**GRADED EXERCISE QUESTIONS (LEVEL I, II, III)**

**MICRO ECONOMICS**

**INTRODUCTION**

**LEVEL 1**

1. Why does an economic problem arise?
2. Define scarcity.
3. What is an economy?
4. What is production possibility frontier?
5. Why PPC is concave to the origin?
6. Define marginal rate of transformation.
7. What does a point inside the PPC indicate?
8. What do you mean by the problem of what to produce?
9. What do you understand by the problem of how to produce?
10. What does a rightward shift of PPC indicate?

**LEVEL2**

1. Explain Production Possibility curve with the help of diagram?
2. With the help of a Schedule explain Marginal Opportunity Cost (Opportunity Cost)
3. Distinguish between micro economics and macroeconomics.

**LEVEL 3**

1. Does massive unemployment shift the PPC to the left?
2. What does the slope of PPC show?

3.Draw a PPF Curve When MRT is Constant. Give Reasons.

4. Does Production Take place only on PPC? Give reason for your answer.

**CONSUMER BEHAVIOUR AND DEMAND**

**LEVEL 1**

1. Define utility.
2. Define total utility.
3. What do you mean by marginal utility?
4. State the law of diminishing marginal utility.
5. Define consumer's equilibrium.
6. State the law of demand.
7. What do you mean by substitutes?
8. What are Complementary goods?
9. If there is increase in demand of good 'A' due to decrease in price of good 'B' how the two goods are related?
10. What is a normal good?
11. What is an inferior good?

**LEVEL 2:**

1. If demand curve is a rectangular hyperbola, What is the price elasticity of demand?
2. Explain briefly three determinants of demand .
3. Why does the demand curve slope downwards?
4. Distinguish between Expansion and Increase in demand.
5. Explain the four important factors affecting the price elasticity of demand
6. What is the elasticity of demand? Explain the expenditure method to measure the elasticity of demand.

7. Define price elasticity of demand. Explain geometric or point method to measure the elasticity of demand.

8. The price of a commodity is Rs. 3 per unit and its demand is 60 units. If the price rises to Rs. 4 per unit, how many units will be demanded when the elasticity of demand is unitary?

**LEVEL 3**

1. How will a consumer move along his IC in a situation when MRSxy> Px/Py?
2. A consumer consumes only two goods X and Y and is in equilibrium. Show that when the price of good X rises the consumer buys less of good X. use utility analysis.
3. Explain the concept of marginal rate of substitution with the help of a numerical example. Also explain its behavior along an indifference curve .

**PRODUCTION FUNCTION**

**LEVEL 1**

1. What is production function?
2. What is short run?
3. List any two inputs used in production?
4. What is meant by TPP?
5. What is meant by APP?
6. How is TPP derived from MP.
7. What is the general shape of the TP, AP and MP curves?
8. Give the meaning of returns to a factor.
9. In which phase of law of variable proportions, a rational firm aims to operate?

**LEVEL 2**

1. Explain the law of variable proportions with help of a schedule and

diagram.

1. What do you mean by returns to a factor? What leads to increasing returns to a factor?
2. What do you mean by returns to a factor? State the reasons for negative returns to a factor.
3. In the following table, identify the different phases of the law of variable proportions and also explain the causes

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Variable inputs** | **1** | **2** | **3** | **4** | **5** | **6** |
| **(units)** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Total product (units)** | **10** | **22** | **32** | **40** | **40** | **35** |
|  |  |  |  |  |  |  |

1. **The following table gives the MPP of a factor. It is also know that the TPP is zero level of labour is zero. Determine its TPP and APP schedule.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Units of labour** | **1** | **2** | **3** | **4** | **5** | **6** |  |
| **employment** |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **MPP** | **50** | **110** | **150** | **180** | **180** | **150** |  |
|  |  |  |  |  |  |  |  |

