

CBSE
Class XII Economics
Delhi Board Paper Set 2 – 2013

Time: 3 hrs

Max. Marks: 100

Note:

- Please check that this question paper contains 12 printed pages.
- Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
- Please check that this question paper contains 32 questions.
- **Please write down the Serial Number of the question before attempting it.**
- 15 minutes time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the students will read the question paper only and will not write any answer on the answer-book during this period.

General Instructions:

- (i) **All** questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Questions Nos. **1 – 5** and **17 – 21** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence.
- (iv) Questions Nos. **6 – 10** and **22 – 26** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **60** words each.
- (v) Questions Nos. **11 – 13** and **27 – 29** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **70** words each.
- (vi) Question Nos. **14 – 16** and **30 – 32** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **100** words each.
- (vii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

SECTION A

1. Give two examples of variable costs. (1)
2. Given the meaning of market demand. (1)
3. Under which market form a firm's marginal revenue is always equal to price? (1)
4. When is the demand for a good said to be inelastic? (1)
5. Define marginal cost. (1)

6. Explain the law of diminishing marginal utility with the help of a total utility schedule.

OR

Explain the condition of consumer's equilibrium with the help of utility analysis. (3)

7. Explain the difference between an inferior good and a normal good. (3)
8. A firm's revenue rises from Rs 400 to Rs 500 when the price of its product rises from Rs 20 per unit to Rs 25 per unit. Calculate the price elasticity of supply. (3)
9. Complete the following table: (3)

Output (Units)	Average Cost (Rs)	Marginal Cost (Rs)
1	12	
2	10	
3		10
4	10.5	
5	11	
6		17

10. Explain any two features of monopoly market. (3)
11. Production in an economy is below its potential due to unemployment. Government starts employment generation schemes. Explain its effect using production possibilities curve. (4)
12. The demand for good rises by 20 percent as a result of fall in its price. Its price elasticity of demand is (-) 0.8. Calculate the percentage fall in price. (4)

OR

How price elasticity of demand affected by is:

- (i) Number of substitutes of available for the good.
- (ii) Nature of the good.

13. Explain the conditions of producer's equilibrium with the help of a numerical example. (4)
14. Explain consumer's equilibrium with the help of Indifference Curve Analysis.

OR

Explain the relationship between (6)

- i. Prices of other goods and demand for the given good.
- ii. Income of the buyers and demand for a good.

15. Giving reasons, state whether the following statements are true or false.

- (i) A monopolist can sell any quantity he likes at a price.
- (ii) When equilibrium price of a good is less than its market price, there will be competition among the sellers. (6)

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16. Explain the Law of Variables Proportions with the help of total product and marginal product curves. (6)
17. What is a Government Budget? (1)
18. Give two examples of indirect taxes. (1)
19. Give one example of-externality' which reduces welfare of the people (1)
20. How can increase in foreign direct investment affect the price of foreign exchange? (1)
21. What are demand deposits? (1)
22. Distinguish between balance of trade and balance on current account? (3)
23. Explain the effect of appreciation of domestic currency on imports. (3)
24. Explain the problem of double coincidence of wants faced under barter system. How has money solved it? (3)
25. Explain any one objective of Government Budget? (3)
26. Distinguish between revenue expenditure and capital expenditure in Government budget. Give an example of each. (3)
- OR**
- Distinguish between revenue deficit and fiscal deficit.
27. Giving reasons categories the following into stock and flow: (4)
- (i) Capital
 - (ii) Saving
 - (iii) Gross domestic product
 - (iv) Wealth
- OR**
- Explain the circular flow of income.
28. How do commercial banks create deposits? Explain. (4)
29. Calculate 'sales' from the following data: (4)

S. No.	Particulars	(Rs in laths)
(i)	Net value added at factor cost	560
(ii)	Depreciation	60
(iii)	Change in stock	(-) 30
(iv)	Intermediate cost	1,000

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(v)	Exports	200
(vi)	Indirect taxes	60

30. In an economy, $S = -100 + 0.6 Y$ is the Saving Function, where S is Saving and Y is National Income. Investment expenditure is 1,100. Calculate. (6)

1. Equilibrium level of National Income.
2. Consumption expenditure at equilibrium level of national income.

31. Calculate National Income from the following data: (6)

S. No.	Particulars	(Rs in crores)
(i)	Private final consumption expenditure	900
(ii)	Profit	100
(iii)	Government final consumption expenditure	400
(iv)	Net indirect taxes	100
(v)	Gross domestic capital formation	250
(vi)	Change in stock	50
(vii)	Net factor income from abroad	(-) 40
(viii)	Consumption of fixed capital	20
(ix)	Net imports	30

