

## **B.E.**

Third Semester Examination, May-2008

Economics (HUM-201-E)

**Note :** Attempt any *FIVE* questions. All questions carry equal marks.

**Q. 1. Critically examine the definitions of Economics given by Prof. Marshall and Prof. Robbins.**

**Ans. Wealth Definition (Prof. Marshall) :** "Economics is an enquiry into the nature and causes of wealth of nation."

"Economics is the science which treat of wealth."

**Features :**

- (i) Economics is the study of wealth only.
- (ii) The wealth in the definition is used to signify those material goods which are scarce.
- (iii) Causes of wealth.
- (iv) Economic Man.

**Criticism :**

- (i) More emphases on wealth.
- (ii) Narrow meaning of wealth.
- (iii) Concept of economic Man.
- (iv) Neglect welfare.
- (v) Neglect the problem of scarcity and choice.
- (vi) Neglect the mean to attain wealth.
- (vii) Narrow subject matter.

**Scarcity Definition : (Robbinson) :** "Economics is a science that studies human behaviour as a relationship between ends and scarce means which have alternate uses."

"Economics is a science concerned with the administration of scarce resource."

**Feature :**

- (i) Unlimited wants or ends.
- (ii) Limited of scarce means.
- (iii) Alternative uses of means.
- (iv) Wants differ in urgency.
- (v) Economic problem.
- (vi) Opportunity cost.

**Criticism :**

- (i) Ignore the social aspect of economic activity.
- (ii) Economics is not neutral as regard end.
- (iii) Caricatured concept of welfare.
- (iv) Very wide scope of economics.
- (v) Not only a positive science.
- (vi) Division of personality.
- (vii) Inparical.

- (viii) Stability is not the cause of economic problem.
- (ix) Not fully applicable to rich countries.
- (x) Not applicable to under developed countries.
- ^ (xi) Complex and abstract.

**Q. 2. Critically examine the Law of Equi-marginal Utility.**

**Ans. Law of Equimarginal Utility :**

**Criticism :** The law has been subjected to following criticism :

- (i) The law is based upon the assumption that consumer is fully rational but actual it is not their.
- (ii) The law is based upon the wrong assumption that consumer is calculating.
- (iii) Actual expenditure of every consumer influenced by fashion custom and habit which is not taken into account.
- (iv) If the goods giving more utility.
- (v) Ignorance of the consumer.
- (vi) Indivisibility of goods.
- (vii) Constant income and price.
- (viii) Indefinite budget period.
- (ix) Cardinal measurement of utility is not possible.
- (x) Change in the marginal utility of money.
- (xi) The law does not apply to the complimentary goods.

**Q.3. What do you mean by Demand? Discuss the law of Demand with its major limitations.**

**Ans. Demand :** "Demand refer to the quantities of a commodity that the consumer are able and willing to buy at each possible price during a given period of time, other thing being equal."

"Demand is the ability and willingness to buy specific quantity of good at alternative price in a given time period."

**Law of Demand :** The law of demand state that other thing being equal the quantity demanded per unit of time will be greater the lower the price and smaller the higher the price."

"Law of demand state that people will buy more at lower price and buy less at higher price other thing remain constant."

**Limitation :**

- (i) There should no change in the price of related goods.
- (ii) There should not be any change in the income of related goods.
- (iii) There should not be any change in the income of the consumer.
- (iv) The consumer does not expect any change in the price of the commodity in the near further.

**Q. 4. Critically examine the Law of Variable Proportions.**

**Ans. Law of Variable Proportionate :** The law of variable proportionate state that if the input of are resource is increased by equal incremental 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 because smaller and smaller.

