



E.G.S. PILLAY ENGINEERING COLLEGE
 (An Autonomous Institution, Affiliated to Anna University, Chennai)
 Nagore Post, Nagapattinam – 611 002, Tamilnadu.

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1702BA103 ECONOMIC ANALYSIS FOR BUSINESS

Academic Year	2017-2018	Question Bank	Programme	MBA
Year / Semester	I / I		Course Coordinator:	A.Umadevi A/P G.Divya bharathi A/P

Course Objectives	Course Outcomes:
1. To give an insight into demand and supply analysis, forecasting & decision making. 2. To provide students with a basic understanding of various market structures. 3. To provide students with a basic understanding of the macro-economic concepts & Indian government's stabilization policies.	On completion of the course, students will be able to CO1: Interpreting the economic problems impact on business entities. CO2: Apply the economic concepts in day to day running of business. CO3: Understand the product and factor market. CO4: Summarize the circular flow of macroeconomic activity. CO5: Apply the demand and supply analysis in the economic activities. CO6: Describe the monetary policy and fiscal policy.

PART – A (2 Mark Questions With Key)

S.No	Questions	Mark	COs	BTL
1	What is Economics? Economics is the study of how societies use scarce resources to produce valuable goods & services and distribute them among different individuals. Economics is the social science concerned with the production, distribution, and consumption of goods and services.			
2	Define Utility. The total satisfaction derived from the consumption of goods & services is called utility.			
3	List the Forms of Utility. (i) Form Utility (ii) Place Utility (iii) Time utility (iv) Service Utility (v) Possession Utility (vi) Knowledge Utility (vii) Natural Utility			
4	What are the Various forms of Wealth? (i) Individual Wealth (ii) Social Wealth (iii) National or Real Wealth (iv) International wealth (v) Financial wealth			
5	What is PPF? The production possibility Frontier shows the maximum output of any one commodity that the economy can produce together with the prescribed quantities of other commodities produce and the resources utilized.	2	1	K2

6	What is meant by Micro Economics? Micro economics deals with the analysis of small individual units of an economy such as individual, consumers, individual industries and market.	2	2	K2
7	What is known as Macroeconomics? Study of the behavior of the economy as a whole. It examines the forces that affect the firms, consumers & workers in the aggregate.	1	1	K2
	Four Variables	1		
8	What are the Intermediate Variables? □ Fall between the instruments and target variables. □ The intermediate variables include variables like money supply, interest rate, wage rate, savings, investments, bank credit, foreign exchange rate, imports, exports, foreign investments and others	1	1	K2
9	What is meant by Fiscal Policy? □ Taxation and expenditure decisions of the government. □ The government budget should preferably be balanced, that is revenue collected through taxes should be equal to the expenditure made by the government.	1	1	K2
10	What is called Externalities? □ Externalities (or Spillover effects) occur when the firms or people impose costs or benefits on others outside the marketplace □ It involve involuntary imposition of costs or benefits	1	1	K2
11	What is Economic Efficiency? □ Economic efficiency requires that an economy produce the highest combination of quantity and quality of goods and services by given its technology and scarce resources.	2	1	K2
12	What is Scarcity? □ A situation of scarcity is one in which goods are limited relative to desires □ Example	1	1	K2
13	What do you mean by Economic Growth? Economic growth denotes the growth in a nation's total output, while productivity represents the output per unit input or the efficiency with which resources are used.	2	1	K2
14	What are the two types of Economic Policies framed by Government? 1. Fiscal Policy 2. Monetary Policy Meaning for the policies	1	1	K2
15	What are the Variables of Macroeconomics? 1. Target Variables 2. Intermediate Variables 3. Instrument Variables 4. Indicator Variables	0.5 0.5 0.5 0.5	1	K2

UNIT II – CONSUMER & PRODUCER BEHAVIOUR –MICRO ECONOMICS

- 1 **What is Demand?**
Amount of the commodity that a consumer will purchase it at various given prices in a period of time
Demand in economics implies both the desire to purchase and the ability to pay for a good.
- 2 **State the Law of Demand.**
 - According to the law of demand, other things being equal if price of a commodity falls, the quantity demanded of it will rise, and if the price of the commodity rises, its quantity demanded will decline.

