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12th

ECONOMICS

Slow Learners Study Material

NEW SYLLABUS 2019 – 2020

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1. The branches of the subject Economics is
 - a) Wealth and welfare
 - b) production and consumption
 - c) Demand and supply
 - d) micro and macro
2. Who coined the word 'Macro'?
 - a) Adam Smith
 - b) J M Keynes
 - c) Ragnar Frisch
 - d) Karl Marx
3. Who is regarded as Father of Modern Macro Economics?
 - a) Adam Smith
 - b) J M Keynes
 - c) Ragnar Frisch
 - d) Karl Marx
4. Identify the other name for Macro Economics.
 - a) Price Theory
 - b) Income Theory
 - c) Market Theory
 - d) Micro Theory
5. Macro economics is a study of _____.
 - a) individuals
 - b) firms
 - c) a nation
 - d) aggregates
6. Indicate the contribution of J M Keynes to economics.
 - a) Wealth of Nations
 - b) General Theory
 - c) Capital
 - d) Public Finance
7. A steady increase in general price level is termed as
 - a) wholesale price index
 - b) Business Cycle
 - c) Inflation
 - d) National Income
8. Identify the necessity of Economic policies.
 - a) to solve the basic problems
 - b) to overcome the obstacles
 - c) achieve growth
 - d) all the above
9. Indicate the fundamental economic activities of an economy.
 - a) Production and Distribution
 - b) Production and Exchange
 - c) Production and Consumption
 - d) Production and Marketing
10. An economy consists of
 - a) consumption sector
 - b) Production sector
 - c) Government sector
 - d) All the above
11. Identify the economic system where only private ownership of production exists.
 - a) Capitalistic Economy
 - b) Socialistic Economy
 - c) Globalistic Economy
 - d) Mixed Economy
12. Economic system representing equality in distribution is _____.
 - a) Capitalism
 - b) Globalism
 - c) Mixedism
 - d) Socialism
13. Who is referred as 'Father of Capitalism'?
 - a) Adam Smith
 - b) Karl Marx
 - c) Thackeray
 - d) J M Keynes
14. The country following Capitalism is _____.
 - a) Russia
 - b) America
 - c) India
 - d) China
15. Identify The Father of Socialism.
 - a) J M Keynes
 - b) Karl Marx
 - c) Adam Smith
 - d) Samuelson

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16. An economic system where the economic activities of a nation are done both by the private and public together is termed as _____.
- a) Capitalistic Economy b) Globalistic Economy
c) Socialistic Economy d) Mixed Economy
17. Quantity of a commodity accumulated at a point of time is termed as _____.
- a) production b) stock
c) variable d) flow
18. Identify the flow variable.
- a) money supply b) assets
c) income d) foreign exchange reserves
19. Identify the sectors of a Two Sector Model.
- a) Households and Firms b) Private and Public
c) Internal and External d) Firms and Government
20. The Circular Flow Model that represents an open Economy.
- a) Two Sector Model b) Three Sector Model
c) Four Sector Model d) All the above
21. Net National product at factor cost is also known as two
- a) National Income b) Domestic Income
c) Per capita Income d) Salary.
22. Primary sector is
- a) Industry b) Trade c) Agriculture d) Construction.
23. National income is measured by using methods.
- a) Two b) Three c) Five d) Four
24. Income method is measured by summing up of all forms of
- a) Revenue b) Taxes c) expenditure d) Income
25. Which is the largest figure?
- a) Disposable income b) Personal Income c) NNP d) GNP
26. Expenditure method is used to estimate national income in
- a) Construction sector b) Agricultural Sector
c) Service sector d) Banking sector
27. Tertiary sector is also called as Sector
- a) Service b) Income c) Industrial d) Production
28. National income is a measure of the performance of an economy.
- a) Industrial b) Agricultural c) Economic d) Consumption
29. Per capita income is obtained by dividing the National income by
- a) Production b) Population of a country
c) Expenditure d) GNP
30. GNP = + Net factor income from abroad.
- a) NNP b) NDP c) GDP d) Personal income

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31. NNP stands for
a) Net National Product b) National Net product
c) National Net Provident d) Net National Provident
32. is deducted from gross value to get the net value.
a) Income b) Depreciation c) Expenditure d) Value of final goods
33. The financial year in India is
a) April 1 to March 31 b) March 1 to April 30
c) March 1 to March 16 d) January 1 to December 31
34. When net factor income from abroad is deducted from NNP, the net value is
a) Gross National Product b) Disposable Income
c) Net Domestic Product d) Personal Income
35. The value of NNP at production point is called
a) NNP at factor cost b) NNP at market cost
c) GNP at factor cost d) Per c pita income
36. The average income of the country is
a) Personal Income b) Per c pita income
c) Inflation Rate d) Disposal Income
37. The value of national income adjusted for inflation is called
a) Inflation Rate b) Disposal Income
c) GNP d) Real national income
38. Which is a flow concept ?
a) Number of shirts b) Total wealth c) Monthly income d) Money supply
39. PQLI is the indicator of
a) Economic growth b) Economic welfare
c) Economic progress d) Economic development
40. The largest proportion of national income comes from
a) Private sector b) Local sector
c) Public sector d) None of the above
41. Every able bodied person who is willing to work at the prevailing wage rate is employed called as
a) Full employment b) Under employment
c) Unemployment d) Employment opportunity
42. Structural unemployment is a feature in a
a) Static society b) Socialist society
c) Dynamic society d) Mixed economy
43. In disguised unemployment, the marginal productivity of labour is
a) Zero b) One c) Two d) Positive

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44. The main contention of the Classical Economic Theory is
- Under employment
 - Economy is always in the state of equilibrium
 - Demand creates its supply
 - Imperfect competition
45. J.B. Say is a
- Neo Classical Economist
 - Classical Economist
 - Modern Economist
 - New Economist
46. According to Keynes, which type of unemployment prevails in capitalist economy ?
- Full employment
 - Voluntary unemployment
 - Involuntary unemployment
 - Under employment
47. The core of the classical theory of employment is
- Law of Diminishing Return
 - Law of Demand
 - Law of Markets
 - Law of Consumption
48. Keynes attributes unemployment to
- A lack of effective supply
 - A lack of effective demand
 - A lack of both
 - None of the above
49. Flexibility brings equality between saving and investment.
- Demand
 - Supply
 - Capital
 - Interest
50. theory is a turning point in the development of modern economic theory.
- Keynes'
 - Say's
 - Classical
 - Employment
51. The basic concept used in Keynes Theory of Employment and Income is.....
- Aggregate demand
 - Aggregate supply
 - Effective demand
 - Marginal Propensity Consume
52. The component of aggregate demand is
- Personal demand
 - Government expenditure export
 - Only Export
 - Only import
53. Aggregate supply is equal to
- $C + I + G$
 - $C + S + G + (x-m)$
 - $C + S + T + (x-m)$
 - $C + S + T + R_f$
54. Keynes theory pursues to replace laissez faire by
- No government intervention
 - Maximum intervention
 - State intervention in certain situation
 - Private sector intervention
55. In Keynes theory of employment and income, is the basic cause of economic depression.
- Less production
 - More demand
 - Inelastic supply
 - Less aggregate demand in relation to productive capacity.
56. Classical theory advocates
- Balanced budget
 - Unbalanced budget
 - Surplus budget
 - Deficit budget

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57. Keynes theory emphasized on equilibrium.
 a) Very short run b) Short run c) Very long run d) Long run
58. According to classical theory, rate of interest is a reward for
 a) Investment b) Demand c) Capital d) Saving
59. In Keynes theory , the demand for and supply of money are determined by
 a) Rate of interest b) Effective demand
 c) Aggregate demand d) Aggregate supply
60. Say's law stressed the operation of in the economy.
 a) Induced price mechanism b) Automatic price mechanism
 c) Induced demand d) Induced investment
61. The average propensity to consume is measured by
 a) C/Y b) $C \times Y$ c) Y/C d) $C+Y$
62. An increase in the marginal propensity to consume will:
 a) Lead to consumption function becoming steeper
 b) Shift the consumption function upwards
 c) Shift the consumption function downwards
 d) Shift savings function upwards
63. If the Keynesian consumption function is $C=10+0.8 Y$ then, if disposable income is Rs 1000 what is amount of total consumption?
 a) ₹ . 0.8 b) ₹ . 800 c) ₹ . 810 d) ₹ . 0.81
64. If the Keynesian consumption function is $C=10+0.8Y$ then, when disposable income is Rs 100, what is the marginal propensity to consume?
 a) ₹ . 0.8 b) ₹ . 800 c) ₹ . 810 d) ₹ . 0.81
65. If the Keynesian consumption function is $C=10+0.8 Y$ then, and disposable income is Rs100, what is the average propensity to consume?
 a) ₹ . 0.8 b) ₹ . 800 c) ₹ . 810 d) ₹ . 0.9
66. As national income increases nearer in value to the MPC.
 a) nearer in value to the MPC. b) The APC always approaches infinity.
 c) The APC increases and diverges in value from the MPC. d) The APC stays constant
67. As increase in consumption at any given level of income is likely to lead
 a) Higher aggregate demand b) An increase in exports
 c) A fall in taxation revenue d) A decrease in import spending
68. Lower interest rates are likely to :
 a) Decrease in consumption b) increase cost of borrowing
 c) Encourage saving d) increase borrowing and spending
69. The MPC is equal to :
 a) Total spending / total consumption b) Total consumption/total income
 c) Change in consumption /change in income d) none of the above.

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70. The relationship between total spending on consumption and the total income is the
a) Consumption function b) Savings function
c) Investment function d) aggregate demand function
71. The sum of the MPC and MPS is _____
a) 1 b) 2 c) 0.1 d) 1.1
72. As income increases, consumption will _____
a) fall b) not change c) Fluctuate d) increase
73. When investment is assumed autonomous the slope of the AD schedule is determined by the
a) marginal propensity to invest b) disposable income
c) marginal propensity to consume d) average propensity to consume
74. The multiplier tells us how much _____ changes after a shift in _____
a) Consumption , income b) investment, output
c) savings, investment d) output, aggregate demand
75. The multiplier is calculated as
a) $1/(1-MPC)$ b) $1/MPS$ c) $1/MPC$ d) a and b
76. If the MPC is 0.5, the multiplier is _____
a) 2 b) $1/2$ c) 0.2 d) 20
77. In an open economy import _____ the value of the multiplier
a) Reduces b) increase c) does not change d) changes
78. According to Keynes, investment is a function of the MEC and _____
a) Demand b) Supply c) Income d) Rate of interest
79. The term super multiplier was first used by
a) J.R.Hicks b) R.G.D. Allen c) Kahn d) Keynes
80. The term MEC was introduced by
a) Adam Smith b) J.M. Keynes c) Ricardo d) Malthus
81. The RBI Headquarters is located at
a) Delhi b) Chennai c) Mumbai d) Bengaluru
82. Money is
a) acceptable only when it has intrinsic value b) constant in purchasing power
c) the most liquid of all assets d) needed for allocation of resources
83. Paper currency system is managed by the
a) Central Monetary authority b) State Government
c) Central Government d) Banks
84. The basic distinction between M1 and M2 is with regard to .
a) post office deposits b) time deposits of banks
c) saving deposits of banks d) currency

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85. Irving Fisher's Quantity Theory of Money was popularized in
a) 1908 b) 1910 c) 1911 d) 1914.
86. MV stands for
a) demand for money b) supply of legal tender money
c) Supply of bank money d) Total supply of money
87. Inflation means
a) Prices are rising b) Prices are falling
c) Value of money is increasing d) Prices are remaining the same
88. _____ inflation results in a serious depreciation of the value of money.
a) Creeping b) Walking c) running d) Hyper
89. _____ inflation occurs when general prices of commodities increase due to increase in production costs such as wages and raw materials.
a) Cost-push b) demand pull c) running d) galloping
90. During inflation, who are the gainers?
a) Debtors b) Creditors c) Wage and salary earners d) Government
91. _____ is a decrease in the rate of inflation.
a) Disinflation b) Deflation c) Stagflation d) Depression
92. Stagflation combines the rate of inflation with
a) Stagnation b) employment c) output d) price
93. The study of alternating fluctuations in business activity is referred to in Economics as
a) Boom b) Recession c) Recovery d) Trade cycle
94. During depression the level of economic activity becomes extremely
a) high b) bad c) low d) good
95. "Money can be anything that is generally acceptable as means of exchange and that at the same time acts as a measure and a store of value", This definition was given by
a) Crowther b) A.C.Pigou c) F.A.Walker d) Francis Bacon
96. Debit card is an example of
a) currency b) paper currency c) plastic money d) money
97. Fisher's Quantity Theory of money is based on the essential function of money as
a) measure of value b) store of value
c) medium of exchange d) standard of deferred payment
98. V in $MV = PT$ equation stands for
a) Volume of trade b) Velocity of circulation of money
c) Volume of transaction d) Volume of bank and credit money
99. When prices rise slowly, we call it
a) galloping inflation b) mild inflation
c) hyper inflation d) deflation

