Question Paper 2016 Delhi Set 2

CBSE Class 12th Economics

General Instructions:

(i) ***All*** *questions in* ***both*** *sections are* ***compulsory****. However, there is* ***internal choice*** *in some questions.*

(ii) ***Marks*** *for questions are indicated against* ***each*** *question.*

*(iii) Question No.****1-5*** *and* ***16-20*** *are* ***very short answer questions*** *carrying* ***1 mark*** *each.*

*(iv) Question No.****6-8*** *and* ***21-23*** *are* ***short answer questions*** *carrying* ***3 marks*** *each.*

*(v) Question No.****9-11*** *and* ***24-26*** *are also* ***short answer questions*** *carrying* ***4 marks*** *each.*

*(vi) Question No.****12-15*** *and* ***27-30*** *are* ***long answer questions*** *carrying* ***6 marks*** *each.*

(vii) Answers ***should be brief*** *and* ***to the point*** *and the above* ***word limit be adhered*** *to as far as possible.*

Section A

Q1 There is inverse relation between price and demand for the product of a firm under: (choose the correct alternative)

(a) Monopoly only

(b) Monopolistic competition only

(c) Both under monopoly and monopolistic competition

(d) Perfect competition only

Ans: There is inverse relation between price and demand for the product of a firm under both monopoly and monopolistic competition.

Rationale: This is because firms under both market forms viz. monopoly and monopolistic competition face downward sloping demand curve. Consequently, inverse relationship between demand and price for the product.

Hence, the correct answer is option '**c**'.

Q2 'Homogenous products' is a characteristic of : (choose the correct alternative)

(a) Perfect competition only

(b) Perfect oligopoly only

(c) Both (a) and (b)

(d) None of the above

Ans: 'Homogeneous products' is a characteristic of both perfect competition and perfect oligopoly.

Hence, the correct answer is option '**c**'.

Q3 Suppose total revenue is rising at a constant rate as more and more units of a commodity are sold, marginal revenue would be :

(choose the correct alternative)

(a) Greater than average revenue

(b) Equal to average revenue

(c) Less than average revenue

(d) Rising

Ans: If total revenue is rising at a constant rate as more and more units of a commodity are sold, then marginal revenue would be ***equal to Average Revenue***.

Hence, the correct answer is option (b).

Q4 When does 'increase' in demand take place?

Ans: When demand for a good increases with the change in the factors other than the price of the good, then increase in demand takes place. Graphically, the increase in demand is represented by parallel rightward (outwards) shift of the demand curve.

Q5 What is the relation between marginal cost and average cost when average cost is constant?

Ans: When average cost is constant, AC curve is at its minimum point. At this point, MC curve cuts AC curve; which implies that MC equals AC.

Q6 What is maximum price ceiling? Explain its implications.

Ans: Maximum price ceiling is the legislated or government imposed maximum level of price that can be charged by the seller. Usually, the government fixes this maximum price much below the equilibrium price, in order to preserve the welfare of the poorer and vulnerable section of the society. For example, the Government of India imposes price ceiling in the market of wheat, rice, sugar and other necessity goods.

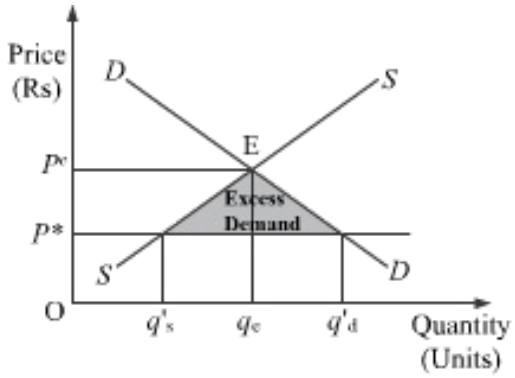
Implications of Price Ceiling

1. ***Excess demand***- Due to artificially lowering the price, the demand becomes comparatively higher than the supply. This leads to the emergence of the problem of excess demand.
2. ***Enhances Welfare***- The imposition of the price ceiling ensures the access of the necessity goods within the reach of the poor people. This safeguards and enhances the welfare of the poor and vulnerable sections of the society.
3. ***Fixed Quota***- Each consumer gets a fixed quantity of good (as per the quota). The quantity often falls short of meeting the individual's requirements. This further leads to the problem of shortage and the consumer remains unsatisfied.

Or

Explain the chain effects, if the prevailing market price is below the equilibrium price.