**LEVEL 3**

1. **Giving reasons, state whether the following statements are true or false.** 
   1. **If marginal product rises, average product must also rise.**
   2. **If marginal product falls, average product must also fall.**
   3. **If marginal product becomes negative, average product must also become negative.**
2. **Explain how it is possible for marginal product to fall while average product is rising?**
3. **Comment on the following statements: “When average product and Marginal product are equal, marginal product is at its maximum”.**
4. **Comment on the following statements: “Diminishing returns occur when total output falls as additional units of labour are combined with fixed inputs in the production process”.**
5. **If the total product curve is a straight line through the origin, what would be the shape of the average product and marginal product curves look like?**

**COST**

**LEVEL 1**

**1. Give the meaning of cost.**

1. **What do you mean by opportunity cost?**
2. **Define fixed costs or supplementary costs.**
3. **Define variable cost or prime costs.**
4. **Define marginal cost.**
5. **How does the average fixed cost behave as output increases?**
6. **Give one example each for explicit and implicit cost.**

**LEVEL 2**

1. **Why MC curve is U-shaped in short run?**
2. **Explain the relationship between MC and AC with the help of a schedule.**

**LEVEL 3**

1. **“The gap between AC and AVC keeps on decreasing with rise in outputs, but they never meet each other”. Comment.**
2. **Why does the minimum point of AC curve fall towards right of AVC curve?**
3. **“MC can be calculated both from total cost and total variable cost and is not affected by total fixed cost”. Discuss.**
4. **Calculate TFC, if AC and AVC are  22 and  18 respectively, at output of 10 units.**
5. **Classify the following as fixed cost and variable cost:** 
   * 1. **Wages to casual labour .**
     2. **Payment of insurance premium for insurance of factory**
   1. **Payment of rent of postpaid connection of mobile phone** 
      1. **Electricity charges beyond the minimum rent.**
6. **Answer the following questions:** 
   1. **Why does AFC curve never touches the X- axis?**
   2. **Why does AC curve lie above the AVC curve?**
   3. **Why does TC curve and TFC curve start from the same point above the origin?**
7. **Identify implicit cost and explicit cost in each of the individual cases.** 
   1. **An individual is both the owner and the manager of a shop taken on rent.**
   2. **A producer borrows money and opens a shop. The shop premise is owned by him.**
   3. **A producer invests his own savings in starting a business and employs a manager to look after it.**

**REVENUE**

LEVEL 1

1. **Define revenue.**
2. **Define Total Revenue.**
3. **What is the relationship between total revenue, price and quantity sold.**
4. **Define marginal revenue.**
5. **Draw AR and MR curves of a firm under perfect competition.**
6. **Draw AR and MR curves under monopoly.**
7. **If all the units are sold at the same rate, how will it affect AR and MR?**

LEVEL 2

1. **Explain the relationship between AR and MR under perfect competition with the help of a schedule and a diagram.**
2. **A seller sells 3 diamond rings of  15000 each. If the seller sells his 4th diamond ring, his MR becomes  13500. Calculate the price at which the seller sells his fourth ring.**

**What would be the shape of AR curve, when**

* 1. **TR curve is a positively sloped straight line passing through the origin**
  2. **TR curve is a horizontal line**

1. **Complete the following table**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Price ( )** | **10** | **9** | **6** | **4** |
|  |  |  |  |  |
| **Output (units)** | **1** | **2** | **3** | **4** |
|  |  |  |  |  |
| **TR ( )** | **\_\_** | **\_\_** | **\_\_** | **\_\_** |
|  |  |  |  |  |
| **MR ( )** | **\_\_** | **\_\_** | **\_\_** | **\_\_** |
|  |  |  |  |  |



1. **Show that AR and price are the same.**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Output (units)** | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
|  |  |  |  |  |  |  |  |  |
| **MR ( )** | **\_\_** | **14** | **10** | **7** | **5** | **0** | **-3** | **-5** |
|  |  |  |  |  |  |  |  |  |

