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12th ECONOMICS Minimum material - 2019-2020

1. Define Macro Economics.

- i.The word “Macro” is derived from the Greek word”Makros” which means large
- ii.It's the branch of economics that study the economy as a whole.

2. Define the term ‘Inflation’.

A study increase in general price level is called Inflation.

3. What is meant by an ‘Economy’?

A system by which people earn their living –A.J.Brown.

4. Classify the economies based on status of development.

Developed economies, Developing economies, Underdeveloped economies and Undeveloped economies.

5. What do you mean by Capitalism?

- i.Adam smith is the father of Capitalism
- ii.It is the system of total freedom and private ownership of means of production.

6. Define ‘Economic Model’.

A model is an explanation of how economy or part of the economy, works.

7. ‘Circular Flow of Income’ - Define.

- i. It is a model of an economy showing connection between different sectors of economy,
- ii. Such as firms, households, governments and nations.

8. Define National Income.

The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend” -Alfred Marshall

9. Write the formula for calculating GNP.

- i.GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad
- ii.GNP=(C + I + G + (X-M) + (R-P))

10. What is the difference between NNP and NDP?

Basic difference	NNP	NDP
Meaning	Depreciation is deducted from GNP	Depreciation is deducted from GDP
Formula	NNP=GNP-Depreciation	NDP=GDP-Depreciation

11. Trace the relationship between GNP and NNP.

Basic Relation	NNP	NDP
At market price	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 income from abroad.	The value of net out of the economy during the year.
Formula	GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad	NNP = GNP – depreciation allowance

12. What do you mean by the term ‘Personal Income’?

Personal income is the Total Income received by the individuals before paying direct taxes from all sources. It also include Transfer of Payments.

13. Define GDP deflator.

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

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

14. Why is self consumption difficult in measuring national income?

i. Measuring of National Income through product method is done by measure the final goods and services.

ii. Both the farmer keep a large portion of food and other goods for self consumption, unsold product unable to included in national income.

15. Define full employment.

The situation in which every able bodied person who is willing to work at the prevailing wage rate, is employed.

16. What is the main feature of rural unemployment ?

The major feature of rural unemployment is the existence of unemployment in the form of disguised unemployment and seasonal unemployment.

17. Give short note on frictional unemployment.

i. It arises due to imbalance between supply of labour and demand for labour.

ii. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.

18. Give reasons for labour retrenchment at present situation.

i. Now a days, invention and innovations lead to the adoption of new techniques there by the existing workers are retrenched. ii. Labour saving devices are responsible for technological unemployment.

19. List out the assumptions of Say's law.

i. No single buyer or seller of commodity or an input can affect price. ii. Full employment.

iii. There is wage-price flexibility. iv. Money acts only as a medium of exchange. v. Long - run analysis.

20. What is effective demand ?

i. It is money spent actually on products of industry by the people.

ii. $ED = Y = C + I = \text{Output} = \text{Employment}$.

21. What are the components of aggregate supply ?

i. Aggregate (desired) consumption expenditure (C) ii. Aggregate (desired) private savings (S)

iii. Net tax payments (T) iv. Personal (desired) transfer payments to the foreigners (Rf).

21. What is consumption function?

i. It is a "functional relationship between two aggregates viz., total consumption and gross national income.

ii. $c = f(y)$

22. What do you mean by propensity to consume?

It is the relationship between income and consumption, that is when income increases, consumption also increase.

23. Define average propensity to consume (APC).

i. is the ratio of consumption expenditure to any particular level of income.

ii. $APC = C/Y$

24. Define marginal propensity to consume (MPC).

i. Defined as the ratio of the change in the consumption to the change in income.

ii. $MPC = \frac{\Delta C}{\Delta Y}$

25. What do you mean by propensity to save?

- i. It is a "functional relationship between two aggregates viz Total savings and gross National income.
- ii. $S=f(y)$

26. Define average propensity to save (APS).

- i. it is the ratio of total savings to total income
- ii. $APS = S/Y$

27. Define Marginal Propensity to Save (MPS).

- i. It is the ratio of change in saving to a change in income.
- ii. $MPC = \frac{\Delta S}{\Delta Y}$

28. Define Multiplier.

- i. Multiplier is defined as the ratio of the change in National income to change in investment

ii. $K = \frac{\Delta Y}{\Delta I}$

29. Define Accelerator

- i. Accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment.

ii. $\beta = \frac{\Delta I}{\Delta C}$

30. Define Money.

"Money is, what money does" - Walker.

"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". - Crowther

31. What is barter?

Commodities and services were directly exchanged for another commodities and services.

32. What is commodity money?

- i. It is the value from the commodity by which it is made
- ii. Commodity money has value in itself and value in its use of money eg. Jewels.

33. What is gold standard?

Gold standard is a system in which the standard currency is directly linked with Gold.

34. What is plastic money? Give example.

- i. It is the advanced form of financial products and it is an alternative to cash.
- ii. eg. Credit-Cards, Debit Cards and Smart Cards.

35. Define inflation.

"Too much of money chasing too few goods" – Coulbourn

36. What is Stagflation?

Combination of stagnant Economic growth, High employment and High inflation.

37. Define Commercial banks.

It refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business.

38. What is credit creation?

- i. Credit creation means the multiplication of loans and advances.
- ii. It leads to increased production, employment, sales, and faster economic development.

39. Define Central bank.

- i. A central bank is an institution that manages a state's currency, money supply, and interest rates .
- ii. it is called Reserve Bank or Monetary authority.

40. Distinguish between CRR and SLR.

Sl.No	CRR	SLR
1	The commercial bank has to maintain reserve with the RBI	The amount which a bank has to maintain in the form of cash or gold or approved securities.
2	Regulates the flow of money in the economy	Ensures the solvency of the banks.

41. Write the meaning of Open market operations

- i. In narrow sense, the Central Bank starts the purchase and sale of Government securities in the money market.
- ii. In Broad Sense, the Central Bank purchases and sells not only Government securities but also other proper eligible securities.

42. What is rationing of credit?

- i. This is the oldest method of credit control,
- ii. It regulates and controls the purpose for which the credit is granted by commercial banks.

43. Mention the functions of agriculture credit department

- a) To maintain an expert staff to study all questions on agricultural credit
- b) To provide expert advice to Central and State Government, State Co-operative Banks and other banking activities.
- c) To finance the rural sector through eligible institutions engaged in the business of agricultural credit and to co-ordinate their activities.

44. What is International Economics?

International Economics is that branch of economics which is concerned with the exchange of goods and services between two or more countries.

45. Define international trade.

It refers to the exchange of goods and services within the political and geographical boundaries of a nation.

46. State any two merits of trade.

- i. Trade is one of the powerful force of economic integration.
- ii. It brings foreign exchange to our country.

47. What is the main difference between Adam Smith and Ricardo with regard to the emergence of foreign trade?**Adam Smith**

International trade was absolute cost advantage

David Ricardo

A country can gain from trade when it produces at relatively lower costs.

48. Define Terms of Trade.

The gains from international trade depend upon the terms of trade which refers to the ratio of export prices to import prices.

49. What do you mean by balance of payments?

BoP is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.

50. What is meant by Exchange Rate?

It is the price paid in the home currency for a unit of foreign currency that is the rate at which one currency is exchanged for another currency.

52. Write the meaning of Special Drawing rights.

- i. It is also called as paper Gold
- ii. They are a form of international reserves created by IMF in 1969 to solve the problem of International Liquidity.

53. Mention any two objectives of ASEAN.

- i. To accelerate the economic growth, social progress and cultural development in the region
- ii. To serve as a centre of information and as an ASEAN link with other international organization

54. Point out any two ways in which IBRD lends to member countries.

- i. It advances loans to its member and loans out of its own fund
- ii. Loans out of borrowed capital and loans through banks guarantee.

55. Define Common Market.

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

56. What is Free trade area?

A region encompassing a trade bloc whose member countries have signed a free-trade agreement. They involve co-operation between atleast two countries to reduce trade barriers.

57. When and where was SAARC Secretariat established?

The SARC Secretariat was established in Kathmandu on 16th January 1987

58. Specify any two affiliates of World Bank Group

- i. IFC- International Finance Corporation
- ii. IDA- International Development Association.

59. Define public finance.

Public finance is an investigation into the nature and principles of the state revenue and expenditure". -Adam Smith.

60. What is public revenue?

It is the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

61. Differentiate tax and fee.

Tax is a compulsory payments by the citizens and fees are charged by the public authorities for rendering service to the citizens.

62. Write a short note on zero based budget.

It involves fresh evaluation of expenditure in the Government budget, assuming it as a new item. Indian Government presented ZBB first in 1987-88.

63. Give two examples for direct tax.

The tax levied on person's income and wealth which is paid directly to the Government.

- i. Income tax
- ii. Wealth Tax

64. What are the components of GST?

The components are Three types: 1. CGST 2. SGST 3. IGST

65. What do you mean by public debt?

The debt is the form of promises by the Treasury to pay to the holders of these promises a principal sum and in most instances interest on the principal.- Philip E.Taylor.

66. State the meaning of environment.

“all the conditions, circumstances, and influences surrounding and affecting the development of an organism or group of organisms”.

67. What do you mean by ecosystem?

An ecosystem includes all living things in a given area, interacting with each other, and also with their non-living environments .

68. Mention the countries where per capita carbondioxide emission is the highest in the world.

USA, Australia cannada, and Japan.

69. What are environmental goods? Give examples.

Environmental goods are typically non-market goods, including clear air, clean water, landscape, green transport infrastructure ,public parks, urban parks, rivers, mountains, forests, and beache.

70. What are the remedial measures to control noise pollution?

1. Use of noise barriers 2. Newer roadway for surface transport 3. Traffic control
4. Regulating times for heavy vehicles 5. Installations of noise barriers in the work place
6. Regulation of Loudspeakers.

