<u>Special Assignment</u>

Class- XII, Subject- Economics

Q-1:- State two features of resources that give rise to an economic problem.

Ans1:- (I) Resources are scarce

(II) Resources have alternative uses.

Q-2 Define Opportunity Cost.

Ans Opportunity cost of producing a particular product is the value of next best alternative sacrificed.

Q-3 Define the production Possibilities Curve.

Ans Production Possibilities curve is a curve that shows all possible combinations of two goods that can be produced when the resources of the economy are fully and efficiently utilized with the given technology.

Q-4 Explain the central problem of “What to Produce” with the help of examples.

Ans Since resources are limited, every economy has to decide what goods are to be produced and in what quantity. An economy has to choose between different goods such as consumer goods(like wheat,clothes, shooes, sugar etc.) and capital goods (like machines, tools etc.),between war goods(guns,tanks etc.)and civilian goods(bread and butter). Example should land be used for producing more wheat or for producing more rice or for constructing more flats?

Q-5 Explain the central problem of “How to produce” with examples.

Ans This problem relates to the choice of technique of production. A particular quantity of a particular goods or service can be produced in many different ways.The economy must choose a particular way of producing the chosen amount of goods. For example production of clothes is possible either by handlooms(i.e. use of labour intensive technique) or by modern machines(i.e. use of capital intensive technique). This problem is concerned with the efficient use of resources, i.e., how to produce more at least cost.

Q-6 Explain the following:

(a) Why is PPC downward sloping?
(b) PPC is concave to origin?

Ans (a) PPC slopes downward from left to right. It shows that more of one good can be produced only after sacrificing some quantity of the other good.

(c) PPC is concave because of increasing marginal opportunity cost. It means that to produce more and more of one good each time the quantity of the other good is sacrificed at an increasing rate. Increasing MOC operates because productivity and efficiency of factors of production decrease as they are shifted from one use to another.

Q-7 Define marginal utility.

Ans Marginal utility means addition to total utility from the consumption of one more unit of a good.

Q-8 Define consumers equilibrium.

Ans A consumer is said to be in equilibrium when he gets maximum satisfaction by spending his given income.

Q-9 What is budget line?

Ans Budget line represents all bundles/combinations of two goods which cost the consumer exactly equal to his income.

Q10 Explain the following:

(a) Why is an indifference curve convex to the origin?
(b) Why does a higher indifference curve represent a higher level of satisfaction?

Ans (a) Indifference curve is defined as a curve on which all the bundles of two commodities give a consumer equal satisfaction. It follows that if a consumer wants to have more quantity of a commodity, he will have to give up some quantity of other commodity in order to derive same level of satisfaction. This would give a downward sloping curve.

(b) This property about the shape of indifference curve is based on the principal of diminishing marginal rate of substitution. Indifference curves are conves to the origin because marginal rate of substitution always diminishes.

Q-11 Define market demand of a commodity.

Ans Market demand refers to the total quantity of a commodity that all consumers are willing to buy at different prices during a given period of time.

Q-12 What do you mean by a normal good?

Ans A good is called a normal good when rise in income leads to increase in its demand and rise in its price leads to decrease in its demand.

Q-13 What is meant by elasticity of demand?

Ans Price elasticity of demand can be defined as the percentage change in the quantity demanded as per percentage change in price:

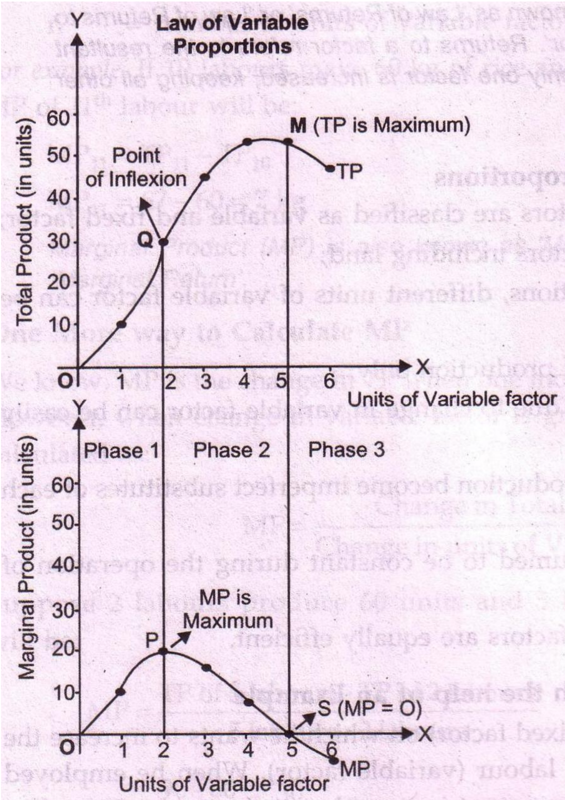
$$e_D = \frac{\textbf{Percentage change in quantity demanded}}{\textbf{Percentage change in price}}$$

