Annual Examination April-2018
11_Economics Answer Key

SECTION A: MULTIPLE CHOICE QUESTIONS [10]

1) (D) Adam Smith
2) (D) Refrigerator
3) (B) Lower
4) (A) Real cost
5) (B) U
6) (B) 1853
7)(B) Reduces it
8) (A) Marshall
9) (A) Depreciation
10) (A) An assembly of 5 persons

SECTION B: Answer in one sentence. [10]

(11) Define economics
The word economics in Indian thought is 'arthshashtra' which is derived from from the Sanskrit word 'arth' meaning 'purpose' or 'goal'

(12) What is meant by Public wealth?
ANS Wealth under the ownership of society and meant for collective consumption is called societal wealth. For example, Dam

(13) What is Cross elasticity of demand?
Cross elasticity of demand is the ratio of percentage change in the demand of goods x due to percentage change in the price of goods Y

(14) Give the formula of marginal Cost?
$MC= MC_n-MC_{n-1}$

(15) What is monopolistic competition?
ANs Perfect competition and perfect monopoly coexist in a market, known as Monopolistic Market".

(16) Define Market
Where buyer and seller come in contact directly or indirectly together to buy and sell the product is called market

(17) When RBI get nationalised?
ANS 1949

(18) Define Open economy?
Economy in which there is free trade with foreign country is called open economy

(19) Define GDP
ANS **Gross Domestic Product – GDP:**

There are many concepts of national income among which the concept of gross domestic product is an important concept. The market value of goods and services produced by citizens of a country and foreign citizen within a country's limit is called gross domestic product.

(20) What is budget?

ANS government budget is an annual accounting statement of the item – wise estimates of expected revenue and anticipated expenditure of the government for a new fiscal year

SECTION C: SHORT QUESTIONS ANSWERS [16]

(21) Give the meaning of perishable goods with examples.

Goods which cannot be stored for long period of time is called perishable goods e.g. fruit

(22) What is Demand?

ANS Demand is the quantities of commodities which buyer is ready to buy willing to buy and able to buy at particular point of time and given price

(23) The supply curve is positively sloped. Explain with reasons.

When price increases then supply also increases hence both expand on their axis hence supply curve is positively sloped

(24) Difference: Stock and Supply.

Supply:

It is that amount of production which a producer is able and willing to sell in the market at a given price and at a particular point of time.

Stock:

Stock is the total available amount of goods with a producer which can be offered for sale in the market as per the ability and willingness of the seller. For example, a trader of oil in Rajkot has 500 packets of oil. If she/he is not able and willing to sell it in the market at a given price at a given point of time then supply is zero. But, if she/he is able and willing to sell 300 packets from the available amount then the supply of oil is 300 packets.

(25) Write a brief note on Variable Cost .**OR**Write a brief note on Fixed Cost

ANS **Variable Cost:**

When cost incurred on variable factors by producer is called variable cost. In short term with the change in quantity of production cost also change with the increase in production, cost also increases and with the decrease in production, cost also decreases and if production is zero than cost is also zero. It is known as variable cost. Variable cost is also known as unstable or direct or main cost. This cost has direct (positive) relation with quantity of production. In variable cost following things are included. For example, price of raw material, energy consumption, transportation expenditure, labour wages, tax on product and sale tax etc. as production increases this cost also increases. Therefore this is known as variable cost. Difference between fixed cost and variable cost is possible in short period of time only. In a long run (period) all costs are variable.

Units of Output	Total Variable Cost (Rs.)
00	00
10	80
20	150
30	210
40	290
50	390

When production is zero, variable cost is zero but as production increases, variable cost also increases, from the table, we can see that till 30 units variable cost is increasing at a diminishing rate because increasing returns to scale is applicable. After 30 units decreasing return to scale is applicable due to that variable cost is increasing at increasing rate.

In diagram on X – axis output (Units) is measured and on Y – axis total variable cost in Rs. Is measured. As production increases from 10, 20, 30, total variable cost also increases from 80, 150, 210 total variable cost has positive slope from initial point as it increases at decreasing rate initially, later on at increasing rate.

In short term, fixed cost is fixed but variable cost keeps on changing. This cost is directly related with production that is why Prof. Marshall has said variable cost as a main cost.

