

Reduced
Syllabus 2021

+ 2

ECONOMICS



JAYARANI
MATRIC HR. SEC SCHOOL



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Principal **Sr Meldintha Mary**

“Success is neither magical nor mysterious It is the natural consequence of consistently applying the basic fundamentals and standing time to one’s principles.”

With great exultation I consider this momentous occasion as the one to revive to reminiscence, how this estimable institution, since its inception, is steadfast in heaping crowning accomplishments. “The measure of life after all, is not it’s duration but it’s donation, with a strong conviction,” Mindful of the zeal we eulogize, we spur ourselves to action, every day of the year, with a strong felt drive to engender pupils, who will be a proverbial light, excluding confidence and splendour, heaping honour and glory to the society and at large, the country. To embark upon a glorious path imperaled with galvanizing feats, we augment the perspectives of the pupils to be rays of hope and gems of rare value. As we forge ahead to enthuse our pupils to scale the ever advancing frontiers in all round spheres we channelize them to prioritize values and thus exemplify the precept.

“A sound head, honest heart and humble spirit are the best guides through time and to eternity.”

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12th ECONOMICS

Important Questions - 2021

Two Marks:

Lesson - 01



1. Define Macro Economics.

- The word 'Macro' is derived from the Greek word 'Makros' meaning 'large'.
- Hence, Macro Economics is the study of the economy as a whole.

2. What do you mean by Capitalism?

- **Adam Smith** is the 'Father of Capitalism.
- In capitalism, there is total freedom and private ownership of means of production.

3. 'Circular Flow of Income' - Define.

- The circular flow of income is a model of an economy - showing connections between different sectors of an economy.
- Factors of production between - *economic agents* such as firms, households, government and nations.

Lesson - 02

4. Write the formula for calculating GNP.

- GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.
- **GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad.**
- **GNP = (C+I+G+ (X-M) + (R-P)**

5. Define GDP deflator.

- GDP deflator is an index of price changes of goods and services.

$$\text{GDP deflator} = \frac{\text{Nominal GDP} \times 100}{\text{Real GDP}}$$

Lesson - 03



6. Give the meaning of full employment?

- **Keynes** defines full employment as the absence of involuntary unemployment.
- **Full employment** means that persons who are willing to work and able to work must have employment or a job.

7. What is the main feature of rural unemployment ?

The major feature of rural unemployment is the existence of unemployment in the form of -

1. Disguised unemployment
2. Seasonal unemployment.

8. Give short note on frictional unemployment.

Frictional Unemployment (Temporary Unemployment)

- Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
- This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.

9. Give reasons for labour retrenchment at present situation.

- Now a days, Invention and Innovations leads to the adoption of new techniques there by the existing workers are retrenched
- Labour saving devices are responsible for technological unemployment.

10. List out the assumptions of Say's law.

1. Full employment.
2. There will be a perfect competition in labour and product market.
3. There is wage-price flexibility.
4. Money acts only as a medium of exchange.

11. What is effective demand ?

- **Effective demand** denotes money actually spent by the people on products of industry.
- **ED=Y=C+I = Output = Employment**

12. What are the components of aggregate supply ?

The components of aggregate supply are :

1. Aggregate (desired) consumption expenditure (C)
2. Aggregate (desired) private savings (S)
3. Net tax payments (T)
4. Personal (desired) transfer payments to the foreigners (Rf)

Aggregate Supply = C + S + T + Rf = Aggregate income generated in the economy.

Lesson - 04.**13. What is consumption function?**

- Consumption function is a “Functional relationship between **two aggregates** viz total consumption and gross national income”.
- It is represented as **C = f(Y)**

where,

C = Consumption

Y = Income

f = Function

14. What do you mean by propensity to consume?

- It is the relationship between **income and consumption**.
- When income increases *consumption also increases*.

15. Define average propensity to consume (APC).

- The average propensity to consume is the **ratio** of consumption expenditure to any particular level of Income.

$$APC = C/Y$$

Where, C = Consumption Y = Income

16. Define marginal propensity to consume (MPC).

- The Marginal propensity to consume may be defined as the **ratio** of the change in the consumption to the change in income.

$$MPC = \Delta Y / \Delta C$$

Where,

ΔC = **Change** in Consumption

ΔY = **Change** in Income

MPC is positive but less than unity

17. What do you mean by propensity to save?

- Propensity to save is a “functional relationship between two aggregates viz **Total Savings** and **Gross National Income**.”
- The propensity to save is merely the propensity not to consume.

18. Define average propensity to save (APS).

- The average propensity to save is the **ratio of saving to consume**.
- In other words, it is the ratio of total savings to total income.

$$APS = S/Y$$

Where,

S = Saving, Y = Income

19. Define Marginal Propensity to Save (MPS).

- Marginal Propensity to Save is the **ratio** of change in saving to a change in income.
- MPS is obtained by **dividing** change in savings by change in income.

$$\text{MPS} = \Delta S / \Delta Y$$

Where,

ΔS = Change in Saving, ΔY = Change in Income

20. Define Multiplier.

- The multiplier is defined as the **ratio** of the **change** in national income to **change** in Investment.

$$\text{Multiplier}(K) = \Delta Y / \Delta I$$

- Multiplier is also called as **investment multiplier**.

21. Define Accelerator.

- Accelerator is the *numerical value* of the relation between an *increase in consumption* and the resulting *increase in investment*.

$$\text{Accelerator } (\beta) = \Delta I / \Delta C$$

- ΔI = Change in investment outlays (Say 100)
- ΔC = Change in consumption demand (Say 50).

Lesson - 05.

22. Define inflation.

Inflation is a consistent and appreciable rise in the general price level.

- “Too much of Money chasing too few goods” - **Coulbourn**.
- “A state of abnormal increase in the quantity of purchasing power” - **Gregorye**

Lesson - 06**23. Define Commercial banks.**

Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business.

24. Define Central bank.

- A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates.
- Central banks also usually oversee the commercial banking system of their respective countries.

25. Mention the functions of agriculture credit department.

1. To maintain an expert staff to study all questions on agricultural credit;
2. To provide expert advice to Central and State Government, State Co-operative Banks and other banking activities.

Lesson - 07-**26. What is International Economics?**

- International Economics is that branch of economics which is concerned with the exchange of goods and services **between two or more countries**.

27. Define international trade.

- International trade refers to the **trade or exchange of goods and services between two or more countries**.
- In other words, it is a trade among different countries or trade across political boundaries.

28. State any two merits of trade.

- Trade is one of the powerful forces of economic integration.
- It brings foreign exchange to our country.
- Equitable distribution of scarce materials.

29. Define Terms of Trade.

- It is the rate at which the goods of one country are exchanged for goods of another country.
- It is expressed as the relation between export prices and import prices.

30. What do you mean by balance of payments?

- BoP is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.

31. What is meant by Exchange Rate?

- Exchange Rate is the external value of domestic currency.
- Thus, exchange rate may be defined as the price paid in the home currency (say Rs.75) for a unit of foreign currency (say 1 US \$).

Lesson - 8**32. Write the meaning of Special Drawing rights.**

- Special Drawing Rights (SDRs) is otherwise called '**Paper Gold**'.
- They are a form of international reserves created by the IMF in 1969 to solve the problem of international liquidity.

33. Define Common Market.

- A group formed by countries within a geographical area to promote duty free trade and free movement of labour and capital among its members.

34. What is Free trade area?

- A region encompassing a trade bloc whose member countries have signed a Free Trade Agreement.
- These agreements involve cooperation between at least two countries to **reduce trade barriers**.

35. Specify any two affiliates of World Bank Group.

1. International Development Association.(IDA)
2. International Finance corporation.(IFC)

Lesson - 9.**36. Define public finance.**

- “Public finance is *an investigation into the nature and principles* of the state revenue and expenditure”. - **Adam Smith**

37. What is public revenue?

- Public revenue deals with the methods of raising public revenue.
- For (e.g.) Tax and Non Tax principles and rate of taxation.

38. Differentiate tax and fee.

1. **Tax** is *a compulsory payment* by the citizens to the government to meet the public expenditure.
2. **A fee** is *charged* by public authorities for rendering a service to the citizens.

39. Write a short note on zero based budget.

- Zero base - budgeting involves fresh evaluation of expenditure in the government budget Assuming it as a new item.
- Indian Government presented ZBB first in 1987 - 88.

40. Give two examples for direct tax.

Examples for Direct tax are,

1. (i) Income Tax
2. (ii) Wealth Tax.

41. What are the components of GST?

The component of GST are of 3 types. They are,

1. (i) CGST
2. (ii) SGST
3. (Iii) IGST.

42. What do you mean by public debt?

- Public debt deals with the methods of raising loans from internal and external sources.
- The burden, effects and redemption of public debt fall under this head.

Lesson -10.**43. What do you mean by ecosystem?**

- An ecosystem includes **all living things** (plants, animals and organisms) in a given area, interacting with each other, and also with their **non-living environments** (weather, earth, sun, soil, climate, atmosphere).

44. Mention the countries where per capita carbondioxide emission is the highest in the world.

Countries	Per capita CO₂ emission
1. Saudi Arabia	16.85
2. Australia	15.83
3. United states	15.53
4. Canada	15.32
5. South Korea	11.58

45. What are the remedial measures to control noise pollution?

1. Use of noise barriers.
2. Newer roadways for surface transport.
3. Traffic control
4. Regulating times for heavy vehicles.

46. Define Global warming.

- Global warming is the current increase in temperature of the earth's surface (both land and water) as well as its atmosphere.

Lesson- 11.**47. Define Economic Development**

- “Development is a multidimensional process involving major changes in social, structures, popular attitudes and national institutional as well as the acceleration of growth the reduction of inequality and eradication of absolute poverty” -**Michal P.Todaro**

(or)

- From the welfare perspective, economic development is defined as sustained improvement in health, literacy and standard of living.

48. Define Economic Planning.

- According to **Robbins**, economic planning is collective control or suppression of private activities of production and exchange.
- According to **Dalton**, economic planning in the widest sense is the deliberate direction by persons in-charge of large resources of economic activity towards chosen ends.

49. Write a short note on NITI Aayog

- NITI Aayog was formed on 1st January, 2015 through a union cabinet resolution.
- NITI Aayog is a policy think tank.
- It replaced the Planning Commission from 13th August, 2014.