Ans: If the prevailing market price is below the equilibrium price, then there occurs the situation of excess demand. Let us assume that the market price $P*$ is below the equilibrium price P_e . According to the demand curve, quantity demanded is $q'd$. Whereas, according to the supply curve, the quantity supplied is $q's$. So, it can be seen that there emerges the situation of excess demand equivalent to ($q'd - q's$). This excess demand will increase competition among the buyers; consequently, the buyers will tend to buy output at higher price (due to the competition), which as a result will increase the market price. The market price will continue to rise until it becomes $P*$, where the equilibrium is restored.



Q7 A Consumer consumes only two goods X and Y. Marginal utilities of X and Y are 5 and 4 respectively. The prices of X and Y are Rs. 4 per unit and Rs. 5 per unit respectively. Is the consumer in equilibrium? What will be the further reaction of the consumer? Explain.

Ans: According to the utility approach, a consumer reaches equilibrium where the following equality is met.

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

According to the given question:

$$\frac{MU_x}{P_x} = \frac{5}{4} = 1.25$$

$$\frac{MU_y}{P_y} = \frac{4}{5} = 0.8$$

$$Since, \frac{MU_x}{P_x} \text{ is greater than } \frac{MU_y}{R_y}$$

Thus, a consumer is not in equilibrium. In order to reach the equilibrium, a rational consumer would ***increase the consumption of good X*** and ***decrease that of good Y***.

Q8 Price elasticity of demand of good X is –2 and of good Y is –3. Which of the two goods is more price elastic and why?

Ans: ***Demand of good Y is more elastic*** as compared to good X. Due to negative relationship between price and demand, elasticity of demand is a negative number. But in case of elasticity negative sign does not matter.

That is, Mathematically, –2 > –3

But, in context of elasticity, –3 > –2

Q9 Price elasticity of supply of a good is 2. A producer supplies 100 units of a good at a price of Rs. 20 per unit. At what price will he supply 80 units.

Ans: ***Given***

$$\varepsilon_s = 2$$

$$Initial\ Quantity\ (Q_o) = 100$$

$$Initial\ Price\ (P_0) = Rs\ 20$$

$$Final\ Quantity\ (Q_1) = 80$$

$$Change\ in\ quantity\ supplied\ (\Delta Q)$$

$$= Q_1 - Q_0 = 80 - 100 = -20$$

$$v Final\ Price(P1) = ??$$

$$\varepsilon s = (+)\frac{\Delta Q}{\Delta P} \times \frac{P_o}{Q_o}$$

$$\Rightarrow 2 = (+)\frac{-20}{\Delta P} \times \frac{20}{100}$$

$$\Rightarrow \Delta P = -2$$

$$We\ know\ that\ \Delta P = P_1 - P_0$$

$$So, -2 = P1 - 20$$

$$\Rightarrow P_1 = 18$$

Hence, final price is Rs 18. The seller will supply 80 units at Rs 18 per unit.

Q10 Explain the effects of change in income on demand for a good.

Ans: Change in the income of the consumer also affects the demand for goods. The effect of change in income on the demand depends on the type of the good.

Demand for ***normal goods*** share a ***positive*** relationship with consumer's income. As income increases the demand for normal goods also increases and vice-versa.

Demand for ***inferior goods/giffen goods*** share a ***negative*** relationship with consumer's income. As the income increases the demand for inferior goods falls and vice-versa.

Q11 Define production function. Distinguish between short run and long run production functions.

Ans: The production function of a firm depicts the relationship between the inputs used in the production process and the final output produced. Algebraically, a production function is represented as,

$Qx = f(L,K)$

Where,

L represents units of labour used (input 1)

K represents units of capital used (input 2)

Q_X represents the unit of output produced

Basis	Short-run Production Function	Long-run Production Function
	Under short-run production function at	Under long-run production

Factors of Production	least one of the factors of production remains fixed.	fucntion all factors of production become variable.
Production Function	$Q_x = f(L, \overline{K})$ *where,* Q_X represents units of output x produced *K* represents Capital units *L* represents Labour units Bar over *K* represents that capital remains fixed in the short run	*Qx = f (L, K)* *where,* Q_X represents units of output x produced *K* represents Capital units *L* represents Labour units

Or

Define cost. Distinguish between fixed and variable costs. Give one example of each.
Ans: Cost is the total expenditure incurred in producing a commodity. In economics, it is sum total of actual expenditure incurred on inputs (i.e. explicit cost) and the imputed valued of inputs supplied by the owners (i.e. implicit cost).

Basis	**Fixed Costs**	**Variable Costs**
Definition	Incurred on hiring fixed factors of production	Incurred on hiring variable factors of production
Variability	Remain constant irrespective of the units of output produced	Vary directly as per the variation in the output level. If higher units of output, then higher variable costs are incurred and vice-versa
Example	Salary of permanent staff, insurance premium, etc.	Wages of casual labours, cost of raw materials, etc.

