

1(CCE-M)6  
ECONOMICS-I  
[08]

Time Allowed -3 Hours

Maximum Marks-300

**INSTRUCTIONS**

- i) Answers must be written in English.
- ii) The number of marks carried by each question is indicated at the end of the question.
- iii) The answer to each question or part thereof should begin on a fresh page.
- iv) Your answer should be precise and coherent.
- v) The part/parts of the same question must be answered together and should not be interposed between answers to other questions.
- vi) Candidates should attempt **FIVE** questions. **Question nos.1 and 5** are compulsory and any **THREE** out of the remaining questions, selecting at least **One** question from each section.
- vii) If you encounter any typographical error, please read it as it appears in the text book.
- viii) Candidates are in their own interest advised to go through the General Instructions on the back side of the title page of the Answer Script for strict adherence.
- ix) No Continuation sheets shall be provided to any candidate under any circumstances.
- x) Candidate shall put cross (X) on blank pages of answer Script.
- xi) No blank page be left in between answer to various questions.
- xii) No programmable Calculator is allowed.
- xiii) No stencil (with different markings) is allowed.
- xiv) In no circumstances help of scribe will be allowed.

**SECTION-A**

1. Answer any **THREE** of the following in about **200** words each: (3×20=60)
  - a) Why do you think households' purchase of new housing is included in the investment components of GDP rather than the consumption component?

- b) It has been observed over the past years that while the price of a particular commodity has increased, its quantity purchased has also increased. Would this lead you to conclude that the market demand curve is upward sloping? Why or Why not?
- c) Distinguish between economics of scale and economics of scope. Why can one be present without the other?
- d) Briefly explain the economic rationale why in the Harrod-Domar model an increase in the savings rate increases the long-run growth rate of income per capita.
2. i) What is meant by deadweight loss? Why does a price ceiling usually result in deadweight loss? (30)
- ii) Why does a tax create deadweight loss? What determines the size of this loss? (30)
3. i) Discuss the validity of this statement: When a government finances its expenditures by printing money rather than collecting taxes, this can lead to "too much money chasing too few goods" and hyperinflation. (40)
- ii) Explain the difference between required reserves and excess reserves (20)
4. i) Why is the firm's demand curve flatter than the total market demand curve in monopolistic competition? Suppose a monopolistic competitive firm is making a profit in the short run. What will happen to its demand curve in the long run? (30)
- ii) Some experts have argued that too many brands of breakfast cereal are on the market. Give an argument to support this view. Give an argument against it. (30)

### SECTION-B

5. Answer any **THREE** of the following in about **200** words each: (3×20=60)
- a) What is the difference between ordinal utility and cardinal utility? Explain why the assumption of cardinal utility is not needed in order to rank consumer choices.
- b) Why is there no market supply curve under conditions of monopoly?

- c) Describe the argument for and against being concerned with the size of the fiscal deficit (relative to GDP) in the context of less developed economics.
- d) In the Stackelberg market structure, the firm that sets output first has an advantage. Explain why.
6. i) Discuss critically GDP as a measure of economic welfare. (40)
- ii) Why do the economists use real GDP rather than nominal GDP to gauge economic well-being? (20)
7. Explain the difference between each of the following terms: (3×20=60)
- a) Price consumption curve and income consumption curve.
- b) Slutsky substitution effect and Hicks substitution effect.
- c) Ordinary demand curve and compensated demand curve.
8. i) Explain the mechanism of government expenditures multiplier and tax multiplier. (20)
- ii) Why is the effect on the output greater than initial increase in government expenditures (for government expenditures multiplier)? Why is the effect on the output greater than initial cut in taxes (for tax multiplier)? (20)
- iii) Compare tax and government expenditures multiplier. (20)
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