Lesson -12.

50. What is Statistics?

- Statistics as a science of estimates and probabilities.
- Statistics may be defined as the collection, organisations, presentation, analysis and interpretation of numerical data

51. What are the kinds of Statistics?

There are two major types of statistics.

1. Descriptive statistics
2. Inferential statistics

52. Define Correlation.

- Correlation is a statistical device that helps to analyse the covariation of two more variables,
- **Sir Francis Galton** is responsible for the calculation of correlation coefficient

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12th ECONOMICS - Important Questions -2021

3 Mark Only

1. Introduction to Macro Economics

1. State the importance of Macro Economics.

1. Helps to frame suitable solutions to the basic problems in an economy.
2. helps to take precautionary measures on the future problem, needs and challenges of the economy as a whole.
3. It helps to use many scientific investigations to understand the reality.
4. It helps to make comparison and analysis of economic indicators.
5. It helps for better prediction about future and to formulate suitable policies to avoid economic crisis.

2. Describe different types of economic systems: -

The different types of economic systems are

A. Capitalistic Economy:

It is the system where the means of production are privately owned and market determines the economic activities Ex. USA, West Germany, Australia etc.

B. Socialistic Economy :

It is the system where the major economic activities are owned and controlled by the government, Social welfare is a main motive of it.

Ex. Russia, China, Poland etc.

C. Mixed Economy:

In a mixed economic system, both private and public sectors co-exist and work together towards economic development. Ex.: India, England, France, etc.

3. Outline the major merits of capitalism.

1. **Automatic working:** The economy works automatically without any government intervention
2. **Efficient use of resources:** All resources are put into optimum use
3. **Incentives for hard work:** Hard work is encouraged and entrepreneurs get more profit for more efficiency.
4. **Economic progress:** As productivity is more economy progresses fast.

5. **Consumer sovereignty:** All production activities are aimed at satisfying the consumers.
6. **Higher rate of capital formation.**
7. **Development of new technology.**

4. **Indicate the demerits of Socialism.**

1. **Red-Tapism and bureaucracy:** Work cannot be started easily for its lengthy process.
2. **Absence of Incentive:** This system does not provide any incentive for efficiency. So, productivity also suffers.
3. **Limited freedom of choice:** consumers do not enjoy freedom of choice over consumption of goods and services
4. **Concentration of power:** All the major decisions are in the hands of state only.

5. **Enumerate the features of mixed economy.**

- **a. Ownership of property and means of production:** Both the public and private have rights over property and means of production.
- **b. Co-existence of public and Private sector:** public sector aims at social welfare whereas private sectors aims at for profits.
- **c. Economic plan:** National plans are drawn up by the government and both public and private sectors abide.
- **d. Solutions to economic problems:** Basic problems like what, how and whom to produce are solved through price mechanism and state intervention.
- **e. Freedom and control:** Private has its freedom over resources but government has control over private sectors.

6. **Distinguish between Capitalism and globalization.**

Capitalism:

It is the system where the means of production are privately owned and market determines the economic activities.

Globalization

It is an economic system where the economic activities of a nation are interconnected and interdependent on each other.

7. Briefly explain the two sector circular flow model:

- There are only two sectors namely, ***household sector*** and ***firm sector***.
- In a two-sector economy; production and sales are equal and there will be a circular flow of income and good.
- The **outer circle** represents real flow (factors and goods) and
- The **inner circle** represents the monetary flow (factor prices and commodity prices).
- **Real flow** indicates the factor services flow from household sector to the business sector, and goods and services flow from business sector to the household.



2. National Income

8. Write a short note on per capital income

- The average income of a person of a country in a particular year is called per capita income.
- Per capita income is obtained by dividing national income by Population.

National income

- Per capita income = -----

Population

9. Explain briefly NNP at factor cost

- NNP at factor cost is the total of income payment made to factors of production.
- Thus from the money value of NNP at market price, we **deduct** the amount of indirect taxes and **add** subsidies to arrive at the net national income at factor cost.
- *NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.*

10. Give short note on Expenditure method

The Expenditure Method (Outlay method):

- Under this method, the total expenditure incurred by the society in a particular year is added together.
- To *calculate* the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.

Symbolically,

$$\text{GNP} = \text{C} + \text{I} + \text{G} + (\text{X}-\text{M})$$

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government expenditure

X-M = Net exports.

3. Theories Of Employment And Income

11. Explain the following in Short

- Seasonal unemployment
- Frictional unemployment
- Educated Unemployment

Seasonal unemployment:

In agriculture and agro-based industries like sugar production activities are carried out only in some seasons. People may remain unemployed during off seasons.

Frictional unemployment:

It arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour lack of necessary skills, breakdown of machinery, etc.

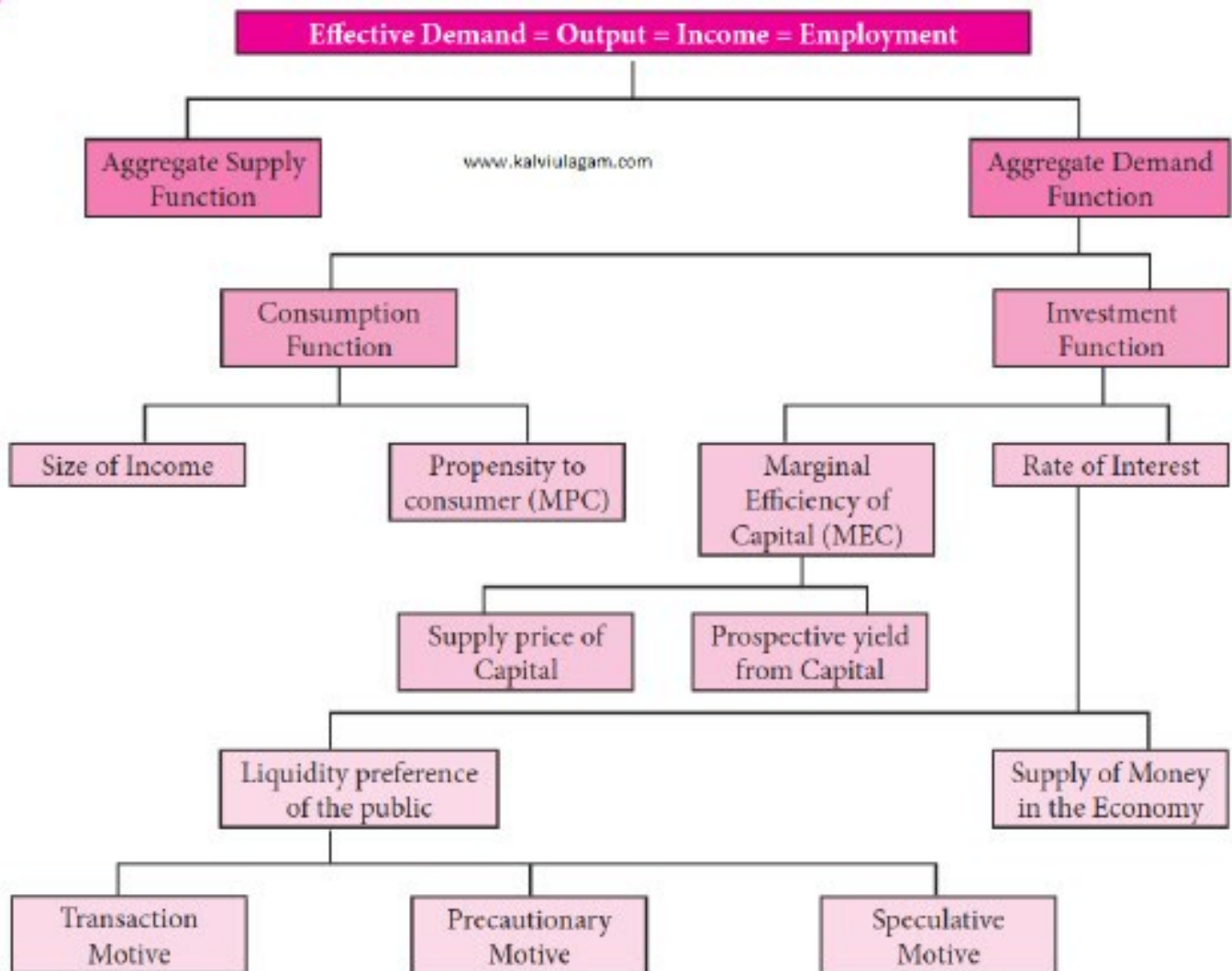
Educated unemployment:

Educated people are unemployed or underemployed when qualifications do not match the job.

12. Write a note on the implications of the Say’s law

1. There is no general over production or unemployment
2. Automatic price mechanism
3. Interest flexibility rate brings equality between savings and investment
4. Money acts as only medium of exchange.

13. Explain Keynes’ theory in the form of flow chart.



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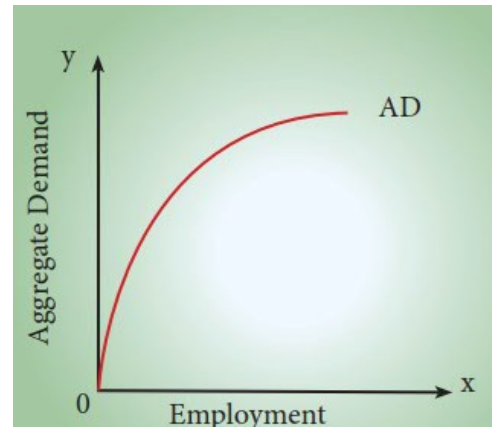
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14. What do you mean by aggregate demand ? Mention its components.

- In the Keynesian model, output is determined mainly by **aggregate demand**.
- The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.
- Aggregate demand has the following **four components**.