71. Define Global warming.

It is the current increase in temperature in Earth's surface as well as its atmosphere

72. Specify the meaning of seed ball.

A seed ball is seed that has been wrapped in soil materials usually a mixture of clay and compost then dried.

73. Define economic development

The increase in GNP is accompanied by decline in share of agriculture in output and employment while those of manufacturing and service sectors increase.

74. Mention the indicators of development.

- i. Gross National Product ii. GNP Percapita iii. Welfare iv. Social Indicators.

75. Distinguish between economic growth and development

Sl.No	Economic Growth	Economic Development
1	Problems of Developed countries	Problems of Under Developed Countries
2	Changes is gradual and steady	Changes in discontinious and spontaneous
3	Means more output	Means not only more output but also its composition
4	Narrow	Wider concept development=Growth+Change

76. What is GNP?

The total market value of all final goods and services produced within a nation in a particular year, plus income earned by its citizens from abroad minus income of non-residents located in that country.

77. Define economic planning.

According to Robins “Economic planning is collective control or supression of private activities of production and exchange”

78. What are the social indicators of economic development?

- i. It is referred to as basic and collective needs of the people
- ii. The direct provision of basic needs such as health, education, etc.,

79. Write a short note on NITI Aayog

- i. National Institution for transforming India was formed in 1st January 2015 by union cabinet Resolution
- ii. It has replaced the Planning commission from 13th August 2014
- iii. NITI Aayog is a policy Think-tank.

80. What is Statistics?

Statistics as a science of estimates and probabilities - - Boddington

81. What are the kinds of Statistics?

- i. Descriptive statistics
- ii. Inferential statistics.

82. What do you mean by Inferential Statistics?

The branch of statistics concerned with using sample data to make an inference about a population of data is called Inferential Statistics.

83. What are the kinds of data?

In statistics, data are classified into two broad categories: 1. Quantitative data and Qualitative data

84. Define Correlation.

Correlation is a statistical device that helps to analyse the covariation of two or more variables

85. Define Regression.

Regression is the study of the relationship between the variables. The literal meaning of the word "regression" is "Stepping back towards the average".

86. What is Econometrics

Econometrics may be considered as the integration of economics, Statistics and Mathematics. According to H Theil "Econometrics is concerned with the empirical determination of economic laws"

Three marks**1.State the importance of Macro Economics.**

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

2. Describe the different types of economic systems.

- i. Capitalist Economy: Total freedom and Private ownership of means of production.
- ii. Socialist Economy: Public ownership of means of production
- iii. Mixed Economy: Co-existence of capitalism and socialism

3. Outline the major merits of capitalism.

Automatic Working: Without any government intervention, the economy works automatically.

Efficient Use of Resources: All resources are put into optimum use.

Incentives for Hard work: Hard work is encouraged and entrepreneurs get more profit for more efficiency.

Economic Progress: Production and productivity levels are very high in capitalistic economies

4. Indicate the demerits of socialism.**i. Red Tapism and Bureaucracy:**

As decision are taken by government, time delay and approval process may have chances of corruptions.

ii. Absence of Incentive:

The major limitation of socialism is that this system does not provide any incentive for efficiency.

iii. Limited Freedom of Choice:

Consumers do not enjoy freedom of choice over the consumption of goods and services.

iv. Concentration of Power:

The State takes all major decisions. The private takes no initiative in making economic decisions.

5. Enumerate the features of mixed economy.

1	Ownership of Means of Production	Private Ownership and Public Ownership
2	Economic Motive	Social Welfare and Profit Motive
3	Solution of Central Problems	Central Planning System and Free Market System
4	Government Role	Limited Role
5	Income Distribution	Less unequal
6	Nature of Enterprise	Both Private and State Enterprises
7	Economic Freedom	Limited Freedom
8	Major Problem	Inequality and Inefficiency

6. Distinguish between Capitalism and Globalism.

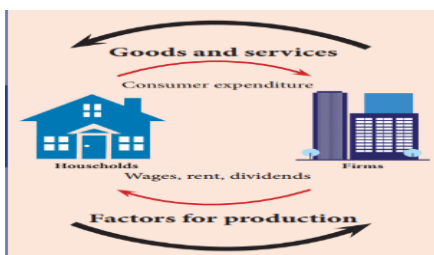
Sl.no	Capitalism	Globalism
1	Role of the government is minimum and the market determines the economic activities	New market ideology connect the nations together through international trade
2	Production is privately owned and market determines the economic activities	Economic activities of a nation are interconnected and inter dependent
3	Adam Smith	Manfred D Steger

7. Briefly explain the two sector circular flow model.

The circular flow of income between household sector and firm

Household sector: It receives income from firm sector by the factors of production owned by it

The Firm Sector: It gets income from household sector by selling goods and services to households.



Explanation: In a two-sector economy, production and sales are equal and there will be a circular flow of income and goods. The outer circle represents real flow and the inner circle represents the monetary flow.

$$Y = C + I$$

8. Write a short note on per capita income.

i. It is the average income of a person of a country in a particular year.

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

iii. It is income per head of population.

9. Differentiate between personal and disposable income.

S.no	Personal Income	Disposable income
1	Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in year	It is the individual income after payment of income tax.
2	It will never equal to National income	This amount is equal to consumption and savings
3	Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments	Disposable Income = Personal income – Direct Tax

10. Explain briefly 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.
- $\text{NNP at factor cost} = \text{NNP at Market prices} - \text{Indirect taxes} + \text{Subsidies}$

11. 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.
- $\text{GNP} = C + I + G + (X - M)$

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

- Double counting can be solved by value added method.
- Instead of taking value of final products, value added by each firm at each stage of production is included.
- This method also known as industry of origin method.

13. Write briefly about national income and welfare.

- NI is considered as an indicator of the economic wellbeing of a country
- The economic progress of countries is measured in terms of their GDP per capita and their annual growth rate.
- A country with a higher per capita income is supposed to enjoy greater economic welfare with high standard of living
- But the rise in GDP or per capita income need not always promote economic welfare.

14. List out the uses of national income

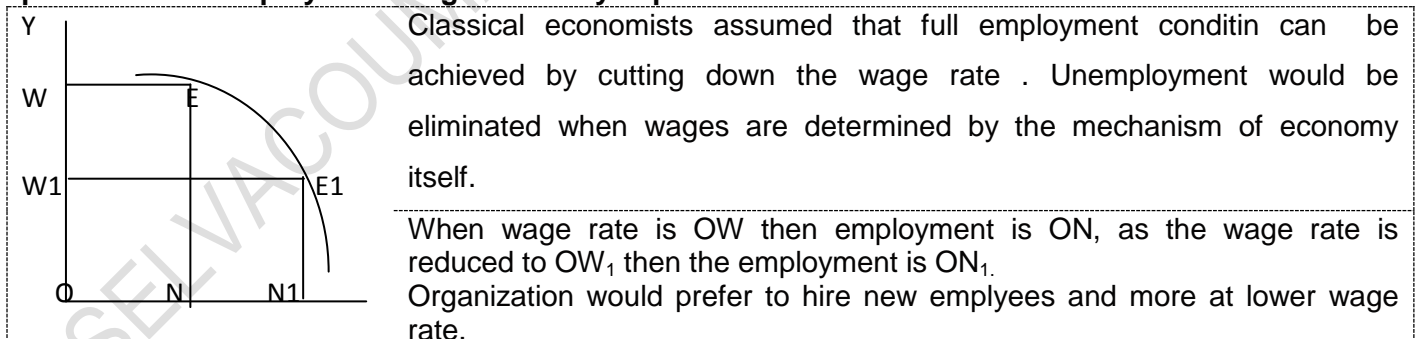
- It describes the economic or production performance of a country.
- The National Income data is used for planners, Government, businessmen and International agencies
- The National income figures are used to measure the level of development of a country

15. Explain the following in short ,i) Seasonal unemployment,ii) Frictional unemployment,(iii) Educated unemployment

(i) Seasonal unemployment: Unemployment occurs during season, People are unemployed during off season, It is common in agriculture and agor based industries

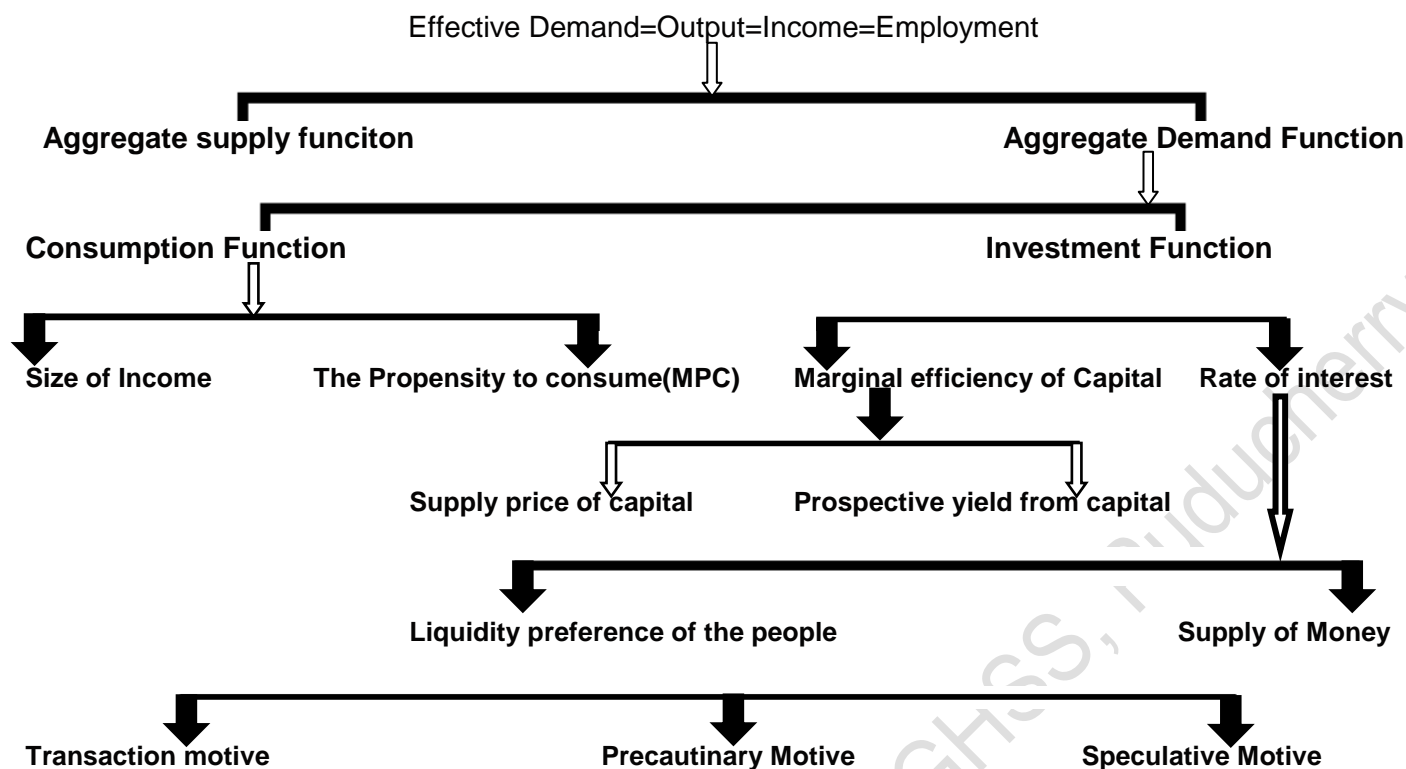
(ii) Frictional unemployment: due to imbalance between the supply of labour and demand for labour.

