FUNDAMENTALS OF AGRICULTURAL ECONOMICS

Important Questions From Previous Year Papers

Q.1 Define National Income & Give the concepts & importance of National Income.

Ans: National Income is that part of objective income of the community, including income derived from abroad, which can be measured in money" - Pigou.

<u>Concepts of National Income</u>

The important concepts of National Income are:

1. Gross Domestic Product (GDP)
2. Gross National Product (GNP)
3. Net National Product (NNP) at Market Prices
4. Net National Product (NNP) at Factor Cost or National Income
5. Personal Income
6. Disposable Income

1. Gross Domestic Product (GDP): Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year.It measures the market value of annual output of goods and services currently produced.This implies that GDP is a monetary measure. All goods and services produced in any given year must be counted only once so as to avoid double counting. It ignores the transactions involving intermediate goods.

2. Gross National Product (GNP): Gross National Product is the total market value of all final goods and services produced in a year. GNP includes net factor income from abroad whereas GDP does not. Therefore,

GNP = GDP + Net factor income from abroad.

Net factor income from abroad = factor income received by Indian nationals from abroad

– factor income paid to foreign nationals working in India.

3. Net National Product (NNP) at Market Price: NNP is the market value of all final goods and services after providing for depreciation. That is, when charges for depreciation are deducted from the GNP we get NNP at market price.

Therefore, NNP =GNP – Depreciation

Depreciation is the consumption of fixed capital or fall in the value of fixed capital due to wear and tear.

4.Net National Product (NNP) at Factor Cost (National Income): NNP at factor cost or

National Income is the sum of wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year. It may be noted that:

NNP at Factor Cost = NNP at Market Price – Indirect Taxes + Subsidies.

5. Personal Income: Personal income is the sum of all incomes actually received by all individuals or households during a given year. In National Income there are some income, which is earned but not actually received by households such as Social Security contributions, corporate income taxes and undistributed profits. On the other hand there are income (transfer payment), which is received but not currently earned such as old age pensions, unemployment allowances, relief payments, etc. Thus, in moving from national income to personal income, the incomes earned but not received should be deducted and add incomes received but not currently earned. Therefore,

Personal Income = National Income – Social Security contributions – corporate income

taxes – undistributed corporate profits + transfer payments.

6.Disposable Income: It is the amount of money available with the private individuals to spend. From personal income if we deduct personal taxes like income taxes, personal property taxes etc. what remains is called disposable income.

Thus, Disposable Income = Personal income – personal taxes.

Disposable Income can either be consumed or saved. Therefore,

Disposable Income = consumption + saving.

Importance of National Income

a) National income shows how the income is earned and spent. It shows the distribution of income among rent, wage, interest and profit.

b) Per capita income would indicate whether the country is making any economic progress or not.

c) It is an important instrument of economic planning.

d) It is also important in assessing the taxable capacity of the people

e) It is useful to compare the material standard s of living of the people in two countries by comparing their national incomes.

Q.2 What are the methods for Measurement of National Income?

Ans: There are 3 methods for measurements of NI are as follows:

1. Output Method 2.Income Method 3.Expenditure Method.

1.Output Method: It is also called as Value added Method. It approaches NI from output side. The economy is divided into different sectors such as agriculture,fishery,mining & other services. The gross product is obtained by adding the net values of all the production from these sectors during given year. Net values of production of all the industry & sector of the economy + net factor income from abroad =GNP. Then we minimize the depreciation of equipments & plants then it gives NNP at market price. NNP – Indirect tax + subsidies = National Income. This method reveals the contribution & relative importance of the different sectors of communities.

2.Income method: It measures NI after it has been distributed. NI is obtained by summing up the incomes of all individuals in the country. H ence NI is calculated by adding up the rent of lands, wages, salaries of employees, Interest on capital, Profit of entrepreneur & income of self employed people. This method indicates the distribution of NI at different income groups.

3.Expenditure Method: It derives NI by adding up all the expenditure made on goods & expenditure made on goods & services during year. Income can be spent either on consumer goods/investment goods. Thus we can get NI by summing up all consumer & investment expenditure made by all the individuals as well as the govt. of country during year.