OR

FIXED COST

Fixed Cost:

In short period, either production increases or remains zero. There is no change in production cost, that type of cost is known as fixed cost. Fixed cost is also known as overhead cost. In short period there is no relation between fixed cost and quantity of production following things are included in the fixed cost. For example, permanent staff's salary, rent of factory building house – property tax, licence fee, interest on capital, premium of insurance etc. let us understand the cost with the help of schedule and diagram.

Units Of Output	Total Fixed Cost (Rs)
00	100
10	100
20	100
30	100

40	100
50	100

In schedule, it is shown that production of pen is either 00 or 10, 20, 30, 40, 50 with the increase in units of production, cost remains the same i.e. Rs.100 this cost is fixed. This types of cost is known as total fixed cost, here production unit changes but cost does not change therefore it is known as total fixed cost.

Diagrammatic Presentation:

In diagram on X – axis output (unit) is measured on Y – axis total fixed cost in Rs. Is shown. According to diagram either production is 00 or 10, 20, 30, 40 or 50 production cost is Rs.100 only in the diagram TFC curve is parallel to X – axis.

(26) List out two extreme ends of form of market. **OR**Explain meaning of inter-dependence in some market form.

ANS (i) Perfect Competition and (ii) Monopoly

OR

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 behaviour of the competitors and is dependent on them.

(27) Explain the reasons which compelled Indian to adopt reforms in 1991.

ANS The planners of independent India faced challenges of social and economic development. For this reason, they adopted the mixed type of economic system which laid greater emphasis upon socialist pattern of planning.

However, by the eighties, many experts felt that the strategies of planning adopt from 1947 to 1990 failed to attain the goals of economic growth and development as they proposed several state imposed regulations on economic activities. Besides, in the early nineties the international monetary organizations guided by the developed nations of the world imposed a precondition for providing further monetary assistance to India that India must reform its economic policies by reducing excessive controls on economic functioning statement showing a country’s expenditure on imports and income from exports. Thus, since 1991, India reformed her economic policies for which necessary institutional and regulatory changes were also brought about.

(28) Give the meaning of disinvestment and list out only types of disinvestment

- ANS **Meaning and Process of Disinvestment in India:**

Meaning:

Disinvestment means a process where the state reduces its share of investment in a public enterprise or draws back its investment completely by selling its shares to the private sector. Thus the process by which the state 'disinvests' form public enterprises is called disinvestment.

Process:

The following two aspects are important to understand the process of disinvestment.

(A) Sell all the shares of the state in a public enterprise to the private sector which is called complete disinvestment.

Sell some share of the state in public enterprises to the private sector for example, 29% or 49% which is called partial disinvestment. If less than 51% shares are transferred to private sector then it is called minor disinvestment and if more than 51% shares are transferred to private sector then it is called major disinvestment.

SECTION D: Answer the following [24]

(29) Give the points of importance of statistical information in the study of economics..

ANS **IMPORTANCE OF STATISTICAL INFORMATION:**

The importance of statistical information in economics can be stated as under:

1) Statistical Information Supports or Confirms a Principle:

- Philosophy of economics observes human behavior and scientific tools in economics establish principles and theories.
- To test the validity of such theories in real life at different times and places, information from real life activity at such different times and place is necessary.
- Such information can be collected and presented in quantitative terms with the help of statistical tools.
- For example, statistical data on rainfall and agricultural production in a region at one time or at different times helps to understand the cause – effect relationship between rainfall and agricultural production which economic theory has already established.
- Likewise, data on price of a commodity and its demand can help to confirm the theoretical relationship established by economics between the two.

2) Gives an Idea about the changing Trends of Economic Parameters:

- With the help of economic data we can obtain an idea of the direction and magnitude of change in economic parameters.
- For example, we can know how sales revenue of a particular firm is changing;or we can know the trends of employment in a nation; or we can know the trends of production in different sectors of an economy.
- For instance, we can say that share of agricultural is falling in national income or supply of money is rising in the economy.
- Such data help individual units to make appropriate decisions to increase their benefits and help the government in making appropriate economic policies.

