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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 and Scope, Indian Economy, Types of Economies



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

CS ADITI PANT

PART A

MULTIPLE CHOICE QUESTIONS.

QUESTION 1

John Maynard Keynes book "The General theory of Employment, Interest and Money" was published in

- A. 1936
- B. 1946
- C. 1956
- D. 1966

Answer: Option A

QUESTION 2

The word 'Macro' is derived from the Greek word –

- A. Makros
- B. Macros
- C. Macrow
- D. Mac

Answer: Option A

QUESTION 3

_____ is the driving force behind all economic activities in a capitalistic economy.

- A. Benefit
- B. Additional
- C. Profit
- D. Loss

Answer: Option C

QUESTION 4

Capitalism and Socialism are two extreme and _____ approaches.

- A. normal
- B. opposite
- C. upward
- D. downward

Answer: Option B

QUESTION 5

Capitalist Economy is also termed as an Economy.

- A. Free
- B. Costly
- C. Value
- D. Govt

Answer: Option A

QUESTION 6

The USA, West Germany, Australia and Japan are the best examples for economies.

- A. Socialistic
- B. Capitalistic
- C. Mixed
- D. Profit

Answer: Option B

QUESTION 7

In a _____ Economy, all the resources are owned and operated by the government.

- A. Capitalistic
- B. Globalistic
- C. Socialistic
- D. Mixed

Answer: Option C

QUESTION 8

_____ are planned in such a way that the benefits are distributed to the society at large.

- A. Investment
- B. Production
- C. Distribution
- D. Services

Answer: Option A

QUESTION 9

Who promotes balanced growth of the economy?

- A. Capitalism
- B. Socialism
- C. Globalism
- D. Mixedism

Answer: Option D

QUESTION 10

In _____ economies both private and public sectors coexist.

- A. Capitalism
- B. Socialism
- C. Globalism
- D. Mixed

Answer: Mixed

QUESTION 11

_____ is considered as the Father of socialism.

- A. Adam Smith
- B. Keynes
- C. Karl Marx
- D. Marshall

Answer: Option C

QUESTION 12

_____ is another name for economics.

- A. Political economy
- B. Socialist economy
- C. Capitalist economy
- D. Planned economy

Answer: Option A

QUESTION 13

The socialist economy is also known as economy.

- A. Market
- B. Common

C. Traditional

D. Mixed

Answer: Common

QUESTION 14

Economics is a _____ science.

- A. Political
- B. Social
- C. Physical
- D. Natural

Answer: Option B

QUESTION 15

In a _____ Economy there is no central coordinator.

- A. Mixed
- B. Capitalist
- C. Socialist
- D. Traditional

Answer: Option B

QUESTION 16.

In a socialist economy, all decisions regarding production and distribution are taken by

- A. market forces
- B. central planning authority
- C. customs and traditions
- D. private sector

Answer: Option B

QUESTION 17

Co-existence of public and private sector is called economy.

- A. Mixed
- B. Socialist
- C. Capitalist
- D. Traditional

Answer: Option A

QUESTION 18

The government has minimum role in ____ economy.

- A. Mixed
- B. Capitalist
- C. Socialist
- D. Traditional

Answer: Option B

QUESTION 19

Economic planning is an important feature of _____ Economy.

- A. Mixed
- B. Capitalism
- C. Socialism
- D. Traditional

Answer: Option A

QUESTION 20

Welfare is ignored in _____ Economy.

- A. Mixedism
- B. Socialistic
- C. Capitalistic
- D. Traditional

Answer: Option C

QUESTION 21

Free trade economy is otherwise called ____ economy.

- A. Socialist
- B. Capitalist
- C. Traditionalist
- D. Mixedist

Answer: Option B

QUESTION 22

Extreme inequality is prevented in _____ system.

- A. Socialist
- B. Capitalist
- C. Mixedist
- D. Traditionalist

Answer: Option A

QUESTION 23

Market forces have only a limited role to play in _____ economy.

- A. Mixedist
- B. Socialist
- C. Capitalist
- D. Traditionalist

Answer: Option B

QUESTION 24

India is the best example for _____ economy.

- A. Capitalism
- B. Socialism
- C. Mixedism
- D. Traditionalism

Answer: Option C

QUESTION 25

What is main motive of capitalism?

