

| | <p>Price rigidity is the tendency of oligopolistic firms to stick to the ongoing price of the product, with a view to avoid any sort of price war.</p> <p style="text-align: center;">OR</p> <p>Indeterminateness of Demand Curve: In an Oligopoly form of market no single firm can predict its prospective sales with perfection. This is because any given change in the price/output decision by a rival firm would initiate a series of actions, reactions and counter actions by others. Therefore there is no certain nature and position of demand curve under this form of market for a firm.</p> | <p>(2)</p> <p>(3)</p> | | | | | | | | | |
|--------------------------|--|-----------------------|---------------------|---------------------|----|----|-----|----|-----|------|----------------------------------|
| <p>9. (a)</p> <p>(b)</p> | <p>Ascending order: -0.3, -0.7,-0.8,-1.1.</p> <p>(minus sign only represents the inverse relation between price and quantity demanded)</p> <table border="1" data-bbox="297 816 1268 932"> <thead> <tr> <th>Price (in ₹)</th> <th>Quantity (in units)</th> <th>Total outlay (in ₹)</th> </tr> </thead> <tbody> <tr> <td>18</td> <td>50</td> <td>900</td> </tr> <tr> <td>13</td> <td>100</td> <td>1300</td> </tr> </tbody> </table> <p>CONCLUSION: The given data shows an inverse relation between Px and Total outlay, thus as per the total expenditure method, $E_d > 1$.</p> | Price (in ₹) | Quantity (in units) | Total outlay (in ₹) | 18 | 50 | 900 | 13 | 100 | 1300 | <p>(1)</p> <p>(2)</p> <p>(1)</p> |
| Price (in ₹) | Quantity (in units) | Total outlay (in ₹) | | | | | | | | | |
| 18 | 50 | 900 | | | | | | | | | |
| 13 | 100 | 1300 | | | | | | | | | |
| <p>10.</p> | <p>Out of the given options, (B) is incorrect. Indifference Curves have a property that two ICs cannot intersect.</p> <p>Suppose, there are any two ICs intersecting each other. As per the figure</p> <p>$A = C$ (on IC1) $D = E$ (on IC2)</p> <p>But if we see the peculiarity of point B (the point of intersection), this would result into absurd situation of $A=C=B$ & $D=C=B$, which is not possible, as they are violating the basic definition of the Indifference Curves.</p> <div data-bbox="794 1545 1187 1917" style="text-align: center;"> </div> | <p>(1)</p> <p>(3)</p> | | | | | | | | | |

| | <p style="text-align: center;">OR</p> <p>(a) $P_x Q_x + P_y Q_y = M$ $25Q_x + 10Q_y = 250$</p> <p>(b) Slope of Budget Line = (-) $P_x/P_y = (-) 25/10 = (-) 2.5$</p> <p>(c) If Q_y is to be Zero $25Q_x + 10Q_y = 250$ $25Q_x + 10(0) = 250$ $Q_x = 250/25 = 10$ units</p> <p>(d) If P_y falls the consumer will be able to buy more of good Y in the same money income pushing the Y-intercept of the Budget Line away from origin, keeping the X-intercept constant. (shifts outwards)</p> | <p>(1)</p> <p>(1)</p> <p>(1)</p> <p>(1)</p> | | | | | | | | | | | | | | | | | | | | |
|--------------|--|---|--------|--------|-----|---|---|----|---|---|---|----|---|---|---|----|---|---|---|----|---|---|
| <p>11.</p> | <p>The marginal opportunity cost can be defined as the ratio of number of units of a good sacrificed to produce an additional unit of another good. It is also known as Marginal Rate of Transformation (MRT). Marginal opportunity cost of a good in terms of the other good can be estimated as:</p> $\text{MOC (MRT)} = \frac{\Delta \text{ loss of output of good Y}}{\Delta \text{ gain of output of good X}} = \frac{\Delta Y}{\Delta X} = \frac{Y_2 - Y_1}{X_2 - X_1}$ <p>Marginal opportunity signifies the rate of sacrifice of good Y</p> <table border="1" data-bbox="297 1178 873 1367"> <thead> <tr> <th>Combinations</th> <th>Good X</th> <th>Good Y</th> <th>MOC</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>1</td> <td>20</td> <td>-</td> </tr> <tr> <td>B</td> <td>2</td> <td>18</td> <td>2</td> </tr> <tr> <td>C</td> <td>3</td> <td>15</td> <td>3</td> </tr> <tr> <td>D</td> <td>4</td> <td>11</td> <td>4</td> </tr> </tbody> </table> <p><i>Example:</i> In the given schedule, if we want to move from combination A to combination B, we will produce one additional unit of X, but we will have to forgo 2 units of Y. The marginal opportunity cost of X in terms of Y at this stage is 2 units, similarly for other combinations too can be worked out.</p> | Combinations | Good X | Good Y | MOC | A | 1 | 20 | - | B | 2 | 18 | 2 | C | 3 | 15 | 3 | D | 4 | 11 | 4 | <p>(1)</p> <p>(1)</p> <p>(1)</p> <p>(1)</p> |
| Combinations | Good X | Good Y | MOC | | | | | | | | | | | | | | | | | | | |
| A | 1 | 20 | - | | | | | | | | | | | | | | | | | | | |
| B | 2 | 18 | 2 | | | | | | | | | | | | | | | | | | | |
| C | 3 | 15 | 3 | | | | | | | | | | | | | | | | | | | |
| D | 4 | 11 | 4 | | | | | | | | | | | | | | | | | | | |
| <p>12.</p> | <p>PRICE FLOOR</p> <p>A price floor is the lowest legal price of a commodity at which it can be sold, fixed by the government. Price floors are used by the government to prevent prices from being too low.</p> <p>The main reason for imposing the price floor policy is the welfare of the producers / farmers. Eg the minimum wages, minimum support price</p> <p>Consequence:</p> | <p>(2)</p> <p>(2)</p> | | | | | | | | | | | | | | | | | | | | |

