FOCUS ACADEMY.

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Tuition Classes for primary, 9 to 12,English&Gujarati Medium

❖Chapter 1 Economics: An introduction

1. Choose the correct option for the following from the options provided :

Question 1.
What is the science which studies human behaviour and deals with economic problems called?
(A) Philosophy
(B) Physics
(C) Economics
(D) Statistics
Answer:
(C) Economics

Question 2.
From which Greek word is economics derived?
(A) Oikonomikos
(B) Ecology
(C) PHILO
(D) NOMOS
Answer:
(A) Oikonomikos

Question 3.
Who is known to be the first economist to have started studying economics as a separate science?
(A) Kautilya
(B) Marshall
(C) Robbins
(D) Adam Smith
Answer:
(A) Kautilya

Question 4.
Who introduced economics as a real science?
(A) Adam Smith
(B) Robbins
(C) Samuelson
(D) Marshall
Answer:
(B) Robbins

Question 5.
In how many branches is economics classified by the method of study and analysis?
(A) Four
(B) three
(C) two
(D) five
Answer:
(C) two

Question 6.
On which axis are the independent variables like countries, year, rainfall, etc. usually represented?
(A) Vertical axis
(B) Horizontal axis
(C) On the point of origin
(D) On the corner of the graph
Answer:
(A) Vertical axis

Question 7.
Who has written the book 'Principles of Economics'?
(A) Adam Smith
(B) Marshall
(C) Robbins
(D) Samuelson
Answer:
(B) Marshall

2. Answer the following questions in one sentence :
Question 1.
State the definition of economics given by Robbins.

Answer:
Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Question 2.
Which is the focus point of Samuelson's definition of economics?
Answer:
Samuelson's definition focuses on choice, allocation of source resources and evaluation of costs and benefits of doing so.

Question 3.
Which are the three ways of representing economic information?
Answer:
The information gathered through economic study or analysis can be represented in the following three ways.

1. Descriptive manner
2. Through data tables
3. Through graphs or diagrams

Question 4.
On which axis are the independent and dependent variables usually represented?
Answer:
Generally, independent variables such as time are represented on X-axis whereas dependent variables are represented on Y-axis.

Question 5.
What is a pie diagram?
Answer:
Pie chart is a type of graph in which a circle is divided into sectors and each sector represents a proportion of the whole. The numerical data is proportionately converted into degrees in a circle and sectors are formed considering those degrees.

3. Answer the following questions in short :

Question 1.
Give Kautilya's definition of economics.
Answer:

- About 2500 years ago, Kautilya who is also kr.own as Chanakya in his book 'Arthshashtra' discussed the purpose of economic activity undertaken by a state and society.
- According to Kautilya, the main intention of a human being is 'arth' (wealth). The piece of land on which a human settles is considered his 'arth' (wealth) and thus the science explaining the purpose and utility of wealth creation on earth is called economics.

Question 2.
Explain Marshall's definition of economics.
Answer:
Alfred Marshall:

- In his book, 'Principles of Economics' published in 1890, Alfred Marshall gives the following definition 'Economics is the study of mankind in the ordinary business of life'. This definition states that in everyday life people usually aim for material well-being.
- This definition explains economics as the study of routine activities of human beings and aims to explain how they achieve well-being from materialistic things.
- This definition does not have a broad aspect since it only focuses on the material consumption or material wellbeing, yet it is important as it keeps human wellbeing at the centre of human activity.

Question 3.
Explain the difference between economic and non – economic activities.
Answer:

Economic activity	Non-economic activity
1. An activity performed with the purpose of obtaining economic benefits in the form of income is called economic activity.	1. An activity which is done witho the purpose of obtaining econom gains is called non economic activity.
2. Objective of making economic gains, satisfaction of some want and involvement of exchange and	2. Unlike economic activities, suc activities do not involve exchange of benefits on both sides of the transaction.

cost are important aspects of an economic activity.	
3. Activities done by farmers, lawyers, teachers, actors, government, etc. are all example of economic activities.	3. Charitable activity, or activitie done out of love, affection, compassion, such as social servi mother teaching her son, etc. are all non economic activities.

Question 4.
Specify the difference between microeconomics and macroeconomics.
Answer:

Microeconomics	Macroeconomics
1. Microeconorpjcsis. the study and analysis of economics at an individual, group or company level.	1. Macroeconomics is the study o national economy as a whole.
2. Macroeconomic analysis uses the 'Principc of Marginalism to analyze how individual units make decisions in an economy.	2. Macroeconomic analysis has helped to develop principles for managing resources in such a wa that leads to increase in national income, reduce unemployment, poverty, inflation and so on.
3. Determining price and wages. equilibrium output level for firm. etc. are studied here.	3. Macroccanomics studies determining national income, unemployment, poverty, etc.

Question 5.
"Statistical information is necessary to know the direction and condition of growth of an economy" explain.
Answer:

- Economics and statistics go hand in hand. In other words, one cannot do economic study without making use of statistics.
- Economics establishes several theories and hypothesis. One cannot directly believe these theories and put them in practice.

- We need to test the validity of such theories in real life at different times and places.
- To do so we need to gather information related to the established theory from real life activity at different times and places.
- Such information can be collected and presented in quantitative terms with the help of statistical tools.
- Information obtained from statistical analysis supports and confirms principles and theories laid by economics. This information also tells the direction and change in trends and growth or downward trend of economic parameters.
- Hence, statistical information is necessary to know the direction and condition of growth of an economy.

4. Answer the following questions in brief points :

Question 1.
Explain the definitions of economics by Adam Smith and Marshall.
Answer:
Adam Smith:
As per Adam Smith, 'Economics is the study of the nature and causes of wealth of nations'. As per this definition, Economics studies the exchange of physical wealth produced by labour. Adam Smith introduced economics as a Social Science. The reason for this was on one hand he studied human efforts (i.e. society) and on the other hand his methodology was scientific.

Since the time of Adam Smith, economics was studied as an independent science and not as part of general philosophy. He talked about human welfare in his book.

Alfred Marshall:

- In his book, 'Principles of Economics' published in 1890, Alfred Marshall gives the following definition 'Economics is the study of mankind in the ordinary business of life'. This definition states that in everyday life people usually aim for material well-being.
- This definition explains economics as the study of routine activities of human beings and aims to explain how they achieve well-being from materialistic things.
- This definition does not have a broad aspect since it only focuses on the material consumption or material wellbeing, yet

it is important as it keeps human wellbeing at the centre of human activity.

Question 2.
Give the points of importance of statistical information in the study of economics.
Answer:
Economics and statistics go hand in hand. In other words, one cannot do economic study without making use of statistics. The importance of statistical information in economics is discussed below.
1. Statistical information supports or confirms a principle:

- While performing an economic study, the approach can be divided in two parts. They are:
    1. The philosophy of economics: The philosophy of economics observes human behavior.
    2. Scientific tools of economics: These tools are used to establish principles and theories.
- One cannot directly believe the established theories and put them in practice.
- We need to test the validity of such theories in real life at different times and places. To do so we need to gather information related to the established theory from real life activity at such different times and places. Such information can be collected and presented in quantitative terms with the ‘ help of statistical tools.

Example:
(a) Based on the economic studies, a theory has been established between the cause and effect of rainfall and agriculture.

By collecting and analyzing statistical data on rainfall and agricultural production in a region at one time or at different times one can understand the cause-effect relationship theory established.

(b) Similarly, statistical data on price of a commodity and its demand can help to confirm the theoretical relationship established by economics between the two.

2. Statistical information gives an idea about the changing trends of economic parameters:

With the help of statistical data obtained under economic study, we can obtain an idea of the direction and magnitude of change in economic- parameters.

Example:

- We can know how sales revenue of a particular firm is changing
- We can know the trends of employment in a nation
- We can know the trends of production in different sectors of an economy
- For example, using economic study one may say that agricultural production is falling which is affecting national income or supply of money is rising in the economy.
- Such data help government to make proper economic policies. People may also take benefit of such data and policies and change their production patterns.

3. To make comparative study easy:
If appropriate statistical data are obtained then we can compare several parameters over different time periods, across regions and also across nations.

Example:

- We can compare growth rate of India's national income between 1951 and 2015.
- We can also compare India's macroeconomic parameters like per capita income, inflation etc. with those of other countries like USA, UK, China, etc.

4. To make precise presentation of facts:

- A picture is worth thousand words and this applies to economics too. At times facts about economic parameters can be represented more clearly with the help of statistical data and graphs. _
- Graphs showing inflation, agricultural production, regional disparities in incomes, etc. can give clearer picture of their trends as compared their written description.

- Such pictorial and graphical representations can be understood easily even by layman.

Question 3.
Give an idea regarding Indian economic thought.
Answer:
Indian history and culture are almost more than 5000 years old. So Indian philosophy depicts various aspects of our rich culture and human life and provides insights into 'a way of life'.

In Hinduism there is a concept of 'Purushartha' (Gujarati: In Indian philosophy, Purushartha means 'Purpose of a human being' and it refers to the four goals or aims of a human life.

These goals are:

1. 'Dharma' (righteousness, duty)
2. 'Arth' (purpose, benefit, wealth)
3. 'Kama' (desire) and
4. 'Moksha' (liberation).

- Out of these four goals, the activities of life done for 'arth' (benefits) are the subject matter of economics.
- Thus, any activity done with the purpose of obtaining some benefit is called an economic activity. 'Arth' is one of the four goals or duties of a human being to create wealth as a means of living and for material pleasures.
- About 2500 years ago, Kautilya who is also known as Chanakya in his book 'Arthshashtra' discussed the purpose of economic activity undertaken by a state and society.
- According to Kautilya, the main intention of a human being is 'arth' (wealth). The piece of land on which a human settles is considered his 'arth' (wealth) and thus the science explaining the purpose and utility of wealth creation on earth is called economics.

Question 4.
Clarify the importance of economics.
Answer:
Importance of economics:

- In modern world with continuous increase in use of goods and their scarcity almost all goods of human needs have become economic goods. As a result, all activities of human beings are increasingly becoming economic activities.

- Owing to these reasons, the importance of economics as a philosophy as well as a science is increasing in human life.
- Economics is extremely important to understand behaviour of human beings, society as well as state while managing every day activities and scientific theories and principles that guide professional decision making.

The various aspects that show the importance of economics are discussed below:

1. For understanding everyday behaviour:

Economics is useful for understanding everyday behaviour of human beings, society and state while managing routine tasks.

Economics helps in understanding everyday behaviour in the following ways:

(A) Understanding international events:

- Some international events affect lives of people in several countries like USA, Russia, China, etc.
- For example, people try to understand the impact of rise in price of crude oil in international market on their own cost of living.
- Some people also try to understand why some countries are more developed and others are less developed.
- Today, a very large amount of data is available for various events and situations of the entire world. Studying this data helps to continuously improve technology and the scope of economics in everyday life.

(B) Understanding historical events:

- Knowledge of economics helps to understand historical events better.
- By studying historical events with an approach of economics, one can better understand the reasons behind wars, the entry of East India Company in India for trade and the establishment of 'British Raj', India's revolt against goods made in England during British Rule, labour movements, etc.

2. Economic importance:

(A) Decision making by individuals:

- People from all walks of life like households, lawyers, actors, singers and others try to get maximum gains from the efforts which they make.
- They try to manage their time and resources in an optimum manner to increase their gains. This means that they try to make such economic decisions that give them best returns.

(B) Understanding government policies:

- Knowledge of economics is extremely useful to understand various government policies related to taxation, wages, human resource, etc.
- Based on their understanding of these polices individuals and firms take their business decisions.

Example:
The bank rates i.e. REPO and Reverse REPO Rates declared by the Reserve Bank of India helps in making decisions regarding saving and investment.

(C) Professional decision making:

- Economics helps in knowing scientific principles and theories which in turn guides for making professional decisions.
- For example, revenue and cost as well as demand and supply are economic concepts used in all types of economic activities.
- Certain economic theories help businesses in making day to day decisions related to price determination, wage determination, employment of various factors of production and so on.
- Economics also provides knowledge regarding the impact of certain decisions. For example, it provides insights into questions like, what happens, if price gets reduced in market owing to very high competition?
- Economics is also a science which helps individuals for making their daily decisions.
- Every human being in their lives play roles of a consumer, producer or labour from time to time. Economics helps them to take logical decisions so that they can get maximum gains by minimizing costs.
- For example, whenever we want to buy vegetables, mobile phones, go out on vacation, etc. we use our knowledge of

basic economics to gain maximum returns with minimum costs.

5. Answer the following questions in detail :

Question 1.

Give an idea of the development of economics as a science in the west.

Answer:

- Greek philosopher Aristotle gave his views on economics in his book 'Oeconomica',
- With the rise of industrial revolution in the west, the division of labour and specialization were introduced in the industrial sector. Under these concepts a piece of work was done by a worker or a group of workers who specialized only in that particular job.
- Owing to such concepts and logics the knowledge of philosophy started getting classified into various specialized sciences.
- Social Science started getting developed as a special branch just like other branches of science like Physics and Mathematics.
- The methodologies of Social Science were no longer based purely upon descriptive logic. Studies under Social Sciences were now backed up with ' scientific tools and methods.
- Hence studying human activities with a purpose was not solely a subject matter of political or social philosophy but it also developed as an independent science.
- Adam Smith did a deep thoughtful study on the creation of wealth and in 1776 wrote a book titled 'An Inquiry into the Nature and Causes of Wealth of Nations'. The book is popularly known as 'Wealth of Nations'.
- With this book Adam Smith developed Economics as a specialized area of knowledge in the west.
- By adopting the theories and principles of economics, the industries started using the newly introduced machines and made huge investments for mass production. As a result, the Industrial Revolution created a new socio-economic way of life and new methods of wealth creation.

Question 2.
'Graphs/diagrams are a better method of precisely presenting economic information.' Explain.
Answer:

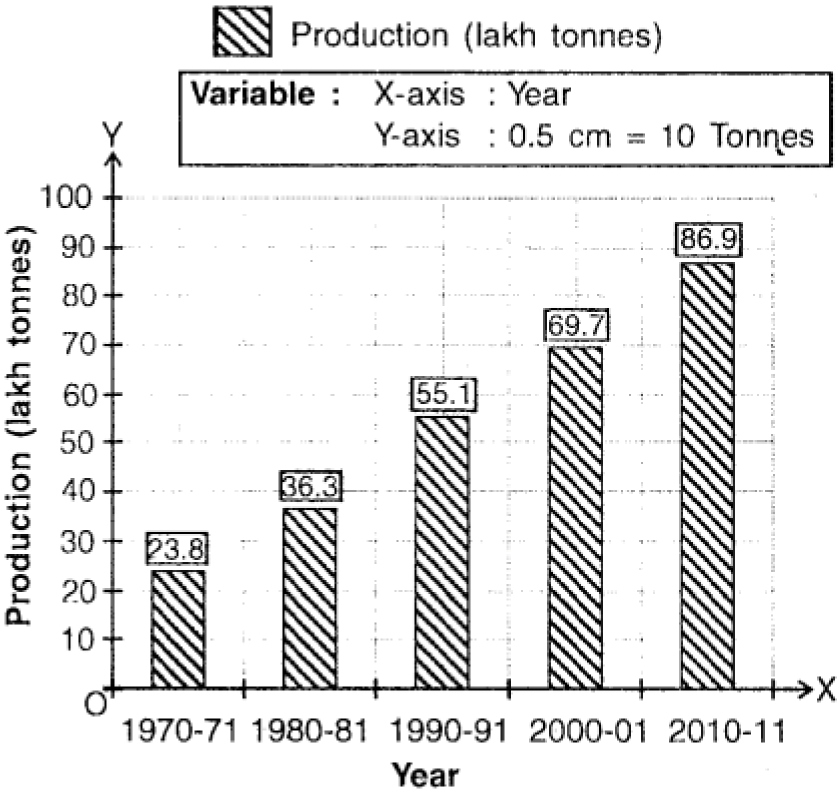
- On performing economic study several data is generated. The numerical data so generated can be represented in different types of graphs and diagrams.
- Diagrams showing linear and non-linear relations are quite common in economics. The demand curve is one such diagram.
- Some other types of charts/graphs/diagrams used frequently in economics are:
  (A) Bar diagram,
  (B) Grouped bar diagram,
  (C) Pie diagram, etc.

(A) Bar diagram:
A bar diagram (also known as bar chart or bar graph) is a diagram which represents grouped data in rectangular bars. The lengths of the bars are proportional to the values which they represent.

Example:
A bar diagram is produced from the data of production of wheat in India.

Wheat production in India

Year	Production (lakh tonnes)
1970-71	23.8
1980-81	36.3
1990-91	55.1
2000-01	69.7
2010-11	86.9



Representation of data in a bar graph

(B) Grouped/Clustered bar diagram:
These charts are used when the dependent variable is grouped in more than one category.

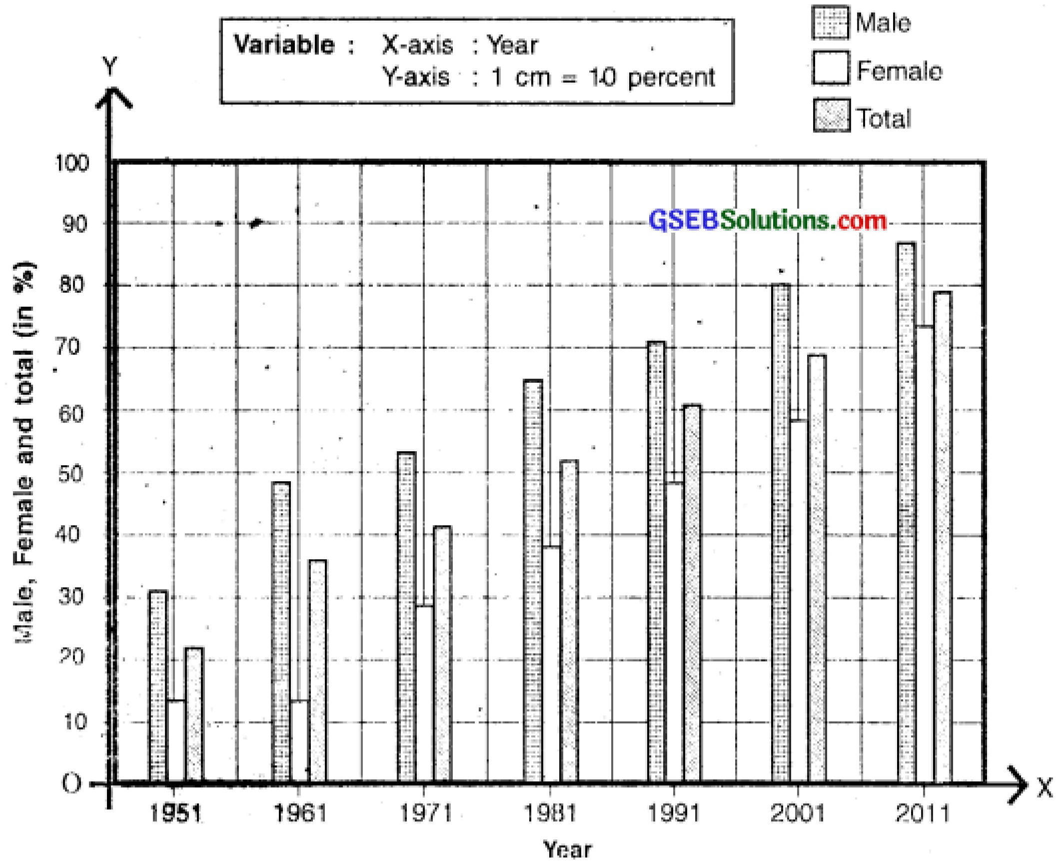
Example:

- **We can create a clustered bar diagram if we want to study the literacy rates of 'Males', 'Females' and 'Total literacy' of Gujarat for different years.**
- **Here, we create combined bar for three categories in one group for one year. Bar for each category can be shaded or coloured differently to distinguish them.**

Literacy rate in Gujarat (in percentage)

Years	Male	Female	Total
1951	30.17	12.79	21.09
1961	48.73	12.77	36.19
1971	53.78	29.00	41.84
1981	65.10	38.50	52.20
1991	73.13	48.64	61.29
2001	80.50	58.60	69.14
2011	87.23	70.73	79.31

Source: Socio-economic survey of Gujarat: 2011-12



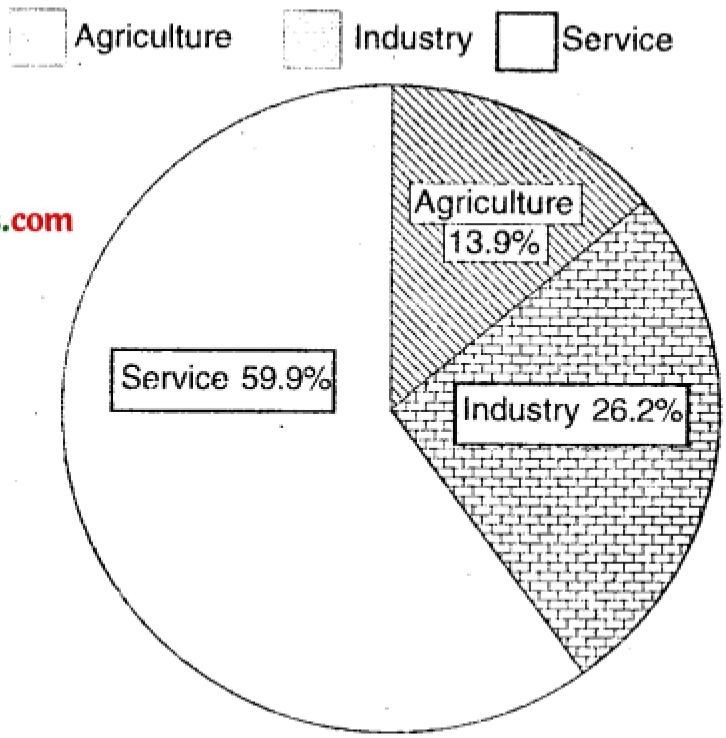
Representation of data in a grouped/clustered bar graph

(C) Pie Chart/Diagram:

- Pie chart is a type of statistical graph in which a circle is divided into sectors and each sector represents a proportion of the whole.
- The numerical data is proportionately converted into degrees in a circle and sectors are formed considering those degrees.

Example:
The contribution of different sectors namely agriculture, service and industry in India's national income can be represented in a pie chart as shown here.

Sector	Share in percentage
Agriculture	13.9
Industry	26.2
Service	59.9



Source : *Economic survey of India : 2014-15*

Representation of numerical data in a pie diagram

❖ Chapter 2 Fundamental Concepts and Terminologies

1. Choose correct option for the following from the options provided :

Question 1.
Which value expresses the importance of a good in human life?
(A) Exchange-value
(B) Use-value
(C) Consumption-value
(D) Internal-value
Answer:
(A) Exchange-value

Question 2.
What is the monetary payment in exchange of a good called?
(A) Value
(B) Exchange
(C) Price
(D) Wealth
Answer:
(C) Price

Question 3.
Which of the following is a physical good?
(A) Music
(B) Education
(C) Doctor’s advice
(D) Refrigerator
Answer:
(D) Refrigerator

Question 4.
Which of the following is not a characteristic of wealth?
(A) Possesses usefulness
(B) Should be available in abundance
(C) Has an explicit existence
(D) Is capable of being exchanged
Answer:
(B) Should be available in abundance

Question 5.
Which of the following signifies all forms of natural wealth?
(A) Capital
(B) Labour
(C) Land
(D) Money
Answer:
(C) Land

Question 6.
Which is not a type of trade cycle?
(A) Irregular changes
(B) Seasonal changes
(C) Short run regular changes
(D) Long run regular changes
Answer:
(C) Short run regular changes

2. Answer the following questions in one sentence :

Question 1.
State the meaning of value.
Answer:

The worth of a commodity in terms of other commodities, or in terms of money i.e. price is called value of that commodity.

Question 2.
Give meaning and example of commodities which are universally and abundantly available.
Answer:
Goods which do not have exchange value are called non-economic goods. Such goods are abundant in supply. Example: Sunlight and air.

Question 3.
What is meant by perishable goods in economics?
Answer:
Goods that do not last long and can be consumed only once are known as perishable goods. Example: Milk, fruits, meat, etc.

Question 4.
Give the meaning and example of consumer goods.
Answer:
When a consumer consumes a good and the good is capable of directly satisfying a particular want then it is called a consumer good. These goods have passed the final stage of production. Example: Cooked food.

Question 5.
What is meant by individual wealth?
Answer:
Wealth owned by an individual and meant. for private consumption is called individual wealth. For example, a house.

Question 6.
Give the meaning of factors of production.
Answer:
The agents that help in a process of conversion or production are called 'Factors of Production'. There are four factors of production. They are:

1. **Land**

2. Labour
3. Capital and
4. Entrepreneur.

Question 7.
Give the meaning of wealth.
Answer:
Wealth is something which is useful, scarce, capable of getting exchanged, and can only be owned by somebody.

Question 8.
Give the definition of trade cycle given by Heberler.
Answer:
According to Haberler, Trade Cycle is an interval that embraces alternating periods of prosperity (good time) and depression (bad time).'

Question 9.
How many phases are there in a trade cycle? Which are those?
Answer:

1. Boom
2. Recession
3. Depression and
4. Recovery.

3. Answer the following questions in short :

Question 1.
Give two points of difference between private goods and public goods.
Answer:

Private goods	Public goods
1. Goods that can be possessed and owned by a private individual are called Private goods.	1. Goods that can be used by mar individuals at the same time are called Public goods.
2. These goods possess the characteristics of excludability and competitiveness.	2. These goods possess the characteristics of joint demand a collective consumption.

3. In order to obtain ownership of such excludable goods, individuals need to compete.	3. These goods are either provide by the government for all or some people pay for it together. Hence all have equal ownership and so individuals do not need to compet to own them.
4. Example: A motorcycle, mobile phone, house owned by an individual.	4. Example: Public garden, village well, street lights, etc.

Question 2.
Explain the meaning of commodities and services with examples.
Answer:
Goods:

- Commodities that have physical existence i.e. are tangible are called goods.
- In economics, goods satisfy the needs of consumption i.e. the needs of consumers.

Example:
Food items, metal, fuel, furniture, vehicles, etc. are goods.

Services:

- Commodities which are intangible or do not have a physical existence are called services.
- In economics, services are meant to satisfy the needs of human life.

Example:
Cooking, transportation, telecom, courier, etc. are services.

- Economics studies activities related to production, consumption and distribution of goods or services.
- Although the nature of goods and services is different both are important in economics.
- Units of goods or stock of goods can be measured but, services generally cannot be measured in cardinal (i.e. quantitative/numerical) terms.
- Time spent to provide a service can be measured to make service quantifiable.

Example:

- **When you recharge your mobile phone by paying money you are buying a service. You get a fixed quantity of minutes/hours i.e. time in exchange of price.**
- **The impact of a service in satisfying human wants varies and hence is abstract.**

Example:

- **The need for knowledge of a student is satisfied by the service of education.**
- **However, it is quite difficult or say abstract to identify the exact contribution of the service of education in creating knowledge in student.**
- **On the other hand, a book is a good and one may be able to tell the amount of information obtained from the book.**

Question 3.
Give the meaning of durable goods with examples.
Answer:
Durable goods and Perishable goods:
(a) Durable goods:
Goods that can be stored and used repeatedly for a long period of time are called durable goods.
Example: Shoes, clothes, television, refrigerator, etc.

(b) Perishable goods:
Goods that do not last long and can be consumed only once are known as perishable goods.
Example: Milk, fruits, meat, etc.

Question 4.
Which goods are called consumer goods in economics?
Answer:

Question 5.
Give the meaning of individual wealth and social wealth.
Answer:
Wealth can be classified into two types. They are:
1. Individual wealth and Social wealth:

- Wealth owned by an individual and meant for private consumption is called individual wealth. For example, a house.
- Wealth owned by society and meant for collective consumption is called societal (or social) wealth. For example, a check-dam.

2. National wealth and international wealth:

- Wealth belonging to a nation and possessed and treasured by a nation is called national wealth.
- It directly or indirectly helps to generate exchange value for the nation.
- For example, rivers, mountains, literature and scriptures, etc. are national wealth.
- Wealth belonging to the earth that can be treasured by all nations and which can bo developed for benefit of all is called international wealth.
- For example, oceans are such a common wealth which are used as international waterway and benefit all the nations.

Question 6.
Give the meaning of wealth given by Prof. Marshall.
Answer:

Question 7.
Explain the meaning of production.
Answer:
Production:

- The activity of converting raw materials and resources into final goods which satisfy human wants is called production.
- By converting the nature of resources, their utility increases. In this sense, production can also be defined as a process which increases utility of resources.

Example:
When wood (a resource) is converted into chairs its utility increases. The process of converting wood into chair is called production.

Factors of production:

- The agents that help in a process of conversion or production are called 'Factors of Production'. There are four factors of production. They are:
  1. Land
  2. Labour
  3. Capital and
  4. Entrepreneur.
- All these factors are equally important in the process of production.
- In a system of just (fair) distribution of income, the total income generated from various activities is distributed among each factor of production as per the productivity of each factor or its contribution in generating that income.
- As per Alfred Marshall, there are two basic categories of factors of production
  1. Nature and
  2. Human beings.

Question 8.
State the meaning of labour as a factor of production.
Answer:
Labour:
The physical or intellectual work done by humans under supervision by some authority in order to earn returns is called labour.

Characteristics of labour:

- Labour and labourer cannot be separated from each other.
- Labour cannot be stored. So, we can say that labour i.e. effort done by a labourer is perishable.
- The mobility of labour is influenced by social and economic reasons.
- The efficiency of every labourer is different. This means that the capacity of every labourer to perform labour is different.
- The supply of labour depends upon population.
- The remuneration for labour is called 'wages'.

4. Answer the following questions in brief points :

Question 1.
Give the meaning of price and value.
Answer:

- We often use the words 'price' and 'value' in our daily life. Most of the times we use both these words alternatively but to represent the same meaning.
- For example, we make statements like, 'this jeans is expensive', 'this watch is valuable', 'this shoe has a high price'. When these statements are made they are made without differentiating between price and value. This is so because generally, a person believes price and value to be the same.
- In economics, the concept of price and value are different and so it is necessary to understand the concept of value.

Value:
The worth of a commodity in terms of other commodities, or in terms of money i.e. price is called value of that commodity.

Value can be explained from two viewpoints. They are:

1. From viewpoint of use i.e. 'use-value'
2. From viewpoint of exchange i. e. 'exchange-value'.

Price:

- If a commodity is exchanged for money then such monetary exchange-value is termed as 'price'.
- Price means the exchange-value (or worth) of a commodity measured in terms of units of currency.

Question 2.
Give the types of goods and explain the difference between consumer goods and producers' goods with examples.
Answer:
The various types of goods are:

- Physical (Tangible) goods and Intangible goods
- Economic goods and non-economic goods
- Durable goods and Perishable goods
- Private goods and Public goods
- Consumers' goods and Producers' goods

Consumers' goods	Producers' goods
1. When a consumer consumes a good and the good is capable of	1. When a good is used at the intermediate stage of production

directly satisfying a particular want then ilis called a consumer good.	a final good or when it is purchas by a producer to produce a final good and it is not directly consumed by the consumers but the good helps in the production o a final good then such a good is called a producer's good.
2. Cooked food which s ready tor consumption is an example of consumers' goods.	2. Cotton used to make cloth, machines used in factories to produce garments, etc. are used further for producing goods and hence are producers' goods.

Question 3.
Give the types of wealth and explain the difference between national wealth and international wealth with examples.
Answer:
Wealth can be classified into two types. They are:
1. Individual wealth and Social wealth:

- Wealth owned by an individual and meant for private consumption is called individual wealth. For example, a house.
- Wealth owned by society and meant for collective consumption is called societal (or social) wealth. For example, a check-dam.

2. National wealth and international wealth:

- Wealth belonging to a nation and possessed and treasured by a nation is called national wealth.
- It directly or indirectly helps to generate exchange value for the nation.
- For example, rivers, mountains, literature and scriptures, etc. are national wealth.
- Wealth belonging to the earth that can be treasured by all nations and which can bo developed for benefit of all is called international wealth.
- For example, oceans are such a common wealth which are used as international waterway and benefit all the nations.

Question 4.
Give the meaning of factors of production with examples.

Answer:
Land:
According to Marshall, all natural assets which help in production or in economic activities constitute land. As per this definition, climate, water resources, fertility, mineral resources, etc. all these natural assets help in production and hence constitute land.

Characteristics of land:

- Land is not manmade. It is a gift of nature.
- The total supply of land is fixed.
- Land is immobile.
- Each type of land has different fertility, experiences different climatic conditions, etc.
- The remuneration of land as a factor of production is called 'rent'.

Question 5.
Give the meaning of trade cycle and explain the various phases of a trade cycle.
Answer:
Trade cycle:

- According to Heberler, Trade Cycle is an interval that embraces alternating periods of prosperity (good time) and depression (bad time).'
- According to Hawtrey, Trade cycles are continuous phases of good and bad changes occurring in the economy.'

Phases of a trade cycle:

- Boom, Recession, Depression and Recovery are the four phases of trade cycle.
- Trade cycles take place in all economies and all economic activities in the long run. However, in market oriented economies, these occur more openly while in state controlled economies the state suppress these cycles.

Characteristics of a trade cycle:

- They show dynamic changes in the economy.

- They show positive and negative changes taking place in the economy.
- These arise because of several factors.
- Trade cycles have various phases and they do not last for a uniform period.

5. Answer the following questions in detail :

Question 1.
Give the meaning and explain the characteristics of wealth in detail.
Answer:
Wealth:
As per Alfred Marshall, wealth is something which is useful, scarce, capable of getting exchanged, and can be owned by somebody.

Characteristics of wealth:
1. It should possess the characteristic of usefulness:

- Wealth must be useful in satisfying human wants or needs. Hence, goods which are useful in satisfying needs of human beings can be considered as wealth.
- Example: House, vehicle, precious jewelry, etc. are all wealth.

2. It should be scarce:

- Those commodities which are scarce in supply in relation to their demand and possess exchange-value over and above being useful are called wealth.
- In economics, goods which are useful but not scarce and do not have exchange-value like sunlight and air are not considered wealth.

