(D

CENTRAL BOARD OF SECONDARY EDUCATION

View Answer Script Details

Roll No. : 0303553304

Exam : CBSE SCHOOL EXAMINATION 2014

Total Mark : 100.00

Subject : ECONOMICS

Question wise Mark Summary

Q.No	Mark	Q.No	Mark	Q.No	Mark	Q.No	Mark
1	1	17	1	32.s4	1		
2	1	18	1	32.s5	0.5		
3	1	19	1	32.s6	0.5		
4	1	20	1				
5	1	21	1				
6	3	22.s1	1.5				
7	3	22.s2	1.5				
8	3	23	3				
9	3	24.s1	1				
10.s1	1	24.s2	1				
10.s2	1	24.s3	1				
10.s3	0.5	25	3				
10.s4	0.5	26	3				
11	4	27.s1	1.5				
12	4	27.s2	1.5				
13	4	27.s3	1				
14.s1	2	28	4				
14.s2	1	29	4				
14.s3	1	30.s1	2				
14.s4	1	30.s2	2				
14.s5	1	30.s3	2				
15.s1	2	31.s1	1				
15.s2	4	31.s2	2				
16.s1	1	31.s3	3				
16.s2	1	32.s1	2				
16.s3	3	32.s2	1.5				
16.s4	1	32.s3	0.5				

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

केन्द्रीय माध्यमिक शिक्षा बोर्ड, दिल्ली
सीनियर स्कूल सर्टिफिकेट परीक्षा (कक्षा बारहवीं)
परीक्षार्थी प्रवेश-पत्र के अनुसार भरें

Subject : ECONOMICS

Date of the Examination : 26.03.2014, WEDNESDAY

Medium of answering the paper : ENGLISH

Code No. as written on the Question Paper: 56/1/3

Supplementary answer-book(s) used: 1

B D H S C

Writer provided : Yes / No: NO

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

Instructions to Candidates

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

CBSE

केन्द्रीय माध्यमिक शिक्षा बोर्ड, दिल्ली

Central Board of Secondary Education, Delhi

सीनियर स्कूल सर्टिफिकेट परीक्षा (कक्षा बारहवीं)

SENIOR SCHOOL CERTIFICATE EXAMINATION (CLASS XII)

प्रमाणित किया जाता है मैंने/हमने इस उत्तर पुस्तिका का मूल्यांकन प्रश्न पत्र के समुचित सेट के अनुसार और पूर्ण रूप से मूल्यांकन पद्धति के अनुसार किया है।

Certified that I/We have evaluated this answer-book according to the correct set of question paper and strictly as per the marking scheme.

	संख्या No.	हस्ताक्षर Signature
परीक्षक Examiner		
उप-समन्वयक Co-ordinator		
मुख्य परीक्षक (यदि जाँच की हो) Head Examiner (If checked)		

Q.No.	Marks	Q.No.	Marks
01		21	
02		22	
03		23	
04		24	
05		25	
06		26	
07		27	
08		28	
09		29	
10		30	
11		31	
12		32	
13		33	
14		34	
15		35	
16		36	
17		37	
18		38	
19		39	
20		40	
TOTAL (I)		TOTAL (II)	

(I) + (II) = Grand Total of (I) & (II) in figures

Total of marks in words ____________________

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

Section B - Macroeconomics

32. NDP_{FC}

$GFCE = 100$
$+ PFCE = 300$
$+ GDFCF = 50$
$+ \text{Closing Stock} = 25$
$- \text{Opening stock} = 25$
$+ \text{Net exports} = 10$
$\Rightarrow GDP_{MP} = 460$

