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Provincial Department of Education - NWP

21 E I

Third Term Test - Grade 12 - 2018

Index No : ....

Economics I

Two Hours

Important

- **Answer all the questions.**
- **Select the correct or most suitable answer and write the correct number on the given dotted line.**

01. Which of the following is relevant for the positive micro economic statement.
    1. When the average interest rate increases business investments are reduced.
    2. Increase in price due to increase in aggregate demand.
    3. When the price of normal good reduces, the quantity demand of the good increases.
    4. Wants should be minimized to minimize the scarcity.
    5. The average price level should be controlled for the economic development. (........)

02. Select the incorrect statement related for capital as a production factor.
    1. Capital is created through investment.
    2. As the acquisition of real assets can be done with money, money is considered as capital.
    3. Harbour, airport, electricity and irrigation systems are considered as economic over - head capital
    4. The skills of labour is called as human capital.
    5. Commonness of natural capital would be an important factor for economic growth. (........)

03. When there is an unlimited supply for factors of production,
    1. The opportunity cost is negative
    2. The opportunity cost is zero
    3. The opportunity cost is positive.
    4. The opportunity cost is reduced
    5. The opportunity cost is increased (........)

04. This is not a reason to shift the production possibilities curve to left.
    1. Brain drain due to economic instability.
    2. Lowering the technology used in the production.
    3. Damaging infrastructural facilities.
    4. Damaging the resource endowment.
    5. Sacrificing a stock of consumer goods for capital goods. (........)

05. In an economy, only X and Y goods are produced, due to increase in X production, the reduction of Y is depicted as below.

X	Y
10	1000
20	900
30	700
40	400
50	0

When X production is raised from 30 to 40,

	Marginal opportunity cost	**Opportunity cost**
1.	30	700
2.	20	200
3.	30	300
4.	200	20
5.	20	900

(........)

06. A significant feature of an economy that the market economy is proceeded,
1. There is a public resource ownership
2. The government intervention is high
3. Is the property ownership based on private enterprise.
4. Is the price determination is based on centrally planning authority
5. All the workers are in public enterprises not in private enterprises. (........)

07. Consumer sovereignty is a feature in free market economy. Consumer sovereignty means,
1. A situation of natural monopoly in the market.
2. Government involves in price ceilings to protect the consumer.
3. The freedom of labourer in labour mobilization according to the self-desire.
4. The government direction is only to supply essential goods for consumers.
5. Making production decisions according to the consumer demand. (........)

08. Certain criteria in assessing the performances of an economic system given as below.

A - Full employment
B - Employing unemployed graduates
C - Equal income distribution
D - State budget

The most suitable criteria in assessing the performances of an economic system are,

1. A and C 2 A and D 3. C and B
4. D and A 5. B and D (........)

09. Select the correct statement among followings.
  1. To purchase the commodity although wants should have a plan, plan is not necessary for a demand.
  2. As demand is unlimited and wants are constrained by the income.
  3. No special plan is made on demand.
  4. Among unlimited wants, the satisfied want is the demand.
  5. Wants are created on demand. (........)

10. The law of demand means, when other factors remain constant,
  1. Decrease in price of cashew nuts due to increases in demand
  2. Decrease in quantity demand due to price increase in cashew nuts.
  3. Increase in quantity demand of cashew nuts due to increase in income
  4. Increase in quantity demand of cashew nuts due to increase in price of cashew nuts
  5. Increase in quantity demand of cashew nuts due to decrease in price of substitutes for cashew nuts. (........)

11. Each point along the demand curve shows
  1. The maximum price which is determined by the purchasing power and consumer desire to purchase a unit of relevant good.
  2. The maximum price which is accepted by producers for all the units that they produce.
  3. The technical mechanism that the cost is minimized to produce a commodity.
  4. All the wants of a given household.
  5. The prices that both consumers and producers are agreed. (........)

12. Due to price reduction of a pen drive the demand curve of the compact discs (CD_S) shifts to left. Pen drives and compact disks are,

1. Normal goods   2. Substitute goods   3. Giffen goods
4. Complement goods   5. Snob goods (........)

13. Although the increase in supply causes for a price reduction of a product, if the exchanged quantity of products is remained unchanged,

1. the price supply elasticity is zero.   2. the price supply elasticity is infinite
3. the price demand elasticity is unitary   4. the price demand elasticity is zero.
5. the price supply elasticity is inelastic (........)

14. What would be the price demand elasticity of the considerable good that quantity demand is changed from 1000 – 1500 due to decrease in unit price from Rs. 2.00 - Rs. 1.50 .

1. - 2   2. – 1.6   3. - 2.5   4. - 4.0   5. - 3.5 (........)

15. Assume, cheese and butter are produced in a market and no cost is made in mobilizing resources from cheese to butter production or butter to cheese production. According to above situation, what would be the expected change in cheese market equilibrium due to increase in butter price in the market?

1. Price increases and quantity reduces.   2. Price and quantity both are increased.
3. Price and quantity both are reduced.   4. Price reduction and increase in quantity.
5. None of above. (........)

16. If motor vehicle and fuel are complementary goods, what will happen for the motor vehicle market due to increase in fuel price?
   1. The equilibrium price of motor vehicle increases.
   2. The equilibrium price and equilibrium quantity of motor vehicle reduce.
   3. The supply curve of motor vehicle shifts to left.
   4. The supply curve of motor vehicle shifts to right.
   5. The demand curve of motor vehicle shifts to right. (........)

17. What would be the accurate share of tax burden, if Rs. 5.00 of unit fax is imposed on the commodity that has perfect elastic supply and elastic demand?
   1. Entire tax burden is on consumer.
   2. Entire tax burden is on producer.
   3. More tax burden is on consumer and less tax burden is on producer
   4. More tax burden is on producer and less tax burden is on consumer
   5. Equal share of tax burden between consumer and producer (........)

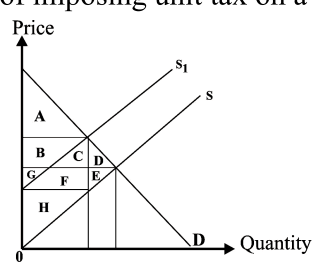
18. The demand and supply schedule of a certain commodity given as below.

Price	**Qd**	**Qs**
1	40	20
2	35	40
3	30	60
4	25	80

If Rs. 2.00 of unit subsidy is given on this commodity, the new supply equation after the subsidy is,

1. Qs = 20 + 10 P
2. Qs = 10 P
3. Qs = 40 + 20 P
4. Qs = 60 + 20 P
5. Qs = - 20 + 10 P (........)

19. The economic effects of imposing unit tax on a certain product are as follows,

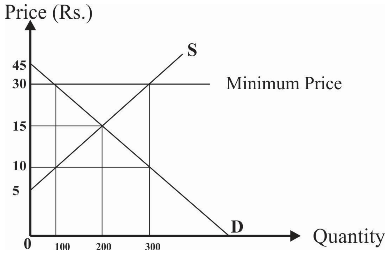


	Government Revenue	**Change in consumer surplus**	**Producer tax burden**
1.	B + C + G + F	E + F + G	B + C
2.	B + C + D + E + F + G	B + C + D	D + E
3.	B + C + F + G	B + C + D	G + F
4.	B + C + D + E + F + G	B + C + F + G	G + F
5.	F + F + E	B + C + F + G	B + C

(........)

20. This is not an economic effect of imposing maximum price as a price controlling policy of the government
   1. Commodity shortage in the market
   2. Selling goods at illegal black market price
   3. Limitations in investments in production field
   4. A queue system in the market.
   5. A commodity accumulation in the market (........)

