



# PAREEKSHA

## COMMERCE ACADEMY

### CA | CS | CMA

### XI-XII COMMERCE



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## A QUICK NOTE

Topics covered in this Solved Paper are Introductory Macro Economics, Income Determination, Money & Banking and Government Functions



“ Knowledge is best used when shared with the world.”

**CS ADITI PANT**

# SOLVED QUESTION PAPER

## QUESTION 1 (3 marks)

Give reason and identify whether the following are final expenditures or intermediate expenditure.

- A. Expenditure on maintenance of an office building.
- B. Expenditure on improvement of machine in a factory

**Answer:**

- Expenditure on maintenance of an office building is an intermediary expenditure as it made on building which is used for the production purpose.
- Expenditure on improvement of machine in a factory is a final expenditure as it is a capital investment.

## QUESTION 2 (3 marks)

Distinguish between positive economics and normative economics, with suitable examples.

**Answer:**

Positive Economics	Normative Economics
Positive economics is that branch of economics which deals with economic issues as "what is". It is based on facts and actual data.	Normative economics is that branch of economics which deals with economic issues as "what ought to be". It is suggestive in nature.
E.g. Western Railways earned 517.41 crores by selling scrap material in 2018-19.	E.g. The government should promote social safety nets to take care of the poor population

## QUESTION 3 (4 marks)

Elaborate any two instruments of Credit Control, as exercised by the Reserve Bank of India.

**Answer:**

Two instruments of credit control are

- Repo rate - It is the rate of interest at which central bank lends to commercial banks for their short term requirements. An increase in repo rate will force commercial banks to increase their lending rates. It will make borrowings costlier to general public.
- Open market operations - Refer to buying and selling of government securities by the central bank from and to the general public. When central bank sells its securities, it reduces liquidity (deposits) with commercial banks and adversely affects credit creating power of banks.

#### QUESTION 4 (3 marks)

Explain the following functions of the Central Bank as

- A. Banker's bank
- B. Authority of currency issue.

**Answer:**

##### **A. Banker's Bank**

As the banker to the banks, the central bank holds surplus cash reserves of commercial banks. It also lends to commercial banks when they are in need of funds. Central bank also provides a large number of routine banking functions to the commercial banks. It also acts as a supervisor and a regulator of the banking system.

##### **B. Authority of currency issue**

The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. It leads to uniformity in the issue of currency, and gives central bank control over the money supply.

#### QUESTION 5 (2 marks)

Suppose in a hypothetical economy, the income rises from Rs. 5,000 crores to Rs. 6,000 crores. As a result, the consumption expenditure rises from Rs. 4,000 crores to Rs. 4,600 crores. Marginal propensity to consume in such a case would be \_\_\_\_\_.

- (a) 0.8      (b) 0.4      (c) 0.2      (d) 0.6

**Answer** (d) 0.6

#### QUESTION 6 (3 marks)

State and discuss in brief the components of Aggregate Demand in a two-sector economy.

**Answer:**

Components of Aggregate Demand are:

- A. Consumption Expenditure(C) - It is that portion of income which is spent on purchase of goods and services by the consumers in an economy during the accounting period.
- B. Investment Expenditure(I) - The addition to the stock of physical capital and change in inventories of a firm in an economy.

### QUESTION 7 (4 marks)

If in an economy *Change in initial Investments* ( $DI$ ) = Rs. 500 crores,

*Marginal Propensity to Save* ( $MPS$ ) = 0.2

Find the values of the following:

- A. Investment multiplier ( $k$ )
- B. Change in final income ( $DY$ )

**Answer:**

$$K = (1/MPS)$$

$$K = 1/0.2 = 5$$

$$\Delta Y = K(\Delta I)$$

$$\Delta Y = 5 \times 500 = \text{Rs. 2500 crores}$$

### QUESTION 8 (4 marks)

The consumption function of an economy is:  $C = 40 + 0.8Y$  (amount in crores). Determine that level of income where average propensity to consume will be one.

**Answer:**

Given,

$APC = 1$ , which means that income ( $Y$ ) is equal to the consumption ( $C$ ), i. e.  $Y = C$ .

$$C = 40 + 0.8Y$$

$$Y = 40 + 0.8Y \text{ (since } Y = C)$$

$$Y - 0.8Y = 40$$

$$0.2Y = 40$$

$$Y = \text{200 crores}$$

### QUESTION 9 (4 marks)

Classify the following statements as revenue receipts or capital receipts. Give valid reasons in support of your answer.

- A. Financial help from a multinational corporation for victims in a flood affected area.
- B. Sale of shares of a Public Sector Undertaking (PSU) to a private company
- C. Dividends paid to the Government by the State Bank of India.
- D. Borrowings from International Monetary Fund (IMF).

**Answer:**

- A. Revenue receipt of the government, as it is neither creating any liability nor reducing any assets for the government.
- B. Capital receipt of the government, as it is reducing the assets of the government.
- C. Revenue receipt of the government, as it is neither creating any liability nor reducing any assets for the government.
- D. Capital receipt, as it is increasing the liability of the Government.

**QUESTION 10 (6 marks)**

Given the following data estimate the values of (i) Revenue deficit, and (ii) Fiscal deficit.

#	Particulars	Amount (in Crores)
1	Tax Revenue	1,000
2	Non-Tax Revenue	150
3	Net Borrowings by Government	780
4	Disinvestment Proceeds	50
5	Revenue Expenditure	1,500
6	Capital Expenditure	480

**Answer:**

- i.  $Revenue\ Deficit = Total\ Revenue\ expenditure - Total\ Revenue\ Receipt$   
 $= Revenue\ Expenditure - (Tax\ revenue + Non\ Tax\ revenue)$   
 $= 1500 - (1000 + 150) = \mathbf{350\ crores}$
- ii.  $Fiscal\ deficit = Total\ expenditure - (Revenue\ Receipt + Disinvestment\ proceeds)$   
 $= (1500 + 480) - (1000 + 150 + 50) = \mathbf{780\ crores}$

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### PHONE

+91 90398 60194

### EMAIL

[team.paradigmacademy@gmail.com](mailto:team.paradigmacademy@gmail.com)

### ADDRESS

First Floor, Vaynus,  
Opposite CSEB Office,  
Near Shriram Care Hospital,  
Ameri Road, Nehru Nagar,  
Bilaspur, Chhattisgarh,  
495001

