2018 CBSE ECONOMICS PAPER AND SOLUTION
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Q 1 TFC of 100 units is 30 and AVC 3 Find TC
Ans VC = 100 x 3 = 300 Add FC 30 = TC 330

Q 2 When AP maximum then AP is
Ans AP = MP

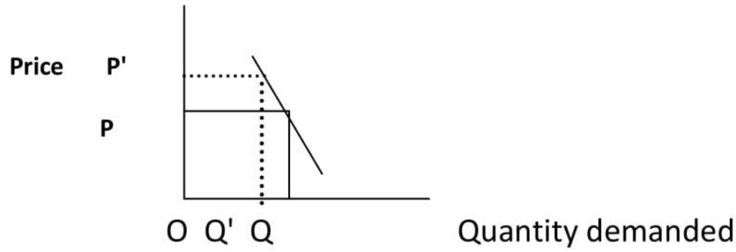
Q 3 State one example of positive economics
Ans. 'India is overpopulated'

Q 4 Define fixed cost
Ans. See q 27 page 14 Ecovisionnaire Economics simplified book
These are those which do not vary with the level of output. For example rent of factory

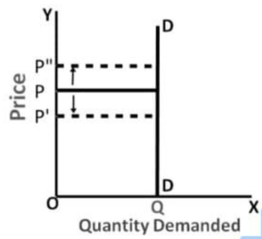
Q 5 Explain the central problem of "Choice of technique"
OR
Explain the problem of for whom to produce
Ans. How to produce See page 1 , Q 2 Ecovisionnaire Economics simplified book
OR
For whom to produce See page 1 , Q 2 Ecovisionnaire Economics simplified book

Q 6 What is meant by inelastic demand . Compare it with perfectly inelastic demand.
Ans Elasticity is a measure of the responsiveness of the quantity demanded to a change in price. Inelastic demand means Elasticity less then 1. Here % change in quantity demanded is less then % change in price is . For example % change in quantity demanded is 10% & % change in price is 20 %
So elasticity = .5 i.e. less then one.

Diagram



Perfectly inelastic demand - When increase or decrease in price does not effect Quantity demanded then we call it as perfectly inelastic demand.
For example price change by 10 % but quantity demanded remains same. In this diagram we can see that when price increase from OP to OP' or price decrease from OP to OP" then quantity demanded remains same OQ.



For example % change in quantity demanded is 0 & % change in price is 20 %
So elasticity = 0

Q 7 Price change from 4 to 5 , supply increase from 100 to 120 . Find price elasticity. Is it elastic . give reason
Ans. See Q 26 page 56 Ecovisionnaire Economics simplified book
El = P/Q x ΔQ / ΔP = 4/100 x 20/1 = 0.8. It is not elastic as elasticity is less then one.

Q 8 Explain price ceiling and its implications.
Ans. See Q 55 page 28 Ecovisionnaire Economics simplified book **(Explain maximum price ceiling)**
- Black marketing, rationing etc

Q 9 Given the price of a good how will a consumer decide as to how many units of this good to consume . Explain
Ans. Explain consumer equilibrium Q 8 page 4 Ecovisionnaire Economics simplified book
Mu (Rs) = Price approach
OR
What is indifference curve. State its 3 properties
Ans. See Q 11 , page 5 Ecovisionnaire Economics simplified book
(Direct question- Write any 3 properties)

Q 10 State 3 characteristics of monopolistic competition. Which of the characteristics separate it from perfect competition and why ?
OR
Explain implications of (i)Explain freedom of entry and exit of firms under perfect competition
(ii) Non price competition under oligopoly
Ans See q 44 page 22 Ecovisionnaire Economics simplified book **(Direct question)**
OR See Q 41 page 21 Ecovisionnaire Economics simplified book

Q 11 Explain the consumer's equilibrium conditions using Indifference curve Analysis
Ans Q 14 page 7 Ecovisionnaire Economics simplified book

MRS xy = Price of X / Price of Y **(Explain MRSxy>Px/Py and MRSxy< Px/Py)**

MRSxy must be decreasing due to the law of diminishing marginal utility. If MRSxy does not decrease then equilibrium can not be established.

Q 12 Explain conditions for producer equilibrium with MC MR Approach
Ans see super 100 q 34 and mock test 3 Q 10 (only conditions) Ecovisionnaire Economics simplified book **Direct question - Explain MC=MR and after that MC more then MR condition)**

Q 13 Define money supply
Ans. See Q 67 super 100 Ecovisionnaire Economics simplified book
Money supply is stock of money in the country on a specific day.