LEVEL 3

1. **In a firm, AR = MR =  5 at each level of output. What does it tell about:** 
   1. **Nature of demand curve**
   2. **Rate of increase in TR**
   3. **Shape of TR curve**
2. **What changes should take place in total revenue so that:** 
   * 1. **Marginal revenue is positive and constant**
     2. **Marginal revenue is positive and falling**
3. **State whether the following the following statements are true of false. Give reasons** 
   * 1. **When marginal revenue is zero, average revenue will be constant**
     2. **Marginal revenue is always the price at which the last unit of commodity is sold**
     3. **When marginal revenue is positive and constant, average and total revenue will both increase at constant rate**
4. **Complete the following table**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Price ( )** | **10** | **11** | **12** | **13** | **14** | **15** | **16** |
|  |  |  |  |  |  |  |  |
| **Units sold** | **\_\_** | **9** | **\_\_** | **7** | **\_\_** | **5** | **\_\_** |
|  |  |  |  |  |  |  |  |
| **TR ( )** | **100** | **\_\_** | **96** | **\_\_** | **84** | **\_\_** | **64** |
|  |  |  |  |  |  |  |  |
| **MR ( )** | **\_\_** | **\_\_** | **\_\_** | **\_\_** | **\_\_** | **\_\_** | **\_\_** |
|  |  |  |  |  |  |  |  |



**PRODUCER’S EQUILIBRIUM**

LEVEL 1

1. **What is the general profit maximizing condition of a producer?**
2. **It is enough to say that profit is maximized when MC = MR. why?**
3. **What is meant by equilibrium output of a producer?**

LEVEL 2

1. **Explain producer’s equilibrium with the help of MR and MC approach**.
2. **On the basis of following data, locate the equilibrium position of a competitive producer by comparing MR and MC. Give reasons for your answer.**

|  |  |  |
| --- | --- | --- |
| **Output** | **Price** | **MC** |
| **(in units)** | **( )** | **( )** |
|  |  |  |
| **3** | **10** | **7** |
| **4** | **10** | **8** |
| **5** | **10** | **9** |
| **6** | **10** | **10** |
| **7** | **10** | **11** |
|  |  |  |



LEVEL 3

* 1. **Equilibrium is never struck in a situation of falling MC. Why?**

1. **Excess of marginal revenue over marginal cost is always better than equality between the two in order to achieve the equilibrium for a producer. State true or false and give reasons.**

**SUPPLY**

LEVEL 1

* 1. **Define supply.**

1. **Define market supply.**
2. **State any two determinants of supply.**
3. **State the law of supply.**
4. **Give the meaning of extension of supply.**
5. **What do you mean by increase in supply?**
6. **Mention any two factors which lead to rightward shift of supply curve.**

**PRICE ELASTICITY OF SUPPLY**

1. **What do you mean by Price Elasticity of Supply?**
2. **If price of a commodity falls by 10% and consequently supply of commodity decreases by 20%. What will be its elasticity of supply?**
3. **When is the supply of a good called elastic?**

LEVEL2

1. **Distinguish between contraction of demand and decrease in demand.**
2. **Explain the effect of technological changes on the supply curve of a commodity.**
3. **A new technique of production reduces the marginal cost of producing stainless steel. How will this affect the supply curve of stainless steel utensils?**
4. **There are three identical firms in a market. The following table shows the supply schedule of firm1. Compute the market supply schedule.**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Price ( )** | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** |
|  |  |  |  |  |  |  |  |  |  |
| **SS1 (units)** | **0** | **0** | **2** | **4** | **6** | **8** | **10** | **12** | **14** |
|  |  |  |  |  |  |  |  |  |  |



1. **At a price of  8 per unit, the quantity supplied for a commodity is 200 units. Its price elasticity of supply is equal to 1.5. If the price rises to  10 per unit, calculate its quantity supplied at the new price.**
2. **At a price of  40 per unit, the quantity supplied for a commodity is 400 units. When its price falls by 10 per cent, its quantity supplied falls by 36 units. Calculate its elasticity of supply. Is its supply elastic?**

