Telangana State Board of
INTERMEDIATE Education
FIRST YEAR

Economics

Basic Learning Material

For The Academic Year : 2021-2022

Telangana State
Board of Intermediate Eduation

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ECONOMICS

First year

Basic Learning Material

(Academic Year 2021-22)

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PREFACE

The ongoing Global Pandemic Covid-19 that has engulfed the entire world has changed every sphere of our life. Education, of course is not an exception. In the absence of Physical Classroom Teaching, Department of Intermediate Education Telangana has successfully engaged the students and imparted education through TV lessons. In the back drop of the unprecedented situation due to the pandemic TSBIE has reduced the burden of curriculum load by considering only 70% syllabus for class room instruction as well as for the forthcoming Intermediate Examinations. It has also increased the choice of questions in the examination pattern for the convenience of the students.

To cope up with exam fear and stress and to prepare the students for annual exams in such a short span of time , TSBIE has prepared "Basic Learning Material" that serves as a primer for the students to face the examinations confidently. It must be noted here that, the Learning Material is not comprehensive and can never substitute the Textbook. At most it gives guidance as to how the students should include the essential steps in their answers and build upon them. I wish you to utilize the Basic Learning Material after you have thoroughly gone through the Text Book so that it may enable you to reinforce the concepts that you have learnt from the Textbook and Teachers. I appreciate ERTW Team, Subject Experts, who have involved day in and out to come out with the, Basic Learning Material in such a short span of time.

I would appreciate the feedback from all the stake holders for enriching the learning material and making it cent percent error free in all aspects.

The material can also be accessed through our website **www.tsbie.cgg.gov.in.**

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Unit-1

Introduction to Economics

Section-B(5Marks)

1.Explain the "Scarcity" definition of economics.

This definition was given by Lionel Robbins in his book "An Essay on the Nature and Significance of Economic Science" in 1932. Robbins criticized welfare definition and presented his definition of economics. He has given more scientific definition of economics. In the words of Robbins, "Economics is the science which studies human behavior as a relationship between ends(wants) and scarce means which have alternative uses."

Main features of this definition:

1.Human wants are unlimited.

2. Means(resources) are limited.

3. Alternative uses of limited resources.

Superiority of this definition:

1. Robbins' definition is superior because it includes all human activities whether they promote human welfare or not.

2. This definition is a universally accepted definition. It is applicable to all types of societies.

3. Robbins definition of economics is neutral between ends. Economics has nothing to do with Ethics.

4. He made economics as a positive science, it does not pass any value judgments regarding ends.

Criticism of this definition: Some economists like Durban, Fraser, Beveridge and Barbara Wootton have criticized Robbins' definition by saying that it lacks human touch and ethical element.

1. Robbins criticized the Marshall's welfare definition but indirectly he introduces concept of welfare in his definition. Therefore, the criticism of welfare definition is equally applicable to it.

2.Another criticism of Robbins' definition is that it is difficult to separate ends from men.

3.Scarcity definition has been criticized by economists as to say "economics is neutral between ends", But economics cannot be neutral between ends.

4.Robbins made economics a positive science. Many economists says that it not only a positive science but also a normative science.

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5.Robbins' definition is not applicable to a dynamic society.

6.Joan Robinson took serious objection to scarcity of resources. Unemployment is caused not by scarcity of resources but by their under utilization also.

7.Robbins' scarcity definition neglects the more important problems of growth and stability.

2.**What is Utility? What are its types?**

The want satisfying capacity of a commodity at a point of time is known as utility. It is a subjective concept. Only consumer can judge the utility of a commodity.

Utility is divided into four types. They are:

1. Form Utility: If a commodity satisfies a consumer by its shape it is known as "form utility'. For example, conversion of wooden log into a chair or a door.

2 Place Utility: When goods acquire utility with the change of their place, it is known as 'place utility'. For example, vegetables at the production place have no utility but when they are brought to the market they gain utility.

3.Time Utility: Goods acquire utility because of time. Businessmen may store the goods and they may sell when the demand is high. For example, coffee and tea in the winter and cool drinks in summer.

4. Service Utility: Services also have the ability to satisfy human wants. For example, services of a teacher, doctor, layer etc. This is known as service utility.

3.Analyze the characteristics of wants.

Human wants are the basis for all economic activities. They depend on economic and social status of individuals. The nature and characteristics of human wants are explained below:

1.Unlimited Wants: Human wants are unlimited. If you satisfy one want, another one arises. In this way, wants arise one after another throughout human life.

2. A particular want is Satiable: As wants are unlimited, a person can satisfy a want at a point of time. For example if a person is thirsty he can satisfy it by drinking a glass of water.

3. Competition: Wants are unlimited whereas resources to satisfy them are limited. Therefore, a scale of preference is essential to satisfy wants.

4.Complementary: Satisfaction of a single want requires the use of various commodities. For example writing need is satisfied only when we have a pen, ink and paper together.

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5.Substitution: a person can satisfy his want with various commodities. For example if a person is hungry, he can eat rice or fruits to satisfy his hunger.

6. Reoccurring: Wants recur. When you satisfy a particular want at a point of time it may reappear at another time. We take food and our hunger is satisfied. But after a few hours, we again feel hungry.

7.Habits: Wants change into habits. For example smoking cigarettes for casual results into a habit if it is not controlled.

8.Wants Vary with Time Place and Person: Wants are dynamic in nature. Hence, they are changing from time to time, place to place and person to person.

Section-C (2Marks)

1.What is Micro Economics? The term micro derived from the Greek word "micros" which means "small". It is the study of particular firms, particular households, individual incomes etc. this science was popularized and developed by Alfred Marshal.

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2.What is Macro Economics? The term Marco derived from the Greek word "macros" which means "Big". This science is also known as "income and employment theory". Macro economics is the study of national income, national savings etc. this science was developed by J.M. Keynes.

3.Explain Economic goods. These goods are manmade goods. These goods have price. The supply of these goods is always less than their demand. Ex: Pen, Book

4.What is Price? The value of commodity is expressed in terms of money is known as price. For example, if pen is exchanged for 10/-rupees, then the price of the pen is 10/-.

5.What are Free Goods? The goods which are supplied by nature and have no price are called as free goods. The supply of these goods is always more than their demand. Ex: Sun light

6.Explain the Capital Goods. These goods are also know as Producer goods**.** The goods which are used to produce another good are known as producer goods Ex: Machinery, Buildings.

Unit-2

Theories of Consumer Behaviour

Section-A(10 Marks)

1.Discribe the Law of Diminishing marginal utility, **its limitations and importance**.

Law of Diminishing Marginal Utility is the first law of consumption, HH Gossen was the first economist to explain this law in a year 1854. Jevons named this law as "Gossens First Law of Consumption" and latter it was developed by Alfred Marshal in his book "The principles of economics" in the year 1890. This law explains the relation ship between a good and its satisfaction.

Definition of the Law: According to Marshal, the additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in stock that he already has.

Statement of the law: If a person goes on consuming more and more units of a commodity, the additional utility he derives from the additional unit of the commodity goes on diminishing.

Assumptions:

- Cardinal utility: satisfaction can be measured in terms of numbers.
- Rational consumer: he want to maximize his satisfaction.
- No time gap between the consumption of one good to another good.
- Homogeneous goods: Identical goods
- The taste/fashion of the consumer are constant.
- Commodity is divisible
- Consumer have full knowledge of the market.