Q 14 Which of the following effects national income a GST, b corporation tax, c subsidies, d None of the above.
Ans d None of the above.

Q 15 Why consumption curve does not start from origin
Ans.See Q 71 page 38 Ecovisionnaire Economics simplified book
As consumption includes autonomous consumption(Minimum consumption required for survival) & autonomous consumption is never zero.

Q 16 Central bank increase availability of credit by a raising repo rate, b a raising reverse repo rate , c buying government securities, d selling government securities
Ans c buying

Q 17 Given nominal income how can we find real income. Explain
Ans. See q 64 page 32 Ecovisionnaire Economics simplified book
Using following formulas - Nominal income = Output X price in current year
Real income = Output X price in base year
Price Index = Nominal income / Real income x 100
So real income = Nominal income / Price index x 100
OR
Which of the following are final or intermediate. Give reasons

(i) Milk purchased by tea stall
(ii) Bus purchased by school
(iii) Juice purchased by student

Ans. See Q 59 and 60 page 31 Ecovisionnaire Economics simplified book
(i) It is intermediate expenditure because it is used by during production process that is making tea.
(ii) It is final as it is purchased for investment purpose by school
(iii) It is final as used for final consumption by student.

Q 18 Define multiplier. What is the relation between MPC and multiplier . Calculate MPC is multiplier is 4

Ans. See q 80 page 42 Ecovisionnaire Economics simplified book

The ratio of increase in income to increase in investment is called investment multiplier (K) . K = ΔY/ΔI

Multiplier = 1 / 1 - MPC . Multiplier and MPC have positive relation. More MPC , more multiplier

Multiplier = 4 = 1 / 1 - MPC . So MPC = 0.75

Q 19 What is meant by inflationary gap. State 3 measures to reduce this gap

Ans. See Q 78 and 79 page 41 Ecovisionnaire Economics simplified book

It is the amount by which the actual aggregate demand is more then the level of aggregate demand required to establish the full employment equilibrium.

Measures to reduce

Bank/REPO rate increase, CRR/ liquidity ratio increase, Margin increase, taxes increase etc

Q 20 MPC is 0.6 and Initial income 100 crores. Prepare schedule showing income consumption saving . Also show equilibrium level of income if autonomous investment is 80 crores

Ans (All data in crores)

Let autonomous consumption = x

Income	Δ Income	MPC	Δ Consumption	Δ Savings	Consumption	Investment	
0	-	-	-	-	X	80	
100	100	06	60	40	X +60	80	
200	100	0.6	60	40	X + 120	80	
300	100	0.6	60	40	X + 180	80	
400	100	0.6	60	40	X + 240	80	
500	100	0.6	60	40	X + 300	80	

At equilibrium AD = AS =Y

X + 0.6Y + 80 = Y

(We think marks should be given to all as assuming autonomous consumption zero is not right and assuming X will not give answer)

Q 21 Explain the ' lender of last resort' function of the central bank.

Ans. Q 70 page 35 Ecovisionnaire Economics simplified book

Dependence of commercial banks on central banks in times of emergent need is referred to as the ' lender of last resort' function of the central bank.

Q 22 a Explain impact of rise in exchange rate on national income

B Explain the concept of deficit in balance of payments

Ans. (a) See Q 99 and 100 page 50 Ecovisionnaire Economics simplified book

Exports increase , imports decrease, national income increase

B When autonomous foreign exchange payments exceed autonomous foreign exchange
receipts, the excess is called BOP deficit. Solution mock test 3 q 17

Q 23 Explain the meaning of (i) Revenue deficit, (ii) Fiscal deficit, (iii) Primary deficit
OR
Explain following objectives of budget (a) Allocation of resources , (b) Reducing income inequalities
Ans See Q 86 page 45 Ecovisionnaire Economics simplified book **(Direct question)**
OR
See Q 81 page 43 Ecovisionnaire Economics simplified book

Q 24 Calculate NNP mp and GDP fc (In crores)
Rent and interest 6000
Wages and salary 1800
Undistributed profit 400
Net indirect taxes 100
Subsidies 20
Corporate tax 120
Net factor income to abroad 70
Dividend 80
Consumption of fixed capital 50
Social security contribution by employer 200
Mixed income 1000
Ans
Compensation 2000 (wages 1800 + social security 200)
+ Rent and interest 6000
+ Profit 600 (Corporate tax 120 + dividend 80 + undistributed profit 400)
+ Mixed income 1000
= NDPfc = 9600
net factor income - 70
NIT + 100
NNPmp 9630
(ii) NDPfc = 9600
+ depreciation 50
GDP fc 9650