Q.3 Define Wants. Give the classification & types of wants.

Ans: Anything that we desire is a want.

Types of Want

i) Necessaries: Necessaries are those goods and services that are essential for our existence and to maintain our efficiency. There are three kinds of necessaries, namely,

1) Necessaries for existence or life: These commodities are absolutely essential for the very existence of human beings, (E.g.) food (rice).

2) Necessaries for efficiency: Goods and services which are essential for maintaining the working capacity at a higher level, (E.g.) nutritious food (Horlicks), cycle, etc.

3) Conventional necessaries: Although some goods are not absolutely necessary, many people use them out of habit or long established customs and conventions, (E.g.) coffee or cigarette.

ii) Comforts : Comforts are goods that lead to easy living and make our life pleasant. They also improve our working efficiency. However, there is one important difference between necessaries for efficiency and comforts. In case of necessaries for efficiency, the returns or benefits that we get from them are proportionately higher than the money spent on them. But in case of comforts, the additional benefit or satisfaction is not in proportion to the money spent on them, (E.g.) scooter.

iii) Luxuries: Luxuries are goods and services that are highly expensive and they do not in any way add to the efficiency of people. They are just meant for enhancing the prestige of a person, (E.g.) ornaments, bungalow, car, etc. However, it should be noted that necessaries, comforts and luxuries are all relative terms. They are subjected to vary according to different places, time periods, persons and social setting. For example, scooter is a luxury to a poor man, while it is a comfort to a rich man. Also, what is a comfort today may become a necessity tomorrow.

Characteristics of wants:

1) Wants are unlimited in number and variety: As soon as one want is satisfied, another want arises. Thus, there is no end to human desire.

2) Particular want is satiable: The quantity of a commodity that a man can enjoy at a particular time is limited by his physical and mental powers. If a person is hungry, he can satisfy his want fully by consuming sufficient quantity of food at a particular point of time.

3) Wants are recurrent: Wants recur. People want many things again and again, (E.g.) food and clothes. The frequency of consumption of goods and services depends upon the durability and necessity of the commodities.

4) Wants are competitive: Some wants are to be satisfied more urgently than others. A consumer should choose the most urgent want for satisfaction, as the means are always limited. For a hungry man, want for food is more urgent than anything else.

5) Wants are alternative: We have many alternatives to satisfy a particular want. E.g. If tea is not available, a person can drink coffee.

6) Wants are complementary: In order to satisfy a single want, we may require several goods together, (E.g.) betel-leaf and areca nut, pen, ink and paper, etc.

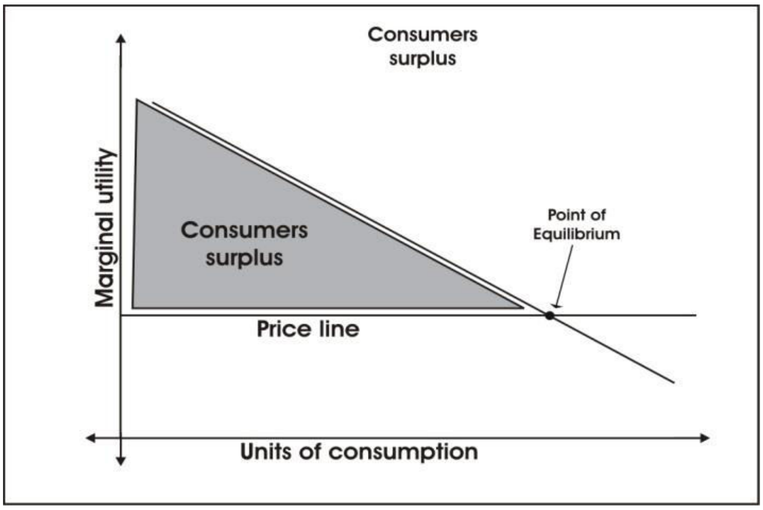
7) Wants tend to become habit: If we satisfy a want in particular way for quite sometime, it becomes a habit. (E.g.) Taking coffee after breakfast.

