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

विषय Subject : Economics

विषय कोड Subject Code : 030

परीक्षा का दिन एवं तिथि

Day & Date of the Examination : Friday, 20 March 2015

उत्तर देने का माध्यम

Medium of answering the paper : English

प्रश्न पत्र के ऊपर लिखें

कोड को दर्शाए :

Write code No. as written on
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① ● ③ ④

अतिरिक्त उत्तर-पुस्तिका (ओं) की संख्या

No. of supplementary answer-book(s) used

3

विकलांग व्यक्ति :

Person with Disabilities :

हाँ / नहीं

Yes / No

No

किसी शारीरिक अक्षमता से प्रभावित हो तो संबंधित वर्ग में ✓ का निशान लगाए।
If physically challenged, tick the category

B D H S C A

B = दृष्टिहीन, D = नुक व बधिर, H = शारीरिक रूप से विकलांग, S = स्पास्टिक
C = डिस्लेक्सिक, A = ऑटिस्टिक

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*एक खाने में एक अक्षर लिखें। नाम के प्रत्येक भाग के बीच एक खाना रिक्त छोड़ दें। यदि परीक्षार्थी का नाम 24 अक्षरों से अधिक है, तो केवल नाम के प्रथम 24 अक्षर ही लिखें।
Each letter be written in one box and one box be left blank between each part of the name. In case Candidate's Name exceeds 24 letters, write first 24 letters.

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Section A

Ans 1. (b) Downward sloping concave

Ans 2. A budget line is a curve which shows the various combinations of 2 commodities which a consumer can purchase with his given income at the prevailing market prices. It is the diagrammatic presentation of Budget Set.

Ans 3. (b) Complements

Ans 4. (1) The formula for the measure of price elasticity of demand is $\frac{\Delta Q}{Q} \times P$ where ΔP

ΔQ = change in quantity demanded
 Q = original quantity

P = original price
 ΔP = change in price

We know that there is an inverse relation between the own price of commodity and the quantity demanded of that commodity. Hence, other factors remaining the same either ΔQ or ΔP will be negative.

In case of normal goods income effect is positive but law of demand operates

Example

P	Quantity of normal good, say cotton cloth.
10	5
12	4

Here $\Delta P = +2$ but $\Delta Q = (-)$

Hence a minus sign is attached to the measure of price elasticity of demand.

(2) Also, the formula for price elasticity of supply is

$$= \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

Here $\Delta P = +2$ and ΔQ is also $+2$

Hence a plus sign is attached

where,

ΔQ = change in quantity supplied

Q = original supply

ΔP = change in price

P = original price



we know that there is a direct relationship between the own price of the commodity and its quantity supplied. Hence other factors remaining the same ΔQ and ΔP will both be either positive or both can be negative. So, in both circumstances the measure of price elasticity of supply will be positive.

Example :-

P_x	Supply of S_x
10	5
12	7

Here $\Delta P = +2$ and ΔQ is also = +2

- Hence a plus sign is attached.

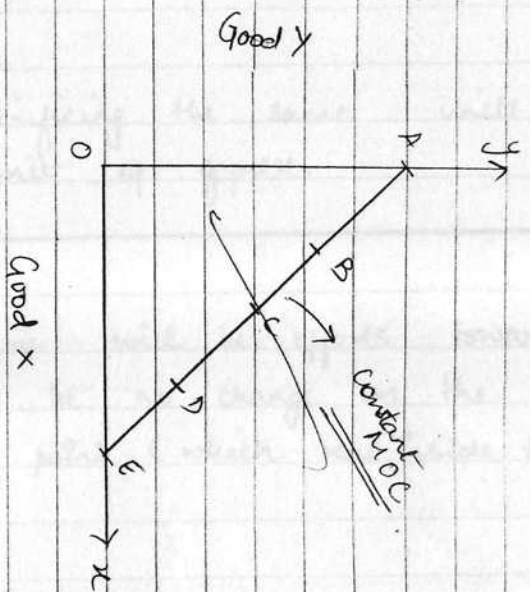
SIGNIFICANCE :- (1) The minus sign in case (1) represents the inverse relation between own price and quantity demanded, that is, ~~the~~ operation of law of demand.

(2) The plus sign indicates the positive or direct relation between own price and quantity supplied, that is the operation of law of supply.

Ans 5

Good X	Good Y	Marginal opportunity cost
0	16	-
1	12	$\frac{4}{1} = 4$
2	8	$\frac{4}{1} = 4$
3	4	$\frac{4}{1} = 4$
4	00	$\frac{4}{1} = 4$

Shape of Production Possibility curve is straight line (downward) joining X and Y-axis.



Reason :- Marginal opportunity cost shows the slope of Production Possibility Curve (PPC).

It means = $\frac{\Delta \text{ loss in output of Y}}{\Delta \text{ gain in output of X}}$

In this case the slope of PPC is constant on all

combinations.
- So ~~it~~ instead of being ~~constant~~ concave it is a downward sloping straight line.