$GDP_{MP} = 460$
$- NIT = 80$
$GDP_{FC} = 380$
$- Dep = 20$
$NDP_{FC} = 360$

ans: NDP_{FC} = Rs. 360 Arab

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

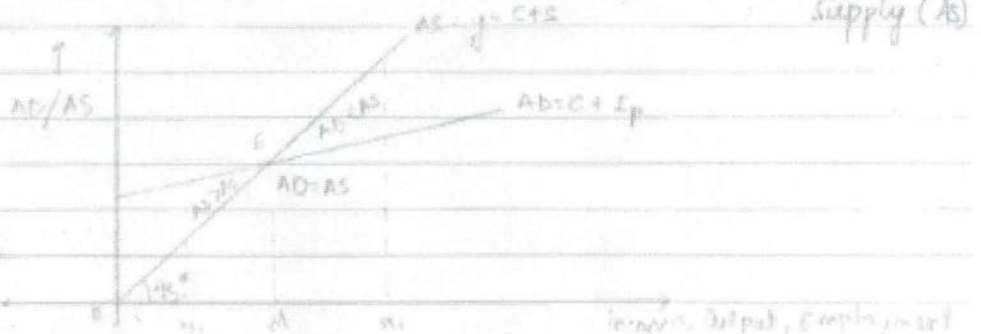
NNDI

$$
\begin{array}{lcl}
NDP_{FC} & = & 360 \\
+\ NIT & = & 80 \\
\hline
NDP_{MP} & = & 440 \\
+\ NFIA & = & -10 \\
\hline
NNP_{MP} & = & 430 \\
+\ \text{Net current transfers from abroad} & = & -5 \\
\hline
NNDI & = & 425
\end{array}
$$

ans: NNDI is Rs. 425 Arab.

31. National Income Equilibrium through Aggregate Demand (AD) & Aggregate Supply (AS)

Diagram:



(

Roll No. :	0303553304	Exam :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	Subject :	ECONOMICS

CBSE KIM

5

Schedule ($\bar{C} = 100$, $MPC = 0.5$, $Ip = 50$)

Y (Rs)	C	S	Ip	AD = C+Ip	AS = Y = C+S	Conclusion	
0	100	-100	50	150	0	AD > AS	Excess Demand
100	150	-50	50	200	100	AD > AS	
200	200	0	50	250	200	AD > AS	
300	250	50	50	300	300	AD = AS	EQUILIBRIUM
400	300	100	50	350	400	AD < AS	Deficient demand

Explanation:

- AD is the total demand of all the final goods and services produced by an economy in an accounting year.
  The AD curve is upward sloping with a positive intercept on Y axis.
  $AD = C + Ip$
- AS is the total supply of all final goods & services produced.
  The AS curve is a 45° line through the origin.
  $AS = y = C + S$.
- Equilibrium is attained when $\boxed{AD = AS}$ i.e. at level of income OM.
  There is no tendency to change

(

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

CHANGES when economy is not in equilibrium:

Case 1 :
- at level OM_2, $\boxed{AD < AS}$
- This means that the producers will find that their inventories are piling up with stock.
- To correct this, they reduce employment. This reduces the output and thus, the income.
- Income falls till level OM, where AD = AS.
- Here, there is no tendency to change.

Case 2 :
- at level of income OM_1, $\boxed{AD > AS}$
- Producers see that their inventories are reducing & they have to sell their saved stock.
- Thus, they increase employment. This increases the output, thus income rises
- Income rises till level OM where AD = AS.
- Here, there is no tendency to change.

Roll No. : 0303553304	**Exam :** CBSE SCHOOL EXAMINATION 2014
Total Mark : 100.00	**Subject :** ECONOMICS

CBSE 2014

7

30.

i) Fees to a mechanic is by a firm is not included.

This is an inter-firm payment.
It is a part of the intermediate consumption of the firm and has already been ~~...~~ accounted for in its final value and expenses.
Thus, the fees paid to a mechanic is excluded from the GDP_{MP}.

ii) Interest on a car loan is not included.

This is because the loan was taken to meet the consumption demand of the individual. This loan & thus the interest does not correspond to any productive activity being performed in the economy.
Since no productive activity is being performed, the given interest is not a part of GDP_{MP}.

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

iii) Expenditure on a car purchased by a firm is included in estimating GDPmp.

This is because this car is brought for the purpose of investment and helps to enhance the future productive capacity of the firm.
This is a final good as it's used for investment and is a part of the ~~govt~~ firms final expenditure.
Thus this expenditure is included in GDPmp.

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

29. LENDER OF LAST RESORT FUNCTION.

(i) The commercial banks are obligated to keep a stipulated percentage of their net total demand and time liabilities as reserve with the central bank.

- This is called the Cash Reserve Ratio (CRR). Which is used as an instrument of monetary and credit control.
- Whenever banks are in need of funds, the central bank lends them funds from this reserve along with centralised clearing and remittance facilities.

(ii) The banks also tend to deposit excess reserves with the central bank.