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100. _____ inflation is in no way dangerous to the economy.
a) walking b) running c) creeping d) galloping
101. A Bank is a
a) Financial institution b) Corporate
c) An Industry d) Service institutions
102. A Commercial Bank is an institutions that provides services
a) Accepting deposits b) Providing loans
c) Both a and b d) None of the above
103. The Functions of commercial banks are broadly classified into
a) Primary Functions b) Secondary functions
c) Other functions d) a, b, and c
104. Bank credit refers to
a) Bank Loans b) Advances
c) Bank loans and advances d) Borrowings
105. Credit creation means.
a) Multiplication of loans and advances b) Revenue
c) Expenditure d) Debt
106. NBFIs do not have.
a) Banking license b) government approval
c) Money market approval d) Finance ministry approval
107. Central bank is ----- authority of any country.
a) Monetary b) Fiscal c) Wage d) National Income
108. Who will act as the banker to the Government of India?
a) SBI b) NABARD c) ICICI d) RBI
109. Lender of the 1st resort is one of the functions of.
a) Central Bank b) Commercial banks
c) Land Development Banks d) Co-operative banks
110. Bank Rate means.
a) Re-discounting the first class securities b) Interest rate
c) Exchange rate d) Growth rate
111. Repo Rate means.
a) Rate at which the Commercial Banks are willing to lend to RBI
b) Growth rate of the economy
c) Rate at which the RBI is willing to lend to commercial banks
d) Exchange rate of the foreign bank
112. Moral suasion refers.
a) Optimization b) Maximization c) Persuasion d) Minimization

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113. ARDC started functioning from
a) June 3, 1963 b) July 3, 1963 c) June 1, 1963 d) July 1, 1963
114. NABARD was set up in.
a) July 1962 b) July 1972 c) July 1982 d) July 1992
115. EXIM bank was established in.
a) June 1982 b) April 1982 c) May 1982 d) March 1982
116. The State Financial Corporation Act was passed by
a) Government of India b) Government of Tamilnadu
c) Government of Union Territories d) Local Government.
117. Monetary policy his formulated by.
a) Co-operative banks b) Commercial banks
c) Central Bank d) Foreign banks
118. Online Banking is also known as.
a) E-Banking b) Internet Banking c) RTGS d) NEFT
119. Expansions of ATM.
a) Automated Teller Machine b) Adjustment Teller Machine
c) Automatic Teller mechanism d) Any Time Money
120. 2016 Demonetization of currency includes denominations of
a) ` . 500 and ` . 1000 b) ` . 1000 and ` . 2000
c) ` . 200 and ` . 500 d) All the above
121. Trade between two countries is known astrade
a) External b) Internal c) Inter-regional d) Home
122. Which of the following factors influence trade?
a) The stage of development of a product
b) The relative price of factors of productions.
c) Government. d) All of the above.
123. International trade differs from domestic trade because of
a) Trade restrictions b) Immobility of factors
c) Different government policies d) All the above
124. In general, primary reason why nations conduct international trade is because
a) Some nations prefer to produce one thing while others produce another
b) Resources are not equally distributed among equally trading nations
c) Trade enhances opportunities to accumulate profits
d) Interest rates are not identical in all trading nations
125. Which of the following is a modern theory of international trade?
a) absolute cost b) comparative cost
c) Factor endowment theory d) none of these \

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126. Exchange rates are determined in
a) money market b) foreign exchange market
c) stock market d) capital market
127. Exchange rate for currencies is determined by supply and demand under the system of
a) Fixed exchange rate b) Flexible exchange rate
c) Constant d) Government regulated
128. Net export equals
a) Export x Import b) Export + Import
c) Export – Import d) Exports of services only
129. Who among the following enunciated the concept of single factorial terms of trade?
a) Jacob Viner b) G.S.Donens
c) Taussig d) J.S.Mill
130. Terms of Trade of a country show
a) Ratio of goods exported and imported b) Ratio of import duties
c) Ratio of prices of exports and imports d) Both (a) and (c) Indhu.
131. Favourable trade means value of exports are Than that of imports.
a) More b) Less c) More or Less d) Not more than
132. If there is an imbalance in the trade balance (more imports than exports), it can be reduced by
a) decreasing customs duties b) increasing export duties
c) stimulating exports d) stimulating imports
133. BOP includes
a) visible items only b) invisible items only
c) both visible and invisible items d) merchandise trade only
134. Components of balance of payments of a country includes
a) Current account b) Official account
c) Capital account d) All of above
135. In the case of BOT,
a) Transactions of goods are recorded.
b) Transactions of both goods and services are recorded.
c) Both capital and financial accounts are included.
d) All of these
136. Tourism and travel are classified in which of balance of payments accounts?
a) merchandise trade account b) services account
c) unilateral transfers account d) capital account
137. Cyclical disequilibrium in BOP occurs because of
a) Different paths of business cycle
b) The income elasticity of demand or price elasticity of demand is different.
c) long-run changes in n economy d) Both () and (b).

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138. Which of the following is not an example of foreign direct investment?
a) the construction of new auto assembly plant overseas
b) the acquisition of an existing steel mill overseas
c) the purchase of bonds or stock issued by a textile company overseas
d) the creation of a wholly owned business firm overseas
139. Foreign direct investments not permitted in India
a) Banking
b) Atomic energy
c) Pharmaceutical
d) Insurance
140. Benefits of FDI include, theoretically
a) Boost in Economic Growth
b) Increase in the import and export of goods and service
c) Increased employment and skill levels
d) All of these
141. International Monetary Fund was an outcome of
a) Pandung Conference
b) Dunkel Draft
c) Bretton Woods Conference
d) Doha Conference
142. International Monetary Fund is having its headquarters at
a) Washington D.C.
b) New York
c) Vienna
d) Geneva
143. IBRD is otherwise called
a) IMF
b) World Bank
c) ASEAN
d) International Finance Corporation
144. The other name for Special Drawing Rights is
a) Paper gold
b) Quotas
c) Voluntary Export Restrictions
d) None of these
145. The organization which provides long term loan is
a) World Bank
b) International Monetary Fund
c) World Trade Organisation
d) BRICS
146. Which of the following countries is not a member of SAARC?
a) Sri Lanka
b) Japan
c) Bangladesh
d) Afghanistan
147. International Development Association is an affiliate of
a) IMF
b) World Bank
c) SAARC
d) ASEAN
148. ----- relates to patents, copyrights, trade secrets, etc.,
a) TRIPS
b) TRIMS
c) GATS
d) NAMA
149. The first ministerial meeting of WTO was held at
a) Singapore
b) Geneva
c) Seattle
d) Doha
150. ASEAN meetings are held once in every _____ years
a) 2
b) 3
c) 4
d) 5

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151. Which of the following is not the member of SAARC?
a) Pakistan b) Sri Lanka c) Bhutan d) China
152. SAARC meets once in ----- years.
a) 2 b) 3 c) 4 d) 5
153. The headquarters of ASEAN is
a) Jaharta b) New Delhi c) Colombo d) Tokyo
154. The term BRIC was coined in
a) 2001 b) 2005 c) 2008 d) 2010
155. ASEAN was created in
a) 1965 b) 1967 c) 1972 d) 1997
156. The Tenth BRICS Summit was held in July 2018 at
a) Beijing b) Moscow c) Johanne burg d) Brasia
157. Development Bank is associated with
a) BRICS b) WTO c) SAARC d) ASEAN
158. Which of the following does not come under ‘Six dialogue partners’ of ASEAN?
a) China b) Japan c) India d) North Korea
159. SAARC Agricultural Information Centre (SAIC) works as a central information institution for agriculture related resources was founded on
a) 1985 b) 1988 c) 1992 d) 1998
160. BENELUX is a form of
a) Free trade area b) Economic Union
c) Common market d) Customs union
161. The modern state is
a) Laissez-faire state b) Aristocratic state
c) Welfare state d) Police state
162. One of the following is NOT a feature of private finance
a) Balancing of income and expenditure b) Secrecy
c) Saving some part of income d) Publicity
163. The tax possesses the following characteristics
a) Compulsory b) No quid pro quo
c) Failure to pay is offence d) All the above
164. Which of the following canons of taxation was not listed by Adam smith?
a) Canon of equality b) Canon of certainty
c) Canon of convenience d) Canon of simplicity

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165. Consider the following statements and identify the correct ones. i. Central government does not have exclusive power to impose tax which is not mentioned in state or concurrent list. ii. The Constitution also provides for transferring certain tax revenues from union list to states.

- a) i only b) ii only c) both d) none

166. GST is equivalence of

- a) Sales tax b) Corporation tax c) Income tax d) Local tax

167. The direct tax has the following merits except

- a) equity b) convenient c) certainty d) civic consciousness

168. Which of the following is a direct tax?

- a) Excise duty b) Income tax c) Customs duty d) Service tax

169. Which of the following is not a tax under Union list?

- a) Personal Income Tax b) Corporation Tax
c) Agricultural Income Tax d) Excise duty

170. "Revenue Receipts" of the Government do not include

- a) Interest b) Profits and dividends
c) Recoveries and loans d) Rent from property

171. The difference between revenue expenditure and revenue receipts is

- a) Revenue deficit b) Fiscal deficit
c) Budget deficit d) Primary deficit

172. The difference between total expenditure and total receipts including loans and other liabilities is called

- a) Fiscal deficit b) Budget deficit
c) Primary deficit d) Revenue deficit

173. The primary purpose of deficit financing is

- a) Economic development b) Economic stability
c) Economic equality d) Employment generation

174. Deficit budget means

- a) An excess of government's revenue over expenditure
b) An excess of government's current expenditure over its current revenue
c) An excess of government's total expenditure over its total revenue
d) None of above

175. Methods of repayment of public debt is

- a) Conversion b) Sinking fund c) Funded debt d) All these

176. Conversion of public debt means exchange of

- a) new bonds for the old ones b) low interest bonds for higher interest bonds
c) Long term bonds for short term bonds
d) All the above

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177. The word budget has been derived from the French word “bougette” which means
- A small bag
 - An empty box
 - A box with papers
 - None of the above
178. Which one of the following deficits does not consider borrowing as a receipt?
- Revenue deficit
 - Budgetary deficit
 - Fiscal deficit
 - Primary deficit
179. Finance Commission determines
- The finances of Government of India
 - The resources transfer to the states
 - The resources transfer to the various departments
 - None of the above
180. Consider the following statements and identify the right ones. i. The finance commission is appointed by the President ii. The tenure of Finance commission is five years
- i only
 - ii only
 - both
 - none
181. The term environment has been derived from a French word-----.
- Environ
 - Environs
 - Environia
 - Envir
182. The word biotic means environment
- living
 - non-living
 - physical
 - None of the above
183. Ecosystem is smallest unit of
- Ionosphere
 - Lithosphere
 - Biosphere
 - Mesosphere
184. Who developed Material Balance Models?
- Thomas and Picardy
 - Alen Kneese and R.V. Ayres
 - Joan Robinson and J.M. Keynes
 - Joseph Stiglitz and Edward Chamberlin
185. Environmental goods are -----
- Market goods
 - Non-market goods
 - both
 - None of the above
186. In a pure public good, consumption is -----
- Rival
 - Non-rival
 - Both
 - None of the above
187. One of the most important market failures is caused by -----
- Positive externalities
 - Negative externalities
 - Both
 - None of the above
188. The common source of outdoor air pollution is caused by combustion processes from the following
- Heating and cooking
 - Traditional stoves
 - Motor vehicles
 - All the above

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202. Which is not the feature of economic growth?
- a) Concerned with developed nations b) Gradual change
c) Concerned with quantitative aspect d) Wider concept
203. Which among the following is a characteristic of underdevelopment?
- a) Vicious circle of poverty b) Rising mass consumption
c) Growth of Industries d) High rate of urbanization
204. The non-economic determinant of economic development
- a) Natural resources b) Human resource
c) Capital formation d) Foreign trade
205. Economic growth measures the -----
- a) Growth of productivity b) Increase in nominal income
c) Increase in output d) None of the above
206. The supply side vicious circle of poverty suggests that poor nations remain poor because
- a) Saving remains low b) Investment remains low
c) There is a lack of effective government d) a and b above
207. Which of the following plan has focused on the agriculture and rural economy?
- a) People's Plan b) Bombay Plan c) Gandhian Plan d) Vishveshwarya Plan
208. Arrange following plans in correct chronological order
- a) People's Plan b) Bombay Plan c) Jawaharlal Nehru Plan d) Vishveshwarya Plan
- Answer choices : a) (i) (ii) (iii) (iv) b) (iv) (iii) (ii) (i)
 c) (i) (ii) (iv) (iii) d) (ii) (i) (iv) (iii)
209. M.N. Roy was associated with -----
- a) Congress Plan b) People's Plan
c) Bombay Plan d) None of the above
210. Which of the following country adopts indicative planning?
- a) France b) Germany c) Italy d) Russia
211. Short-term plan is also known as-----
- a) Controlling Plans b) De-controlling Plans
c) Rolling Plans d) De-rolling Plans
212. Long-term plan is also known as -----
- a) Progressive Plans b) Non-progressive Plans
c) Perspective Plans d) Non-perspective Plans
213. The basic philosophy behind long-term planning is to bring----- changes in the economy?
- a) Financial b) Agricultural
c) Industrial d) Structural