(iii) Educated unemployment: Sometimes educated people are underemployed or unemployed when the qualification of the people does not match with the job.

16. According to classical theory of employment, how wage reduction solve the problem of unemployment diagrammatically explain.**17. Write short note on the implications of Say's law.**

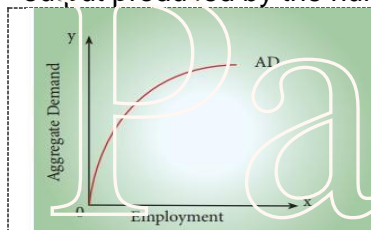
- There is no possibility for over production or unemployment.
- If there exist unutilized resources in the economy, it is profitable to employ them up to the point of full employment.
- As automatic price mechanism operates in the economy, there is no need for government intervention
- Interest flexibility brings about equality between saving and investment.
- Money performs only the medium of exchange function in the economy, as people will not hold idle money.

18. Explain Keynes' theory in the form of flow chart.



19. What do you mean by aggregate demand ? Mention its components.

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



Aggregate demand curve increases at an increasing rate in the beginning and then increases at a decreasing rate.

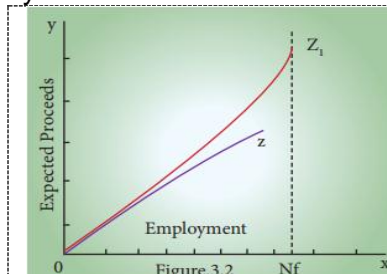
$$AD = C + I + G + (X - M)$$

Aggregate demand has the following four components:

1. Consumption demand
2. Investment demand
3. Government expenditure and
4. Net Export (export - import)

20. Explain about aggregate supply with the help of diagram.

Aggregate supply refers to the value of total output of goods and services produced in an economy in a year.



The Diagram shows the shape of the two aggregate supply curves drawn for the assumption of fixed money wages and variable wages. Z curve is linear where money wages remains fixed; Z1 curve is non - linear since wage rate increases with employment. When full employment level of N_f is reached it is impossible to increase output by employing more men. Aggregate Supply = $C + S + T + R_f$ = Aggregate income generated in the economy.

21. Write any five differences between classism and Keynesianism.

S.no	Classical Theory	Keynes Theory
1.	Short-run equilibrium	Long-run equilibrium
2.	Saving is a vice	Saving is a social virtue.
3.	Rate of interest is a flow.	Rate of interest is a stock
4.	Demand creates its own supply.	Supply creates its own demand.
5.	State intervention is advocated.	Champions of Laissez-fair policy

22. State the propositions of Keynes's Psychological Law of Consumption

- 1) When income increases, consumption expenditure also increases but by a smaller amount.
- 2) The increased income will be divided in some proportion between consumption expenditure and saving.
- 3) Increase in income always leads to an increase in both consumption and saving.

23. Differentiate autonomous and induced investment.

Autonomous Investment	Induced investment
It is independent	Planned
Income is inelastic	Income is elastic
Welfare motive	Profit motive
The curve is horizontal parallel to x axis	The curve is positively sloped

24. Explain any three subjective and objective factors influencing the consumption function.

Subjective factors	Objective factors
The motive of precaution: reserve against unforeseen contingencies. Eg. Accidents, sickness	Income distribution: Disparity between Poor and rich
The motive of foresight: desire to provide for anticipated future needs. Eg. Old age	Price level : When the price falls, real income goes up
The motive of calculation: The desire to enjoy interest and appreciation.	Wage level: positive relationship between wage and consumption

25. Mention the differences between accelerator and multiplier effect

Accelerator	Multiplier
numerical value of the relation between an increase in consumption and the resulting increase in investment	the ratio of the change in national income to change in investment
Changes in consumption forms the effects	Change in investment forms the effect
$\beta = \frac{\Delta I}{\Delta C}$	$K = \frac{\Delta Y}{\Delta I}$

26. State the concept of super multiplier.

- i. The supermultiplier is worked out by combining both induced consumption and induced investment
- ii. It is greater than simple multiplier.
- iii. It is K and β interaction, $Y = C + I_a + I_p$

27. Specify the limitations of the multiplier.

It assumes that those who earn income are likely to spend a proportion of their additional income on consumption. But in practice, people tend to spend their additional income on other items. Such expenses are known as leakage.

These leakage are the limitation of multiplier ;i. Payment towards past debts ii. Purchase of existing wealth
Import of goods and services iii. Non availability of consumer goods iv. Full employment situation

28. Write a note on metallic money.

- i. Metallic standard is the premier one.
- ii. Under metallic standard, some kind of metal either gold or silver is used to determine the standard value of the money and currency.
- iii. Standard coins made out of the metal are the principal coins used under the metallic standard.
- iv. Their face value is equal to their intrinsic metal value.

29. What is money supply?

- i. It means the total amount of money in an economy.
- ii. It refers to the amount of money which is in circulation in an economy at any given time.
- iii. Money supply plays a crucial role in the determination of price level and interest rate.

30. What are the determinants of money supply?

1. Currency Deposit Ratio(CDR); The ratio of money held by the public in currency to that they hold in bank deposits.
2. Reserve deposit Ratio (RDR); i) vault cash in banks and ii) deposits of commercial banks with RBI.

3. Cash Reserve Ratio (CRR); It is the fraction of the deposits the banks must keep with RBI.
 4. 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.

31. Write the types of inflation.

- Based on speed: a) creeping inflation b) walking inflation c) running inflation d) Galloping inflation
- On the basis of demand and cost: a) Demand-Pull inflation b) Cost-Push inflation
- On the basis of inducement: a) Currency inflation b) Credit inflation c) Deficit induced inflation d) Profit induced inflation e) Scarcity induced inflation f) Tax induced inflation.

32. Explain Demand-pull and Cost push inflation.

i) **Demand-Pull Inflation:** Demand and supply play a crucial role in deciding the inflation levels in the society at all points of time. 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.

33. State Cambridge equations of value of money.

i) **Marshall's Equation:** $M = KPY$, Where; M is the quantity of money, Y is the aggregate real income of the community, P is Purchasing Power of money, K represents the fraction of the real income which the public desires to hold in the form of money. Thus, the price level $P = M/KY$ (The reciprocal of price level) is $1/P = KY/M$

ii) **Keynes' Equation:** $n = pk$ (or) $p = n / k$ Where; n is the total supply of money, p is the general price level of consumption goods k is the total quantity of consumption units the people decide to keep in the form of cash, Keynes indicates that K is a real balance, because it is measured in terms of consumer goods.

34. Explain disinflation.

i. Disinflation is slowing down the rate of inflation by controlling the amount of credit bank loan, hire purchase available to consumers without causing more unemployment. ii) also it is defined as the process of reversing inflation without creating unemployment or reducing output in the economy.

35. Write the mechanism of credit creation by commercial banks.

- Credit Creation means the multiplication of loans and advances.
- As credit creation the banks make a net addition to the total supply of money in the economy.
- The banks have the power to expand or contract demand deposits through granting loans and advances and acquiring other assets.

36. Give a brief note on NBFIs.

- It is a financial institution that does not have a full banking license or is not supervised by the central bank.
- The NBFIs do not carry on pure banking business, but they will carry on other financial transactions.
- They receive deposits and give loans.
- They mobilize people's savings and use the funds to finance expenditure on investment activities
- NBFI is classified 1) Stock Exchange; and 2) Other Financial institutions.
- Eg: Chit Funds, Building Societies, Issue Houses, Investment Trusts and Unit Trusts and Insurance Companies

37. Bring out the methods of credit control.

General(Quantitative)	Selective (Qualitative)
1. Bank Rate 2. Open Market Operations 3. Variable Cash Reserve Ratio	1. Rationing of Credit 2. Direct Action 3. Moral suasion 4. Publicity 5. Regulation of Consumer' Credit 6. Marginal Requirements

38. What are the functions of NABARD?

NABARD has inherited its apex role from RBI.

- i) It acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries,
- ii) It provides short-term, medium term and long-term credits to state co-operative Banks SCBs, RRBs, LDBs
- iii) It gives long-term loans to State Government to enable them to subscribe to the share capital of co-operative credit societies.
- iv) It gives long-term loans to any institution approved by the Central Government concerned with agriculture and rural development.
- v) It has the responsibility of co-ordinating the activities of Central and State Governments.

