UNIT - I

Short answers:-

13. **(2013)**

Basis	**Simple Division of Labour**	**Complex Division of Labour**
Meaning	When a labourer does the entire process of production of a single good or service himself or collectively by the members of a familty, it is called product - based division of labour	When the process of production of a commodity is split up into different operations and each worker does one or a few operations,it is called process - based division of labour.
Specialisation	Here,the worker specialises in the production of a commodity or service.	Under it, the worker specialises in a particular process of the production of the commodity.
Nature	It is simple	It is complex.
Basis	It is based on labour - intensive techniques of production.	It is based on Capital - intensive techniques.
Use	It is generally found in small enterprises.	It is generally found in large enterprises like corporate or quasi - corporate enterpises
Example	Indian farmer doing all farm activities with the help of his family members collectively.	A modern garment factory where one person takes the measurement, another does the cutting, some sew the clothes, while a few workers button them and others iron them.

14. Land as used in economies, is defined to include not only the surface of the earth but also all other free gifts of nature.
    The importance of land becomes evident from the following facts :
    (i) **Agricultural Development :** The agricultural development of a country largely depends upon the quantity and the quality of land. About 43 percent of land area of India is plain and suitable for crop farming.
    (ii) **Industrial Development :** The development of industries is also dependent upon land, because the raw materials for these industries are ultimately obtained from land. What is more, the power (i.e. electricity, coal, etc.) to run such industries is also provided by land.

(iii) **Development of the means of Transport and communication :** Land facilitates the development of the means of transport and communication in the country.

(iv) **Importance to Man :** Much of our requirement of food, clothing, etc., are directly or indirectly met from land. Not only food, even clothing comes from nature. Land is the main source of our agricultural activities. Residential houses are constructed on land.

(v) **Promotion of science and Technology :** Natural resources promote science and technology. Human work on these resources make hundred of things which are useful to us in our daily life. e.g. dams, solar panel, herbs etc.

In short, land is the backbone of the economy of a nation. In fact, no life is without land.

15. **Real Capital :** It refers to physical stock of goods which are used as inputs in production, e.g. machines, raw-material.

Debt Capital : It implies wealth such as shares, debentures etc. **(2013)**

16. Two methods that increase land productivity :

By productivity of land, we mean the capacity of a piece of land to produce a crop. The main factors that determine the productivity of land are explained -

(i) **Natural Factors :** Productivity of land is largely determined by its natural qualities such as fertility, slope of land, climate, chemical and biological properties of the soil.

(ii) **Human factors :** Land cannot produce anything by itself. Man has to apply labour on it to produce for himself. Therefore, productivity of land also depends upon the knowledge and training of workers.

(iii) **Improvements of Land :** Productivity of land is affected by land development measures like provision of well or tubewell irrigation, proper drainage, fencing, etc.

(iv) **Location of land :** The location of land also affects the productivity of land. Land located near to the market is supposed to be more productive than land at a distant place, as it will not require extra amount to bring the produce to the market.

(v) **Organisation :** Productivity of land also depends upon the way how the factors of production like labour and capital are organised. In order to increase productivity of land, trained workers, modern implements, scientific methods, good seeds, manure and dependable sources of irrigation are all essential.

(vi) **Ownership of Land :** Ownership of land is an important factor affecting the productivity of land. Owners always take much interest in maximising the productivity. They encourage workers to work hard and increase the productivity. On the other hand, persons with temporary settlement do not take much interest in the cultivation of land because they can be evicted from land.

(vii) **Availability of capital :** The productivity of land also depends on the use of capital. It can be increased with the help of improved seeds, chemical manures and machines. Thus, intensive cultivation gives a higher productivity on a small piece of land.

(viii) **Proper use of land :** The use of land also affects productivity. For instance, if a piece of land is suitable to produce wheat but if we try to produce rice on it, in such a situation, naturally the productivity of land will be adversely affected. But if the same piece of land is used for the production of wheat its productivity will surely be high.

(ix) **State help :** The government in a country, particularly in less developed countries, can play a vital role in improving the agricultural productivity. In India, Government helps farmers by providing cheap credit, subsidised inputs and cheap irrigation facilities. Government has also come up with Kisan call center and Kisan credit cards to help farmers increase their productivity. **(2014/2016)**

17. When a worker is specialised in the production of a single commodity, it is called simple division of labour. **(2014)**

18. **Two factors that determine the Supply as labour :**

(i) **Size of population :** The most important factor affecting the supply of labour is its population. The larger the population, the larger will be the number of persons who will have the capacity to perform physical or mental work. Hence, the larger will be the supply of labour.

(ii) **Age composition :** The supply of labour depends not so much on the population as on the age-composition of the population. Population falling under [0 –14] years and [60 and above] is said to be dependent population while population between the age group [15 – 59] years is independent population. This group comprises the actual labour force in the country.

(iii) **Wage Rate:-** The higher is the wage rate, the larger becomes the supply of labour. This is because a rise in the wage rate makes work economically more attractive. Hence, the willingness to work increases with a rise in the wage rate. Some times there are exceptions to this general rule. An individual's supply of labour may increase at first with the increase in wage rate. The worker perfers income to leisure. However, with further increase in the wage rate, the worker may prefers leisure to income. **(2014)**

19. 1. Labour consist of all human efforts of body or of mind which are undertaken in the expectation of a reward.
    2. A professor working in college is labour as he is paid for his work. A social worker working for orphanage is not labour as he is not remunerated for his work. **(2015)**

20. Land differs from other factors of production in the following way :

(i) Land is a free gift of nature while other factors of production are not.

(ii) Supply of land is fixed while the supply of other factors of production is variable. **(2015)**

21. By efficiency of labour, we mean productive capacity of a worker. It indicates the capacity of a labour to do more work or better work or both during a given time period. **(2015)**

22. The main factors which determine the extent of applicability of division of labour are :

(i) **The size of the Market :** The extent to which division of labour can be adopted depends upon the size of the market for a particular product. If the product has limited market, it cannot be produced on large scale. Therefore, only a few workers will be employed and hence the scope for division of labour will be limited.

(ii) **Attitude of Workers :** If the workers involved in production are not co-operative and do not adjust for changes, division of labour would become difficult.

(iii) **Nature of the Production :** When goods are to be prepared according to individual's taste and preference (as embroidery, painting, ornaments etc.) the scope of division of labour becomes very limited.

(iv) **Availability of other factors of production :** The availability of other factors of production also determines the extent to which division of labour is possible. If other factors of production (e.g. land, capital etc.) are available only upto a limited extent, the scale of output will be restricted. **(2015)**

23. (i) Capital, when invested in education and health, increases the productivity of workers.

(ii) Without capital there can be no production. Capital makes possible the use of advanced modern machines in production. Moreover, no technological progress is possible without capital. **(2015)**

24. **Fixed Capital :** Fixed capital refers to those capital goods which can be used again and again in production. Examples : machinery, factory building.

Circulating Capital : In it all those things are included which are used in production only once. Cotton and fuel are examples of circulation capital.
(2015)

25. Money helps is buying goods and services. Consumption of goods increases utility and satisfaction of hcople. In this way, money can maximise utility.
(2016)

26. The two ways by which producers benefit from division of labour are :

(i) Increase in efficiency of labour : When a worker does the same work again and again, he gets specialisation in it. In this way, division of labour leads to great increase in efficiency and hence production.

(ii) Less cost of production : It encourages production on a large-scale. Consequently, many economies or benefits of large-scale begin to emerge which thereby reduce the cost of production. It also encourages the use of specialised machinery which leads to an increase in productivity. **(2016)**

27. The difference between an entrepreneur and two other factor of production are

(i) All other factors are employed by the entrepreneur in the production process. But entrepreneur is not a hired factor of production.

(ii) Unlike reward of the other factors of production, the income of the entrepreneur is residual in nature. He earns profits only after making payment to other factors. **(2016)**

28. We see process - based division of labour in an automobile industry where the entire production process is divided into sub-processes and labour with specialised skills work at different sub - processes. **(2017)**

Long answers:-

2. Labour consists of all human efforts of body or mind undertaken in the expectation of reward called wage.

Four Characteristic Features of Labour :

(i) **Labour is Perishable** : If a worker does not work on a particular day, his labour for that day is wasted. Labour is, thus, perishable. Labour cannot be stored. The labourer has to sell his labour immediately irrespective of the prices (i.e.., wages) paid to him.

(ii) **Labour is an active factor of production** : Land and capital are passive factors, but labour is an active factor of production. Without labour, other factors of production, viz., land and capital, cannot produce anything.

(iii) **Labour cannot be separated from labourer** : Land and capital can be separated from their owners but labour cannot be separated from a labourer. Labour and labourer are inseparable from each other. The labourer will have to present himself at a place where work is going on.

(iv) **Labourer sells his labour, not himself** : The labourer does not sell himself, he sells his labour only. A labourer may or may not agree to do work.

(v) **Labour is mobile :** Labour alone is a factor which is mobile. It can move from one place to another and also from one occupation to another.

(vi) **Labour differs in efficiency :** All labourers are not equally efficient. Some labourers are more efficient due to their ability, training and skill whereas others are less efficient on account of illiteracy.

(vii) **Labour can improve its efficiency :** By investing capital on workers' education and training, the productivity of labour can be improved.

(viii) **Inelastic Supply of labour :** The supply of labour is inelastic in a country at a particular time. It means its supply can neither be increased nor decreased. For example, if a country has scarcity of a particular type of workers, its supply cannot be increased within a day month or year because the supply of labour depends upon population.

(ix) **Labour is both a means and an end :** A labourer is both a means of production as well as the end of it. He produces goods and also consumes them.

(x) **Demand for labour is derived :** The demand for labour is derived. Labourers are demanded only when there is a demand for the goods and services produced by them.

(xi) **Labour has less Bargaining power :** The bargaining power of the worker is low compared to that of the employer. This is so because of the following reasons : Firstly, labourer is perishable. Secondly, labourers are generally poor. Therefore, worker consisders it better to accept the low wage offered by the employer rather than go without work. Finally, there is lack of organisation among workers due to illiteracy and other reasons. **(2013/2016)**

3. Besides upper surface of the soil, land includes all other free gifts of nature the supply of which can be regulated.
Four characterisistics of Land
   (i) **Free Gift of Nature :** Land is a gift of nature given to man free of cost. Man has to spend nothing to obtain it. He has to make no efforts to get it. Rather, it existed even long before the evolution of man. All other factors of production have to be produced at a cost.
   (ii) **Land is limited in supply :** A peculiar feature of land is its fixed supply. Other factors of production can be increased in supply to a greater or lesser extent. But it is impossible to increase the supply of land.
   (iii) **Land is a passive factor of production :** Land is passive factor of production because it cannot produce anything by itself.
   (iv) **Land is Permanent :** Land is not perishable but it is indestructible and, thus it cannot go out of existence. It is not destructible. A labourer will die one day and with him will disappear his service. A machine can get depreciated and is used up ultimately. But land can never be destroyed.
   (v) **Land is immovable :** Land is immovable. It cannot be transported from one place to another, while labourer and capital can be shifted. Land is 'fixed' in two senses. It is fixed and cannot move from place to place. It also fixed in the sense that the total supply of land in a country cannot be increased or decreased.
   (vi) **Land varies in fertility :** Fertility of land differs on different pieces of land. All pieces of land are not equally fertile. These days fertility of soil can be increased through the use of chemical fertilisers.
   (vii) **Land differs in Location :** Land differs in the matter of location. Land in large cities like Delhi, Mumbai and Kolkata is extremely scarce and hence commands a high value. Land located in a river valley is likely to be more productive and richer than land located far away or on a mountain slope.
   (viii) **Land has many uses :** We can make use of land in many ways. On land, cultivation can be done, factories can be set up, roads or railways tracks can be constructed, buildings can be raised, and so on. **(2014)**

4. Four Advantages of Division of Labour
   (i) **Right man at the right job :** Since work is divided into a number of parts or sub-parts, each worker can be given a job according to his taste and preference.
   (ii) **Increase in efficiency of labour :** When a worker does the same work again and again, he gets specialisation in it. In this way, division of labour leads to great increase in efficiency and hence production.
   (iii) **Saving of Time and Tools :** Division of labour saves both time and tools. It reduces the time period required for completing the work. Likewise, there is better use of tools and implements. For example, it is not necessary to provide each worker with a complete set of tools. He can be given only those tools that he requires.
   (iv) **Production of Superior Goods :** The division of labour is beneficial in making goods of superior quality. When a worker is given a piece of work in which he is best suited, naturally he will produce superior quality goods.