OR

Calculate net national disposable income from the following data:

S. No.	Particulars	(Rs in crores)
(i)	Gross domestic product at market price	2,000
(ii)	Net current transfers to rest of the world	(-) 200
(iii)	Net indirect taxes	150
(iv)	Net factor income to abroad	60
(v)	National debt interest	70
(vi)	Consumption of fixed capital	200
(vii)	Current transfers from Government	150

32. Complete the following table: (6)

Income (Rs)	Consumption expenditure (Rs)	Marginal propensity to save	Average propensity to save
0	80		
100	140	0.4	
200			0
.....	240		0.20
.....	260	0.8	0.35

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Class XII Economics

Delhi Paper Set 2 – 2013 Solution

Answer 1

Cost of labour and raw materials are examples of variable cost.

Answer 2

Market demand is the horizontal summation of the individual demand in the market. It indicates various quantities of a good which all the consumers in the market are willing to buy at different possible prices of a good at a point of time.

Answer 3

Under the perfect competition market, AR is equal to MR **at all levels of output**. Individual buyers cannot influence the market price of a good by varying their demands, and hence, $AR = MR$, which is equal to price.

Answer 4

When the percentage change in demand for a good is less than the percentage change in its price, the demand for a good is inelastic.

Answer 5

Marginal cost is an additional cost to the total cost incurred when one more unit of good is produced.

Answer 6

Law of diminishing marginal utility means that as more units of a good are consumed, the marginal utility received from the consumption of every additional unit of the good declines.

Units of Commodity X	Total Utility (TU) (utils)	Marginal Utility (MU) $MU_n = TU_n - TU_{n-1}$ (utils)
1	50	$50 - 0 = 50$
2	80	$80 - 50 = 30$
3	100	$100 - 80 = 20$
4	110	$110 - 100 = 10$
5	110	$110 - 110 = 0$
6	105	$105 - 110 = -5$

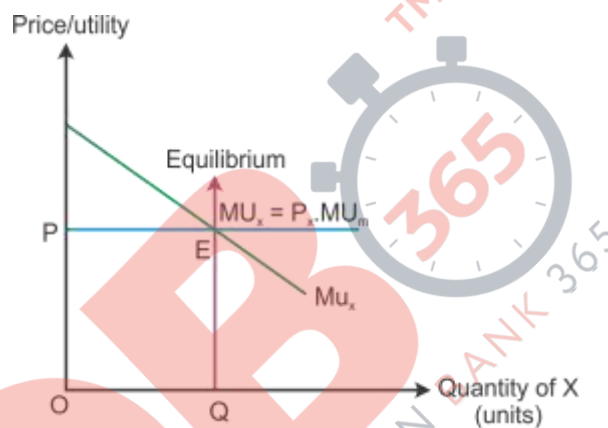
In the given schedule, marginal utility of the second unit is 30 utils and it decreases to 20 and 10 for the consumption of the 3rd and 4th unit of the marginal utility, respectively. It becomes zero for the consumption of the 5th unit, and it becomes negative for the 6th unit. Hence, the marginal utility will decrease with additional units of consumption.

OR

Given the price of the good, a consumer will decide the amount of goods to buy. So, the consumer compares the price of the good with its utility. A rational consumer will be at equilibrium only when the marginal utility is equal to the price paid for the good.

$$MU_X = P_X$$

The marginal utility is greater than the price paid for the good, i.e. $MU_X > P_X$ implies that the consumer is not in equilibrium and buys more of a good. While the marginal utility is lesser than the price paid for the good, i.e. $MU_X < P_X$ implies that the consumer is not in equilibrium and buys less of that good.



In the diagram, OP is the price of the good given on the Y-axis and OQ is the utility given on the X-axis. The marginal utility curve MU_X slopes downwards because the marginal utility diminishes with every additional consumption of X. The consumer reaches equilibrium at Point E, where the marginal utility is equal to the price paid for the good.

Answer 7

Inferior goods are goods which have a **negative relationship** between income and quantity demanded. Assuming that other things remain constant, an increase in the consumer's income will lead to a decrease in the quantity demanded and a decrease in the consumer's income will lead to an increase in the quantity demanded.