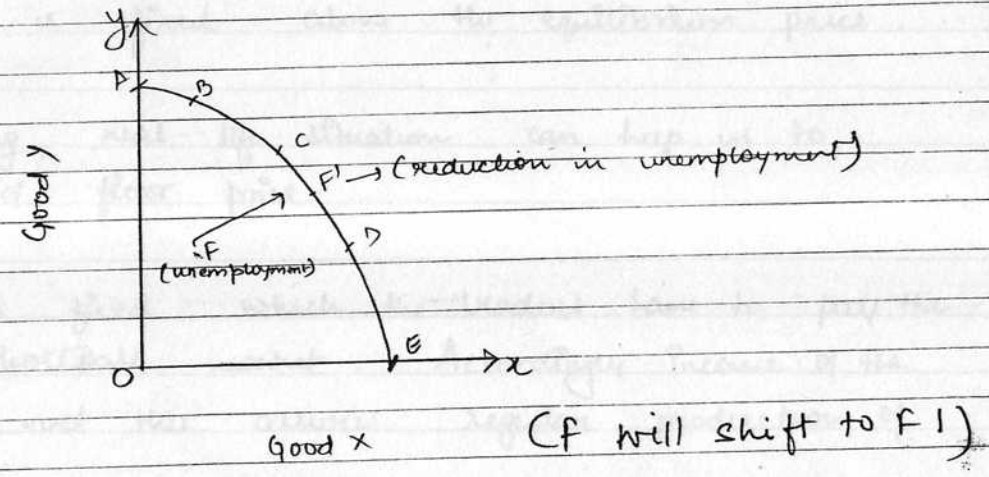
~~This~~ is because of constant MOC.
This means the economy is sacrificing the same units of Y commodity to produce one more unit of good X.

Ans 6. ~~Unemployment~~ IMPACT :- When there will be efforts towards reducing unemployment then there will be no change on the Production Possibilities Curve but only the point (which was inside the curve) will move on the PPC.

Reason :- Unemployment means that our resources are not being fully utilised.
- It represents underutilisation of resources but our production possibilities are not reduced.
- Hence a point will shift ~~inside~~ towards (to the right)

the PPC showing that the resources are now being efficiently utilised

- ~~It does not change our production possibilities~~ and the economy is on the path of efficient utilisation of resources.



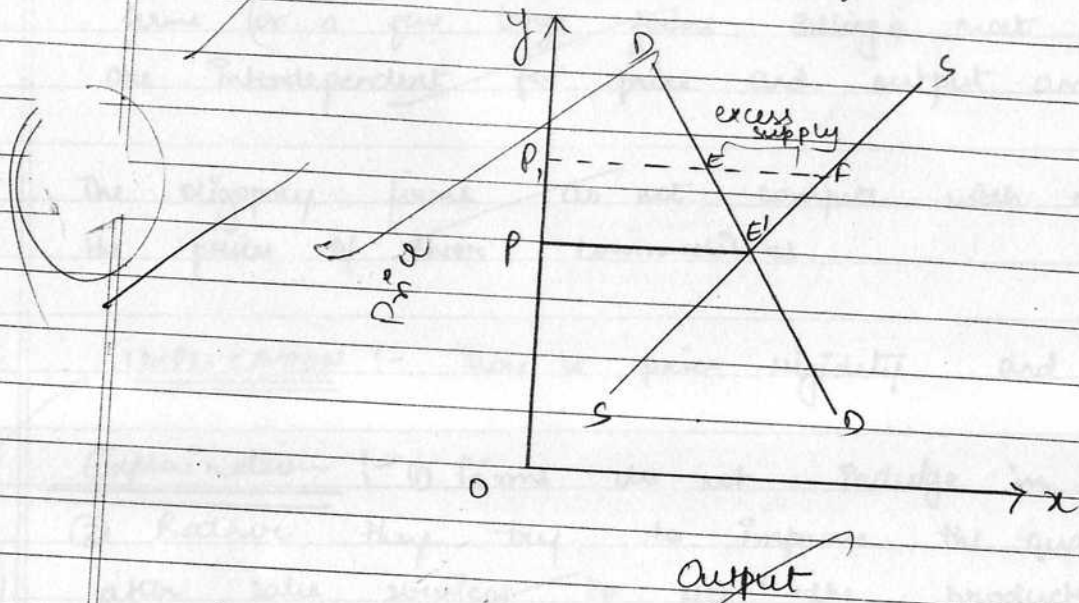
Ans 7. Price-floor :- Floor refers to minimum limit and price floor the minimum price of a commodity by the government.

- It seems paradoxical, but the governments of most of the countries fix the floor price of most agricultural products; food grains in particular.
- Generally, this price is fixed above the equilibrium price.

IMPACT :- The following real life situation can help us to understand the effect of floor price.

- A minimum price is fixed which the traders have to pay the farmers in the wholesale market. Accordingly income of the farmers is regulated and this assures regular production of, say, wheat.
- But the traders may not buy the output at all due to the price. In such a situation, the government offers a minimum price called support price to the farmers.
- It means that the government will buy the entire surplus

of farmer if they fail to sell it in the market.
 - This is the effect of price-floor.



Here, OP is the equilibrium price
 and, OP_1 is the floor price. There is excess
 supply from E to F .

Ans 8. An oligopoly market is a market in which there are a few firms (or a few large firms selling most of the output) which are interdependent for price and output and advertisement policies.

- The oligopoly firms do not compete with each other by changing the prices of their commodities.

- IMPLICATION :- There is price rigidity and high selling cost.

- Explanation :- ① Firms do not indulge in price wars.

② Rather they try to improve the quality of the product or after sales services to sell the products.

③ The oligopolistic price that remains stable over a period of time is called price rigidity.

④ So the firms do not change their price because if they do then the rival firms will also change their price which will adversely affect the demand for the former firm.

