ct/19.

Part - II
Chapter - 1
Introduction to Macro Economics and Basic concepts.

Notes :

1. **Meaning of Macro - Economics :**
It studies the overall conditions of an economy, total production, total consumption, total saving, general price level, public expenditure & revenue, etc.

2. **Importance of Macro-Economics :**

(i) Study of all Individual units not possible → It is impossible to study the large and numerous facts in terms of individual units.

(ii) Helpful for micro economics → The study of macro economics is indispensable even for buildings and ~~do~~ developing micro-economics This law can be formulated without a pre-study of aggregates bearing on it.

(iii) Measurement of economic development → It deals with the aggregates which help in measuring the economic development of the country.

Scanned with CamScanner

(iv) Helpful in comparing with other economics → The study of aggregates enables us to compare our economy with ~~our~~ other economies of the world.

3. Limitations of Macro Economy:

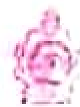
(i) Conclusion are not practical → The ~~c~~ conclusions drawn from macro economic analysis are often misleading. For example, if the general price index no. is unchanged, it cann't be concluded that the price level is unchanged.

(ii) Ignorance of individual units → The small individual units play the role of foundation which are ignored in the macro-economic analysis.

(ii) Macro-economies doesn't depict correct picture of individual units → It doesn't depict the true picture of individual units. For e.g. → If the aggregate demand increases, the production will rise, but may be certain firms whose cost & output may increase or decrease.

(iii) Measurement of aggregates is difficult → Despite several improvements in statistical techniques in recent years, it has ~~been~~ not been possible to obtain reliable measures of aggregates.

Scanned with CamScanner



4. Some Basic Concepts of Macro Economics:

(i) Consumer Goods → It refers to those goods which are directly used for 'satisfying human wants.' It means such goods are not used for further production, but for final consumption.

(ii) Capital Goods → It refers to the fixed assets of producers such as plant & machinery which are used repeatedly in the production process for years together.

(iii) Final Goods → These are those goods which are used by consumers or by producers. It means such goods have crossed the boundary line of production and are ready for use ~~for~~ by their users.

(iv) ~~Intermediat~~ Intermediate Goods → Those goods are known as intermediate goods which are purchased by one firm from another firm for re-sale.

5. Difference b/w consumer and capital goods:

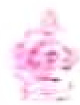
Basis of difference	Consumer Goods.	Capital Goods.
(i) Use	These goods are used for satisfying human wants, directly	These goods satisfy human wants indirectly.

(ii)	Effect on production capacity	Such goods do not promote production capacity.	Such goods help in increasing production capacity.
(iii)	Expected life	So Only durable goods have some long life but other goods have limited life.	Generally such goods have expected life little long.

6. Difference between Intermediate Goods & Final Goods :

	Basis of difference	Intermediate Goods.	Final Goods.
i)	Meaning	These goods are used for resale in the same year.	These goods are used by consumers for consumption.
ii)	Inclusion	These goods are not included in national or domestic income.	These goods are included.
ii)	Value addition	They are not ready i.e. some value is to be added.	They are ready, hence no value remains to be added.
ı)	Production boundary	They are still within Production boundary.	They have crossed the production boundary.

Scanned with CamScanner



(v) Example Milk used in Diary shop for resale and in factories for further production. | Milk purchased by households for consumption.

7. Meaning of Stock :
This variables means which we measure at a particular point of time. In other words stock variables are not time dimensional.

8. Meaning of Flow :
This means that variables which we measure over a period of time. Here, the period of time may be a day, a week, a month, a year, etc.

9. Difference between Stock & Flow :

Basis of difference	Stock	Flow
(i) Meaning	It refers to the value of variable measured at a point of particular time.	It refers to the value of variables measured during a particular period of time.
(ii) Nature	It is static concept.	It is a dynamic concept

(iii)	Time Dimensional	It is not time dimension-al.	It is time dimensional.
(iv)	Example	(i) Population of a country (ii) Wealth	(i) No. of births. (ii) Income.

10. Difference between Real Flow and Money Flow:

	Basis of difference	Real Flow	Money Flow.
(i)	Meaning	It refers to flow of goods and services between firms and households.	It refers to flow of money b/w firms & households.
(ii)	Type of Exchange	It is an exchange of goods & services.	It is an exchange of money.
(iii)	Difficulty in exchange	A difficulty may arise of barter system in such flow of goods & factor services.	There arises no difficulty in money flow.
(iv)	Other name	It is known as physical Flow.	It is known as nominal Flow.

11. Concept of Gross Investment & Net Investment:

* Meaning of Gross Investment :- It refers to the expenditure on purchases of fixed assets and expenses on the inventory stock during the year.

* Meaning of Net Investment :- When expenditure on the replacement of worn out fixed assets is deducted from gross investment, the remaining amount is called Net investment.

12. Difference b/w Consumption of fixed capital & Capital Loss :

Basis of difference	Consumption of Fixed Capital.	Capital Flow
(i) Implication	It implies loss of value of fixed assets while they are being continuously used.	It implies loss of value of fixed assets while they are not in use.
(ii) Cause of loss	The loss is because of normal wear & tear &, accidental damage & obsolescence.	The loss is because of natural calamity & ~~loss~~ fall in the market value of assets.
(iii) Meeting	It is met through depriciation reserve fund.	It is met through insurance of fixed assets.

Scanned with CamScanner

Chapter-2

National Income - Concept, Aggregates and Computation.

Notes :

1. **Meaning of National Income :**

It is a money measure or value of net aggregate of goods & services accuring anually to the nation as a result of economic activities of the community at large.

2. **Definition of National Income :**

According to Marshall, " The labour & capital of the country, acting upon its natural resources, produce annually a certain net aggregate of commodities, material & immaterial including services of all kind. This is the true net annual income or revenue of the country or the national dividend."

3. **Meaning of Personal Income (PI) :**

It refers to that income which is actually received by the individuals in a country during the year. It is important to note that the whole of national income earned by factors of production is not available, several deductions are made from it.

3. Personal Income = National Income − Security contribution − Corporate Income Tax − Undistributed Corporate profits + Transfer payments.

4. Meaning of Disposable Personal Income (DPI): The remaining amount of ~~pers~~ personal income (PI − Personal Direct taxes) is called disposable personal income.

Disposable Personal Income = PI − Personal direct taxes

DPI = Consumption + saving.

5. Per Capita Income − Meaning: It refers to that income which is arrived at when we divide the total national income by the total population.

$$\text{Per Capita Income} = \frac{\text{Total National Income}}{\text{Total Population}}$$

The more the per capita income, the higher will be the standard of living of the people.

6. Difference between National & Per Capita Income

	Basis of difference	National Income	Per Capita Income
(i)	Relation	It is related to macro economics.	It is related to micro economics.

Scanned with CamScanner

(ii)	Concept	It is an absolute concept.	It is a relative concept.
(iii)	Calculation	It is the sum of total production of goods & services in a country.	It is national income divided by total production.
(iv)	Use	It is used for national development and welfare of the public.	It is used for meet the personal needs.
(v)	Policy	The policy for national income is chalked out by the government.	There is no need of any policy.

7. Difference between Personal & National Income:

Basis of difference	National Income	Personal Income
(i) Meaning	It is the sum of ~~the~~ value of goods & services produces every year in a country.	It is the sum ~~total~~ income earned by various sources.
(ii) Relation	It is related to Macro economics.	It is related to micro economics
(iii) Inclusion	It includes the personal income.	It is part of national income.

Scanned with CamScanner

8. Difference b/w National Income & National wealth:

Basis of difference	National Income	National Wealth
(i) Meaning	It refers to the money value of the aggregate of goods & services produced during a particular period.	It is the aggregate of wealth possessed by all the individuals in the country as well as to social wealth belongs to the society as a whole.
(ii) Measurement	It is measured over a period of time.	It is measured at a point of time.
(iii) Flow/Stock	It is flow because it is occuring continuously through period of time.	It is a fund/stock which is an accumulated quantity existing at a particular time.

9. Importance of National Income:

(i) Index of Standard of living → It gives an idea of the standard of living of the people. The per capita shows the pattern and level of consumption which reflects the standard of living.

Scanned with CamScanner

i) Measure of Economic welfare → It is true that the national Income is a measure of economic welfare.

ii) Aid to taxation → It helps in the formulation of taxation policy. It also helps in preparing schemes for removing regional disparities.

) Research benefits → National Income data are very important for ~~research~~ research scholars, social reformers and politicians.

Helpful in policy making for foreign trade- It is very helpful in formulating the trade & tariff policy, etc.

Gross Domestic Products → Meaning :
It implies the gross market value of all final goods & services produced within the domestic territory of a country during a period of one year. (GDP_{MP})

Gross Domestic Products at Factor Cost (GDP_{FC}) :

$$GDP_{FC} = GDP_{MP} - \text{Net Indirect taxes}$$

Net Domestic Product at Market Price / NDP_{MP} :

$$NDP_{MP} = GDP_{MP} - \text{Depreciation.}$$

Scanned with CamScanner

13. Net Domestic Product at Factor Price / NDP_{FC} :

$NDP_{FC} = GDP_{MP}$ − Net Indirect Taxes − Depreciation

14. Gross National Product at Market Price (GNP_{MP}) :

It mean gross market value of all the final goods and services produced by the normal residents of a country a period of one year.

$GNP_{MP} = GDP_{MP}$ + Net Factor Income from abroad (NFIA).

15. Difference between Nominal GDP & Real GDP :

	Basis of difference	Nominal GDP	Real GDP
(i)	Computation	Nominal GDP = Real GDP × $\frac{\text{Price Index}}{100}$	Real GDP = $\frac{\text{GDP at current price}}{\text{Price Index}} \times 100$
(ii)	Alternative Name	It is known as GDP at current price.	It is known as GDP at Base year Price.
(iii)	When increase takes place?	It can increase when the price level increases even when there is no increase in the flow of goods & services in the economy.	It can increase only when the flow of goods & services increase in the economy.

Scanned with CamScanner

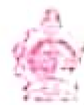
Methods of Calculating National Income.

15. **Meaning of value added method :**
In this, the total value of all goods & services produced in a year is obtained and then net product is calculated by subtracting the replacement cost of factor inputs.

16. **Meaning of Income Method :**
This method consists in adding up the total of incomes received by the people in the country. Here, the money income in of the commodity is calculated by adding up all incomes from labour as well as property. This method is also known as Distributive Method or factor payment Method.

17. **A Meaning of Expenditure Method :**
In this, we measure national income in terms of expenditure on the purchase of final goods & services produced during the accounting year in the economy. The final expenditure comprises consumption & investment. it is therefore called consumption & investment method.

18. **Net Exports. (X − M) :**
It represents difference b/w exports & imports during an accounting year.



Part - II.
Chapter - 3.
Money and Banking

Notes :-

Credit Control Policy (Instruments of Monetary Policy of Reserve Bank of India) :

Quantitative Instruments :->

Repo Rate -> Repo Rate is that rate of interest at which RBI lends money to the commercial banks. The commercial banks ~~po~~ takes loans from RBI to correct or consolidate their liquidity position in order to win the trust of the people in banking system of the nation. RBI increases repo rate to curtail the inflation vice versa repo rate is decreased to ~~cor~~ correct deflection.

Reverse Repo Rate -> Reverse Repo Rate is that rate which is paid by central bank to commercial banks when they park their surplus funds with the central bank to generate interest income. Currently, reverse repo rate is ~~that~~ tagged with repo rate. Reverse Repo rate remains 0.5% (2) lower to repo rate. Reverse repo rate automatically increases with every increase

in increase in repo rate and vice versa.

iii) Bank Rate → The Bank Rate is the rate at which the central bank is prepared to discount the first class bills of exchange and grant loans to commercial banks. This rate is also called discount rate. Usually, it relates to the borrowing by commercial banks to meet their immediate cash-crunch. Bank rate is generally higher than the Repo Rate.

iv) Cash Reserve Ratio or CRR → Every commercial bank has to maintain a certain ratio of its deposits with the central bank. Central bank can affect cash reserves of commercial banks by making a change in cash reserve ratio. Cash reserve ratio is the ratio between cash reserves of the commercial banks with the reserve bank of India and their demand deposits.

For credit contraction, central bank raises cash reserve ratio contrary to it for its expansion cash reserve ratio is reduced.

For example, if the cash reserve ratio is 5% and total deposits of a certain bank is ₹ 200,00,000, it will have to keep ₹ 10,00,000 with the central bank. If the cash reserve ratio is raised to 10%,

Scanned with CamScanner

the bank will have to keep ₹ 20,00,000 with the central bank. Thus when the cash flow or credit is to be increased CRR is reduced and when the cash flow or credit is to to be reduced CRR is increased.

(v) Statutory Liquidity Ratio (SLR) → Every bank is required to maintain a fixed % of its assets in the form of cash or other liquid assets called SLR. With a view, to reducing the flow of credit in the market, the central bank increases this liquidity ratio and for expantion of credit, the liquidity ratio is reduced.

2. Difference between CRR & ~~SL~~ SLR :

⇒ CRR and SLR are different. Amount of CRR is kept with central bank by commercial banks while the amount of SLR has to be kept by commercial bank with themselves.

3. Qualitative Instruments :

(i) Moral Suasion → Moral Suasion means 'persuasion', 'request' and 'appeal' by the central bank to the member banks to

expand or contract credit as the situation demand. Through, this method, the central bank merely uses its moral influence on the commercial banks to follow its policies. For example, the central bank may request the commercial banks not to grant loans for speculative purpose.

4. Functions of Money :

a. Primary Functions → They are known as original or main functions.

