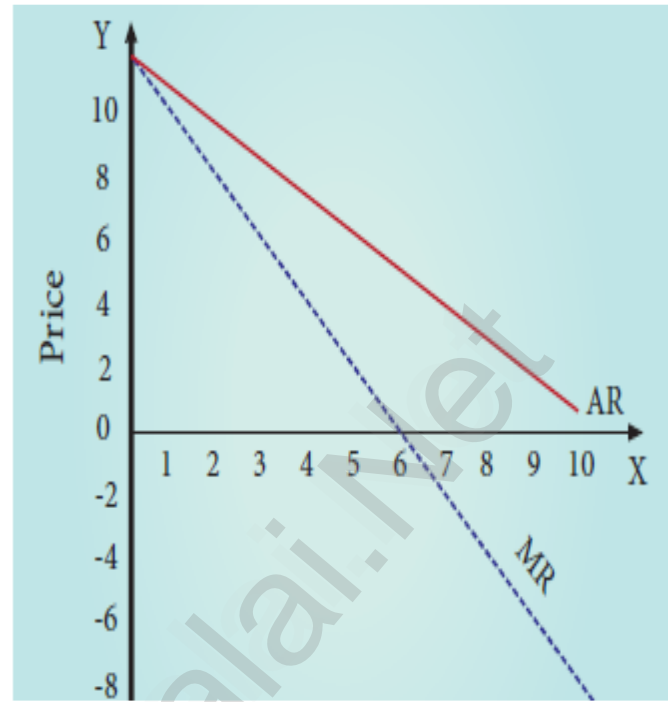
➤ When price remains constant or fixed, the MR will be also constant and will coincide with AR. Under perfect competition as the price is uniform and fixed, AR is equal to MR and their shape will be a straight line horizontal to X axis.

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)**

- When a firm sells large quantities at lower prices both AR and MR will fall but the fall in MR will be more steeper than the fall in the AR.
- It is to be noted that MR will be lower than AR.
- Both AR and MR will be sloping downwards straight from left to right.
- The MR curve divides the distance between AR Curve and Y axis into two equal parts.
- The decline in AR need not be a straight line or linear.
- If the prices are declining with the increase in quantity sold, the AR can be nonlinear, taking a shape of concave or convex to the origin.

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



43.a) 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.

[OR]

43.b) Ricardian Theory of Rent:

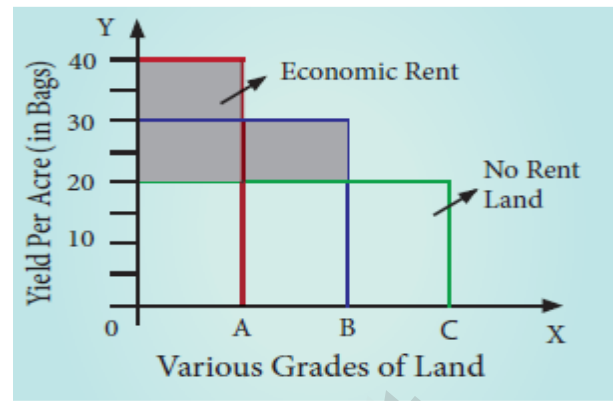
- The Classical Theory of Rent is called “Ricardian Theory of Rent”.
- “Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil”.

1. Land differs in fertility.
2. The law of diminishing returns operates in agriculture.
3. Rent depends upon fertility and location of land.
4. Theory assumes perfect competition.
5. It is based on the assumption of long period.
6. There is existence of marginal land or no-rent land.
7. Land has certain —original and indestructible powers.
8. Land is used for cultivation only.
9. Most fertile lands are cultivated first.