Explanation With Table and Diagram:

No. of Units	Total Utility	Marginal Utility
1	40	40
2	70	30
3	90	20
4	100	10
5	100	0
6	90	-10

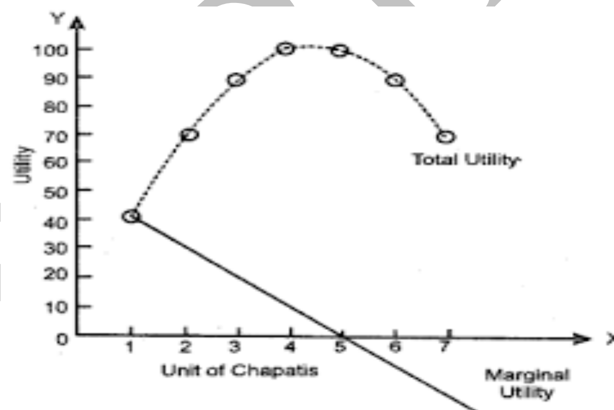
Marginal Utility(MU)= Additional utility derived from additional unit of a good.

$$MU = \frac{\text{Change in total utility}}{\text{Change in No.of units}}$$

Total utility= Sum of marginal utilities or total amount of satisfaction which a person gets from the consumption of all units of the commodity.

Relationship between total utility and marginal utility
1.When total utility increases at diminishing rate marginal utility falls 2.When total utility is maximum, marginal utility becomes zero. 3.When total utility decreases marginal utility becomes negative.

In the table we can observe that as the consumer consumes more units of the same commodity the marginal utility goes on diminishing. In the beginning marginal utility decreases at fifth unit it becomes zero and from sixth unit onwards it decreases. Total utility increases in the beginning later it becomes maximum at fifth unit and from sixth unit onwards it decreases.



In the graph we can see that x-axis shows no.of units and Y=axis shows total and marginal utility. In the beginning total utility curve goes upward from left to right and becomes maximum at fifth unit later decreases. In the same way marginal utility curve in the beginning decreases goes downward from left to right and becomes zero at 5th unit finally it becomes negative.

Limitations: this law may not work.

1.If man is irrational

2.Marginal utility of money is not constant

3.If the goods are not homogeneous

4.If there is any change in the consumers income

5.If there is a time gap between consumption of the goods.

Importance:

1.This law is the basis for the law of demand and law of equi-marginal utility.

2.The law explains the reason for negative slope of the demand curve.

3.Diamond-Water paradox can be explained with the help of this law.

Section-B (5 Marks)

1.What is an indifference curve? What are its assumptions?

An indifference curve shows different combination of two goods yielding the same utility or same level of satisfaction. It is also called "Iso-utility curve or equal utility curve". The concept of indifference curve analysis developed by J.R.Hicks in 1939 and it is mainly based on ordinal utility approach.

Assumptions of Indifference curve:

1. Rational consumer wants to maximize his satisfaction.

2.Two good model .(X and Y)

3.The prices of the two goods are given.

4. The consumer possesses complete information about the prices of the goods in the market.

5. The consumers' tastes, habits, preferences and income are constant.

6 The consumer prefers more of X to less of Y and vice-versa.

7. Goods are divisible.

8. The consumer arranges the two goods in a scale of preference i.e. The consumer has both preference and indifference for the goods.

9. Both preference and indifference are transitive.

2.Explain the concept of indifference curve. Discuss its properties.

An indifference curve shows different combination of two goods yielding the same utility or same level of satisfaction. It is also called "Iso-utility curve or equal utility curve". The concept of indifference curve analysis developed by J.R.Hicks in 1939 and it is mainly based on ordinal utility approach.

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Indifference curves have the following basic properties:

1. An indifference curve is negatively sloped towards down.

2.Indifference curves are always convex to the origin. (Due to diminishing marginal rate of substitution.

3. Indifference curves cannot be concave to the origin.

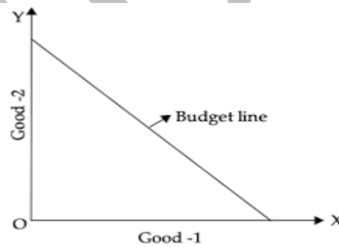
4. Indifference curves can never intersect each other.

5.A higher indifference curve represents a higher level of satisfaction than a lower indifference curve. Similarly, lower indifference curve represents less satisfaction.

Section-C (2 Marks)

1.Explain Cardinal Utility. Cardinal utility means utility that can be measured and expressed in terms of numbers such as 1,2,3, and so on. Alfred Marshal used this approach. For example: a cup of Tea satisfaction is 2 times greater than a cup of Milk satisfaction.

2.What is Priceline/Budget line? It shows all those combinations of two goods which the consumer can buy with the given money income at their given prices.

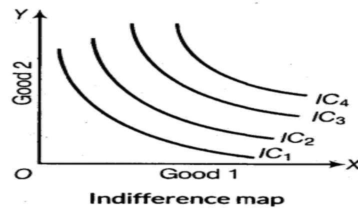


3.What is Scale of Preference? Guides the consumer in his purchases. In other words, various combinations of two goods that a person arranges in order of importance. The consumer has both preference and indifference for the goods.

4.Explain Marginal Rate of Substitution(MRS): : It shows how much of one commodity is substituted for another. It is an important tool of indifference curve.

$$MRS_{xy} = \frac{Y}{X}$$

5.Draw the Indifference Map: A set of indifference curve is known as Indifference Map. In other words a combination of two or more indifference curves.



Indifference map

Unit-3

Demand Analysis

Section-B (5Marks)

1.What are the factors that determine the demand?

The following are some of the important factors that determine demand:

1.Price of the Commodity: When other things being constant, the demand for any good depends on its price. The demand for a commodity is inversely related to its price. If the price of a commodity decreases its demand will increase and vice versa.

2.Prices of Substitutes: A good is substitute when it can be replaced. Prices of substitutes influence the demand for a commodity up to a certain extent. For instance, an increase in the price of coffee leads to an increase in the demand for tea.

3.Prices of Complementary goods: Demand is also influenced by the changes in the prices of complementary goods (jointly demanded goods). For instance, an increase in the price of petrol leads to decrease in the demand for vehicles .

4.Income of the Consumer: Income of the consumer is another important determinant. An increase in the income of a consumer leads to an increase in his purchasing power or quantity demanded.

5.Tastes and Preferences: Demand for a commodity may change due to change in tastes, preferences and fashions. Advertisements also influence the demand for a particular commodity.

6. Population: Size of population of a country is another important determinant of demand. In other words, a change in the size of population will affect the demand for certain goods. For instance, larger the population more will be the demand for certain goods like food grains, clothes, housing etc.

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7. Technological Changes: Demand for a commodity influenced by technical progress and new discoveries. Consumer always prefer to replace old goods with new goods. For instance, increase in the demand for cell phones reduces the demand for 'land line' phones.

7. Changes in Weather: Demand for a commodity may change due to a change in climatic conditions. For instance, during summer demand for cool drinks, cotton clothes and ACs increases. During winter demand for woolen clothes increases.

2.Explain the exceptions to the law of demand.

The following are the exceptions to the law of demand:

(a) Giffen's Paradox: Sir Robert Giffen in 19th century observed that poor people will demand more of inferior goods, if their prices rise. He observed that when the price of bread increased, workers in England purchased more of the bread by reducing the consumption of meat because bread is the staple food to satisfy their hunger. Increasing the demand for bread when its price increases is an exemption to the law of demand.

(b) Veblen Effect (Prestigious Goods): Veblen pointed that there are some goods like diamonds, precious stones, costly furniture etc. which are demanded by very rich people for their social prestige. Rich people purchase these goods when prices of these goods are high to show their richness. If the prices of these goods fall, poor people also can buy and hence rich people stop buying these goods as these goods do not have any special status.

(c) Speculation: If the prices of the commodities are expected to increase still further in future, the consumers will buy more of it now. Thus, an increase in price may not reduce the demand which is contrary to the law of demand. Such a situation can be seen in the market for stocks and shares.

