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Sub: Economics STD: 11 Commerce

SECTION A : MCQ [8]

1) (B)Marshal
2) (C)Short run regular changes
3) (C)Monopoly
4) (D) Increase-decrease
5) (D) Supply
6) (D) 1999
7) (C) Import-Export
8) (D) Railway

SECTION B : ANSWER IN ONE SENTENSE [8]

9) What is economics according to Robbin.

Any field of science deals with a problem question and economics deals with the question, ***"how to allocate limited resources which have alternative uses in the satisfaction of recurring and unlimited human wants in order to increase the wellbeing in a society***"?

10) Define Exception to law of demand.

Expansions to the law of demand means that, ***when price of a good falls, its demand contracts instead of expanding and vice – versa***.

11) Define Price elasticity of demand.

"Price elasticity of demand is the ratio of percentage change in demand due to percentage change in price."

12) Define: Product differentiation.

When a producer produce a product, there a possibility that there are minor differences in the products in terms of form, fragrance, taste, shape, weight and quality. Due to these minor differences, the products can be called different.

13) What is Average Variable cost?

Total variable cost of a firm divided by total units produced, whatever we get is called average variable cost.

14) How NNP is obtain from GNP. Write formula

NNP= GNP-DEPRECIATION

15) Which is the apex body in the field of banking sector in India was established?

RBI

16) What is liberalization.

"Liberalization means increase in the freedom of private enterprise by allowing greater play of market forces and reduced interference by the state; in a way relaxing policy restrictions imposed on economic activity."

SECTION C: SHORT QUESTIONS ANWERS [12]

17) Explain the characteristics of Land.

land can be said to have the following **characteristics**:

i) Land is a **gift of nature** and is not manmade.
ii) The **total supply** of land is fixed.
iii) Land is **immobile**.
iv) All type of land are **different in fertility**, climatic conditions and so on.
v) The **remuneration of land** as a factor of production is called '**rent**'.

18) What is Income elasticity of demand? Write its formula.

"Income elasticity is the ratio of percentage change in the demand due to percentage change in the income."

It is the extent of change in demand for a good because of a change in income of the consumer. It can be expressed in formula as follows:

Income elasticity (E_y) = $\frac{proportionate\ change\ of\ demand}{proportionate\ change\ of\ income}$

19) What is called the national income?

The monetary value of the total production in agriculture, industries and service sector in a country during a year is the national income of that country.

20) What is Privatisation? Give one example.

Privatization means process of introducing private ownership in publicly owned enterprises and increasing the size of private sector.

Banking, Education

21) Write difference between GDP and NDP.

GDP	NDP

GDP stands for Gross domestic product	NDP stands for Net domestic product
The market value of goods and services produce by citizen of country and foreign citizen within the country's limit is called gross domestic product	When Depreciation is deducted from the Gross domestic product then whatever value is obtain is called net domestic product

22) Which expenditures are not included in the expenditure method of National Income?

Following expenditure are not included in the calculation of national income

Expenditure in second hand goods, Transfer payment, pension, unemployment, allowances, financial assistance to widow etc.

SECTION D : ANSWER THE FOLLOWING [12]

23) What is oligopoly discuss its characteristics.

Oligopoly has originated form the Greek words 'Oligos' which means 'Few' and 'Pollein' which means 'Sellers'. So, Oligopoly means the market having few producers.

Characteristics of Oligopoly:

1) Few Sellers and Numerous Buyers:

- The number of sellers and producers is less in the market. The number of firms is limited.
- The number of firms ranges from more than two to less than ten or twenty. Due to this a few number of sellers have a monopoly control over the market.
- The number of buyers is numerous in the market, so the importance of an individual buyer is negligible.
- Due to which the buyers can not affect the market price.

2) Similar or Substitutable Products:

- There is sale of identical or substitute products in oligopoly, when the firms in a market, produce and sell identical or substitute products, it is oligopoly.
- For example, products like salt, crude oil, tea, etc. when traders produce identical products the market follows imperfect oligopoly.
- For example, Cold drinks, motorcycle. Etc.