**Assumption :**

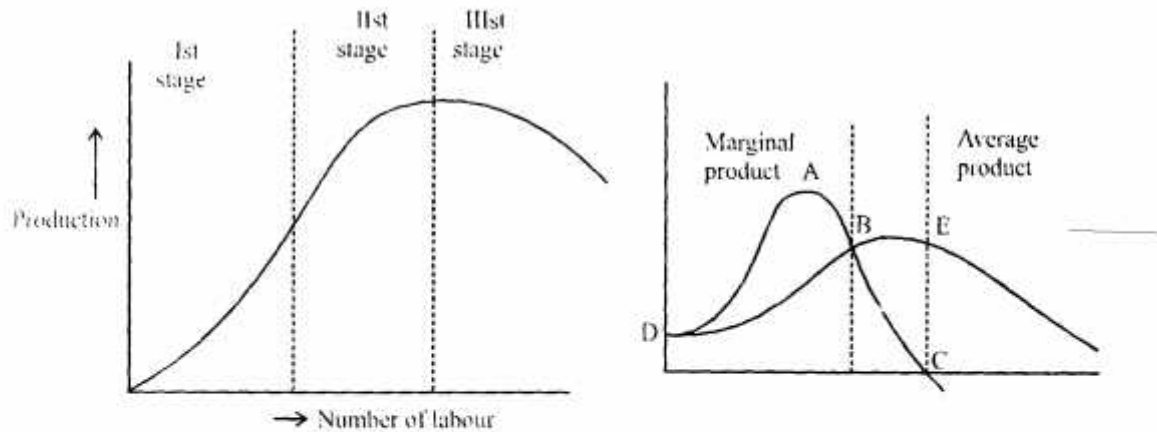
- (i) One of the factor is variable while are other factor are fixed.
- (ii) All units of the variable factor are homogeneous or equally efficient.

(iii) There is no change in the technique of production.

(iv) Factor of production can be used in different proportion.

The law of variable proportionate can be explained with the help of table and fig., suppose you have a farm measuring 1 hectare and you also possess agriculture, equipment seed etc. you want to grow tomato. You are to decide about number of labours to be engaged for growing tomatoes keeping all other factors constant as you increase the number of labour, on the farm their total, average and marginal product will change.

Units of land	Units of labour	Total product	Marginal product	Average product
(1)	(2)	(3)	(4)	(5)
1	1	2	-	2
1	2	5	3	2.5
1	3	9	4	3
1	4	12	3	3
1	5	14	2	2.8
1	6	15	1	2.5
1	7	15	0	2.1
1	8	14	-1	1.7



**Q. 5. What is Monopoly? Discuss the determination of price and output under monopoly.**

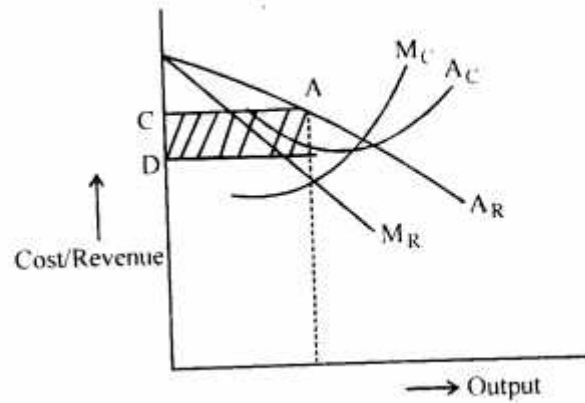
**Ans. Monopoly :** The monopoly is the market situation in which there is only one seller, there is no close substitute of the product. Price and equilibrium determination under monopoly are studied with reference to two time periods.

(i) Short run

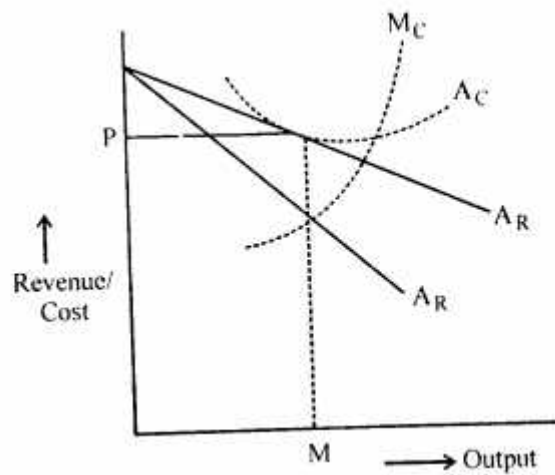
(ii) Long run

Short Run :