3. It should have physical or intellectual existence:

- Wealth should have an existence which can be exchanged.
- A person's mental or physical ability and aptitude are qualities that become his asset, but cannot be exchanged.
- The ability of a scientist to think is his quality and not wealth but the novel idea createo and sold by the scientist can become his wealth.
- In modern world the intellectual abilities of human beings like the ability to create new ideas are exchanged for money in the

market. Hence intellectual ability to create novel ideas and goods is called wealth.

4. Wealth constitutes goods which are capable of exchange:

- Wealth is an economic concept and so it must exchangeable.
- The objective of wealth is to satisfy present as well as future consumption and other needs. So, it must be capable of exchange.

Example:

- If we purchase a house today than it will satisfy the current need of living in a house as well as it can be sold in the future to obtain money and buy some other goods. Hence, house is a wealth.
- Precious metals, land, etc. also possess similar characteristic and so are considered wealth.

5. Durability:

- Wealth must possess durability.
- Goods that are durable goods can be used in future for exchange and for satisfying future needs and hence become wealth.
- Goods which perish after using just once cannot be used for future transactions so cannot be considered wealth.

Example:

- Land, house, precious jewelry, shares, etc. are durable goods and hence , can be considered wealth.
- Food grains or dairy items produced by a farmer are not wealth if they perish in a very short time. Similarly, labour of a labourer is also not called wealth.
- However, if food grains can be stored in cold storage for a long time and their market value increases in future then those items become wealth. In this sense, we can say that new technology can redefine wealth.

Question 2.
Give a detailed explanation of the phases of a trade cycle.
Answer:
Phases of a trade cycle:
Trade cycle passes through four phases which are discussed

below.
1. Boom:

- The period when economic activity reaches the maximum growth level in a given time period is called the 'Boom period' or simply 'Boom'.
- In the Boom period, the demands of goods/services are at its peak and so do incomes and profits. Thus, this period is also called 'peak'.

2. Recession:

- -> The period that comes after the 'Boom' is called 'recession'.
- -> In a given time period, when economic activity reaches to its peak which in turn takes the investments and employment also to the peak i.e. the highest possible levels, a slowdown occurs. As a result, demand slows down and so do investment and unemployment and recession occur.

3. Depression:

- During the slowdown in the recession phase when all activities reach a ' minimum level, it leads to phase called 'depression'.
- In this phase, the confidence of buyers, producers and investors in the economic activity is at its lowest.
  Formation of depression:
- During recession phase, consumers start believing and expecting that since prices are falling they will still fall. This stops them from buying and the demand further decreases. When the demand falls, the production and employment also falls. This leads to more reduction in the demand which then finally causes depression.

4. Recovery:
When depression lasts for some time, the suppressed demand starts emerging. Government may also try to boost investments and employment through various strategies. Moreover, at times technological changes take place in the long run. All this leads to a recovery of demand, employment and investment and the market starts getting normal.

Question 3.
Define production and discuss factors of production.

Answer:
Production:

- The activity of converting raw materials and resources into final goods which satisfy human wants is called production.
- By converting the nature of resources, their utility increases. In this sense, production can also be defined as a process which increases utility of resources.

There are four factors of production. They are:

1. Land,
2. Labour,
3. Capital and
4. Entrepreneur.

1. Land:
According to Marshall, all natural assets which help in production or in economic activities constitute land. As per this definition, climate, water resources, fertility, mineral resources, etc. all these natural assets help in production and hence constitute land.

Characteristics of land:

- Land is not manmade. It is a gift of nature.
- The total supply of land is fixed.
- Land is immobile.
- Each type of land has different fertility, experiences different climatic conditions, etc.
- The remuneration of land as a factor of production is called ‘rent’.

2. Labour:
The physical or intellectual work done by humans under supervision by some authority in order to earn returns is called labour.

Characteristics of labour:

- Labour and labourer cannot be separated from each other.
- Labour cannot be stored. So, we can say that labour i.e. effort done by a labourer is perishable.
- The mobility of labour is influenced by social and economic reasons.

- The efficiency of every labourer is different. This means that the capacity of every labourer to perform labour is different.
- The supply of labour depends upon population.
- The remuneration for labour is called ‘wages’.

3. Capital:

- All manmade goods which help in production are called capital. Capital differs from land and labour as it is a ‘produced’ factor of production. In other words, it is a manmade factor of production.
- For example, a tractor is a ‘produced’ factor of production which further helps in the production of agricultural goods.

Characteristics of capital:

- (1) Capital is a manmade factor of production.
- (2) It is the most mobile of all factors of production.
- (3) The increasing demand for capital in present times owing to increasing capital intensive methods of production has resulted in increasing scarcity of this factor.
- . (4) The remuneration of capital is called ‘interest’.

4. Entrepreneur:

- Entrepreneur is the factor which brings together or say coordinates all other
  factors of production for the production process. Without entrepreneur, economic activity is not possible.
- Entrepreneur is the person who establishes the enterprise and takes the risk of coordinating economic activities.
- This factor of production i.e. the entrepreneur does not get fixed return but tries to generate income by running the economic activity successfully. He/ she may even incur a loss if the activity does not function well.

Characteristics of entrepreneur:

- This factor decides the activity that will take place.
- This factor is known as the risk taking factor.
- It possesses the quality of co-ordination. In other words, ‘entrepreneurship’ is a quality.
- The remuneration of this factor is called profit.

❖ Chapter 3 :Demand

1. Choose correct option for the following from the options provided :

Question 1.
Factors affecting demand can be classified into how many categories?
(A) One
(B) Two
(C) Three
(D) Four
Answer:
(B) Two

Question 2.
How is the demand curve sloped?
(A) Negative
(B) Positive
(C) Parallel to X-axis
(D) Parallel to Y-axis
Answer:
(A) Negative

Question 3.
What is the other name for poor quality commodities?
(A) Prestigious commodities
(B) Very cheap commodities
(C) Giffen commodities
(D) Useless commodities
Answer:
(C) Giffen commodities

Question 4.
How many types of price elasticity of demand are there?
(A) Two
(B) Four
(C) Five
(D) Seven
Answer:
(B) Four

Question 5.
What is the relationship between price and demand?
(A) Positive
(B) Inverse
(C) Equal
(D) Zero
Answer:
(B) Inverse

Question 6.
Which kind of commodities are called complementary commodities?
(A) Joint
(B) Competitive
(C) Not related
(D) Alternative
Answer:
(A) Joint

Question 7.
What is the movement of demand curve when demand expands?
(A) Upward
(B) Downward
(C) Right side on another demand curve
(D) Left side on another demand curve
Answer:
(B) Downward

Question 8.
Which one has no relation with demand curve?
(A) Specific time
(B) Specific price
(C) Consumer
(D) Supply
Answer:
(D) Supply

Question 9.
Who has presented law of demand?
(A) Adam Smith
(B) Alfred Marshall

(C) Robbins
(D) Keynes
Answer:
(B) Alfred Marshall

Question 10.
When products are expensive then how is the demand of prestigious goods of the rich?
(A) More
(B) Less
(C) Zero
(D) Negative
Answer:

(A) More

2. Answer the following questions in one sentence :

Question 1.
What is demand?
Answer:
The quantity of a commodity which a buyer desires, is able and willing to buy at a given price at a given point of time is called demand.

Question 2.
What is income elasticity of demand?
Answer:
The extent (degree) of change in demand for a good because of a change in income of the consumer is called income elasticity of demand.

Income elasticity (ε_y) = Proportionate change in demand Proportionate change in income

Question 3.
What is cross elasticity of demand?
Answer:
When the demand of the concerned commodity changes in response to the change in price of its related good (either substitute or complementary good), then the extent of such change in demand is called cross elasticity or cross-price elasticity of demand. The cross-price elasticity may be a positive value or

negative value, depending on whether the goods are complementary or substitutes.

Question 4.
When is there possibility of expansion – contraction of demand?
Answer:
Assuming other factors constant when the price falls or rises there is a possibility of expansion – contraction of demand.

Question 5.
In which situation does demand decrease or increase?
Answer:
Assuming price as constant when consumers increase (or decrease) their demand due to some other factors, it is known as increase (or decrease) in demand.

Question 6.
Why is the law of demand called as conditional law?
Answer:
The law of demand holds true only on the condition that the factors influencing demand other than the price remains constant. Hence it is…

3. Answer the following questions in short :

Question 1.
What is demand function?
Answer:
Demand function:
The cause and effect relationship between demand and its various factors can be expressed as a mathematical function.

- The demand function is a mathematical function between demand for a good and the determinants that affect its demand.
- The demand function shows that demand for a good is dependent on many factors such as price of the good, tastes and preferences of a consumer, income of the consumer, prices of related good, size of the population, etc.

The mathematical form of the demand function:
$D_x = f(P_x, P_y, P_e, T, Y, U)$

Where D_x = Demand for commodity X
f = Functional notation
P_x = Price of commodity X
P_y = Price of related commodity Y
P_e = Expectations regarding future price
T = Tastes and preferences of the consumer
Y = Consumer's income
U = Other factors

Question 2.
What is substitution effect?
Answer:
Substitution effect:

- When price of the concerned good falls, it becomes relatively cheaper than its substitutes.
- Hence, a consumer wHI reduce the consumption of substitute goods and increase the demand for the concerned good. This is called substitution effect.

Example:
Consider two varieties of pants, namely, a pair of cotton pants and denim pants. If the price of cotton pants falls and that of denim pants remains the same .then the consumer finds the cotton pants cheaper compared to the denim pants. Hence, the demand for cotton pants will rise.

Question 3.
What is meant by Giffen goods?
Answer:
Giffen goods (Inferior goods):

- When price of certain goods namely inferior goods fall and the real income of a consumer rises he may reduce the consumption of such goods and substitute them with goods of superior quality.
- It was Robert Giffen who made these observations and explained this concept. Hence, these goods i.e. inferior goods are also called Giffen goods. Such goods are necessary goods and are purchased by the low-income groups.

Example:

- A person with low income purchases grains such as Jowar or Bajra for his daily diet. When the price of Jowar/Bajra falls drastically, the real income of the consumer tends to increase.
- Hence, he will reduce consumption of such goods and will purchase more of wheat which is the superior good.
- Another example is that of vegetable (vanaspati) ghee and pure ghee.

Question 4.
What is individual demand?
Answer:
Individual demand:
The demand of a good by an individual consumer at a given price at a particular point of time is called individual demand.

Question 5.
What is market demand?
Answer:
Market demand:

- The sum total of all individual demands of all existing consumers in the market at a given price at a particular point of time is called 'market demand.
- The table given below shows individual demand of customers A, B and C.
- The last column of the data table is as summation of individual demands. This summated demand is called the market demand.
- The first three diagrams show individual demand of each customer whereas the fourth diagram shows their combined demand i.e. market demand.

Question 6.
What is price elasticity of demand?
Answer:
Price elasticity of demand:
The law of demand explains that when other factors of demand are assumed to be constant, as price falls demand expands and as price rises demand contracts. However, this law does not state by what proportion demand expands or contracts. The concept of price elasticity of demand explains this.

Meaning:
A measure that shows the proportion (extent) to which demand changes with . respect to change in price is called price elasticity of demand. It is denoted by εp.

Definition:
According to Marshall, the degree of elasticity of demand depends upon the extent of rise in demand because of a fall in price and upon the extent of fall in demand because of a rise in price.

Expression Example:
Let us assume that the price of a good 'X' falls by 1 %. This fall leads to a price rise of 5% in demand of good 'X'.
Price Elasticity of Demand (ε_p) = Percentage change in demand for X Percentage change in price of X
= +5%−1%
= |5|
Price elasticity of demand i.e. ep is expressed as a pure number and is unit-less i.e. it does not have any unit of measurement such as %, kg., meter, etc.

Question 7.
Which commodities are called prestigious commodities?
Answer:

Question 8.
State the names of methods to measure price elasticity of demand.
Answer:
The five types of price elasticity of demand are:

1. Perfectly elastic demand ($\varepsilon_p = \infty$)
2. Perfectly inelastic demand ($\varepsilon_p = 0$)
3. Unitary (unit) elastic demand ($\varepsilon_p = 1$)
4. Relatively elastic demand ($\varepsilon_p > 1$)
5. Relatively inelastic demand ($\varepsilon_p < 1$)

4. Answer the following questions in brief points :
Question 1.
Define income effect and substitution effect.
Answer:
1. Income effect:

When the monetary income of the consumer remains constant, but price of the good falls then his real income rises. Real income means the purchasing power of money income. When real income rises, a consumer can buy more quantity of a good and therefore its demand may rise. This is known as income effect on demand.

2. Substitution effect:

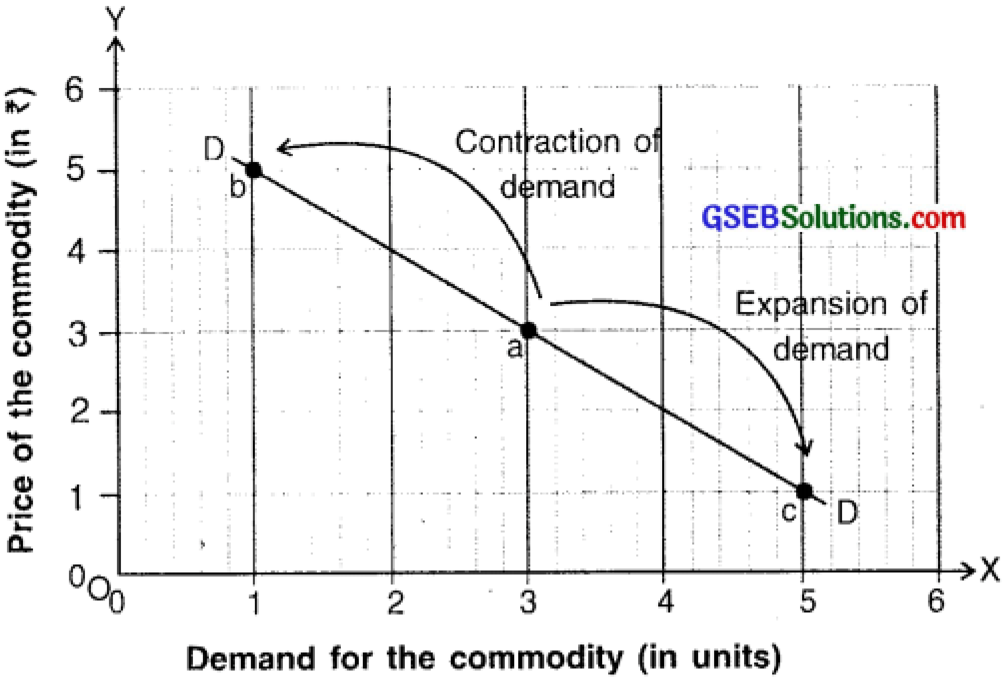
- When price of the concerned good falls, it becomes relatively cheaper than its substitutes.
- Hence, a consumer will reduce the consumption of substitute goods and increase the demand for the concerned good. This is called substitution effect.

Question 2.
Explain expansion and contraction of demand along with diagram.
Answer:
Expansion and contraction of demand:

- Expansion/contraction demand takes place when price varies and other determinants of demand are held constant.
- Keeping other determinants constant, if price falls demand expands and if prices rise, demand contracts.

Let us take an example to understand the expansion and contraction of demand:
The schedule (table) given below contains data of price of a commodity and

Price of the commodity (in ₹)	Demand of the commodity (in units)	Note
5	1	Demand contracts due to rise in price
4	2	
3	3	
2	4	Demand expands due to fall in price
1	5	



Expansion and contraction of demand

Suppose initially the price of the commodity is ₹ 3. At this price its demand is 3 units. This is plotted at point ‘a’ in the diagram.

Expansion:
When price falls to ₹ 1, demand expands to 5 units which is shown as point ‘ ‘c’ in the diagram. The downward movement from point ‘a’ to point ‘c’ on demand curve DD is called expansion of demand. (Note: The movement of the curve is downward because the price indicated on Y-axis has fallen.)

Contraction:

- In the second scenario, if the initial price of ₹ 3 rises to ₹ 5, the demand contracts from 3 units to 1 unit which is shown as point ‘b’ in the diagram. The upward movement from point ‘a’ to point ‘b’ on the same demand curve DD is called contraction of demand. (Note: The movement of the curve is upward because the price indicated on Y-axis has risen.)
- Expansion and contraction of demand occur on the same demand curve. Expansion is a downward movement on the demand curve and contraction is an upward movement on the demand curve.

Question 3.
Explain increase and decrease of demand and represent it

diagramatically.
Answer:

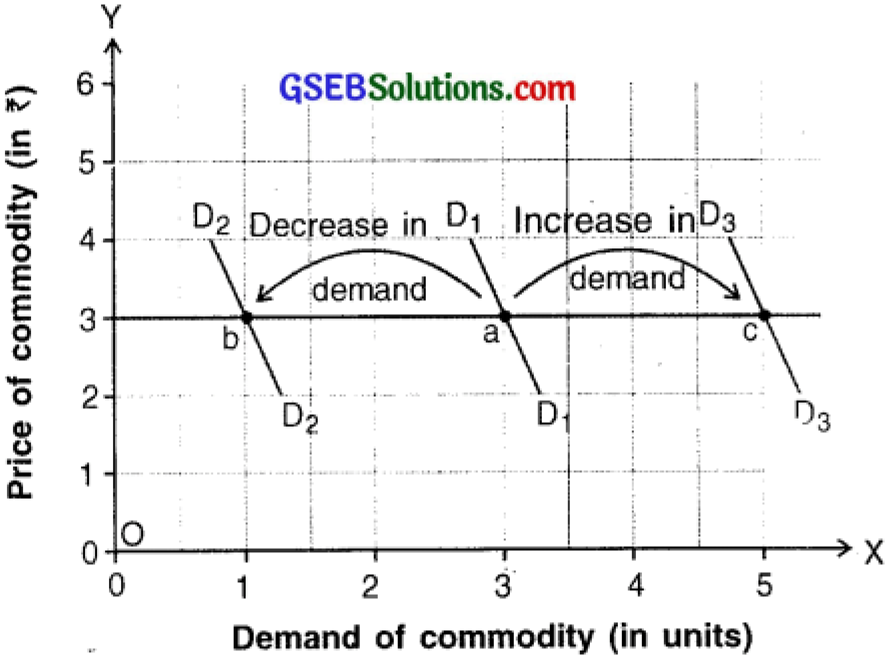
- Increase/decrease in demand takes place when price is assumed constant and determinants other than price varies.
- Keeping price as constant, if factors/determinants other than price vary there occurs increase/decrease in demand.
- We take price which is an independent variable on Y-axis and demand on X-axis. So when price remains fixed i.e. constant, the demand (on horizontal axis) changes. This causes rightward/leftward shift in the demand curve DD.

Rightward shift:
Keeping price factor as constant, if demand increases due to any other factor, the demand curve will shift towards right which is called rightward shift in demand curve.

Leftward shift:
Keeping price factor as constant, if demand decreases due to any other factor, the demand curve will shift towards left which is called leftward shift in demand curve.

Let us take an example to understand the increase and decrease in demand:
The schedule (table) given below contains data of price of a commodity and its demand at various prices. Note that price ₹ 3 is constant. A demand curve is plotted for the given data.

Price of the commodity (in ₹)	Demand of the commodity (in units)	Note
3	1	Decrease in demand
3	2	
3	3	
3	4	Increase in demand
3	5	



Increase and Decrease in Demand

The initial demand is represented by demand curve D_1 D_1. Here, at price of ₹ 3 demand is 3 units. This is plotted at point 'a' on D_1 D_1.

Increase in demand:

When price remains constant at ₹ 3 but due to one or other factors demand increases to 5 units, then the demand curve shifts to the right to D_3D_3. This is indicated by rightward movement of demand curve from point 'a' to point 'c'.

Decrease in demand:

- At constant price if the initial demand of 3 units decreases to 1 unit, the demand curve shifts leftward from point 'a' i.e. D_1D_1 to point 'b' i.e. D_2D_2.
- Thus, more than one demand curves are generated to depict increase or decrease in demand. A rightward shift of the

demand curve shows increase . in demand and a leftward shift shows decrease in demand.

Question 4.

Explain income elasticity of demand.

Answer:

Meaning:

- Income elasticity of demand is useful to measure changes in the demand for a commodity with respect to changes in the income of a consumer.
- The extent (degree) of change in demand for a good because of a change in income of the consumer is called income elasticity of demand. It is denoted by ε_y.
- Income elasticity (ε_y) = Proportionate change in demand Proportionate change in.price

Types/degrees of income elasticity of demand:

1. Positive income elastic demand:

There are three degrees of in positive income elasticity of demand. They are:

(A) Unit income elastic demand ($\varepsilon_y = 1$)

(B) Elasticity of demand greater than unity ($\varepsilon_y > 1$)

(C) Elasticity of demand less than unity ($\varepsilon_y < 1$)

2. Negative income elastic demand

3. Zero income elastic demand

Question 5.

Explain the exceptions to the law of demand.

Answer:

- As per the law of' demand, when the price rises the demand falls and vice-versa. However, for some goods there are exceptions to this law.
- Under this exception, when price of a good falls, its demand also falls instead of rising and vice-versa. Thus, change in price creates demand to change in opposite direction than that indicated in the law of demand.

Examples of such goods are:

1. Prestigious goods:

- Certain goods which are priced very high and are generally consumed by very rich people like, expensive jewelry, expensive cars, expensive mobile phones, etc. are considered prestigious goods.
- Such goods are used by the rich as status symbols. Even if their price rises their demand expands instead of contracting.
- On the other hand, if their price falls, the rich may contract their demand and avoid buying such goods with a mindset that a fall in price means that the good is losing its prestige and will now be in reach of even common people.
- Examples of such products are Mercedes car, iPhone, etc.

2. Extremely low-priced goods:

- Certain goods are extremely low-priced. The consumer spends a very small proportion of his income on these products. For example, pins, stapler pins, toffee, etc.
- Even if price of such goods rise consumer's demand for these goods may not fall. Similarly, if their price falls, the consumer may not expand his demand as he may not need more of such goods than his actual need.

3. Giffen goods (Inferior goods):

- When price of certain goods namely inferior goods fall and the real income of a consumer rises he may reduce the consumption of such goods and substitute them with goods of superior quality.
- It was Robert Giffen who made these observations and explained this concept. Hence, these goods i.e. inferior goods are also called Giffen goods. Such goods are necessary goods and are purchased by the low-income groups.

Example:

- A person with low income purchases grains such as Jowar or Bajra for his daily diet. When the price of Jowar/Bajra falls drastically, the real income of the consumer tends to increase.
- Hence, he will reduce consumption of such goods and will purchase more of wheat which is the superior good.
- Another example is that of vegetable (vanaspati) ghee and pure ghee.

4. Special preferences of people:

At times, people get very accustomed and used to certain goods.

They cannot do with any other good. Even if there is some rise in the price of their preferred goods, their demand may not decrease.

Example:
A specific brand of Ketchup, tooth paste, shoes, etc.

5. Answer the following questions in detail :

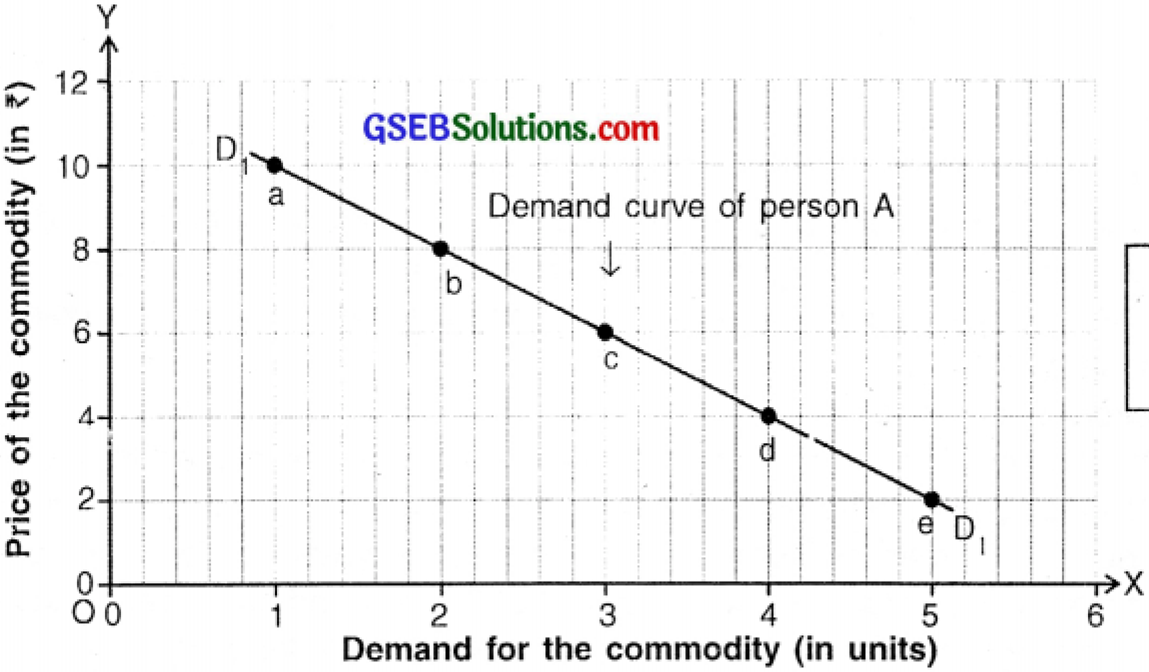
Question 1.
Explain individual demand and market demand along with diagrams.
Answer:
In economics we can classify demand in two parts. They are:
1. Individual demand:
The demand of a good by an individual consumer at a given price at a particular point of time is called individual demand.

2. Market demand:

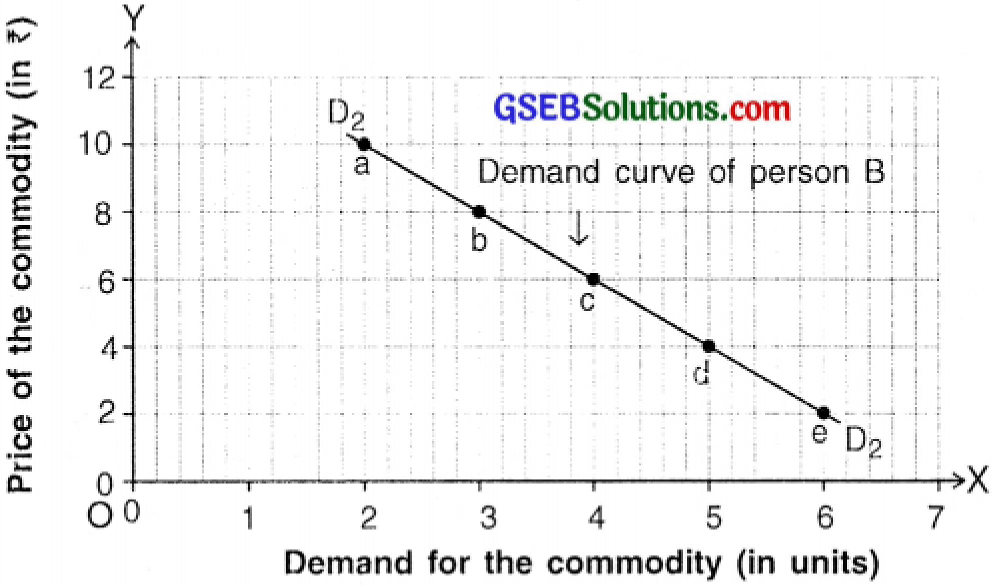
- The sum total of all individual demands of all existing consumers in the market at a given price at a particular point of time is called 'market demand.'
- The table given below shows individual demand of customers A, B and C.
- The last column of the data table is as summation of individual demands. This summated demand is called the market demand.

The first three diagrams show individual demand of each customer whereas the fourth diagram shows their combined demand i.e. market demand.

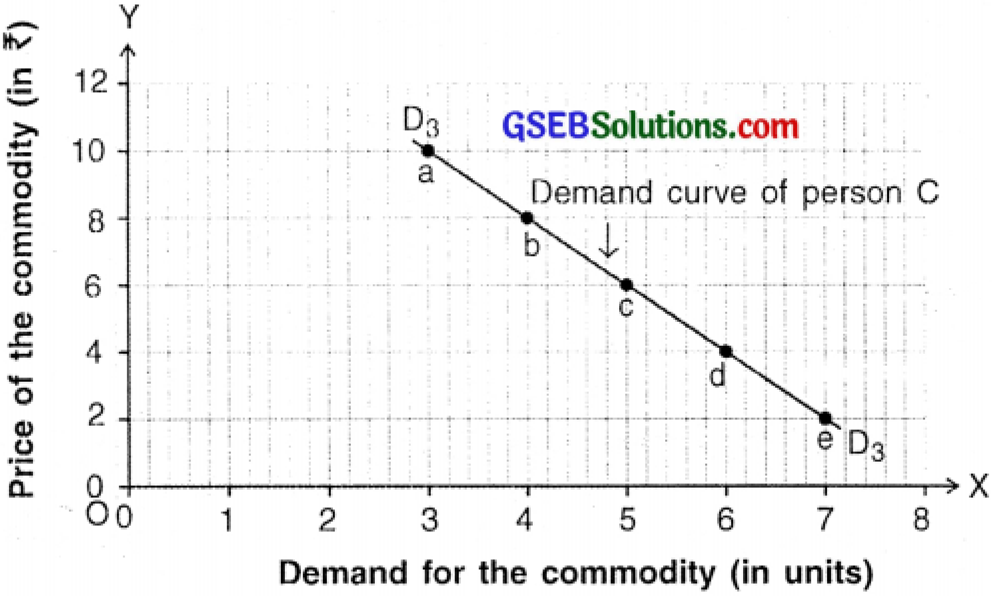
Price of the commodity (in ₹)	Demand of person A (in units)	Demand of person B (in units)	Demand of person C (in units)	Market demand i.e. Total demand of A, B and C (in units)
10	1	2	3	6
8	2	3	4	9
6	3	4	5	12
4	4	5	6	15
2	5	6	7	18



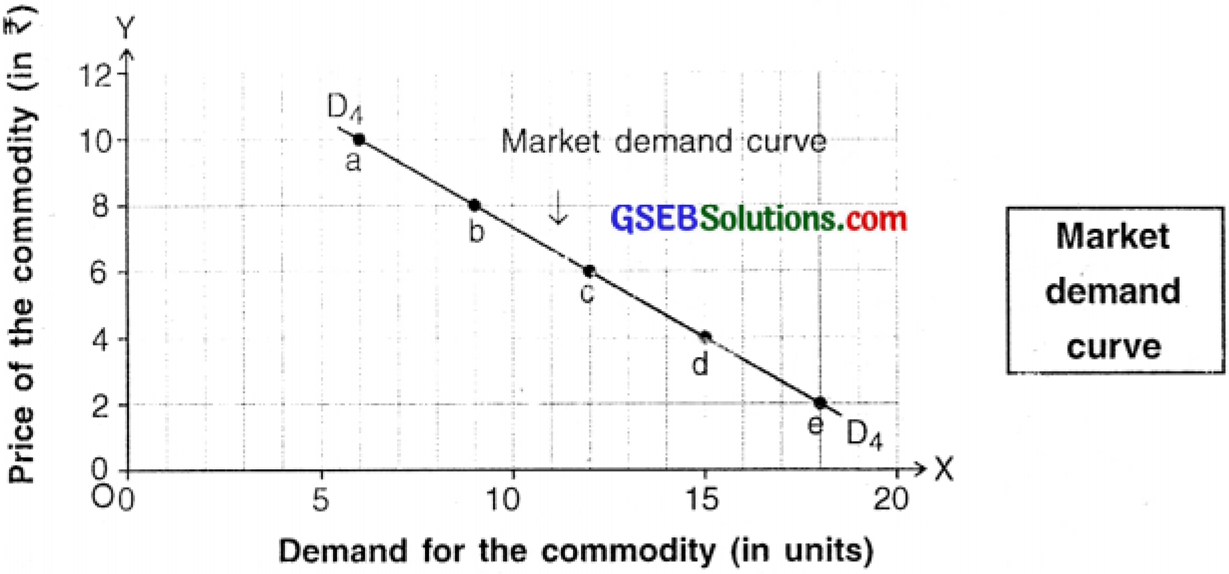
Demand curve of person A



Demand curve of person B



Demand curve for person C



Individual demand curves and market demand curve

Conclusion:
Since demand curve of individual demands of all customers i.e. A, B and C have downward sloping curves, the market demand curve also slopes downwards.

Question 2.
Define demand and explain factors affecting demand.
Answer:
Demand:
The quantity of a commodity which a buyer desires, is able and willing to buy at a given price at a given point of time is called demand.

Demand is defined or determined by five factors namely:

1. Desire,
2. Willingness to buy,
3. Ability to buy,
4. A particular price and
5. A particular point of time.

All these five factors are necessary for defining demand.
The factors that determine demand i.e. determinants of demand of a commodity/service can be classified into two main parts. They are:
(I) Price of commodity/service
(II) Factors other than price (i.e. other determinants)

(I) Price of a commodity/service:

- **Price of a good is the most important determinant of its demand.**
- **When price of a good falls, a thoughtful consumer buys more and the demand expands. When price falls thoughtful consumers buys less and so demand contracts.**

(II) Other determinants:

1. Tastes and preferences of a consumer:

- **Demand depends a lot on tastes and preferences of a consumer.**
- **Tastes and preferences are associated with the likes and dislikes of a consumer as well as several other factors such as age, trends, etc.**

Example:

- **If a person is fond of reading, his preference for reading will change with age.**
- **At a young age, a person prefers to read story books, at adolescence he may prefer*to read novels and in old age*may prefer to read spiritual books.**

2. Income of a consumer:

- **The demand for a commodity increases with increase in the consumer's income. Similarly, when his income falls, his demand for a good falls. Thus, there is a direct relationship between income and demand.**
  Inferior goods:
- **Contrary to this fact, there are some goods called inferior goods on which this direct relationship does not hold true.**
- **In economics, an inferior good is a good whose demand decreases when consumer's income rises or whose demand rises when consumer's income decreases.**

Example of inferior goods/services:

For example, travelling through inter-city bus is a cheaper (inferior) mode than air or rail travel, but is more time-consuming. When a consumer has less money he prefers traveling by bus i.e. demand for bus travel is more. However, when his income rises he prefers faster and more comfortable transport system such as private car or by air i.e. demand for bus travel decreases.

