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II-PU PASSING PACKAGE EASY CAPSULES.

(As per Reduced Syllabus 2020-21)

SOLVED MODEL QUESTION PAPERS

FOR THE SUBJECT:

“ECONOMICS”

(English Version)

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**II PUC ECONOMICS
FOR REDUCED SYLLABUS 2020-21**

Time : 3 Hours 15 minutes

Model Question Paper-1

[Max. Marks: 100]

Instruction: 1. Write the question numbers legibly in the margin.

2. Answer for a question should be continuous.

PART – A

I. Choose the correct answer:

5x1 =5

1. Central problems of an economy includes

- a) What to produce b) How to produce c) For whom to produce **d) All of the above**

2. A vertical demand curve is

- a) Perfectly elastic **b) Perfectly inelastic** c) Unitary elastic d) None of the above

3. Measuring the sum total of all factor payments will be called

- a) Product method b) Expenditure method **c) Income method** d) none of the above

4. The main function of money is

- a) Saving b) expenditure **c) Medium of exchange** d) investment

5. Consumption which is independent of income is called

- a) Induced consumption c) Wasteful consumption
b) **Autonomous consumption** d) Past consumption

II. Fill in the blanks:

5x1 =5

6. The demand for a good moves in the opposite direction of its price.

7. Marginal product and Average product curves are Inversed U in shape.

8. For price taking firm marginal revenue is equal to Average Revenue and Price

9. A part of revenue is paid out as Rent for the service rendered by land.

10. Government of India Issues coins in India.

III. Match the following:

5x1 =5 A

B

- | | |
|------------------------------|----------------------------------|
| 1. Centrally planned economy | a) Perfect information |
| 2. Indifference map | b) Wages |
| 3. Perfect competition | c) Government |
| 4. Labour | d) Intermediate good |
| 5. Raw material | e) A family of indifferent curve |

1. C 2. E 3.A 4.B 5.D

IV. Answer the following question in a sentence/word.

5x1 =5

11. **Expand MRS.**

Ans: Marginal Rate of Substitution

12. **What is total fixed cost?**

Ans: The cost which is incurred on fixed factor input of production

13. **Give the meaning of imports.**

Ans: When the economy buys goods from the rest of the world, they are called imports

14. **How do we get personal disposable income?**

Ans: The personal disposable income is obtained by deducting personal tax payments and non-tax payments from personal Income.

15. **What do you mean by barter system?**

Ans: The economic exchanges without the mediation of money is called Barter system.

PART – B

V. Answer any NINE of the following questions in 4 sentences each.

9x2 =18

16. **Distinguish between positive and Normative Economics.**

Ans: Positive Economics

- The Positive economics is the study of ' what was' and ' what is ' under the given set of circumstances
- It deals with the scientific explanation of the working of the economy. Here we study how the different mechanism function.

Normative Economics

- The Normative economics studies ' what ought to be '
- It explains about ' what should be and should not be done '

17. **Mention two different approaches which explain consumer behavior.**

- Ans: a] Cardinal utility analysis
b] Ordinal utility analysis

18. **What do you mean by inferior goods? Give example.**

Ans: The inferior goods are those goods for which the demand increases with the fall in income of consumer and vice-versa. eg- low quantity goods . Here income and demand for these goods move in opposite direction

19. **What do you mean by price elasticity of demand?**

Ans: Price elasticity of demand is a measure of the responsiveness of the demand for a good to changes in its price.

Formula - Price elasticity of demand = $\frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$

20. **Give the meaning of the concept of short-run and long run.**

Ans: Short run- It is the period of time in which a firm cannot varies all inputs.

Long run- It is the period of time in which a firm can varies all inputs.

21. **What are long run costs?**

Ans: 1) Long -run Average cost LRAC 2) Long run Marginal cost - LRMC

22. **Give the meaning of shut down point.**

Ans :The point at which SMC curve of a firm cuts the minimum point of AVC curve is called Shut Down Point. Any point above this point indicates positive production and any point below this indicates no production.

23. What are the features of capitalistic economy?

Ans: The important features of a capitalist of economy are as follows

- There is private ownership of means of production.
- Production takes place for selling the output in the market.
- There is sale and purchase of labour services at a price which is called wage rate.
- A typical capitalist enterprise has one or several entrepreneurs and exercise control over major decisions.

The entrepreneurs may themselves supply the capital needed or they may borrow the capital

24. What is the difference between consumer goods and capital goods?

Ans: **Consumer Goods**

a) These are the goods which are purchased for consumption by ultimate consumers.

Examples Food, Cloths, Mobile phones etc.

Capital Goods

a) These are the durable goods which are used in the production process

Examples - Machinery, tools, implements etc.

25. What do you mean by externalities? Mention its two types?

Ans: Externalities refer to the benefits (or) harms a firm (or) an individual causes to another for which they are not paid (or) penalized. They do not have any market in which that can be bought and sold.

The two types of externalities are

a] Positive Externalities b] Negative Externalities.

26. Write the difference between nominal and real GDP.

Ans: The total money value of goods and services produced in a country during a year expressed at the current prices is called Nominal GDP.

The National Income expressed in terms of a base year price index is called Real GDP.

27. Mention two motives of demand for money.

Ans: a] The transaction motive b] The speculative motive

28. Give the meaning of investment multiplier. Write its formula.

Ans: Investment multiplier is the ratio of the total increment in equilibrium value of final goods output to the initial increment in autonomous expenditure. Its formula is investment Multiplier.

29. Give the meaning of Paradox of thrift.

Ans: If all the people of the economy increase the proportion of income they save, total value of savings in the economy will not increase it will either decrease or remain unchanged. This result is known as the paradox of Thrift.

PART – C

VI. Answer any SEVEN of the following questions in 12 sentences each.

7x4 =28

30. Write a short note on a market economy.

Ans: If economic activities operate and controlled by private sector are known as market economy. Ex:

U.S.A, Japan, Germany, etc.,

Features:

- i) Private individual own the factor of production
- ii) In this economic system Profit is the sole motive
- iii) There are no inferences of the government in the economic activities
- iv) Private people solves the basic problems
- v) The price of the goods determine by Market force.
- vi) Private sector fixed the high price to get more profit

31. Explain the derivation of slope of budget line with a diagram.

A consumer can we buy extra unit of one good by sacrificing some unit of other God within the given income and presented by budget line is called slope of budget line

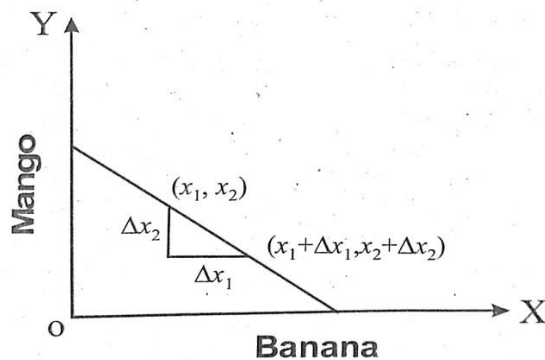
Let us understand the concept of budget line with the help of an example

suppose a consumer has an income Rs 20 aunity wants to send it on to commodities banana and mango Honda both are priced at five now the consumer as three options to spend the entire income

- 1) buy 4 units of banana (X1)
- 2) buy 4 units of mango (X2)
- 3) buy 2 units of banana (X1) And 2 units of mangoes (X2)

It's means possible bundles can be (4.0) (0.4) (2.2) when all these three bundles are represented graphically , we get a downward sloping straight line , known as budget line

Slope of budget line can represented in the following diagram



In the above diagram ox axis represents banana oy axis represents mangoes. the absolute value of the slope of the budget line measures the rate at which the consumer is able to substitute bananas for mangoes when he spend his entire budget

32. Write the differences between substitutes and complements.

Substitute good

Complementary goods

- 1) These are alternative goods available to satisfy our wants
- 2) If the price of a products increases demand for its substitutes also increases.
- 3) Example for substitutes goods are Tea, and coffee, Diesel and Petrol, electricity and solar etc.
- 4) Here the demand curves shifts to the right in case of price rise
- 5) Price and demand moves in same direction.