(i) Medium of Exchange = In modern money exchange system, money acts as the intermediary in sales and purchases. All exchange of goods & services takes place in terms of money.

(ii) Measure of value = The second basic function of money is that it measures the value of goods & services.

b. Secondary Functions →

(i) Standard of ~~deff~~ deferred payments = Since money has the quality of general acceptability, it is used for lending and borrowing i.e., standard of deffered payments.

(ii) Store of value = Unspent income in the form

of saving can be stored in terms of money either at home, or as bank deposits or other assets.

(iii) Transfer of value = Since money possesses the quality of general acceptability, a person can dispose of his property at one place and buy ~~a~~ new property ~~at~~ another place.

5. Components of Money supply in India :

a. Net Bank Credit to Government → The net bank credit to Govt. consists of credit given by the Reserve Bank of India (RBI) to Central and State Government. The overall bank credit to government is nearly two-~~fifth~~ fifth of total money supply and thus the govt., is responsible to a considerable extent for increase in money supply and inflation.

b. Bank Credit to Commercial Sector → It includes credit by RBI to commercial sector & credit to commercial sector by commercial banks and cooperative banks & investment by commercial and cooperative ~~sector~~ banks.

c. Net foreign exchange assets of the banking sector – Whenever, the foreign exchange reserves go up, the ~~to~~ money supply goes up and therefore rise in foreign exchange assets is inflationary.

Scanned with CamScanner

d. Govt.'s Currency liabilities to the Public → It is the amount of coins & notes withe the public and with the increase in coins & notes money supply goes up.

e. Banking sector net Non-Monetary Liabilities other than Time deposits → It includes non-monetary liabilities of RBI such as treasury bills and securities issued on behalf of RBI itself. It also includeds non-monetary liabilities of ~~comer~~ commercial & cooperative banks.

6. Meaning of High-Powered Money :

High-Powered Money is the sum of commercial banks cash reserves on the basis of which it creates credit. Therefore, they keep out part of deposits in cash and the balances they use for creation of credit. It is normally considered that 10% is very safe limit for keeping cash.

7. Meaning of Bank :

In the narrower sense, a bank refers to an institution which operates the transaction of money. A bank ~~operates~~ accepts deposits from public and lends its funds to public as and when required by the public.

In a wider sense, a bank represents an institutions which deals with money and credit.

Scanned with CamScanner

8. Characteristics of Bank :

(i) Bank must be an institutions of persons.

(ii) Banks must have a place of working.

(iii) Banks must accept public deposits.

(iv) Bank must utilise the funds of public in investing & lending.

(v) The word "Banker" or "Banking" must be used by institutions functioning as banks.

9. Importance of the Bank :

(i) Economic development → Various development plans are augmented with the establishment of banks. The areas where banks are working automatically tends to develop due to increase in the flow of funds for various economic activity.

(ii) Protection of valuables → Banks help in protecting precious articles of public like ornaments, documents and other valuables by providing locker facility.

(iii) Aid to Government → Banks provide financial assistance to govt., for various schemes of

Scanned with CamScanner

economic planning and development, by way of purchasing government bonds, certificates debentures, etc.

(iv) Transfer of money → Bank provide the facility of transferring the money from one place to another on nominal charges.

(v) Stabilisation of price-level → Banks help in stabilishing the price level through credit control policy.

Scanned with CamScanner

5/NOV/19

Chapter-4
Determination of Income & Employment.

Note:

IMP
1. What is Full Employment?
=) In Macro Economics, Full Employment means a situation in which ordinaryily all those people who are willing to work, at the prevailing wage rate get work.
Full Employment is not a situation of zero unemployment. It doesn't mean lack of unemployment. It simply means that situation in which employment opportunities and qualified job seekers get equilibrium but some sort of unemployment cann't be denied in this equilibrium. This sort of unemployment maybe referred as natural rate of unemployment.

IMP
2. What is Involuntary Unemployment ? or Under Employment?
=) Involuntary Unemployment is that situation in which able persons are ready to work at existing wages but ~~do no~~ jobs are not available to get them ~~work~~ absorbed.

What is Marginal Efficiency of Capital?

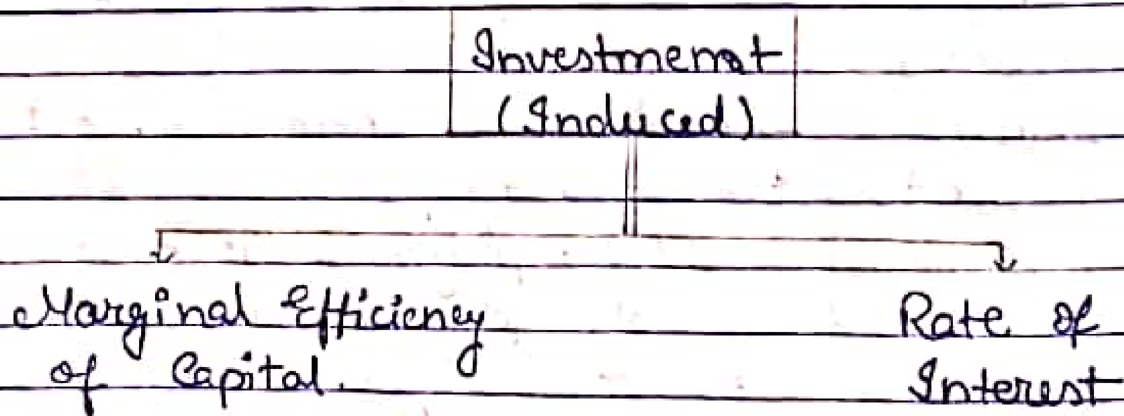
=) In other words, "MEC is the expected rate of return of an additional unit of capital goods over its costs.

It can be understood with an example. If the supply price of one additional unit of capital is ₹10,000 and the expected profit from this investment is ₹1000 p.a. MEC will be

$$MEC = \frac{\text{Expected Return}}{\text{Cost (supply price)}} \times 100$$

$$= \frac{1000}{10000} \times 100 = 10\%$$

The rate of expected ~~return~~ profit is termed as MEC which is respresented in ~~%~~ percentage.



Scanned with CamScanner

4. Keyne's Theory of Employment :

Effective Demand = Total Output = Total Income = Employment

- Aggregate Supply Function.
- Aggregate Demand Function
  - Consumption
    - Size of Income
    - Propensity to Consume.
  - Investment
    - Marginal Efficiency of Capital.
      - Supply Price of Capital goods.
      - Perspective yield from capital assets.
    - Rate of Interest
      - Liquidity Preference of the public
        - Transaction motive.
        - Precautionary Motive.
        - Speculative motive.
      - Supply of money in the economy
  - Govt. Expenditure

Scanned with CamScanner

According to Keynes, there cann't be an automatic equality between aggregate demand and full employment. He holds, that the state of full employment rarely exists. It is possible that aggregate demand may fall short of aggregate supply and the state of full employment is disturbed as such. According to him, there is a State of involuntary eunemployment where able persons at current rates of remuneration face unemployment. Unemployment exist due to lack of effective demand and lack of expenditure on consumption and ~~on~~ investment. ~~Acc~~

According to him, income and level of employment is mainly determined by effective demand decrease in effective demand is the e real cause of unemployment situation. Effective demand is determined by two elements: Aggregate Demand & Aggregate supply. When there is equilibrium b/w the aggregate supply & aggregate demand, there is a point of equilibrium. This is the point of effective demand. On this point of effective demand the determination of quantity of demand and no. of employment depends.

5. Difference b/w Classical & Keynes Theory :

	Classical Theory	Keynes Theory
(i)	Income & Employment is determined at full employment level.	This theory says that for determination of income & employment full employment level isn't necessary.
(ii)	Full employment is a general level of situation in a capitalistic economy.	Underemployment is a general situation acc. to this theory.
(iii)	It is based on the assumption of Say's law of Market.	It is based on psychological law of consumption.
(iv)	According to it, 'Supply creates its own demand'. Supply ~~needs~~ leads to the production, expenditure, income & demand. So, Aggregate supply becomes equal to aggregate demand.	In the ~~on~~ opinion of Keynes there can't be an automatic equality b/w aggregate demand & full employment. It is possible that aggregate demand may fall short of aggregate supply & the state of full employment is disturbed

Scanned with CamScanner

(v) Tenure (Time Period)	This principle is based on long term assumption.	This principle is based on short term assumption.
(vi) Product and unemployment	According to this principle, in economy, there is no possibility of more production and normal unemployment.	According to this principle, normal production and normal unemployment is possible
(vii) similarity	Acc. to this principle, similarity b/w saving & investment is established by change in rate of interest.	Acc. to this principle, similarity b/w saving & investment is established by change in income.

6. Difference b/w Aggregate demand & Aggregate supply :

Basis of difference	Aggregate ~~sup~~ demand	Aggregate supply
① Meaning	Aggregate demand refers to the total volume of goods & services demanded in an economy in a year.	It refers to the total supply of goods & services in the economy in a year.
②	It implies the total amt.	Acc. to classical conce

Scanned with CamScanner

	of expenditure incurred by the community on purchase of goods & services.	aggregate supply is perfectly inelastic with respect to the price.
(3.)	Aggregate demand & aggregate expenditure is the same thing.	Acc. to Keynesian concept, the aggregate supply is perfectly elastic with respect to the price level.

*. Causes of slow economic growth of India :

=) Following are the main reason of slow economic growth of India :-

(i) Over - Population.
(ii) Inequality in distribution of national Income.
(iii) Dependence on Agriculture
(iv) Illiteracy.
(v) Old method of production

Scanned with CamScanner

.y/19.

Section - B.

5. Government Budget & Economy

★. Budgetary Procedure in India

(i) Preparation of Budget → The preparation of budget involves many steps. Finance ministry sends estimate forms to all ministers and there departments to get the estimates of revenue & expenditure for the previous financial year & current year. Preparation of consolidated estimates by the various ministers and sending them to the finance ministry. Minute scrupiny by finance ministry of the ~~adjustments~~ report received by ~~a~~ Auditor general ~~of~~ India.

(ii) Presentation of Budget → After the budget is finalised it is presented by the finance minister on the last day of February. The Finance Minister delivers the budget speech. Along with the budget, the Finance bill is presented which comprises the tax proposals. (State Government's budget are presented before the legislative Assembly in the month of March - NOTE)

(iii) Discussion on the Budget → Budget is put before the Parliament for discussion. In the process of passing the budget, the discussion on various items continuous for 3-4 days.

Scanned with CamScanner

In the ~~dis~~ description, Finance Minister gives his final ~~re~~ reply on the questions & clears the doubt

(iv) Voting on the budget → After the general discussion, the budget is put for voting. The members of the Parliament gives their speeches for and against the budget before voting. There-after, voting is held for passing the budget.

(v) Appropriation and Finance Bill → The Finance Minister presents the appropriation bill. According to the constitution no amount from the reserve fund of India can be withdrawn without passing the appropriation bill in ~~fa~~ the parliament. The Finance minister presents appro. bill which comprises non-votable items & sanctioned items. After passing this bill, the government is authorised to spend money.

(vi) Implementation of budget → After the budget is passed, it is implemented by the government ~~at~~ by taking foll. steps :- (a) Collection of revenue (b) Custody of Funds (c.) Disbursement of funds (d.) Preparation of A/c's (e.) Audit by auditor general of India.

★. Meaning of Government Budget :
Budget is a document which contains the details of the revenue to be collected

and the expenditure to be incurred by various government.

★ Characteristics of Government Budget :

(i) It is presented by monetary value.

(ii) It is presented before parliament by the Finance Minister.

(iii) It is presented at the end of the February ~~every and~~ every year.

(iv) It is approved by parliament ~~of~~ before implementation.

(v) It is an annual financial action plan.

★ Objectives of Government Budget :

(i) Re-allocation of financial Resources → When free market economy fails to acheive the cherished socio-economic objectives, the govt has to re-allocates the financial resources to acheive the desired goals.

(ii) Removal of inequality of income and wealth → ~~Th~~ The govt spends sufficient money to uplift the down-trodden and weaker section to remove the inequality of income and wealth.

(iii) Stabilisation of price level → It is the principle liability of the government to stabilise the price level in the country. Through the budget, the govt. can effectively control the price level and bring about stability in it.

(iv) Management of Public Enterprise → The government itself owns and manages certain public utility undertakings. The govt. budget makes special provisions for such public enterprise in order to safeguard the interest and welfare of the masses.

(v) ~~Regional~~ Removal of regional disparity → It is an effective instrument for the removal of regional unbalances in the country.

* Importance of Govt. budget :

(i) It represents an important tool for fiscal policy of govt. for achieving the objective of growth with stability.

(ii) It shows an estimate of resources for economic planning.

(iii) It ensures proper management and effective allocation of resources for completing the targets.

(iv) It is a tool for ensuring social and economic development.

Scanned with CamScanner

v) It brings the efficiency in financial administration of the country.

(vi) It is a document which minimises the misuse and wastage of public funds.

✱. ~~Compon~~ Compenents of Government Budget :

Budget Receipts
- Revenue Receipts
  - Tax Revenue
    - Direct Tax
    - Indirect Tax
  - Non-Tax Revenue
- Capital Receipts
  - Borrowings
  - Recovery of loans
  - Small Savings
  - Disinvestments

✱. Direct Taxes :

(A) Meaning :→ A direct tax is a tax which is really paid by the person on whom it is legally imposed.

(B.) Merits of Direct Taxes :→

1. They are ~~equitable~~ certain → The tax payer knows what exactly he has to pay and the govt. also knows what they have to receive.