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214. Sarvodaya Plan was advocated by-----
a) Mahatma Gandhi b) J.P. Narayan c) S. N Agarwal d) M.N. Roy
215. Planning Commission was set up in the year -----
a) 1950 b) 1951 c) 1947 d) 1948 e) Gandhian Plan
216. Who wrote the book 'The Road to Serfdom'?
a) Friedrich Hayek b) H.R. Hicks
c) David Ricardo d) Thomas Robert Malthus
217. Perspective plan is also known as ----
a) Short-term plan b) Medium-term plan
c) Long-term plan d) None of the above
218. NITI Aayog is formed through-----
a) Presidential Ordinance b) Allocation of business rules by President of India
c) Cabinet resolution d) None of the above
219. Expansion of NITI Aayog?
a) National Institute to Transform India
b) National Institute for Transforming India
c) National Institution to Transform India
d) National Institution for Transforming India
220. The Chair Person of NITI Aayog is
a) Prime Minister b) President c) Vice – President d) Finance Minister
221. The word 'statistics' is used as _____.
a) Singular. b) Plural c) Singular and Plural. d) None of above.
222. Who stated that statistics as a science of estimates and probabilities.
a) Horace Secrist. b) R.A Fisher. c) Ya-Lun-Chou d) Boddington
223. Sources of secondary data are _____.
a) Published sources. b) Unpublished sources.
c) neither published nor unpublished sources.
d) Both (A) and (B)
224. The data collected by questionnaires are _____.
a) Primary data. c) Published data.
b) Secondary data. d) Grouped data.
225. A measure of the strength of the linear relationship that exists between two variables is called:
a) Slope b) Intercept
c) Correlation coefficient d) Regression equation

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226. If both variables X and Y increase or decrease simultaneously, then the coefficient of correlation will be:
 a) Positive b) Negative c) Zero d) One
227. If the points on the scatter diagram indicate that as one variable increases the other variable tends to decrease the value of r will be:
 a) Perfect positive b) Perfect negative
 c) Negative d) Zero
228. The value of the coefficient of correlation lies between:
 a) 0 and 1 b) -1 and 0 c) -1 and +1 d) -0.5 and +0.5
229. The term regression was used by:
 a) Newton b) Pearson c) Spearman d) Galton
230. The purpose of simple linear regression analysis is to:
 a) Predict one variable from another variable
 b) Replace points on a scatter diagram by a straightline
 c) Measure the degree to which two variables are linearly associated
 d) Obtain the expected value of the independent random variable for a given value of the dependent variable
231. A process by which we estimate the value of dependent variable on the basis of one or more independent variables is called:
 a) Correlation b) Regression c) Residual d) Slope
232. If $Y = 2 - 0.2X$, then the value of Y intercept is equal to
 a) -0.2 b) 2 c) 0.2X d) All of the above
233. In the regression equation $Y = \beta_0 + \beta_1 X$, the Y is called:
 a) Independent variable b) Dependent variable
 c) Continuous variable d) none of the above
234. In the regression equation $Y = \beta_0 + \beta_1 X$, the X is called:
 a) Independent variable b) Dependent variable
 c) Continuous variable d) none of the above
235. Econometrics is the integration of
 a) Economics and Statistics b) Economics and Mathematics
 c) Economics, Mathematics and Statistics d) None of the above
236. Econometric is the word coined by
 a) Francis Galton b) Ragnar Frish c) Karl Person d) Spearsman
237. The raw materials of Econometrics are:
 a) Data b) Goods c) Statistics d) Mathematics
238. The term Uiin regression equation is
 a) Residuals b) Standard error c) Stochastic error term d) none

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239. The term Uuis introduced for the representation of

- a) Omitted Variable b) Standard error c) Bias d) Discrete Variable

240. Econometrics is the amalgamation of

- a) 3 subjects b) 4 subjects c) 2 subjects d) 5 Subjects

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TWO MARKS**1. Define Macro Economics.**

- ❖ The word “**Macro**” is derived from the Greek word “**Makros**” meaning “**large**” .
- ❖ Hence, Macro Economics is the study of the economy as a whole.
- ❖ Macro Economics is also known as “Income Theory” .

2. Define the term ‘Inflation’.

Inflation refers to a steady increase in the general price level.

3. What is meant by an ‘Economy’?

An economy is referred to any system or area where economic activities are carried out.

4. Classify the economies based on the status of development.

- ❖ Developed economies
- ❖ Underdeveloped economies
- ❖ Undeveloped economies
- ❖ developing economies

5. What do you mean by Capitalism?

- ❖ Adam Smith is the „Father of Capitalism”.
- ❖ The system where the means of production are privately owned
- ❖ The market determines the economic activities

6. Define ‘Economic Model’.

- ❖ A model is a simplified representation of a real situation.
- ❖ A model is an explanation of how the economy, or part of the economy, works.

7. ‘Circular Flow of Income’ - Define.

The circular flow of income is a model of an economy – showing connections between different sectors of an economy. It shows –

- ❖ Flows of income
- ❖ Goods and service and
- ❖ Factors of production between – economic agents such as firms, households, government and nations

8. Define National Income.

"The labour and capital of a country acting on its natural resources produce annually a certain nett 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 Marshal.

9. Write the formula for calculating GNP.

GNP at Market Prices = GDP at Market Prices + Net Factor Income from Abroad.

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

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10. What is the difference between NNP and NDP?

Net Domestic Product	Net National Product:
When depreciation is deducted from the GDP, it is called Net Domestic Product. NDP=GDP – depreciation	When depreciation is deducted from the GNP, it is called Net National Product. NNP= GNP - depreciation

11. Trace the relationship between GNP and NNP

GNP	NNP
GNP is the total measure of the flow of final goods and services of an economy during a year, including net income from abroad.	When depreciation is deducted from the GNP, it is called Net National Product. NNP= GNP – depreciation
GNP at Market Prices = GDP at Market Prices + Net Factor Income from Abroad	NNP = GNP – depreciation

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

- ❖ Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.
- ❖ Personal Income = National Income – (Social Security Contribution)

13. Define GDP deflator.

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

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

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

- ❖ Farmers keep a large portion of food and other goods produced on the farm for self-consumption.
- ❖ The problem is whether that part of the product which is not sold in the market can be included in national income or not.

15. Define full employment.

- ❖ **Keynes** defines full employment as the absence of involuntary unemployment.
(or)
- ❖ **Lerner** defines full employment as “that level of employment at which any further increase in spending would result in an inflationary spiral of wages and price”.

16. What is the main feature of rural unemployment?

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

17. Give a short note on frictional unemployment.

Frictional unemployment arises due to imbalance between the supply of labour and demand for labour.

Example: Break down of machinery, shortage of raw materials

18. Give reasons for labour retrenchment in the present situation.

- ❖ Invention and innovations lead to the adoption of new techniques there by the existing workers are retrenched.
- ❖ Labour saving devices are responsible for technological unemployment.

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

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

20. What is the effective demand?

Effective demand denotes money spent by the people on products of industry.
Effective demand equals national income.

21. What are the components of aggregate supply?

- ❖ Aggregate (desired) consumption expenditure (C)
- ❖ Aggregate (desired) private savings (S)
- ❖ Net tax payments (T)
- ❖ Personal (desired) transfer payments to the foreigners (Rf)

Aggregate Supply = C + S + T + Rf

22. What is the consumption function?

- ❖ "It is a "Functional relationship between two aggregates viz total Consumption and gross national income."
- ❖ The consumption function or propensity to consume refers to income consumption relationship.

$$C = f(Y)$$

23. What do you mean by a propensity to consume?

- ❖ The propensity to consume refers to income consumption relationship.

24. Define average propensity to consume (APC).

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The average propensity to consume is the ratio of consumption expenditure to any particular level of income.

$$APC = C/Y$$

25. Define marginal propensity to consume (MPC).

The marginal propensity to consume may be defined as the ratio of the change in the consumption to the change in income.

$$MPC = \Delta C / \Delta Y$$

26. What do you mean by a propensity to save?

The propensity to save refers to income savings relationship.

$$S = f(Y)$$

27. Define average propensity to save (APS).

The average propensity to save is the ratio of savings to income.

$$APS = S/Y$$

28. Define Marginal Propensity to Save (MPS).

Marginal Propensity to Save is the ratio of change in saving to a change in income.

$$MPS = \Delta S / \Delta Y$$

29. Define Multiplier.

The multiplier is defined as the ratio of the change in national income to change in investment.

$$K = \Delta Y / \Delta I$$

30. Define Accelerator.

The accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment.

$$\text{Accelerator } (\beta) = \Delta I / \Delta C$$

31. Define Money

“Money is, what money does” - Walker.

32. What is barter?

Exchange of goods for goods is known as “Barter Exchange” or “Barter System”. In a barter system, the commodities and services were directly exchanged.

33. What is commodity money?

In the past, most societies used a commodity with some intrinsic value for money.

Example: Jewelers

34. What is the gold standard?

Gold Standard is a system in which the value of the monetary unit or the standard currency is directly linked with gold.

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Plastic money is a term that is used predominantly about the hard plastic cards used every day in place of actual banknotes.

Example: Debit cards, Cash cards, Smart Cards

36. Define inflation.

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

37. What is Stagflation?

Stagflation is a combination of stagnant economic growth, high unemployment and high inflation.

Stagflation = stagnation + inflation

38. Define Commercial banks.

Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services.

Example: SBI

39. What is credit creation?

- ❖ Credit Creation means the multiplication of loans and advances.
- ❖ Commercial banks receive deposits from the public and use these deposits to give loans.

40. Define Central bank.

A central bank, reserve bank, or monetary authority is an institution that manages a states currency, money supply, and interest rates.

41. Distinguish between CRR and SLR.

CRR is the percentage of money which the bank has to keep with the Central Bank
Form: Cash

SLR is the percentage of liquid assets Which the bank has to keep the bank
Itself **Form: gold and securities**

42. Write the meaning of Open market operations.

- ❖ The Central bank purchases and sells not only government securities but also other proper eligible securities like bills and securities of private concerns.

43. What is rationing of credit?

- ❖ This is the oldest method of credit control
- ❖ It aims to control and regulate the purposes for which credit is granted by commercial banks.

44. Mention the functions of the agriculture credit department.

- ❖ To maintain an expert staff to study all questions on agricultural credit;
- ❖ To provide expert advice to Central and State Government, State Co-operative Banks

45. What is International Economics?

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

46. Define international trade.

International trade is between two or more countries and it is a trade beyond the geographical and political boundaries.

47. State any two merits of trade.

- ❖ Trade is one of the powerful forces of economic integration. International trade helps a country to export its surplus goods to other countries

48. What is the main difference between Adam Smith and Ricardo about the emergence of foreign trade?

The country would specialize in the production and export of those goods which are relatively more advantageous

49. Define terms of Trade.

Terms of Trade is the rate at which the goods of one country are exchanged for goods from another country.

50. What do you mean by the balance of payments?

Balance of payment is a systematic record of a country's economic and financial transactions with the rest of the world

51. What is meant by Exchange Rate?

Exchange rate may be defined as the price paid in the home currency (say Rs. 75) for a unit of foreign currency (say 1 US \$).

52. Write the meaning of Special Drawing Rights.

- ❖ SDRs act both as an international unit of account and a means of payment.
- ❖ Special Drawing Rights (SDRs) is otherwise called as **Paper Gold**.

53. Mention any two objectives of ASEAN. (write any two)

- ❖ To accelerate the economic growth, social progress and cultural development in the region;
- ❖ To promote regional peace and stability.

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

- ❖ Loans out of its own fund,
- ❖ Loans out of borrowed capital and

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- ❖ Loans through Banks guarantee.

Padasalai

Raj Antony P Tirunelveli District

12th ECONOMICS – 2019 – 2020 - NEW SYLLABUS**Slow Learners Study Material****55. Define Common Market.**

The common market is established through trade pacts to promote duty-free trade and free movement of labour and capital among its members. **E.g. European Common Market**

56. What is Free trade area?

A free trade area is a region encompassing a trade bloc whose member countries have signed a free trade agreement (FTA). **Eg. SAFTA, EFTA**

57. When and where was SAARC Secretariat established?

The SAARC Secretariat was established in **Kathmandu (Nepal) on 16th January 1987.**

58. Specify any two affiliates of the World Bank Group. (write any two)

- ❖ International Bank for Reconstruction and Development (**IBRD**)
- ❖ International Development Association (**IDA**)

59. Define public finance.

It is concerned with the income and expenditure of public authorities and with the adjustment of one to the other

60. What is public revenue?

- ❖ Public revenue deals with the methods of raising public revenue such as **tax and non-tax, the principles of taxation.**

61. Differentiate tax and fee.

Tax is a compulsory payment by the citizens to the Government	The fee is charged by public authorities for rendering a service to the citizens.
--	--

62. Write a short note on a zero-based budget.

It involves fresh evaluation of expenditure in the Government budget, assuming it as a new item.