⑤ So they incur huge selling cost in the form of door-to-door

95 21
15 3
+ 14
29

20 1
11 2
31

selling, advertising in newspaper, magazines, etc. and publicity
(e) The demand curve of the firm is also not fixed.

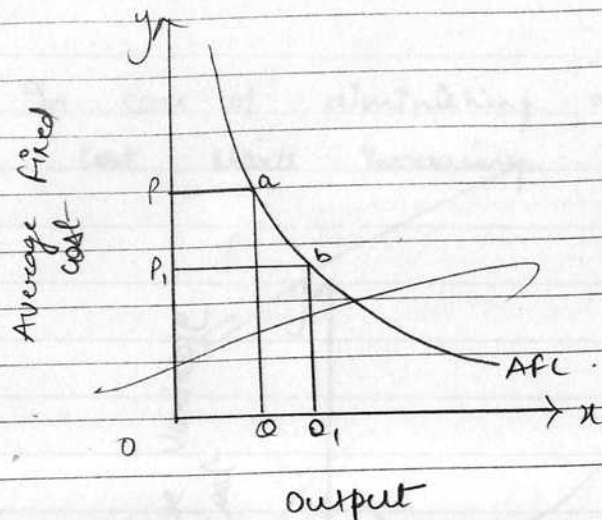
Ans 9. (a) Average fixed cost :- It is the per unit fixed cost of production.

- We know that Total fixed cost is always constant.
- Hence AFC keeps on falling with an increase in output.

As the output approaches to zero AFC curve approaches ∞ Y axis but it never reaches infinity. As the output increases to many units, AFC approaches to zero but it never touches X-axis.

This is because of constant TFC.

So AFC curve takes the shape of a rectangular hyperbola. 2



$$OP \times OQ = TFC = OPAQ$$

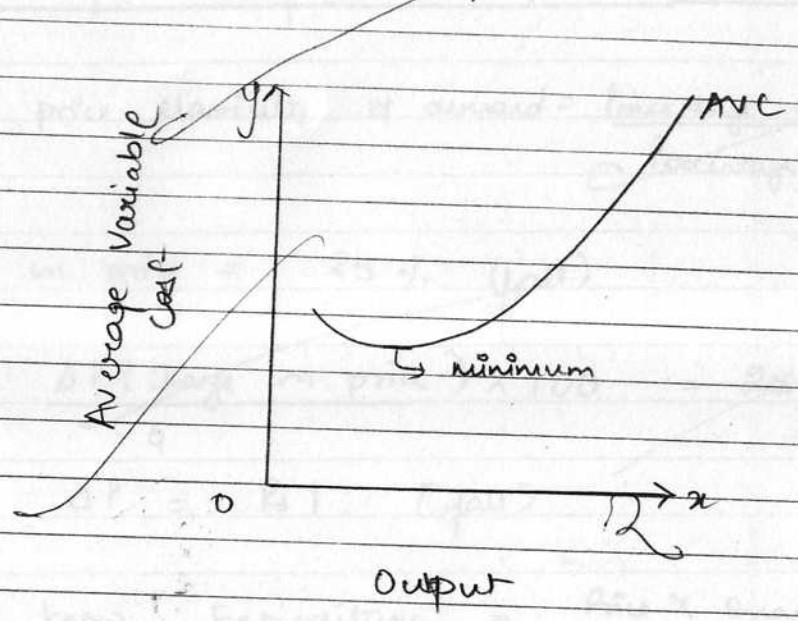
$$OP_1 \times OQ_1 = TFC = OP_1BQ_1$$

(b) Average Variable Cost :- It is defined as the per unit variable cost of production.

$$AVC = \frac{\text{Total Variable Cost}}{\text{Output (units)}}$$

- As more and more units of output are produced AVC first falls, reaches its minimum and then rises.
- This is because of the law of variable proportions. When a firm enjoys ~~at~~ increasing returns the per unit cost diminishes.

In case of diminishing returns to a factor, the per-unit cost starts increasing.



It is an U-shaped curve

Ans 10.

Price	Quantity ^(units) Demanded	Expenditure
4	25	100
3	25	75

1.5

we know, price elasticity of demand = $\frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}}$

$\Delta(\text{change})$ in price = 25% (fall)

Hence $\frac{\Delta P (\text{change in price}) \times 100}{4} = 25$

$\Delta P = - Rs 1$ (fall)

Also we know Expenditure = Price X Quantity.