Q11 A producer supplies 80 units of a good at a price of Rs. 10 per unit. Price elasticity of supply is 4. How much will he supply at Rs. 9 per unit?
Ans: *Given*:

$Q_0 = 80\ units$

$P_0 = Rs\ 10$

$E_s = 4P_1 = Rs\ 9$

$Q_1 = ?$

$\Delta P = P_1 - P_0$

$\Delta P = 9 - 10 = -1$

$\Delta Q = Q_1 - Q_0$

$\Delta Q = Q_1 - 80$

We know,

$$E_s = \frac{\Delta Q}{\Delta p} \times \frac{P_0}{Q_0}$$

$$4 = \frac{Q_1 - 80}{-1} \times \frac{10}{80}$$

$$4 = \frac{Q_1 - 80}{-8}$$

$$-32 = Q_1 - 80$$

$$Q_1 = 48\ units$$

Thus, producer will supply 48 units of a good at Rs 9 per unit.

Q12 Explain the implications of the following in a perfectly competitive market :

(a) Large number of buyers

(b) Freedom of entry and exit to firms

Ans: (i) ***Large number of buyers***: In a perfectly competitive market, there are large number of buyers. The number of buyers is so large that no individual buyer by changing his demand can affect the total market demand for the commodity. An individual buyer has no control over the existing market price and cannot influence it and therefore ***an individual buyer is a price taker and not a price maker***.

(ii) ***Freedom of entry and exit to firms***: There is no restriction on the entry and exit of old and new firms. This feature is available only in the long run and not in the short run, as in the short run some factors are fixed, which obstructs the free entry and exit of firms. ***This feature has an important implication that all the firms in the long run earn normal profit or zero economic profit.*** If there exists abnormal profits in the short run, then the new firms will enter in the market in the long run. On the other hand, if the firms are

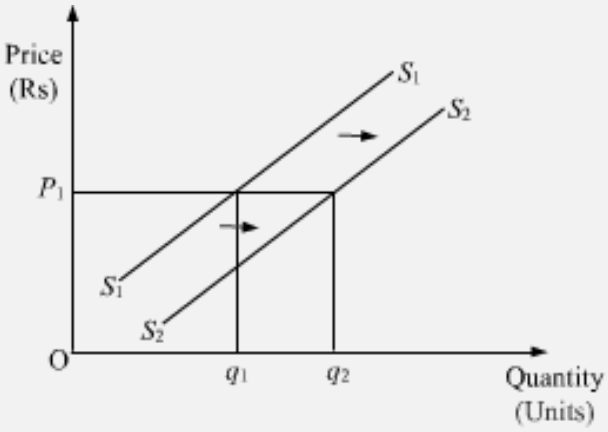
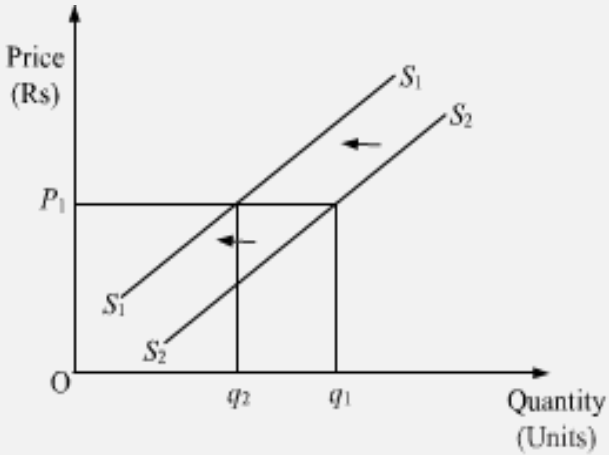
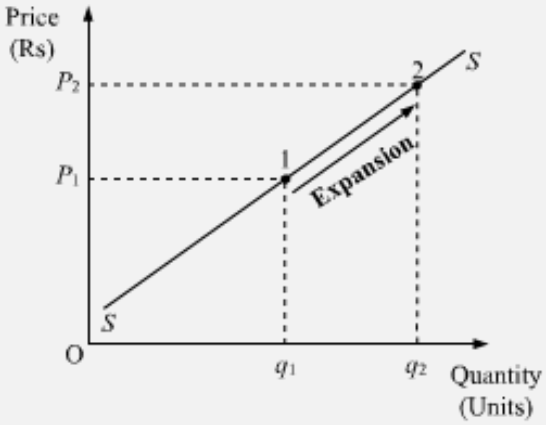
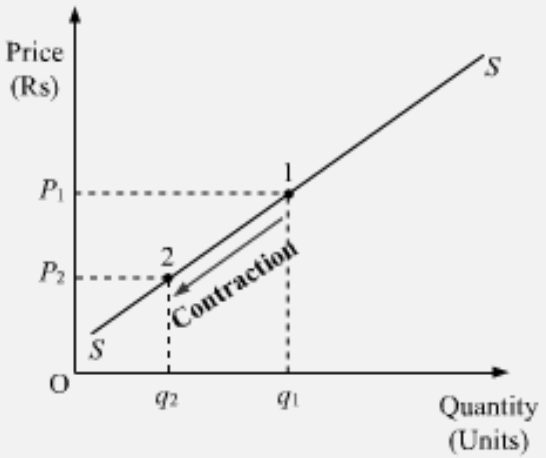
earning abnormal losses, then some of the existing firms will exit the market in the long run. This free entry and exit of the firms ensures that in the long run ***no firm earns either abnormal losses or abnormal profits***, i.e. all firms earns zero economic profit (normal profit).