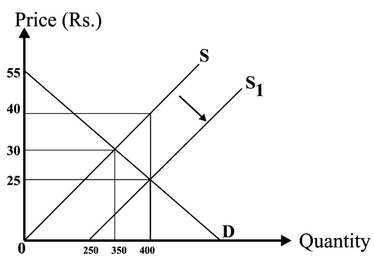
21. What would be the net welfare effect of the economy, if the surplus is purchased by the government in the guaranteed pricing policy.



1. Rs. 4500.00
2. Rs. 1500.00
3. Rs. 6000.00
4. Rs. 500.00
5. Rs. 4000.00 (........)

22. Which of the following would be irrelevant for the price stabilization policy made by the government with the purpose of stabilizing income of cultivators.
    1. Impose rations over producers
    2. Removing import tax
    3. Stock accumulation and distribution
    4. Limiting the quantity of land that can be used in cultivation.
    5. Rationing of imports (........)

23. In the perfectly completive market demand and supply curves of a certain commodity after giving Rs. 15.00 0f unit subsidy are as follows.



The production surplus offer subsidy is,

1. Rs. 5250.00
2. Rs. 8000.00
3. Rs. 8125.00
4. Rs. 4375.00
5. Rs. 6000.00 (........)

24. What would be the accurate statement regarding the deficiency payment system as a price supporting policy.
    1. The effect towards the social welfare is positive.
    2. Reduction in consumer surplus with an increase in producer surplus.
    3. Increase in consumer surplus but decrease in producer surplus.
    4. Increase in both consumer and producer surpluses.
    5. Decrease in both consumer and producer surpluses. (........)

25. In the short run of production process,
    1. Production can be increased by increasing the number of trained labourers
    2. Production can be increased by increasing all the inputs.
    3. Certain inputs held constant in the production process.
    4. The production quantity remains constant
    5. Average fixed cost is fixed (........)

26. Which of the following can be identified as fixed expenditures?
   1. Expenditures on fuel and electricity.
   2. Expenditures on raw materials and stationaries
   3. Expenditures on labour payments
   4. Expenditures on transportation and telecommunication.
   5. Expenditures on insurance premium and license payment. (........)

27. Diminishing marginal returns created,
   1. When average variable cost decreases
   2. When total production increases in decreasing rate.
   3. When marginal production increases in decreasing rate.
   4. When total production is reducing
   5. When average total cost curve is decreasing. (........)

28. In a firm if the total cost made on the first unit is Rs. 240.00 and the marginal cost is Rs. 40.00. When output is increased by 2 units, the marginal cost is Rs. 30.00

	AFC	**AVC**
1.	100	35
2.	240	40
3.	100	30
4.	270	70
5.	100	20

According to given information, what would be the average fixed cost and average variable cost, when 2 units are produced of this firm?

(........)

29. Which of the following would be accurate regarding the firm which obtains diseconomies of scale?
   1. The percentage change of output would be the same of percentage change of input
   2. The long run average cost curve is declining of the firm
   3. The percentage change of output is greater than the percentage change of input
   4. When input is increased by 20% increasing output by 15%.
   5. Increase in average cost while some inputs kept in fixed. (........)

30. The price of the good in perfectly competitive market is always,
   1. Equal to the average total cost
   2. Equal to the marginal cost
   3. Equal to the marginal revenue
   4. Equal to the total revenue
   5. Equal to the total variable cost (........)

31. Certain information of a firm in the short run of a perfectly competitive market is given below.

current output level	=	units 500
Total cost	=	Rs. 5000
Total Fixed Cost	=	Rs. 1000
Marginal cost	=	Rs. 10

If the firm earns normal profit, the market price of a unit is,

1. Rs. 8.00 2. Rs. 10.00 3. Rs. 12.00 4. Rs. 9.00 5. Rs. 6.00 (........)

32. If the total earnings of a certain production factor consists only with transfer earnings, the supply elasticity of the factor is,
   1. Perfectly inelastic
   2. Elastic
   3. Inelastic
   4. Perfectly elastic
   5. Unitary elastic (........)

33. Identify the institutional unit that involves in macroeconomic functions but not included in economic agents.
    1. Household sector 2. Non – government organization 3. Business sector
    4. Government sector 5. Foreign sector (........)

34. The variable which influences towards macro – economic functions but not included in basic variables is the
    1. Full employment 2. Exchange rate 3. Interest rate
    4. Sustainable development 5. Balance of payment (........)

35. The business cycle shows the,
    1. The fluctuations of potential output 2. The fluctuations of sustainable output
    3. The fluctuations in economic growth 4. The fluctuations of expansion any phase.
    5. The fluctuations in a macro economy (........)

36. Select the production activity which is included into the production boundary in national accounting.
    1. Making curd 2. Preparing meals for home members.
    3. Looking after children 4. The care of old and disable people of a house.
    5. Decorating and cleaning of a house (........)

37. Select the non – productive transaction which is excluded in national accounting.
    1. Unpaid housewife service. 2. Growth of the natural forest
    3. Transactions related to financial papers 4. Education and leisure
    5. Value changes of resources due to natural growth (........)

38. Gross operational surplus in income approach is the,
    1. Wages and salaries and co-operative profit 2. Interest, rent and gross profit.
    3. Interest, net tax and co-operative profit. 4. Mixed income and employee compensation
    5. Employee compensation, self - employment income (........)

39. According to the expenditure approach, when private consumption expenditure + public consumption expenditure + Gross domestic capital formation added, the derived national accounting concept is,
    1. Gross national expenditure at market price. 2. Gross domestic expenditure at market price
    3. Gross domestic product at market price 4. Gross national income at market price
    5. Gross domestic product at basic price (........)

40. Which would be the accurate calculation technique of producer's price?
    1. Basic price – Subsidy on products 2. Product at market price + production tax
    3. Basic price – other tax on production 4. Basic price + Tax on product –Subsidy on product
    5. Produce's price – Net tax on product (........)

41. In national accounting, employee compensation + Gross operational surplus + other taxes on production (deduct) subsidy equal to,
    1. Gross National income at market price 2. Gross domestic production at market price
    3. Aggregate added value at market price 4. Aggregate added value at producer price
    5. Aggregate added value at basic price (........)

42. Select the accurate equation of calculating Gross national income at market price,
    1. Gross domestic expenditure + export – imports.
    2. Gross domestic expenditure + imports - Exports
    3. Gross domestic product at market price + secondary income balance
    4. Gross domestic product of market price + Net foreign primary income
    5. Gross domestic product at market price + Net foreign primary income + net foreign transfers (.......)

43. In macroeconomic equilibrium, aggregate demand consists with,
   1. Private consumption, investment, Exports, depreciations.
   2. Private consumption, Investment, Net exports, government expenditure
   3. Private consumption, Government consumption, Net indirect tax, imports
   4. Private consumption, Government consumption, Investment, Net tax.
   5. Private consumption. Net exports, Government expenditure, Savings. (........)

44. How to derive the consumption function, if autonomous consumption expenditure is Rs. 50 and from each rupee of disposable income, 75 cents is spent on the consumption purpose?
   1. C = 50 + 0.75 Yd 2. C = 75 + 0.50 Yd 3. C = 50 - 0.75 Yd
   4. C = 50 + 75 Yd 5. C = 75 + 50 Yd (........)