(v) **Inventions :** There are more possibilities of inventions under division of labour. When a worker does the same work daily, he tries to simplify his process, thereby making inventions possible.

(vi) **Less cost of production :** It encourages production on a large-scale. Consequently, many economies or benefits of large-scale begin to emerge which thereby reduce the cost of production. It also encourages the use of specialised machinery which leads to an increase in productivity.

(vii) **Increase in mobility of labour :** The division of labour facilitates greater mobility of labour. In it, production is divided into different parts and a worker becomes trained in that very specific task in the production of the commodity, which he performs again and again.

(viii) **Cooperation among workers :** The work cannot be completed unless workers cooperate with each other. Division of labour thus develops sense of cooperation among workers.

(ix) **Advantages to the society :** Because of availability of a variety of goods at cheaper rates, the people of the society will have better choice. Thus, it will improve the standard of living. **(2014)**

5. By efficiency of labour we mean productive capacity of a worker.
Four factors influencing Efficiency of Labour

(i) **Education and Training :** Education is generally classified in two parts : (a) General Education, and (b) Technical Education. General education broadens the knowledge or outlook of labour and makes the labour more responsible. Technical education trains the labourer to do specialised jobs. It is job oriented.

(ii) **Moral Qualities :** A worker's efficiency also depends upon his moral values. If he is dependable, responsible, honest and dutiful, his efficiency will be more.

(iii) **Standard of living :** Better standard of living leads to an improvement in health through better nourishment, also leads to improvement in ducation qualifications. Thus, better standard of living makes the labour mentally and physically sound and thereby his effciency increases.

(iv) **Level of wages :** Level of wages also affects efficiency of a worker. A higher wage increases the worker's standard of living and, hence, his efficiency.

(v) **Working Conditions :** Better working conditions improve the efficiency of labour. If the labourer works at a place where he can have fresh air, safe drinking water, adequate light, his efficiency will be definitely more. Also, the facilities enjoyed by the worker like the length of the working day, number of holidays per year, accident benefits etc. determine labour efficiency.

(vi) **Organisation :** The efficiency of the workers and the organisation are interrelated. If the organisation provides raw materials, modern machinery, equipments and tools and makes a proper division of labour, the efficiency of the workers will definitely improve.

(vii) **Experience :** Besides education, the experience of a worker makes him more efficient. His efficiency also goes on increasing as his practical experience increases.

(viii) **Employer-Employee Relations :** Efficiency of labour also depends upon the employer-employee relations. If the relations between the two are friendly and emphatic, efficiency of labour will be high and vice versa.

(ix) **Climate :** Climatic conditions also affect the efficiency of labour. Hot climate as in India reduces the working capacity of a worker. On the other hand, in the countries having cold climate, labour can work for longer duration and, hence, efficiency of labour will be more.

(x) **Racial and Hereditary qualities :** The efficiency of worker to some extent depends upon the racial and hereditary qualities. If the parents are intelligent, hard-working, their children will normally inherit these qualities. **(2014)**

6. By capital formation, we mean the increase in the stock of capital goods (e.g. machines, equipments, buildings, means of transport, factories etc.) which are used for more production. It refers to net production. It also refers to net addition made to the capital stock of an economy during a time period.
Factors influencing capital formation (or process of capital formation).
There are mainly three stages in the process of capital formation. These are :
(i) Creation of savings
(ii) Mobilisation of savings and
(iii) Investment of savings.

(i) **Creation of savings :** Saving is the first stage in the process of capital formation. Savings in a country are made by different individuals. These depends upon several factors like (a) ability to save (b) desire to save and (c) opportunities to save. Ability to save directly depends upon the level of income. Higher the income of people, more will be their ability to save. Besides income, taxation policy of the goverment also affect the ability to save. When the rates of income tax and sales tax are high, people will be able to save only less amount than before. Opportunity to save refers to the conditions of peace and security in the country and favourable attitude of the government to motivate people to save.

(ii) **Mobilisation of savings :** Capital formation cannot occur unless savings made by people are mobilised for investment purpose. Savings are done by millions of households and firms. This requires a network of banks and other financial intermediaries who collect these savings and make them available to the producers or investors.

(iii) **Investment of Savings :** The third and last stage of capital formation is the investment of mobilised savings. Unless mobilised savings are utilised or invested, there cannot be any capital formation. It is, therefore necessary that the economy should have an entrepreneurial class which is prepared to bear the risk of business and invest savings in productive channels. **(2014)**

7. "Capital formation means addition to the capital stock of a country overtime, is known as the capital formation."
Three Causes of low rate of capital formation in India. In a developing economy like India, the rate of capital formation is low. There are several factors responsible for this. Important among them include the following:

(i) The level of saving is low because of low level of income. Level of income is low because of low productivity levels in the agricultural and industrial sectors of the economy.

(ii) An efficient entrepreneurial class is lacking in developing economies.

(iii) There is lack of banking facilities which has adversely affected the level of investment.

(iv) Most of the PSUs have been running under losses.

(v) When private entrepreneurs are afraid of nationalisation of their industries, they will not set-up in industries. **(2015)**

8. Division of labour refers to the system of organising production where the work required to produce a product is divided into different specialized tasks with different workers specializing in each task.

Three benefits of Division of Labour

Division of labour has the following advantages.

(i) Right man at the right job : Since work is divided into a number of parts or sub-parts, each worker can be given a job according to his taste and preference.

(ii) Increase in efficiency of labour : When a worker does the same work again and again, he gets specialisation in it. In this way, division of labour leads to great increase in efficiency and hence production.

(iii) Saving of Time and Tools : Division of labour saves both time and tools. It reduces the time period required for completing the work. Likewise, there is better use of tools and implements. For example, it is not necessary to provide each worker with a complete set of tools. He can be given only those tools that he requires.

(iv) Production of Superior Goods : The division of labour is beneficial in making goods of superior quality. When a worker is given a piece of work in which he is best suited, naturally he will produce superior quality goods.

(v) Inventions : There are more possibilities of inventions under division of labour. When a worker does the same work daily, he tries to simplify his process, thereby making inventions possible.

(vi) Less cost of production : It encourages production on a large-scale. Consequently, many economies or benefits of large-scale begin to emerge which thereby reduce the cost of production. It also encourages the use of specialised machinery which leads to an increase in productivity.

(vii) Increase in mobility of labour : The division of labour facilitates greater mobility of labour. In it, production is divided into different parts and a worker becomes trained in that very specific task in the production of the commodity, which he performs again and again.

(viii) Cooperation among workers : The work cannot be completed unless workers cooperate with each other. Division of labour thus develops sense of cooperation among workers.

(ix) Advantages to the society : Because of availability of a variety of goods at cheaper rates, the people of the society will have better choice. Thus, it will improve the standard of living. **(2015)**

9. A successful entrepreneur should possess the following qualities :

(i) He should possess courage and ability to tackle successfully the day-to-day problems arising in business.

(ii) He should be capable of taking quick decisions because delay in taking decisions can sometimes cause heavy losses.
(iii) He should have complete knowledge about his business.
(iv) He should have the capacity to recognise the ability of a person so that work could be given to the employees according to their tastes and abilities.
(v) He should have the quality of farsightedness.
(vi) An entrepreneur should also possess the qualities of leadership because he is supposed to work as a 'captain of the ship'. He should be a good organiser.
(vii) An entrepreneur should be well experienced in his business.
(viii) An entrepreneur should be a man of words. If an entrepreneur is not honest and does not keep his promise, people will lose confidence in him and hesitate in lending their money to him. **(2015)**

10. By efficiency of labour, we mean productive capacity of a worker. It indicates the capacity of a labour to do more work or better work or both during a given time period.
The three causes of low efficiency of labour are :
(i) Level of wages : Level of wages also affects efficiency of a worker. A higher wage increases the worker's standard of living and, hence, his efficiency.
(ii) Climate : Climatic conditions also affect the efficiency of labour. Hot climate as in India reduces the working capacity of a worker. On the other hand, in the countries having cold climate, labour can work for longer duration and, hence, efficiency of labour will be more.
(iii) Standard of living : Better standard of living leads to an improvement in health through better nourishment, also leads to improvement in education qualifications. Thus, better standard of living makes the labour mentally and physically sound and thereby his effciency increases. **(2016)**

11. Sometimes, due to some reasons, the production of certain goods takes place in a particular place, state or country. This particular type of division of labour is called geographical division of labour. For example concentration or localisation of textiles in Bombay (Mumbai), jute industry in Bengal and sugar industry in U.P. are the good examples of territorial division of labour.
(i) Right man at the right job : Since work is divided into a number of parts or sub-parts, each worker can be given a job according to his taste and preference.
(ii) Increase in efficiency of labour : When a worker does the same work again and again, he gets specialisation in it. In this way, division of labour leads to great increase in efficiency and hence production.
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(ix) Advantages to the society : Because of availability of a variety of goods at cheaper rates, the people of the society will have better choice. Thus, it will improve the standard of living. **(2017)**

12. An entrepreneur is a person who specialises in the task of organisation. Thus, an entrepreneur is the one who organises production, takes important decisions regarding production, hires/purchases factors of production and bears the risk and uncertainty involved in production. The task of bearing risks is called enterprise and the person who bears these risks of business is called an entrepreneur.

(i) The size of national income which is considered the indicator of economic development of a nation is largely determined by the amount and quality of entrepreneurial resource. What is produced, how much is produced and how efficiently is produced, all depend upon the class of entrepreneurs. A country will be able to produce a large amount of output and generate a large national income if it possesses a large number of entreprenrs with a modern outlook.

(ii) Entrepreneurs mobilise idle savings of the public through the issue of shares and debentures.

(iii) Enepreneurs generate employment opportunities and thus help to reduce unemployment problem in the country.

(iv) they also set up industries in the backwar eas of the country to avail various concessions and subsidies provided by the government. In this way, they help to reduce regional disparities in the country.

(v) Entrepreneurs also help the nation reducing dependence on foreign countries. **(2017)**

13. Labour consists of all human efforts of body or of mind which are undertaken in the expectation of reward. Economists use the term labour in wider sense. In wider sense, labour includes all human efforts done with a view to earn income. Physical or mental work will be treated as labour which is undertaken to earn income or reward. Work done simply to attain pleasure or happiness is not labour.

Following are some suggestions which can improve the efficiency of Indian workers :

(i) The payment of wages should be fair and prompt. Bonus (i.e., a part of profit) must be given to workers as an incentive to hard work.

(ii) Working conditions in the factories/work places should be improved.

(iii) Social security measures such as insurance schemes, provident fund contributions, pensions, etc., should be introduced.