Normal goods are goods which have a **positive relationship** between income and demand. Assuming that other things remain constant, an increase in the consumer's income will lead to an increase in the quantity demanded and a decrease in consumer's income will lead to a decrease in the quantity demanded.

Answer 8

Given that

Initial total revenue (TR_1) = Rs 400

Final total revenue (TR_2) = Rs 500

Initial price (P_1) = Rs 20

Initial price (P_2) = Rs 25

Change in price (ΔP) = Rs (25 - 20) = Rs 5

Initial quantity supplied (Q_1) = $\frac{TR_1}{P_1} = \frac{400}{20} = 20$

Final quantity supplied (Q_2) = $\frac{TR_2}{P_2} = \frac{500}{25} = 20$

Change in quantity supplied (ΔQ) = Rs (20 - 20) = Rs 0

$$E_s = \frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100} = \frac{\frac{0}{20} \times 100}{\frac{5}{20} \times 100} = 0$$

Hence, elasticity of supply is zero.

Answer 9

Output (Units)	Average Cost (TC × Q) (Rs)	Marginal Cost (units) ($TP_n - TP_{n-1}$)	Total Cost (TC) (Rs)
1	12	-	12
2	10	8	20
3	10	10	30
4	10.5	8	42
5	11	13	55
6	12	17	72

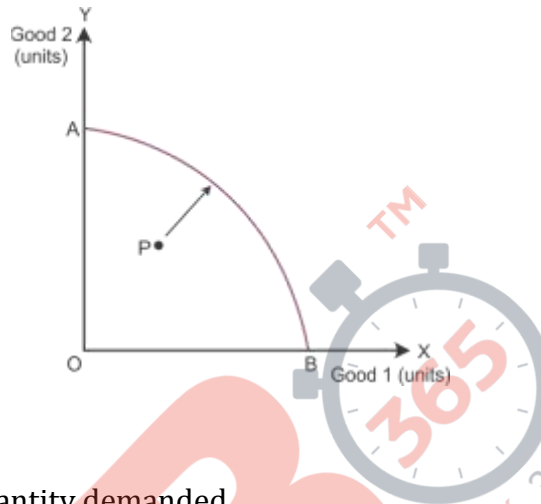
Answer 10

Features of a monopoly market:

- Restricted entry of new firms:** In the monopoly market, there is a barrier to the entry of new firms because of legal restrictions such as licensing, patents and pertaining to cartels. Hence, they earn abnormal profit or loss in the long run.
- A monopolist is a price maker:** A monopolist has full control over price. Being a single seller of the product in the market, she/he can fix whatever price she/he wishes to fix for her/his product. Competition does not prevail in this kind of market. Because there are no close substitutes of the monopoly product, there will not be any shift in consumer preferences from one product to the other. The market supply will not increase as there is no entry and exit of new firms.

Answer 11

When an economy is producing below its potential level because of unemployment, it implies that the economy is not functioning on the PPC but below the PPC, i.e. Point P as shown in the below diagram. Given the resources and technology, along with the initiation of government schemes, the employment level will increase. Therefore, Point P will **shift nearer to PPC**.



Answer 12

$$E_d = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

$$\text{or, } 0.8 = \frac{20}{\text{Percentage change in price}}$$

$$\text{Percentage change in price} = \frac{20}{0.8} = 25\%$$

Thus, the percentage fall in the price 25.

OR

Factors affecting price elasticity of demand

i. Availability of substitutes

The price of a good falls in relation to its substitute. Consumers can easily switch from one good to another even if there is only a small change in price, and so its demand will increase. Hence, the price elasticity of demand for commodities having close substitutes is relatively high.

ii. Nature of good

A good can be a necessary, comfort or luxury good according to the preferences of consumers. The demand for a necessary good does not fluctuate with the price as these goods are basic for day-to-day life. Hence, it is inelastic. The demand for comfort and luxury goods are elastic as the consumption of these goods can be postponed.

Answer 13

The producer's equilibrium refers to the situation in which he maximises his profits. A producer strikes equilibrium when two conditions are satisfied:

- i. $MR = MC$

- ii. MC is rising or the MC curve cuts the MR curve from below.

MR, MC Schedule and Producer's Equilibrium:

Output	MR	MC
1	10	8
2	10	7
3	10	6
4	10	8
5	10	10
6	10	13

Here, it is assumed that price (AR) is constant, so that MR is constant, i.e. = Rs 10 under perfect competition. This table indicates that the two conditions of equilibrium are satisfied only when 5 units of output are produced. It is here that (i) $MR = MC = \text{Rs } 10$ and (ii) MC is rising.