OR

Explain the implications of the following in an oligopoly market :
(a) Inter-dependence between firms
(b) Non-price competition
Ans: (i) ***Inter-dependence between firms***: Under oligopolistic market form, there exists few but large and dominating firms. These firms account for majority of market supply, thereby control the market price and quantity of the output. There exists a very high degree of mutual interdependence between the firms in an oligopoly market. The price and the quality decisions of a particular firm are dependent on the price and the quality decisions of the rival (other) firms. ***This feature has an important implication that no firm can fix its price and output decisions without considering the probable rival reactions***.
(ii) ***Non price competition***: Under oligopolistic market form, prices do not move freely as per the changes in demand. This is due to the counter decisions of the rival firms. Therefore, we can say that oligopolistic firms do not compete with each other on the grounds of price. ***This feature has an important implication that an oligopolistic firms fix its price and output decisions after taking into consideration the probable rival reactions.***

Q13 Explain the distinction between "change in quantity supplied" and "change in supply". Use diagram.
Ans:

Basis	**Change in Supply**	**Change in Quantity Supplied**
Meaning	When supply changes due to the change in all other variables other than the price of a good (i.e. price of the good remains same), then it is referred as change in supply.	When supply changes due to change in the price of good only, assuming other determinants remaining unchanged, then it is referred as change in quantity supplied.
	It is represented as	It is represented as

Function	$Q_x = f(\overline{P}_x, P_y, P_i, T, G, G_F, N_F)$	$Q_x = f(P_x, \overline{P}_y, \overline{T}, \overline{P}_i, \overline{G}, \overline{G}_F, \overline{N}_F)$
Shift & Movement	It results in a shift in the supply curve of the firm which can be rightwards or leftwards.	It results in a movement of the supply curve of the firm which can be upwards or downwards.
Types	The following are its types: 1) Increase in Supply 2) Decrease in Supply	The following are its types: 1) Expansion of Supply 2) Contraction of Supply
Diagram	1) Increase in Supply  2) Decrease in Supply  	1) Expansion of Supply  2) Contraction of Supply 

Q14 Explain the conditions of consumer's equilibrium using indifference curve analysis.

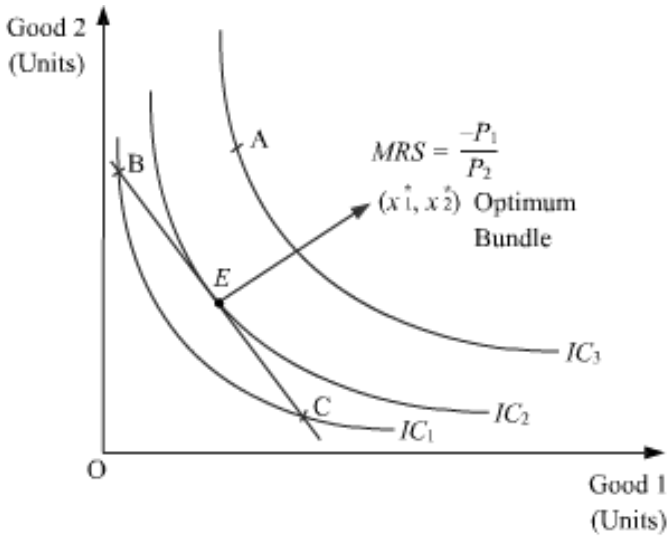
Ans: A consumer attains ***equilibrium at the point where the budget line is tangent to the indifference curve***. This optimum point is characterised by the following equality.

Slope of the *IC* = Slope of the budget line

$$\left|\frac{-dy}{dx}\right| = |MRS| = \left|\frac{-P_1}{P_2}\right|$$

Absolute value of the slope of the *IC* = Absolute value of the slope of the budget line

Graphically, the equilibrium can be depicted as follows.