(**d) Illusion**: Some times, consumers develop a false idea that high priced goods will have a better quality. If the price of a goods decreases they feel that their quality also low and at the same time middle class people may prefer these goods. To maintain their status they do not buy these goods, which is contrary to the law of demand.

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3.Illustrate the reasons for negative sloping demand curve.

The following are the main reasons for negative slope of demand curve.

(1) Law of Diminishing Marginal Utility: According to this law, if a person consume more of a particular good, the utility that the consumer gets from additional units will diminish. Therefore, the consumer will prefer to pay less price to additional units of a good. Due to this reason, the demand curve slopes from left to right downwards.

(2) Income Effect: When other things being constant, The real income of a consumer will rise due to a fall in the price of a commodity. The consumer may spend the increased real income on the same commodity if it is superior commodity, thus demand increases as price decreases.

(3) Substitution Effect: A good is substitute when it can be replaced with other good. when the price of a commodity falls, it becomes relatively cheaper and is substituted for other goods. For instance, if the price of Colgate paste rises relatively to Close Up, the consumer may substitute Close Up in place of Colgate.

(4) Multiple Uses of a Commodity: There are some commodities which have multiple uses like milk, coal and electricity. If the prices of these commodities fall, there will be a greater demand for these goods rather than those which are restricted to a particular use.

(5) Old and New Buyers: If the price of a good fall, the real income of the old buyers will increase. As a consequence of this, the demand for the good may increase. In the same way, new buyers, who were unable to buy the good at a higher price, will be able to buy it after a fall in its price. As a result, the demand curve slopes downwards from left to right.

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4.Define price elasticity of demand.

Other things remaining constant, price elasticity of demand measures the change in the quantity demanded of a good in response to a change in its price. Thus, price elasticity of demand is the ratio of percentage change in quantity demanded of a good and percentage change in its price. Alfred Marshall developed the concept of price elasticity of demand.

Formula to measure price elasticity of demand:

$$\text{Elasticity of demand} = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

It is to be noted that while calculating price elasticity of demand other things like income, prices of all related goods, tastes, preference etc are assumed to be constant. It is also to be noted that price elasticity of demand is negative because of the inverse relationship between price and quantity demanded.

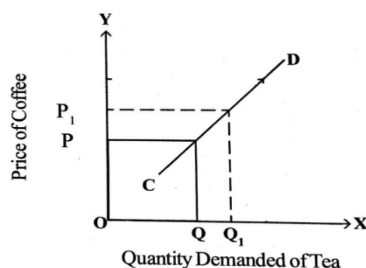
Section-C (2Marks)

1.Prepare an individual demand schedule. It shows a list of various quantities of a commodity purchased at different prices by a single consumer.

Price of Apples (in Rs,)	Quantity Demanded (in KG)
50	5
40	10
30	15
20	20
10	25

2.Explain Giffen's paradox. Sir Robbert Giffen was 19th Century economist observed that poor people of England purchase inferior goods, if their prices rise. He observed that when the price of the Bread increased, workers/poor people purchased more quantity of bread. People substituted bread for meat to satisfy their hunger. Goods of this type are known as Giffen goods.

3.Explain substitute goods. A good is substitute when it can be replaced or goods which satisfy the same want. Ex: Tea and coffee. In the case of these goods when the price of the one good increases the demand for other good increases. These goods demand curve is positively sloped.



4.Define superior goods. These goods are also known as normal goods. Ex: Milk, Meat etc. When income of the consumer increases the demand for these goods also increases. The income demand curve of the superior goods is positively sloped.

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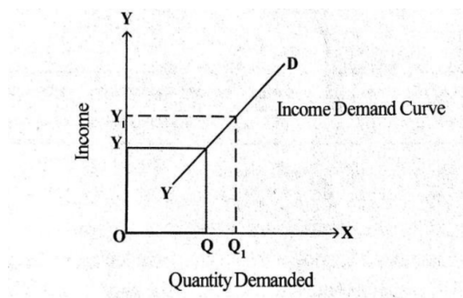
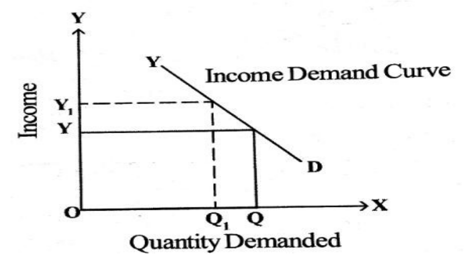


5.Define inferior goods. These goods are also known as low price goods. Ex: low quality rice etc. When income of the consumer increases the demand for these goods decreases. The income demand curve of the inferior goods is negatively sloped.



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Unit-4
Production Analysis
Section-A(10 Marks)

1. Critically examine the Law of variable proportions.

This law is also known as "Law of diminishing marginal returns". This law has been developed by 19th century economist David Ricardo, Alfred Marshal. According to classical economists this law is useful to agriculture only but modern economists says that this law is useful to all the sectors in a country. This law explains the relationship between inputs and output in the short run.

According to Alfred Marshall, "an increase in the capital and labour applied in the cultivation of land causes in general a less than proportionate increase in the amount of produce raised, unless it happens to coincide with an improvement in the arts of agriculture".

Assumptions:

1.It is the short run law.

2.The techniques of production held constant.

3. Homogeneous labour

4.Labour factor alone is a variable and all other factors of production are constant.

Table and Graphical explanation of the law:

No.of Labors	**Total Product** In quintals	**Average Product** In quintals	**Marginal product** In quintals	
1	8	8	8	Stage-I
2	20	10	12	
3	36	12	16	
4	48	12	12	Stage-II
5	55	11	7	
6	60	10	5	
7	60	8.6	0	
8	56	7	-4	Stage-III

Total product: It is the total output produced by all factors of production.

Average product: It refers to the total product per unit of the variable factor.

$$\text{Average product} = \frac{\text{Total Product}}{\text{No.of laborers}}$$

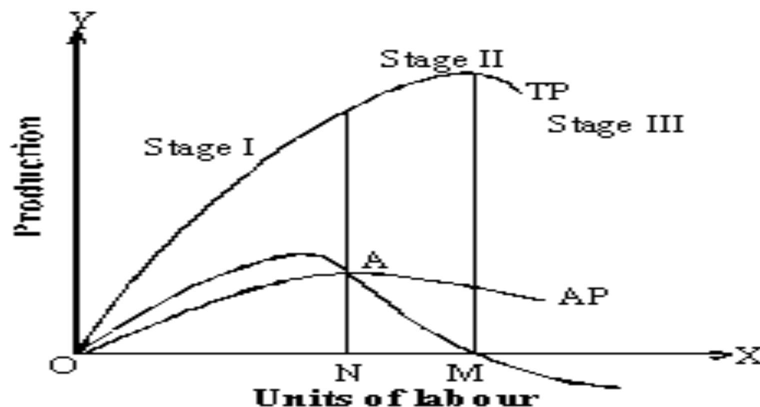
Marginal product: An additional labour product.

$$\text{Marginal product} = \frac{\text{Change in Total Product}}{\text{Change in no.of labours}}$$

Stage-1: Increasing Returns: In this stage, total product increases at an increasing rate. Both average product and marginal product also increase in this stage, but marginal product and average product reaches to its maximum here MP is greater than AP.

Stage II: Diminishing Returns: After the stage of increasing returns, stage of diminishing returns will take place. This is also known as the law of diminishing returns. Diminishing returns stage starts when the average product is maximum and continues up to the level of zero marginal product and maximum total product. In this stage, the total product increases at a diminishing rate and the average and marginal products decline. AP < MP.

Stage III: Negative Returns: When the firm continues production beyond the second stage, then the marginal returns will be negative. In this stage, the total and average products decline and the marginal product becomes negative.



