

ECONOMICS – FOUNDATION
(Attempt All Questions)

TOTAL MARKS- 50

DURATION 90

MINUTES

Q. 1 Fill in the blanks-
MARKS

10

1. The seller of Giffen goods will face **Upward** sloping Demand Curve.
2. Goods having income elasticity less than zero are known as **Inferior / Giffen** goods.
3. Cross Price elasticity between two complementaries is always **Negative**.
4. Means are capable of **Alternative** uses.
5. Robbins treats Economics as **positive** science.
6. **Marshall** has given Outlay Method of measuring Elasticity of demand.
7. Necessities have **Inelastic** demand.
8. When Total utility is maximum, Marginal utility is **Zero**.
9. Wealth Definition of Economics is given by **Adam Smith**.
10. Cross Price elasticity between two perfect substitutes is **Infinity**.

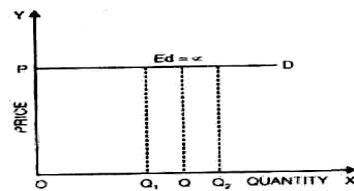
Q. 2 State Correct or Incorrect in respect of following. 10 MARKS

1. Economic laws are based on 'Ceteris Paribus' principle. **T**
2. 20% fall in price brings zero % increase in demand. It indicates perfect elasticity. **F**
3. In Inductive Method, economists move from Particular to general. **T**
4. Utility is morally colorless. **T**
5. Arc elasticity method is suitable when there are very small price variations. **F**

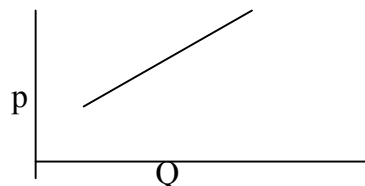
Q3. Draw a Diagram of-

5 MARKS

A. Perfectly Elastic Demand Curve.



B. Exceptional Demand Curve



1. Normative Economics

As normative science, Economics involves value judgments. It is prescriptive in nature and described 'what should be the things'. For example, the questions like what should be the level of national income, what should be the wage rate, how the fruits of national product be distributed among people -all fall within the scope of normative science. Thus, normative economics is concerned with welfare propositions. Some economists are of the view that value judgments by different individuals will be different and thus for deriving laws or theories, it should not be used.

2. Features of Capitalism

FoP pvt owned
Freedom of enterprise
Competition
Laissez faire policy
Consumer sovereignty
Profit maximization
Survival of fittest

3. Induction Method

The inductive method is also known as the empirical method. It derives economic generalizations based on experience and observations. In this, data are collected with reference to certain economic phenomena and finally generalizations are derived from the collected data and observations. Here we mount from the particular to the general. From observations we build up through reasoning founded on experience, to formulate generalizations based on observed data. In the inductive method, economic scientists proceed from a particular angle to scientific problems to bridge the gap between theory and practice. Induction is done by either experimentation or the statistical approach and these are the two forms of induction.

4. Uses of Elasticity of Demand

1. **Useful for Business:** It enables the business in general and the monopolists in particular to fix the price. Studying the nature of demand the monopolist fixes higher prices for those goods which have inelastic demand and lower prices for goods which have elastic demand. In this way, this helps him to maximise his profit.
2. **Fixation of Prices:** It is very useful to fix the price of jointly supplied goods. In the case of joint products like paddy and straw, the cost of production of each is not known. The price of each is then fixed by its elastic and inelastic demand.
3. **Helpful to Policymakers:** It helps the Policymakers to levy tax on goods. After

levying taxes more and more on goods which have inelastic demand, the Government collects more revenue from the people without causing them inconvenience. Moreover, it is also useful for the planning. The knowledge of elasticity of demand is very important for the government in such matters as controlling of business cycles, removing inflationary and deflationary gaps in the economy. Similarly, for price stabilization and the purchase and sale of stocks, information about elasticity of demand is most useful.

4. **Fixation of Wages:** It guides the producers to fix wages for labourers. They fix high or low wages according to the elastic or inelastic demand for the labour.
5. **In the Sphere of International Trade:** It is of greater significance in the sphere of international trade. It helps to calculate the terms of trade and the consequent gain from foreign trade. If the demand for home product is inelastic, the terms of trade will be profitable to the home country.
6. **Paradox of Poverty.** It explains the paradox of poverty in the midst of plenty. A bumper crop instead of bringing prosperity may result in disaster, if the demand for it is inelastic. This is specially so, if the products are perishable and not storable.

5. Reasons for Upward sloping Supply Curve

There are three main reasons why supply curves for most products are drawn as sloping upwards from left to right giving a positive relationship between the market price and quantity supplied:

The profit motive: When the market price rises (for example after an increase in consumer demand), it becomes more profitable for businesses to increase their output. Higher prices send signals to firms that they can increase their profits by satisfying demand in the market.

Production and costs: When output expands, a firm's production costs rise, therefore a higher price is needed to justify the extra output and cover these extra costs of production.

New entrants coming into the market: Higher prices may create an incentive for other businesses to enter the market leading to an increase in supply.