- The central bank draws on the excess reserves to meet clearing drains caused by settlements with other ~~firms~~ & banks and also to meet net withdrawals by account holders.

Roll No. : 0303553304 Exam : CBSE SCHOOL EXAMINATION 2014

Total Mark : 100.00 Subject : ECONOMICS

By using the pool of reserves to lend short-term funds to the commercial banks, the central bank acts as a ~~Commercial~~ LENDER of LAST RESORT

27. Given: $y = 1500$

$\bar{c} = 300$ Economy is in equilibrium.

$I = 300$

Solution: At equilibrium, we know that

AS = AD

i.e. $y = C + I$; where $C = \bar{c} + by$ $\boxed{\text{"b"} = MPC}$

$\Rightarrow y = \bar{c} + by + I$

$\Rightarrow y(1-b) = \bar{c} + I$

$1 - b = \frac{\bar{c} + I}{y}$

$\Rightarrow 1 - \left(\frac{\bar{c} + I}{y}\right) = b$ —(1)

On substituting the given values in (1), we get,

$1 - \frac{600}{1500} = b$

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

$\Rightarrow b = \frac{1500 - 600}{1500}$

$= \frac{900}{1500}$

$= \frac{9}{15}$

$= \frac{3}{5}$

$= \frac{6}{10}$

$\boxed{b = 0.6} \Rightarrow \boxed{MPC = 0.6}$

28. → The government's increased expenditure on public goods is an effort to increase the public's welfare.

→ This is done in the interests of the public, to ensure that they receive better facilities. This expenditure is crucial for the development and progress of the society.

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

12

→ This reallocation of resources is done to execute public works programs.
→ It aims to bring about expenditure of developmental and essential items like education & healthcare & provision of facilities like electricity, railways.
→ This is also done to raise the standard of living and reduce inequalities in income & wealth.

The government achieves this through its budgetary policies of:
- reallocation of resources
- redistribution

~~to kta~~ etc.

ECONOMIC VALUE: upliftment of standard of living.

25. STORE OF VALUE function of money:

- Money is an asset that can be used to store generalized purchasing power.
- Nowdays, savings are done in the form of money.
- This is because money has many advances over the barter system, in which goods were used to store purchasing power.
- ADVANTAGES:

→ Unlike goods, money is not perishable.
→ Money occupies less space. It's storage is more convenient & less costly than for goods.
→ The value/price of money remains more or less stable, unlike goods, which depreciate in value.
→ Money is portable
→ It has general acceptability & is more convenient

Thus, it serves to conveniently act as a store of Value.

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

14

24. EXTERNALITIES refers to a situation in which the actions of one, inadvertently either harm the actions of another or cause another individual benefits.

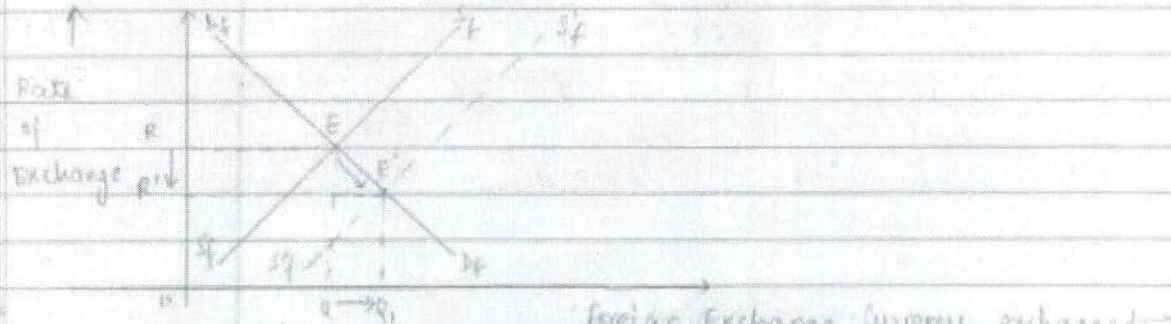
- externalities come without payments for ~~consemp~~ compensation if harm is done, nor receipts if benefits are provided.

- ~~Example~~ Externalities affect the welfare of the country, but are not included in the Real GDP.

- Example:
A factory set up along a river.
This factory discharges untreated wastes into the river water and has large emissions of smoke.
Thus it leads to air, ~~soil~~ and water pollution.
The pollutions so caused is the externality.
This reduces the welfare of the people. Thus the welfare is lesser than what the GDP may indicate as

the GDP includes only the value of goods & services produced by the factory and not the pollution caused by it.