(iv) Hours of work should not be more than eight hours. Other facilities like holidays, leaves, etc., should also be provided to the workers without further delay.

(v) Technical education facilities should be expanded to all categories of workers. **(2017)**

UNIT II

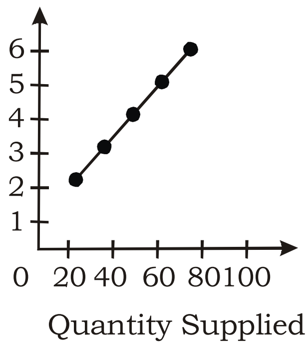
Short answers:-

7. If the bus fare between two cities comes down, the demand for bus services will increase. The demand curve of bus travel will shift to right showing increase in demand. i.e. downward movement of the demand curve for bus. **(2013)**

8. Indirect taxes are regressive in nature as their burden falls on all people indiscriminately. Indirect taxes can be made progressive by imposing heavy taxes on luxury goods. **(2013)**

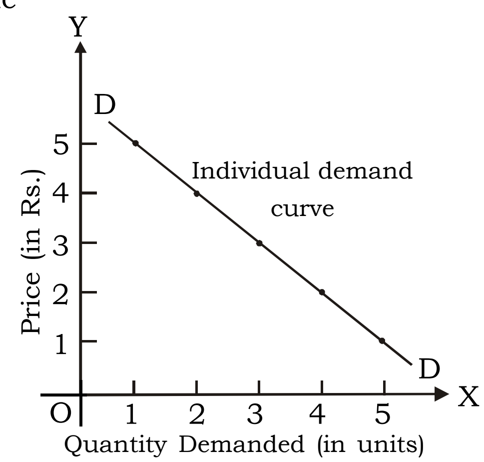
9. The degree of elasticity of supply curve parrallel to x-axis is infinity. $E_S = \alpha$ **(2013)**

10. Supply curve :- Supply curve is a graphical representation of a supply schedule. Cuve SS reflects the individual supply curve. Supply curve has a positive slope. i. e., it moves upward from left to right. It shows that more quantity will be supplied at higher prices and vice versa. The various points on the supply curve (such a, b, c, d, and e) represent different possible price quantity relationships. **(2014)**



11. Hypothetical Individual Demand Schedule

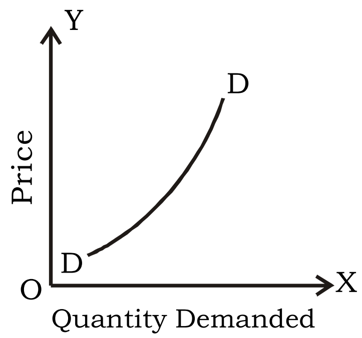
Price (₹)	Quantity demanded (in units)
5	1
4	2
3	3
2	4
1	5



Individual demand curve has been drawn according to individual demand schedule. **(2014)**

12. (i) **Giffen Goods :** Giffen goods refer to those goods on which a consumer spends a very large part of his income. Giffen pointed out that the law of demand did not aply in the case of English workers.

British workers had bread as their main item of consumption. As the price of bread went up in the market they could not afford to purchase as much meat (a superior item of consumption) as before. So they substituted more bread for meat to maintain their intake of food.In this situation, the demand curve will have positive slope as shown in below figure.



(ii) **Loss of faith in quality :** When people have no faith in the quality of the product, the law will not apply. Any fall in the price of the commodity will be insufficient to bring about a rise in its demand.

(2014)

13. Price elasticity of demand refers to the percentage change in demand of a good as a result of percentage change in its price. **(2014)**

14. **(2015)**

	Normal Goods		Inferior Goods.
1.	Normal goods are those goods the demand for which increases with the increase in income of consumers.	1.	Inferior goods are those goods, the demand for which falls as income of the consumer increases
2.	Here there is a direct relationship between income and demand.	2.	Here, there is an inverse relationship between income and demand.
3.	e.g. Goods like T. V.,	3.	Demand for unbranded clothes fall with increase in income. Hence, they are inferior goods.

15. **(i) Change in Price of Related Goods (substitute goods and complementary goods) :** Any change in price of one good may shift the demand curve for the other. Take the example of tea and coffee which are substitute goods. The demand curve for tea will shift to the right, if price of coffee rises. This is because rise in coffee price has made the tea relatively cheaper. Therefore, consumers will substitute tea for coffee.

Now take another example of milk and sugar which are complementary goods. If the price of milk falls, the demand curve for sugar will shift to the right indicating increase in demand. On the other hand, if price of milk rises, demand curve for sugar will shift downward to the left indicating decrease in demand.

(ii) Change in Tastes : A change in taste may also cause shifts in the demand curve. A rise in liking for a product will cause rightward shift in the demand curve (i.e. increase in demand). For example, if people come to know that the use of Neem soap prevents pimples on the face, this will definitely generate an increase in demand for it.

(2015)

16. Cross elasticity of demand measures the responsiveness of demand of a commodity to a change in the price of other related commodity. That is cross elasticity of demand measures by how much quantity demand will rise or fall given a change in the price of another commodity.

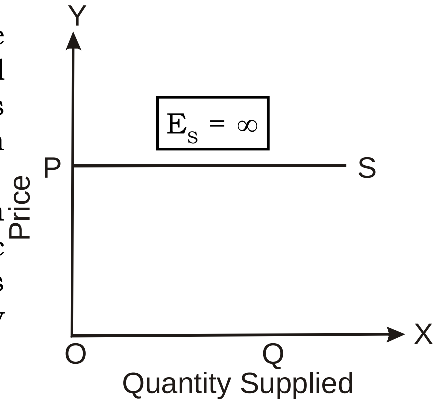
$$Ec = \frac{\text{Percentage change in demand of commodity X}}{\text{Percentage change in price commodity Y}}$$

Symbolically,

$$Ec = \frac{\frac{\Delta Q_X}{Q_X}}{\frac{\Delta P_Y}{P_Y}}$$

Where DQ_X = Change in quantity demanded of X - commodity.
Q_X = Original demand of X - commodity
DP_Y = Chage in price of Y - commodity
P_Y = Original price of Y - commodity **(2015)**

17. **Perfectly Elastic Supply :** If there is an infinite change in quantity supplied in response to a small change in price, the supply of that commodity is said to be perfectly price elastic. It is purely an imaginary concept
Perfectly elastic supply is shown graphically in the above Figure. PS is the perfectly elastic supply curve which is a horizontal line. It shows that at OP price, any quantity of the commodity can be supplied.



(2015)

18. The Government can reduce the inequalities of income and wealth in an economy by taxing the rich and using the revenue earned to provide subsidies goods to the poor. **(2016)**

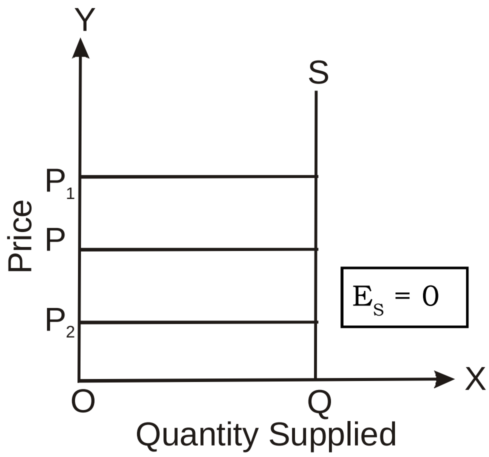
19. The degree of Price elasticity of demand for the following goods are:
(i) Cosmetics – Elastic
(ii) Medicine – In Elastic
(iii) School uniform – In Elastic
(iv) Air condition – Elastic **(2016)**

20.

Price (₹)	**Qty.of Mangoes demanded (kgs)**
350.00	2
300.00	4
250.00	6
200.00	8
150.00	10
100.00	12

(2016)

21. Perfectly inelastic supply curve



22. The impact of the level of technology on supply are :
    (i) If old and outdated technology is used in production process, the cost of production will increase therefore the level of production will fall which cause decrease in supply.
    (ii) On the other hand, if the level of technology is improved, it helps to reduce the cost of production. As result, production levels will rise which will increase the level of supply. **(2016)**

23. (ii) **Change in stock :** With the increase in the price of the commodity, sellers are ready to sell more from their old stock of goods. On the other hand, when the price of the commodity decreases, sellers would like to increase their stock to avoid losses.
    (iii) **Profit and Loss :** With the rise in prices, producers generally increase their production and supply in view of higher profit possibilities and when there is fall in the price, producers would produce and supply less to avoid losses. **(2017)**

24. Elasticity of supply is greatly influenced by how costs of production respond to output changes. If an increase in output by the firm in an industry causes only a slight increase in their cost per unit or leads to decrease in cost per unit, supply will be fairly elastic. **(2017)**

25. Perfectly elastic demand curve.
    It is a situation in which a small change in price causes an infinitely large change in amount demanded. A small rise in price on the part of the seller reduces the demand to zero. A small reduction in price, on the other hand, leads to an infinitely large increase in demand. In our real life, we do not have any such commodity which has perfectly elastic demand. Here, elasticity of demand is equal to infinity and demand curve becomes parallel to X-axis as shown in figure. **(2017)**

26. Complementary goods are the goods which are used together like pen and ink, chair and table, car and petrol etc., while substitute goods are those goods which can be used in the place of each other like tea and coffee, bike and scooter, tablet and mobile etc. **(2017)**

Long answers:-

9. Increase in demand of a good is defined as rise in its demand due to change in the factor/factors other than the own price of the good.

Four Factors affecting Price elasticity of demand

1. **Nature of the Goods :** More necessary the good for a consumer, less elastic is the demand for the good. It is because that it is difficult to give up the consumption of a necessary good.
2. **Number of substitutes :** More the number of close substitutes of a good available in the market, higher is the price elasticity of that good. It is because that a consumer can easily shift from one substitute to another in case of a price change.
3. **Number of users :** More the number of uses of a good, more likely is the demand of that good price elastic.
4. **Proportion of Income Spent :** The demand of a good will be price elastic if proportion of income spent on that good is large. It is because that total expenditure on the good changes considerably. **(2013)**

10. The term supply refers to the quantity of a good that a firm is willing to supply at a particular price during a period of time.

According to the law of supply, other things being equal, the quantity supplied of the commodity varies directly with the price. In other words, when price of a commodity rises, supply rises and when price falls, supply also falls,

Supply Schedule

A Supply schedule shows various quantities of a commodity that can be offered for sale at different prices during a given period of time.

(i) **Individual supply** schedule shows the different quantities of a commodity that an individual firm or producer is prepared to sell at various prices.

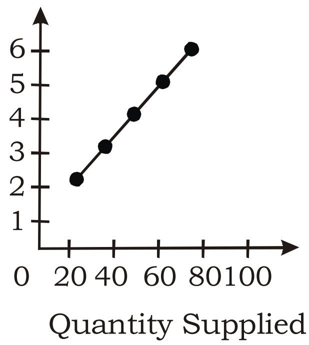
The law of supply can be explained with the help of individual supply schedule.

HYPOTHETICAL INDIVIDUAL SUPPLY SCHEDULE FOR COMMODITY X.

Price per unit of X (₹)	Quantity supplied of X per month. (Units)
2	20
3	40
4	60
5	80
6	100

The hypothetical individual supply schedule of commodity X is given in the table. It is clear from the above individual supply schedule that more and more quantity of commodity X is being offered for sale by the firm as the price of the commodity increases. The firm is willing to supply 20 units of products X per month when the product price is Rs.2 per unit. When the price rises to Rs 3 per unit, it is now willing to sell 40.

(ii) **Supply curve** :- Supply curve is a graphical representation of a supply schedule. Cuve SS reflects the individual supply curve. Supply curve has a positive slope. i. e., it moves upward from left to right. It shows that more quantity will be supplied at higher prices and vice versa. The various points on the supply curve (such a, b, c, d, and e) represent different possible price quantity relationships.



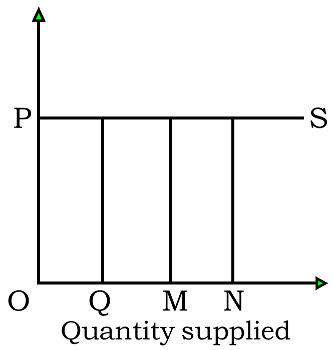
(iii)) **Assumptions :** The phrase 'other things being equal' as used in the law of supply indicates its assumptions. The main assumptions of the law are as follows:-

(1) Price of other related goods should not change.
(2) Technology of production should not change.
(3) Cost of factors of production should remain the same.
(4) Goal (objectives) of the firm should not change.
(5) Taxation policy of the firm should not change.
(6) Producer do not expect any change in the price of the commodity in near future. **(2014)**

11. Supply refers to quantity of a commodity that a firm is willing to offer for sale at a given price during a given period of time. Three Reasons for the Rightward shift of the supply curve When supply of a product in the market increases, the supply curve shifts to the right. The right-ward shift is caused by the following factors :

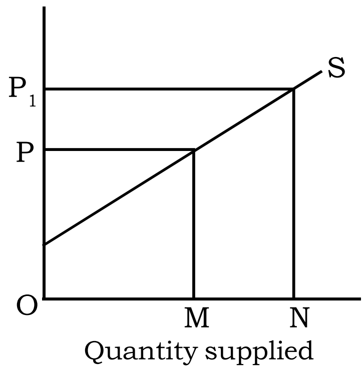
(i) When price of factors of production fall, cost of production falls and profit margin rises. It increase the supply.
(ii) The use of advanced and improved technology reduces cost of production and raises the profit margin. As a result, supply curve shifts to the right.
(iii) Supply curve shifts to the right when the number of firms producing a particular commodity increases. **(2014)**

12. $E_p = \alpha$: When there is an infinite supply at a particular price and the supply becomes zero with a slight fall in price, then the supply of such a commodity is said to be perfectly elastic. In such a case $E_p = 0$ and the supply curve is a horizontal straight line parallel to the X-axis, as shown in the following diagram.



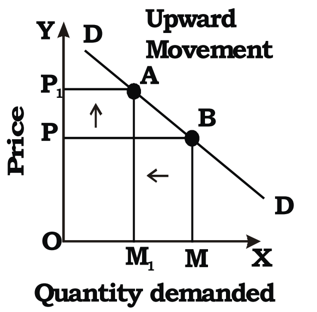
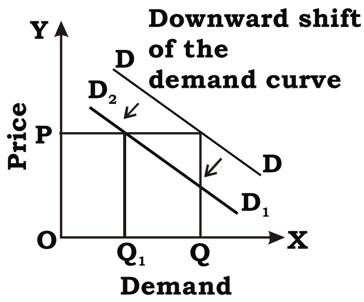
Quantity supplied can be OM, OQ or ON at the same prices of OP.

E_p, > 1 : When percentage change in quantity supplied is more than the percentage change in price, then supply for such a commodity is said to be highly elastic. In such a case, $E_p > 1$ and the supply curve has an intercept on the Y-axis as shown in the following diagram.



Quantity supplied rises from OM to ON when price increases from OP to OP_1. As MN is proportionately more than PP_1, $E_p > 1$. **(2014)**

13.

Basis	**Contraction of Demand**	**Decrease in Demand**
1. Meaning	Other things being the same, when demand for a commodity falls as a result of rise in its price, it is called contraction of demand.	Decrease in demand implies that at any given price a smaller quantity is purchased.
2. Demand curve	Under it, there is upward movement along the same demand curve (from B to A) as shown in Fig. 	Under it, there is leftward shift in the demand curve as shown under. 
3. Example	Price (Rs per unit): 10, 12; Demand (Units): 100, 80	Price (Rs per unit): 10, 10; Demand (Units): 100, 80
4. Cause	It is caused by a rise in price.	It is caused by the following factors : (i) Decrease in consumer's income. (ii) Fall in the price of substitute goods. (iii) Rise in the price of the complementary goods. (iv) Decrease in number of consumers.

(2015)

14. The degree of responsiveness of quantity demanded due to changes in price of the commodity is known as price elasticity of Demand.
Four Factors Affecting Price Elasticity of Demand
(1) **Nature of the Goods :** More necessary the good for a consumer, less elastic is the demand for the good. It is because that it is difficult to give up the consumption of a necessary good.
(2) **Number of substitutes :** More the number of close substitutes of a good available in the market. higher is the price elasticity of that good. It is because that a consumer can easily shift from one substitute to another in case of a price change.
(3) **Number of uses :** More the number of uses of a good, more likely is the demand of that good price elastic.
(4) **Proportion of Income Spent :** The demand of a good will be price elastic if proportion of income spent on that good is large. It is because that total expenditure on the good changes considerably. **(2015)**

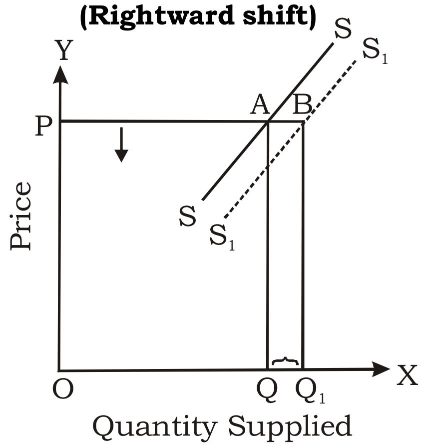
15. When supply of a commodity changes due to change in any factor other than the own price of the commodity, it is known as 'change in supply'. Graphically called shift in supply curve.
Three Determinants of Leftward Shift of Supply Curve
(1) **Rise in price of Related Product.** If the price of related product increases, then the supply of the given commodity will fall. Then supply curve of the given product shifts to the left.
(2) **Increase in Prices of Factors of Production :** Other things being equal, when prices of factors of production increase, cost of production increases. Accordingly, producers are willing to supply less at the existing price. This supply curve shifts to the left.
(3) **Increase in Taxes :** When taxes are raised by the government, then the cost of product is increases. Therefore supply decreases and the supply curve shifts to the left. **(2015)**

16. Demand means the quantity of a commodity or service that a consumer is willing to buy at a given price and at a given time.
The two factors which determine demand are :
(i) **Population :** Increase in population increases the demand or vice versa. Market demand for so many commodities has increased in India due to this factor. Several multinational companies are entering the Indian market due to its large size. Like the size of population, its composition also affects the demand. Composition of population means the distribution of population on the basis of sex, age, etc. An increase in female population would increase the demand for cosmetics, sarees, etc.
(ii) **Season and Weather :** The seasonal and weather conditions also have effect on consumer's demand. For example, demand for woollen clothes goes up during winter. Fans, coolers etc. are demanded more during summer. **(2016)**

17. **Increase in supply**

Increase in supply occurs when the producers are willing to supply more at the same price, due to change in other factors.

Price (Rs per Unit)	Quantity supplied (Units)
5	100
5	120



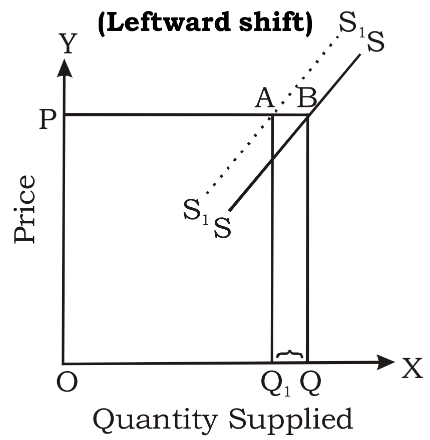
The price of a commodity remains fixed at Rs 5 per unit but its quantity supplied increases from 100 units to 120 units.

In this case, the supply curve shifts to the right showing increase in supply.

In the fig, original price of the commodity is OP at which the producer wishes to supply OS quantity of the commodity. Under the influence of other factors, the supply curves shifts rightward to take new position as S1S1. This supply curve shows that the producer is prepared to sell more quantity (i.e., OQ1 instead of OQ)at the same original price of OP.

Decrease in supply

Decrease in supply reflects the situation in which the producer supplies less quantity at the same price.



Price (Rs per Unit)	Supply (Units)
5	100
5	70

In the table, we see that the producer is willing to supply lesser quantity (i.e. 70) at the same price of Rs 5 per unit. Like increase in supply, decrease in supply also is the result of change in factors other than the price of the commodity.

At original price of OP, the producer supplies OQ quantity of the commodity. When the supply curve shifts from its original position (i.e. SS) upwards to the left and takes the position of S1S1, he is now willing to supply lesser quanity (i.e. OQ_1) at the same price (OP). The supply has fallen by Q_1Q. **(2016)**

18. **Meaning :** Price elasticity of supply is measure of the degree of of reposiveness of quantity supply to changes in the product's own price.

The three factors that determine elasticity of supply :

(i) Possibility of shifting from production : The size or degree of reponse depends on how easily producers can shift from the production of other products to the one whose price has risen. It the producers can shift easily from one production to another, the supply would be more place elastic. For example, if agricultural land and labour can readily be shifted from one crop another, the supply of any one crop will be more elastic than if they cannot be easily shfited.

(ii) Length of Time : Price elasticity of supply also depends upon the length of time for response. It may be difficult to change quantities supplied in few weeks or months in response to price change but easy to do so over a period of year. Therefore, supply tends to be relatively inelastic in the short-run and relatively elastic in the long-run.

(iii) Behaviour of cost of Production : Elasticity of supply is greatly influenced by how cost of production respond to output changes. If an increase in output by the firms in an industry causes only a slight increase in their cost per unit or leads to decrease in cost per unit supply leads to a large increase in cost of production, the supply would be relatively inelastic. **(2016)**

UNIT III

Short answers:-

11. Indirect taxes are regressive in nature as their burden falls on all people indiscriminately. Indirect taxes can be made progressive by imposing heavy taxes on luxury goods. **(2013)**

12. Impact of tax refers to the taxing point i.e. the immediate money burden whereas incidence of tax implies the ultimate money burden. **(2013)**

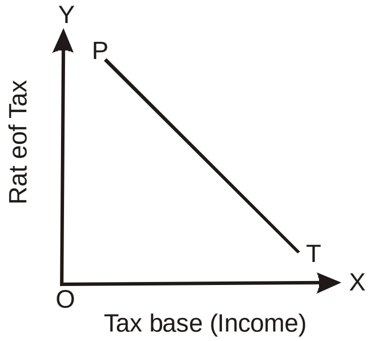
13. Public debt refers to the loans raised by government within or outside the country. **(2013)**

14. (i) Voluntary debt is a debt which is taken from the people by the government on a voluntary basis. In case of voluntary loans, people voluntarily and willingly subscribe to government loans. On the other hand, compulsory debts are those loans which are forcibly taken from the people by the government. When the government exercises its power or pressure for getting loans, such loans are known as compulsory loans.

(ii) **Regressive Tax :** A tax will be regressive when the rates of tax decrease as the tax base (income) inreases. Under the regressive taxation, the total amount of tax increases on a higher income in the absolute sense, but in the relative sense, the tax rate declines on a higher income. Hence, relatively a heavier burden falls upon the poor than on the rich. Therefore, regressive taxes are unjust and inequitable. They do not satisfy the canon of equity. They tend to promote inequalities of income in the society.

Tax base (Income)	Rate of tax (%)	Amount of Tax (₹)
10,000	10%	1000
15,000	9%	1350
20,000	8%	1600

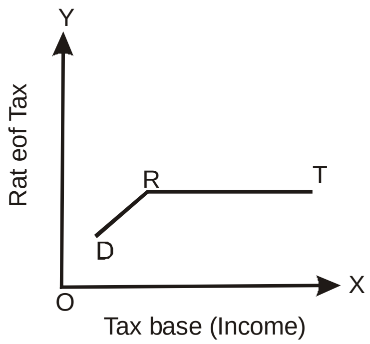
The given figure shows the case of regressive taxtation. Line PT moves downward to the right indicating that the rate of tax decreases as the tax base increases.



Degressive tax : The rate of taxes increases upto a certain limit but after that, a uniform rate is charged. The result of this tax is that the higher income groups make less sacrifice than the lower income groups.

Tax base (Income)	Rate of tax (%)	Amount of Tax (₹)
10,000	5%	500
15,000	6%	900
20,000	7%	1400
25,000	7%	1750

The above table indicates degressive taxtation. Under it, rate of tax increases to a certain limit (up to point R in the diagram), thereafter a uniform rate of tax is charged.



(2013)

15. A tax is compulsory payment made by the people to the government to meet the expenditure incurred for common good.

Two Merits of Direct Taxes

(i) **Economy :** Direct taxes are economical in the sense that the cost of collection of these taxes is relatively low, because the same officers who assess small income or properties can also assess large income or properties.

(ii) **Equity :** Direct taxes are based on the principle of ability to pay. They fall more heavily on the rich than on the poor. So the burden of a direct tax is equitably distributed on different people and institutions.

Two Demerits of Direct Taxes

(i) **Unpopular :** Since these taxes are directly imposed on people, they cannot be shifted on to others. They are painful to the tax-payers. They are not popular among the people and, therefore, are generally opposed by the tax-payers.

(ii) **Inconvenience :** The main drawback of direct taxes is that they cause a lot of inconvenience to the tax-payers. The tax-payers have to maintain accounts to the satisfaction of tax authorities and have to submit the statement of their income along with the sources of income from which it is derived. **(2013)**

16. Tax is a compulsory payment made by every citizen upon whom it has been imposed while fee is payment made to the government only by those who receive special benefit from services rendered by the government. **(2014)**

17. **Tax on Income and Tax on a Commodity**

(i) Tax on income is a direct tax while tax on a commodity is an indirect tax.

(ii) The burden of tax on income cannot be shifted on the others, while the burden of tax on a commodity can be shifted wholly or partially on to its buyers in form of higher prices. **(2014)**

18. Two reasons for increase in Public Expenditure

(i) **Increase in defence expenditure :** International political situation is uncertain and insecure. People are always afraid of a war. Hence, every nation must be strong enough to protect itself to the extent possible for it.

(ii) **Population Growth :** With the increase of population, the responsibilities of the state also increase which consequently leads to the increase in public expenditure. **(2014)**

19. Limited legal tender is that form of legal money which can be used in payment upto a certain limit. On the other hand, unlimited legal tender is that form of legal money which can be used in payment upto any amount. **(2014)**

20. Direct taxes are progressive as they depend upon ability to pay. More the ability to pay, more the taxes, less the ability to pay, less the taxes. In this way, they help to reduce income inequality. **(2015)**

21. Indirect tax refers to that tax which is imposed on one person but is paid partly or wholly by another. Customs and excise duties are the important sources of revenue from indirect taxes in India. Thus, the impact and the incidence of these taxes are on different persons. For example, the impact of sugar excise duty is on the producer, but when he realises the tax amount from the consumer by raising the price of sugar, the incidence will be on the consumer. **(2015)**

22. **Redeemable debt** is that loan which is repayable by the government after a fixed period of time. When the debt matures the government pays back the amount to the lender.

Irredeemable debt is that loan whose principal amount is not refunded by the government. However, interest is paid regularly. **(2015)**

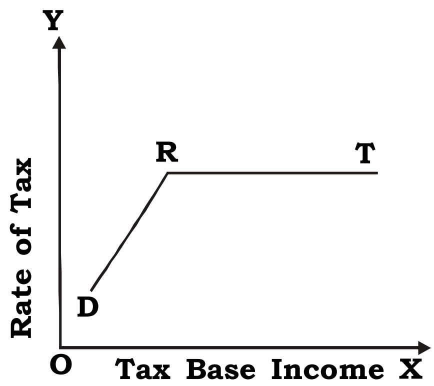
23. (a) Heavy indirect taxation on commodities like wine, opium; etc; serves a great social purpose. It may check their consumption and save the society from their harmful effects.

(c)

Demand Deposits	Fixed Deposits
1. Demand deposits can be withdrawn by their depositors at any time without notice.	1. These deposits can be withdrawn only after the expiry of a certain fixed time period.
2. They are chequable, i.e., demand deposits are withdrawable through cheques.	2. They are not chequable.
3. No interest is paid on these deposits. Rather depositors have to pay something to the bank for its services.	3. These deposits carry high rates of interest.
4. These deposits constitute a part of money supply.	4. They fall under the category of near money or liquid assets.

(d) The degressive tax system is a mixture of proportional and progressive tax system. Under this system, the rate of tax increases upto a certain limit but after that a uniform rate is charged. The result of this tax is that the higher income groups make less sacrifice than the lower income group. This sort of degression is found in pratice is case of income tax. For example, in India income upto ₹ 2,00,000 a year is exempted from income tax. The rate of income tax is 10% for the income between ₹ 2,00,000 to ₹ 5,00,000 a year, which increases 20% for the income between ₹ 5,00,000, to ₹ 10,00,000 a year and 30% to all.

Income ₹	Degressive Rate of Tax (%)	Tax schedule Amount of Tax (₹)
10,000	5%	500
15,000	6%	900
20,000	7%	1400
25,000	7%	1750
30,000	7%	2100



Degressive Tax

(2016)

24. Direct taxes refer to those taxes which are paid by those on whom they are legally imposed. Such a tax is not transferable. In case of such kind of taxes, the impact of tax (i.e., the immediate money burden or taxing point), and its incidence (i.e., the ultimate money burden), falls on the same person. Income tax (other than agricultural income), wealth tax, gift tax, estate duty are important examples of direct taxes in India. **(2016)**

25. Two causes of increase in public expenditure in recent times are :
   (i) Social services : The generalised education, public health, water supply and sanitation facilities, etc., which are considered as the duty of the state has been increasing. New departments like child wlefare, woman welfare, labour welfare etc. have been established. All have led to growth of public expenditure.
   (ii) Development Programmes : Most of the under developed countries have initiated various programmes of economic development, i.e, provision of infrastructure of the economy such as transport, communication power, etc. This led to growth of public expenditure. **(2016)**

26. In a developing economy like India, the rate of capital formation is low because :
   (i) The level of saving is low because of low level of income. Level of income is low because of low productivity levels in the agricultural and industrial sectors of the economy. **(2016)**

27. Public expenditure is that expenditure incurred by the public authorities (i.e. Central, State and Local Governments) to satisfy those common wants, which the people in their individual capacity are unable to satisfy efficiently. For e.g. expenditure incurred by the government on education, health, public works, expenditure on administration and maintenance of law and order are examples of public expenditure. **(2017)**

28. The unproductive public debt is the debt which the government raises to meet unproductive expenditure like meeting war expenses or paying interest on previously taken loan or paying salary dues etc. **(2017)**

Long answers:-

5. (i) Public expenditure on the establishment of certain basic industries in the initial periods increases the growth rate of the economy.
   (ii) Public expenditure helps in bringing about regional balance in the economy by diversifying industries in backward and less developed areas of the country. **(2013)**

6. Public debt means loans raised by the government within or outside the country.
   Four types of Public Debt
   1. **Productive Debts :** Productive debts are those debts which are used by the government for those projects which yield income e.g. loans used for the construction of power projects.
   2. **Unproductive Debts :** Public debts taken for unproductive purposes, for example loans taken by the government to finance budget deficit or war are unproductive debts.
   3. **Redeemable Debts :** Debts which are repayable by the government after a fixed period of time are called redeemable debts. Interest on such loan is paid regularly.
   4. **Irredeemable Debts :** Irredeemable debts refer to those debts whose principal amount is not refunded by the government. Only interest is paid regularly on such loans. **(2014)**

7. Progressive taxation is suitable for the Indian economy because it reduces inequalities in the distribution of income and wealth. **(2014)**

8. Public expenditure refers to the expenditure incurred by the government (i.e. central, state, local governments) for the satisfaction of collective needs of the people.
   Following are the main reasons behind consistent growth of public expenditure in India.
   (a) Political Causes
   Growth of democracy : The recent growth of democracy and socialism everywhere in the world has caused public expenditure to increase very much. Expenditure on elections and by - elections is increasing. Number of ministers and executive officers has also been increased. Further, the ruling party has to fulfil its promises and launch new programmes to persuade public opinion in its favour.
   (b) Social Causes.
   (i) Population Growth : With the increase of population, the responsibilities of the state also increase which consequently leads to the increase in public expenditure.
   (ii) Social Services : The generalised social services, e. g., education, public health, water supply and sanitation facilities etc., which are considered as the duty of the sate has been increasing. New departments like Child welfare, Women welfare, Labour welfare, etc., have been establised. All this have led to growth of public expenditure.
   (c) Economic Causes.
   (i) Rise in Prices : There has been a gradual increase in the price level in almost every country of the world and the governments have to spend more money for the same amount of goods and services that they desire, and to increase the salaries and dearness allowance of government employees.
   (ii) Growth of Public Sector : The public sector has been increasing in capitalist and mixed economies which has led to increase in public expenditure. **(2015)**

9. A tax is a compulsory payment imposed on the persons or companies by the government to meet the expenditure incurred on providing common benefits to the people.
   Three Merits of Direct Taxes
   (i) Economy : Direct taxes are economical in the sense that the cost of collection of these taxes is relatively low, because the same officers who assess small income or properties can also assess large income or properties.
   (ii) Equity : Direct taxes are based on the principle of ability to pay. They fall more heavily on the rich than on the poor. So the burden of a direct tax is equitably distributed on different people and institutions.
   (iii) Certainty : Direct taxes are certain. The tax-payer knows how much tax is due from him and so, he can adjust his income and expenditure. The government also knows fairly well the amount of revenues coming to it by way of direct taxes and can adjusts its income and expenditure.

(iv) **Elasticity :** Another merit of direct taxes is that they are based on the canon of elasticity. These taxes are elastic in nature as the government revenue can be increased by raising the tax rates in times of crisis. Moreover, the yield from direct taxes goes up automatically with increase in income of the people.

(v) **Civic Consciousness :** Direct taxes inculcate a spirit of civic responsibility amongst the tax-payers. Since the tax-payers provide the funds from their own pockets to the government, they take keen interest in seeing that these funds are properly utilised. This public awareness plays an important role in checking the wastage of public expenditure. **(2015)**

10. Public expenditure is that expenditure incurred by the public authorities (i.e. Central, State and Local Governments) to satisfy those common wants, which the people in their individual capacity are unable to satisfy efficiently. For e.g. expenditure incurred by the government on education, health, public works, expenditure on administration and maintenance of law and order are examples of public expenditure. Public expenditure can promote economic development in the following ways.
(i) Public expenditure on economic and social infrastructure provide larger employment opportunities and raises the productive capacity of the economy.
(ii) To increase the production of certain essential commodities to end private monopolies in various spheres, the state starts public enterprises. **(2016)**

11.

