

**SCHOOL EDUCATION DEPARTMENT**  
**CHIEF EDUCATIONAL OFFICER**  
**CHENNAI DISTRICT**

**12<sup>TH</sup> Std**

**ECONOMICS**

***LEARNING MATERIAL***  
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## **PREFACE**

**The aim of this compilation is to provide students with a comprehensive and easy to understand minimum supporting material.**

**The material prepared is based on selected chapters from the textbook. This includes 1 mark and 2 mark questions for all 12 chapters, 3 mark questions for Chapters 1-6, and 5 mark questions for Chapters 1-6 and 10.**

**Students are encouraged to use this material for easy learning. The minimum material focuses on aiding learner's in achieving their goals.**

**All the best & God Bless!**

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## One Mark Questions & Answers

1. Branches of the subject Economics is **Micro and Macro**
2. Who coined the word Macro ? **Ragnar Frisch**
3. Father of Modern Macro Economics **J M Keynes.**
4. Other name for Macro Economics - **Income Theory.**
5. Macro – economics is a study of **aggregates.**
6. Contribution of J M Keynes to economics – **General Theory.**
7. A steady increase in general price level is **Inflation.**
8. The Necessity of Economics Policies **all the above.**
9. Fundamental economic activities of an economy **Production and Consumption.**
10. An economy consists of **All the above.**
11. The economic system where only private ownership of production exists. **Capitalistic Economy.**
12. Economic system representing equality in distribution is **Socialism.**
13. Father of Capitalism **Adam Smith.**
14. The Country following Capitalism is **America.**
15. The Father of Socialism **Karl Marx.**
16. An Economic System where both private and public work together is termed as **Mixed Economy.**
17. Quantity of Commodity accumulated at a point of time is termed as **Stock.**
18. The flow variable **Income.**
19. Two sector Model **Households and Firms.**
20. The Circular Flow Model that represents an open Economy **Four Sector Model.**
21. Net National product at factor cost is **National Income.**
22. Primary sector is **Agriculture.**
23. National income is measured by using **Three** methods.
24. Income method is measured by summing up of all form of **Income.**
25. Which is the largest figure? **GNP**
26. Expenditure method is used to estimate national income in **Construction sector.**
27. Tertiary sector is also called as **Service Sector.**
28. National income is a measure of the **Economic** performance of an economy.

29. Per capita income is obtained by dividing the National income by **Population of a country**.
30.  $GNP = GDP + \text{Net factor income from abroad}$ .
31. NNP stands for **Net National Product**.
32. **Depreciation** is deducted from gross value to get the net value.
33. The financial year in India is **April 1 to March 31**.
34. When net factor income from abroad is deducted from NNP, the net value is **Net Domestic Product**.
35. The value of NNP at production point is called **NNP at factor cost**.
36. The average income of the country is **Per capita income**.
37. The value of national income adjusted for inflation is called **Real national income**.
38. Which is a flow concept? **Monthly income**
39. PQLI is the indicator of **Economic welfare**.
40. The largest proportion of national income comes from **Private sector**.
41. Every able bodied person who is willing to work at the prevailing wage rate is called as **Full employment**.
42. Structural unemployment is a feature in a **Dynamic Society**.
43. In disguised unemployment, the marginal productivity of labour is **Zero**.
44. The main concentration of the Classical Economic Theory is **Economy is always in the state of equilibrium**.
45. J.B.Say is a **Classical Economist**.
46. According to Keynes which type of unemployment prevails in capitalist economy **Under employment**.
47. The core of the classical theory of employment is **Law of Markets**.
48. Keynes attributes unemployment to **A lack of effective demand**.
49. **Interest** Flexibility brings equality between saving and investment.
50. **Keynes** theory is a turning point in the development of modern economic theory.
51. The basic concept used in Keynes Theory is **Effective demand**.
52. The component of aggregate demand is **Government expenditure**.
53. Aggregate supply is equal to **C+S+T+Rf**.
54. Keynes theory pursues to replace laissez faire by **State intervention in certain situation**.
55. In Keynes theory of employment and income **Less aggregate demand in relation to productive capacity** is the basic cause of economic depression.
56. Classical theory advocates **Balanced budget**.
57. Keynes theory emphasized on **Short run** equilibrium.

58. According to classical theory, rate of interest is a reward for **Saving**.
59. In Keynes theory, the demand for and supply of money are determined by **Rate of interest**.
60. Say's law stressed the operation of **Automatic price mechanism**.
61. The average propensity to consume is measured by **C/Y**.
62. An increase in the marginal propensity to consume will: **Lead to consumption function becoming steeper**.
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? **Rs.810**
64. If the Keynesian consumption function is  $C=10+0.8Y$  then, when disposable income is Rs.100, what is the MPC ? **Rs.0.8**
65. If the Keynesian consumption function is  $C=10+0.8. Y$  then, and disposable income is Rs.100, what is the APC ? **Rs.0.9**
66. As national income increases **APC falls and gets nearer in value to the MPC**.
67. As increase in consumption at any given level of income is likely to lead **Higher aggregate demand**
68. Lower interest rates are likely to : **increase borrowing and spending**.
69. The MPC is equal to : **Change in consumption / change in income**.
70. The relationship between total spending on consumption and the total income is the **Consumption function**.
71. The sum of the MPC and MPS is **1**
72. As income increases, consumption will **increase**.
73. When investment is assumed autonomous the slope of AD schedule is determined by the **Marginal propensity to consume**.
74. The multiplier tells us how much **output** changes after a shift in **aggregate demand**.
75. The multiplier is calculated as **a and b**
76. If the MPC is 0.5, the multiplier is **2**.
77. In an open economy import **Reduces** the value of the multiplier.
78. To Keynes, investment is a function of the MEC and **Rate of interest**.
79. The term super multiplier was first used by **J.R.Hicks**.
80. The term MEC was introduced by **J.M.Keynes**.
81. The RBI Headquarters is located at **Mumbai**.
82. Money is **the most liquid of all assets**.

83. Paper currency system is managed by the **Central Monetary authority**.
84. Distinction between  $M_1$  and  $M_2$  is **saving deposit with post office saving bank**.
85. Irving Fisher's Quantity Theory of Money was popularized in **1911**.
86. MV stands for **total supply of money**.
87. Inflation means **Prices are rising**.
88. Inflation results in a serious depreciation of the value of money. **Hyper**
89. **Cost-push** inflation occurs due to increase in production costs.
90. During inflation, who are the gainers ? **Debtors**.
91. **Disinflation** is a decrease in the rate of inflation.
92. Stagflation combines the rate of inflation with **Stagnation**.
93. The study of alternating fluctuations in business activity is referred to in Economics as **Trade cycle**.
94. During depression the level of economic activity becomes extremely **low**.
95. "Money can be anything and a store of value," this definition was given by **Crowther**.
96. Debit card is an example of **plastic money**.
97. Fisher's Quantity Theory of money is based on the essential function of money as **medium of exchange**.
98. V in  $MV = PT$  equation stands for **Velocity of circulation of money**.
99. When prices rise slowly, we call it **mild inflation**.
100. **Creeping** inflation is in no way dangerous to the economy.
101. A Bank is a **Financial institution**.
102. A Commercial Bank is an institutions that provides services **Both a and b**.
103. The Functions of commercial banks are broadly classified into **a,b and c**.
104. Bank credit refers to **Bank loans and advances**.
105. Credit creation means **Multiplication of loans and advances**.
106. NBFIs do not have **Banking license**.
107. Central bank is the **Monetary** authority of any country.
108. Who will act as the banker to the Government of India? **RBI**.
109. Lender of the last resort is one of the functions of **Central Bank**.
110. Bank Rate means **Re-discounting the first class securities**.
111. Repo Rate means **Rate at which the RBI is willing to lend to commercial banks**.