Q.4 Explain in detail Consumer's Surplus with it's importance.

Ans: Consumer's Surplus: It is defined as the difference between a consumer prepared to pay & what he actually pay.

Consumer's Surplus = Total utility – [no. of units purchased – Price]

Units of consumption	Marginal Utility (Mux)	Price (Px)	Consumer's Surplus (Mux - Px)
1	80	30	50
2	70	30	40
3	60	30	30
4	50	30	20
5	40	30	10
6	30	30	0
7	20	30	-
8	10	30	-



Importance of Consumer's Surplus:

1) Distinction between value- in-use and value-in-exchange: A commodity like salt has more utility but has only a small exchangeable value. In such cases, consumer's surplus will be more. A commodity like diamond has only a limited utility but has a great exchange value. In this case, the consumer's surplus will be less. Thus, the concept of consumer's surplus is used to distinguish between value- in-use and value-in-exchange.

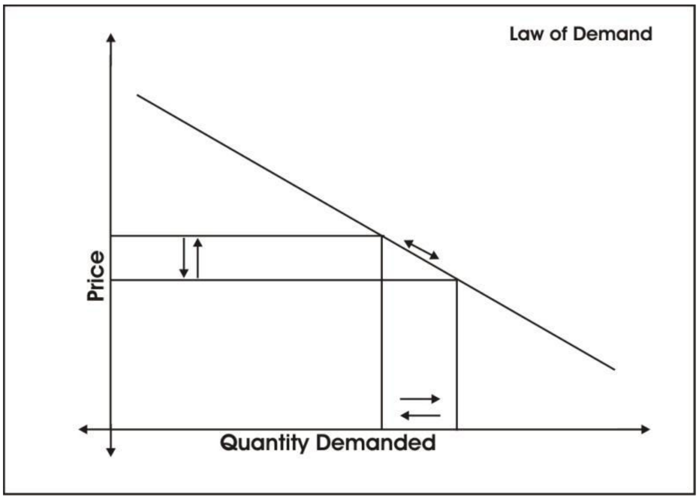
2) Helpful to monopolist in price fixation: Monopolist fixes price of a commodity in such a way that it bears at least a part of consumer's surplus.However, he cannot absorb the whole of the surplus, as there may be opposition from the consumers.

3) Helpful to policy makers: The policy makers can impose tax, if the consumer's surplus for a commodity is very high. Similarly, subsidy can be granted, if the consumer's surplus is low.

Q.5 State The Law of Demand with example.

Ans: Law of Demand : Keeping other things constant the rise in price is followed by contraction or decrease in demand & fall in price is followed by extension or Increase in demand.

Price	30	40	50	60	70	80	90
Quantity	30	28	26	24	22	20	18



Q. 6 What is Elasticity of Demand? Give the Degrees of Elasticity.

Ans: Elasticity of demand refers to the sensitiveness or responsiveness of demand to changes in price.

5 Degrees of Elasticity :

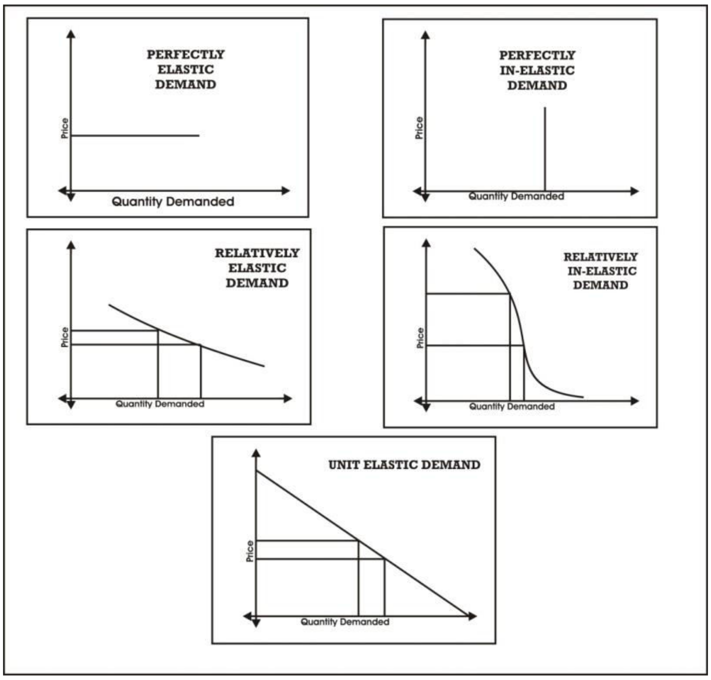
1.Perfectly elastic Demand: Infinitesimally smaller change in price brings infinite change in quantity demanded then it is called as Perfectly elastic demand or Infinite Elasticity.

2. Perfectly inelastic demand: When the quantity demanded of a good does not change at all to whatever change in price, the demand is said to be perfectly inelastic or the elasticity of demand is zero.

3. Relatively elastic demand: Here, a small proportionate change in the price of a commodity results in a larger proportionate change in its quantity demanded.

4. Relatively Inelastic demand: A larger proportionate change in the price of commodity results in a smaller proportionate change in its quantity demanded.

5. Unit elastic demand: It refers to a situation where a given proportionate change in price is accompanied by an equally proportionate change in the quantity demanded. In other words, a given proportionate fall in the price is followed by an equally proportionate increase in demand and vice versa.



Q.7 Define Tax & Give the Cannons of Taxation.

Ans: Tax: Taxes are compulsory contribution levied by the state for meeting expenses in the common interests of all citizens.

Seligman defines tax as a compulsory contribution from a person to the state to defray the expenses incurred in the common interest of all, without reference to special benefit conferred.

Canons of Taxation : The characteristics or qualities, which a good taxation should possess, are described as canons of taxation. Adam Smith has given the following four canons of taxation:

1) Canon of equality: The amount of tax must be in proportion to the ability of the tax payer, i.e., progressive taxation should be followed.

2) Canon of certainty: The time of payment, the manner of payment, and the quantity to be paid should be made clear to the tax payer well in advance and arbitrary fixation of taxes should not be there.

3) Canon of convenience: Tax payment should be made convenient to the tax payer. The time of payment and the manner of payment should be made convenient to the tax payer. Land revenue can be paid in installments after the harvest of crops.

4) Canon of Economy: Cost of tax collection should be very low. Cost of tax collection should be a small portion of the actual amount of tax collected.

Q.8 Define the Public Expenditure & give the principles of Public Expenditure.

Ans: Public Expenditure: The expenditure incurred by public authorities is called public expenditure. Public expenditure has to provide not only social welfare but it has also to ensure economic stability and economic growth.

Principles Of Public Expenditure:

1. Principle of maximum social benefits

2. Principle of economy, i.e., wasteful expenditure should be avoided

3. Principle of sanction, i.e., authorized expenditure

4. Principle of balanced budget

5. Canon of elasticity, i.e., fairly flexible

6. Avoidance of unhealthy effects on production and distribution

1. Principle of Maximum Social Benefits: According to Dalton, the best system of public expenditure is that which secures the maximum social advantage from the operations which it conducts.

2. Principle of Economy: It means that Unnecessary expenditure and waste of all types should be avoided. Public expenditure has great potentiality for public good but it may also prove injurious and wasteful. If the revenue collected from the taxpayer is heedlessly spent, it would be obviously uneconomical.

3. Principle of Sanction: Another important principle of public expenditure is that before it is actually incurred, it should be sanctioned by a competent authority. It also means that the amount must be spent on the purpose for which it was sanctioned.

4. Principle of Balanced Budget: Every government must try to keep its budgets well balanced. There should be neither ever-recurring surpluses nor deficits in the budgets. The government, therefore, must try to live within its own means.