3) To Make Comparative Study Easy:

- If appropriate statistical data are obtained then comparison of a parameter over different time periods, across regions and across nations can be made.
- For example, we can compare growth rate of India's national income between 1951 and 2015; we can also compare growth rate of Indian's macroeconomic parameters like per capital income, inflation etc. with those of other countries like USA, UK, China etc.

4) To make Precise Presentation of Facts:

- Sometimes facts about economic parameters can be represented more clearly with the help of statistical data and graphs. Graphs showing inflation, agricultural production, regional disparities in incomes etc. can give clearer picture of their trends as compared to what description in words can do.
- Thus, it can be easily understood by lay persons.

(30) What is trade cycle and explain its various phases.

- ANS **Definition of Trade cycle:**

According to Heberler, "Trade Cycle is an interval that embraces alternating periods of prosperity (good time) and depression 9bad time)".

According to Hawtrey, "Trade Cycles are continuous phases of good and bad changes occurring in the economy."

Characteristics of a Trade Cycle:

(1) They depict dynamic change in economy.
(2) They depict the positive and negative changes in the economy.
(3) These arise because of several factors.
(4) Trade cycle has various phase and each phase does not last for a uniform period.

- **Phase of a Trade Cycle:**

A trade cycle has following four phases: (1) Boom / Inflation (2) Recession (3) Depression (4) Recovery.

Boom:

This is a period when economic activity reaches the maximum growth level in a given time period. Demands have peaked and so have incomes and profits. Thus, this period is also called 'perk'.

Recession:

This period follows the period of boom. When economic activity peaks in a given period and investments and employment have reached the highest possible levels, a slowdown occurs. Demand slow down, investment and employment follow.

Depression:

The slowdown in the recession phase continues to cause a depression when all activities reach a minimum level under those circumstances. The confidence of buyers, producers and investors in the economic activity is at its lowest. In the phase of recession consumers start expecting further fall and employment fall in prices and reduce demand in expectation of further price fall. With the fall in demand, production falls and employment falls causing further reduction in the demand. Thus a depression is caused.

Recovery:

When depression last for some time, the suppressed demand starts emerging, governments may try to boost investments and employments and certain times technological changes happen in the long run. This leads to recovery of demand, employment and investment.

These types of cycles occur in all economies and all economic activities in the long run. However, in market oriented economics, these occur more openly while they may be supported by the state in the state controlled economies.

(31) Explain the change in supply with respect to change in factors other than price.

ANS **Increase – Decrease in Supply:**

When one factor or some factors other than price change in favour of the supply of a good then there is a rightward/upward shift in the supply curve.

If cost of production falls, prices of factors of production fall, state of technology improves, number of suppliers increase, government policies change in favour of a product then even if price of a good remains constant, its supply increases as the entire supply curve shifts to the right.

If these factors change against the supply then at the same price, supply decreases as the entire supply curve shifts to the left. This happens when cost of production rises, prices of factors of production risel, technology becomes expensive, number of suppliers decrease, government policies change against the supply of a product and so on.

Price of Apples In Rs.	Supply Of Apples In Kg
20	100
20	200
20	300
20	400
20	500

In the above diagram, price is represented on the 'Y' axis and supply on the 'X' axis.

Initial supply curve is S_1S_1 where at price of Rs.20 the supply of apples is 300Kgs. Which is depicted by point 'a' on the supply curve S_1S_1

When price remains constant at Rs.20 but one or some of the other factors change in favour of supply of apples then the supply curve shifts to the right to S_3S_3 and the supply of apples increases to 400Kgs. Which is depicted by point 'c' on S_3S_3. Now if one or some of the other factors change against the supply of apples then the supply curve shifts to the left to S_2S_2 and the supply of apples decreases to 200Kgs. Which is depicted by point 'b' on S_2S_2.

(32) Discuss the problems in measuring the opportunity cost?

Ans **Problems in Measuring of Opportunity Cost:**

(1)Factors with One Use:

If any factor of production has only one use then its opportunity cost cannot be decided. For example, some piece of land is only used to produce grass so far as that piece of land opportunity cost cannot be calculated. It will be applied for unemployed person also. They have no work so how can we calculate alternative cost.