Percentage increase in Quantity Demanded = $\frac{\Delta Q}{Q} \times 100$

$\Delta Q = \text{change in Quantity}$
 $= \frac{00}{25} \times 100 = 00\%$

Hence, price elasticity of demand = (ed) =

$$ed = \frac{00\% \times 10}{-25\%}$$

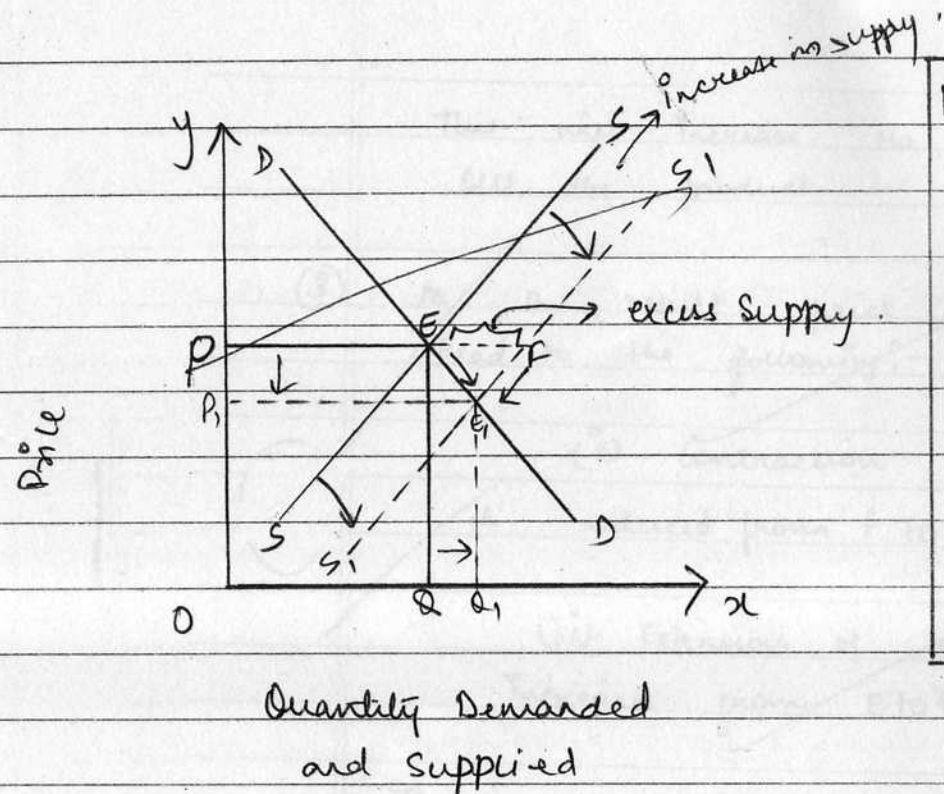
$$ed = (-\infty) \quad 0 \rightarrow \infty$$

This is case of perfectly inelastic demand when the demand does not change at all corresponding to a change in price.

Ans 11. Market for a good is in equilibrium.

Supply of a good increases.

Hence final outcome,
 on equilibrium quantity = it will increase
 on equilibrium price = it will fall.



Here,

- OP = original price
- OQ = original quantity
- DD = original demand curve
- D₁D₁ = new demand curve
- SS = original supply curve
- S₁S₁ = new supply curve
- OP₁ = new price
- OQ₁ = new quantity

Chain of Effects :-

- ① In this case there is an increase in supply. So supply curve shifts from SS to S₁S₁. original equilibrium is ^{at} E
- ② In this case, demand of the commodity is constant. Hence there is a situation of excess supply from E to F.

This will increase the competition among the sellers to sell the product.

(3) As a result, price will fall from OP to OP_1 . This will lead to the following:-

(i) Contraction of Supply:- The quantity supplied is reduced from F to E_1 .

(ii) Extension of demand:- The quantity demanded increases from E to E_1 .

This change will continue till new equilibrium is achieved ~~from~~ at E_1 .

(4) Hence, final outcome = equilibrium price will fall from OP to OP_1 and equilibrium quantity will rise from OD to OD_1 .

Ans 12 Equilibrium refers to a state of balance or position of rest.

- Producer's equilibrium means the level of production at which the producer is able to maximise his profits.

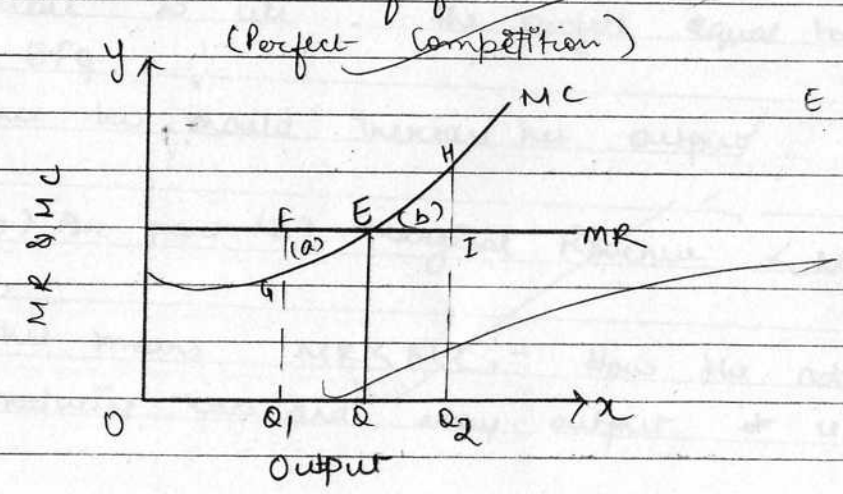
- 2 conditions have to met in this regard:-

(a) Marginal Revenue (MR) = Marginal Cost (MC)

(b) Marginal Cost must be rising. Because, it is only in the case of rising MC that the profits are maximised.

The producer achieves his equilibrium only when both the above conditions are fulfilled.

Example:-



$E = MR = MC$
and MC is rising.

The producer does not attain equilibrium at (a) or (b) because of the following reasons:-

(a) In part (a) Marginal Revenue $>$ Marginal Cost:-

- This means $MR > MC$. The producer should obviously increase his production as there is more scope of earning profits (this means that difference between Total Revenue and Total Cost is still increasing).

