F4BA. Sem. II
Eco I
set. III
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① Q P. Code 152160

[Time: 3 Hours] [Marks: 100]

Please check whether you have got the right question paper.

N.B: 1. All questions are compulsory.
2. Each question carries 20 marks.
3. Draw neat diagrams wherever necessary.
4. Use of simple calculator is allowed.

1. Attempt any two of the following:

a. Explain circular flow of income in an open economy.

Interdependence of the “flows,” or activities, that occur in the economy, such as the production of goods and services (or the “output” of the economy) and the income generated from that production. The circular flow also illustrates the equality between the income earned from production and the value of goods and services produced.

b. Explain the concept of Exchange rate as price.

The exchange rate of the Indian Rupee against the US dollar is Rs 65 to 1 US dollar. If you want to buy one dollar, you will have to give 65 Rs. It is the rupee price of the dollar. Just like any other price, the rupee price of the dollar depends upon the demand for dollars and the supply of dollars. Indians buy more foreign goods and services or purchase more assets situated abroad, the demand for dollars will rise and the rupee price of dollar will go up, just like the price of any commodity goes up when the demand for that commodity rises. In such cases, we say that the dollar has appreciated vis-à-vis the rupee or the rupee has depreciated vis-à-vis the dollar. On the other hand, when foreigners buy more Indian goods and services, the demand for the rupee goes up and the rupee appreciates vis-à-vis the dollar or the dollar depreciated vis-à-vis the rupee.

c. Explain the trends in growth rate of GDP in India.

Annual rate of increase in national income till fifth five year plan was below 5 %. It has lately risen 5.4 % during the Ninth plan and increased up to 7.5 % during the 11th five year plan.

(% p.a.)

Five Year Plan	Target	Actual
First	2.1	4.6
Second	4.5	4.1
Third	5.6	303
Fourth	5.7	3.0
Fifth	4.4	5.0
Sixth	5.2	5.3
Seventh	5.0	5.8
Eight	5.6	6.5
Ninth	6.5	5.4

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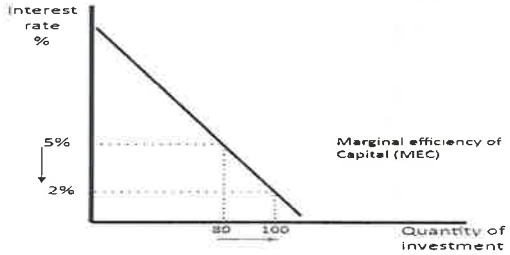
Tenth	8.0	7.6
Eleventh (2007-12)	9.0	7.5

2. Attempt any two of the following:
a. What is Marginal Efficiency of Capital (MEC)?

"The marginal efficiency of capital is equal to that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life just equal to its supply price." – J.M.Keynes MEC= Prospective yields of additional assets/Supply price of capital

e= Q/P When $\Delta P > \Delta Q$ then the MEC (e) will come down and vice versa.

Keynes defines MEC as the rate of discount which makes the present value of the prospective yields from the capital asset equal to its supply price. Consider following expression C=R1/ (1+i) +R2/ (1+i) 2+ R 3/ (1+i) 3+⋯+ R n/ (1+i) n



b. Explain Accelerator.

According to Acceleration principle when income or consumption increases, investment will increase by a multiple amount. When income and resulting consumption of the people increases, the greater amount of the commodities will have to be produced, which will requires more capital to produce them. The net induced investment will be positive if national income increases. Induced investment may fall to zero if national income or output remains constant.

$$a= \Delta I/\Delta C$$

c. Write note on 'capital formation in India'.

Capital formation is a term used to describe the net capital accumulation during an accounting period for a particular country. If a country cannot replace capital goods, production declines. The process of capital formation consists of the following three stages: (a) Creation of Savings, (b) Mobilization of Savings, (c) Investment of Savings.

Rate of Capital Formation = (Investments /GDP) X 100

3. Attempt any two of the following:
a. Explain the features of Merit goods.

Merit goods are products generally not distributed by means of the price system, but based on merit or need, because people although having perfect knowledge would buy the wrong amount of them. Merit goods are those goods and services that the government feels that people will under consume and which ought to be subsidized or provided free at the point of use so that consumption does not depend primarily on the ability to pay for the good or service. Examples of merit goods include education, health care, welfare services, housing, and fire protection, refuse collection and public parks. Merit Goods –Provided in public &private sectors, positive marginal cost of consumption, limited supply, rivalry in consumption, excludability .Ex. Vaccination

b. Explain various types of deficit.

