

M : 9810877918

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# ECONOMICS-XII

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*Application Based Questions*

For Session 2015-16

*Sharma Education Point: Raj Nagar-II, Palam Colony New Delhi: 9810877918*

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# MICRO ECONOMICS

**Q1. Massive unemployment will shift the PPF to the left. Defend or refute.**

Ans. The given statement is refuted. Massive unemployment does not decrease the capacity of economy to produce. So, there will be no shift of PPF. However, economy will operate at some point inside the PPF, due to unutilisation of human resources.

**Q2. What is the opportunity cost of an input which has no alternative use?**

Ans. The opportunity cost of such input is zero.

**Q3. Utility is directly linked with the usefulness of a commodity. Is it true or false? Give reason.**

Ans. False. A commodity may not be useful, yet it may have utility for a particular person. For example, chewing tobacco is harmful for health, yet many people derive high degree of utility from it.

**Q4. In order to encourage tourism in Goa, Indian Airlines reduces the air fare to Goa. How will it affect market demand curve for air travel to Goa ?**

Ans. There will be a downward movement along the same market demand curve for air travel to Goa. It happens because of decrease in the air fare.

**Q5. At certain level of output, the marginal cost of a firm is above its marginal revenue. Can this be its equilibrium output ?**

Ans. No, it can not be its equilibrium output because the marginal cost exceeds the marginal revenue. The firm is running at a loss.

**Q6. Trendz produces both jeans and shirts. How will an increase in the price of jeans affect the supply curve of shirts ?**

Ans. An increase in the price of jeans will make the production of jeans more attractive. As a result, Trendz will shift its resources from shirts to jeans. It will shift the supply curve of shirts towards left.

**Q7. A severe drought results in a drastic fall in the output of wheat. Analyze how it will affect the market price of wheat.**

Ans. Market price of wheat will increase (due to decrease in supply).

**Q8. What will be the effect on equilibrium price and equilibrium quantity of telephone instruments ,if China exports a large number of telephone instruments to India.**

Ans. Equilibrium price will fall and equilibrium quantity will rise(due to increase in supply).

**Q9. ‘Both, microeconomics and macroeconomics have same degree of aggregation’. Defend or refute.**

Ans. The given statement is refuted.

- Micro economics involves limited degree of aggregation. For example, market demand (micro concept)is derived by aggregating individual demands of all the buyers in particular market.

- On the other hand , macro economics involves the highest degree of aggregation. For example, aggregate demand(macro concept)is derived for the entire economy. **It means ,micro economics and macro economics differ in degree of aggregation.**

**Q10. “Law of demand is a quantitative statement”. Comment.**

Ans. Law of demand is only an indicative and not a quantitative statement. It indicates only the direction, in which the demand will change with a change in price. It says nothing about the magnitude of such a change. For example price of Pepsi rises from Rs 10 to Rs 12 per bottle, then, as per law of demand, we can say that the demand for Pepsi will fall. But the law does not give the actual amount by which the demand for Pepsi will decline.

**Q11. “MC can be calculated both from total cost and total variable cost and is not affected by total fixed cost.” Discuss.**

Ans. The given statement is correct. MC is not at all affected by total fixed cost (TFC). MC is addition to TC or TVC when one more unit of output is produced. As TFC remains same with increase in output, MC is independent of fixed cost and is affected just by change in variable costs.

**Q12. Why AR curve under monopolistic competition is more elastic than AR curve under monopoly?**

Ans. The AR curve under monopolistic competition is more elastic because there exists close substitutes of the product sold by the monopolistic firm whereas under monopoly the AR curve is less elastic because there is non-availability of close substitutes of the product sold by the monopoly firm.

**Q13. How does a firm under monopolistic competition exercise partial control over price?**

Ans. A monopolistic competitive firm enjoys partial control over price. It happens because by incurring heavy selling costs, the firm is able to create a differentiated image of its product in the minds of consumers. Products are differentiated on the basis of brand ,size, color, shape, etc. Buyers are attracted to buy a particular product even at a relatively higher price.

**Q14. Why is number of firms small in an oligopoly market ?**

Ans. The main reason for small number of firms under Oligopoly is the Barriers to entry, which prevent entry of new firms into the industry. Patents, requirement of large capital, control over crucial raw materials, etc, are some of the other reasons, which prevent new firms from entering into industry. As a result ,there are few firms in an Oligopoly market.