According to the diagram if the producer stops his production at OR_1 level then he will not be able to utilize the profits equal to the triangle area EP_1Q .

- Hence he should increase his output.

(b) In part (b) Marginal Revenue $<$ Marginal Cost:-

- This means $MR < MC$:- Now the additional cost of producing each and every output is more.

- So the producer is at a loss.
- According to the diagram if the producer increases his output even beyond equilibrium then he will ~~not~~ have to ~~be~~ bear the loss equal to the triangle area $\triangle EHI$.
- Hence, he would stop his consumption till equilibrium is achieved.

The following numerical will make the situation clearer:-

Determination of Equilibrium (Perfect Competition)

Output	TR	MR	TC	MC	Profits
1	10	10	11	10	-1
2	20	10	20	9	0
3	30	10	28	8	2
4	40	10	35	7	5
5	50	10	43	8	7
6	60	10	52	9	8
7	70	10	62	10	8
8	80	10	73	11	7
9	90	10	86	13	4

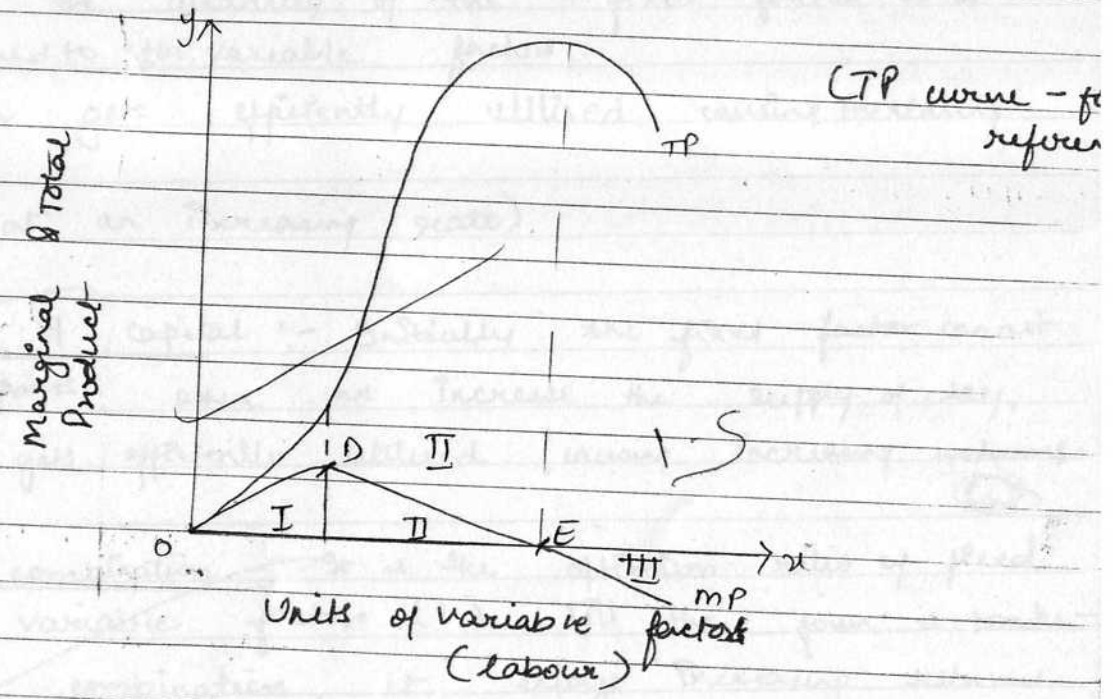
max scope of earning profits

equilibrium is achieved only at this point when profits are also rising

losses

Ans 13.

Law of variable proportions in terms of Marginal product (MP) states that if max and max units of variable factor are employed with the ~~the~~ given quantity of fixed factor, then MP of the variable factor first increases, then decreases (but remains positive), reduces to zero and finally becomes negative.



Phases :-

(A) Phase of Increasing Returns (Represented by I) :-

- In this case MP of the variable factor rises. The firm enjoys increasing returns.
- This is because the quantity of the fixed factor is more as compared to the variable factor.
- Thus fixed factor gets efficiently utilised causing increasing returns.

(TP increases at an increasing rate)

Other causes :-

(1) Indivisibility of capital :- Initially the fixed factor cannot be divided into parts. When we increase the supply of, say, labour then it gets efficiently utilised causing increasing returns.

(2) Optimum combination :- It is the optimum ratio of fixed (K) and variable factors (L). Till the firm is producing before this combination, it enjoys increasing returns.

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Example :- optimum combination = 4K : 8L

4K : 7L

4K : 6L

4K : 5L

38
} increasing returns

(3) specialisation :- when the firm increases the supply of labour, it leads to specialisation which is always good for increasing the returns.

(B) Diminishing Returns (second phase represented by II) :-

- In this case, a pressure is now being felt on the fixed factor ~~keeping~~ due to the increasing quantity of labour.
- Hence MP of the variable factor will fall but it remains positive. In the diagram MP starts falling from A.

Causes :-

① Imperfect Substitution :- When the firm increased the supply of labour even beyond the ~~fixed~~ optimum level, then it substitutes capital to labour. This combination may prove to be imperfect causing diminishing returns.

② optimum combination :- Production beyond optimum combination causes diminishing returns.

4K : 8L (optimum)

4K : 9L

4K : 10L

4K : 11L

} diminishing returns.

③ Fixity of the fixed factor :- The fixed factor is constant. So, it may lead to overutilisation and diminishing returns.