112. Moral suasion refers **Persuasion**.
113. ARDC started functioning from **July 1, 1963**.
114. NABARD was set up in **July 1982**.
115. EXIM bank was established in **March 1982**.
116. The State Financial Corporation Act was passed by **Government of India**.
117. Monetary policy is formulated by **Central Bank**.
118. Online Banking is also known as **Internet Banking**.
119. Expansions of ATM **Automated Teller Machine**.
120. 2016 Demonetization of currency includes denominations of **Rs.500 and Rs.1000**.
121. Trade between two countries is known as trade **External**.
122. Which of the following factors influence trade ? **All of the above**.
123. International trade differs from domestic trade because of **All of the above**.
124. In general, a primary reason why nations conduct international trade is because **Resources are not equally distributed among all trading nations**.
125. Which of the following is a modern theory of international trade? **Factor endowment theory**.
126. Exchange rates are determined in **foreign exchange market**.
127. Exchange rate for currencies is determined by supply and demand under the system of **Flexible exchange rate**.
128. Net export equals **Export – Import**.
129. Who among the following enunciated the concept of single factoral terms of trade? **Jacob Viner**.
130. Terms of Trade of a country show **Ratio of prices of exports and imports**.
131. Favourable trade means value of exports are **More** Than that of imports.
132. If there is an imbalance in the trade balance ( more imports than exports), it can be reduced by **stimulating exports**.
133. BOP includes **both visible and invisible items**.
134. Components of balance of payments of a country includes **All of above**.
135. In the case of BOT, **Transactions of goods are recorded**.
136. Tourism and travel are classified in which of balance of payments accounts ? **service account**.
137. Cyclical disequilibrium in BOP occurs because of **Both (a) and (b)**.

138. Which of the following is not an example of foreign direct investment ? **the purchase of bonds or stock issued by a textile company overseas.**
139. Foreign direct investments not permitted in India **Atomic energy.**
140. Benefits of FDI include, theoretically **All of these.**
141. International Monetary Fund was an outcome of **Bretton Woods Conference.**
142. International Monetary Fund is having its headquarters at **Washington D.C.**
143. IBRD is otherwise called **World Bank.**
144. The other name for Special Drawing Rights is **Paper gold.**
145. The organization which provides long term loan is **World Bank.**
146. Which of the following countries is not a member of SAARC? **Japan.**
147. International Development Association is an affiliate of **World Bank.**
148. **TRIPS** relates to patents, copyrights, trade secrets, etc.,
149. The first ministerial meeting of WTO was held at **Singapore.**
150. ASEAN meeting are held once in every **3** years.
151. Which of the following is not the member of SAARC ? **China.**
152. SAARC meets once in **2** years.
153. The headquarters of ASEAN is **Jakarta.**
154. The term BRIC was coined in **2001.**
155. ASEAN was created in **1967.**
156. The Tenth BRICS Summit was held in July 2018 at **Johannesburg.**
157. New Development Bank is associated with **BRICS.**
158. Which of the following does not come under 'Six dialogue partners' of ASEAN? **North Korea.**
159. SAARC Agricultural Information Centre (SAIC) works as a central information institution for agriculture related resources was founded on **1988.**
160. BENELUX is a form of **Customs union.**
161. The modern state is **Welfare state.**
162. One of the following is NOT a feature of private finance **Publicity.**
163. The tax possesses the following characteristics **All the above.**
164. Which of the following canons of taxation was not listed by Adam Smith? **Canon of simplicity.**

165. Consider the following statements and identify the correct ones. **ii only.**
166. GST is equivalence of **Sales tax.**
167. The direct tax has the following merits except **convenient.**
168. Which of the following is a direct tax ? **Income tax.**
169. Which of the following is not a tax under Union list ? **Agricultural Income Tax.**
170. “Revenue Receipts” of the Government do not include **Rent from property.**
171. The difference between revenue expenditure and revenue receipts is **Revenue deficit.**
172. The difference between total expenditure and total receipts including loans and other liabilities is called **Fiscal deficit.**
173. The primary purpose of deficit financing is **Economic development.**
174. Deficit budget means **An excess of government’s total expenditure over its total revenue.**
175. Methods of repayment of public debt is **All these.**
176. Conversion of public debt means exchange of **low interest bonds for higher interest bonds.**
177. The word budget has been derived from the French word “bougette” which means **A small bag.**
178. Which one of the following deficits does not consider borrowing as a receipt ? **Fiscal deficit.**
179. Finance Commission determines **The resources transfer to the states.**
180. Consider the following statements and identify the right ones. **both.**
181. The term environment has been derived from a French word **Environia.**
182. The word biotic means environment **living.**
183. Ecosystem is smallest unit of **Biosphere.**
184. Who developed Material Balance Models? **Alen Kneese and R.V. Ayres.**
185. Environmental goods are **Non-market goods.**
186. In a pure public good, consumption is **Non-rival.**
187. One of the most important market failures is caused by **Negative externalities.**
188. The common source of outdoor air pollution is caused by combustion processes from the following **Motor vehicles.**
189. The major contributor of Carbon monoxide is **Automobiles.**
190. Which one of the following causes global warming? **Increasing temperature.**
191. Which of the following is responsible for protecting humans from harmful ultraviolet rays? **Ozone layer.**

192. Global warming also refers to as **Climate Change**.
193. Which of the following is the anticipated effect of Global warming ? **Rising sea levels**.
194. The process of nutrient enrichment is termed as **Eutrophication**.
195. Primary cause of Soil pollution is **Chemical fertilizer**.
196. Which of the following is main cause for deforestation? **Timber harvesting industry**.
197. Electronic waste is commonly referred as **e-waste**.
198. Acid rain is one of the consequences of **Air pollution**.
199. Sustainable Development Goals and targets are not to be achieved by **2030**.
200. Alkali soils are predominantly located in the plains? **All the above**.
201. “Redistribution with Growth” became popular slogan in which approach? **New welfare oriented approach**.
202. Which is not the feature of economic growth? **Wider concept**.
203. Which among the following is a characteristic of under development? **Vicious circle of poverty**.
204. The non-economic determinant of economic development **Human resource**.
205. Economic growth measures the **Increase in output**.
206. The supply side vicious circle of poverty suggests that poor nations remain poor because **a and b above**.
207. Which of the following plan has focused on the agriculture and rural economy? **Gandhian Plan**.
208. Arrange following plans in correct chronological order **(iv) (iii) (ii) (i)**
209. M.N.Roy was associated with **People’s Plan**.
210. Which of the following country adopts indicative planning? **France**.
211. Short-term plan is also known as **Controlling Plans**.
212. Long-term plan is also known as **Perspective Plans**.
213. The basic philosophy behind long-term planning is to bring **Structural** changes in the economy ?
214. Sarvodaya Plan was advocated by **J.P.Narayan**.
215. Planning Commission was set up in the year **1950**.
216. Who wrote the book ‘ The Road to Serfdom’? **Friedrich Hayek**.
217. Perspective plan is also known as **Long-term plan**.
218. NITI Aayog is formed through **Cabinet resolution**.
219. Expansion of NITI Aayog? **National Institution for Transforming India**.
220. The Chair Person of NITI Aayog is **Prime Minister**.

221. The word 'statistics' is used as **Singular and Plural**.
222. Who stated that statistics as a science of estimates and probabilities. **Boddington**.
223. Sources of secondary data are **Both (A) and (B)**.
224. The data collected by questionnaires are **Primary data**.
225. A measure of the strength of the linear relationship that exists between two variables is called : **Correlation coefficient**.
226. If both variables X and Y increase or decrease simultaneously, then the coefficient of correlation will be : **Positive**.
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: **Negative**.
228. The value of the coefficient of correlation r lies between: **-1 and +1**.
229. The term regression was used by: **Galton**.
230. The purpose of simple linear regression analysis is to: **Predict one variable from another variable**.
231. A process by which we estimate the value of dependent variable on the basis of one or more independent variables is called: **Regression**.
232. If  $y = 2 - 0.2X$ , then the value of Y intercept is equal to **2**.
233. In the regression equation  $Y = \beta_0 + \beta_1 X$ , the Y is called: **Dependent variable**.
234. In the regression equation  $Y = \beta_0 + \beta_1 X$ , the X is called: **Independent variable**.
235. Econometrics is the integration of **Economics, Mathematics and Statistics**.
236. Econometric is the word coined by **Ragnar Frish**.
237. The raw materials of Econometrics are: **Data**.
238. The term  $U_i$  in regression equation is **Stochastic error term**.
239. The term  $U_i$  is introduced for the representation of **Omitted Variable**.
240. Econometrics is the amalgamation of **3 subjects**.

## 2 mark Question & Answer.

1. Define Macro Economics.

Ans : The branch of economics that studies the behavior and performance of an economy as a whole.

2. Define the term Inflation.

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

3. What is meant by an 'Economy'?

Ans : J.Brown defines economy as "A system by which people earn their living".

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

Ans : Developed, developing, underdeveloped and undeveloped Economies.

5. What do you mean by Capitalism ?

Ans : The role of the government is minimum and market determines the economic activities.

6. Define 'Economic Model.

Ans : An Economic Model is an explanation of how the economy or part of the economy works.

7. 'Circular Flow of Income'-Define.

Ans : The connection between various economic agents, such as firms, households, government and nations.

