INDIAN SCHOOL DARSAIT
MID TERM EXAMINATION, MAY 2018
ECONOMICS (030)
SET 1
Class XII

1. (c)   Income from the railways   1

2. (b) Government should be concerned with how to reduce unemployment   1

3. (b) Potential output = actual output   1

4. It refers to a situation where demand for a good exceeds in supply.   1

5. The given statement is false.   3

    Complementary goods are those goods which are used together and therefore demanded together.

    In case of complementary goods, when price of complementary good (in this case Y) falls, then the demand for the concerned good will rise and price will not change.

6. This is essentially the problem of distribution of income among factors of production. Their   3
    share in goods and services produced will depend on their purchasing power. Hence, who will consume what goods and services will depend upon how national income is distributed in the economy. The distribution should be such that the most urgent needs should be met first. Another aspect of this problem is whether production should be for present generation or future generation. For present generation more consumer goods will be produced and for future generation more producer goods will be produced.

Or

Every economy has limited resources and thus, cannot produce all the goods. Production of more of one good is possible only by reducing production of other good. An economy has to decide which consumer goods like rice, clothes, etc. and capital goods like machines, etc. are to be produced. Economy has to make choice between civil goods like bread, butter, etc. and war goods like guns, tanks, etc. This problem has two dimensions:
  (i)   Type of good to be produced
  (ii)   Quantity of good to be produced

7. Consumer under ordinal approach attains equilibrium when   3

$$MRSxy = \frac{Px}{Py}$$

Given $MRSxy = 2$

Px = ₹5 and Py = ₹4

Therefore $2 \neq 5/4$ and consumer is not in equilibrium

In this case, MRS <Px/Py. It means that the consumer is willing to pay more for Y than the price prevailing in the market. As a result the consumer buys m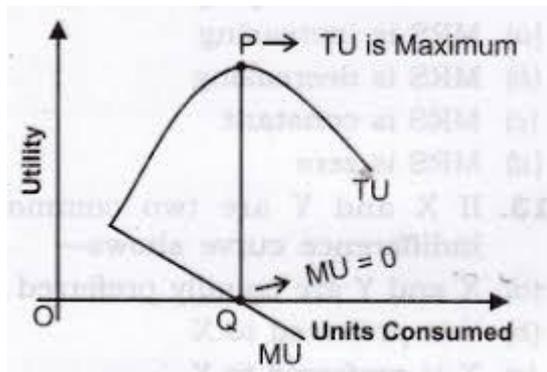ore of Y. This leads to rise in MRS. MRS continues to rise till $MRSxy = \frac{Px}{Py}$ and the equilibrium is established.

8. When MU is falling and positive, TU is increasing   3
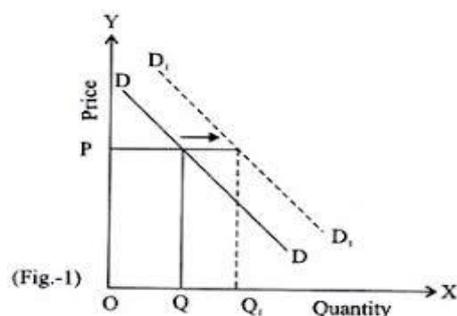
When MU is zero, TU is maximum

When MU is negative, TU is falling

9. Rise in income of the buyer influences his demand for normal good and inferior good in different   4
    ways.

    (a) Normal good – The demand for normal good tends to increase with increase in income of
        the buyer. There is a direct relationship between income of the buyer and demand for
        normal good.

    (b) Inferior good – The demand for inferior good tends to decrease with rise in come of the
   buyer. There is an inverse relationship between income of the buyer and demand for

inferior good.
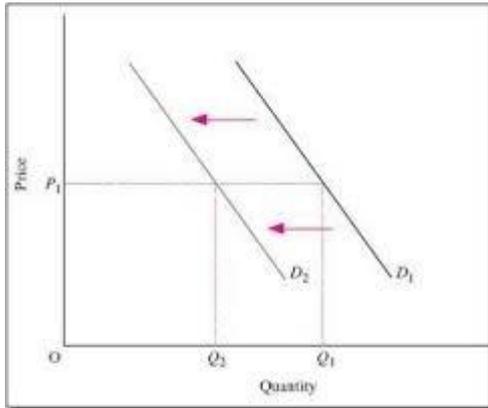
Or

Related goods are of two types – complementary and substitute goods.