- 1) These are the goods which are consumed together.
- 2) If the price of the products increases the demand for its complementary goods decreases.
- 3) Examples for complementary goods are Tea and sugar , shoe and socks Pen and ink etc.
- 4) Here the demand curves shifts to left in case of price rise.
- 5) Price and demand moves in opposite direction .

33. The following table gives the TPL. Find the AP_L and MP_L.

	0	15	35	50	40	48
L	0	1	2	3	4	5

Ans The formulas which are using for calculating AP_L and MP_L

L	TP	AP	MP
0	0	0	0
1	15	15	15
2	35	17.5	20
3	50	16.6	15
4	40	10	-10
5	48	9.6	8

The formulas which are using for calculating

AP and MP

$$1) AP = \frac{TPL}{L} \quad 2) MP = \frac{\Delta TPL}{\Delta L}$$

Δ TPL= change in total product Δ L= change in labour input. The formulas which are using for calculating AP and MP

$$1) AP_L = \frac{\Delta TPL}{\Delta L}$$

$$2) MP = \frac{TP_L}{L}$$

$$\frac{\Delta TP}{\Delta L}$$

34. Write a short note on profit maximization of a firm under the following conditions

a) $P=MC$ b) **MC must be non-decreasing at q_0**

1) Write a short note on profit maximization of a firm under the following conditions,

1) $P=MC$ 2) MC must be non decreasing at q ?

Ans For profit maximization, the firm has to fulfill following conditions . 1) $P= MC$ 2) Mc must be non decreasing at q .

3) In short run $P \geq AVC$ and in long run $P \geq AC$

In a Perfect competitive firm profit maximization is possible at the level of output where $MR=MC$. For a Perfect Competitive firm $MR=P$ so $P=MC$

For a perfect competitive firm profit maximization is possible where MC is increasing up to the price level.

35. Explain the determinants of a firm's supply curve.

Ans The firms supply curve is a part of its Marginal cost curve. So any factor that affects the firm's marginal cost curve of course a determinants of its supply curve .

They are

- a. Technological progress- Technological progress shifts the supply curve of the firm to the right side . It increases the production.
- b. Input prices - Input prices shifts the supply curve of the firm to the left side . It decreases the production.

36.

37. Briefly explain in what way Macro Economics is different from Micro Economics.

Sl.no	Features	Micro economics	Sl.no	Macro economics
1	Scope	Micro Economics study in individual units. so it has a narrow scope	1.	Macro Economics study in aggregates, so it has a scope of wider.
2	Method of study	slicing method	2.	lumping method
3.	Economic Agents	In this economy there is a existence of individual units, and they thinks about own interest and welfare	3.	In this economy there is an existence economic agents are government and RBI and statutory bodies, they thought social welfare.
4.	Method	partial equilibrium	4.	general equilibrium
5.	Domain	Consumer behaviour, production and cost, Rent, Wages, Interest, etc.	5.	Theory of income, output and employment, Consumption Function, Investment function, Inflation, etc.
6.	Theory	Theory of Price.	6.	Theory of Income.

38. Write a short note on the concept of final good.

Ans: The final goods are those goods which are meant for final use and will not pass through any more stages of production or transformations. They are called final goods.

Because, once they have been sold they pass out of the active economic flow. However, they may undergo transformation by the action of the ultimate purchaser. In fact, many final goods are transformed during their consumption.

Example: For instance, Tea leaves purchased by the consumer are not consumed in that form – they are used to make drinkable tea, which is consumed.

Similarly most of the items that enter our kitchen are transformed through the process of cooking. But cooking at home is not an economic activity, even though the product involved undergoes transformation. Home cooked food is not sold to the market.

However, if the same cooking or tea was done in hotel where the cooked product would be sold to customers, then the same items are not considered as final goods and would be counted as inputs to which economic value addition can take place.

Thus, it is not in the nature of the good but in the economic nature of its usage that a good becomes a final good.

39. Explain the examples of planned accumulation and decumulation of inventories.

Ans Inventories are the unsold goods, unused raw materials(or) semi-finished goods which a firm carries from a year to the next year. Change in inventories may be planned or unplanned. A planned change in inventories is the change in the stock of inventories which has occurred in a planned way. The planned accumulation and decumulation of inventories are explained with example as follows. Suppose a firm wants to increase the inventories from 200 T shirts to 400 T shirts during the year. Expecting sales of 2000 T shirts during the year. The firm produces $2000 + 200 = 2200$ T shirts. If the sales are actually 2000 T shirts, the firm ends up with a rise of inventories. The new stock of inventories is 400 T shirts. which was planned by the firm. This is planned accumulation of inventories.

On the other hand, if the firm had wanted to reduce the inventories from 200 to 50, then it would produce $2000 - 150 = 1850$ T shirts. This is because it plans to sell 150 T shirts out of the inventory of 200 T shirts it started with. Then the inventory at the end of the year becomes $200 - 150 = 50$ T shirts. Which the firm wants. If the sales turnout to be 2000 T shirts as expected by the firm, the firm will be left with the planned reduced inventory of 50 T shirts. These the two examples of planned accumulation and planned decumulation of inventories

40. Write a note on legal definitions of money.

Ans The total stock of money in circulation among the public at a particular point of time is called Money Supply. The legal definitions of money are defined as follows.

$M = CU + DD$ (CU currency notes held by the public, DD is net demand deposits

of the public held by the banks) $M = M_1 + \text{Savings deposits with post office savings banks.}$

$M = M_2 + \text{Net time deposits of Commercial banks}$

$M = M_3 + \text{Total deposits with post office savings organization.}$

M_1 and M_2 are narrow money. M_3 and M_4 are broad money

41. Briefly explain the consumption function.

Ans The functional relationship between consumption and income is called consumption function.

The simplest consumption function assumes that the consumption changes at a constant rate as income changes. Of course, even if income is zero, some consumption still take place. Since this level of consumption is independent of income, it is called autonomous consumption. We can describe this function as $C = C_a + cY$ Here C_a is the consumption expenditure by households, C_a is autonomous consumption and cY is Induced consumption.

The consumption which is independent of income is called as autonomous consumption.

The consumption which is dependent on income is called as induced consumption .

The relationship between consumption and income can be explain by MPC and APC

MPC (Marginal propensity to consume)

It is the change in consumption per unit change in income. Its formula is

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

APC(Average propensity to consume)

It is the ratio between total consumption expenditure and total income at given level of income . Its

formula is $APC = \frac{C}{Y}$

PART – D

VII Answer any FOUR of the following questions in 20 sentences each.

4x6 =24

42. Explain the law of diminishing marginal utility with the help of a table and diagram.

Ans Law of Diminishing Marginal Utility is one among important laws which studies consumers behaviour. This law was first given by a German economist H.H. Gossen.