2. They are economical → They are said to be

are economical, as much they are paid by tax payer himself to the state.

iii) They are elastic → It increases with the increase in income, be can be increased at the time of national crisis.

(iv) They cannot be shifted → They can't be shifted. The assessee himself has to pay these tax.

(v) They are progressive → They are progressive, in nature, as tax rates increases with the increase in income.

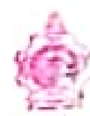
(C.) Demerits of Direct Tax's

1. They are inconvenient → These taxes are generally payable in lump-sum or even in advance and so become quite inconvenient.

2. They discourage the will to work and save → Another demerit of these taxes is their adverse effect on the will to work and save.

3. They lack contribution by poor → Direct taxes are generally levied only on the rich section of the society. The aim of contribution should be from all sections of ~~society~~ society of govt is remained unfulfilled.

Scanned with CamScanner



4. They encourage class feeling → Due to direct tax the society is divided into rich & poor class. It give rise to class conflicts in the society.

5. They cause mental agony to the assessee → Since the ~~incd~~ incidence of direct taxes falls directly on the tax payers, they ~~fet~~ feel mental agony or sadness while making the payment.

★. Indirect Taxes :

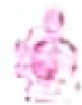
(A.) Meaning :→ ~~Ind~~ Indirect Tax is imposed on one person but is paid partly or wholly by another.

(B.) Merits of Indirect Tax :→

1. They are convenient → They are more convenient and ~~so~~ they are less burdensome. They are usually hidden in the prices of commodity thus their presence is not felt so much.

2. They are flexible → Indirect taxes are very selective and thus are flexible.

3. They check harmful consumption → They are ~~benefitial~~ beneficial from social point of view, as



they restrict consumption of harmful commodities. They levy high taxes on wines, drugs, etc.

4. They are economic → The govt. has not to incur much expenses on the collection of these taxes, as they are economic.

5. They can easily be shifted → They do not adversely cause mental agony to the assessee as can be shifted easily.

(C.) Demerits of Indirect Tax :

1. They are uncertain → The actual extent of consumption of goods on which these taxes are imposed can't definitely be anticipated and so also the ultimate yield.

(ii) They lack civic sense → This is included in the price ~~so~~ tax payer remains unaware while paying tax. This results in lack of civic sense in them.

(iii) They are inelastic → These taxes are inelastic. If the govt. imposes heavy taxes on ~~luxurious~~ luxurious goods, people will not purchase them.

(iv) They encourage tax evasion → The dealers of goods purchases them and sell the same without bill. Thus, they avoid payment of taxes.

Scanned with CamScanner

(v) They are regressive → Same rates are applicable on the rich and poor hence rich bear low burden whereas the poor bears heavy burden.

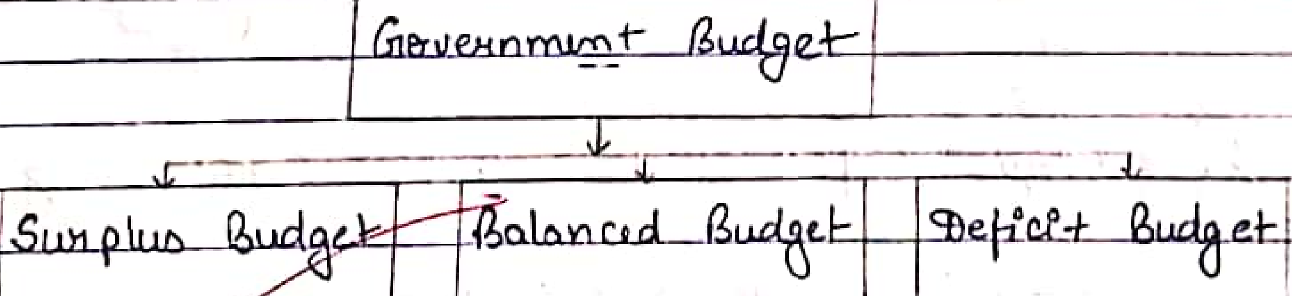
★. Distinguished between Direct & Indirect Tax :

Basis of Difference	Direct Taxes	Indirect Taxes
(i) Certainty	These are certain in nature as the taxe payer knows what exactly he has to pay.	These are uncertain in nature. How much revenue they may collect is not certain.
(ii) Convenience	They are to be paid in lump sum, hence they are inconvenient to pay.	They are very convenient to pay as the buyer doesn't know exactly ~~how~~ what amt. of tax he is paying.
(iii) Elasticity	They are elastic in nature.	They are inelastic in nature.
(iv) Civic consciousness	It creates ~~on~~ civic consciousness.	It do not create civic consciousness.
(v) Adoption	In India, this are adopted to a smaller extent.	These are ~~at~~ adopted to a greater extent

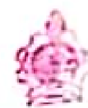
*. Distinction between Revenue Receipts & Capital Revenue :

Basis of difference	Revenue Receipts	Capital Receipts
(i) Meaning	It neither create any liability nor reduces any asset ~~asse~~ of govt.	It either creates liabilities or reduces any asset of Govt.
(ii) Character	They are regular as well as recurring in character.	They are irregular and non-recurring in nature.
(iii) Obligation for return in future.	There is no such obligation to return the amt. in future.	It has such obligation to return the amt. in future.
(iv) Examples	Income tax, goods & service tax, etc.	Borrowings, Dis-investment, etc.

*. Types of Government Budget :



Scanned with CamScanner



(i) Surplus Budget → It refers to that budget wherein the estimated revenue of the year exceeds the estimated ~~revenue~~ expenditure. In the case of ~~inoti~~ micro level, it is said to be good but in the case of macro or govt. level, it is not favoured as a good budget because it shows that the govt gives more importance to earning income rather than spending for the welfare of public.

(ii) Balanced Budget → It refers to that budget wherein the estimated total expenditure of the Govt. during the year is equal to the total estimated revenue. The classical ex economists were in favour ~~and~~ of it which was based on the golden ~~rr~~ policy of "Live within Means".

(iii) Deficit ~~R~~ Budget → It refers to that budget where-in the total estimated expenditure exceeds the total ~~to~~ estimated revenue. It After 1930's depression, this budget is given preferance in order to set the economy on the path of economic recovery.

★. Why Deficit Budget is a Good Budget?

The Deficit Budget is a good budget because

It promotes public welfare activities, and the objective of maximum social benefit is achieved. Spending more on the public welfare programmes is an index of efficient and popular govt. Since the govt. is most powerful, it can mobilise hudge funds to meet the proposed expenditure. It can levy taxes and adopt other necessary measures to collect requisite revenue. Preparing deficit budget and promoting public welfare is the touchstone of success of the Government.

Scanned with CamScanner

Chapter-46
Balance of Payment & Foreign Exchange Rate.
(Notes)

1. **Meaning of Balance of Payment :**
It refers to a systematic record of all economic transactions during the period between residents of the reporting countries.

2. **Meaning of Foreign Exchange :**
It refers to all currencies other than the domestic currency of a given country. For example U.S. Dollar is foreign exchange for India.

3. **Meaning of Balance of Trade :**
The difference b/w the amounts of exports & the amounts of imports of visible items is termed as Balance of Trade.

Balance of Trade = Exports - Imports

4. **Difference b/w balance of payments & balance of trade :**

	Basis of difference	Balance of Trade	Balance of Payment
(i)	Meaning	It refers to detailed description of imports & exports only.	It comprises not only imports & exports but also services, capital, gold, etc.

(ii)	Formula	BOT = Exports - Imports	BOP = Total Receipts - Total Payments
(iii)	Items	It includes only visible items.	It includes visible as well as invisible items.
(iv)	Narrow/wide	It is a part of balance of payments.	It is used in wider sence.
(v)	Equilibrium/ Disequilibrium	It may be favourable or unfavourable.	It is always balanced.

5. Components of Balance of Payments :

~~Following~~ Conventional rules of double entry accounting, in current account are included the exports & imports of all goods & services, interests & dividends, private gifts & so on.

In Capital A/c, sub-divided into short-term & long-term capital transfers. In this, exports are entered in the credit side & imports are entered in the debit side.

	Receipts (Credits)	Payment (Debits)
(i)	Exports of goods.	Imports of goods.
(ii)	Receipts from foreign tourists & students.	Payments for expenses made by tourists & students abroad.

Scanned with CamScanner

6. Difference between Balance of Trade & Current A/c:

Basis of difference	Balance of Trade	Current Account
(i) Contents	It includes only visible ~~things~~ items.	It includes both visible & invisible items
(ii) Scope	It is a part of current account.	It includes Balance of Trade only.

7. Deficit & Surplus in Balance of payments:

⇒ Deficit in balance of payments refers to a situation when the total liability for payments of a nation exceeds the total receipts from foreign countries.

Surplus in balance of payments refers to a situation when the total receipts from foreign countries exceeds the total liability for payments of a country.

8. Meaning of Autonomous Items:

These are those international trade & commercial transactions taking place due to some financial motive like profit maximisation. These items are called 'above the line items.' It may be on both current & capital accounts.

Scanned with CamScanner

9. Meaning of Accommodating Items:
It refers to that ~~that~~ transactions which are undertaken to cover the deficit or surplus in automous transaction. These are also called 'below the line items.'

10. Importance of Balance of Payments:

(i) International Economic position → It reveals various aspects of country's in economic position. ~~If~~ there is deficit ~~of~~ or surplus in the ~~bo~~ BOP, ~~what~~ what measures should they take.

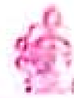
(ii) Trend of foreign trade → It enables us to know the trend & features of our foreign trade.

(iii) Knowledge of foreign exchange → Reserve → It reveals whether a nation is taking loans from or advancing loans to other countries.

(iv) Effect on national Income → It also reveals as to what has been the effect ~~on~~ of foreign trade & the other transactions on the other income.

11. Meaning of Foreign Exchange Rate:
The rate at which one currency ~~by~~ buys or exchanges another currency is known as ~~FER~~ ROE. For example, ~~It~~ 1 American Dollar = ~~Rs~~ 71 Indian Rupees.

Scanned with CamScanner



12. Differance b/w Currency Depreciation & Appreciation:

Basis of difference	Currency Depreciation	Currency Appreciation
(i) Meaning	The value of domestic currency in terms of foreign currency is decreased.	The value of domestic currency in terms of foreign currency is increased.
(ii) Effect on imports/ exports	It leads to increase in exports as Indian goods becomes relatively cheaper.	It leads to ~~decrease~~ increase of imports as foreign goods becomes relatively cheaper.
(iii) Example	1 dollar = ₹70 to ₹75.	1 dollar = ₹70 to ₹65

13. Difference b/w fixed & ~~Fluctuating~~ flexible Exchange Rate:

Basis of difference	Fixed Exchange Rate	Flexible Exchange Rate
(i) How is determined?	It is fixed by government in terms of gold or any currency.	It is determined by the forces of demand & supply.
(ii) Control	It is fully controlled by the govt.	The govt. doesn't intervene at all.
(iii) Stability	It remains stable.	It change acc. to market conditions

Scanned with CamScanner

14. Managed Floating Rate System :-
It refers to that system in market forces as well as the Central Bank both plays a deciding role in determination of exchange rate. It is also known as "Dirty floating."

15. Difference b/w Flexible & Managed floating exchange rate system :

Basis of difference	Flexible Exchange Rate System	Floating Exchange Rate System.
(i) Determining forces	It is determined by the forces of demand & ~~sy~~ supply.	It is determined by market forces as well as ~~set~~ Central Bank.
(ii) Intervention of Central Bank	The Central Bank does not at all intervene.	It does intervene in these system to restrict fluctuations.
(iii) Maintaining for. exch. reserves.	There is no need ~~to~~ of maintaining any foreign reserves by the Central ~~govt.~~ Bank.	The central bank has to maintain foreign exchange reserves.
(iv) Nature	It is totally free from intervention other than ~~ma~~ market forces.	It is a hybrid system

Scanned with CamScanner

16. Causes of fluctuations in foreign exchange rates :

(i) Effect of imports & ~~exp~~ exports => The change in the quantity of exports & imports of a country affects the rate of foreign exchange. If imports increases more than increase in exports, the demand for foreign currency increases in the country and vice versa.

(ii) Speculative Activities => Speculative activities in foreign currencies cause fluctuations in exchange rate. They buy dollars on a large scale & then anticipate that in near future dollars will rise in value. But itself, this will raise the value of dollars in terms of other currencies and give them a chance to make profit by selling dollars at rising prices & vice versa.

(iii) Banking operations => It also produces their effect on exchange rate. The bank rate influences the exchange rate. By ~~offer~~ offering a higher interest rate, the bank attracts funds from foreign countries & thus rise demand for home currency and so also its exchange value. On the contrary, the exchange value of home currency tends to fall.

(iv) Seasonal fluctuations => The exchange rate of a currency is also affected by it in demand & supply.

Scanned with CamScanner

25/June/19.

Part-I
Chapter-1
Introduction: Economics & Economy

Notes :-

1. Meaning of Economics ⇒ Economics is the study of optimum utilisation of the ~~scare~~ scarce resources in such a way which gives an individual maximum gain at micro level and maximum social gain at macro level.

2. Meaning of Micro Economics ⇒ Micro Economics refers to the microscopic study of economy. In other words, It is the study of an particular ~~have~~ individual ~~person~~.

3. Components of Micro Economics ⇒

i) Study of Individual units → It studies the Individual units rather than all the units combined together.

ii) Determination of Individual price → It is called price theory. It determines the individual price of different products by analysing the demand & supply i.e. behaviour of buyers and sellers.

iii) Study of small variables → It gives emphasis on the small variable.