Equilibrium is not struck when $MR > MC$. In such a situation, producing an additional unit would add more to TR than to TC. This implies that the gap between TR and TC tends to widen or that profits are still to be maximised.

Answer 14

Conditions of consumer's equilibrium using indifference curve analysis:

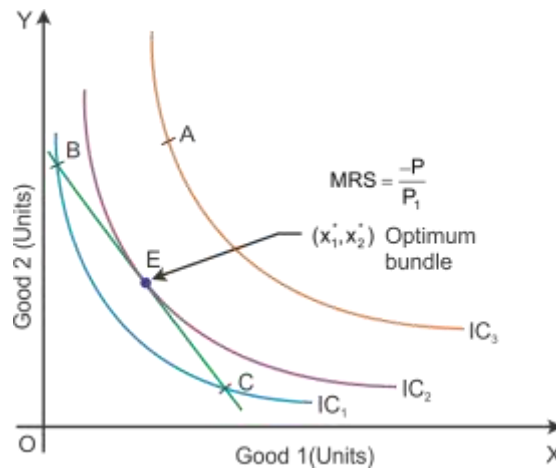
A consumer will strike his equilibrium at the point where the budget line is tangent to an indifference curve.

Slope of IC = Slope of price line

$$\left| \frac{-dy}{dx} \right| = |MRS| = \left| \frac{-P_1}{P_2} \right|$$

Equality of marginal rate of substitution and ratio of prices: When the budget line is tangent to an indifference curve at a point, the absolute value of the slope of the indifference curve and of the budget line are equal at that point, i.e. MRS is equal to the price ratio. The slope of the budget line is the rate at which the consumer can substitute one good for the other in the market. At the optimum, the two rates should be the same. Thus, a point at which the MRS is greater, the price ratio cannot be optimum, and when the MRS is less than the price, the ratio cannot be optimum.

The equilibrium can be represented as follows:



In the diagram, Point E shows the consumer's equilibrium where the budget line is tangent to the indifference curve. Consumers' desire to purchase correspond to the consumer originally purchase, i.e. x_1^*, x_2^* shows the optimum bundle.

Consumer does not reach equilibrium condition at the following points:

At point B: $MRS > -\frac{P_1}{P_2}$

At Point A: $MRS < -\frac{P_1}{P_2}$

OR

(i) Price of Other Goods and Demand for the given Good

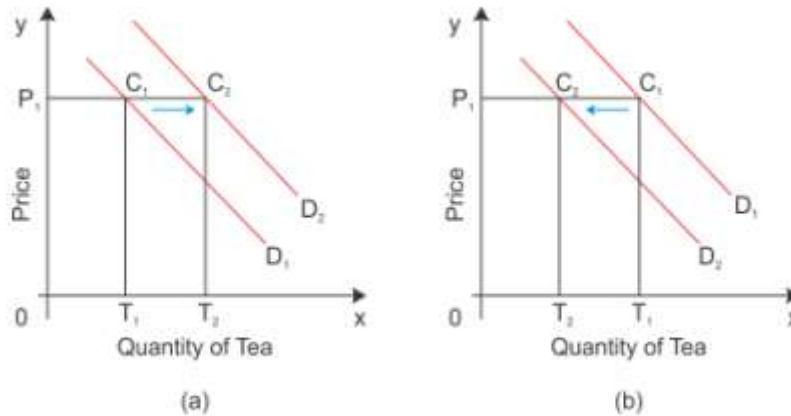
Demand for a commodity in relation to price of the substitute good

When the price of one good falls, it becomes cheaper in relation to another good. As a result, one good is substituted for the other good such as coffee and tea.

Assume tea and coffee are two substitute goods. D_1 is the demand curve for the demand of tea in diagram (a).

Increase in price of substitute good:

When the price of tea is OP_1 , the quantity demanded is OT_1 as shown in diagram (a). If there is an increase in the price of the substitute good coffee, then the demand curve for tea shifts to the right. Now, the consumer is willing to buy P_1C_2 quantity of tea which is equal to OT_2 . Greater the purchase of a commodity at its constant price points to a situation of increase or forward shift in the demand curve. The consumer demand curve shifts from D_1 to D_2 , consuming more of tea even when its price is constant.