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| | <p>Buffer Stock: In order to maintain the minimum support price, the government may have to build buffer stocks to enable producers to dispose of their surplus stocks. The government purchases the surplus stocks available with the farmers/producers; these stocks are released in case the production of the supported commodity suffers.</p> <p style="text-align: center;">OR</p> <p>PRICE CEILING Price ceiling means the maximum limit that the government imposes on the price of a commodity. Price ceilings are used by the government to prevent prices from being too high.</p> <p>The main reason for imposing price ceilings is to protect the interests of the consumers in situations in which they are not able to afford needed commodities. For example, during the recent rise in the prices of pulses.</p> <p>Consequence: Shortages of the commodity and Rationing: In case of price ceiling the quantity actually supplied in the market will shrink; as a result, a large chunk of consumer's demand will go unsatisfied. To deal with such a situation the government may resort to rationing of the commodity.</p> | <p>(2)</p> <p>(2)</p> <p>(2)</p> <p>(2)</p> |
| <p>13.(a)</p> <p>(b)</p> | <p>E_s at point L = $\frac{\text{Supply Curve intercept on X axis}}{\text{Supply at point L}}$</p> <p>Draw a perpendicular from point L on the axis, say at OQ,</p> <p>The intercept of the supply curve coincide with the origin. Therefore, E_s at point L = $OQ/OQ = 1$</p> <hr/> <p>The given statement is correct. Normal profit is defined as the minimum reward that is just sufficient to keep the entrepreneur supplying his factor service Since total cost includes payment made to primary inputs: land, labour, capital and enterprise, total cost includes rent, wages, interest and (normal) profits.</p> | <p>(1)</p> <p>(1)</p> <p>(1)</p> <p>(3)</p> |
| <p>Q.14</p> <p>(a)</p> <p>(b)</p> | <p>If $MU_x/P_x > MU_y/P_y$, then it means that satisfaction of Mr. Aman, derived from spending a rupee on Good X is greater than the satisfaction derived from spending a rupee on Good Y. Mr. Aman, will reallocate his income by substituting Good X for Good Y. As the consumption of Good X increases the marginal utility derived from it goes on diminishing and reverse proposition occurs for Good Y, this process will continue till MU_x/P_x becomes equal to MU_y/P_y.</p> <p>If P_y falls, $MU_x/P_x < MU_y/P_y$, then it means that satisfaction derived from</p> | <p>(3)</p> |