There fore, it is called Gossen's First Law. But later on this law was popularised by Dr. Alfred Marshell.

Definition :- " The utility got from the consumption of additional units of a commodity goes on decreasing when the consumption of other commodities are constant."

This law can be explained with the help of a table as below.

Units of Organges Consumed	Total Utility TU(units)	Marginal Utility MU (units)
1	12	12
2	18	6
3	22	4
4	24	2
5	24	0
6	22	2

As shown in the table above , if a consumer consumes oranges continuously one after another, he gets lesser and lesser marginal utility.

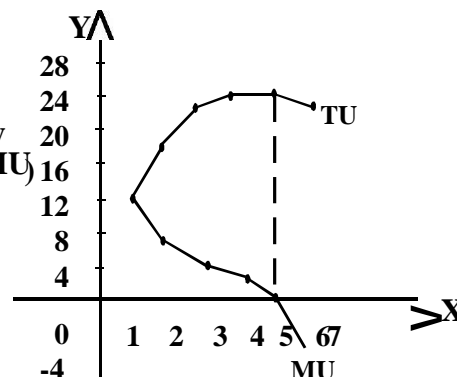
As shown in the table consumer receives 12 units of marginal utility from the consumption of first of orange. At this level Total utility is also 12 units. Since his inetnsity of consumption decreases after the consumption of first unit of oranges, he gets 6, 4, 2, units of MU with the consumption of second , third , fourth unit of orange.

If he continues to consume oranges after this, his marginal utility becomes first zero and then it becomes negative .

Here when MU is zero TU will be maximum and when MU moves beyond X arises TU will start decreasing.

We can explain these law with the following diagram.

In the given diagram TU and MU are Total Utility and Marginal Utility curves. As shown in the diagram, TU from the starting increases and becomes constant at maximum level and then



Where as MU curve from the starting it slopes downwards and attains negative ,when

decreases.

it moves beyond X axis. Here we can notice

Units of oranges consumed

that when MU is zero TU is maximum.

When MU moves beyond X axis, TU starts decreasing .

In these way we can explain Law of Diminishing Marginal Utility.

43. Explain the various short run costs.

Ans The various short-run costs are explained following below.

1) Total Fixed Cost : TFC

TFC is refer to the total money expenses incurred on all the fixed factors in the short run. Ex- Expenses on Machineries , Plant, Building etc. TFC remain constant at all levels of output.

2) Total Variable Cost TVC

TVC is refer to the total money expenses on the variable inputs in the short run.

Ex- Expenses on Raw-materials , Fuel, Wages of daily Labours etc.

TVC changes at all the levels of output.

3) Total Cost : TC

It is the aggregate money expenditure incurred on both Fixed and Variable inputs .

TC include TFC and TVC. Therefore $TC = TFC + TVC$

4) Average Fixed Cost-

It is the fixed cost per of output. There was inverse relationship between AFC and TFC

5) Average Variable Cost- AVC

It is a variable cost per unit of output . It can be calculated by dividing the TVC by the Total units of output.

6) Average Cost-AC

It is the cost per unit of output produced. It is obtained by dividing TC by the total output produced.

7) Marginal Cost MC

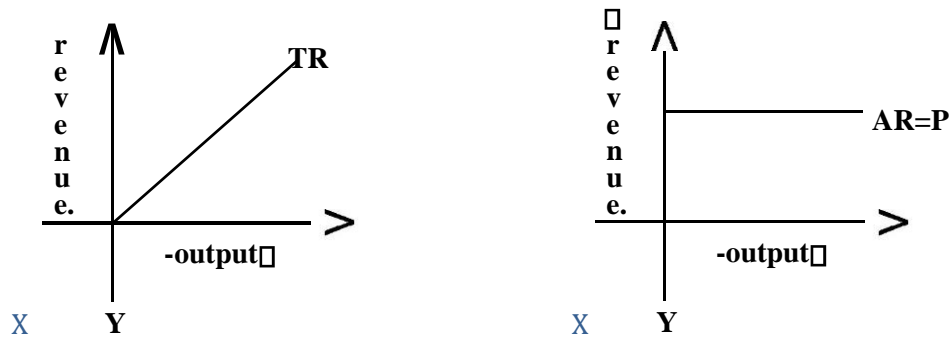
It is an additional cost incurred to produce an additional output. $MC = TC_n - TC_{n-1}$ OR
MC

44. Explain the total revenue and marginal revenue of a firm under perfect competition with the help of diagrams.

Ans Total revenue (TR) is the revenue received by selling of all produced units.

Total Revenue (TR)= P(price) x Q (quantity)

In Perfect Competition price remains constant Total revenue is determined by the number of units sold. Increase in units sold increases Total revenue. So TR curve is upward sloping straight line .



In the diagram TR is total revenue curve. It is upward sloping straight line .

Average revenue (AR) is the revenue earned per unit of output sold. $AR = \frac{TR}{Q}$

In Perfect Competition , Average revenue is equal to the market price.

$AR = P$. So AR -line and price line are same. It is a horizontal line parallel to X- axis. In the diagram AR is Average revenue line parallel to X-axis.

45. Explain the Macro Economic identities.

Ans National Income is an important concept of Macro economics . There are various aggregates or identities of National income. Each aggregate has a specific meaning method of measurement and use. The various identities of National Income are

1)Gross Domestic product(GDP)- The aggregate value of final goods and services produced with in the country during a year is called Gross Domestic product. The concept of GDP dose not consider the value of goods and services produced by the nationals working in foreign countries.

Thus $GDP = C + I + G + X - M$

2) Net Domestic product(NDP)- The aggregate money value of all final goods and services produced within the country less depreciation is called NDP, when depreciation allowance is subtracted from GDP we get NDP . Hence $NDP = GDP - \text{depreciation cost}$

3) Gross National Product[GNP]- The aggregate money value of all final goods and services produced by a country in a year including net income from abroad is called GNP. Thus $GNP = GDP + \text{Net factor income from abroad}$.

4)Net National Product[NNP]-The aggregate money value of all final goods and services produced by country in a year minus depreciation cost is called NNP. $NNP = GNP - \text{Depreciation cost}$

5)Personal Income (PI)- The sum of the income that are actually received by house hold from all the sources is called personal income. Therefore personal income is that part of national income of a country which is received by people or households. Thus $P.I. = \text{National Income} - \text{Undistributed Corporate Profits} - \text{Net Interest} + \text{Payment made by the households} - \text{Corporate tax} + \text{Transfer payment to the household from the government and the firms}$.

6)Personal disposable Income (PDI)- If we deduct the personal tax payments and Non-tax payments from personal Income we get personal disposable income .

Therefore $PDI = PI - \text{Personal tax payments} - \text{Non tax payments}$

7)Net National Product at factor cost- (NNP_{FC})- The NNP t factor is the sum of income earned by all factors in the production in the form of wages, profits rent and interest etc. belong to a country during a year

$NNP_{FC} = NNP \text{ at market prices} - \text{Indirect taxes} + \text{Subsidies}$.

46. Write down the limitations of using GDP as an index of welfare of a country.

a)Distribution of Gross Domestic Product (GDP): Generally, the rise in GDP will not represent increase in the welfare of the country. If the GDP of the country is rising, but it may be concentrated in

the hands of very few individuals or firms. For the remaining, the income may in fact might have decreased. In such a situation the welfare of the entire country cannot be said to have improved.

b) Non-monetary exchanges: Some of the activities in a country are not evaluated in terms of money. For instance, the domestic services of housewife, Services of N.S.S students, charitable trust, and NGO's works are not paid.