1. Consumption Demand
2. Investment Demand
3. Government Expenditure and
4. Net Export (export - import)

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

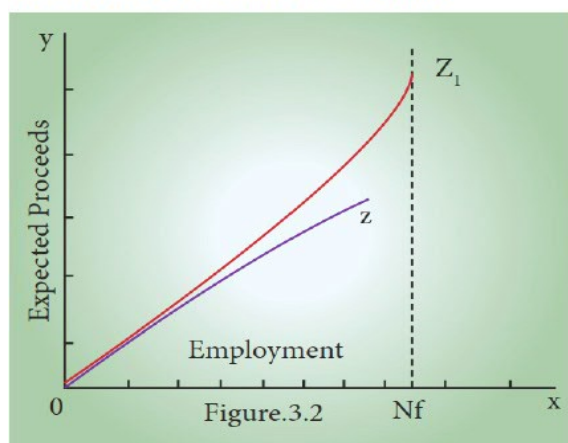


15. Explain about aggregate supply with the help of diagram.

Aggregate Supply:

- Aggregate supply function is an increasing function of the level of employment. Aggregate supply refers to the value of total output of goods and services produced in an economy in a year.
- In other words, aggregate supply is equal to the value of national product, i.e., national income.
- **Aggregate Supply = C + S + T + Rf = Aggregate income generated in the Economy**

AGGREGATE SUPPLY CURVE



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1. **Z curve is linear** where money wages remains fixed.

2. **Z1 curve is non - linear** since wage rate increases with employment.

3. When **full employment level of Nf** is reached it is impossible to increase output by employing more men.
4. So aggregate supply curve becomes inelastic (Vertical straight line).

Thus aggregate supply is an important factor in determining the level of economic activity.

16. Write any five differences between classism and Keynesianism

	Keynesianism	Classicism
1	Short-run equilibrium	Long-run equilibrium
2	Saving is a vice	Saving is a social virtue.
3	The function of money is a medium of exchange on the one side and a store of value on the other side	The function of money is to act as a medium of exchange
4	Macro approach to national problems	Micro foundation to macro problems
5	State intervention is advocated.	Champions of Laissez-fair policy

4. Consumption and Investment Functions

17. State the propositions of keynes's psychological Law of consumption

1. When **income** increases, consumption also increases but by a smaller amount.
2. The increased income will be divided in some proportion between **consumption expenditure** and **saving**
3. Increase in income always leads to an increase in both consumption and saving.

18. Differentiate autonomous and induced investment

Sl.No.	Autonomous Investment	Induced investment
1	Independent	Planned
2	Income inelastic	Income elastic
3	Welfare Motive	Profit motive

19. Mention the differences between accelerator and multiplier effect.

Sl.No.	Accelerator	Multiplier
1	It is the ratio of change in induced investment to change in consumption	It is the ratio of change in income to change in investment
2	Induced investment plays vital role in it	Autonomous investment plays vital role in it

5. Monetary Economics**20. What is money supply?**

- Money supply means the total amount of money in an economy.
- It refers to the amount of money which is in circulation in an economy at any given time.
- Money supply plays a crucial role in the determination of price level and interest rates.
- In India, currency notes are issued by the Reserve Bank of India (RBI) and coins are issued by the Ministry of Finance, Government of India (GOI).

21. What are the determinants of money supply?**i) Current Deposit Ratio (CDR) :**

It is the ratio of money held by the public in currency to that they hold in bank deposits.

(ii) Reserve Deposit Ratio (RDR) :

Reserve money consists of two things

(a) vault cash in banks and (b) deposits of commercial banks with RBI.

(iii) Cash Reserve Ratio (CRR) :

It is the fraction of the deposits the banks must keep with RBI.

(iv) Statutory Liquidity Ratio (SLR) :

It is the fraction of the total demand and time deposits of the commercial banks in the form of specified liquid assets.

22. Write the types of inflation.

The four types of inflation are indicated below.

(i) Creeping Inflation:

It is slow moving and very mild. The rise in prices will not be perceptible but spread over a long period.

(ii) Walking Inflation:

When prices rise moderately and the annual inflation rate is a single digit, it is called walking inflation.

(iii) Running Inflation :

When prices rise rapidly like the running of a horse at a rate of speed of 10% - 20% per annum, it is called running inflation.

(iv) Galloping Inflation :

inflation or hyper inflation points out unmanageably high inflation rates that run into two or three digits

23. Explain Demand-pull and Cost push inflation.**(i) Demand-Pull Inflation**

- Demand and supply play a crucial role in deciding the inflation levels in the society at all the points of time.
- For instance, if the demand is high for a product and supply is low, the price of the products increases.

(ii) Cost-Push Inflation

When the cost of raw materials and other inputs rises inflation results. Increase in wages paid to labour also leads to inflation

24. State Cambridge equations of value of money.**(i) Marshall's equation:**

The Marshall's equation is expressed as : $M = KPY$,

where,

- M is the quantity of money
- Y is the aggregate real income of the community.
- P is purchasing power of money.
- K represents the fraction of the real income which the public desires to hold in the form of money.

Thus, the price level = M/KY (or)

value of money (The reciprocal of price level) is $1/P = KY/M$.

According to Marshall's equation, the value of money is influenced not only by changes in M , but also by changes in K .

(ii) Keynes' equation :

Keynes equation is expressed as : $n = PK$ (or) $P = n/K$

Where ,

- n is the total supply of money,
- P is the general price level of consumption goods.
- K is the total quantity of consumption units the people decide to keep in the form of cash.

Keynes indicates that K is a real balance, because it is measured in terms of consumer goods.

According to Keynes, people's desire to hold money is unaltered by monetary authority, So, price level and value of money can be stabilized through regulating quantity of money (n) by the monetary authority.

6.BANKING

25. Give a brief note on NBFIs.

- These banks do not have full bank licence or supervised by RBI.
- Do not carry on pure banking business but carry other financial Transaction. They receive deposits and give loans.
- Just undertakes borrowing and lending handling both money market and capital market.
- NBFIs can be broadly classified into two categories. Viz.
 1. Stock Exchange and
 2. Other Financial Institutions.
- **Examples** for the latter category are Finance corporations, Chit funds, Building societies etc.

26. Bring out the methods of credit control

Quantitative (or) General Method	Qualitative (or) Selective Method
(i) Bank Rate Policy	(i) Rationing of Credit
(ii) Open Market Operations	(ii) Direct Action
(iii) Variable Reserve Ratio	(iii) Moral persuasion
(iv) Cash Reserve Ratio, Statutory Liquid Ratio (SLR)	(iv) Method of Publicity
	(v) Regulation of Consumer's Credit
	(vi) Regulating the marginal requirement on security loans.

27. What are the functions of NABARD?

- NABARD acts as a refinancing institution for all kinds of production and investment credit to ***agriculture, small-scale industries, cottage and village industries, handicrafts and rural crafts***
- It provides short-term, medium term and long-term credit to ***state cooperative Banks, RRB, LDBs and other financial institutions*** approved by RBI.
- NABARD gives **long-term loans (upto 20 years)** to State government
- NABARD gives long-term loans to any institution approved by the Central Government.

28. Specify the functions of IFCI.**Functions of IFCI:**

1. Long term loans, both in rupees and foreign currencies.
2. Underwriting of equity, preference and debenture issue
3. Subscribing to equity, preference and debenture issues.
4. Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India.
5. Guaranteeing of loans raised in foreign currency from foreign financial institutions.

29. Distinguish between money market and capital market

- Money market deals with short-term loans. It designated financial institutions which handle the purchase, sale and transfer of short-term credit

instrument.

- Capital market deals in raising capital by dealing in shares, bonds, equities and mortgages.

30. Mention the objectives of demonetizations.

Objectives of Demonetisation :

- (i) Removing Black Money from the country.
- (ii) Stopping of corruption.
- (iii) Stopping terror funds.
- (iv) Curbing fake note.

7. International Economics

31. Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.

1. Net Barter Terms of Trade

- This type was developed by Taussig in 1927.
- The ratio between the prices of exports and of imports is called the “**net barter terms of trade**”.
- It is named by Viner as the ‘**commodity terms of trade**’.

It is expressed as:

$$T_n = (P_x / P_m) \times 100$$

Where,

T_n = Net Barter Terms of Trade

P_x = Index number of export prices

P_m = Index number of import prices

2. Gross Barter Terms of Trade

- This was developed by Taussig in 1927 as an improvement over the net terms of trade.
- It is an index of relationship between total physical quantity of imports and the total physical quantity of exports.

$$T_g = (Q_m / Q_x) \times 100$$

Where,

Q_m = Index of import quantities

Q_x = Index of export quantities

32. Distinguish between Balance of Trade and Balance of Payments.

BALANCE OF TRADE	BALANCE OF PAYMENT
Balance of Trade (BOT) refers to the total value of a country's exports of commodities and total value of imports of commodities.	BoP is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.
Only export and import of commodities are included in the statement of Balance of Trade of a country.	When a payment is received from a foreign country, it is a credit transaction while a payment to a foreign country is a debit transaction.
Movements of goods (export and imports of commodities) are also known as 'visible trade'.	The principal items on the debit side include imports of goods and services, transfer payments to foreigners, lending to foreign countries, investments by residents in foreign countries

8. International Economic Organisations**33. Mention any three lending programmes of IMF.****1. Basic Credit Facility :**

The IMF provides Financial assistance to its member nations to overcome their temporary difficulties relating to balance of payment.

2. Extended Fund Facility:

Under this arrangement, the IMF provides additional borrowing facility up to 140% of the member's quota, over and above the basic credit facility.

3. Buffer Stock Facility:

The Buffer Stock financing facility was started in 1969. The purpose of this scheme was to help the primary goods (food grains) producing countries to finance contributions to buffer stock arrangements for the stabilisation of primary product prices.

34. What is Multilateral Agreement?

- A International agreements involving three or more parties.
- For example GATT has been, since its establishment in 1947.
- Seeking to promote trade liberalization through multilateral negotiations.

35. Write the agenda of BRICS Summit, 2018.

- South Africa hosted the 10th BRICS summit in July 2018.
- The agenda for BRICS summit 2018 includes Inclusive Growth, trade issue Global Governance, Shared prosperity, International peace and security.

36. State briefly the functions of SAARC.

The main functions of SAARC are as follows.

1. Maintenance of the cooperation in the region.
2. Prevention of common problems associated with the member nations.
3. Ensuring strong relationship among the member nations.
4. Removal of the poverty through various packages of programmes.
5. Prevention of terrorism in the region.

9.Fiscal Economics**37. What are the functions of a modern state?**

Modern state is a welfare state.