Decrease in price of substitute good:

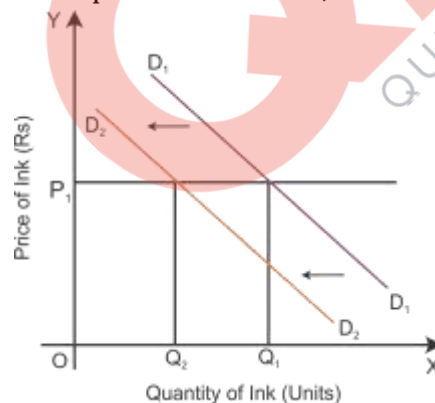
When there is a decrease in the price of the substitute good coffee, the demand curve for tea shifts to the left even when its price is constant. When the price of tea is OP_1 , the quantity demanded is OT_1 as shown in the diagram (b). Now, the consumer is willing to buy P_1C_2 quantity of tea which is equal to OT_2 . Thus, the consumer shifts from D_1 to D_2 , consuming less of tea even when the price of tea is constant. This is a situation of backward shift in the demand curve.

i. Demand for a commodity in relation to price of the complementary good

Complementary goods are purchased jointly such as ink and ink pens.

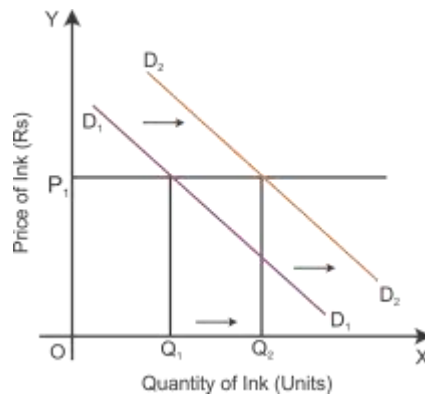
Increase in price of complementary good:

If there is an increase in the price of a good, then the demand for another good will decline. So the demand curve shifts parallel to the left, i.e. from D_1D_1 to D_2D_2 .



Decrease in price of complementary good:

If there is a decrease in the price of a good, then the demand for another good will increase. So the demand curve shifts parallel to the right, i.e. from D_1D_1 to D_2D_2 .



(ii) Income of the Buyer and the Demand for a Good.

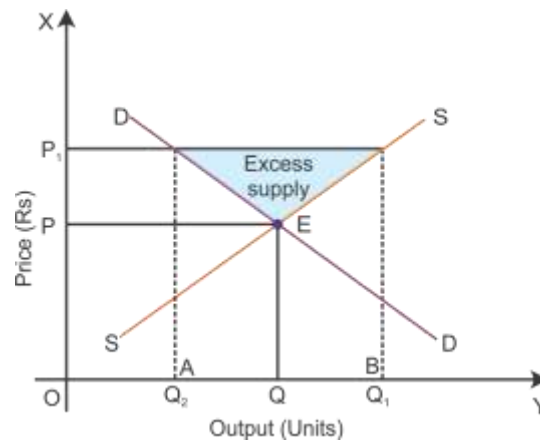
A change in the consumer's income has corresponding changes in the demand for different types of goods in the market. The effects of change in income on demand for different types of goods are as follows:

Normal goods are goods which have a **positive relationship** between income and quantity demanded. Assume that other things remaining constant, an increase in the consumer's income will lead to an increase in the quantity demanded and a decrease in the consumer's income will lead to a decrease in the quantity demanded.

Inferior goods are goods which have a **negative relationship** between income and quantity demanded. Assume that other things remaining constant, an increase in the consumer's income will lead to a decrease in the quantity demanded and a decrease in the consumer's income will lead to an increase in the quantity demanded.

Answer 15

- i. **False, a monopolist cannot sell any quantity he likes at a price.** As there are many rivals and close substitutes of products in the market, the monopolistic firm cannot have full control over the price. A monopolistic firm has partial control over price only through product differentiation. These products cause high elasticity of demand for the firm's product because of the availability of a large number of close substitutes.
- ii. **True, when equilibrium price of a good is less than its market price, there will be competition among the sellers.** In the diagram, the equilibrium price and quantity are OP and OQ. As the equilibrium price is low for farmers, the government fixes the price floor, i.e. the price level increased from OP to OP₁ which leads to a decline in the quantity demand, and therefore, there is **excess supply** in the market. Here, the competition will increase among the sellers, and hence, the price will come down to the equilibrium point where market demand is equal to market supply.