**LEVEL3**

1. **Trendz produces both Jeans and Shirts. How will an increase in the price of jeans affect the supply curve of shirts?**
2. **Indicate whether the following will lead to expansion, contraction, increase or decrease in supply:** 
   1. **Installation of a new machine, resulting in fall in cost of production**
   2. **An increase in the price of the given commodity**
   3. **An increase in wages of the employees leading to rise in cost of production**
   4. **A firm deciding to maximize sales instead of profits**
   5. **Imposition of an excise duty on the production of a commodity**
3. **Because of cyclone in a coastal area, the sea water covers a lot of rice fields. This reduces the productivity of land. How will it affect the supply curve of rice of that region?**
4. **Due to improvement of technology, the marginal costs of production of televisions have gone down. How will it affect the supply curve of television?**
5. **The ration of elasticity of supply of commodities A and B is 1:1.5. 20 per cent fall in price of A results in a 40 per cent fall in its supply. Calculate the percentage increase in supply of B if its price rises from**  **10 per unit to**  **11 per unit.**
6. Price of commodity A is  10 per unit and total revenue at this price is  1,600. When its price rises by 20 per cent, total revenue increases by  800. Calculate its price elasticity of supply?

**FORMS OF MARKET AND PRICE**

**PERFECT COMPETITION**

**LEVEL 1**

Q1. Define Perfect competition?

Q2. State the features of perfect competition?

Q3. How price is determined under Perfect competition? Explain through diagram,

Q4. Why selling cost is not incurred by the firm under perfect competition?

**MONOPOLY**

Q1. Define Monopoly?

Q2. State the features of Monopoly?

Q3. What is meant by Price discrimination?

Q4. Why firm under monopoly is a price maker?

Q5. Draw revenue curve under monopoly with the help of schedule?

Q6. Differentiate between monopoly and perfect competition.

**MONOPOLISTIC COMPETITION**

Q1. Define monopolistic competition?

Q2. State the features of Monopolistic competition?

Q3. What is selling cost?

Q4. Differentiate between monopoly and monopolistic competition.

**OLIGOPOLY**

**LEVEL 1**

Q1. Define Oligopoly?

Q2. State the features of Oligopoly?

Q3. What do you mean by non-price competition?

Q5. What is collusive and non-collusive Oligopoly?

Q6. What is a cartel?

**LEVEL 2**

**PERFECT COMPETITION**

Q1. Why is AR curve of a firm under perfect competition parallel to axis?

Q2. Explain the features of Perfect competition?

Q3. What happens to profits in the long run if firms are free to enter the industry.

Q4. Why is the demand curve facing the firm under perfect competition is perfectly elastic?

**MONOPOLY**

Q1. Explain the features of Monopoly.

Q2. How does a monopoly firm undertake price discrimination?

Q3. Why the demand curve facing a monopoly firm is less elastic than the curve facing a monopolistic competitive firm?

Q4. What is the shape of demand curve under Monopoly?

**MONOPOLISTIC COMPETITION**

Q1. Explain the features of monopolistic competition?

Q2. Explain why the demand curve facing a firm under monopolistic competition is negatively sloped?

Q3. Which feature of monopolistic firm is/are monopolistic in nature? Explain.

**OLIGOPOLY**

Q1. Explain the features of oligopoly.

Q2. Explain why firms are mutually interdependent in an oligopoly market?

Q3. Explain the feature of non-price competition under oligopoly

Q4. Explain the role of selling costs in oligopoly?

**LEVEL 3**

**PERFECT COMPETITION**

Q1. Explain the implications of large number of buyers and sellers under perfect competition?

Q2. A perfectly competitive firm faces market price equal to Rs. 15

1. Derive its total revenue schedule for the range of output from 0 to 10 units
2. Suppose the market price increases to Rs 17, will the new TR curve be flatter or steeper.

Q3. What is the relation between market price and average revenue of a price- taking firm?

Q4. Explain through diagram how firms in competitive market earn abnormal profits in short run and normal profits in the long run?

Q5. Why is the total revenue curve of a price taking firm an upward sloping straight line? Why does the curve pass through origin?

