Civil Services (Main) Examination, 2009

# ECONOMICS

## (Paper I)

| *Time Allowed : Three Hours* | *Maximum Marks : 300* |
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**QUESTION PAPER SPECIFIC INSTRUCTIONS**

**Please read each of the following instructions carefully before attempting questions :**

There are **EIGHT** questions divided in **TWO SECTIONS**.

Candidate has to attempt **FIVE** questions in all.

Questions no. **1** and **5** are compulsory and out of the remaining, any **THREE** are to be attempted choosing at least **ONE** question from each Section.

The number of marks carried by a question/part is indicated against it.

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## SECTION 'A'

**1.** Answer any three of the following. Each answer should not exceed 200 words: 20×3=60

(a) What, according to Arrow, are the axioms required for translating individual preference into social preferences? Why is it impossible to construct social preferences satisfying those axioms?

(b) "Subjective approach to taxation leads to least aggregate sacrifice principle." Elucidate. Also give the limitations of this principle.

(c) What is high-powered or base money ($H$)? Is it an autonomous policy-determined variable? Explain.

(d) "Cambridge equation determines income ($Y$) assuming rate of interest ($r$) as given, whereas Keynes theory of interest rate determination assumes given income. Both are thus incomplete." Do you agree with the above assertion? How would then these two variables ($Y$ and $r$) be determined simultaneously?

**2.** Demand for light bulbs can be characterised by $Q = 100 - P$, where $Q$ is millions of boxes of lights sold and $P$ is the price per box. There are two producers of lights having identical cost functions:

$$C_i = 10Q_i + \frac{1}{2}Q_i^2 \quad (i = 1,\ 2)$$

$$Q = \sum_{i=1}^{2} Q_i = Q_1 + Q_2$$

60

(a) Unable to recognise the potential for collusion, managers of the two firms act as short-run perfect competitors. What are the equilibrium values of $Q_1$, $Q_2$ and $P$? What are each firm's profits?

(b) Manager of each firm independently recognises the oligopolistic nature of light bulbs industry and plays Cournot. What are the equilibrium values of $Q_1$, $Q_2$ and $P$? What are each firm's profits?

(c) Suppose Firm I guesses correctly that Firm II has Cournot conjectural variation, so it plays Stackelberg. What are the equilibrium values of $Q_1$, $Q_2$ and $P$? What are each firm's profits?

*English version compiled from published transcriptions and cross-checked across sources; not a facsimile of the official UPSC question paper.*



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(d) If the managers of two firms collude, what are the equilibrium values of $Q_1$, $Q_2$ and $P$? What are each firm's profits?

**3.** Answer the following in not more than 200 words each: 20×3=60

(a) "A dominant firm acts as a price leader and other firms adjust their outputs accordingly." Comment.

(b) "The direct money burden of the tax imposed on any object is divided between the buyers and the sellers in the proportion of the elasticity of supply of the object taxed to the elasticity of demand for it." Discuss.

(c) What is "Scitovsky's paradox"? How far has Scitovsky been successful in removing contradictions in Kaldor-Hicks compensation criteria of welfare?

**4.** "If expectations (regarding price level) were always fulfilled, short-run aggregate supply curve would always be vertical." Critically examine this statement of New Classical Economics. What would be the shape of the curve, if expectations were not realised? What other assumption is made by New Classical Economists in this context and what is its implication? 60

## SECTION 'B'

**5.** Answer any three of the following. Each answer should not exceed 200 words: 20×3=60

(a) "If each country is endowed with a certain fixed commodity combination, the differences in demand patterns in these countries can lead to emergence of international trade." Explain this statement with the help of offer curves of the two countries.

(b) Bring out the differences in the definitions of deficit financing given by different authorities in India and examine the role of deficit financing as an instrument of monetary control.

(c) "In the presence of domestic distortions, subsidies are the first best policies and tariffs are the second best." Do you agree? Explain.

(d) Critically evaluate Kuznets inverted U-shaped curve hypothesis of income distribution. Does it hold good for less developed countries as well?

**6.** Do you subscribe to the view that in a small open economy with perfect capital mobility, expansionary fiscal policy is ineffective under freely flexible exchange rate, whereas expansionary monetary policy will increase the national income? Elaborate your answer using suitable diagrams. 60

**7.** "Expansion of high productivity sector absorbs more and more labour from subsistence sector indicating that dualism is a powerful tool of development planning." Critically evaluate Lewis model of development in the light of the above statement and examine relevance of the model for contemporary India. 60

**8.** Answer the following, limiting your answer to about 200 words for each: 20×3=60

(a) Define a balance of payments function and explain the factors that cause a shift in this function. Explain the general equilibrium situation in a four-sector IS-LM model.

(b) Explain Milton Friedman's reformulation of the Quantity Theory of Money.

(c) What is Human Development Index (HDI)? Give its limitations as a measure of economic development and suggest improvement(s).



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