(2) Factors having Specific Use:

If factors of production are specific factor, then this concept is not useful.

Returns of these factors are not decided by their alternative uses but it is decided on the basis of their demand for example, persons having expertise over computers, scientist having knowledge of outomic power etc.

(33) Explain characteristics of Oligopoly?

- **Characteristics of Oligopoly:**

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.

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.

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.

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.

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 behaviour of the competitors and is dependent on them.

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.

(34) Write a note on Liberalization?

- **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.

Increasing the role of private sector and market oriented processes in economic planning in place of state regulated economic processes in India's mixed economic system is called liberalization of Indian economy. In the process of liberalization,

(1) There is a gradual decline in the controls imposed by the state in economic functioning,
(2) The role of market forces of demand and supply increases in economic decision making.
(3) The private sector is systemically allowed to enter the investment areas reserved for the public sector,

(4) Protection granted by the state to domestic and foreign enterprises by the state is reduced. This implies that the discrimination between domestic and foreign enterprises by the state is gradually narrowed down. For example, if the state imposed restrictions on cheaper imports and better quality imports as well, to enable sale of domestic goods then such restrictions are reduced.

- **Process of Liberalization in India:**

Liberalization in India was implemented as a gradual process. Initially investment rules were simplified for domestic producers and investors and subsequently for foreign investors. Likewise, initially the consumer goods sector was opened up for investment by foreign companies and then service sector and later on the financial sector. Thus, it was a strategic liberalization process.

The process of bringing about such economic changes which is also called economic reforms calls for systematic changes in policy regulations. Some important regulatory changes which were brought about by the Indian legislative body were,

- MRTP Act was replaced by Competition Act. (Monopolies and Restrictive Trade Practices Act, 1969: Act preventing enterprises from growing very big and establishing monopolies. Competition Act, 2002: This Act replaced MRTP and was aimed at reducing unhealthy competition among enterprises).
- FERA was replaced by FEMA. The word regulatory was removed from FERA and replaced by the word management. (Foreign Exchange Regulation Act, 1973 : the Act regulating foreign exchange earnings and transactions of enterprises. Foreign Exchange Management Act, 1973: the Act managing foreign exchange earnings and transactions of enterprises instead of regulating those).
- Major changes were made in the industrial policy of which one noteworthy was, opening up for private sector the areas reserved for investment only by the public sector (now only three sector are reserved for the public sector namely, atomic energy, some minerals related to atomic energy and railways); another noteworthy change was raising the investment limit in the definition of small scale units so that with higher investment a small scale unit can adopt modernization.
- The procedure for foreign investment became more investor friendly and in many sectors 'automatic licensing route' was introduced for investment by foreign companies in India.

- Besides relaxations in the industrial policy, relaxation in export – import rules were announced. Foreign exchange was allowed to be converted at market rates instead of the earlier method of convertibility only at the official rates and expenditure on subsidies was attempted to be reduced as part of the fiscal policy changes.

(35) Explain the flow of income in two sector economy

- ANS **Circular Flow of National Income:**

In terms of theoretical explanation, there are two types of economy: (1) closed economy and (2) open economy. 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 factthere 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.

(36) Describe: The opinion of Ghandhiji related to 'trusteeship'.

ANS Trusteeship is one of the important principles given by Gandhiji. He gave this principle getting inspired by the 'Bhagwad Gita' and the 'Ishopanishad'. The Ishopanishad quotes, "All that is created on the earth is because of God and hence we must relish it after surrendering it". If a person has inherited and accumulated large amount of wealth she/he should from a trust of excess wealth. They will allowed to retain the stewardship of their possessions and to use their talent, to increase the wealth, not for their own sake of the nation and, therefore, without exploitation.

The important aspects of Gandhiji's doctrine of trusteeship can be summarized as under:

Convincing the Rich (Change of Heart):

Ghandhiji was a worshipper of truth and non – violence. His principle of trusteeship was based on voluntary action.