In the graph we can observe that as the number of labourers increases in the first stage, total, average and marginal product increases therefore all the three curves goes upward from left to right and in the second stage total product becomes maximum and marginal product becomes zero. In the third stage total, average product decreases and marginal product becomes negative. And there are three returns in the output.

Stages	Total product	Average product	Marginal product
I	Increases	Increases	Increases
II	Maximum	Decreases	Zero
III	Decreases	Decreases	Negative

2.Describe the internal and external economies of scale.

Internal Economies: According to Cairncoss, "Internal economies are open to a single factory or a single firm independently of the action of other firms. They result from an increase in the scale of output of the firm and cannot be achieved unless output increases". In other words internal economies accrue to the firm itself when it expands its output. Internal economies are classified as economies of technical, managerial, marketing, financial, welfare, risk bearing and research.

(a) Technical Economies: These will arise to a firm from the use of better machines. and production techniques. Large firms have more capital resources. Therefore, these firms can install the most suitable machinery. As a result, production increases and the average cost of production falls.

(b) Managerial Economies: A large firm can benefit by specializing its managerial departments. Each department is under the charge of an expert. This leads to functional specialization which increases the productive efficiency of the firm. A small firm cannot afford this specialization. Experts are able to reduce the average cost of management under their supervision.

(c) Marketing Economies: As the scale of a firm increases, internal economies accrue to the firms due to large scale purchases and sales. Since the firm purchases inputs on a large scale, it gets all the inputs at favorable terms in the form of better inputs, prompt delivery, transport concessions etc. Due to sales experts it reaps the benefits in sales, purchasing and advertisements.

(d) Financial Economies: A large firm will be able to procure cheap and timely finance easily because of its good reputation and large assets. It can also raise capital by selling shares and debentures in the capital market. Therefore, a bigger firm has better access to credit than a small firm.

(e) Economies of Welfare: Large firms employ a large number of workers. Firms will provide welfare facilities to their workers. Large firms will provide better working conditions in and outside the firm. Though the expenditure on welfare facilities is higher, it increases the productive efficiency of the workers which helps in increasing production and reducing costs.

(f) Risk-Bearing Economies: Large firms can easily spread their risks than the small firms by the diversification of products and markets. It is able to reduce risks by counter balancing the loss of one product by the gain from other products. In the same way, it can counter balance the fall in demand in one market by the increased demand in other markets.

(g) Economies of Research: Large firms possess more resources than small firms and hence, these firms invest huge amount of money on research and development. Introduction of innovative methods in production activity due to research and development reduces cost of production and increases output.

2 External Economies : External economies are external to a firm which accrue to each member firm when the output of the industry increases as a result of the expansion of the industry as a whole. These economies benefit all the firms working in an expanding industry. These

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economies accrue to firms when the industry is localized in a particular area, makes inventions and introduces specialization. These are discussed below.

(a) Economies of concentration: When an industry is concentrated in a particular area, its firms reap some common economies. These are: availability of skilled labour; improved transport and communications; banks, other financial institutions and insurance companies set up their branches to provide cheap and timely credit and insurance to the firms; supply of adequate power at concessional rates to the firms; subsidiary industries develop to supply tools and other raw materials to the localized industry; industries develop to use the by-products.

(b) Economies of Information: An industry will be in a better position than a firm to setup research laboratories because of its larger resources. The results of their research are passed on to the firms. The industry's information centre through its publications can pass on information regarding the availability of raw materials, modern machines, export potentialities, marketing and other aspects.

(c) Economies of Welfare: As compared to a firm, an industry is in a more advantageous position to provide welfare facilities to the workers.

(d) Economies of Specialization: When an industry grows, it becomes possible to split up the processes which are taken over by specialist firms. For instance, cotton mills, thread mills etc. As a result, the industry benefits on the whole, production increases and production cost per unit falls.

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Section-C(2Marks)

1.Explain the characteristics of land. The following are the characteristics of land:

1.Land is a free gift of nature.

2.The supply of land is limited

3.Land is immovable.

4.Land has original endless powers.

5.Land cannot produce anything by itself.

2.Define the production function. It shows the relationship between inputs used and the out put produced by a firm.

P=f(N,L,K,O………)

Where as,

P=Production,

F=functional relationship

N=Land,

L=Labour,

K=Capital

O=Organization

3.What is an opportunity cost? It is also known as alternative cost or economic cost. It is the next best alternative use of factors of production. For example, a farmer choosing to plant corn, the opportunity cost would be any other crop he may have planted, like wheat or paddy.

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Unit-5

Market Analysis

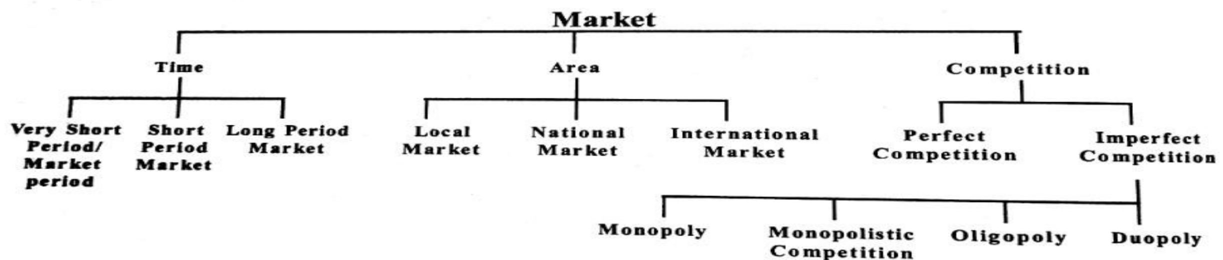
Section-A(10 Marks)

1. Describe the classification of market.

Market a place where goods and services are sold and purchased. Commonly the word 'market' is used to denote places like vegetable market, fruit market, bullion market, share market etc. However, in modern days, a person does not need to go to a market to purchase or sell goods. Now it's possible to sell or purchase a good without going to market due to communication facilities and technology. We can observe that people are conducting the transactions of purchase and sale of goods and services through telephones/mobile phones and internet facilities from distant places.

Classification of Markets:

Market is classified in to three types. They are: **(i) Time market, (ii) Area or Place market and (iii) Competition market.**



1. Time-Based Markets: On the basis of time, markets are divided into three types i.e., a. Very short period market, b. Short period market and c. Long period Market.

a) Market Period or Very Short Period: This is a period where producer cannot make any changes in the production of a good. Hence, the supply is fixed.

b) Short Period: It is a period in which supply can be changed to a little extent. It is possible by changing certain variable inputs like labour.

c) Long Period: The market in which the supply can be changed to meet the increased demand, producer can make changes in all inputs depending upon the demand in the long period. It is possible to make required adjustments in supply in the long period.

2. Area Based Markets : On the basis of area, markets are classified into **a. Local, b. National and c. International markets.** These markets tell us the size or extent of the market for a commodity sales. The size of the market for a good depends upon demand for the good, transportation facilities and durability of the good etc.

a) Local Market: When a commodity is sold at its produced area it is called local market. Perishable goods like vegetables, flowers, fruits etc. may be produced and marketed in the same area.

b) National Market: When a commodity is demanded and supplied throughout the country it is called national market. Examples are wheat, rice, cotton etc.

c) International Market: When buying and selling of commodities take place all over the world, then it is called international market. Ex. gold, silver, petrol etc.

3. Competition Based Markets: Based on the nature of the competition, markets are classified as **perfect competition and Imperfect competition**

1) Perfect Competition: A perfectly competitive market is one in which the number of buyers and sellers are very large and the product is homogeneous.

2) Imperfect competition: In this market, competition is not perfect among the buyers and sellers. There are different price to the product and product is non-homogeneous. Imperfect market is classified into monopoly, duo poly, oligopoly and monopolistic competition.