The exchanges which take place in the informal sector without the help of money are called barter exchanges. In barter exchanges goods are directly exchanged against each other.

In India, because of many remote areas, these kinds of exchanges still take place and they are generally not counted in the GDP. Therefore, Gross Domestic Product calculated in the standard manner may not give us a clear indication of welfare of a country.

c) Externalities: Externalities refer to the benefits or harms a firm or an individual causes to another for which they are not paid or penalized. They do not have any market in which they can be bought and sold.

The two types of externalities are Positive Externalities and Negative Externalities.

Production of harmful goods:

A productions of, tobacco, illicit brewing of liquor, cigarettes, etc,

47. Requirement of reserves acts as a limit to money (credit) creation. Explain

Ans: i) **Cash reserve ratio:** As per the Direction of RBI Each commercial bank is need to save a portion of its deposits in RBI it's called a Cash Reserve ratio.

ii) **Statutory liquidity ratio:** As per the Direction of RBI each commercial bank save a portion of its deposit in itself in bank it's known as Statuary liquidity ratio.

* **The both CRR and SLR act as limit to money (credit) creation as follows:**

For example, let us assume there is only exist one bank in economy. And its starts with a deposit of Rs.100 made by Mr.X. The reserve ratio is 20%. Thus Bank has Rs.80 (100 – 20=80.i.e.,20% of 100 is deducted) to lend and the bank lends out of Rs.80 to Mr.Y.

This is shown in the bank's deposits in the next round as liabilities, making a total of Rs.180 as deposits. Now bank is required to keep 20% of 180 i.e., 36 as cash reserves. The bank had started with Rs.100 as cash. Since it is required to keep only Rs.36 as reserves it lends Rs.64 (100-36=64). The bank lends out Rs.64 to Mr.Z. This in turn shows up in the bank, as deposits.

The process keeps repeating itself till all the required reserves become Rs.100. The required reserves will be Rs.100 only when the total deposits become Rs.500. This is because, for deposits of Rs.500, cash reserves would have to be Rs.100 (20% of 500 = 100)

48. Explain the multiplier mechanism.

Ans Investment multiplier is the ratio of the total increment in equilibrium value of final goods output to the initial increment in autonomous expenditure . It can be explain by multiplier mechanism.

The total value of the final goods output is distributed among different factors of production, rent to land , wages to labour, interest to capital etc. Thus the sum of aggregate factor payments ie , National Income , is equal to the aggregate value of the output of final goods .

Example - If the value of the extra output 10 is distributed among various factors of production, the income of the economy also goes by 10. When income increases by 10, consumption expenditure goes up by 10, since people spend 0.8 fraction of their additional income on consumption. Hence in the next round , aggregate demand in the economy goes up by (0.8) 10 and there again emerges an excess demand equal to 10 so on .

It can be calculate by this manner.

Increase Income = = 10 + (0.8) 10+ (0.8)²10+(0.8)³..... ∞

Increase

$$\Delta \frac{\Delta \bar{A}}{1-c} = \frac{10}{1-0.8} = 50$$

$$\text{Income} = 10 + (0.8) 10 + (0.8)^2 + (0.8)^3 \dots$$

$$\frac{\Delta Y}{\Delta A} = \frac{1}{1-c} = \frac{1}{S}$$

Increase income $Y =$

Investment multiplier =

PART – E

VIII. Answer any TWO of the following project oriented questions.

2x5 =10

49. A consumer wants to consume two goods. The Price of Bananas is Rs 5 and the price of mango is Rs.10 The consumer income is Rs 40.

- a) How much Bananas Can she consume if she spend her entire income on that good?
- b) How much mangoes can she consume if she spend her entire income on that good?
- c) Is the slope of budget line downward or up word?
- d) Are the Bundles on the budget line equal to the consumer's income or not?
- e) If you want to have more of Bananas you have to give up mangoes. Is it true?

Ans a) Consumer can purchase 8 bananas with his entire income .
b) Consumer can purchase 4 mangoes with his entire income. c) Slope of the budget line is downward. d) Yes bundles on the budget line are equal to the consumer's income .
e) Yes, if you want to have more of Bananas you have to give up mangoes.

50. Compute the total revenue, marginal revenue and average revenue schedules in the

Following table when market price of each unit of good is RS 10.

Quantity sold	TR	MR	AR
0			
1			
2			
3			
4			
5			
6			

Ans

Quantity sold	TR	MR	AR
0	0	0	0
1	10	10	10
2	20	10	10
3	30	10	10
4	40	10	10
5	50	10	10
6	60	10	10

$$TR = P \times Q$$
$$MR = TR_n - TR_{n-1}$$

$$AR = \frac{TR}{Q}$$

(For blind students only)

51. Write a note on Demonetization.

Ans The withdrawal of a coin, note or precious metal from use are legal tender is called demonetisation.

Steps taken by the government for Demonetization - Old currency note of Rs 500 and Rs 1000 were no longer legal tender. New currency notes in the demonetization of Rs 500 and Rs 200 were launched. The public were advised to deposit old currency notes in their bank account till 31-12-2016, without any declaration and upto 31-3-2017 with the RBI declaration. Further to avoid a complete breakdown and scarcity of cash government allowed exchange of Rs 4000 old currency notes with new currency restricting to a person per day.

Appreciation of Demonetization - It improved tax compliance as a large number of people were brought in the tax ambit. The savings of individual were channelized into the formal financial system. Demonetization helps in curbing black money, reducing tax evasion and corruption will decrease.

Criticism of Demonetization - There were long queues outside banks and ATM centres. There was acute shortage of currency notes and had adverse effect on Economic activities.

**II PUC ECONOMICS
FOR REDUCED SYLLABUS 2020-21**

Time : 3 Hours 15 minutes

Model Question Paper-2

[Max. Marks: 100]

Instruction: 1. Write the question numbers legibly in the margin.

2. Answer for a question should be continuous.

PART – A

I. Choose the correct answer:

5x1 =5

1. The equation of budget line is

(a) $p x + p_1 x_1 = M$

(b) $M = p_0 x_0 + p x$

(c) $p_1 x_1 + p_2 x_2 = M$

(d) $Y = M x + C$

2. The product in a perfect competition are

a) Heterogeneous products

b) Homogeneous products

c) Luxury goods

d) Necessary goods

3. The year of Great Depression

a) 1920

b) 1889

c) 1929

d) 2018

4. The value of GDP at the current prevailing prices is

a) Real GDP

b) GDP at factor cost

c) Nominal GDP

d) NDP

5. Value of MPC lies between

a) 1 and 2

b) 0 and 1

c) 2 and 4

d) 0 and 0.5

II. Fill in the blanks:

5x1 =5

6. Scarcity of resources give rise to **Problem of Choice**

7. Want satisfying capacity of a commodity is **Utility**

8. The point of minimum AVC where the SMC curves cuts the AVC curves is called **Shut down Point**

9. The net contribution made by a firm is called its Value **added**

10. The principal motive for holding money is to carry out **Transaction**

III. Match the following:

5x1 =5

11. A

B

1. Complementary goods

a) Perfect information

2. LRAC

b) Non- Monetary exchange

3. Perfect competition

c) Long run Average cost

4. Domestic service

d) Y - C

5. Savings

e) Pen & Ink

1.E 2.C 3.A 4.B 5.D

IV. Answer the following question in a sentence/word.

5x1 =5

12. What do you mean by cardinal utility analysis?

Ans: When the utility is measure din numbers like, 1, 2, 3, 4.... it is called Cardinal utility analysis.