23. • Giving incentives for exports increases exports.
• This increases the supply of foreign exchange.



• As we can see from the curve, an increase in supply leads to a rightward shift of the supply curve.

- As a result, there is a dis equilibrium.
- To reattain equilibrium, the rate of exchange falls.
- This ensures an increase in quantity of foreign exchanged demanded (inverse relationship) and ~~increase~~ decrease in quantity supplied (direct relationship).
- The new rate of exchange is OR', at point e', the new equilibrium.
- Since OR' < OR
  ∴ it is said that the CURRENCY HAS APPRECIATED
  and FOREIGN EXCHANGE RATE has REDUCED.

22 (i) Revenue Expenditure.

This expenditure on the collection of taxes neither creates assets nor reduces liabilities.
It is incurred on the regular day to day functioning

of the government and is recurring in nature.

ii) Capital Expenditure.

The purchase of computers is an increase in the assets and thus the corresponding expenditure is a capital expenditure. It is made for the purposes of investment

21. Marginal Propensity to Consume (MPC or 'b') is defined as the change in consumption as a proportion of the change in income.

$\boxed{MPC = \frac{\Delta C}{\Delta Y}}$ MPC is falling.

20. Demand deposits refers to those deposits which can be ~~enchased~~ encashed via cheques.
They are deposits from which withdrawals can be made.

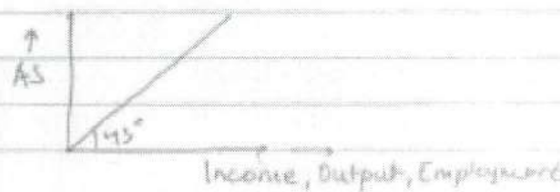
Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

18

19. DEVALUATION refers to a fall in the price or value of the domestic currency in terms of the foreign currency, under the FIXED EXCHANGE RATE system.
This is officially announced by the government.

18. GOVERNMENT BUDGET is an annual statement of the estimated receipts and estimated expenditure of the government, over an accounting year. (i.e. 1st April to 31st March in India).

17. Aggregate Supply (AS) refers to the total supply of all the final goods and services produced in an economy, over a given period of time i.e. an accounting year.
It's Represented by a 45° line



Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

19

26. Deficit in the Balance of Payments refers to a situation where the total ~~outflow~~ inflow of autonomous transactions is less than the total outflow of autonomous transactions.

- This happens because the items on the debit side (negative items) are more than the items on the credit side (positive items)

- CAUSES :

→ Such a deficit can be caused due to developmental activities, in which developing nations import heavily from developed nations (eg. machinery, services)
→ In times of inflation, foreign goods are cheaper and are thus imported. This could also lead to a deficit
→ In times of boom in the economy, at times the domestic production is unable to satisfy the needs of the economy. This also leads to imports & thus a deficit.

- FINANCING of deficit by ACCOMODATING TRANSACTIONS :

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

20

i) Foreign exchange reserves from the central bank can be used to cover the deficit.

ii) Borrowings from external sources like IMF or World Bank may also be undertaken.

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

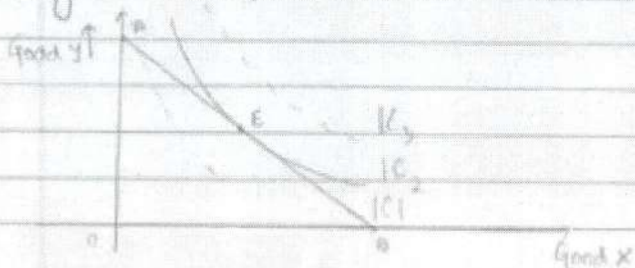
Section A - Microeconomics

16. INDIFFERENCE CURVE ANALYSIS

Definition:
Consumer's Equilibrium is defined at that level of consumption where the consumer gets maximum satisfaction at the given income and prices and there is no tendency to change.

Assumptions: • Utility is ordinal (can be ranked)
• the consumer is rational
• price and income are given
• consumer spends his entire income
• MRS is falling • Preferences are monotonic

Diagram:



Conditions for Equilibrium:

(i) Slope of IC = Slope of Budget line

$$\boxed{MRS = MRE = \frac{Px}{Py}}$$

(ii) MRS is continuously falling i.e. IC is strictly convex.