45. Select the inaccurate statement towards saving.
   1. The proportion of disposable income which is not spent on consumption purpose in the house hold saving.
   2. Savings depends upon the disposable income
   3. Dis - savings are the consumption expenditure at zero income
   4. When the disposable income is exceeded by the consumption expenditure, savings created.
   5. When consumption expenditure equals to the disposable income, savings would be zero. (........)

46. The consumption function of a hypothetical economy is, C = 80+0.7 Y and equilibrium income is, Rs. 1500.00

   The savings amount at Rs. 1500.00 of equilibrium national income is,

   1. 270 2. 450 3. 80 4. 530 5. 370 (........)

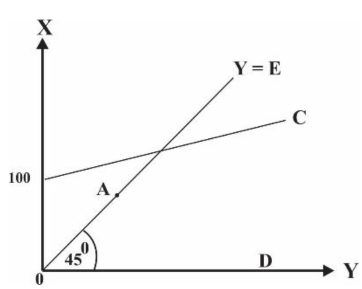
47. If it is assumed that, the investment expenditure does not vary with the changes of income, the investment expenditure curve is,
   1. Parallel to the vertical axis. 2. Parallel to the horizontal axis
   3. Inversely sloped form left to right 4. A positively by sloped linear curve from right to left.
   5. A liner curve with a negative slope (........)

48. In a hypothetical economy, the consumption function is C= 300 + 0.75 Yd and investment I = 500. If it is assumed that, government expenditure and net exports are absent of this economy, the equilibrium income is,
   1. Rs. 320 2. Rs. 800 3. Rs. 1320 4. Rs. 3200 5. Rs. 8000 (........)

49. In a simple economy, when equilibrium income level is increased from Rs. 4000 billion to Rs. 4500 billion, the aggregate consumption expenditure is increased from Rs. 2000 billion to Rs. 2300 billon.

   The marginal propensity to consume and the average propensity to consume at Rs. 4000 billion of this economy respectively are,

   1. 1.6, 2 2. 0.6, 2 3. 0.6, 1.6 4. 0.6, 0.5 5. 1.6, 0.5 (........)

50. 

According to the consumption curve and the equal national income line, of above graph, the area "A" shows,
   1. A contraction in national income
   2. An equilibrium of national income
   3. Savings are positive
   4. Negative savings
   5. Consumption has been increased (........)

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Provincial Department of Education - NWP

21 E II

Third Term Test - Grade 12 - 2018

Index No : ....

Economics II

Three Hours

Important

- **Select at least two questions from each section and answer for five questions.**

Part A

01. i. "Economic resources can be known as economic goods." Do you agree with the given statement? Explain. (4 marks)

ii. Introduce the criteria in classifying economic systems and explain how economic systems are classified based on different criteria (4 marks)

iii. The resource allocation between present and future consumption is an important determinant of the economic growth of an economy. Explain using appropriate diagrams. (4 marks)

iv. Illustrate following economic conditions using relevant production possibilities curves.

(a) Decrease in factor productivity

(b) Increasing opportunity cost

(c) Destroying a stock of raw materials on X production.

(d) Lowering of foreign loans and investments. (8 marks)

02) i. Distinguish between micro economics and macroeconomics. (4 marks)

ii. Mention the role of an entrepreneur. (4 marks)

iii. What are the salient features of an economy that the economic efficiency is achieved? (4 marks)

iv. How to distinguish the market economic system and the command economic system, when the economy is led by solving the problem of scarcity? (4 marks)

v. Discuss the difference between social market economic system and the market socialist economic system in brief. (4 marks)

03) i. (a) Define the demand and discuss the difference between private demand and market demand in brief. (3 marks)

(b) Assume, A,B,C are the only consumers in a certain market for the X commodity. The individual demand equation of each given below.

$Qd_A = 600 - 5Px$ $\quad Qd_B = 1000 - 10Px$ $\quad Qd_C = 1600 - 15Px$

Derive the market demand function for the X commodity. (2 marks)

ii. (a) At the month of December, although the prices of Christmas trees were increased, the quantity sold was also increased. Is this an opposition to the law of demand? Explain.

(2 marks)

(b) When the points are moving along the demand curve upward, it is assumed that the income remains constant. But, income effect is a determinant of change in quantity demanded. Explain (3 marks)

iii. (a) Due to the drought of the country that beef is produced, the beef supply was reduced. Attentively, consumers were tempted to consume chicken.

Illustrate above beef market condition using demand and supply curves. (2 marks)

(b) i. Using demand and supply equations given below, derive the excess demand equation and the excess supply equation.

$Qd = 24 - 4P$ $Qs = 4P$ (1 mark)

ii. Using excess demand and excess supply equations derive the excess demand price and excess quantity demand. (1 mark)

iv. Demand and supply equations for the cricket balls, are given below.

$Qd = 70 - 2P$ $Qs = -14 + 5P$

(a) Derive the market equilibrium price and quantity for cricket balls. (2 marks)

(b) At the market equilibrium, calculate the price demand elasticity and the price supply elasticity. (2 marks)

04. In a hypothetical market, demand and supply table of a certain commodity given below.

Price	**Qd**	**Qs**
2	50	10
4	40	20
6	30	30
8	20	40

i. Calculate the market equilibrium price and quantity using demand and supply equations

(4 marks)

ii. If Rs. 4.00 of maximum price is imposed by the government of this product, calculate the,

(a) Excess demand (2 marks)
(b) Maximum black market price (2 marks)
(c) Welfare loss (2 marks)
(d) Economic surplus before and after of maximum price (2 marks)

iii. Except to maximum price, assume, Rs. 10/- of minimum price is fixed by the government,

(a) Mention the economic effects of minimum price (4 marks)
(b) What would be the cost of the government due to the deficiency payment system in making the minimum price meaningful ? (4 marks)

05) Assume that, in a certain market, the equilibrium price and quantity respectively are Rs. 5.00 and 100, and the consumer surplus and producer surplus are Rs. 1000 and Rs. 200.00 respectively.

i. Calculate the maximum demand price and minimum supply price of this market. (4 marks)

ii. Derive the demand and supply equations for this market. (4 marks)

iii. If government decides to impose Rs. 6.00 of unit tax,

(a) What would be the new equilibrium price and quantity? (2 marks)

(b) Calculate the consumer surplus and producer surplus after the tax. (2 marks)

(c) Calculate the welfare loss due to tax (2 marks)

iv. With the purpose of encouraging this product, if government makes an arrangement to provide Rs. 3.00 of specific subsidy instead of earlier imposed tax,

(a) Calculate the change in consumer surplus due to subsidy. (2 marks)

(b) What would be the cost that government has to bare due to subsidy? (2 marks)

(c) Calculate the dead weight loss due to subsidy. (2 marks)

Part B

06) i. Introduce the short run production function and the long run production function. (4 marks)

ii. Identify the given costs as fixed cost or variable cost,

(a) Normal profit
(b) Salary payments
(c) The salary of the chief executive officer
(d) Transport cost and electricity payments

(4 marks)

iii. How to relate the return eared by the firm in the long run to the average cost curve of that firm? Explain using an appropriate diagram

iv. "The demand curve of the perfectly competitive market is perfectly elastic". What is meant by this? What are the reasons for that? (4 marks)

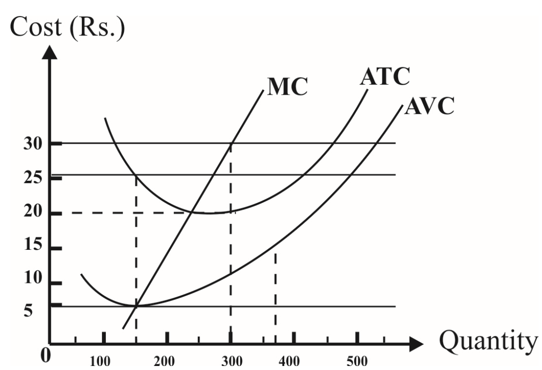
v. A firm which involves in the production in short run sells 100 units that each at Rs. 10.00. Should this firm retain in the business, if the total cost is Rs. 1200.00 of and the total fixed cost is Rs. 400. Explain your answer. (4 marks)

07) i. What is the difference between goods market and Factor market? (4 marks)

ii. "Normal profit is a transfer earning". Do you agree? Discuss? (4 marks)

iii. Write two similarities and two differences between monopoly market and oligopoly market. (4 marks)

iv. The short run behavior of a firm in a perfectly competitive market is given below.