Direct Taxes	Indirect Taxes
1. Taxes imposed on income or properties are direct taxes.	1. Taxes imposed on commodities are indirect taxes
2. They are directly paid to the government by the person on whom it is imposed.	2. They are paid to the government by one person but their burden is borne by another person.
3. They cannot be shifted on to others.	3. They can be shifted on to others.
4. These taxes are levied according to the ability of the tax-payer.	4. These are the taxes in which tax paying ability of the tax-payer is assessed indirectly.
5. Examples : Income tax, Wealth Tax, Corporation Tax (i.e. tax on company's income), Estate Duty.	5. Examples : VAT, Excise Duty, Customs Duty, service tax etc,

(2016)

12. In economics, capital has been traditionally defined in the sense of physical capital. In this sense, capital refers to those reproducible or man-made durable goods that are used as inputs to produce other goods and services in the future.
(i) **(a) Real capital** refers to the physical stocks of goods which are used as input in the production process thus, the machines, raw materials etc. are the examples of real capital. This is also called concrete capital. The contribution of real capital towards, the increase in national output of any country is certainly more important than the money capital because money capital does not necessarily contribute towards the increase in national output.

(b) **Debt Capital** consists of titles to wealth like share, debenture, government promissory notes, etc. They represent invested funds and yield income. For example, if any individual invest his fund in purchansing IDBI flexibonds; ICIC bond, etc, in our country, then he will fixed interest income on the value of those bonds. Hence, these bonds are considered as debt capital.

(ii) **(a) Sunk Capital :** Is that which can only be put to a single use. It is also called as 'specialised capital.' It always remains at the place where it is fixed. For example, a printing machine can only be put for printing and nothing else.

(b) Money Capital : The term 'Money Capital' or finance capital' is used to describe capital in term of money. Money itself is not a means of production. However, money can be used for buying capital goods (like machines, and raw materials) It would not be wrong to treat the money used for this purpose as capital. **(2016)**

13. (i) Internal debt is that debt which is raised by the government from individuals and institution, etc., within the country. In the case of external debt, the government borrows from persons, institutions or governments of the foreign countries. Internal debt is taken mainly for internal purposes as financing of development expenditure within the country while external debt is incurred both for development purposes and for meeting the balance of payment deficits.

(ii) Debt is said to be productive when it is used to finance a project which brings revenue to the government, for example, loans used for the construction of railways, irrigation and power projects and for the establishment of heavy industries such as iron and steel, cement, fertilisers, etc. The income earned from these projects is enough to pay the interest of the loan along with the principal. Thus, productive loans should not be considered as a burden on the government. On the other hand, unproductive loans refer to those loans which are incurred on those projects which do not yield any income. For example, loans taken by the government to finance a war and for covering the budgetary deficit are unproductive loans. Such loans do not add to the productive capacity of the economy. Unproductive loans are considered as a dead weight upon the government. **(2016)**

14. Now-a-days, the government plays a vital role in promotion of economic development of a country, particularly of an under-developed country like India which lack even the basic necessities of life, such as, food, cloth, housing, health, education etc. India suffers from a number of problems like high incidence of poverty, chronic problem of unemployment and widespread inequality in the distribution of income and wealth. All these factors have necessitated active participation of the state in the task of promoting economic development and that is why the public expenditure in India has grown by leaps and bounds. Following are the main reasons:

Political Causes

(i) Growth of democracy : The recent growth of democracy and socialism everywhere in the world has caused public expenditure to increase very much. Expenditure on elections and by - elections is increasing.

Number of ministers and executive officers has also been increased. Further, the ruling party has to fulfil its promises and launch new programmes to persuade public opinion in its favour.

Social Causes.

(i) Population Growth : With the increase of population, the responsibilities of the state also increase which consequently leads to the increase in public expenditure.

(ii) Social Services : The generalised social services, e. g., education, public health, water supply and sanitation facilities etc., which are considered as the duty of the sate has been increasing. New departments like Child welfare, Women welfare, Labour welfare, etc., have been establised. All this have led to growth of public expenditure.

Economic Causes.

(i) Rise in Prices : There has been a gradual increase in the price level in almost every country of the world and the governments have to spend more money for the same amount of goods and services that they desire, and to increase the salaries and dearness allowance of government employees.

(ii) Growth of Public Sector : The public sector has been increasing in capitalist and mixed economies which has led to increase in public expenditure. **[2017]**

15. These terms are associated with Indirect tax. The meaning of the terms are as follows:

(i) Impact : Impact refers to "On whom the Tax is levied in the first instance." It means who is primarily responsible to pay the tax. In indirect tax, the impact of the tax is on seller who is primarily responsible to pay the imposed tax.

(ii) Shifting : It refers to transfer of the burden of the tax amount. In indirect tax, though it is seller who initially pays the tax but he adds (transfers) this tax in the cost of the product and collects it from the buyer of the product.

(iii) Incidence : Incidence refers to "who bears the final burden of the tax." So in the case of indirect tax, it is the ultimate consumer who bears the ultimate burden of the tax by paying it through its price.

Merit of Indirect Taxes

(i) Convenient : They are mostly levied on commodities and are paid by consumers when they buy them in the market. The amount of the tax is included in the price of the commodity and the consumer pays the tax without experiencing its pinch.

Demerits of Indirect Taxes

(i) Regressive : Indirect taxes are not equitable as they are regressive in nature. It affects the poor more than the rich man. For example, a commodity tax imposed on foodstuffs will affect a poor family to a much greater extent than a rich family.

(ii) Uncertain : As soon as the tax is levied on a commodity, its price rises in the market and, consequently, its demand declines. It cannot be said with certainty as to which extent the demand of the commodity has declined consequent upon the imposition of the tax. Hence, there is always uncertainty about the income occurring from the indirect taxes. **(2017)**

UNIT IV

Short answers:-

11. Money serves as a standard unit of measurement in times of which the value of all goods and services are measured and expressed. Under barter exchange, there existed no common measure of value. **(2013)**

12. Money acts as a standard of deferred payment. Future payments can easily be stated in money terms which were not possible under barter system of exchange. **(2013)**

13.

Running inflation	Creeping inflation
1. When price rises rapidly at a rate of 10 to 20% per annum, it is called running inflation.	1. When the rise in prices is very slow like that of a snail or creeper, it is called creeping inflation. In terms of speed, prices rise about 2 per cent annually.
2. Such an inflation affects the poor and the middle class people adversely.	2. Such an inflation is regarded safe and essential for economic growth because it keeps the economy away from stagnation and motivates the producer to stay in the market and continue his production activity.

(2013)

14.

Demand Deposits	Fixed Deposits
1. Demand deposits can be withdrawn by their depositors at any time without notice.	1. These deposits can be withdrawn only after the expiry of a certain fixed time period.
2. They are chequable, i.e., demand deposits are withdrawable through cheques.	2. They are not chequable.
3. No interest is paid on these deposits. Rather depositors have to pay something to the bank for its services.	3. These deposits carry high rates of interest.
4. These deposits constitute a part of money supply.	4. They fall under the category of near money or liquid assets.

(2013)

15. **Two Agency Functions of a Commercial Bank**
    (i) Commercial banks collect and make payments on behalf of their customers.
    (ii) Banks help their customers in transferring funds from one place to another through cheques, drafts etc. **[2013]**

16. Two Methods of Advancing Loans by Commercial Banks
    (i) **Cash-Credit :** Under this, the borrower is allowed to withdraw upto a certain amount on a given security which comprises mainly stocks of goods and bills receivable from others. But interest is charged on the amount actually withdrawn.

(ii) **Overdraft :** It is the most common way of lending. Under it, the borrower is allowed to overdraw his current account balance. Overdraft is a temporary facility.

(iii) **Short term loans :** Under it, loans of a fixed amount are sanctioned. The sanctioned amount is credited in the debtor's account. Bank charges interest on the whole amount from the day it was sanctioned.

(iv) **Discounting bills of exchange:** Commercial bills are debt instruments which facilitate exchange of goods and services. Suppose seller 'A' is selling goods to buyer, 'B', the exchange will get settled on the payment of money. But if the buyer does not has finance to honour the exchange, the seller will draw a bill upon the buyer taking a committment from the latter to pay the exchange amount at its maturity. If the seller, i.e., creditor of a bill of exchange wants money immediately, the bank provides him the money by discounting the bill of exchange. It deposits the amount of the bill in the current account of the bill- holder after deducting its rate of interest for the period of the loan which is not more than 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the buyer who accepted the bill. **[2013]**

18. Limited legal tender is that form of legal money which can be used in payment upto a certain limit. On the other hand, unlimited legal tender is that form of legal money which can be used in payment upto any amount. **[2014]**

19. Central bank acts as the banker to the banks in four ways : (a) custodian of the cash reserves of the commercial bank (b) as lender of the last resort (c) as clearing agent and (d) as supervisor. **[2014]**

20. Two Contingent Functions of Money

(i) **Distribution of National Income :** Money facilitates the distribution of national income among people. Total output of a country is jointly produced by factors of production. Money helps in the distribution of national product in the form of rent, wages, interest and profits.

(ii) **Basis of Credit :** In the modern economic system, credit plays a key role and money constitutes the basis of credit. For example, credit instruments like cheques, drafts, bills of exchange, etc., cannot be used without the existence of money.

(iii) **Productivity of Capital :** Money also increases the productivity of capital as it is most liquid type of capital. It can be put to any use. It is because of the liquidity of money that capital can be easily transferred from less productive uses to more productive uses.

(iv) **Miscellaneous Functions :** First, money is a bearer of options. Every person is free to hold wealth in the form of money and spend it as he desires, depending upon the circumstances. Secondly, money is a guarantor of solvency. If an individual or a business firm has liquid wealth in the form of money, his capacity to pay back the debt is guaranteed. **[2014]**

21. Inflation (i.e. price rise) that originates from demand factors is called demand pull inflation. Prices rise because the demand for goods and services exceeds their total available supply. **[2015]**

22. Open market operations refer to the buying and selling of government securities by the central bank from/to the public and banks. When the central bank intends to contract credit during inflation, it sells government securities which are usually purchased either by commercial banks or by their customers. Consequently, cash reserves with the banks are reduced and so does their lending power. On the other hand, when the bank desires to expand credit during deflation in the economy, it starts purchasing such securities. Therefore, the policy of open market operation brings about a change in the total volume of credit by the commercial banks. **(2014)**

23.

Recuring Deposits	Fixed Deposits
1. Recurring deposits are those deposits where money is deposited in instalments for a fixed period of time. 2. They are accepted by banks at regular intervals. 3. They promote saving habits among people.	1. Fixed deposits are those which can be withdrawn only after the expiry of a certain fixed period say one or three years. 2. They are accepted at a particular point of time. 3. They are suitable for those who have surplus funds with them for some time period.

(2015)

24. When the rise in prices is very slow like that of a snail or creeper, it is called creeping inflation. In terms of speed, prices rise about 2 per cent annually which is regarded safe and essential for economic growth because it keeps the economy away from stagnation and motivates the producer to stay in the market and continue his production activity. **(2015)**

25. The exchange of goods and services for goods is known as barter system.The following difficulties were involved in the barter system of exchange :

(i) **Lack of Double Coincidence of Wants :** The barter system requires a double coincidence of wants on the part of those who want to exchange goods or services. Double coincidence of wants means the simultaneous fulfillment of mutual wants by buyers and sellers. It is necessary for a person who wishes to trade his good or service to find some other person who is not only willing to buy his good or service, but also possesses that good which the former wants.