Answer 16

Law of variable proportion:

Law of variable proportion states that as more of the variable factor input is combined with the fixed factor input, a point will eventually be reached where the marginal product of the variable factor input starts declining.

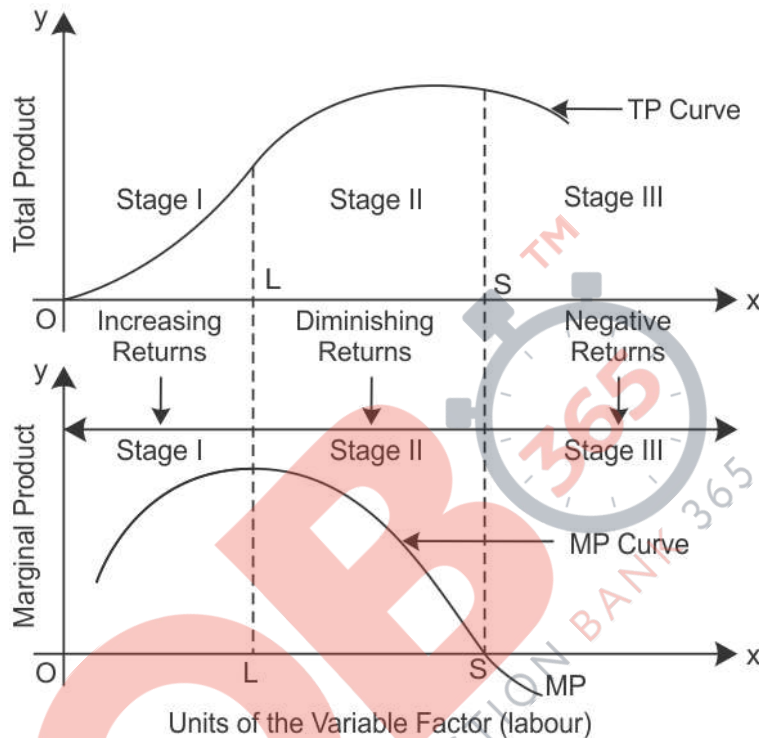
Units of Fixed Factor	Units of Variable Factor	TP	MP	Stages
1	1	4	4	Increasing MP (Increasing returns to a factor)
1	2	12	8	
1	3	24	12	
1	4	32	8	
1	5	34	2	Diminishing MP (Diminishing returns to a factor)
1	6	34	0	
1	7	30	-4	
1	8	21	-9	
1	9	10	-11	Negative MP (Negative returns to a factor)

Let us consider the above table.

Stage I: As more units of factor input are used, MP tends to rise till 3 units of factor input are used. Here, the total product increases at an increasing rate which is called increasing returns to the factor input.

Stage II: However, when the 4th unit of factor input is used, the diminishing returns sets in, where MP starts decreasing and TP increases at a decreasing rate. Diminishing MP reduces to zero. The total output is the maximum when the marginal output is zero.

Stage III: When MP is negative, TP starts declining from 34 to 10 when the 9th unit is employed.



Answer 17

A government budget is a financial statement of expected receipts and payments of government during a particular period of time, such as a financial year 1st April XX–31st March XX.

Answer 18

Sales tax and custom duty are examples of indirect taxes.

Answer 19

Emissions from driving contribute significantly to global warming. This leads to poor air quality and it contributes to significant health problems. People who breathe in this polluted air are at a higher risk for asthma and damage to the reproductive system. Thus, it affects the health of the people, which in turn reduces the welfare of the nation.

Answer 20

When there is an increase in foreign direct investment, the supply of foreign currency increases, and thus, the price of foreign exchange falls.

Answer 21

Demand deposits are not for any specific period of time. They can be withdrawn as and when required. These deposits are chequable deposits.

Answer 22

Basis of Difference	Balance of Trade	Balance on Current Account
Meaning	Record of visible transactions	Record of the visible as well as invisible and unilateral transactions
Components	Balance of exports and imports of all physical goods	Balance of visible trade, invisible trade and unilateral transfers
Nature of transactions	Records the transactions relating to physical goods	Records the transactions relating to goods, services and unilateral transactions

Answer 23

The appreciation of domestic currency refers to an increase in the price of domestic currency related to foreign exchange. For example, \$1 = Rs 50 to \$1 = Rs 42 indicates that the goods from abroad will be cheaper, and hence, **a rise in the demand for imports.**

Answer 24

The barter system is a system where goods were exchanged for goods in the olden days. It lacks double coincidence of wants. A person with a particular good has to find a person who has the good of his wants, and he should also possess the good wanted by the other person. Hence, the exchange of goods is not possible without the double coincidence of wants.