Scanned with CamScanner

4. Scope of Micro Economics =)
It includes 3 theories:->
(i) Theory of product pricing
(ii) Theory of factor pricing
(iii) Theory of economic welfare

(i) Theory of product pricing -> In it price determination of consumption goods is studied which includes both demand as well as supply. Demand side studies the behaviour and consumption pattern of consumers while in supply side, production cost & production conditions are included.

(ii) Theory of factor pricing -> In it price determination of factors of ~~pr~~ production ~~the~~ i.e. ~~produ~~ rewards to factors for their contribution in production is studied. For example wages, rent, interest, and profit.

(iii) ~~#~~ Theory of economic welfare -> It is the central point of micro economic analysis in which it is studied how to distribute the given quantities of goods & services among different consumers so as to maximise the economic welfare.

5. Inter-depence of Micro economics and Macro economics =)

⇒ Micro and Macro Economics are two different systems of economic analysis. Both the systems are not competitive rather they are complimentary and dependent on each other.

b) Dependence of Micro over Macro economics →
The study of Micro economics analysis is essential for macro economics analysis. Various problems of micro economics can be studied with the help of Macro economics. For e.g.

a. Rate of profit is determine in micro economic analysis (MEA) on the basis of degree of uncertainity bearing but the determinants of profit & causes of there change can be understood only with macro EA.

b. Price determination of a commodity depends not only on the relative forces of demand & supply but also depends upon ~~depends upon~~ demand & supply of other goods for which we need help of macro & EA.

c. A consumption of goods by a consumer not only depends on the price of that goods and consumer's income but also on the prices of other goods for which use of macro EA is required.

Scanned with CamScanner

(ii) Dependence of Macro ~~MEA~~ ~~over~~ on Micro EA →

a. Without the information of individual units, economic conclusion can't be withdrawn at macro level. For example, income of individuals has to be collected for measuring national income.

b. For analysing general price level, the study of price theory is essential.

c. The addition of activities made by individual units represent the activities of entire economy. Determination of consumption, saving, investment, employment is based on individual economic activities.

6. Economy

I. On the basis of Control

1. Mixed Economy is an ~~eco~~ economy which is a golden mixture of capitalism & socialism ~~econy~~ economy. Under this, there is freedom of economic activities and govt. interference for the sake of social welfare. Mixed economy contains the following economic features —

(i) Co-existance of public and private ownership → Public & private sectors co-exists in the mixed economy. Both private ownership & profit motive

Scanned with CamScanner

are found in such economic system. Law of inheritance finds a place in the economy but government imposes progressive taxation to attain economic equality.

(ii) Economic freedom → Though, enough state interference is found in mixed economy, people enjoy limited economic freedom of choice, production, investment and saving. Govt adapts many controls to check the unlimited economic freedom of the individuals.

(iii) Price System → Both price mechanism and profit motive determine the price system simultaneously in the mixed economy. Profit motive is managed by the govt. so that, it may not hit the motive of social welfare.

(iv) Limited Competition → Mixed economy contains limited competition due to the co-existance of both private and public sector. Competition appears in the economy but due to govt. regulation, economic development activities are not adversly affected.

2. Capitalistic Economy refers to that economy which is fully a free market economy based on price and price and profit system. The free market economy assumes the sovereignty of consumers, on the one hand and the complete freedom to

Scanned with CamScanner

the producer on the other. The consumer is considered a king in such economy. The main objective is to ~~accela~~ accelerate the rate of growth. Everything is done for profit motive.

5. A Socialist Economy refers to that economy in which the physical resources of production are ~~to~~ controlled and directed by central authority. The main feature of a socialist economy consist of equal opportunities of employment to all. It takes decisions in the interest of the public welfare.

7. Opportunity Cost : It refers to the value of a factors in its next best alternative use, or the foregone opportunity of using a productive resource somewhere else rather than in the present use is termed as ~~opp~~ O.C.

For example, if certain resources are utilised in production of 2 commodity wheat and machine and with similar ~~resour~~ resources. Wheat of worth ₹5,00,000 and machine of ₹4,00,000 can be produced. Producer in this case will produce wheat rather than machine or for wheat of ₹5,00,000, machine of ₹4,00,000 has to be sacrificed. In this way, sacrificed ~~va~~ value of machine will be called O.C.

of wheat worth ₹5,00,000.

8. Concept of opportunity cost :

Factors (fixed or definite) →	Options	Wheat ₹5 lakh → Production of wheat selected
		Machine ₹4 lakh → sacrifice of Machine

Opportunity cost of ₹5 lakh wheat of which machine is ₹4 lakh

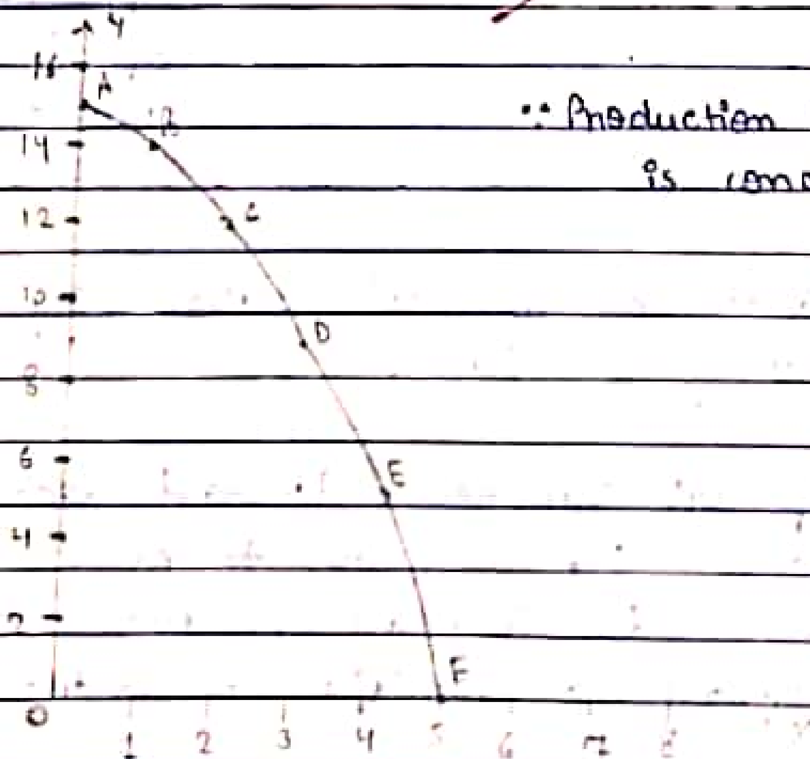
9. Relation between Production Possibility Curve (PPC) & Opportunity Cost (OC):

⇒ Concept of OC can be understood with the PPC. From PPC, we come to know that if we want to increase production of one good, we have to sacrifice the production of second

on other goods. In this way, basis of the concept of OC is sacrificed goods on option of opportunity.

10. Production Possibility Curve Table:

Production Options	X - Goods	Y - Goods	Opportunity Cost of an additional unit in the form of Y
A	0	15	
B	1	14	15 - 14 = 1
C	2	12	14 - 12 = 2
D	3	9	12 - 9 = 3
E	4	5	9 - 5 = 4
F	5	0	5 - 0 = 5



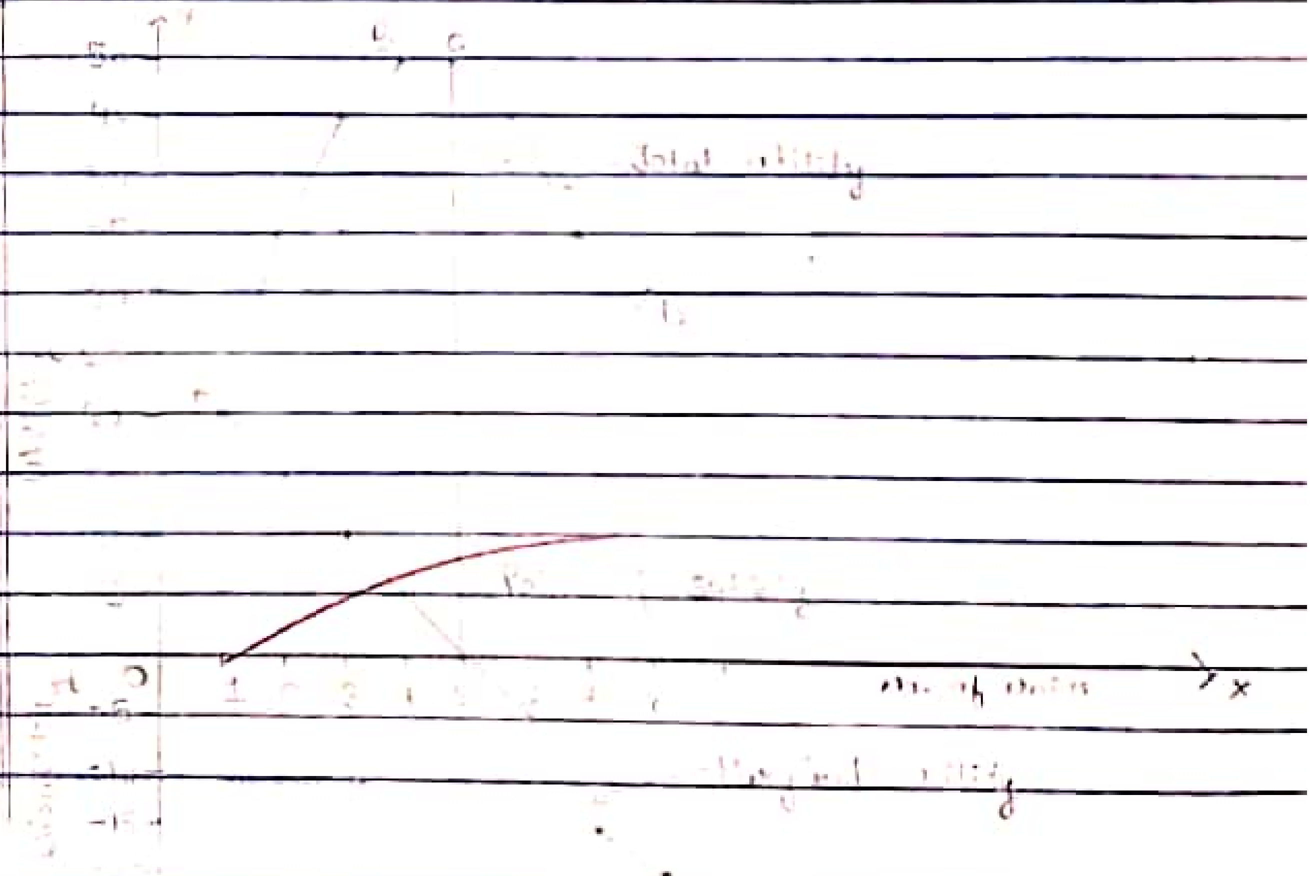
∵ Production Possibility curve is concave.

Scanned with CamScanner

Part – I
Chapter-2
Consumer's Equilibrium : Preference and Budget.

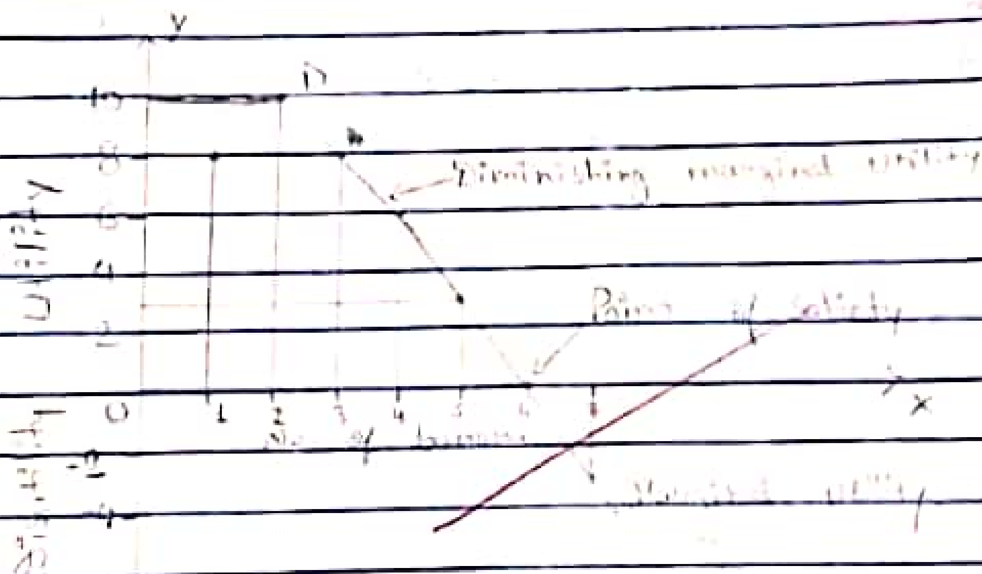
1. Schedule Representation of Marginal and Total Utility :

Units	Marginal Utility (M.U)		Total Utility (TU)
1	20		20
2	15	Positive	35
3	10	Utility	45
4	5		50
5	0	Zero Utility	50 → Point of satiety
6	-5		45
7	-15	Negative U.	35
8	-20		30



2. Law of Diminishing Marginal Utility (table):

Units of banana	Marginal Utility	Total Utility
1	8	8
2	10	18
3	8	26
4	6	32
5	3	35
6	0 ← Point of Satity →	35
7	-3	32