(a) What is the profit maximization output when the market price is fixed at Rs. 30/- (2 marks)
(b) Calculate the loss or profit gained by the firm per unit (2 marks)
(c) What is the total fixed cost of this firm? (2 marks)
(d) What is the price of this firm that the decision of production termination is made? (2 marks)

08) i. (a) What is meant by the economic recession? (2 marks)
(b) What is meant by the potential output of an economy? (2 marks)
ii. Name economic agents in an economy. (4 marks)
iii. Explain the 2 types of illegal economic activities, in national accounting (4 marks)
v. What are the productive activities that are not included in gross Domestic Product? (5 marks)
vi. What are the none productive transactions that are excluded in calculating domestic output? (3 marks)

09) i. What are the main institutional units in a total economic area? (3 marks)
ii. According to the new national accounting approach, name the components of gross domestic income. (3 marks)
iii. What are the limitations in national income calculations? (4 marks)
vii. Hypothetical data of a certain economy given as below.

- Household consumption expenditure	750
- Gross domestic fixed capital formation.	800
- Value changes	300
- Stock changes	500
- Services provided to household with non - profit	200
- Government consumption	50
- Exports	1000
- Imports	600
- Receipts of primary income from the rest of the world	1600
- Net current transfers from Row	500
- payments of primary income to the rest of the world	1800

Calculate followings,
(a) Final consumption expenditure (b) Gross domestic expenditure at market price
(c) Gross domestic product at market price (d) Gross national income at market price
(e) Disposable gross national income at market price. (10 marks)

10) i. Explain the macroeconomic equilibrium (3 marks)
ii. What are the alternative approaches that macroeconomic equilibrium can be presented. (3 marks)
iii. Assume, the consumption function of a certain economy is given as $C = 100 + 0.75Y$
(a) Derive the savings function related to the given consumption function (2 marks)
(b) Calculate the income of this economy. (2 marks)
(c) What is the total consumption at that income? (2 marks)
iv. Based on aggregate income and expenditure approach, calculate the macro – economic equilibrium using the given information.

Consumption function	$C = 400 + 0.8\ Yd$	Investment Expenditure	$I = 100$
Government expenditure	$G = 200$	Net export	$(X - M) = -100$
Autonomous Tax	$T = 150$		

Third Term Test- 2018
Economics – Third Term Test
Answer Sheet

Part I

1)	3	11)	1	21)	1	31)	2	41)	5
2)	2	12)	2	22)	2	32)	4	42)	4
3)	2	13)	4	23)	2	33)	2	43)	2
4)	5	14)	1	24)	4	34)	4	44)	1
5)	3	15)	1	25)	3	35)	5	45)	4
6)	3	16)	2	26)	5	36)	1	46)	5
7)	5	17)	1	27)	2	37)	3	47)	2
8)	1	18)	3	28)	1	38)	2	48)	4
9)	4	19	3	29)	4	39)	2	49)	4
10)	2	20	5	30)	3	40)	4	50)	4

Part II

01. i. "Economic resources can be known as economic goods." Do you agree with the given statement? Explain. (4 marks)

ii. Introduce the criteria in classifying economic systems and explain how economic systems are classified based on different criteria (4 marks)

iii. The resource allocation between present and future consumption is an important determinant of the economic growth of an economy. Explain using appropriate diagrams. (4 marks)

iv. Illustrate following economic conditions using relevant production possibilities curves.
(a) Decrease in factor productivity
(b) Increasing opportunity cost
(c) Destroying a stock of raw materials on X production.
(d) Lowering of foreign loans and investments. (8 marks)

01). i. Cannot agree

- Economic resources are the scarce resources which have limited supply among production factors. As the scarcity is the basic feature in Economic resources an opportunity cost is created when economic resources are utilized. (1 mark)

Ex: Instead of sunlight, air and rain water, other production factors can be identified as economic resources. (1 mark)

- But goods which have scarcity in supply can be known as economic goods. Thus, goods which have a price and production process that opportunity cost is created by utilizing economic resources in the production is identified as, economic goods. (1 mark)
- Ex: Motor vehicle, clothe, Books, Furniture.
- Thus economic resources cannot be known as economic goods. (1 mark)

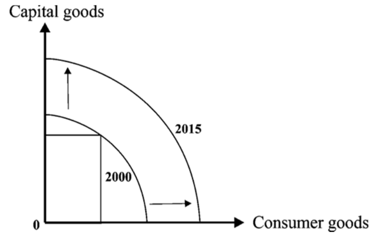
ii.
- Criteria – Decision making and co-ordination mechanism.
- Nature of the resource ownership - Nature of incentives. (1 mark)
- Based on decision making and co-ordination mechanism.
  - Market economic system - Command economic system
- Based on ownership of resources and property heights,
  - Capitalist economic system - Socialist economic system
- Base on the nature of incentives
  - Market economic system - Planned economic system - Traditional economic system (1 mark)

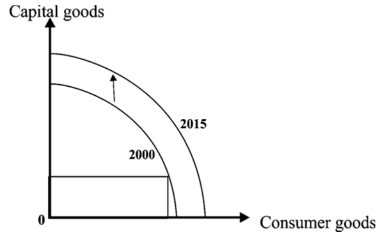
iii. According to the way the scarce resources are allocated at percent, the future resource accumulation and the economic growth can be determined.

If more resources amount is allocated at present on consumption goods, the ability of producing capital goods would be lower and as the production capacity of the economic is lower, the future economic growth would be lower.

On the other hand if the present resource allocation is more on capital goods, the production possibility in future is expanded and then the future economic growth would be higher.

This can be illustrated using curves as follows.

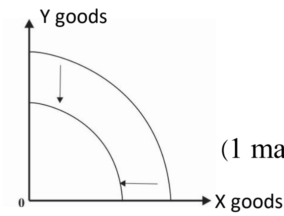




According to first graph as the economy allocates more resources towards the production of capital goods, economic growth rate would be higher in future.

According to second graph, as the present resource allocation is more on consumer goods, in future the economic growth would be lower. (2 marks for diagram, 2 marks for illustration)

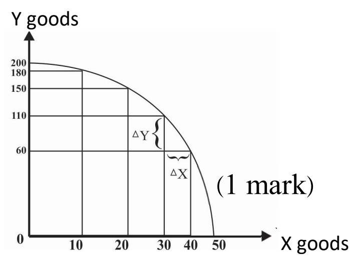
iv. (a)



(1 mark)

Due to lowering of factor productivity production possibility is reduced and the production possibility shifts to left. (1 mark)

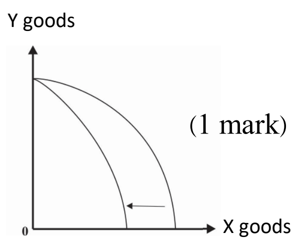
(b)



(1 mark)

When X production is increased in constant amounts the number of items that are scarified from Y increased gradually in increasing opportunity cost. (1 mark)

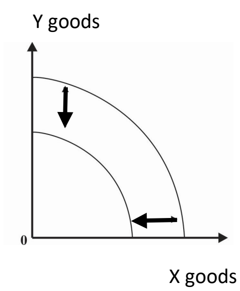
(c)



(1 mark)

As the destruction of the stock of raw materials is related only for X goods. The PPC shifts to left only from X goods axis. (1 mark)

(d)



(1 mark)

Due to lowering of foreign loans and investment, production capacity of economy would be lower and PPC would shift to left.