Trusteeship was Mathma Gandhi's peculiar contribution to the technique of social change. He called it 'the technique of change of heart'. Therefore confiscating the wealth of rich or by collecting it by imposing high taxes was not an appropriate way of redistributing wealth. Trusteeship to him meant – being responsible for one's life, as well as for the life of the neighbor. Rich are able to accumulate wealth because of resource obtained from the society and because some people remain poor. Hence the excess wealth must be used for benefitting the poor by forming a trust through which the rich themselves will undertake activities that benefit the poor. The society should inherit excess wealth and not the individual.

Duty Instead of Right:

Gandhiji opined that a rich should feel the responsibility of using the excess wealth for benefits of the society rather than just asserting their right over wealth.

Awareness, Referendum and Social Change:

Trusteeship is a source of revolution or radical social change. It cannot be brought about by force but by a voluntary social change. Gandhiji did not promote the idea of very high taxes and forceful confiscation of the rich. He said a public opinion can be built for bringing about a social change.

Importance of the Interest of the Whole Society:

Gandhiji believed in working for the greater good. It was better that a large number of people are benefitted instead of few individuals. Thus, Gandhiji emphasized on large scale production of goods which are the necessity of the masses. According to him, interest of the larger society is more important than that of a few individuals.

Compensation to the Trustee:

Ghandhiji believed that the state should have provision to compensate the trustees for their service.

SECTION E: Essay type questions. [20]

(37) Write a detail note on Price elasticity of demand

- Ans :**Price Elasticity of Demand:**

Law of demand explains that when other demand determinants are assumed to be constant, as price falls demand expands and as price rises demand contracts. But, it does not state by what proportion demand expands or contracts. The concept of price elasticity of demand explains this.

Meaning of Price Elasticity of Demand:

Price elasticity of demand shows the proportion (extent) to which demand changes with a change in price. It can be expressed as:

$$price\ elasticity\ of\ demand = \frac{proportion\ change\ \ in\ demand}{proportion\ change\ in\ price}$$

e.g. If a 1% fall in price of commodity 'X' leads to a 5% rise (expansion) in demand for 'X' then.

$$E_{p=} \frac{percentage\ change\ in\ demand\ for\ X}{percentage\ change\ in\ price\ for\ X}$$

($E_{p=}$ Price Elasticity of Demand)

$= \frac{+5\%}{-1\%}$

= I 5 I

Note: Price elasticity of demand is expressed as a pure number and is not associated with any unit of measurement (as percentage, rupees, kgs., litres, meters etc.)

Definition of Price Elasticity of Demand:

The definition of price elasticity of demand given by Marshall is as under:

According to Marshall, the degree of elasticity of demand depends upon the extent of rise in demand because of a fall in price and upon the extent of fall in demand because of a rise in price.

- **Degrees of price Elasticity of Demand:**

The extent of change in demand because of a change in price can be expressed in five degrees as under:

(1) Perfectly elastic demand (E_p= ∞)
(2) Perfectly inelastic demand (E_p = 0)
(3) Unitary elastic demand (E_p = 1)
(4) Relatively elastic demand (E_p>1)
(5) Relatively inelastic demand (E_p<1)

Perfectly elastic demand (E_p= ∞):

When there is an infinite change in demand for commodity 'T' because of a negligible change in its price (which may be as low as zero) then such demand is called perfectly elastic demand and the elasticity of demand = ∞.

By the formula.

$$E_p = \frac{proportionate\ change\ in\ demand}{proportionate\ change\ in\ price}$$

= ∞ (Infinite)

Such elasticity of demand is not found in reality but, in the theory of economics, such demand is explained in a perfectly competitive market.

In the diagram the demand curve 'DD' is horizontal straight line parallel to X – axis and depicts infinite change in demand at the same price.

Perfectly inelastic demand (E_p= 0):

When price of a commodity say commodity ‘K’ changes by any amount, say 10% but there is no change in its demand then such a demand is called perfectly inelastic demand.

By the formula,

$$E_p = \frac{proportionate\ change\ in\ demand}{proportionate\ change\ in\ price}$$

$$= \frac{0\%}{+10\%}$$

= 0 (zero)

As shown in the diagram, ‘DD’ demand curve is a vertical straight live showing that whatever be the change price, there is no change in demand. Such elasticity of demand is always zero.