8. Define national income.

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

9. Write the formula for calculating GNP.

Ans : GNP at market prices = GDP at market prices + Net factor income from abroad.

10. What is the difference between NNP and NDP?

Ans : Net Domestic product = GDP – Depreciation

NNP = GNP – depreciation allowance

11. Trace the relationship between GNP and NNP.

Ans : GNP = GDP + Net Factor income from abroad.

NNP = GNP – Depreciation allowances

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

Ans : Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.

13. Define GDP deflator.

Ans : 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?

Ans : Self-consumption is difficult in measuring national income because it is not clear whether that part of the produce which is not sold in the market can be included in the national income or not.

15. Define full employment.

Ans : Keynes defines full employment as the absence of involuntary unemployment.

16. What is the main feature of rural un-employment ?

Ans : i. Disguised unemployment;

ii. Seasonal unemployment.

17. Give a short note on 'frictional unemployment'?

Ans : Frictional unemployment is due to imbalance between the supply of labour and demand for labour.

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

Ans : 1. Modern technology being capital intensive requires less labourers  
2. Now a days invention & innovations lead to the adoption of new techniques there by the existing workers are retrenched.

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

Ans : i. Full employment.  
ii. There will be perfect competition in the market.  
iii. There is wage – price flexibility.

20. What is effective demand?

Ans : i. Effective demand denotes money actually spent by the people on products of industry.  
ii.  $ED = Y = C + I = \text{Output} = \text{Employment}$ .

21. What are the components of aggregate supply?

Ans : i. Aggregate consumption expenditure (C).  
ii. Aggregate savings (S).  
iii. Net tax payment (T).  
iv. Personal desired transfer payments to foreigners (RF).  
 $\text{Aggregate Supply} = C+S+T+Rf$

22. What is the consumption function?

Ans : Consumption function refers to income consumption relationship .  $C=f(Y)$

23. What do you mean by propensity to consume?

Ans : Propensity to consume refers to income consumption relationship.

24. Define average propensity to consume (APC).

Ans. 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).

Ans : 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 propensity to save?

Ans : The propensity to save is merely the propensity not to consume.

27. Define average propensity to save (APS).

Ans : It is the ratio of total savings to total income.  $APS = S/Y$

28. Define Marginal Propensity to Save (MPS).

Ans : MPS is the ratio of change in savings to change in income.  $MPS = \Delta S / \Delta Y$ .

29. Define Multiplier.

Ans : The multiplier is defined as the ratio of the change in national income to change in Investment.

$\text{Multiplier}(K) = \frac{\Delta Y}{\Delta I}$  or  $\text{Multiplier}(K) = \frac{1}{MPS}$  or  $\text{Multiplier}(K) = \frac{1}{1-MPC}$

30. Define Accelerator.

Ans : “ The accelerator coefficient is the ratio between induced investment and an initial change in consumption.”

31. Define money.

Ans : “ Money is, what money does” – Walker.

32. What is barter?

Ans : The exchange of one good for another without the use of money.

33. What is Commodity money ?

Ans : Commodity money is money whose value comes from a commodity of which it is made.

34. What is gold standard?

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

35. What is plastic money? Give example.

Ans : The latest type of money is plastic money. Plastic money is an alternative to the cash (or) the standard money.

For example, Cash cards, Credit cards.

36. Define inflation.

Ans : “Too much of money chasing too few goods”.

37. What is stagflation?

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

38. Define Commercial banks.

Ans : Commercial banks are the institutions that make short-term loans to business and in the process create money.

39. What is credit creation?

Ans: It means multiplication of loans & advances. Commercial Banks receive deposits from the public and use these deposits to give loans.

40. Distinguish between CRR and SLR.

Ans : CRR : Banks are required to hold a certain proportion of their deposits in the form of cash, with RBI.

SLR: SLR is the amount which a bank has to maintain in the form of cash, gold, etc.

41. Write the meaning of open market operations.

Ans : The Central Bank purchases and sells not only government securities but also other proper eligible securities like bills and securities of private concerns.

42. What is rationing of credit?

Ans : i. Rationing of credit as an instrument of credit control.

ii. It aims to control and regulate the purposes for which credit is granted by commercial banks.

43. Mention the functions of agriculture credit department.

Ans : i. To maintain an expert staff to study all questions on agricultural credit.

ii. To provide expert advice to Central and State Government, State Co-operative Banks.

iii. To finance the rural sector through eligible institutions.

44. What is International Economics?

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

45. Define International trade.

Ans : i. It is a trade between two or more countries.

ii. It is a trade beyond the geographical and political boundaries.

46. State any two merits of International trade.

Ans : i. Equalization of prices between countries.



ii. Equal distribution of scarce materials.

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

- Ans : i. According to Adam Smith, the basic of international trade was absolute cost advantage.  
ii. According to Ricardo a country can gain from trade when it produces at relatively lower costs.

48. Define terms of trade.

Ans : The terms of trade refers to the ratio of export prices to import prices.

$$TOT = \frac{INDEX\ OF\ EXPORT\ PRICE}{INDEX\ OF\ INPUT\ PRICE} \times 100$$

49. What do you mean by Balance of Payments?

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

50. What is meant by Exchange Rate?

- Ans : i. The rate at which one country's currency is exchanged for another country's currency.  
ii. For e.g. one US dollar (\$1) = seventy five Indian rupees (Rs.75).

51. Write the meaning of Special Drawing rights.

- Ans : i. Special Drawing Rights (SDRs) are also called as 'Paper Gold'.  
ii. They are a form of international reserves created by the IMF in 1969.  
iii. It solves the problem of international liquidity.

52. Mention any two objectives of ASEAN.

- Ans : i. To accelerate the economic growth, social progress and cultural development in the region.  
ii. To provide a conducive environment and facilities for research, training, and education among the members.

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

- Ans : i. Loans out of its own fund.  
ii. Loans out of borrowed capital.

54. Define Common Market.

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

55. What is Free trade area?

Ans : A region encompassing a trade bloc whose member countries have signed a free-trade agreement (FTA).

56. When and where was SAARC Secretariat established?

Ans : The SAARC Secretariat was established in Kathmandu (Nepal) on 16<sup>th</sup> January 1987.

57. Specify any two affiliates of World Bank Group.

- Ans : i. International Development Association.  
ii. International Finance Corporation.

58. Define public finance.

Ans ; i. Adam Smith defined "Public finance is an investigation into the nature and principles of the state revenue and expenditure"

59. What is public revenue?

- Ans : i. Public revenue deals with the methods of raising public revenue.  
ii. It is the income of the government from all sources. E.g. tax and non-tax, the principles of taxation, etc.

60. Differentiate tax and fee?

S.NO.	TAX	FEE
1	It is a compulsory payment paid by the citizens to the Government.	There is no compulsion involved in case of fees.
2.	There is no quid pro quo for paying tax. E.g. Income tax, GST, etc.	A fee is charged by the public authorities for rendering services to the citizens. E.g. for issuing passports, etc.

61. Write a short note on zero based budget.

Ans : i. Zero based budget is a fresh evaluation of expenditure in the Government budget, assuming it as a new item.

ii. To provide justification or otherwise for the project as a whole in the light of the socio-economic objectives.

62. Give two examples for direct tax.

Ans : Income tax, Wealth tax

63. What are the components of GST ?

Ans : CGST, SGST, IGST

64. What do you mean by public debt?

Ans : Public debt deals with the methods of raising loans from internal and external sources.

65. State the meaning of environment.

Ans : Surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelations.

66. What do you mean by ecosystem?

Ans : The interacting system of a biological community and its nonliving environmental surroundings.

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

S.NO	COUNTRIES	PER CAPITA CO <sub>2</sub> EMISSION
1	Qatar	37.29
2	Kuwait	25.65
3	UAE	23.37
4	Oman	19.61
5	Canada	18.58

68. What are environmental goods? Give examples.

Ans : i. Environmental goods are typically non-market goods.

ii. For example, clear air, clean water, landscape, green transport infrastructure (footpaths, cycle ways, greenways, etc.), public parks, urban parks, rivers, mountains, forests, and beaches.

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

Ans : i. Use of noise barriers.

ii. Newer roadways for surface transport.

iii. Traffic control.

iv. Regulating times for heavy vehicles.

70. Define Global warming.

Ans : The increase in temperature of the Earth's surface, due to green-house gases.

71. Specify the meaning of seed ball.

Ans : 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.

72. Define economic development.

- Ans : i. Economic development is defined as a sustained improvement in health, literacy and standard of living.  
ii. It is a process whereby there is an increase in the consumption of goods and services by individuals.