Table & Curve

3	What is Market Demand?			
	□ Sum total of demands of all consumers in the market for a commodity at various prices.	1		
	□ By adding up the quantities demanded of the commodity at various prices by all the consumers that buy the commodity in a period of time.		2	K2
4	What is meant by Economies of Scale?			
	-It states that the average unit cost of a good can be reduced by increasing the rate of output	2	2	K2
	-Lowering the costs of production and increasing its productive efficiency			
5	What is Consumer Behavior?			
	□ The study of how individual customers select, buy, use goods & services to satisfy their needs & wants.	1	2	K2
	□ Approaches of consumer behaviour	1		
6	What is Income Effect?			
	When price of a commodity falls, the consumer can buy more quantity of the commodity with his given income or if he chooses to buy same amount of the commodity as before, some money will be left with him because he has to spend less on the commodity due to its lower price.	2	2	K2
7	State the Law of Supply			
	Supply has functional relationship with price, “other things remaining the same, as the price of a commodity rises its supply is extended, and as the price falls its supply is contracted”.	1	2	K1
	Table & curve	1		
8	What is meant by Equilibrium Price?			
	□ The price at which quantity demanded equals quantity supplied is called the equilibrium price, for at this price the two forces of demand and supply exactly balance each other.	1	2	K2
	□ Equilibrium diagram	1		
9	What is meant by Elasticity of Demand & Supply?			
	-A measure of the relative change in amount purchased in response to a relative change in price on a given demand curve.	1	2	K2
	-A schedule of the amount of a good that would be offered for sale at all possible prices at any one instant of time, or during any one period of time, in which the condition of supply remain the same.	1		
10	What are the types of Elasticity of Demand?			
	There are three types of elasticity	2	2	K1
	1. Price elasticity			
	2. Income elasticity			
	3. Cross elasticity.			
11	What is meant by Price Elasticity of Demand?			
	-It measures how much the quantity demanded of a good changes when its price changes	1	2	K2
	-Percentage change in quantity demanded divided by the percentage change in price	1		
	Percentage change in quantity demanded			
	$E_p = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$			
12	Define Marginal Rate of Substitution.			
	Marginal rate of substitution of X for Y as the quantity of Y which would just compensate the consumer for the loss of the marginal unit of X.	2	2	K1
13	What is Market Equilibrium?			
	□ The point at which supply equals demand for a product with the equilibrium price	1	2	K2
	□ Curve	1		

14	Write a definition of Substitutes and Complements. Professor Hicks defines the substitutes and complements; “Y is a substitute of X if a fall in the price of X leads to a fall in the consumption of Y; Y is a component of X if a fall in the price of X leads to a rise in the consumption of Y; a compensating variation in income being made of course in each case”	2	2	K1
15	Define Production Function? According to Stigler “the production function is name given to the relationship between the rates of input of productive services and the rate of output of product. It is the economist’s summary of technological knowledge”.	2	2	K1

UNIT III – PRODUCT AND FACTOR MARKET

1	What is meant by Market? -An arrangement where buyers & sellers interact to determine the prices & quantities of a commodity. -Market refers to a place or locality where a commodity or commodities are bought and sold.	1	3	K2
2	Define Product Market. Product market is where goods and services produced by businesses and are sold to households	2	3	K1
3	Define Perfect Market. Perfect market is where there is a large number of producers producing a homogeneous product Characteristics	1	3	K1
4	List the various Forms of Market. □ Perfect competition □ Imperfect competition Monopoly Oligopoly Monopolistic competition	0.5 1.5	3	K1
5	Define Perfect Competition -Mr. John Robinson writes, “Perfect competition prevails when the demand for the output of each producer is perfectly elastic”. -The number of sellers is large, the second that buyers are all alike in respect of their choice between rival sellers, so that the market is perfect.	1	3	K1
6	What is meant by Oligopoly? The second sub-category of imperfect competition is oligopoly without product differentiation which is also known as pure oligopoly. The third sub-category of imperfect competition is oligopoly with product differentiation which is also called differentiated oligopoly.	1	3	K2
7	What is Monopolistic Competition? A large number of firms produce somewhat different products which are close substitutes of each other -Demand curve is highly elastic - Some control over the price Eg: Different brands of soap	1	3	K2
8	What is Factor Market? Market where services of the factors of production are bought & sold, such as labour markets & capital market. The factors are LLC	1	3	K2
9	What is the meaning of “Land”? Land does not mean only the surface of the soil, but it also includes all those natural resources which are the free gifts of nature include the rivers, forests, mountains and oceans, the heat of sun, climate, weather, rainfall etc	2	3	K1

10	What is Firm's Equilibrium?			
	-The firm has chosen an output at which the marginal revenue is just equal to marginal cost.	1	3	K2
	-That position or level of output in which the firm is maximizing its profit.	1		
11	What is Imperfect Competition?			
	Imperfect Competition is an important market category wherein individual firms exercise control over the price to a smaller or larger degree depending upon the degree of imperfection present in a case.	2	3	K2
12	What is Price Discrimination?			
	It occurs when the same product is sold to different consumers for different prices for increase their profits.	2	3	K2
13	What is Market efficiency?			
	It is the measure of the availability (to all the participants in the market) of the information that provides maximum opportunities to buyers and sellers to effect transactions with minimum transaction costs.	2	3	K2
14	What are the Factors of Production?			
	<input type="checkbox"/> Land	2	3	K1
	<input type="checkbox"/> Labour			
	<input type="checkbox"/> Capital			
15	What is Cost of Production?			
	-Cost incurred by a business when manufacturing a good or providing a service.	1	3	K2
	-Cost of Production includes manufacturing costs, transportation costs, cost of handling, storing and delivering a product to the consumers.	1		