Unitary elastic demand (E_p = 1):

When the percentage change in demand is proportionate to percentage change in price then it is called unitary elastic demand. For example, if price of commodity ‘S’ falls by 5%, then there is unitary change in demand.

By the formula,

$$E_p = \frac{proportionate\ change\ in\ demand}{proportionate\ change\ in\ price}$$

$$= \frac{+5\%}{-5\%}$$

= I 1 I

When proportionate change in demand and proportionate change in price are equal, then demand of a commodity is known as unitary elastic demand.

In the diagram, on the demand curve ‘DD’, when price falls by PP_1 amount, demand which expands by MM_1 is exactly same as price change.

Relatively elastic demand (E_p> 1):

When percentage change in demand is proportionately more than percentage in price then such demand is called relatively elastic demand. For example, if price of commodity ‘R’ rises by 10% and its demand falls by 30%, than its demand is called elastic demand.

By the formula,

$$E_p = \frac{proportionate\ change\ in\ demand}{proportionate\ change\ in\ price}$$

$=\frac{-30\%}{+10\%}$

= I 3 I

This shows relatively elastic demand as the change is ‘3’.

In the diagram, on the demand curve ‘DD’, when price rises by PP_1 amount, demand falls by MM_1 amount which is proportionate greater than that of price. This type of elasticity is observed for luxury goods like televisions, cars etc.

Relatively inelastic demand (E_p< 1):

When percentage change in demand is proportionately lesser than percentage in price then such demand is called relatively inelastic demand. For example, when price of commodity ‘G’ rises by 20% and as a result its demand falls only by 5% then its demand is called relatively inelastic demand.

By the formula,

$$E_p= \frac{proportionate\ change\ in\ demand}{proportionate\ change\ in\ price}$$

$$= \frac{-5\%}{+20\%}$$

$$= -\frac{1}{4}$$

= I 0.25 I

When price elasticity is less than one, than that demand is called as inelastic demand of commodity.

In the diagram, on demand curve ‘DD’, when price rises by PP_1 amount, demand falls by MM_1 amount which is proportionate lesser than that of price. This type of elasticity is observed for necessary goods like foods grains, milk, oil etc.

(38) Discuss the characteristics of the developing Indian economy.

- ANS :**Growth Rate:**

The growth rate of economy which is measured by the growth in national output year by year has increased for the Indian economy, especially after

LPG. During the period between 1950 – 51 and 1990 – 91 the average annual growth rate was around 3.5%. However after the period of economic reforms in 1991, the average annual growth rate has remained above 6.8% which is an important achievement. After 2012 – 13. The growth rate has remained above 2014 – 15, the average annual growth rate was less than 5%.

The Net National Income at factor cost (NNP_{FC}) at constent price level in the year 1950 – 51 was RS. 2,69,724crores which increased to RS. 87,51,834crores in the year 2013 – 14. Thus, in a period of 63 years, the NNV has grown by 18 times.

- **Changing Share of Various Sectors in National Income and Employment:**

As a nation starts developing, the contribution of its industrial and service sectors in national income and employment increases.it means that now people have to depend less on their traditional sector (agriculture) and with improvements in technology and capital formation they get employment in the relatively more productive sectors viz. industrial sector and service sector. India's service sector has started growing significantly after the reforms of 1991. The following tables show the increasing share of industrial and service sectors in national income and employment.

Share of Various Sector in NI

	1950-51	1990-91	2000-01	2014-15
Agriculture and allied activities	53.1	29.6	22.3	17.6
Industries	16.6	27.7	27.3	29.7
Services (excluding construction)	30.3	42.7	50.4	52.7

Source: Economic Survey (2014 – 15)

We observe that the share of agriculture in the national income has declined over the years and that of industrial and service sectors has increased.

- **Per Capital Income:**

The per capital income of India at constant prices in 1950 – 51 was RS. 7,114 which increased to RS. 39,904 in 2013 – 14. Thus, in a period of 63 years PCI increased by approximately 5.6 times.

Between the periods from 1950 – 51 to 1990 – 91 it increased by about 1.6 percent while after 1991, it increased by about 1.6 percent while after 1991, it increased by 5.5%.

We observe that the share of agriculture in the employment has declined over the years and that of industrial and service sectors has increased.

