

First Terminal Examination –Plus Two

August 2020

Economics

Answer Key

- 1) Micro Economics
- 2) Downward
- 3) Income
- 4) Indifference curve
- 5) Budget line/Price line
- 6) a) Capitalist economy-Price mechanism
b) Mixed economy-Private sector and public sector
c) Socialist economy- Centralised planning
- 7) Positive economics-Analyses the consequences of an economic policy or decision. Results are analysed without passing moral judgement
Normative economics-Analyses the results of an action by examining whether they are desirable or not.
- 8) Price elasticity is the degree of responsiveness of quantity demanded of a commodity in response to change in its price.
It is the ratio of the percentage change in the quantity demanded of a commodity to a given percentage change in its price.
- 9) a) Budget line/Price line
b) Point A denotes a consumption bundle which costs exactly equal to the income of the consumer
Point C denotes a consumption bundle which costs the consumer less than his income.
Point D denotes the consumption bundle which could not be attained by the consumer as it is beyond his income.
- 10) Any combination of the quantities of two goods is called consumption bundle.
Budget set is the collection of all the bundles that the consumer can buy with his income at the prevailing market prices.

11) Inferior goods are those goods whose demand decreases when income of the consumer rises and demand increases when income of the consumer falls. Eg; Tapioca

12) A production possibility curve is defined as the locus of combinations of two goods that can be produced with given amount of resources that are fully and effectively utilized.

Draw the diagram.

13)

a) $10X_1 + 5X_2 = 200$

b) Slope is $= -2$

c) Horizontal intercept = 20

Vertical intercept = 40

.....