Statement of the Theory with Illustration

- ♣ Assume that some people go to a newly discovered island and settle down there.
- ♣ There are three grades of land, namely A, B and C in that island.
- ♣ A‘ being most fertile, B‘ less fertile and C‘ the least fertile.
- ♣ They will first cultivate all the most fertile land (A grade) available.
- ♣ Since the land is abundant and idle, there is no need to pay rent as long as such best lands are freely available.
- ♣ Given a certain amount of labour and capital, the yield per acre on A‘ grade land is 40 bags of paddy.
- ♣ Suppose another group of people goes and settles down in the same island after some time.
- ♣ Hence the demand for agricultural produce will increase.
- ♣ The most fertile lands [A grade] alone cannot produce all the food grains that are needed on account of the operation of the law of diminishing returns.
- ♣ So the less fertile lands [B grade] will have to be brought under cultivation.
- ♣ Suppose yet another group of people goes and settles down in the same island.
- ♣ So the least fertile land (C grade) will have to be brought under cultivation.
- ♣ For the same amount of labour and capital, the yield per acre on C‘ grade land is 20 bags of paddy.
- ♣ This surplus of A‘ grade land is now raised to 20 bags [40-20], and it is the —Economic Rent of A‘ grade land.
- ♣ The surplus of B‘ grade land is 10 bags [30-20].
- ♣ This is the economic rent of B‘ grade land.
- ♣ In the above illustration in C‘ grade land, cost of production is just equal to the price of its produce and therefore does not yield any rent (20 - 20).
- ♣ Hence, C‘ grade land is called —no-rent land or marginal land.
- ♣ Therefore, No-Rent Land or Marginal Land is the land in which cost of production is just equal to the price of its produce.
- ♣ The land which yields rent is called —intra –marginal land.

Grades of Lands	Production (in bags)	Surplus (i.e., Rent in bags)
A	40	$40 - 20 = 20$
B	30	$30 - 20 = 10$
C	20	$20 - 20 = 0$



- ♣ In the above 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||.

Criticisms

1. The order of cultivation from most fertile to least fertile lands is historically wrong.
2. This theory assumes that, rent does not enter into price. But in reality, rent enters into price.

44.a) Importance of mineral resources in India.

1.Iron-Ore

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

2.Coal and Lignite

- Coal is the largest available mineral resource.
- 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.

3.Bauxite

- Bauxite is a main source of metal like aluminium.
- Major reserves are concentrated in the East Coast bauxite deposits of Odisha and Andhra Pradesh.

4.Mica

- Mica is a heat resisting mineral which is also a bad conductor of electricity.
- It is used in electrical equipments as an insulator.

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

5. Crude Oil

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

[OR]

44.b) 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.

45.a) Law of diminishing marginal utility with diagram.

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.

Assumptions

- 1) Utility can be measured by cardinal numbers such as 1, 2, 3 and so on.
- 2) The marginal utility of money of the consumer remains constant.
- 3) The consumer should be a rational consumer and his aim is to attain maximum satisfaction with minimum expenditure.
- 4) The units of the commodity consumed must be reasonable in size.
- 5) The commodity consumed should be homogeneous or uniform in character like weight, quality, taste, colour etc.
- 6) The consumption of goods must take place continuously at a given period of time.

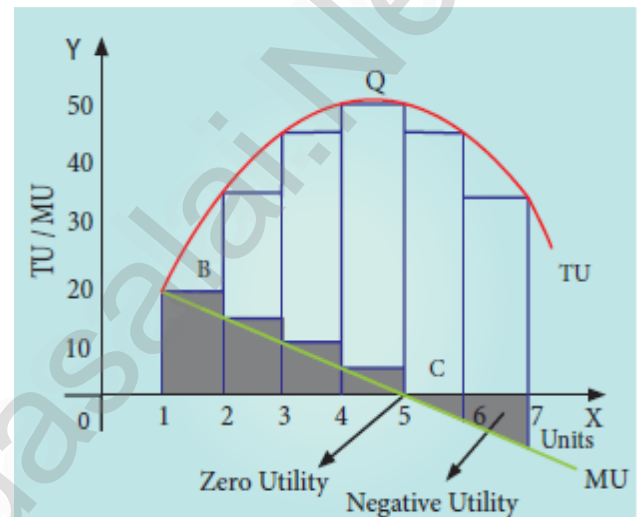
Explanation

➤ 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.
- ▲ 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.
- ▲ Finally, the utility from the fifth apple becomes zero and the utilities from sixth and seventh apples are negative.

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)



- ▲ ➤ In Table, 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.

Criticisms

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

[OR]

45.b) Internal and External economies of scale.

Economies are broadly divided into two types by Marshall.

1. Internal Economies
2. External Economies

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.

Internal Economies are of various types

- Technical Economies
- Financial Economies
- Managerial Economies
- Labour Economies
- Marketing Economies
- Economies of Survival

External Economies of Scale

➤ External Economies of Scale refer to changes in any factor outside the firm causing an improvement in the production process.