UNIT IV – PERFORMANCE OF AN ECONOMY-MACRO ECONOMICS

1	What is Macro-economic Equilibrium?			
	Macroeconomic equilibrium is a combination of overall price and quantity at which all buyers and sellers are satisfied with their overall purchases, sales & prices	1	4	K2
	Curve	1		
2	What are the types of Macro Economics?			
	<input type="checkbox"/> Macro static	2	4	K1
	<input type="checkbox"/> Macro Comparative static			
	<input type="checkbox"/> Macro Dynamic			
3	What are the methods of Determining National Income?			
	<input type="checkbox"/> Value added method	2	4	K1
	<input type="checkbox"/> Income Method			
	<input type="checkbox"/> Expenditure Method			
4	What is meant by Personal Income (PI)?			
	-Personal Income (PI) is the actual income received by the individuals or households in the country during the year.	1	4	K2
	-A measure of income before taxes have been deducted	1		
	Personal Income = NI-corporate Income Taxes-Undistributed corporate profits-Social Contributions+ Transfer Payments			
5	What is National Income? How could it be measured?			
	-This is the total of all income payments received by the factors of production, viz., land, labor, capital and organization.	1	4	K2
	-It is also known as National Income at Factor cost. It can be derived from the NNP in the following manner.	1		
	National Income=NNP – (Indirect Taxes + Subsidies).			
6	Define Aggregate Demand & Aggregate Supply.			
	-Aggregate demand is the total amount that different sectors in the economy willingly spend in a given period.	1	4	K1
	-Aggregate Supply is the total quantity of goods & services that the nation's businesses willingly produce & sell in a given period	1		

7	Define Multiplier Effect.				
	An effect in which an increase in spending produces an increase in national income and consumption greater than the initial amount spent	2	4	K1	
8	What is Acceleration?				
	Acceleration measures the effect of an increment in the rate of consumption on the volume of investment	2	4	K1	
9	What is meant by Fiscal Policy?				
	-The fiscal policy refers to taxation and expenditure decisions of the government.	1	4	K2	
	-The government budget should preferably be balanced, that is revenue collected through taxes should be equal to the expenditure made by the government.	1			
10	What do you understand by Fiscal Deficit?				
	-Government expenditure exceeds revenue collected through taxes	1	4	K2	
	-To meet the deficit budget, government borrows from the bank and public	1			
11	What is Leakage?				
	Leakages are the potential diversions from the income stream which lead to weaken the multiplier effect of new investment	2	4	K2	
12	What is Gross Domestic Product?				
	-Measure of the total output in an economy.	1	4	K2	
	-Measure of the market value of all final goods & services produced in a country during a year.	1			
	$Y=C+I+G+NX$				
13	How do you calculate GDP?				
	$\% \text{ growth rate of real GDP in year } t = \frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} \times 100$	2	4	K2	
14	Differentiate Fiscal Policy from Monetary Policy.				
	Fiscal policy				
	Monetary policy				
	Used by the government in which uses its tax revenue & expenditure policy	1	4	K2	
	Changes every year	1			
	Used by the central bank to regulate the money supply				
	Depends on the economic status of the nation				
15	What is Business Cycle?				
	Business cycle is economy wide fluctuations in total national output, income & employment usually lasting for a period of 2 to 10 years.	1	4	K2	
	Introduction, growth, maturity & decline	1			
UNIT V – AGGREGATE SUPPLY & ROLE OF MONEY					
1	What is Unemployment?				
	Involuntary unemployment occurs when there are qualified workers who are willing to work at prevailing wages but cannot find jobs	2	5	K2	
2	List the Different kinds of Unemployment?				
	There are three kinds of unemployment. They are	2	5	K1	
	Fractional Unemployment				
	Structural Unemployment				
	Cyclical Unemployment				
3	What is Inflation?				
	-Percentage of annual increase in a general price level over a long period of time	1	5	K2	
	-Hyperinflation, galloping inflation & moderate inflation	1			
4	Define Precautionary Demand.				
	According to J.M.Keynes, all money holdings in order to meet contingent liabilities are the result of man's instinct to guard against future uncertainties. It is for this reason in his opinion, this sort of demand for money may be called as the precautionary demand.	2	5	K1	