39. Specify the functions of IFCI.

- i. Industrial finance corporation of India provides assistance to the industrial concern.
- ii. Long term loans, both in rupees and foreign currencies.
- iii. Underwriting of equity, preference and debenture issues.
- iv. Subscribing to equity, preference and debenture issues.
- v. Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India
- vi. Guaranteeing of loans raised in foreign currency from foreign financial institutions.

40. Distinguish between money market and capital market.

Money market: i. The mechanism through which short term funds are loaned and borrowed.

- ii. It designates financial institutions which handle the purchase, sale and transfer of short term credit instruments.
- iii. Non Banking Financial Institutions and the Central Bank are the institutions catering to the requirements of short term funds in the money Market.

Capital Market: i. It is a part of financial system which is concerned with raising capital by dealing in shares, bonds and other long term investments.

- ii. The market where investment instruments like bonds, equities and mortgages are traded is known as the capital market

41. Mention the objectives of demonetizations.

Demonitisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency.

Objectives of Demonetisation:

1. Removing Black Money from the country.
2. Stopping of Corruption.
3. Stopping Terror Funds.
4. Curbing Fake Notes

42. Describe the subject matter of International Economics

i. **Pure theory of trade:** This explains the causes for foreign trade, volume of trade, balance of trade and payments.

ii. **Policy issues:** It covers the policy issues like method of regulating trade, use of taxation, foreign aid, FDI and disequilibrium in the balance of payments.

iii. **International cartels and trade Blocs:** It deals with the economic integration in the form of custom unions, monetary unions and the operation of MNCs.

iv. **International financial and trade regulatory institutions** – Financial institutions like IMF, IBRD, WTO, etc., also part of international economics.

43. Compare the Classical Theory of international trade with Modern Theory of International trade.

S.No	Classical Theory of International Trade	Modern Theory of International Trade
1.	It explains the phenomenon of international trade on the basis of labour theory of value.	It explains the phenomenon of international trade on the basis of general theory of value.
2.	Labour	Labour and capital
3.	It attributes the differences in the comparative costs to differences in the productive efficiency of workers in the two countries.	It attributes the differences in comparative costs to the differences in factor endowments in the two countries.

44. Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.

S.No	Net Barter Terms of Trade	Gross Barter Terms of Trade.
1.	The ratio between the prices of exports and of imports. It is named by Viner as the 'commodity terms of trade.	It is an index of relationship between total physical quantity of imports and the total physical quantity of exports.
2.	$T_n = (P_x/P_m) \times 100$	$T_g = (Q_m/Q_x) \times 100$

45. Distinguish between Balance of Trade and Balance of Payments.

S.No	Balance of Trade	Balance of Payments
1.	<i>It refers the total value of country's export commodities and import commodities</i>	<i>It is a systematic record of a country's economic and financial transaction with rest of world over a period</i>
2.	<i>It can be favorable, unfavorable or balance</i>	<i>Both receipts and payment side should tally.</i>
3.	<i>It is a component of current account of balance of payment</i>	<i>Its components are Current Account and Capital Account</i>

46. What are import quotas?

- Import quota is a quantitative limit fixed on the import of some type of goods.
- It may be fixed either in terms of quantity or the value of the product.
- This is imposed to conserve foreign exchange or protect domestic consumption.

47. Write a brief note on flexible exchange rate.

- It is also known as floating exchange rate
- Under this system exchange rate is freely determined in an open market by market force of demand and supply
- Market prices that vary day to day.

48. State the objectives of Foreign Direct Investment

FDI has the following objectives.

- Sales Expansion
- Acquisition of resources
- Diversification
- Minimization of competitive risk.

Five Mark question**1. Discuss the scope of Macro Economics.**

National Income: National Income and its composition provide a long term understanding of growth process of an economy.

i) Inflation: Inflation refers to steady increase in general price level, to estimate the general price level by constructing various price index numbers are needed.

ii) Business Cycle: The cyclical movements such as boom, recession, depression and recovery in the economy are studied by Macro economics.

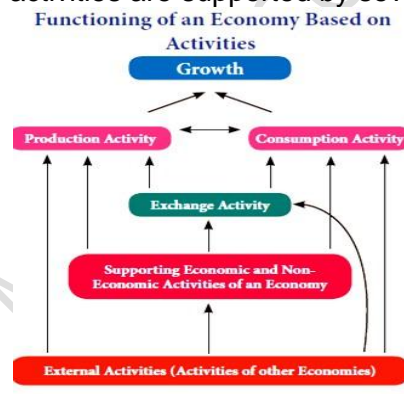
iii) Poverty and Unemployment: This is one of the economic paradoxes of rich nation. Macro economy give a clear understanding about the magnitude of poverty and unemployment

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

v) Economic Policies: Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles.

2. Illustrate the functioning of an economy based on its activities.

In an economy, the fundamental economic activities are production and consumption. These two activities are supported by several other activities.



i) The ultimate aim of these activities is to achieve growth. These activities are influenced by several economic and non-economic activities.

ii) The major economic activities include transportation, banking, advertising, planning, government policy and others.

iii) The major non-economic activities are environment, health, education, entertainment, governance, regulations etc.

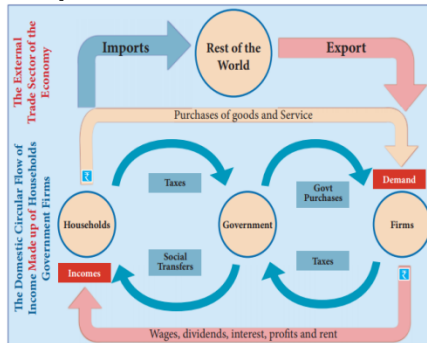
iv) external activities from other economies such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc.

3. Compare the feature among Capitalism, 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	Interanal 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

4. Explain four sector model of economy with chart



- In a Four-sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included. In real life, only four-sector economy exists.
- This model is composed of four sectors namely, (i) Households, (ii) Firms, (iii) Government, (iv) External sector.
- The external sector comprises exports and imports. It is illustrated in the In four-sector economy, expenditure for the entire economy include domestic expenditure (C+I+G) and net exports (X- M).
- $Y = C + I + G + (X - M)$.

5. Explain the importance of national income.

- To know the relative importance of the various sectors of the economy and their contribution towards national income.
- To formulate the national policies such as monetary policy, fiscal policy and other policies.
- To formulate planning and evaluate plan progress ; it is essential that the data pertaining to a country's gross income, output, saving and consumption from different .
- To build economic models both in short - run and long - run.
- To make international comparison, inter - regional comparison and inter - temporal comparison of growth of the economy during different periods.
- To know a country's per capita income which reflects the economic welfare of the country
- To know the distribution of income for various factors of production in the country.
- To arrive at many macro economic variables namely, Tax - GDP ratio, Current Account Deficit - GDP ratio, Fiscal Deficit - GDP ratio, Debt - GDP ratio etc

6. Discuss the various methods of estimating the national income of a country.

Thre are three methods that are used to measure national income.

- Production or value added method
- Income method or factor earning method
- Expenditure method

1. Production or value added method

- Product method measures the output of the country. It is also called inventory method.
- The gross value of output from different sectors were obtained for the entire economy during a year.
- The value of the final product is derived by the summation of all the values added in the productive process.
- To avoid double counting, either the value of the final output should be taken into the estimate of GNP or the sum of values added should be taken.

2. Income method or factor earning method

It is calculated by adding up all the incomes generated in the course of producing national product.

- The enterprises are classified into various industrial groups.
- Factor incomes are grouped under labour income, capital income and mixed income.
- Calculated as domestic factor income plus net factor incomes from abroad.

$$Y = w + r + I + \pi + (R-P)$$

Items not to be included

- Transfer payments are not to be included
- The receipts from the sale of second hand goods should not be treated as part of national income
- Windfall gains such as lotteries are also not to be included
- Corporate profit tax should not be separately included

Items to be included

- Imputed value of rent for self occupied houses or offices is to be included.
- Imputed value of services provided by owners of production units is to be include

3. Expenditure method

- i) Under this method total expenditure incurred by the society in a particular year is added together.
- ii) 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.
- iii) **GNP = C + I + G + (X-M)**

Not to be include

1. Second hand goods should not be included.
2. Purchase of shares and bonds should not be included.
3. Transfer payments should not be included.
4. Expenditure on intermediate goods is not to be included to avoid double counting.

7. What are the difficulties involved in the measurement of national income?

In India, because of unorganized non-monetized subsistence sector, proper valuation of output is very difficult.

- i) **Transfer of payments:** Government makes payments are not included in the national income. Because they are paid without adding anything to the production processes.
- ii) **Difficulties in assessing depreciation allowance:** It requires high degree of judgment to assess the depreciation allowance and other charges.
- iii) **Unpaid services:** rendering services to their friends, painting, singing, dancing, etc. and a housewife renders number of useful services but they were not paid for them and their services are not directly included in national income.
- iv) **Income from illegal activities:** Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor, etc., is not included

8. Describe the types of unemployment.

Unemployment is problem faced when there are people, who are willing to work and able to work but cannot find suitable jobs

1. **Cyclical Unemployment:** It exists during the downturn phase of trade cycle in the economy. It is caused by deficiency of effective demand and can be cured by public investment or expansionary monetary policy.
2. **Seasonal Unemployment:** It occurs during certain seasons of the year. Seasonal unemployment happens from demand side also
3. **Frictional Unemployment :** Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
4. **Educated Unemployment:** Sometimes educated people are underemployed or unemployed when qualification does not match the job.
5. **Technical Unemployment :** Modern technology being capital intensive requires less labourers. Labour saving devices are responsible for technological unemployment.
6. **Structural Unemployment :** It is due to drastic change in the structure of the society. Lack of demand for the product or shift in demand to other products cause.
7. **Disguised Unemployment :** It occurs when more people are there than what is actually required.

9. Critically explain Say's law of market.

- i) J.B. Say enunciated the proposition that "Supply creates its own demand".
- ii) "When goods are produced by firms in the economy, they pay reward to the factors of production.
- iii) The households after receiving rewards of the factors of production spend the amount on the purchase of goods and services produced by them.