73. Mention the indicators of development.

- Ans : 1. Gross National product (GNP)  
2. GNP per capita  
3. Welfare  
4. Social Indicators

74. Distinguish between economic growth and development.

S.NO	ECONOMIC GROWTH	ECONOMIC DEVELOPMENT
1	Deals with the problems of developed countries	Deals with the problems of under developed countries.
2	Considers only quantitative aspects	Qualitative as well as quantitative
3	Narrow	Wider concept (development = growth + change)

75. What is GNP?

Ans : GNP is the total market value of all final goods and services produced within a nation in a particular year, plus income earned by its citizens, minus income of non-residents located in that country.

76. Define economic planning.

Ans : According to Robbins, economic planning is collective control or suppression of private activities of production and exchange.

77. What are the social indicators of economic development?

Ans : Social indicators economic development are health, education, food, water, sanitation.

78. Write a short note on NITI Aayog.

Ans : i. NITI Aayog (National Institution for Transforming Indian ) was formed on 1<sup>st</sup> January, 2015 through a union cabinet resolution which replaced Planning Commission.

- Ans : ii. NITI Aayog is a policy think tank of the government of India.  
iii. The Prime Minister is the chairperson of NITI Aayog.

79. What is Statistics?

Ans : Boddington defines statistics as a science of estimates and probabilities.

80. What are the kinds of Statistics?

1. Descriptive Statistics
2. Inferential Statistics

81. What do you mean by inferential statistics?

Ans : The branch of statistics concerned with using sample data to make an inference about a populations of data.

82. What are the kinds of data?

Ans : i. Quantitative data , ii. Qualitative data

83. Define correlation.

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

84. What is Econometrics ?

Ans : Econometrics may be considered as the integration of economics, Statistics and Mathematics.

85. Define regression ?

Ans: Regression is the study of the relationship between the variable.

86. Define central bank ?

Ans: Central bank is an institution that manages a state's currency, money supply and interest rates. Central bank also usually oversee the commercial banking system.

### 3 Marks Question & Answer

1. State the importance of Macro Economics.

1. There is a need to understand the functions of an economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
2. Understanding the future problems needs and challenges of an economy as a whole to evolve Precautionary measures.
3. Helps for a better prediction about the future.
4. Helps to make meaningful comparison.

2. Describe the different types of economic systems.

**i. Capitalistic economy :**

The role of the government is minimum and market determines the economic activities. It is called 'free trade economy'

**ii. Socialist economy :**

All resources are owned and operated by the Government.

**iii. Mixed economy :**

Both the private and public sector coexist.

3. Outline the major merits of capitalism.

i. Automatic working :

Non-intervention of the government.

ii. Efficient use of resources :

All resources are put into optimum use.

iii. Higher rates of capital formation :

Leads to higher rates of capital formation.

4. Indicate the demerits of socialism.

i. Red tapism and Bureaucracy:

red- Movement of files from one table to other in government agencies takes time and leads to tapism.

ii. Limited freedom of choices :

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

iii. Absence of incentive :

This system does not provide any incentive for efficiency

5. Enumerate the features of a mixed economy.

i. Ownership of Property and Means of Production:

The means of production and properties are owned by both private and public.

ii. Coexistence of Public and Private Sectors:

Both public and private sector co exist.

iii. Economic Planning:

National plans are drawn up by the Government and both the private and public sectors abide.

6. Distinguish between Capitalism and Socialism or Globalism.

S.NO	CAPITALISM	SOCIALISM
1	Private ownership	Public ownership
2	Profit	Social welfare
3	Free market system	Central planning system
4	Unequal income distribution	Equal income distribution

7. Briefly explain the two-sector circular flow model.

There are only two sectors namely household sector and firm sector. In a two sector economy production and sales are equal and there will be a circular flow of income & goods.

- ❖ The basic identities of the two-sector economy are  $Y = C + I$ .

❖ Where Y is Income, C is Consumption, I is Investment.

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.

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

9. Differentiate between personal and disposable income.

S.NO	PERSONAL INCOME	DISPOSABLE INCOME
1	Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.	Disposable income is also known as Disposable personal income. It is the individual's income after the payment of income tax.
2	Personal Income = National income- social security contribution and undistributed corporate profits) + Transfer payments.	Disposable Income = Personal Income-Direct tax. As the entire disposable income is not spent on consumption. Disposable income = Consumption + Saving.

10. Explain briefly NNP at factor cost.

- i. NNP refers to the market value of output.
- ii. NNP at factor cost is the total of income payment made to factors of production.  
**NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.**

11. Give a short note on Expenditure method.

The total expenditure incurred by the society in a particular year is added together.

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

C = Private Consumption Expenditure

I = Private Investment Expenditure

G = Government Expenditure

X – M = Net Exports.

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

- ❖ Double counting is to be avoided under the value –added method.
- ❖ Any commodity which is either raw material or intermediate good for the final product should not be included.
- ❖ For example, the cost of cotton is added in yarn; the cost of yarn is added in cloth; the cost of cloth is added in garments. Therefore, only the value added at each stage should be calculated.

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 the country is measured in terms of their GDP per capita and their annual growth rate.
- ❖ A country with a higher per capita income is supposed to enjoy greater economic welfare with a higher standard of living.

14. List out the uses of national income.

- ❖ The National Income of a country describes economic performance of a country.
- ❖ Economists, planners, Government, businessman and international agencies (IMF, World Bank etc.) use national income data and analyses them for various purposes.
- ❖ National income data help in measuring changes in the standard of living.
- ❖ Level of development of a country is also measured by using national income figures.

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

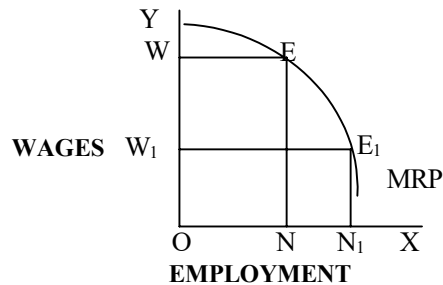
1. **Seasonal Unemployment:** It occurs during certain seasons of the year.
2. **Frictional Unemployment :** It arises due to imbalance between the supply of labour and demand for labour.
3. **Educated Unemployment:** Sometimes educated people are under- employed or unemployed when qualification does not match the job.

16. According to the classical theory of employment, how wage reduction solve the problem of unemployment? Diagrammatically explain.

- There is wage- price flexibility.
- When goods are produced in the economy, they pay reward to the factors of production.
- Therefore, wage reduction solves the problem of unemployment.

Explanation of the Diagram :

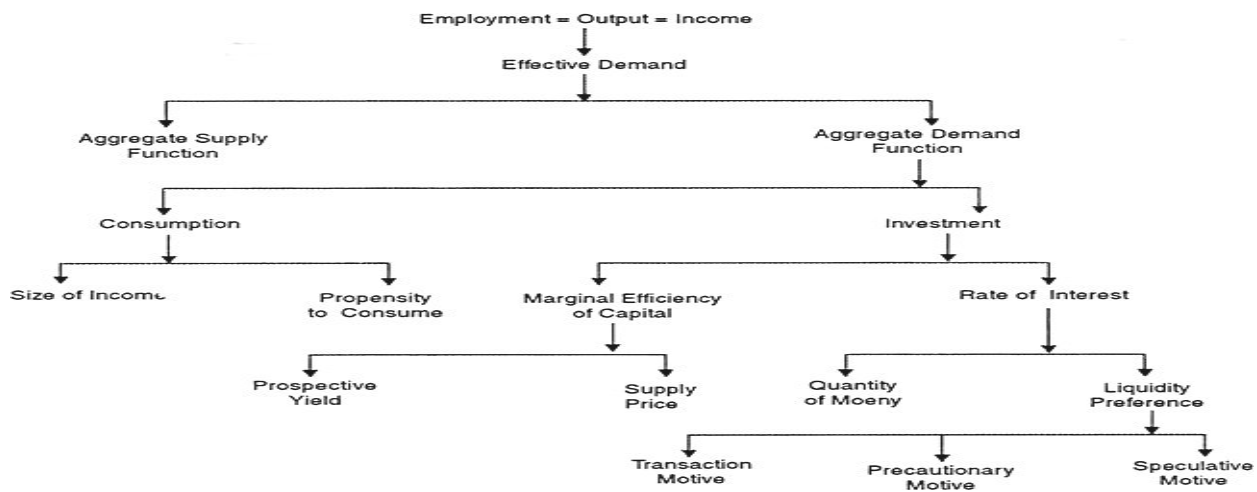
- In the diagram, when wage reduces employment increases.
- When the wage is OW, employment is ON.
- When the wage is reduced to OW<sub>1</sub>, employment increases to ON<sub>1</sub>.
- This was illustrated by Prof.A.C.Pigou.