5	What is meant by Cost-Push inflation? Inflation resulting from rising costs during periods of high unemployment and slack resource utilization is called cost-push inflation. Curve	1	5	K2
6	Write a note on Phillip's Curve. □ The major macroeconomic tool used to understand inflation is the Phillips Curve □ It shows the non-linear negative relationship between the unemployment rate and inflation Curve	0.5 0.5 1	5	K1
7	What is meant by demand-pull inflation? This type of inflation occurs when there is all excess demand force acting in the economy leading to rise in prices Though the term inflation is used in the context of a rise in general price level, but it has roots at the micro level.	1 1 1	5	K2
8	What is Monetary policy? Monetary policy refers to the policies regarding growth of money supply, availability of credit and interest or cost of credit. It is an important tool of controlling inflation in the economy.	2	5	K2
9	Define Money Market. A Segment of the financial market in which the financial instruments with high liquidity and very short maturities are traded. It involved in short term borrowing, buying and selling	1 1	5	K1
10	State Okun's law. Okun's law states that for every 2% that GDP falls relative to potential GDP, the unemployment rate rises about 1% point.	2	5	K1
11	What is Money Supply? The money Supply refers to the total sum of the money available to the public in the economy at a point of time. Curve	1 1	5	K2
12	What is Demand of money? Total demand for money is the sum of the amount of money desired for transactions precautionary and speculative purposes. Curve	1 1	5	K2
13	What is long run Aggregate Supply Schedule? A schedule showing the relationship between the output and the price level after all price & wage adjustments have taken place. AS curve is vertical	1 1	5	K2
14	What is a Treasury bill? -Short term bonds or securities issued by the federal government -No interest but issued at a discount on its redemption price	1 1	5	K2
15	How to calculate Unemployment Rate? -Percentage of labour force that is unemployed. -Unemployment rate=Number of unemployed persons/labour force	1 1	5	K2

PART – B (12 Mark Questions with Key)
Questions

S.No	Questions	Mark	COs	BTL
UNIT I – INTRODUCTION				
1	Explain the twin themes of Economics in detail. Two key ideas that run through all of economics: 1. Goods are scarce 2. Use its resources efficiently	12 2		
	Scarcity: Scarcity is a relative concept: a commodity or resource is said to be scarce if its supply fall short of its demand A situation of scarcity is one in which goods are limited relative to desires Example	3 2	1	K2

	<u>Efficiency:</u>			
	Efficiency denotes most <u>effective use of a society's resources</u> in satisfying people's wants and needs.	3		
	Economic efficiency requires that an economy produce the highest combination of quantity and quality of goods and services by given its technology and scarce resources.			
	Example	2		
2	Discuss the three Fundamental Economic Problems in India.	12	1	K2
	-Economics-Meaning	3		
	-The following fundamental problems which an economy has to tackle	3		
	What to produce			
	Explanation with example			
	How to produce	3		
	Explanation with example			
	For whom to produce	3		
	Explanation with example			
3	Explain the Production Possibility Frontier in Economics.	12	1	K2
	Meaning:	2		
	• The Production-Possibility Frontier (PPF) shows the maximum quantity of goods that can be efficiently produced by an economy, given its technological knowledge and the quantity of available inputs.			
	• Concept: The production possibility Curve tells us what assortment of goods & services the economy can produce with the resources & techniques at its Disposal.			
	• Example			
	• Table & curve			
	• Marginal Rate of Transformation			
	Output Expansion Path explanation with curve			
4	Explain in detail about Micro economics and Macro Economics. How do they differ?	12	1	K2
	<input type="checkbox"/> Meaning of micro economics	2		
	<input type="checkbox"/> Meaning of Macro economics			
	Four variables	5		
	1. Target Variables with example			
	2. Intermediate Variables with example			
	3. Instrument Variables with example			
	4. Indicator Variables with example			
	Micro economics			
	Concerned with small segments			
	Determination of prices of commodities			
	Deals with the economic affairs "in the small"			
	Microscopic view of the economy			
	Uses the technique of partial equilibrium			
	Macro economics	5		
	Concerned with large segments			
	Focuses on the level of employment and the general price level			
	Deals with the economic affairs "in the large"			
	Macroscopic view of the economy			
	Uses the technique of quasi-general equilibrium			
5	Explain the Role of Government in Promoting Economic Growth.	12	1	K2
	Economic growth	3		
	There are three types of economic policies used by the government,	3		
	<input type="checkbox"/> Fiscal Policy			
	<input type="checkbox"/> Monetary Policy			
	<input type="checkbox"/> Growth policies			
	<u>1.Fiscal Policy:</u>	2		
	It refers to the taxation & expenditure decisions of the government.			
	<u>2. Monetary policy:</u>	2		
	<input type="checkbox"/> It refers to the policies regarding growth of money supply, availability of credit and interest of credit			