Explanation:

- MRS is the marginal rate of substitution, which is the rate at which the consumer is willing to sacrifice some units of Y for 1 unit of X

$$\boxed{MRS = \frac{\Delta Y \text{ sacrificed}}{\Delta X \text{ obtained}}}$$

- MRE, Market Rate of Exchange, is the rate at which the consumer has to sacrifice some units of Y to get 1 unit of X, as required by the market.
- at point E, i.e. the point of tangency

$$\boxed{MRS = MRE = \frac{Px}{Py}}$$

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

This means that the consumer is willing to sacrifice Y at the same rate as required by the market.
Thus he has no incentive to buy more or less of X.
This point E, is the point of equilibrium.

• Case 1: when $\boxed{MRS > Px/Py}$

→ This means that the consumer is willing to sacrifice more of Good Y as compared to the needs of the market.
→ He values X (Good) more than the market
→ This induces him to buy more of X Good.
→ By the law of diminishing marginal utility, MRS will fall till it equals $\frac{Px}{Py}$ (MRE).
→ Here, there is no tendency to change.

• Case 2: when $\boxed{MRS < Px/Py}$

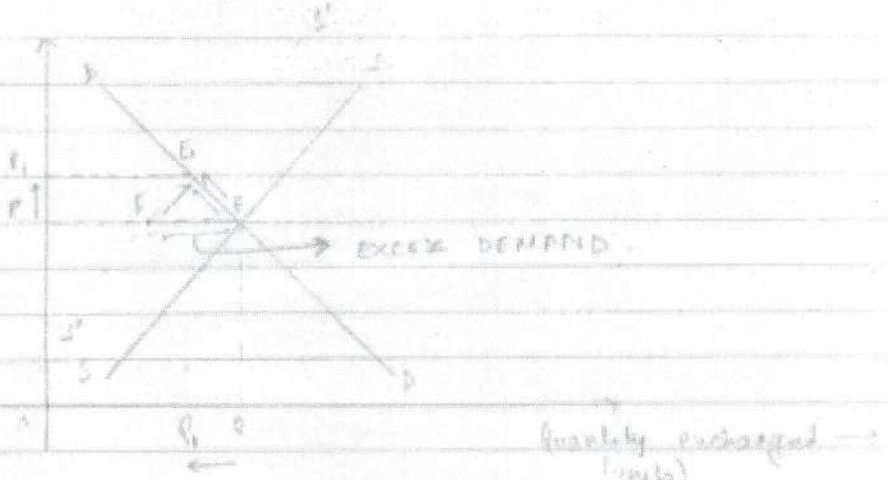
→ The consumer is willing to sacrifice less of Good Y than what the market requires.
→ He values X less than the market.
→ This induces him to buy less of X and more of Y.

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

→ By the law of diminishing marginal utility, MRS falls till it equals $\frac{Px}{Py}$ and there is no tendency to change.

- $\boxed{\text{MRS must fall continuously}}$ for a strictly convex IC, with no flat portions. This helps attain a unique equilibrium point.

15. Diagram:



Introduction:

- DD is the original demand curve.
- SS is the original supply curve. The new supply curve is to the left S'S'
- OP was the equilibrium price and OQ was the equilibrium quantity.
- E was the point of equilibrium.

Changes:

- at the price level OP, the supply is now less than the demand. This is a situation of EXCESS DEMAND.
- This leads to a competition between consumers.
- ∴ prices of the good begin to rise.
- Due to this, the demand falls (inverse relation) and supply rises (direct relation)
- The upward movement along both curves continues till the gap EF reduces to zero.
- This happens when price level OP_1 is reached where the demand = supply (new).