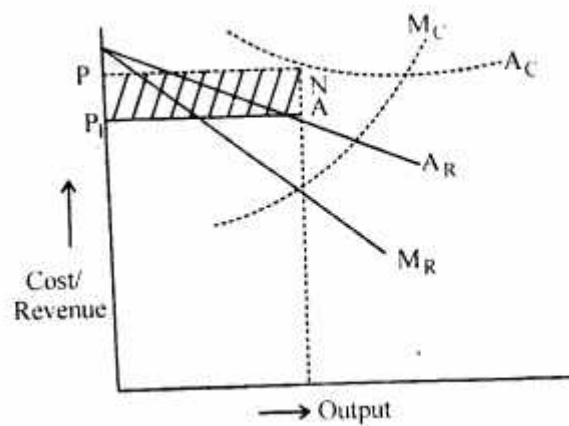
Super Normal Profit :



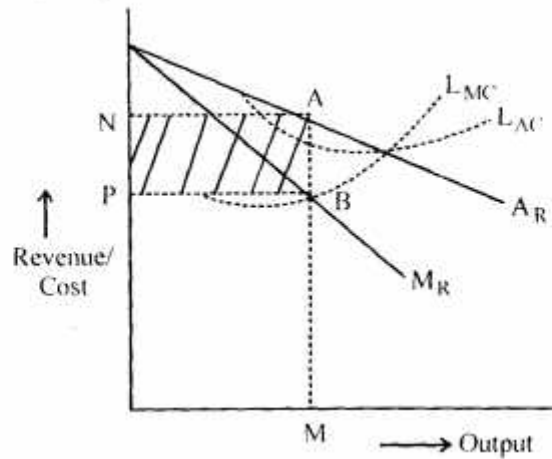
Normal Profit :



Minimum Loss :



**Long Run Period :** Always super normal profit :



**Q. 6. Discuss the main features of Indian Economy.**

**Ans. Features of Indian Economy :**

**Indian Economy as a Mixed Economy :** Main features of mixed economy of India are :

- (a) Public sector.
- (b) Licensed sector.
- (c) Private sector.

**Indian Economy as a Planned Developing Economy :** As a planned developing economics it has following features :

- (i) National income of India has been increasing gradually.
- (ii) To accelerate the rate of economic growth capital formation plays a crucial role.
- (iii) Agriculture sector has witnessed a tremendous growth during the period of planning.
- (iv) Industrial sector of India has developed very much during the period of planning industrial production has increased 8 times.

**Indian Economy as Under Developed Economy :**

- (i) Stagnant per capita income.
- (ii) Low level per capita income.
- (iii) Low standard of living.
- (iv) Unequal distribution of income and wealth.
- (v) Excessive dependent on agriculture.
- (vi) Lack of proper industrialisation.
- (vii) Lack of proper banking facility.
- (viii) Less development of means of transport.
- (ix) Pressure of production.
- (x) Unemployment and under employment.
- (xi) Lack of capital.



- (xii) Unexploited natural resources.
- (xiii) Shortage of able and efficient entrepreneur.
- (xiv) Outdated social institutions.
- (xv) Low grade human capital.
- (xvi) Low level of technology.

**Q. 7. Discuss the following :**

- (i) Elasticity of demand,
- (ii) Money cost and Real Cost.

**Ans. (i) Elasticity of Demand :** Elasticity of demand is defined responsiveness to change in quantity demanded with respect to change in price.

$$E = \frac{\text{Proportional change in quantity}}{\text{Proportionate change in price}}$$

$$E = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

Its value lies between 0 to infinite.

**(ii) Money Cost :** The money cost of producing a certain output of a commodity is the sum of all payment to the factor of production engaged in the production of that commodity and for non-factor resources.

