Civil Services (Main) Examination, 2014

ECONOMICS

(Paper I)

Time Allowed : Three Hours | *Maximum Marks : 250*

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.

Attempts of questions shall be counted in sequential order. Unless struck off, attempt of a question shall be counted even if attempted partly.

SECTION 'A'

1. Answer the following in about 150 words each: 10×5=50

(a) Examine the relationship between own and cross price elasticities for a compensated demand function.

(b) Explain H-theory of money supply.

(c) Differentiate between the complete, partial and zero crowding out effect of a given increase in government expenditure in an economy.

(d) What do you mean by existence and uniqueness of equilibrium in a market? Examine these concepts in a market where both demand and supply curves are downward sloping.

(e) Explain the paradox of thrift.

2. (a) Discuss the cobweb model of dynamic equilibrium with lagged adjustment. Explain how the existence of a stable equilibrium depends on the nature of the demand and supply curves. 20

(b) "Monetarists are of the view that only money matters and Keynesians believe that money does not matter at all." What is the reasoning behind these extreme views held by their protagonists? 20

(c) What do you understand by shifting of a tax? How does a monopolist succeed in shifting the burden of a tax under increasing marginal cost? 10

3. (a) Explain with appropriate assumptions, the determination of equilibrium income and interest rate in a Keynesian model of goods and money markets, through diagrams. 20

(b) Examine the process of reaching the Ricardian steady state. How can the tendency towards steady state be countered? 20

(c) "The conventional analysis of profit maximisation breaks down if the entrepreneur sells his output and possesses a production function which is homogenous of degree one." Explain. 10

4. (a) Compare the deposit multiplier with money multiplier. Is there any impact on money multiplier arising out of massive use of credit and debit cards? 20

(b) Compare the various instruments of monetary policy with respect to influencing the cost and availability of credit. 20

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(c) Discuss the classical dichotomy that money is neutral. 10

SECTION 'B'

5. Answer the following in about 150 words each: 10×5=50

(a) What is meant by 'factor abundance'? How does it affect the shape of the production frontier of a nation?

(b) Can Kuznets' hypothesis of inverted-U curve be extended to environmental degradation? Explain.

(c) What do you understand by a small open economy in the context of both goods and money markets?

(d) Point out the critical elements in typical Public-Private-Partnership (PPP) agreements in the infrastructure projects to safeguard the interests of the public.

(e) Analyse the partial equilibrium effects of a tariff imposed by a large country on its imports in terms of consumers' surplus.

6. (a) "With the Doha Round of multilateral trade talks stalled, regional trade agreements (RTAs) have emerged as an alternative approach to increase trade, spur stronger economic growth and lower unemployment rates in the participating countries." Explain. 20

(b) "Balanced growth strategy of development in terms of pattern of investment has to be in conformity not only with derived demands but final demands as well." Argue whether this statement is about avoiding bottlenecks for certain sectors and excess capacities in others or promoting import substitution. 20

(c) Explain the conditions under which complete specialisation will be possible for two nations in case of comparative advantage. Suppose productivity per unit of labour for two nations, India and UK, is given as under:

	India	UK
Wheat (kg)/manhour	06	03
Cloth (yard)/manhour	04	02

Will mutually beneficial trade be possible for the two nations? If yes, explain whether specialisation shall be complete or not. 10

7. (a) Why is it that in a pure flexible exchange rate system, foreign exchange market has no direct effects on the monetary base and money supply? Does this mean that the foreign exchange market has no effect on the monetary policy? 20

(b) Distinguish between single and double factor terms of trade. Explain how far terms of trade of a developing economy would change with technological advancement and economic growth. 20

(c) Our development strategy has been proposed in terms of 'faster', 'more inclusive' and 'sustainable' growth. Do the three components sit together well? Argue for your answer. 10

8. (a) Describe the different indicators that are used by UNDP to construct the Human Development Index (HDI). Why is a logarithmic transformation applied only to per capita income in the calculation of HDI? 20

(b) "Apart from bringing capital into a country, multinational corporations provide many other advantages that cannot be obtained by borrowing from international capital market." Discuss. 20

(c) Explain the Trade Related Investment Measures (TRIMs) of World Trade Organisation (WTO). What are the major debates relating to it? 10

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