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* Revenue Deficit = Revenue expenses- Revenue receipts
* Budget deficit- It is the overall type of deficit. It means the excess of total expenditure over total revenues. Budget deficit includes both capital and the revenue items mentioned in the receipts and expenditure.
*Monetized Deficit – Meeting fiscal deficit by borrowings of the government from the central bank of a country which in turn creates new money or currency is called monetized deficit.
* Fiscal Deficit = revenue deficit + Capital expenditure – Non debt creating capital receipts)
* Primary Deficit - It is defined as fiscal deficit minus the interest payments. This is basically gross primary deficit.

c. Explain the concept of GST.

GST stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.

In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country.

4. Attempt any two of the following:

a. What is Balance of Payments?

The balance of payments is defined "as a systematic record of all the economic transactions between the residents of the reporting country and the residents of the rest of the world". The time period for the balance of payments is generally one financial year or the calendar year.

b. Explain the types of disequilibrium in Balance of Payments.

1. Short run disequilibrium,
2. Long run disequilibrium,
3. Cyclical disequilibrium,
4. Structural disequilibrium.

c. Explain determination of Exchange Rate

An exchange rate is the rate at which one currency is exchanged for another or the price of one currency in terms of another currency. A nation's demand for exchange arises from the desire to import goods and services and invest in other nations and from speculators when they expect the foreign currency to appreciate. A nation's supply of foreign exchange, on the other hand, result from exporting goods and services to other nations, from inflow of foreign investments and from sale of the foreign currency by speculators when they expect the foreign currency to depreciate.
The determination of the exchange rate with help of diagram

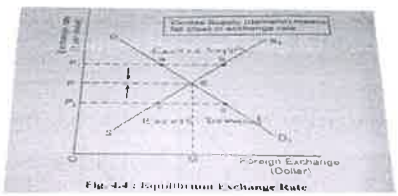

Fig. 4.4 : Equilibrium Exchange Rate

5. Attempt any two of the following:

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a. Find GDP deflator for each year.

GDP Deflator= Nominal GDP/Real GDP * 100

Year	GDP at current prices	GDP at constant price	**Px/Px base *100= Deflator**
2014-15	2200	2200	**100**
2015-16	2860	2420	**118.18**
2016-17	3300	2860	**115.38**
2017-18	3630	3410	**106.45**

b. Given below is the level of consumption expenditure of an economy. Fill the blanks in the table.

Income (Y)	ΔY	Consumption (C)	Δ C	**Savings (S) (S=Y-C)**	**Marginal Propensity to Consume MPC = ΔC /Δ Y**
150	--	120	--	**30**	--
300	150	200	80	**100**	**1.88**
450	150	280	80	**170**	**1.88**
600	150	380	100	**220**	**1.5**
750	150	460	80	**290**	**1.88**

c. Explain the causes for rising public expenditure.
1. Defence Expenditure, 2. Growing Population, 3. Industrial Development, 4. Urbanisation, 5. Acceptance of Welfare State, 6. Inflation, 7. Democratic Institutions, 8. Economic Planning, 10. Servicing of Public Debt.

d. From the following summary of balance of payment.
i. Calculate trade account balance
ii.Calculate current account balance
iii.Calculate capital account balance

Receipt (Credit)	Rs. Crores	Payments (Debits)	Rs. Crores
Exports of goods	900	Imports of goods	750
Export of services	1050	Imports of services	930
Interest, profits and Dividends received	150	Interest, profits and dividends paid	210
Unilateral receipts	270	Unilateral Payments	180
Foreign Investments	1020	Investment abroad	900
Long term borrowing	900	Long term lending	960

i) Compute trade account balance: = Exports of goods - Imports of goods
=900-750
=150 (Surplus)

ii) Compute current account balance:

Exports of goods +Export of services + Interest, profits and dividends received + unilateral receipts (Credit)

=900+1050+150+270

=2370

Import of goods + Imports of services + Interest. Profits and dividends paid + unilateral payments (Debit)

=750+930+210+180

=2070

Balance is 2370-2070 =300 (Surplus)

iii) Compute capital account balance:

Foreign investments + Long term borrowing (Credit)

=1020+900 = 1920

Investment abroad + Long term lending (Debit)

=900+960 =1860

Balance is 1920-1860 = 60 (Surplus)