	3. Growth policies:	2		
	It focused on the reduction of inflation, full employment, savings and investment			
6	Explain the Forms of Wealth and Types of Utility.	12	1	K2
	Utility-Meaning:	2		
	□ The want satisfying the power of a commodity.			
	□ Quality possessed by a commodity or service to satisfy human wants.			
	Types:	4		
	1. <u>Form Utility</u> - By changing the form. Eg: wood to furniture			
	2. <u>Place Utility</u> - Eg: Factory to the shop			
	3. <u>Time Utility</u> --Paddy or wheat for sell			
	4. <u>Service Utility</u> - Satisfy through services like doctors, lawyers			
	5. <u>Possession Utility</u> : -Book owned by a student.			
	6. <u>Natural Utility</u> : -Free goods from nature			
	Wealth-Meaning:	2		
	All the things that have value			
	Forms of Wealth:	4		
	□ Individual Wealth			
	□ Social Wealth			
	□ National or Real wealth			
	□ International Wealth			
	-World bank, WHO			
	Financial Wealth			
	UNIT II – CONSUMER & PRODUCER BEHAVIOUR			
1	Explain the determinants of Demand and Supply	12		
	-Demand-Meaning	2		
	-Determinants of demand:			
	□ Tastes and Preferences of the Consumers			
	□ Income of the People			
	□ Changes in the Prices of the related Goods	4		
	□ The number of consumers in the Market			
	□ Consumers Expectations			
	□ Income Distribution.			
	-Supply-Meaning	2		
	-Determinants of Supply:		2	K2
	The important factors determining supply of a commodity are			
	● The price of the commodity			
	● The price of inputs (i.e., resources) used for the production of the commodity.			
	● The state of technology			
	● The number of firms producing and selling the commodity			
	● The price of related goods produced			
	● Future expectations regarding prices.			
	● Taxes and Subsidies			
2	Explain the Cost Function & How to derive Cost Function from the Production Function.	12		
	Cost function meaning	2		
	<u>Types of cost function</u>		2	K2
	-Short run cost function	4		
	-Long run cost function			
	Relationship between cost function and production function with curve	6		
3	Discuss the various types of elasticity of demand.	12		
	□ Meaning	2		
	□ Definition			

	<u>Five cases of Elasticity:</u>			
	□ Perfectly elastic or Infinite elasticity with curve	4		
	□ Perfectly inelastic or zero elasticity with curve		2	K2
	□ Relatively elastic with curve			
	□ Relatively inelastic with curve			
	□ Unit elasticity with curve			
	<u>Types of Elasticity:</u>			
	Price elasticity	6		
	Income elasticity			
	Cross elasticity			
4	Explain the concepts of returns to scale.	12		
	Meaning	2	2	K2
	<u>Cases of returns to scale:</u>			
	□ Constant returns to scale with example	5		
	□ Increasing returns to scale with example			
	□ Decreasing returns to scale with example			
	<u>Economies Vs Diseconomies of scale:</u>			
	□ Economies of scale with diagram			
	Types	5		
	□ Diseconomies of scale			
	Types			
5	Explain the types of Production Function.	12		
	Production function-meaning	2		
	Production function may take several forms.			
	Short run: It can be fixed – proportions production function	5	2	K2
	Curve			
	Long run: It can be a variable – proportions production function	5		
	Curve			
6	Explain the Relation Between Cost Function and Production Function.	12		
	o Production function			
	□ -Short run function with curve	4		
	□ -Long run function with curve			
	o Cost Function	4	2	K2
	□ -Types	4		
	o Relationship between cost and production function	4		
	Diagram			

UNIT III – PRODUCT & FACTOR MARKET

1	Explain the different forms of market structure.	12		
	Perfect market	3		
	Imperfect market			
	The imperfect market can be classified into,	3		
	1. <u>Monopolistic competition</u>			
	A large number of firms produce somewhat different products		3	K2
	2. <u>Monopoly</u>			
	The existence of a single producer or seller which is producing or selling a	3		
	product which has no close substitutes			
	3. <u>Oligopoly</u>			
	Oligopoly without product differentiation	3		
	Oligopoly with product differentiation			
2	Explain the conditions of a perfect market?	12		
	Perfect market-Meaning	2		
	For a market to be perfect the following conditions are essential:			

	<input type="checkbox"/> Large number of Buyers and Sellers Explanation with example	10	3	K2
	<input type="checkbox"/> Homogeneous Product Explanation with example			
	<input type="checkbox"/> Free Entry or Exit Explanation with example			
	<input type="checkbox"/> Cheap and Efficient Transport and Communication Explanation with example			
	<input type="checkbox"/> Wide Extent-Explanation			
	<input type="checkbox"/> Perfect Knowledge- Explanation			
	<input type="checkbox"/> Perfect complicity of the factors of production - Explanation			
3	Discuss the factors affecting productivity of land?	12		
	Meaning-Land	2		
	Supply & demand Curve of land	2		
	The following factors affect our productivity of land in a country			
	<input type="checkbox"/> Qualities of land			
	<input type="checkbox"/> Means of Irrigation			
	<input type="checkbox"/> Situation of Land		3	K2
	<input type="checkbox"/> Proper use of land	8		
	<input type="checkbox"/> Improvements of Land			
	<input type="checkbox"/> Trained Labor			
	<input type="checkbox"/> Ownership of Land			
	<input type="checkbox"/> Government Policy			
4	Explain the factors of production	12		
	<u>i)Land:</u>			
	<input type="checkbox"/> According to Marshall, <u>materials and forces</u> which nature gives freely for man's aid.	4		
	<input type="checkbox"/> Factors affecting land			
	<input type="checkbox"/> Demand & supply curve			
	<u>ii)Labour (wages):</u>			
	<input type="checkbox"/> The aggregate of all human physical and mental effort used in creation of goods and services	4	3	K2
	<input type="checkbox"/> Supply & demand curve			
	<input type="checkbox"/> Theories of wages			
	<u>iii)Capital:</u>			
	<input type="checkbox"/> Capital consists of those durable produced goods that are in turn used as productive inputs for further production	4		
	<input type="checkbox"/> Categories of capital			
5	Explain the properties of general equilibrium?	12		
	<input type="checkbox"/> Equilibrium-Meaning	2		
	<input type="checkbox"/> Valedictory thoughts on factor prices, efficiency and distribution 3 thoughts	2		
	<input type="checkbox"/> Interaction of all markets in General equilibrium	2		
	<input type="checkbox"/> Properties		3	K2
	o Basic Principles of a General Equilibrium			
	o The Basic Results of a General Equilibrium			
	o Detailed Analysis of General Equilibrium	6		
	(i) Consumer Equilibrium			
	(ii) Producer Equilibrium			