13. Give the meaning of super normal profit.

Ans: Profit over and above the Normal profit.

14. How do we get Personal Disposable Income?

Ans: The personal disposable income is obtained by deducting personal tax payments and non-tax payments from personal Income.

15. What is Fiat Money?

Ans: Money with no intrinsic value is called Fiat money.

16. Write the meaning of autonomous consumption.

Ans: The consumption which is independent of income is called as autonomous consumption.

PART – B

V. Answer any NINE of the following questions in four sentences each.

9x2 =18

17. Distinguish between Micro and Macro Economics.

Ans: **Micro economics**

Scope- Micro economics study in individual units so its scope is narrow.

Method of study- The Micro Economics follows slicing method as it studies individual unit.

Macro Economics

Macro Economics study in aggregates, so its scope is wider.

The macro economics follows lumping method as it studies in aggregates.

18. What is monotonic preference?

Ans: If a consumer prefers higher indifference curve which gives more level of satisfaction than the lower indifference curve, it is called monotonic preference.

19. What do you mean by inferior goods? Give example?

Ans The inferior goods are those goods for which the demand increases with the fall in income of consumer and vice-versa. eg- low quantity goods .

Here income and demand for these goods move in opposite direction.

20. What is Isoquant?

Ans: Isoquants refers to that the locus of all possible combinations of 2 inputs which results in the same maximum output level.

21. Write the meaning of opportunity cost with an example.

Ans: The cost of the next best alternative sacrificed is called opportunity cost. Example: The farmer can grow paddy or wheat in his field . If he decides to grow paddy. The income of wheat must be added to the cost of paddy.

22. Give the meaning of price elasticity of supply and write its formula.

Ans: The responsiveness of supply to change in price is called price elasticity of supply

$$e_s = \frac{\Delta Q / Q}{\Delta P / P}$$

23. Name and write the meaning of two kinds of trade in external sector.

Ans: The two kinds of trade in external are Export and Imports. A country may sell goods to the rest of the world Exports, A country may buy goods from other countries, imports

24. Distinguish between stock and flow. Give example.

Ans: **Stock**

It is that quantity of economic variable which is measured at a particular point of time

Example- capital, inventory, wealth
Foreign exchange, reserves etc.

Flow

It refers to that quantity of economics variable measured over a period of time

Examples- Investment, salary,
National income etc.

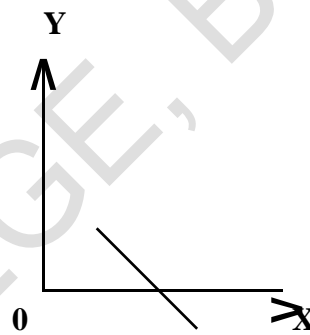
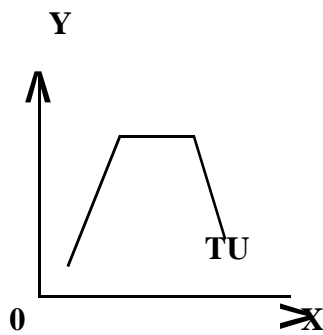
32. Write the difference between total utility and marginal utility.

Ans Total Utility

- 1) It is the aggregate utility derived by the consumer by consuming all the units
- 2) It represents utility of all the units consumed
- 3) It may be symbolically written as $TU_n = U_1 + U_2 + U_3 + U_4 + \dots + U_n$
- 4) It increases in beginning and finally decreases.

Marginal Utility

- 1) It is the additional utility derived by the consumer by consuming additional unit
- 2) It represents the utility of a single unit
- 3) It may be written as $MU_n = TU_n - TU_{n-1}$
- 4) From the beginning it decreases.



33. Briefly explain the budget set with the help of a diagram.

Ans The budget set is the collection of products that the consumer can buy with his income at the prevailing market prices. It includes all the bundles (all possible combination of two goods) which the consumer can purchase with his given level of income.

Let us assume 'M' as income of a consumer and let P_1 and P_2 be the prices of banana and mango and X_1 and X_2 be their quantity purchased. Then consumer's budget can be written as $P_1X_1 + P_2X_2 \leq M$.

It means a consumer can purchase combinations of two goods equal to his income and less than income only.

Consider for example - A consumer's income is Rs 20 and he will purchase two goods X and Y. and Rs 5 will be the price per unit of each goods.

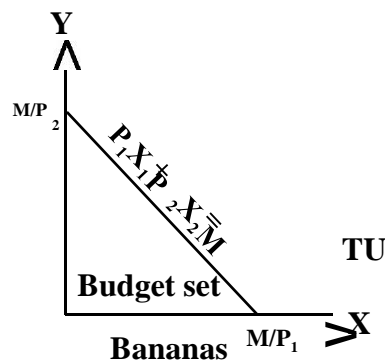
Then with his income Rs 20 the budget set includes combinations like (0,0) (0,1) (0,2) (0,3) (0,4) (1,0) (1,1) (1,2) (1,3) (2,0) (2,1) (2,2) (3,0) (3,1) and (4,0)

Out of these combinations (0,4) (1,3) (2,2) (3,1) & (4,0) are combinations equal to consumer's income and remaining combinations are combinations said above are combinations less

than consumer's income.

As shown in the diagram

Budget set includes all combinations which are present on budget line



34. Write a brief note on return to scale.

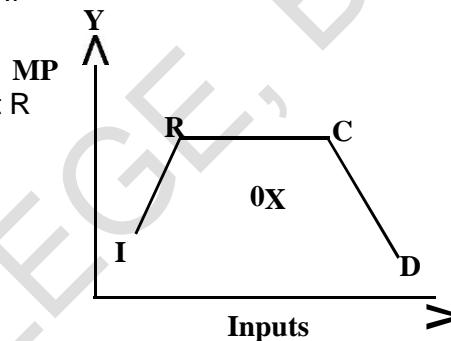
Ans The law of returns to scale explain the physical relationship between Input and output in the long run. It explain the behavior of output when quantities of all input are changed in same proportion. Stages of returns to scale .

- 1) Increasing returns to scale : When the output increases by a greater proportion than the proportion on increase in all the inputs it is called Increasing returns . Ex. If 5% increase in the inputs by firm results in 10% increase in outputs .
- 2) Constant returns to scale : When output increases by the same proportion as that of increase in inputs , it is called constant returns to scale .
Ex:- If 5% increase in the inputs by firm results in 5% increases in outputs .
- 3) Diminishing Returns to scale :- When output increases less than the proportion of input it is called Diminishing return to scale. Ex- If 5% increase in inpute results in only 2% increase in output.

According to this diagram

- 1) From Point I to R is is IRS. 2) From point R to C it is CRS.

- 3) From point C to D it is DRS.



35. Write a short note on profit maximization of a firm under the following conditions

- a) $P=MC$ b) MC must be non-decreasing at q_0

Ans For profit maximization, the firm has to fulfill following conditions . 1) $P= MC$ 2) Mc must be non decreasing at q .