1. Increased transport facilities
2. Banking facilities
3. Development of townships
4. Development of information and communication

46.a) 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. Disharding (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

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

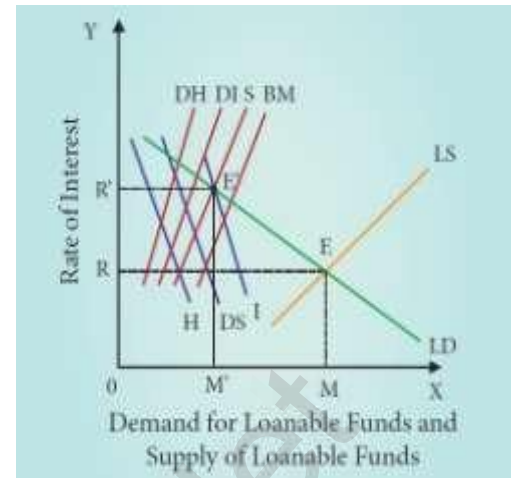
1. In Diagram, X axis represents the demand for and supply of loanable funds and Y axis

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.



[OR]

46.b) Brief note on the Gandhian economic ideas.

1. Village Republics:

- * To Gandhi, India lives in villages.
- * He was interested in developing the villages as self-sufficient units.
- * He opposed extensive use of machinery, urbanization and industrialization.

2. On Machinery:

- * Gandhi described machinery as 'Great sin'.
- * He said that —Books could be written to demonstrate its evils... it is necessary to realize that machinery is bad.

3. Industrialism:

- * Gandhi considered industrialism as a curse on mankind.
- * He thought industrialism depended entirely on a country's capacity to exploit.

4. Decentralization:

- * He advocated a decentralized economy, i.e., production at a large number of places on a small scale or production in the people's homes.

5. Village Sarvodaya:

- * According to Gandhi, —Real India was to be found in villages and not in towns or cities.

47.a) Laws of Returns to Scale. Illustration.

- * In the long-run, there is no fixed factor; all factors are variable.
- * 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.

Assumptions

All the factors of production (such as land, labour and capital) are variable but organization is fixed.

1. There is no change in technology.
2. There is perfect competition in the market.
3. Outputs or returns are measured in physical quantities

Three Phases of Returns to Scale**(1) Increasing Returns to Scale:**

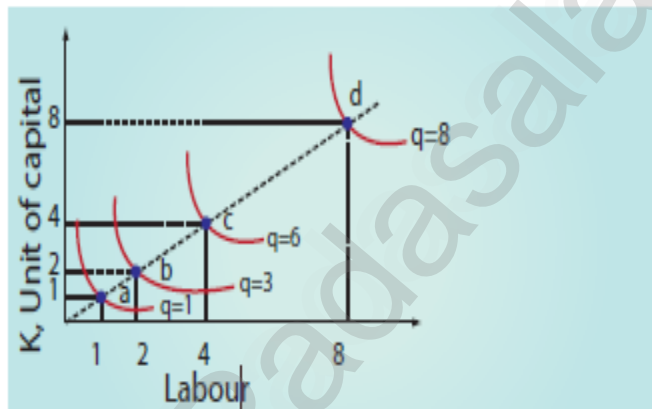
- * In this case if all inputs are increased by one per cent, output increase by more than one per cent.

(2) Constant Returns to Scale:

- * In this case if all inputs are increased by one per cent, output increases exactly by one per cent.

(3) Diminishing Returns to Scale:

- * In this case if all inputs are increased by one per cent, output increases by less than one per cent.



- The movement from point a to point b represents increasing returns to scale.
- Because, between these two points output has doubled, but output has tripled.
- The law of constant returns to scale is implied by the movement from the point b to point c.
- Because, between these two points inputs have doubled and output also has doubled.
- Decreasing returns to scale are denoted by the movement from the point c to point d since doubling the factors from 4 units to 8 units produce less than the increase in inputs.

[OR]

47.b) Features of perfect competition.**1. Large Number of Buyers and Sellers**

- ⤴ A large number of buyers' implies that each individual buyer buys a very, very small quantum of a product as compared to that found in the market.
- ⤴ This means that he (he includes she also) has no power to fix the price of the product.
- ⤴ He is only a price-taker and not a price-maker.

2. Absence Of Transport Cost

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

3. Perfect Mobility of Factors of Production

- ⤴ The prevalence of the uniform price is also due to the perfect mobility of the factors of production.

4. Perfect Knowledge of the Market

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

5. No Government Intervention

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

***** All The Best *****

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