63. Give two examples of direct tax.

- ❖ Corporation Tax
- ❖ Income Tax
- ❖ Property Tax
- ❖ Gift Tax and wealth Tax

64. What are the components of GST?

- ❖ The component of GST is of 3 types. They are **CGST, SGST & IGST.**

65. What do you mean by public debt?

According to **Philip E.Taylor** “The debt is the form of promises by the Treasury to pay to the holders a principal sum and interest ”

12th ECONOMICS – 2019 – 2020 - NEW SYLLABUS**Slow Learners Study Material****66. State the meaning of environment.**

Environment means “**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 (**plants, animals and organisms**) in a given area, interacting with each other,

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

USA, Australia, Canada, Japan, South Arabia, South Korea

69. What are the environmental goods? Give examples.

Environmental goods are typically non-market goods, including **clean air, clean water, landscape, green transport infrastructure**

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

- ❖ Use of noise barriers
- ❖ Newer roadway for surface transport
- ❖ Traffic control
- ❖ Regulation of Loudspeakers

71. Define Global warming.

Global warming is the current increase in temperature of the Earth's surface (both land and water) as well as its atmosphere.

72. Specify the meaning of seed ball.

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

73. Define economic development

- ❖ The traditional approach defines “increase in GNP is accompanied by a decline in the share of agriculture and manufacturing and service sectors increase.
- ❖ It emphasizes the importance of industrialization.

74. Mention the indicators of development.

- ❖ Gross National Product (GNP)
- ❖ GNP per capita
- ❖ Welfare
- ❖ Social Indicators

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75. Distinguish between economic growth and development

Economic Growth	Economic Development
Deals with the problems of Developed countries	Deals with the problems of UDCs
Means more Output	Means not only more output but also its composition
Scope is Narrow	Wider Scope

76. What is GNP

Value of all final goods and services produced within a nation in a particular year, plus income earned from abroad.

77. Define economic planning.

According to **Robbins**, “**Economic Planning is collective control or suppression of private activities of production and exchange**”.

78. What are the social indicators of economic development?

The basic needs for development such as **health, education, sanitation, water, food etc.**

79. Write a short note on NITI Aayog.

- ❖ NITI Aayog stands for National Institution for Transforming India
- ❖ It was formed in 2015, through a Union Cabinet resolution.
- ❖ NITI Aayog is a policy think-tank

80. What is Statistics?

According to **Croxton and Cowden**, “Statistics may be defined as the collection, organization, presentation, analysis and interpretation of numerical data”

81. What are the kinds of Statistics?

- ❖ Descriptive Statistics
- ❖ 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?

- ❖ Quantitative Data
- ❖ Qualitative Data

84. Define Correlation.

Correlation is a statistical device that helps to analyse the co-variation of two or more variables.

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85. Write the Meaning Regression

- ❖ Regression means going back and it is a mathematical measure showing the average relationship between two variables
- ❖ **Regression** means “Stepping back towards the average.

86. What is Econometrics?

“Econometrics may be defined as the social science in which the tools of economic theory, mathematics and statistical inference are applied to the analysis of economic phenomena”.

Econometrics = Mathematics + Statistics + Economics + Empirical Data wait for three marks minimum learning material

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12th ECONOMICS – 2019 – 2020 - NEW SYLLABUS**Slow Learners Study Material****THREE MARKS****1. State the importance of Macro Economics.**

- ❖ There is a need to understand the functioning of the economy
- ❖ Understanding the future problems, needs and challenges of an economy
- ❖ Macroeconomics use scientific investigation to understand reality.
- ❖ Macroeconomics helps to make a meaningful comparison of economic indicators.
- ❖ Macroeconomics helps for a better prediction about the future and to formulate suitable policies to avoid economic crises.

2. Describe the different types of economic systems.

1. Capitalistic Economy (Capitalism): Total freedom and private ownership production. Ex. USA
2. Socialistic Economy (Socialism): There is no freedom for private and there is public ownership of means of production. Ex. China
3. Mixed Economy (Mixedism): Co-existence of capitalism and socialism. Ex. India

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.
- ❖ **Consumers Sovereignty:**
All production activities are aimed at satisfying consumers.

4. Indicate the demerits of socialism.

- ❖ **Red-Tapism and Bureaucracy:**
As the decision is taken by government agencies, approval of many officials and movement of files from one table to other takes time and leads to red-tapism.
- ❖ **Absence of Incentive:**
The major limitation of socialism is that this system does not provide an incentive for efficiency. Therefore, productivity also suffers.
- ❖ **Limited Freedom of Choice:**
Consumers do not enjoy the freedom of choice over the consumption of goods and services.
- ❖ **The concentration of Power:**
The State takes all major decisions. The private takes no initiative in making economic decisions.

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5. Enumerate the features of a mixed economy.

S.No.	Features	Mixedism
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.

Capitalism	Globalism
Adam Smith	Manfred D Steger
Production is privately owned determines the economic activities	The economic activities of a nation are interconnected and interdependent nation
The role of the government is minimum	Ideology is also termed as Extended Capitalism'.

7. Briefly explain the two sectors, circular flow model.

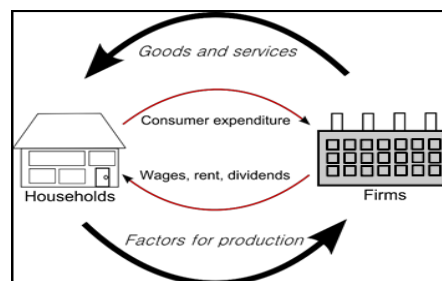
(i) Household Sector:

The household sector is the sole buyer of goods and services, and the sole supplier of factors of production, i.e., land, labour, capital and organisation.

(ii) Firms:

The firm sector generates its revenue by selling goods and services to the household sector.

Flow Chart



Explanation

In a two-sector economy, production and sales are equal and there will be a circular flow of income and goods.

$Y = C + I$ Where Y is Income, C is consumption, I is an investment

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8. Write a short note on per capita income.

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

Per capita income is obtained by dividing national income by population.

Formula : Per Capita income = $\frac{\text{National Income}}{\text{Population.}}$

9. Differentiate between personal and disposable income.

Personal Income (PI)	Personal Income (PI)
Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.	It is the individual's income after the payment of income tax.
Personal income is never equal to the national income	This is the amount available for households for consumption.
Personal Income = National Income – (Social Security Contribution) + Transfer Tax 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 a short note on Expenditure method.

- ❖ The total expenditure incurred by the society in a particular year is added together
- ❖ It includes personal consumption expenditure
- ❖ Net domestic investment, government expenditure
- ❖ Government expenditure on consumption as well as capital goods and net exports
- ❖ **Formula** $\text{GNP} = C + I + G + (X - M)$

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

- ❖ Double counting is to be avoided under value-added method.
- ❖ Any commodity which is either raw material or intermediate good for the final product should not be included.
- ❖ **For example**, the value of cotton enters a value of yarn as cost, and value of yarn in cloth and that of cloth in garments.

13. Write briefly about national income and welfare.

- ❖ National Income is considered as an indicator of the economic well being of a country.
- ❖ The economic progress of countries is measured in terms of GDP per capita.
- ❖ A country with a higher per capita income is supposed to enjoy greater economic welfare with a higher standard of living.

14. List out the uses of national income

- ❖ The National Income of a country describes the economic performance or production performance of a country.
- ❖ National income data help in measuring changes in the standard of living over time and also enable us to compare the standard of living in different countries.

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15. Explain the following in short

- ❖ **Seasonal unemployment** This type of unemployment occurs during certain seasons of the year. In agriculture and agro-based industries like sugar, production activities are carried out only in some seasons.
- ❖ **Frictional unemployment** arises due to imbalance between the supply of labour and demand for labour.
- ❖ **Educated unemployment** Sometimes educated people are underemployed or unemployed when qualification does not match the job

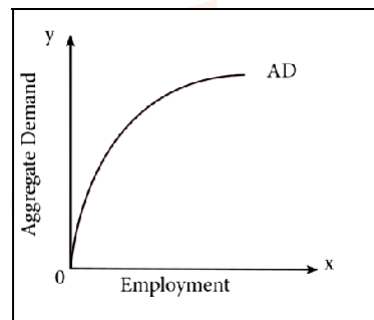
16. Write a short note on the implications of Say's law.

- ❖ There is no possibility of overproduction or unemployment.
- ❖ If there exist unutilized resources in the economy, it is profitable to employ them up to the point of full employment.
- ❖ As an automatic price mechanism operates in the economy

17. What do you mean by aggregate demand? Mention its components. Meaning of Aggregate Demand

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



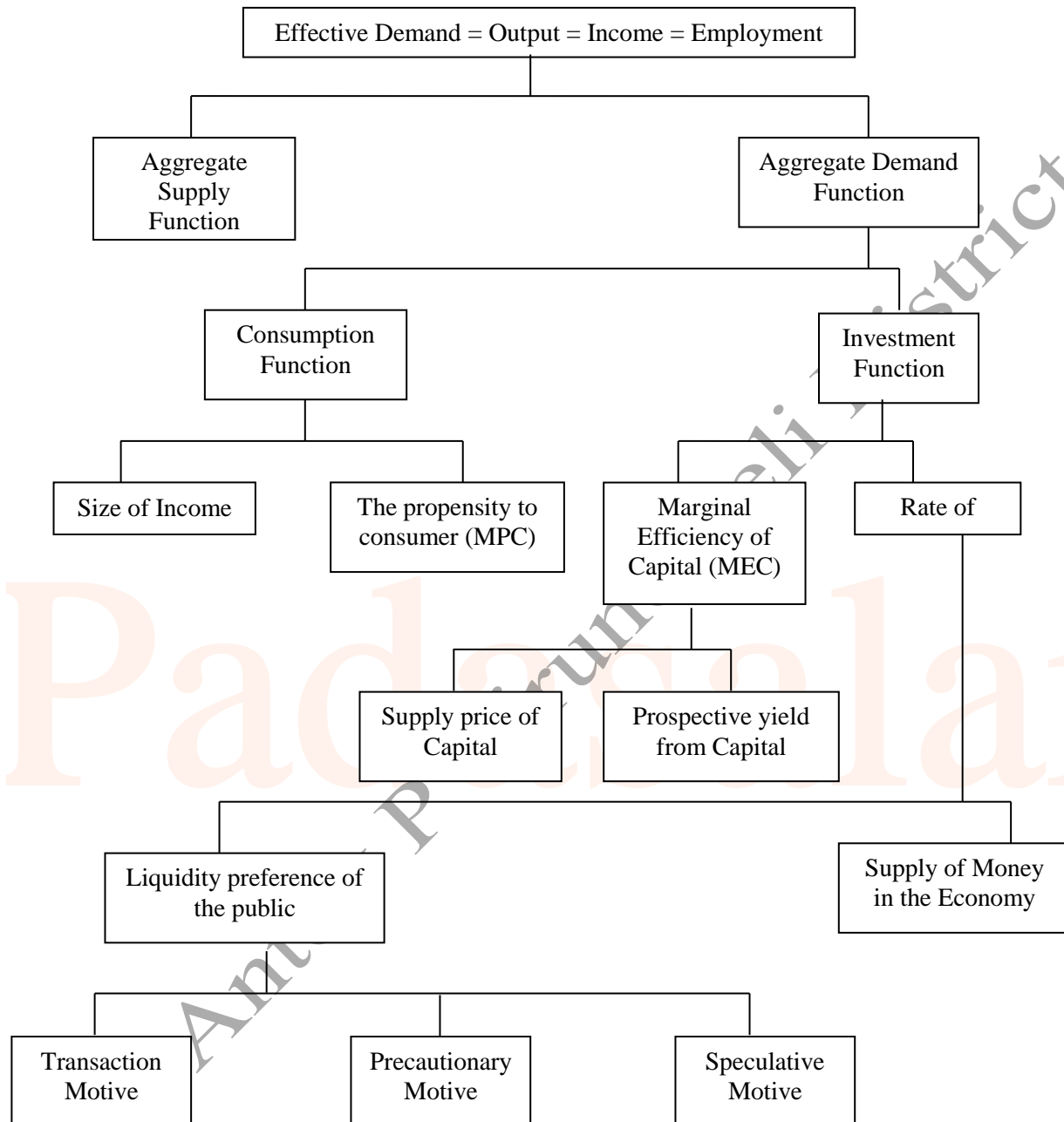
Components

1. Consumption demand (C) 2. Investment demand (I) 3. Government expenditure (G) and 4. Net Export (export – import) (X-M)

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



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

SUBJECTIVE FACTORS	OBJECTIVE FACTORS
The motive of precaution Ex: Accidents, sickness	Income Distribution Ex: Disparity between rich and poor
The motive of foresight Ex: Old age Savings	Price level Ex: Price falls, real income goes up
The motive of calculation Ex: Desire to enjoy	Wage level Ex: the positive relationship between wage and consumption.