In the figure given above, point *E* depicts consumer equilibrium. At this point, the budget line is tangent to the indifference curve. Observe that at this point the consumer's willingness to purchase (as given by the indifference curve) coincides with what the consumer can actually purchase (as given by the budget line). The optimum bundle is denoted by (x_1*, x_2*). This point is the optimum or the best possible point.

It should be noted that all other points lying on the budget line (such as point *B* and point *C*) are inferior to (x_1*x_2*) as they lie on a lower *IC*. Thus, the consumer can rearrange his consumption and again reach equilibrium where the marginal rate of substitution is equal to the price ratio.

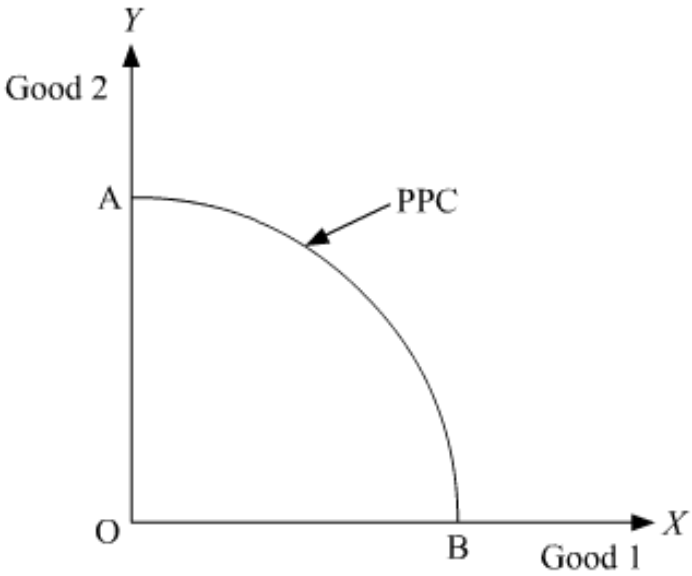
For example, at point *B*, MRS is greater than the price ratio (i.e. $MRS > \frac{-P_1}{P_2}$). In this case, the consumer would tend to move towards point *E* by giving up some amount of good 2 to increase the consumption of good 1.

Similarly, at point *C*, MRS is less than price ratio (i.e. $MRS < \frac{-P_1}{P_2}$). In this case the consumer would tend to move towards point *E* by giving up some amount of good 1 to increase the consumption of good 2.

Q15 Assuming that no resource is equally efficient in production of all goods, name the curve which shows production potential of the economy. Explain, giving reasons, its

properties.

Ans: Assuming that no resource is equally efficient in production of all goods, the curve which shows the production potential of the economy is *'Production Possibility Curve'*.



The following are the properties of PPC.

(i) ***Concave to origin***: PPC curve is concave to the origin. This is because slope of PPC i.e. marginal rate of transformation (MRT) tends to rise as it moves downward from left to right.

(ii) ***Downward sloping***: PPC curve is downward sloping. This is because as more of Good 1 is produced, more of Good 2 is to be sacrificed.

(iii) ***Increasing marginal rate of transformation***: Slope of PPC i.e. marginal rate of transformation (MRT) tends to rise as it moves downward from left to right.

(iv) ***Optimum utilisation of resources***: The points that lie on a PPC are associated with full employment of resources and efficient utilisation of available technology.

Section B

Q16 Foreign exchange transactions dependent on other foreign exchange transactions are called: (choose the correct alternative)

(a) Current account transactions

(b) Capital account transactions

(c) Autonomous transactions

(d) Accommodating transaction

Ans: Foreign exchange transactions dependent on other foreign exchange transactions are called 'Accommodating transactions'.

Rationale: Accommodating transactions are those that are undertaken as a consequence of the autonomous transactions.
Hence, the correct answer is option '**d**'.

Q17 Fiscal deficit equals : (choose the correct alternative)
(a) Interest payments
(b) Borrowings
(c) Interest payments less borrowing
(d) Borrowings less interest payments
Ans: Fiscal deficit is equal to the ***borrowings***. It reflects the total borrowing and other liabilities of the government.
Hence, the correct answer is option ***'b'***.

Q18 Depreciation of fixed capital assets refers to : (choose the correct alternative)
(a) Normal wear and tear
(b) Foreseen obsolescence
(c) Normal wear and tear and foreseen obsolescence
(d) Unforeseen obsolescence.
Ans: Depreciation of fixed capital assets refers to normal wear and tear and foreseen obsolescence.
Hence, the correct answer is option '**c**'.