3. Prices of related goods:
Goods such as french-fries and ketchup that are closely related to each other are called related goods. The price of refated goods is one of the other factors affecting demand.

Related goods are classified as either

1. Substitute goods or
2. Complementary goods.

The demand for a particular good depends upon the price and availability of its related goods, namely, substitute goods and complementary goods. For example, If the price of french-fries gets doubled the demand for ketchup may decline.

4. Expectations about future prices:
An individual's expectation about the future price of a good affects his current demand for that good. If the consumer expects the price of a good to rise in the future, his demand for that good increases in the current time and vice-versa.

5. Size and demographic profile of population:

- The size of population, as well as the demographic profile of the people, impacts the total market demand for a good.
- If the population of a region is large then total market demand will be more and vice-versa. Similarly, if majority of population belongs to a particular age-group then the demand for certain goods in the market will be more.
- For example, a Cafe will be in more demand near colleges because of high concentration of youths.

Question 3.
Explain law of demand with the help of schedule and diagram.
Answer:
Demand schedule:

- A demand schedule is a table that shows the willingness of a consumer to buy different quantities of a good at various prices.
- The graphical representation of a demand schedule is called a demand curve.

Example:
The data shown in the table below is an imaginary example of a demand schedule.

Price of milk (in ₹)	Demand of milk (in litres)
50	1
40	2
30	3
20	4
10	5

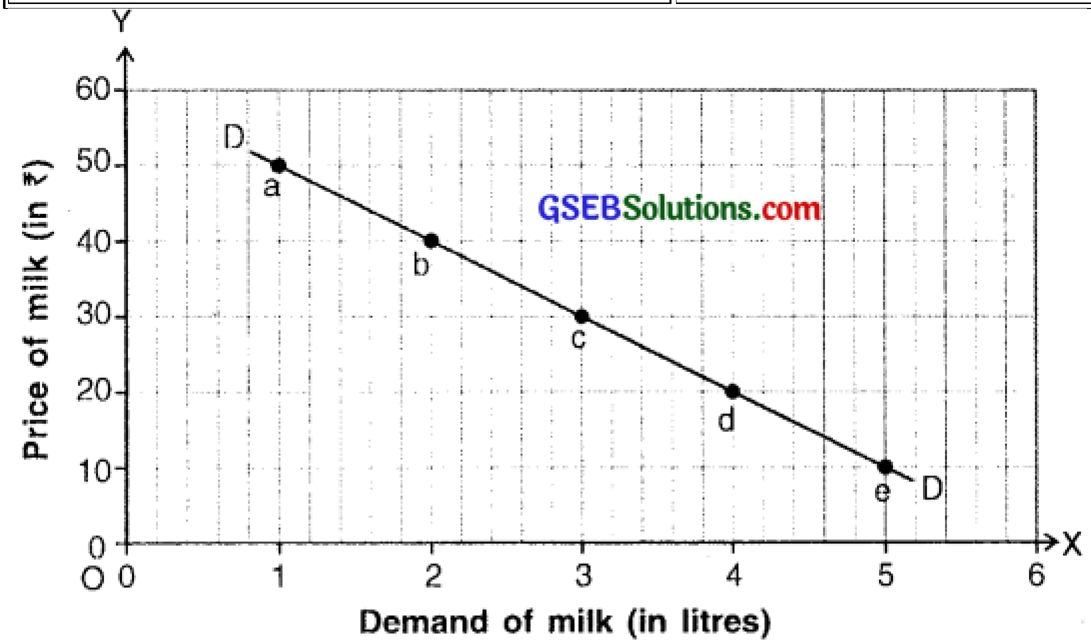


Diagram for law of demand

The schedule (table) shows various prices of milk and its demand at those prices.

- The data of schedule is plotted on a graph to obtain a demand curve.
- Price of milk which is an independent variable is taken Y-axis and demand for milk which is dependant on price is taken on X-axis.

Demand curve:

- By plotting the demand given in the schedule at various prices, we get points 'a', 'b' 'c', 'd' and 'e'. These plotted points show the various price- demand combinations.
- On joining these points, we get the demand curve 'DD'. This curve slopes downward from left to right which indicates that there is an inverse relationship between price and demand.

Explanation of the demand curve:

At point 'a', price of milk is ₹ 50 and demand is 1 litre. At point 'b', when the price falls to ₹ 40 the demand rises to 2 liters. Similarly, at point 'e' when price falls to as low as? 10, the demand expands to as high as 5 liters.

Analysis/Conclusion:

- Price and demand and inversely proportionate i.e. when price rises, demand falls and vice-versa.
- This inverse relationship occurs because of two reasons. They are:
  1. Income effect and
  2. Substitution effect.

Question 4.

Define price elasticity of demand and explain its types with diagrams.

Answer:

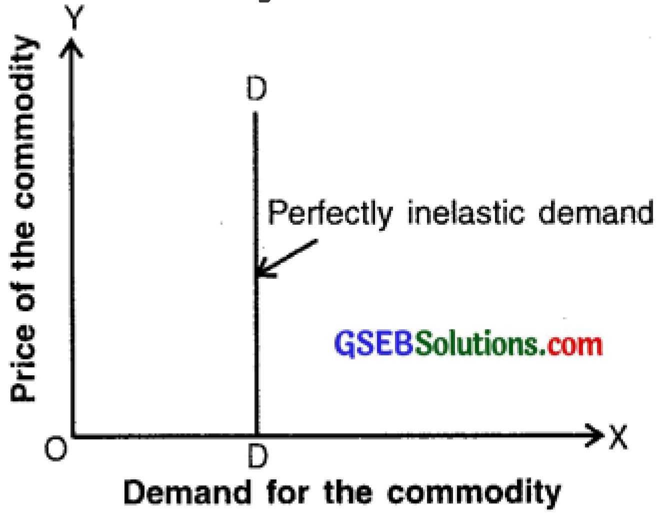
Price elasticity of demand:

- A measure that shows the proportion (extent) to which demand changes with respect to change in price is called price elasticity of demand. It is denote by ep.
- According to Marshall, the degree of elasticity of demand depends upon the extent of rise in demand because of a fall in price and upon the extent of fall in demand because of a rise in price.
- Price elasticity of demand = Proportionate change in demand Proportionate change in.price

Perfectly inelastic demand ($\varepsilon_p = 0$):

- Perfectly inelastic demand is opposite of perfectly elastic demand.

- When price of a commodity say commodity 'K' changes by any amount, say 10% but there is absolutely no change in its demand then such a demand is called perfectly inelastic demand.
- ε_p = Proportionate change in demand Proportionate change in price
  = 0%+10% = 0 (zero)
- In perfectly elastic demand, price elasticity i.e. $\varepsilon_p = 0$
- As shown in the diagram, the 'DD_1' demand curve is a vertical straight line parallel to Y-axis. The curve shows that whatever be the change in price, the demand remains constant. Such elasticity of demand is always zero.

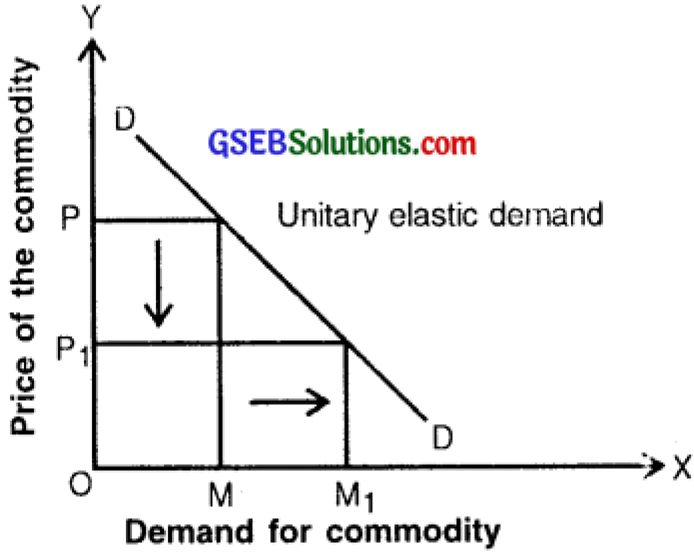


Perfectly inelastic demand

Unitary elastic demand ($\varepsilon_p = 1$)

- When the percentage (proportionate) change in demand is equally proportionate to percentage (proportionate) change in price then it is called unitary elastic demand.
- For example, if price of commodity 'S' falls by 5% and its demand also by changes by 5%, then it is called unitary change in demand.
- ε_p = Proportionate change in demand Proportionate change in price
  = +5%–5% = |1|
- In unitary elastic demand, price elasticity i.e. = 1.

As shown in the diagram, on the demand curve 'DD', when price falls by PP_1, demand expands by MM_1. Note that $PP_1 = MM_1$.



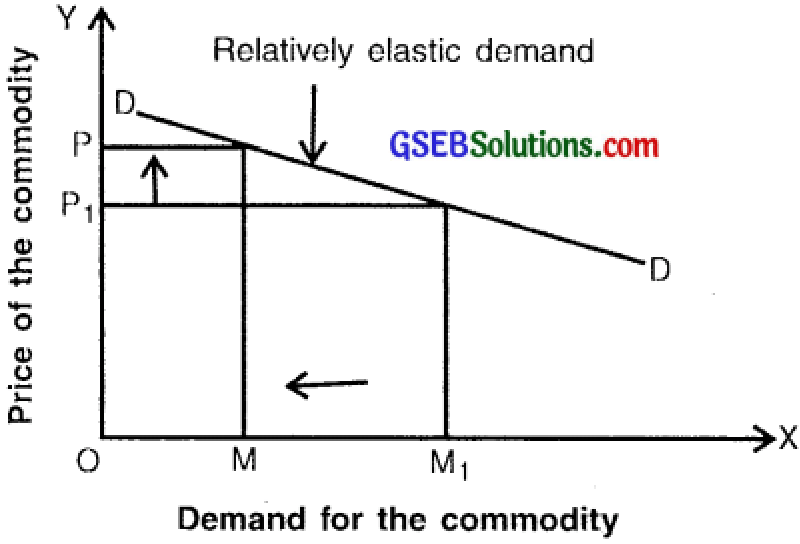
Unitary elastic demand

Relatively elastic demand ($\varepsilon_p > 1$):

1. When price elasticity i.e. $\varepsilon_p > 1$, it is called relatively, elastic demand. When a percentage change in demand is proportionately more than percentage change in price then such demand is called relatively elastic demand.
2. This type of elasticity is observed for luxury goods like televisions, cars etc. For example, if price of commodity 'R' rises by 10 % and its demand falls by 30 %, than its demand is called relatively elastic demand.

ε_p = Proportionate change in demand Proportionate change in price

$= -30\% + 10\% = |3|$



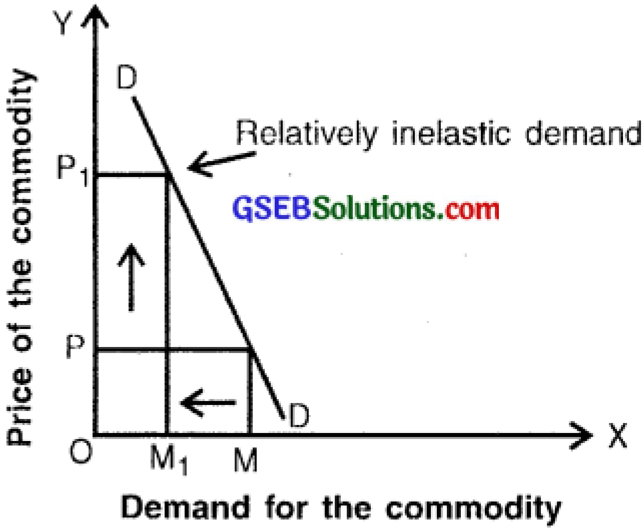
Relatively elastic demand

3. As can be seen from the calculation, a small rise (change) of 10% in the price made a large change of 30% in the demand of the commodity.

4. In the diagram, on the Demand for the commodity demand curve DD_1, when price rises by PP_1 amount, demand falls by MM_1 amount which is proportionately greater than that of price.

Relatively inelastic demand ($\varepsilon_p < 1$):

- When percentage change in demand is proportionately lesser than percentage change in price then such demand is called relatively inelastic demand.
- For example, when price of commodity 'G' rises by 20 % and as a result its demand falls only by 5 % then its demand is called relatively inelastic demand.
- When price elasticity is less than 1, 0 then the demand is called inelastic demand and $\varepsilon_0 < 1$.
- This type of elasticity is found for g goods of daily needs such as food grains, milk, oil, etc.



Relatively inelastic demand

ε_p = Pr oportionate change in demand Proportionate change in price

= =−5%+20%=−14 |0.25|

In the diagram, on demand curve 'DD_1', when price rises by PP_1 amount, demand falls by MM_1 amount which is proportionately lesser than that of price.

❖ Chapter 4 :Supply

1. Choose correct option for the following from the options provided :

Question 1.
What are the changes that take place in supply due to decrease in the price of a commodity?
(A) Increase
(B) Expansion
(C) Contraction
(D) Decrease
Answer:
(D) Decrease

Question 2.
What are the changes that take place in supply due to change in factors other than price?
(A) Increase
(B) Expansion
(C) Expansion-contraction
(D) Increase-decrease
Answer:
(C) Expansion-contraction

Question 3.
What is the relationship between price and supply of commodity?
(A) Direct
(B) Opposite
(C) Equal
(D) Zero
Answer:
(A) Direct

Question 4.
What decreases, therefore profit decreases and due to that supply decreases?
(A) Stock
(B) Supply
(C) Price
(D) Price elasticity of demand
Answer:
(C) Price

Question 5.
Stock is always ________ than supply.
(A) Higher
(B) Lower
(C) Not higher
(D) Negligible
Answer:
(A) Higher

Question 6.
If there is expectation about rise in price in future then present supply ________
(A) Increases
(B) Decreases
(C) Remain constant
(D) Become zero
Answer:
(B) Decreases

2. Answer the following questions in one sentence :

Question 1.
What is stock?
Answer:
The total available quantity of goods with a producer which can be offered for sale in the market as per the ability and willingness of the seller is called stock.

Question 2.
Which are the two matters on, which law of supply is presented?
Answer:
On price and factors other than price.

Question 3.
Define supply.
Answer:
The quantity of production which a producer is able and willing to sell in the market at a given price and at a particular point of time is called supply.

Question 4.
What is supply schedule?

Answer:
A schedule is a data table that shows a seller's willingness to sell a good at various prices and is called the supply schedule.

Question 5.
How is the slope of supply curve?
Answer:
Positive slope.

Question 6.
Why is the law of supply not applicable to rare articles?
Answer:
Rare articles do not have any current production. Hence.....

Question 7.
Which types of commodities are an exception to the law of supply?
Answer:
Rare goods and perishable goods.

3. Answer the following questions in short :

Question 1.
Distinguish : Stock and Supply.
Answer:

Point	Stock	Supply
Meaning	Stock refers to entire quantity of a commodity which is in the custody of the seller. So it is the potential supply.	Supply refers to the quantity of a commodity offered for sale at a given price and at a given time and place.
Dependence	Stock depends on production.	Supply depends on stock and price and Willingness
Relationship	Stock can be greater than the supply.	Supply cannot be greater than the stock. Supply can be either equal or less than the stock.

Order of existence	Stock comes before supply	Supply follow stock. There cannot be supply without stock.

Question 2.
Explain meaning of individual supply and market supply.
Answer:
In economics we can classify supply in two parts. They are:
1. Individual supply:
The supply of a good by an individual firm/seller at a given price at a particular point of time is called individual supply.

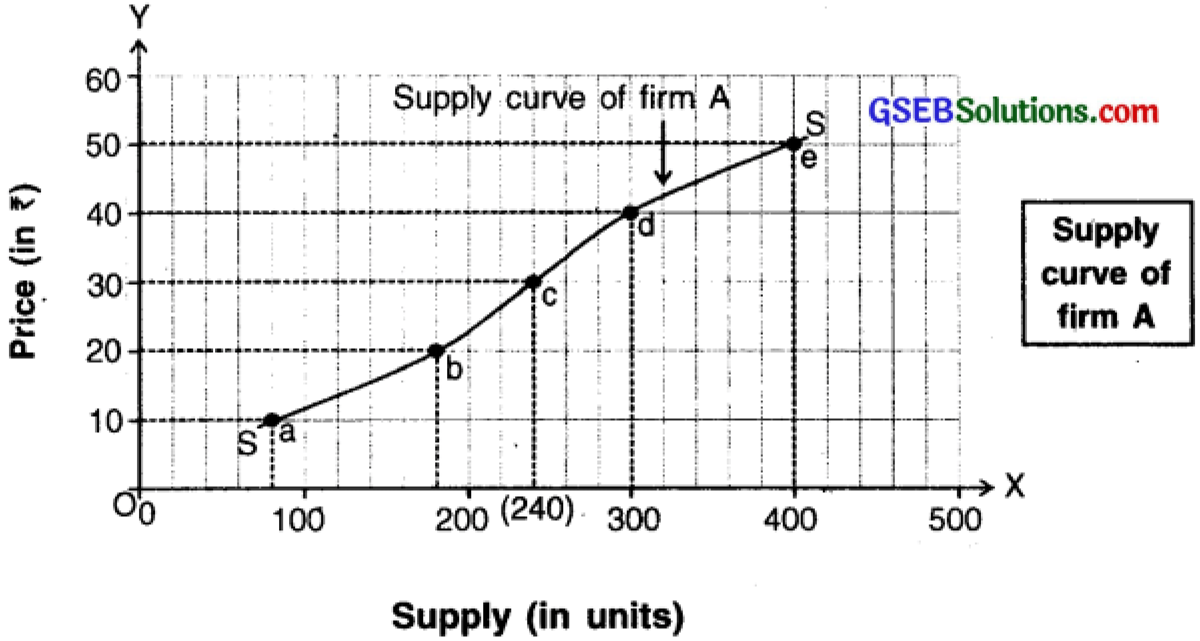
2. Market supply:

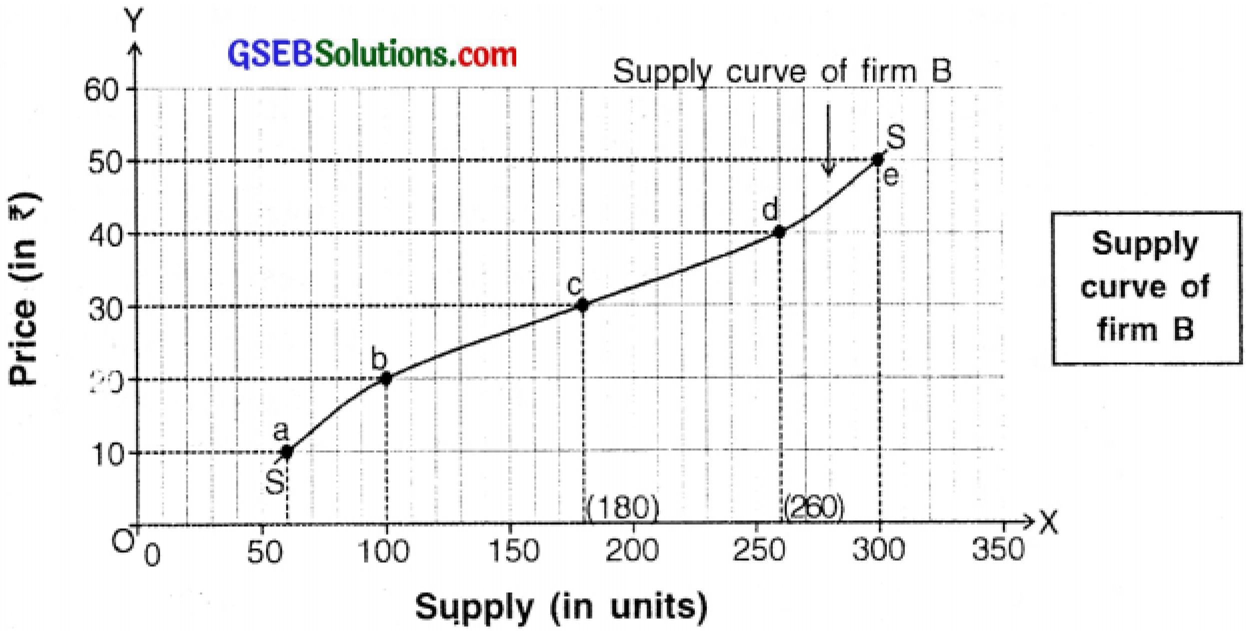
- The sum total of all individual supplies of all existing sellers in the market at a given price at a particular point of time is called market supply.
- The schedule (table) given here shows the individual supply of apples by two different firms (A) and (B).
- The last column of the data table is as summation of individual supplies. This summated supply is called the market supply.

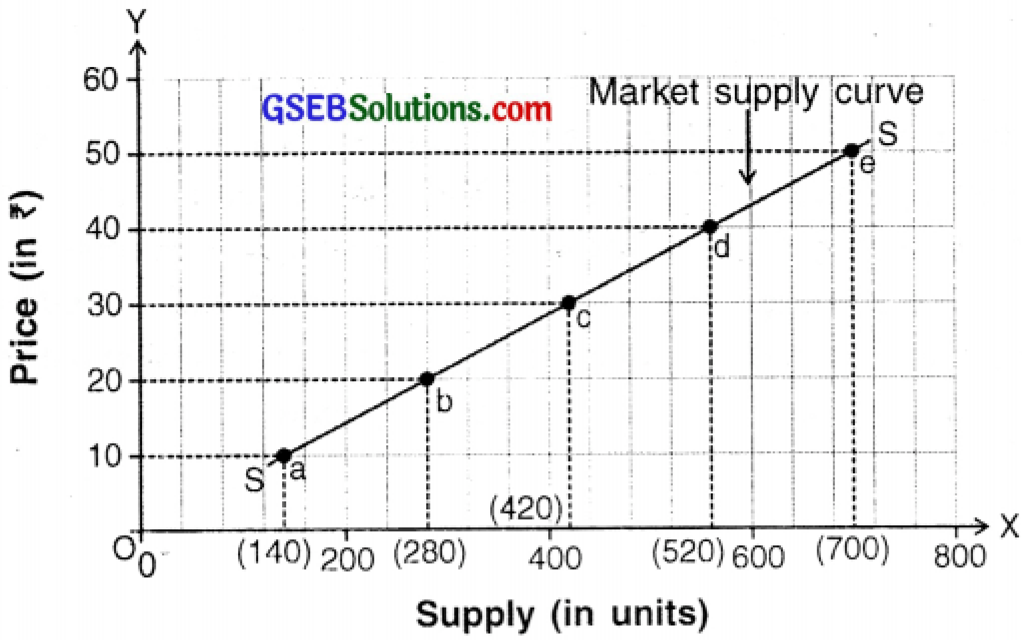
Price per kg in ₹	Supply of apples of different firms (in kg)		Market supply of apples (in kg) i.e. combined supply of firms A and B
	Firm (A)	Firm (B)	
10	80	60	140
20	180	100	280
30	240	180	420
40	300	260	560
50	400	300	700

- As can be seen in the schedule, when price is higher, supply is more and when price is lower, supply is lesser. This relation between price and supply can be explained by a law, which is known as ‘Law of Supply’.

- **Based on the values given in the schedule, we can prepare individual and market supply curves. Since there is a positive relationship between price and supply, these curves have a positive slope.**







Market supply curve

Diagrams for individual and market supply curves

Question 3.
Why can supply be more than production, but can not be more than stock?
Answer:

- Supply of a commodity can be equal to or less than the total stock plus production but not more than that.
- For example, during a year a firm produces 100 units. The past stock is 30 units. So, the total sellable stock becomes 130 units. This means that the seller can supply maximum 130 units but not more than that.
- Hence, the supply can be more than production but not more than the stock.

Question 4.
The supply curve is positively sloped. Explain with reasons.
Answer:

- As per the law of supply, as price increases, supply expands and as price decreases, supply contracts. This means there is a direct relationship between price and supply.
- When we plot the points of any direct relationship between two variables, we get an upward positively sloped curve.
- Hence, the supply curve is also positively sloped.

4. Answer the following questions in brief points :

Question 1.
Write short note on supply function.

Answer:
Supply function:

- The supply function specifies a functional (mathematical) relationship between supply of a good and its determinants i.e. factors affecting the supply.
- The supply function represents that the supply of one good is determined by many factors.

Mathematical form of the supply function:
$S_x = f(P_x, T, P_f, P_0, U)$
where S_x = Supply of commodity X
f = Functional notation
P_x = Price of commodity X
T = Level of technology
P_F = Factor prices
P_e = Expectations regarding future prices
U = Other factors
Question 2.
State exceptions to the law of supply.
Answer:
Law of supply:
"When all other factors affecting supply are assumed to be constant, as price increases, supply expands and as price decreases, supply contracts". The definition tells that there is a direct and positive relationship between price and supply. This relationship is called law of supply.

Assumptions of law of supply:

- Over and above time, several factors affect the supply of a good at a particular point of time. However, at given point of time, the law of supply assumes the effect of all factors on supply other than the price as constant.
- In reality, other than price there are some other factors that can influence the supply more. However, we assume these to be constant.

Some important assumptions of law of supply:

- Prices of factors of production remain constant.
- There is no change in technology.

- Level of competition remains the same. In other words, number of sellers in the market remains the same.
- Expectations regarding future prices are ignored/held constant.
- Other factors like government policy, transport facilities, natural factors, etc. remain constant.

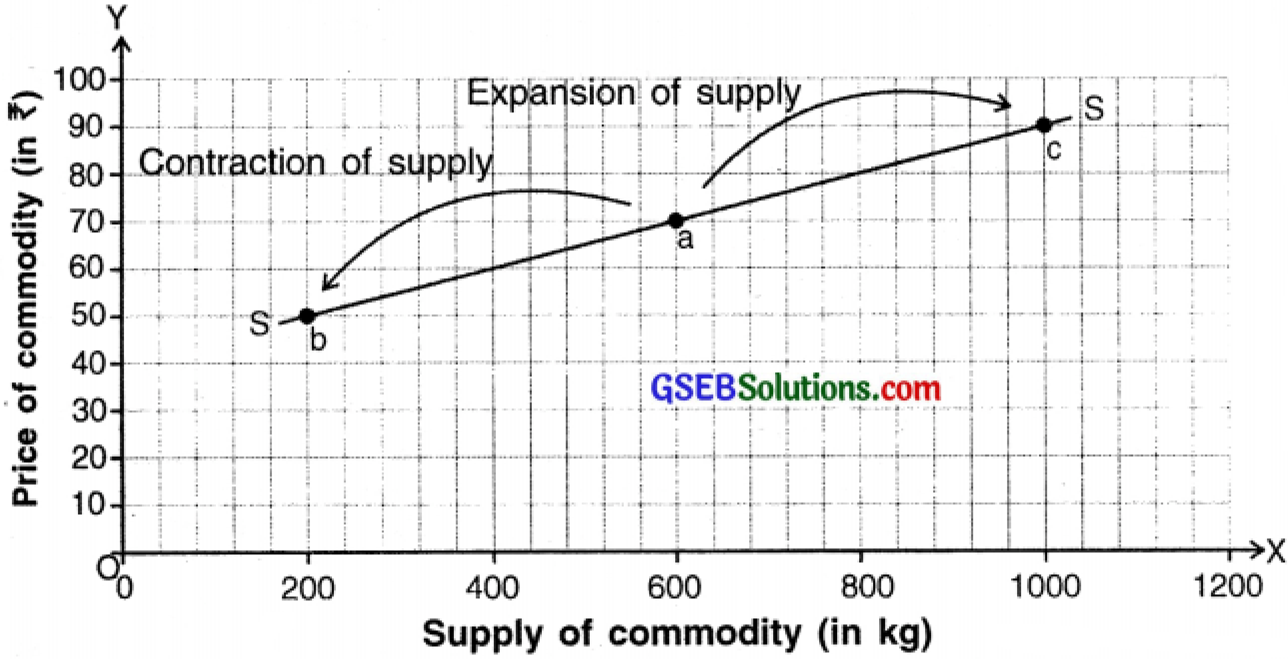
Question 3.
Explain expansion-contraction of supply along with diagram.
Answer:
Expansion-contraction of supply:

- Wiien factors other than price are assumed to remain constant and price varies, there occurs expansion and contraction of supply.
- These other factors may be, change in cost of factors of production, number of sellers, level of technology, government policies, etc.

Example:

- Let us take an example to understand the expansion and contraction of supply.
- The schedule given here shows various price of apples and its supply at, that prices.

Price of apples per kg (in ₹)	Supply of apples (in kg)
50	200
60	400
70	600
80	800
90	1000



Expansion and contraction of supply

Analysis:
In the diagram, price of apples is represented on 'Y-axis and their supply on 'X-axis. Suppose the initial price of apple is ₹ 70 per kg. At this price, the initial supply is 200 kg. which is plotted as point 'a' on the supply curve.

Expansion:

- As can be seen in schedule, when price rises to ₹ 80, supply expands to 800 kg. When price further rises to ₹ 90, supply expands to 1,000 kg. which is plotted as point 'c'.
- The movement from point 'a' to point 'c' on supply curve SS is called expansion of supply.

Contraction:

- Now from the initial point 'a' if price falls to ₹ 60, supply contracts to 400 kg. Similarly, if price falls further to ₹ 50 the supply contracts to 200 kg. which is plotted as point 'b' on the supply curve.
- The movement from point 'a' to point 'c' on the same supply curve SS is called contraction of supply.

Question 4.
Explain increase-decrease of supply along with diagram.
Answer:
Increase-decrease in supply:

Assuming price as constant if the supply increase/decrease due -to some other factors, it is known as increase/ decrease in supply.

Rightward shift:

- **Keeping price facto, constant, if supply increases due to any other factor, the supply curve will shift towards right which is called rightward shift in supply curve.**
- **The factors responsible for rightward shift could be fall in cost of production, fall in prices of factors of production, improvement in technology, rise in number of suppliers, government policies, etc.**

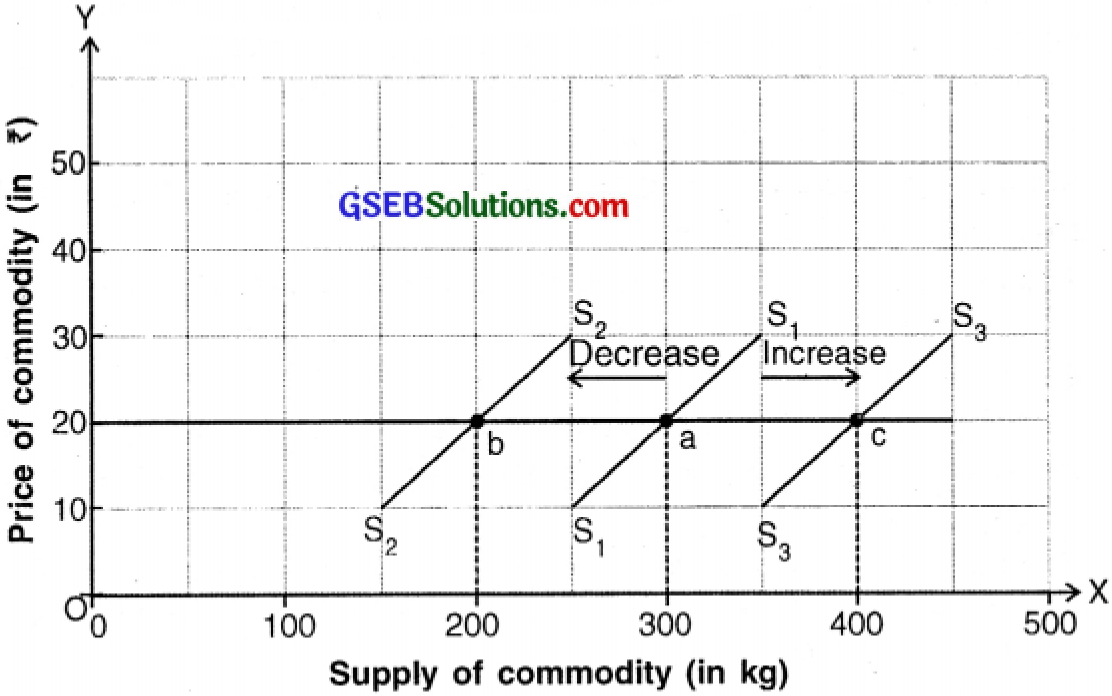
Leftward shift:

- **Keeping price factor as constant, if supply decreases due to any other factor, the supply curve will shift towards left which is called leftward shift in supply curve.**
- **Leftward shift takes place when one or more above mentioned factors behaves in a reversed manner.**

Let us take an example to understand the increase and decrease in supply:

- **The schedule (table) given below contains data of price of a commodity and its various supply at that constant price.**
- **Note that price ₹ 20 is constant. A supply curve is plotted for the given data.**

Price of apples (in ₹)	Supply of apples (in kg)
20	100
20	200
20	300
20	400
20	500



Increase and decrease of supply

- In the diagram, price is represented on the 'Y-axis and supply on the 'X-axis.
- Initial supply curve is represented by S_1S_1. Here, at price of ₹ 20 the supply of apples is 300 kg. This is plotted as point 'a' on the supply curve S_1S_1.

Increase in supply:

- When price remains constant at ₹ 20 but one or some of the other factors change in favour of supply of apples then the supply curve shifts to the right to S_3S_3 and the supply of apples increases to 400 kg. This is indicated by rightward movement of supply curve from point 'a' to point 'c' on S_3S_3.
Decrease in supply:
- At constant price, if one or some of the other factors change against the supply of apples then the supply curve shifts to the left to S_2S_2 and the supply of apples decreases to 200 kg. This is indicated by leftward movement of supply curve from point 'a' to point 'b' on S_2S_2.