Function of Modern state:

- (1) Creating economic and social overhead.
- (2) Ensuring stability in both internal and external.
- (3) Conserving resources for sustainable development.
- (4) Defence.
- (5) Judiciary.
- (6) Enterprises.
- (7) Social welfare.
- (8) Infrastructure.
- (9) Macro - economic policy
- (10) Social justice.
- (11) Control monopoly.

38. State any three characteristics of taxation.

1. A tax is a compulsory payment made to the government.
2. The tax payer cannot claim any specific benefit against the payment of a tax.
3. A tax is not levied as a fine or penalty for breaking law.

10. Environmental Economics

39. Explain different types of air pollution

- **Indoor Air pollution:** It refer to the toxic contaminates we face in our daily lives at our homes, schools and work places.
e.g. Cooking and heating with solid fuels on open fires, etc.
- **Outdoor Air pollution:** It refers to ambient air caused by combustion processes from motor vehicles, solid fuel burning and industry.

40. What are the causes of water pollution?

1. Discharge of sewage and waste water
2. Dumping of solid waste
3. Discharge of Industrial waste
4. Oil Spill
5. Acid rain
6. Global warming
7. Eutrophication

41. State the meaning of e-waste.

- It can be defined as the result when consumer, business and household devices are disposed or re-cycled.
- **Example :** Television, Computers, Wireless devices, Xerox machines etc.

42. What is land pollution? Mention the causes of land pollution:

Land Pollution:

- Unnecessary addition to the soil which threaten the public health and cause unpleasant conditions and nuisances.

Causes:

- a. Deforestation and soil erosion
- b. Agricultural activities
- c. Mining
- d. Landfills
- e. Industrialization
- f. Construction activities and
- g. Nuclear Waste.

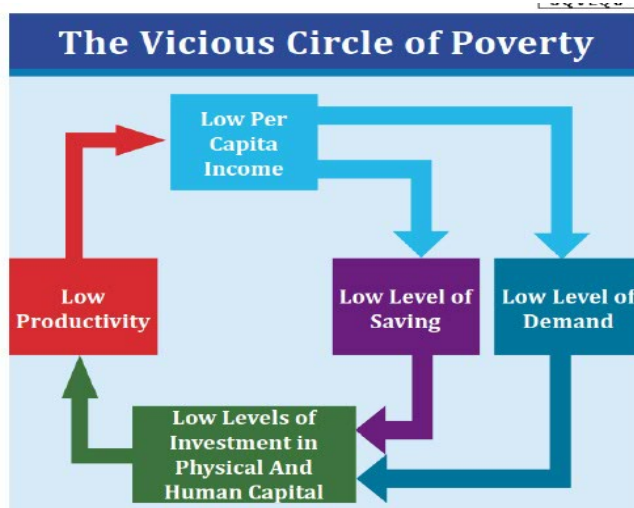
43. Write a note on (a) Climate change, (b) Acid rain

- **Climate Change:** It refers to any significant change in temperature, precipitation, or wind pattern that occurs over long period.
- **Acid rain:** It is the resultant of sulphur di-oxide and nitrogen oxides reacting in the atmosphere with water and returning to earth as rain, or snow.

11. Economics of Development and Planning

44. Elucidate major causes of vicious circle of poverty with diagram

1. There are circular relationships known as the '*Vicious Circles of Poverty*' that tend to perpetuate the low level of development in less developed countries (LDCs).
2. A country is poor because of low capital income.
3. The vicious circle of poverty operates both on the demand side and the supply side.
4. It is associated with low rate of saving and investment on the supply side and low level of income leads to low level of demand on the demand side.
5. **For example** A poor man may not have enough to eat, being underfed etc



45. How would be break vicious circle of poverty?

1. By increasing rate of investment and capital formation without reducing consumption and with more marginal rate of save than that of average rate of saving.
2. Balanced Growth developing all kinds of industries in order to raise income and to raise consumption capacity.

46. Trace the evolution of Economic planning in India.

Planning Commission was created on March 15, 1950 and its evolution is as follows:

1. **Sir M. Vishveshwarya (1934)** “Planned Economy of India” with 10year plan.
2. **Jawaharlal Nehru (1938)** “National Planning Commission”
3. **Bombay plan (1940)** - 8 industrialists with 10year investment plan.
4. **S.N. Agarwal (1944)** - “Gandhian Plan” focusing on agricultural and rural Economy.
5. **M.N. Roy (1945)** drafted “People’s Plan”
6. **J.P. Narayan (1950)** advocated “Sarvodaya Plan” with Vinoba Bhava’s idea.

47. Describe the case for planning

Economic planning can be justified for the following reasons:

- (1) To accelerate and strengthen market mechanism
- (2) To remove unemployment
- (3) To achieve Balanced development
- (4) To remove poverty and inequalities

48. Distinguish between functional and structural planning

	Functional Planning	Structural Planning
1	It refers to that planning which seeks to remove economic difficulties	It refers to a good deal of changes in the socio economic framework of the economy
2	It is directing all the planning activities within the existing economic and social structure	This type of planning is adopted mostly in under developed countries.

49. What are the functions of NITI Aayog.

1. **Co-operative and Competitive Federation:** helps states to participate in the formulation of National policy.
2. **Shared National Agenda:** Welcomes states to share their vision for national development with priorities and strategies.
3. **Decentralised planning Bottom-up Planning process** for easy and effective administration.

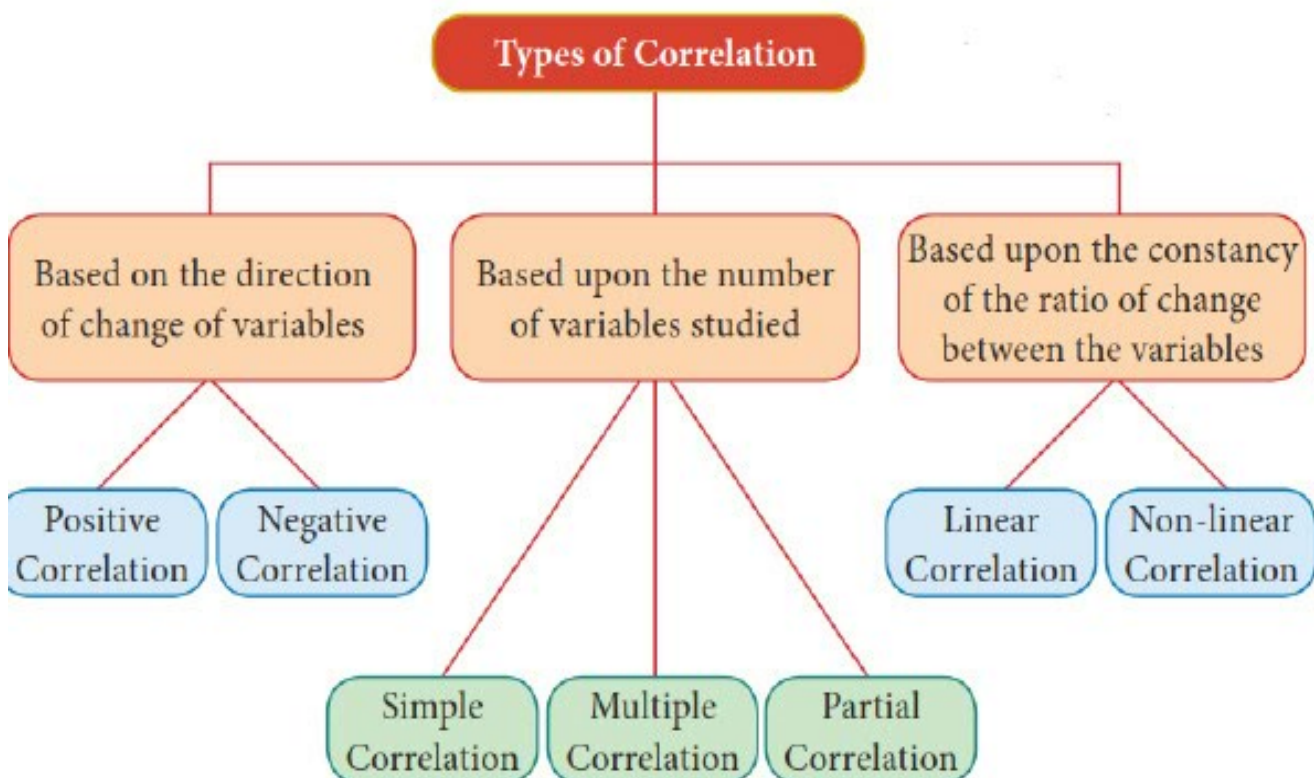
4. Vision and Scenario planning: To design medium and long term strategic plan towards India's future.
5. Network of Expertise: to implement External ideas and expertise into government policies and programmes.
6. Harmonization
7. Conflict Resolution
8. Co-ordinating Interface with the world
9. Internal consultancy
10. Capacity building
11. Monitoring and evaluation.

12.Introduction to Statistical Methods and Econometrics

50. What are the functions of statistics?

1. Presents facts in a definite form
2. Simplifies mass of figures
3. facilitates Comparison
4. helps in formulating and testing
5. helps in prediction
6. It helps in the formulation of suitable policies.

51. State and explain the different kinds of Correlation.



52. Find the Standard Deviation of the following data:14,22,9,15,20,17,12,11

No	Values (X)	$X - \bar{X}$	$(X - \bar{X})^2$
1	14	14 - 15 = -1	1
2	22	22 - 15 = 7	49
3	9	9 - 15 = -6	36
4	15	15 - 15 = 0	0
5	20	20 - 15 = 5	25
6	17	17 - 15 = 2	4
7	12	12 - 15 = -3	9
8	11	11 - 15 = -4	16
N=8	Ex= 120		E(X-X)² = 140

$$N = 8$$

$$\bar{X} = \frac{120}{8} = 15$$

$$\sigma = \sqrt{\frac{\Sigma(x - \bar{X})^2}{N}}$$

$$= \sqrt{\frac{140}{8}}$$

$$= \sqrt{17.5}$$

$$\sigma = 4.18$$

53. Mention the uses of Regression Analysis.

1. It indicates the cause and effect relationship between the variables and establishes functional relationship.
2. Besides verification it is used for the prediction of one value, in relation to the other given value.
3. Regression coefficient is an absolute figure. If we know the value of the independent variable, we can find the value of the dependent variable.
4. It has wider application, as it studies linear and nonlinear relationship between the variables.

