

ECONOMIC ANALYSIS

PART-A

TWO MARK QUESTIONS:

1. State Alfred Marshall's definition of economics?

Alfred Marshall defines economics as, "A study of mankind in the ordinary business of life". An altered form of this definition is, "Economics is a study of man's actions in the ordinary business of life".

2. What is meant by capitalist economy?

A capitalist economy is an economic system in which the production and distribution of commodities take place through the mechanism of free markets. Hence it is also called market economy or free trade economy.

3. List the basic features of socialism.

The basic features of socialism are:

- a. Social welfare motive;
- b. Limited right to private property;
- c. Central planning;
- d. No market forces.

4. What is meant by mixed economy?

In a mixed economy, both the public & private institutions exercise economic control. The public sector functions as a socialist economy & the private sector as a free enterprise economy. All decisions regarding what, how & for whom to produce are made by the state.

5. Define consumer's surplus.

Marshall defines consumer's surplus as, "The excess of price which a person would be willing to pay rather than go without the thing, over that which he actually pay, is the economic measure of this surplus of satisfaction. It may be called consumer's surplus.

6. Define indifference curve.

An indifference curve is the locus of different combinations of commodities giving the same level of satisfaction.

7. What is demand?

Demand for a commodity refers to the desire backed by ability to pay & the willingness to buy. If a person below poverty line wants to buy a car, then it is only desire & not a demand as he cannot pay for the car. If a rich man wants to buy a car, it is demand as he would be able to pay for the car. Thus, desire backed by purchasing power is demand.

8. Define law of demand.

Alfred Marshall stated that “the greater the amount sold, the smaller must be price at which it is offered, in order that it may find purchasers; or in other words, the amount demanded increases with a fall in price & diminishes with a rise in price”.

9. Enumerate the determinants of demand.

The demand for any commodity mainly depends on the price of that commodity. The other determinants include price of related commodities, income of the consumers, tastes & preferences of the consumers, & the wealth of the consumers.

10. Define Elasticity of Demand.

The concept of Elasticity of Demand was introduced by Alfred Marshall. According to him “the Elasticity of Demand in a market is great or small according as the amount demanded increases much or little for a give fall in price, & diminishes much or little for a give rise in price.

11. Define Price Elasticity of Demand.

The degree of responsiveness of quantity demanded to a change in price is called Price Elasticity of Demand.

Price Elasticity of Demand =

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

12. Define Income Elasticity of Demand.

Income Elasticity of Demand is the degree of responsiveness of demand to the change in income.

Income Elasticity of Demand =

$$\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in income}}$$

13. Define Cross-Elasticity of Demand.

The responsiveness of demand to change in price of related goods is called Cross- Elasticity of Demand.

Cross- Elasticity of Demand =

$$\frac{\text{Percentage change in the quantity demanded of commodity X}}{\text{Percentage change in the price of commodity Y}}$$

14. Mention the types of elasticity of supply.

There are five types of elasticity of supply. They are:

- i. Perfectly elastic supply;
- ii. Relatively elastic supply;
- iii. Unitary elastic supply;
- iv. Relatively inelastic supply;
- v. Perfectly inelastic supply.

15. What is meant by production?

Production in economics refers to the creation of those goods & services which have exchange value. It means creation of utilities. These utilities are in the nature of form utility, place utility, time utility & possession utility. Creation of such utilities results in the overall increase in the production & redistribution of goods & services in the economy.

16. What are the factors of production?

Factors of production refer to those goods & services which help in the productive process. When there is production, a process of

transformation takes place. Inputs are converted into an output. The inputs are classified & referred to as land, labour & capital.

Collectively they are called factors of production.

17. Define labour.

Labour is the human input into the production process. Alfred Marshall defines labour as 'the use or exertion of body or mind, partly or wholly, with a view to secure income apart from the pleasure derived from the work'.

18. Define capital.

Capital is the man made physical goods used to produce other goods & services. Capital means money. In economics, capital refers to that part of man-made wealth which is used for further production of wealth. According to Marshall, "capital consists of those kinds of wealth other than free gifts of nature, which yield income".

19. What are the forms of capital?

There are three forms of capital. They are:

- a. Physical Capital or Material Resources;
- b. Money Capital or Monetary Resources;
- c. Human Capital or Human Resources.

20. Define Law of Variable Proportions.

Law of Variable Proportions is defined as, 'As the proportion of one factor in a combination of factors is increased, after a point, first the marginal & then the average factor of that factor will diminish.'