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

- ❖ There is no possibility of overproduction or unemployment.
- ❖ As an automatic price mechanism operates in the economy, there is no need for government intervention.
- ❖ Interest flexibility brings about equality between saving and investment.

18. Explain Keynes's theory in the form of flowchart.



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

- ❖ The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.
- ❖ Four components of aggregate demand:
  1. Consumption demand
  2. Investment demand
  3. Government expenditure
  4. Net export and import

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

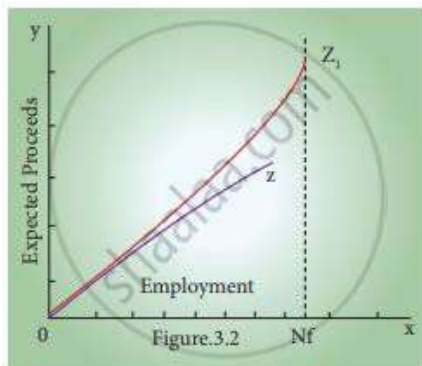
20. Explain about aggregate supply with the help of a diagram

- ❖ Aggregate supply refers to the value of total output of goods and services produced in an economy in a year
- ❖ Components of Aggregate supply:
  1. Aggregate desired consumption expenditure ( C ).
  2. Aggregate private savings ( S ).
  3. Net tax payments ( T ).
  4. Personal transfer payments to foreigners ( RF ).

$$AS = C + S + T + RF$$

**Diagram Explanation:**

1. Z curve is linear where money wages remain fixed.
2. Z<sub>1</sub> curve is non-linear since wage rate increases with employment.
3. When full employment level of N<sub>f</sub> is reached, it is impossible to increase output by employing more men.




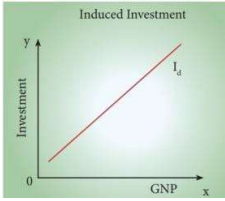
21. Write any five differences between Classism and Keynesianism.

S.No	Keynesianism	Classism
1	Saving is a vice	Saving is a social virtue.
2	Short-run equilibrium	Long-run equilibrium.
3	Macro approach to national problem	Micro foundation to Macro problem.
4	Capitalism has inherent contradictions	Capitalism is well and good
5	Rate of interest is a flow	Rate of interest is a stock.
6	Demand creates its own supply	Supply creates its own demand.

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

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

23. Differentiate autonomous and induced investment.

S.No	Autonomous Investment	Induced Investment
1	Independent	Planned
2	Income inelastic	Income elastic
3	Welfare motive	Profit motive
4		

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

**A. Subjective Factors**

1. The motive of precaution : To build up a reserve against unforeseen contingencies.
2. The motive of foresight : The desire to enjoy interest & appreciations.
3. The motive of calculation : The desire to provide for anticipated future needs.

**B. Objective Factors**

1. Price level : When price falls real income goes up.
2. Wage level : Consumption expenditure increases with rise in wages.
3. Interest rate : Higher rate of interest will encourage people to some more money.

25. Mention the differences between accelerator and multiplier effect.

S.No	Accelerator Effect	Multiplier Effect
1	The relation between an increase in consumption and the resulting increase in investment.	The ratio of the change in national income to change in investment.
2	Increase in demand for consumption goods.	Increase in investment.
3	Accelerator = $\frac{\Delta I}{\Delta C}$	$K = \frac{\Delta Y}{\Delta I}$

26. State the concept of Super multiplier.

- The Combined effect of interation of multiplier & accelerator.
- In order to measure the total effect of initial investment on income hicks has combined the K &  $\beta$  mathematical and given the name super multiplier.
- It is worked out by combining both induced consumption and induced investment.

27. Specify the limitations of the multiplier.

1. Payment towards past debts.
2. Purchase of existing wealth.
3. Import of goods and services.
4. Non-availability of consumer goods.
5. Full employment situation.

28. Write a note in metallic money.

- After the barter system and commodity money system, modern money system evolved.
- Among this metallic standard is the premier one.
- Under Metallic standard, some kind of metal either gold or silver is used to determine the standard value of money and currency.



29. What is 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 crucial role in the determination of price level and interest rates.

30. What are the determinants of money supply?

1. Current Deposit Ratio (CDR)
2. Reserve Deposit Ratio (RDR)
3. Cash Reserve Ratio (CRR)
4. Statutory Liquidity Ratio (SLR)

31. Write the types of inflation.

1. Creeping Inflation
2. Walking Inflation
3. Running Inflation
4. Galloping Inflation
5. Cost-push Inflation
6. Demand-pull Inflation
7. Currency Inflation
8. Credit Inflation
9. Deficit-induced Inflation
10. Profit-induced Inflation

32. Explain demand-pull and Cost-push inflation.

**A. Demand-pull Inflation :**

- Too much of money chasing too few goods.
- If the demand is high for a product and supply is low, the price of the products increases.

**B. Cost-push Inflation :**

- When the cost of raw materials and other inputs rises inflation results.
- Increase in wages paid to labour also leads to inflation.

33. State Cambridge equations of value of money.

**A. Marshall's equation:**

Marshall's equation is expressed as,

$M = KPY$ , where

M is the quantity of money

Y is the aggregate real income of the community.

P is the purchasing power of money.

K represents the fraction of the real income which the public desires to hold in the form of money.

Thus, the price level  $P = M/KY$

**B. Keynes's equation:**

Keynes equation is expressed as :

$n = PK$  (or)  $P = n/K$

Where n is the total supply of money, P is the general price level of consumption goods, K is the total quantity of consumption units the people decide to keep in the form of cash.

34. Explain disinflation.

- Disinflation may be defined as the process of reversing inflation without creating unemployment or reducing output in the economy.
- 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.

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

- Money is to be created when the bank provides loan.
- Credit creation means the multiplication of loans and advances.
- This power of commercial bank to create deposits through expanding their loans and advances is known as credit creation.

36. Give a brief note on NBFI.

- It is a financial institution that does not have full banking license or is not supervised by the central bank.
- It does not carry on pure banking services but it carries on other financial transactions.
- They receive deposits and provide loans.

37. Bring out the methods of credit control.

(1). Quantitative Method :

- ❖ Bank Rate Policy
- ❖ Open Market Operations
- ❖ Variable Reserve Ratio

(2) Qualitative Method :

- ❖ Rationing of Credit
- ❖ Direct Action
- ❖ Moral persuasion
- ❖ Publicity
- ❖ Regulation of Consumer's Credit.
- ❖ Marginal requirement

38. What are the functions of NABARD?

1. NABARD acts as a refinancing institution.
2. It Provides short, medium & long term credits
3. It gives long term loans upto 20 years.
4. It gives long term goals to any institution approved by central Govt.

39. Specify the functions of IFCI.

1. Long term loans, both in rupees and foreign currencies.
2. Underwriting of equity, preference and debenture issues.
3. Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India.
4. Guaranteeing of loans raised in foreign currency from foreign financial institutions.

40. Distinguish between money market and capital market.

S.No.	Money Market	Capital Market
1	Short-term loans are borrowed	It is part of financial system
2	It deals with short-term credit instruments.	Capital raised by long-term investments like shares, bonds, etc.
3	Commercial banks, acceptance house, NBFIs and RBI cater to the short-term funds in money market	Long-term investment instruments are traded in capital market.

41. Mention the objective of demonetizations.

1. Removing Black Money from the country.
2. Stopping of corruption.
3. Stopping terror funds.
4. Curbing fake notes.

42. Brief the linkage between economy and environment.

- The life of human beings is shaped by his living environment.
- Human's life depends on social, political, ethical, philosophical and other aspects of economic system.

- The relationship between the economy and the environment is explained as total economic process as a physically balanced flow between inputs and outputs where inputs are received from the environment.

43. Specify the meaning of Material Balance principle.

- Material Balance Model was developed by AlenKneese and R.V.Ayres to explain the relationship between economics and environment.
- The model considers the total economic process as a physically balanced flow between inputs and outputs.
- Inputs are derived from the environment.

44. Explain different types of air pollution.

1. Indoor air pollution: It refers to toxic contaminants that we encounter in our daily lives in our homes, schools and workplaces.
2. Outdoor air pollution : Caused by combustion processes from motor vehicles, solid fuel burning and industry.