2.Explain the meaning of Perfect competition. **Illustrate the mechanism of price determination under perfect competition.**

Perfect competition implies no rivalry among firms. Perfect competition may be defined as that market situation, in which there are large number of firms producing homogeneous product, firms are free to enter or leave the industry, buyers and sellers possess perfect knowledge, perfect mobility of goods and factors of production and absence of transportation costs.

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Characteristics of this market:

1.Large numbers of buyers and sellers.

2. Homogeneous goods.

3.Same price exist to the product throughout the market.

4.Absence of transport cost.

5.Absence of Publicity cost.

6.Perfect knowledge of the market.

7.Free entry and exit to the firms.

8.Free mobility of factors of production.

9.Revenue curves are parallel to X-axis.

Price determination:

Under the perfect competition market industry is the price maker. Buyers determine demand and sellers determine the supply. The forces of demand and supply determine the price. The equilibrium price is determined where the market demand is equal to market supply.

Table and graph expiation

Price Rs.	Market Demand(k.g)	Market Supply(k.g)
10	60	20
20	50	30
30	**40**	**40**
40	30	50
50	20	60

Equilibrium price= Demand=supply (30 Rs.=40 kg=40kg)

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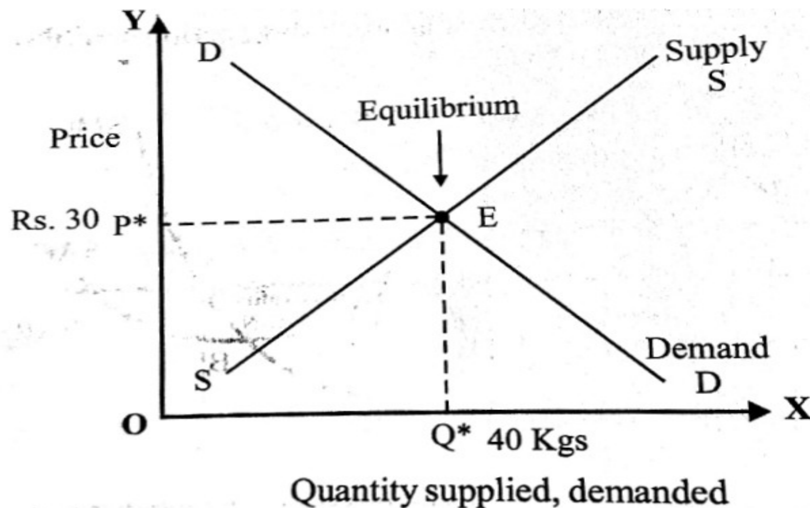

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The table shows the demand and supply of a good. In the table we can observe that as price of the good increases market demand decreases and market supply increases and price of the commodity is determined where the market demand is equal to the market supply. which is known as equilibrium price. In the table equilibrium price is determined at Rs.30 at this price market demand and supply are equal that is 40.

In the graph X-axis shows demand and supply, Y-axis shows price of the good, demand curve is negatively sloped and supply is positively sloped. Bothe curves intersected at point E therefore it is the equilibrium point which is known as price under perfect market.

Section-C (2 Marks)

1.Define market. Market is a place where buyers and sellers meet together. The place where goods and services are purchased and sold. Due to the modern technology market is not restricted to a particular place. Now a days we can demand goods from any where in the world.

2.Define monopoly. The word "mono" means single and "Poly" means seller. it is the single seller market and has no close substitutes. One producer of a product.

3.What is duopoly. The word 'duo" means two and poly means seller. Duo poly is a two seller market. It is also called as a limited form of oligopoly.

4.Explain the equilibrium price. It is the price where demand and supply of the commodities are equal in the market.

Equilibrium Price=Demand=Supply.

5.What are the selling costs? Firms which spend money on advertisement to increase their sales. These expenses are called selling costs. These costs are also known as marketing costs, and publicity costs.

Unit-6

Theories of Distribution

Section-B (5Marks)

1.What are the determining factors of real wages?

Real wages refers to the purchasing power of money wages received by the workers. The following are the factors determining real Wages.

1. Price level: The purchasing power of money depends on the price level. If price level is high, purchasing power of money will be low. If price level is low, purchasing power of money will be high.

2.Method of Payment: Besides money wages, laborers get additional facilities like free housing, medical, free education facilities, free transport etc then the real wages of laborers will also be more.

3.Regularity of Employment: If a person's job is permanent , his real wage will be high even though Money wage is low.

4. Nature of work: If the work is risky real wages of labour will be low though money wages are high. For example: risky jobs like Mines, submarine captain etc

5.Conditions of Work: The working conditions also determine the real wages. Less duration of work, ventilation, fresh air, recreation facilities certainly results in high real wages.

6.Social Prestige: Although money wages of a bank officer and a Judge are equal ,the real wage of Judge will be higher than bank officer due to social status.

7.Future prospects: Real wages said to be higher in those jobs where there is a possibility of promotions are high.

2.Explain the concept of gross profit.

Gross profit is considered as difference between total revenue and total cost of production .It includes the objectives like:

a)rewards,

b)interest payable to his own capital in his business

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c) wage payable to the entrepreneur for his management

d) Depreciation charges

e) net profit.

Gross Profit= (Implicit rent +Implicit interest+ Implicit wage + Depreciation charges +Insurance premium)+ Net profit.

Section-C (2Marks)

1.What is contract rent? It is the concept of rent. It is the reward paid for the services of land, buildings etc ., according to an agreement made earlier.

2.What are money wages? These wages are also called as nominal wages. Money wages refers to the amount of money income received by the workers as reward for the services rendered by them in physical or mental.

3.What is net interest? Net interest is the reward for the service of capital alone**.**

Net Interest = Gross Interest – (Reward for inconvenience + Reward for management + Reward for risk)

4.What is Gross profit? Gross profit is considered as a difference between total revenue and total cost of production.

Gross profit = (Implicit rent+ Implicit interest+ Implicit wage+ Depreciation charges+ insurance premium)+ Net profit.

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Unit-7

National Income

Section-A(10 Marks)

1.What are the various methods of calculating National income? Explain them.

National is the total value of all the final goods and services produced in a country in a year. It is calculated by the "Central Statistical Organization of India". There are three methods to measure national income in India. 1.Output method. 2.Income method. 3.Expenditure method.

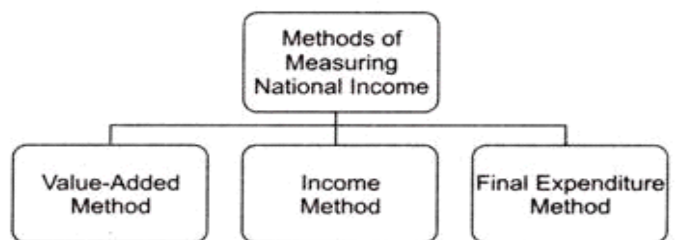

Figure-1: Different Methods of Measuring National Income

1.Output method: Product method is also known as inventory method or commodity service method . In this method we find the market value of all final goods and services produced in a country in a year. The entire output of final goods and services are multiplied by their market prices to find out the GNP .

$$GNP= (P_1,Q_1, + P_2Q_2 +... +P_n Q_n) + \text{Net income from abroad}$$

Where. GNP gross national product, P-prices of the goods or services , Q= Quantity of goods and service produced, 1, 2,.... n are the various goods and services produced

Precautions of this method:

1.Only final goods values are taken into account.

2.Exact value should be taken into account.

3.The values of intermediary goods and services should not be included.

2. Income method: In this method national income is calculated by adding all the incomes earned by the individuals, house holds, firms, government ……etc. all the income are the rewards to the factors of production. It means land, labour, capital and organization.

National income = Rent + Wage +Interest + Profit .