5. Answer the following questions in detail :

Question 1.
Discuss in detail the factors affecting supply.
Answer:
Factors that affect supply can be classified under two groups. They are:

1. Price of the good (product) and
2. Factors other than price.

1. Price of the good (product):

- Price is an important determinant of supply.
- A producer sells goods for earning profit. In order to earn higher profit, he supplies more goods when the price of a product rises and less when the price falls.
- Thus, there is a positive relationship between price of a good and its supply.

2. Factors other than price:

(A) Price of factors of production cost of production:
Change in cost of production affects its supply.

Example:

- When rent paid to the owner of land or wages paid to the labourer, decrease, the cost of production decreases.
- When cost of production decreases and if price remains unchanged, the profits increase. Hence, the seller is more willing to sell large quantity. Thus, supply expands when prices of factors of production fall.
- On the contrary, if cost of production rises, the situation becomes opposite and the supply contracts.

(B) Level of technology:

- When technology advances, time and efforts are saved. Hence, goods in large quantities and better quality can be produced that too with the same or lower costs.
- To add to this, if market price does not fall then profits increase and sellers are willing to sell more. Thus, supply expands.

(C) Future expectations about price:
If sellers speculate price of a product to rise in future then they contract the current demand so that they can build up stock for the future and vice, versa. Thus, future expectations about price affect the current supply of goods.

(D) Other factors:
Other factors that increase supply are:

- Increase in number of firms producing the product
- Existence of political stability in the state
- Favorable natural conditions
- Presence ,qf efficient law and order and legal systems
- Industrial relations are maintained well between owners and workers of production and marketigg activities, etc.
- On the other hand, supply decreases when the above factors become negative.

Question 2.
Explain law of supply in detail with the help of a schedule and diagram.
Answer:
(A) Law of supply:
"When all other factors affecting supply are assumed to be constant, as price increases, supply expands and as price decreases, supply contracts". The definition tells that there is a direct and positive relationship between price and supply. This relationship is called law of supply.

Assumptions of law of supply:

- Over and above time, several factors affect the supply of a good at a particular point of time. Flowever, at given point of time, the law of supply assumes the effect of all factors on supply other than the price as constant.
- In reality, other than price there are some other factors that can influence the supply more. However, we assume these to be constant.

Some important assumptions of law of supply:

- Prices of factors of production remain constant.
- There is no change in technology.
- Level of competition remains the same. In other words, number of sellers in the market remains the same.
- Expectations regarding future prices are ignored/held constant.
- Other factors like government policy, transport facilities, natural factors, etc. remain constant.

(B) Supply schedule:
A schedule is a data table that shows a seller's willingness to sell a good at various prices called the supply schedule.

Example:
The table shown here represents the willingness of a seller to sell apples at different prices.

Price of apples per kg (in ₹)	Supply of apples (in kg)
50	200
60	400
70	600
80	800
90	1000

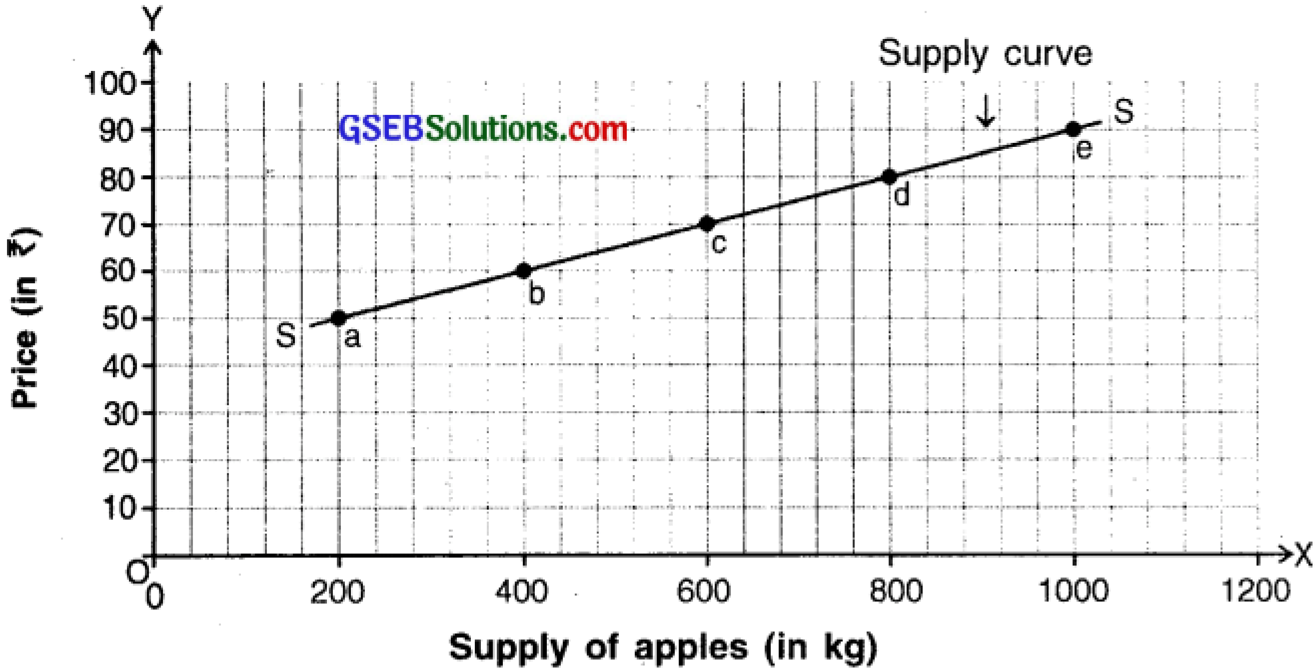


Diagram of law of supply

Analysis:

- In the diagram, price of apples is represented on 'Y-axis and supply of apples on 'X-axis.

- On plotting these points on the graph we get points a, b, c, d and e. x These points on the graph show the various price-supply combinations.
- As can be seen in the graph, when price is ₹ 50, supply is 200 kg, when price rises to ₹ 60, supply extends to 400 kg and when price rises still further to ₹ 70, supply extends to 600 kg and so on.
- The curve SS formed by joining these points is called the supply curve. It has a positive slope.

Question 3.
Explain the price determination process of market along with a diagram.
Answer:
Process of price determination:

- A consumer thinks that prices are decided by the producer or seller. But in reality individual producers or sellers do not decide the prices.
- Prices are determined by the interaction of market demand and supply.
- As per demand schedule, as the price rises the demand decreases where as in supply schedule, as price rises the supply increases. Thus, the demand curve slopes downward from left to right where as the supply curve slopes upward from left to right.
- Since supply schedule and demand schedule move in opposite directions, equilibrium is attained only at a point where these two curves intersect each other. This point of intersection is called point of price equilibrium. Such an equilibrium price for goods exists in the market.
- Individual sellers take this equilibrium price as a signal to determine prices of their individual products in the market.
- In case of perfect competition firms take this price as signal whereas in case of monopoly and oligopoly, markets take this price as a signal. Even a monopolist has to take a price signal from the total demand and total supply.

Example:

- The schedule given below shows demand and supply of a commodity at various prices. The diagram shows the demand and supply curve and their interaction.

- According to Marshall, the market demand and market supply are called the invisible hands of market and the entire process is invisible. The two curves i.e. the demand curve and supply form a cross as shown in the figure.
- In the figure, the demand curve DD and the supply curve SS move in the opposite directions. They intersect at point 'E' which is called the equilibrium point.
- At equilibrium point the equilibrium price is ₹ 30 which can be determined by plotting EQ. At this price, quantity demanded and supplied i.e. OQ is 600 units. This is called the equilibrium quantity.

Price of a commodity (in ₹)	Demand of commodity (in kg)	Supply of commodi (in kg)
10	1000	200
20	800	400
30	600	600
40	400	800
50	200	1000

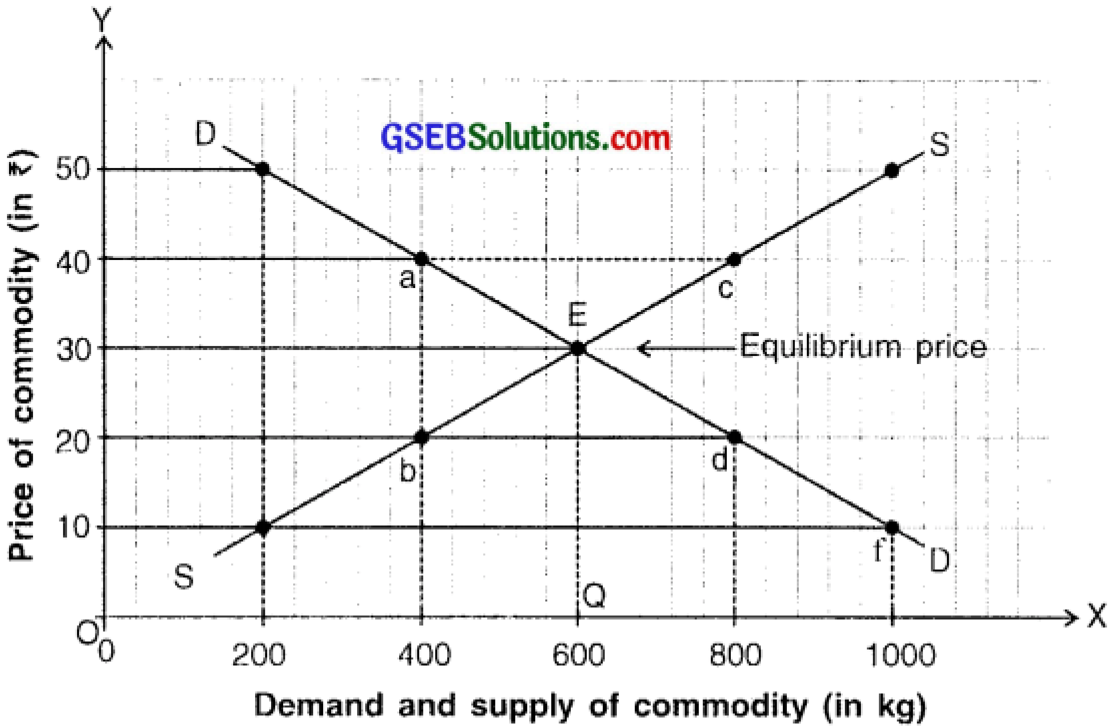


Diagram of price determination

Case 1:
If the industry raises its price to ₹ 40 then ignoring the demand and supply schedules, the total demand contracts to 400 units from 600 units while the supply expands to 800 units. Since demand is lesser than supply as shown by the distance between points ‘a’ and ‘c’, the market price will tend to fall back to ₹ 30. This is called the equilibrating process of the market.

Case 2:
Suppose if price is reduced by the industry to ₹ 20 by ignoring the demand and supply schedules, the total demand expands to 800 units while supply contracts to 400 units. Since demand is greater than supply as shown by the distance between points ‘d’ and ‘b’, the market price will tend to rise back to ₹ 30. This again is the invisible process of the market.

❖ Chapter 5 Cost of Production and Concept of Revenue

1. Choose correct option for the following from the options provided :

Question 1.
How is Average Cost curve shaped?
(A) Hockey-stick
(B) U
(C) V
(D) Square
Answer:
(B) U

Question 2.
Which cost cannot be measured?
(A) Real cost
(B) Monetary cost
(C) Opportunity cost
(D) Long run cost
Answer:
(A) Real cost

Question 3.
When production is zero then which cost is positive?
(A) Monetary cost

(B) Average cost
(C) Variable cost
(D) Fixed cost
Answer:
(C) Variable cost

Question 4.
Which cost has direct relation with the production units?
(A) Fixed cost
(B) Variable cost
(C) Average cost
(D) Marginal cost
Answer:
(B) Variable cost

Question 5.
In which market, Average Revenue and Marginal Revenue are same?
(A) Perfect Competition
(B) Monopoly
(C) Monopolistic Competition
(D) Oligopoly
Answer:
(A) Perfect Competition

Question 6.
How is the slope of fixed cost curve?
(A) Negative
(B) Positive
(C) Parallel to X-axis
(D) Parallel to X-axis
Answer:
(C) Parallel to X-axis

2. Answer the following questions in one sentence :

Question 1.
Why does the average fixed costs decrease with the increase in production?
Answer:

When production increases the Total Fixed Cost (TFC) gets distributed among more units and so Average Fixed Cost decreases with increase in production.

Question 2.
Give formula of Marginal cost.
Answer:
Marginal Cost (MC_n) = $Tc_n - Tc_{(n-1)}$, Here, n = no. of units produced and Tc = Total cost.
Question 3.
What do you mean by fixed cost? How is the fixed cost curve?
Answer:
In a short period (run), the production may increase, decrease or become zero i.e. no production, but the cost would remain same. Such a type of cost is called the fixed cost. Fixed cost is also known as overhead cost. The fixed cost curve is parallel to X-axis.

Question 4.
Which concept of revenue can be known as price?
Answer:
The Average Revenue curve shows the Average Revenue of a producer by selling of commodity.

Question 5.
What do you mean by Marginal Revenue?
Answer:
The change in total revenue which results from the sale of one more unit of a commodity is called the marginal revenue. Formula : $MR_n = R_n - R_{(n-1)}$
Question 6.
What do you mean by short run?
Answer:
A short term (run) is a time period in which a producer cannot change factors of production. Hence in this period all the factors of production such as plant, heavy machinery, building of a factory, etc. remain fixed.

Question 7.
What is opportunity cost?
Answer:
The means of production have alternative uses i.e. more than one

use. The concept of opportunity cost is based on the particular characteristic of factor of production which says that when a factor is used for a particular use, the other use is left out or the same cannot be used for other purpose. Under such circumstances, the best alternative which remains is called the opportunity cost of production.

Question 8.
What is monetary cost?
Answer:
Generally, the amount that the producer pays monetarily for the process of production is called its monetary cost. Thus, the cost of production in terms of money is known as monetary cost. Monetary cost includes wages, rent, raw material, fuel and the total of all the expenditure made by the producer.]

Question 9.
What does the firm get when marginal cost is less than Marginal Revenue?
Answer:

Question 10.
What is real cost?
Answer:
According to Marshall, the labourers, capitalists and entrepreneurs who are involved in the process of production bear psychological and physical burden. Such burden is called real cost.

3. Answer the following questions in short :
Question 1.
What do you mean by short run?
Answer:
Short term (run):

- A short term (run) is a time period in which a producer cannot change factors of production. Hence in this period all the factors of production such as plant, heavy machinery, building of a factory, etc. remain fixed.
- The producer can increase/decrease production by increasing or decreasing variable factors such as raw material, labour, electricity, etc.

- **Moreover, the producer cannot change the size of firm but can increase production by increasing the capacity of factors of production.**

Long term (run):

- **A long term (run) is a time period in which a producer can change all the factors of production. Hence, in this period all the factors of production such as plant, heavy machinery, building of a factory, etc. are considered variable.**
- **The producer can increase or decrease these factors of production and hence increase/decrease the production in long term (run).**
- **The producer can change the size of the firm. By doing so he can change the total production to a large extent in a long term. The firm can also expand its size by using new and modern technology.**

Question 2.
What is the meaning of average fixed cost? Give example.
Answer:
Average Fixed Cost (AFC):
The cost of per unit of output is called the Average Fixed Cost (AFC). AFC is obtained by dividing total fixed cost of a firm with total production unit.

∴ Average Fixed Cost (AFC) = Total Fixed Cost (TFC) Total Production Unit (TP)
Thus, AFC = TFCTP
Example:

- **Fixed cost of a company is ₹ 50,000. If the producer produces 1000 units of a good then,**
  Average Fixed Cost = 500001000 = ₹ 50
- **Thus, on an average the company bears ₹ 50 as fixed cost on each unit produced.**

Output (units)	Total Fixed Cost (in ₹) [TFC]	Average Fixed Cost (in ₹) [TFC/output]
10	100	10
20	100	5

30	100	3.3
40	100	2.5
50	100	2

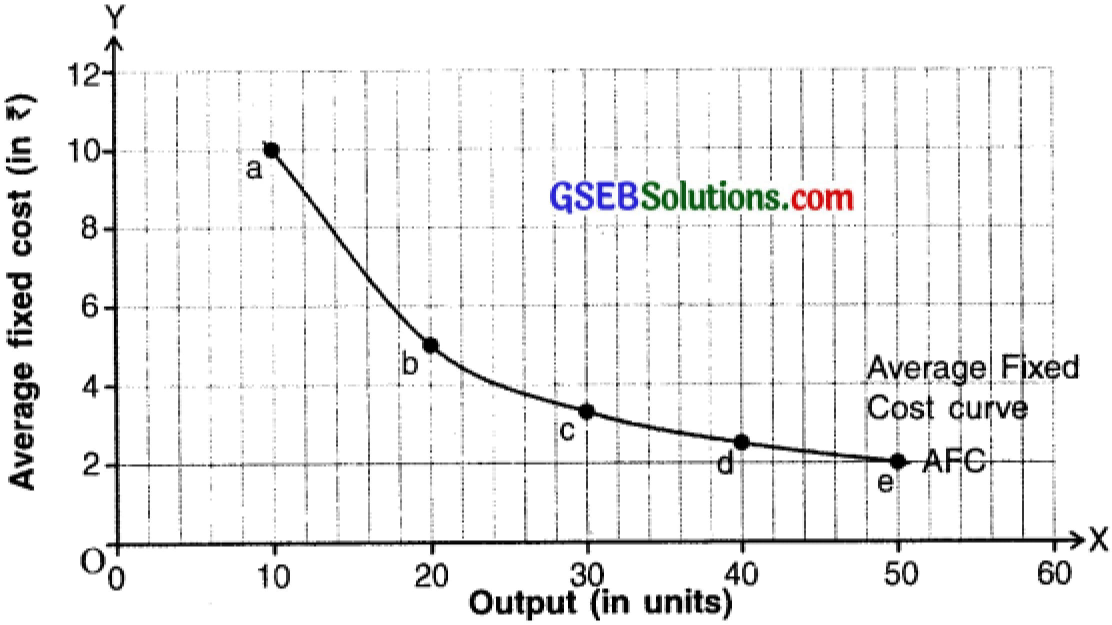


Diagram of average fixed cost

Graph and curve:

- Units produced are shown on X-axis whereas average fixed cost (AFC) is shown in ₹ on Y-axis.
- When production increases the Total Fixed Cost (TFC) gets distributed among more units and so Average Fixed Cost decreases. Due to the decreasing cost, the average fixed cost curve (AFC) is a downward sloping curve, but it never becomes zero.

Question 3.
'All costs are variable in the long run.' Explain.
Answer:

- Variable cost increases if cost of production increases and decreases if the cost of production decreases and also becomes zero if production is zero.
- This cost has direct (positive) relation with quantity of production.

- Price of raw material, energy consumption, transportation expenditure, labour wages, tax on product, sales tax, etc. are variable costs which are directly dependant on the quantity of production.
- All these costs affect the production only in short run. In the long run , changes can occur in all of these.
- For example, there might occur a huge change in price of raw material, mode of transportation may change, taxes may be added or abolished. Similarly, fixed costs might also vary largely. The producer may buy new premises, change his machinery, increase labour, etc.
- Hence, irrespective if the cost is fixed or variable, it becomes variable in the long run.

Question 4.
Give meaning of total cost and total revenue.
Answer:
1. Total Cost (TC):

- The summation of Total Fixed Cost (TFC) and Total Variable Cost (TVC) is called Total Cost (TC).
- Therefore, TC = TFC + TVC

2. Total Revenue (TR):

- Money received by a firm on selling the units it produces is known as revenue. The total income received by firm from sale is called total revenue. This income is known as total revenue or sale revenue.
- A firm's total income is based on two things:
  1. Price per unit and
  2. Total sale.
- Change in one or both the factors brings change in the revenue of the firm.

Formula:
Total Revenue (TR) = Units sold (Q) × Price of commodity (P)

Question 5.
Why is the revenue curve negatively sloped in imperfect competition?
Answer:

- In imperfect market competition, the seller has to reduce the price in order to sell more units.
- This means he tries to increase demand of his commodity by increasing its sale (by decreasing prices). So, his total revenue increases at a diminishing rate.
- This results in a difference between the Average Revenue (AR) and Marginal Revenue (MR).
- As price decreases, the Average Revenue decreases and its curve slopes downwards from left to right. Hence, the revenue curve is negatively sloped.

4. Answer following questions to the point :

Question 1.
Give the meaning of fixed cost and explain with the help of diagram.
Answer:
Fixed cost (FC):

- In a short period (run), the production may increase, decrease or become zero i.e. no production, but the cost would remain same. Such a type of cost is called the fixed cost. Fixed cost is also known as overhead cost.
- Thus, in short period there is no relation between fixed cost and quantity of production.
- Fixed cost includes salary of permanent staff, rent of factory building, house- and property tax, license fee, interest on capital, premium of insurance, etc.

Example:
The schedule shows production of pens for a firm and its fixed cost.

Units of output	Total Fixed Cost (₹)
0	100
10	100
20	100
30	100
40	100
50	100

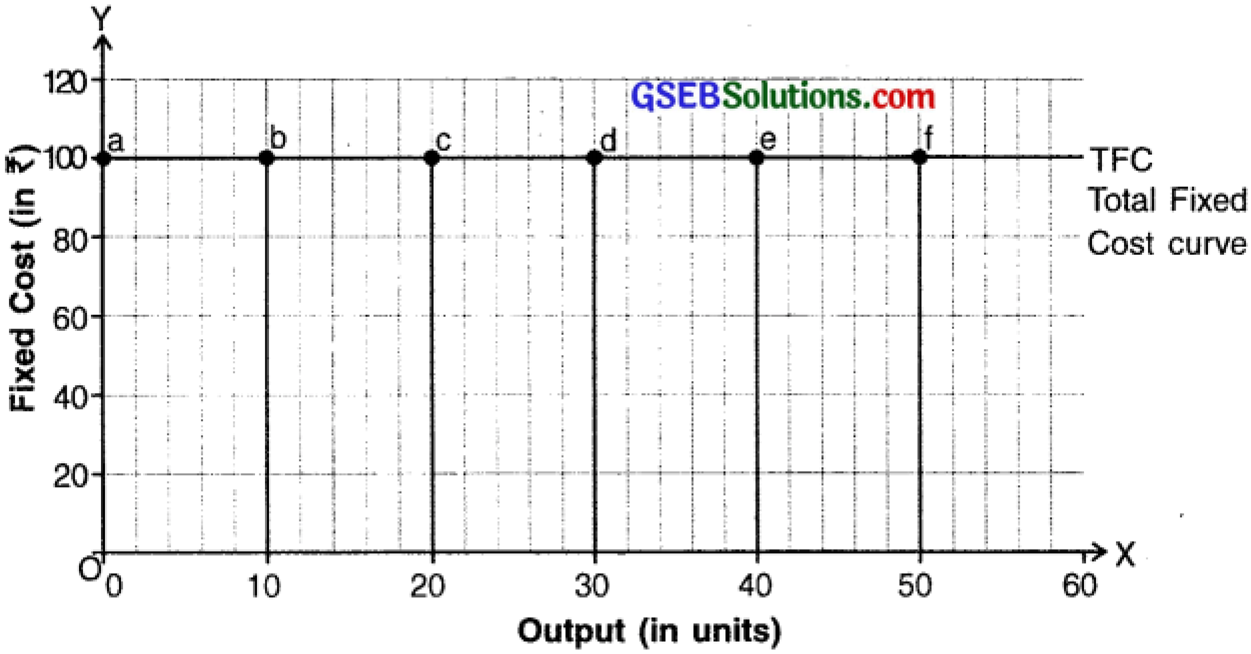


Diagram of total fixed cost
As can be seen in schedule, irrespective of the rise in production of pen i.e. 10, 20, 30, 40 or 50, the production cost remains the same or say fixed at '100. This cost is called fixed cost or total fixed cost (TFC). Note that even with the production is 0, the producer has to bear the fixed cost.

Graph and curve:
As shown in the diagram, the output is measured on X-axis and total fixed cost in ₹ on Y-axis. Since, the Total Fixed Cost (TFC) remains constant, the TFC curve is parallel to X-axis.

Question 2.
Give the meaning of variable cost and explain with the help of diagram.
Answer:
Variable cost (VC):

- In short term if the cost of production changes with the change in quantity of production it is called variable cost. The variable cost increases if cost of production increases and decreases if the cost of production decreases and also becomes zero if production is zero.
- Variable cost is also known as unstable or direct or main cost. This cost has direct (positive) relation with quantity of production and hence Prof. Marshall calls variable cost as a main cost.

- Price of raw material, energy consumption, transportation expenditure, labour wages, tax on product, sale tax, etc. are variable costs which are directly dependant on the quantity of production.
- The difference between fixed cost and variable cost is possible in short
  period of time only. In a long run (period) all costs are variable costs.

Example:

- As shown in the schedule, when production is 0, the total variable cost (TVC) is also 0.
- As production increases, variable costs also increase. Although up to 30 units variable cost increases at a diminishing rate. The reason for this is that it is affected by the law of 'increasing returns to scale'
- After 30 units, the law of 'decreasing return to scale' is applicable and so variable cost increases at increasing rate.

Units of output	Total Variable Cost (₹)
0	0
10	80
20	150
30	210
40	290
50	390

Graph and curve:

- As shown in diagram, output (in units) is measured on X-axis and total variable cost i.e. TVC (in ₹) is measured on Y-axis.
- As production increases from 10, 20, 30, the total variable cost also increases from 80, 150, 210 and so on. Hence, the total variable cost has positive slope from origin.
- In the beginning, variable cost increases at decreasing rate. Once it reaches the optimum level, the variable cost increases at increasing rate.

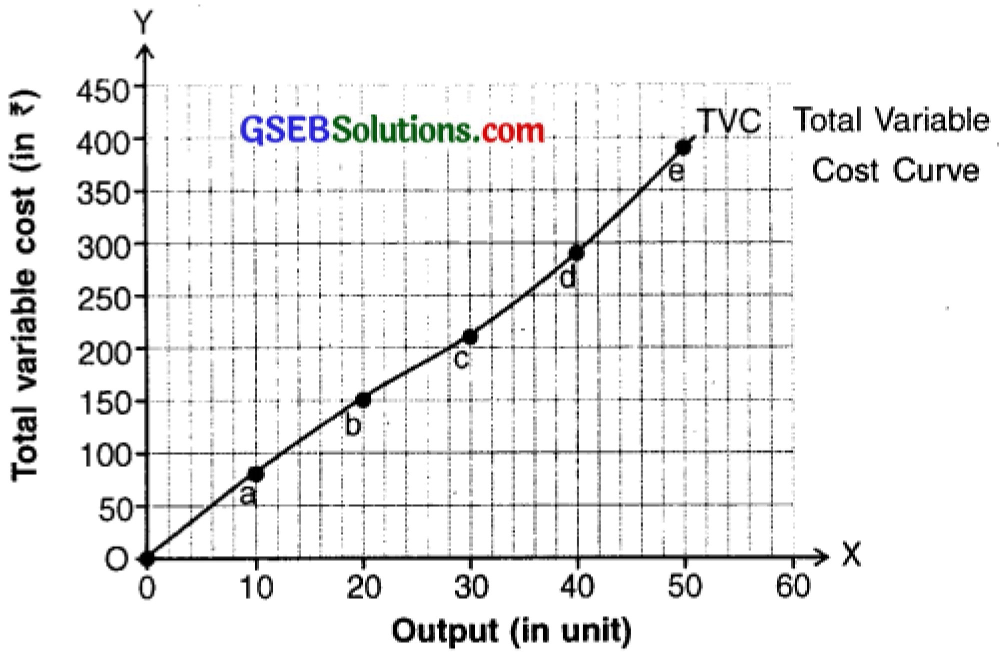


Diagram of total variable cost

Question 3.
State the limitations in measuring opportunity cost.
Answer:
Opportunity cost:

- The concept of opportunity cost was presented by Austrian economist but it was properly presented by Marshall. We know that the means of production have alternative uses i.e. more than one use. The concept of opportunity cost is based on the particular characteristic of factor of production which says that when a factor is used for a particular use, the other use is left out or the same cannot be used for other purpose. Under such circumstances, the best alternative which remains is the opportunity cost of production.
- If a factor of production is used in the production of one commodity which seems the best, the next best or say the second best alternative is left out.
- Assuming the best choice is made, opportunity cost is the 'cost' incurred by not enjoying the benefit that would have been had by taking the second best available choice

Example:
(a) If someone is producing wheat on one piece of land, then at the same time on the same piece of land other food grain (crop) cannot be produced.

(b) A worker working in textile mill cannot at the same time work in any other industry.

- Suppose if wheat is produced on a piece of land one can earn an income of ₹ 2 lakh can be earned and if rice is produced the income of ₹ 3.5 lakh can be earned.
- The farmer decides produce rice in which he earns more.
- So, to get the income of ₹ 3.5 lakh from the production of rice, farmer loses out income of ₹ 2 lakh from the production of wheat. This left out income of ₹ 2 lakh from the production of wheat is called the opportunity cost of ₹ 3.5 lakh earned from the production of rice.

Problems in measuring opportunity cost:
(I) Factors with one use:
If a factor of production has only one use then its opportunity cost cannot be decided.

Example:
(a) Suppose if a piece of land is used only to produce grass so far than we cannot calculate the opportunity cost of that land.
(b) The same applies for a person who is currently unemployed. Since the person does not have any work how can we calculate alternative cost?

(II) Factors having specific use:
If factors of production have only a specific use then the concept of opportunity cost is not useful. Returns of these factors are not decided by their alternative uses but on the basis of their demand.

Example:
(a) Persons having expertise over computers, scientist having knowledge of atomic power, etc. These people do not know any other work except their own.
(b) Machine for making ice can only produce ice i.e. it has no alternative use and so no opportunity cost is involved.

5. Answer the following questions in detail :

Question 1.
Explain different concepts of the cost of production.
Answer:

There are three important concepts regarding cost of production. They are:

1. Real cost
2. Opportunity cost and
3. Monetary cost.

1. Real cost:

- According to Marshall, the labourers, capitalists and entrepreneurs who are involved in the process of production bear psychological and physical burden. Such burden is called real cost.
- Money spent by producers for production work of goods is not the only cost of production. Mental factors such as fatigue, boredom tension, stress faced by the labourers, the anxiety faced by entrepreneur or investors who risk their saving and capital, insecurity of wrong decisions, etc. are also the factors included in the real cost.
- Owing to the monetary as well as various other factors, real cost cannot be actually measured in monetary terms. Hence, real cost is also called non-monetary cost.
- As per Marshall, the factors of production have to bear this real cost. So, to attract these factors return is given in the form of wage, interest and profit.

Problems in measuring real cost:

- As per the concept of real cost psychological factors such as fatigue, boredom, pain, sacrifice and anxiety are a part of production of goods. It is quite
  difficult to measure the real cost of goods which face these psychological factors during production.
- Moreover, other factors such as the smoke emitted by factories, the polluted water released in rivers, streams, etc. create adverse effect on health of the people of surrounding area. From the perspective of society this adverse effect is also a cost which cannot be measured.

2. Opportunity cost:

- The concept of opportunity cost was presented by Austrian economist but it was properly presented by Marshall. We know that the means of production have alternative uses i.e. more than one use. The concept of opportunity cost is based on the particular characteristic of factor of production which says that when a factor is used for a particular use, the other use is left out or the same cannot be used for other purpose. Under such circumstances, the best alternative which remains is the opportunity cost of production.

- If a factor of production is used in the production of one commodity which seems the best, the next best or say the second best alternative is left out.
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(a) Persons having expertise over computers, scientist having knowledge of atomic power, etc. These people do not know any other work except their own.
(b) Machine for making ice can only produce ice i.e. it has no alternative use and so no opportunity cost is involved.

3. Monetary cost:
Generally, the amount that the producer pays monetarily for the process of production is called its monetary cost. Thus, the cost of production in terms of money is known as monetary cost. Monetary cost includes wages, rent, raw material, fuel and the total of all the expenditure made by the producer.

Example:

- If a factory producing pens incur the cost of ₹ 50,000 to produce 1000 units of pen, the monetary cost to produce 1,000 units of pen is ₹ 50,000.
- Real cost and opportunity cost have many limitations which make their calculation very difficult. Hence, the concept of monetary cost is widely used in economic analysis, for decisions related to production and in price determination. Since cost of production is calculated in terms of money, the concept of monetary cost is important.

Question 2.
Explain with diagram the inter-relationship between average cost and marginal cost.
Answer:
Inter-relationship between Average Cost and Marginal Cost:

- The relationship between the average cost and the marginal cost is quite important for studying production cost.
- We know that cost per unit of output is called Average Cost (AC) and the cost increased to produce one extra unit of commodity is called the Marginal cost (MC).

A producer in long run decides to continue production if:
Price of a commodity is more than its Average Cost (AC).

On the other hand, in short run, the producer decides to continue production if:

- Price of commodity is more than Marginal Cost (MC).
- Thus, the Average Cost (AC) and the Marginal Cost (MC) play important role in taking a decision about production.

Example :
The table below shows Total cost, Average Cost and Marginal Cost of a firm for an output of a particular commodity.

Output (units)	Total cost (in ₹) [TC]	Average cost (in ₹) [TC/output]	Marginal cost (in ₹) $[Tc_n - Tc_{(n-1)}]$
1	20	20	–
2	35	17.5	15
3	45	15	10
4	60	15	15
5	85	17	25
6	115	19.2	30
7	150	21.5	35

- As shown in the schedule, as output increases, initially the Average Cost (AC) and the Marginal Cost (MC) both decrease upto 3rd unit produced because of the law of increasing returns to scale is applicable.
- At the 4th unit of output Average Cost and the Marginal Cost both become equal. Moreover, AC is minimum at 4th unit.
- After this point due to the decrease returns to scale law, both AC and MC increase.