- **Level of Employment:**

In India, employment is reviewed in three sector as:

Primary Sector:

This sector includes agriculture and allied activities, dairy farming and animal husbandry.

Industrial Sector:

This includes manufacturing, construction, mining, quarrying. In other words it includes all production activities.

Service Sector:

It includes all activities all activities pertaining to trade, banking, transport, information and broadcasting, health, education and so on.

Share of Various Sectors in Employment

	1951	1991	2001	2011-12
Primary/Agricultural Sector	72.1	66.9	56.7	48.9
Secondary/Industrial Sector	10.6	12.7	18.1	24.2
Tertiary/Service Sector	17.3	20.4	25.2	26.9

Source: Economic Survey (2014 – 15) Volume – II.

In India, year 1951, the contribution of primary sector in employment was 72.1%, that of industrial sector was 10.6% and service sector was 17.3% in 1991, the contribution of primary sector in employment was 66.9% industrial sector was 12.7% and service sector was 20.4%.

While in year 2001, the share of primary sector in employment was 56.7%, industrial sector was 18.2% and service sector was 25.2% and in 2011 – 12 the share of primary sector in employment was 48.9% that of secondary sector was 24.3% and service sector was 26.9%.

Thus, it is seen that from 1951 to 2011 – 12, the employment has shifted from primary sector to industrial and service sectors.

- **Improvement of Basic (Primary) Utilities:**

Indian has shown significant improvement in provision of various utilities in the urban as well as in the rural areas like, electricity, water supply, roads, irrigation, transport, communication, health, education and such.

Irrigation:

In 1950 – 51 only 22.6 m. hectare of land across the country was irrigated which increased to 63 m. hectares in 2012 – 13. Thus, about 45% of the total agricultural land has irrigation facilities in present times.

Literacy:

The literacy rate which was 18.33% in 2011, rose to 73% in 2011 (Source: Economic Survey, 2013- 14). In 1950s there were 20 universities and 500 colleges which increased to 719 and 35,000 respectively by 2013 – 14. This indicates rise in higher education.

Electricity:

The electricity generation which was around 2300 MW in 1950 – 51 increased to 2,43,000 MW in 2011 – 12.

Road Network:

In present times, India belongs to the list of countries with longest road network. It has approximately 48.6 lakh Km. of concrete roads today.

Railway:

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

Thus India is progressing fast and is now a prestigious emerging economy. The per capita consumption of essential commodities has increased, progress is made in areas of science, research and technology development, average life expectancy has increased and so on.

In the International Comparison Programme (ICP) initiated by the World Bank, in 2011 India was identified as the third largest country after USA and China; while in 2005 India was at the 10th position.

(39) Give the meaning and objective of budget in detail.

ANS :A government budget is an annual accounting statement of the item – wise estimates of expected revenue and anticipated expenditure of the government for a new fiscal year.

Purpose of a Budget:

A government must plan its expenditures and raise its income in such a way that the following objectives are fulfilled:

To Obtain Approval of the Body of Elected Representatives:

The ruling government requires an approval of the elected representatives of any democratic government for the expenditures and incomes estimated to be incurred in the ensuing financial year.

To get an Idea Regarding Available Resources and Areas Requiring Expenses:

To get an idea regarding activities which the government can and should undertake, expenses to be incurred in various sectors and sources form where the necessary income may be raised.

Provide Direction for Allocation of Resources:

To give a direction to allocation of resources (collected income) in different sectors according to priority and need. Without preparing proper estimates, some sectors will receive more funds and some others may be neglected.

For Knowledge of the Public:

When a budget is presented, people come to know of commodities which will become cheaper owing to government's increased allocations in those sectors and commodities which will become dearer owing to increase tax burden in those sectors.

Thus, in a way budget is an important component of planning by the government and various economic policies are guided by the budget allocations in concerned sectors.

(40) Discuss the economic thought of CHANKYA In detail.

ANS :**Establishment of Statehood:**

While establish the state, the king should provide basic resources for development, make continuous efforts for the development of agriculture and industry as well as, excavate mines, develop forestry, cattle rearing and markets; as also open up import – export trade avenues. The king should aid in constructing water reservoirs for farming, temples and 'dharmshalas' (guesthouses). Teachers, priests and soldiers must be exempted from taxes during times of natural calamities helpless farmers must be looked after by the king.