Q-14 Define production function.

Ans Production Function is defined as a technological relationship between the factors of production and output.

Q-15 What does the law of variable proportions show? State the behavior of total product according to this law?

Ans **Law of variable proportions** states that as more and more of the variable factor is combined with the fixed factors, marginal product(MP) of the variable factor may initially increase and subsequently stablished, but must finally decrease. Initially, MP may rise due to better coordination between the factors and better utilization of the fixed factors. Thus, we have three stages i.e. increasing MP, decreasing MP and negative MP. In a situation when MP is increasing TP should be increasing at an increasing rate. When Mp is decreasing TP increases at decreasing rate. When MP is negative, TP decreases and TP is maximum when MP is equal to zero.

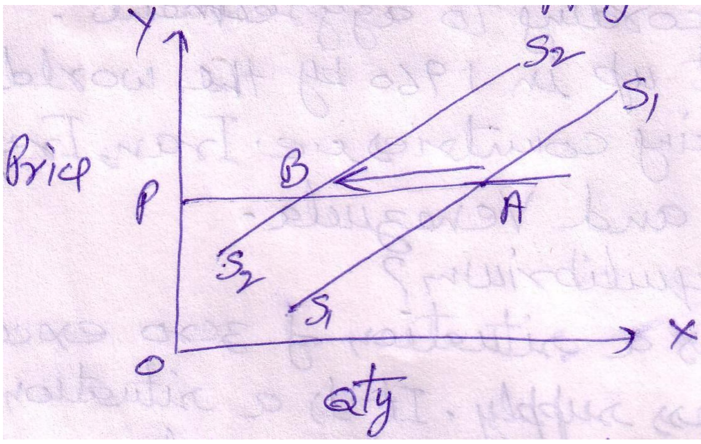


Q-16 State any three causes of rightward shift of supply curve.

Ans (i) Decrease in factor prices (ii) Decrease in the cost of raw material (iii) Improvement in technology

Q-17 How does the change in tax on a product influence the supply of that product? Explain.

Ans Taxes causes a cut in profit. Accordingly producers will supply less of the goods at the existing price. This implies a backward shift in supply curve or decrease in supply.



Q-18 Explain the concept of explicit cost and implicit cost with the help of an example.

Ans **Explicit costs** are those cash payments which firms make to outsiders for the purchase of goods and services. For example, wages paid to labourers and price of raw material.

Implicit Costs are the costs of self owned and self-employed resources. Interest on entrepreneurs own capital or rent on entrepreneurs own building.

Q-19 Define monopoly.

Ans:- Monopoly is a market form with a single seller and many buyers of a commodity, with no close substitutes.

Q-20 What is a price maker firm?

Ans The firm which has complete control over price of the product in the market.

Q-21 Define Oligopoly.

Ans It is a form of the market in which there is a large number of buyers, but only a few big sellers of a commodity. Example: Auto market in India.

Q-22 What are cartels? Give an example.

Ans A cartel is an agreement among rival firms in the market under oligopoly. Firms collude to avoid competition. They fix their output quota and product price according to agreement.

Example:-**OPEC set up in 1960** by the world's five major oil producing countries i.e. Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.

Q-23 What is market equilibrium?

Ans Market equilibrium is a situation of zero excess demand and zero excess supply. It is a situation where **market demand = market supply**

Q-24 Distinguish between Intermediate goods and final goods?