**Q15. “Demand and supply are like two blades of a pair of scissors”. Comment.**

Ans. The given statement is correct. Both the blades of pair of scissors are equally important to cut a piece of cloth. Similarly ,both demand and supply are needed for determining price in the market. There is no use for demand for a product if there is no supply for the product and supply is not needed if there is no demand for the product. One of the two may play more active role in price determination in the short run. But both are needed to determine the price in the long run.

## **MICRO ECONOMICS**

**Q1. Ms. Nidhi is interested in knowing the change in quantity produced by a farmer with a fall in the price of the product. Which branch of economics would she study to ascertain the change?**

Ans . Micro Economics

**Q2. Give an example to show that an item which is kept constant in micro economics is considered a variable in macro economics.**

Ans. National Income is kept constant in micro economics, but in macro economics, it is considered as an important variable.



**Q3. What is the rationale for not taking into account the value of intermediate goods in the measure of Gross Domestic Product?**

Ans. To avoid the problem of double counting.

**Q4. Will the commission given to a broker for sale of an old house be included in national income?**

Ans. Yes, it will be included in national income as it is a payment for productive service received.

**Q5. Why leisure is not included in Gross National Product?**

Ans. It is very difficult to measure the value of leisure.

**Q6. State whether money supply is a stock variable or flow variable?**

Ans. Money supply is a stock variable because it is expressed at particular point of time.

**Q7. What will be the effect of a rise in the bank rate on money supply?**

Ans. Money supply will reduce.

**Q8. Can the value of Average Propensity to Consume be greater than one?**

Ans. Yes, the value of APC can be more than 1. At low levels of income; consumption tends to be more than income. So,  $APC > 1$  before the break-even point is attained.

**Q9. Can Average Propensity to Consume be ever zero?**

Ans. APC can never be equal to zero as consumption can never be zero at any level of income.

**Q10. What happens when the credit availability is restricted and credit made costlier?**

Ans. Limited and costly credit leads to contraction of credit and it has a deflationary impact on the economy.

**Q11. Why is an entertainment tax, an indirect tax ?**

Ans. The burden of entertainment tax can be shifted to other persons (ultimate consumers).

**Q12. The price of 1 US Dollar has fallen from Rs 50 to Rs48.Has the Indian currency appreciated or depreciated?**

Ans. Indian currency has appreciated.

**Q13. Why are exports entered as positive items in the balance of payments accounts?**

Ans. Exports lead to an inflow of foreign exchange in the country. Thus they are recorded as positive (credit) items.

**Q14. How is purchase of an asset in another country treated in the capital account?**

Ans . Purchase of an asset in a foreign country appears as a negative (debit) item in the capital account (as there is an outflow of foreign exchange).

**Q15. Should a current account deficit be a cause for alarm? Explain.**

Ans. Since deficit in current account is met by the surplus of capital account, it is not taken as a cause for alarm.

**Q16. How does real flow consist of factor flow and product flow?**

Ans . Real flow consists of two kinds of flows:

(i)Factor flow :It is the flow of factor services from households to firms.

(ii)Product flow :It is the flow of goods and services from firm to households.

**Q17. “All producer goods are not capital goods.” Comment.**

Ans. It must be noted that all goods used by producer (known as producer goods) are not capital goods. Producer goods include ( i)Raw material;(ii)Fixed assets like plant and machinery .The first type of producer goods (i.e. raw material, like coal, wood etc.),are not capital goods as they lose their identity in the production process. They are single- use producer goods and cannot be repeatedly used in the production process. So, it can be said that all capital goods are producer goods, but all producer goods are not capital goods.

**Q18. Why do we have different methods to measure the national income ?Why all the methods lead to same estimate ?**

Ans. We have three different methods to measure the national income(value added method, income method and expenditure method )because production, income and expenditure are three different phases of circular flow of income. Use of particular method depends on the availability of reliable data.

All the three methods lead to same estimate because they are used to measure the same physical output at three different phases.

**Q19. The Reserve Bank of India aims to make the credit costly for the general public in order to reduce the availability of credit. What should be done ?**

Ans. The Reserve Bank of India should increase the bank rate. An increase in the bank rate increases the costs of borrowing from the central bank. It forces the commercial banks to increase their lending rates, which discourages the borrowers from taking loans. It makes the credit costly for the general public and reduces the availability of credit.

**Q20. If inflation is higher in country A than country B ,and the exchange rate between the countries is fixed .What is likely to happen to the trade balance between the two countries ?**

Ans. In this situation, the exports from country B to country A will rise and it will lead to surplus trade balance for country B. However , due to higher prices in country A ,its imports will increase from country B and it will lead to deficit in trade balance for country A.

*Prepared by  
V K Sharma  
(Sharma Education Point)  
M: 9810877918*