Precautions of this method:

(i) Transfer income like old-age pension, unemployment allowance, etc. are excluded.
(ii) Sale and purchase of second-hand goods and service of house wife are excluded .
(iv)Income from illegal activities like smuggling, black-marketing, etc. are excluded.

3.Expenditure method: In this method the total expenditure incurred by the society in a particular year is added. We add the personal consumption of households, expenditure of firms, government purchasing of goods and services and net exports.

N.I = Eh + Ef +Eg + Net exports

N.I = National income,
Eh = Expenditure of household ,
Ef = Expenditure of firms
Eg =Expenditure of government **.**

Precautions of this method

(i) Government expenditure on scholarships old-age pension, etc. is excluded.
(ii) Expenditure on purchase of second-hand goods is excluded.
(iii) Expenditure on purchase of old shares/bonds is excluded.

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Section-B (5 Marks)

1**.What are the factors that determine national income?**

Determining Factors of National income:

1.Natural resources: The availability of natural resources in a country, it's climatic conditions, geographical features, fertility of soil, mines and fuel resources influence the national income .

2.Quality and Quantity Factors of Production: The national income of a country largely influenced by the quality and quantity of countries factors of production. For example: land, climate , rainfall, agricultural production etc.

3. State of Technology : Advanced techniques of production help in optimum utilization of a available resources in a country.

4.Political will and Stability: Political will and stability in a country helps for planned economic development and faster growth of national income.

2.Discuss the three definitions of national income.

The definitions of national income are divided into two types. They are

1.Traditional definitions advocated by Marshall, Pigou, Fisher etc.

2.Modern definition given by Kuznets

1.Marshal's definition: According to Alfred Marshal "The labour and capital of a country acting on its natural resources, produce annually a certain net aggregate of commodities, material and non-material including services of all kinds .This is the true net annual income or revenue of the country."

2. Fisher's definition : "The national income consists solely of services as received by ultimate consumers, whether from their material or from their human environments. Only the services rendered during this year are income."

3.Kuznets definition: From the modern point of view, according to Kuznets ,"National income is the net output of commodities and services flowing during the year from country's productive system into the hands of the ultimate consumers."

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Section-C (2Marks)

1.What is National income? National income is the market value of all the final goods and services produced annually in a country without duplication.

2.What are subsidies? When a producer cell his product at the price less than the cost he incurred loss and this will be paid by the government to the producer in the form of subsidies.

3.What is real per-capita Income? Per capita income is the average income of people in a country in a particular year.

$$\text{Real Per-capita income} = \frac{\text{Real National income}}{\text{Country population}}$$

4.Expand CSO. What is its responsibility. Central Statistical Organization of India, was established in the year 1951 by the Central Government of India. It is established to estimate national income of India.

Unit-8

Theories of Employment and Public Finance

Section-A (10 Marks)

1.Explain the Keynesian theory of employment.

The theory of effective demand was explained by JM Keynes in his book "The General theory of employment and interest and money" in the year 1936. Keynes criticized the classical theory of output and employment, he considered full employment is a rare phenomenon and presented his theory of employment named as "Effective demand".

According to Keynes effective demand determine the employment and effective demand is determined by aggregate demand and aggregate supply. Aggregate demand refers the total demand for all commodities in the economy at a particular level of employment. Aggregate supply refers to the total supply of all commodities produced by all the sellers at a particular level of employment. Effective demand is a point where aggregate demand is equal to aggregate supply.

Aggregate demand price: The price consumers ready to pay to buy goods and services.

Aggregate supply price: The minimum income sellers must get to maintain factors of production. **Table and graph**

Employment	Aggregate Supply price In crores	Aggregate Demand price In crores
10	500	600
11	550	625
12	600	650
13	650	675
14	**700**	**700**
15	750	725
16	800	750

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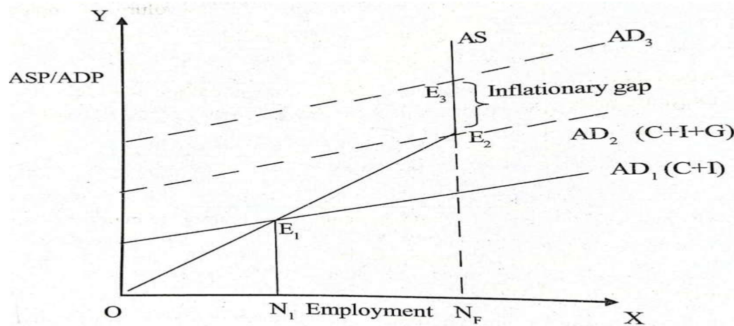

Effective demand =Aggregate demand price = Aggregate supply price

Effective demand= Cost of production = Expected revenue

In the table, we can see that aggregate demand and aggregate supply increases with the level of employment. In the beginning aggregate demand price is more than aggregate supply price. Therefore employment level increases. Effective demand is determined where aggregate demand is equal to aggregate supply. After the equilibrium point aggregate demand price is less than aggregate supply price. Therefore in an economy unemployment situation exist.

In the graph X- axis shows employment and Y-axis shows aggregate demand and aggregate supply. We can see that aggregate demand curve and aggregate supply curve intersect each other at point "E_1". It shows equilibrium point here ON_1 is the level of employment, which is also known as effective demand.

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<u>Section-B(5 Marks)</u>

1**."Supply creates its own demand". Explain the statement of J.B Say.**

The classical theory of employment is mainly based on the Say's Law of Market. French economist J.B Say propounded the famous law of market which states that, "Supply creates its own demand". The J.B say law generally interpreted as supply always equals demand. Whenever additional output is produced in the economy, the factors of production which participate in the process of production, earn income in the form of rent, wages, interest and profit.

The total income generated is equivalent to the total value of the output produced. Such income creates additional demand necessary for the sale of the additional output. Therefore, the question of the additional output not being sold does not arise. It is assumed that the whole income is spent on purchase of either consumption goods or capital goods. Thus, there could be no deficiency in the aggregate demand in the economy for the total output. In other words there is no overproduction of goods leading to general unemployment in the economy. Here everything is automatic and self adjusting through market mechanism only, without the need of any government intervention.

Additional production continues to take place till all the unemployed factors of production or the idle resources are fully employed. There is no limit to the expansion of the market. Say admits that there may be overproduction of a particular commodity due to the miscalculations of the entrepreneur. It means that supply may exceed the demand in the case of a particular commodity. However, this gets automatically adjusted when the entrepreneur suffers losses and reduces production of that commodity or shifts to production of some other commodity which gives him profits.

Classical economists believed that the economy attains equilibrium in the long run. at the level of full employment. In the event of any disequilibrium between demand and supply is restored automatically through the changes in the general price level which is also known as "Price flexibility".

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2.What are the sources of public revenue?

Modern government has many functions to perform. It needs huge revenue for the performance of all its functions efficiently Therefore, it collects revenue by imposing taxes and also receives money from the people in many other forms. Revenue received by the government from different sources is called public revenue. Public revenue is broadly classified into two kinds:

(1) tax revenue and (2) non-tax revenue.

1.Tax Revenue: Revenue received through collection of taxes from the public is called tax revenue. Both the central and state governments collect taxes as per their allocation in the Constitution. Broadly taxes are divided into two categories: (a) direct taxes, (b) indirect taxes.

a) Direct Taxes: Taxes imposed on individuals and companies based on income and expenditure. Ex. personal income tax, corporate tax, interest tax and expenditure tax

b**) Indirect Taxes**: Taxes levied on goods and services. Ex. excise duty, customs duty, service tax. From 1st July 2017 onwards Goods and Services Tax (GST) replaced many Indirect Taxes in India.