- 3) In short run $P \geq AVC$ and in long run $P \geq AC$

In a Perfect competitive firm profit maximization is possible at the level of output where $MR=MC$. For a Perfect Competitive firm $MR=P$ so $P=MC$

For a perfect competitive firm profit maximization is possible where MC is increasing up to the price level.

36. Explain the working of the economy of a capitalist country.

Ans: If economic activities operate and controlled by private sector are known as capitalist economy.

□ Features of capitalist economy are, as follows,

- a) There is private ownership of means of production.
- b) Production takes place for selling the output.
- c) There is sale and purchase of labour service at a price called wage rate.

□ Process of capitalist economy:

In a capitalist country production activities are mainly carried out by capitalist enterprises. They may themselves supply the capital needed to run the enterprise or they may borrow the capital.

- To carry out the production they also need natural resources.
- They need the most important element of human labour to carry out production. This is called as labour.
- After producing output with the help of land, labour and capital, the entrepreneur sells the product in the market to earn money called revenue.
- Part of the revenue is paid out as rent for land, interest for capital and wage for labour and keeps the rest of the revenue as profit.
- Profits are often used by the producers in the next period to buy new machinery or to build new factories, so that production can be expanded.

These expenses which raise productive capacity are examples of investment expenditure.

37. Write a note on externalities.

Ans International consequences of an economic action of a person (or) a firm that accrues to another person (or) firm is called Externalities. These are two types of externalities a] Positive Externalities b] Negative Externalities

a] **Positive Externalities** - The externalities which are increases welfare of the individuals and society is called Positive Externalities .

Ex- Let us imagine that there is chemical fertilizer industry. It produces the chemical fertilizers required for agriculture. The output of the industry is taken for counting GDP of an economy.

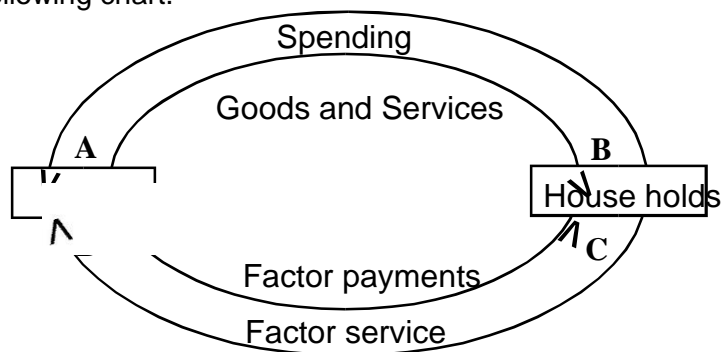
b] **Negative Externalities** - The externalities which are decrease welfare of the individuals and society is called Negative Externalities .

Ex- While carrying out the production the chemical fertilizer industry may also be polluting the near by river. This may cause harm to the people who use the water of the river. Hence their health will be affected. Pollution also may kill fish and other organisms of the river. As a result, the fishermen of the river may lose their livelihood.

38. Explain the circular flow of income of an economy.

Ans The circular flow of Income of an economy can be explained with the help of following Assumption. a] Existence of two sectors that is household sector and Firms. b] Households are the owners of the factors of production. c] Households receive income by selling the factor services . d] There are no savings . e] The firms produce goods to the households.

f] The economy is a closed economic system The circular flow of income in a simple economy can be illustrated with the help of following chart.



In the above chart, the uppermost arrow, going from the households to the firms, represents the spending by the households to buy goods and services produced by the firms. The second arrow going from the firms to the households is the counterpart of the arrow above. It stands for the goods and services which are flowing from the firms to the households. Thus the two arrows on the top represent the goods and services market. The arrow above represents the flow of payment for the goods and

services, the arrow below represents the flow of goods and services .

The two arrows at the bottom of the diagram similarly represent the factors of the production market. The lower most arrow going from the households to the firms symbolizes the services that the households are rendering to the firms using these services the firms are producing the output. The arrow above this, going from the firms to the households , represents the payments made by the firms to the households for the services provided by the households.

39. Illustrate unplanned accumulation and decumulation of inventories with an example.

Ans: The unsold goods, unused raw materials or semi-finished goods which a firm carries from a year to the next year are known as inventories. If there is unexpected increase or decrease in the sales there will be unplanned decumulation of inventories.

This can be explained with the help of following illustration:

Suppose a firm produces T Shirts. It starts the production year with an inventory of 100T Shirts. During the coming year it expects to sell 1000 T shirts. Hence, it produces 1000 T shirts, expecting to keep an inventory of 100 T Shirts at the end of the year. However, during the year, the sales of T Shirts became low unexpectedly.

The firm is able to sell only 600 T Shirts. This means that the firm is left with 400 unsold T Shirts. The firm ends the production year with $400 + 100 = 500$ T shirts. The unexpected increase of inventories by 500 T shirts is an example for unplanned accumulation of inventories.

On the other hand, if the sales had been more than 1000 we would have unplanned decumulation of inventories. For instance, if the sales had been 1050, then not only the production of 1000 T shirts will be sold, the firm will have to sell 50 T shirts out of the inventory. This 50 (T shirts) unexpected reduction in inventories is an example of unexpected decumulation of inventories.

40. Briefly explain the functions of RBI.

Ans RBI is the supreme and also central Bank of India. It was established in April 1935. Today the RBI plays an important role in the development strategies of the government of India. The functions of RBI are as follows

a] Printing and issuing currency notes - It has complete authority of printing and issuing currency notes in the country. RBI issue all denominations of currency notes (Rs 2, 10, 20, 50, 100, 200, 500 and Rs 2000) except one rupee note . Which is issued by Finance ministry. Government of India . The minimum reserve system of note issue was followed by RBI after 1956.

b] Controller of Credit - The credit provided by all commercial banks is controlled by RBI. RBI implements both Quantitative and qualitative techniques to control the credit generated by commercial banks . The quantitative measures to control credit are bank rate policy, Open market operations , Cash reserve ratio Etc.

1) Controls Money Market- RBI is the leader of Money market. All the activities and complements of money market like commercial banks and financial institutions are controlled and directed by RBI.

2) Lender of Last resort- RBI provides financial assistance to commercial banks like giving credit discounting bills, giving advances etc. during their financial crisis and helps the banks as a lender of last resort.

41. Briefly explain consumption function.

Ans The functional relationship between consumption and income is called consumption function.

The simplest consumption function assumes that the consumption changes at a constant rate as income changes . Of course, even if income is zero, some consumption still take place. Since this level of

consumption is independent of income, it is called autonomous consumption. We can describe this function as $C = C + cY$. Here C is the consumption expenditure by households, C is autonomous consumption and cY is induced consumption.

The consumption which is independent of income is called as **autonomous consumption**.

The consumption which is dependent on income is called as **induced consumption**.

The relationship between consumption and income can be explained by MPC and APC

MPC (Marginal propensity to consume)

It is the change in consumption per unit change in income. Its formula is

$$MPC = \frac{\Delta C}{\Delta Y} = c$$

APC (Average propensity to consume)

It is the ratio between total consumption expenditure and total income at given level of income. Its formula

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

PART - D

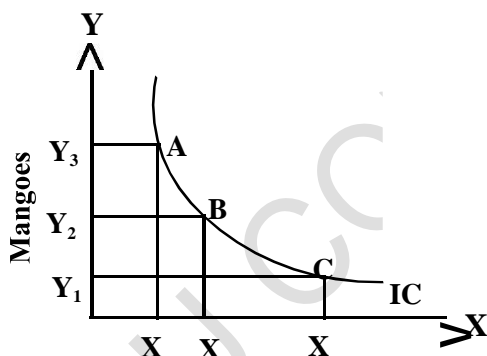
VII Answer any FOUR of the following questions in 20 sentences each.