54. Specify the objectives of econometrics.

The specific objectives are as follows:

1. It helps to explain the behaviour of a forthcoming period that is forecasting economic phenomena.
2. It helps to prove the old and established relationships among the variables or between the variables
3. It helps to establish new theories and new relationships.
4. It helps to test the hypotheses and estimation of the parameter.

55. Differentiate the economic model with econometric model.

	Economic Model	Econometric Model
1	An Economic Model is a local representation of knowledge.	An Econometric Model is an integration at dependent variable with explanatory variables to analyse the particular economic activity and test the theories.
2	It is adapted to yield a definite and precise formulation of the economic processes at work.	It represent a set of hypotheses that permits statistical inference from the particular date under review.
3	It is prepared after formulation of economic laws	Construction of econometric model is the starting point of any econometric investigation

56. Discuss the important statistical organizations (offices) in India.

The Ministry has **two wings**, Statistics and Programme Implementation.

The Statistics Wing called the National Statistical Office (NSO) consists of the Central Statistical Office (CSO), the Computer Centre and the National Sample Survey Office (NSSO).

Central Statistical Office (CSO)

- The Central Statistical Office is one of the two wings of the National Statistical Organisation (NSO).
- It is responsible for co-ordination of statistical activities in the country and for evolving and maintaining statistical standards.
- National Sample Survey Organisation (NSSO)
- The National Sample Survey Organisation, now known as National Sample Survey Office, is an organization under the Ministry of Statistic of the Government of India.
- It is the largest organisation in India, conducting regular socio-economic surveys.

The Programme Implementation Wing has three Divisions, namely,

i Twenty Point Programme

ii Infrastructure Monitoring and Project Monitoring

iii Member of Parliament Local Area Development Scheme.

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5 Marks

1. Introduction To Macro Economics

1. Compare the feature among Capitalism, Secularism and Mixedism.

	Features	Capitalism	Socialism	Mixedism
1	Ownership of Means of Production	Private Ownership	Public Ownership	Private Ownership and Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare and Profit Motive
3	Solution of Central Problems	Free Market System	Central Planning System	Central Planning System and Free Market System
4	Government Role	Internal Regulation only	Complete Involvement	Limited Role
5	Income Distribution	Unequal	Equal	Less unequal
6	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises

2. NATIONAL INCOME

2. Discuss the various methods of estimating the national income of a country.

There are three methods that are used to measure national income.

1. Production or value added method
2. Income method or factor earning method
3. Expenditure method.

1. Production or value added method:

- Product method measures the output of the country. The gross value of output from different sectors like agriculture, industry, trade and commerce etc is obtained from the entire economy during a year.

2. Income Method (Factor Earning Method):

- Income method approaches national income from the distribution side.
- Under this method, national income is calculated by **adding up all the incomes** generated in the course of producing national product.
- Factors incomes are grouped under *labour income, capital income and mixed income*.

- National income is calculated as domestic factor income plus net factor incomes from abroad.
- In short, $Y = w + r + i + \pi + (R-P)$
 $w = \text{wages}, r = \text{rent}, i = \text{interest}, \pi = \text{profits}, R = \text{Exports and } P = \text{Imports}$

3. The Expenditure Method (Outlay method)

- Under this method, the **total expenditure incurred by the society** in a particular year is added together.
- To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.
- Symbolically, $GNP = C + I + G + (X-M)$
 C - Private consumption expenditure, I - Private Investment Expenditure
 G - Government expenditure, $X-M$ = Net exports

3 Theories of Employment and Income

3. Describe the types of unemployment.

The following are the types of unemployment.

1. Cyclical Unemployment:-

In a business cycle during the period of recession and depression, income and output fall leading to widespread unemployment. It is caused by deficiency of effective demand.

2. Seasonal Unemployment:-

This type of unemployment occurs during certain seasons of the year.

3. Frictional Unemployment:-

Frictional unemployment arises due to imbalance between supply of labour and demand for labour. The persons who lose jobs and in search of jobs are also included under frictional unemployment.

4. Educated Unemployment:-

Sometimes educated people are underemployed or unemployed when qualification does not match the job.

5. Technical Unemployment:-

Modern technology being capital intensive requires less labourers and contributes to technological unemployment.

6. Structural Unemployment Structural unemployment is due to drastic change in the structure of the society. Lack of demand for the product or shift in demand to other products cause this type of unemployment.

7. Disguised Unemployment:-

Marginal productivity of labour is zero or less or negative.

4. Critically explain Say's law of market.

The classical theory of employment is based on says law of market.

- He stated that **supply creates its own demand**
- It tells that supply is always equals to demand ($S=D$). A person receives his income from production which is spent in the purchase of goods and services produced by others for the economy as a whole total production equals total income

Assumptions of the Say's law of market

The Say's Law of market is based on the following assumptions:

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.
3. People are motivated by self-interest and self-interest determines economic decisions.
4. The laissez faire policy
5. There will be a perfect competition in labour and product market.
6. There is wage-price flexibility.

Implications

There is no general over production or unemployment

- Automatic price mechanism
- Interest flexibility rate brings equality between savings and investment
- Money acts as only medium of exchange.

Criticisms

1. According to Keynes, supply does not create its demand.
2. Automatic adjustment process will not remove unemployment.
3. Money is not neutral.
4. keynes said overproduction is possible
5. the need for state intervention arises in case of general overproduction and Mass unemployment.

4. Consumption & Investment Functions

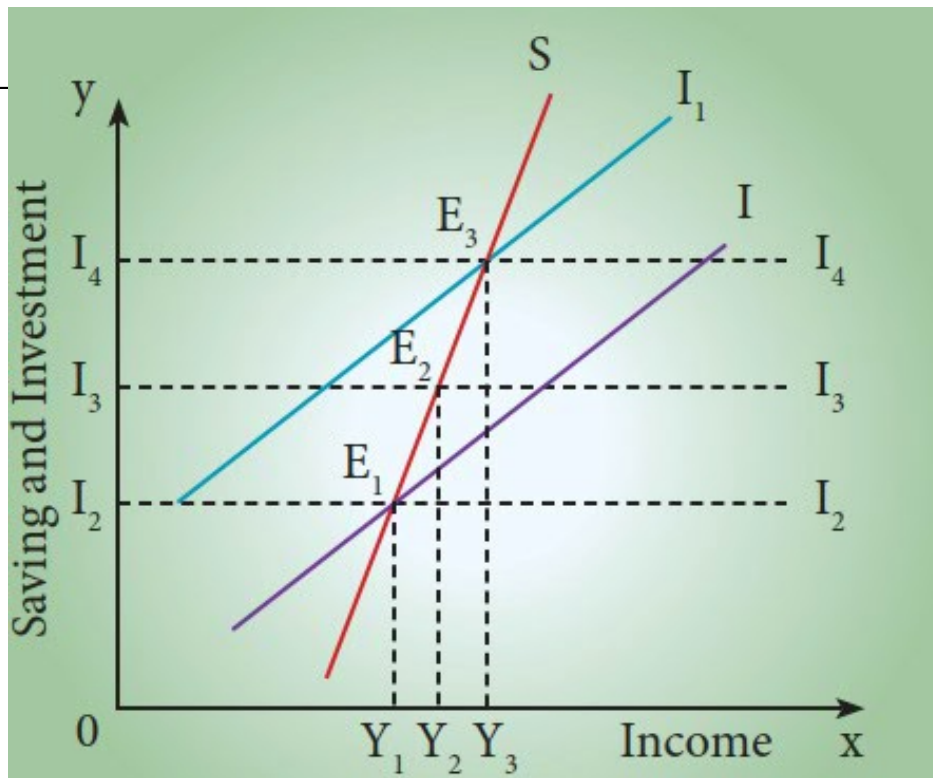
5. What are the differences between MEC and MEI.

No	Marginal Efficiency of Capital (MEC)	Marginal efficiency of investment (MEI)
1	Based on a given supply price of Capital	Based on the induced change in the price due to changes in demand for Capital
2	It represents the rate of return on the successive units of Capital without regard to existing Capital	It shows the rate of return on just those units of Capital over and above the existing Capital stock.
3	It is a stock concept	It is flow concept
4	It determines the optimum capital stock in an Economy at each level of interest rate	It determines the net investment of the economy at each interest rate given the Capital Stock.

6. Explain the operation of the Accelerator.

Operation of the Acceleration Principle

- Let us consider a simple example.
- Let us suppose that in order to produce 1000 consumer goods, 100 machines are required. Also suppose that working life of a machine is 10 years.
- This means that every year 10 machines have to be replaced in order to maintain the constant flow of 1000 consumer goods. This might be called replacement demand.
- Suppose that demand for consumer goods rises by 10 percent (ie from 1000 to 1100). This results in increase in demand for 10 more machines.
- So that total demand for machines is 20. (10 for replacement and 10 for meeting increased demand). It may be noted here a 10 percent increase in demand for consumer goods causes a 100 percent increase in demand for machines (from 10 to 20).
- So we can conclude even a mild change in demand for consumer goods will lead to wide change in investment.



Diagrammatic illustration:

Operation of Accelerator.

- SS is the saving curve.
- II is the investment curve.
- E1, the economy is in equilibrium with OY1 income. Saving and investment are equal at OI2.
- Now, investment is increased from OI2 to OI4.
- This increases income from OY1 to OY3, the equilibrium point being E3.
- If the increase in investment by I2 I4 is purely exogenous, then the increase in income by Y1 Y3 would have been due to the multiplier effect.
- But in this diagram it is assumed that exogenous investment is only by I2 I3 and induced investment is by I3 I4.
- Therefore, increase in income by Y1 Y2 is due to the multiplier effect and the increase in income by Y2 Y3 is due to the accelerator effect. MPC is positive but less than unity.

Chapter -5 Monetary Economics (Important)

7. Illustrate Fisher's Quantity theory of money.

The general form of equation given by Fisher is $MV = PT$.

Where,

- M = Money Supply/quantity of Money
- V = Velocity of Money
- P = Price level
- T = Volume of Transaction.