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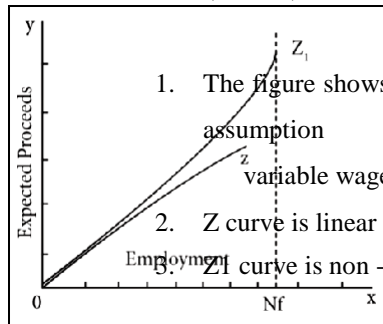
20. Explain about aggregate supply with the help of a diagram. Meaning of Aggregate Supply

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

$$\text{Formula Aggregate Supply} = C + S + T + R_f$$

The components of aggregate supply are :

1. Aggregate (desired) consumption expenditure (C)
2. Aggregate (desired) private savings (S)
3. Net tax payments (T)
4. Personal (desired) transfer payments to the foreigners (R_f)

**21. Write any five differences between classism and Keynesianism.**

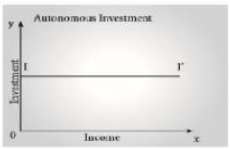

S. NO	BASIS OF DIFFERENCES	CLASSICAL THEORY	KEYNES THEORY
1	Equilibrium	Long-run equilibrium	Short-run equilibrium
2	Savings and Investment	Saving and investment equilibrium through interest rate	Saving and investment equilibrium through income levels
3	Money	The function of money is to act as a medium of exchange	The function of money is a medium of exchange on the one side and a store of value on the other side.
4	Approach	Micro foundation to macro problems	Macro approach to national problems
5	Intervention	No government intervention	Government intervention is necessary for stabilization of economy
6	Employment	Full employment (under employment is voluntary and temporary)	Unemployment and under employment are possible
7	Output	Supply determined (Say's Law: Supply creates demand)	Aggregate demand determined (Demand creates supply. Model based on concept of aggregate demand)
8	Budget	Balanced budget	Budgeting should be adjusted to the requirements of economy.
9	Capitalism	Capitalism is well and good	Capitalism has inherent contradictions
10	Economic System	Laissez faire policy, self adjusting and self stabilizing	Discard Laissez faire and approves stabilizing measures by the government

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

- ❖ When income increases consumption, expenditure is also increase
- ❖ The increases income will be divided in some proportion between consumption, expenditure and saving.
- ❖ Increase in income leads to increased consumption and saving.

23. Differentiate autonomous and induced investment.

Autonomous Investment	Induced Investment
Independent	Planned
Income inelastic	Income elastic
Welfare motive	Profit Motive
	

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

SUBJECTIVE FACTORS	OBJECTIVE FACTORS
1. The motive of precaution Ex: Accidents, sickness	1. Income Distribution Ex: Disparity between rich and poor
2. The motive of foresight Ex: Old age Savings	2. Price level Ex: Price falls, real income goes up
3. The motive of calculation Ex: Desire to enjoy	3. Wage level Ex: the positive relationship between wage and consumption.

25. Mention the differences between accelerator and multiplier effect

Accelerator	Multiplier
The accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment.	The multiplier is defined as the ratio of the change in national income to change in investment.
Change in consumption forms the effect	Change in investment forms the effect
$\beta = \Delta I / \Delta C$	$K = \Delta Y / \Delta I$

26. State the concept of the super multiplier

MEANING OF SUPER MULTIPLIER

- ❖ To measure the total effect of initial investment on income, Hicks has combined the k and β mathematically and given it the name of the Super Multiplier

Formula

$$Y = C + IA + IP$$

Y = Aggregate income.

C = Consumption expenditure IA= autonomous investment IP= induced private investment

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- ❖ Payment towards past debts.
- ❖ Purchase of existing wealth
- ❖ Import of goods and services
- ❖ Non-availability of consumer goods
- ❖ Full Employment situation

28. Write a note on metallic money.

- ❖ Under the metallic standard, some kind of metal either gold or silver is used to determine the standard value of the money and currency.
- ❖ Standard coins made out of the metal are the principal coins used under the metallic standard.
- ❖ The face value of metallic money is equal to their intrinsic metal value.

29. What is the money supply?

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

30. What are the determinants of the money supply?

1. **Currency Deposit Ratio (CDR)** : It is the ratio of money held by the public in currency
2. **Reserve deposit ratio (RDR)** : Reserve of cash in banks and 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 deposits of the commercial banks in the form of specified liquid assets.

31. Write the types of inflation.

- ❖ **Based on speed:** (i) Creeping inflation (ii) Walking inflation (iii) Running inflation and (iv) Galloping inflation or Hyper-inflation.
- ❖ **On the basis of demand and cost:** (i) Demand-Pull Inflation (ii) Cost-Push Inflation
- ❖ **On The Basis Of Inducement:** (i) Currency inflation (ii) Credit inflation (iii) Deficit induced inflation (iv) Profit induced inflation (v) Scarcity induced inflation (vi) Tax induced inflation

32. Explain Demand-pull and Cost push inflation.

- ❖ **Demand-Pull Inflation:** Demand and supply play a crucial role in deciding the inflation levels in 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.
- ❖ **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.

12th ECONOMICS – 2019 – 2020 - NEW SYLLABUS**Slow Learners Study Material****33. State Cambridge equations of the 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.

The price level : $P = M/KY$

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

34. EXPLAIN DISINFLATION.

- ❖ 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.
- ❖ Disinflation may be 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.
- ❖ Banks have the power to expand or contract demand deposits and they exercise this power through granting more or fewer loans and advances and acquiring other assets.
- ❖ This power of the commercial bank to create deposits through expanding their loans and advances is known as credit creation

36. Give a brief note on NBFI.

- ❖ non-banking financial institution (NBFI) or non-bank financial company (NBFC)
- ❖ It is a financial institution that does not have a full banking license **Ex : GIC Re, UTI Mutual Funds**
- ❖ They receive deposits and provide loans

37. Bring out the methods of credit control

Quantitative Method:	Qualitative Method
(i) Bank Rate Policy	(i) Rationing of Credit
(ii) Open Market Operations	(ii) Direct Action
(iii) Variable Reserve Ratio	(ii) Regulation of Consumer's Credit

38. What are the functions of NABARD?

- ❖ NABARD acts as a refinancing institution to agriculture, small-scale industries, cottage and village industries, handicrafts
- ❖ It provides short-term, medium-term and long-term credits to state cooperative Banks
- ❖ NABARD gives long-term loans (up to 20 Years) to State Government
- ❖ NABARD has the responsibility of coordinating the activities of Central and State Governments

39. Specify the functions of IFCI.

- ❖ Long-term loans, both in rupees and foreign currencies.
- ❖ Underwriting of equity, preference and debenture issues.
- ❖ Subscribing to equity, preference and debenture issues.

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40. Distinguish between money market and capital market

BASIS FOR COMPARISON	MONEY MARKET	CAPITAL MARKET
Meaning	Lending and borrowing of short term securities are done.	Long term securities are issued and traded.
Nature of Market	Informal	Formal
Financial instruments	Treasury Bills, Commercial Papers.	Shares, Debentures, Bonds.
Liquidity	High	Low
Purpose	To fulfil short term credit needs of the business.	To fulfil long term credit needs of the business.
Time Limit	Within a year	More than a year

41. Mention the objectives of demonetizations.

Meaning

Demonetisation 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 : 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.

- ❖ Pure Theory of Trade
- ❖ Policy Issues
- ❖ International Cartels and Trade Blocs (MNCs)
- ❖ International Financial and Trade Regulatory Institutions:

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

Classical Theory of International Trade	Modern Theory of International Trade
The classical theory explains the phenomenon of International Trade based on the labour theory of value.	Modern theory explains the phenomenon of international trade based on the general theory of value.
Labour	Labour and Capital
It attributes the differences in the comparative costs of differences in the productive efficiency of workers.	It attributes the differences in comparative costs to the differences in factor endowments.

44. What are the import quotas?

- ❖ A quota is a limit on the total Quantity or a product that can be supplied to the market.
- ❖ An import quota, therefore, restricts the supply of an imported product.
- ❖ The black market may develop.

45. Write a brief not on flexible exchange rate.

- ❖ Exchange rates are freely determined in an open market by market forces of demand and supply.
- ❖ Market prices that vary day today.
- ❖ It is also known as a floating exchange rate.

46. State the objectives of Foreign Direct Investment.

- ❖ Sales Expansion
- ❖ Acquisition of resources
- ❖ Diversification

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- ❖ Minimization of competitive risk.

Padasalai

Raj Antony P Tirunelveli District

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- ❖ Trade blocks are a set of countries which engage in international trade together and are usually related through a free trade agreement or other associations.
- ❖ Trade blocks cover different kinds of arrangements between or among countries for mutual benefit.

48. Mention any three lending programmes of IMF.

- ❖ Basic Credit Facility:
- ❖ Extended Fund Facility
- ❖ Compensatory Financing Facility
- ❖ Buffer Stock Facility
- ❖ Supplementary Financing Facility

49. What is the Multilateral Agreement?

- ❖ Multilateral Agreements or Multilateral Trade Agreements are trade agreements between three or more nations.
- ❖ The agreements reduce tariffs and make it easier for businesses to import and export.
- ❖ Since they are among many countries, they are difficult to negotiate.

50. Write the agenda of BRICS Summit, 2018.

- ❖ Inclusive growth
- ❖ Trade issues
- ❖ Global governance
- ❖ Shared Prosperity
- ❖ International peace and security

51. State briefly the functions of SAARC.

- ❖ Maintenance of cooperation in the region
- ❖ Prevention of common problems associated with the member nations.
- ❖ Ensuring a strong relationship among the member nations.

52. List out the achievements of ASEAN.

- ❖ The main achievement of ASEAN has been the maintenance of an uninterrupted period of peace and stability
- ❖ ASEAN's modernization efforts have brought about changes in the region's structure of production.
- ❖ ASEAN has been the fourth largest trading entity in the world

53. Describe the canons of Taxation.

Canons of	Meaning
Canon of Ability	People have to pay taxes according to their ability
Canon of Certainty	There is no uncertainty regarding the rate of tax or the time of payment.
Canon of Convenience	The tax payment should suit the convenience of the people
Canon of Economy	The government has to spend money on collecting taxes

54. Mention any three similarities between public finance and private finance.

- ❖ **Rationality** : Both public finance and private finance are based on rationality
- ❖ **Limit to borrowing** : Both have to apply restraint about borrowing.
- ❖ **Resource utilization** : Both the private and public sectors have limited resources.
- ❖ **Administration** : The effectiveness of measures depends on the administrative machinery

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55. What are the functions of a modern state?

- ❖ **Defence** : The primary function of the Government is to protect the people from external aggression and internal disorder.
- ❖ **Judiciary** : Rendering justice and settlement of disputes are the concern of the government.
- ❖ **Enterprises** : The regulation and control of private enterprise fall under the purview of the modern State.
- ❖ **Social Justice** : The Government needs to intervene with fiscal measures to redistribute income.
- ❖ **Control of Monopoly** : Concentration of economic power is another evil to be corrected by the Government.

56. State any three characteristics of taxation.

- ❖ A tax is a compulsory payment made to the government
- ❖ There is no quid pro quo between a taxpayer and public authorities.
- ❖ Every tax involves some sacrifice on part of the taxpayer

57. Point out any three differences between direct tax and indirect tax.

Direct Tax	Indirect Tax
Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government.	Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government.
Progressive	Regressive
Falls on the same person.	Falls on different persons.
Income or wealth of the assessee	Purchase/sale/manufacture of goods and provision of services
Tax evasion is possible.	Tax evasion is hardly possible because it is included in the price of the goods and services.

58. What is the 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. $\text{Primary Deficit (PD)} = \text{Fiscal deficit (PD)} - \text{Interest Payment (IP)}$

59. Brief the linkage between economy and environment.

- ❖ Human's life depends on social, political, ethical, philosophical and other aspects of the economic system.
- ❖ The relationship between the economy and the environment is generally Explained in the form of a "Material Balance Model" developed by Alen Kneese and Ayres.

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60. Specify the meaning of material balance principle

Model Name	“Material Balance Model”
Developed by	Alen Kneese and R.V. Ayres
Definition	“what goes in must come out”
Implies	The material flow diagram implies that mass inputs must equal mass outputs for every process.
Linkage Between	The interdependence of economics and environment
Economic Activities	Production and Consumption
Process of Linkage	Materials come From Environment 1. Raw Material 2. Production 3. Goods for Consumption 4. Residual 5. Discharge or Recycled Discharges go back to Environment
Conclusion	Material and energy are drawn from the environment, used for production and consumption activities and returned to the environment as wastes.