The introduction of money resulted in the end of the barter system where goods were exchanged according to needs. Now, money acts as an intermediate in the exchange process, and thus, it is known as a medium of exchange. Anyone can exchange his goods for money and buy commodities which are required by him or his family.

For example, a fruit seller wants to sell his fruits in order to buy wheat. In the absence of money, he will have to look for some person who wants to sell wheat and buy fruits. This is not easy and always possible. However, in the case of availability of money as a medium of exchange, the fruit seller just has to find a buyer for his fruits. When the fruits are exchanged for money, he can now purchase wheat from the market.

Answer 25

Through the budgetary policy, the government can reallocate resources so that social and economic objectives can be met in the following ways:

- i. The government ensures productive expenditure to maximise the welfare of the nation with minimum level of profit.
- ii. The government regularises the activities of the private sector to provide social benefit to the poor.
- iii. The government impose taxes on socially unsafe goods such as alcohol and tobacco to shift resources to the production of socially essential goods.

Answer 26

Basis of Difference	Capital Expenditure	Revenue Expenditure
Meaning	A decline in the government liabilities and creates assets for the government	No decline in government liabilities and does not create assets for the government
Examples	Purchase of shares and bonds	Salaries, pensions and interest payments

OR

Basis of Difference	Revenue Deficit	Fiscal Deficit
Meaning	Excess of revenue expenditure of the government over its revenue receipts	Excess of the total budget expenditure over total budget receipts net of borrowings
Significance	The regular receipts of the government are not enough to meet its regular expenditures	The borrowings of the government, i.e. the debt capital receipts of the government
Formula	Revenue deficit = Revenue expenditure - Revenue receipts	Fiscal deficit = Total budget expenditure - (Total budget receipts - borrowings) i.e. Fiscal deficit = Borrowings

Answer 27

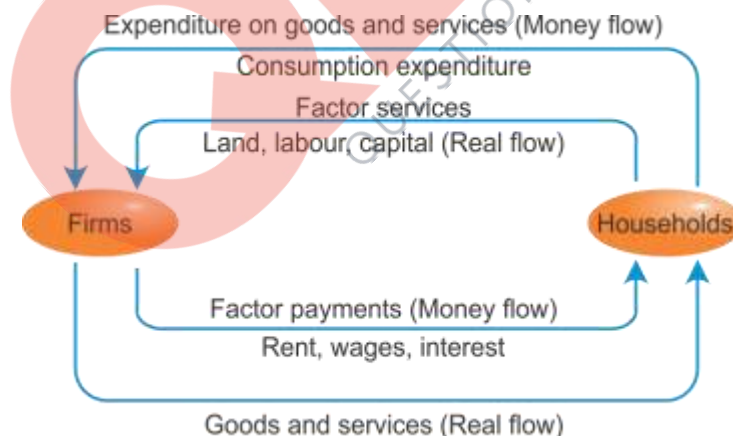
- i. Capital: Capital is a **stock variable** because it is a quantity measured at a particular period of time.
- ii. Saving: Saving is a **flow variable** because it is a quantity measured over a specified period of time (If it is given as savings, then it will be considered a stock concept which accumulates money at a particular point of time).
- iii. Gross domestic product: Gross domestic product is a **flow variable** because it is a quantity measured over a specified period of time.
- iv. Wealth: Wealth is a **stock variable** because it is a quantity measured at a particular period of time. It includes accumulated past savings and income not spent.

OR

Circular Flow Model in a Two-Sector Economy

Circular flow of income refers to the unending flow of activities such as production, income generation and expenditure involved in all the sectors of the economy.

In a simple economy, there are the economic activities of firms and households. People from households render factor services to firms and firms hire factor services from households. Households spend their earned income completely on consumption. Products which are produced by firms are sold to consumers, assuming that there is no external trade and government in an economy.



In the diagram, factor services provided by households to firms are shown by inner arrows of the upper portion and factor payments made by firms to households are shown by inner arrows of the lower portion. With this income, households purchase goods and services of the firms which are shown by outer arrows of the upper portion and firms deliver goods and services to households as shown by outer arrows of the lower portion.