45. What are the causes of water pollution?

1. Discharge of sewage and waste water
2. Oil Spill
3. Global warming
4. Dumping of solid wastes
5. Discharge of industrial wastes
6. Acid Rain

46. State the meaning of e-waste.

- ❖ Electronic-waste is commonly referred to as 'e-waste'.
- ❖ It is a physical waste in the form of old discarded electronics.
- ❖ For example. Television, Computers, Audio – equipments, VCR, DVD, Telephone, Fax, Xerox Machine, Wireless devices, Video games other household electronic equipment.

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

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

Causes :

1. Deforestation and soil erosion
2. Agricultural activities
3. Nuclear waste
4. Land fills.
5. Mining activities

48. Write a note on a) Climate change and b)Acid rain.

**1. Climate Change:**

- The climate change refers to seasonal changes over a long period with respect to the growing accumulation of greenhouse gases in the atmosphere.

**2. Acid Rain:** Acid rain is the consequence of air pollution.

- It occurs when emissions from factories, cars or heating boilers contact with the water in the atmosphere.
- Emissions contain nitrogen oxides, sulphur dioxide and sulphur trioxide which when mixed water becomes sulfurous acid, nitric acid and sulfuric acid.

## 5 Mark Question & Answer

1. Discuss the scope of Macro Economics.

**1. National Income :**

The trends in National Income and its composition provide a long term understanding of the growth process of an economy.

**2. Inflation :**

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

**3. Business cycle:**

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

**4. Poverty and unemployment :**

A clear understanding of the magnitude of poverty and unemployment facilitates the allocation of resources and initiating corrective measures.

**5. Economic growth :**

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

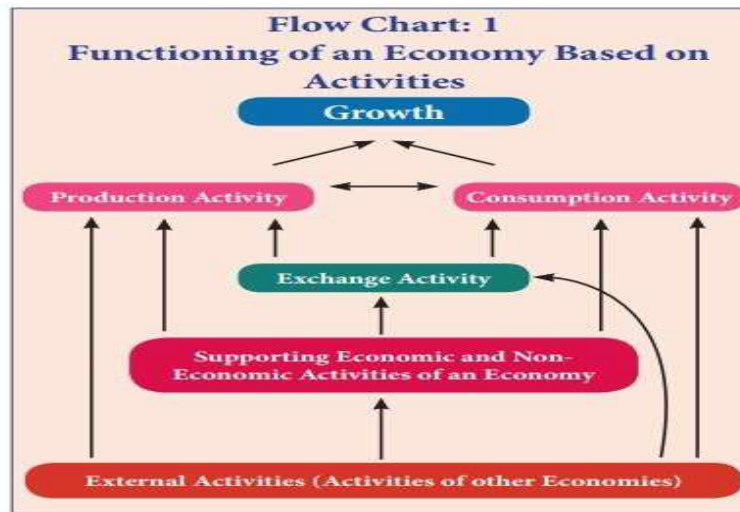
**6. Economic policies :**

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

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

The functioning of an economy by its activities is explained in the flow chart.

- In an economy, the fundamental economic activities are production and consumption.
- The exchange activity supports the production and consumption activities.
- The major economic activities include transportation, banking, advertising, planning government policy and other.
- The major non-economic activities are environment, health regulations etc.
- External activities from other economies such as import, exports, International relations, emigration, immigration foreign investment, foreign exchange earning etc. also influence the entire functioning of the economy.



3. Compare the features of Capitalism and Socialism or Globalism.

S.No	Features	Capitalism	Socialism
1	Owenship of means of production	Private Ownership	Public ownership
2	Economic motive	Profit	Social welfare

3	Solution for central problems	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 features among Capitalism, Socialism and Mixedism.

S.No.	Features	Capitalism	Socialism	Mixedism
1	Owenship 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 for central problems	Free market system	Central planning system	Central planning system and free-market system
4	Government role	Internal regulation only	Complete involvement	Limited role
5	Income distribution	Unequal	Equal	Less Unequal
6	Nature of enterprise	Private enterprise	Government enterprise	Both private and state enterprises.
7	Economic freedom	Complete freedom	Lack of freedom	Limited freedom
8	Major problem	Inequality	Inefficiency	Inequality and inefficiency

5. Explain the importance of national income.

1. To know the relative importance of the various sector of the economy and the contribution towards national income.
2. To formulate the national policies such as monetary policy, fiscal policy and other policies.
3. To formulate planning and evaluate plan progress.
4. To build economic models both in short and long-run.
5. To make international inter – regional, inter – temporal comparison.
6. To arrive at many macro economic variables.

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

There are three methods of measuring national income. They are,

1. Production (or) Value added method.
2. Income method (or) Factor earning method.
3. Expenditure method.

**1. Production Method :**

- Product method measures the output of the country.
- In this method, the gross value of output from different sectors like agriculture, industry and commerce etc. is obtained for the entire economy during a year.

**2. Income Method :**

- This method approaches national income from the distribution side.
- In this method, national income is calculated by adding up all the incomes

$$Y = w + r + i + \pi + (X - M)$$

**W = wages; r- rent; i-interest; π- Profit; X-export; M-Imports.**

**3. Expenditure Method:**

Under this method, the total expenditure incurred by the society in a particular year is added together.

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

C – Private consumption expenditure

I – Private investment expenditure

G – Government expenditure

(X – M) – Net Exports

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

**1. Transfer Payments :**

Government makes payment in the form of pensions, unemployment allowance, subsidies etc. These are government expenditure not included in the national income.

**2. Difficulties in assessing depreciation allowance :**

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

**3. Unpaid services :**

A housewife renders a number of useful services like preparation of meals, serving, tailoring, cleaning, washing etc., She is not paid for them and her service are not directly included in national income.

**4. Income from illegal activities :**

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

**5. Production for self-consumption :**

Farmers keep a large portion of food and other goods produced on the farm for self-consumption.

**6. Capital Gains :**

The gain is the difference between a higher selling price and the lower purchasing price.

**7. Statistical problems:**

Great care is required to avoid counting. Statistical data may not be perfectly reliable.

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

- National Income is also being measured by the social accounting method.
- Under this method, the transaction among various sectors such as firms, households, government etc., are recorded and their interrelationship traced.
- The social accounting framework is useful for economists as well as policymakers.
- It represents the major economic flows and statistical relationship among various sectors of the economic system.
- It becomes possible to forecast the trends of the economy more accurately.

9. Describe the types of unemployment

**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.

**3. Frictional Unemployment:**

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

**4. Educated Unemployment:**

Sometimes educated people are underemployed or unemployed when qualification does not match the job.

**5. Technical Unemployment:**

Modern technology being capital intensive requires 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.

10. Critically explain say's law of market.

Say's Market Law

- According to Say, "When goods are produced by firms in the economy, they pay 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.

Assumptions of Say's law .

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.

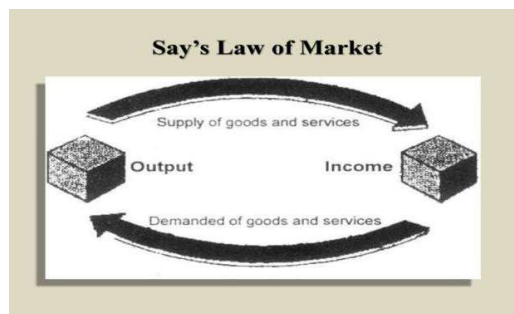
3. People are motivated by self interest.
4. There will be a perfect competition in labour and product market.
5. There is wage-price flexibility.
6. Money acts only as a medium of exchange.
7. Long – run analysis.
8. There is no possibility for over production or unemployment.

Implications of Say's law.

1. There is no possibility for over production or unemployment.
2. As automatic price mechanism operates in the economy. There is no need for government intervention.
3. Money performs only the medium of exchange function in the economy.

Criticisms of Say's Law .

1. According to Keynes, supply does not create its demand.
2. Automatic adjustment process will not remove unemployment.
3. Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.