4x6 = 24

42. Explain the features of indifference curves with the help of diagrams.

Ans Indifference curve is a curve which is got by joining different points (combinations) of two goods which give same level of satisfaction.

The main features of Indifference curves are as follows.

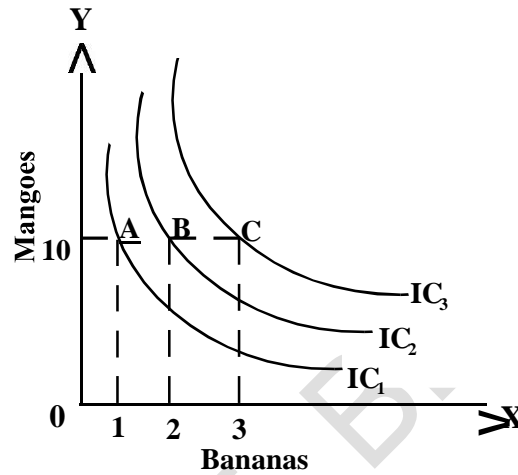


a] Indifference curves slopes downwards from left to right This is the case because, the consumer in order to have more of one product, he has to forgo some units of other product.

This can be explained with the help of diagram below,

Combination	Bananas	Mangoes
A	1	10
B	2	10
C	3	10

Let us consider the different combinations of two goods bananas and mangoes A, B and C. Here all the three combinations consists same quantity of mangoes but C combination have more bananas than A and B. There fore consumer prefers C combination on higher indifference IC_3 than the lower ones, which give a greater level of utility.



As long as the consumer is on the same indifference curves, an increase in bananas must be compensated by a fall in quantity of mangoes. (movement from A to C) That is why Indifference curves slopes downward from left to right.

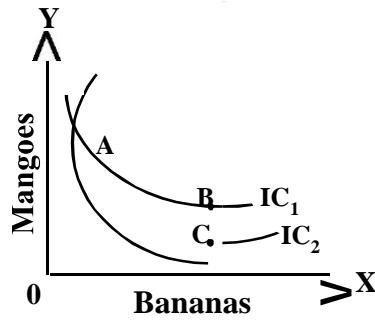
B) Higher indifference curves gives greater level of utility

The Higher indifference curve gives more satisfaction to utility than the lower one

This is another feature of indifference curves This can be explained with the following table and a diagram.

C] Two indifference curves never intersect each other-

If the two indifference curves intersect each other, they will give conflicting results. This can be explained with the help of diagram. In the above diagram IC_1 and IC_2 are the two indifference curves. They have intersected each other at point A and at point A, consumer gets equal satisfaction, but it is absurd. Here on B and C points consumer gets different satisfaction., but it is not possible to have different satisfaction levels on one indifference



43. Explain the optimal choice of consumer with the help of diagram.

Ans Indifference curve shows consumers choice and preference . Similarly budget line shows his capacity to pay for it .

The main objective of a consumer is to get more satisfaction . To fulfill his satisfaction he has to match his income with purchase of two goods .

That is know the optimal choice of consumer which gives equilibrium state with more satisfaction, we have to intersect indifference curve with budget line.

Assumptions -

- 1) Income of a consumer is constant.
- 2) Consumer is a rational individual and prefers to get maximum satisfaction.
- 3) Consumer is aware of indifference map.

The consumer always tries to move to a point on the highest possible indifference curve gives from budget set.

Thus the optimum point would be located on the budget line and here the point on higher indifference curve equal to his income will give more satisfaction than the other points.

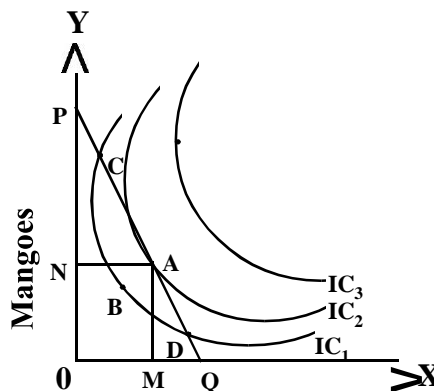
Since consumer go for monotonic preference of preferring higher indifference curve with his income levels , point A will become optimal choice of consumer.

Though points C and E meet budget line they cannot become optimal points.

Because they are on lower indifference curve.

Similarly point B is below budget line , this cannot become optimal point. In the same way point D is outside the budget line , consumer cannot reach to that point, so it cannot become optimal point.

As shown in diagram point A on IC₂ indifference curve becomes optimal point. At this point consumer purchase ON amount of mangoes and OM level of Bananas and attains equilibrium by getting maximum satisfaction.



Bananas

- 2) A firm SMC is shown in the following table. TFC is 100. Find TVC, TC, AVC and SAC schedules of the firm.

Q	0	1	2	3	4	5	6
SMC	-	500	300	200	300	500	800

Following formulas are used to derive above values

$$1) TC_n = MC + TC_{n-1} \quad 2) TVC = TC - TFC$$

Q	SMC	TFC	TVC	TC	AVC	SAC
0	-	100	0	100	-	-
1	500	100	500	600	500	600
2	300	100	800	900	400	450
3	200	100	1000	1100	333.33	366.66
4	300	100	1300	1400	325	350
5	500	100	1800	1900	360	380
6	800	100	2600	2700	433.33	450

44. Explain market supply curve with the help of diagram

Ans A graphical representation of market supply schedule is called market supply curve.

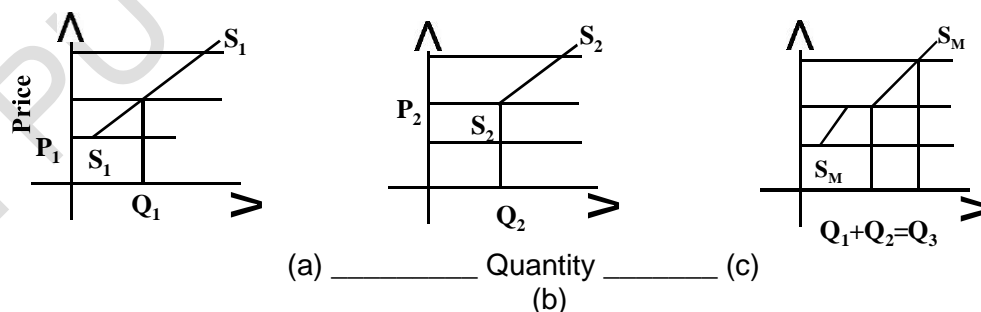
It is obtained by horizontal summation of individual supply curves.

Market Supply = Firm 1 supply + Firm 2 supply...

Let us assume there are only two firms in the economy. They are Firm-1 and

Firm-2. The Firm-1 at P_1 price will produce and supply Q_1 quantity of output. Firm-2 at P_2 price will produce and supply Q_2 quantity of output. The horizontal summation of these two firms supply will obtain us market supply. Market Supply = Firm-1 Supply + Firm 2 Supply = $Q_1 + Q_2 = Q_3$

This is illustrated in the following diagrams.



In the diagram (a) S_1S_1 is the supply curve of Firm-1

In the diagram (b) S_2S_2 is the supply curve of Firm-2

In the diagram (c) $S_M S_M$ is market supply curve. It is obtained by horizontal summation of two supply curves.