(C) Negative Returns :- (⊗ Represented by III) :-

- Ultimately, MP of the variable factor becomes negative.
- In terms of TP - it starts declining.
- In the diagram, MP starts falling after point E.

Cause :-

- Now the quantity of fixed factor is too small to accommodate the ever increasing quantity of variable factor, that is labour.
- Hence MP of the variable factor falls.

Note :- Ideally, a producer reaches equilibrium in the second phase where TP is maximum.

F/S

20, 500 - 125

$$\frac{4}{5} < \frac{5}{4}$$

Ans 14 According to the condition of consumer's equilibrium, (using utility analysis in case of 2 commodities), it is determined at a point where the ratio of marginal utility of that commodity (X) to its price (Px) is equal to a marginal utility of Y to price of Y.

In other words :- $\frac{M_{UX}}{P_x} = \frac{M_{UY}}{P_y}$

Here, $M_{UX} = 4$ and $P_x = 45$
 $M_{UY} = 5$ and $P_y = 4$

In this case ratio of M_{UX} to P_x is not equal to M_{UY} to P_y .

- The consumer is not in equilibrium.

This is because

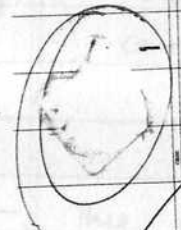
$$\frac{M_{UX}}{P_x} < \frac{M_{UY}}{P_y} \Rightarrow \frac{4}{5} < \frac{5}{4}$$

50

Reason :-

This is because the marginal utilities derived on the consumption of number of units of X is not equal to the marginal utilities (in the terms of money) on the consumption of number of units of Y.

So, in this situation total money income is not equal to Total Expenditure.



REACTIONS OF A RATIONAL CONSUMER :-

① In this case :- $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$. This can happen when

~~the~~ the price of X rises or the price of Y falls.

- In this case price X is greater than price Y indicating the above disequilibrium.

- Hence the consumer should increase the consumption of Y commodity and reduce the consumption of X commodity (this is also in accordance with the law of

demand).

a) By reducing the consumption of X commodity, Marginal Utility of X increases.

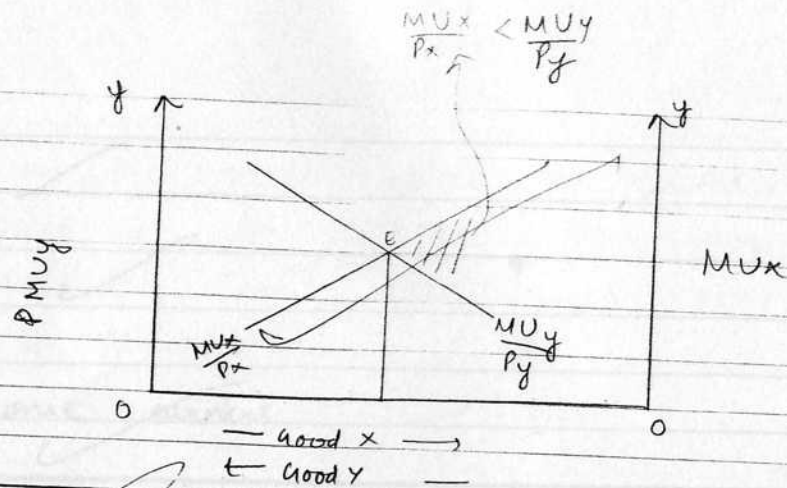
(b) At the same time, if the consumer increases the consumption of Y commodity, MU_Y is expected to fall.

- This is because of the law of diminishing marginal utility, which states that with the consumption of successive units of a commodity, MU is expected to fall (as the consumption desire reduces).

- This change will continue till equilibrium is achieved.

NOTE:- This analysis is based on the concept of equi-marginal utility, that is, the consumer distributes his income in such a manner that marginal utilities derived from each ~~for~~ ~~are~~ are equal.

3



Section B

Ans 15. (a) Fiscal Deficit - Interest Payments.

Ans 16. In macroeconomics aggregate demand refers to the sum total of the demand for the final goods and services in an economy during an accounting year (by households, firms and government). It is also called aggregate expenditure as the demand for goods and services arises only out of expenditure.

Ans 17 (d) Infinity ✓

Ans 18 (b) to fall ✓

Ans 19 (d) the income earners ✓

Ans 20. Borrowings from abroad are recorded on the ~~credit~~ CREDIT side of the Capital Account of the Balance of Payments Record.

Reason :-

Capital Accounts includes all those items which affect the assets and liability status of the government or private enterprises.

(1) Borrowings create a liability on ~~either~~ the government, if
- the government borrows funds from World Bank or International Monetary Fund (IMF) or foreign transactions. These are

60.5

- recorded on the credit side of official transactions.
- If the borrowings is done by private ~~entrepreneurs~~ enterprises then it is recorded on the receipt side (credit) of the non-official transactions.
- Thus it affects the liability status & hence it is recorded in the capital A/c as a receipt.
- The liability that arises is on account of repayment of loan and interest payment.