Roll No. : 0303553304 Exam : CBSE SCHOOL EXAMINATION 2014

Total Mark : 100.00 Subject : ECONOMICS

26

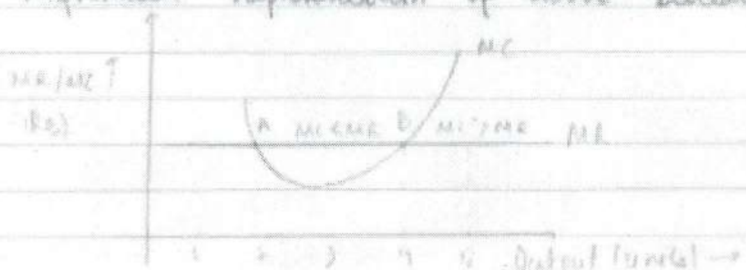
Result :

- The new equilibrium point is E'
- Equilibrium price ~~changed~~ ~~Rose~~ Rises from OP to OP,
- Equilibrium quantity fell from OQ to OQ,

14

	Output	TR(Rs)	TC(Rs)	MR (Rs)	MC (Rs)	Conclusion	(Rs) Gain / loss
	1	7	8	7	—	—	—
	2	14	15	7	7	MR = MC	0
	3	21	21	7	6	MR > MC	1
Equilibrium	4	28	28	7	7	MR = MC	0
	5	35	36	7	8	MR < MC	-1

Diagramatic representation of above schedule



Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

Principle:

- We know that when one additional unit is sold in the market, MR is the gain and MC is the cost.
  ∴ MR - MC = net gain.
- As long as MR > MC, gain > 0 and it is profitable to produce more.

Conditions for equilibrium
MC = MR and MC > MR for 1 more unit sold

Explanation:

- From the given schedule, at the 2nd unit sold, MR = MC. ∴ net gain was zero. (at point A)
- But at the 3rd unit, MR > MC. This meant that it was profitable to produce more. 'A' was ∴ not the point of equilibrium
- Thus the producer produced the 3rd unit.
- At the 4th unit (i.e. at point B)
  MC = MR again. The net profit was zero.
- After point B, i.e. when the 5th unit was to be sold, it was found that
  MC > MR.
  This would lead to losses and the total output would fall.

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

- Thus the producer stops at point B i.e. at the 4th stage of production.

Point B = Point of equilibrium at level 4
Profits at B = zero

~~total profit gained by producing 4 units~~.

11. Market demand for a good is defined as the total demand of all consumers for that good at the given prices and at the given point of time.

It's the sum of all the individual demands.

Factors determining market demand:

1. Price of the commodity
2. Level of Income
3. Price of related goods (i.e. substitute and complementary)
4. No. of consumers

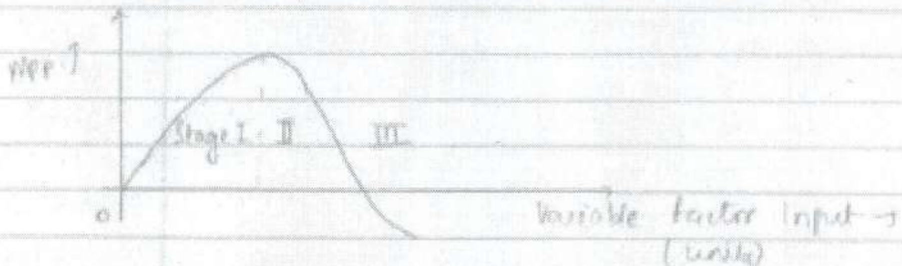
Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

5. Income distribution
6. Tastes and preference
7. Hoarding and speculation

12 Law of Variable Proportions state that The Total physical product (TPP) first increases at an increasing rate, then at a decreasing rate and finally falls; when 1 variable factor input is changed keeping all other factors constant.

Behaviour

∴ It's seen that the Marginal product (MPP) first rises, then falls and finally becomes negative.



Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

30

Causes:

1. MPP increases in Stage I due to: Increasing Returns

(a) Fuller use of the variable factor –
As more units are employed, division of labour & specialisation is practiced.

b) Fuller use of fixed factor:
Fixed factor is more efficiently utilised.

c) Indivisibility of capital and its optimal combination:
capital or fixed factors are indivisible.
Thus we start with a sub optimal combination of fixed and variable factors and approach the optimal combination

2. MPP falls in Stage II: Diminishing Returns

a) Lack of perfect substitutes between factors:
eg. manual labour can't compensate for machinery only upto a certain extent.

b) Use beyond optimum capacity:
As we move beyond the optimum combination of fixed and variable factors, efficiency falls due to wear and tear.

(c) Fixity of the fixed factor: The amount of fixed factor per unit of variable input falls and efficiency falls.

3. MPP is negative in stage III: $\boxed{\text{Negative returns}}$.

(ii) Due to OVERCROWDING:
when too many variable inputs are employed, they come in each others way and efficiency falls.