Assumptions of the Say's law of market

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.
3. People are motivated by self interest and self – interest determines economic decision
4. The laissez faire policy is essential for an automatic and self adjusting process .
5. There will be a perfect competition in labour and product market.
6. There is wage-price flexibility.
7. Money acts only as a medium of exchange.
8. Long - run analysis.
9. There is no possibility for over production or unemployment.
10. Unutilized resources used until reaches full employment.
11. No Government intervention automatic Price adjustment mechanism operate
12. Interest rate flexibility leads to saving – Investment equality

Implications of Say's Law

1. There is no possibility for over production or unemployment.

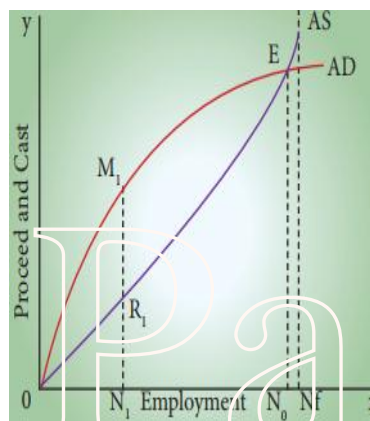
- The Unutilized resources are employed when factors accept reward according to their productivity under full employment.
- As automatic price mechanism operates in the economy, there is no need for government intervention.
- Interest flexibility brings about equality between saving and investment.
- Money performs only the medium of exchange function in the economy, as people will not hold idle money.

Criticisms of Say's Law

- According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.
- Automatic adjustment process will not remove unemployment.
- Money is not neutral.
- Keynes said that over production is possible.
- Keynes regards full employment as a special case because there is under-employment in capitalist economies.
- The need for state intervention arises in the case of general over production and mass unemployment.

10. Narrate the equilibrium between ADF and ASF with diagram.

Under the Keynes theory of employment, a simple two sector economy consisting of the household sector and the business sector is taken to understand the equilibrium between ADF and ASF. It is assumed that consumption function is linear and planned investment is autonomous. There are two approaches to determination of the equilibrium level of income: 1. Aggregate demand – Aggregate supply; 2. Saving – Investment approach.



- The aggregate demand and aggregate supply reach equilibrium at point E.
- The employment level is N_0 at that point.
- At ON_1 employment, the aggregate supply is $N_1 R_1$. But they are able to produce $M_1 N_1$.
- The expected level of profit is $M_1 R_1$. To attain this level of profit, entrepreneurs will employ more labourers.
- At the point E, the employment of labour will reach maximum and it will stop.
- At all levels of employment beyond ON_0 , the aggregate demand curve is below the aggregate supply curve, indicating loss to the producers. Hence they will never employ more than ON_0 labour.
- Equilibrium level of employment need not be the full employment level (N_1).
- The difference between $N_0 - N_f$ is the level of unemployment.
- The concept of effective demand explaining the under employment equilibrium.

11. Explain the difference between classical theory and Keynes theory

S.N	Keynesianism	Classicism
1.	Short-run equilibrium	Long-run equilibrium
2.	Saving is a vice	Saving is a social virtue.
3.	The function of money is a medium of exchange on the one side and a store of value on the other side.	The function of money is to act as a medium of exchange
4.	Macro approach to national problems	Micro foundation to macro problems
5.	State intervention is advocated.	Champions of Laissez-fair policy
6.	Applicable to all situations – full employment and less than full employment.	Applicable only to the full employment situation.
7.	Capitalism has inherent contradictions	Capitalism is well and good.
8.	Budgeting should be adjusted to the requirements of economy.	Balanced budget
9.	The equality between saving and investment is advanced through changes in income.	The equality between saving and investment is achieved through changes of rate of interest.
10.	Rate of interest is determined by the demand for and supply of money.	Rate of interest is determined by saving and investment.
11.	Rate of interest is a flow.	Rate of interest is a stock.
12.	Demand creates its own supply.	Supply creates its own demand.
13.	Rate of interest is a reward for parting with liquidity.	Rate of interest is a reward for saving

12. Explain Keynes psychological law of consumption function with diagram.

Keynes Psychological Law of Consumption based on consumption function

Assumptions:

- Ceteris: other variables such as income distribution, tastes, habits, etc. do not change and consumption depends on income alone.

2. Existence of Normal Conditions: The law holds good under normal conditions.

3. Existence of a Laissez-faire Capitalist Economy: The law operates in a rich capitalist economy where there is no government intervention.

	Income	Consumption	savings	<p>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.</p> <p>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.</p>
	Y	C	S=Y-C	
	120	120	0	
	180	170	10	
	240	220	2	

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.

13. Illustrate the working of Multiplier.

- Government undertakes investment expenditure is ₹100 crore on public works, by way of wages, price of materials etc.
- Thus income of labourers and suppliers of materials increases by ₹100 cr.
- Suppose the MPC is 0.8 that is 80 %. A sum of ₹80 cr. is spent on consumption (A sum of ₹20 Cr. is saved).
- As a result, suppliers of goods get an income of ₹80 crores. They in turn spend ₹64 crores and saved ₹16 cr.
- The consumption expenditure and income give a chain reaction

The final result is

$$\Delta Y = 100 + 100 \times \frac{4}{5} + 100 \times \left[\frac{4}{5}\right]^2 + 100 \times \left[\frac{4}{5}\right]^3 \text{ or,}$$

$$\Delta Y = 100 + 100 \times 0.8 + 100 \times (0.8)^2 + 100 \times (0.8)^3$$

$$= 100 + 80 + 64 + 51.2 \dots$$

$$= 500$$

$$\text{that is } 100 \times \frac{1}{1-4/5}$$

$$100 \times \frac{1}{1/5}$$

$$100 \times 5 = ₹500 \text{ cr.}$$

$$\text{For instance if } C = 100 + 0.8Y, I = 100,$$

$$\text{Then } Y = 100 + 0.8Y + 100$$

$$0.2Y = 200$$

$$Y = 200/0.2 = 1000 \rightarrow \text{Point B}$$

If I is increased to 110, then

$$0.2Y = 210$$

$$Y = 210/0.2 = 1050 \rightarrow \text{Point D}$$

for ₹10 increase in I, Y has increased by ₹50.

This is due to multiplier effect.

$$\text{At point A, } Y = C = 500$$

$$C = 100 + 0.8(500) = 500; S = 0$$

$$\text{At point B, } Y = 1000$$

$$C = 100 + 0.8(1000) = 900; S = 100 = I$$

$$\text{At point D, } Y = 1050$$

$$C = 100 + 0.8(1050) = 940; S = 110 = I$$

When I is increased by 10, Y increases by ₹50.

$$\text{This is multiplier effect (K = 5) } K = \frac{1}{0.2} = 5$$

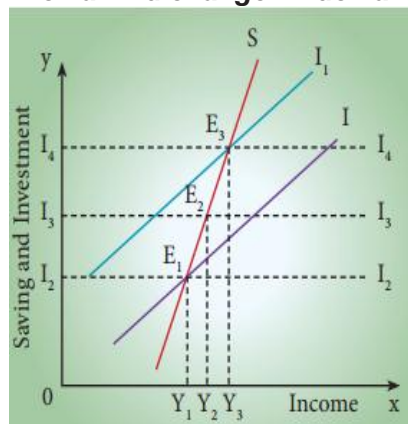
14. Explain the operation of the Accelerator.

"The accelerator coefficient is the ratio between induced investment and an initial change in consumption

- To produce 1000 consumer goods, 100 machines are required.
- Life of a machine is 10 years. This means that every year 10 machines have to be replaced in order to maintain the constant flow of 1000 consumer goods.
- This might be called replacement demand.
- Demand for consumer goods rises by 10 percent (ie from 1000 to 1100). That causes an increase in demand for 10 more machines. So that total demand for machines is 20. (10 for replacement and 10 for meeting increased demand).

v) It may be noted here a 10 % increase in demand for consumer goods causes a 100 % increase in demand for machines, from 10 to 20.

Even a mild change in demand for consumer goods will lead to wide change in investment.



- 1) SS is the saving curve.
- 2) II is the investment curve.
- 3) At point E1, the economy is in equilibrium with OY1 income.
- 4) Saving and investment are equal at OI 2. Now, investment is increased from OI 2 to OI4, the income also increases from OY 1 to OY3, the equilibrium point being E3.
- 5) If the increase in investment by I2 I4 is purely exogenous, then the increase in income by Y1 Y3 would have been due to the multiplier effect. But in this diagram it is assumed that exogenous investment is only by I2 I3 and induced investment is by I3 I4.
- 6) Therefore, increase in income by Y 1 Y2 is due to the multiplier effect and the increase in income by Y2 Y3 is due to the accelerator effect.

15. Briefly explain subjective and objective factors of the consumption function.

S.N	Subjective Factors	Objective factors
1.	Subjective factors are internal factors related to psychological feels..	External factors which can be measured and real
2.	Precaution motive . eg Accidents, sickness	Income distribution , eg. Consumption of rich and poor
3.	Foresight motive , eg Old age savings	Price level , eg. price fall, real income goes up
4.	Calculation motive, eg. Desire to enjoy	Wage level - positive relationship between wage and consumption
6.	The motive of improvement : The desire to enjoy for improving standard of living.	Interest rate Higher rate of interest will encourage people to save more money and reduces consumption
7.	The motive of avarice .(purely miserly instinct)	Fiscal Policy progressive tax system increases the propensity to consume of the people by altering the income distribution in favour of poor.
8.	The motive of enterprise (desire to do forward trading).	Consumer credit easy installments will encourage households to buy consumer durables like automobiles, fridge, computer
9.	The motive of pride (desire to bequeath a fortune)	Demographic factors the larger the size of the family, the greater is the consumption.