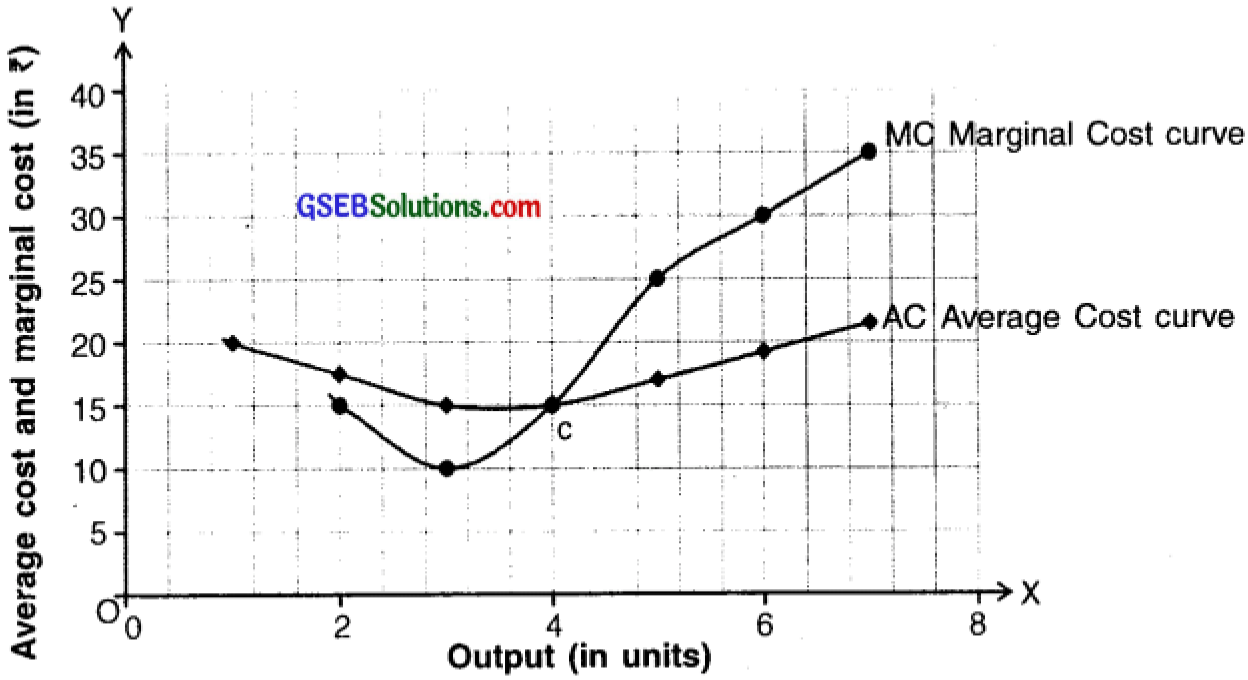


Diagram of relationship between average cost and marginal cost

Diagram: The output unit is shown on X-axis. Average Cost (AC) and Marginal Cost (MC) are shown on Y-axis and their curves are plotted.

Relation between AC and MC:
1. Marginal Cost < Average Cost (MC < AC):
Initially, as average cost decreases marginal cost also decreases but, marginal cost decreases more rapidly than the Average Cost. Hence, when marginal cost is decreasing its curve remains below the curve of average cost i.e. MC < AC.

2. Marginal Cost = Average Cost (MC = AC):
When Average Cost is minimum, the Marginal Cost curve intersects the Average Cost curve from below. At the point of intersection the Marginal Cost and Average Cost become equal i.e. MC = AC.

3. Marginal Cost > Average Cost (MC > AC):

- When Marginal Cost curve intersects the Average Cost curve, both the costs start increasing. After this point increase in Marginal Cost is rapid than the increase in Average Cost.
- Hence, Marginal Cost curve goes above Average Cost curve i.e. MC > AC.

Question 3.
Explain Average Revenue and Marginal Revenue with the help of

diagram in perfect competition market.
Answer:
Perfect competitive market:
1. Perfect market or perfect competitive market is defined by several characteristics.

Some are:

- Perfectly competitive market is such a market where firms accepts market price and sell their commodities
- Commodities are homogeneous (i.e. the qualities and characteristics of goods or services available in market do not vary between different suppliers)
- There are large number of buyers and sellers
- Buyers and sellers have complete knowledge of market situation
- Price is determined by demand and supply of a commodity. Firms sells commodity on this price only and no firm can influence this price. Hence, price is fixed and constant.

2. In perfect competition, market price (P) = Average Revenue (AR) = Marginal Revenue (MR) i.e. (P – AR = MR).

3. Under such market condition, if price of commodity is ₹ 50 then Average
Revenue and Marginal Revenue of firm will also be ₹ 50.

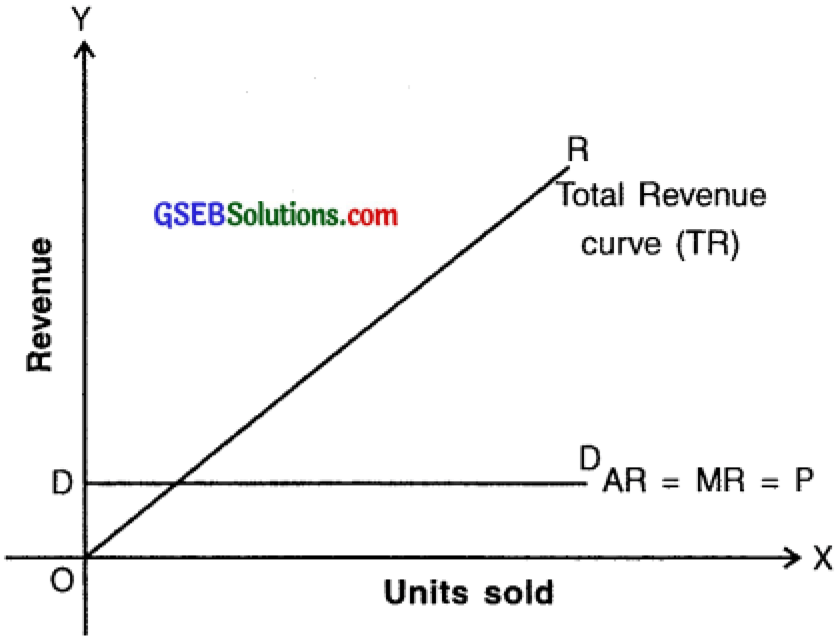
4. As a result, the curves of Average Revenue and Marginal Revenue of the firm are same and also parallel to X-axis. This curve is represented as DD in the diagram.

In the diagram, revenue curve of a firm is shown. We can see three 7 things in it. They are:

1. In perfectly competitive market, Marginal Revenue and Average revenue are constant and same. As a result, both of them can be shown through one line or say curve DD.
   All points on DD curve will show Average Revenue = Marginal Revenue.
2. Average Revenue and Marginal Revenue curve are parallel to X-axis as shown by DD curve. Here, Average Revenue and Marginal Revenue curve have merged into one another and

since value of both the revenues are same and constant the slope of curve is zero.

3. Total Revenue curve represented by points 'OR' is at 45° angle at zero point i.e. origin point. This curve indicates that as the sale of goods increases, total revenue also increases at equal rate. Hence, the slope of total revenue curve is positive and of equal proportion.



Revenue curve in perfectly competitive market

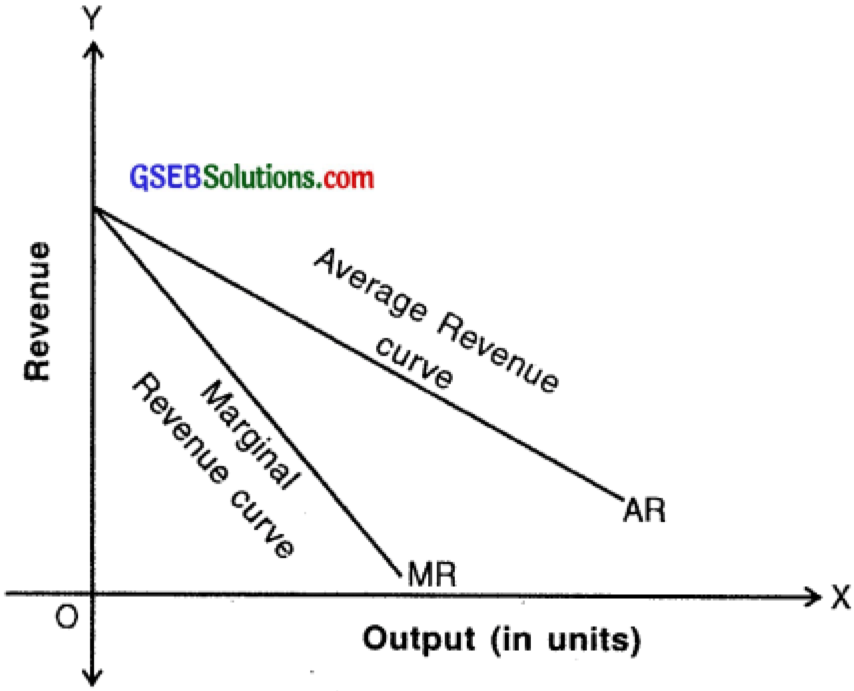
Question 4.
Explain Average Revenue and Marginal Revenue with the help of diagram in imperfect competition market.
Answer:
Imperfect competition:

- A situation where perfect competition is absent is called imperfect competition or imperfectly competitive market.
- Monopoly, duopoly, oligopoly, monopolistic competition, etc. are examples imperfectly competitive market.

Behaviour of AR and MR in such market:

- In such market, the seller has to reduce the price in order to sell more units.
- This means he tries to increase demand of his commodity by increasing its sale (by decreasing prices). So, his total revenue increases at a diminishing rate. This practice results in a difference between the Average Revenue (AR) and Marginal Revenue (MR).

- **As price decreases, the Average Revenue decreases and its curve slopes downwards from left to right. Due to reduced Average Revenue, Marginal Revenue also decreases. However, the decrease in Marginal Revenue is rapid in comparison to Average Revenue. Therefore, Marginal Revenue curve is below Average Revenue curve which can be seen in the diagram.**



Revenue curve under imperfect competition

❖ Chapter 6:Market

1. Choose correct option for the following from the options provided :

Question 1.
How many types of markets are there according to location?
(A) One
(B) Three
(C) Four
(D) Seven
Answer:
(C) Four

Question 2.
'Negligible Transportation Expense' is the characteristic of which market?

(A) Perfect competition
(B) Monopoly
(C) Monopolistic competition
(D) Oligopoly
Answer:
(A) Perfect competition

Question 3.
'Product Differentiation' is the characteristic of which market?
(A) Perfect competition
(B) Monopoly
(C) Monopolistic competition
(D) Oligopoly
Answer:
(C) Monopolistic competition

Question 4.
In which market 'Firm is an industry'?
(A) Perfect competition
(B) Monopoly
(C) Monopolistic competition
(D) Oligopoly
Answer:
(B) Monopoly

Question 5.
'Selling Cost' is an important characteristic of which market?
(A) Monopoly
(B) Bilateral monopoly
(C) Monopolistic competition
(D) Perfect competition
Answer:
(C) Monopolistic competition

Question 6.
Inter-dependence is seen in which market?
(A) Oligopoly
(B) Monopoly
(C) Monopolistic competition
(D) Perfect competition

Answer:
(A) Oligopoly

Question 7.
'Price Stickiness' is seen in which market?
(A) Perfect competition
(B) Oligopoly
(C) Monopolistic competition
(D) Monopoly
Answer:
(B) Oligopoly

Question 8.
Which market restricts the entry of firms?
(A) Simple competition
(B) Perfect competition
(C) Monopoly
(D) Monopolistic competition
Answer:
(C) Monopoly

Question 9.
'Identical products' is a characteristic of which market?
(A) Perfect competition
(B) Monopoly
(C) Monopolistic competition
(D) Intensive competition
Answer:
(A) Perfect competition

Question 10.
'Super Normal Profit' is a characteristic of which market?
(A) Monopolistic competition
(B) Oligopoly
(C) Monopoly
(D) Perfect competition
Answer:
(C) Monopoly

Question 11.
Kinked demand curve is possible in which market?

(A) Monopolistic competition
(B) Oligopoly
(C) Monopoly
(D) Perfect competition
Answer:
(B) Oligopoly

2. Answer the following questions in one sentence :

Question 1.
Define Market.
Answer:
The system through which the buyers and sellers come in contact with each other directly or indirectly for the sale or purchase of goods or services is called market.

Question 2.
What is regional market?
Answer:
A market where in selling of the products and services is limited to a region or a state is called regional market. Markets that exist in the various parts of the state fall under the category of regional market. Example: Kite market of Ahmedabad, a publisher selling his books only in Gujarat, Regional movies, etc.

Question 3.
What is national market?
Answer:
A market wherein selling of the products and services takes place throughout the country is called a national market. This market is spread across various states of nation. Example: Shoe company, Saree market, Hindi novels, national newspapers like The Times of India, etc.

Question 4.
What is Perfect Competition?
Answer:
Perfect competition market is considered as an ideal market. A market based on perfect competition is only a theoretical aspect. Such market does not exist in reality because the terms and conditions to be a perfect competition market are very stringent.

Question 5.
What is Monopoly?
Answer:
A market structure where in there is only one seller and numerous buyers is called monopoly.

Question 6.
What is Selling Cost?
Answer:
Expense incurred to sell a product is called the selling cost of that product. Selling cost includes expense incurred on packing, making the product attractive, sales tax, transportation, showroom expenses, money spent for selling, prizes, gifts, advertisement cost, etc.

Question 7.
Define: Product differentiation.
Answer:
Product differentiation refers to a concept of differentiating a product from another product in terms of form, quality and nature. For example, two different models of bike but built on same basic structure.

Question 8.
Define Oligopoly.
Answer:
"Oligopoly is the market in which the firm decides its policy, according to the behaviour of competitors."

Question 9.
What is price taker?
Answer:
In a perfectly competitive market, a firm cannot influence the market price by its own action and thus can sell any amount at a price given by the market. Such a firm is called a price taker firm.

Question 10.
Which market has restriction of entry of new firms?
Answer:
Monopoly market

3. Answer the following questions in short :

Question 1.
With respect to Perfect Competition, explain 'Transport Cost'.
Answer:
No transportation expense:

- There are numerous buyers and sellers in perfect competition.
- The expenses of transportation are so nominal as compared to the total expense that they are not counted.
- Thus zero transportation expense is an important characteristic of the perfect competition.

Question 2.
Explain, in a monopoly market firm and industry are the same.
Answer:
Firm is industry:

- A firm is an independent unit of production, whereas an industry is the collection of the firms producing same products.
- However in monopoly, the producer and the seller are same. So, the concept of collection of firms does not exist and single firm behaves as a whole industry.

Question 3.
What is Monopolistic Competition?
Answer:
Monopolistic competition:

- A market in which both monopoly and perfect competition co-exists partially is called monopolistic competition.
- In reality, market is neither perfectly competitive nor purely based on monopoly. A mixed form of both exists in the market. In reality, mainly monopolistic types of market are commonly found.

Various definitions:

1. According to Prof. Chamberlin "Perfect competition and perfect monopoly co-exist in a market, known as Monopolistic Market."
2. According to Mrs. Robinson: "If each firm establishes monopoly and also competes at the same time, the market is called Imperfect Competition."

Question 4.
Explain: Price Discrimination.
Answer:
Price-discrimination:

- The policy of a monopolist to charge different prices from customers of different categories/types in order to increase his demand is called price discrimination.
- Due to absence of competition, the seller can charge different prices on the same product, depending on its use or form.
- Thus, the seller adopts the concept of price discrimination and earns higher profit. For example, doctor, lawyer, etc. can charge different fees for similar problems

Question 5.
Explain meaning of inter-dependence.
Answer:
Interdependence:

- Under oligopoly the number of setters or producers is very few so they strive to gather information about other setters or producers. Setters compete on the basis of price or product, they decide price or variety based on the actions of their competitors. This is called interdependence In oligopoly market there are very few sellers and producers. So, the sellers or producers can easily gain important information about other sellers or producers.
- The sellers and producers then pay special attention on the quality and type of the product to compete with other similar products and attract consumers. For example, producers and sellers of television, car, etc. follow similar practices of discount, features, etc.
- The firms decide price, quality or type of its product, based on the behaviour of the competitors and so they are interdependent.

4. Answer the following questions in brief points :

Question 1.
Explain any three characteristics of Monopolistic Competition.
Answer:
Characteristics of monopolistic competition:
1. Large number of sellers and numerous buyers:

- There are numerous sellers in Perfect Competition. In monopoly there is only one seller, while in monopolistic competition there are many sellers. This means that there are neither numerous sellers, nor there is only one seller, but there are many sellers.
- There are numerous buyers in monopolistic market and so they cannot individually influence the market. Also they cannot affect the price of the product.

2. Product differentiation:

- Product differentiation is a distinct characteristic of monopolistic competition. Product differentiation refers to the concept of differentiating a product from another product in terms of form, quality and nature. For example, two different models of bike but built on same basic structure.
- A producer may produce a product with minor differences in terms of form, fragrance, taste, shape, weight and quality. These minor differences lead to availability of various products under product differentiation in monopolistic competition market.

3. Free entry and exit of firms:

- In a monopolistic competition it is easy for new firms to enter into an existing firm or to leave the industry.
- When there is normal profit in the market, the free entry and exit of the firm decreases and stops.
- The firms are generally not attracted by the normal profit and so the firms do not enter in such markets. Similarly, the existing firms in the market do not exit as they do not suffer losses.

Question 2.
Explain any three characteristics of Oligopoly.
Answer:
Characteristics of oligopoly:
1. Few sellers and numerous buyers:
Under oligopoly, the number of sellers and producers is less in the market.

- There exists about two to less than ten or twenty firms in the market.

- Owing to these circumstances, a few number of sellers have a monopoly control over the market.
- On the other hand, there are numerous buyers in such market. So, neither these buyers have much influence on the market price nor they are given much importance.

2. Similar or substitutable products:

- Firms sell identical or substitute products in oligopoly. This also means that when the firms in a market, produce and sell identical or substitute products, it is Oligopoly market. For example, products like salt, crude oil, tea, etc.
- When producers produce identical products there exists imperfect oligopoly in the market. For example, oligopoly exists for products like cold drinks, motorcycle, etc.

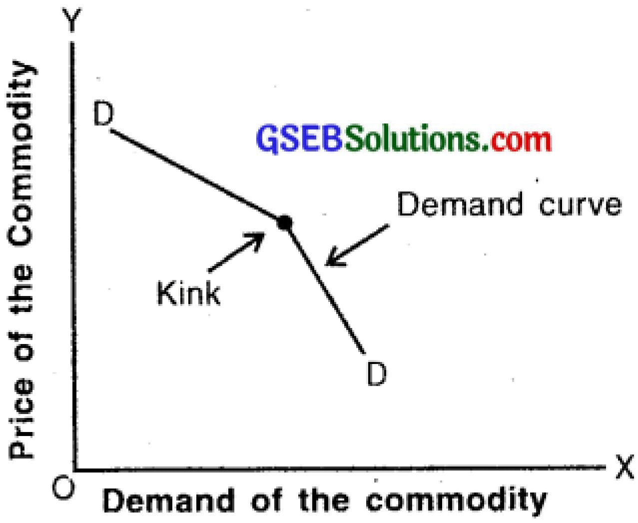
3. Admittance of firms:

- In the market of oligopoly, the entry and exit of firms is free or regulated according to the type of oligopoly followed.
- If there is free oligopoly in the market, the firms can freely enter or exit the market, whereas if the oligopoly is restricted, then the entry and exit of firms is regulated.

Question 3.
Explain: 'Price Stickiness'.
Answer:
Price stickiness (Kinked Demand Curve):

- There are a number of theories o Oligopoly. The Kinked-domand theory is one of them.
- Price stickiness is a situation where in the firm would tend to stick to the price of its product and not increase or decrease it even if he wish to.
- In oligopoly market, the number of firms is less and they are interdependent on each other.
- Even if onc of the firm decreases the price of a product, its product
- Even if on of the firm decreases the price of a product, its product will become cheaper than other products. So, according to the law of demand due to comparatively cheaper price of the product its demand will be more compared to the product of other firms. This will result in decroaseing the demand of the products sold by other firms.

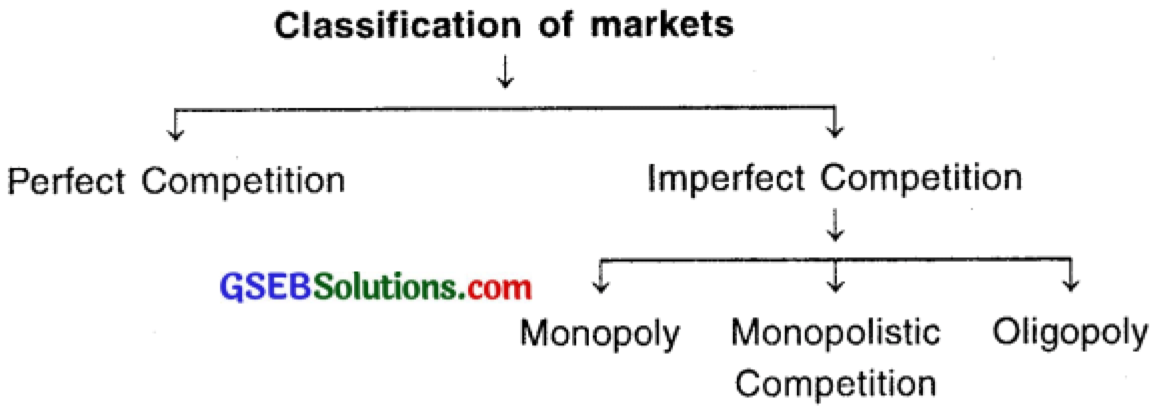
- In order to avoid such situation, the competitive firms will also have to decrease ihe price of their product in order to stay in the competition.
- At the end, the price of the product reaches at a nominal level and ¡t becomes impossible to reduce the price lurther.
- Sticky prices, therefore, are prices in an economy which are resistant to change.
- On the other hand, if the firm increases the price of the product then the demand of that product decreases, and the competitive firms are profited. Thus, as the nominal price is resistant to change, the demand curve hecomes kinked.



Kinked demand curve

Question 4.
Classify the market according to competition.
Answer:
Market classification on the basis on competition:

- Normally a market based on competition is classified on the basis of number of sellers and buyers. Here, the market of sellers is more important.
- Classification of market based on competition is shown in the chart below.



Question 5.
Give the difference between Perfect Competition and Monopoly.
Answer:

Perfect Competition	Monopoly
1. There are numerous buyers and sellers.	1. Buyers are numerous but selle or producer is only one.
2. There are several firms In the industry.	2. There is only one firm in the industry. So it is said firm is industry.
3. There is no barrier for entry or exit of firms.	3. Other firms cannot enter the market.
4. Buyers can affect the market price.	4. Buyers cannot affect the marke price.
5. The curves of Average Revenue (AR) and Marginal Revenue (MR) are one and the same and parallel to the X-axis.	5. The curves of Average Revenu (AR) and Marginal Revenue (MR) are different and have negative slope.

Question 6.
Give the difference between Monopoly and Monopolistic Competition.
Answer:

Monopoly	Monopolistic competition

1. There are numerous buyers and sellers.	1. There are numerous buyers an also many sellers.
2. Substitute goods are either not available or available rarely.	2. Substitute goods are available easily.
3. Other firms cannot enter the market.	3. Other firms can easily enter or exit the market.
4. The firm can control the price to a very large extent.	4. Firms cannot control the price much.

5. Answer the following questions in detail :

Question 1.
Explain: Market and its characteristics.
Answer:
Market:

- The system through which the buyers and sellers come in contact with each other directly or indirectly for the sale or purchase of goods or services is called market.
- According to Professor Samuel, "Market is the functional system where the buyers and sellers contact each other to decide the price and the quantity of goods or services."

Characteristics of a market:
1. Numerous sellers and buyers:

- For a market to exist, it is mandatory to have buyers and sellers of goods and services.
- The exchange of goods or services done by them with a specific purpose is called the process of purchase and sale. This process allows the sellers to gain maximum profit and the buyers to gain satisfaction from the product.

2. Goods and services:

- It is essential that market offers goods and services to fulfill the demand and necessity of the market.
- In market, the producers and sellers provide various types of products and services in order to attract the buyers towards them and maximize the profit. On the other hand, the buyers try to buy products and services that they feel are ideal for them.

3. Contact:
The buyers and sellers come in contact through various means. The contact can be either direct or indirect.

In modern times the buyers and sellers come in contact through the following ways:
(a) Tele-shopping:
In Tele-shopping, the buyers themselves order the services or products through a telephone. This means indirect contact takes place via. telephone.

(b) Online shopping:
In online shopping the buyers order the services or products which they select on websites via. internet. This means indirect contact takes place via. online shopping.

4. Price:

- The price of the product or service must be decided in the market at a given time. The price is decided according to the demand and the factors related to its supply.
- The price of products and services depends on the demand made by the buyers and the ability of the producers and sellers to supply them.

5. Information about the market situation:

- It is important that the buyers and sellers are well-informed about the current market situation.
- This helps to take proper decisions related to production, distribution and purchase during the times of recession, inflation, natural and man-made calamities.

Question 2.
Explain Classification of Market – According to location and quantity.
Answer:
1. Markets based on location:
Here, markets are. classified according to their geographical location.
(a) Local market:
A market where the products and services are produced and sold

at the same place is called a local market. Local market is limited to the respective city or village.

Example:
Market for clay utensils.

(b) Regional market:

- A market where in selling of the products and services is limited to a. region or a state is called regional market.
- Markets that exist in the various parts of the state fall under the category of regional market.

Example:
Kite market of Ahmedabad, a publisher selling his books only in Gujarat, Regional movies, etc.

(c) National market:
A market wherein selling of the products and services takes place throughout the country is called a national market. This market is spread across various states of nation.

Example:
The shoe company, Saree market, Hindi novels, national newspapers like The Times of India, etc.

(d) International market:

A market where in selling of the products and services takes place among several countries is called an international market or global market.

The sales and purchase in this market is generally referred to as 'Import- export'.

Example:
Market of mobiles phones, English novels, English movies, cars, etc.

2. Market based on quantity:
(a) Wholesale market:

- Market in which sales and purchase of goods\services is done on a large scale is called a wholesale market.
- The wholesale traders buy the goods in wholesale from the market and sell it to the retail traders. So, the retail traders become buyers while the wholesale traders, sellers.
- Wholesalers are an important link between the buyers and the producers.

Example:
Wholesale grain market, vegetable market, etc.

(b) Retail market:

- Market in which sales and purchase of goods\services takes place at a small scale is called a retail market.
- The retailers buy products\services from the wholesalers and sell them to the consumers. So, the retail traders are an important link between the wholesalers and the consumers.

Question 3.
Explain Characteristics of Perfect Competition.
Answer:
Characteristics of perfect competition:
1. Numerous buyers and sellers:

- A market with perfect competition has numerous a very large indefinite number of buyers and sellers.
- Of these numerous sellers, a single seller is a very small part of the market.
- So, neither he can control or monopolize the wholesale market, nor he can influence the market price.

Example:

- In a wheat farm, the increase or decrease in production of a single farm will not affect the total production of the wheat. This means the owner of the farm is a very small part of the huge market and so he cannot influence the market price.
- In such market, the buyers are also numerous. Hence, even they cannot . influence market price. Thus, in perfect competition market, the market ’ price depends only on the factors like demand and supply.

2. Identical products:

- Products that have similar features, form, shape, colour, taste, weight, quality, etc. are called identical products. Since these products have a lot of similarity they are called as identical or similar products. Identical products can be used as substitutes of each other.
- In perfect competition market, the producers or sellers cannot set different prices for identical products because the buyers are not ready to pay different prices for products having similar characteristics and quality.

3. Free entry and exit of firms:

- In this market, there is no restriction on the entry and exit of the firms. When the firms are gaining abnormal profits, new firms may freely enter the market. Similarly, when the firms are suffering from abnormal losses, they are free to exit the market.
- The free entry and exit of the firms is seen for a temporary time period. The firms get attracted by the profits and enter such markets for a very short period. As soon as they witness loss, they exit from the market.
- In case of a longer time period, if the market is such that it gives normal profits, there is less movement of firms. The reason for this is that when the industry reaches at a normal profit, new firms or sellers do not get attracted as the profits are not high. Similarly the firms also do not exit the markets because they are getting normal profit and are not suffering any losses.

4. Perfect knowledge of the market:

- In such market, the producers, buyers, sellers all have the complete knowledge of the market including product availability, product price, etc.
- The producers or sellers have the knowledge of the price at which the other producers or sellers are selling the product.
- They are also aware about the quality of the identical or substitute products.
- Thus in this market a seller cannot charge different prices for identical products.

- The buyers also know the price of the products and their quality. Hence, the seller cannot demand different prices from the buyers.
- Owing to all these reasons, the perfect competition market has perfectly elastic demand curve.

5. Mobility of factors of production:

- The four factors of production, namely land, capital, labour and entrepreneur are dynamic and mobile in both physical forms as well as in terms of profession and usage.
- The price (compensation) of the factors of production remains same.
- In order to prevent from shifting of compensation from low to high due to dynamic and mobile nature of the factors of production, the firms are uniformly compensated.

6. No transportation expense:

- There are numerous buyers and sellers in perfect competition.
- The expenses of transportation are so nominal as compared to the total expense that they are not counted.
- Thus zero transportation expense is an important characteristic of the perfect competition.

Question 4.
Explain Characteristics of Monopoly.
Answer:
Characteristics of monopoly:
1. Only one producer or seller and numerous buyers:

- In a monopoly, there is only one seller or producer of the product and , goods. He controls the entire supply of the product.
- Since there is only one seller, there is no competition in the market. As a result, the seller or the producer controls the price of the product.
- The producer or seller can decide the price of the product and is known as the 'Price Maker' of the market.
- When there are countless buyers in the market, the importance of a single buyer becomes negligible.
- Under such circumstances, customers compete with each other to buy the product. Since buyers have no choice but to

buy from the only seller, they cannot affect the price of the product.

2. Absence of substitute goods:

- In monopoly there are no close substitute goods available. However, the way there is imperfect monopoly and not perfect, close substitutes are present but buyers are ignorant about them.
- There may be a very rare possibility for similar product to be available in market. For example, if while buying a railway ticket from a specific company, for a specific time, to a specific location the ticket is unavailable then there is no possibility of having a similar or substitute ticket to the location. However, alternatively one can try by travelling through airplane on the same time to the same location.

3. Restriction over the entry of new firms:

- Monopoly means that there is only one firm in the market owing to several restrictions for new firms to enter. Some of these restrictions could be
  1. Government license
  2. Owning specific natural resource
  3. patents and copyrights
  4. Having specific specialized skills, etc.
- Monopoly can be ended but it is quite difficult and so the seller can sustain his monopoly for a longer duration.
- Due to absence of competition, the seller controls the price and gains super normal profits. In spite of the super normal profits earned in monopoly, other firms cannot easily enter the market due to reasons mentioned above.
- Thus monopoly restricts entry of newer firms with factors such as nature, laws, skills and experience.

4. Control over the price or sales:

- In order to gain maximum profits, the seller controls the supply of the products.
- On the other hand, the seller cannot control both the price and the sales of the products.
- In order to sell less products, the firm sets higher prices. At the same time, the firm must set lower price of product in order to sell them in large number.

- Moreover, it is not possible to sell a large number of units with high price.

5. Super normal profit:

- In a market, when a firm's average cost is less than it's average revenue, i.e. (AC < AR) it is a situation of supernormal profits.
- In a monopoly market, the producer and seller are the same.
- So, the seller can charge high price and earn super normal profits without any competition in both short and long time periods.

6. Price-discrimination:

- The policy of a monopolist to charge different prices from customers of different categories/types in order to increase his demand is called price discrimination.
- Due to absence of competition, the seller can charge different prices on the same product, depending on its use or form.
- Thus, the seller adopts the concept of price discrimination and earns higher profit. For example, doctor, lawyer, etc. can charge different fees for similar problems.

7. Firm is industry:

- A firm is an independent unit of production, whereas an industry is the collection of the firms producing same products.
- However in monopoly, the producer and the seller are same. So, the concept of collection of firms does not exist and single firm behaves as a whole industry.

Question 5.
Explain: Characteristics of Oligopoly.
Answer:
Characteristics of oligopoly:
1. Few sellers and numerous buyers:
Under oligopoly, the number of sellers and producers is less in the market.

- There exists about two to less than ten or twenty firms in the market.
- Owing to these circumstances, a few number of sellers have a monopoly control over the market.

- On the other hand, there are numerous buyers in such market. So, neither these buyers have much influence on the market price nor they are given much importance.

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- Firms sell identical or substitute products in oligopoly. This also means that when the firms in a market, produce and sell identical or substitute products, it is Oligopoly market. For example, products like salt, crude oil, tea, etc.
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3. Admittance of firms:

- In the market of oligopoly, the entry and exit of firms is free or regulated according to the type of oligopoly followed.
- If there is free oligopoly in the market, the firms can freely enter or exit the market, whereas if the oligopoly is restricted, then the entry and exit of firms is regulated.

4. Selling cost:

- Expense incurred to sell a product is called the selling cost of that product.
- Selling cost includes expense incurred on packing, making the product attractive, sales tax, transportation, showroom expenses, money spent for selling, prizes, gifts, advertisement cost, etc.
- There is extreme competition in oligopoly. So, the selling cost becomes an important factor of the market.
- The seller tries to attract the consumers by incurring various selling expenses.
- Selling cost creates product difference in the market which then gives a particular identity to a product.
- For example, companies manufacturing mobile phones, television, cars, soaps, etc. try to create unique identity through selling costs.

5. Interdependence:

- Under oligopoly the number of setters or producers is very few so they strive to gather information about other setters or producers. Setters compete on the basis of price or product, they decide price or variety based on the actions of their competitors. This is called interdependence In oligopoly market there are very few sellers and producers. So, the sellers or producers can easily gain important information about other sellers or producers.

- The sellers and producers then pay special attention on the quality and type of the product to compete with other similar products and attract consumers. For example, producers and sellers of television, car, etc. follow similar practices of discount, features, etc.
- The firms decide price, quality or type of its product, based on the behaviour of the competitors and so they are interdependent.

