Civil Services (Main) Examination, 2012

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 in about 150 words each: 12×5=60

(a) "Validity of Marshall's equi marginal utility depends on the assumption of unitary elasticity of the marginal utility curves of the commodities under the budget." Clearly explain this assertion.

(b) "For most developing nations fighting persistent balance of payments crisis and inflationary crisis, monetary contraction is a better option." Do you agree?

(c) Show how price output decision is taken by duopolists, taking into account, their mutual reaction. Under what condition will the duopolistic market be in equilibrium?

(d) "If firms produce differentiated products it is neither possible to identify the industry nor possible to draw its supply curve." Discuss and show how Chamberlin handles the problem.

(e) "Agriculture is not just a sector contributing a small proportion of GDP, it is a way of life for the Indians." Discuss.

2. (a) Mention the different components of supply of money as specified by the Reserve Bank of India. In what sense is the narrow money 'narrow'? 20

(b) Why is under-employment equilibrium possible in Keynesian economics, but not possible in Classical economics? Give reasons. 20

(c) Is rent a surplus? Give reasons in support of your assertion and point out the difference between 'rent' and 'quasi-rent'. 20

3. (a) What is the difference between private and social cost-benefit? Which one of the two is more relevant to government investment decision and why? 20

(b) Explain why money supply remains unaffected if budget deficit is met by borrowing from the public. 20

(c) Is there any significant difference between Value added tax and Sales tax? If so, what is that? 20

4. (a) "Industrial development and environmental degradation are highly correlated." If it is true what should be, in your opinion, the policy options for industrialization process vis-a-vis pollution control? 20

(b) Discuss the role of multinationals in employment creation, income generation and transfer of technology. 20

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(c) For optimal allocation of resources, which of the options – market forces, planning exercise or a combination of both – should be suitable for the third world countries? Defend your stand. 20

SECTION 'B'

5. Answer the following in about 150 words each: 12×5=60

(a) "The assumption of fixed coefficient production function is at the root of Harrod's instability." Discuss and explain whether giving up the assumption really helps.

(b) Derive Marshall's welfare economics from his concept of consumer surplus after explaining consumer's surplus along with the underlying assumptions.

(c) What is prisoner's dilemma? How is it related to a strictly dominant industry?

(d) Show different stages of product life cycle. How do the shortcomings of diffusion lag of new technologies in recent years cause a time compression of the cycle?

(e) Distinguish between Currency Board Arrangement and dollarisation. Why would a nation adopt one or the other?

6. (a) What do you mean by money multiplier? What are the factors that determine the value of the multiplier? 20

(b) Why does the point of intersection of IS and LM curves coincide with two markets? 20

(c) What are the fiscal and monetary implications of vertical IS and vertical LM curves? 20

7. (a) Discuss the impact of FDI on level of output and employment of the host country. Why do we need some precaution in allowing FDI in retail sector in India? 20

(b) "Transaction demand for money is interest rate elastic." Explain in reference to the post Keynesian theories of demand for money. 20

(c) Why are trading blocks formed? Explain the welfare impact of such trading blocks for non-member countries. 20

8. (a) Distinguish between backwash and spread effects of Myrdal. How do they operate in backward economies? 20

(b) "The solution of long term development needs of India lies in promoting public-private partnership." Discuss. 20

(c) Examine Kalecki's model of distribution. Do you consider it a correct explanation of distribution? 20

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