Fisher points out that in a country during any given period of time, the total quantity of money (MV) will be equal to the total value of all goods and services bought and sold (PT). $MV = PT$

This equation is referred to as "**Cash Transaction Equation**".

But, in a modern economy, bank's demand deposits or credit money and its velocity play a vital part in business.

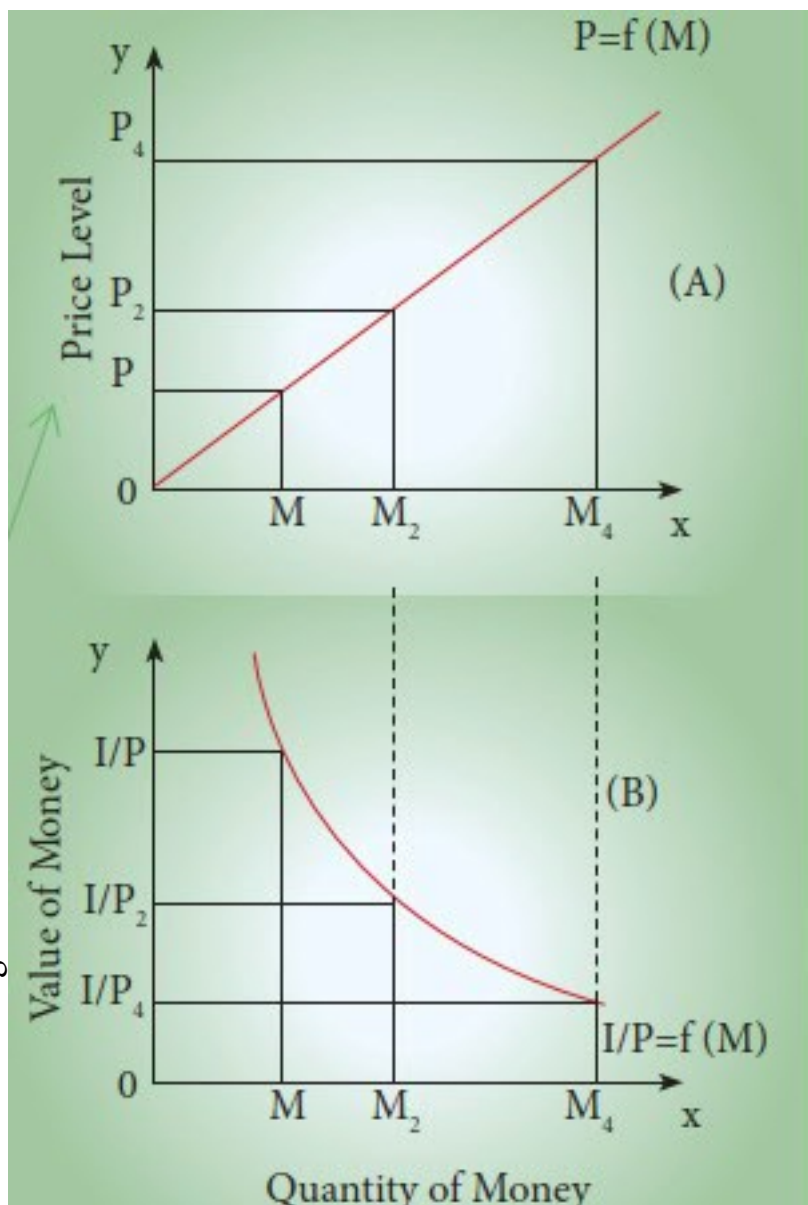
Therefore, Fisher extended his original equation of exchange to include bank deposits M^1 and its velocity V^1 .

The revised equation was: $PT = MV + M^1 V^1$

$$P = (MV + M^1 V^1) / T$$

From the revised equation, it is evident, that the price level is determined by

- The quantity of money in circulation 'M'
- The velocity of circulation of money 'V'
- The volume of bank credit money M^1
- The velocity of circulation of credit money V^1
- The volume of trade (T)



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- **Figure (A)** shows the effect of changes in the quantity of money on the price level.
 1. The quantity of money is OM, the price level is OP.
 2. When the quantity of money is doubled to OM₂, the price level is also doubled to OP₂. when the quantity of money is increased four fold to OM₄, the price level also increases by four times to OP₄.
- **Figure (B)**, shows the inverse relation between the quantity of money and the volume of money, where the value of money is taken on the vertical axis.
- But, with the quantity of money increasing by four fold to OM₄, the value of money is reduced by O I/P₄
- This inverse relationship between the quantity of money and the value of money is shown by downward sloping curve I O/P = f(M).

8. Explain the functions of money

Functions of money are in four forms

1. Primary functions
2. Secondary functions
3. Contingent functions
4. Other functions.

1. Primary functions

1. Medium of Exchange
2. Measure of Value
 - **Money as a Medium of Exchange:** Money acts as the medium of Exchange (intermediary) in Sales and purchases.
 - **Money as a measure of Value:** The value (price) of goods and services are in terms of money.

2. Secondary functions

1. Money as store of value
2. Standard of deferred payments.
 - **Money as a Store of Value** - Value (or savings) can be stored in the form of money. The value of money is more or less stable.
 - **Money acts as a standard of deferred payment** Future transaction can be carried on in terms of money. The loans which are taken at present can be repaid in money in future.

3. Contingent functions

- Basis of the Credit system
- Money facilitates distribution of National income
- Money helps to equalize marginal utilities and marginal productivities
- Money increases productivity of Capital.

Other functions

- Money helps to maintain repayment capacity
- Money represent General purchasing power money gives liquidity to Capital.

9. Describe the phases of Trade cycle.

A Trade cycle refers to oscillations in aggregate economic activity particularly in employment, output, income, etc.

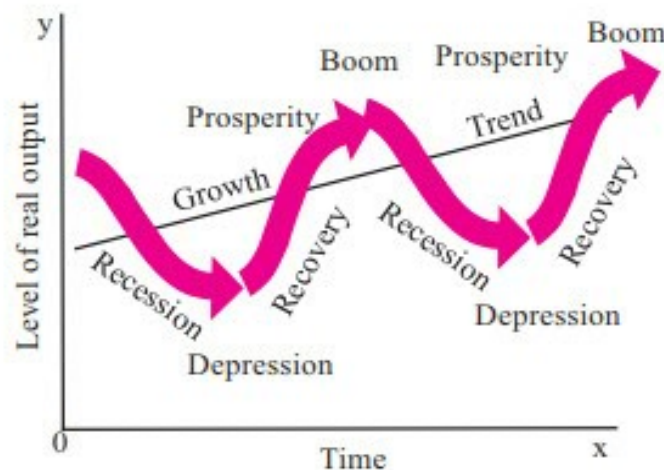
Definition:

‘A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentages altering with periods of bad trade characterised by falling prices and high unemployment percentages’:

Phases of Trade Cycle:

The four different phases of trade cycle is referred to as

1. Boom
2. Recession
3. Depression
4. Recovery



(1) Boom (or) Prosperity Phase:

1. The full employment and the movement of the economy beyond full employment.
2. Money wages rise, profits increase and interest rates go up.
3. It is characterized as boom period.

(2) Recession:

1. The turning point from boom condition is called recession.
2. This happens at higher rate, than what was earlier.
3. Liquidity preference of the people rises and money market becomes tight.

(3) Depression:

1. During depression the level of economic activities becomes extremely low.
2. Firms incur losses and closure of business becomes a common feature and

the ultimate result is unemployment.

3. Interest prices, profits and wages are low.
4. Depression is the worst phase of the business cycle.
5. Extreme point of depression is called as 'trough'

(4) Recovery:

1. After a period of depression, recovery sets in.
2. It begins with the revival of demand for capital goods.
3. Recovery may be initiated by innovation (or) investment (or) by government expenditure.

Chapter -6 Banking (Important)

10. Explain the role of Commercial Banks in economic development.

(1) Capital Formation:

- Banks play an important role in capital formation which is essential for the economic development of a country.
- It is utilized for productive purpose.

(2) Creation of Credit:

- Banks create credit for the purpose of providing more funds for development project.
- Credit Creation leads to increased production, employment, sales and prices.

(3) Channelizing the Funds towards Productive Investment:

- Pooled savings should be allocated to various sectors of the economy with a view to increase the productivity.

(4) Encouraging Right type of Industries

- Commercial banks help in the development of the right type of Industries by extending loans to the right type of persons.
- It helps not only for industrialization of the country but also the economic development of the country.
- They grant loans and advances to manufacturers whose products are in great demand.

(5) Bank monetize debt:

- Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities.
- As banks are lending money by discounting bills of exchange, business concerns are able to carry out the economic activities without any interruption.

(6) Finance to Government

- Banks provide long-term credit to Government by investing their funds in Government securities and short term finance by purchasing Treasury Bills.

(7) Employment Generation

- After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.

(8) Banks promote entrepreneurship

- In recent days, banks have assumed the role of developing entrepreneurship particularly in developing countries like India by inducing new entrepreneurs to take up the well-formulated projects and provision of counseling services like technical and managerial guidance.

11. Elucidate the functions of Commercial Banks**(a) Primary Functions:****1. Accepting Deposits:**

There are two types of deposits, which are discussed as follows

- **Demand Deposits**

It refers to deposits that can be withdrawn by individuals without any prior notice to the bank.

- **Time Deposits**

It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits.

2. Advancing Loans :

Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(b) Secondary Functions :

The secondary functions can be classified under three heads, namely, *agency functions, general utility functions, and other functions.*

1. Agency Functions :

It implies that commercial banks act as agents of customers by performing various functions.

- **Collecting Cheques:** Banks collect cheques and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

- **Collecting Income** : Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers.
- **Paying Expenses** : Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents.

(2) General Utility Functions:

It implies that commercial banks provide some utility services to customers by performing various functions.

- **Providing Locker Facilities:** Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items.
- **Issuing Traveler's Cheques:** Banks issue traveler's cheques to individuals for traveling outside the country.
- **Dealing in Foreign Exchange:** Commercial banks help in providing foreign exchange to businessmen dealing in exports and imports.

(3) Transferring Funds :

It refers to transferring of funds from one bank to another.