21. Define Monopoly.

Monopoly is a market structure where there is a single seller who may be an individual or a partnership or a joint stock company producing commodities that have no close substitutes. There are barriers to entry of firms. The firm & the industry are same under monopoly.

22. Define Price Discrimination.

Price Discrimination may be defined as “the sale of technically similar products at prices which are not proportional to marginal cost.”

E.g.: all cinema theatres different price for different classes of people.

23. State Product Differentiation.

Product Differentiation is the essence of monopolistic competition.

Product Differentiation is the process of altering goods that serve the same purpose so that they may differ in minor ways.

24. Define Population.

The term Population refers to the whole number of people or inhabitants in a country or region during a particular period.

25. Define National Income.

National Income is a measure of the total value of goods and services produced by an economy over a period of time. According to the National Income Committee of India, “National Income estimate measures the total volume of commodities & services turned out during a given period counted without duplication.”

26. What are the methods of calculating National Income?

There are three different methods of calculating National Income. They are:

1. Product or Output Method;
2. Income Method;
3. Expenditure Method.

PART-B

FIVE MARK QUESTIONS:

1. Nature & Scope of economics?

Scope:

Man's behaviour as rational social being.

2. Features of capitalist economy (for trade economy)?

Profit motive

Right to private property

Freedom of choice

Market forces

Minimum role of government.

3. Merits & Demerits of socialist economy (command economy)?

Merits:

Efficient utilization of resource

Economic stability

No profit motive

Basic needs

Social welfare

No extreme inequality

Demerits:

Bureaucratic expansion

No freedom

Absence of technology.

4. Definition of economics?

Wealth definition	-	Adam Smith
Welfare definition	-	Alfred Marshall
Scarcity definition	-	Lionel Robbins
Growth oriented definition	-	Paul Samuelson

5. Law of diminishing marginal utility – Alfred Marshall?

“The additional benefit which a person derives from a given increase in stock of thing diminishes with every increase in the stock that he already has”

Marginal utility – additional utility obtained from one particular unit of a commodity.

6. Demand?

Desire backed by purchasing power is demand.

Low demand: Price demand & viceversa.

Assumption of Demand:

- (i) Income
- (ii) taste, preference
- (iii) price of alternates, substitute & complementry & related goods remains unchanged

(iv) no expectation in future change in price

(v) commodity not consumed for prestige value

(i) Demand schedule

(ii) Demand curve

7. Concept of opportunity cost?

(i) The opportunity cost of anything is only the next best alternative forgone and any other alternative.

(ii) The opportunity cost of a good should be viewed as the next best alternative good that could be produced with the same value of factors which are more or less same.

1. Time element & cost of production:

Very short period: The period in which output cannot be adjusted in change in demand.

Short Period:

The period of time during which production can be changed by changing the quantities of variable factor and not a fixed factors.

Long Period:

The period which is long enough for the inputs of all factors of production to be varies. Here no factor is fixed.

Fixed cost: (Cost do not vary with output)

Expenses incurred on fixed factors of production eg: rent, interest, insurance, salaries.

Variable cost: (Cost vary with output)

Expenses incurred in the variable factors of production.

Eg: low material, power & fuel, wages for daily labour.

8. Various forms of Market?

Structure:

- 1) Perfect competition
- 2) Monopoly
- 3) Monopolistic competition
- 4) Oligopoly

Perfect competition: Large number of buyer and sellers.

Monopoly: Seller has full control over supply.

Monopolistic Competition: Large number of sellers selling differentiated product.

Oligopoly: Few firms producing differential or closely differential goods.

9. Inflation?

Price level of economy goes on rising continuously.

Demand Pull:

aggregate demand exceeds

aggregate supply

Cost push:

aggregate demand remaining

unchanged but fall in aggregate supply

10. Credit control?

Quantitative

Qualitative

Bank Rate

Moral suasion

Variation in C.R.R.

Open Market Operation

11. Fisher's theory of money?

$$MV = PT \quad T = \text{constant variable}$$

- i) Velocity of circulations of money depends on the spending habit of people.
- ii) T or GNP will be constant in situation of full employment if all available factors of production are fully employed.
- iii) Fisher's theory assumes that money is demanded for transaction purpose only.

12. Functions of money?

- i) Medium of exchange
- ii) Measure of value

13.iii) Standard of deferred payment Equilibrium price order P.C in short run?

$$MC = MR$$

MC curve cuts MR curve from below supernormal profit. AR of firm exceeds the AC of the firm when (AC lies below the AR curve)

$$R. \text{ Total Profit} = TR - TC$$

$$(AR \times Q) - (AC \times Q)$$

Loss:

AC of cost has to be greater than AR