Q6. What is the relation between market price and marginal revenue of a price taking firm?

**MONOPOLY**

Q1. Explain the implication of the feature no close substitutes under monopoly?

Q2. What is patent right?

Q3. Explain why marginal revenue is less than average revenue under monopoly firm?

**MONOPOLISTIC COMPETITION**

Q1. Explain the implication of product differentiation under monopolistic competition?

Q2. Why the demand curve under monopolistic competition is more elastic?

**OLIGOPOLY**

Q1. Distinguish between collusive and non-collusive oligopoly?

Q2. Differentiate between perfect and imperfect oligopoly?

**MARKET EQUILIBRIUM AND PRICE DETERMINATION**

**LEVEL 1**

Q1. Define market?

Q2. Define equilibrium. What is equilibrium price?

Q3. What happens when there is excess demand for a commodity in the market?

Q4. Diagrammatically show equilibrium point and equilibrium price and quantity?

Q5. How equilibrium price affected when only the supply of the commodity increases?

**LEVEL 2**

Q1. If at a given price there is excess demand, how will the equilibrium price be reached? Explain with the help of diagram.

Q2. Explain the changes that will take place in the market for the commodity if the prevailing market price is more than the equilibrium price?

Q3. Explain the changes that will take place in the market for the commodity if the prevailing market price is less than the equilibrium price?

Q4. What will the effect on equilibrium price and quantity when

1. Number of firms increases
2. Price of inputs increases
3. Change in price of complementary goods
4. Change in price of substitute goods

Q5. How will change in price of coffee affect the equilibrium price of tea? Explain the effect on equilibrium quantity also through diagram.

**LEVEL 3**

Q1. Explain the chain of effects that will take place if market price is higher than equilibrium price?

Q2. Explain the chain of effects that will take place if market price is less than equilibrium price? Use schedule

Q3. Market for a good is in equilibrium. There is decrease in supply for this good. Explain the chain of effects that will take place.

Q4. Market for a good is in equilibrium. There is increase in supply for this good. Explain the chain of effects that will take place.

Q5. Market for a good is in equilibrium. There is decrease in demand for this good. Explain the chain of effects that will take place.

Q6. Market for a good is in equilibrium. There is increase in demand for this good. Explain the chain of effects that will take place.

Q7. Equilibrium price of essential medicine is too high. Explain what possible steps can be taken to bring down the equilibrium price but only through market forces. Also explain the series of changes that will occur in the market.

Q8. How will an increase in the income of the buyers of an inferior good, affect its equilibrium price and quantity? Explain with the help of diagram?

Q9. Mention the various cases in which equilibrium price remains the same?

Q10. ―If the demand and supply of a commodity both increases, the equilibrium price may not change, may increase, may decrease.‖ Explain using diagram

Q11. There is simultaneous decrease in demand and supply of a commodity. When will it result in:

1. No change in equilibrium price
2. A fall in equilibrium price

Q12. Giving reasons state if the following statements are true or false

1. An increase in supply results in a fall both in equilibrium quantity and equilibrium price
2. Equilibrium price will not change if the decrease in demand meets with a proportionate decrease in supply.
3. A decrease in supply will not result in a change in equilibrium quantity if the demand for a commodity is perfectly elastic.

**NATIONAL INCOME ACCOUNTING**

NATIONAL INCOME AND RELATED AGGREGATES

LEVEL 1

1. State the steps for calculating national income using the output method.
2. State the steps for calculating national income using expenditure method.
3. What is double counting? How can it be rectified?
4. State three precautions while using the output method.
5. State three precautions while using the income method.