(4) Letter of Credit :

Commercial banks issue letters of credit to their customers to certify their creditworthiness.

- **Underwriting Securities:** Commercial banks also undertake the task of underwriting securities.
- **(ii) Electronic Banking:** It includes services, such as debit cards, credit cards, and Internet banking.

(C), Other Functions

- **Money Supply:** It refers to one of the important functions of commercial banks that help in increasing money supply.
- **Credit Creation:** Credit Creation means the multiplication of loans and advances. Commercial banks receive deposits from the public and use these deposits to give loans.
- **Collection of Statistics :** Banks collect and publish statistics relating to trade, commerce and industry.

12. Describe the functions of Reserve Bank of India.

Functions of RBI :

(1) Monetary Authority :

- It controls the supply of money.
- To stabilize exchange rate, maintain healthy balance of payment;

(2) The issue of currency:

- (i) To maintain the currency and credit.
- (ii) It is the sole authority to issue currency.
- (iii) To control the circulation of fake currency.

(3) The issuer of banking licence:

- As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

(4) Bankers to the Government:

- It acts as banker both to the Central and the State Government.

(5) Banker's Bank: RBI is the bank of all banks in India.

(6) Lender of last resort: The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.

(7) Act as clearing house : RBI manages 314 clearing houses.

(8) Custodian of foreign exchange reserves.

(9) Regulator of economy.

(10) Managing government securities.

(11) Regulator and supervisor of payment and settlement system.

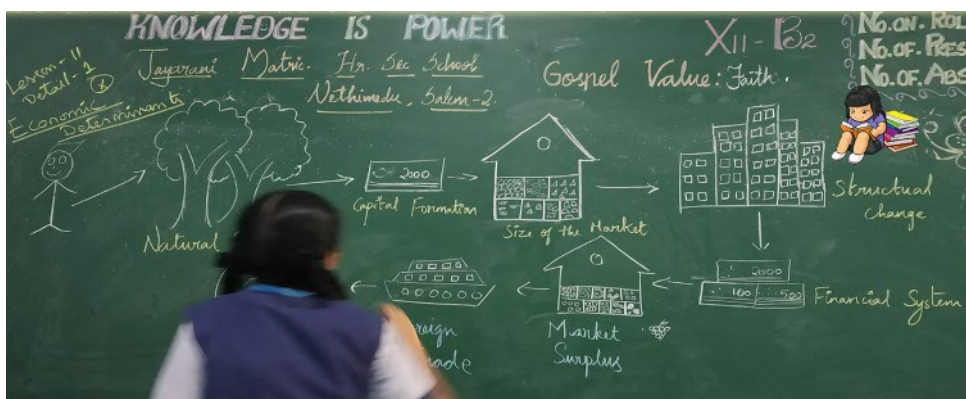
(12) Developmental Role.

(13) Publisher of monetary data and other data.

(14) Exchange manager and controller.

(15) Banking Ombudsman Scheme.

(16) Banking Codes and Standards Boards of India.



Chapter -7 International Economics (Important)**13. Discuss the differences between Internal Trade and International Trade.**

S.No	Internal Trade	International Trade
1	Trade takes place between different individuals and firm within the same	Trade takes place between different individuals and firms in different countries.
2	Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another.
3	There will be free flow of goods and services.	Goods and services do not easily move from one country to another.
4	There is only one common currency.	There are different currencies.
5	The physical and geographical conditions of a country are more or less similar.	There are differences in physical and geographical conditions of the two countries.
6	Trade and financial regulations are more or less the same	Trade and financial regulations such as interest rates and laws differ between countries.
7	There is no difference in political affiliations, customs and habits of the people and government policies.	There are differences in political affiliations, habits and customs of the people and government policies

14. Discuss the Modern Theory of International Trade.**Introduction :**

- It was developed by Swedish economist **Eli Heckscher** and his student **Bertil Ohlin** in 1919.
- This theory says that the basis for international trade is the difference in factor endowments.
- That is otherwise called as **Factor endowment theory**.

The Theory :

1. **The classical theory** argued that the basis for foreign trade was comparative cost difference and its labour factor.
2. But the **modern theory of international trade** explains the causes for such comparative cost difference.

Differences in comparative cost :

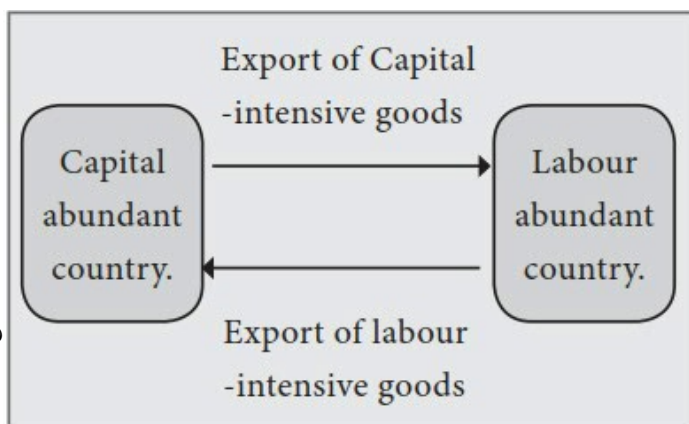
- Difference in the endowments of factors of production between countries.
- Differences in the factor proportions required in production.

Assumptions :

1. There are two countries (2×2 model)
2. Differ in factor endowments.
3. Commodities are categorized in terms of factor intensity.
4. Same production technology.
5. There is perfect competition in both product and factor markets.

Explanation :

According to Heckscher - Ohlin, a capital abundant country will export the capital intensive goods while the labour abundant country will export the labour intensive goods.

**Limitations**

1. Factor endowment of a country may change over time.
2. The efficiency of the same factor (say labour) may differ in the two countries.

15. Explain the types of Terms of Trade given by Viner.**The single factoral terms of trade:**

1. Viner has devised another concept called the **Single Factoral Terms of Trade.**
2. It is an improvement upon the *Commodity Terms of Trade.*
3. It represents the ratio of export price index to the import price index adjusted for changes in the productivity of a country's factors in the production of exports.

$$TF = (P_X / P_M) F_X$$

T stands for single factoral.

F_X stands for productivity in exports.

Double Factoral Terms of Trade:

1. Viner constructed another index called double factoral terms of trade.

$$T_{FF} = (P_X/P_M) (F_X/F_m)$$

2. Which takes into account the productivity in country's exports, as well as the productivity of foreign factors.
3. F_M represents import index.

16. Bring out the components of balance of payments account.

Components of BOPs are divided into three categories. They are,

- (a) The Current Account
- (b) The Capital Account and
- (c) The Official Settlements Accounts or Official Reserve Assets Account.

(a) The Current Account:

- It includes all international trade transaction of goods and services.
- It is also includes international unilateral transfers.

(b) The Capital Account:

- Financial transactions consisting of direct investment and purchases of interest bearing financial instruments.
- They includes non interest bearing demand deposits and gold.

(c) The Official Reserve Assets Account:

- Official Reserve Transactions consist of movements of international reserves by Government.
- Official agencies also accommodate in balance arising from the current and capital accounts.
- The official reserve assets of a country include its gold stock, SDRs & IMF etc.

17. Discuss the various types of disequilibrium in the balance of payments.**Types BOP Disequilibrium :**

- (i) There are three main types of BOP Disequilibrium.

- (a) Cyclical Disequilibrium.
- (b) Secular Disequilibrium.
- (c) Structural Disequilibrium.

(a) Cyclical Disequilibrium:

- First, two countries may be passing through different phases of business cycle.
- Secondly, the elasticities of demand may differ between countries.

(b) 'Secular Disequilibrium:

- The secular or long run disequilibrium in BOP occurs because of long - run.
- In the initial stages of development domestic investment exceeds domestic savings and imports exceed exports, as it happens in India since 1951.

(c) Structural Disequilibrium:

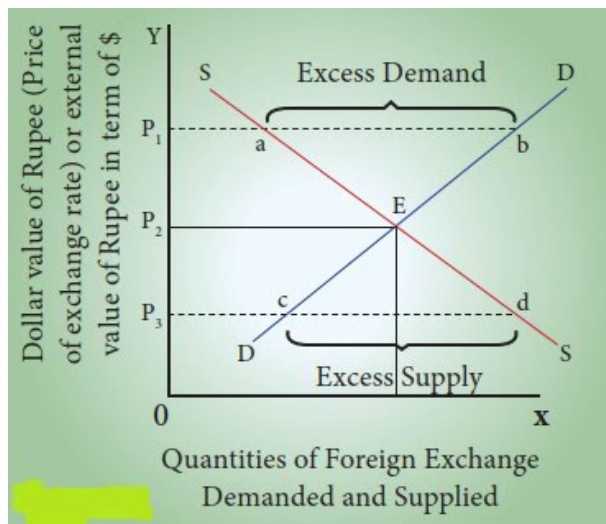
- Structural changes in the economy may also cause balance of payments disequilibrium.
- Structural changes include development of alternative sources of supply, development of better substitutes exhaustion of productive resources or changes in transport routes and costs.

18. How the Rate of Exchange is determined? Illustrate.**Definition of Equilibrium Exchange Rate.**

The equilibrium exchange rate is that rate which over a certain period of time, keeps the balance of payments in equilibrium.

Determination of Equilibrium Exchange Rate.

1. The equilibrium rate of exchange is determined in the foreign exchange market in accordance with the general theory of value.
2. The equilibrium determined in the interaction of the forces of demand and supply.
3. Thus, the rate of exchange is determined at the point where demand for forex is equal to the supply of forex.



In the above diagram, Y axis represents exchange rate, that is, value of rupee in terms of dollars.

- **X axis** represents demand and supply of forex.
- **E** is the *point of equilibrium* where **DD** intersects **SS**.
- The exchange rate is **P2**.

19. Explain the relationship between Foreign Direct Investment and Economic development.

1. FDI is an important factor in the global economy.
2. Foreign trade and FDI are closely related.
3. In developing countries like India FDI in the natural resource sector, including plantation increases trade volumes.
4. FDI is also influenced by the income generated from the trade and regional integration schemes.
5. FDI is helpful to accelerate the economic growth by facilitating essential imports needed for carrying out development programmes like capital goods, technical know-how, raw materials and other inputs and even scarce consumer goods.
6. FDI is encouraged by the factors such as foreign exchange shortage, desire to create employment and acceleration of the pace to economic development.
7. Many developing countries, strongly prefer foreign investment to imports.
8. The real impact of FDI on different sections of an economy (say India) may differ.
9. Large demand for USD, generated by IMF and World Bank Policies help the USD to gain value continuously.

