

B.E.

Third Semester Examination, May-2007

Economics (HUM-201-E)

Note : Attempt any *five* questions.

Q. 1. Discuss in detail the welfare concept of economics with its merits and demerits.

Ans. Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with attainment and with the use of material requisites of well being.

The aim of all political economy is the explanation of the general causes on which the material welfare of human beings depends.

Features/Merits :

- (i) These definitions have accorded more importance to the study of mass than to wealth.
- (ii) In economics, one studies the economic activities of those men who live in society.
- (iii) Those economic activities of a man which are mostly concerned with the wealth getting and wealth spending.
- (iv) Economics does not study any economic or self man. It studies the real man who possesses several virtues.
- (v) Economics studies those activities of the which are closely connected with the material requisites of well being.
- (vi) Economics studies those material means which promote human welfare. Economics is a subject of man's material well being.
- (vii) According to these definitions economics is both a science and an art.
- (viii) These definitions are considered to be classificatory as they have divided the economic activity into two classes.
- (ix) According to Pigou material or economic welfare is the part of social welfare which can be measured directly or indirectly with measuring rod of money.

Welfare definitions of economics are more relevant, comprehensive and scientific than wealth definition. Credit for transforming economics as a science of human welfare from a science of wealth goes to these definitions. Welfare definition stresses the fact that economics does not study wealth alone rather it studies human welfare as well.

Demerits :

- (i) The meaning of term 'ordinary business of life' in Marshall's definition is not clear.
- (ii) This definition has narrowed the scope of economics.
- (iii) According to Lord Robbins whatever economics may be concerned with, it is certainly not concerned with the material welfare.
- (iv) The view of welfare definition that economics is a social, that is, it studies the economic activities of those men who live in the society is also wrong.
- (v) Not analytical but classificatory.
- (vi) Economics is only a positive science.
- (vii) Impractical definition.

Q. 2. Differentiate the law of Equi-marginal utility and law of diminishing marginal utility. Also discuss the merits and demeris of law of diminishing marginal utility.

Ans. Law of Equi-Marginal Utility : If a person has a thing which we can put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all.

Law of Diminishing Marginal Utility : The additional benefit which a person derives from a given stock of a thing diminishes with every increase in the stock that he already has.

Importance/Merits of Law of Diminishing Return :

- (i) Law of diminishing marginal utility is the basis of all laws consumptions.
- (ii) It is because of operation of law of diminishing marginal utility that variety in production and consumption is found.
- (iii) Difference between value in use and value in exchange.
- (iv) Price of every commodity is determined by its demand and supply demand for a commodity depend upon its marginal utility.
- (v) At the time of larging progressive taxation a Finance Minister keep in mind the application of this came.
- (vi) Advantage to consumer.
- (vii) Basis of redistribution.

Demerits :

- (i) Cardinal measurement of utility is not possible.
- (ii) Marginal utility of money is not constant.
- (iii) Every commodity is not an independent commodity.
- (iv) Marginal utility cannot be estimated in all conditions.
- (v) Unrealistic assumptions.

Q. 3. Define elasticity of demand. Also discuss the various factors affecting elasticity of demand.

Ans. Elasticity of demand may be defined as the percentage change in the quantity demanded divided by the percentage change in the price.

Elasticity of demand is the ratio of relative change in quantity to relative change in price.

Factors Effecting the Prize Elasticity of Demand :

- (i) Nature of commodity.
- (ii) Availability of substitute.
- (iii) Goods with different uses.
- (iv) Postponed the use.
- (v) Income of the consumer.
- (vi) Habit of consumer.
- (vii) Proportion of income spent on a commodity.
- (viii) Price level.
- (ix) Time.
- (x) Joint demand.

Q. 4. What is law of variable proportion? Discuss its importance and practical applications.

Ans. The law of variable proportions states that if the input of one resource is increased by equal increment per unit of time while the input of other resources are need constant, total output will increase but beyond same point the resulting output increases will become smaller and smaller.

The law of variable proportion is no more than an empirical regularity based on some observation of facts.

It is not a theorem deduced analytically. The diminishing return relationship certainly holds widely if not universally. It applies to the input used in agriculture as well as in industry which is why it is called law.

The law of variable proportion is that law which predicts the consequence of varying the proportion in which the fixed and variable factor of production are used.

Q. 5. Discuss fixed cost, variable cost, average cost, marginal cost and their relationship in the short-run and long-run.

Ans. Fixed Cost : This type of cost is fixed i.e. do not vary with the change in quantity of production. Some examples of fixed cost are rent of factory etc.

Variable Cost : Variable costs are those costs which are incurred on the use of variable factor of production.

Variable cost is the sum of amounts spent for each of the variable input used.