**LEVEL 2**

1. How is personal income calculated?
2. When will domestic factor income be equal to National income?

LEVEL 2

1. Is GNP a real indicator of economic welfare?
2. What are externalities and how does it affect the society at large?

LEVEL 3

1. Calculate Gross Value added at market price from the following

|  |  |  |
| --- | --- | --- |
| Items |  | Rs (lakhs) |
| I. | Intermediate cost | 8 |
| II. | Closing stock | 5 |
| III. | Sales | 30 |
| IV. | Net indirect tax | 6 |
| V. | Subsidy | 1 |
| VI. | Depreciation | 3 |
| VII. | Opening stock | 4 |

2. From the following data, calculate

1. National Income and
2. Personal Disposable Income.

|  |  |  |
| --- | --- | --- |
| S.No | Item | Rs in Crores |
| 1 | Profit | 500 |
| 2 | Rent | 200 |
| 3 | Private Income | 2000 |
| 4 | Mixed Income of self employed | 800 |
| 5 | Compensation of employees | 1000 |
| 6 | Consumption of fixed capital | 100 |
| 7 | Net factor income from abroad | (-) 50 |
| 8 | Net retained earnings of private enterprise | 150 |
| 9 | Interest | 250 |
| 10 | Net export | (-) 40 |
| 11 | Corporation tax | 200 |
| 12 | Net indirect Tax | 160 |
| 13 | Direct taxes paid by household | 120 |

3. From the following data calculate a) Gross Domestic product at market price and b) factor income from abroad.

|  |  |  |  |
| --- | --- | --- | --- |
| S.No | Item | Rs | in |
|  |  | Crores |  |
|  |  |  |  |
| 1 | Gross national product at factor cost | 6150 |  |
|  |  |  |  |
| 2 | Net export | (-) 50 |  |
|  |  |  |  |
| 3 | Compensation of employees | 3000 |  |
|  |  |  |  |
| 4 | Rent | 800 |  |
|  |  |  |  |
| 5 | Interest | 900 |  |
|  |  |  |  |
| 6 | Profit | 1300 |  |
|  |  |  |  |
|  |  |  |  |
| 7 | Net Indirect Tax | 300 | |
|  |  |  | |
| 8 | Net Domestic capital formation | 800 | |
|  |  |  | |
| 9 | Gross fixed capital formation | 850 | |
|  |  |  | |
| 10 | Change in stock | 50 | |
|  |  |  | |
| 11 | Dividend | 300 | |
|  |  |  | |
| 12 | Factor income to abroad | 80 | |
|  |  |  | |

**MONEY AND BANKING**

**LEVEL 1**

1) State three functions of a commercial bank. Explain any one of them.

1. What are demand deposits?
2. State two components of money supply.
3. Explain standard of deferred payment function of money.

7) Explain the significance of store of value function of money.

1. What is a Central bank?
2. State difference between Central Bank and Commercial Bank.
3. What is money?
4. What is the meaning of commercial bank?
5. Give the meaning of money supply.

LEVEL2

1. Describe the evolution of money.
2. What is repo rate?
3. Explain the components of LRR.

LEVEL 3

1. Explain the process of credit creation by giving numerical example.
2. Why are Post office savings banks not treated as banks?
3. Why LIC is not considered as commercial banks.

DETERMINATION OF INCOME AND EMPLOYMENT

|  |  |
| --- | --- |
|  |  |

**LEVEL 1**

1. What is the assumption of classical theory?
2. Define aggregate demand. What are its components?
3. Explain consumption function.
4. Explain the determination of equilibrium level of income by using Saving-Investment approach.
5. Define investment multiplier.
6. If the value of MPC is 0.75, find out the value of multiplier.
7. What is the relationship between MPC and Multiplier?
8. Define inflationary gap.
9. What are the monetary measures to correct excess demand?
10. What are the fiscal measures to correct deficient demand?

**LEVEL 2**

1. Distinguish between classical theory and Keynesian theory of income and employment.
2. Explain the components of aggregate demand.
3. Distinguish between autonomous investment and induced investment.
4. How equilibrium level of income is determined by aggregate demand and aggregate supply?
5. Find investment from the following

|  |  |
| --- | --- |
| National Income | = Rs. 600 |
| Autonomous consumption | = Rs. 150 |
| MPC | = Rs. 0.70 |

1. In an economy, the MPC is 0.75 investment expenditure increase by Rs. 75 core. Calculate the total increase in national income.
2. In an economy, total saving are Rs. 2000 crore and the ratio of APS and APC is 2:7 calculate the level of income in the economy.
3. What are the monetary measures and fiscal measure to correct excess demand?