2.Non-Tax Revenue: Government also receives revenue from sources other than taxes and such revenue is called the non-tax revenue. The sources of non-tax revenues are as follows:

a) Administrative Revenue: Government receives money for certain administrative services.
Ex. License fee, tuition fee, penalty, special assessments etc.

b) Commercial Revenue: Modern governments establish public sector industries to manufacture certain goods and offer services. The goods and services are exchanged for the price. For examples: public sector units are Indian Oil Corporation, Bharath Sanchar Nigam Ltd, Bharath Heavy Electricals, Indian Railways, State Road Transport Corporations, Air India etc.

c) Loans and Advances: When the government revenue is not sufficient to meet the needs of government expenditure, it may receive loans from the financial institutions. There are two sources of loans a. Internal loans b. External loans

d) Grants-in-Aid: Grants are amounts received without any condition of repayment They are not repaid. Grants are of two types: (i) General Grants: without specifying a purpose, (ii)Specific Grants: Given for a specific purpose, it cannot be spent on other purpose. Ex. education grant and family planning grant etc.

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3.List out various items of public expenditure.

Modern governments spend money to perform various functions. The expenditure incurred by the government on various economic activities is called the public expenditure. They spend lot of money not only on defence, law and order but also on creating infrastructural facilities, public services and welfare schemes. The nature and volume of the public expenditure depends on the range of activities a government undertakes.

Generally, governments incur expenditure on the following items:

(i) Defence,
(ii) Internal security(Police)
(iii) Economic services (agriculture, industry, power, transport, communications, etc.)

(iv) Social services (Education, health, broadcasting etc.)

(v) Other general services (organs of State, tax collection, external affairs etc.)

(vi) Pensions

(vii) Subsidies

(viii) Grants to state governments and foreign governments

(ix) Loans public enterprises

(x) Repayment of loans

(xi) Assistance to states on natural calamities etc., to improve the economy of the country.

4.Write a note on finance commission and its functions.

The Finance Commission of India came into existence in 1951. It was established under Article 280 of the Indian Constitution by the President of India. It was formed to define the financial relations between the centre and the state. As per the Constitution, the commission is appointed for every five years and consists of a chairman, secretary and four other members. Till date, Fifteen Finance Commissions have been appointed by the central government of India.

The following are the major functions of the Finance Commission:

1.Distribution of tax revenue between centre and the states, as per their respective contributions to the taxes.

2. Determine factors governing grants-in aid to the states and magnitude of the same.

3.To make recommendations to President as to the measures needed to augment the consolidated fund of a state to supplement the resources of the panchayats and municipalities in the state on the basis of the recommendations made by the Finance Commission.

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Section-C (2 Marks)

1.What is effective demand? Effective demand is the equilibrium point where aggregate demand is equal to aggregate supply.

Effective demand = Aggregate Demand = Aggregate Supply

2.What do you mean by wage cut policy? This the policy explained by Classical economist A.C Pigou to reduce unemployment in the country. It suggest that wages of the labour should be reduced so that the unemployment can be employed.

3.What is a public debt? When the Government Expenditure is more than Government Revenue then is to go for public debt. It is divided in to two types 1.Internal debt 2.External debt

4.What is Budget? It is annual financial statement of the government. The budget is presented by the finance minister for financial year (April-March)

5.Write in brief about GST. Goods and Service Tax which has replaced many indirect taxes in India. It has came in to effect from 1st July 2017.

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Unit-9

Money, Banking and Inflation

Section-B (5 Marks)

1.What is barter system? What are its difficulties?

In barter system one commodity was directly exchanged for another commodity without the use of money. It means exchanging of goods with goods. For instance, a producer of paddy used to exchange paddy for clothes from the producer of clothes. Thus, this system was beset with several difficulties

The difficulties of the barter system:

(i) Lack of Coincidence of Wants: Under the barter system, the buyer must be willing to accept the commodity which the seller is willing to offer in exchange. Wants of both the buyer and the seller must coincide. Suppose the seller has a goat and he is willing to exchange it for rice. Then the buyer must have rice and he must be willing to exchange rice for goat.

(ii) Lack of Store Value: Some commodities are perishable. They perish within a short time. It was not possible to store the value of such commodities in their original form under the barter system.

(iii) Lack of Divisibility of Commodities: Depending upon its quantity and value, it may become necessary to divide a commodity into small units and exchange one or more units for other commodity. But all commodities are not divisible.

(iv) Lack of Common Measure of Value: Under the barter system, there was no common measure of value.

(v) Difficulty in Making Deferred Payments: Under the barter system, future payment for present transaction was not possible.

2.Explain the primary and secondary functions of money.

Money has many important functions to perform. These functions may be classified as: (1) primary functions, (ii) secondary functions, (iii) contingent functions, and (iv) static and dynamic functions.

Primary Functions of Money: The primary functions of money are of two types:

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(i) Medium of Exchange: Money serves as a medium of exchange. It removes the inconveniences of the barter system. Any commodity can be exchanged for money. People can exchange goods and services through the medium of money.

(ii) Measure of Value: Money measures the value of goods and services. Money has made transactions simple and easy. The value of each commodity is expressed in the units of money.

Secondary Functions of Money: Money has three secondary functions which are stated below:

(iii) Store of Value: The value of commodities and services can be stored in the form of money. Certain commodities are perishable, if they stored they have no value in exchange. But money can be stored for a longer period of time.

(iv) Standard of Deferred Payments: Money serves as a standard of deferred payments. In modern economies, most of the business transactions take place in the form of credit. An individual consumer or a business person may now purchase a commodity and pay for it in future. Similarly one can borrow certain amount of money now and repay it in future.

(v) Transfer of Money: Money can be easily transferred from one person to another at any time and from any place.

3.Explain different kinds of deposits accepted by the commercial banks.

Commercial banks play a very important role in the financial system of an economy They perform a variety of functions. Among the various functions acceptance of Deposits from the public is one of the primary functions of a commercial bank .

The deposits accepted by the commercial banks are as follows:

a) Saving Deposits: These are the deposits made into the savings account of a bank to encourage savings habit among the public. They are most convenient to the small businessmen, salaried employees, artisans and people belonging to the low and middle income groups. The interest paid on these deposits is comparatively low. The money deposited in savings account can be withdrawn as and when required. However, the bank may regulate the number and amount of withdrawals.

b) Current Deposits: These are the deposits made into the current account of a bank. They are most convenient to the businessmen, public authorities and joint stock companies, because there are no restrictions on the number and the amount of withdrawals. Banks do not pay any interest

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on these deposits. In fact they may collect service charges from the depositors for maintaining these accounts in the bank.

c) Term Deposits: These are also called fixed deposits because the money is deposited with the bank for a fixed period of time. The deposit can be withdrawn only after the expiry of maturity period. However, the depositor has an option to borrow against the security of these deposits. These deposits carry high rate of interest.

d) Recurring or Cumulative Deposits: These are the variants of fixed deposits. These deposits are very convenient to those who cannot save huge amounts at a time. A fixed amount in the multiples of Rs. 10 may be deposited every month for a period one or more years. These deposits carry rate of interest more than saving deposits and less than fixed deposits.

4.State any three major functions of a central bank.

Central bank is an apex institution of the banking system in a country. It controls, regulates and supervises the activities of the country's banking system. Reserve Bank of India (RBI) is our central bank. It was established on 1st April 1935. It was nationalized by the Government of India in 1949. It performs all the important functions of the central bank under the Reserve Bank of India Act, 1934.

Reserve Bank of India performs the following major functions:

1.Note Issue: Reserve Bank of India has the monopoly of note issue in the country. At present the Reserve Bank of India issues currency notes of the denomination of Rs.2,000 Rs.500, Rs.100 Rs.50, Rs.20, Rs.10. One rupee note and the coins are issued by the Finance Ministry of the Government of India but circulated by the Reserve Bank of India.