61. Explain different types of air pollution.

- ❖ **Indoor Air Pollution:** It refers to toxic contaminants that we encounter in our daily lives in our homes, schools and workplaces.

For example, cooking and heating with solid fuels on open fires or traditional stoves results in high levels of indoor air pollution.

- ❖ **Outdoor Air Pollution:** It refers to ambient air. The common sources of outdoor air pollution are caused by combustion processes from motor vehicles, solid fuel burning and industry

62. What are the causes of water pollution?

- ❖ Discharge of sewage and wastewater
- ❖ Dumping of solid wastes
- ❖ Discharge of industrial wastes
- ❖ Oil Spill
- ❖ Acid rain
- ❖ Global warming
- ❖ Eutrophication

63. State the meaning of e-waste.

- ❖ Electronic waste which is commonly referred to as 'e-waste' is a new by-product of the Info-Tech society.
- ❖ It is a physical waste in the form of old discarded, end of life electronics.

Example: refrigerators, air conditioners, cellular phones, computers and other electronic goods.

64. What is land pollution? Mention the causes of land pollution

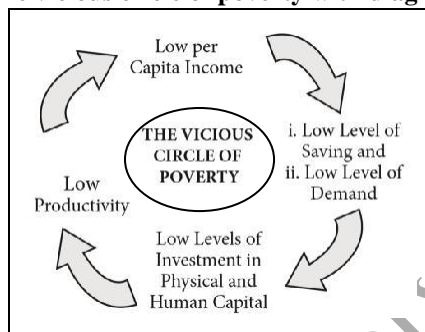
The degradation of land because of the disposal of waste on the land.

Causes :

- ❖ **Deforestation and soil erosion**
- ❖ **Agricultural activities**
- ❖ **Mining activities**
- ❖ **Landfills**
- ❖ **Industrialization**
- ❖ **Construction activities**
- ❖ **Nuclear waste**

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Note on Climate Change	Note on Acid Rain
Climate change refers to seasonal changes over a long period in the atmosphere	It occurs when emissions from factories, cars or heating boilers contact with the water in the
CO ₂	NO, SO ₂ and SO ₃
Industrial Revolution	Emissions and Volcanic Eruptions
warming of coastal waters, high temperatures, a marked change in rainfall patterns	harmful effects on plants, aquatic animals and infrastructure

66. Elucidate major causes of the vicious circle of poverty with diagram**(a) Supply-side cause of vicious circle.**

Low Income → Low Saving → Low Investment → Low Production → Low Income

(b) Demand-side cause of vicious circle

Low Income → Low Demand → Low Investment → Low Productivity → Low Income

67. What are the non-economic factors determining development?

1.Human Resource 2.Technical Know-how 3.Political Freedom 4.Social Organization 5.Corruption free administration

68. How would you break the vicious circle of poverty?

According to Nurkse, "If the investment is made in several industries simultaneously the workers employed in various industries will become consumers of each other's products and will create demand for one another."

69. Describe the case for planning.

- ❖ To accelerate and strengthen the market mechanism
- ❖ To remove unemployment:
- ❖ To achieve balanced development
- ❖ To remove poverty and inequalities

70. What are the functions of NITI Aayog

- ❖ Cooperative and Competitive Federalism
- ❖ Shared National Agenda
- ❖ Decentralized Planning
- ❖ Vision and Scenario Planning
- ❖ Network of Expertise
- ❖ Harmonization
- ❖ Conflict Resolution
- ❖ Coordinating Interface with the world
- ❖ Internal Consultancy
- ❖ Capacity Building
- ❖ Monitoring and Evaluation

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71. What are the functions of Statistics?

- ❖ It simplifies the mass of figures
- ❖ It facilitates comparison
- ❖ It helps in formulating and testing
- ❖ It helps in prediction.

72. State and explain the different kinds of Correlation

I. Based on the direction of change of variables

- ❖ Positive Correlation
- ❖ Negative Correlation

II. Based upon the number of variables

- ❖ Simple Correlation Ex: $Y = a + bx$.
- ❖ Multiple Correlation
- ❖ Partial Correlation

III. Based upon the constancy of the ratio of change between the variables.

- ❖ Linear Correlation Ex: $Y = a + bx$.
- ❖ Non-Linear Correlation Ex: $Y = a + bx^2$.

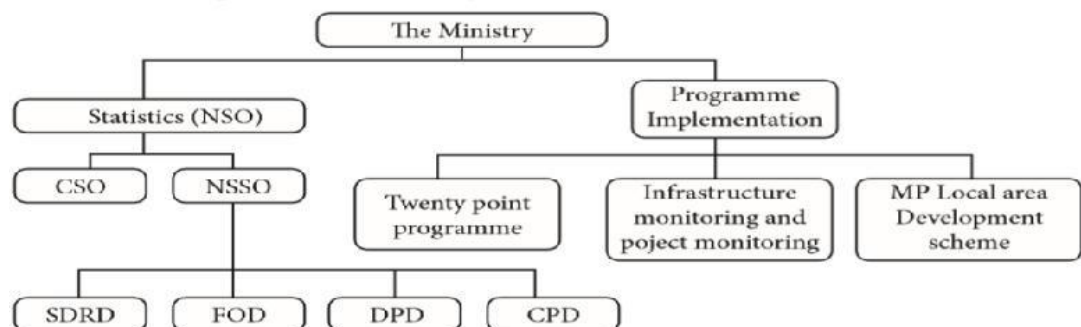
73. Mention the uses of Regression Analysis.

- ❖ It indicates the cause and effect relationship between the variables and establishes a functional relationship.
- ❖ Besides verification, it is used for the prediction of one value, about the other given value.
- ❖ Regression coefficient is an absolute figure.
- ❖ It has wider application, as it studies the linear and nonlinear relationship between the variables.

74. Specify the objectives of econometrics

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

75. Discuss the important statistical organizations (offices) in India.



76. Differentiate the economic model with the econometric model.

Economic Model	Econometric Model
Economics models are developed based on Economic Theories	Econometric Models are developed based on Economic Theories to test the validity of Economic Theories
$Y_i = \beta_0 + \beta_1 X_i$	$Y_i = \beta_0 + \beta_1 X_i + U_i$
does not concentrate more on the error term	concentrate more on error terms
U_i unexplained part in a regression.	U_i cannot and should not be ignored

FIVE MARKS

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1. Discuss the scope of Macro Economics.

MEANING

- ❖ The word "Macro" is derived from the Greek word "Makros" meaning "large".
- ❖ Macro Economics is the study of the economy as a whole.
- ❖ Macro Economics is also known as an "Income Theory".

SCOPE OF MACROECONOMICS

I. NATIONAL INCOME:

Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis.

II. INFLATION:

Inflation refers to a steady increase in the general price level.

Ex: Wholesale Price Index, Consumer Price Index.

III. BUSINESS CYCLE:

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

Ex. Boom, recession, depression and recovery.

IV. POVERTY AND UNEMPLOYMENT:

The major problems of most resource-rich nations are poverty and unemployment. This is one of the economic paradoxes.

V. ECONOMIC GROWTH:

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

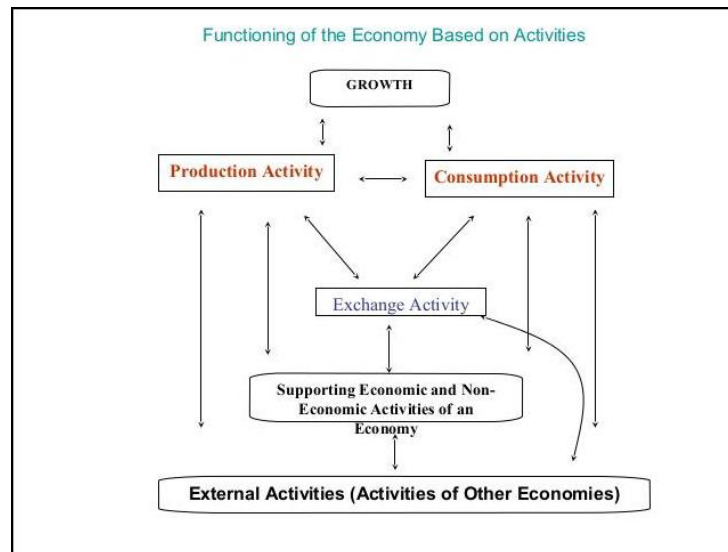
VI. ECONOMIC POLICIES:

Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

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

FLOW CHART



❖ **FUNDAMENTAL ECONOMIC ACTIVITIES**

In an economy, the fundamental economic activities are production and consumption.

❖ **EXCHANGE ACTIVITY**

The 'exchange activity' supports the production and consumption activities. These activities are influenced by several economic and non-economic activities.

❖ **MAJOR ECONOMIC ACTIVITIES**

Transportation, banking, advertising, planning, government policy and others.

❖ **MAJOR NON-ECONOMIC ACTIVITIES**

Environment, health, education, entertainment, governance, regulations etc.

❖ **EXTERNAL ACTIVITIES**

External activities such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc. also influence the entire functioning of the economy.

12th ECONOMICS – 2019 – 2020 - NEW SYLLABUS**Slow Learners Material****3. Compare the features of capitalism and socialism.**

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

4. Compare the feature among Capitalism, Socialism 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 Problem	Free Market System	Central Planning System	Central Planning System and Free Market System
4.	Government Role	Internal Regulation only	Complete Involvement	Limited Role
5.	Income Distribution	Unequal	Equal	Less unequal
6.	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises
7.	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8.	Major Problem	Inequality	Inefficiency	Inequality and Inefficiency

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5. Explain the importance of national income.

MEANING

- National Income means the total money value of all final goods and services produced in a country during a particular period.

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
- ❖ To build economic models both in the short - run and long - run.
- ❖ To make an international comparison, inter-regional comparison and intertemporal comparison of growth of the economy during different periods.
- ❖ To know countries per capita income
- ❖ To know the distribution of income for various factors of production.
- ❖ To arrive at many macroeconomic variables namely, Tax – GDP ratio, Current Account Deficit – GDP ratio, Fiscal Deficit GDP ratio, Debt – GDP ratio etc.,

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

THREE METHODS

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

1. PRODUCTION METHOD

- ❖ The gross value of output from different sectors
- ❖ The value obtained is the GNP at market prices.
- ❖ Care must be taken to avoid double counting.
- ❖ **Formula:** $GNP = GDP + \text{Net Factor income from Abroad.}$

2. INCOME METHOD

- ❖ In this method, national income is calculated by adding up all the incomes generated in the course of producing a national product
- ❖ Factor incomes are labour income, capital income and mixed-income.
- ❖ Domestic factor income plus net factor incomes from abroad
- ❖ **Formula:** $Y = w + r + i + \pi + (R-P)$

3. EXPENDITURE METHOD

- ❖ The total expenditure incurred by the society in a particular year is added together
- ❖ **Expenditure:** Personal consumption expenditure, net domestic investment, government expenditure.
- ❖ **Formula:** $GNP = C + I + G + (X - M)$

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

1. TRANSFER PAYMENTS

- ❖ The government makes payments in the form of pensions, unemployment allowance, subsidies.
- ❖ These are government expenditure. But they are not included in the national income.

2. DIFFICULTIES IN ASSESSING DEPRECIATION ALLOWANCE

The deduction of depreciation allowances, accidental damages, repair and replacement charges from the national income is not an easy task.

3. UNPAID SERVICES

A housewife renders several useful services like preparation of meals, serving, tailoring, mending, washing, cleaning, bringing up children, etc. She is not paid for them.

4. INCOME FROM ILLEGAL ACTIVITIES

Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor, etc., are not included in national income.

5. STATISTICAL PROBLEMS

There are statistical problems, too. Great care is required to avoid double counting.

8. Discuss the importance of social accounting in economic analysis.

MEANING OF SOCIAL ACCOUNTING : The transactions among various sectors such as **Firms, Households, Government, Rest of the world and Capital sector** are recorded and their interrelationships traced.

IMPORTANCE OF SOCIAL ACCOUNTING METHOD

- ❖ To Classify Transactions of the economy between different sectors
- ❖ To Understand Economic Structure
- ❖ To Understand Different Sectors and Flows
- ❖ To Clarify Relations between Concepts
- ❖ To Guide economic and statistical the Investigators
- ❖ To Explain Trends in Income Distribution
- ❖ To Explain Movements in GNP
- ❖ To Provide a Picture of the Working of Economy
- ❖ Describe the types of unemployment.

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9. MEANING OF UNEMPLOYMENT

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

1. CYCLICAL UNEMPLOYMENT

This unemployment exists during the downturn phase of the trade cycle in the economy

2. SEASONAL UNEMPLOYMENT

This type of unemployment occurs during certain seasons of the year. In agriculture and agro-based industries like sugar, production activities are carried out only in some seasons

3. FRICTIONAL UNEMPLOYMENT (TEMPORARY UNEMPLOYMENT):

Frictional unemployment arises due to imbalance between the supply of labour and demand 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 fewer labourers and contributes to technological unemployment.