02) i. Distinguish between micro economics and macroeconomics. (4 marks)

ii. Mention the role of an entrepreneur. (4 marks)

iii. What are the salient features of an economy that the economic efficiency is achieved? (4 marks)

iv. How to distinguish the market economic system and the command economic system, when the economy is led by solving the problem of scarcity? (4 marks)

v. Discuss the difference between social market economic system and the market socialist economic system in brief. (4 marks)

02). i. - Studying the behavior of small units of an economy such as each sector institutions, persons that consist each sector of an economy and economic variables separately is called micro economics.

Following this analysis the economic behavior of units which make decisions of an economy such as consumer, labourers, production firms and government is done by micro economics.

Ex – Studying, demand, supply and price determination of a good.

- Production function of a firm.
- Production cost of a term.
- Market operation of a production firm
- scarcity
- Marginal cost
- Choice made from alternatives

Aggregate functioning of an economy takes place by the sum of the small units of each sector institutions and person of an economy. So, the functioning of aggregate economic activity, the factor affecting those activates and the problems studied in macro-economic given below.

Aggregate output level

Aggregate Income level.

- Economic fluctuations and depressions. – Inflation -Employment level. - Export and import.

ii.
- Mobilizing factors of production engaged in policy decision making.
- Organization of production activities
- Introduction of innovations.
- Risk bearing (1 for each and 4)

iii.
- An economy which achieves the economic efficiency, works on the PPC and scarce resources are allocated to produce goods and services which are essential for the economy.
  Following features can be seen in such an economy.
- Achieving the production efficiency.
  To achieve production efficiency full employment and full production should be achieved.
- Achieving the allocation efficiency.
  The marginal cost of each good should be equal to the price of the good. MC = P. (2 marks)

iv.

Market economic system	**Command economic system**
- Basic economic questions are solved based on the price mechanism.	- Basic economic questions are solved by the central planning authority.
- Resource ownership is with the private sector.	- Resource ownership is with public sector.
- Decentralized decision making process	- Centralized decision making process
- Very high competition	- No competition.
- Main aim is to maximize the profit.	- Main aim is to maximize the social welfare.
- Consumer sovereignty	- No consumer sovereignty.

(accurate comparison 1 for each 2)

v.
- Market economic system where government intervenes to promote social justice is known as social market economy. This economic system highly emphasizes on social justice.

- Economic systems which operate basically through socialist ideology and to some extent which operates through market forces are known as social market economies.
- Although resources of a social market economy owned by the private sector, government highly influence over the usage of these resources. Government intervenes to protect human rights in the field of economic political, civil, social and cultural and implement broad social network. (2 marks)
- In socialist market economy, resources owned by the public sector. Decisions related to resource usage are taken by the private sector.
- Production firms have the right to determine the price of goods and the quality. (2 marks)

03) i. (a) **Define the demand and discuss the difference between private demand and market demand in brief.** **(3 marks)**

(b) **Assume, A,B,C are the only consumers in a certain market for the X commodity. The individual demand equation of each given below.**

$Qd_A = 600 - 5Px$ $Qd_B = 1000 - 10Px$ $Qd_C = 1600 - 15Px$

Derive the market demand function for the X commodity. **(2 marks)**

ii. (a) **At the month of December, although the prices of Christmas trees were increased, the quantity sold was also increased. Is this an opposition to the law of demand? Explain.** **(2 marks)**

(b) **When the points are moving along the demand curve upward, it is assumed that the income remains constant. But, income effect is a determinant of change in quantity demanded. Explain** **(3 marks)**

iii. (a) **Due to the drought of the country that beef is produced, the beef supply was reduced. Attentively, consumers were tempted to consume chicken.**

Illustrate above beef market condition using demand and supply curves. **(2 marks)**

(b) i. **Using demand and supply equations given below, derive the excess demand equation and the excess supply equation.**

$Qd = 24 - 4P$ $Qs = 4P$ **(1 mark)**

ii. **Using excess demand and excess supply equations derive the excess demand price and excess quantity demand.** **(1 mark)**

iv. **Demand and supply equations for the cricket balls, are given below.**

$Qd = 70 - 2P$ $Qs = -14 + 5P$

(a) **Derive the market equilibrium price and quantity for cricket balls.** **(2 marks)**

At the market equilibrium, calculate the price demand elasticity and the price supply elasticity. **(2 marks)**

03). i. (a) In a certain period of time when other factors remain constant, various quantities ready to buy at various prices of a good is called as demand. (1 mark)

At a certain period of time, various quantities ready to buy by a person at different prices of goods is individual demand. (1 mark)

At a certain period of time, the various qualities ready to buy by sum of all individuals at various prices of goods called as market demand. (1 mark)

(b)
$Qd_m = Qd_A + Qd_B + Qd_C$
$Qd_m = (600 - 5Px) + (1000 - 10Px) + (1600 - 15Px)$
$Qd_m = 600 - 5Px + 1000 - 10Px + 1600 - 15Px$
$Qd_m = 3200 - 30Px$ (2 marks)

ii. (a) No, Here the movement is not taking place along the demand curve.

Due to increase in demand for Xmas trees, the demand curve shifts to right.

Due to this price and quantities of Xmas trees increase. (2 marks)

(b) When the demand curve is constructed, except to the price of the considerable good, all other determinants are accepted as constant. According to that the inverse relationship between price and quantity demand derived. (1 mark)

Change in quantity demanded created due to change in price of the considerable good while other factors remain constant.

This change in quantity demanded created due in change in price is the result of substitute effect and the income effect of the price change. (1 mark)

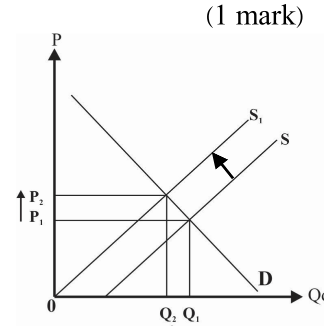
In income effect, it discuses the change in quantity demanded due to change in real income of consumers, when prices are changed. According to that in a price reduction, consumer real income increases and the quantity demand of that good also increases.

Although the income effect is negative for inferior good normally this becomes positive. (1 mark)

iii. (a) Due to the drought as supply reduces the supply curve shifts to left.

So the price of beef increases and consumption quantity is reduced.

Here no change in demand curve. Due to leftward shift of supply curve, beef price increases and quantity demanded reduces. (1 mark)



(b) i. Excess demand equation.