- A. Profit
- B. Benefit
- C. Excess money
- D. Loss

Answer: Option A

MATCH THE FOLLOWING AND CHOOSE THE CORRECT ANSWER BY USING CODES GIVEN BELOW

QUESTION 1

- | | | |
|------------------------------|---|------------------|
| A. Father of Capitalism | – | (i) Adam Smith |
| B. Father of Socialism | – | (ii) Karl Marx |
| C. Net Economic Welfare | – | (iii) Samuelson |
| D. Father of Macro Economics | – | (iv) J.M. Keynes |

Codes:

- A. A (i) B (ii) C (iii) D (iv)
- B. A (ii) B (iii) C (iv) D (i)
- C. A (iii) B (iv) C (ii) D (i)
- D. A (iv) B (iii) C (ii) D (i)

Answer: Option A

QUESTION 2

- | | | |
|-------------------------|---|--------------------------|
| A. Mixed Economy | – | (i) Welfare Oriented |
| B. Socialist Economy | – | (ii) Subsistence Economy |
| C. Capitalist Economics | – | (iii) Economic Planning |
| D. Traditional Economy | – | (iv) Profit Motive |

Codes:

- A. (a) A (i) B (ii) C (iii) D (iv)
- B. (b) A (ii) B (iii) C (iv) D (i)
- C. (c) A (iii) B (i) C (iv) D (ii)
- D. (d) A (iv) B (iii) C (ii) D (i)

Answer: Option C

QUESTION 3

- | | | |
|-------------------------------|---|-----------------------|
| A. Minimum Role of Government | – | (i) Freedom of choice |
| B. Absence of monopoly | – | (ii) Capitalism |
| C. Capitalist Economy | – | (iii) Socialism |
| D. Socialist Economy | – | (iv) Central planning |

Codes:

- A. A (i) B (ii) C (iii) D (iv)
- B. A (ii) B (iii) C (iv) D (i)

C. A (iii) B (i) C (iv) D (ii)

D. A (ii) B (i) C (iii) D (iv)

Answer: Option B

QUESTION 4

- | | | |
|-------------------------------|---|-----------------------------|
| A. Traditional Economy | – | (i) Socialism |
| B. Minimum Role of Government | – | (ii) Traditions and customs |
| C. Absence of Monopoly | – | (iii) Capitalism |
| D. Administered prices | – | (iv) Mixed Economy |

Codes:

- A. A (i) B (ii) C (iii) D (iv)
B. A (iv) B (iii) C (ii) D (i)
C. A (ii) B (iii) C (i) D (iv)
D. A (ii) B (iv) C (iii) D (i)

Answer: Option C

QUESTION 5

- | | | |
|---------------------------|---|----------------------------|
| A. Private property | – | (i) Capitalist Economy |
| B. Bureaucratic expansion | – | (ii) Laissez Faire Economy |
| C. Market Economy | – | (iii) Socialism |
| D. Socialism | – | (iv) China and Cuba |

Codes:

- A. A (i) B (ii) C (iii) D (iv)
B. A (iv) B (iii) C (ii) D (i)
C. A (ii) B (iii) C (i) D (iv)
D. A (i) B (iii) C (ii) D (iv)

Answer: Option C

STATE WHETHER THE STATEMENTS ARE TRUE OR FALSE

QUESTION 1

(i) In Mixed Economy, both public and private sector co-existence.

(ii) Mixed Economy followed by India.

- A. (a) Both (i) and (ii) are true
B. (b) Both (i) and (ii) are false

- C. (c) (i) is true but (ii) is false
- D. (d) (i) is false but (ii) is true

Answer: Option A

QUESTION 2

- (i) Profit Motive of Capitalist Economy.
- (ii) Basic problems are solved by customs and traditions.

- A. Both (i) and (ii) are true
- B. Both (i) and (ii) is false
- C. (i) is true but (ii) is false
- D. (i) is false but (ii) is true

Answer: Option C

QUESTION 3

- (i) Father of Macro Economics – Adam Smith.
- (ii) Father of Capitalism – Adam Smith

- A. Both (i) and (ii) are true
- B. Both (i) and (ii) are false
- C. (i) is true but (ii) is false
- D. (i) is false but (ii) is true

Answer: Option A

QUESTION 4

- (i) The Father of Socialism is Karl Marx.
- (ii) Socialism is Profit Motive.

- A. Both (i) and (ii) are true
- B. Both (i) and (ii) are false
- C. (i) is true but (ii) is false
- D. (i) is false but (ii) is true

Answer: Option C

QUESTION 5

- (i) Capitalism and Socialism are same approaches.
- (ii) Capitalism and Socialism are two extreme and opposite approaches.