Ans

Intermediate Goods	**Final Goods**
(1)Which can be used as raw material. (2)Which can be resold. (3) Which are within the boundryline of production.. (4)Value is yet to be added.	(1)Which can not be used as raw material. (2)Which can not be resold. (3)Which are outside the boundary line of production. (4) Value is not to be added.

(5)Value is not counted in National Income. (6)These goods are not ready to be sold in the market. Eg: Intel processor for HCL laptops	(5)Value is counted in National Income. (6)These goods are ready to be sold in the market. Eg: Intel processor sold by Intel company.

Q-25 Distinguish between stock and flow?

Ans

Stock	Flow
(1)There are those variable which can be measured at particular point of time. (2)It is static concept. (3)Stock influences flow Eg:labour force, wealth, bank balance	(1)These are those variables which can be measured at particular period of time. (2)It is dynamic concept. (3)flow influences stock. Eg:Income

Q-26 Distinguish between Real Income and Nominal Income?

Ans **Real Income**:It is the income which is measured at constant price. Income can increase by increasing the flow of goods and services keeping price constant.

Nominal Income:- It is the income which is measured at current price. Income can increase by increasing the price keeping the flow of goods constant.

Q-27 Explain two limitations of GDP?

Ans (1)**Distribution of GDP**: It cannot be taken as an index of welfare because distribution of income is unequal and per capita income shows the average income, so richer becomes richer and poor becomes poorer. The gulf between the rich and poor increases.

(2)**Composition of GDP**: Tax which is paid by the individual is not directly for welfare for them but it indirectly supports by giving the peaceful environment to country (expenditure on defence).

Q-28: Define Barter system and also explain the problem of double coincidence of wants?

Ans Barter System:-When goods are exchanged for goods is called Barter system.

Problem of double coincidence of wants: This problem explains the goods that is in need should be available to both the parties if not available then exchange is not possible. Example: If A needs wheat and B needs rice so A should have rice and B should have wheat.

Q-29 What is money supply?

Ans $\mathbf{M_1 = C + DD + OD}$

C = currency, DD = demand deposits, OD = Other deposits

Q-30 Define Banking also differentiate between commercial banks and central banks?

Ans Banking is a service in which banks are the financial institutions. There are two types of banks commercial banks and central banks.

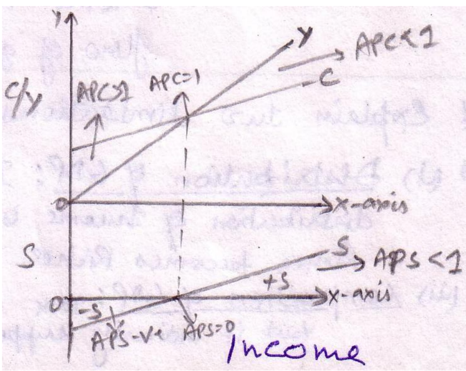
Commercial Banks	Central Bank
(1)These are those banks which directly deal with the public.	(1)This bank does not directly deal with public.
(2)These banks work under the central bank.	(2)It is the Apex bank. Which controls the entire banking system of the country.
(3)These banks accepts deposits and advance loans to the public.	(3)This bank accepts reserves and advances loan to commercial banks.
(4)These banks do not have right to issue notses.	(4)This bank have a monopoly right to issue notes.

Q-31 Derive saving curve from consumption curve.

Ans (I) When Y>C then savings are positive (APC<1).

(II) When Y = C then savings = 0

(iii) When Y<C then savings are negative and when S is negative then APS is also negative.



Q-32 Explain the impact of increase in domestic currency on exports and imports.

Ans. When the price of dollar decreases then the value of domestic currency increases this discourages the exports and imports will increase.

Q-33 What are components of current account of Balance of Payment and how does it differ from Balance of Trade?

Ans. Components of current account of Balance of Payment are:

(i) Imports of goods(visibles)
(ii) Exports of goods(visibles)
(iii) Imports of services(invisibles)
(iv) Exports of services(invisibles)
(v) Unilateral transfers.

Balance of Trade concludes only imports and exports of goods only.

Q-34 Write the 3 methods of estimating National Income.

Ans: