made in future. Money performs this function successfully by enabling the payment of loans to be made in future.

- **Store of Value:** Money has merit to store of value because its utility is never lost. It contains purchasing power in future also.

(ii) Open market operation is the credit control policy of Central Bank (RBI) that focuses on increasing and decreasing the stock of liquidity with the people, through sale and purchase of securities of government's assets.

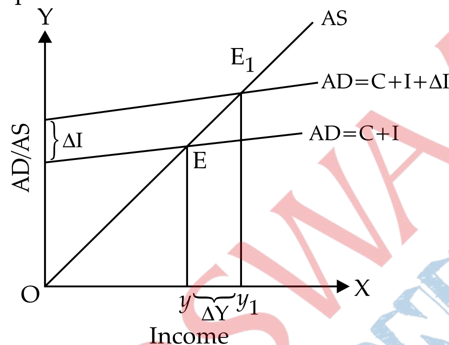
By selling the securities the central Banks Soaks liquidity and by buying securities, the central banks releases liquidity.

7. (i) Investment multiplier is the ratio of an increase of income to given increase in investment. Investment multiplier refers to the increase in the aggregate income of the economy as a result of an increase in the investments done by the government in the form of new projects.

The formula of investment multiplier can be expressed as:

$$K = \frac{\Delta Y}{\Delta I}$$

Graphically investment multiplier can be represented as follows:



8. (i) Per capita income is not considered a good indicator of economic welfare due to following reasons:

- Per capita income can sometimes be misleading because there is unequal distribution of wealth between rich and poor.
- Per capita income does not reflect the standard of living of the people. While standard of living is directly concerned with economic welfare.

OR

(ii) Real GDP: Real gross domestic product is an inflation-adjusted measure of the value of all goods and services produced in an economy. It is expressed in base year prices and referred to as a fixed cost price. It is also known as inflation-corrected GDP or constant price GDP. It is a reliable index of economic growth.

Nominal GDP: Nominal gross domestic product (GDP) is GDP given in current prices, without adjustment for inflation. Current price estimates of GDP are obtained by expressing values of all goods and services produced in the current reporting period. It means, the market value of the final production of goods and services within a country in a given period using that year's prices.

For example: Suppose current year's production in a hypothetical economy is 1,000 units at a price of ₹ 500, the GDP at current year price is 1000 × ₹ 500 = ₹ 5,00,000, so the nominal GDP is ₹ 5,00,000. Suppose base year price is ₹ 400, the GDP at base year price is 1000 × ₹ 400 = ₹ 4,00,000. So the Real GDP is ₹ 4,00,000.

9. (i)

Revenue receipts	Capital receipts
Revenue receipts do not cause any reduction in assets.	Capital receipt causes reduction in assets of the government.
Do not create any corresponding liabilities to the government	It creates corresponding liabilities for the government.
Example: Tax receipts of the government	**Example:** Loans taken by the government and disinvestment.

(ii) Public expenditure refers to the overhead expenses of the government which is spent on collective needs and wants, such as pension, provisions, security, infrastructure, etc. It increases production capacity of an economy. Income and savings also increase and create a beneficial effect on investment and capital formation.

10. (i) Features Oligopoly:

(a) There are few big sellers. Each seller has a signifies share of the market thus has huge impact on prices.

(b) An Oligopoly firm has intense competition and cannot ignore the reaction of rival firms as there is interdependence.

(ii)

Basis	Monopoly firm	Monopolistic Competition
Number of firm	Only one firm	Large number of firms
Nature of commodity	Single product and no close substitute	Product differentiation
Entry and Exit of firm	No entry of new firm	Free exit of old firms and new firms can join the market.
Selling cost	Advertisement may be informative not competitive.	Competitive advertisement may take place.
Relation between firm and Industry	No difference between firm and industry because there is only one firm into the industry.	A close relation between firm and industry because market has large number of firm.
Price and Profit	Firms obtain abnormal profit in the long run.	Firms obtain only normal profit in the long run.

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11. (i) Income elasticity of demand refers to changes in consumer income relative to the amount of a good that consumers demand. It is the corresponding change in the demand of a product in response to the change in a consumer's income. It should be negative when the rise in the consumer's income results in the decline of the quantity demanded for the product.

(ii) A consumer purchasing a single commodity will be at equilibrium, when he is buying such a quantity of that commodity, which gives him maximum satisfaction.

Being a rational consumer, he will be at equilibrium when marginal utility is equal to the price paid for that commodity, i.e.,

$$\frac{MU_x}{P_x} = MU_m$$

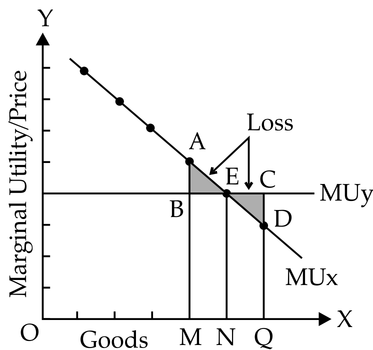


Diagram shows, E point is the point of consumer's equilibrium. A consumer consume ON units of commodity. If he increases his consumption to OQ, DQ utility is obtained by additional NQ quantity of good. Marginal utility of expenditure remains previous level. Consumer will postpone his consumption to the point where price of goods become equal to marginal utility.

OR

(i) Exception of law of supply:

(a) Agricultural Products: The supply of agricultural products can't be increase by a certain level because land is a limited resource. Thus, Supply can't be increased, even if the price increases.

(b) Monopoly: In case of monopoly, monopolist is the price maker and has all control over the prices as he is the single seller goods. Thus, he may not be willing increase supply at any increased price.

(ii) Price elasticity of demand may be defined as the percentage change in the quantity demanded of a commodity divided by the percentage change in price of that commodity. The following factors affect the price elasticity of demand:

- **Nature of goods:** Different nature of goods have different elasticity. Necessary goods have inelastic demand while luxury goods are more elastic.
- **Substitute goods:** When substitute goods are available in the market, and then the demand elasticity of such goods is highly elastic.
- **Income level:** Elasticity of demand may vary with different level of income. Elasticity for rich people is generally inelastic because increases in price level do not affect them severely while elasticity of demand for poor people is highly elastic.
- **Tastes and habits:** If a consumer is used to habitual goods, then the price elasticity will not affect his demand.
- **Diversity in use:** Commodities that can be put to variety of uses have elastic demand. On the other hand, if a commodity has only few uses, its demand is inelastic. **(Any four)**

12. (i) Precautions regarding value added method are as follows:

- Value of intermediate goods must not be added to the National Income as these are already added to the value of final goods.
- Sale of second-hand goods should not be considered.
- Production for self-consumption must be included. **(Any four)**

(ii) Estimation of Gross Domestic Product at Market Price or GDP_{MP} by Value added Method

GDP_{MP} = Net Value Added at factor cost in Primary Sector + Net Value Added at factor cost in Secondary Sector + Net Value Added at factor cost in Tertiary Sector + Net Indirect Tax + Depreciation

= 6000 + 4000 + 4500 + 150 + 500

= ₹ 15150 crore

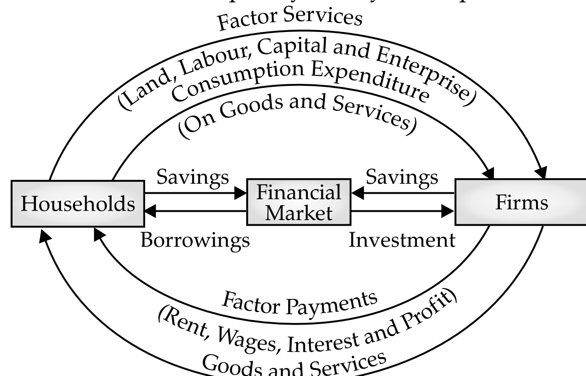
NNP_{FC} = Net Value Added at factor cost in Primary Sector + Net Value Added at factor cost in Secondary Sector + Net Value Added at factor cost in Tertiary Sector + Net factor income from Abroad

= 6000 + 4000 + 4500 + (–)50

= ₹ 14450 crore

OR

(i) Circular flow of income refers to the flow of payments and receipts for goods, services, and factor services between the households and the firm sectors of the economy. In the real life both households sector and producer sector save a part of their income. This saving is withdrawn from money flow and consequently money flow squeezes.



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(ii) Measure of National Income by Expenditure Method are as follows:

National Income

= Governmental Final Consumption Expenditure + Private Final Consumption Expenditure + Net Domestic Capital Formation + Net Factor Income from Abroad + Net Export – Net Indirect Tax

NNP_{FC} = 900 + 1000 + 300 + 210 + (–)75 – 265

= ₹ 2070 crores

Operating Surplus = Rent + Profit + Interest

= 190 + 320 + 200

= ₹ 710 crores

13. (i) Floating exchange rate and demand for foreign exchange.

(ii) Currency depreciation.

(iii) Depreciation in domestic currency tends to reduce positive balance of payment in the medium and long run. It tends to improve the current account balance of payments. This is because exports increase relative to imports. However, this assumes that demand for exports and imports are relatively elastic.

(iv) Reserve Bank of India acts as custodian of foreign exchange reserves. It is helpful in eliminating difficulties of balance of payments and in maintaining stable exchange rate. For minimizing fluctuations in foreign exchange rate, central bank buys or sells foreign exchange in the market.

(v) Measures to correct adverse balance of Payment are as follows:

- Exports should be encouraged by granting various bounties to manufacturers and exporters. At the same time, imports should be discouraged by undertaking import substitution and imposing reasonable tariffs.
- To reduce imports reduce deficit in balance of payments is to adopt monetary and fiscal policies that aim at reducing aggregate expenditure in the economy. The fall in aggregate expenditure or aggregate demand in the economy works to reduce imports and help in solving the balance of payments problem.

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