- A. Both (i) and (ii) are true
- B. Both (i) and (ii) are false

- C. (i) is true but (ii) is false
- D. (i) is false but (ii) is true

Answer: Option D

WHICH OF THE FOLLOWING IS CORRECTLY MATCHED

QUESTION 1

- A. One Sector Model – firm
- B. Two Sector Model – firm, government
- C. Three Sector Model – firm, household, government
- D. Four Sector Model – firm, household, government Industry

Answer: Option C

QUESTION 2

- A. Capitalist Economy – USA, West Germany, Australia
- B. Socialist Economy – Japan, USSR
- C. Mixed Economy – Russia, Cuba
- D. Traditional Economy – India, China

Answer: Option A

QUESTION 3

- A. Capitalism – Marshall
- B. Socialism – Karl Marx
- C. Mixedism – Adam Smith
- D. Traditionalism – Samuelson

Answer: Option B

QUESTION 4

- A. Macro – Greek word – Makros
- B. Macro – Latin word – Maker
- C. Macro – French word – Macro
- D. Macro – English word – Large

Answer: Option A

QUESTION 5

- A. The first Noble Prize in Economic Science – Ragnar Frisch
- B. The General Theory of Employment – Adam Smith
- C. Planned Economy – J.M. Keynes
- D. Free Economy – Karl Marx

Answer: Option A

WHICH OF THE FOLLOWING ARE NOT CORRECTLY MATCHED

QUESTION 1

- A. Equal opportunity – Mixedism
- B. Profit Motive – Capitalism
- C. Social Benefit – Socialism
- D. Traditional – Traditionalism

Answer: Option A

QUESTION 2

- A. Micro – small
- B. Macro – large
- C. Micro – very small
- D. Macro – makros

Answer: Option C

QUESTION 3

- A. Traditional Economy – Subsistence Economy
- B. Economics is a – social science
- C. Economics other name – Political Economy
- D. Consumers Enjoy – Socialism

Answer: Option D

QUESTION 4

- A. Private ownership – Capitalism
- B. Public ownership – Socialism
- C. Ownership of property – Mixedism
- D. Social welfare – Traditionalism

Answer: Option D

QUESTION 5

- A. Traditional Government Involvement only
- B. Capitalist – Internal Regulation only
- C. Socialistic – Complete Involvement
- D. Mixedistic – Limited Role Answers

Answer: Option A

PICK THE ODD ONE OUT

QUESTION 1

- A. Rapid Economic growth
- B. Balanced Economic growth
- C. Economic Equality
- D. Inefficiency

Answer: Option D

QUESTION 2

- A. Public ownership
- B. Central planning
- C. Price Mechanism
- D. Maximum Social Benefit

Answer: Option C

QUESTION 3

- A. Households
- B. Firms

- C. Government
- D. Factories

Answer: Option D

QUESTION 4

- A. National Income
- B. Inflation
- C. Business cycle
- D. Non-Economic factor

Answer: Option D

QUESTION 5

- A. Capitalism
- B. Socialism
- C. Globalism
- D. Mixedism

Answer: Option C

ASSERTION AND REASON

QUESTION 1

Assertion (A): Macro Economics is the study of the economy as a whole.

Reason (R): Macro Economics is also known as "Income theory".

- A. Both 'A' and 'R' are true and 'R' is the correct explanation to 'A'
- B. Both 'A' and 'R' are true but 'R' is not the correct explanation to 'A'
- C. 'A' is true but 'R' is false
- D. 'A' is false but 'R' is true

Answer: Option A

QUESTION 2

Assertion (A): Inflation refers to steady increase in general price level.

Reason (R): Deflation refers to steady increase in general price level.

- A. Both 'A' and 'R' are true and 'R' is the correct explanation to 'A'
- B. Both 'A' and 'R' are true but 'R' is not the correct explanation to 'A'

C. 'A' is true but 'R' is false

D. 'A' is false but 'R' is true

Answer: Option C

QUESTION 3

Assertion (A): The major economic activities include transportation, banking, advertising.

Reason (R): The major economic activities include only Industrial development.

A. Both 'A' and 'R' are true and 'R' is the correct explanation to 'A'

B. Both 'A' and 'R' are true but 'R' is not the correct explanation to 'A'

C. 'A' is true but 'R' is false

D. 'A' is false but 'R' is true

Answer: Option B

QUESTION 4

Assertion (A): Capitalistic Economy is Social Welfare Economy.

Reason (R): Capitalistic Economy is also free Economy or market Economy.

A. Both 'A' and 'R' are true and 'R' is the correct explanation to 'A'

B. Both 'A' and 'R' are true but 'R' is not the correct explanation to 'A'

C. 'A' is true but 'R' is false

D. 'A' is false but 'R' is true

Answer: Option D

PART B

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES

QUESTION 1

Define Globalism?