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| | <p>spending a rupee on Good X is lesser than the satisfaction derived from spending a rupee on Good Y.</p> <p>Mr. Aman will reallocate his income by substituting Good Y for Good X. As the consumption of Good Y increases the marginal utility derived from it goes on diminishing and reverse proposition occurs for Good X, this process will continue till MU_x/P_x becomes equal to MU_y/P_y.</p> | (3) |
| Q.15 | <p>a) False: Since the firm under Perfect Competition is a price taker, AR curve will be a straight line parallel to X-axis.</p> <p>b) True: Since TFC remains unchanged / constant.</p> <p>c) False: When MR is falling but positive, TR will be rising.</p> <p>(brief explanation of each)</p> | (2) (2) (2) |
| | SECTION B : MACRO ECONOMICS | |
| Q.16 | (c) as on any point of time | (1) |
| Q.17 | Nominal Flow/Money Flow is the flow of factor payments and payments for goods and services between households & firms. | (1) |
| Q.18 | (i) Fiscal deficit less interest payments | (1) |
| Q.19 | (iii) Margin Requirements | (1) |
| Q.20 | Subsidies are the 'economic assistance' given by the government to the firms and households, with a motive of general welfare. | (1) |
| Q.21 | <p>When price of foreign currency in terms of domestic currency rises in the foreign exchange market it is termed as depreciation of domestic currency. Any depreciation of home currency results in increase in exports of the country since it increases the global competitiveness of the goods ie foreign countries can purchase more quantity of goods and services with the same amount of foreign currency from the domestic country. As a result exports of the domestic country rise.</p> | (3) |
| Q.22 | <p>$C = 100 + 0.75Y$ $I = 150$</p> <p>(i) At equilibrium level of income: $Y = C + I$ $Y = 100 + 0.75Y + 150$ $Y - 0.75Y = 250$ $Y = 250 / 0.25 = 1,000$ (in ₹ crores)</p> <p>(ii) $C = 100 + 0.75Y = 100 + 0.75(1000) = 100 + 750 = 850$ (in ₹ crores) $Y = C + S$ or $S = Y - C = 1,000 - 850 = 150$ (in ₹ crores)</p> | (1) (1) (1) |

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| | <ol style="list-style-type: none"> 1. Avoid double counting 2. Production for self consumption should be included 3. Sale of second hand goods is not to be included 4. Production from illegal activities is not to be included 5. Value of services rendered by housewives/family members is not to be included <p>(any four)</p> | (4) |
| Q. 27 | <p>(a) The term fiscal deficit is the difference between the government's total expenditure and its total receipts (excluding borrowing). Such borrowings are generally financed by issuing new currency which may lead to inflation. However, if the borrowings are for infrastructural development this may lead to capacity building and may not be inflationary.</p> <p>(b) The term 'Economic Growth' refers to a sustained increase in the real GDP of the economy OR an absolute/net increase in the total volume of goods and services produced by an economy. This is an essential objective of the government budget as the budget can be a very effective instrument for targeting the economic growth. Can be achieved by providing tax rebates, infrastructural stimulation etc.</p> | (1) (2) (3) |
| Q.28 | <p>Range of Investment Multiplier = one to infinity.</p> <p>Relation: if MPC rises, investment multiplier : positive relation, whereas if MPS rises, investment multiplier falls: inverse relation. (Relation to be supported by numerical examples or explanation)</p> | (2) (4) |
| Q.29 | <p>This is the most crucial function played by any central bank in the modern times. Central Banks are supposed to regulate and control the volume and direction of the credit by using the:</p> <ol style="list-style-type: none"> i) Quantitative techniques – are those techniques which influence the quantum of credit in the economy like open market operations, bank rate policy, repo and reverse repo rate policy etc. ii) Qualitative techniques - or selective credit control techniques are the ones which influence the direction of credit in the economy like margin requirements and moral suasion. <p>(brief explanation of each)</p> <p style="text-align: center;">OR</p> <p>Creation of credit is one of the crucial functions performed by a commercial bank in modern times. The commercial bank is responsible for putting money (produced/created by central bank) in circulation through the process of credit creation or the lending process.</p> <p>Numerical Illustration, may be based on the following assumptions:</p> <ol style="list-style-type: none"> i. There is only one bank in the economy. ii. Initial deposits are say ₹10,000 crores and the legal reserve | (6) (3) |

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| | <p>requirement proposed by the central bank is 10%.</p> <p>iii. Credit Creation = Initial deposits x $\frac{1}{LRR}$ = 10,000 / 0.1</p> <p>= ₹1,00,000 crores.</p> <p>Students may provide a schedule for deriving the same</p> | (3) |
| Q.30 | <p>(i) National Income= (ix) + [(iii) + (xiii) + (vii)] + (i) + (ii)</p> <p>= 1600 + (500 + 500 + 300) + 2500 + (-50)</p> <p>= ₹ 5350 crores</p> <p>(ii) Personal Disposal Income= (iv) - (vi) - (viii) - (xiv)</p> <p>= 4000 - 700 - 500 - 300</p> <p>= ₹ 2500 crores</p> | <p>(2)</p> <p>(1)</p> <p>(1)</p> <p>(1)</p> <p>(1/2)</p> <p>(1/2)</p> |