	UNIT V – AGGREGATE SUPPLY & THE ROLE OF MONEY	12		
1	Explain the objectives & instruments of monetary Policy.			
	Definition:		5	K2
	According to Harry G.Johnson, monetary policy is a “policy employing the central bank’s control of the supply of money as an instrument for achieving the objectives of general economic policy”.	2		
	Objectives:			
	The main objectives of monetary policy are			
	<input type="checkbox"/> Maximum feasible output			
	<input type="checkbox"/> High rate of growth			
	<input type="checkbox"/> Fuller employment	5		
	<input type="checkbox"/> Price stability			
	<input type="checkbox"/> Greater equality in the distribution of income and wealth			
	<input type="checkbox"/> Health balance in balance of payments.			
	Instruments of monetary policy:			
	<input type="checkbox"/> Open market operations			
	<input type="checkbox"/> Bank rate policy			
	<input type="checkbox"/> Reserve requirement changes	5		
	<input type="checkbox"/> Selective Credit Controls			
	<input type="checkbox"/> Deficit Financing			
2	Analyze the factors determining money supply?	12		
	<input type="checkbox"/> Money supply-meaning	2	5	K2
	<input type="checkbox"/> RBI’s Analysis			
	<input type="checkbox"/> Bank Credit to the Government			
	<input type="checkbox"/> Bank Credit to the Commercial or Private Sector	5		
	<input type="checkbox"/> Changes in Net Foreign Exchange Assets			
	<input type="checkbox"/> Government’s Currency Liabilities to the Public.			
	<input type="checkbox"/> High Powered Money (H):			
	$H = C_p + R$			
	H = the amount of high-powered money	5		
	C _p = Currency held by the public			
	R = Cash Reserves of currency with the banks			
3	Discuss the various types of inflation.	12		
	Inflation-Meaning	2	5	K2
	On the Basis of Speed			
	(i) Creeping Inflation			
	(ii) Walking Inflation			
	(iii) Running Inflation			
	(iv) Galloping Inflation or Hyper-Inflation.			
	On the Basis of Inducement	10		
	(i) Deficit induced Inflation			
	(ii) Wage-induced Inflation			
	(iii) Profit-induced Inflation			
	On the Basis of Time			
	On the Basis of Extent of Coverage			
	Other types of Inflation			
4	Explain Okun’s law and Phillips curve.	12		
	Okun’s law:		5	K2
	Unemployment-Meaning			
	<input type="checkbox"/> Okun’s law states that for every 2 percent that GDP falls relative to potential GDP, the unemployment rate rises about 1 percentage point	2		
	Curve with explanation	4		

	Phillips curve:			
	Inflation-Meaning			
	<input type="checkbox"/> Phillips curve shows the relationship between the unemployment rate and inflation	2		
	Curve with explanation	4		
5	Explain the causes and effects of inflation.	12		
	Inflation-meaning	2	5	K2
	<u>Causes of inflation:</u>			
	<input type="checkbox"/> A redistribution of income and wealth among different groups			
	Eg: An unexpected rise in prices leave you the poorer because the rupees repaid to you are worth much less than the rupees you lent	5		
	<input type="checkbox"/> Distortions in the relative prices and output goods, or sometimes in output and employment for the economy as a whole			
	<u>Effects of inflation:</u>			
	o On producers			
	o On working class			
	o On fixed income groups	5		
	o Borrowers & lenders			
	o Government			
6	Explain the various measures of money supply.	12		
	Money supply-Meaning	2	5	K2
	<u>Four measures of money supply:</u>			
	<u>1)Money supply M1:</u>	2		
	M1=C+DD+OD			
	<u>2)Money supply M2:</u>			
	M2=M1 +savings deposits with the post office & agreement issued by commercial bank, money market, mutual funds etc.	2		
	<u>3)Money supply M3:</u>			
	M3=M2+Time deposits with the bank (loan amounts), institutionally held money market funds	3		
	<u>4)Money supply M4:</u>			
	M4=M3+ total deposits like treasury bills, commercial papers and very liquid assets	3		

Note : 6 Questions with answer key must be prepared in each unit and maximum two sub divisions are allowed.