16. Illustrate Fisher's Quantity theory of money.

Fisher's gave quantitative form in term of Equation of Exchange,

equation $MV=PT$, Supply of money=Demand for money where M= Money Supply, V= Velocity of Money
P= Price Level, T= Volume of Transaction

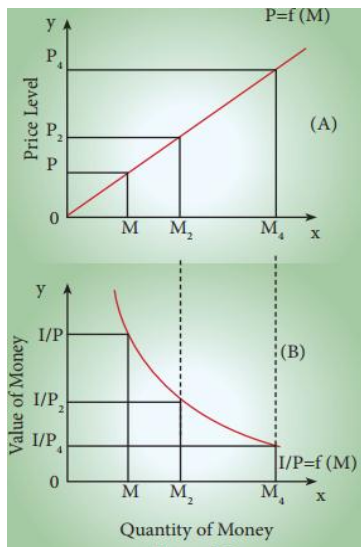
"Cash Transaction Equation" $P=MV/T$ which implies that the quantity of money determines the price level

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 $PT = MV + M1V1$

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

- 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)



i) **figure (a)** shows the effect of changes in the quantity of money on the price level. When the quantity of money is OM , the price level is OP .

ii) When the quantity of money is doubled to OM_2 , the price level is also doubled to OP_2 .

iii) When the quantity of money is increased four-fold to OM_4 , the price level also increases by four times to OP_4 .

This is expressed by the curve $OP = f(M)$ from the origin at 45° .

figure (b), shows the inverse relation between the quantity of money and the value of money, where the value of money is taken on the vertical axis and quantity of money is on the horizontal axis.

When the value of money is OI/P , the quantity of money is doubling to OM_2 .

When the value of money becomes one-half of what it was before, (OI/P_2).

But, with the quantity of money increasing by four-fold to OM_4 ,

When 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 the downward sloping curve $IO/P = f(M)$.

17. What are the causes and effects of inflation on the economy?

The main causes of inflation

i) **Increase in Money Supply:** Increase in the supply of money which leads to an increase in aggregate demand.

ii) **Increase in Disposable Income:** Disposable income may increase with the rise in national income or reduction in taxes or reduction in the saving of the people.

iii) **Increase in Public Expenditure:** Government activities have been expanding due to developmental activities and social welfare programmes.

iv) **Increase in Consumer Spending:** The demand for goods and services increases when they are given credit to buy goods on hire-purchase and installment basis.

v) **Cheap Money Policy:** Cheap money policy also leads to an increase in the money supply which raises the demand for goods and services in the economy.

vi) **Deficit Financing:** Borrowing from the public and even by printing more notes, this raises aggregate demand in relation to aggregate supply, thereby leading to an inflationary rise in prices.

vii) **Black Assets, Activities and Money:** The existence of black money and black assets due to corruption, tax evasion etc., will increase the aggregated demand.

viii) **Repayment of Public Debt:** Whenever the government repays its past internal debt to the public, it leads to an increase in the money supply with the public.

ix) **Increase in Exports:** When exports are encouraged, domestic supply of goods declines. So prices rise.

Effects of inflation:

1. **Effects on Production:** This is particularly prior to full employment when resources are not fully utilized.

i) Hyper-inflation results in a serious depreciation of the value of

ii) When the value depreciates, this may even drain out the foreign capital already invested in the country.

iii) With reduced capital accumulation, set-back may discourage entrepreneurs and business men.

iv) Inflation also leads to hoarding of essential goods.

v) Inflation encourages investment in speculative activities.

2. **Effects on Distribution**

i) **Debtors and Creditors:** During inflation, debtors are the gainers while the creditors are losers.

ii) **Fixed-income Groups:** The fixed income groups are the worst hit during inflation because their incomes being fixed do not bear any relationship with the rising cost of living.

iii) **Entrepreneurs:** Inflation is the boon to the entrepreneurs.

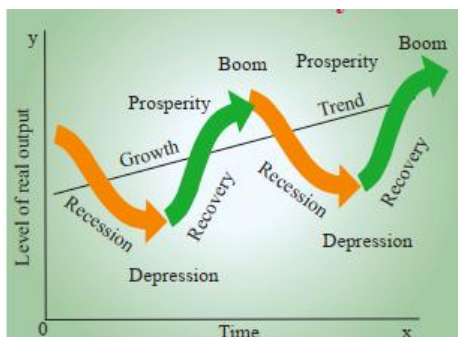
iv. **Investors:** The investors, who generally invest in fixed interest, lose during inflation but invest in shares gain by rich dividends.

18. Describe the phases of Trade cycle.

The study of these ups and downs is called the study of Business cycle or Trade cycle or Industrial Fluctuation.

The four different phases of trade cycle are referred to as

(i) Boom (ii) Recession (iii) Depression and (iv) Recovery.



i) Boom or Prosperity Phase: The movement of the economy beyond full employment is characterized as boom period, during this period, Money wages rise, profits increase and interest rates go up. The demand for bank credit increases.

ii) Recession: The turning point from boom condition is called recession. Generally, the failure of a company or bank bursts the boom and brings a phase of recession. Investments are drastically reduced, production comes down and income, profits decline, panic in the stock market and business activities show signs of dullness.

iii) Depression: The level of economic activity becomes extremely low. Firms incur losses and closure of business which lead to unemployment. The agricultural class and wage earners would be worst hit. It is the worst phase of the business cycle.

iv. Recovery: The turning point from depression to revival towards upswing. It begins with the revival of demand for capital goods. Autonomous investments boost the activity. Recovery may be initiated by innovation or investment or by government expenditure.

19. Explain the role of Commercial Banks in economic development.

- 1. Capital Formation** Banks play an important role in capital formation, They mobilize the small savings from the people and make it available for productive purposes.
- 2. Creation of Credit** Credit creation leads to increased production, employment, sales and prices and thereby they bring about faster economic development.
- 3. Channelizing the Funds towards Productive Investment** Pooled savings should be allocated to various sectors of the economy with a view to increase the productivity.
- 4. Encouraging Right Type of Industries** they help not only for industrialization of the country but also for the economic development of the country.
- 5. Banks Monetize Debt** Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities.
- 6. Finance to Government** Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills.
- 7. Employment Generation** After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.
- 8. Banks Promote Entrepreneurship** Banks provide 100% credit for worthwhile projects, which is also technically feasible and economically viable. Thus commercial banks help for the development of entrepreneurship in the country.

20. Describe the functions of Reserve Bank of India.

It commenced its operations on 1 April 1935. The original share capital was divided into shares of ₹100 each fully paid, by private shareholders, RBI was nationalised on 1 January 1949.

- 1. Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment.
- 2. The issuer of currency:** It is the sole authority to issue currency. It also takes action to control the circulation of fake currency.
- 3. The issuer of Banking License:** 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. Banker to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit.
- 5. Banker's Bank:** RBI is the bank of all banks in India as it provides loan to banks, accepts the deposit of banks, and rediscounts the bills of banks.
- 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, when there is no other.
- 7. Act as clearing house:** RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.
- 8. Custodian of foreign exchange reserves:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA),

- 9. Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.
- 10. Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.
- 11. Regulator and Supervisor of Payment and Settlement Systems:** The Payment and Settlement Systems Act of 2007 gives RBI oversight authority for the payment and settlement systems in the country.
- 12. Developmental Role:** It provides a wide range of promotional functions to support national objectives. It also includes establishing institutions designed to build the country's financial infrastructure.
- 13. Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India.
- 14. Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund
- 15. Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995.
- 16. Banking Codes and Standards Board of India:** RBI has set up the Banking Codes and Standards Board of India (BCSBI)

21. What are the objectives of Monetary Policy? Explain.

- 1. Neutrality of Money** Monetary authority should aim at neutrality of money in the economy, monetary changes could be the root cause of all economic fluctuations.
- 2. Exchange Rate Stability** Exchange rate stability was the traditional objective of monetary authority. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements.
- 3. Price Stability** Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence.
- 4. Full Employment** During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment was considered as the main goal of monetary policy.
- 5. Economic Growth** Economic growth is the process whereby the real per capita income of a country increases over a long period of time. It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants.
- 6. Equilibrium in the Balance of Payments** Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.

22. Explain briefly the Comparative Cost Theory.

According to Ricardo, a country can gain from trade when it produces at relatively lower costs. Even when a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods which are relatively more advantageous.

Assumptions

1. There are only two nations and two commodities
2. Labour is the only element of cost of production
3. All labourers are of equal efficiency
4. Labour is perfectly mobile within the country but perfectly immobile between countries
5. Production is subject to the law of constant returns
6. Foreign trade is free from all barriers
7. No change in technology
8. No transport cost
9. Perfect competition
10. Full employment
11. No government intervention

Ricardo's theory of comparative cost can be explained with a hypothetical example of production costs of cloth and wheat in America and India

Country	Cloth	Wheat	Domestic Exchange Ratios
America	100	120	1 wheat = 1.2 cloth
India	90	80	1 wheat = 0.88 cloth

India should concentrate on the production of wheat in which she enjoys a comparative cost advantage. ($80/120 < 90/100$). For America the comparative cost disadvantage is lesser in cloth production. Hence America will specialize in the production of cloth and export it to India in exchange for wheat. With trade, India can get 1 unit of cloth and 1 unit of wheat by using its 160 labour units. In the absence of trade, for getting this benefit, India will have to use 170 units of labour. America also gains from this trade. With trade, America can get 1 unit of cloth and one unit of wheat by using its 200 units of labour. Otherwise, America will have to use 220 units of labour for getting 1 unit of cloth and 1 unit of wheat.

Criticisms

1. Labour cost is a small portion of the total cost. Hence, theory based on labour cost is unrealistic.
2. Labourers in different countries are not equal in efficiency

23. Bring out the components of balance of payments account.

The credit and debit items are shown vertically in the BOP account of a country. Horizontally, they are divided into three categories, i.e. a) The current account, b) The capital account and c) The official settlements account or official reserve assets account.

a) The Current Account: It includes all international trade transactions of goods and services, international service transactions and international unilateral transfers (i.e. gifts and foreign aid).