Answer:

Globalism:

The term coined by Manfred D Steger (2002) to denote the new market ideology of globalization that connects nations together through international trade and aiming at global development. This ideology is also termed as 'Extended Capitalism'.

QUESTION 2

Define Mixed Economy (or) Mixedism?

Answer:

In a mixed economy system both private and public sectors co – exist and work together towards economic development.

It is a combination of both capitalism and socialism. It tends to eliminate the evils of both capitalism and socialism.

In these economies, resources are owned by individuals and the government. India, England, France and Brazil are the examples of mixed economy.

QUESTION 3

What is meant by Four Sector Economy?

Answer:

In a Four-sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included.

In real life, only four-sector economy exists. This model is composed of four sectors namely,

- Households
- Firms
- Government
- External sector

In four-sector economy, expenditure for the entire economy include domestic expenditure ($C + I + G$) and net exports ($X - M$).

QUESTION 4

Define Profit Motive?

Answer:

Profit Motive:

Profit is the driving force behind all economic activities in a capitalistic economy. Each individual and organization produce only those goods which ensure high profit. Advance technology, division of labor, and specialization are followed. The golden rule for a producer under capitalism is 'to maximize profit.'

PART C

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH

QUESTION 1

Discuss the limitations of Macro Economics?

Answer:

Macroeconomics suffers from certain limitations. They are:

There is a danger of excessive generalization of the economy as a whole. It assumes homogeneity among the individual units. There is a fallacy of composition. What is good of an individual need not be good for nation and vice versa. And, what is good for a country is not good for another country and at another time. Many non-economic factors determine economic activities; but they do not find place in the usual macroeconomic books.

QUESTION 2

Outline the Major Demerits of Capitalism?

Answer:

- Concentration of Wealth and Income: Capitalism causes concentration of wealth and income in a few hands and thereby increases inequalities of income.
- Wastage of Resources: Large amount of resources is wasted on competitive advertising and duplication of products.
- Class Struggle: Capitalism leads to class struggle as it divides the society into capitalists and workers.
- Business Cycle: Free market system leads to frequent violent economic fluctuations and crises.

- Production of non-essential goods: Even the harmful goods are produced if there is possibility to make profit.

QUESTION 3

Indicates the Merits of Socialism?

Answer:

- Reduction in Inequalities: No one is allowed to own and use private property to exploit others.
- Rational Allocation of Resources: The central planning authority allocates the resources in a planned manner. Wastages are minimized and investments are made in a pre-planned manner.
- Absence of Class Conflicts: As inequalities are minimum, there is no conflict between rich and poor class. Society functions in a harmonious manner.
- End of Trade Cycles: Planning authority takes control over production and distribution of goods and services. Therefore, economic fluctuations can be avoided.
- Promotes Social Welfare: Absence of exploitation, reduction in economic inequalities, avoidance of trade cycles and increase in productive efficiency help to promote social welfare.

PART D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE

QUESTION 1

State the Merits and Demerits of Mixed Economy?

Answer:

Merits of Mixed Economy:

- Rapid Economic Growth: The best advantage of mixed economy is that it promotes rapid economic growth. Thus, both public requirements and private needs are taken care of.
- Balanced Economic Growth: Mixedism promotes balanced growth of the economy. It promotes balanced growth between agriculture and industry, consumer goods and capital goods, rural and urban etc.
- Proper Utilization of Resources: In a mixed economy, the government can ensure proper utilization of resources. The government controls most of the important activities directly and the private sector indirectly.
- Economic Equality: The government uses progressive rates of taxation for levying income tax to bring about economic equality.

- Special Advantages to the Society: The government safeguards the interest of the workers and weaker sections by legislating on minimum wages, and rationing, establishing fair price shops and formulating social welfare measures.

Demerits of Mixed Economy

- Lack of Coordination: The greatest drawback of mixedism is lack of coordination between public sector and private sector. As both work with divergent motives, it creates many coordination related problems.
- Competitive Attitude: It is expected that both government and private should work with a complementary spirit towards the welfare of the society, but in reality, they are competitive in their activities.
- Inefficiency: Most of the public sector enterprises remain inefficient due to lethargic bureaucracy, red-tapism and lack of motivation.
- Fear of Nationalization: In a mixed economy, the fear of nationalization discourages the private entrepreneurs in their business operations and innovative initiatives.
- Widening Inequality: Ownership of resources, laws of inheritance and profit motive of people widens the gap between rich and poor. Ultimately the inequality of capitalism and inefficiency of socialism are found in mixed economies.