(ii) **Lack of Common Measure of Value :** Even if the two persons who want each other's goods meet by coincidence, the problem arises as to the proportion in which the two goods should be exchanged. The value of a commodity or services means the amount of other goods and services it can be exchanged for, in the market. In the absence of a common measure of value, trade was difficult to be carried out.

(iii) **Lack of Divisibility :** Another difficulty of barter system relates to the fact that all goods cannot be divided and subdivided. In the absence of a common medium of exchange, a problem arises when a big indivisible commodity is to be exchanged for a smaller commodity. For example, if the price of a horse is equal to five sheep, then a person having a sheep cannot exchange it for the horse because it is not possible to divide the horse into small pieces.

(iv) **Problem of Storing Wealth :** Under barter system, it is difficult to store value. In the absence of money, the individuals have to store wealth in the form of goods like horses, shoes, wheat, rice, etc. The value of stored commodities may change in the due course of time. These goods may perish after some time. Secondly, it is very expensive to store specific goods for a long time.

(v) **Lack of Standard of Deferred (Future) Payments :** Another drawback of barter system is that it lacks a standard of deferred payments. So, credit transactions requiring future payments cannot take place smoothly under barter trading.

There are three main problems in this context. These are :

(a) It may create controversy regarding the quality of goods or services to be repaid in future.

(b) The two parties may be unable to agree on the specific goods to be used for repayment.

(c) Both parties run the risk that the value of goods to be repaid may increase or decrease in future. **(2015)**

26.

Basis	**Central Bank**	**Commercial Bank**
Meaning	Central bank is an apex institution of the monetary and banking structure of the country. It regulates the entire banking system of the country.	Commercial bank is a bank which deals in money and credit for purposes of earning profit. It just operates under the guidelines of the central bank.
Objective	Its main objective is to promote social welfare.	Its main objective is to earn profit.
Ownership	Central bank is generally a government owned institution.	Commercial banks may be both privately owned or government owned institutions.
Note-issue	It has got the monopoly right of note-issue.	Commercial banks do not have such rights.
Banker	It is a banker of the government. It is also the banker of the commercial banks. It does not have direct public dealing.	Commercial bank is a banker only of the general public. It has direct public dealing.
Number	There can be only one central bank with a few offices in a	There are a number of commercial banks in every country with a large number of branches all over the country and also even abroad.

(2015)

27. Two causes of increase in public expenditure in recent times are :
   (i) Social services : The generalised education, public health, water supply and sanitation facilities, etc., which are considered as the duty of the state has been increasing. New departments like child wlefare, woman welfare, labour welfare etc. have been established. All have led to growth of public expenditure.
   (ii) Development Programmes : Most of the under developed countries have initiated various programmes of economic development, i.e, provision of infrastructure of the economy such as transport, communication power, etc. This led to growth of public expenditure. **(2016)**

28. The bank rate is the rate at which a central banks lend money to member commercial banks against approved securities or eligible bills of exchange. **(2016)**

29. When the rise in prices is very slow like that of a snail or creeper, it is called creeping inflation. In terms of speed, prices rise about 2 per cent annually which is regarded safe and essential for economic growth because it keeps the economy away from stagnation and motivates the producer to stay in the market and continue his production activity. **(2016)**

30. During the process of production, various factors of production are employed like land, labour and capital. They are not available free of cost. The owner of these factors receive rent, wages, interest. These remunerations to the factors is called as 'Cost of production'.An increase in cost of production results in Cost push inflation.

Long answers:-

6. The Reserve Bank of India is the only institution that enjoys the monopoly of note issue.
   The important qualitative methods are :
   (i) Margin requirements
   (ii) Credit authorisation scheme
   (iii) Moral suasion
   (iv) Rationing of credit.
   Margin Requirement.
   A margin is the difference between the amount of loan and the market value of the security offered by the borrower. If the margin is fixed at 30 per cent by the central bank, then the bank is allowed to advance a loan only upto 70 per cent of the value of the security. By changing the margin requirements, the central bank can affect the amount of loans.
   Credit Authorisation Scheme.
   The credit authorisation scheme introduced in 1965 was also a kind of selective credit control. Under this scheme, the RBI regulated not only the quantity of credit but also the terms on which credit flowed to different large borrowers. The minimum limit for prior authorisation for borrowers in the private sector was initially fixed at Rs. 1 crore. This scheme was withdrawn as a part of financial reforms.
   Moral Suasion.
   Moral suation means persuation, request and appeal by the central bank of a country to its member banks to expand or contract credit as the situation demands. Under this method, the central bank applies the policy of persuasion and pressure on the commercial banks in order to

get them to fall in line with its policy. The central bank frequently announces its policy and urges the commercial banks to adopt it.

Rationing of credit.

Under this programme, the Reserve Bank fixes credit quota for member banks. Quota system was introduced in 1960. If the member banks seek more loans than their fixed quota, they will have to pay higher interest. **(2013)**

7. Statutory Liquidity Ratio refers to a specified minimum percentage of total deposits to be kept by the bank as cash reserves with itself. Cash Reserve Ratio refers to the minimum percentage of total deposits which a bank is reserved to maintain with the central bank. **(2013)**

8. Inflation refers to a situation in which prices of goods and services rise persistently at a fast pace.

Effects of Inflation

(i) **Fixed Income Groups :** Fixed income earners (i.e. wage and salary earners, pensioners etc.) suffer during inflation. It is because that their incomes do not increase in the same proportion in which prices or the cost of living rises. As a result, these fixed income earners tend to buy less amount of goods and services than before even when there is little rise in their income.

(ii) **Producers :** Producers tend to gain during inflation. It is because that prices of their inventories (stock of goods and raw-material, go up. Prices rise at a faster rate than the cost of production. Producers get better prices for their goods during inflation. **(2013)**

9. When prices rises due to rise in cost of production, it is called cost push inflation.

Two Factor Causing Cost Push Inflation

(i) Rise in Wages : Rise in wages has been considered as the main determinant of cost inflation is the modern theory of inflation; This is because in modern times, workers have organized themselves into strong trade unions which have succeeded in getting higher wages for their members.

(ii) Increase in the Price of Basic Materials : Cost push inflation is also caused by increase in the prices of some basic materials, such as steel, basic chemicals, oil, etc. Since, these materials are used directly or indirectly in almost all the industries, any increase in their price affect the whole of the economy and the prices everywhere tend to increase.

(iii) Higher Taxes : Another important cause of cost push inflation is the imposition of higher taxes on commodities, like excise duties, sales tax etc. These taxes are largely passed over by the producers to the consumers by the way of taxes. **(2013)**

10. Inflation means a state of rising prices of goods and services.

Four causes of Inflation

(i) **Increase in money supply :** Increase in money supply is one of the major causes of inflation. Increase in the supply of money leads to increase in aggregate demand for goods and services and hence rise in their prices.

(ii) **Increase in Population :** Increase in population is another major cause responsible for inflation. Increase in population leads to increased demand for goods and services and hence increase in their prices.

(iii) **Higher Taxes :** The imposition of higher taxes on commodities results in rise in prices of taxed commodities.

(iv) **Rise in Wages :** Rise in wages has been considered as the main cause behind cost push inflation. **(2014)**

11. Commercial bank is an institution which performs the functions of accepting deposits, granting loans and making investments, with the aim of earning profits.

(i) **Accepting Deposits :** The primary functions of commercial bank is to accept deposits from the public. To attract savings, the banks accept mainly three types of deposits :

(a) **Demand Deposits** (also known as current deposits) are those deposits which can be withdrawn by the depositor at any time by means of cheques. No interest is paid on such deposits.

(b) **Saving Deposits** are those deposits on the withdrawal of which bank places certain restrictions. Cheque facility is provided to the depositors. A low rate of interest is paid on them. The bank places certain restrictions on the depositor in withdrawing his deposits.

(c) **Fixed Deposits** (or time deposits) are those deposits which can be withdrawn only after the expiry of a certain fixed period. Money deposited in Fixed Deposit Account for a fixed period of time, say one or two or three years, is called fixed deposit. **(2014)**

12. Quantitative credit control refers to those credit control instruments which are adopted by the country's Central Bank to regulate the total volume of credit in the country. It affects all the sectors making use of bank credit.

Two Quantitative Credit Control Measures

(i) **Bank Rate :** The Central Bank controls credit through changes in its bank rate. An increase in bank rate increases the cost of borrowing from the central bank. It forces the commercial banks to increase their lending rates which discourages people from taking loans.

(ii) **Open Market Operations :** The Central Bank controls credit through its open market operations. Under it, the central bank buys or sells the government securities in the open market. Sale of securities by central bank reduces the reserves of commercial banks which adversely affects bank's ability to create credit. And purchase of securities from the open market increases the resources of banks and hence their lending capacity. **(2014)**

13. **(i) Standard of Deferred Payments :** When money is generally accepted as a medium of exchange and a unit of value, it naturally becomes the unit in terms of which deferred or future payments are expressed. Money has successfully performed the function of a standard of deferred payments because, firstly, its value is relatively more stable

than that of other commodities. Secondly, the element of durability is higher as compared to other commodities and finally, it possesses the quality of general acceptability.

(ii) **Store of Value :** Money also serves as a store of value. People can now keep their wealth in the form of money. Money allows us to store surplus purchasing power which can be used at any time in future to purchase goods and services. In simple words, money enables people to save a part of their current income for spending in future. It was Keynes who first realised the store of value function of money and regarded money as a link between the present and the future.

(iii) **Transfer of Value :** Money also functions as a means of transferring value. Through money, value can be easily and quickly transferred from one place to another because money is acceptable everywhere. It is because of this function of money, people can buy goods at far off places for the satisfaction of their wants. **(2015)**

14. When prices rises due to rise in cost of production, it is called cost push inflation.
Three determinants of Cost Push Inflation the cost push inflation is caused by the following factors :
The cost push inflation is caused by the following factors :

(i) **Rise in Wages :** Rise in wages has been considered as the main determinant of cost inflation is the modern theory of inflation; This is because in modern times, workers have organized themselves into strong trade unions which have succeeded in getting higher wages for their members.

(ii) **Increase in the Price of Basic Materials :** Cost push inflation is also caused by increase in the prices of some basic materials, such as steel, basic chemicals, oil, etc. Since, these materials are used directly or indirectly in almost all the industries, any increase in their price affect the whole of the economy and the prices everywhere tend to increase.

(iii) **Higher Taxes :** Another important cause of cost push inflation is the imposition of higher taxes on commodities, like excise duties, sales tax etc. These taxes are largely passed over by the producers to the consumers by the way of taxes. **(2015)**

15. a. **The central bank has the sole monopoly to issue currency notes.** Commercial banks cannot issue currency notes. Currency notes and coins issued by the central bank are the legal tender money. Legal tender money is one which every individual is bound to accept by law in exchange for goods and services and the discharge of debts.
However, the monopoly of central bank to issue the currency notes may be partial in certain countries. For example, in India, one rupee notes are issued by the government and all other notes are issued by the Reserve Bank of India.
The main reasons for giving the monopoly right of note-issue to the central bank are:
(i) It brings uniformity in note circulation.
(ii) It gives distinctive prestige to the note-issue. As a result, people develop faith in the economy.