PART – C (20 Mark Questions with Key)

UNIT I – INTRODUCTION

S.No	Questions	Mark	COs	BTL
1	Analyze the recent economic growth & stability in India.			
	Economic growth			
	Economic Stability	2		
	Current situation in India (In economic growth aspects)	10		
	Example	6		
2	Business and governments always think only of positive externalities while negative externalities are ignored. How do you think this will impact the growth of a firm/economy in the long term? Provide appropriate examples.	20	1	K2
	<input type="checkbox"/> Externalities	2		
	<input type="checkbox"/> Positive externalities	2		
	<input type="checkbox"/> Negative externalities	2		
	<input type="checkbox"/> Impact of negative externalities in the growth of the economy	10		
	<input type="checkbox"/> Examples	4		

UNIT II – CONSUMER & PRODUCER BEHAVIOUR-MICRO ECONOMICS

1 **Discuss the law of demand and analyze how the scenarios that cause movements along the demand curve and shifts in the demand curve.** 20

Law of demand:

According to the law of Demand, “other things being equal if price of a commodity falls, the quantity demanded will rise and if the price of the commodity rises, its quantity demanded will decline” 2

2 K2

Table & curve 4

Scenarios that cause movements 7

Shifts in demand curve 7

Extension & contraction in demand

A store sells t-shirts. The average selling price is Rs. 15 and the average variable cost (cost price) is Rs. 9. Thus, every time the store sells a shirt it has Rs. 6 remaining after it pays the manufacturer. This Rs. 6 is referred to as the unit contribution.

(a) Suppose the fixed costs of operating the store (its operating expenses) are Rs. 100,000 per year. Find Break-even in units?

(b) If the owner desired a profit of Rs. 25,000, what will be break-even point in Rupees

(c) If fixed costs rose to Rs. 110,000, break-even in unit’s volume would be?

2 (d) If the average selling price rose to Rs.16, break even volume would fall? 20

Answers:

a) 16,667

b) 16,667

c) 18,333

d) 14,286

20 2 K3

UNIT III – PRODUCT & FACTOR MARKET

1 **“Perfect competition is more efficient than monopoly”. Do you agree?** 20 3 K2

Perfect competition is where there is a large number of producers producing a homogeneous product. 4

Example

Monopoly:

-The existence of a single producer or seller which is producing or selling a product which has no close substitutes

-Sole control over the supply of a product 4

-Very large control over the price of its product

Example

Agree or Disagree:

Explanation 12

2 **You have decided to set up a packaged drinking water in Coimbatore.**

a) **Explain in detail about the type of market structure of packaged drinking water industry.** 20

Perfect competition will be suitable for packaged drinking water 5 3 K2

Explanation 5

b) **How it will create impact your business** 10

Explanation

UNIT IV – PERFORMANCE OF AN ECONOMY-MACRO ECONOMICS

1 **Describe the procedure for calculating Gross Domestic Product of our country.** 20 4 K2

GDP-Meaning 2

Example 2

3

Using the Expenditures Approach

$$GDP = C + G + I + (X - M)$$

Example

Using the Income Approach

$$NI = W + R + i + PR$$

Example

- | | | | | |
|---|---|----|---|----|
| 2 | How changes in Ministry of finance, RBI Governor, Prime minister will affect the economic policy making of the developing country like India? Briefly explain with suitable examples | 20 | 4 | K2 |
| | o Types of policies in India | 5 | | |
| | o Contribution of Ministry of finance | 5 | | |
| | o Contribution of RBI Governor | 5 | | |
| | Example | 5 | | |

UNIT V – AGGREGATE SUPPLY & ROLE OF MONEY

- | | | | | |
|---|--|----|---|----|
| 1 | Analyze the various effects of unemployment in the economy. Suggest your ideas to cure unemployment in an economy. | 20 | 5 | K2 |
| | Unemployment-Meaning | 5 | | |
| | Effects of unemployment | 5 | | |
| | -Economic problem-It represents the waste of a valuable resource | | | |
| | -Social problem-It causes enormous suffering as unemployed workers struggle with reduced incomes. Economic distress spills over to affect people's emotions and family Lives | | | |
| | Ideas to cure unemployment | 10 | | |
| 2 | Assume there is a well-defined geographic area of a city. The area is composed exclusively of apartments and is populated by low-income residents. The people who live in the area tend to stay in that area because (1) they cannot afford to live in other areas of the city, (2) they prefer to live with people of their own ethnic group, or (3) there is discrimination against them in other areas of the city. Rents paid are a very high percent of peoples' incomes. | 20 | 5 | K3 |

(1) Would the demand for apartments in this area be relatively inelastic or relatively elastic? State why.

(2) Would the supply of apartments in this area be relatively inelastic or relatively elastic? State why.

(3) Draw the demand and supply curves as you have described them, showing the initial equilibrium price and quantity. Label carefully.

(4) Now assume the government creates a rent supplement program. Under this program, the renter is required to pay 30% of income in rent. Any additional rent is paid by the government --- up to a limit. For example, a low-income person with an income of \$1,000 a month would be required to pay \$300 in rent (30%). If the rent is \$500, the other \$200 would be paid by the government. Analyze the results of this program. Show the changes on the graph and explain what will result. Who gains and who loses from this program?