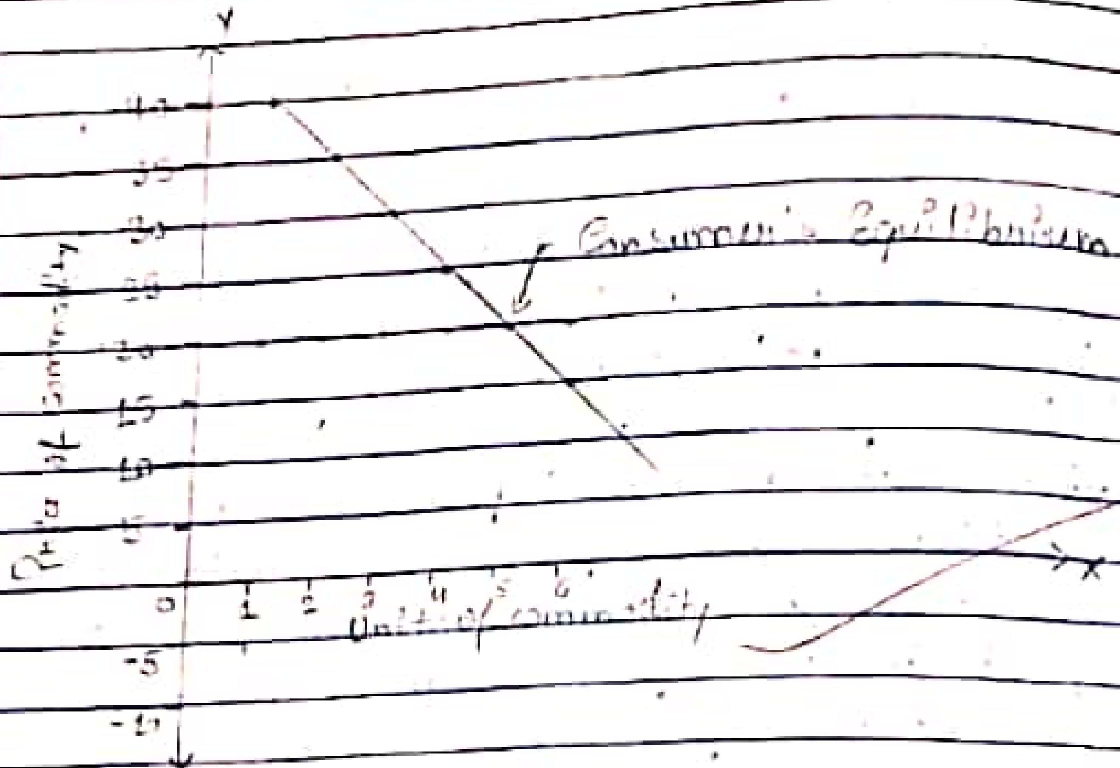


3. Consumer's Equilibrium in the case of single commodity :

⇒ When a consumer buys a commodity, he spends money on it and attains some utility by its consumption. According to the ~~too~~, 'Law of Diminishing Marginal Satisfication', ~~utilit~~ utility obtained from consumption of every additional unit of that commodity decreases. On the other hand, as per the law, price paid in lieu of those units remains constant. or utility of money remains constant. In such a case, a consumer will continue consumption upto a limit where Mu obtained from the last unit of that commodity becomes equal to the utility of money paid as price of that commodity. By this adjustment in his expenditure, a consumer maximises satisfaction and he obtains the state of equilibrium.

Units of good (X) 1	Utility from consumption (Mux) 2	Utility sacrificed in the price of price (Pc) 3	Excess of utility obtained from utility sacrificed 4 (2-3)
1	40	20	40-20 = 20
2	35	20	35-20 = 15
3	30	20	30-20 = 10
4	25	20	25-20 = 5
5	20	20	20-20 = 0
6	15	20	15-20 = -5

Scanned with CamScanner



4. Consumer's Equilibrium in the case of two commodities :

Ex :-

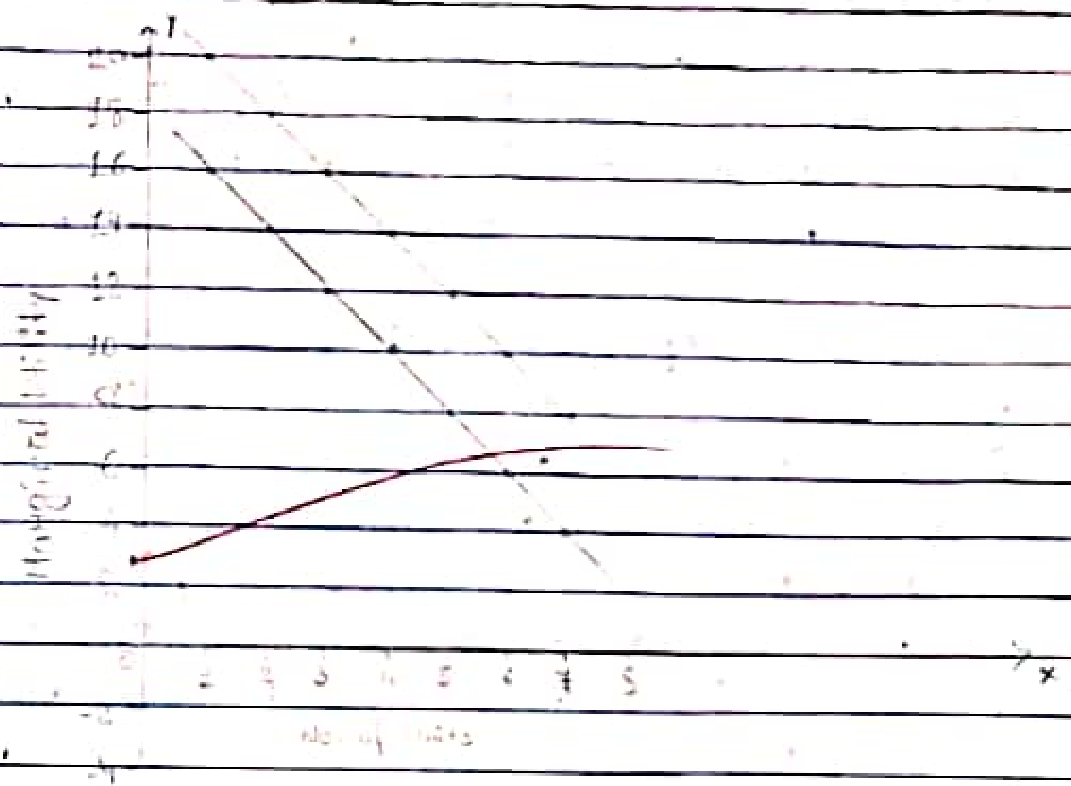
Unit of Money	MU_x	MU_y
1	40	48
2	36	42
3	32	36
4	28	30
5	24	24
6	20	18
7	16	12.

Price of X = ₹ 2

Price of Y = ₹ 3.

MU_m = ₹ 14.

Units	$\frac{MU_x}{P_x}$	$\frac{MU_y}{P_y}$
1	40/2 = 20	48/3 = 16
2	36/2 = 18	42/3 = 14
3	32/2 = 16	36/3 = 12
4	28/2 = 14	30/3 = 10
5	24/2 = 12	24/3 = 8
6	20/2 = 10	18/3 = 6
7	16/2 = 8	12/3 = 4



Part - I
Chapter - 1
Economics and Economy

Notes :-

* **Meaning of Economics :**
It is the study of optimum utilisation of the scarce resources in such a way which gives maximum satisfaction.

* **Meaning of Micro Economics :**
It is the study of individual economic units. In other ~~word~~ words, micro economics deals with a small component of the national economy of a country.

* **Characteristics of ~~Mi~~ Micro Economics :**

1. Study of individual units → It studies the individual units rather than all units combined together.

2. Determination of individual price → It determines the individual price of different products by analysing the demand and supply.

3. Study of small variables → It gives emphasis on study of small variables. It has little affect on the whole economy and doesn't influence it.

Scanned with CamScanner

***. Meaning of Macro Economics :**

It is that branch of economics science which studies economic issues at the aggregate level.

***. Characteristics of Macro Economics :**

1. Broader perspective → It deals with national and international issues. It doesn't give emphasis to small variables.

2. Importance to dynamic economy → It gives analysis gives more importance to dynamic economy.

3. Analysis of general problems → It dwells on general problems of national level.

4. Priority to group interest → It gives priority to group interest instead of individual interest.

5. Inter-dependence → They are not totally separate and independent but inter connected and inter-dependent.

***. Difference between Micro & Macro Economics :**

Basis of difference	Micro Economics.	Macro Economics.
i) Nature	It is simple.	It is complicated.

Scanned with CamScanner

(ii)	Relation	It relates to price analysis.	It is related to income analysis
(iii)	Importa-nce	It is important to analysing individual problems and individual policy formation.	It is important in analysing the national and international problems.
(iv)	Scope	It has a narrow scope.	It has a wider scope
(v)	Subject Matter	Individual demand, supply, consumption, etc.	Aggregate, demand, supply consumption, etc.

A. Difference between Economic and Non-Economic Activities :

	Basis of difference	Economic Activities	Non-Economic Activities
(i)	Scope	It has very little scope	It has a wide scope
(ii)	Legality	They are always legal and ~~st~~ valid.	They are not always ~~to~~ legal.
(iii)	Measure-ment	These are measured by money.	These activities are not measured by money.

Scanned with CamScanner

(iv)	Object	These activities are done for earning wealth.	These are done not for earning wealth but for other purposes.
(v)	Meaning	These activities are those which are concerned with wealth.	These activities have no concern with wealth but are performed out of pleasures and emotions.

Q. Defination of Production Possibility Curve :

It refers to that curve which shows the various alternative production possibilities with given resources & techniques of production. It explains that if a the quantity of resources is constant at a particular time and they are being fully utilised and the economy produced two types of commodities – X & Y, then for more production of X commodity, we have to reduce the resources used in the production of Y commodities and decreased the production of Y commodities.

Scanned with CamScanner

1/Aug/19.

Part - I
Chapter-2
Consumer's Equilibrium:
Preference and Budget

Notes :

★. Meaning of Utility :
Utility concept was developed first by Marshall. It is a psychological phenomenon which is defined as want satisfying power of a commodity.

★. Characteristics of Utility :

(i) It is psychological → It is totally a psychological phenomenon as we cann't see or touch it. It could only imagined.

(ii) A relative term → It is power of satisfaction and is measured by the extent to which it satisfies human wants. It has no ~~root~~ material existance.

(iii) It depends upon the intensity of wants → It depend on and differ in intensity. The more the intensity, the greater will be utility.

(iv) It differs from man to man → Utility of a commodity differs from man to man, and

Scanned with CamScanner

also be different for the same individual placed in different circumstances.

(v) It is only a satisfying power → whether a commodity happens to be useful or not, it possesses utility only when it is capable of satisfying a certain human want.

★. Mutual relationship between marginal and total utility :

(i) Mu is the addition to the Tu due to a unit increase in the consumption.

(ii) The Mu diminishes till the point of satiety is reached. But the Tu increases while the Mu diminishes.

(iii) When the point of satiety is reached, the marginal utility is zero and the total utility is maximum.

(iv) If the consumption is reached or increased beyond the point of satiety, the Mu becomes negative and the Tu starts diminishes.

★. Difference between Marginal & Total Utility :

Scanned with CamScanner

	Basis	Marginal Utility	Total Utility
(i)	Meaning	It is derived from the last unit of a commodity is the Mu.	The sum total of the utilities of all the units of a commodity
(ii)	Effect	Mu decreases as the consumption increases.	Tu goes on increasing with the increase in consumption.
(iii)	Contri-bution	It contributes a lot in price determination.	It has no role in price determination.
(iv)	Point of satiety	It becomes zero at the point of satiety.	The point of satiety is maximum utility in Tu.

★ **Meaning of Law of Diminishing Marginal Utility :**

The law simply states that, other things being equal, the Mu derived from successive units of a given commodity declines or diminishes. This tendency operates universally and is visible in the case of all the objects satisfying human wants.

*. Meaning of Consumers's Equilibrium :

It represents that situation when a consumer enjoys maximum satisfaction with limited income and doesn't tend to change his pattern of existing spending while discussing the law of diminishing Mu.

*. Meaning of Indifference Curve :

It was orginally propounded by Edgeworth in 1881. Whenever a consumer consumes various goods and services, these are some combination available which provide him exactly the same total satisfaction.

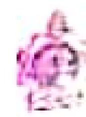
*. Assumptions of Indifference Curves :

(i) Two commodities → The consumer has fixed amount of money at his disposal which is to be expended on two commodities and the prices of both is given constant.

(ii) Consumer's non-satiety → The consumer has not reached the point of satiety. He always prefers more of both. He wants to proceed to higher of it to get higher & higher satisfaction.

(iii) Ordinal Utility → The consumer can rank his preference on the basis of satisfaction derived from ~~the~~ each bundle of commodities.

Scanned with CamScanner



(iv) The marginal rate of substitution goes on diminishing → It is for this reason that an indifference curve is convex to the origin.

(v) Rationality of consumer → It is assumed that the consumer is rational and prudent enough to maximise his total satisfaction.

Characteristics of Indifferences Curve :

(i) Convex ~~tex~~ ~~to~~ origin → They are always convex to origin. Its main reason is the law of diminishing marginal utility and consequent diminishing marginal rate of substitution.

(ii) Sloping downwards → As the consumer consumes more of one commodity, he must consume less of the other commodity.

(iii) Higher indifference curves represent higher level of satisfaction → It represents large bundle of commodities which means more utility due to monotonic preference.