2.Banker to the Government: Reserve Bank of India acts as the advisor to the Government of India. It receives money and makes payments on behalf of the government. It assists the government in floating new loans and the management of public debt.

3.Bankers' Bank: Reserve Bank serves as a banker to the banks. Reserve Bank provides financial assistance to the commercial banks. It monitor and regulate the all the commercial banks in a country. It acts as a clearing house for settlement of inter-bank accounts.

4. Lender of Last Resort: In times of financial stringency the scheduled banks can approach the Reserve Bank of India as a last resort. The Reserve Bank of India grants them loans against the

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securities such as the treasury bonds, treasury bills and other approved securities. It may also provide financial assistance by rediscounting the bills of exchange.

5.Custodian of Foreign Exchange Reserves: One of the important function of Reserve Bank of India is to keep custody of the foreign exchange reserves. It maintains the stability of the exchange rate between the Indian currency and the currencies of the other countries.

6.Controller of Credit: It is the responsibility of the Reserve Bank of India to control the volume of credit in the country. It controls credit through different quantitative and qualitative control methods.

5.Define inflation and explain its types.

Inflation is one of the serious macro economic problem. It affects the economic lives and the welfare of the people in many ways. According to Samulson, "inflation denotes a rise in the general level of prices". The following are the types of inflation.

A. Based on rate:

1. Creeping Inflation: When rise in the prices is very slow and small (from 0 to 2 percent), it is called creeping inflation. It helps all sectors of the economy to grow.

2. Walking Inflation: This is the second stage of inflation. The inflation rate will be between 2% and 4%. It also helps the economy to progress.

3. Running Inflation: When the rate of inflation is in the range of 4-10 percent per annum, it is called running inflation. It needs to be controlled.

4. Galloping Inflation or Hyper Inflation: If the inflation rate exceeds 10 per cent, galloping inflation occurs. It damages the economy.

B. Based on the Cause of Inflation: On the basis of the cause of inflation, it can be classified into two types:

1. Demand-Pull Inflation: If inflation is caused by an increase in the aggregate demand for commodities over aggregate supply, it is called demand-pull inflation.

2. Cost-Push Inflation: Prices of the commodities may increase due to increase in the cost of production. Inflation caused by the rise in cost of production is called cost-push inflation.

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Section-C(2 Marks)

1.What is barter system? It means goods exchanged of goods. In other words one commodity is directly exchanged for another commodity. This system failed because of exchanging of cattle becomes difficult and value of goods were not measured exactly

2.What is paper money? Paper money is made of paper. Currency notes in the form of Rs.10, Rs.20, Rs.100 etc are printed on paper in India. It is in two types

1.Convertible paper money 2. Inconvertible paper money.

3.What is token money? It is the money whose face value is higher than its intrinsic value which is not convertible into gold or silver on par with its face value.

4.Explain creation of credit. Commercial banks create credit. Credit is created out of the primary deposits received from the public. Part of the total amount of these deposits is given as loans and advances to its customers. Whenever a bank grants a loan to a customer, it does not pay cash but deposits the amount in a deposit account. Thus secondary deposits are created**.**

5.What is net banking? Explain the merits of it: It is also known as internet banking. It is an electronic payment system through online. The advantages are

1. Available for 24 hours a day, 7 days a week.
2. The account can be operated from anywhere.
3.It is a safe and secure method of payment.

6.Write about the main objectives of central bank. The Reserve Bank of India has a following objectives:

1.Issues of currency notes

2.Controling of credit system.

3.Providing guidelines to the commercial bank.

4.Achieving the monetary stability.

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7.Which bank is called as bankers bank and why. Reserve bank of India called is as a bankers bank. It provides guidelines to all commercial banks and also issue monetary policy for functioning of commercial banks.

8.What is currency? Currency is the form in which money is circulated in the country. It is medium of exchange. It is issued by RBI. It is in the form of Paper, Coins and Plastic.

9.What is clearance house? Businessmen and other customers issue cheques towards payment for their transactions. A businessman or customer may get a cheque issued on a bank in which he has no account. He has to deposit it in his bank. All the commercial banks maintain deposit accounts with the Reserve Bank of India, it clears all cheques to settle the inter-bank transactions. For this purpose the Reserve Bank established clearing houses at different places.

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Unit-10
Basic Statistics for Economics
Section-B (5 Marks)

1**.What is statistics? Explain its relationship with Economics**.

Statistics is related to collection, presentation, analysis and interpretation of numerical data. Statistics is growing importance every day and is being used in almost every field of study. It the field of economics it is almost impossible to find a problem which does not require the use of statistical data. In economics it is used to analyze consumption, production, distribution and exchange. The following points explain the relationship of statistics with economics.

1.Statistical data and methods of statistical analysis render valuable assistance in the proper understanding of the economic problems and the formation of economic policy.

2. Economic problems are capable of being expressed numerically.

3.Economic problems can not be analyzed without the help of statistics. For example, poverty, unemployment, inflation etc

4.The development of economic theory has also been facilitated by the use of statistics.

5.The increasing importance of statistics in the study of economic problems has resulted in a new branch of study called "econometrics".

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2.What are the characteristics of good average?

Characteristics of a Good average or an Ideal Average are explained below:

(1).It should based on all the observations.

(2). It should be rigidly defined. It should be clearly defined. There should be no confusion about the meaning or description of an average.

(3). It should be capable of further algebraic treatment

(4). It should not be unduly affected by extreme values: No item of the series should affect the average too much. If very large items unduly affect the average, then the average cannot represent the entire group.

(5) It should be easy to calculate and simple to understand. If the calculation of an average involves too much mathematical processes, it will not be easily understood and its use will be limited.

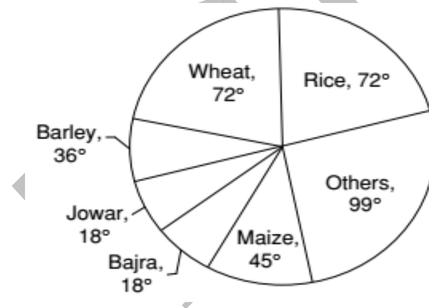
(6) It should not be affected by variations of sampling: A good average should be least affected by sampling fluctuations. If a few samples are taken from the same universe, the average should have least variations in values derived in the individual samples.

Section-C(2 Marks)

1.What are the advantages of diagram?

1. A properly constructed diagram appeals to eye and mind.
2. Data presentation becomes easier .
3. It is easy to remember the nature of data .

2.What is a Pie diagram? A pie diagram is also called a pie chart .The circle is divided into as many parts as there are components by drawing straight lines from the centre to the circumference.



3.Compute median for the following data.

5,7,7,8,9,10,12,15 and 21

Median = $\left[\frac{N+1}{2}\right]^{th}$ item

N=9

N=$\frac{9+1}{2}$

N=$\frac{10}{2}$ = 5th item = 9 is the median.

4.Explain the concept of Mode. It means type of average most frequently occurring value in a series of data.

5.Find the mode from the following data.

Wages 380 430 480 480 480 480 520 590 600 600

Mode is that value which occurs most frequently in a series. From the given data, it can be seen that Rs. 480 occured many times in the series.

Hence, Mode = 480.

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Important note

he following are the deleted topics from the total syllabus. Therefore the students of the first year economics need not prepare following question and answers from the study material for the final examinations.

Unit 3, Section B

4. Define the price elasticity of demand Deleted?

Unit 5, Section C

3.What is duopoly?

5.What are selling costs?

Unit8. section B

1.Supply creates its own demand, Explain the statement of.J.B.Say...

Unit9. Section-B

5.Define inflation and explain its type

Unit 10,Section-C

1.What are the advantages of diagrams.

2.What is Pie diagram.

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