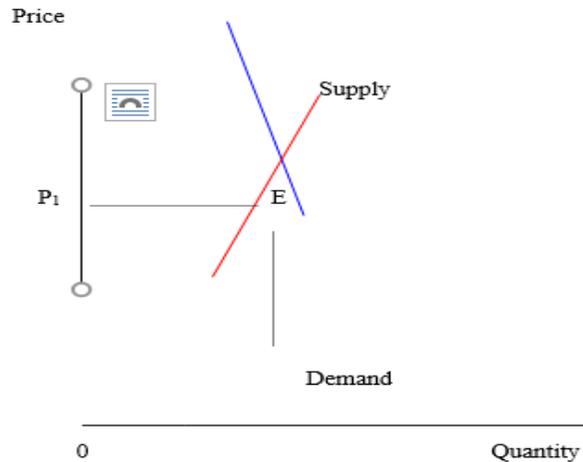
(5) Instead, now assume that the government decides to provide a building subsidy to people who build apartments in this low-income area. A certain percent of their costs will be paid by the government. Analyze the results of this program. Show the results on the graph and explain what will result.

(1) The demand for apartments would be relatively inelastic because there are few substitutes for the apartments in this area. However, you might argue that demand would be relatively elastic because the rent is a high proportion of the renters' incomes. A raise in rent could cause renters to leave the city altogether or to have to live on the streets.

(2) The supply would also be relatively inelastic. The question is asking: would the quantity supplied rise just a little or rise greatly if the rents increase? Given that this is a low-income area and that there is probably not much free land available, it is likely that the quantity supplied would increase only a little. Even at increased rents, building apartments in low-income areas is not a good investment for apartment owners.

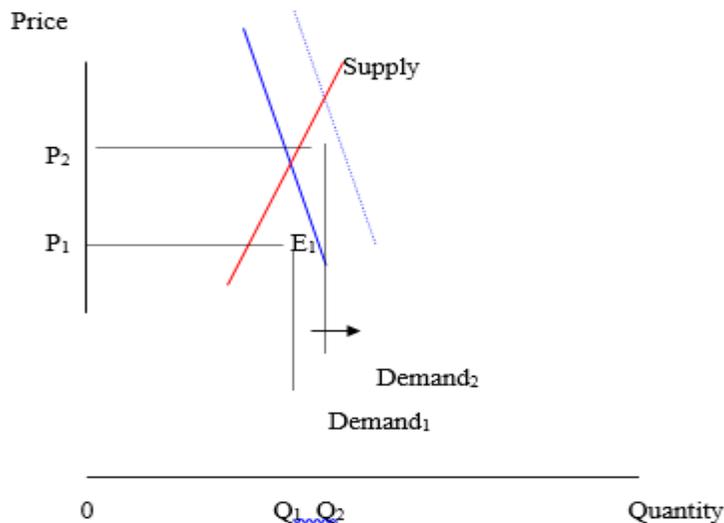
3

(3) Both demand and supply should be drawn as steep (unless you argued that demand was relatively elastic).



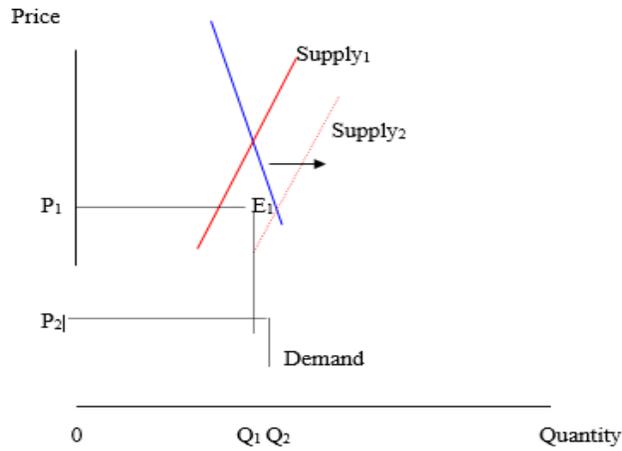
4

(4) The payment by the government can be treated as an increase in income. This affects the demand for apartments. An increase in demand would be shown as a shift to the right. This creates a shortage of apartments. As a result, rents rise. The quantity of apartments supplied also rises. If the supply is indeed relatively inelastic, the quantity supplied rises very little. The major effect is the rise in rents. Renters gain from the program. But most of the gain goes to the owners of the apartments. This is not what was intended. The "losers" are the taxpayers who pay for the program.



5

(5) The subsidy program is a decrease in costs of production. With lower costs of production, supply increases (shifts to the right). This creates a surplus, causing apartment owners to lower the rents. The quantity of apartments supplied increases. If demand is relatively inelastic, the largest effect is the reduction in rents. The quantity supplied increases only a little. Renters and apartment owners gain from the program. But in this case, renters gain the most.



5

Note : 2 Questions with answer key must be prepared in each unit and maximum two sub divisions are allowed.