(iii) It enables the government to have supervision and control over the supply of money in the country.
(iv) It enables the central bank to exercise the control over the creation of credit by the commercial banks.

b. **As Lender of the Last Resort :** As banker to the banks, the central bank acts as the lender of the last resort. In other words, in case the commercial banks fail to meet their financial requirements from other sources, they can, as a last resort, approach the central bank for loans and advances. The central bank assists such banks through discounting of approved securities and bills of exchange. **(2015)**

16. Money is defined on the basis of functions it performs. Anything which is generally accepted as a medium of exchange, in payment of debt and as payment of goods or services is called money. Money is, "Anything that is generally acceptable as a means of exchange and at the same time acts as measure and store of value."

The Primary functions of money are :

(i) Medium of Exchange : Medium of exchange is considered to be the first and the most important function of money. As money has the quality of general acceptability, therefore, all the exchanges in an economy take place in terms of money.

While functioning as medium of exchange, money benefits the society in many ways :

(1) It overcomes the difficulties of barter system.
(2) It promotes transactional efficiency in exchange with minimum effort and time. By acting as an intermediary, it increases the ease of trade.
(3) It allows freedom of choice in the sense that a person can use money to buy goods of his choice from people who offer him the best bargain.

(ii) Measure of Value : The second fundamental function of money is that it acts as a common measure of value. Money serves as a unit of measurement in terms of which the values of all goods and services are measured and expressed. Money is a useful measuring rod of value only when its own value remains stable. The value of money is linked to its purchasing power. As the general price level increases, a unit of money can purchase lesser amount of goods and services. So the value or purchasing power of money declines. Hence, money will be useful unit of value only as long as its own value or purchasing power remains constant. Money also acts as a unit of account. **(2016)**

17. The five agency functions of a Commercial Bank are :

(i) Collection and Making Payments for Credit Instruments : Bank collect or make payment for bills, cheques, promissory notes. For these services, some charges are usually made by the banks.

(ii) Collection of Dividends on Shares : Bank collect dividends on shares and interest on debentures of their customers.

(iii) Purchase and Sale of Securities : Banks undertake purchase and sale of various securities like shares, stocks, bonds, debentures, etc., on behalf of their customers.

(iv) Trustee and Executor : Banks preserve the wills of their customers and execute them after their death.

(v) Transfer of Funds : Banks help their customers in transferring funds from one place to another through cheques, drafts, etc. **(2016)**

18. (i) Inflation is commonly understood to be a situation in which prices of goods and services persistently rise at a fast pace. Inflation refers to a state of rising prices and not a state of high prices. A substantial rise in price or rise in price at faster rates is called inflation.

Effect on Debtors : During inflation debtors are the gainers when they pay back their debt. It is because the value of money was high when they borrowed but it came down when they repaid their debts. So they are the net gainers.

(ii) The various types of inflation are explained below:

(a) Creeping Inflation : Creeping inflation is the inflation whose rate of increase is very mild, i.e., 2-3 percent per annum. So this is also known as mild inflation. Such kind of inflation is not at all harmful rather it helps in the growth of the economy by giving an extra impetus to entrepreneurs to invest more.

(b) Walking or Trotting Inflation : When the rate of rise in inflation is of international standard of 3 to 8 percent per annum, it is called walking or trotting inflation.

(c) Running Inflation : When the sustained rise in prices is over 8 percent and generally around 20 percent per annum, it is called running inflation. It normally shows two-digit inflation. Running inflation is a warning signal indicating the need for controlling it otherwise it will convert into hyperinflation. **(2017)**

19. The main difference between a commercial bank and the central bank is that the principal objective of the 'central bank' is to maximize economic welfare of the country while the principal objective of a commercial banks is to earn profit. Lending is the second basic function of the bank. The commercial banks lend out money to traders and businessmen, which is the main source of a bank's earning. A commercial bank advance credit to its borrowers in the following three ways :

(i) Cash Credit : In cash credit, the bank advances a 'cash loan' up to a specified limit to the customer against a bond or other security. A borrower is required to open a current account and bank allows the borrower to withdraw up to the full amount of the loan. The interest is charged only on the amount actually utilized by the borrower and not on the loan sanctioned.

(ii) Overdraft : The overdraft facility is allowed to the depositor maintaining a current account with the bank. According to this facility, a borrower is allowed to withdraw more amount than what is there in the current account. The excess amount so withdrawn has to be repaid to the bank with interest. However, the overdraft facility is given only against security of some assets or on personal security of the customer.

(iii) Discounting Bills of Exchange : The banks provide financial help to the merchants and exporters, who are the customers of that bank, by way of discounting their bills of exchange. In such facility, the bank pays the amount of bill presented by the customer, after deducting the usual bank discount. This way, the customer gets the amount of the bill before the date of its maturity. As such the bank assists its customers to a great extent by accepting their bills and providing them with liquid assets (money). Usually a bill matures after 90 days or so and then the bank presents it to the acceptor and receives full amount of the bill. **(2017)**

UNIT V

Short answers:-

3. **Two Forms of Consumer Exploitation**
   (i) **Underweight and Undermeasurement :** The goods being sold in the market are sometimes not measured or weighed correctly.
   (ii) **Sub-standard Quality :** The goods sold are sometimes of sub-standard quality. Selling of medicines beyond their expiry dates and supply of defective home appliances are generally the regular grievances of consumers. **(2013)**

4. **(i) Lack of Information :** In a free market economy, producers and sellers are free to produce any goods and services in any quantity and there is no regulation on the prices. In such cases, providing full and correct information about the product to consumers is of great importance. In the absence of information about different aspects of the products namely, price, quality, composition, conditions of use, terms of purchase, etc., the consumers are liable to make a wrong decision and hence lose money.
   (ii) Illiteracy : Illiteracy is one of the major reasons that lead to exploitation of consumers. The level of consumer consciousness in our country is generally low. The level of illiteracy directly affects the level of awareness about products and the markets. **(2015)**

5. RTI means Right to Information, under it any citizen of India may request information from a public authority. **(2015)**

6. COPRA refers to the Consumer Protection Act. This act was passed by Indian parliament in 1986. The objective of COPRA is to provide a law to protect the consumers' interests and provide them a proper grievance redressal forum so that they can get their rights as consumer secured. **(2017)**

7. Consumer awareness refers to the knowledge which a consumer must have about his/her rights and duties as consumer. The understanding by an individual of their rights as a consumer concerning available products and services being marketed and sold. The concept involves four categories including safety, choice, information and the right to be heard. **(2017)**

Long answers:-

4. Mixing of substandard items with food item is called food adulteration. For example mixing of toned milk with pure milk.

Two Harmul Effects of Food Adulteration

(i) It causes damage to human body

(ii) It results in loss of nutrition.

The government has passed an Act to control food adulteration. **(2013)**

5. A consumer is a person who takes decisions about what to buy for satisfaction of his wants.

Importance of Educating Consumers of their rights : When the government withdrew itself from production activities and permitted the private sector to take over, it was realised that there is a greater need to educate the consumers of their rights. The consumers have to be aware not only the commercial aspects of sale and purchase of goods but also of health and security aspects. A consumer stands at a much weaker footing than a seller. A seller can always use market conditions to his favour. Hence it is essential to educate the consumer of their rights to enable them protected from the sellers. **(2013)**

6. **Methods of Consumers' Exploitation in India**

The ways in which consumers are exploited by manufactures and traders are mentioned below :

(i) **Underweight and Undermeasurement :** The goods being sold in the market are sometimes not measured or weighed correctly.

(ii) **Sub-standard Quality :** The goods sold are sometimes of sub-standard quality. Selling of medicines beyond their expiry dates and supply of defective home appliances are generally the regular grievances of consumers.

(iii) **Duplicate Articles :** In the name of genuine parts or goods, fake or duplicate items are being sold to the consumers.

(iv) **High Prices :** Very often the traders charge a price higher than the prescribed retail price.

(v) **Lack of Safety Devices :** In order to increase the sale of their products, some producers especially of electrical foods, electronic devices and such other appliances, try to produce things of poor quality without caring for the standard safeguard norms. Such things prove very dangerous for the customers and some are even involved in serious accidents.

(vi) **Artificial Scarcity :** In order to get more and more profit, certain traders resort to hoarding of things thereby creating artificial scarcity. They sell these things later on at higher prices.

(vii) **Poor After-sale Service :** Many of the high cost durable items, such as electrical or electronic equipments, home appliances and cars etc. need adequate after-sale care. The supplier does not provide the satisfactory after-sale services despite the necessary payments.

(viii) **Adulteration and Impurity :** In costly consumer items such as oil, ghee and spices, adulteration is made in order to earn higher profits. This causes heavy monetary loss to the consumers as well as spoil their health.

(ix) **Rude Behaviour and Undue Conditions :** In matters like LPG gas connection, fixing of a new telephone line, procurement of licensing items etc., consumers are often harassed and undue conditions are put before them. **(2014)**

7. Consumer’s consciousness towards his/her rights and duties is known as consumer awareness. An alert consumer is the one who is alert of his rights and duties. An alert consumer will make sure that producers and sellers don’t cheat him by adopting unfair trade practices. He will save himself from various forms of exploitation like use of underweights while weighing goods, consumption of sub-standard goods and duplicate articles, paying higher prices than MRP, getting poor after sale services after the purchase of products, adulteration and impurity and undue conditions. He will keep checks and balances on anti-social activities like hoarding, black-marketing etc. In short, he will remain free from exploitation. **(2015)**

8. The two rights of a consumers are :
   (i) **Right to Safety :** The consumers have the right to be protected against marketing of goods and services, which are hazardous to life and property.
   (ii) **Right to be Informed :** All the consumers have the 'right to be informed' about the particulars of goods and services that they purchase. They have the right to be informed about the quality, quantity, potency, purity, standard and price of goods. **(2016)**

9. Consumer's consciousness towards his/her rights and duties is known as consumer awareness. The knowledge of the consumers towards their rights and protection is called consumer awareness.
   The four ways by which consumers are exploited are :
   (i) Underweight and Undermeasurement : The goods being sold in the market are sometimes not measured or weighed correctly.
   (ii) Sub-standard Quality : The goods sold are sometimes of sub-standard quality. Selling of medicines beyond their expiry dates and supply of defective home appliances are generally the regular grievances of consumers.
   (iii) Duplicate Articles : In the name of genuine parts or goods, fake or duplicate items are being sold to the consumers.
   (iv) High Prices : Very often the traders charge a price higher than the prescribed retail price.**)** **(2016)**

10. The form in which customer is exploited are
   Adulteration and Impurity: This is the very common way of exploitation of the consumers. Such adulteration and impurity takes place mainly in the edible items like oils, milk, spices, grains etc., and fossil fuels. Adulterated food is impure, unsafe, or unwholesome food. Incidents of food contamination have occurred because of poor harvesting or storage of grain, use of banned veterinary products, industrial discharges, human error and deliberate adulteration and fraud.
   Following are the various reasons why the consumers get exploited :
   (i) **Lack of Information :** In a free market economy, producers and sellers are free to produce any goods and services in any quantity and there is no regulation on the prices. In such cases, providing

full and correct information about the product to consumers is of great importance. In the absence of information about different aspects of the products namely, price, quality, composition, conditions of use, terms of purchase, etc., the consumers are liable to make a wrong decision and hence lose money.

(ii) **Shortage of Goods and Services :** The consumers are exploited when the goods and services are not available in the required quantity or numbers. Limited supplies are a result, usually, of lower production of goods, as compared to the demand. This gives rise to tendency of hoarding and price-increase.

(iii) **Limited Competition :** In some cases, single producer or a group of producers control the production and supply of a product. He is in a position to restrict the availability of supplies. There is, thus, a possibility of manipulation in prices and availability. **(2017)**

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