$Qd_{Exd} = Qd - Qs$
$= (24 - 4P) - (4P)$
$= 24 - 4P - 4P$
Qd_{Exd} = $\underline{24 - 8P}$ (1 mark)

Excess supply equations

$QS_{Ex} = Qs - Qd$
$= 4P - (24 - 4P)$
$= 4P - 24 + 4P$
$= 8P - 24$
QS_{Ex} = $\underline{-24 + 8P}$ (1 mark)

ii. $Qd_{Ex} = QS_{Ex}$
$24 - 8P = -24 + 8P$
$24 + 24 = 8P + 8P$
$48 = 16P$
$\frac{48}{16} = P$
$3 = P$

Excess demand Price = Rs. 3 /- (1 mark)

$Qd = 24 - 8P$
$Qd = 24 - 8 \times 3$
$Qd = 24 - 24$
$Qd = O$

Excess quality emand = 0 (1 mark)

iv. (a) $Qd = Qs$
$70 - 2P = -14 + 5P$
$70 + 14 = 5P + 2P$
$84 = 7P$
$\frac{84}{7} = P$ **$\underline{12 = P}$** (1 mark)

$Qd = 70 - 2P$
$Qd = 70 - 2 \times 12$
$Qd = 70 - 24$
$\underline{Qd = 46}$ (1 mark)

(b) Price demand elasticity

$$Ped = \frac{\Delta Qd}{\Delta P} \times \frac{P}{Qd}$$
$$= -2 \times \frac{12}{46} = -0.52$$ (1 mark)

Price supply elasticity

$$Pes = \frac{\Delta Qs}{\Delta P} \times \frac{P}{Qs}$$
$$= 5 \times \frac{12}{46} = 1.30$$ (1 mark)

04. In a hypothetical market, demand and supply table of a certain commodity given below.

Price	Qd	Qs
2	50	10
4	40	20
6	30	30
8	20	40

i. Calculate the market equilibrium price and quantity using demand and supply equations (4 marks)

ii. If Rs. 4.00 of maximum price is imposed by the government of this product, calculate the,

(a) Excess demand (2 marks)

(b) Maximum black market price (2 marks)

(c) Welfare loss (2 marks)

(d) Economic surplus before and after of maximum price (2 marks)

iii. Except to maximum price, assume, Rs. 10/- of minimum price is fixed by the government,

(a) Mention the economic effects of minimum price (4 marks)

What would be the cost of the government due to the deficiency payment system in making the minimum price meaningful ? (4 mark

04).

i $Qd = a - bp$ $\qquad b = \frac{\Delta Qd}{\Delta P} = \frac{10}{2} = -5$

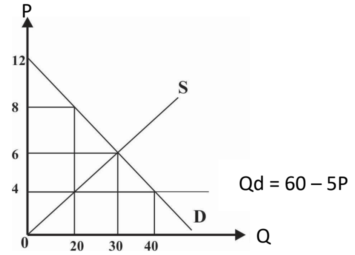
$50 = a - 5 \times 2$
$50 = a - 10$
$0 \; 60 = a$ $\qquad$ **$\underline{Qd = 60 - 5P}$** (2 marks)

$Qs = a + bp$ $\qquad b = \frac{\Delta Qs}{\Delta P} = \frac{10}{2} = 5$

$10 = a + 5 \times 2$
$10 = a + 10$
$1 = a$ $\qquad$ **$\underline{Qs = 5P}$** (2 marks)

ii

(a)



$Q_s = 5P$ — $= 5 \times 4$ — $\underline{\underline{= \mathbf{20}}}$

$Q_d = 60 - 5P$ — $= 60 - 5 \times 4$ — $= 60 - 20$ — $\underline{\underline{= \mathbf{40}}}$ (1 mark)

Ex. demand $= 40 - 20$ $\underline{\underline{= \mathbf{20}}}$ (1 mark)

(b) Maximum black market price $Q_d = 60 - 5P$

$20 = 60 - 5P$

$5P = 40$ $\underline{\mathbf{P = 8}}$ (2 marks)

(c) Welfare loss $= \frac{(8-4) \times 10}{2}$ $= 4 \times 5$ $\underline{\underline{= \mathbf{20}}}$ (2 marks)

(b) **<u>Before</u>**

Consumer surplus $= \frac{6 \times 30}{2}$ $= \underline{\underline{90}}$

Maximum demand price $= 60 - 5P$

$5P = 60$

$\underline{\underline{P = 12}}$

Producer surplus $= \frac{6 \times 30}{2}$ $= \underline{\underline{90}}$

Economic Surplus $= 90 + 90$ $= \underline{\underline{180}}$ (2 marks)

<u>After</u>

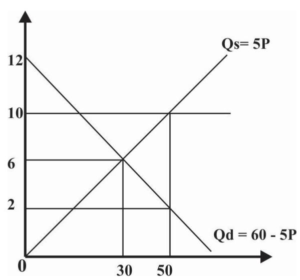
Consumer surplus $= \frac{4 \times 20}{2}$ $\underline{\underline{= 40}}$

Producer surplus $= \frac{4 \times 20}{2}$ $\underline{\underline{= 40}}$

Economic Surplus $= 40 + 40$ $= \underline{\underline{80}}$ (2 marks)

iii. (a)
1. Accumulation of excess production of the market.
2. Unemployment problem can occur.
3. Goods can be supplied to consumers at a discounted rate by keeping minimum price as nominal price. Sellers try to escape from this law.
4. Excess investment situation can be occurred.
5. Affect over social welfare due to the effects over consumer surplus and producer surplus.

(a)



$Q_s = 5P$ — $= 5 \times 10$ — $\underline{\underline{= \mathbf{50}}}$

$Q_d = 60 - 5P$ — $50 = 60 - 5P$ — $5P = 10$ — $\underline{\underline{\mathbf{P = 2}}}$

The cost government has to bare for deficiency payment system $= 8 \times 50$

= රු. <u>400.00</u> (4 marks)

05) Assume that, in a certain market, the equilibrium price and quantity respectively are Rs. 5.00 and 100, and the consumer surplus and producer surplus are Rs. 1000 and Rs. 200.00 respectively.

i. Calculate the maximum demand price and minimum supply price of this market. (4 marks)

ii. Derive the demand and supply equations for this market. (4 marks)

iii. If government decides to impose Rs. 6.00 of unit tax,

(a) What would be the new equilibrium price and quantity? (2 marks)

(b) Calculate the consumer surplus and producer surplus after the tax. (2 marks)

(c) Calculate the welfare loss due to tax (2 marks)

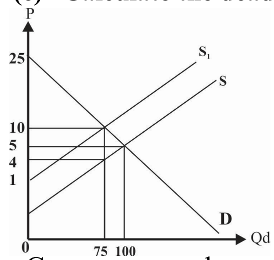
iv. With the purpose of encouraging this product, if government makes an arrangement to provide Rs. 3.00 of specific subsidy instead of earlier imposed tax,

(a) Calculate the change in consumer surplus due to subsidy. (2 marks)

(b) What would be the cost that government has to bare due to subsidy? (2 marks)

(c) Calculate the dead weight loss due to subsidy. (2 marks)

05).



i. Consumer surplus = $\dfrac{\text{(Maximum demand price – Equilibrium Price)} \times \text{Equilibrium Quantity}}{2}$

$1000 = \dfrac{(x-5) \times \cancel{100}^{50}}{\cancel{2}}$

$1000 = 50x - 250$

$1250 = 50x$

$\dfrac{125\cancel{0}}{5\cancel{0}} = x$

$25 = x$

Maximum demand price Rs. 25 /- (2 marks)

Producer surplus = $\dfrac{\text{(Equilibrium Price - Minimum Supply price)} \times \text{Equilibrium Quantity}}{2}$

$200 = \dfrac{(5-Y) \times \cancel{100}^{50}}{\cancel{2}}$

$200 = 250 - 50y$

$50y = 50$

$y = 1$

Minimum supply price in Rs. 1.00 /- (2 marks)

ii. $Qd = a - bP$

$100 = a - 5 \times 5$

$100 = a - 25$

$125 = a$

$Qd = 125 - 5P$ (2 marks)