6. STRUCTURAL UNEMPLOYMENT

Structural unemployment is due to a drastic change in the structure of society.

7. DISGUISED UNEMPLOYMENT

Disguised unemployment occurs when more people are working than what is required.

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10. Critically explain Say's law of the market.
SAYS' LAW "Supply creates its own demand"

EXPLANATION OF SAY'S MARKET LAW

- ❖ When goods are produced by firms in the economy, they pay a reward to the factors of production.
- ❖ The households after receiving rewards of the factors of production spend the amount on the purchase of goods and services produced by them

CRITICISMS OF SAY'S LAW

- ❖ According to Keynes, supply does not create its demand.
- ❖ The automatic adjustment process will not remove unemployment.
- ❖ Money is not neutral.
- ❖ Say's law is based on the proposition that supply creates its demand and there is no overproduction.
- ❖ Keynes regards full employment as a special case.
- ❖ The need for state intervention arises in the case of general overproduction.

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

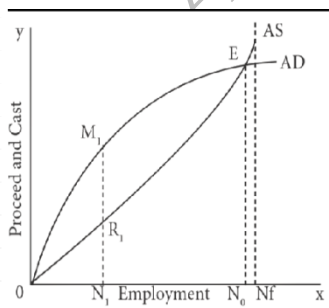
ADF AND ASF

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.

EQUATIONS

- ❖ Aggregate Demand $AD = C + I + G + (X - M)$
- ❖ Aggregate Supply $AS = C + S + T + R_f$
- ❖ Effective Demand $ED = Y = C + I = \text{Output} = \text{Employment}$

DIAGRAM EXPLANATION



- ❖ 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 can produce $M_1 N_1$. The expected level of profit is $M_1 R_1$
- ❖ The equilibrium level of employment need not be the full employment level.
- ❖ It is understood that the difference between $N_0 - N_f$ is the level of unemployment.

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12. Explain the differences between classical theory and Keynes theory.

CLASSICAL THEORY	KEYNES THEORY
Long-run equilibrium	Short-run equilibrium
Saving and investment equilibrium through interest rate	Saving and investment equilibrium through income levels
The function of money is to act as a medium of exchange	The function of money is a medium of exchange on the one side and a store of value on the other side.
Micro foundation to macro problems	Macro approach to national problems
No government intervention	Government intervention is necessary for stabilization of economy
Full employment (under employment is voluntary and temporary)	Unemployment and under employment are possible
Supply determined (Say's Law: Supply creates demand)	Aggregate demand determined (Demand creates supply. Model based on concept of aggregate demand)
Balanced budget	Budgeting should be adjusted to the requirements of economy.
Capitalism is well and good	Capitalism has inherent contradictions
Laissez faire policy, self adjusting and self stabilizing	Discard Laissez faire and approves stabilizing measures by the government

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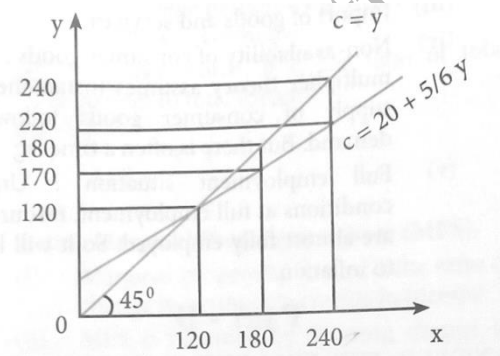
13. Explain Keynes psychological law of consumption function with diagram.

- ❖ **KEYNES** Propounded the fundamental Psychological Law of Consumption which forms the basis of the consumption function.

ASSUMPTIONS

- ❖ The other variables do not change Ex: Taste and habits.
- ❖ Existence of Normal Conditions Ex: No War
- ❖ Existence of a Laissez-faire Capitalist Economy Ex: free to spend

Income Y	Consump- tion C	Savings S = Y - C
120	120	0
180	170	10
240	220	20



EXPLANATION ONS

PROPOSITION - 1

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

PROPOSITION - 2

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

PROPOSITION - 3

- ❖ Increases in income to 180 and 240 lead to increased consumption of 170 and 220 and increased saving 20 and 10 than before.

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

SUBJECTIVE FACTORS	OBJECTIVE FACTORS
Subjective factors are internal factors related to psychological feelings. Ex: Motives	The Objective factors are the external factors to which are real and measurable. Ex: Price levels
1. The motive of precaution Ex: Accidents, sickness	1. Income Distribution Ex: Disparity between rich and poor
2. The motive of foresight Ex: Old age Savings	2. Price level Ex: Price falls, real income goes up
3. The motive of calculation Ex: Desire to enjoy	3. Wage level Ex: the positive relationship between wage consumption.
4. The motive of pride Desire to bequeath a fortune.	4. Windfall Gains or losses Ex: Changes in the stock market
5. The motive of avarice Purely miserly instinct	5. Fiscal Policy The progressive tax system increased the propensity to consume of the people by altering the income distribution in favour of the poor.

15. What are the differences between MEC and MEI?

MARGINAL EFFICIENCY OF CAPITAL (MEC)	MARGINAL EFFICIENCY OF INVESTMENT (MEI)
Expected income stream equal to the cost of capital	Expected rate of return on investment as additional units of investment
Based on the given supply price for capital	Based on the change in the price due to a change in the demand for capital.
Represents the rate of return on all successive units of capital	Represents the rate of return on just those units of capital
'X' axis Capital stock is taken	'Y' axis the amount of investment is taken
It is a "stock" concept	It is a "flow" concept
It determines Optimum capital stock in an economy	It determines the Net investment of the economy

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16. Illustrate Fisher's Quantity theory of money.

❖ Fisher gave it a quantitative form in terms of his famous "Equation of Exchange"

❖ Equation : Fisher $MV=PT$

M = Money Supply/quantity of Money V = Velocity of Money

P = Price level

T = Volume of Transaction

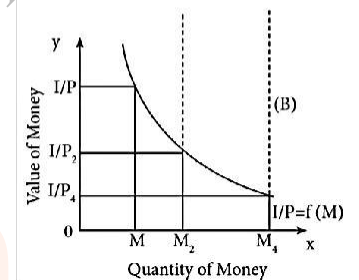
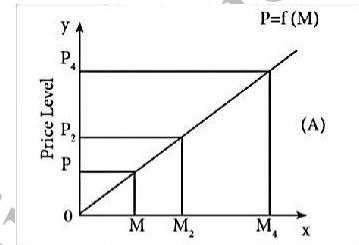
EXPLANATION

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

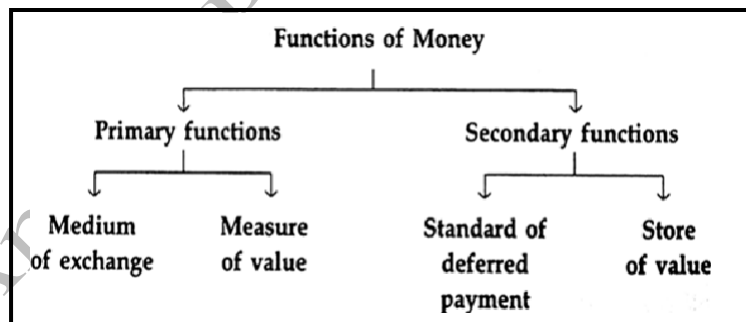
EXTENDED FORM OF EQUATION $PT = MV + M_1V_1$

❖ 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 .

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

**17. Explain the functions of money****DEFINITION**

"Money is, what money does" – Walker



I) MONEY AS A MEDIUM OF EXCHANGE: This is considered as the basic function of money. Money has the quality of general acceptability and all exchanges take place in terms of money.

II) MONEY AS A MEASURE OF VALUE: The function of money is that it measures the value of goods and services

III) MONEY AS A STORE OF VALUE: Savings done in terms of commodities were not permanent. But, with the invention of money and savings are now done in terms of money.

IV) MONEY AS A STANDARD OF DEFERRED PAYMENTS: Borrowing and lending were difficult problems under the barter system. In the absence of money, the borrowed amount could be returned only in terms of goods and services

V) MONEY AS A MEANS OF TRANSFERRING PURCHASING POWER:

The field of exchange also went on extending with growing economic development.

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18. What are the causes and effects of inflation on the economy?**MEANING OF INFLATION**

Inflation is the rate at which the general level of prices for goods and services is rising and consequently, the purchasing power of currency is falling.

CAUSES OF INFLATION	EFFECTS OF INFLATION
Increase in Money Supply	Hyper-inflation results in a serious depreciation of the value of money
Increase in Disposable Income	Drain out the foreign capital
Increase in Public Expenditure	the investment will suffer a serious set-back
Increase in Consumer Spending	During inflation, debtors are the gainers while the creditors are losers
Cheap Monetary Policy	The fixed income groups are the worst hit during inflation

19. Describe the phases of Trade cycle.**MEANING**

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

PHASES OF TRADE CYCLE:

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

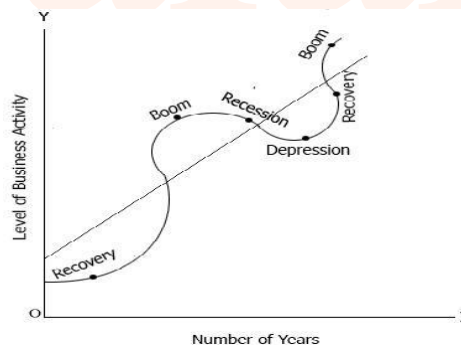
Recovery

I) BOOM: The full employment and the movement of the economy beyond full employment.

II) RECESSION: The turning point from boom condition is called a recession. This happens at a higher rate than what was earlier.

III) DEPRESSION: During the depression, the level of economic activity becomes extremely low.

IV. RECOVERY: After a period of depression, recovery sets in. This is the turning point from depression to revival towards an upswing.

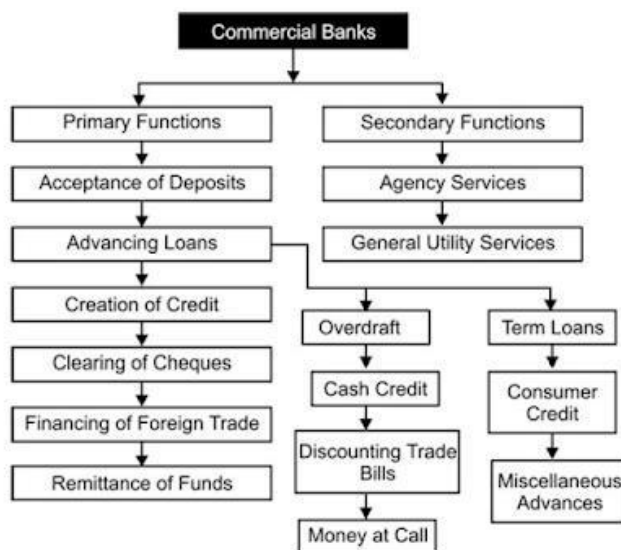


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20. Explain the role of Commercial Banks in economic development.

- ❖ **Capital Formation** : It is utilized for productive purpose.
- ❖ **Creation of Credit** : To increased production, employment, sales and prices.
- ❖ **Channelizing the Funds towards Productive Investment**
- ❖ **Encouraging Right type of Industries** : It helps not only for industrialization of the country but also the economic development of the country.
- ❖ **Bank monetize debt**: As banks are lending money by discounting bills of exchange business concerns can carry out the economic activities without any interruption
- ❖ **Finance to Government** : Banks provide long – term credit to Government by investing their funds in Government securities.
- ❖ **Employment Generation** : Bank's branches are opened frequently, which leads to the creation of new employment opportunities

21. Elucidate the functions of Commercial Banks



1. **ACCEPTING DEPOSITS:** It implies that commercial banks are mainly dependent on public deposits. (i) Demand Deposits (ii) Time Deposits
2. **ADVANCING LOANS:** It refers to granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange
3. **GENERAL UTILITY FUNCTIONS:** It implies that commercial banks provide some utility services to customers by performing various functions.
4. **MONEY SUPPLY:** It refers to one of the important functions of commercial banks that help in increasing the money supply
5. **CREDIT CREATION:** Credit Creation means the multiplication of loans and advances

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22. Describe the functions of Reserve Bank of India.

INTRODUCTION

- ❖ The Reserve Bank of India (RBI) is India's central banking institution
- ❖ It commenced its operations on 1 April 1935
- ❖ the RBI was nationalised on 1 January 1949

FUNCTIONS

1. **MONETARY AUTHORITY:** It controls the supply of money in the economy to stabilize the exchange rate, maintain a healthy balance of payment
2. **THE ISSUER OF CURRENCY:** The objective is to maintain the currency and credit system of the country. It is the sole authority to issue 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 a loan to banks, accepts the deposit of banks, and rediscounts the bills of banks.
6. **REGULATOR OF ECONOMY:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.