QUESTION 2

Classify the concepts of Macro Economics?

Answer:

The important concepts used in macro-economics are presented below:

Stock and Flow Variables

Variables used in economic analysis are classified as stock and flow. Both stock and flow variables may increase or decrease with time.

- Stock refers to a quantity of a commodity measured at a point of time. In macroeconomics, money supply, unemployment level, foreign exchange reserves, capital etc. are examples of stock variables.
- Flow variables are measured over a period of time. National Income, imports, exports, consumption, production, investment etc. are examples of flow variables.
- Economic Models A model is a simplified representation of real situation. Economists use models to describe economic activities, their relationships and their behavior. A model is an explanation of how the economy, or part of the economy, works. Most economic models are built with mathematics, graphs and equations, and attempt to explain relationships between economic variables. The

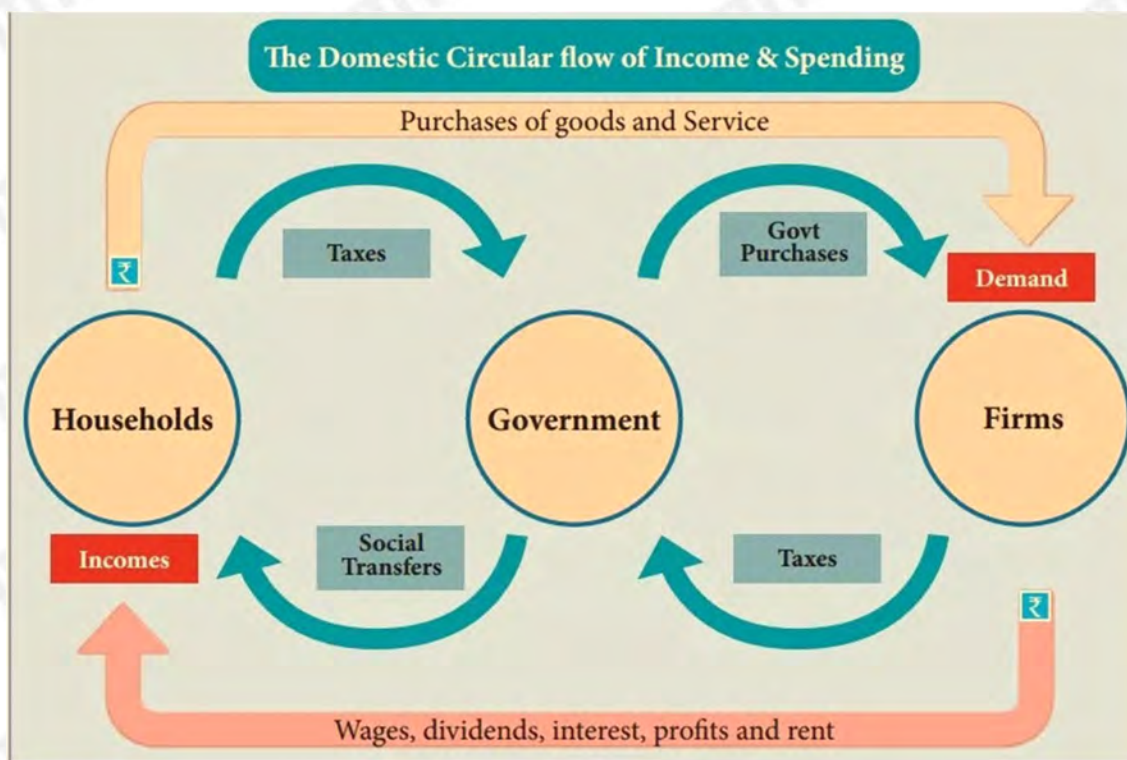
commonly used economic models are the supply-demand models and circular flow models and Smith models.

QUESTION 3

Briefly explain circular flow of Income in a Three Sector Economy?

Answer:

Circular Flow of Income in a Three-Sector Economy:



In addition to household and firms, inclusion of the government sector makes this model a three-sector model.

The government levies taxes on households and firms, purchases goods and services from firms, and receive factors of production from household sector.

On the other hand, the government also makes social transfers such as pension, relief, subsidies to the households.

Similarly, Government pays the firms for the purchases of goods and services. The Flow Chart illustrates three-sector economy model:

Under three sector model, national income (Y) is obtained by adding Consumption expenditure (C), Investment expenditure (I) and Government expenditure (G).

$$\therefore Y = C + I + G$$

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