Price	Q.
25	0
5	100

$b = -\dfrac{\Delta Qd}{\Delta P} = -\dfrac{100}{20} = 5$

$QS = a + bP$

$100 = a + 25 \times 5$

$100 = a + 125$

$-25 = a$

$Qs = -25 + 25P$ (2 marks)

Price	Qs.
1	0
5	100

$b = \dfrac{\Delta Qs}{\Delta P} = \dfrac{100}{4} = 25$

iii **(a)** $Qd = Qs$

$125 - 5P = -25 + 25(p - t)$

$= -25 + 25(P - 6)$

$= -25 + 25P - 150$

$125 - 5P = -175 + 25P$

$300 = 30P$

$10 = P$

$Qs = -175 + 25P$

$= -175 + 25(10)$

$= -175 + 250$

$= \underline{75}$

New equilibrium Price = 10.00

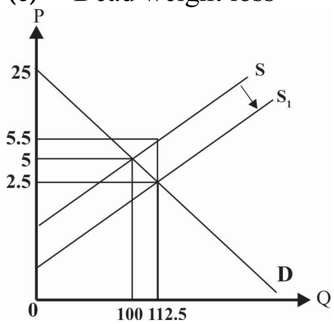
New equilibrium Quality 75 (2 marks)

(b) Consumer surplus $= \dfrac{(25-10) \times 75}{2}$ $= 562.5$ (1 mark)

Producer Surplus $= \dfrac{(4-1) \times 75}{2}$ $= 112.5$ (1 mark)

(c) Dead weight loss $= \frac{6 \times 25}{2}$ $\underline{\underline{= 75}}$ (2 marks).

iii.



Qd = Qs

125 – 5P = - 25 + 25 (P+S)

= -25 + 25 (P + 3)

= -25 + 25 P + 75

125 – 5P = 50 + 25P

75 = 30P

2.5 = P

Qd = 125 – 5P

= 125 – 5(2.5)

= 125 – 12.5

= **112.5**

(a) Change in consumer surplus $= \frac{2.5 \times (112.5+100)}{2}$

$= \frac{2.5 \times 212.5}{2}$

$\underline{\underline{= 265.625}}$ (2 mark)

(b) Cost of the government on subsidy = Rs. 3 x 112.5

= Rs. 337.5 (2 mark)

(c) Dead weight loss $= \frac{(5.5-2.5) \times 12.5}{2}$

$= \frac{3 \times 12.5}{2}$ $\underline{\underline{= 18.75}}$ (2 marks)

Part B

06) i. Introduce the short run production function and the long run production function. (4 marks)

ii. Identify the given costs as fixed cost or variable cost,

(a) Normal profit (b) Salary payments

(c) The salary of the chief executive officer (d) Transport cost and electricity payments (4 marks)

iii. How to relate the return eared by the firm in the long run to the average cost curve of that firm? Explain using an appropriate diagram

iv. "The demand curve of the perfectly competitive market is perfectly elastic". What is meant by this? What are the reasons for that? (4 marks)

v. A firm which involves in the production in short run sells 100 units that each at Rs. 10.00. Should this firm retain in the business, if the total cost is Rs. 1200.00 of and the total fixed cost is Rs. 400. Explain your answer. (4 marks)

06). i. - Remaining technology and capacity of a firm remain constant, the technical relationship between input and output following a change in variable inputs is called a short run production function. $Q = F(V_1, V_2, V_3 \dots \dots V_n, K)$ (2 marks)

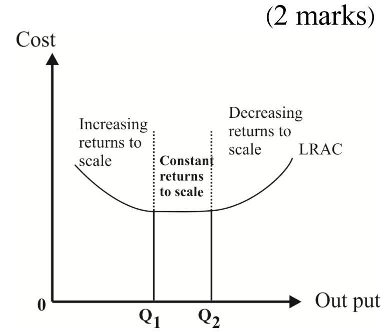
The relationship between inputs and output of a production process following a change in all relevant inputs is called a long run production. It can be shown as follows.

- $Q = F(V_1, V_2, \dots \dots \dots . V_n, K_1, K_2, \dots \dots . K_n)$ (2 marks)

ii. a) Fixed cost b) Variable cost c) Fixed cost d) Variable cost

(1 for each and 4 marks)

iii. - The long run average cost curve of a production firm gets a 'U' shape with a flat bottom due to economics of scale, diseconomies of sale and constant returns to scale. (2 marks)



iv. As the firm in a perfectly competitive market is capable to sell any output quantity at the given market price, the demand curve of the firm in a perfectly competitive market is perfectly elastic. (2 marks)

Reasons.

- Homogeneous products. - The firm's supply would be very insignificant in the aggregate supply.
- Perfect knowledge of consumers regarding the market price. (2 marks)

v. The firm should retain in the production without making the decision of production termination.

Total revenue of the firm	= Rs. 10 x 100	= Rs. 1000.00
Total cost		= Rs. 1200.00
Loss		= Rs. 200.00
Total fixed cost		= Rs. 400.00

If the production is terminated or the firm is closed down, the loss of firm is Rs. 400.00 as the fixed cost is Rs. 400.00

But due to the continuation of the production the loss is only Rs. 200.00

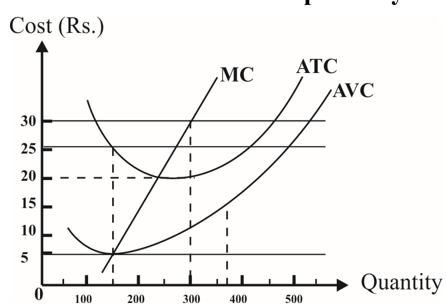
Because firm's earn income is sufficient to cover up the total variable cost as well as to cover – up a certain part of fixed cost, thus loss of continuing the production is lesser than the loss of closing down the firm and retaining in the business causes to maximize the profit. (correct illustration 4 marks)

07) i. What is the difference between goods market and Factor market? (4 marks)

ii. "Normal profit is a transfer earning". Do you agree? Discuss? (4 marks)

iii. Write two similarities and two differences between monopoly market and oligopoly market. (4 marks)

iv. The short run behavior of a firm in a perfectly competitive market is given below.



(a) What is the profit maximization output when the market price is fixed at Rs. 30/- (2 marks)

(b) Calculate the loss or profit gained by the firm per unit (2 marks)

(c) What is the total fixed cost of this firm? (2 marks)

What is the price of this firm that the decision of production termination is made? (2 marks)

07). i.
- The market where factors of production such as land, labour, capital and entrepreneurship are bought and sold is defined as a factor market.
- The market where good and services are exchanged is called as a product market.
- There is a direct demand for goods and services and there is an indirect demand for factors of production.
- Factors are demanded by firms in the factor market and goods are demanded by consumers in the goods market.
- Factor suppliers are house holders and the commodity suppliers are firms. (1 mark for 1 reason)

ii.
- Yes can agree.
  The minimum price required by a factor to be maintained in order to keep a particular production factor in the same position is the transfer earning.
- Normal profit is the minimum payment which should be earned by an entrepreneur to retain him in the present business.
- From the prevailing business if the entrepreneur is unable to earn, even the minimum expected earning he will leave the business.
- Then the minimum excepted payment of an entrepreneur is the transfer earning of a certain production factor. (4 marks)

iii. **Similarities**
- Demand curve of the fire is downward sloped from left to right.
- Earn economic profit in the long run.
- Barriers in entrance. (2 marks for 2 factors)