~~Consumer's equilibrium is~~

10.

P(Rs)	Q(units)
10	30
9	x

ed = −1

$$\boxed{ed = \frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100}}$$

$$\Rightarrow ed = \frac{\frac{\Delta Q}{30} \times \cancel{100}}{\frac{1}{10} \times \cancel{100}}$$

$$1 = \frac{\Delta Q}{3}$$

$$\Rightarrow \Delta Q = 3 \quad \Rightarrow x - 30 = 3$$

$$\boxed{x = 33 \text{ units}}$$

ans: The consumer will buy 33 units

Rough

x = 33

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

32

9: FOR WHOM TO PRODUCE:

- This problem deals with the distribution of goods between the different classes of a society i.e. who gets what.
- In a centrally planned economy, the resources & goods are equally distributed in the masses, so that the share of each individual is equitable.
- In a market economy, this decision is made with the help of the free forces of market demand and supply, which determine the price of the good.

2014

→ This price in turn determines the income of the factors of production, who have contributed to the production process. The income so determined determines the purchasing power of the individuals.

→ Goods are produced only for those who have the purchasing power to buy them in a market economy.

Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

0901

Fictitious Roll No.
(To be entered by Board)

Please do not write your Roll Number on this Answer-Book

Supplementary Answer-Book(S) No. 1

8. OLIGOPOLY'S INTERDEPENDENCE.

- The number of firms or large firms producing most of the output is less or few in an oligopoly.
- Thus, this number is manageable enough to predict the reactions of a rival firm when the prices or output of a firm is varied.
- When such a change in price and/or output is done, the rivals have a knowledge about these changes and the way the firm operates.
- They are likely to react by changing their own price and output of the quantity produced.
- The given firm should be able to anticipate this reaction of the rival firms.
- Thus he should take this into account before changing the price or output of his good.
- Thus, firms are interdependent on each other regarding decisions about price and output.

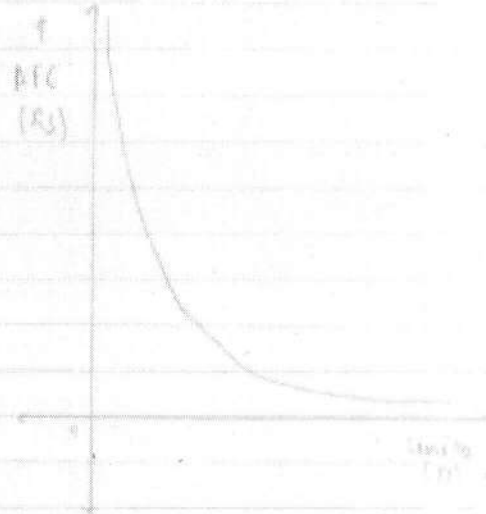
Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

6. Average fixed cost is defined as the total fixed cost per unit of output produced

$$\boxed{AFC = \frac{TFC}{Q}}$$

Schedule

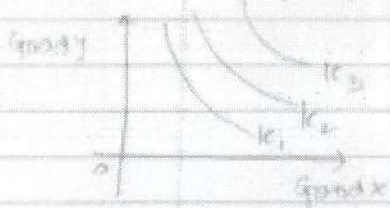
units (Q)	TFC (Rs)	AFC (Rs)
0	100	∞
1	100	100
2	100	50
3	100	33.3
4	100	25
5	100	20
6	100	16.67
7	100	14.2
8	100	12.5
9	100	11.1
10	100	10



Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

The curve is a rectangular hyperbola.
The AFC reduces hyperbollically with the increase in output as shown by the schedule and curve.

5. Indifference map is the set of all the indifference curves that the ~~pro~~ consumer can have. The different IC's signify signify different levels of satisfaction.



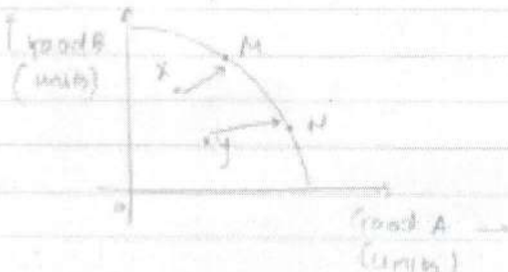
$IC_3 > IC_2 > IC_1$ (order of level of satisfaction)

4. A perfect oligopoly is one in which the goods produced are homogenous.

3. Returns to a factor refers to a change in the behaviour of the total physical product when one more unit of the variable factor input is employed, keeping all other factors constant.