(iv) Indifference curve never intersect each other → They cannot represent the same level of satisfaction, they cann't intersect ~~or~~ each other.

Scanned with CamScanner

★ Difference between Cardinal & ordinal utility :

	Basis of difference	Cardinal Utility	Ordinal Utility
(i)	Meaning	It is that utility which can be expressed in exact units.	It is that utility which is expressed in ranks as more or less utility.
(ii)	Measurem--ent	It is expressed in cardinal numbers such as 5, 10, 15, 20, ... etc.	It is a psychological phenomenon. It can't be measured. Preference ~~is shown~~ or rank is expressed.
(iii)	Marginal Utility of Money	Remains unchanged.	It is not necessary.
(iv)	Other Name	It is also called as utility analysis.	It is also called as indifference curve analysis
(v)	Base	Law of diminishing marginal utility.	Law of diminishing rate of substitution.

★ Budget Line :

It is said to be a graphical representation of all possible combinations of two goods which can be bought with

Scanned with CamScanner

given income and prices so as to equalise the cost of each these combinations with the money income of the consumer.

If we represent all these 3 bundles or combinations ~~of the two~~ graphically we will find a downward sloping straight line which is termed as Budget or Price line.

* Meaning of Budget set :

It is the collection of all bundles of the 2 commodities which a consumer can afford with his given income at prevailing market price.

17/Aug/19.

Part - I
Chapter - 3
Demand and Elasticity of Demand.

Notes :

1. Meaning of Demand :

The term "Demand" doesn't refer to Desire or necessity. A desire for a commodity becomes demand when it is associated with resources to buy such commodity and at the same time willingness to buy it. Thus, an effective desire which can be fullfilled is called demand. There must be 4 things for demand →

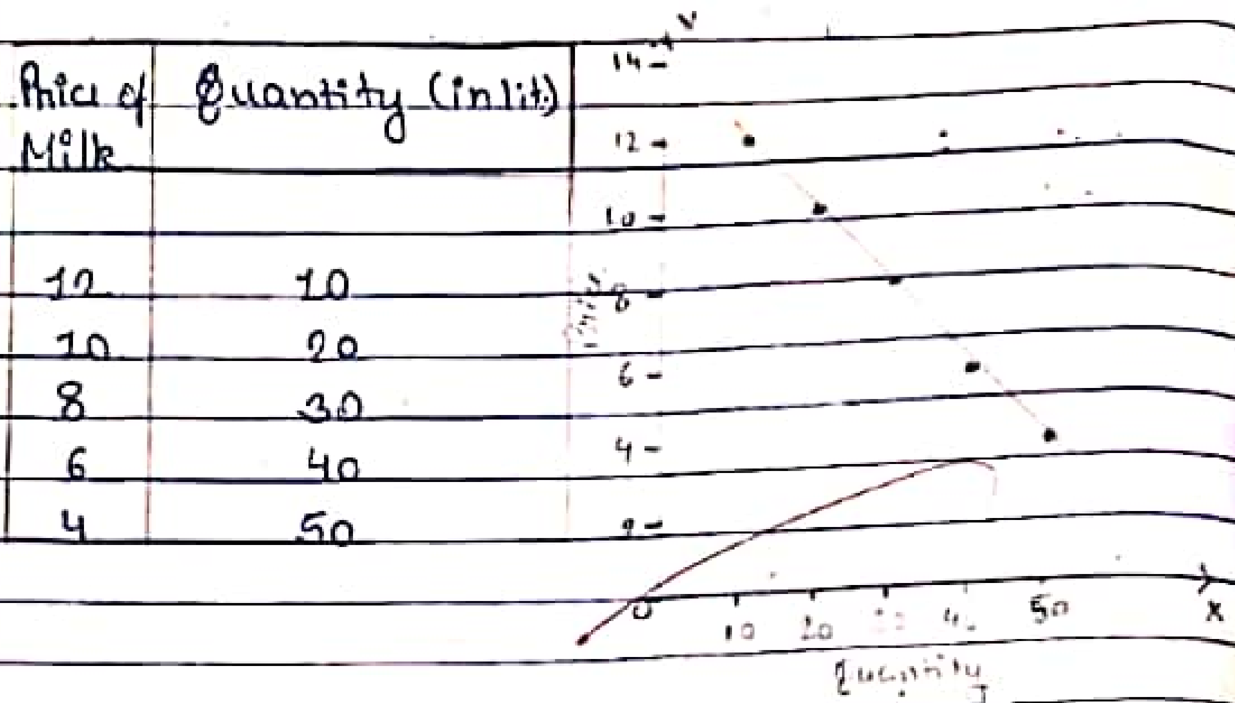
a. Desire for acquiring a particular commodity
b. sufficient resources to buy the desired commodity.
c. Willingness to spend the resources.
d. Availability of desired commodity at a particular price, at a particular time and a particular time.

2. Meaning of Individual Demand :

It refers to those quantities of a commodities which an individual consumer buys at a particular time at different alternative prices in a market.

Scanned with CamScanner

3. Individual Demand Schedule & Curve :



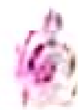
Price of Milk	Quantity (in lit.)
12	10
10	20
8	30
6	40
4	50

4. Determinants of Individual Demand :

(i) Price of commodity → There is an inverse relationship between price and quantity demanded.

(ii) Change in price of substitute goods → These are those goods which can be used in place one-another for satisfying a particular want. If there is an increase in one (coffee), then ~~to~~ there will be an increase in another (tea). Thus, the demand directly affected ~~the~~ by a change in the price of substitute commodity.

(iii) Price of Complementary Goods → It refers to those goods which are used together for



satisfying a want, as tea and sugar. There is an inverse relationship between the change in price of complementary goods and demand for goods to be used together.

(iv) Incomes of consumer → a. When a commodity is a normal goods, an increase in the income of ~~commodity~~ consumer will also increase in the demand of the commodity and vice versa.
b. When a commodity is inferior good, the increase in ~~com~~ consumer's income reduces the demand for such and vice versa.

(v) Consumer's taste and preference → It directly affect the demand for a commodity. For example, changes in fashion, custom habits, etc constitute consumer's tastes and preferences.

(vi) Hope of change in price in future → If the price of a commodity is expected to rise in future, people will buy more of such commodity than they usually buy.

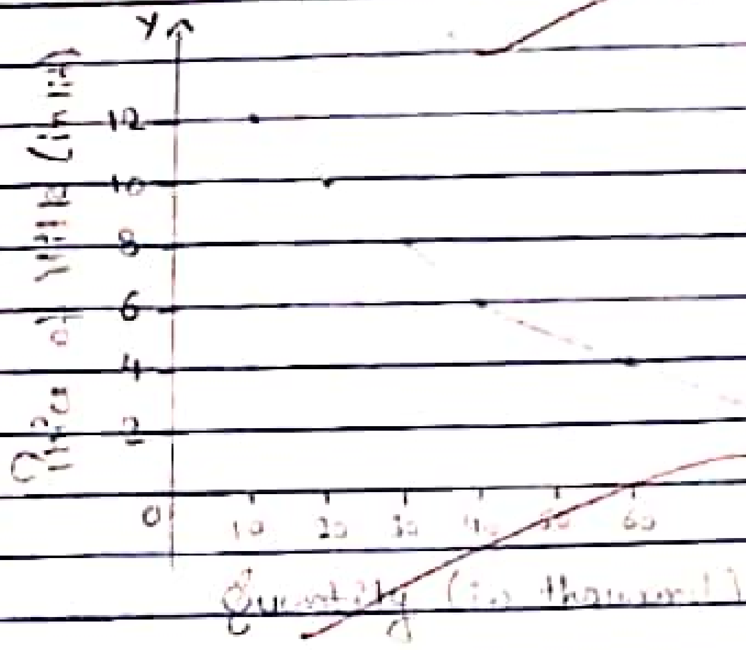
5. Meaning of Market Demand :

The entire demand of a commodity or services at different prices in a market is known as market demand.

Scanned with CamScanner

6. Market Demand Schedule and Curve :

Prices ₹ (per lit.)	Demand of milk per month (in litres)				
	A	B	C	D	Total
12	2000	3,000	3,000	2,000	10,000
10	4000	6,000	6,000	4,000	20,000
8	6000	9,000	9,000	6,000	30,000
6	8000	12,000	12,000	8,000	40,000
4	12,000	18,000	18,000	12,000	60,000



7. Difference between Individual & Market Demand :

Basis of difference	Individual Demand	Market Demand
(i) Involvement of consumer	The quantity is demanded by individual consumer for a particular	The quantity is demanded by all consumers of all the market of

		period of time.	a particular period of time.
(ii)	Following of law of demand	This may be followed or maynot be followed by individual consumer.	This is invariably followed in this case.
(iii)	Effect of factors	This is not affected by all the factors which affect the market?	This is affected by all the factors which affect indi. demand.

8. Difference between Substitute & Complimentary Goods:

Basis of difference	Substitute Goods	Complimentary Goods.
(i) Meaning	These are these goods which can be used in place of one-another for satisfying a particular want.	These are those goods which are used for together for satisfying a particular want.
(ii) Nature of demand.	They have competitive demand.	They have joint demand.
(iii) Relationship	Price of one has positive relationship with quantity demanded for another.	Price of one has negatitive relationship with quantity deman-did for another.

Scanned with CamScanner

(iv)	Examples	(1) Tea & Coffee. (2) Coke & Pepsi (3) Bata & Rebook.	(1) Tea & Sugar (2) Car & Petroleum (3) Shoes & Socks.

9. **Law of Demand:**

This law is also known as "First law of Purchase." It states the inverse relationship between Price and Demand of a commodity. According to Prof. Marshall, "The amt. demanded increases with a fall in the price and diminishes with a rise in price."

10. **Limitations of Law of Demand:**

(i) The income of the consumer should remains unchanged.

(ii) The taste, liking and preferance of the consumer should remain unchanged.

(iii) The price of other related commoditi'es should remain unchanged.

(iv) The size and composition of population should remain unchanged.

(v) There should be no close substitute of the consumer.

Scanned with CamScanner

11. The Giffen Paradox :

The Giffen or Inferior Goods are considered to be an exception of law of demand. A fall in price of such commodity tends to reduce and a rise is its price tends to extend its demand. Thus, the inferior commodities have more demand, when price rises, whereas the demand falls with the fall in price.

12. Importance of law of Demand :

(i) Helpful in determination of price → A businessmen knows the total demand ~~for~~ a commodity in the market at differ prices from the market demand schedule.

(ii) Helpful in taxation policy → The law suggests ~~to increase~~ tax at higher level should be levied on those commodities the demand of which is not likely to fall inspite of an increase in its price due to such tax.

(iii) Importance for farmers → Good and bad crops affect the economic conditions of cultivators.

13. Meaning of Elasticity of Demand :

It is a ~~qual~~ quantitative statement It refers to the extent to which the

Scanned with CamScanner

~~quati~~ quantity demanded of a commodity changes is ~~responded~~ responsse to a given change in its price. Elasticity of demand, thus, is the sensitiveness of demand to changes in price.

$$\therefore \text{Elasticity of Demand} = \frac{\text{Proportional change in demand}}{\text{Proportional change in price}}$$

14. Types of Price Elasticity of Demand :

(i) ~~When the demand fo~~ Unit Elasticity of Demand :- When the demand for a commodity changes in the same proportion in which the price changes.

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

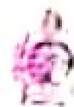
(ii) More than Elasticity of Demand :- When the change in demand for a commodity in response to the change in its price is more than proportion.

$$\frac{\Delta Q}{Q} > \frac{\Delta P}{P}$$

(iii) less than Elasticity of Demand :- When the change in price of a commodity results in ~~a~~ the change in demand less than proportionately.

$$\frac{\Delta Q}{Q} < \frac{\Delta P}{P}$$

Scanned with CamScanner



(iv) Perfectly Inelastic demand :- When there is no change in demand for a commodity in response to a change in its price.

$$\frac{\Delta Q}{Q} = 0$$

(v) Perfectly elastic demand :- When the change is price causes an infinitely large change is quantity demanded.

$$\frac{\Delta P}{P} = 0.$$

15. Factors affecting price elasticity of Demand:

(i) Nature of commodities :-> Demand for necessity is inelastic whereas the demand for luxuries in elastic.

(ii) Consumer's Income :-> Elasticity is closely related to person's income. The demand of rich for all commodities may be quite unaffected by any changes of price.

(iii) Price of commodities :-> The elasticity of demand is great for high prices but it declines as the price falls and gradually fades away. Good examples are matches, salt, etc.

(iv) The possibility of Substitution -> The most important

20/Sept/19.

Chapter - 4. (Part-I)

Production Function, Cost Revenue and Producer's Equilibrium

Notes :

1. **Meaning of Production :**
Production is the act of transforming the factors of production into goods and services that are desired for consumption and investment.

2. **Definition of Production :**
According to Adam Smith, "Creation or addition of economic utility ~~or~~ or value is known as production.

3. **Method of Production :**

(i) Place utility → When an article is transfor[med] from one place where it is cheap or has no demand to another ~~a level~~ place it has great demand and can fetch higher price with increased utility. ~~such utili~~

(ii) Time Utility → As soon as the time passe[s] the utility of a commodity increases. The utility, which is created by storing is called time utility.

Scanned with CamScanner

(iii) Form Utility → Utility, created by changing the form of matter is called form utility.

(iv) Service Utility → It is created by performing services can be termed. For example, services of a lawyer as they are capable

4. Importance of Production :

(i) It is a basis of economic development

(ii) It provides employment opportunity to people.

(iii) It gives dignity to labour of a man.

(iv) It determines the level of living.