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Ans 2) We know that, we can convert nominal GDP into Real GDP with the following formula:-

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{So, } 500 = \frac{\text{Nominal GDP}}{125} \times 100$$

0904

Fictitious Roll No.
(To be entered by Board)

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अपना अनुक्रमांक इस उत्तर-पुस्तिका
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Roll Number on this Answer Bookअतिरिक्त उत्तर-पुस्तिका(ओं) की संख्या.....
Supplementary Answer-Book(S) No. 01

$$\text{So, Nominal GDP} = 5 \times 125 \\ = \text{Rs } 725$$

Hence, Nominal Gross Domestic Product = Rs 725

Ans 2. Fixed Exchange Rate :- Fixed exchange rate is that system of exchange rate in which the foreign exchange rate is determined by the government or the monetary authority of the country, like the Central Bank :

- The rate of exchange remains fixed and so the market is not volatile. Ⓢ

TYPES :-

- A typical kind of system under this is the gold standard system of exchange.

- In this the value of each currency is determined in terms of gold and then the exchange rates are determined (i.e., on the ~~the~~ basis of gold value of each currency.

Example :- \$ 1 = 200 gm. of gold

₹ 50 = 200 g. of gold

then \$ 1 = ₹ 50.

- Bretton woods system of exchange :- In this system different currencies were pegged to one, that US\$.
- US\$ was assigned a gold value.
- Gold continued to be the ultimate unit of parity
- This rate promotes international trade, acts as an inbuilt check on inflation and helps in automatic BoA adjustment.



Flexible exchange rate :- In this system, the foreign exchange rate is determined by the market forces of ~~and~~ demand for and supply of foreign

exchange.

- There is no government intervention.

$$R(\text{Rate}) = f(D, S)$$

D = Demand

S = Supply.

This is called par value of exchange.

- Rate of exchange is determined when demand for and supply of foreign exchange are equal.
- This rate of exchange does not require gold reserve and this system promotes venture capital.
- However the market becomes volatile exposing the investors to a high risk factor.

Ans 23 Economy is in equilibrium.

This means = National Income = Autonomous Consumption +
 (Income \times Marginal Propensity to Consume) +
 Investment.

$$Y = \bar{C} + by + I \quad | \text{S}$$

$$\text{So, } 1000 = 100 + b(1000) + 120$$

$$1000 = 220 + b(1000)$$

$$1000 - 1000b = 220 \quad |$$

$$1000(1-b) = 220$$

$$1-b = \frac{220}{1000}$$

$$1-b = 0.22 \quad |$$

We also know = MPC + Marginal Propensity to
 Save = 1

$$\text{or}$$
$$b + \text{MPS} = 1$$
$$\text{MPS} = 1 - b$$

$$\text{So, } 1 - b = 0.22$$

$$\text{Value of MPS} = \boxed{0.22} \text{ } \cancel{0.5} \text{ } 0.5$$

Ans 24 . The Central Bank acts as a "Bankers' Bank and Supervisor".

- This means that it acts as a Banker to ~~central~~ commercial Banks and its supervisor.

① The central Bank holds the reserves of commercial Banks in the form of Cash Reserve Ratio. It is the percentage of the total deposits that the Banks have to keep with the central Bank. So, the central Bank sets the rate of CRR. Presently it is around 4%.

(2) - The Central Bank is also the lender of the last resort to the commercial Banks, since it holds its cash reserves. B.S

(3) - The Commercial Banks can borrow funds from Central Bank in times of emergency by discounting their first class Bills of Exchange.

This provides the central Bank right to establish control over the Banking System of the country.

(4) The Central Bank also acts as a supervisor of the Banks as it performs the following functions:-

- managing interest rates
- liquidation of a Bank
- Amalgamation of 2 banks.

(5) The central Bank is also the Bank for central clearance settlements and transfers. The commercial Banks have their Accounts with the Central Bank. B.S

Ans 2:- Commercial Banks help ^{to} create credit.

- It is the process of expanding the deposits with the help of derivative deposits.

Important point :- Legal Reserve Ratio = the percentage of total deposits which the Banks have to keep as reserves (LRR).

Money Creation = Initial Deposit $\times \frac{1}{LRR}$

B. Example :- Suppose initial deposits are Rs 10000. and LRR is 20%

Table

Round	Deposits	Loan	Reserve
I	10000	8000	2000
II	8000	6400	1600
⋮	6400	5020	1280
	50000	40000	10000

Process :-

- From the initial deposits of Rs 2000 will be kept as reserves.
- The Banks can lend the remaining to the borrowers.
- Those who borrow will again make the payments, so this amount will again be deposited.
- The Banks again have a deposit of Rs 2000. This process will continue till the total money created reaches Rs 50000.

$$= \text{as } 10000 \times \frac{1}{LRR} = 10000 \times \frac{1}{20\%} = \text{Rs } 50000.$$

- Central Bank only helps to control credit through its monetary and fiscal policies.

- Affect on National Income :- National Income will INCREASE :-

Reason :- Supply of money is increased.
 - Increased money supply increases the level of AD.

Hence National Income will increase.

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0904

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अतिरिक्त उत्तर पुस्तिका (ओं) की संख्या.....
Supplementary Answer-Book(S) No. 02

Ans 26 Government can use the fiscal instruments of taxation and subsidies to reduce inequalities of Income distribution.

(1) The government follows a progressive tax structure :- This means that the government imposes a higher tax on higher income group. This reduces the disposable income of the rich section of society.

- Also the government charges a lower tax on lower income group. This reduces the disparities in income distribution.

(2) The government can also grant subsidies to the poor :-
By granting subsidies to the poor, the government aims to increase their disposable income. This ~~it~~ improves their standard of living.