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

2. Due to reduction of unemployment, resources are now fully and efficiently utilized. The economy now operates on points lying on the PPC due to fuller and efficient utilization of ~~reso~~ resources



Thus, the level of production is more than before as more goods are produced.

1. Marginal revenue 'MR' is defined as the addition made to the total revenue when one more unit of the output is sold.

$$MR = TR_n - TR_{n-1}$$

OR

$$\boxed{MR = \frac{\Delta TR}{\Delta Q}}$$

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

5

13. Utility Analysis:

The consumer consumes two goods A and B.
The conditions for equilibrium are:

(i) $\boxed{\frac{MU_B}{P_B} = \frac{MU_A}{P_A}}$ $= MU_m$ i.e. The marginal utility derived per rupee of the goods is same for the last rupee spent on each good.

(ii) Marginal utility falls as the consumption of a good increases, by the law of diminishing marginal utility.

Given: Price of B falls.
$\Rightarrow \frac{MU_A}{P_A} < \frac{MU_B}{P_B}$

- Thus, a disequilibrium is attained.
As a result the marginal utility derived per rupee for good B is greater than that of good A.

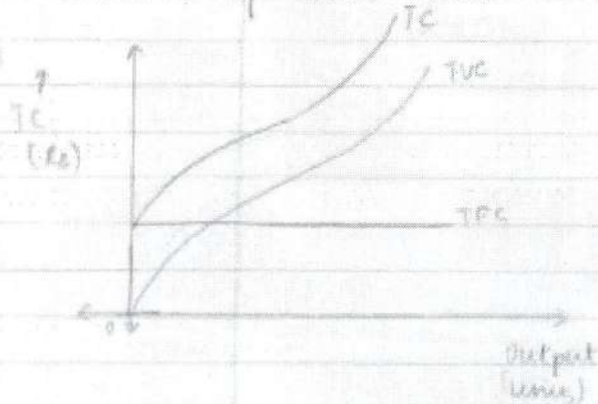
Roll No. :	0303553304	**Exam :**	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject :**	ECONOMICS

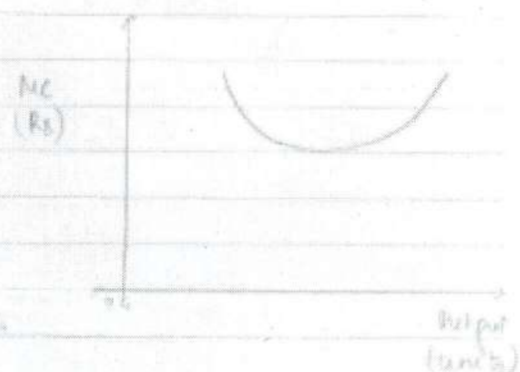
- This means that 1 Re. from good A to good B, the consumer gains more utility than he loses
- As a result, he would consume more of good B than good A.
- As more and more units of good B are consumed, by the law of diminishing marginal utility MU_B will fall.
- MU_B will fall till $\frac{MU_A}{P_A} = \frac{MU_B}{P_B} = MU_m$
- Here, the equilibrium is reattained.
- This means that to reach equilibrium again i.e. to maximise the consumer's satisfaction, the consumption of B increases when the price of B decreases.

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

7. Relationship between ~~Marginal~~ ~~Reven~~ Total Cost and Marginal Cost

• According to law of variable proportions behaviour of total cost and Marginal Cost is:





Schedule (TFC = Rs. 40)

Units	TC	TFC	TVC	MC
1.	47	40	7	7
2.	53	40	13	6
3.	~~73~~ 60	40	20	7
4.	68	40	28	8

Roll No. :	0303553304	**Exam** :	CBSE SCHOOL EXAMINATION 2014
Total Mark :	100.00	**Subject** :	ECONOMICS

Relationship:

- Initially, when Marginal Cost is falling, TC is increasing at a decreasing rate.

This is because in the 1st stage of production, there are increasing returns to a factor & assuming that each new unit of the variable factor is paid the same; the marginal cost of each new unit falls.

- In the 2nd stage of production, due to diminishing returns to a factor, the MC is found to ↑

Thus when the MC is rising for each new unit produced, the total cost increases at an increasing rate.