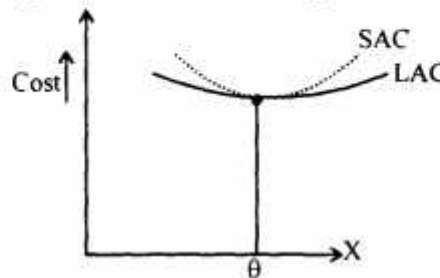
Average Cost : Average cost is the cost divided by the quantity.

$$\text{Average cost} = \frac{\text{Cost}}{\text{Quantity}}$$

Marginal Cost : Marginal cost is the change in cost when a unit change in quantity is incurred.

$$MC = \frac{\Delta C}{\Delta Q}$$

Relation between long run average cost and short run average cost is shown in fig.



- (i) SAC curve represents the average costs with reference to single plant whereas LAC curve represents the average cost with reference to several plants.
- (ii) LAC curve like SAC curve is also U-shaped but it is relatively flatter.
- (iii) At a given amount of output LAC cannot be more than SAC. It is because LAC curve is tangent to SAC curve. LAC curve never cuts SAC curve.

A short run marginal cost curve refers to the effect on total cost due to producer's more or less unit of output on amount of change in variable factor. On the other hand, long run marginal cost refers to change in total cost due to production of the more or less unit of output as a result of change in all factors including those which are fixed in the short period.

Q. 6. What is monopolistic competition? Discuss its various characteristics with suitable examples. How is it different from monopoly?

Ans. Monopolistic competition is found in the industry where there is a large number of small sellers, selling differentiated but close substitute products.

Main feature of monopolistic competition are :

- (i) Large number of firms and buyers.
- (ii) Product differentiated.
- (iii) Freedom of entry and exit of firms.
- (iv) Selling cost.
- (v) Price policy.
- (vi) Less mobility.
- (vii) Imperfect knowledge.
- (viii) Non price competition.

Following are the main difference between monopoly and monopolistic competition :

- (i) Nature of the product.
- (ii) Number of seller.
- (iii) Entry of new firm.
- (iv) Selling cost.

Q. 7. Discuss in detail the concept of Privatisation with its merits and demerits.

Ans. Privatisation of industry means opening gates of public sector to private sector. It enhance the importance of private sector because private sector came to play significant role in the economic development of the country. Thus transferring of public sector industries to private sector is called the privatisation. It may manifest itself wholly or partially.

Merits of Privatisation :

- (i) Reduction in economic burden.
- (ii) Increase efficiency.
- (iii) Reduction in sense of responsibility.
- (iv) Scientific management.
- (v) Reduction in political interference.
- (vi) Encouragement to new invitation.

Demerits of Privatisation :

- (i) Industrial sickness.
- (ii) Lack of social welfare.
- (iii) Class strength.
- (iv) Increase in liquidity.
- (v) Increase in unemployment.

Q. 8. Write short notes on any two :

- (i) VAT (ii) GATT & TRIPS (iii) WTO

Ans. VAT : A value added tax is such as indirect tax which is imposed on value added at various places.

A full feedged VAT is in essence an add volumes tax on domestic final consumption lived and collected at all stages between the point of production and the point of final sale.

Merits and Demerits :

- (i) It act as a built in check on the tax evasion.
- (ii) VAT involoves cross audit of invoices so that it can be effectively implemented.
- (iii) It is more complex system of taxation as compared to sales tax.

(iv) It covers both product and service.

(ii) GATT : The essence of GATT is an understanding by the contracting parties to engage in mutual tariff reduction and to expand to all other contracting parties any reduction made in favour of participating country.

Objective of GATT :

- (i) Expansion of International trade.
- (ii) Increased level of productivity with a view to covering full employment in the member country.
- (iii) Expansion of world resources and their fuller utilisation.
- (iv) Increased level of living for global population.

TRIPS : Trade Related Intellectual Property rights.

TRIPS is one of the principal element of Dunkel Draft subsequently adopted by WTO. Dunkel draft places copyright trade marks trade secrets industrial design and patent under the purview of TRIPS. This is not expected to be detrimental to India's interest because barring patents in all other areas of TRIPS Indian judiciary and administrative service are of international standard.

(iii) WTO : World Trade Organisation.

WTO is a newly globally recognized trade organisation with the new name succeeding GATT on reciprocal agreement and having a new vision and together enforcement power to promote international trade.

Objective of WTO :

- (i) Primary aim of WTO is to implement the new world trade system as visualized in the agreement.
- (ii) To promote world trade in a manner that it benefit every country.
- (iii) To ensure that developing countries secure a better balance in the sharing of advantages resulting from expansion of international trade corresponding to their developmental need.

Scope of WTO : Traditionally GATT was concerned with trade in goods which were mainly manufactured product. WTO has much wider span than GATT new areas have been included in the agreement having implication for production process of goods are agriculture a controversial area has been included and other areas having implication for production process of goods has also been included.