(v) It is a basis of national income. With the increase in production, the govt.'s revenue also increases in form of tax, etc.

5. Factors of Production (Inputs) :

The things which contribute to production. They are, factors of production.

(i) Land :- It is the first and most important factor which is a gift of nature. It not only refers to the soil or surface of the earth but it

includes all natural resources that we can get free from nature like air, water and land.

(ii) Labour :- Labour refers to the work done by a manual workers. But, in economic It doesn't mean only manual or physical work but also includes mental exertion, done for earning money.

(iii) Capital :- Capital is a part of wealth, which serves as an instrument of production. In this, tools, buildings, machinery, etc will be called ~~as~~ capital as they increase wealth. Hence, All capital is wealth, but all ~~capital~~ wealth is not capital.

(iv) Organisation → It means to arrange, to organise and to control the different factors of production and the person who does so is called organisation.

(v) Enterprise → It means to bear the uncertainity of business. Every production whether on large or small scale consists risks and entrepreneur comes forward to bear that.

6. Production Function :

⇒ The relationship between input and output is called production function. It is also called an expression of technological relation between physical input & output of commodity.

7. Elements of production function :

(i) Maximum output or minimum quantity of inputs → The production function specifies either the maximum output which can be produced within the inputs given.

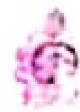
(ii) Relation between input and output → It establishes a relation between input and output which is called technical in nature.

(iii) Not economical in ~~ma~~ nature → It is not economical in nature because, we do not take into account the value of inputs & output.

(iv) Use of given technology → If there is an improvement in the technique of production the increased output can be achieved with the same physical inputs.

(v) Use of technically efficient methods → It adopts only the technically efficient method of production.

Scanned with CamScanner



8. Phases of Production Function :

=) There are two phases of production function (a) Short Run and (b) Long Run.

(i) Short Run :- This phase of production function refers to a period in which output can be changed by changing the variable factors. In this, fixed inputs (plant, machinery, building, etc.) cann't be changed. Hence, production can be increased by increasing the variable factors.

(ii) Long Run :- This phase of production function refers to a period in which output can be changed by changing all factors of production. It is possible due to the fact that the time is enough for a firm to adjust all its inputs according to the change in condition.

9. Difference between Variable and Fixed ~~Variables~~ Factors :

Basis of difference	Variable Factors	Fixed Factors
(i) Meaning	The factors of production which can be changed in short run.	The factors of production which cann't be changed in short run.

Scanned with CamScanner

(ii)	Relation with output	Such factors vary ~~from~~ without put directly.	Such factors do n[ot] vary directly with output.
(iii)	Example	Raw material, casual labour, power, etc.	Building, Machinery, permanent staff, etc.

10. Meaning ~~of~~ Law of Diminishing Returns:

When we keep the quantity of a particular factor of production constant and gradually increase the quantities of the other variable factors, after a point, the corresponding returns to every additional unit of variable factors will begin to ~~dimish~~ diminish.

11. Reasons for operation of the law in agriculture:

(i) Soil gets exhausted after its continuous use in production.

(ii) Lands vary in their fertility - some are more fertile while others are less fertile.

(iii) It depends on nature for rainfall, climate, heat, etc. which are not always favourable.

(iv) Land is the gift of nature which is limite[d]

12. Scope of the law :

(i) Mining → The law operates in the case of mines and quarries as well. As the labour and capital applied to the working of a mine increase, the more labour and capital required which increase the cost whereas it produces less than proportimate minerals.

(ii) Fishing → If a fisherman catches more fishes he has to go deeper and thus require more capital with the results the efforts are not rewarded equally well.

(iii) Manufacturing Industry → No doubt, use of morden machinery, division of labour, efficient and skilled workers may push future the ~~ap ap~~ application of the law but at a later stage it will certainly apply.

(iv) Construction of Buildings → The land is limited that's why multi-story buildings are everywhere. Hence, with every storey increasing, it increases the cost ~~&~~ of production ~~whit~~ whereas, the ~~rs~~ results are not proportional.

(v) Pottery work → This depends upon suitable baked clay to be dug out from the Earth

Hence, the expenses kept on increasing with diminishing returns.

13. Importance of law of Diminishing Returns:

(i) Universality → It operates in every field. It has a general applicability and so it is universal.

(ii) Basis of Malthus' Theory of Population → It is the very first assumption of the Malthusian theory that population increases at a faster rate than subsistence i.e. food.

(iii) Basis of Ricardian Theory of Rent → He holds the use of marginal land in calcula-ting rent is due to the application of this law.

(iv) ~~Inflow of population → Had this law is not applicable in agriculture but food items have ~~grown~~ produced sufficiently so the inflow & outflow of population have not caused.~~

(v) ~~Motivation to new in inventions →~~

14. Meaning of law of Returns:
If all the factors of production are being constant and ~~other~~ increase other

variable factors, the change in output, is known as Return law of return.

15. Meaning of Return to scale :
It studies how the output changes when all the factors of production change proportionately. It may be of 3 types:

(i) Stage of Increasing return to scale.
(ii) Stage of Constant return to scale.
(iii) Stage of decreasing return to scale.

16. Meaning of Cost of Production :
The aggregate money spends on factors of ~~a com~~ production used in the production of a commodity is called cost of Production.
There are 3 ~~interp~~ interpretation of Cost of Production :-
(i) Mony Cost
(ii) Real Cost
(iii) Opportunity Cost

17. Meaning of Total Cost :
The total expenditure incurred by a firm for the production of a specific quantity of a commodity. It includes 2 types of costs :- (i) Fixed Cost
(ii) Variable Cost

(i) ~~Tot~~ Fixed Cost :- It is also known as Supplementary Cost or Indirect cost or Overhead Cost. This cost incurs for the use of fixed resources like land, building, machine, etc. It cannot be zero, even in the condition of production stopped.

(ii) Variable Cost :- It is also called as Prime or Direct Cost. It is incurred by a firm for variable inputs like raw material, fuel, etc. If the production is stopped, it will also be zero.

18. Difference between Fixed & Variable Cost :

Basis of difference	Fixed Cost	Variable Cost
(i) Variation	It doesn't changes with the quatity of production.	It varies with the quantity of production
(ii) Period	It is long run concept.	It is short run concept.
(iii) ~~R~~ Factors	It is related to the fixed factors.	It relates to the variable factors.
(iv) Situation of zero	It never becomes zero.	It becomes zero.

Scanned with CamScanner

(v)	Continuance	The firm can continue with loss of fixed cost.	It will be continued only if firm obtains its variable cost.

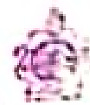
19. Difference between Explicit & Implicit Cost :

	Basis of difference	Explicit Cost	Implicit Cost
(i)	Meaning & example	It is the payment made to outsiders for hiring factor services such as payment made for wages, rent, etc.	It is measured by determining the value of self supplied factors in terms of their market price. For ex → rent of own building, etc.
(ii)	Money payment	Actual money is paid on buying or hiring inputs.	No payment is made.

20. Why the cost curves are 'U' shaped?

⇒ The important reason of being "U" shape of cost curve is, the benefits of large scale production and internal surplus of the firm. These benefits are :-

Scanned with CamScanner



(i) Saving in labour :- Division of labour and specialisation is used in large scale production.

(ii) Saving in Marketing :- Selling cost is not increased in the proportion of production.

(iii) Managerial savings :- Managerial expenditure decreases with the increase in the production.

(iv) Technical savings :- Improvement in production technology results into technical savings.

21. Meaning of Revenue :
It refers to the total sum of money received by a firm or producer by selling a certain quantity of its product. The main motto is to maximise the profit. The more the revenue, the more the profit.

22. Meaning of Firm's Equilibrium :
A firm is said to be in equilibrium when it has no motive to change its organisation or scale of production and this state is possible only when it is earning maximum monetary profit. Thus, a firm's equilibrium means the state of its earning maximum profit.

Scanned with CamScanner

20/Aug/19.

Part - I
Chapter - 5
Supply

Notes :

1. Meaning of supply :
Supply is the quantity of a commodity which a firm is wiling and able to offer for sale at a given price during a certain period.

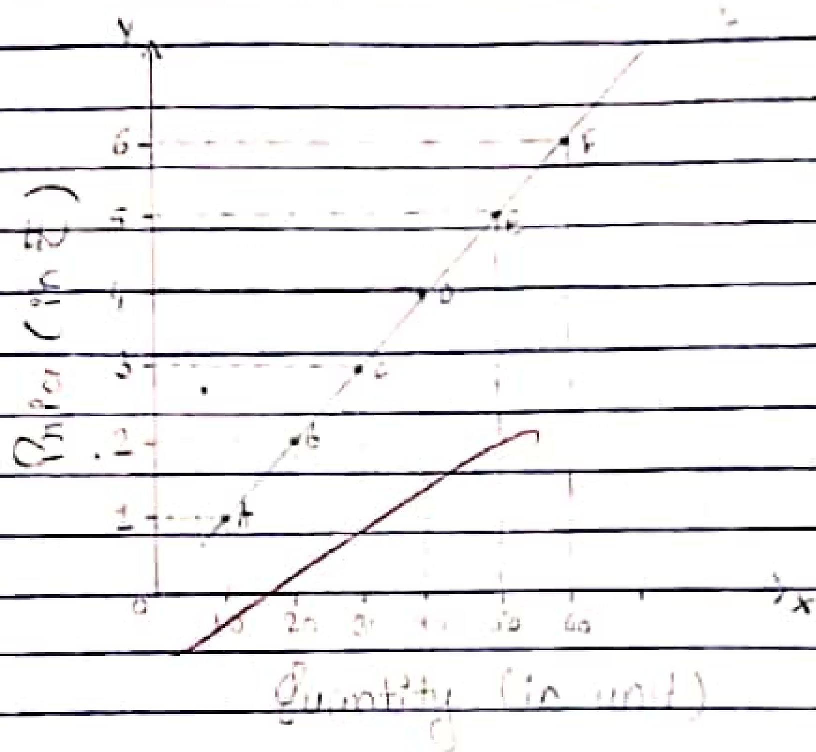
2. Difference between Stock and supply :

	Basis of difference	Stock	Supply
(i)	Meaning	The total quantity of a commodity which is available with a firm at a particular time.	It is that part of Stock which a producer wants to bring to market for sale.
(ii)	Quantity	It can never be less than Supply.	It ~~is also~~ can never be more than stock.
(iii)	Impact of price change	Change in price in market, doesn't affect it.	Change in price i, the sale of supply also changes.
(iv)	Time	Concerned with a particular ~~per~~ point of time.	Concerned with a particular period of time.

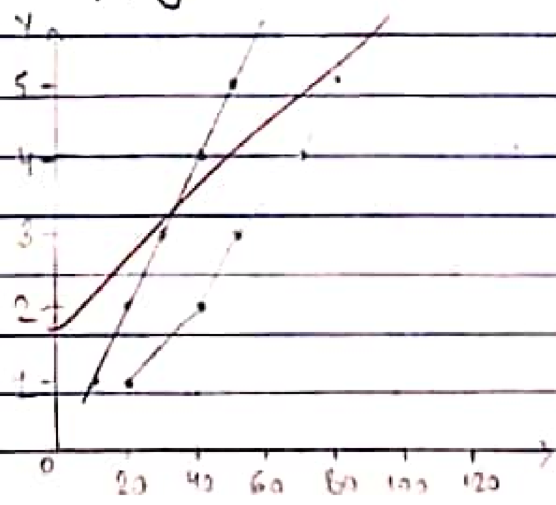
Scanned with CamScanner

3. Meaning of Supply Curve :
It is a graphical presentation of supply schedule. A locus at which shows various quantities ~~at~~ of a commodity that a producer is willing to sell at various level of prices.

4. Individual ~~De~~ Supply Curve :



5. Market Supply Curve :



6. Essentials of Supply Curve :

(i) It indicates direct relationship between price and quantity supplied keeping other factors unchanged.

(ii) It can be drawn for any commodity by plotting each combinations of supply schedule on a graph paper.

(iii) It can be drawn for individual producer as well as for all producers in the market.

7. Slope of Supply Curve :

$$\text{Slope of Supply Curve} = \frac{\text{Change in Price}}{\text{Change in quantity}}$$

=> Due of direct relation between price & supply the supply curve slopes upwards. This is why, the slope is positive.

8. Meaning of law of supply :
It depicts that there is a direct relationship between price and quantity supplied, other factors being constant.

9. Assumptions of law of supply :

(i) The price of other goods remains unchanged.

Scanned with CamScanner

(ii) There is no change in the state of technology.

(iii) The price of factor of production remains unchanged.

(iv) The taxation policy remains unchanged.

(v) The objective of the producer remains unchanged.

10. Features of law of supply :

(i) Positive relationship → It states that there is a positive relationship between price and quantity supplied, other factors being unchanged.

(ii) Direction of change in supply → It shows the direction of change in the quantity supplied and not the magnitude of change.

(iii) No proportional relationship → It doesn't establishe any proportionate relationship between change in price and change in quantity.

(iv) One sided → It only explain the effect of change in price on supply, and not the change in supply on price.

Scanned with CamScanner

11. Shift in Supply Curve:

When supply of a commodity changes due to changes in any factor other than own price of such commodity, it is called a change in supply. In a graphical language, it is known as a shift in the other curve.

12. Causes of shift as supply curve:

(i) Change in price of other factors.

(ii) Change in the price of factors of production.

(iii) Change in state of technology.

(iv) Change in taxation policy.

(v) Change in number of firms.