- Total production of goods and services by firms is equal to the consumption of goods and services by households.
- Factor payments by firms are equal to the factor incomes of the household sector.

- Consumption expenditure of the household sector is equal to the income of the household sector.
- Money flows are opposite to real flows because factor service flows from households to firms are real flows, and the factor payments made by firms to households are money flows.
- This circular flow model helps to estimate the national income of a country in the following ways:
Aggregate the income of all the factors of production (inner arrows of the lower portion) or
Aggregate the expenditure incurred by all the sectors (outer arrows of the upper portion)

Answer 28

Commercial bank deposits form the basis for credit creation. They accept deposits from the public by opening a deposit account known as the primary deposit. Banks do not hold the money in the account itself, and the entire amount is not withdrawn from the account at the same time. So, they advance loans to business persons and retain only a small portion of the total deposits in the bank. The central bank decides the amount to be held in the form of cash. This is called the cash reserve ratio. These banks advance loans to business persons only against collateral securities. The bank will not give cash but open a derivative account in the name of the individual or institution. Here, the loans create a derivative deposit which is called a secondary deposit or derivative deposit. Thus, the secondary deposit is called the creation of credit.

Hence, the total amount of deposits created by the banking system as a whole as a multiple of the initial increase in the primary deposit is called the credit multiplier. For example, if the increase in the primary deposit is Rs 400 and the total deposit created by all commercial banks is Rs 2000, then the credit multiplier will be $2000/400 = 5$.

Answer 29

Given that

$$NDP_{fc} = 560$$

$$GDP_{mp} = NDP_{fc} + \text{Indirect taxes} + \text{Depreciation}$$

$$GDP_{mp} = 560 + 60 + 60 = 680$$

$$GDP_{mp} = \text{Sales} + \text{Change in stock} - \text{Intermediate cost}$$

$$\text{Sales} = GDP_{mp} - \text{Change in stock} + \text{Intermediate cost}$$

$$= 680 - (-)30 + 1000 = 1710$$

Answer 30

We are given, $S = 100 + 0.6Y$

and, $I = 1,100$

(i) Equilibrium level of National Income

At equilibrium level, $AD = AS$

or, $S = I$

Substituting the values of S and I in the formula

$$-100 + 0.6Y + 1,100$$

$$\text{or, } Y - 0.6Y = 100 + 1,100$$

$$\text{or, } 0.6Y = 1,200$$

$$\text{or, } Y = \frac{1,200}{0.6} = 2,000$$

Thus, Equilibrium level of National Income is equal to 2,000

(ii) Consumption expenditure at equilibrium level of National Income

We know, at equilibrium level $Y = C + S$

Where, $S = -100 + 0.6Y$

Substituting the value of national income at equilibrium level in the formula

$$\text{or, } 2,000 = C + (-100 + 0.6(2,000))$$

$$\text{or, } C = 2,000 - (-100 + 1,200) = 900$$

Thus, Consumption expenditure at equilibrium level of National income is equal to 900.

Answer 31

$$\begin{aligned} \text{NNP}_{\text{FC}} &= \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} - \text{Net Imports} + \text{Gross Domestic Capital Formation} - \text{Consumption of Fixed Capital} - \text{NIT} + \text{NFIA} \\ &= 900 + 400 - 30 + 250 - 20 - 100 + (-40) \\ &= \text{Rs 1,360 crore} \end{aligned}$$

(Note: Change in stock is not considered as it is a part of the gross domestic capital formation)

OR

To calculate Net National Disposable Income

We know

$\text{NNDP} = \text{NDP}_{\text{FC}} + \text{NIT} - \text{Net factor income to abroad} - \text{Net current transfers to rest of the world}$

$$\text{NDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Consumption of fixed capital} - \text{NIT}$$

$$\text{NDP}_{\text{FC}} = 2,000 - 200 - 150 = 1,650$$

By substituting this value in the given formula, we get

$$\text{NNDP} = 1,650 + 150 - 60 - (-200)$$

NNDP = 1,940 crore

Answer 32

Income	Consumption Expenditure	Marginal Propensity to Save	Average Propensity to Save (S ÷ Y)	Savings (Y – C)	Marginal Propensity to Consume
0	80			-80	
100	140	0.4	-0.4	-40	0.6
200	200	0.4	0	0	0.6
300	240	0.6	0.20	60	0.8
400	260	0.8	0.35	140	0.2