5. Principle of Elasticity: Another same principle of public expenditure is that it should be fairly elastic. It should be possible for public authorities to vary the expenditure according to the needs. A fair degree of elasticity is essential if financial breakdown is to be avoided.

6. Avoidance of Unhealthy Effects on Production or Distribution: It is also necessary to see that public expenditure exercises a healthy influence both on production and distribution of wealth in the community. The wealth should be fairly distributed.

Q.9 What do you mean by Inflation? Give the causes of Inflation.

Ans: Inflation is defined as an increase in the average level of prices. When the supply of output is less, the rise in prices is described as inflationary.

1. Increase in Money Supply: Inflation is caused by an increase in the supply of money which leads to increase in aggregate demand. The higher the growth rate of nominal money supply, the higher is the rate of inflation.

2. Increase in Disposable Income: When the disposable income of the people increases, it raises their demand for goods and services. Disposable income may increase with the rise in national income or reduct.ion in taxes or reduction in the saving of the people.

3. Increase in Public Expenditure: In modern world government activities have been expanding which resulted in increase government expenditure. This raised the aggregate demand for goods and services, thereby causing inflation.

4. Increase in Consumer Spending: The demand for goods and services also increases when consumer spending increases due to conspicuous consumption or demonstration effect.

5. Cheap Monetary Policy: Cheap monetary policy or the policy of credit expansion also leads to increase in the money supply which raises the demand for goods and services in the economy thereby leading to inflation. This is also known as credit-induced inflation.

6. Deficit Financing: In order to meet it"s mounting expenses, the government resorts to deficit financing by borrowing from the public and even by printing more notes. This raises aggregate demand in relation to aggregate supply, thereby leading to inflationary rise in prices.

7. Increase in Exports: When the demand for domestically produced goods increases in foreign countries, this raises the earnings of industries producing export commodities. These, in turn, create more demand for goods and services within the economy. Apart from the above factors, expansion of the private sector, existence of black money and the repayment of public debt by the government also increases the aggregate demand for goods and services in the economy.

Q.10 What are the Types of Inflation?

Ans: Types of Inflation: The classification of inflation is based on the speed with which the price increases in the economy.

a) Creeping inflation: It is the mildest type of inflation, under which prices rise slowly, say, one per cent per annum.

b) Walking inflation: When the rise in prices is more pronounced as compared to a creeping inflation, it is called walking inflation. Roughly, the prices rise five per cent annually under this situation.

c) When the movement of price accelerates rapidly, "Running inflation" merges. Under this, prices rise by more than ten per cent per annum.

d) Hyperinflation: This is an alternative term for run away or galloping inflation. There is such a tremendous expansion in the supply of money and eventually it becomes worthless. Hyperinflation results in a steep rise in prices (sometimes, the rise in prices is 100 per cent or more) and it disrupts normal economic relations.

Q.11 What are the controls of Inflation?

Ans: Control of Inflation: The following are the anti-inflationary measures:

(a) Monetary measures

1) The central bank i.e., the Reserve Bank of India can increase the market rate of interest that will reduce the aggregate spending.

2) If the RBI can reduce the cash available to the banking system, the capacity of the banks to lend money to the borrowers will be reduced.

3) The RBI can sell the Government securities to the banks or to the public so that cash available with bank or public can be reduced.

4) Consumer credit control can reduce money supply.

b) Fiscal measures

1) Reduction of government spending

2) Imposition of new taxes

3) Encouragement of savings or introducing compulsory saving schemes

c) Physical or Non-monetary measures

1) Increasing output, increasing imports and decreasing exports so as to increase the availability of goods which are in short supply.

2) Controlling money wages to keep down costs.

3) Price control and rationing.

4) Control over speculation, hoarding and black-marketing.

5) Import of essential commodities and distribution of such goods through fair price shops.

Q.12 What do you mean by Direct & Indirect tax ? Give their advantages & Disadvantages.

Ans: <u>1. Direct Taxes:</u> A tax is said to be direct, if the tax payer bears the burden of the tax. He cannot shift the burden to any other person. E.g. income tax, wealth tax and gift tax.