6. Price stickiness (Kinked Demand Curve):

- There are a number of theories o Oligopoly. The Kinked-domand theory is one of them.
- Price stickiness is a situation where in the firm would tend to stick to the price of its product and not increase or decrease it even if he wish to.
- In oligopoly market, the number of firms is less and they are interdependent on each other.
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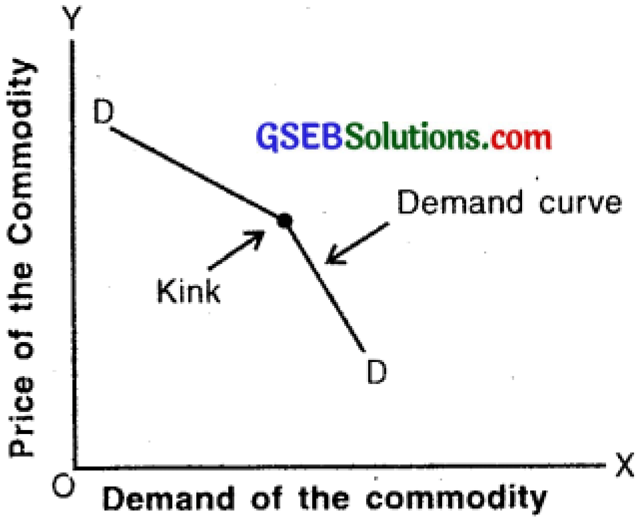

Kinked demand curve

❖ Chapter 7 Indian Economy

1. Choose correct option for the following from the options provided :

Question 1.
Railway was started in which year in India?
(A) 1847
(B) 1853
(C) 1901
(D) 1947
Answer:
(B) 1853

Question 2.
In which year the Reserve Bank of India (RBI) was set up?
(A) 1847
(B) 1857
(C) 1935
(D) 1947
Answer:
(C) 1935

Question 3.
According to Human Development Report of 2013, what was India's per capita Income?
(A) $ 5150
(B) $ 9250

(C) $ 43,049
(D) $ 52,308
Answer:
(A) $ 5150

Question 4.
In 2014-15 which sector contributed the maximum to national income?
(A) Agricultural
(B) Industrial
(C) Service
(D) Foreign trade
Answer:
(C) Service

Question 5.
Which type of unemployment is found in India?
(A) Cyclical
(B) Structural
(C) Absolute
(D) Relative
Answer:
(B) Structural

Question 6.
In 2011 what percentage of population got employment in agricultural sector?
(A) 48.9%
(B) 55%
(C) 72%
(D) 27%
Answer:
(A) 48.9%

Question 7.
Indian Railways stands at which rank in the largest railway networks of the world?
(A) First
(B) Second
(C) Third
(D) Fourth

Answer:
(D) Fourth

Question 8.
According to census of 2011, what was the percentage of literate people in India?
(A) 55%
(B) 62%
(C) 73%
(D) 88%
Answer:
(C) 73%

Question 9.
In 2011-12 what was the percentage of poor people in India?
(A) 80%
(B) 55%
(C) 37%
(D) 21.9%
Answer:
(D) 21.9%

Question 10.
Which of following is not a primary service?
(A) Education
(B) Transport
(C) Import-Export
(D) Irrigation
Answer:
(C) Import-Export

2. Answer the following questions in one sentence :

Question 1.
When was the public works department set up in India?
Answer:
In July 1854 by the British.

Question 2.
When was banking started in India?
Answer:
In 1770 A.D.

Question 3.
Which civilization originated in Ancient India?
Answer:
Indus Valley Civilization which is also known as Hara'ppan civilization.

Question 4.
How much was the employment in agriculture in the year 2011-12.
Answer:
48.9%

Question 5.
Who prepares the Human Development Report?
Answer:
The Human Development Report office of the United Nations Development Programme (UNDP) prepares the Human Development Report.

3. Answer the following questions in short :

Question 1.
What is meant by 'Home Charges'?
Answer:
Payment burden:

- Over and above the huge salaries that the British used to draw from income earned from India, they were also paid a large sum as 'home charges' to the British personnel in India.
- The home charges included expenses of the British administration, maintenance of the British Army, war expenses, pensions to retired British officers and other expenses made by Britain for maintaining her colonies.
- These home charges were made of three components, They are:
  1. Interest payments for debts incurred in maintaining Indian colony,
  2. Interest on the railways and
  3. Civil and military charges.

Question 2.
'India is predominantly an agricultural nation', Explain this statement.
Answer:

- Since ancient time agriculture in India was quite prosperous. India used to and till date grow variety of crops.
- Indian villages produce several items of basic necessities like grains, vegetables, fruits, clothes, shoes, etc.
- Villagers also involve in cattle rearing and dairy farming.
- Although the share of agricultural sector in employment has gradually declined but still it is relatively higher.
- As per Human Development Report, during independence about 72% of the population was dependent on agriculture. This declined to 58% in 2001-02.
- As per the latest data of 2013-14, even today about 49% of our population is dependent on agriculture.
- Hence, we can say that India is predominantly an agricultural nation.

Question 3.
State the export items in ancient India.
Answer:
Exports items of India are -spices, wheat, sugar, indigo, opium, sesame oil, cotton, parrot, live animals and animal products such as hides, skin, furs, horns, tortoise shells, pearls, sapphires, quartz, crystal, lapis, lazuli, granites, turquoise and copper etc.

4. Answer the following questions in brief points :

Question 1.
Write a short note on Ancient India.
Answer:

- Indian civilization has emerged from the influence of Aryans and Indus Valley Civilization.
- Indus Valley Civilization is also called the Harappan Civilization and it influenced the ancient India.
- The remains of this civilization were first found at 'Harappa' and 'Mohen-jo- Daro'. In Gujarat we can find its remains at Lothal and Dholavira.
- From this civilization one can obtain evidences of the beautiful organization, prosperity, wonderful urban planning and development that existed in India.
- India was quite famous for cloth, muslin, jute, indigo, etc. that it produced. With the arrival of the British, India learnt tea plantation too. Today, India is one of the biggest tea producer and exporter.

- Thus, before the British rule, India was quite rich in agriculture, industry and civilization.

Question 2.
Write a short note on Progress of Railways in India.
Answer:
Railway:

- The British established the railway infrastructure in India.
- The first rail ran in India between Boribandar (presently, CST in Mumbai) and Thane on 16th of April, 1853.
- By 1947 i.e. when India became independent, India's rail network spread to 53,000 km. and served 68 lakh people.

Question 3.
Explain the tax policy of British Rule in India.
Answer:
High rates of taxes:
As per a calculation made by Dadabhai Naoroji, in 1876, the rich contributed only about 8% of the national income as taxes while the poor Indians contributed 15% of the national income as taxes.

High rates of excise and customs:

- The British collected high excise on match sticks, sugar, steel, silver and all such commodities.
- Though salt was easily available and produced in India, the British termed its production illegal. Then they monopolized salt trade, imported salt to India by charging high custom duties and made it an expensive commodity for poor Indians.
- To suppress the Indian cotton industry, the British levied high custom duty of upto 15% on cotton cloth exported from India. On the other hand, the British imported the cotton cloth from Manchester (England) at a much lower import duty of only about 2.5%.
- The British used to buy and export cotton from India at cheap rates to England and after manufacturing clothes from same cotton used to import and sell those clothes in India and earn huge profits.
- Thus, India's raw materials were exported so that British industry could thrive at the cost of Indian industry.

Question 4.
Describe the basic utilities of India.
Answer:
Improvement in basic (primary) utilities:
Indian has shown significant improvement in providing various utilities in the urban as well as in the rural areas. These are discussed below.
(a) Irrigation:
In 1950-51, only 22.6 million (m) hectare of land across India used to get irrigation facility. This increased to 63 m hectares i.e. 45% of total agricultural land by 2012-13.

(b) Literacy:
In 1950s there were 20 universities and 500 colleges. This increased to 719 universities and 35,000 colleges by 2013-14. This indicates that higher education increased considerably in India.
In 1951, India's literacy rate was 18.33%. This increased to 73% in 2011 (Source: Economic Survey, 2013-14).

(c) Electricity:
In 1950-51, India used to generate around 2300 MW electricity. This increased to 2,43,000 MW in 2011-12.

(d) Road network:
Today, India falls among the list of countries with longest road network. -» India has approximately 48.6 lakh km. of concrete roads today.

(e) Railway:
Today, Indian railway network is the fourth largest in the world with a length of 65,000 km.

Question 5.
Write short note on : Share of various sectors in National Income.
Answer:
Changing share of various sectors in national income and employment:

- A less develop nation's major income comes from agriculture. As a nation develops the contribution of various sectors in national income and employment changes.

- Under such condition, the contribution of industrial and service sectors in employment and hence national income increases compared to agricultural sector.
- People's dependency on agriculture reduces. Growth in industrial sector improves technology and increases capital. This generates more employment in the industrial sector and service sector rather than agriculture.

Share of various sectors in National Income (NI)

	1950-51	1990-91	2000-01	2014-15
Agriculture and allied activities	53.1	29.6	22.3	17.6
Industries	16.6	27.7	27.3	29.7
Services (excluding construction)	30.3	42.7	50.4	52.7

Source: Economic Survey (2014-15)

From the data we can conclude that post-independence, the share of agriculture in the National Income (NI) has decreased over the years and that of industrial and service sectors has increased.

5. Answer the following questions in detail :

Question 1.
Explain the characteristics of India as a developing country.
Answer:
Characteristics of India as a developing economy:
Although India's progress has been slow it cannot be considered as a less developed country.
Indian economy shows several characteristics of a progressing economy. Some of them are discussed below:'
1. Growth rate:

- The .growth rate of the economy, especially after the LPG i.e. the policy of Liberalization, Privatization and Globalization in 1991, has increased.
- During the period between 1950-51 and 1990-91 the average annual growth rate was around 3.5%. But, after the economic reforms of 1991 through the LPG, the average annual growth rate has remained above 6.8% which is an important achievement.
- After 2012-13, the growth rate had slowed down. In 2014-15, the average annual growth rate was less than 5%.

- In 1950-51 the Net National Product at factor cost i.e. (NNPFC) at constant /rice level was ₹ 2,69,724 crores. It increased to ₹ 87,51,834 crores in the year 2013-14. Thus, in a period of 63 years, the NNP has grown by 18 times.

2. Changing share of various sectors in national income and employment:

- A less develop nation's major income comes from agriculture. As a nation develops the contribution of various sectors in national income and employment changes.
- Under such condition, the contribution of industrial and service sectors in employment and hence national income increases compared to agricultural sector.
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From the data we can conclude that post-independence, the share of agriculture in the National Income (NI) has decreased over the years and that of industrial and service sectors has increased.

3. Per capita income:

- In 1950-51, the per capita income of India (PCI) at constant prices was ₹ 7,114. It increased to ₹ 69,959 in 2013-14.
- Thus, in a period of 63 years PCI increased by approximately 5.6 times.
- Between 1950-51 and 1990-91 PCI increased by about 1.6 percent while after 1991 it increased by 5.5%.

4. Level of employment:
In India, employment is studied in three sectors. They are:
(a) Primary sector:

This sector includes agriculture and allied activities, dairy farming and animal husbandry.

(b) Industrial sector:
All activities that consist of production such as manufacturing, construction, mining, quarrying, etc. are included in service sector.

(c) Service sector:
Service sector includes all activities related to trade, banking, transport, information and broadcasting, health, education, etc.

Share of various sectors in employment

	1951	1991	2001	2011-12
Primary/Agricultural sector	72.1	66.9	56.7	48.9
Secondary/Industrial sector	10.6	12.7	18.1	24.2
Tertiary/Service sector	17.3	20.4	25.2	26.9

Source: Economic Survey (2014-15) Volume-II.

From the table it can be seen that primary sector provided highest employment among all the sectors in 1950-51. This reduced drastically by 2011-12 with the increased contribution of industries and service sector. Thus, it can be seen that from the years 1951 to 2011-12, the employment largely shifted from primary sector to industrial and service sectors.

5. Improvement in basic (primary) utilities:
Indian has shown significant improvement in providing various utilities in the urban as well as in the rural areas. These are discussed below.
(a) Irrigation:
In 1950-51, only 22.6 million (m) hectare of land across India used to get irrigation facility. This increased to 63 m hectares i.e. 45% of total agricultural land by 2012-13.

(b) Literacy:
In 1950s there were 20 universities and 500 colleges. This increased to 719 universities and 35,000 colleges by 2013-14. This indicates that higher education increased considerably in India.

In 1951, India's literacy rate was 18.33%. This increased to 73% in 2011 (Source: Economic Survey, 2013-14).

(c) Electricity:
In 1950-51, India used to generate around 2300 MW electricity. This increased to 2,43,000 MW in 2011-12.

(d) Road network:
Today, India falls among the list of countries with longest road network. -» India has approximately 48.6 lakh km. of concrete roads today.

(e) Railway:
Today, Indian railway network is the fourth largest in the world with a length of 65,000 km.

Conclusion:

- Overall, India is progressing fast and is emerging as a country having strong economy.
- On the brighter side, India's per capita consumption of essential commodities and average life expectancy has increased, we are progressing in areas of science, research and technology development and so on.

As per the International Comparison Programme (ICP) initiated by the World Bank, in 2011 India was identified as the third largest country after USA and China. In 2005 India was at the 10tfl position

Question 2.
Specify the state of Industries of ancient India.
Answer:
Agriculture:

- Agriculture in India was quite prosperous. India used to grow variety of crops.
- Indian villages were self-reliant and basic necessities like grains, vegetables, fruits, clothes, shoes, etc. were produced in the villages itself.

- Villagers" also used to practice cattle rearing and dairy farming.
- Thus, village life was happy and economy was prosperous.

Industries:

- As per historian Rai Chaudhary, before 19th century, India was an important manufacturing centre for some items.
- India was famous for its cotton, jute, muslin, wool, idols, indigo, terracotta, earthenware, etc. Some of these goods were even exported.

Question 3.
Explain the state of the Indian economy before Independence.
Answer:
During the British rule, India's economy got ruined and people became poor. There were several negative and some positive aspects of British Rule in India. They are discussed below.

(A) Positive aspects:
1. Railway:

- The British established the railway infrastructure in India.
- The first rail ran in India between Boribandar (presently, CST in Mumbai) and Thane on 16th of April, 1853.
- By 1947 i.e. when India became independent, India's rail network spread to 53,000 km. and served 68 lakh people.

2. Roadways:
The British created a good network of roadways in India.

- -> They set-up Public Works Department (PWD). PWD used to raise several important and basic utilities needed by a city or town.
  -> By the end of 19th century, Indians roads were spread to 2,78,420 km. This increased to 4,47,105 by 1943. 32% of these roads were concrete ('pakka') roads and 68% were 'kachcha' roads.

3. Banks:

- In India, private banks started in 1770 A.D. By 1946 A.D. there were more than 700 banks in India.
- The Reserve Bank of India (RBI) which is the apex bank today was set up in 1935.

4. Social structure:
Certain wrong social practices that existed in India such as prevention of female infanticide, sati pratha, etc. were abolished during the British rule.

(B) Negative aspects:
1. Agriculture:

- **Agriculture in Indian suffered from low revenues, 'Zamindari' (landlordship) system and cruel acts of the British.**
- **The poor farmers were exploited in several ways and they became poorer.**
- **For example, when industrial revolution began in Britain, the British needed indigo for their textile industries. So, they forced Indian farmers grow more indigo. However if farmers took a loan to grow indigo and incurred loss, the British government neither helped them nor waived off their loans. This way the farmers started getting suppressed under the burden of debts.**

2. Land revenue:

- **The East India Company got the right to collect land revenue from Indian kings. With this they also got the right to collect land revenue from farmers who owned lands.**
- **Later, the British started collecting land revenues from the farmers via. the Zamindars. The British punished the farmers who failed to give revenues by confiscating their land, charging fines and so on. Land revenues were as high as half of the produce of farmers. All these ruined the agricultural economy of India and made it poorer.**

3. High rates of taxes:
As per a calculation made by Dadabhai Naoroji, in 1876, the rich contributed only about 8% of the national income as taxes while the poor Indians contributed 15% of the national income as taxes.

4. High rates of excise and customs:

- **The British collected high excise on match sticks, sugar, steel, silver and all such commodities.**
- **Though salt was easily available and produced in India, the British termed its production illegal. Then they monopolized**

salt trade, imported salt to India by charging high custom duties and made it an expensive commodity for poor Indians.

- To suppress the Indian cotton industry, the British levied high custom duty of upto 15% on cotton cloth exported from India. On the other hand, the British imported the cotton cloth from Manchester (England) at a much lower import duty of only about 2.5%.
- The British used to buy and export cotton from India at cheap rates to England and after manufacturing clothes from same cotton used to import and sell those clothes in India and earn huge profits.
- Thus, India's raw materials were exported so that British industry could thrive at the cost of Indian industry.

5. Industrial policy:

- The period from 1750 to 1830 was the period of Industrial Revolution in the west.
- Also, during this period the East India Company started establishing its rule in India. By 1858 it established its rule completely.
- Due to unjust policies of the British Government, the Indian investors had lost their confidence.
- Due to these reasons, the Indian industries did not develop much. Our industries produced only few light and consumer goods. We did not have heavy and basic industries that could produce machines, engineering equipment, heavy chemicals and other such key products.

6. Economic exploitation:

The British adopted policies to ruin India's economy and fill its own pockets and industries. As a result, Indian resources and agriculture were ruined under the heavy burden of taxes and revenues and cruel and unjust policies.

7. Exploitation of artisans:

- The East India Company used to buy goods from Indian artisans at 15% to 40% lower prices and sold them in the world at higher prices. This way they exploited Indian artisans and made high profits.
- Moreover, after the British Government rule was set-up, the British started selling goods manufactured in England at quite

cheap rates in India. This ruined the small scale industries oHndia.

8. Investment pattern:

- The British invested only in those sectors of India which benefited Britain. For example, they created railways and roadways to move their raw materials and goods for their industry.
- They invested in education to educate Indians so that such educated Indians could run the British administration. On the other hand, they did not allow Indians to obtain education in science and technical fields to restrict India's growth.
- They needed civil engineers for public works departments in India and in Britain and doctors for their treatment in India. So, they started colleges for medicine and civil engineering in India for their own benefit.
- Thus, the investment pattern of the British was very selfish and they invested only in selected areas that could benefit them.

9. Payment burden:

- Over and above the huge salaries that the British used to draw from income earned from India, they were also paid a large sum as 'home charges' to the British personnel in India.
- The home charges included expenses of the British administration, maintenance of the British Army, war expenses, pensions to retired British officers and other expenses made by Britain for maintaining her colonies.
- These home charges were made of three components, They are:
  1. Interest payments for debts incurred in maintaining Indian colony,
  2. Interest on the railways and
  3. Civil and military charges.

Conclusion:

The British ruined the healthy and prosperous Indian agriculture and economy -and made India a very poor country. It came to India for trade but strictly did only those activities which benefitted only the British.

Question 4.
Explain the state of Indian economy after Independence.
Answer:
Indian economy after independence:

- After the British rule, India was ruined economically. Post-independence there were several major economic challenges before India.
- Today, India exhibits characteristics of a developing country with some areas having lesser development and some showing much development.
- Overall, in current times, India can be termed as a mixture of less developed as well as a developing country.

India's post-independence economy is discussed below:
1. Per capita income:

- According to Human Development Report, the per capita income of India in 2013 at purchasing power parity was $ 5,150.
- This was not only lower than that of developed countries but also lower than many developing countries like China with per capita income of $11,477 and Sri Lanka with per capita income of $9,250.

2. Agriculture:

- India has always been an agrarian country. Although the share of agricultural sector in employment has gradually declined but still it is relatively higher.
- India's higher agriculture development and lesser development of industries and service sector have resulted in lower economic development.
- Developed nations have lesser percentage employment in agriculture and higher in the industrial and service sectors.
- As per Human Development Report, during independence about 72% of the population was dependent on agriculture. This declined to 58% in 2001-02 and to 49% in 2013-14.

3. Industries:
Post-independence India developed well in industrial sector. The contribution of industrial sector in employment and national income has increased over time.

Contribution in employment:
In 1950-51, the share of industries in employment was 10.6%. This increased to 18.2% in 2001 and further to 24.3% in 2011-12.

Contribution in national income:

- **In 1950-51, the share of industries in national income was 16.6%. This increased to 26% in 2013-14 (Source: CSO i.e. Central Statistical Organization).**
- **Today, 2/3rd of the export earnings are earned from the industrial sector.**
- **Although the industrial sector is progressing, India cannot be called a completely industrialized nation.**

4. Service sector:
Contribution in employment:
In 1951, the share of service sector in employment was 17.3%. This increased to 25.2% in 2001 and further to 27% in 2011-12.

Contribution in national income:

- **In 1951, the share of service sector in national income was 30.3%. This increased "to 38% in 1980-81, 50.4% in 2000-'01 and further to 52.7% in 2014-15.**
- **From such a rapid increasing share of service sector we can say that India is moving fast on the path of growth and development.**

5. Population growth:

- **The growth rate of population in India is one of the reasons for its lesser development.**
- **After independence, population in India has grown annually by 1.5% which means there is population explosion in India.**
- **In 1901, the population of India was 23.84 crores. It increased to 36.1 crores in 1951, 102.7 crores in 2001 and further to 121.02 crores in 2011, Such high growth rate of population has always remained a matter of concern for Indian development.**

6. Poverty:

- **One of the main characteristics of Indian economy is a very high level of absolute poverty.**

- Though percentage of population living below poverty line has declined , over years it is still quite high.
- In 1973-74, about 54.9% of population lived below poverty line. It then declined to 45.3% in 1993-94, to 37.2% in 2004-05 and further to 21.9% in 2011-12.

7. Unemployment:

- India has been a facing a severe problem of structural unemployment.
- Structural unemployment refers to a form of unemployment caused by a mismatch between the skills that workers in the economy have, and the skills, demanded by employers.
- In 1951, 33 lakh people were unemployed.
- In 1999-2000, 7.31% of the total population was unemployed. This increased to 8.2% in 2004-05 (Source: NSSO-National Sample Survey Organization).
- The good side is that the unemployment decreased to 6.6% in 2009-10 and further to 5.6 in 2011-12.
- The proportion of disguised unemployment is higher in rural areas. Disguised unemployment cannot be exactly measured.

8. Human development:

- Average life expectancy, literacy, gender ratio, infant mortality rate, etc. are various indices that measure the human development. On studying these indices one can see that India- stands at lower rank in human development. ‘
- One such index is the Human Development Index (HDI). India’s HDI in 2000 was 0.463, in 2010 was 0.547, in 2012 was 0.554 and in 2013 was 0.586. These measures on the HDI are very low.
- In 2013 India’s rank was the 136 in a list of 187 countries, which confirms that India’s HDI is very low.

❖Chapter 8 :Economic Reforms

1. Choose the correct option for the following from the options provided :

Question 1.
From which year the economic reforms of LPG were introduced in India?
(A) 1947

(B) 1951
(C) 1991
(D) 1980
Answer:
(C) 1991

Question 2.
From which year was FEMA introduced in India?
(A) 1973
(B) 1980
(C) 1991
(D) 1999
Answer:
(D) 1999

Question 3.
In the recent times which of the following area is reserved for exclusive investment by the public sector?
(A) Fertilizer
(B) Television
(C) Automobile
(D) Railway
Answer:
(D) Railway

Question 4.
What is the policy of producing the goods domestically which are similar to imports called?
(A) Privatization
(B) Liberalization
(C) Import substitution
(D) Globalization
Answer:
(C) Import substitution

Question 5.
What is the investment made by foreign companies in our country called?
(A) FERA

(B) FEMA
(C) FDI
(D) NRI
Answer:
(C) FDI

2. Answer the following questions in one sentence :

Question 1.
Give the full form of FERA.
Answer:
Foreign Exchange Regulatory Act

Question 2.
Give the full form of FEMA.
Answer:
Foreign Exchange Management Act, 1999

Question 3.
Give the full form of FDI.
Answer:
Foreign Direct Investment (FDI)

Question 4.
Give the meaning of liberalization.
Answer:
Liberalization refers to 'Increasing the role of private sector and market oriented processes in economic planning in place of state regulated economic processes in India's mixed economic system'.

Question 5.
Give the meaning of globalization.
Answer:
The process of increasing a country's economic integration with the rest of the world by increasing trade in goods and services, increasing movement of physical and financial capital, increasing exchange of technology and increasing investments between the countries is called globalization.

Question 6.
Give the full form of FII.
Answer:
Foreign Institutional Investor (FII)

3. Answer the following questions in short :

Question 1.
Give the meaning of and components of economic reforms.
Answer:
Economic reforms:
Economic reforms refer to The changes brought about in economic policies since 1991 in order to change the economic system of India from one which / was highly regulated by the state to one which is more market oriented. At the same time also reduce the extent of public sector in the mixed economic system.'

Components of economic reforms:
The economic reforms focused on three main components. They are:

1. Liberalization,
2. Privatization and
3. Globalization.

Question 2.
Give the full form of MRTP and state the reasons behind the formulation of this act.
Answer:

- MRTP Act means Monopolies and Restrictive Trade Practices Act, 1969.
- This act was framed to prevent enterprises from growing in large scale and establish monopolies.
- Later, MRTP Act was replaced by Competition Act, 2002 which aimed at reducing unhealthy competition among enterprises arising due to MRTP act.

Question 3.
Give the meaning and types of disinvestment.
Answer:
Disinvestment:

- The process wherein the state either reduces its share of investment in a public enterprise or withdraws its investment completely by selling its shares to the private sector is called disinvestment.
- In other words, the process by which the state 'disinvests' from public enterprises is called disinvestment.

Types:
(A) Partial disinvestment and
(B) Complete disinvestment.

Question 4.
Explain the reasons which compelled India to adopt reforms in 1991.
Answer:

- After independence, India adopted a mixed economic system with focus on socialist pattern of planning.
- By 1980s, many experts felt that the planning strategies adopted between 1947 and 1990 failed to attain the goals of economic growth and development.
- They believed the main reason for the failure was that the states imposed several unnecessary regulations on economic activities which then restricted people from doing economic activities. This raised a need for bringing reforms in the economy to improve it.
- Moreover, in the early 90s the international monetary organizations that were controlled by the developed nations of the world imposed a condition on India for providing monetary assistance.
- As per the condition, until India reduces its excessive and unnecessary / controls on economic activities, it should not be provided any financial assistance.
- India's imports were quite high compared to its exports. This caused a severe deficit in India's 'balance of trade' and India had to borrow a lot of foreign exchange from international institutions.
- Under all these circumstances India had no choice but to bring reforms and transform the nation. Hence, India was compelled to bring economic reforms.

Question 5.
Give a short explanation about Foreign Institutional Investment.
Answer:
Those foreign companies that invest in financial institutions and bond/ stock/share markets of another country are called Foreign Institutional Investors (FII). Such an investment is also called portfolio investment.

- **Fils are the big companies such as investment banks, mutual fund houses, etc. who invest considerable amount of money in the Indian markets.**
- **Such companies have to register in India as Foreign Institutional Investors. Then they buy such stocks from the bond/share market of India.**
- **Thus, instead of investing in plant and machinery in another country like India these companies invest in the financial market.**

4. Answer the following questions in brief points :
Question 1.
Give the meaning and important aspects of the process of globalization.
Answer:
Globalization:

- **The process of increasing a country's economic integration with the rest of the world by increasing trade in goods and services, increasing movement of physical and financial capital, increasing exchange of technology and increasing investments between the countries is called globalization.**
- **The process of globalization can be done by gradually decreasing the policy controls that restricts and slows foreign trade.**

Process of globalization in India:

- **In 1991, International Monetary Fund (IMF) declared a list of several nations who had taken enormous loans from IMF. The IMF forced those countries to globalize and upgrade the technologies and hence grow their nations. Until the countries did this, the IMF would not give any further loans.**
- **India was one of those countries. Hence, India had to relax its policies of providing undue protection to domestic industries**

from foreign competition. Thus began the process of globalization in India and India allowed its people ; to conduct more trade with other nations.

Question 2.
Give the meaning and nature of Foreign Direct Investment.
Answer:
Foreign Direct Investment (FDI):

- When the home country invites capital from foreign countries by allowing * foreign investors/companies to produce and sell directly in India than such an investment is called foreign direct investment (FDI).
- In FDI, foreign companies directly set up their business in India by constructing their plants, bringing in technology and producing or by collaborating with Indian companies for the same.
- These companies either manage the entire business or have a partial control in management in case if they are collaborating partners.
- For example, Vodafone fully owns its business in India. Similarly, in Tata-AIG insurance company, AIG which is a foreign company has collaborated with Tata in India.
- India has systematically allowed FDI in increased proportion in various sectors and hence India's foreign exchange earnings have increased.

Nature of Foreign Direct Investment:

- It is a physical establishment in the form of direct investment and hence a stable form of investment.
- It brings machines, materials and wealth to the home country.
- It brings new technology to the country.
- It brings a different work culture.

Question 3.
State the challenges before the foreign trade policy of India.
Answer:
India faces significant challenges in the area of trade policy—the global economic slowdown, increasing protectionism, the stalled mega-trade deals that could in time be revived, and perhaps more important, its own domestic pre- occupations.

Question 4.
Explain the foreign trade policy after globalization.
Answer:
India's foreign trade policy after globalization (1991) :

- **Though India made progress after independence, it was heavily indebted to international financial institutions. It was forced by the International Monetary Fund (IMF) to adopt economic reforms and undergo globalization.**
- **Hence, in 1991 India reformed its economic policies to boost trade and investments.**
- **India left its old and restricted foreign trade policy and adopted a new, bold and outward trade policy.**
  India also allowed its currency i.e. Indian Rupee should be converted into foreign currencies at market rates from the earlier method of converting at official rates. '
- **It made import-export licensing easy. Today, strict licensing method exists only for crude, edible oils and chemical fertilizers.**
- **With promotion of FDI and privatization, foreign companies can now sell variety of goods in India.**
- **After globalization India's trade with non-traditional trade partners i.e. new countries increased.**
- **The new trade policy aimed at increasing India's percentage share in world trade.**
- **India became a member of World Trade Organization (WTO) in 1995. India changed its trade policy according to the rules framed by WTO. For example, India made changes in import-export rules for agricultural goods, trade related investment measures, etc.**

Question 5.
State the adverse effects of economic reforms.
Answer:
Unfavourable effects of economic reforms:
1. Small and cottage industries could not withstand competition from multinational companies.

2. Globalization stated along with privatization. Before the Indian private sector companies could become efficient and modern, they started facing competition from foreign companies. Some Indian companies even suffered a setback.

3. Government reduced subsidies in many sectors. Hence services of these sectors became expensive.

4. Exchange rate determination i.e. determining value of Indian currency in line with foreign currencies was left to the market. Hence, rather than bringing Indian rupee under control it fluctuated more. Many companies suffered due to such fluctuations.

5. Some foreign companies started selling their goods at abnormally low prices in India. As a result many Indian companies selling similar goods received a setback since they could not produce and sell at such low prices. Such a method of foreign companies to sell the goods at very low price in large quantities is called 'dumping'.

6. Many policies of World Trade Organization imposed strict quality measures. This made export difficult for countries like India especially for exports of agricultural goods.

7. India could not efficiently increase its infrastructural facilities like electricity, roads, etc. to cope up with the speed of privatization and globalization.

8. Inequalities of economic power increased.

9. The production and sale of life style goods increased compared to goods of basic needs.

10. Some people believe that the social and cultural foundations of India are threatened because of globalization.

5. Answer the following questions in detail :

Question 1.
Give the meaning of liberalization and explain the changes which came about with it in India.
Answer:
Process of liberalization in India:

- India implemented the policy of liberalization gradually and systematically.

- **In the initial phase, India Simplified the rules of investment for domestic producers and investors and later for foreign investors.**
- **Similarly, initially the government opened the sector of consumer goods for investment by foreign companies and then service sector and finally the financial sector. '**
- **To transform the idea of economic reforms into reality required several systematic changes in the policy regulations.**

Some important regulatory changes made by the Indian legislature in this regard are discussed below:

1. MRTP Act was replaced by Competition Act.

- **The full form of MRTP is Monopolies and Restrictive Trade Practices Act, 1969. This act prevented enterprises from growing in large scale and establish monopolies.**
- **To resolve this, the government replaced MRTP Act with competition Act. Competition Act, 2002 was an act that aimed at reducing unhealthy competition among enterprises.**

2. FERA was replaced by FEMA. Moreover, the word 'Regulatory' was removed from FERA and was replaced by the word 'Management'.

- **The full form of FERA is Foreign Exchange Regulation Act, 1973. This act regulated earnings from foreign exchange and transactions of enterprises.**
- **FEMA means Foreign Exchange Management Act, 1999. This act manages earnings from foreign exchange and transactions of enterprises instead of regulating them.**

3. Major changes were made in the industrial policy. One of the noteworthy changes was opening those areas for the private sector in which initially only the public sector was allowed to invest.

- **Currently, only three sectors are reserved for the public sector namely, atomic energy, some minerals related to atomic energy and railways.**
- **Another noteworthy change was that the government raised the limit of investment for small-scale units. This helped such units to modernize and produce faster and better.**

4. The procedure for foreign investment became more investor-friendly. ' 'Automatic licensing route' was introduced in many sectors so that foreign companies could easily invest in India.

5. Government announced relaxations in the industrial policy as well as relaxation in export-import rules.

- **Foreign exchange was allowed to be converted at market rates instead of the earlier method of convertibility only at the official rates.**
- **To change the fiscal policy, government tried to remove expenditure on subsidies.**

Question 2.
Evaluate the effects of the economic reform process of India which began in 1991.
Answer:
Evaluation of economic reforms after almost 25 years of its implementation since 1991 can be done in two parts as discussed below:
(I) Favourable effects of economic reforms:
The reforms in the economic policy that took place in the form of liberalization, privatization and globalization increased the importance of market forces of demand and supply.