Q19 What are revenue receipts in a government budget?
Ans: Government receipts which neither creates any liability nor it creates any reduction in the assets of the government. These comprises of tax and non-tax receipts, duties and fines, interest and dividends receipts on government investments and assets.

Q20. Define stocks.
Ans: A variable is said to be a stock variable, if it is measured at a particular point of time. Such variables do not have an element of time attached with them. In other words, they are measured only at a single point of time. For example, capital balance as on March 31, 2010.
Or

Stock refers to finished goods lying in the ware houses or godown waiting to be delivered to the final consumers. It includes only the goods that a company is dealing into. Stock generates revenues, since it is only by selling the goods; a business earns money (technically termed as revenues).

Q21 Suppose marginal propensity to consume is 0.8. How much increase in investment is required to increase national income by Rs. 2000 crore? Calculate.

Ans:

$Given: MPC = 0.8$

$\Delta Y = Rs\,2000\,crore$

Working:

$$K = \frac{1}{1-MPC} = \frac{1}{1-0.08} = 5$$

$$K = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{2,000}{\Delta I}$$

$$\Delta I = Rs\,400\,crore$$

Q22 Find net value added at market price :

		(Rs. lacs)
(i)	**Fixed capital good with a life span of 5 years**	**15**
(ii)	**Raw materials**	**6**
(iii)	**Sales**	**25**
(iv)	**Net change in stock**	**(–)2**
(v)	**Taxes on production**	**1**

Ans:

$$Value\ of\ Output = Sales + \Delta in\ Stock$$
$$\Rightarrow Value\ of\ Output = 25 - 2$$
$$\Rightarrow Value\ of\ Output = Rs\ 23 lakhs$$

Gross Value Added at *MP* = Value of Output – Intermediate ConsumptionGross Value Added at *MP* = 23 – 6 = Rs 17 lakhs

$$NVA_{MP} = GVA_{MP} - Depreciation$$
$$\Rightarrow NVA_{MP} = 17 - \left(\frac{Cost\ of\ producer\ goods}{No.\ of\ useful\ life\ in\ years}\right)$$
$$\Rightarrow NVA_{MP} = 17 - \left(\frac{15 lakh}{5}\right)$$
$$\therefore NVA_{MP} = Rs\ 17 - 3 = 14 lakhs$$

Q23 Distinguish between marginal propensity to consume and average propensity to consume. Give a numerical example.

Ans:

Marginal Propensity to Consume	**Average Propensity to Consume**
1. Ratio of change in consumption expenditure to change in disposable income	1. Ratio of consumption expenditure to level of income
2. Algebraically, $MPC = c = \frac{\Delta C}{\Delta Y_d}$	2. Algebraically, *APC*=*CY*

***Example*:** Consider the following information and calculate MPC and APC

Y= Rs 1,000 ΔY_d = Rs 500

C= Rs 800 ΔC = Rs 200

$$APC = \frac{C}{Y} = \frac{800}{1000} = 0.80 \text{ or } 80\%$$
$$MPC = c = \frac{\Delta C}{\Delta Y_d}$$
$$= \frac{200}{500} = 0.4$$

Or

Explain the role of taxation in reducing excess demand.

Ans: As we know that tax directly affects one's purchasing power and spending capacity, thereby influences the level of aggregate demand. In order to tackle a situation of excess demand, the government raise the tax rates and lowers the amount of transfer payments, thereby, lowers the disposable income. Consequently, the aggregate demand falls.

Q24 Explain how 'bank rate' is helpful in controlling credit creation?

Ans: Bank rate refers to the rate at which the central bank provides loans to the commercial banks. This instrument is a key at the hands of RBI to control the money supply. Changes in the bank rate change the cost of borrowings, thereby affect the money supply.

Mechanism of Credit Control

An increase in the bank rate increases the cost of borrowing for the commercial banks from the central bank. The commercial banks in turn, increase the lending rate for their customers. However, this increase in the lending rate reduces the borrowing capacity of the public, thereby, discourages loans and credit. This depresses the multiplier process and thus, decreases the value of money multiplier. Hence, the total money supply decreases.

Q25 Government incurs expenditure to popularize yoga among the masses. Analyse its impact on gross domestic product and welfare of the people.

Ans: The welfare of the people with the awareness of Yoga takes place in the following ways.

i) People will remain healthy in terms of physical fitness with a continuous practice of yoga.

ii) Yoga also help people to improve their mental, intellectual and emotional welfare.

Yoga by improving the welfare of people also contributes towards *GDP* in the following ways.

i) Healthy people contribute more towards production process which leads to increased quantity of goods produced in the economy and *GDP* will increase.

ii) Psychological balanced people will be highly efficient in providing their services to the people of the economy. Thus, services generated by them will increase and have a positive impact on *GDP*.