- Hence distribution of income and wealth is equal.
- Distribution of income and wealth should be done in such a manner that there is parity between the rich and poor.
- The gap between the rich and poor should be reduced.
- The government, also, through its budgetary policies imparts stability to the economy by increasing its expenditure during depression or recession.
- Equality in income distribution promotes economic welfare.
Example:- Tax receipts of government of government are an important tool as discussed above.
- A progressive tax structure helps to reduce disparities.

Ans 27. (i) Payment of interest by a firm to a bank is not included in the estimation of national income.

This is because it is a part of operating surplus, the firm may have borrowed the money for production purpose.

It is an amount which is paid on borrowed capital which has been used for productive purposes and not for consumption.

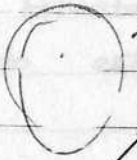
(ii) This is also included in the estimation of national income.

Reason:-

- The banks may have used these deposits (on which interest is paid to the public) for productive purposes, that is for investment purposes.
- Hence it is included.

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(iii) No, payment of interest by an individual to the Bank is NOT INCLUDED in the estimation of National Income.



Reason :- This is because the ~~the~~ individuals have borrowed this amount for meeting the current consumption requirements.

- There is no production of goods and services corresponding to this borrowed amount.

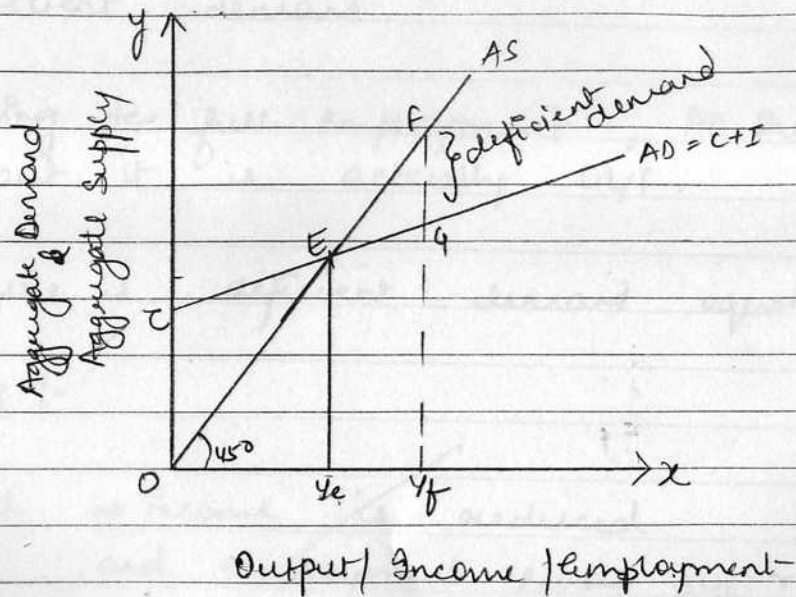
Ans 28

Deficient Demand refers to a situation when Aggregate Demand is less than Aggregate Supply corresponding to full employment in the economy. @

$\Rightarrow AD < AS$ (corresponding to full employment)

Deficient Demand leads to deflationary gap.

- It refers to a ~~situatio~~ difference between ~~AD~~ actual AD and AD required to establish full employment.



Explanation :-

- According to the condition of equilibrium, national Income

is determined at a point where AD and AS are equal and it is determined at E where income is equal to OY_e.

- But when the level of full employment is beyond equilibrium point E then there is the situation of deficient demand.

- According to full employment, AD should be ~~FY_e~~ but it is actually OY_f.

- Thus there is deficient demand equal to FG.

→ Effects :-

- National income is reduced
- output and employment levels are reduced
- there is deflation, that is, a fall in constant fall in the general price levels.

not needed

Causes for deficient demand are:-

- ① Reduction in consumption expenditure due to rise in MPC.
- ② Reduction in Investment expenditure due to poor credit facilities.

Other factors include:-

- ③ Decrease in money supply in economy.
- ④ Decrease in private disposable income due to high tax rates.

Role of Bank Rate

- ① Bank rate or repo rate or discount rate is the rate at which the central bank grants loans to the commercial banks.

- During deflation, money supply has to be increased in the economy.

- As a result, the central bank reduces the Bank Rate.

- This makes credit cheaper.
 This means that borrowings become cheaper.
 So the commercial banks will borrow more from the central bank.

The commercial banks also reduce their lending rates, inducing more borrowings by the public.

Hence Deficient Demand is corrected if

Ans 29. ① To calculate:- Net National Product at Market Price.
 That is, NNP_{MP} by expenditure method.

we get NDP_{MP} (Net Domestic Product at Market Price) by this method.

$$\text{So, NDP}_{MP} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net Domestic fixed capital formation} + \text{change in stock} + \text{Net Exports}$$

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

Supplementary Answer-Book No. 03

Change in Stock = Closing Inventory - opening Inventory

So, $NDPmp = 300 + 50 + 60 + (8-8) + (10)$ O.S

[Net exports = -10]

= Rs 420 crores.

Now $NNPmp = NDPmp + \text{Net Factor from Abroad}$

= $420 + [(-)(-5)]$ (As Net Factor to Abroad is given)

① = Rs 425 crores O.S

② To calculate Personal Income :-

Personal Income = Private Income - Corporate Tax - Retained Earnings of Corporations

= $280 - 60 - 20 =$ Rs 200 crores O.S

Excellent



Keep it up