Civil Services (Main) Examination, 2010

ECONOMICS

(Paper I)

Time Allowed : Three Hours | *Maximum Marks : 300*

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.

SECTION 'A'

1. Answer the following questions. Each answer should not exceed 200 words. 20×3=60

(a) A supply curve is not used to determine the equilibrium price and quantity in a market under monopoly because (i) a supply curve derived by using relevant cost curves in a market under monopoly may give more than one price for different quantities and also more than one quantity for the same price; and (ii) for determining profit maximizing price and quantity of a monopolist, supply curve is not necessary. Explain (i) and (ii) above with graphical illustration.

(b) State and explain the theory of distribution in which the exhaustion of the total product is taken care of without leaving any residual claimant and also state clearly the assumptions necessary for the success of the theory.

(c) "Pareto-optimality is a necessary but not sufficient condition for welfare maximization." Develop this idea highlighting the role of 'social welfare contours' and 'utility possibility contours' in welfare maximizing state.

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

(a) Why does the point of intersection of IS and LM curves coincide with the equilibrium of two markets?

(b) What are the fiscal and monetary implications of vertical IS and vertical LM curves?

(c) State and explain the Law of Equi-marginal Utility and also state clearly the limitations of this law.

3. (a) What are the different measures of money supply? Explain the concept of money multiplier and state the factors that determine its volume. 30

(b) Does the Heckscher–Ohlin theorem withstand the factor intensity reversal test? In this context, state the relevance of Leontief Paradox. 30

4. (a) In Keynesian theory "rate of interest is what it is because it is expected to become other than it is. If it is not expected to become other than it is, there is nothing to tell us why it is what it is." Critically evaluate this comment and explain the role of rate of interest in determination of equilibrium income. 40

(b) What are the ways in which a perfectly competitive market may become imperfect? Examine whether advertisement helps an imperfectly competitive market become a perfectly competitive one. 20

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

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SECTION 'B'

5. Answer the following questions. Each answer should not exceed 200 words. 20×3=60

(a) "There is one saving rate that is best in the sense of maximizing per capita consumption in steady state." Explain this statement and illustrate the idea graphically.

(b) Is the speculative demand for money responsible for the existence of involuntary unemployment in Keynesian system? Give reasons.

(c) If public expenditure is financed by money creation, show diagrammatically the short run and long run crowding out effect.

6. (a) Show that in an open economy, given full capital mobility, fiscal action has maximum effect under fixed exchange rate and monetary action has similar effect under flexible exchange rate. 40

(b) "New classical macro-economics not only rejects the demand management policies of Keynes, but also the propositions of mainstream monetarists such as Friedman." Do you agree? 20

7. (a) Describe the structure of WTO with reference to five main agreements. 30

(b) What do you understand by 'sterilisation' effects of foreign exchange market intervention? How does 'sterilisation' work in the case of imperfect capital mobility? 30

8. Develop the idea that endogenous technological progress, driven by investment in human capital formation and R & D, offsets diminishing returns to physical capital. 60

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