Q26 Explain the 'store of value' function of money. How has it solved the related problem created by barter?

Ans: ***Store of Value***- Generally, people have a tendency to save certain portion of their income in form of savings and to accumulate wealth. Under the Barter system, such storage of wealth was not possible due to perishable nature of certain commodities. As against this, wealth can be easily stored in the form of money without any loss in its value. Thus, store of value as a function of money implies that money can be easily saved and used for future needs. The store of value function of money can be justified because of the following reasons.

i. Money is the most widely accepted as a medium of exchange.

ii. There is no loss in the value of money over time (though, there exists loss of value of money due to inflation but it is negligible).

iii. Money can be stored conveniently and does not involve any cost.

Under the Barter system, it was difficult for the individuals to save, invest or accumulate wealth in terms of commodities. Money overcame this problem as it is neither a perishable commodity nor the value of money depreciates (negligible depreciation due to inflation) Therefore, money facilitates store of wealth.

Or

Explain the 'unit of account' function of money. How has it solved the related problem created by barter?

Ans: ***Unit of Account***: Money serves as a common medium or unit of value. The goods and services are of different types and are measurable in different units such as, meter, litre, gram, etc. Money has provided a common yardstick to measure all these different units in a common denomination known as price. This has made different goods and services comparable to each other in terms of their respective prices.

Under the Barter system of exchange, there was no common unit for measuring the value of one good in terms of other good for the purpose of exchange. For example, a horse cannot be measured in terms of rice in the case of exchange between rice and horse. However, money solved this problem by measuring the values of different goods in terms of a common denomination, i.e. Rupees, Dollars, etc.

Q27 Find net domestic product at factor cost and personal income :

		(Rs crores)

(i)	**Rent**	**200**
(ii)	**Net current transfers to abroad**	**10**
(iii)	**National debt interest**	**60**
(iv)	**Corporate tax**	**100**
(v)	**Compensation of employees**	**900**
(vi)	**Current transfers by government**	**150**
(vii)	**Interest**	**400**
(viii)	**Undistributed profits**	**50**
(ix)	**Dividend**	**250**
(x)	**Net factor income to abroad**	**(–) 10**
(xi)	**Income accruing to government**	**120**

Ans:

NDP_{FC} =Rent+Corporate Tax+Compensation of Employees+Interest

+Undistributed Profits+Dividend

=200+100+900+400+50+250=Rs 1,900 crores

Personal Income= NDP_{FC} –Income accruing to Government

–Net factor income to abroad

+National Debt Interest+Current transfer by Government

–Net Current transfers to Abroad–Corporate Tax–Undistributed Profits

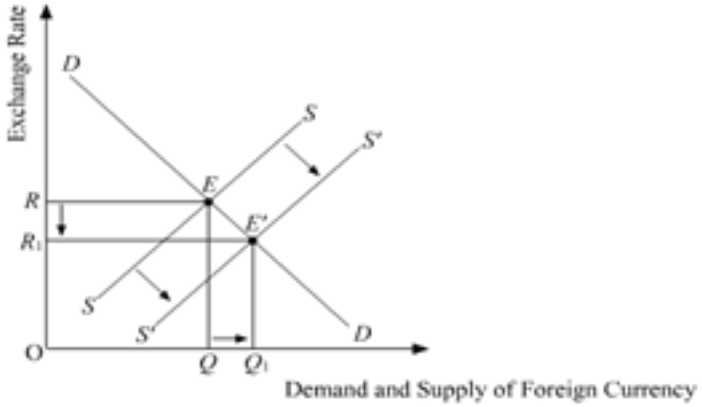
=1,900–120–(–10) +60+150–10–100–50=Rs 1,840 crores

Q28 (a) In which sub-account and on which side of balance of payments account will foreign investments in India be recorded? Given reasons.

(b) What will be the effect of foreign investments in India on exchange rate? Explain.

