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NTA UGC-NET/JRF
ECONOMICS
Solved Papers

Publisher Declaration

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UGC NET/JRF EXAM, June-2012
ECONOMICS (Paper-II)
(Solved With Explanation)

1. Marginal Revenue of a Monopoly firm is less than the price. Because:
(a) Demand curve has a positive slope
(b) Demand curve has a negative slope
(c) Monopolist incurs losses
(d) Monopolist is in equilibrium

Ans.(b): Marginal Revenue (MR) of a monopoly firm is less than price. Because, Demand curve has a negative slope. This statement can se proved by following way.
The general relation between P and MR is found as follows Given:

$$R = P \times \text{ Where,} \begin{cases} R = \text{Total Revenue} \\ P = \text{Price} \\ X = \text{qnantity} \end{cases}$$

$$MR = \frac{dR}{dX} = P + x\frac{dP}{dX}$$

Since, slope of the monopolist's curve demand $\frac{dP}{dX}$ is always negative.
Hence, MR = P + (–ve)
Therefore, MR < P due to negative slope of demand curve.

2. For an inferior goods, income consumption curve and Engel's curves are
(a) Positively sloped
(b) Negatively sloped
(c) Are the same
(d) Income consumption curve

Ans.(b): Income consumption curve (ICC) and Engel's curves both are negatively sloped in case of inferior goods.
Income consumption curve traces out the income effect on the quantity consumed of the goods. In case of inferior goods income effect of change in money income is negative. Hence, as money income will rise consumer will spend less proportion of his/her income on inferior goods. Therefore, ICC curve in case of inferior goods will be negatively sloped. Engel's curve shows the relationship between the levels of income and quantity purchased of particular commodity.
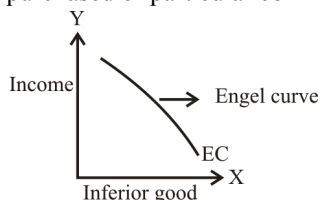
In case of inferior goods Engel's curve is negatively sloped.

3. The classical economists focused on the role of money as
(a) Medium of exchange
(b) Medium of distribution
(c) Wealth
(d) Link between for present and future

Ans.(a): In the classical economic system the role of money is as narrow as to act only as a medium of exchange. It has no influence on real variables such as national income, employment, investment etc.

4. If the demand for money is perfectly interest inelastic, the LM schedule will be
(a) Upward sloping
(b) Downward sloping
(c) Horizontal line
(d) Vertical line

Ans.(d): It the demand for money is perfectly interest inelastic, the LM schedule will be vertical line.
The LM schedule represents the combination of rate of interest and income level at which demand for money equals to supply of money the vertical LM curve shows the attributes of classical system in which money demand does not depend on interest rate. Therefore, demand for money will be interest inelastic for vertical LM curve.

5. Harrod-Domar model of economic growth is based on the equilibrium between
(a) Income generation and productive capacity creation
(b) Equilibrium between income and consumption
(c) Equilibrium between savings and investment
(d) None of the above

Ans.(c): Harrod-Domar model of economic growth is based on the equilibrium between savings and investment.
The model states that equilibrium growth rate will be achieve at the point where actual investment (Saving) will se equal to potential or warranted investment.
Actual investment (serving) $S_t = SY_t$ .... (i)
And, warranted investment $I_t = g(Y_t - Y_{t-1})$ .... (ii)
Where, S = saving output ratio
and, g = incremental capital output ratio
from the equation (i) & (ii) we can get equilibrium growth rate as follows-
$S_t = I_t$
$SY_t = g (Y_t - Y_{t-1})$
$$\frac{s}{g} = \frac{Y_t - Y_{t-1}}{Y_t}$$
equilibrium growth rate/ warranted growth rate.

6. In calculation the buoyancy of a tax, we consider
  (a) Only discretionary changes
  (b) Only automatic changes
  (c) Both (A) and (B)
  (d) Neither (A) nor (B)

Ans. (a) : Tax buoyancy simply is an indicator which used to measure the efficiency and responsiveness of revenue mobilization in response to growth in GDP.

A tax is said to be buoyant if the taxrevenueincreases more than proportionately in response to a rise in GDP.

Tax buoyant shows the relationship between tax revenue growth and the charges in GDP.

In calculating the buoyancy of a tax, we consider both discretionary and automatic changes.

7. Which of the following measures of the central tendency suits the data best if the objective is to assess the distribution of values?
  (a) Arithmetic mean   (b) Mode
  (c) Median   (d) Kurtosis

Ans.(c): If the objective is to assess the distribution of values median will be the best measure of central tendency. Because, it is a positional measure and divide the data set in two equal half,one half is less than median and other half is greater than median.

8. Comparative cost advantage in Ricardo's international trade theory arises due to
  (a) Labour cost differences
  (b) Differences in factor endowment
  (c) Factor abundance defined in terms of factor prices
  (d) All of the above

Ans. (a) : Comparative cost advantage in Ricardo's international trade theory arises due to labour cost differences Ricardo in his famous comparative cost advantage theory had taken labour as only factor of production A country is said to be efficient in production of a commodity if it uses comparatively less labour hour than rival country or by using same labour. hour one country is producing more of a commodity than other then it is said that former has comparative cost advantage over later.

9. In India, in 2004-05 the number of poor persons below poverty line was the highest in the state of
  (a) Bihar   (b) Uttar Pradesh
  (c) Madhya   (d) Rajasthan

Ans.(b): As per the latest estimate for 2004-05 India had 30.17 Crore People below Poverty line in 2005. Uttar Pradesh had the largest number of poor with 5.9 Crore below poverty line.

Orrisa has the largest percentage of poor (46.4%) followed by Bihar (41.4%) Chhattisgarh (40.4%) and Maharashtra (30.7%)

10. Which of the following is not a component of Bharat Nirman?
  (a) Rural housing
  (b) Rural electrification
  (c) Agro-based industries
  (d) Rural telephony

Ans.(c): Bharat Nirman was a time-bound plan for the period 2005-09 launched plat for the period 2005-09 launched by Government of India for the construction of rural infrastructure.

The program was launched on December 16,2005 by Ministry of Rural Development. This programme has included following six components:
(i) Irrigation   (ii) Drinking water
(iii) Electrification   (iv) Roads
(v) Housing   (vi) Rural telephony
Obviously it does not include agro-based industries.

11. A point of 'Kink' in the kinked demand curve indicates
  I. Price rigidity
  II. Quantity rigidity
  III. Price flexibility
  IV. Quantity flexibility
  (a) I and II are correct
  (b) II and III are correct
  (c) III and IV are correct
  (d) I and IV are correct

Ans.(a): A Point of 'Kink' in the kinked demand curve indicates both Price rigidity and quantity rigidity.

In oligopolistic market structure producers face kinked demand curve for their product kinked demand (old) curve originated from intersection of individual demand curve of the firm and itsmarket share curve (DD). dd curve is more elastic than DD curve. Price remain rigid on point of intersection (kink) the main cause of this rigidity is difference of elasticity between both of the curve.
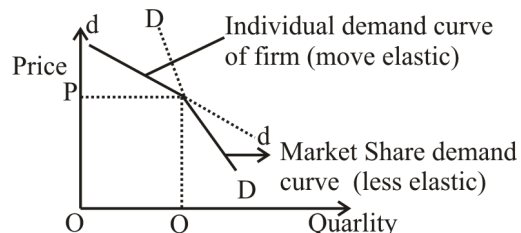
12. Improvement in the BOP deficit may be effected through
  I. Import control
  II. Export promotion
  III. Foreign exchange control
  IV. Devaluation
  Code:
  (a) I and II are correct
  (b) I, II, III and IV are correct
  (c) II and III are correct
  (d) I, II and III are correct

Ans.(b): Balance of payment deficit may be improved by adopting monetary measures and non-monetary measures.

Under monetary measures we use following tools-
1. Devaluation
2. Deflation
3. Foreign exchange control.
and under non-monetary measure we use following tools-

(i) Important control
(ii)Export promotion
(iii) Foreign capital and foreign aid Promotion
(iv) Thus All, import control, export promotion, foreign Exchange control and Devaluation may affect the improvement in BoP.

13. The problem relating to burden of public debt has been dealt by
I. A.P. Learner
II. E.D. Domar
III. A.C Pigou
IV. A.H. Henson
Codes:
(a) I and II are correct
(b) II and III are correct
(c) I and IV are correct
(d) II and III are correct

Ans.(c): The Problem relating to burden of public debt has been dealt by A.P learner and A.H. Henson.
A.P Learner descries the over lapping generation model in dealing with burden of Public debt However E.D Domar and AC Pigou conceptualize the Problem of burden of Public debt.

14. Fiscal policy relates to the Government decision in respect of
I. Taxation
II. Government spending
III. Government borrowing
IV. Public Debt
Codes:
(a) III and IV are correct
(b) II, III and IV are correct
(c) I and II are correct
(d) All the above are correct

Ans.(d): Taxation, Government Spending , Government borrowing , Public Debt all are tools of fiscal policy. Government uses these tools to achieve goals objectives of fiscal policy. Fiscal Policy is an important policy associated with government intervention in the economy.

15. HDI is entrusted with reference to:
I. Life expectancy at birth
II. Real GDP/per capita
III. Infant mortality
IV. Morbidity
Codes:
(a) I and II are correct
(b) II and III are correct
(c) III and IV correct
(d) All the above

Ans.(a): Human Development Index (HDI) is an indicator of a country's average achievement in three basic aspects of human development that is health] knowledge and Standard of living.
It is a measure of country's average achievement in three dimensions of human development.
1. A long & healthy life: as measured by life expectancy at birth.

2. Knowledge :as measured mean years of Schooling and expected by years of Schooling
3. A decent Standard of living : as measured by GNI per capita in PPP terms (in US$)
HDI is entrusted with reference to life expectancy at birth and real GDP per capita. Thus option (a) is correct.

16. Thedoctrine of unbalanced growth was propounded by
I. Hirschman
II. Robert Solow
III. Singer
IV. RagnarNurkse
Codes:
(a) I and II are correct
(b) II and II are correct
(c) III and IV are correct
(d) I and III are correct

Ans.(d): The main Propounded of this theory was A.O Hirschman. Singer, W.W. Rostow, Paul Streeter, Marcus Fleming and J. Shinar are also associated with unbalanced growth.
The doctrine of unbalanced growth advise to create imbalances deliberately by investing in few Selected industries. This approach assume development is a chain disequilibria that must keep alive rather than eliminate disequilibria.

17. Harrod-Domar model of economic growth is based upon
I. Warranted growth rate
II. Investment growth rate
III. Productivity growth rate
IV. Natural growth rate
(a) I and II are correct
(b) II and III are correct
(c) III and IV are correct
(d) I and IV are correct

Ans. (d) : Harrod-Domar model of economic growth is based upon three types of growth rates.
(i) Actual growth rate
(ii) Warranted growth rate
(iii) Natural growth rate
Actual growth rate is the rate of output growth at which an economy is actually growing.
It can be expressed as follows–

$$G_a = \frac{S}{C}$$

{Where, S = saving - output ratio}
{C = Capital out-put ratio}

Warranted growth rate shows the producers equilibrium. It is the rate at which expost saving is equal to ex-ante investment. It can be expressed as follows-

$$G_w = \frac{S}{Cr}$$

{Where, S = saving - output ratio}
{Cr = incremental capital - output ratio}

lastly natural growth rate is the rate at which economy remains at full employment. It is also called as full employment rate of growth it depends on the available natural resources, labour and level of technology.

$$G_n = CrL + n$$

{CrL = growth rate or labour force}

{n = growth in Average}

For longterm full employment growth rate

{Productivity of labour}

$$\boxed{G_a = G_w = G_n}$$

18. **In Keynesian system speculative demand for money arises because of**
I. Uncertainty of future interest rates
II. Unexpected expenditures
III. To bridge the gap between income and eventual expenditure
IV. Relationship between changes in the interest rates and bond prices
 (a) I and III are correct
 (b) I and IV are correct
 (c) II and III are correct
 (d) III and IV are correct

Ans.(b): In Keynesian system speculative demand for money arises because of uncertainty of future interest rates and Relationship between changes in the interest rates and bond prices.
Speculative demand for money is money demanded for financial asset (bond).There is inverse relationship between interest rate and bond price

$$\uparrow r \propto \frac{1}{P_b} \downarrow$$

Therefore, uncertainty of future interest rates involve market risk related with the value of bond.Speculator do not know in which direction the interest rate will move. If interest rate increase it will decrease bond price other wish vice-versa.
Therefore, it is clear that speculative demand for money has arise because of uncertainty of future interest rates and changes in bond price.

19. **According to Milton Friedman Theory of permanent component of consumption-expenditure depends on**
I. transitory income alone
II. Transitory and permanent income
III. Permanent income alone
IV. Windfall gains
 (a) I and II are correct
 (b) I and III are correct
 (c) II and IV are correct
 (d) Only III is correct

Ans.(d): Permanent income hypothesis is propounded by Milton Friedmanin 'A Theory of consumption function'published in 1957.
According to permanent income hypothesis permanent component of consumption.expenditure depends on permanent Income alone. Permanent consumption does not depend no transitory income, bonus or wind will gains.

20. **The planning commission of India has recently made announcement regarding poverty Line:**
I. ₹ 42 per capita per day in urban area
II.₹26 percapita per day in rural area
III. ₹32 per capita per day in urban area
IV. ₹32 per capita per day in rural area
Codes:
 (a) I and II are correct
 (b) I and III are correct
 (c) II and III are correct
 (d) III and IV and correct

Ans.(c): Planning commission of India recently made announcement regarding poverty line ₹26 per capita per day in rural area and ₹ 32 per capita per day in urban area. When income or consumption of an individual or the household fall below this prescribed norms by planning commission they are designated to be below the poverty line (BPC).

21. **Assertion (A): Giffin's paradox rarely occurs in the**
Reason (R): Inferior goods are narrowly defined for which suitable substitutes are available.
Codes:
 (a) Both (A) and (R) are correct and (R) is the correct explanation of (A).
 (b) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
 (c) (A) is correct, but (R) is incorrect
 (d) (A) is incorrect, but (R) is correct

Ans. (c) : The Assertion is correct but Reason is incorrect.
Giffen good is specific type of good which violates the law of demand.Quantity demanded of Giffen good increase with rise in price and decrease with fall in price. Giffen good are special kind of inferior good for which positive income effect of price change outweight the negative substitution effect, for which price change and change in Quantitydemanded more in the same direction.
Inferior good does not have suitable substitutes.

22. **Assertion (A): According to the Life cycle Theory of consumption, an individual level of consumption depends not just on current income but also on long run expected earnings.**
Reason (R): Individuals are assumed to plan a pattern of expenditure based on expected earnings over life time.
Codes:
 (a) (A) is true, but (R) is false
 (b) Both (A) and (R) are false
 (c) (A) is not correct, but (R) is correct
 (d) Both (A) and (R) are correct and (R) is correct explanation of (A)

Ans. (d) : Life cycle hypothesis is propounded by Franco Modigliani. This theory of consumption asserts that individual consumption just not depend on their current level of income but they plan their consumption on the basis of their life time expected earnings.

Accordingly, individual take on debt when they are young assuming future income will enable them to pay it off. they then save during middle age in order to maintain their level of consumption after retirement.

Individual expect to plan a pattern of expenditure based on expected earning over life time.

Therefore, both (A) and (R) are correct and (R) is correct explanation of (A)

23. **Assertion (A): Effective demand can be increased by more equitable distribution of wealth.**

Reason (R): Thirty or forty entities with income averaging between 1 lakhs and 5 lakhs would create much more effective demand than a single entity having income of 10 lakhs a year.

Codes:
 (a) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
 (b) Both (A) and (R) are correct and (R) is the correct explanation of A
 (c) (A) is correct, but (R) is correct
 (d) (A) is incorrect, but (R) is correct

Ans. (b) : Effective demand refers to the willingness and ability of consumers to purchase goods at different prices. It reflects the actual demand for goods and services where aggregate demand for output Produced in economy equals of aggregate Supply.Equitable distribution of wealth increase effective demand by overriding   concentration of wealth consequently more people with either marginal propensity to consume (MPC) increase the effective demand

Thus, both (A) and (R) is correct and (R) is the correct explanation of (A).

24. **Assertion (A): During the period 2004-05 to 2007-08 fiscal consolidation process was witnessed in India.**

Reason (R): There was buoyancy in tax revenue during this period.

Codes:
 (a) Both (A) and (R) are correct and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
 (c) (A) is correct, but (R) is incorrect
 (d) (A) is incorrect, but (R) is correct

Ans. (a) : In India after the implementation of FRBM, Act in 2004 fiscal consolidation process was witnessed. The average gross fiscal deficit for the period 2003-04 to 2008-09 was 3.6 In the same   period primary deficit was 0.0 percent and Revenue deficit was 2.2 Percent (average) Thus, we can say that India witnessed fiscal consolidation in the period 2004-05 to 2007-08

Tax buoyancy during 9th plan (1997-2002) was average of 0.871 which increase to 1.522 in 10th plan (2002-2007). It must help in maintaining the fiscal consolidation.

Thus both (A) and (R) are correct and (R) is the correct explanation of (A).

25. **Assertion (A) : K/L ratio will adjust through time in the direction of equilibrium ratio.**

Reason (R): Because the technical coefficient of production are variable.

Codes:
 (a) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
 (b) Both (A) and (R) are correct and (R) is the correct explanation of (A)
 (c) (A) is correct, but (R) is incorrect
 (d) (A) is incorrect, but (R) is correct

Ans. (b) : Both (A) and (R) are correct and (R) is the correct explanation of (A).

26. **Assertion (A): Financial inclusion is desirable to help weaker sections of society in the country**

Reason (R): Investment activity needs to be promoted to facilitate access to development benefits to masses.

Codes:
 (a) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
 (b) Both (A) and (R) are correct and (R) is the correct explanation of (A)
 (c) (A) is not correct, but (R) is correct
 (d) (A) is correct, but (R) is not correct

Ans. (b):financial inclusion defined as the process of ensuring access tofinancial services and timely and adequate credit where needed by vulnerable groups such as weaker section and low income groups at an affordable cost.

Further, Investment is life line for any kind of economic development to access development benefits to masses investment in infrastructure is required to be promoted. Investment in financial inclusion must also be promoted to provide development benefits to masses of the society. Thus statement (R) is also true and providing correct explanation of (A).

27. **Assertion (A): Stationary state is the end of the process of capital formation.**

Reason (R): Scarcity of natural resources as also capital leads the economy to the stationary state.

Codes:
 (a) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
 (b) Both (A) and (R) are correct and (R) is the correct explanation of (A)
 (c) (A) is correct, but (R) is not correct
 (d) (A) is not correct, but (R) is correct

Ans. (b) : The concept of stationary state of an economy is developed Adam smith Stationary state is motion less state in which neither positive nor negative growth of an economy takes place.

• Smith believes that every economy sooner or later reached this state.

• Stationary state is a state of zero growth rate where no capital formation occurs. Constant Income, unchanged population, subsistence wage, absence of net investment and incentive to profit is other features of stationary state.

- Scarcity of natural resources and capital are responsible for the Stationary of the economy It had been proved by various growth models that to break the stationary huge investment is required. Therefore, both (A) and (R) are correct and (R) is the correct explanation of (A)

28. Assertion (A): Investment has also a supply effect.

Reason (R): Because it raises capacity to produce.

Codes:

(a) Both (A) and (R) are correct and (R) is not the correct explanation of (A)

(b) Both (A) and (R) are correct and (R) is the correct explanation of (A)

(c) (A) is correct, but (R) is not correct

(d) (A) is not correct, but (R) is correct

Ans. (b) : An increase in the investment increases the productive capacity of the economy and therefore, aggregate production and supply increases in the economy.

Thus Assertion (A) and Reasoned both are correct and (R) is the correct expiation of (A).

29. Assertion (A): Gold standard was finally given up after the Second World War.

Reason (R): Countries had different rates of inflation.

Codes:

(a) Both (A) and (R) are correct and (R) is the correct explanation of (A)

(b) Both (A) and (R) are correct and (R) is not correct explanation of (A)

(c) (A) is correct, but (R) is not correct

(d) (A) is not correct, but (R) is correct

Ans. (b) : Gold Standard is a monetary system in which price of a country's currency tied with fixed quantity of gold. Hence, the value of currency is fixed the amount of gold. It forms the basis of International monetary system.

This system collapsed after world war II, However it was operated in different time periods.

The gold standard was mainly given up due to the Great Depression 1930, Propensity for volatility as well as limit composed on government. Therefore, There is nosingle and instant cause for given up this Standard, it involves several interrelated and chronicproblems which lead to demise of gold standard .

30. Assertion (A) : Disguised unemployment is present in India agriculture.

Reason (R): Marginal productivity of agriculture is close to zero

Codes:

(a) Both (A) and (R) are correct and (R) is the correct explanation of (A)

(b) Both (A) and (R) are correct and (R) is not the correct explanation of (A)

(c) (A) is correct, but (R) is not correct

(d) (A) is not correct, but (R) is correct

Ans. (a) : Disguised unemployment is Indian agriculture is always present due to excess labour supply in agriculture sector owing to large population dependency or agriculture

Disguised unemployment is a form of employment in which marginal productivity of labour is zero.

Therefore statement (A) & (R) both are correct and (R) is the correct expiation of (A).

31. Arrange the following in chronological order:

I. CES production function

II. Cobb-Douglas production function

III. Tronslog production function

IV. The law of variable proportions

(a) III, I, IV, II   (b) I, IV, II, III

(c) IV, II, I, III   (d) II, III, I, IV

Ans. (c) : The correct Sequence of the above code is as following.

IV: The law of variable Proportion

II: Cobb-Douglas production function

I: CES production function

III: Tran slogProduction function.

Thus, the correct chronological order is IV, II, I, III

32. Consider the following schemes:

I. EAS

II. TRYSEM

III. JRY

IV. RLEGP

The correct chronological sequence of the launching of these schemes are:

(a) II, IV, I, III   (b) IV, II, III, I

(c) IV, III, I, II   (d) II, IV, III, I

Ans. (d) : TRYSEM : Training of Rural youth for Self-Employment (TRYSE) is a Scheme launched by the government of India through the Department of rural Development on the 15th August 1979.

RLEGD: Rural landless Employment Guarantee Programme (RCEGP) was introduced on August 15, 1983.

JRY: JawaharRozgaryojna was launched on April 1 , 1989 by merging National Rural Employment Programme (NREP) and RLEGP.

EAS: The employment Assurance scheme (EAS) in India was introduced on 2nd October, 1993.in the rural areas of 1778 blocks of 261----- thus, the correct sequence of the schemes will be.

II, IV, III, I

33. Arrange the origin of money in a sequential order

I. Cheque

II. Metallic money

III. Commodity money

IV. Paper money

(a) IV, I, III, II   (b) I, III, II, IV

(c) III, II, IV, I   (d) II, IV, I, II

Ans. (c) : Commodity money :

commodity which has some intrinsic value can be used as money for transaction In barter system several commodities, had been used as money

Metallic money:

Metallic money are coins of metals like gold, silver etc. issued central authority of the country. It has both face value like ₹ 1, ₹10, ₹100 coins and also intrinsic value (commodity values). If its intrinsic value is equal to face value of the coin then it will be a full- bodied coin.

Paper money:- It is Representative money issued by central bank of the country. It is also known as token money or notice money.

Cheque: A document that orders a bank to pay a specific amount of money from a personal account.

Therefore, the correct order of development of money will be (III) commodity money (II) metallic money (IV) Paper money,(I) Cheque.

34. Arrange the following theories in the chronological order:
I. Restatement of Quantity Theory
II. Income Theory
III. Quantity Theory
IV. Cash Balance Approach
Select the correct answer from the given codes:
Codes:
(a) I, II, IV, III   (b) III, I, II, IV
(c) IV, III, I, II   (d) III, IV, II, I

Ans. (d) :(III) Quantity theory of money establish the relationship between Quantityof money and general price level of goods and Services.

This theory originally formulated by Nicolas Copernicus in 1517. later it was popularized then lock Devil home and Deven Jetty.

(IV) Cash balance Approach: Cash balance approach related with the value of money According to this approach value of money depends upon the demand for money .

Cash balance approach given by A.C Pigou in 1917.

(II) Income Theory :- Income theory of money tries to explain to process of change in general price. level and the variable which are censed to fluctuate the general price level.

These theories become popular in first half of 20th contrary.

(I) Restatement of Quantity Theory of money is given by million Friedman. Friedman is an essay The Quantity Theory of money– A Restatement published in 1956, in which he providea new setup of Quantity theory of money.

Therefore, the correct order will be (III) ,(II),(I)

35. Identify the correct chronological order of the following classical economists:
(a) Adam Smith, Malthus, Ricardo, J.S. Mill
(b) Adam Smith, Ricardo, Malthus, J.S. Mill
(c) Adam Smith, J.S. Mill, Ricardo, Malthus
(d) Adam Smith, Malthus, J.S. Mill, Ricardo

Ans. (b) : Adam Smith :   Born : 1723
• Father Economics   Death : July 17, 1790
• Create the concert of Gross Domestic Product(GDP).
Advocated ---- – fair
Ricardo: (1772-1823)
• Classical school of Thought

• Advocated free trade
• on the principle of political economy and taxation is a famous book written by Ricardo.
Malthus:
• Time period: (1766-1834)
• Founder of the statistical society of fonder
• Known for his population growth philosophies.
J.S mill
• Time period : 1806-1873
• Exponent of utilitarianism
Thus, option (b) is correct.

36. The sequencing process of Schumpeter model of development is
(a) Swarm like Clusters, Innovation, Bank credit, Breaking circular flow
(b) Breaking circular flow, Innovation, Bank credit, Swarm like Clusters
(c) Innovation, Bank credit, Breaking circular flow, Swarm like Clusters
(d) Bank credit, Innovation, Swarm like Clusters, Breaking circular flow

Ans. (b) : The sequencing process of Schumpeter model of development is following.
(I) Breaking circular flow
(II) Innovation
(III) Bank Credit
(IV) Swarm like cluster

37. Arrange the following theories in order in which they appeared:
I. Comparative Cost Advantage Theory
II. Absolute Cost Advantage Theory
III. Leontief paradox
IV. Factor Endowment Theory
Codes:
(a) I, III, II, IV   (b) II, III, IV, I
(c) II, I, IV, III   (d) I, IV, II, III

Ans. (c) : (II) Absolute cost Advantage Theory:-
described Absolute cost Advantage theory by Adam Smith in 1776 Publication wealth of Nation.
(I) Comparative cost Advantage Theory:-
Comparative cost Advantage theory of trade is conceptualized by DevidRicardo in his book on the principles of political economy and Taxation publishedshe in 1817.
(II) Factor Endowment Theory:-Factor Endowment theory was propounded by EliHecscher in 1919 and again byBertil Ohlin in 1933.
(III)Leontief paradox: Leontief paradox is associated with H-O Theorem. In 1953 Leontief explained this paradox.
Therefore, the correct order of the theories are
(II),(I),(IV),(III)

38. Arrange the stages of economic growth in a sequential order:
I. The age of high mass consumption
II. The traditional society
III. The take-off stage
IV. The drive to maturity

(a) I, III, IV, II   (b) II, IV, I, III
(c) III, I, II, IV   (d) II, III, IV, I

Ans. (d) : W.W Rostow proposed the various stages of growth of an economy. In a development process the economy experienced these stages in following order
(II) The traditional Society
(III) The take off stage
(IV) The drive to maturity
(I) The age of high mass Consumption

39. Identify the sequence of implementation of the following taxes.
Select the correct answer from the given codes:
I. Land Revenue
II. Sales tax
III. MODVAT
IV. Service tax
Cades:
(a) I, II, III, IV   (b) II, IV, I, III
(c) III, II, IV, I   (d) IV, II, I, III

Ans. (a) :
(I) Land Revenue – from the Ancient age
(II) Sales tax− in 1938 by middle presidency
(III) MODVAT – 1986
(IV) Service Tax – 1994-95

40. Identify the correct chronology of the following:
I. Fisher's test of significance of differences between means of three or more samples
II. Kendal's partial rank correlation
III. Gossest's T test of significance between means of two samples
IV. X^2 test of goodness of fit of the curve and randomness of the sample values.
Codes:
(a) III, I, II, IV   (b) I, II, III, IV
(c) IV, III, II, I   (d) I, II, IV, III

Ans. (a) :
III. William S. Gosset discovered the t- test in 1908 . He derived the formula for the t-curve which used to get R-values in studies of the small samples that compare means.
I. R.A. Fisher proved Gossest findings and generalized the Grosset's original work and Present a unified System for comparing means of three or more samples.
II. Kendal's Partial rank correlation test is non-parametric hypothesis test. It was developed by man ricekendall in 1938. Chi-square goodness of fit test is non-parametric is used to test if a sample of data came from a population with or spearfish distribution It was discovered by Snedecor and Cochran, 1989.
Thus the order will be III , I , II, IV

41. List-I   List-II
I. Behavioural theory of the firm   1. J.B. Clark
II. Marginal Productivity theory of distribution   2. Cyert and Mark

III. Double criterion of welfare   3. Kenneth Arro
IV. Impossibility Theorem   4. Scitovosky
Codes:

	I	II	III	IV
(a)	2	1	4	3
(b)	3	2	4	1
(c)	1	4	3	2
(d)	2	1	3	4

Ans. (a) : (I) <u>Behavioral Theory of the firm</u>:
A behavioral theory of the firm is a book written by cyert& march,1963
(II) Marginal Productivity Theory of Distribution:
The marginal Productivity theory of distribution was developed by J.B. Clark at the end of the 19th Century. According to this theory, the price of a factor tends to equal the value of its marginal product.

$$P = VMP$$

(III) Double criterion welfare: TiborScitovosky first indentified the famous Scitovosky reversal Paradox. He Pointed out that if in some situation position, say Q is shown to be an improvement over P on Kaldor-Hickscriterion.It may be possible that position P is also shown to be an improvement over Q on the basis of a welfare criterion.
(IV) Impossibility Theorem:
Impossibility Theorem was developed by Kenneth J. Arrow in his book "Social Choice and Individual values" (1951).

42. List - I   List - II
I. New classical Economics   1. T.H. Haavelmo
II. Permanent Income   2. Robert Lucas
III. Multiple effect of Balanced   3. N. Gregory Mankiw
IV. New Keynesian Economics   4. Milton Friedman
Codes:

	I	II	III	IV
(a)	3	4	1	2
(b)	4	3	2	1
(c)	2	4	1	3
(d)	1	2	4	3

Ans. (c) : New classical Economics: New classical economies is based on Rational Expectation Hypothesis (REH). <u>Robert Lucas</u> formulated the REH. Thus Robert Lucas is associated with new classical school of thoughtin economics
(II) Permanent Income Hypothesis: Permanent Income Hypothesis is propounded by Milton Friedman in article "A Theory of consumption function" in 1957.
(III) Multiple effect of balanced Budget:
Multiplier Effect of Balanced budget is a paper published by <u>T.H Haavelmo.</u>

(IV) New Keynesian Economics: The label"new Keynesian" describes those economist who in the 1980s, responded to this new classical critique with the original Keynesian tenets.

• **N. Gregory mankiw** is a New Keynesian economist who developed 'Menu cost theory' for explanation of **wage-pricestickiness**.

43.

	List-I		List-II
I.	Invisible Hand	1.	Karl Marx
II.	Warrier Knight	2.	Adam Smith
III.	PQLI	3.	Schumpeter
IV.	Surplus Value	4.	Morris D. Morris

Codes:

	I	II	III	IV
(a)	1	4	2	3
(b)	2	3	4	1
(c)	1	2	3	4
(d)	4	3	2	1

Ans. (b) :

List - I	List -II
I. Invisible Hand	2. Adam Smith
II. Warrier knight	3. Schumpeter
III. PQLI	4. Morris D. Morris
IV. Surplus Value	1. Karl Marx

The correct option is (b)

44.

	List - I		List - II
I.	Four sector Model	1.	Rosestein Rodan
II.	Critical Minimum Effort Thesis	2.	Arthur Lewis
III.	Big Push Theory	3.	Mahalanobis
IV.	Theory of Unlimited Supply of Labour	4.	Leibeistein

Codes:

	I	II	III	IV
(a)	4	3	2	1
(b)	3	4	1	2
(c)	4	1	3	2
(d)	1	2	4	3

Ans. (b) :

List- I	List-II
I. Four sector Model	3. Mahalanobis
II. Critical Minimum Effort Thesis	4. Leibeistein
III. Big Push Theory	1. Rosestein
IV. Theory of Unlimited Supply of Labour	2. Arthur Lewis

45.

	List-I		List-II
I.	Food-grains Production	1.	Industrial Sector
II.	Level of Prices	2.	Revenue Deficit
III.	Industrial Growth	3.	Agricultural 7
IV.	Fiscal Indicators	4.	Wholesale Price Index

Codes:

	I	II	III	IV
(a)	4	2	1	3
(b)	3	4	2	1
(c)	3	4	1	2
(d)	2	3	4	1

Ans. (c) :

List - I	List - II
(I) Food grains production	3. Agriculture Sector
(II) Level of prices	4. whole sale price Index
(III) Industrial growth	1. Industrial Sector
(IV) Fiscal Indicators	2. Revenue Deficit

46.

	List - I		List - II
I.	National Agricultural Policy	1.	2004
II.	Marine Fishing	2.	1978
III.	New Foreign Trade	3.	2000
IV.	Seventh Finance Commission	4.	2004

Codes:

	I	II	III	IV
(a)	2	1	3	4
(b)	4	3	1	2
(c)	1	4	2	3
(d)	3	1	4	2

Ans. (d) : National Agricultural Policy : 2000

on 28th July, 2000 Government of India announced National Agricultural policy. The policy aimed agricultural growth 4 percent per annum by 2005.

(II) Marine Fishing policy: 2004

Marine Fishing policy draw up by Government of India finally implemented in 2004.

(III) New Foreign Trade policy:

Government of India adopted new foreign trade policy (2004-09) by replacing Export import policy. (EXIM policy) as a tool of export promotier.

(IV) Seventh Finance Commission : 1978

⇒ 7th Finance commission was incorporated in 1978 under chairmanship of Shri J.M. Shelat.

47.

	List - I		List - II
I.	GATT	1.	Managing balance of payment
II.	IMF	2.	Developmental Finance
III.	IBRD	3.	Free Trade
IV.	UNO	4.	Maintenance of Peace among nations

Codes:

	I	II	III	IV
(a)	2	1	4	3
(b)	3	1	2	4
(c)	2	3	1	4
(d)	4	1	3	2

Ans. (b) :

List-I	List-II
(I) GATT	3. Free Trade

• The General Agreement on Tariffs and trade (GATT), was a legal agreement on minimizing barriers to international trade signed by 23 countries on October 30,1947

(II) IMF1. Managing balance of payments

• IMF was establish in 1944 after the Great Depression of the 1930s. The IMFS primary mission is to ensure the stability of international liquidity and provide loan for balance of payment.

(III) IBRD   2. Development Finance

• International Bank for Reconstruction and Development (IBRD) was established in 1944 and headquarter inWashington, DC US.

• It provides developmental finance for middle East, Asian and other developing countries.

(IV) UNO   4. Maintenance of peace among Nations.

• The united Nations is an intergovernmental organization aiming to maintain international peace.

• It was establish on 24 October 1945. San Francisco, californium, United States.

48.

List-I		List-II
I. Adam Smith	1.	Availability doctrine
II. David Ricardo	2.	Factors endowment
III. Ohlin	3.	Absolute advantage
IV. I.B. Kravis	4.	Comparative advantage

Codes:

	I	II	III	IV
(a)	1	2	3	4
(b)	3	4	2	1
(c)	2	4	3	1
(d)	4	3	1	2

Ans. (b) :

List-I	List-II
(I) Adam smith	3. Absolute Advantage
(II) David Ricardo	4. Comparative Advantage
(III) Ohlin	2. Factors Endowments
(IV) I. B Kravis	1. Availability doctrine

49.

List-I	List-II
I. Simple Random Sampling	1. Equal Probability of selection of an item in a trial
II. Random Sampling	2. Equal probability of each item in all trials
III. Stratified Random Sampling	3. Random selection of first and systematic of the rest
IV. Stratified Systematic Random Sampling	4. Random choice of all items from each stratum

Codes:

	I	II	III	IV
(a)	1	2	3	4
(b)	3	1	4	2
(c)	4	3	1	2
(d)	2	1	4	3

Ans. (d) :

(I) Simple Random Sampling:
Simple Random Sampling is a sampling technique in which every unit of population has equal probability of being Selected in every trial.

(II) Random Sampling:
Random Sampling is a part of the sampling technique in which each sample has an equal probability of being selected in a trial.

(III) Stratified Random Sampling:
Stratified Random sampling is a sampling technique in which population are divided in different mutually exertive and non-overlapping strata. Further all items are randomly selected from each stratum.

(IV) Stratified Systematic Random Sampling:
Stratified Systematic Sampling is also a Random sampling In this method, the basic elements are selected randomly from each stratum then after systematically follow a pattern.

Therefore, the correct option is (d).

50.

List-I		List-II
I. IS-LM Theory	1.	Franko Modigliani & Richard Brumberg
II. Consumption Ratchet	2.	Lucas & Sargent
III. Life Cycle Hypothesis	3.	Hicks and Hanson
IV. Critics Keynesian Economics	4.	James Dussenbery

Codes:

	I	II	III	IV
(a)	3	4	1	2
(b)	3	2	1	4
(c)	4	3	1	2
(d)	1	3	4	2

Ans. (a) :

List-I	List-2
(I) Is – LM Theory	3. Hicks and Hanson
(II) Consumption Ratchet :	4 James Dussenbery
(III) Life cycle Hypothesis:	1. Franco Modiglian if Richard Bromberg
(IV) Critics of Keynesian Economics:	2. Lucas & Sergeant

UGC NET/JRF EXAM, June-2013
ECONOMICS (Paper-II)
(Solved With Explanation)

1. Under Cournot Model of Duopoly, each duopolist will produce
  (a) half the output
  (b) one-fourth of the output
  (c) one-sixth of the output
  (d) one-third of the total output

Ans. (d) : French economist Augustin Cournot developed a duopoly model in 1838. In this model, Cournot concluded that each duopolist will produce one third of the total output. This model leads to a stable equilibrium.

2. As long as the substitution effect dominates the income effect, the labour supply curve is
  (a) negatively sloped
  (b) positively sloped
  (c) bend backward
  (d) shifting towards left

Ans. (b) : As per the changes in wage rate, leisure. Income trade off curve shows two types of effects –
(i) Substitution effect (ii) Income effect
As we know labour supply curve is derived from Income leisure trade off curve .
As long as substitution effect dominates over income effect (SE > IE), the labour supply curve is positively sloped. But, if Income effect dominates over substitution effect the labour supply curve will bend backwardly towards y-axis and labour supply will reduce.
Actually, substitution effect arise due to substitution of leisure in place of work hour after rise in wage rate, because leisure become more costly.

3. The distinguishing characteristics of monopolistic competition are
  I. Product differentiation
  II. Non-price competition
  III. Large number of firms and freedom to entry and exit
  IV. Firms are interdependent
  Codes:
  (a) I & III are correct.
  (b) I, II and IV are correct.
  (c) I,II and III are correct.
  (d) I, III and IV are correct.

Ans. (c) : The book 'economics of imperfect competition' by Smt. John Robinson and 'Theory of monopolistic competition' by Prof. Chamberlin both published in same year 1933. Both fundamentally propounded that pure competition and pure monopoly are two extreme conditions of market that practically impossible to prevail.

Imperfect competition is the market condition which lies in between these two extreme conditions. Chamberlin called it monopolistic competition. This type of market structure has both some extent of monopoly and some extent of competition. According to chamberlin every producer is monopolist but he faces competition. Therefore-

$$\boxed{\text{Monopoly} + \text{Competition} = \text{Monopolistic competition}}$$

Monopolistic competition has following characteristics :
(1) Large number of buyer and seller in a group.
(2) Production of close goods which are differentiated but have some close substitute.
(3) Free entry and exit of firm in group.
(4) Sales cost and advertisement expenditure are involved.
(5) Buyer has imperfect knowledge to the market.

4. Assertion (A) Monopoly is Pareto inefficient. Reason (R): it would be possible to change the allocation of resources to make the amount of income he would be prepared to pay in exchange of the reduction in price.
  Codes:
  (a) Both (A) and (R) are correct and (R) is the correct explanation of (A.)
  (b) (A) is correct, but (R) is not correct.
  (c) Both (A) and (R) are correct, but (R) is incorrect explanation of (A).
  (d) (R) is correct, but (A) is incorrect.

Ans. (a) : The outcome of a perfectly competitive market is pareto efficient where as that of a monopoly is not. Because, both monopolist can increase their production by employing more resources in production process. More production will lowers the price level which further increase consumer surplus and over all welfare of the economy. Therefore, in monopoly pareto distribution is inefficient.
Therefore, both (A) and (R) are correct and (R) is correct explanation of (A).

5. If MP_L/MP_K does not change with any proportionate change in labour and capital then the production function is
  (a) Linear   (b) Non-linear
  (c) Homogeneous   (d) Homothetic

Ans. (d) : For a Homothetic production function the firms MRTS of L for K or the ratio of MP_L to MP_K would be constant. Because, MRTS is function of K/L ratio and thus, MP_L/MP_K is relatively depend on K/L ratio.

6. Match the items in the List-I with items in List-II. Select the correct answer from the code given below:

	List-I		List-II
I.	Agency Theory of Firm	**1.**	O.E. Williamson
II.	X- inefficiency	**2.**	M.C. Jensen and W.J. Meckling
III.	The Utility Maximisation model	**3.**	Wilfredo Pareto
IV.	Edgeworth box diagram first used by	**4.**	Harvey Leibenstein

Codes

	A	B	C	D
(a)	3	2	1	4
(b)	2	4	1	3
(c)	2	3	4	1
(d)	3	4	1	2

Ans. (b) :

	List-I		List-II
I.	Agency Theory of firm	2.	M.C. Iensen and W.J. Meckling
II.	X-inefficiency	4.	Harvey Leibenstein
III.	The utility maximisation model	1.	O.E. Williamson
IV.	Edgeworth box diagram first used by	3.	Wilbredo pareto

7. At the point of tangency between short-run average total cost and long-run average cost, the short-run marginal cost

(a) greater than long-run marginal cost
(b) less than long-run marginal cost
(c) is far above long-run marginal cost
(d) equals long-run marginal cost

Ans. (d) : At the point of tangency between short-run average total cost and long run average cost, the short run marginal cost equals long-run marginal cost.
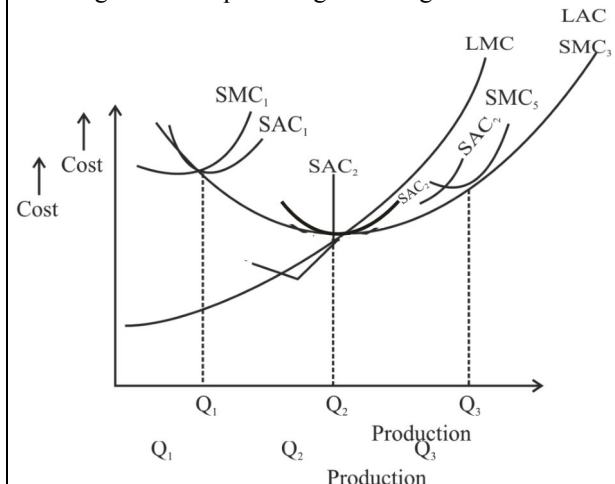
8. The equilibrium in a marked is incomplete with increasing returns to scale only in the case of

(a) imperfectly competitive market
(b) monopolistic marked
(c) perfectly competitive market
(d) none of the above

Ans. (c) : The equilibrium in perfectly competitive market is incomplete with increasing returns to scale. Because, AC will be less that AR cure that generate supernormal profit. But if this situation persistent permanently the market never achieved equilibrium.

9. If 1= Involuntary unemployment;
2 = Disguised unemployment; 3 = Frictional unemployment; and 4 = Structural unemployment, then full employment is consistent with

(a) 1 & 2   (b) 2 & 3
(c) 3 & 4   (d) 1 & 4

Ans. (c) : Full employment is a situation in which no further unemployment can be reduced through raising aggregate demand (or effective demand).

Full employment is not full absence of unemployment, some kind of unemployment like structural and frictional are present in full employment situation.

Structural unemployment is found when skill of the labour force does not meet the requirement of the job. And, frictional unemployment is found when a worker change Job from one of another.

10. In Keynes' equation of absolute income hypothesis, $C = \alpha_0 + by$, where C=Consumption expenditure; α_0 = Consumption expenditure when income (y) is zero; and b = Marginal Propensity to Consume (MPC), then which of the following statements is false?

(a) MPC is ;independent of the level of income.
(b) MPC is dependent on the level of income.
(c) APC falls as income rises.
(d) APC > MPC.

Ans. (b) : APC > MPC

$$APC = \frac{C}{Y} = \frac{\overline{C}}{Y} + C$$

$$MPC = \frac{\partial C}{\partial Y} = C$$

C is independent level of income this means MPC is also independent level of income. As there is no involvement of Y (income).

$APC = \frac{C}{Y} \rightarrow$ If Y income increases then APC decreases.

So, option (b) is correct answer.

11. Which of the following statements is false?

(a) The balanced budget multiplier is unity when taxes are lump sum taxes.
(b) The balanced budget multiplier is less than unity when taxes are ad valorem taxes.