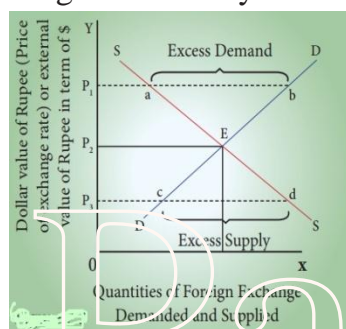
b) The Capital Account: Financial transactions consisting of direct investment and purchases of interestbearing financial instruments, noninterest bearing demand deposits and gold fall under the capital account.

c) The Official Reserve Assets Account: Official reserve transactions consist of movements of international reserves by governments and official agencies to accommodate imbalances arising from the current and capital accounts.

BOP Account Chart \Rightarrow **Credit (Receipts) – Debit (Payments) = Balance [Deficit (-), Surplus (+)]**

24. How the Rate of Exchange is determined? Illustrate with types

The equilibrium rate of exchange is determined in the foreign exchange market in accordance with the general theory of value, i.e., by the interaction of the forces of demand and supply.



In the above diagram, Y axis represents exchange rate, that is, value of rupee in terms of dollars. X axis represents demand and supply of forex. E is the point of equilibrium where DD intersects SS. The exchange rate is P_2

1. Fixed Exchange Rates: system agree to keep their currencies at a fixed rate as determined by the Government. Under the gold standard, the value of currencies was fixed in terms of gold.

2. Flexible Exchange Rates system, exchange rates are freely determined in an open market by market forces of demand and supply

25. Discuss the differences between Internal Trade and International Trade

S.N.	Internal Trade	International Trade
1.	Trade takes place between different individuals and firms within the same nation.	Trade takes place between different individuals 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 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 like tariff and quota.
4.	There is only one common currency.	There are different currencies.
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

26. Bring out the functions of World Bank.

The World Bank performs the major role of providing loans for development works to member countries, especially

to underdeveloped countries

1. Investment for productive purposes: It performs the function of assisting in the reconstruction and development of territories of member nations

2. Balanced growth of international trade Promoting the long range balanced growth of trade at international level

and the maintaining equilibrium in BOPs of member nations.

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.

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

27. Write a note on a) SAARC b) BRICS

i) The South Asian Association for Regional Co-operation (SAARC) is an organisation of South Asian nations, which was established on 8 December 1985 for the promotion of economic and social progress, cultural development within the South Asia region and also for friendship and co-operation with other developing countries.

ii) The SAARC Group comprises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. In April 2007, Afghanistan became its eighth member.

iii) The basic aim of the organisation is to accelerate the process of economic and social development of member states through joint action in the agreed areas of cooperation.

iv) The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987. The first SAARC summit was held at Dhaka in the year 1985.

i) BRICS is the acronym for an association of five major emerging national economies: **Brazil, Russia, India, China and South Africa.**

ii) Originally the first four were grouped as "BRIC" before the induction of South Africa in 2010. The term 'BRIC' was coined in 2001.

iii) Its headquarters is at **Shanghai, China.** The New Development Bank (NDB) formerly referred to as the BRICS Development Bank was established by BRICS States.

iv) The BRICS countries make up 21 % of global GDP. They have increased their share of global GDP threefold in the past 15 years.

v) The BRICS are home to 43 % of the world's population.

vi) The BRICS countries have combined foreign reserves of an estimated \$4.4 trillion

28. Elaborate the WTO Agreements in details

Agreement on TRIPs

i) Intellectual Property Rights include copy right, trade marks, patents, geographical indications, trade secrets, industrial designs, etc.

ii) TRIPS Agreement provides for granting product patents instead of process patents.

iii) The period of protection will be 20 years for patents, 50 years for copy rights, 7 years for trade marks and 10 years for layout designs.

iv) As a result of TRIPS, the dependence of LDCs on advanced countries for seeds, drugs, fertilizers and pesticides has increased.

v) Farmers are depending on the industrial firm for their seeds.

Agreement on TRIMs

TRIMs are related to conditions or restrictions in respect of foreign investment in the country.

It calls for introducing equal treatment for foreign companies on par with national companies. TRIMs were widely employed by developing countries.

GATS

GATS is the first multilateral set of rules covering trade in services like banking, insurance, transportation, communication, etc.,

All member countries are supposed to extend MFN status to all other countries without any discrimination. Transparency should be maintained by publishing all relevant laws and regulations over services

MFA

The multi fibre agreement governed the world trade in textiles and garments since 1974.

It imposed quotas on export of textiles by developing nations to the developed countries.

This quota system was to be phased out over a period of ten years. This was beneficial to India.

AoA Agriculture was included for the first time under GATT.

The important aspects of the agreement are Tariffication, Tariff cuts and Subsidy reduction

29. Explain the scope of public finance.

- 1. Public Revenue** It deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.
- 2. Public Expenditure** This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.
- 3. Public Debt** It deals with the methods of raising loans from internal and external sources. The burden, effects and redemption of public debt fall under this head.
- 4. Financial Administration** This part deals with the study of the different aspects of public budget. The budget is the Annual master financial plan of the Government. The various objectives and steps in preparing a public budget, passing or sanctioning, allocation evaluation and auditing fall within financial administration.
- 5. Fiscal Policy** Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy

30. Bring out the merits of indirect taxes over direct taxes.

- 1) Wider Coverage** All the consumers, whether they are rich or poor, have to pay indirect taxes. For this reason, it is said that indirect taxes can cover more people than direct taxes.
- 2) Equitable** The indirect tax satisfies the canon of equity when higher tax is imposed on luxuries used by rich people.
- 3) Economical** Cost of collection is less as producers and retailers collect tax and pay to the Government. The traders act as honorary tax collectors.
- 4) Checks harmful consumption** The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc. They are known as sin taxes.
- 5) Convenient** Indirect taxes are levied on commodities and services. Whenever consumer make purchase, they pay tax.

31. State and explain instruments of fiscal policy.

Fiscal Policy is implemented through fiscal instruments also called 'fiscal tools' or fiscal levers:

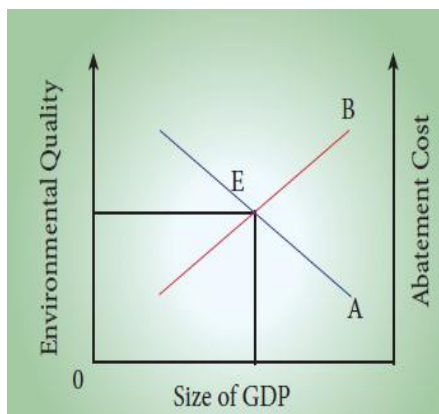
- i) Taxation:** Taxes transfer income from the people to the Government. Taxes are either direct or indirect. An increase in tax reduces disposable income. So taxation should be raised to control inflation. During depression, taxes are to be reduced.
- ii) Public Expenditure:** Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services. Hence public expenditure is raised to fight recession and reduced to control inflation.
- iii) Public debt:** When Government borrows by floating a loan, there is transfer of funds from the public to the Government. At the time of interest payment and repayment of public debt, funds are transferred from Government to public

32. Describe the various types of deficit in budget.

Budget deficit is a situation where budget receipts are less than budget expenditures

- a) Revenue Deficit** It refers to the excess of the government revenue expenditure over revenue receipts. It does not consider capital receipts and capital expenditure. Revenue deficit implies that the government is living beyond its means to conduct day-to-day operations. **When $RE - RR > 0$**
- b) Budget Deficit** Budget deficit is the difference between total receipts and total expenditure
- c) Fiscal Deficit** **Fiscal deficit (FD)** = Budget deficit + Government's market borrowings and liabilities
- d) Primary Deficit** Primary deficit is equal to fiscal deficit minus interest payments. It shows the real burden of the government and it does not include the interest burden on loans taken in the past.
Primary Deficit (PD) = Fiscal deficit (FD) - Interest Payment (IP)

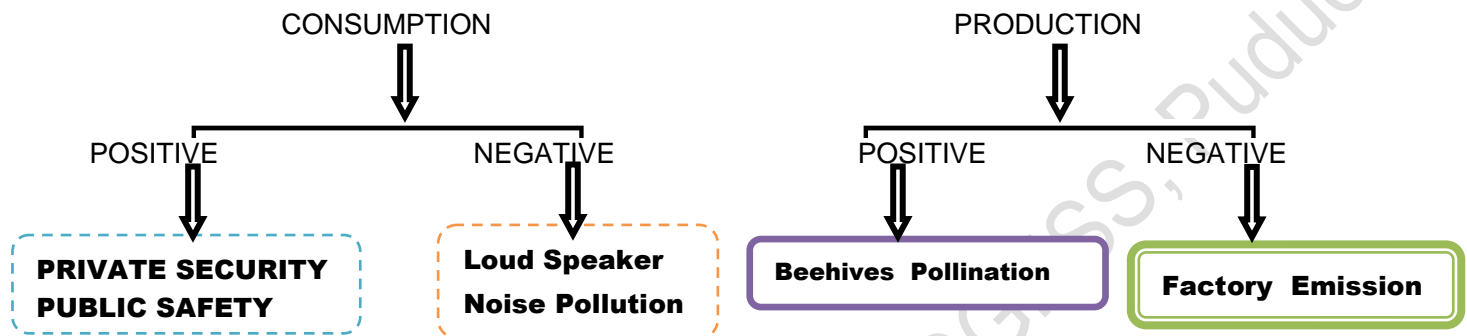
33. Briefly explain the relationship between GDP growth and the quality of environment.



Environmental quality is a set of properties and characteristics of the environment either generalized or local, as they impinge on human beings and other organisms. It is a measure of the condition of an environment relative to the requirements of one or more species and to any human need. Environmental quality has been continuously declining due to capitalistic mode of functioning.