23. What are the objectives of Monetary Policy? Explain

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

THE SPECIFIC OBJECTIVES

- ❖ **NEUTRALITY OF MONEY** - Monetary changes could be the root cause of all economic fluctuations
- ❖ **STABILITY OF EXCHANGE RATES** - Exchange rate stability was the traditional objective of the monetary authority.
- ❖ **PRICE STABILITY** - Price stability is considered the most genuine objective of monetary policy.
- ❖ **FULL EMPLOYMENT** - Full employment was considered as the main goal of monetary policy.
- ❖ **ECONOMIC GROWTH** - The process whereby the real per capita income of a country increases

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

- ❖ The current account,
- ❖ The capital account and
- ❖ The official settlements account or official reserve assets account.

❖ **THE CURRENT ACCOUNT:**

It includes all international trade transactions of goods and services, international service transactions (i.e. tourism, transportation and royalty fees) and international unilateral transfers (i.e. gifts and foreign aid).

❖ **THE CAPITAL ACCOUNT:**

Financial transactions consisting of direct investment and purchases of interest-bearing financial instruments, known- interest-bearing demand deposits and gold fall under the capital account.

❖ **THE OFFICIAL RESERVE ASSETS ACCOUNT:**

Official reserve transactions consist of movements of international reserves by government and official agencies to accommodate imbalance arising from the current and capital accounts.

25. Discuss the differences between Internal Trade and International Trade.

Internal Trade	International Trade
Trade takes place between different individual and firms within the same.	Trade takes place between different individual and firms in different countries.
Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another.
There is only one common currency.	There are different currencies.
There will be a free flow of goods and services	Goods and services do not easily move from one country to another.
The physical and geographical conditions of a country are more or less similar.	There are differences in the physical and geographical conditions of the two countries.

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26. Discuss the various types of disequilibrium in the balance of payments.

TYPES BOP DISEQUILIBRIUM

- ❖ Cyclical Disequilibrium,
- ❖ Secular Disequilibrium,
- ❖ Structural Disequilibrium.

❖ **CYCLICAL DISEQUILIBRIUM**

First, the two countries may be passing through different phases of the business cycle. Secondly, the elasticities of demand may differ between countries.

❖ **SECULAR DISEQUILIBRIUM**

The secular or long-run disequilibrium in BOP occurs because of long-run

❖ **Structural Disequilibrium:**

Structural changes in the economy may also cause such structural changes to include the development of alternative sources of supply, development of better substitutes.

27. How the Rate of Exchange is determined? Illustrate.

DETERMINATION OF EQUILIBRIUM EXCHANGE RATE

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

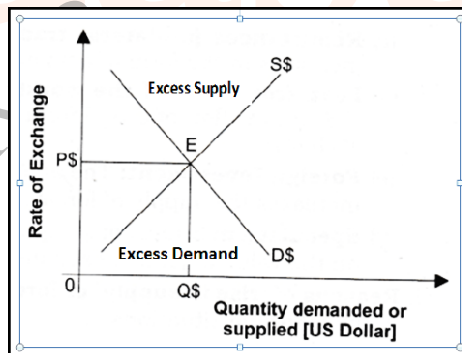


DIAGRAM EXPLANATION

- ❖ Y-axis represents the exchange rate, that is, the value of rupee in terms of dollars.
- ❖ E is the point of equilibrium where D intersects S.
- ❖ The exchange rate is P, where the exchange rate is determined.

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28. Explain the relationship between Foreign Direct Investment and economic development.

MEANING

FDI means an investment in a foreign country that involves some degree of control and participation in management.

FDI & ECONOMIC DEVELOPMENT

- ❖ FDI may help to increase the investment level and thereby the income and employment.
- ❖ Direct foreign investment may facilitate the transfer of technology.
- ❖ Foreign trade and FDI are closely related
- ❖ A part of the profit from a direct foreign investment may be ploughed back into the expansion, modernization of industries.
- ❖ Many developing countries strongly prefer foreign investment for imports.

29. Explain the objectives of IMF

- ❖ To promote international monetary cooperation among the member nations.
- ❖ To facilitate faster and balanced growth of international trade.
- ❖ To ensure exchange rate stability by curbing competitive exchange depreciation.
- ❖ To eliminate or reduce exchange controls imposed by member nations.
- ❖ To establish a multilateral trade and payment system.
- ❖ To promote the flow of capital from developed to developing nations.
- ❖ To solve the problem of international liquidity.

30. Bring out the functions of the World Bank.

- ❖ The World Bank provides long-term loans for various development projects
- ❖ Investment for productive purpose
- ❖ Balanced Growth of International Trade
- ❖ Provision of Loans and Guarantees
- ❖ Promotion of foreign private investment
- ❖ Technical services to the member countries

12th ECONOMICS – 2019 – 2020 - NEW SYLLABUS**Slow Learners Material****31. Discuss the role of WTO in India's socio-economic development.**

- ❖ By reducing tariff rates on raw materials, components and capital goods, it was able to import more
- ❖ India gets market access in several countries without
- ❖ any bilateral trade agreements.
- ❖ Advanced technology has been obtained at a cheaper cost.
- ❖ India is in a better position to get quick redressal from the trade disputes.
- ❖ The Indian exporters benefited from wider market information

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

SAARC	NOTE ON BRICS
The South Asian Association for Regional Co-operation	Brazil, Russia, India, China and South Africa
Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka, Afghanistan. Total :8 Nations	Brazil, Russia, India, China and South Africa Total :5 Nations
8 th December 1985	2010
Kathmandu (Nepal)	Shanghai (China)
SAARC Development Bank (SDB)	The New Development Bank (NDB)
To promote the welfare of the people of South Asia and improve their quality of life	To increase trade co-operation by making an exclusive trade block
The establishment of the SAARC Preferential Trading Agreement (SAPTA)	Leading position in setting the global agenda
South Asian Development Fund (SADF)	Contingent Reserve Arrangement (CRA)

33. Explain the scope of public finance

- ❖ **Public Revenue**
Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, shifting of taxes and their effects.
- ❖ **Public Expenditure**
This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.
- ❖ **Public Debt**
Public debt deals with the methods of raising loans from internal and external sources. The burden, effects and redemption of public debt fall under this head.
- ❖ **Financial Administration**
This part deals with the study of the different aspects of the public budget. The budget is the Annual master financial plan of the Government.
- ❖ **Fiscal Policy**
Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

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

Merits of indirect taxes

- ❖ Wider Coverage
- ❖ Convenient
- ❖ Checks harmful consumption : Tobacco, liquor etc.
- ❖ Equitable
- ❖ Economical

35. Explain the methods of debt redemption

Methods that are adopted for the redemption of public debt are:

- ❖ Refunding
- ❖ Conversion
- ❖ Surplus budgets
- ❖ Sinking fund
- ❖ Terminable annuities
- ❖ Additional Taxation
- ❖ Capital Levy
- ❖ Surplus Balance of Payments.

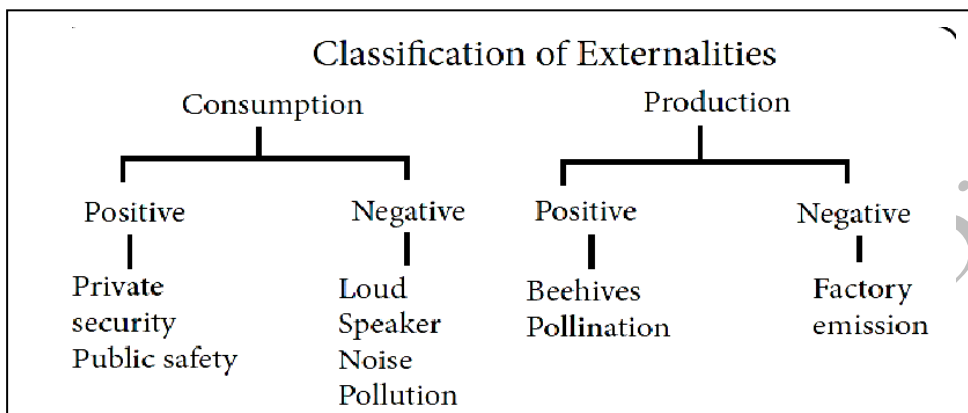
36. State and explain instruments of fiscal policy.

- ❖ **Fiscal Instruments :** Fiscal Policy is implemented through fiscal instruments also called, fiscal tools“
- ❖ **Taxation:** Taxes transfer income from the people to the Government. Taxes are either direct or indirect.
- ❖ **Public Expenditure:** Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services.
- ❖ **Public debt:** When Government borrows by floating a loan, there is a transfer of funds from the public to the Government.

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37. Explain the concepts of externality and its classification. Meaning of Externalities

Externalities refer to external effects or spillover effects resulting from the act of production or consumption on the third parties.



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

Meaning

Sustainable development is concerned with the welfare of not only the present generation but also the future generation.

$$\text{Sustainable Development} = \text{Environment} + \text{Economy} + \text{Society}$$

IMPORTANCE

1. Environment conservation and proper utilization of natural resources.
2. Increase funding for environment development
3. Conservation of biodiversity
4. Pollution control
5. Population control and poverty elevation

THE IMPORTANT GOALS FOR SUSTAINABLE DEVELOPMENT

- ❖ End Poverty in all its forms everywhere
- ❖ End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- ❖ Ensure healthy lives and promote wellbeing for all at all ages
- ❖ Ensure inclusive and quality education for all and promote lifelong learning
- ❖ Achieve gender equality.

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39. Discuss the economic determinants of economic development.

- 1. Natural Resource 2. Capital Formation 3. Size of the Market 4. Structural Change
5. Financial System 6. Marketable surplus 7. Foreign Trade 8. Economic System**

42. Describe different types of Planning

Definition

“Economic Planning in the widest sense is the deliberate direction by persons in-charge of large resources of economic activity towards chosen ends”.

- ❖ Democratic Planning : People are associated with every step in the formulation and implementation of the plan.
- ❖ Totalitarian Planning : There are central control and direction of all economic activities.
- ❖ Centralized Planning : The entire planning process in a country is under a central planning authority.
- ❖ Decentralized Planning
- ❖ Planning by Direction
- ❖ Planning by Inducement
- ❖ Imperative Planning : Once a plan is drawn up, its implementation is a matter of enforcement. Ex. China and Russia
- ❖ Short, Medium and Long term Planning :
Short – term up to 1 year, Medium-term 3 – 7 years Long term over 10 year

40. Bring out the arguments against planning.

The **case against economic planning** has been discussed below :

- ❖ Loss of Economic Freedom
- ❖ Planning Leads to Chaos
- ❖ Not easy to Formulate
- ❖ No Incentive for Hard Work
- ❖ The danger of Bureaucracy and Red Tape
- ❖ Not Automatic
- ❖ A Costly Affair

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41. Elucidate the nature and scope of Statistics.

Definition of Statistics

According to Croxton & Cowden “Statistics may be defined as the collection, organisation, resresentation, analysis and interpretation of numerical data”

Nature of Statistics

- ❖ Statistics are an aggregate of facts.
- ❖ Statistics are numerically enumerated, estimated and expressed.
- ❖ Statistics should be collected systematically.
- ❖ Should be capable of being used as a technique for drawing a comparison
- ❖ Statistics are numerated or estimated according to a reasonable standard of accuracy.

Scope of Statistics

Statistics is applied in every sphere of human activity – social as well as physical – like Biology, Commerce, Education, Planning, Business Management, Information Technology, etc.

Statistics and Economics

Statistical data and techniques are immensely useful in solving many economic problems

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 the lifeblood of successful commerce.

Statistics and Education

Statistics are necessary for the formulation of policies to start a new course, according to the changing environment.

Statistics and Medicine

In Medical Sciences, statistical tools are widely used.

Statistics and Planning

In the Modern World which can be termed as the world of planning.

Statistics and Modern Application

A recent development in the fields of computer and information technology have enabled statistics to integrate their models.

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42. Describe the application of Econometrics in Economics.

DEFINITION

“Econometrics may be defined as the social science in which the tools of economic theory, mathematics and statistical inference are applied to the analysis of economic phenomena”.

$\text{Econometrics} = \text{Mathematics} + \text{Statistics} + \text{Economics} + \text{Empirical Data}$

OBJECTIVE OF ECONOMETRICS

- ❖ It helps to explain the behaviour of a forthcoming period that is forecasting economic phenomena.
- ❖ It helps to prove the old and established relationships among the variables or between the variables
- ❖ It helps to establish new theories and new relationships.
- ❖ It helps to test the hypotheses and estimation of the parameter.
- ❖ It helps in Forecasting macroeconomic indicators.

43. Explain briefly the Comparative Cost Theory

David Ricardo ‘Principles of political economy and taxation published in 1817 formulated a systematic a theory called comparative cost theory.

Assumption:

- ❖ There are only two nations
- ❖ Labour is the only element of the cost of production.
- ❖ All labourers are of equal efficiency.
- ❖ No transport cost
- ❖ Perfect competition.
- ❖ Full employment
- ❖ No government intervention

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