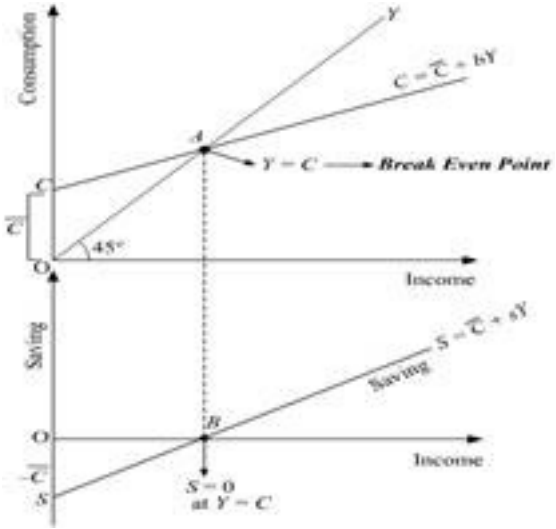
Ans: (a) In *Capital account*, and on *credit side of BOP*, will foreign investments in India be recorded. Foreign investment refers to the investment in the assets of a foreign country. By investing, the government or any resident of domestic country owns the control over the asset of the foreign country. Foreign Investment cause an inflow of foreign exchange into the country. Thus, it is recorded as positive items in the Capital Account of BOP.

(b) Foreign investments in India will increase the supply of foreign currency. This would shift the supply curve from *SS* to *S'S'*. With the shift in supply curve, the new equilibrium is established at point *E'*, where the *exchange rate falls* from *OR* to OR_1 and the demand and supply of foreign currency rises to OQ_1.



Q29 Given consumption curve, derive saving curve and state the steps taken in the process of derivation. Use diagram.

Ans:



In the diagram $\overline{C}+bY$ is the consumption curve.

The 45° line is the aggregate supply curve.

At point *E*, consumption = income i.e (*Y* = *C*)

$\overline{C}$ represents the autonomous consumption i.e. consumption at zero level of income.

Steps for derivation of supply curve from consumption curve as follows.

(i) Corresponding to $\overline{C}$ in the consumption function we have $-\overline{C}$ in the saving function. That is, there are negative savings equal to autonomous consumption at *Y* = 0. This is represented by S on the negative axis in the lower panel.

(ii) At point E ($Y = \overline{C}$). This implies that all the income is spent on consumption expenditure. Thus, savings equal to zero. This is shown as $S = 0$ in lower panel. This point is also known as the Break-even point.
(iii) Beyond the break-even point, by connecting points S and Y we derive the straight upward sloping saving curve.
(iv) SS is the required saving curve.

Q30 What is government budget? Explain how taxes and subsidies can be used to influence allocation of resources.
Ans: Meaning of Government Budget
A Government Budget is a financial statement showing item-wise expected government receipts and government payments during a particular financial year. It also presents the government's report on the financial performance during the previous fiscal year.
This objective of government is related with the allocation of resources to different areas. In a mixed economy, the private producers aim towards profit maximisation, while, the government aims towards welfare maximisation. The private sector always tend to divert resources towards areas of high profit, while, ignoring areas of social welfare. In such a situation, the government through its budgetary policy reallocates resources to maintain a balance between the social objectives of welfare maximisation and economic objective of profit maximisation. For example- government levies taxes on socially harmful goods such as tobacco, etc. and provides subsidies for the socially desirable goods such as food grains, kerosene, etc.

Or

Define revenue receipts in a government budget. Explain how government budget can used to bring in price stability in the economy.
Ans: Revenue Receipts are those receipts of the government which neither creates any liability nor it creates any reduction in the assets of the government. These comprises of tax and non-tax receipts, duties and fines, interest and dividends receipts on government investments and assets. These are further classified into:
1. Tax Receipts
2. Non-tax Receipts
a) **Tax Receipts**

A tax is a legally compulsory monetary contribution to the government by different economic units such as household, firms and other economic units. Taxes are imposed by the government on different activities, income, property, production, occupation, etc. The main motive of imposing taxes is to raise revenue and to incur various expenditures for enhancing welfare of the country. The following are the various types of taxes.

1. Direct and indirect taxes
2. Progressive and regressive taxes
3. Ad valorem and specific taxes

b) **Non-Tax Receipts**

Non-tax receipts refer to those budget receipts of the government from sources other than taxes such as interest receipts, dividends, fines, duty fees, etc. Various non-tax receipts of the government can be classified as:

1. Fees and License- The government receives fees in return of various services provided by it to the people. Example- college fees, passport fees, registration fees, etc.
2. License Fees- These refer to the fees that are received by the government in return of the allowances granted to the people to perform certain activities. Example- Fees received from issue of import licenses.
3. Escheat- Escheat refers to the income from a property of a person who dies without having any legal heirs. In other words, the government acquires legal right over a property which has no claimant.
4. Fines and Penalties- Fines and penalties are imposed by the government on those who boycott law.

The government aims at insulating the economy from major fluctuations (like inflation, unemployment) and business cycles such as boom, recession, depression and recovery. The government through its budgetary policy tries to combat such situations. The major concern of government is to achieve higher economic growth rates while maintaining price and employment stability. This state of economic growth with stability ensures a smooth and efficient functioning of an economy.