3) Entry or Exit of Firms:

- In the market of oligopoly, the entry and exit of firms is free or regulated According to the type of oligopoly followed.
- If there is free oligopoly in the market, then there is free entry and exit of the firms, while the oligopoly is restricted, then the entry and exit of firms is regulated.

4) Selling Cost:

- The expenses done for selling the product are called selling cost.
- The selling cost includes the packing, making the product attractive, sales taxes, transportation, expenses given to wholesale and retail traders, showroom expenses, a specific amount expended for sales, prizes, gifts, and the most important being the advertisement cost.
- The selling cost does not include the production expenses.
- There is extreme competition in oligopoly. So, the selling cost becomes an important factor of the market.
- The seller try to attract the consumers through the selling expenses.
- The product difference in the market gives a particular identity to product. So there can be possibility of selling cost.
- For example, advertisements of Television, Car, etc.

5) Inter – Dependence:

- The sellers and producers are very few in number in this market.
- The sellers or producers can thus easily gain the important information about other sellers or producers.
- The sellers and producers special focus on the quality and type of the product to attract the consumers.
- For example, Television, Car etc. producers or sellers.
- So the firm decides the price, quality or type of its product, based on the behavior of the competitors and is dependent on them.

6) Price Stickiness (Kinked Demand Curve):

- The number of firms is less and they are interdependent on each other.
- If any one firm decreases the price of the product, then according to the law of demand, due to comparatively cheaper price of the product there is more demand of the product in the market of that particular firm as compared to other firms.
- There is a decrease in the demand of the products sold by other firms.
- If the competitive firms do not wish this situation, then they also should decrease the price of the product to stay in the competition.

- At the end, the price of the product reaches at a nominal level, and it becomes impossible to reduce the price further.
- On the other hand, if the firm increases the price of the product then the demand of that product decreases, and the competitive firms are profited.

  Thus, as the nominal price is resistant to change, the demand curve becomes kinked.

24) Write a short note on: Progress of Railways in India.

British set up the railway infrastructure in India and with the first rail that run between Boribandar (present day CST) and thane on 16th of April, 1853. By 1947, India had rail network of 53,000Km.benefiting a population of 681lakhs.

Indian railway network is the fourth largest today with a length of 65,000 Km.

25) Give the meaning and nature of Foreign Direct Investment.

When the home country invites capital by allowing foreign investors / companies to produce and sell directly in India such investment is called foreign direct investment.

NATURE OF FOREIGN DIRECT INVESTMENT:

The nature of FDI can be stated as under:

(1) It is a physical establishment in the form of direct investment and hence stable form of investment.
(2) It brings machines, materials and wealth to the home country.
(3) It brings new technology to the country.
(4) It brings a different work culture along with it.

India has systematically allowed FDI in increased proportion in various sectors and India's foreign exchange earnings have increased.

26) What is Circular flow of National Income in economy having two sectors? Discuss it.

- The closed economy is the one in which there is no role of foreign trade.
- Such economy has no goods, services and factor of production are imported in such country.
- Closed economy is self – dependent or self reliant whereas in the open economy has import – export relations with other countries.
- Here we will discuss circular flow of national income only in terms of closed economy.
- To understand the circular flow of production – income – expenditure, we will divide economy into two major sectors (fields).
- The business firms and owner of factors of production, purchase necessary factors of production, capital and labour from families production process and uses them for production.
- Thus, the factors of production reach to firms through families for using the factors firm pays rent, interest, wages and profit (Income) to the owner of factor of production or the families. Thus the flow of money firstly goes to families from the firms.
- A firm produces goods and services with the help of these factors and puts them in market for selling them.
- The families purchase goods and services from market.
- Thus the flow of goods and services comes to families from firms. Families pay money to firms for purchasing goods and services (Expenditure) and therefore the flow of money comes back to firms from families and a firm purchases factor with the help of this money and starts the production again and again pays to families and from families to firms is called circular flow of production – income – expenditure of the national income.
- This circular flow of national income keeps the economy constantly vibrant. National Income can be measured by three ways:

(1) Production
(2) Income
(3) Expenditure.