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

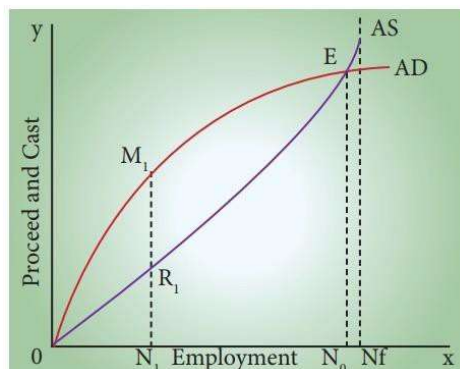
- ✓ Under the Keynes theory of employment, a simple two-sector economy consisting of the households sector and the business sector is taken to understand the equilibrium between ADF and ASF.
- ✓ All the decisions concerning consumption expenditure are taken by the individual households, while the business firms make decisions concerning investment.
- ✓

**Keynesian theory of two approaches:**

1. Aggregate demand – Aggregate supply approach
2. Saving – Investment approach

**Diagram explanation:**

- In the figure, the aggregate demand and aggregate supply reach equilibrium at the point – E.
- The employment level is  $N_0$  at that point.
- The difference between  $N_0 - N_f$  is the level of unemployment, thus the concept of effective demand becomes significant in explaining the under-employment equilibrium.



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

S.No	Keynesianism	Classism
1	Saving is vice	Saving is a social virtue
2	Short-run equilibrium	Long-run equilibrium
3	Macro approach to national problem	Micro foundation to Macro problems
4	Capitalism has inherent contradictions	Capitalism is well
5	Rate of interest is a flow	Rate of interest is a stock.
6	State intervention is advocated	Champions of Laissez fair policy
7	Applicable to all situations. Full employment and less than full employment.	Applicable only to the full employment situation.
8	Demand creates its own supply.	Supply creates its own demand.
9	Rate of interest is a reward for parting with liquidity.	Rate of interest is a reward for savings.

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

Introduction:

Keynes propounds that from our prior knowledge of human nature and experience, men are disposed as a rule and on the average to increase their consumption as their income increases but not by as much as the increase in their income.

Assumption:

- Ceteris paribus (constant extraneous variables)
- Existence of Normal conditions
- Existence of a Laissez-faire capitalist economy

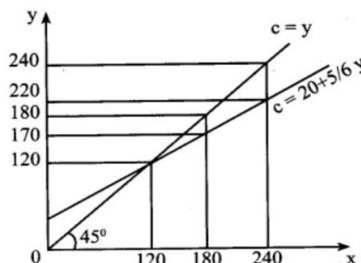
Propositions of the law:

- When income increase consumption expenditure also increases but by a smaller amount.
- Increase in income always leads to an increase in both consumption and saving.

Income Y	Consumption C	Savings $S = Y - C$
120	120	0
180	170	10
240	220	20

Explanation of the diagram:

- When income increases from 120 to 180 consumption also increase from 120 to 170 but the increase in consumption is less than the increase in income, 10 is saved.
- 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.
- Increases in income to 180 and 240 lead to increased consumption of 170 and 220 and increased saving 20 and 10 than before. It is clear from the widening area below the C curve and the saving gap between the  $45^\circ$  line and C curve.



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

A. Subjective factors:

1. The motive of precaution: To build up a reserve against unforeseen events. E.g. Sickness.
2. The motive of foresight: The desire to provide for anticipated future needs. E.g. Old age.
3. The motive of calculation: The desire to enjoy interest and appreciation.



4. The motive of improvement: The desire to enjoy for improving standard of living.
5. The motive of financial independence
6. The motive of enterprise

B. Objective factors:

1. Income distribution : The community with more equal distribution of income tends to have high propensity to consume.
2. Price level: When the price falls, real income goes up.
3. Wage level: Consumption expenditure increases with the rise in wages.
4. Interest rate: Higher rate of interest will encourage people to save more money and reduces consumption.
5. Fiscal policy
6. Consumer credit

15. Illustrate the working of the Multiplier.

- ❖ Suppose the government wishes to make an autonomous investment of Rs.100 crore for laying road. Thus, the income of labourers and suppliers of materials increases Rs.100 crore.
- ❖ MPC is 0.8, that is 80% of Rs.100 crore which is Rs.80 crore.
- ❖ Rs.80 crore is spent on consumption
- ❖ As a result the suppliers of raw material earn Rs.80 crore. Therefore, he will in turn spend 80% of Rs.80 crore which is Rs.64 crores.
- ❖ In this manner consumption expenditure and increase in income act in a chain like manner  
 $\Delta Y = 100 + [100 \times 0.8] + [100 \times (0.8)^2] + [100 \times (0.8)^3] + [100 \times (0.8)^4] + \dots$   
 $\Delta Y = 100 + 80 + 64 + 51.2 + 40.96 + \dots = 500$

$$\text{That is, } 100 \times = \frac{1}{(1-4/5)}$$

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

$$= 100 \times 5 = \text{Rs.}500 \text{ crores.}$$

(K= 5 times 100 crores )

$$\text{Multiplier (K)} = \frac{1}{1-MPC} = \frac{1}{1-0.8} = \frac{1}{0.2} = \frac{1}{0.2} \times \frac{10}{10} = \frac{10}{2}$$

$$K = 5.$$

16. Explain the operation of the Accelerator.

Definition :The accelerator coefficient is the ratio between induced investment and an initial change in consumption.

$$\text{Accelerator} = \frac{\Delta I}{\Delta C}$$

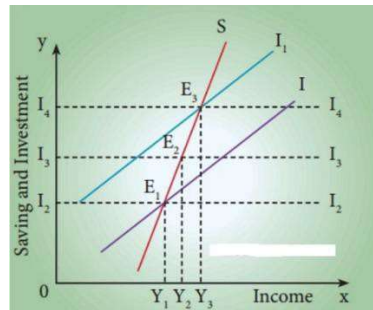
Operation of Accelerator:

- Let us suppose that in order to produce 1000 consumer goods, 100 machines are required & working life of a machine is 10 years.
- Suppose the demand for consumer goods rises by 10%, (ie. from 1000 to 1100 )
- This increase demand for 10 more machines. So that total demand for machines is 20. 10 for replacement & 10 for meeting increased demand.

Explanation of the diagram:

- SS is the saving curve.
- II is the investment curve
- At point E<sub>1</sub>, the economy is in equilibrium with OY<sub>1</sub> income. Saving and investment are equal at OI<sub>2</sub>.

- Investment is increased from  $OI_2$  to  $OI_4$ . This increase income from  $OY_1$  to  $OY_3$  the equilibrium point being  $E_3$ .
- In this diagram, it is assumed that exogenous investment is only by  $I_2I_3$  and induced investment is by  $I_4I_4$ .
- Therefore, the increase in income by  $Y_1 Y_2$  is due to the multiplier effect and the increase in income by  $Y_2Y_3$  is due to the accelerator effects.



17. What are the differences between MEC and MEI.

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

18. Illustrate Fisher’s Quantity theory of money.

Quantity theories of money explain the relationship between the quantity of money and value of money.

The general form of equation given by Fisher is

$$MV = PT$$

Supply of Money = Demand for Money

This equation is referred to as “Cash Transaction Equation”.

Where, M = Money supply / Quantity of Money

V = Velocity of Money

P = Price Level

T = Volume of Transaction

It is expressed as  $P = \frac{MV}{T}$

Fisher extended his original equation of exchange to include bank deposits  $M^1$  and its velocity  $V^1$ . The revised equation was:

$$PT = MV + M^1V^1$$

$$P = \frac{MV + M^1V^1}{T}$$

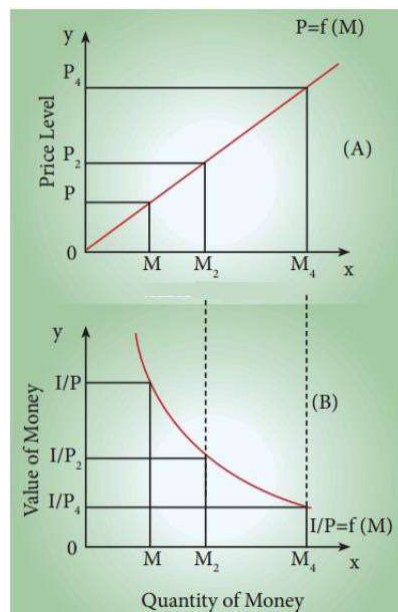
## Explanation :

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  $OP$ .
- When the quantity of money is doubled to  $OM_2$  the price level is also doubled to  $OP_2$ . When the quantity of money is increased four-fold to  $OM_4$ , the price level also increases by four times to  $OP_4$ .

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.

- But, with the quantity of money increasing by fourfold to  $OM_4$ , the value of money is reduced by  $OP/P_4$
- This inverse relationship between the quantity of money and the value of money is shown by downward-sloping curve.  $I/P=f(M)$



19. Explain the function of money.

1. Primary function:
  - Money as a medium of exchange.
  - Money as measure of value.
2. Secondary function:
  - Money as a store of value.
  - Money as a standard of deferred payments.
3. Contingent function:
  - Basic of the credit system.
  - Money facilitates the distribution of national income
  - Money increase the productivity of capital.
4. Other function:
  - Money helps to maintain repayment capacity.
  - Money represents generalized purchasing power.
  - Money gives liquidity to capital.