State Treasury:

State treasury plays a pivotal role in ways and means suggested by Kautilya to maintain prosperity and safety of a state. The unity, stability and administration of the state are directly dependent on the state treasury. So the king is advised to guard his treasury and always develop new means to increase it. Kautilya has shown 7 sources of income for the state, which include (1) Towns (2) Villages (3) Irrigation (4) Mines (5) Jungle (6) Animal husbandry (7) Trade and Commerce. He has emphasized that the king should collect taxes once in a year and not use forceful means to increase the treasury. It is also advised to refrain from harshness while collecting taxes from regions facing famine and drought. Kautilya has also hinted on the use of public property, promotion of trade, gifts, penalties fines and rewards; as also production of cash crops to ameliorate the state treasury.

Much of state treasury consists of physical (tangible) goods and therefore it is necessary to preserve such goods in proper warehouses and use them for public welfare as required. Kautily also specified the rate of taxes (amount of taxes) for various categories of workers. For example, one fourth of the agricultural production may be collected as tax from individual farmers; one half of the produce may be collected as tax from individual manufacturers of cotton, wool, silk, wax and medicines. This way he suggested taxes for other occupations also. The perceptions of a welfare state in Kautilya's ideas are useful even today in formulation of welfare plans by a state for its people.

Taxation Policy:

Kautilya gave clear principles of taxation which indicate the type of short term and long term tax policies which a state should have; the limits of tax rate which a king may imposed and so on. Provision for increasing tax rate s during emergencies are also presented. Taxes should be collected from citizens as ripened fruits are collected from orchards keeping in mind the economic ability of citizens to pay taxes. He laid down such principles of taxation which make tae taxation process simple, less expensive and less context, he suggested the following types of taxes in the tax structure:

Land Tax:

The state had right to collect a portion of the agricultural produce as tax from the farmer or the landlord. Keeping in mind the type of land, its productivity, form of product, mode and avalibility of irrigation,Kautilya had devised rules to decide the proportion of taxes. He also proposed tax exemptions as an incentive to increase productivity.

Import – Export Taxes:

Import – Export taxes are classified by Kautilya as:

(1) External Changes (Taxes):
(2) Internal Changes (Taxes):
(3) 'Aatitya' Changes (Taxes):

On the basis of type of goods and their importance in economic life, Kautilya gave rules for commodity taxation. He proposed setting up of booths collection of customs and octroi. He also proposed rules for road tax and wealth tax.

Agriculture and Animal Husbandry:

Kautilya named agriculture as the primary means of livelihood. He classified land in two types: (1) land under state ownership and (2) land under ownership of private individuals. He further suggested that the state owned land should be tilled by people who were otherwise made salves by the society, prisoners and the other agricultural labourers. He believed that land should be used mainly for agricultural purpose and hence the uncultivable land should be made cultivable. Taxes can be collected from the farmer only if she/he cultivates her/his land and in return earns a livelihood.

Animal husbandry is also related to agriculture, therefore Kautilya has also included it as a means of livelihood and has suggested means for its development. In this regard he mentioned 3 categories of animals as: (1) Trained/pet animals (2) Dairy animals (3) Wild animals. Kautilya has also suggested rules and penalties related to animal husbandry.

Industry:

Kautilya believed that only a resourceful state can prosper and develop and hence he gave directions for setting up industries. According to him, a king should explore the possibilities of new mines and thus order excavation, develop art and craft industry to use skills and promote skill formation, promote transport and communication as also create infrastructure for industrial development. He further suggested setting up of proper markets in towns/cities to facilitate the sale of the produced wares.

It is evident from 'arthshashtra' that his thoughts were provoked by economic problems and political concerns. He has incorporated the minutest details in building of a progressive and modern state and gave theories which have universal acceptability and are applicable even in present times. Even though his work ‘Arthshashtra’ was created for Magadh state and for Emperor Chandragupta Maurya, he wished that this work could be of use to those kings who desired timeless victories and a proper management of the state. Kautilya has opposed the act of tax evasion and hiding assets from the state.