13. Meaning of Price Elasticity of Supply:

It is the degree of responsiveness of supply of a commodity to the change in the price of such commodity. It may also be said as to how, the changes in supply take place in response to change in the price of the commodity.

14. Percentage Method of Measuring Price Elasticity of Supply:

Scanned with CamScanner

⇒ This method is also known as proportionate method.

Price Elasticity of supply (E_s) = % Change in quantity supp... / % Change in price

15. Kinds of Elasticity of Supply :

(i) Perfectly Elastic supply ($E_s = \infty$)

(ii) Perfectly Inelastic supply ($E_s = 0$)

(iii) Highly inelastic supply. ($E_s > 1$)

(iv) less elastic supply. ($E_s < 1$)

(v) Unitary elastic supply. ($E_s = 1$)

Scanned with CamScanner

20/Oct/19.

Part-I
Chapter ~ 6
Forms of Market & Price
Determination.

Notes :-

Q1. Meaning of Market :
Market means an area when the buyers & sellers can make their transaction under free competition, of homogenious goods can take place under agreed price.

(ii) 2. Characteristics of Market :

(i) Place :-> It covers a wide region, i.e. can be a city, a village, a country or even the whole world.

(ii) Commodity :-> In economics, each market has a commodity which is under transaction.

(iii) Presence of buyers and sellers -> The presence of buyers & sellers of is one of the most important features of market. It doesn't mean they should be present physically but should be in touch with telephones, postal media, etc.

(iv) One Price -> The price commodity tends to equate and in the whole market one price prevails, under perfect competion.

Scanned with CamScanner

(v) Complete knowledge ↔ Buyers & sellers invariably, have perfect knowledge about the market.

3. Classification of Market :

MARKET

I. Acc. to Region	II. Acc. to Sale	III. Acc. to time.	IV. Acc. to Competition	V. Acc. to legality
(1) Local	(1) Mixed	(1) very short period	(1) Perfect	(1) Fair.
(2) Provincial	(2) Specialised	(2) Short period	(2) Imperfect	(2) Black.
(3) National	(3) Market by sample	(3) long period.	(3) Monopoly	
(4) Interna-tional	(4) Market by grading	(4) very long period.		
	(5) Market by Trademark.			
	(6) Wholesale			
	(7) Retail			

4.1 On the basis of Time:

(i) Very short period market → Such markets lasts for 2 to 4 hours or 1-2 days. Therefore, supply cannot be adjusted and demand plays a vital role in fixing the price. for example, perishable goods, etc.

(ii) Short period market → Such markets exists for a few days, a week or two weeks. Here also demand has an effective force in price fixing. For eg., all the fairs, festival-sale, trade fairs, etc.

(iii) Long period market → These markets are permanent markets dealings in durable goods like cloth, utensils, gold, etc. Demand & supply both play equal role in price fixing. The supply can be adjusted according to demand.

(iv) Very long period market → It is also known as secular period market. In such, supply plays a very imp. role ~~to~~ and is able to adjust in accordance with changes in demand. Goods like machines, gold & silver falls under this.

5. Meaning of Extent of Market:
The extent or size of market

refers to the extent of demand & durability of commodity for a particular commodity. The market of commodity is said to be wide when it has a great demand and the market of commodity is said to be narrow when it had little demand.

6. Factors determining the extent of Market:

(A.) Qualities or Nature of Commodities:-

(i) Portability → A portable commodity commands a wide market. This is because it can be transported from one place to another without much difficulty. Goods like gold, silver, cloth are generally not bulky and have great value in small quantities also.

(ii) Durability → The goods which are ~~long too~~ lasting lost without losing their value have a wider market in comparison to perishable goods like milk, fish, vegetable, etc.

(iii) Cognizability → It means the suitability of a commodity for being correctly described by sampling, etc.

Scanned with CamScanner

(iv) Substitutes → The goods which have no substitutes have wider market than those which have substitute. Tea & coffee are good substitutes for this.

~~(B) Means of Transport :-~~
(B) Internal Conditions of the Country :-

(i) Peace & security → People deal without fear, if peace is there in the country. In case of on & off war or riots, industrial as well as commercial development is impaired.

(ii) Means of Transport & communication → Well developed transportation & communication make it easy to carry the goods over long distances.

(iii) Means of Advertisement → These days propaganda and advertisement go a long way in widening the scope of market of various commodity.

iv) Fair dealing and honesty → This may expand the market by developing faith among customers. Dishonesty or unfair trade practises discourages the expansion of market.

Scanned with CamScanner

~~Hean~~ Perfect Competition.

7. Meaning of Perfect Competition Market :
It refers to a situation of market where there are a large no. of buyers & sellers of a commodity, all units of the commodity are homogeneous and all the firms have full freedom of entry into or exit from it.

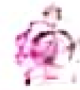
8. Charateristics of Perfect Competion :

(i) Large No. of Buyers & sellers → There are a large no. of buyers & sellers. It means no single buyer or seller can influence the market price.

(ii) Perfect knowledge → Buyers and sellers are fully aware of the changes in demand & supply.

(iii) Homogeneous ~~or~~ Commodity → All units should be of same size, colour, quality, etc.

9. Meaning of Price Equilibrium :
There are two factors necessary for determining price of a commodity. They are demand for the goods & supply of

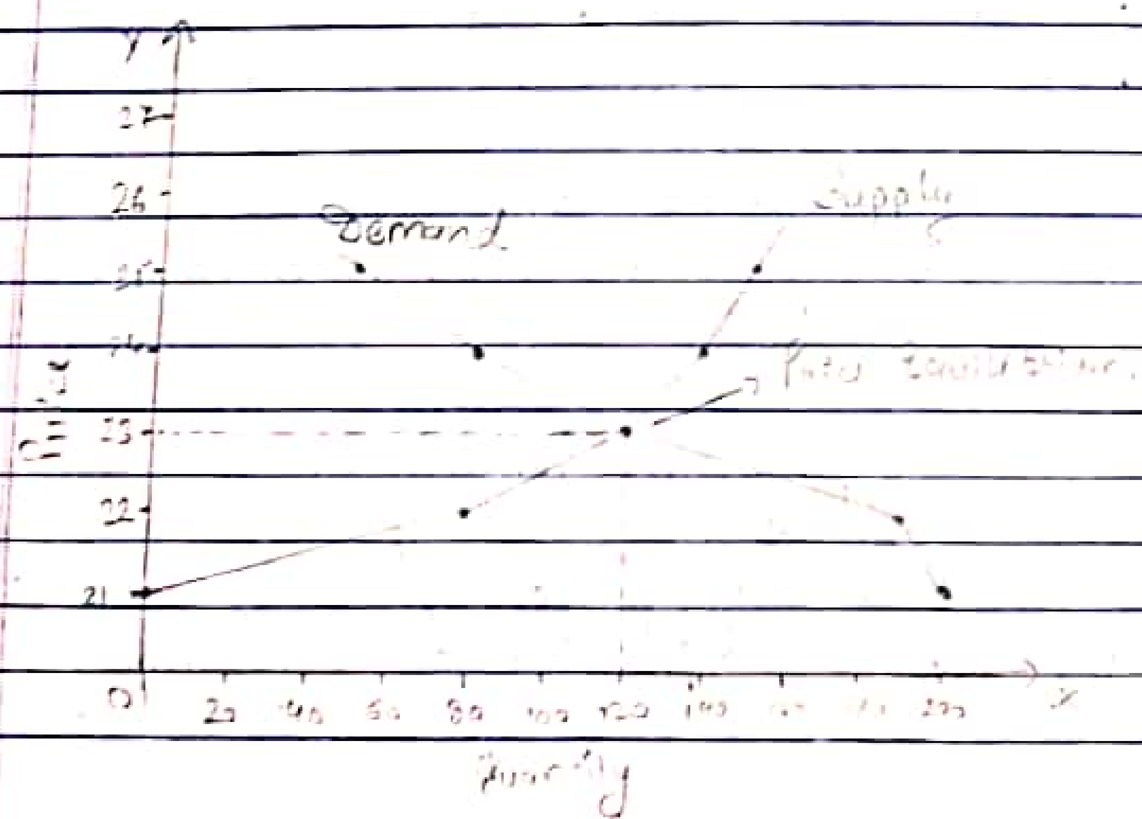


goods. Thus, the price is fixed at a point where demand for goods is equal to the supply of goods. This is known as equilibrium price.

10. Explanation of Price Equilibrium :

Price of rice (per kg).	Quantity of the rice demanded	Quantity of rice supplied
₹25	50	150
₹24	80	140
₹23	120	120
₹22	190	080
₹21	200	000

Table.



11. Assumptions of Price Equilibrium :

(i) Demand curve should always have a negative slope i.e. slopes downwards from left to right.

(ii) Supply curve should always have a positive slope i.e. slopes upwards from origin to the right.

(iii) If the demand increases more than supply, the price increases and vice versa.

Imperfect Competition

12. Meaning of Imperfect Competition :
It is a market situation in which the demand for the commod-ity is not at all elastic and in variation in prices.

13. ~~Nature~~ Features of Imperfect Competition :

(i) No. of buyers & sellers → The no. of buyers & sellers are comparatively less. So, the price prevailing in market is easily influenced by ~~the~~ an individual.

(ii) No mutual Interdependence → There is no feeling of mutual interdependence among t

producers.

(iii) Product Differentiation → There is product differentiation. It means products are not homogeneous and not have perfect substitute.

(iv) No fixed price → There is no uniformity in the commodity to be sold in market so the price differs from place to place.

Monopoly.

14. Meaning of Monopoly:

It is a situation of market where there is only one producer who has complete control either on price or supply.

15. Price determination under Monopoly:

(i) Aim on monopolist - Maximum amount of profit

⇒ A monopolist always aims at maximising his total profit and not keeping higher price or nor making highest sale.

(ii) Control ~~off~~ on either supply or price.

⇒ A monopolist can only decide either the quantity or the price of the commodity.

Scanned with CamScanner

If he determine supply, the price will be decided acc. to demand & vice versa. As such, determination of price will be beneficial for him as it may enable him to maximise the profit.

Monopolistic Competition

16. Meaning of Monopolistic Competition:
It is that state of market structure which comprises the features of monopoly as well as competition.

17. Features of Monopolistic Competition:

(i) Large no. of sellers → An individual has a meagre control over the market price because of competition among the firm.

(ii) Product differentiation → It may be due to difference of brand, size, colour, shape, packing etc. Hence, selling closely related but homogeneous products

(iii) Pricing decision → Each firm has partial control over price under this by producing unique products or earning a reputation.

Oligopoly

18. Meaning of Oligopoly:
It refers to a market structure where there are only a few sellers (but more than 2) of the homogeneous ~~or~~ or differential products.

19. Features of Oligopoly:

(i) Existence of few firms → A severe competition is found among them & each one tries to manipulate prices as well as volume of production ~~to~~ outclass each other.

(ii) Nature of product → These firms can have homogeneous products like cement which will be called pure oligopoly. The firm may produce differentiated products like automobiles ~~it~~ called as Imperfect oligopoly.

(iii) ~~Inter dependence → If a firm chances the its output or price, it has an immediate re-action from other firms in the market~~

20. ~~Meaning of~~ Difference between Price Ceiling & Price Floor:

Scanned with CamScanner

	Basis of difference	Price Ceiling	Price Floor.
(i)	Meaning	It refers to fixing the maximum price of a commodity at a level lower than the equilibrium price.	It refers to the minimum price ~~even~~ above equilibrium price.
(ii)	For whom fixed?	It is fixed for common people.	It is fixed for producers.
(iii)	By whom fixed?	It is fixed by the govt. below equilibrium.	It is fixed by govt above equilibrium.
(iv)	When fixed?	It is fixed when the price of essential goods in market is high which common people can't afford.	It is fixed when the market price of agriculture produce is lower than the cost of production of the producers.
(v)	Main ~~role~~ role	The govt. plays a main role for the welfare of common people.	The govt. plays a main role for the benefit of producer for fixing support price more than the market price.

21. Meaning of Market price :

It is that price of a goods wh[illegible] prevails in the short period market at any given time. The force of demand plays a predetermined role in determinging market price.

22. Meaning of Normal Price :

Normal Price refers to that economic forces would tend to bring about i[illegible] long run.

23. Difference b/w Market Price & Normal Price :

	Basis of difference	Market Price	Normal Price
(i)	Period	It tends to prevails for very short period.	It tends to prevail for a long time.
ii)	Cost	It may be lesser or higher than cost.	It is equal to the cost.
iii)	Price Determin-ation	Demand plays an imp. role in price determi-nation.	Supply is the ~~plays~~ main force.
iv)	Profit/ loss	This may get abnormal profit / loss.	No abnormal profit loss is possible.

Scanned with CamScanner

24. Difference b/w Perfect, Imperfect, Monopoly, Monopolistic and Oligopoly :

Basis of difference	Perfect Competition	Imperfect Competition	Monopoly Competition	Monopolistic Competition	Oligopoly Competition
(i) No. of sellers	Very large number.	Comparatively less	Single	Large no. of sellers	Few big sellers.
(ii) Nature of Product	Homogeneous products	Differentiated Products.	No close substitute	Closely related but differen-tiated products	Homogeneous or differenti-ated product
(iii) Price	Uniform Price	Different prices.	Firm is price maker	Partial control	Rigidity due to fear of price war.
(iv) know-ledge about conditions	Perfect knowledge.	Imperfect knowledge	Imperfect knowledge	Imperfect knowledge	Imperfect knowledge
(v) Selling Cost	No selling costs are incurred.	Quite Substaintial.	Only inform-ative sellings costs are incurred.	High selling costs are incurred.	High selling costs are incurred