**LEVEL3**

1. Define aggregate demand. Explain its components.
2. When is an economy in equilibrium? Explain with the help of saving and investment functions.
3. What is consumption function? How can it be derived from the saving function? Explain?
4. From the following date about an economy, calculate-
   1. Equilibrium level of National Income.
   2. Total consumption expenditure at equilibrium level of income
      1. C = 200 + 0.5Y
      2. I = 1500
5. From the date given below about an economy, calculate-
6. Investment expenditure
7. Consumption expenditure

|  |  |  |
| --- | --- | --- |
| (i) | Equilibrium level of income | 5000 |
| (ii) | Autonomous consumption | 500 |
| (iii) | MPC | 0.4 |

1. Explain the concept of “inflationary gap”. Also explain the role of bank rate and legal reserves in reducing it.

GOVERNMENT BUDGET AND THE ECONOMY

**LEVEL 1**

1. What is a Government budget?
2. Give two examples of revenue receipt.
3. Give two examples of revenue expenditure.
4. Give two examples of capital receipts.
5. Give two examples of Capital expenditure.
6. Define a tax.
7. What is non-tax receipt?
8. Give two examples of non-tax receipt.
9. What is a capital budget? Explain its components.
10. What is a revenue budget? Explain its components.
11. Differentiate between revenue receipts and capital receipts by giving examples.
12. State any three objectives of a Government. Explain any one of them.

**LEVEL 2**

13 Define revenue deficit.

14 Define fiscal deficit.

1. Why are subsidies treated as revenue expenditure?
2. Why is repayment of loan a capital expenditure?
3. Why is income tax a direct tax?
4. Why is entertainment tax an indirect tax?
5. What is revenue deficit? What is its significance?
6. What is primary deficit? What is its significance?
7. How is re-allocation of resources done using a budget.
8. How is the budget used to manage public enterprises.
9. Differentiate between direct and indirect taxes using examples.

**LEVEL 3**

1. In a Government budget, fiscal deficit is Rs. 40000 Crores and interest payments are Rs. 5000 crores. How much is the primary deficit?
2. A Government budget shows a primary deficit of Rs.5500 crores. The revenue expenditure on interest payments is Rs300 Crores. How much is the fiscal deficit.
3. Why are borrowings treated as a capital receipt?
4. Explain the implication of fiscal deficit.
5. Explain the implication of primary deficit.

**BALANCE OF PAYMENT AND FOREIGN EXCHANGE RATE**

**LEVEL 1**

1. Define foreign exchange rate.
2. Define flexible exchange rate.
3. What is meant by appreciation of currencies?
4. What is meant by balance of payments?
5. What do you mean by balance of trade?
6. The balance of trade shows a deficit of Rs. 600 crores, the value of exports is Rs.1000 crores. What is value of Imports?
7. What is the balance of visible items in the balance of payments account called?
8. What do you mean by disequilibrium in BOP?
9. List two items of the capital account of BOP account.
10. Which transactions bring balance in the BOP account .
11. What is meant by managed floating?

**LEVEL 2**

1. How is the foreign Exchange determined under a flexible Exchange Rate System?
2. Differentiate between Balance of payments and Balance of trade.

3. Explain the structure of balance of payment accounting.

4. Give the item Current Account of BOP.

1. A countries Balance of trade is Rs. (-) 50 crores. Value of import of good is Rs. 200 crores. How much is the value of export of good.
2. Differentiate between Devaluation and Depreciation.
3. Why is the demand curve of foreign Exchange Negatively Sloped?

**LEVEL 3**

1. What determines the flow of foreign exchange in to the country?
2. Distinguish between autonomous and accommodating transaction of balance of payment account.
3. US Dollars are exchanged for 500 Indian Rupees. What is the Exchange rate for Indian Currency?