Differences

- Products are specific / unique in monopoly .
- Homogenous or differentiated products in oligopoly
- Only one producer in monopoly.
- A few number of large firms in oligopoly (2 marks for 2 factors)

iv. (a) 300 units (2 marks)

(b) Rs. 30 - Rs. 20 = **<u>Rs. 10</u>** (2 marks)

(c) TFC = Rs. 3000

(d) Rs. 5.00

08) i. (a) What is meant by the economic recession? (2 marks)

(b) What is meant by the potential output of an economy? (2 marks)

ii. Name economic agents in an economy. (4 marks)

iii. Explain the 2 types of illegal economic activities, in national accounting (4 marks)

iv. What are the productive activities that are not included in gross Domestic Product? (5 marks)

v. What are the none productive transactions that are excluded in calculating domestic output? (3 marks)

08). i. (a) - The short run declining of the economy due to decrease in aggregate demand for goods and services for less than two quitters in the economic recession. Due to this unemployment increases and by shifty the point on the PPC to inward this can be depicted by a PPC (2 marks)

(b) The maximum and sustainable level of output obtain without an inflationary pressure when utilizing resources of an economy fully with maximum efficiency is the potential output. (2 marks)

ii. - House hold sector - Business Sector - Government Sector - Foreign Sector (2 marks)

iii - The production and distributors of goods and services forbidden by law.

Ex - Alcohol, Prostitution, drugs, transportation of goods prohibited.

- Some legal, goods and services produced and distributed by unauthorized people.

Ex - Unlicensed medical practitioners.

iv. Unpaid household wire, Freely obtained resources (Land, water, air)

Natural resources growth without the interesting of man (such as forests)

Education and leisure

Change is value of resources due to natural growth or change in prices.

v Non-productive market transactions

Transfer payments

Transactions related to financial papers.

Transactions related to second hand products. (3 marks)

09) i. What are the main institutional units in a total economic area? (3 marks)

ii. According to the new national accounting approach, name the components of gross domestic income. (3 marks)

iii. What are the limitations in national income calculations? (4 marks)

v. Hypothetical data of a certain economy given as below.

- Household consumption expenditure	**750**
- Gross domestic fixed capital formation.	**800**
- Value changes	**300**
- Stock changes	**500**
- Services provided to household with non - profit	**200**
- Government consumption	**50**
- Exports	**1000**
- Imports	**600**
- Receipts of primary income from the rest of the world	**1600**
- Net current transfers from Row	**500**
- payments of primary income to the rest of the world	**1800**

Calculate followings,

(a) Final consumption expenditure **(b) Gross domestic expenditure at market price**

(c) Gross domestic product at market price **(d) Gross national income at market price**

(e) Disposable gross national income at market price. (10 marks)

09). i. - The non financial corporations sector (NFC) - The financial corporations sector (FC)
- The government sector (GG) - The non profit institutions serving house holders sector (NPISH)
- Household sector (HH) (3 marks for 3 factors)

ii. - Compensations of employees (CE)
- Gross operational surplus (OS)
Net operational surplus
Fixed capital formation
Mixed income
Other taxes on products. (3 marks)

iii. - Unpaired services performed within a house.
- House wives work is not included
- Non consideration of effects over environment resources due to production.
- Happiness gain through leisure is not included.
- Inherent payments by the government is not included. (4 marks)

(a) Final consumption expenditure

- household consumption expenditure	750	
- services provided to household with nonprofits	200	
- Government consummation expenditure	50	
	1000	(2 marks)

(b)

- Final consumption expenditure		1000	
- Gross Domestic Capital formation		1600	
- Fixed capital formation	800		
- Stock changes	500		
- Value changes	300		
Gross domestic expenditure at market price		2600	(2 marks)

(c)

Gross domestic expenditure at market price	2600	
- Export	1000	
- Import	(600)	
Gross domestic product at market price	3000	(2 marks)

(d)

Gross domestic product of market price	3000	
Receipts of the primary income	1600	
Payments of the primary income	(1800)	
Gross national income at market price	2800	(2 marks)

(e)

Gross national income at market price	2800	
Net current transfer from the ROW	500	
Disposable gross National income at market price.	3300	(2 marks)

10) i. Explain the macroeconomic equilibrium **(3 marks)**

ii. What are the alternative approaches that macroeconomic equilibrium can be presented. **(3 marks)**

iii. Assume, the consumption function of a certain economy is given as $C = 100 + 0.75Y$

(a) Derive the savings function related to the given consumption function **(2 marks)**

(b) Calculate the income at zero savings of this economy. **(2 marks)**

(c) What is the total consumption at that income? **(2 marks)**

iv. Based on aggregate income and expenditure approach, calculate the macro – economic equilibrium using the given information.

Consumption function	**$C = 400 + 0.8\ Yd$**	**Investment Expenditure**	**$I = 100$**
Government expenditure	**$G = 200$**	**Net export**	**$(X – M) = - 100$**
Autonomous Tax	**$T = 150$**		**(4 marks)**

v. Discuss the difference between average prosperity to consume an marginal prosperity to consume(4 marks)

10). i. - Macroeconomic equilibrium is an economic state in an economy where the value of aggregate demand equals the value of the aggregate output. (2 marks)

- During macro economic equilibrium aggregate output level and aggregate employment level remain at constant level without fluctuation. (1 mark)

ii. - Aggregate income = aggregate expenditure approach (Y = E)
- Withdrawals = injections approach (W = I)
- Aggregate demand = Aggregate supply approach (AD = AS) (3 marks)

iii. (a) $C = 100 + 0.75\,Y$
$S = Y - C$
$S = Y - (100 + 0.75\,Y)$
$S = Y - 100 - 0.75\,Y$
$S = -100 + Y - 0.75\,Y$
$S = -100 + (1 - 0.75)Y$
$\underline{\mathbf{S = -100 + 0.25\,Y}}$
(2 marks) (Without deriving the savings function with above steps if it is just written give marks.)

(b) Income a zero savings
$S = -100 + 0.25\,Y$
$0 = -100 + 0.25\,Y$
$100 = 0.25\,Y$
$Y = \frac{100}{0.25}$
$\underline{\underline{\mathbf{Y = 400}}}$ (2 marks)

(c) $C = 100 + 0.75\,Y$
$C = 100 + 0.75 \times 400$
$C = 100 + 300$
$\underline{\underline{\mathbf{C = 400}}}$ (2 marks) (Calculations is essential for 1 marks)

iv. $Y = E$
$E = C + I + G + (X - M)$
$Y = C + I + G + (X - M)$
$Y = C + 100 + 200 + (-100)$
$Y = 400 + 0.8\,(Y - T) + 200$
$Y = 600 + 0.8\,(Y - 150)$
$Y = 600 + 0.8\,Y - 120$
$Y = 480 + 0.8\,Y$
$Y - 0.8\,Y = 480$ $0.2Y = 480$, $Y = \frac{480}{0.2}$ $\underline{\underline{\mathbf{Y = 2400}}}$ (4 marks)

v. - It is the percentage change in consumption relative to the percentages change in disposable income. It means the change in consumption amount when disposable income is changed by 1 unit. In the consumption function 'b' denoted in MPC
$b = MPC = \frac{\Delta C}{\Delta Y}$ (2 marks)

- Average propensity to consume (APC) is the ratio between disposable income and total consumption. It explains which quantity would be used in consumption by the disposable income.

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$APC = \frac{\text{consumption expenditure}}{\text{Income}} = \frac{C}{Yd}$ or $\frac{C}{Y}$ (2 marks)