Chapter -8 International Economic Organisations

20. Explain the objectives of IMF.

1. To promote international monetary cooperation among the member nations.
2. To facilitate faster and balanced growth of international trade.
3. To ensure exchange rate stability by curbing competitive exchange depreciations.
4. To eliminate or reduce exchange controls imposed by member nations.
5. To establish multilateral trade and payment system in respect of current transactions instead of bilateral trade agreements.
6. To promote the flow of capital from developed to developing nations.
7. To solve the problem of international liquidity.

21. Bring out the functions of World Bank.

1. Investment for productive purposes:

The World Bank performs the function of assisting in the reconstruction and development of territories of member nations through facility of investment for productive purposes. It also encourages the development of productive facilities and resources in less developed countries.

2. Balanced growth of international trade :

Promoting the long range balanced growth of trade at international level and the maintaining equilibrium in BOPs of member nations by encouraging international investment.

3. Provision of loans and guarantees :

Arranging the loans or providing guarantees on loans by various other channels so as to execute important projects.

4. Promotion of foreign private investment:

The promotion of private foreign investment by means of guarantees on loans and other investment made by private investors. The Bank supplements private investment by providing finance for productive purpose out of its own resources or from borrowed funds.

5. Technical services :

The World Bank facilitates different kinds of technical services to the member countries through Staff College and experts.

Chapter -9 Fiscal Economics

22. Explain the scope of public finance.

1. Public Revenue:

Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

2. Public Expenditure:

This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.

3. Public Debt:

Public debt deals with the methods of raising loans from internal and external sources. The burden, effects and redemption of public debt fall under this head.

4. Financial Administration:

This part deals with the study of the different aspects of public budget. The budget is the Annual master financial plan of the Government. The various objectives and steps in preparing a public budget, passing or sanctioning, allocation evaluation and auditing fall within financial administration.

5. Fiscal Policy:

Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

23. State and explain instruments of fiscal policy.

The instrument of fiscal policies are Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

1. Taxation:

- (i) Taxes transfer income from the people to the Government.
- (ii) Taxes are either direct or indirect.
- (iii) An increase in tax reduces disposable income.
- (iv) So taxation should be raised to control inflation.

2. Public debt:

Public debt deals with the methods of raising loans from internal and external sources.

3. Public expenditure:

- (i) Public expenditure raises wages and salaries of the employees and there by the aggregated demand.
- (ii) Public expenditure is raised to fight recession and reduced to control inflation.

4. Taxation:

- (i) Taxes transfer income from the people to the Government.
- (ii) Taxes are either direct or indirect.
- (iii) Taxation should be raised to control inflation.
- (iv) During depression, taxes are to be reduced.

24. List the main principles of federal system of finance.

1. Principle of Independence
2. Principle of Equity.
3. Principle of Uniformity.
4. Principle of Adequacy.
5. Principle of Fiscal Access.
6. Principle of Integration and coordination.
7. Principle of Efficiency.
8. Principle of Administrative Economy.
9. Principle of Accountability.

Chapter -10 Environmental Economics**25. Explain the importance of sustainable development and its goals.**

- (i) Sustainable development is concerned with the welfare of present and future generations.
- (ii) It **aims** at not only satisfying the luxury wants of rich but also basic necessities of the poor like food, sanitation, health care, education etc.

Important goals of sustainable development

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
3. Ensure healthy lives and promote well being for all at all ages.
4. Ensure inclusive and equality education for all and promote lifelong learning.

5. Achieve gender equality and empower women and girls.
6. Ensure access to water and sanitation for all.
7. Ensure access to affordable, reliable sustainable and modern energy for all.
8. Promote inclusive and sustainable, economic growth, employment and decent work for all.
9. Build resilient infrastructure, promote sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities inclusive, safe, resilient and sustainable.
12. Ensure sustainable consumption and production pattern.
13. Take urgent action to combat climate change and its impacts.
14. Conserve and sustainably use the Oceans, seas and marine resources.
15. Sustainably manage forests, compatible certification, halt and reverse land degradation, halt biodiversity loss.
16. Promote just, peaceful and inclusive societies.
17. Revitalize the global partnership for sustainable development.

Chapter -11 Economics of Development and Planning

26. Describe different types of Planning.

Democratic Planning:

- Democratic planning implies planning within democracy. People are associated at every step in the formulation and implementation of the plan.
- The plan prepared by the Planning Commission is not accepted as such. It can be accepted, rejected or modified by the Parliament of the country.

Totalitarian Planning:

- Under totalitarian planning, there is central control and direction of all economic activities in accordance with a single plan.

Centralized Planning:

- Under centralized planning, the entire planning process in a country is under a central planning authority.

Decentralized Planning:

- Under decentralized planning local organizations and institutions formulate, adopt, execute and supervise the plan without interference by the central authorities.

Planning by Direction:

- Under planning by direction, there is a central authority which plans, directs and orders the execution of the plan in accordance with predetermined targets and priorities.

Planning by Inducement:

- Under planning by inducement, the people are induced to act in a certain way through various monetary and fiscal measures.

Indicative Planning:

- Under this plan, the outline of plan is prepared by the Government. Then it is discussed with the representatives of private management, trade unions, consumer groups, finance institutions and other experts. The essential function of planning is coordination of different economic units.

Imperative Planning:

- Under imperative planning, the state is all powerful in preparation and implementation of the plan. Once a plan is drawn up, its implementation is a matter of enforcement.
- The Government policies and procedures are rigid. China and Russia follow imperative planning.

Short, Medium and Long term Planning:

- **Short-term plans** are also known as '**controlling plans**: They encompass the period of one year, therefore, they are also known as 'annual plans'.
- The **medium-term plans** last for the period of **3 to 7 years**. But normally, the medium term plan is made for the period of five years.
- **Long-term plans** last for the period of **10 to 30 years**. They are also known as '**perspective plans**'. The basic philosophy behind long-term planning is to bring structural changes in the economy.

Financial Planning Vs Physical Planning :

- **Financial planning** refers to the technique of planning in which resources are allocated in terms of money while **physical planning** pertains to the allocation of resources in terms of men, materials and machinery.

Functional Planning:

- **Functional planning** refers to that planning which seeks to remove economic difficulties by directing all the planning activities within the existing economic and social structure.

Structural Planning:

- The **structural planning** refers to a good deal of changes in the socio-economic framework of the country.
- This type of planning is adopted mostly in under developed countries.

Comprehensive Vs Partial Planning:

- **General planning** which concerns itself with the major issues for the whole economy is known as ***comprehensive planning***
- whereas **partial planning** is to consider only the few important sectors of the economy.

27. Bring out the arguments against planning.

The failure of market mechanism invited state intervention in economic activities through planning. The arguments against planning are discussed below.

(I) Loss of Freedom:

1. The absence of freedom in decision making may act as an obstacle for economic growth.
2. Regulations and restrictions are the backbones of a planned economy.
3. The decision by the Government are not always rational.
4. Freedom to private producers will be misused.
5. Profit will be given top priority welfare will be relegated

(ii) Elimination of Initiative :

1. Under centralized planning, there will be no incentives and innovations.
2. The absence of private ownership and profit motive discourage entrepreneurs from taking bold decisions and risk taking.
3. As all enjoy equal reward under planned economy irrespective of their effort efficiency and productivity.
4. The bureaucracy and red-tapism which are the features of planned economy cripple the initiative as they cause procedural delay and time loss.

(iii) High cost of management:

1. No doubt the fruits of planning such as industrialization, social justice and regional balance are good.
2. The cost of management of the economic affairs outweighs the benefits of planning.
3. As Lewis remarks, “the better we try to plan, the more planners we need”:

(iv) Difficulty in advance calculations:

1. *Price mechanism* provides for the automatic adjustments among price demand and supply in Laissez Faire economy.
2. *Excess supply and excess demand* can also happen in the market oriented economy.
3. The arguments against planning are mostly concerned with *centralized and totalitarian planning*

28. Describe the application of Econometrics in Economics.

Econometrics may be considered as the intergation of economics, Statistics and Mathematics.

i.e., Econometries = Economics + Statistics + Mathematics.

Forecasting macroeconomic indicators :

- Some macroeconomics are concerned with the expected effects of monetary and fiscal policy on the aggregate performance of the economy.
- **Time series models** can be used to make predictions about these economic indicators.

Estimating the impact of immigration on native workers:

- *Immigration increases* the supply of workers, so standard economic theory predicts that equilibrium wages will decrease for all workers.
- However, since immigration can also have positive demand effects, econometric estimates are necessary to determine the net impact of immigration in the labor market

Determining the influence of minimum wage laws on employment levels:

- *The minimum wage* is an example of a price floor, so higher minimum wages are supposed to create a surplus of labor (higher levels of unemployment).
- However, the impact of price floors like the minimum wage depends on the shapes of the demand and supply curves. Therefore, labor economists use econometric techniques to estimate the actual effect of such policies.

Predicting revenue increases in response to a marketing campaign:

- The field of marketing has become increasingly dependent on empirical methods. A marketing or sales manager may want to determine the relationship between marketing efforts and sales.
- How much additional revenue is generated from an additional dollar spent on advertising?
- Which type of advertising (radio, TV, newspaper, and so on) yields the largest impact on sales?
- These types of questions can be addressed with econometric techniques.

Econometrics and other related subjects :

- Econometrics, as a result of certain outlook on the role of economics, consists of application of mathematical statistics to economic data to lend empirical support to the models constructed by mathematical economics and to obtain numerical results.
- Econometrics means economic measurement. Econometrics deals with the measurement of economic relationship.

Objectives of Econometrics :

- (i) It helps to explain the behaviour of a forthcoming period that is forecasting economic phenomena.
- (ii) It helps to prove the old and established relationships among the variables or between the variables.
- (iii) It helps to establish new theories and new relationships.
- (iv) It helps to test the hypotheses and estimation of the parameter.