- **As a result, determination of prices, wages and interest became market oriented, more realistic and less regulated.**
- **Due to reduction in regulations, producers started making decisions regarding production, investment and distribution on the basis of market trends.**
- **The difference between domestic and foreign investments became narrow.**

All these gave rise to various favourable effects for India which are discussed below:

- **Consumers started getting a variety of goods of international quality that too easily and at reasonable prices.**
- **India's foreign exchange reserves increased.**
- **India's exports increased.**
- **Along with increase in FDI, the risk of certain investments and debt burden of the state for importing costly technology etc. reduced.**
- **Large scale investments increased in the private sector. This in turn increased production and employment.**
- **Factors of production became more mobile within the nation and also between nations.**

- **During the period of too many regulations, corruption, bureaucratic hurdles, delayed decisions and rigid administration were quite common. All these have gradually reduced after reforms.**
- **There are certain sectors which are quite significant for the growth and development of the nation. However, these were neglected due to scarcity of capital and government regulations.**
- **These sectors got a boost after reforms when private sector was allowed to invest in them. For example, natural gas pipelines, roadways, modernization of railways, etc.**
- **Shortage ot goods and services were overcome. In fact many more varieties of goods and services came to market.**
- **Social and cultural ties with other nations improved.**

(II) Unfavourable effects of economic reforms:

1. Small and cottage industries could not withstand competition from multinational companies.

2. Globalization stated along with privatization. Before the Indian private sector companies could become efficient and modern, they started facing competition from foreign companies. Some Indian companies even suffered a setback.

3. Government reduced subsidies in many sectors. Hence services of these sectors became expensive.

4. Exchange rate determination i.e. determining value of Indian currency in line with foreign currencies was left to the market. Hence, rather than bringing Indian rupee under control it fluctuated more. Many companies suffered due to such fluctuations.

5. Some foreign companies started selling their goods at abnormally low prices in India. As a result many Indian companies selling similar goods received a setback since they could not produce and sell at such low prices. Such a method of foreign companies to sell the goods at very low price in large quantities is called ‘dumping’.

6. Many policies of World Trade Organization imposed strict quality measures. This made export difficult for countries like India especially for exports of agricultural goods.

7. India could not efficiently increase its infrastructural facilities like electricity, roads, etc. to cope up with the speed of privatization and globalization.

8. Inequalities of economic power increased.

9. The production and sale of life style goods increased compared to goods of basic needs.

10. Some people believe that the social and cultural foundations of India are threatened because of globalization.

Question 3.
Give the meaning of privatization and explain its process in India.
Answer:
Privatization:

- The process of privatizing publicly owned enterprises and hence increasing the size of the private sector is called the policy of privatization.
- In India, the public sector enterprises are owned and managed by the state i.e. government. Hence, privatization means process of transferring ownership of economic enterprises from public sector to private sector either partially or fully.

Privatization can take place in the following ways:

1. Through disinvestment
2. Reducing the number of areas in which only public sector can invest and allow private sector to invest in those areas.
3. By establishing public-private partnership businesses.

A detailed description for the process of privatization is discussed below:
Meaning and process of disinvestment in India:
(A) Disinvestment:

- The process wherein the state either reduces its share of investment in a public enterprise or withdraws its investment completely by selling its shares to the private sector is called disinvestment.

- **In other words, the process by which the state 'disinvests' from public enterprises is called disinvestment.**

(B) Process of disinvestment:

The process of disinvestment consists of following two aspects:

1. Complete disinvestment:

The act of selling all the shares of the state in a public enterprise to the private sector is called complete disinvestment.

2. Partial disinvestment:

- **The act of selling some shares of the state in public enterprises to the private sector for example, 29% or 49% is called partial disinvestment.**
- **When the state transfers less than 51% shares to private sector it is called minor disinvestment.**

However, if the state transfers more than 51% shares to private sector then it is called major disinvestment

1. Over and above owning public enterprises, the state also controlled certain areas of investment.

- **Also, the private sector was not allowed to invest in certain areas of strategic importance and public utility. However after privatization in 1991, government opened most of these areas for the private sector.**
- **These areas included banking, education, communication, transportation, etc. Both private as well as foreign companies were allowed to invest in these areas then.**

2. Presently, the state controls and does not allow private investment only in few specific areas like atomic energy, certain minerals related to atomic energy, railways and defence.

3. After independence there was a significant rise in the number of public sector enterprises under the central government. However, after 1991 they did not rise much.

- **On March 31, 1951 there were only 5 public sector enterprises under central government. The number rise to 233 in 1990, 217 in 2010 and 300 in 2015.**
- **Even today, the process of disinvestment from old enterprises continues and simultaneously the state also establishes new enterprises.**

❖Chapter 9 National Income

1. Choose correct option for the following from the options provided :

Question 1.
Who gave the definition of national income by production method? .
(A) Marshall
(B) Fisher
(C) Pigou
(D) Samuelson
Answer:
(A) Marshall

Question 2.
Which among the following can be considered in GNP?
(A) Operation in hospital
(B) Household work of housewife
(C) A teacher teaching his/her own child
(D) Sing a song in the bathroom
Answer:
(A) Operation in hospital

Question 3.
Which among the following is not included in closed economy?
(A) Families
(B) Firms
(C) Industries
(D) Foreign trade
Answer:
(D) Foreign trade

Question 4.
Which expenditure of government is not considered in national income?
(A) Production
(B) Transfer payment
(C) Wages of labourers
(D) Defence expenditure
Answer:
(A) Production

Question 5.
How many factors constitute monetary expenditure?
(A) 4
(B) 2
(C) 1
(D) 10
Answer:
(A) 4

Question 6.
Which one of the following is not a method to measure national income?
(A) Production method
(B) Income method
(C) Sales method
(D) Expenditure method
Answer:
(C) Sales method

Question 7.
What should be deducted from GDP to get NDP?
(A) Depreciation
(B) Net factor income from abroad
(C) Indirect tax
(D) Subsidy
Answer:
(A) Depreciation

2. Answer the following questions in one sentence :

Question 1.
What is national income?
Answer:
The monetary value of the total production done in agriculture, industries and service sector in a country during a year is called the national income of that country.

Question 2.
What is called closed economy?
Answer:

The economy in which there is no role of foreign trade and which does not conduct economic transactions with other countries is called closed economy.

Question 3.
Give formula of Per Capita Income.
Answer:
The division of gross national income with total population of that nation is called the per capita income.
Per Capita Incoime = Gross National Income Total Population
Question 4.
Give the meaning of Net Domestic Product.
Answer:
During the process of production within a given year, when the depreciation of domestic or foreign factor of production is . deducted from gross domestic product, we get net domestic product i.e. NDP.
∴ NDP = GDP – Depreciation

Question 5.
What are transfer payments?
Answer:
Payments made or income received in which no goods or services are being paid for such as subsidy, taxes, etc. are called transfer payments.

Question 6.
Whether the purchase of old building can be considered in national income or not? Why?
Answer:
Selling old building means it is a resale. This means the good was produced in the past and hence it must have been included in the national income. Again considering it in national income will lead to double counting. Hence, it will not be considered.

Question 7.
Why the service of a house wife is not included in National Income?
Answer:
Household work done by housewives is not sold in the market. Hence, its monetary value cannot be measured and so is not considered while calculating national income.

Question 8.
What is imputed rent?
Answer:
Those who live in their own house do not need to pay rent. This benefit of rent that they get is a part of their income and is called imputed rent.

Question 9.
Name the institution which measures national income in India.
Answer:
Central statistical Organization (CSO)

Question 10.
At which price monetary national income is measured?
Answer:
At current prices

Question 11.
'Per capita income is not the income of every citizen of the country.' How?
Answer:
Per capita income is obtained by a simple division of gross national income with total population. These results in average income a person earns. Thus, some person must be earning high and low. Hence, ……….

3. Answer the following questions in short :

Question 1.
Give definition of national income as given by Marshall or Fisher.
Answer:
1. Alfred Marshall's definition (Production based definition):

- **The net production of physical (tangible) and non-physical (service) things by using natural wealth (land) with capital and labour in a country during the year is called the national income of the country.**
- **Prof. Marshall lays stress on net production of goods and services in the definition and so this definition is based on production.**

2. Irving Fisher (Consumption based definition):

- The proportion of direct consumption of goods and services by the people of a country during a year is called the national income.
- Fisher lays stress on consumption of physical and non-physical goods and services in this definition. Hence, his definition is based on consumption.

Question 2.
According to Prof. Pigou, what is called national income?
Answer:
A.C. Pigou (Money based definition):

- The flow of those things (goods) and services whose payments have been done through money or which can be easily presented by money is called national income. In other words, the total income of society along with foreign income which can be easily measured with the help of money is called its national income.
- Pigou lays stress on money and so his definition is based on money.

Question 3.
Which expenditures are not included in the expenditure method of National Income?
Answer:
Expenditure not considered in national income:

- Expenditure done on purchasing second-hand goods, transfer expenditure (transfer payment), pension, unemployment allowances, financial assistance to widows, etc.
- The expenditure on purchase of old shares and expenditure on use of goods of interim use are not considered in national income.
- Some expenditure is incurred even when the production of goods and services is not done. This expenditure involves only transfer of monetary expenditure and so is not considered. For example, subsidies.

Question 4.
Show the Difference between :
(a) GDP and NDP
Answer:
table-1

(b) GNP and NNP
Answer:
table-2

(c) GDP and GNP
Answer:
table-3

(d) Closed economy and open economy
Answer:
table-4

4. Answer the following questions in brief points :

Question 1.
Explain in brief the problems arising in measuring National Income.
Answer:

- The Central Statistical Organization (CSO) calculates the national income of India since 1954.
- The CSO takes 1999-2000 as base year and then calculates national income .at constant prices.

Problems faced by CSO during measurement are:

- Problems of double accounting
- Problems of self-consumption
- Problems of depreciation
- Tax avoidance and tax evasions
- Illegal income
- Problems of net foreign income
- Problems in accounting

Following problems arise in accounting:
(A) Illiteracy
(B) Small scale production-sale
(C) Barter system
(D) People involved in more than one occupation

The CSO tackles all these problems well and tries to obtain national income by counting the income carefully.

Question 2.
Explain the concept of monetary income and real income.

Answer:
(A) Monetary national income:
Monetary national income is the money value of final goods and services produced by residents of a country in a year, measured at the prices of the current year.

Explanation:
When we multiply the production of all goods with the market price of respective goods what we get is called monetary national income. However, this monetary national income is not true income.

Reason:

- Suppose in the previous year, the production was 'a' and prices were 'b'. National income of previous year = (production 'a') × (price 'b') = ab
- Now, suppose that the production in current year is equal to the production in the previous year but the prices have doubled in the current year. So, the prices in the current year become '2b'.
  National income of current year = (production 'a') × (price '2b') = 2ab
- In this case the national income of current year will be double than that of the previous year which is actually not true because there is no change in production in the current year.

Drawback:

- Although the national income has increased, it has increased because the prices have increased and not because production has increased.
- This means that people have been consuming same amount of quantity current year as they used to in the previous year. So, we can say that consumption of product has not increased among people and so the overall standard of living has not improved.
- Hence, a country should focus not just focus on monetary national income.

(B) Real national income:
The calculation of national income at base-year price or fixed price is called real national income.

- Real national income is obtained by multiplying the production of all goods with the fixed price of respective goods during the year.
- Since, the real national income considers the price of the base-year, any rise in national income means that some rise has occurred due to the rise in production and some due to market price (current price). Hence, real national income shows the true situation of a country.

Advantage:
If national income increases due to increase in production it means that people consume more products or more people consume the products. In either case, since the production has increased the consumption and standard of living of people have become higher. Hence, real national income is a better measure of national income as compared to monetary income.

Question 3.
Give the meaning of Per Capita Income and show its importance.
Answer:
Per capita income (PCI):
The division of gross national income with total population of that nation is called the per capita income.
Gross National Income Per capita income = Gross National Income Total Population
Importance:

- If population grows faster compared to national income the per capita income decreases.
- The per capita income is an average measurement.
- Per capita income docs not change with change in the distribution of national income.
- Per capita income is not a true criterion of individual income.
- The true criterion of country's progress is not the national income but per capita income.
- UNO also uses figures of per capita income along with the figures of national income while comparing the progress of two countries.
- The comparison of two countries can be done by comparing their per capita incomes.
- Per capita income helps to assume the standard of living of citizens of that country.

Question 4.
Write short notes on :
(a) Gross Domestic Product
Answer:
Gross Domestic Product (GDP):
The market value of total goods and services produced within the boundary of a country by its citizens as well as foreigners is called gross domestic product (GDP).

Important points:

- In gross domestic product, the final products or goods produced within • the country's limit/boundary by natives and foreign citizens or by nature such as (crude oil) are considered.
- The concept of gross domestic product is related to the boundary of a country. This means production done by citizens of a country residing in a foreign country or the incomes generated by citizens of a country from foreign countries is not considered.
- The figures of GDP are used to compare economies of different countries and hence study their progress.

(b) Net Domestic Product
Answer:
Net Domestic Product (NDP):

- When factors of production such as machines, building, equipment, etc. are used for producing goods and services, they undergo wear and tear and their value decreases. This is called capital depreciation.
- After sometimes, these factors of production become useless and they need to be replaced. Capital is needed to repair these factors of production or replace them in case they become obsolete with the arrival of new technology.
- Thus, during the process of production within a given year, when the depreciation of domestic or foreign factor of production is deducted from gross domestic product, we get net domestic product i.e. NDP.
- After deducting depreciation of factor of production from the domestic (or foreign factors used in the country) during a year

is called net domestic product (NDP).

∴ NDP = GDP – Depreciation

(c) Gross National Product

Answer:

Gross National Product (GNP):

- The market value of the total goods and services produced, by citizens of a country, within the country or in foreign country is called Gross National Product (GNP).
- The major difference between GDP and GNP is that in GDP production done within the boundary of the country is considered irrespective whether it is done by Indians or foreigners in India. However, in GNP production done by citizens done in a country or in a foreign country is considered.

Important points:

- GNP considers the value of production done only in current year and not that of previous year.
- GNP = GDP + Net income obtained from foreign countries - Total payment to foreign countries.
- Since GNP gives a true picture of the national income over GDP, it is used widely in practice.

(d) Net National Product

Answer:

Net National Product (NNP):

- When factors of production such as machines, building, equipment, etc. are used for producing goods and services, they undergo wear and tear and their value decreases. This is called capital depreciation.
- The monetary value of goods and services obtained after deducting depreciation from gross national product (GNP) is called the net national product (NNP).
  ∴ Net National Product (NNP) = GNP – Depreciation
- While calculating NNP, the value of production of current year is only considered.

A brief overview and comparison of GDP, NDP, GNP and NNP. (For memorizing easily)

Point	Gross Domestic Product (GDP)	Net Domestic Product (NDP)	Gross National Product (GNP)	Net National Product (NNP)
Definition	The market value of total goods and services produced within the boundary of a country by its citizens as well as foreigners is called gross domestic product.	The market value of goods and services after deducting depreciation of factors of production from the domestic (or foreign factors used in the country) during a year is called net domestic product (NDP).	The market value of the total goods and services produced by citizens of a country within the country or in foreign country is called Gross National Product (GNP).	The monetary value of goods and services obtained after deducting depreciation from gross national product (GNP) is called the net national product (NNP).
Formula	---------	NDP = GDP – Depreciation	GNP = GDP + Net income obtained from foreign countries –Total payment to foreign countries.	Net National Product (NNP) = GNP – Depreciation
Important point of difference	Total Production done in India by Indians + Foreigners.	Depreciation of factors of production is deducted from GDP.	Total production by Indians in India + Production by Indians in foreign country.	Depreciation of factors of production is deducted from GNP.

5. Answer the following questions in detail :

Question 1.
Explain with diagram the circular flow of national income in a closed economy.

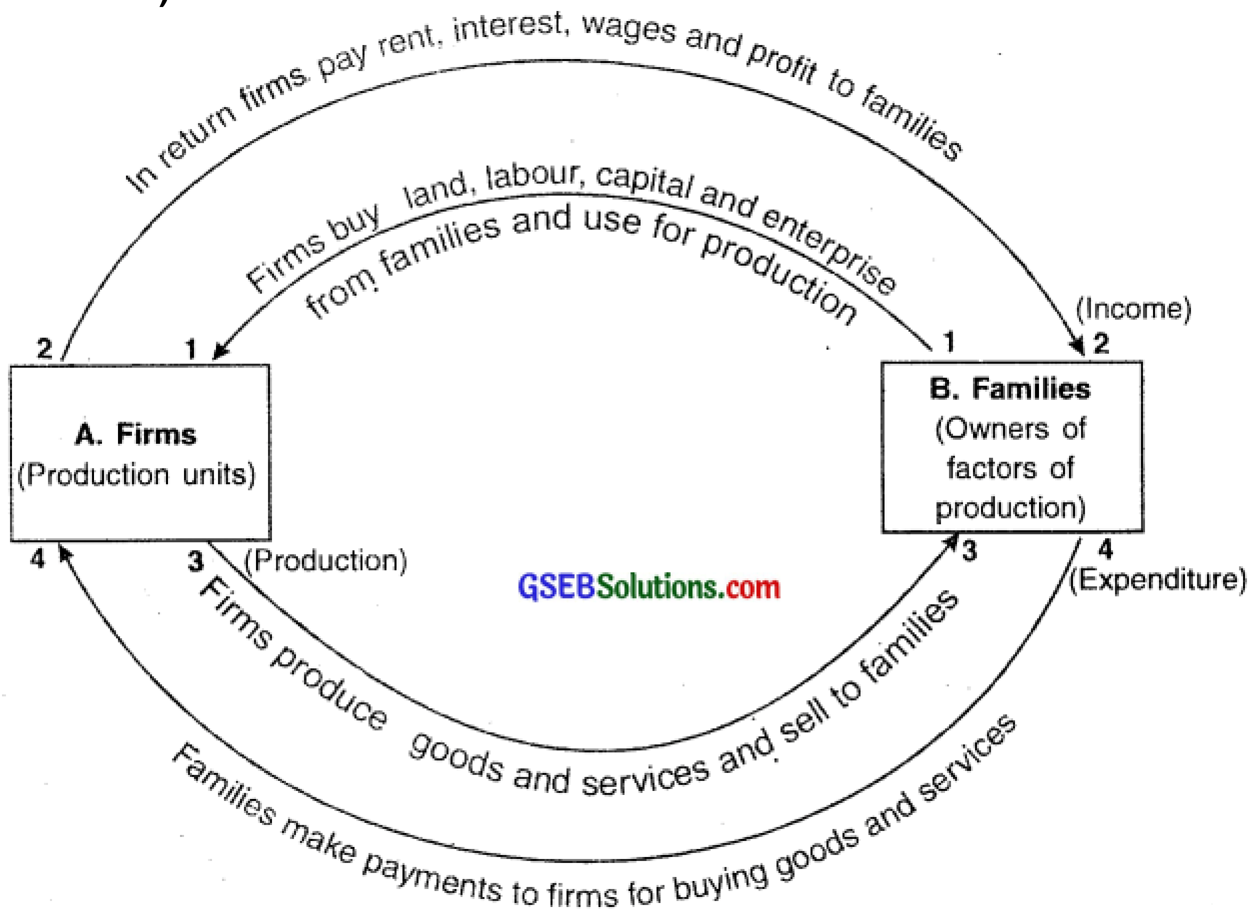
Answer:
Circular flow of national income in closed economy:
Assumptions:

- The closed economy is the one in which there is no role of foreign trade.
- Such economy does not undergo economic transactions with other countries.
- Neither any goods, services and factors of production are exported from such country nor any goods, services and factor of production are imported in such.country. Thus, closed economy is self-dependent or self-reliant.

Circular flow:

- **Production, income and expenditure are three important pillars of an economy. Hence, national income of an economy can be measured by these three components namely**
  1. Production,
  2. Income and
  3. Expenditure.
- **In a closed economy, these three components keep on circulating and form a circular flow of national income.**
- **To understand the circular flow of 'Production-Income-Expenditure', we divide economy into two major sectors (fields) namely,**

(A) The business firms (Production units) and (B) Families.
(Note: As per accounting terms, firms and individuals are two separate entities and hence even though entrepreneur runs the production units they are considered separate from the firms. Hence, entrepreneur as a factor of production comes from families.)



Circular flow of production, income and expenditure in closed economy

1. First, the business firms purchase necessary factors of production namely land, labour, capital and enterprise (from entrepreneurs) from families or households and use them for production. This way the factors of production reach to firms through families.

2. Income component: For using these factors of production the firm pays rent, interest, wages and profit to the owner of factor of production or the families. Thus the flow of money first goes to the families from the firms.

3. Production component: The firm then produces goods and services with the help of these factors and puts them in market for sale. The families purchase these goods and services from market. Thus the flow of goods and services comes to families from firms.

4. Expenditure component: Families pay money to firms for purchasing goods and services and so the flow of money comes back to firms from families. Here, one cycle gets over.

The firm again purchases factors of production with the help of this money, does the production and again pays to families and the circular flow of production-income-expenditure goes on. The national income is then calculated based on the total circular flow of Rent, Wages, Interest and Profit in the economy in a given period of time.

Question 2.
Explain the output method for measuring national income.
Answer:
Production (output) method:

- The sum of monetary value of finished goods and services produced in agriculture, industries and service sector in a country is called the national income of that country.
- Thus, National income – (Production in agriculture + Production in industries + Production in service sector) × Market value
- This method of calculating national income has been developed from the definition given by Prof. Marshall.

Classification of economy in different sectors:
To obtain the national income the economy is classified into various sectors like agriculture, industries, services, mines, construction, manufacturing, trade-commerce, transportation, communication, banking, education, etc.

Types of incomes and their role while calculating national income:
(I) Incomes that are considered:
1. Selection of goods or services:
Value of only finished goods and services produced in the economy is considered i.e. value of goods and services still in the process of production are not calculated.

2. Imputed rent:

- **Those who live in their own house do not need to pay rent. This benefit of rent that they get is a part of their income and is called imputed rent.**
- **Here we assume that if the house is given to someone on rent it can earn rental income and so that value is considered in national income.**

3. Export:
Value of total export is added.

(II) Incomes that are not considered:
1. Service of housewives:
Household work done by housewives is not sold in the market. Hence, its monetary value cannot be measured and so is not considered while calculating national income.

2. Self-consumption:

- **Goods produced for seif-consumption are not sold in market so their monetary value cannot be measured. Hence, such goods are not considered in national income.**
- **However, as an exception the food-grain produced by Indian farmers for self-consumption is considered in national income.**

3. Defence (Police):
There are no markets for goods produced for defence and police services except using them in defence/police. Hence, these goods are not considered in calculation of national income.

4. Double counting:
Double counting means counting the value of the same product (or expenditure) twice i.e. more than once.

- According to production method while calculating national income, the value of only final products and not the interim products or products and services in process.
- This is incorrect and so double counting should be removed from national income accounting because it over-values national income.

There are two ways to avoid double counting. They are:
(a) To count the value of finished goods only.
(b) Value Added Method.

5. Resale:

- If a good was produced in the past its value was counted in the national product at that time. When it is resold its value is not counted. If it is counted, it will be double counting.
- For example, if a house purchased in year 2000 is resold today this resale is not considered in national product.

6. Smuggled/Illegal goods:
The value of smuggled or illegal goods is not considered in calculation.

(III) Incomes or items that are deducted:
1. Depreciation:
During the process of production the depreciation related to capital factor is deducted from the national product.

2. Indirect tax and subsidy:

- While deriving the market value of a good, the indirect taxes of the government levied on the goods are added.
- Hence, while finding out national product, the indirect taxes are deducted whereas the subsidy given by government is added.

Question 3.
Define double counting and discuss remedies to remove double

counting.
Answer:
Double counting:

- Double counting means counting the value of the same product (or expenditure) twice i.e. more than once.
- According to production method while calculating national income, the value of only final products and services should be considered.
- For example, for an iron manufacturer, iron is a final product and for a machine manufacturer the machine which also consists of iron is a final product. In this sense, the value of iron gets double counted.
- This is incorrect and so double counting should be removed from national income accounting.
- When the value of a commodity is calculated for more than one time in national income it gives an over-valued national income.

There are two ways to avoid double counting. They are:
(A) To count the value of finished goods only:

- In this method, instead of counting the value of goods that are half-made or in interim use, the monetary value of the final good the value of raw material used in it is separately valued.
- For example, if the value of machine which is a finished good and the value of iron involved in it are considered separately, the problem of double counting can be solved.

(B) Value Added Method:

- In production process, when a production of goods goes from one stage to another stage, its monetary value increases.
- If this increase in value can be measured out and added in national product, the problem of double counting can be resolved.

Example:

Stage No.	Item Produced	Sales income (₹)	Factor cost (₹)	Increasing value (₹)
1	Cotton	100	00	100
2	Yarn	200	100	100
3	Cloth	280	200	80
	Total	**580**	**300**	**280**

- As shown in the table, in the first stage the factory buys cotton of ₹ 100. It then converts it into yarn of ? 200 in the second stage. Finally, in the third stage from the yarn, it makes cloth of ₹ 280.
- Thus, when the .monetary value is counted as ₹ 100 + ₹ 200 + ₹ 280 = ₹ 580 in national product, then double counting takes place.
- In the monetary value of ₹ 580, the value of cotton is included in both yarn and cloth, and therefore the value of cotton is considered and counted for 3 times. This is double counting,
- However, if the value of cotton of ₹ 100 + yarn of ₹ 100 + cloth of ₹ 80 is counted or value addition of ₹ 280 is considered the double counting does not occur.
- The above stated example shows that factor cost for producing cotton is zero because it is assumed that the production of cotton is of the previous year which has been considered in the national product of-the previous year.

Question 4.
Explain the income method for measuring national income.
Answer:
Income method:

- The summation of the income earned by the citizens of a country and the state is called the national income of that country obtained as per the income method.
- To calculate the national income through this method, the rent, interest, wages and profits obtained from the four factors of production namely land, capital, labour, and entrepreneur are added together.

- Moreover, the income obtained from foreign countries is added and the payment done in the form of rent, interest, wages and profits for foreign factors used in the country is deducted.
- This method of measuring national income has been developed from the definition given by Prof. Pjgou.

Types of incomes and their role while calculating national income:
(I) Incomes that are considered:
1. Income earned from factors of production:
(A) Income of rent:

- The rent obtained on land/building.
- Those who live in their own house do not need to pay rent. This benefit of rent that they get is a part of their income and is called imputed rent. ' It is considered in national income.
- The income obtained through various rights such as copy right of a book, patent, etc.

(B) Income of interest:

- The interest obtained by people on their capital during a year.
- The interest obtained from the government is not considered as income. The reason for this is that a state generates income through taxes and pays it as interest which means that the money is simply transferred.

(C) Income of wages:
The wage or salary given to labourers for their work during a year.

(D) Income of profit:
The income obtained in the form of profit or dividend by investor/. It includes reserved profit and taxes paid on it.

2. Other incomes:
(A) Net foreign income i.e. income through export-import.
(B) Income generated as commission or brokerage on sale of consumable goods.
(C) Incomes which show flow of production of goods or services in the economy and which increase the monetary value of goods of the economy.

(II) Incomes that are not considered:

- **Income generated from gifts, rewards, prizes, tips, thefts, unemployment allowances, government assistance to elders, lotteries, etc.**
- **The income of the second hand goods is not considered. For example, the income obtained by selling old mobile phones.**

(III) Incomes that are deducted:
Subsidy given by the government is deducted from the national income.

Question 5.
Describe the expenditure method for measuring national income.
Answer:
Expenditure method:

- **All domestically produced goods and services are produced for final use either by consumers for consumption or by producers for investment. Individuals incur expenditure (i.e. need to spend money) for using these gpods and services. The total expenditure in a given year is called the GDP i.e. Gross Domestic Product.**
- **The method of considering the total expenditure incurred in purchasing finished goods or services during a financial year is called the expenditure method of measuring national income.**
- **This method has been developed from the definition given by Prof. Fisher.**
- **In this method, the national inosiepe is measured by summing up the total monetary expenditure incurred on goods and services by individuals, families, firms and government during a year.**
- **Thus, National Income = Consumption expenditure + Investment expenditure + Government expenditure + Net export expenditure.**

The following things are considered while counting national income in terms of Expenditure method:
1. Four factors of monetary expenditure:
The various components of final expenditure considered in national income can be divided into four parts. They are:
(A) Consumption expenditure:

- The expenditure incurred by citizens, families and firms on consumable goods is called consumption expenditure.
- It includes expenditure done on durable goods like TV, scooter, car, etc., perishable goods like food grains, fruits, vegetables, services like education, medical treatment, transportation and communication, etc.

(B) Investment expenditure:
It is the expenditure incurred on building a factory, plant, machinery and necessary goods, equipment for running a business or profession, etc.

(C) Government expenditure:

- It refers to the expenditure incurred by government on various administrative services like defence, law and order, education, etc.
- Consumption expenditure, investment expenditure, administrative expenditure, etc. are different types of expenditures done by central government, state government and local bodies.

(D) Net export expenditure i.e. Export minus Import:

- It refers to the difference between exports and.imports of a country during a period of one year.
- The expenditure done on importing foreign goods by citizens of country is the expenditure of the country. Similarly, our export is expenditure incurred by foreign citizens on domestic goods.
- Therefore, the difference between these two is the net export which is included in the national income.

2. Expenditure not considered in national income:

- Expenditure done on purchasing second-hand goods, transfer expenditure (transfer payment), pension, unemployment allowances, financial assistance to widows, etc.
- The expenditure on purchase of old shares and expenditure on use of goods of interim use are not considered in national income.
- Some expenditure is incurred even when the production of goods and services is not done. This expenditure involves only

transfer of monetary expenditure and so is not considered. For example, subsidies.

3. Difficulty in calculating national income through expenditure: The official data of people's expenditure cannot be obtained correctly and therefore it becomes difficult to calculate national income by this method.

Example:

- Suppose a business person named Arav gives ₹ 30,000 as salary to Milap, who works as his accountant and considers ₹ 30,000 as the expenditure incurred.
- Now Milap gives ₹ 3000 to Khushbu who is his domestic helper. This becomes Milap's expenditure. Now, the question that arises is 'What is the actual expenditure? ₹ 30,000 or ₹ 30,000 + ₹ 3000 = ₹ 33,000?
- So, even in this method the problem of double counting arises in calculating national income.

❖ Chapter 10 Budget

1. Choose correct option for the following from the options provided :

Question 1.
How many tiers of government are mentioned in the Indian Constitution?
(A) One tier
(B) Two tier
(C) Three tier
(D) Zero tier
Answer:
(C) Three tier

Question 2.
What is meant by a 'Panchayat'?
(A) An assembly of 5 persons
(B) An assembly of 50 people
(C) An assembly of 500 people
(D) An assembly of 5 villages
Answer:
(A) An assembly of 5 persons

Question 3.
Who of the following favoured the concept of balanced budget?
(A) Adam Smith
(B) Marshall
(C) Keynes
(D) Hicks
Answer:
(A) Adam Smith

Question 4.
Education is the responsibility of which government?
(A) Central Government
(B) State Government
(C) Local Government
(D) Joint responsibility of centre and state
Answer:
(B) State Government

Question 5.
What does the government do with its expenditure during inflation?
(A) Keeps it stable
(B) Reduces it
(C) Increases it
(D) Makes it zero
Answer:
(B) Reduces it

Question 6.
Which of the following concepts of deficit does not have policy importance in India?
(A) Revenue deficit
(B) Budgetary deficit
(C) Fiscal deficit
(D) Primary deficit
Answer:
(D) Primary deficit

2. Answer the following questions in one sentence :

Question 1.
What is meant by a budget?
Answer:

A government budget is an annual accounting statement of the item-wise estimates of expected revenue and anticipated expenditure of the government for a new fiscal year

Question 2.
How many sides are there in the accounting statement of a budget? Which are those?
Answer:
Two:

1. The credit side which shows income and
2. The'debit side which shows expenditure.

Question 3.
Mention some areas in the list of joint responsibilities of the centre and the states.
Answer:
The list that contains subjects that are common to both i.e. center as well as state. Both of them are jointly responsible for the areas mentioned in this list. These subjects are important for the country and are uniform in purpose for all states. However, the subjects may vary among states. Example: Economic planning, electricity, education, social security, etc.

Question 4.
Who presents the budget generally in the lok sabha?
Answer:
Generally, the finance minister of the country presents the budget in the Lok Sabha.

Question 5.
What is meant by a deficit budget?
Answer:
A budget in which the government's anticipated total expenditure is more than the anticipated total income is called deficit budget.
Thus, Deficit budget = Anticipated total expenditure > Anticipated total income.

Question 6.
Which is the general time period for which a budget is made?
Answer:

A budget is made for the period of 1st April to 31st March of next calendar year.

Question 7.
What is meant by revenue (current) income?
Answer:
In the current period, the direct and indirect taxes, profits of public enterprises, fees and fines from public utilities, etc. constitute the revenue income.

Question 8.
What is meant by development expenditures?
Answer:
Expenditure that provides a direct boost to economic development is known as developmental expenditure. For example, expenditure on irrigation.

Question 9.
Which expenditures are included in the non-developmental expenditures?
Answer:
Expenditure such as repayment of loans, general services like administration, etc. which do not have a direct impact on the development are called developmental expenditures.

Question 10.
State the sources of income of Panchayat.
Answer:

- The panchayats get a share in state taxes as suggested in the constitution and by the state finance commissions.
- They receive grants directly from central government.
- They also get funds from the state government to execute development projects announced by the state government.

Question 11.
From which year was Goods and Services Tax (GST) introduced in India?
Answer:
The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. In other

words,Goods and Service Tax (GST) is levied on the supply of goods and services

Question 12.
Who becomes the chairperson of the GST council?
Answer:

3. Answer the following questions in short :

Question 1.
Explain how resources are re-allocated through a budget?
Answer:
Allocation of resources is one of the important objectives of the government budget. In such a situation, the government through the budgetary policy, aims to reallocate resources in accordance with the economic (profit maximisation) and social (public welfare) priorities of the country.

Question 2.
Explain the types of budget.
Answer:
Types of budget:
1. Balanced budget:

- A budget in which the government plans its expenditures in such a way that all the expenditures can be fully made from the available sources of revenue is called a balanced budget.
- A balanced budget is an ideal as well as a theoretical situation. In reality a balanced budget is impractical.

2. unbalanced budget:
A budget in which the total expenditure is not equal to the total income i.e. either the expenditure, is more or less than the income is called unbalanced budget.