**Real Cost :** The execution of all the different kind of labour that are directly or indirectly involved in making together with obstiveness or rather the waitings required for saving the capital used in making it will be called the real cost of production of commodity.

**Q. 8. Write short notes on any two of the following :**

- (i) VAT,
- (ii) Types of market,
- (iii) Nature of economic problems.

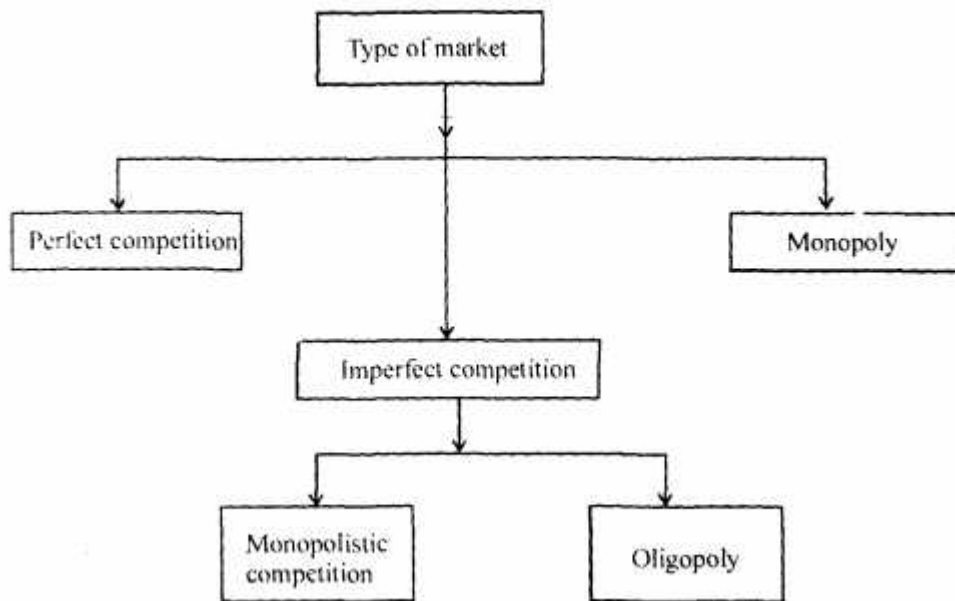
**Ans. (i) Value Added Tax :** Value added tax is such an indirect tax which is imposed on value added at various stage of production. Value added refer to the difference between value of output and value of intermediate consumption.

"A full fledged VAT is in essence is in essence an valence tax on demonstar final consumption and collected to are stages between between point of final state."

**Merit of VAT :**

- (i) Principle merit of VAT is that it act as built in check on the tax evasion.
- (ii) VAT involves the 'cross audit' of the invoices so that it can be effectively implemented.
- (iii) However compare to save tax VAT is certainly more complex system of taxation.
- (iv) VAT widened the tax-net by covering goods and services.

**(ii) Types of Market :**



**Perfect Competition :** Perfect competition is the market in which there are many firms selling identical product with no firm large enough to the entire market to be able to influence market price.

**Monopoly :** Monopoly is the firm which is also industry is the any supplier of particular commodity for which there exist no close substitute.

**Monopolistic Competition :** Monopolistic competition is a market situation where there are many producer but each offer slightly differential product.

**Oligopoly :** In oligopoly there are few seller having interdependence and group behaviour.

**(iii) Nature of Economic Problem :** Economic problem is the problem related with the necessary of choosing what how and for than to produce and how to achieve economic growth.

**Causes of Economic Problem :**

- (i) Unlimited want
- (ii) Limited means

**Central Economic Problem of an Economic System :**

- (i) What to produce and how much to produce.
- (ii) How to produce.
- (iii) For whome to produce.
- (iv) How to achieve fuller utilisation of resources.
- (v) How to achieve efficiency in production and distribution.
- (vi) How to achieve economic growth.