

AGA KHAN UNIVERSITY EXAMINATION BOARD

HIGHER SECONDARY SCHOOL CERTIFICATE

CLASS XI EXAMINATION

APRIL/ MAY 2018

Principles of Economics Paper II

Time: 2 hours 25 minutes Marks: 50

INSTRUCTIONS

Please read the following instructions carefully.

1. Check your name and school information. Sign if it is accurate.

**I agree that this is my name and school.
Candidate's signature**

2. RUBRIC. There are TEN questions. Answer ALL questions. Questions 9 & 10 each offer TWO choices. Attempt any ONE choice from each.
3. When answering the questions:

Read each question carefully.
Use a black pointer to write your answers. DO NOT write your answers in pencil.
Use a black pencil for diagrams. DO NOT use coloured pencils.
DO NOT use staples, paper clips, glue correcting fluid or ink erasers.
Complete your answer in the allocated space only. DO NOT write outside the answer box.
4. The marks for the questions are shown in brackets ().
5. You may use a scientific calculator if you wish.

Q.1. (Total 2 Marks)

The law of diminishing marginal utility states that if a person increases consumption of a product while keeping consumption of other products constant, there is a decline in the satisfaction level that person derives from consuming each additional unit of that product.

Discuss any TWO points about practical importance of the law of diminishing marginal utility with the help of an example from everyday life.

Q.2. (Total 4 Marks)

The law of supply states that “if other factors remain constant, an increase in price results an increase in quantity supplied”

Mention any FOUR factors that should remain constant in the law mentioned above.

Q.3.

(Total 6 Marks)

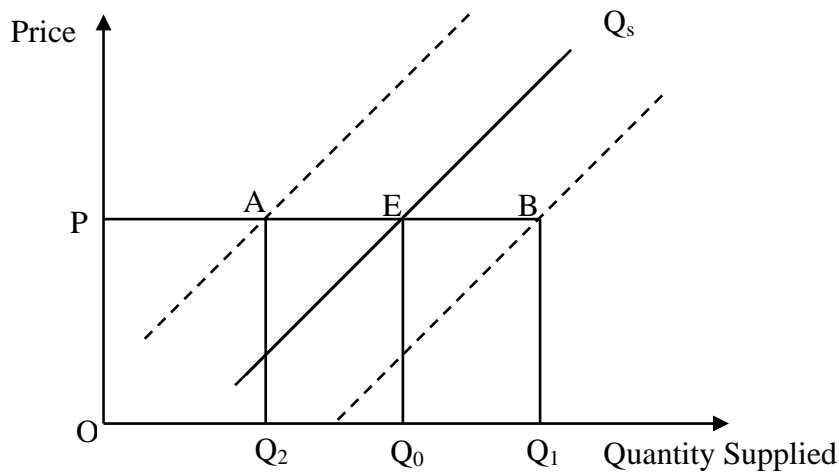
- a. The given table shows the quantity demanded of a product at different price levels.

Point	Price	Quantity Demanded	Computation of Elasticity of Demand	Degree of Elasticity
A	2	40	----	----
B	4	30		
C	8	10		

Calculate the price elasticity of demand at each point (B and C) and on the basis of that categorise the degree of elasticity of demand as either elastic, inelastic or unit elastic. (3 Marks)

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b.



If the initial supply curve in the given graph is represented as Q_s , then analyse the effect of the following conditions on movement of the supply curve and complete the table. (Attempt any THREE conditions). (3 Marks)

(Note: The first example has been done for your assistance.)

S. No.	Condition	Reason	Movement or shift of the curve
1	The government has announced a subsidy on the production of the good depicted in the graph.	Subsidies will decrease the cost of production so it becomes cheap for production.	Supply curve will move towards point B from E because of increase in production.
2	The government has raised the minimum wage rate by 25%.		
3	The government cuts the import duty on raw material and machinery used in the production of the good depicted in the given graph.		
4	The company has installed new machinery with latest technology which resulted in an increase in production.		
5	Government invites new manufacturers in the market to increase competition and reduce supremacy of existing manufacturers.		

Q.4.

(Total 8 Marks)

Explain the 'law of increasing return' along with schedule and graph from hypothetical data.

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Space for Graph

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Q.5. (Total 4 Marks)

Revenue provides the income which a firm needs, to be able to cover its costs of production, and from which it derives profit.

a. Differentiate between the given types of revenue. (2 Marks)

Total Revenue (TR)	Marginal Revenue (MR)	Average Revenue (AR)
1.	1.	1.

b. Elaborate the impact of price on each type of revenue. (2 Marks)

	Total Revenue (TR)	Marginal Revenue (MR)	Average Revenue (AR)
If Prices are Fixed			
If Prices are Variable			

Q.6. (Total 4 Marks)

Explain with the help of an example what is meant by real wage and nominal wage.

Q.7.

(Total 4 Marks)

The following are the statistics of an economy.

S. No.	Particulars	Amount (million \$)
1.	Consumption expenditure	450
2.	Investment expenditure	210
3.	Government expenditure	350
4.	Exports	450
5.	Imports	325
6.	Net factor income from abroad (NFIA)	310
7.	Depreciation	75
8.	Subsidies	125
9.	Indirect taxes	180

Compute GNP (Gross National Product) and NI (National Income) from the given data.

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Q.8. (Total 3 Marks)

a. Define quantity theory of money. (1 Mark)

b. If the available money supply in the economy is \$100, price level is \$10 and the volume of transaction is 70, then compute the velocity of money circulation using quantity theory of money. (2 Marks)

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Q.9.

(Total 8 Marks)

EITHER

- a. Professor Lionel C. Robbins (1898-1984) defined Economics as “The science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.”

With reference to the given statement, explain FOUR key features of Robbin's definition of Economics.

OR

- b. Sir Alfred Marshall wrote a book “Principles of Economics” in 1878 and defined Economics in the following words:

“Economics is a study of man's action in the ordinary business of life. It inquires how he gets his income and how he uses it. It examines that part of individual and social actions which is mostly, closely connected with the attainment and with the use of material requisites of well-being. Thus economics is on one side a study of wealth and on the other and important side a part of the study of man”.

With reference to the given definition, mention any FOUR merits and any FOUR demerits of Marshall's definition of Economics.

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EITHER

- i. Describe the term ‘canons of taxation’. (1 Mark)
- ii. Explain any THREE canons of taxation and describe how they govern taxation rules (effect of having such canon in the tax system). (6 Marks)

OR

- i. Draw business cycle by mentioning different phases. (1 Mark)
- ii. Discuss any TWO features of any THREE phases of business cycle. (6 Marks)

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