The flow from families to firm and from firms to families whereas the goods flow from firm to families and payment flow from families to firms. However it must be remembered that it is a closed economy.

In fact there is open economy in which the government has a role to play. Economy shows saving and it has the existence of import and export. The circular flow can be explained on the basis of market in such economy, too.

SECTION E: ESSAY TYPE QUESTIONS [10]

27) Evaluate the Favourable Effects of Economic Reforms.

Favourable Effects of Economic Reforms:

- Economic policy reforms in the form of liberalization, privatization and globalization increased the significance of the market forces of demand and supply owing to which determination of prices, wages and interest became market oriented and more realistic and less regulated.
- Besides, owing to reduced regulations, the decisions regarding production, investment and distribution also became market oriented.
- The stem difference between domestic and foreign investments narrowed down. And, certain effects favourable to India can be observed.

(1) Consumers started getting **variety of goods of international quality** easily and at reasonable prices.
(2) India's **foreign exchange reserves** increased.
(3) **India's exports** increased.
(4) Along with increase in FDI, the **risk** of certain investments and **debt burden** of the state for importing costly technology etc. reduced.
(5) **Large scale investments** increased in the private sector which in turn increased production and employment.
(6) **Factors of production** became more mobile within the nation and between nations.
(7) Under an era of too many **regulations, corruption, bureaucratic hurdles**, delays in decision making and inflexibility in administration had become a common feature in policy implementation. All these are found to have gradually reduced after reforms.
(8) Certain sectors which are significant in growth but neglected owing to scarcity of capital and government regulations got an **impetus with private sector's investment initiatives**. For example, natural gas pipelines, modernization of railways and so on.
(9) Shortages of goods and services became a thing of past; rather variety increased. Social and cultural ties with other nations improved.

28) Discuss the characteristics of Monopoly.

Characteristics of Monopoly:

1) Only one Producer and Numerous Buyers:
- There is only one seller or producer of the product and goods, who controls the supply of the product.
- There is no competition in the market as there is only one seller, allowing the seller or the producer to control the price of the product.
- The producer or seller can decide the price of the product so known as the 'Price Maker' of the market.
- When there are countless buyers in the market, the importance of a single buyer becomes negligible.
- There is competition seen between customers in monopoly. The buyers thus cannot affect the price of the product.

2) Absence of Substitute Goods:
- There is absence of substitute goods in Monopoly.
- But, as in reality there is imperfect monopoly, there is absence of ignorance of the close substitutes.
- There may be a rare possibility or similar product available.
- For example, if while buying a railway ticket from a specific company, for a specific time, to a specific location the ticket is unavailable then there is no possibility of having a similar or substitute ticket to the location.
- But one can try those possibility to travelling by airplane on the same time, to the same location.

3) Restriction over the Entry of New Firms:
- There is different form of monopoly in the market. Monopoly means the existence of only one seller.
- It is possible to end the monopoly but being a difficult process, the seller can sustain his monopoly for a longer duration.
- Due to absence of competition, the seller controls the price and gains super normal profits.
- Even though there is super normal profit due to monopoly, the other firms cannot easily enter the market.
- The monopoly restricts newer firms by factors like natural, law, skills and experience.

4) Control over the Price or Sales:
- To gain maximum profits, the seller controls the supply of the products. But the seller cannot control both the price and the sales of the products.
- To sell less units or products, the firm sets higher prices, while to sell more units of products the firm must set lower price of product.
- To sell large number of units of product with high price is not possible.

5) Super Normal Profit:
- In a monopoly market, producer and seller are the same.
- The seller can gain super normal profits, without any competition in both shorter and longer time periods.
- The seller can put high price on the producer as compared to the total expenses thus gaining super normal profits.

6) Price – Discrimination:
- Due to absence of any competition, the seller can set different prices on the same product, depending on its use or form.
- The seller thus can gain higher profits using the concept of price discrimination, e.g. Doctor.

7) Firms is Industry:
- Ideally a firm is the independent unit of production, while the industry is the collection of the firms producing same products.
- However in monopoly, the producer and the seller are same, so the collection of firms can also be considered a single firm.