Types of unbalanced budget:
(a) Deficit budget:

- A budget in which the government's anticipated total expenditure is more than the anticipated total income is called deficit budget.

- Thus, Deficit budget = Anticipated total expenditure > Anticipated total income.
- In present times, government budgets are mostly deficit budgets.

(b) Surplus budget:

- A budget in which the government's anticipated total expenditure is less than the anticipated total income is called deficit budget.
- Thus, Surplus Budget = Anticipated Expenditure < Anticipated Income.
- In reality most governments do not have a surplus budget.

Question 3.
Give the merits of a surplus budget.
Answer:
Merits of surplus budget:

- Surplus budget is useful in times of severe inflation. When the government spends less, employment, income and demand reduce. This helps in restricting inflation.
- Since the budget is surplus, there is no burden of borrowing.
- Savings of the government increase which can be used for development in future periods.

Question 4.
Give the meaning of Goods and Services Tax (GST)
Answer:
The goods and services tax (GST) is a tax on goods and services sold domestically for consumption. The tax is included in the final price and paid by consumers at point of sale and passed to the government by the seller. The GST is a common tax used by the majority of countries globally.

Question 5.
In how many categories is Goods and Services Tax (GST) classified? Which are those?
Answer:
There are four different types of GST as listed below:

1. The Central Goods and Services Tax (CGST)
2. The State Goods and Services Tax (SGST)
3. The Union Territory Goods and Services Tax (UTGST)

4. The Integrated Goods and Services Tax (IGST)

Question 6.
Give the full form of GST, CGST, SGST, UTGST, IGST.
Answer:

- GST: Goods and Services Tax
- CGST: Central Goods and Services Tax
- SGST: State Goods and Services Tax
- UTGST: Union Territory Goods and Services Tax
- IGST: Integrated Goods and Services Tax

4. Answer the following questions in brief points :
Question 1.
Give the meanings of Revenue deficit, Budgetary deficit, Fiscal deficit and Primary deficit.
Answer:
1. Revenue deficit:
When the total expenditure of the government on revenue (current) account is more than total receipts of the government on the revenue account it results in revenue deficit.

2. Budgetary deficit:
When the total expenditure (current as well as capital) is greater than the , total income (current as well as capital) it results in budgetary deficit.

3. Fiscal deficit:

- When a government's total expenditures exceed the revenue that it generates, excluding money from borrowings, it gives rise to fiscal deficit.
- Thus, Fiscal deficit = Total expenditure – Total income (excluding market borrowings)

4. Primary deficit:

- Primary deficit is a relatively new concept in Indian budget.
- The difference between fiscal deficit of the current year and interest payments on the previous borrowings is called primary deficit.
- Thus, primary deficit = Fiscal deficit – Interest payments

Question 2.
Discuss effects of a budget.
Answer:
Effects of preparing a budget:

- **Through budgets the government attempts to incur expenditures with respect to incomes so that the deficits can be kept in control. Thus, budget brings fiscal discipline in government.**
- **Budget justifies allocation of resources among various sectors according to need and priority.**
- **It gives direction to investment by allocating budgetary funds in various sectors. Also, it regulates demand by regulating the disposable incomes of people by imposing right amount of taxes.**
- **With the help of taxes and directing expenditures in the necessary sectors. A budget also helps in providing stability against inflation and deflation.**
- **A budget helps to fulfill objectives of economic growth and development of a nation or a state.**

Question 3.
Explain the concepts of
(A) Revenue expenditure
Answer:
Revenue expenditure:
Current expenditures include expenditure made in the current year on salaries of government employees, interest payment on loan taken by the government, pension, subsidies, grants, current expenses on defence, etc.

(B) Revenue income
Answer:
Revenue (Current) income:
The revenue income includes direct and indirect taxes, profits of public enterprises, fees and fines from public utilities etc.

(C) Capital income
Answer:
Capital income:

- Income generated by the government in the form of borrowings from the market in own country and abroad, borrowing from central bank, income from disinvestment, etc. are a part of capital income and are recorded in this account in the budget.
- The section of capital income records receipts of those transactions which have long term or continuous impacts on government funds.

(D) Capital expenditure.
Answer:
Capital expenditures:

- These are expenditures on those transactions which have long term or continuous impacts on government funds.
- This account includes loans given by the government to other governments, repayment of previously taken loans, capital expenses on social and economic services, as well as capital expenses on defence, etc.

Question 4.
Give details of the income and expenditure sides of the capital account of a state budget.
Answer:

Capital Account of State Budget ↓	
↓ **Income (Credit)**	↓ **Expenditure (Debit)**
(1) Public debt (A) Internal debt of the state (B) Loans and advances from centre (C) Ways and means advances, advances for projects	**(1) Developmental:** (A) Capital expenditure on social services (B) Capital expenditure on economic services
(2) Recovery of loans given to other governments in previous periods	**(2) Non-developmental :** (A) Capital expenditure on general services and administration (B) Repayment of loans taken in previous periods (C) Other expenses : Loans and advances to local governments
(3) Other capital incomes: Those obtained from disinvestment, etc.	

Question 5.
Give the functions and sources of income of 'Panchayats'.

Answer:
Sources of income of a panchayat:

- The panchayats get a share in state taxes as suggested in the constitution and by the state finance commissions.
- They receive grants directly from central government.
- They also get funds from the state government to execute development projects announced by the state government.

Functions of a panchayat (i.e. items of expenditure):
Panchayats are mainly responsible for raising facilities of water supply, water pumps, sewage, roads, cleanliness, public health, electricity, etc. in their concerned region.

Question 6.
Give the reasons responsible for introduction of GST in India.
Answer:
GST in India is introduced to:

- Impose a single tax on a particular good/service by eliminating taxing it multiple times by states and centre, the way it used to happen before GST.
- Eliminate the difference in tax rates between states for similar good/services.
- Reduce the cost of collecting the tax as well as making its administration simpler.
- Ease the digital procedures of tax collection.
- Reduce tax evasion and avoidance and make the indirect tax structure more productive in terms of raising revenues.
- Reduce the burden of indirect taxes on people.

5. Answer the following questions in detail :
Question 1.
Give the meaning and objectives of a budget.
Answer:
Budget:
A government budget is an annual accounting statement of the item-wise estimates of expected revenue and anticipated expenditure of the government for the new fiscal year.

Main elements of the budget:

- **It is a statement of estimates of government receipts and expenditures.**
- **Budget estimates are for a fixed period, generally a year.**
- **The objective of budget of any government is economic development of the region and public welfare.**
- **A budget must be approved by Lok Sabha or Assembly or some such public body before its implementation.**
- **Usually the finance minister of the country, state-or the head of the governing body declares the budget.**

With respect to double entry book keeping system, all budgets are balanced because the credit (income side) and debit (expenditure side) must always balance. However, in reality, government budgets -may be balanced or unbalanced.

Purpose (Objective) of the budget:
The government must plan its expenditures and raise its income in such a way that the following objectives can be fulfilled:
1. To obtain approval of the body of elected representatives:
The ruling government need to take approval of the elected representatives of the democratic government for the expenditures and incomes estimated to incur in the coming financial year.

2. To get an idea regarding available resources and areas requiring expenses:
To get an idea regarding:
(a) The activities which the government can and should undertake
(b) The expenses to be incurred in various sectors and
(c) The sources from where the necessary income may be raised

3. Provide direction for allocation of resources:

- **To allocate the resources i.e. income earned into different sectors with respect to their priority and need.**
- **If proper estimates are not made for each sector then it is quite possible that ‘ some sectors may receive more than necessary funds and some seciors may get neglected.**

4. For knowledge of the public:

- **Through the budget people come to know which sectors is the government favouring and how much resource is it allocating to those sectors.**

- **People also come to know the change in the tax structure that will be done in the commodities and the sectors.**
- **All this information helps people to understand which commodities will become costlier and which will become cheaper.**

Conclusion:

- **Thus, the budget is an important component of planning of the government.**
- **Various economic policies get guided by the budget allocations in concerned sectors.**

Question 2.
Give details of the budgetary accounts of the central government of India.
Answer:
Central government's budget:

- **The finance minister of India presents the budget of the Central Government in the Lok Sabha usually in the last week of February every year.**
- **The Lok Sabha approves the budget after discussions and if necessary, amendments are made later.**
- **The budget is implemented from April 1 and lasts till March 31 of the next calendar year.**

An example of the budget of Central Government of India

Current (Revenue) Account of Central Government's Budget

Income (Credit)	Expenditure (Debit)
(1) Tax revenue	**(1) Non-plan expenditures (incurred on programmes for various sectors which are not detailed in the plans) such as:**
(A) Revenues from direct taxes (B) Revenues from indirect taxes	(A) Interest payments (on loans borrowed in earlier periods) (B) Social services like education, health, public utilities and administration and general services (C) Economic services like agricultural services, industries, electricity, transport, technology, etc. (D) Non-plan grants and assistance given by centre to states and union territories (E) Current expenses on defence (F) Subsidies (G) Salaries, pensions, etc.

(2) Incomes other than tax incomes	**(2) Planned expenditures (incurred on programmes for various sectors which are detailed in the plans) such as:**
(A) Interest incomes earned from loans given by the centre in earlier periods (B) Profits and dividends from public sector enterprises (C) Fees and fines from public utilities (D) Assistance received from abroad	(A) Agriculture, industries, irrigation, information and communication, energy, minerals, transport and such sectors (B) Planned grants and assistance given to states and union territories

Capital Account of Central Government's Budget

Income (Credit)	Expenditure (Debit)
(1) Recovery of loans (2) Borrowings (3) Other capital incomes like those from disinvestment, small savings schemes, etc.	(1) Repayment of loans borrowed earlier (2) Loans given to other governments (3) Capital expenditure on social and economic services (4) Capital expenditure on defence

Note that the expenditure of central government is classified into non-plan and plan expenditures as per changes made in the budget of 2016. On the other- hand, the expenditure of state governments is classified into developmental and non-developmental expenditures.

Question 3.
Write a note on budget of a state government in India.
Answer:
Budget of the State Governments in India:
The Indian states have less productive income sources than the centre while they have greater responsibilities to fulfill in several sectors. The ‘ following table gives an idea of the accounts of a state budget.

Current (Revenue) Account of State Budget ↓	
↓ **Income (Credit)**	↓ **Expenditure (Debit)**
(1) Share which a state receives from tax revenue of centre upon recommendations of finance commission	**(1) Developmental expenditure:** (A) Social services like education, health, nutrition, family welfare, water supply, sanitation, welfare of SC, ST, OBC, etc. (B) Economic services like, agriculture, rural development, irrigation, industry and minerals, transport and communication, science, technology and environment, etc.
(2) Taxes of the state (A) Tax on agricultural incomes which does not exist at present (B) Land revenue (C) Stamp duty (D) State excise duties (E) Sales tax/Value added tax (F) Vehicle tax (G) Electricity duties (H) Entertainment tax (I) Others **(3) Other Incomes:** Grants from other governments, gifts, etc.	**(2) Non-developmental expenditures** (A) General services like administration, interest payments, pensions, fiscal services, etc. (B) Other expenses which also includes grants given to states

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Note that the expenditure of state governments is classified into (1) Developmental expenditures and (2) Non-developmental expenditures.

Question 4.
Explain the various types of deficits in a budget.
Answer:
Types of budget deficits:
An unbalanced budget can be either surplus or deficit.

The types of deficits in a budget with specific reference to India are:
1. Revenue deficit:

- When the total expenditure of the government on revenue (current) account is more than total receipts of the government on the revenue account it results in revenue deficit.
- Revenue account contains current transactions of the government. A deficit in this account means that the government is not able to meet its routine ‘ expenditures from its current income.
- Revenue deficit shows’ inefficient working of government.

Solution:
Revenue deficit can be overcome by increasing borrowings on the capital account.

2. Budgetary deficit:
When the total expenditure (current as well as capital) is greater than the . total income (current as well as capital) it results in budgetary deficit.

Solution:
The central government undertakes deficit financing (i.e. borrows from RBI) to meet this deficit. The state governments borrow more from the central government which is then called overdraft.

3. Fiscal deficit:

- When a government's total expenditures exceed the revenue that it generates, excluding money from borrowings, it gives rise to,fiscal deficit.
- Thus, Fiscal deficit = Total expenditure – Total income (excluding market borrowings).
- The borrowings that a government does from the market are considered as income on the capital account. In fact this borrowing is a debt created by the government and must not be included as a source of income.

4. Primary deficit:

- Primary deficit is a relatively new concept in the Indian budget.
- The difference between fiscal deficit of the current year and interest payments on the previous borrowings is called primary deficit.
- Thus, Primary deficit = Fiscal deficit – Interest payments
- The interest payment is an important part of government expenditures. However, these expenditures actually do not incur on current activities but are an inevitable burden to be paid for amounts borrowed in the past.
- Hence, the concept of primary deficit takes out interest payments from fiscal deficit.
- This concept does not have an impact on the policy.

Question 5.
Write a detailed note on important aspects pertaining to enforcement of Goods and Services Tax (GST) in India.
Answer:

- India introduced GST from July 1,2017 after making amendment in the constitution.
- GST replaced about 17 different indirect taxes which were imposed by the central and state government in India.

Some important enforcement areas of GST in India:
1. Respective rates of central and state indirect taxes were determined by the centre and state with different considerations.

- Since one single GST was applied on the entire country, it became necessary for the government to set up a nodal agency to determine GST rates and regulate the GST procedures.

- This nodal agency came in the form of GST council. The finance minister of India was made its chairperson whereas the finance ministers of states were made its members. The council meets every three month.

2. Rates of GST:
There are five different rates of GST applied on various types of goods and services. They are:
1. Zero GST:
The government does not charge GST.on certain goods and services and hence they fall under the zero (0%) GST rate.
Example:
Certain agricultural goods like vegetables, fruits, cereals, education and health services.

2. Levels of rates:
The goods and services not exempted from GST attract 5%, 12%, 18% or 28% depending on the type of needs which they satisfy. The highest GST rate of 28% is imposed mostly on entertainment and luxury goods and services.

3. Compensation to states:
With the introduction of GST it was calculated that some states may incur loss in revenue. Hende the government decided to provide compensation to such states for 5 years since the introduction of GST.

4. Goods and Services kept outside the realm of GST:
In the initial phase, government has not levied GST on certain goods and services. These are to be taxed according to the earlier rates of various indirect taxes. Gradually these goods may be brought under the purview of GST.

These goods are:
(a) Alcohol and
(b) Petroleum products (petrol, diesel, crude, Aviation Turbine Fuel (ATF) and natural gas)

❖ Chapter 11:Economic Thoughts

1. Choose correct option for the following from the options provided :

Question 1.
During the great depression, economic thoughts on expenditure, income ‘ and employment were given by:
(A) Prof. Adam Smith
(B) Prof. Marshall
(C) Prof. Keynes
(D) Prof. Robbins
Answer:
(C) Prof. Keynes

Question 2.
Which is the leading work on Economics in India?
(A) Manusmruti
(B) Kautilya’s Arthshashtra
(C) Shukra-niti
(D) Ramayan
Answer:
(B) Kautilya’s Arthshashtra

Question 3.
How many sources of income of the state did Kautilya show?
(A) 7
(B) 5
(C) 9
(D) 8
Answer:
(A) 7

Question 4.
Who is the author of the book “Unto the last”?
(A) Thoreau
(B) Ruskin
(C) Tolstoy
(D) Gandhiji
Answer:
(B) Ruskin.

Question 5.
Who gave the theory of Trusteeship?

(A) Kautilya
(B) Pandit Deendayal
(C) Gandhiji
(D) Keynes
Answer:
(C) Gandhiji

Question 6.
Which was the theory given by Pandit Deendayal with reference to Labour Oriented Production method?
(A) Work for everyone
(B) Food for everyone
(C) Rest for everyone
(D) House for everyone
Answer:
(A) Work for everyone

Question 7.
Who was the patron of ‘Integral Humanism’?
(A) Gandhiji
(B) Pandit Deendayal
(C) Kautilya
(D) Prof. Marshall
Answer:
(B) Pandit Deendayal

2. Answer the following questions in one sentence :

Question 1.
Which Indian litreature refers to the thoughts related to Economics?
Answer:
‘Shantiparva’ in ‘Mahabharat’, In ‘Manusmruti’, ‘Shukra-niti’, ‘Kamandikiya’, Arthshashtra, etc.

Question 2.
Who compiled and published the whole ‘Kautilya’s Arthshastra’? And when?
Answer:
Pandit Shyam Shashtri obtained the 15 volumes of Arthshashtra from oriental library of the king of Mysore. He then complied it in 1909 and published whole Arthshashtra of Kautilya.

Question 3.
Define : 'Arthshashtra' according to Kautilya.
Answer:
"The intention of a human being is 'arth'. Also, the piece of land with human settlement is called 'arth'. So, the science that gives solutions related to maintenance of land and attaining benefits from land is Arthshashtra.

Question 4.
Define : External charges according to Kautilya.
Answer:
According to Kautilya, external charges are taxes for goods produced in a country.

Question 5.
Which thoughts of Thoreau did Gandhiji implement?
Answer:
Gandhiji adopted the idea of 'simple living and high thinking' from Thoreau's works.

Question 6.
Define : Gandhiji's ideas on Sarvoday.
Answer:
Through Sarvodaya, Gandhiji had a vision of a non-violent society in which the helpless, poor and needy are uplifted to a state of wellbeing. Thus, 'Sarvodaya' aims at social development. The ideas of renunciation, service, reducing dependence on machinery, protection of labour, decentralization of power and prevention of exploitation.

Question 7.
Which is the third option suggested by Pandit Deendayal as a solution to the economic problems in India?
Answer:
Capitalism and socialism are the two practical systems followed by the world for achieving economic goals. Pandit Deendayal presented a third option or say a third system that a nation can follow. Pandit Deendayal suggested the system of 'an integral economic policy' which is based on 'integral humanism' as a third option to overcome difficulties caused due to capitalism and socialism.

Question 8.
According to Pandit Deendayal, which method is more applicable for production in India.
Answer:
Pandit Deendayal suggested that the state should decentralize its power by allowing people to decide how much to produce, distribute and consume. The producer of commodities will only have control over production and distribution so that he can prevent wasteful consumption.

3. Answer the following questions in short :

Question 1.
The king should take care of which factors during the establishment of statehood?
Answer:

Question 2.
According to Kautilya, how should a city be developed?
Answer:

- Through the thoughts expressed in ‘arthshashtra’ it is quite clear that Kautilya’s ways and thoughts were inspired by economic problems and political concerns.
- He tried to incorporate even the minutest details in building a progressive and modern state.
- He gave theories which have universal acceptability and are applicable even in present times.
- Even though he served the Magadh state and created ‘Arthshashtra’ for Magadh, and for Emperor Chandragupta Maurya, he wished that his work on economics could be of use to those kings who desired timeless victories and a proper management of the state.
- Moreover, Kautilya opposed tax evasion and hiding assets from the state.

Question 3.
Explain : There is nothing like ‘Gandhism’.
Answer:
Gandhism:

- Gandhiji's way of life was based on ethics. Hence, he accepted ethical science as the base of the science of politics and economics.
- Gandhiji's simple way of life in social, economic and political terms is popularly known as 'Gandhism'.
- However, unlike other economists Gandhiji did not give a specific ideology or principles of economics. Also, he did not classify his ideology into any ' specific categories.
- He neither wanted to promote 'Gandhism' nor wished to have his own followers.
- He did not claim that he had discovered any new theory or ideology. He simply tried to apply the eternal truths as solutions to life's routine problems.
- Based on these facts, Gandhism has become a part of economic thought process.

Question 4.
Briefly introduce : Pandit Deendayal.
Answer:
Pandit Deendayal Upadhyay:

- Pandit Der dayal was born on 25th September, 1916. He had a simple yet gentle personality and sparkling eyes.
- He was a profound philosopher, an integral humanist a scholar in politics and economics yet he lived a simple life.
- During his life of just 52 years, Pandit Deendayal worked for the development of the country by involving people from the lowest strata considering the economic condition of those times.
- He presented his ideas on philosophy, economics, sociology and literature. His scholarly skills earned him a name in the areas of social organization, journalism and politics.

Some of his works include:

- Rashtra Jivan Ki Samasyayen
- Devaluation: A Great Fall
- Political Diary
- Rashtra Chintan
- Integral Humanism
- Rashtra Jivan Ki Disha
- Bharatiya Arthniti: Vikas Kl Disha
- Akhand Bharat Kyon?

4. Answer the following questions in brief points :

Question 1.
Which factors should be kept in mind while establishing the statehood?
Answer:
Kautilya laid the following guidelines to be followed by the kings and rulers while establishing a state:

- The king should provide basic resources for development of the state. He should make continuous efforts for the development of agriculture and industry.
- He should excavate mines, develop forestry, cattle rearing and markets.
- The king should also open avenues for import-export trade.
- The king should undertake tasks of constructing water reservoirs for farming, temples and 'dharamshalas' (guesthouses).
- Teachers, priests and soldiers must be exempted from taxes.
- The king should take care of the helpless farmers during natural calamities.

Question 2.
Explain : Gandhiji was an advocate for simplicity and non-possessiveness.
Answer:
Man's greed and race for increasing his material possessions by ignoring all the ethics leads to the problems of economic life.

- Hence, Gandhiji propagated the idea of 'non-possession' and 'consume to satisfy the needs not the greed'.
- To practice what he preached, Gandhiji followed the principle of 'simple living and high thinking' his entire life.
- To explain the relationship between wants and welfare, Gandhiji stated that welfare increases when wants are limited. So he believed real happiness lies in simple living.

Question 3.
Explain : According to Pandit Deendayal limited consumptions the solution to major economic problems.
Answer:

- **Pandit Deendayal proposed that a country should frame a policy to limit the national consumption and hence make itself self-reliant.**
- **Not only developing but even developed nations face problems related to insufficient raw materials, increasing crude prices, inflation, race for armament, product quality as well as increasing national stress and environmental issues.**
- **These countries by limiting their consumption can resolve many of these problems.**
- **Moreover in countries like India, the standard of living of many people is quite low.**
- **Pandit Deendayal believed that if such countries limit their consumption and distribute the production properly then the production could reach more people and hence the standard of living can be improved.**
- **Thus, limited consumption can bring solution to major economic problems.**

Question 4.
Describe : The opinion of Pandit Deendayal related to 'Ownership of assets'.
Answer:
Ownership of assets:

- **In a capitalist system, the wealth i.e. property or assets are privately owned without state control. On the other hand, the socialist system believes that wealth or property owned by private individuals is the cause of all the economic problems. Hence, in socialist system the wealth is owned by the state and not private individuals.**
- **As per Pandit Deendayal, it is not right for the state to completely take over the ownership of wealth from private owners. Doing so, the individuals will lose their willingness to work. Moreover, they would also lose their dignity of entrepreneurship, economic safety and hence will remain dissatisfied.**
- **He suggests that people must be allowed to own private wealth but, limits must be set on holding it. Such limits must be determined on the basis of human values.**

- The state should decide such a limit on holding private property which . does not makes one feel deprived of his wealth. Failing to do so can lead to destruction of human beings.
- He believed that if there is no control of the state on the amount of wealth an individual can possess and if the individual uses his wealth as and way he wishes to than it would destroy the ethical and intellectual character of the society. To overcome this he suggests a lawful method for social governance and absolute decentralization of power in setting such limits.

5. Answer the following questions in detail :

Question 1.

Explain Kautilya's thoughts on State treasury and Taxation policy.

Answer:

(A) Kautilya's thoughts about state treasury:

As per Kautilya, the state treasury plays a very important role for maintaining prosperity and safety of the state. The unity, stability and administration of the state are directly dependent on the state treasury. He said there are seven sources of income for the state.

They are:

1. Towns
2. Villages
3. Irrigation
4. Mines
5. Forest
6. Animal husbandry and
7. Trade and Commerce.

Kautilya provided following guidance to the kings for growth and maintenance of treasury:

- The king should guard his treasury and always develop new means to increase it.
- The king should collect taxes once in a year.
- The king should not use forceful methods to increase the treasury.
- The king should be gentle while collecting taxes from regions facing famine and drought.

- **The king should use public property, promote trade and use gifts, penalties, fines and rewards, production of cash crops, etc. for increasing the state treasury.**
- **The state treasury mainly consists of physical (tangible) goods and therefore it is necessary to preserve such goods in proper warehouses and use them for public welfare as and when required.**
- **Kautilya also specified the rates of taxes for various categories of workers. For example, he suggested, to collect 1 /4th of the agricultural production as tax from individual farmers. He also suggested to collect one-half of the produce of individual manufacturers of cotton, wool, silk, wax and medicines as taxes.**
- **Even today, Kautilya's thoughts of a welfare state are used by a state for its people.**

(B) Kautilya's thoughts about taxation policy:

- **Kautilya gave clear principles of taxation that a state should follow. These principles include short term and long term tax policies, tax limits and tax rates that a king may impose.**
- **He also gave provisions for increasing tax rates during emergencies.**
- **As per Kautilya, the king should collect taxes from citizens as ripened fruits are collected from orchards while keeping in mind the economic ability of citizens to pay taxes.**
- **His taxation policy was such that it made the taxation process simple and less expensive.**

Kautilya suggested the following types of taxes in the tax structure:
1. Land tax:

- **Kautilya had framed rules to decide the proportion of taxes. He framed these rules on the basis of the type of land, its productivity, type of product produced, availability of irrigation facility and irrigation type.**
- **He also proposed tax exemptions as an incentive to increase productivity.**

2. Import-export taxes:
Kautilya classified import-export taxes as follows:
(a) External charges (taxes): For goods produced in the country.
(b) Internal charges (taxes): For goods produced in the state or the capital.

(c) 'Aatithya' charges (taxes): For goods imported from foreign regions or states.

- Kautilya gave rules for putting taxes on various commodities on the basis of type of goods and their importance in economic life.
- He also proposed setting up booths for collecting customs and octroi.
- He also proposed rules for road tax and wealth tax.

Question 2.
Explain Kautilya's thoughts on Agriculture and Animal Husbandry.
Answer:
Kautilya's thoughts on agriculture:

- Kautilya considered agriculture as the primary means of livelihood.
- He classified land in two types:
  1. Land under state ownership and
  2. Land under ownership of private individuals.
- He suggested that the state instead of putting the slaves and prisoners behind the bars should use them to till the land owned by the state.
- He believed that land should be used mainly for agricultural purpose and hence the uncultivable land should be made cultivable.
- The king should collect taxes from the farmers only if they cultivate their own land to earn livelihood.

Kautilya's thoughts on animal husbandry:

- Since, animal husbandry is also related to agriculture, it is also a means of livelihood. Hence, it should also be developed.
- In this regard, Kautilya divided animals in three categories namely
  1. Trained/pet animals
  2. Dairy animals and
  3. Wild animals.
- Kautilya also suggested rules and penalties related to animal husbandry.

Question 3.
Explain Gandhiji's thoughts related to use of machinery.

Answer:
Gandhiji's thoughts related to use of machinery:

- According to Gandhiji the 'Era of Machines' was called so because machines dominated the production during that era.
- Some critics considered him as a person who opposes machines however, he was not against the machines but against inappropriate use of machines.
- He was against the thoughtless use of machines which replaced human labour and made labourers unemployed.

Gandhiji's views regarding use of machines:
(A) Gandhiji recommended that such basic and simple machines should be used which could be owned and used by poor producers.

(B) According to him, those machines which facilitate the work of labour must be employed but those which replace labour and make labourers unemployed should not be used widely.

(C) Gandhiji did not oppose machines which were used for welfare of the poor.

(D) Machinery which reduce physical labour and saves time and funds should be widely employed. But at the same time he asked the society to beware against the use of machines which enhanced profits of a single individual or few individuals. As per him machines must be used for benefitting the society as a whole.

(E) He was against the use of machines which led to concentration of economic / power in the hands of a few people. He believed such machines become a means of exploitation of the poor by a few profit motivated rich people.
He asserted that machines are for human beings and human beings are not for machines and hence machines must not be used so widely that human beings become highly dependent on machines.

Question 4.
Explain the Theory of Trusteeship given by Gandhiji.
Answer:
Gandhiji's doctrine of trusteeship:

- **Trusteeship is a socio-economic philosophy that was put forward by Gandhiji. This philosophy provides a means by which the wealthy people would be the trustees of trusts that looked after the welfare of the peopleJn general. He gave this principle by taking inspiration from the 'Bhagwad Gita' and the 'Ishopanishad'.**
- **As per the ishopanishad, 'All that is created on the earth is because of God and hence we must relish it after surrendering it'.**
- **Through the doctrine of trusteeship, Gandhiji says that if a person has inherited and accumulated large amount of wealth he should form a trust of excess wealth and use it for the betterment of the deprived.**
- **He also said that a person requires only as much wealth as is necessary for a dignified living and that the excess wealth belongs to the society.**
- **The owners of wealth and capitalists can voluntarily act as trustees of their wealth. These trustees should be allowed to maintain their possessions. Then the trustees should use their talent to increase the wealth, not for their own sake but for the sake of the nation that too without exploitation.**

Important aspects of Gandhiji's doctrine of trusteeship:

1. Convincing the rich (Change of heart):

- **Gandhiji was a worshipper of truth and non-violence. He advocated that a person needs to voluntarily follow the principle of trusteeship i.e. not by force or unwillingness.**
- **The philosophy of trusteeship was Mahatma Gandhi's unique contribution as a tool to social change. He called it 'the technique of change of heart'.**
- **He did not consider it appropriate to seize the wealth of rich or collect it by imposing high taxes on the rich and then redistributing it.**
- **Trusteeship to him meant – 'Being responsible for one's life, as well as for the life of the neighbour'. The rich can accumulate wealth because of resources obtained from the society and because some people remain poor. Hence the excess wealth of the rich must be used for benefitting the poor by forming a trust. Then the rich should themselves undertake activities for the welfare of the poor.**

2. Duty instead of right:
As per Gandhiji the rich should feel the responsibility of using the excess wealth for benefits of the society rather than just maintaining their right over wealth.

3. Awareness, referendum and social change:

- Trusteeship is a source of revolution or radical social change.
- One cannot enforce it. One should take it up voluntarily for bringing the social change.
- Gandhiji did not promote the idea of very high taxes and forceful seizure of wealth of the rich.
- He believed that a public opinion can be built for bringing about a social change

4. Importance of the interest of the whole society:

- Gandhiji believed in working for the greater good. He believed that it was good that a large number of people get the benefit of welfare instead of few individuals.
- Hence, Gandhiji emphasized on large scale production of goods which could fulfill the necessity of the large population.

5. Compensation to the trustee:
Gandhiji believed that the state should have provision to compensate the trustees for their service.

6. Opposition to nationalization:

- Nationalization refers to transferring ownership of resources owned by private individuals to the state.
- Gandhiji opposed the idea of nationalization of resources for production and abolishing the property rights owned by the private individuals for bringing economic equality in the state.
- He believed such nationalization would decrease the morals and ethics of people and turn them against the state.
- Gandhiji opined that he would allow rich capitalists and landlords to retain the ownership of their possessions but would convince them to become trustees and use their wealth for good of the society.

7. Appointing the successor:

- Gandhiji's idea of trusteeship aimed at appointing a successor to the wealth of the trust.
- According to him, the legal owners of wealth should become the official trustees. The trust should not be entrusted to the society or the state.
- The actual owner should act as a representative of the society. This way the society will own the resources indirectly.
- The current trustee can name the successor who would be the trustee after her/his death. The new trustee would also be a representative of the assets of the trust and not the owner of the assets. The state must monitor the functioning of the trust.
- The state or society cannot seize the property of the trust. The successor should be appointed through a legal procedure.

8. State control:

- When the owners do not form a trust of their wealth voluntarily, the state under certain cases can direct the use of private wealth with minimum force or violence.
- Gandhiji suggested this only for some forms of wealth and not for all types of wealth. This can be done after evaluating the ways in which wealth was accumulated.
- The state can take control of some types of private property after providing adequate compensation to the owner.
- In the context of principle of trusteeship, Gandhiji stated three forms of ownership. They are:
  1. Ownership with the private sector
  2. Formation of a trust
  3. Ownership with the public sector.
- Gandhiji also expressed his thoughts regarding, 'Swadeshi movement', co-operation, importance to small, cottage and village industries, equality, dignity of women, etc.
- His thoughts focused on welfare and humanism.
- Modern day economists take reference from Gandhiji's views from tin,e to time to provide a new direction to the world.
- One can also find solutions to the problems of poverty, unemployment, inequality, concentration of economic power, etc. in principles given by Gandhiji.

Question 5.
Describe the objectives suggested by Pandit Deendayal for Indian economy.
Answer:

Objectives of Indian Economy According to Pandit Deendayal Upadhyay:

- As per Pandit Deendayal, capitalism and socialism have failed to soLve the problems of human beings.
- Hence according to Pandit Deendayal, India should neither follow capitalism nor socialism.
- He stated that India needs progress and happiness of her people.

With respect to the above mentioned issues, Pandit Deendayal gave the following objectives that Indian economy should adopt:

1. India should ensure a minimum standard of living to all.
2. Security of the nation must be an important goal.
3. India should make effort to progress gradually. To do so it should develop new methods that helps her to contribute in world development.
4. In order to attain the goal of development, all the young and able people should get the opportunity to work.
5. Natural resources must be used judiciously.
6. India should adopt such production processes which are in accordance with the factors of production.
7. Human beings must not be neglected in economic planning. In fact economic planning must take into consideration the social, cultural and other values of human life.

India should adopt a practical approach to decide whether the ownership should be given to the state or private individuals or to organizations in various sectors.

- Pandit Deendayal also suggested ways for develpping agriculture, industry, marketing, rural economics and 'concept of swadeshi'.
- Many states have implemented schemes based on his ideology.
- On 16 October, 2014 India launched 'Shramave Jayate' plan which was based on Pandit Deendayal's theory of importance of labour and employment to all.
- In the honour of Pandit Deendayal India also launched 'Deendayal Upadhyay Gram Jyoti Yojana' for the development of agro and rural industries.

- **Till date solutions of various economic problems can be found in Pandit Deendayal's economic thoughts.**