Environment is a pure public good that can be consumed simultaneously by everyone and from which no one can be excluded. A pure public good is one for which consumption is non-rival and from which it is impossible to exclude a consumer. Pure public goods pose a free-rider problem. As a result, resources are depleted. The contribution of the nature to GDP as well as depletion of natural resources are not accounted in the present system of National Income Enumeration.

34. Explain the concepts of externality and its classification



Externalities refer to external effects or spillover effects resulting from the act of production or consumption on the third parties. Externalities arise due to interdependence between economic units.

Beneficial externalities are called “positive externalities” and adverse are called “negative externalities”.

Positive Consumption Externality When some residents of a locality hire a private security agency to patrol their area, the other residents of the area also benefit from better security without bearing cost.

Negative Consumption Externality A person smoking cigarette gets may gives satisfaction to that person, but this act causes hardship (dissatisfaction) to the non-smokers who are driven to passive smoking.

Positive Production Externality The ideal location for beehives is orchards. While bees make honey, they also help in the pollination of apple blossoms. The benefits accrue to both producers.

35. Explain the importance of sustainable development and its goals.

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” it is crucial to harmonize three core elements such as **economic** growth, **social** inclusion and **environmental** protection. A set of 17 goals for the World’s future can be achieved before 2030 with three unanimous principles fixed by United Nations such as Universality, Integration and Transformation.

1. End Poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and quality education for all and promote lifelong learning
5. Achieve gender equality and empower women and girls
6. Ensure access to water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote inclusive and sustainable economic growth, employment and decent work for all
9. Build resilient infrastructure, promote sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries

11. Make cities inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production pattern
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources

36. Discuss the economic determinants of economic development.

1. Natural Resource: The principal factor affecting the development of an economy is the availability of natural resources. The existence of natural resources in abundance is essential for development.

2. Capital Formation: Capital formation refers to the net addition to the existing stock of capital goods which are either tangible like plants and machinery or intangible like health, education and research. Capital formation helps to increase productivity of labour and thereby production and income.

3. Size of the Market: Large size of the market would stimulate production, increase employment and raise the National per capita income.

4. Structural Change: Structural change refers to change in the occupational structure of the economy. Any economy which is predominantly agricultural tends to remain backward.

5. Financial System: Financial system implies the existence of an efficient and organized banking system in the country.

6. Marketable Surplus: Marketable surplus refers to the total amount of farm output cultivated by farmers over and above their family consumption needs. It raises the purchasing power, employment and output in other sectors of the economy.

7. Foreign Trade: The country which enjoys favorable balance of trade and terms of trade is always developed.

8. Economic System: The countries which adopt free market mechanism (laissez faire) enjoy better growth rate compared to controlled economies.

37. Describe different types of Planning.



i) Democratic Vs Totalitarian

Planning with democracy. People are associated at every step in the formulation and implementation of the plan. There is central control and direction of all economic activities in accordance with a single plan.

i.a) Centralized Vs Decentralized

The entire planning process in a country is under a central

There is a central authority which plans, directs and orders the execution of the plan in accordance with pre-determined targets and priorities.

ii) Planning by Direction Vs Inducement

local organizations and institutions formulate, adopt, execute and supervise the plan without interference by the central authorities.

The people are induced to act in a certain way through various monetary and fiscal measures.

ii.a) Indicative Vs Imperative

The private sector and the public sector work together. Under this plan, the outline of plan is prepared by the Government. Then it is discussed with the representatives of private management, trade unions, consumer groups, finance institutions and other experts.

The state is all powerful in preparation and implementation of the plan.

iii) Short, Medium and Longer

Short - term planning concerns the plans in a time period of 1 year - operational planning.

Medium - term planning is considered for a time period of 5 years - tactical planning.

Long - term planning is considered for a time period over 10 years - strategic planning

iii.a) Financial Vs Physical

Financial planning refers to the technique of planning in which resources are allocated in terms of money while physical planning pertains to the allocation of resources in terms of men, materials and machinery.

iv) Functional Vs Structural

Functional planning refers to that planning which seeks to remove economic difficulties by directing all the planning activities within the existing economic and social structure.

The structural planning refers to a good deal of changes in the socio-economic framework of the country.

iv.a) Comprehensive Vs Partial

General planning which concerns itself with the major issues for the whole economy is known as comprehensive planning whereas partial planning is to consider only the few important sectors of the economy.

38. Bring out the arguments against planning.

1. Loss of freedom The absence of freedom in decision making may act as an obstacle for economic growth. Regulations and restrictions are the backbone of a planned economy.

2. Elimination of initiative Under centralized planning, there will be no incentive for initiatives and innovations. The absence of initiatives may affect progress in following ways.

a. The absence of private ownership and profit motive discourages entrepreneurs from taking bold decisions and risk taking.

b. As all enjoy equal reward under planned economy irrespective of their effort, efficiency and productivity, nobody is interested in undertaking new and risky ventures.

c. The bureaucracy and red-tapism which are the features of planned economy, cripple the initiative as they cause procedural delay and time loss.

3. High cost of Management No doubt the fruits of planning such as industrialization, social justice and regional balance are good.

4. Difficulty in advance calculations Price mechanism provides for the automatic adjustment among price, demand and supply in a Laissez Faire economy.

39. Elucidate the nature and scope of Statistics.

Statistics and Economics: Statistical data and techniques are immensely useful in solving many economic problems such as fluctuation in wages, prices, production, distribution of income and wealth and so on.

Statistics and Firms: Statistics is widely used in many firms to find whether the product is conforming to specifications or not.

Statistics and Commerce: Statistics are life blood of successful commerce. Market survey plays an important role to exhibit the present conditions and to forecast the likely changes in future.

Statistics and Education: Statistics is necessary for the formulation of policies to start new course, according to the changing environment.

Statistics and Planning: Statistics is indispensable in planning. In the modern world, which can be termed as the "world of planning."

Statistics and Medicine: In Medical sciences, statistical tools are widely used. In order to test the efficiency of a new drug or to compare the efficiency of two drugs or two medicines, t - test for the two samples is used.

Statistics and Modern applications: Recent developments in the fields of computer and information technology have enabled statistics to integrate their models and thus make statistics a part of decision making procedures of many organizations.

40. Find the regression equation Y on X and X on Y for the following data:

X:	45	48	50	55	65	70	75	72	80	85
Y:	25	30	35	30	40	50	45	55	60	65

X	Y	dx=x- 65	Dy=y-45	dX ²	dY ²	dx dy
45	25	-20	-20	400	400	400
48	30	-17	-15	289	225	255
50	35	-15	-10	225	100	150
55	30	-10	-15	100	225	150
65	40	0	-5	0	25	0
70	50	5	5	25	25	25
75	45	10	0	100	0	0
72	55	7	10	49	100	70
80	60	15	15	225	225	225
85	65	20	20	400	400	400
645	435	-5	-15	1813	1725	1675

$$\bar{X} = \frac{\sum x}{N} = \frac{435}{10} = 43.5$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{435}{10} = 43.5$$

$$\frac{16675}{17025} = 0.98$$

$$b_{xy} = \frac{N \sum dxdy - (\sum dx)(\sum dy)}{N \sum dx^2 - (\sum dx)^2}$$

$$= \frac{(10)(1675) - (-15)(-5)}{(10)(1813) - (-5)^2} = \frac{16750 - 75}{18130 - 25}$$

$$= \frac{16675}{18105} = \frac{3335}{3621} = 0.92$$

$$b_{yx} = \frac{N \sum dxdy - (\sum dx)(\sum dy)}{N \sum dy^2 - (\sum dy)^2}$$

$$= \frac{(10)(1675) - (-15)(-5)}{(10)(1725) - (-15)^2} = \frac{16750 - 75}{1250 - 225}$$

X on Y

Y on X

$$X - \bar{X} = b_{yx}(Y - \bar{Y})$$

$$x - 43.5 = 0.92(y - 43.5)$$

$$x - 43.5 = 0.92y - 59.34$$

$$x = 0.92y - 15.84$$

$$Y - \bar{Y} = b_{xy}(X - \bar{X})$$

$$y - 43.5 = 0.98(x - 43.5)$$

$$Y - 64.5 = 0.98X - 42.63$$

$$Y = 0.98X - 42.63 + 64.5$$

$$Y = 0.98X + 21.87$$

41. Describe the application of Econometrics in Economics.

Econometrics is the integration of economics, Statistics and Mathematics.

Application of Econometrics

1. Forecasting macroeconomics: The expected effects of monetary and fiscal policy on the aggregate performance of the economy can be applied by the time-series models to predict economic indicators.
2. Estimating the impact of immigration on native workers: Immigration increases the supply of workers, so standard economic theory predicts that equilibrium wages will decrease for all workers. However, since immigration can also have positive demand effects, econometric estimates are necessary to determine the net impact of immigration in the labour market.
3. Identifying the factors that affect a firm's entry and exist into a market: Econometric estimation helps determine which factors are the most important for firm entry and exist.

4. Determining the influence of minimum wage law on the employment level

The labour economist use econometric techniques to estimate the actual effect of such policies

5. Finding the relationship between management techniques and worker productivity.

Economic models can be used to determine which policies lead to the highest returns and improve managerial efficiency.

1. It helps to explain the behaviour of a forthcoming period that is forecasting economic phenomena.
2. It helps to prove the old and established relationships among the variables or between the variables
3. It helps to establish new theories and new relationships.
4. It helps to test the hypotheses and estimation of the parameter.

***“So long as you do not achieve social liberty,
Whatever freedom is provided by the law is of no avail to you”***

Total No. of book back questions	One Marks	Two Marks	Three Marks	Five Marks
	240	86	84	55

If the question paper set 20% book inside question

1 Mark = book back question 16 may ask out of 20 question in Part -A

2 Mark = book back question 8 may ask out of 10, in which 30 is compulsory may ask book inside question in Part -B

3 Mark = book back question 8 may ask out of 10 in which 40 is compulsory may ask book inside question in Part -C

5 Mark = book back question 7 may ask out of 14 in which two questions both in either or may ask book inside in Part -D

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