(a) In case of substitute good – Fall in price of substitute good reduces the demand for the concerned good. Example – when the price of tea falls the consumer starts consuming tea in place of coffee as a result demand for coffee falls.
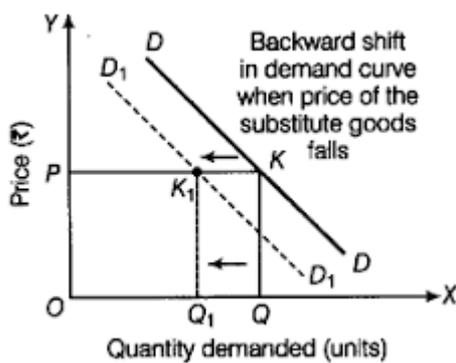
(b) In case of complementary good – When price of complementary good will fall then demand for the concerned good will rise. So when price of car falls, demand for petrol rises.
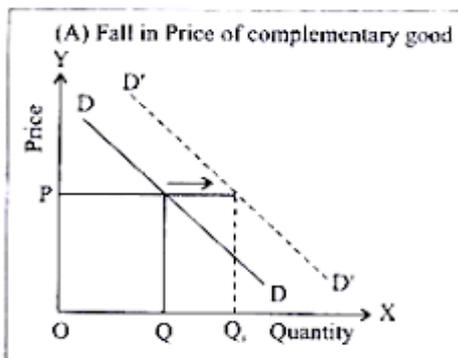
10. Budget set refers to the set of all possible combinations of two goods which a consumer can   4
afford at given income and prices of goods in the market.
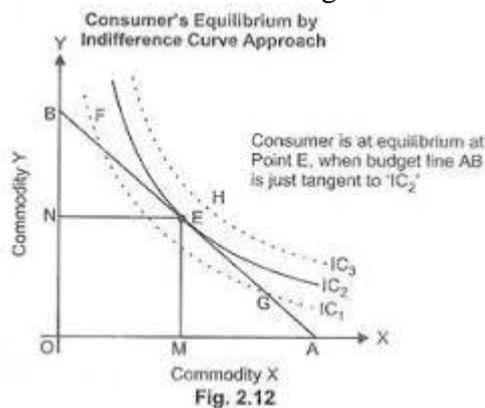
Budget set will change under following conditions:

(a) When the level of income changes – with the increase or decrease in income of the consumer new combinations of a set of two goods will be attained.

(b) When price of one good changes – if the price of one good increases or decreases, the consumption of that good will change accordingly.

(c) When price of both the good changes – if price of both the good increases or decreases, the consumer can increase or decrease the consumption of both the goods and new combinations of a set of two goods will be attained.

11. According to the given situation   4
$\frac{MUx}{Px} > \frac{MUy}{Py}$, it means the consumer gets greater marginal utility from every rupee spent on good X than on good Y. As consumption of X increases, MUx will fall due to law of diminishing marginal utility. The consumer will stop buying more of good X in place of Y only when $\frac{MUx}{Px} = \frac{MUy}{Py}$. It is a point where equilibrium is struck.

12. Consumer's equilibrium refers to a situation when a consumer maximizes his satisfaction   6
spending his given income across different goods and services.

Under indifference curve analysis, a consumer attains equilibrium when:

(i) $MRSxy = \frac{Px}{Py}$ i.e. slope of indifference curve (MRS) is equal to the slope of budget line$(\frac{Px}{Py})$ or
Indifference curve and budget line are tangent to each other.

(ii)   At the point of equilibrium, indifference must be convex to the origin. It means that MRS must be diminishing.

Consumer's Equilibrium by Indifference Curve Approach

Consumer is at equilibrium at Point E, when budget line AB is just tangent to 'IC₂'

Fig. 2.12

13.

Basis	Increase In Demand	Increase in Quantity Demanded
Meaning	It refers to increase in purchase of a	It refers to increase in purchase of

6

	commodity due to change in factors other than own price of the commodity.	a commodity due to fall in own price of commodity.
Effect on demand curve	It leads to rightward shift in demand curve.	It leads to downward movement along the same demand curve.
Reason	It may be due to rise in income of buyer for normal good, fall in price of complementary good, rise in price of substitute good, favorable change in taste of consumer, tec.	It is due to fall in own price of the commodity.

(b)Marginal rate of substitution is the rate at which consumer is willing to sacrifice one good to get one more unit of the other good. Suppose the two goods are X and Y, then

Good X	Good Y	MRS
1	20	-
2	17	3:1
3	15	2:1
4	14	1:1

When consumer shifts from 1X to 2X, MRS is 3Y : 1X.
When he shifts from 2X to 3X, MRS is 2Y : 1X. MRS falls as more of X is consumed. It is because when consumer consumes more of X, marginal utility of good X falls. This prompts the consumer to sacrifice less and less of good Y.