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

### Causes of inflation:

1. Increase in Money Supply
2. Increase in Disposable Income
3. Increase in Public Expenditure
4. Increase in Consumer Spending
5. Cheap Money Policy
6. Deficit Financing
7. Black Assets, Activities and Money
8. Repayment of Public Debt
9. Increase in Exports

### Effects of Inflation:

#### 1. Effects on Production:

The profit due to rising prices encourages and induces business class to increase their investments in production, leading to the generation of employment and income.

#### 2. Effects on Distribution:

- ❖ Debtors gain and creditors lose
- ❖ Fixed income does not have any relationship with the rising cost of living
- ❖ It is a boon to entrepreneur
- ❖ Investments in fixed interest yielding bonds lose while investments in shares gains.

21. Describe the phases of Trade cycle

Definition:

“A trade cycle is composed of periods of good trade characterized by rising prices and low unemployment percentage altering with periods of bad trade characterized by falling prices and high unemployment percentages”

Phases of trade cycle:

1. Boom
2. Recession
3. Depression
4. Recovery

1. Boom phase:

Money wages rise, profits increase and interest rates go up.

2. Recession phase:

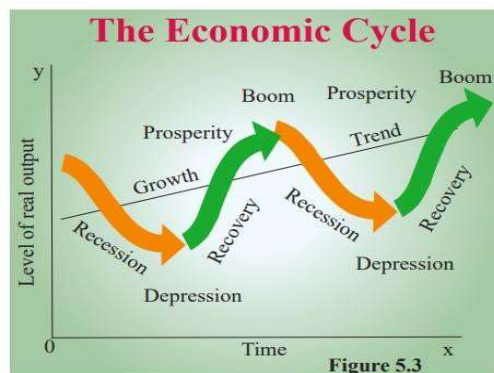
Investments are drastically reduced, production comes down, and income and profits decline.

3. Depression phase:

Firms incur losses; interest prices, profits and wages are low.

4. Recovery phase:

The demand slowly picks up and in due course, the activity is directed towards the upswing with more production, profit, income, wages and employment.



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

1. Capital Formation: Banks play an important role in capital formation which is essential for the economic development of a country.
2. Creation of Credit: Credit Creation leads to increased production, employment, sales and prices.
3. Channelizing the Funds towards Productive Investment: Pooled savings should be allocated to various sector of economy with a view to increase the productivity.
4. Encouraging Right type of Industries: Banks grant loans and advances to manufacturers whose products are in great demand.
5. Bank monetize debt: As banks are lending money by discounting bills of exchange, business concerns are able to carry out the economic activities without any interruption.
6. Finance to Government: Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills.
7. Employment Generation: After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.
8. Banks promote entrepreneurship: Banks induce entrepreneurship by providing 100% credit to technically feasible and economically viable projects.

23. Elucidate the function of Commercial Banks.

- A. Primary Functions
- B. Secondary Functions
- C. Other Functions

**A. Primary Functions:**

**1. Accepting Deposits:** Commercial banks are mainly dependent on public deposits.

i. Demand Deposits:

- It refers to deposits that can be withdrawn by individuals without any prior notice to the bank.
- For example,
  - a. Savings account
  - b. Current account.

ii. Time Deposits:

- It refers to deposits that are made for certain committed period of time.
- Banks pay higher interest on time deposits.

**2. Advancing Loans:**

Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

**B. Secondary Functions:**

The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

**1. Agency Functions:**

It implies that commercial banks act as agents of customers by performing various functions.

- Collecting cheques
- Collecting income
- Paying expenses

**2. General Utility Functions:**

- Providing locker facilities
- Issuing travelers cheques
- Dealing foreign exchange

**3. Transferring Funds:**

- It refers to transferring of funds from one bank to another.

**4. Letter of Credit:**

- Underwriting securities
- Electronic banking

**C. Other Functions:**

1. Money supply
2. Credit creation
3. Collection of statistics

24. Describe the functions of Reserve Bank of India.

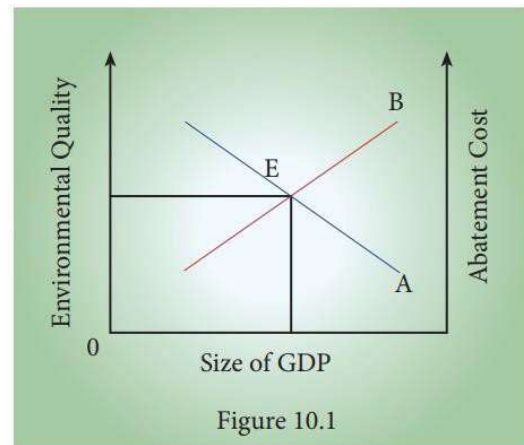
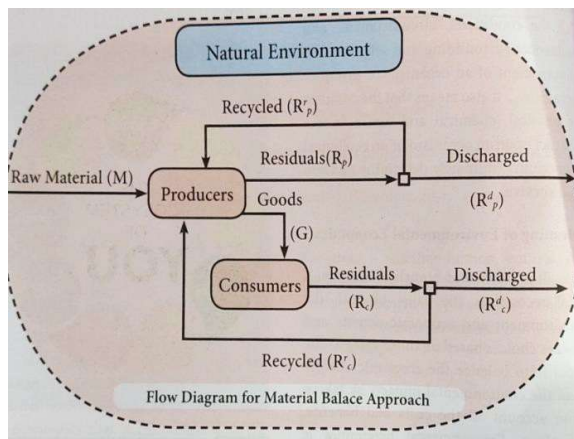
1. Monetary Authority: It controls the supply of money.
2. The issue of currency : Sole authority to issue currency.
3. The issue of banking license: It issues licenses to banks as per Section 22 of Banking Regulation Act.
4. Bankers to the Government : It acts as banker to Central and State government.
5. Banker's Bank: It is the bank of all banks in India.
6. Lender of last resort: Banks can borrow from RBI at the time of need or crisis.
7. Act as clearing house: RBI manages 14 clearing house.
8. Custodian of foreign exchange reserves : Acts as a custodian of FOREX
9. Regulation of economy: Controls money supply in the system.
10. Managing government securities.

25. What are the objectives of Monetary Policy? Explain

1. **Neutrality of Money:** The monetary authority should aim at neutrality of money Monetary changes could be the root cause of all economic fluctuation.
2. **Exchange rate stability:** Exchange rate stability was the main objective under gold standard among different countries.
3. **Price stability:** Stable prices repose public confidence.
4. **Full employment:** Full employment was considered as the main goal of monetary policy.
5. **Economic Growth:** Monetary policy should promote sustained and continuous economic growth by maintain equilibrium between the total demand for money and total production capacity and further creating favorable conditions for saving and investment.
6. **Equilibrium in the balance of payments:** Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war ears.

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

- The contribution of the nature to GDP as well as depletion of natural resources are not accounted in the present system of National Income Enumeration.
- Therefore, GDP is just a rough indicator as it does not directly account for leisure, environment quality, levels of health and education, etc.



$$M = G - R_c - R_p + R_p^r + R_c^r = R_c^d + R_c^d$$

Material and Energy Inflow from Natural World (M)	=	Economic Activities of Goods and Service Production (G) - Consumption and Production Residual Discharges from Consumption and Production activities ( $R_C + R_P$ ) + Recycles from Production and Consumption ( $R_P^r + R_C^r$ )	=	Final Residual Discharge from Production and Consumption into Natural World ( $R_C^d + R_P^d$ )
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27. Explain the concept of externalities and its classification.

Definition:

Externality may be defined as “the cost or benefit imposed by the consumption and production activities of the individuals on the rest of the society not directly involved in these activity and towards which no payment is made”

**Classification:**

1. **Positive Consumption Externality:** Private security engaged by individual serves as a benefit for other residents from better security without bearing cost.
2. **Negative Consumption Externality:** A person smoking cigarette gets satisfaction but this act causes hardship to non-smokers..
3. **Positive Production Externality :** While bees make honey, they also help in the pollination of apple blossoms.
4. **Negative Production Externality:** Pollution generated by a factory that imposes costs on others. E.g. water and air pollution.

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

Meaning:

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

Important Goals of sustainable development:

1. No poverty
2. Zero hunger
3. Good health and well – being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation & infrastructure
10. Reduction inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace and justice strong institutions
17. Partnerships for the goals