45. Briefly explain the expenditure method of measuring GDP.

Ans: Expenditure method is the alternative way to calculate the GDP by looking at the demand side of the products.

In this method we add the final expenditures that each firm makes. Final expenditure is that part

of expenditure which is undertaken not for intermediate purposes. It means the concept of expenditure methods includes all the final expenditure made by individuals, firms, institutions, and government of the country.

Example:

If the baker buys Rs.50 worth of wheat from the farmers is considered as intermediate good and the final expenditure received by the baker is 200. Then the aggregate value of output of the economy is Rs.200 + Rs.50 = Rs.250.

Let us assume that firm makes the final expenditure on the following accounts:

- Final consumption expenditures on the goods and services by households, denoted as C_i
- Final investment expenditure incurred by the firms on capital goods, denoted as I_i
- The expenditure that the Government makes on the final goods and services produced by the firm, denoted as G_i
- The export revenues that firm earns by selling its goods and services abroad, denoted as X_i .

Now GDP according to the expenditure method is expressed as follows:

$$GDP = \sum_{i=1}^n RV_i = C + I + G + X - M$$

46. Explain the functions of money. How does money overcome the short comings of a barter system.

Ans Anything that is commonly accepted as a medium of exchange for goods and services and also acts as a measure of value is called money. The functions of money are as follows.

1) **Medium of exchange** - The fundamental functions of money is to serves as a medium of exchange . It facilitates exchange of goods for money. It has solved the problems of barter system. Money has become a circulating material between buyers and sellers.

2) **Measure of value** - The Money acts as a common measure of value. The value of all goods and services measures and expressed in terms of the money. It facilitates the maintenance of accounts and it makes goods and services comparable in terms of price .

3) **Store of Value** - Money is used as a store of value. People can save part of their present income and hold the same for future . Money solves one of the deficiencies of barter system that is difficult to carry forward one's wealth under the barter system .

4) **Standard of deferred payments** - All the credit transactions are expressed in terms of money. The payment can be delayed or postponed. So money can be used for delayed settlement of dues or financial commitments.

5) **Transfer of Value** - Money acts as a transfer of value from person to person and from place to place . As a transfer of value , money helps us to buy goods , properties or anything from any part of the country or the world. Further money earned in different places can be brought or transferred to anywhere in the world.

6) Provides Liquidity and Uniformity

Money provides liquidity to all kinds of assests both movable and immovable . Money can be converted into any type of assets and all assets can be converted into money.

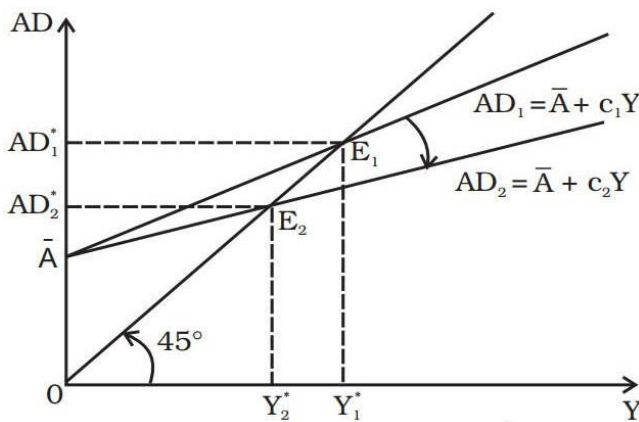
47. Discuss the Paradox of thrift.

Ans: The paradox of Thrift is a situation where, if all the people of the economy increase their savings, the total value of savings in the economy will not increase but it either decreases or remains constant. That means, the people become more thrifty and they end up saving less or same as before.

Suppose, at the initial equilibrium of $Y=250$, there is an autonomous shift in people's expenditure pattern- they suddenly become more thrifty. This may happen due to a new information regarding an imminent war or some other disaster, which makes people more conservative about their expenditures.

Hence the MPS (marginal propensity to save) of the economy increases or the MPC (marginal propensity to consume) from 0.9 to 0.6. At the initial income of $Ad_1=Y_1=250$, this sudden decline in MPC will imply a decrease in aggregate consumption spending and aggregate demand by an amount equal to $(0.9-0.6) \times 250 = 75$. This can be regarded as an autonomous reduction in consumption expenditure to the extent that the change in marginal propensity consume is occurring from some exogenous cause and is not a consequence of changes in the variables of the model. As Aggregate demand decreases by 75, it falls short of the output $Y_1=250$ and there will be excess supply equal to 75 in the economy. Stocks will pile up in warehouses and producers decide to cut the value of production by 75 in the next round to restore equilibrium in the market which further leads to reduction in factor payments in the next round and hence reduction in income by 75. As income decreases people reduce consumption proportionately and aggregate demand goes down again by $(0.6)_2 75$. The process goes on as follows: $75 + (0.6)75 + (0.6)_2 75 + \dots \infty$. The total reduction in output turns out to be: $75/1-0.6$

The paradox of thrift can be explained in the following diagram.



As per the above diagram, when A changes the line shifts upwards or downwards in parallel. When c changes, however, the line swings up or down. An increase in marginal propensity to save or a decline in marginal propensity to consume reduces the slope of the AD (Aggregate Demand) line and it swings downwards. The above diagram depicts the paradox of thrift.

PART – E

VIII. Answer any TWO of the following project oriented questions.

2x5 =10

48. A consumer wants to consume two goods. The Price of Bananas is Rs 5 and the price of mango is Rs.10 The consumer income is Rs 40.

- How much Bananas can she consume if she spend her entire income on that good?
- How much mangoes can she consume if she spend her entire income on that good?
- Is the slope of budget line downward or up word?
- Are the Bundles on the budget line equal to the consumer's income or not?
- If you want to have more of Bananas you have to give up mangoes. Is it true?

- Ans a) Consumer can purchase **8 bananas** with his entire income .
 b) Consumer can purchase **4 mangoes** with his entire income.
 c) Slope of the budget line is **downward**.
 d) **Yes** bundles on the budget line are equal to the consumer's income .
 e) **Yes**, if you want to have more of Bananas you have to give up mangoes.

49. Find the missing products in the following table.

Factor 1	TP	MP _L	AP _L
0	0	0	0
1	10	-	10
2	24	-	12
3	40	16	13.33
4	-	10	-
5	-	6	11.2
6	57	1	9.5

Ans: **50** **10** **12.5**
 56 **14**

(For blind students only)

Explain the meaning of TP, MP and AP

50. Write a note on Demonetization.

- Ans The withdrawal of a coin, note or precious metal from use as legal tender is called demonetization. Steps taken by the government for Demonetization - Old currency notes of Rs 500 and Rs 1000 were no longer legal tender. New currency notes in the demonetization of Rs 500 and Rs 200 were launched. The public were advised to deposit old currency notes in their bank account till 31-12-2016, without any declaration and upto 31-3-2017 with the RBI declaration. Further to avoid a complete breakdown and scarcity of cash, government allowed exchange of Rs 4000 old currency notes with new currency, restricting to a person per day.
- Appreciation of Demonetization - It improved tax compliance as a large number of people were brought in the tax ambit. The savings of individuals were channelized into the formal financial system. Demonetization helps in curbing black money, reducing tax evasion and corruption will decrease.
- Criticism of Demonetization - There were long queues outside banks and ATM centres. There was acute shortage of currency notes and had an adverse effect on economic activities.