Advantages: i) It varies according to the ability to pay and ii) Cost of tax collection is low.

Disadvantages: i) Tax rates are fixed arbitrarily by the government and ii) There is a possibility of tax evasion.

<u>2. Indirect Taxes:</u> Indirect tax is shifted by the payer to others. If sales tax is imposed on sugar, the producer or dealer who pays it passes it on to the next buyer and ultimately the burden is borne by the consumer. E.g. Sales tax

Advantages: i) It is more convenient, i.e., those who consume the commodity alone need to pay the tax. ii) No tax evasion is possible.

Disadvantages: i) Every consumer, rich or poor, pays the tax at the same rate. ii) Cost of tax collection is very high.

Q.13 Define Utility & Give the Characteristics & Classification of Utility.

Ans: Utility means the power to satisfy a human want. Any commodity or service which can satisfy a human want is said to have utility.

Characteristics of Utility :

1. Utility is subjective: Utility varies from person to person, for Eg:- A high yielding variety seed gives more utility to the farmer. The same seed provided to a cloth merchant gives zero utility.

2. Utility varies with purpose: For Eg:- Coconut oil is used as cooking oil or hair oil or as lubricant.

3. Utility varies with time : The Intensity of a person"s desire for a commodity is different at various time periods, for Eg:- Labour requirement for paddy is peak during transplantation harvesting and threshing period than other operations taken up in paddy cultivation.

4. Utility varies with ownership : Ownership of a good creates greater utility from a good than when it is hired Eg:- owning a tractors gives more utility than hiring it.

5. Utility need not be synonymous with pleasure: For Eg:- A sick man has to consume medicines for getting cured. He does not get pleasure during the process.

6. Utility does not mean satisfaction: utility is distinct from satisfaction. It implies potentiality of satisfaction in a given commodity. But the satisfaction is the end result of consumption. Satisfaction is what we get and the utility is the quality in agood which gives satisfaction.

KINDS OR TYPES OF UTILITY

The kinds or types of utilities are 1) Form utility 2) Place utility 3) Time utility and 4) Possession utility.

1. Form Utility : The Change in the form offers greater utility to the good than in its original form. For example: Processing of paddy into rice. Rice, fetches superior price than paddy because of processing.

2. Place Utility : The utility obtained by spatial movement of the goods is termed as place utility. Transportation aids in place utility i.e., through the transfer of goods from surplus production area to deficit or slack areas. Example: Shimla apples are transported to all parts of the country thereby increasing the utility of apples**.**

3. Time utility: Storing the commodity at the times of surplus production and make them available during scarcity creates time utility. Storage aids in creation of time utility by the supply of seasonal products during off season as per the consumers requirements.

4. Possession Utility: The Utility obtained due to possession or transfer of ownership of the commodity is called possession utility. Buying and selling creates possession utility. For Eg:- Agriculture land sold to real estate for plots would increase the utility for the same piece of land.

Q.14 Write a note on Elasticity of Supply.

Ans: Elasticity of Supply: it is defined as the responsiveness or sensitiveness of supply to the changes in the price of the good**.**

Determinants of Elasticity of Supply :

i) Time: A longer time period allows producers to make adjustment in quantity in response to price changes. Hence, a longer period gives a higher elasticity.

ii) Cost and Feasibility of storage: Goods that are costly to store will have a low elasticity of supply. Goods that will soon decay will be supplied within a short period (after the harvest) in the market irrespective of price levels; their elasticity of supply will be very low.

(iii) Factor mobility. If the factors of production can be easily moved from one use to another, it will affect elasticity of supply. The higher the mobility of factors, the greater is the elasticity of supply of the good and vice versa.

(iv) Changes in marginal cost of production. If with the expansion of output, marginal cost increases and marginal return declines, the price elasticity of supply will be less elastic to that extent.

(v) Excess supply. When there is excess capacity and the producer can increase output easily to take advantage of the rising prices, the supply is more elastic. In case the production is already up to the maximum from the existing resources, the rising prices will not affect supply in the short period. The supply will be more inelastic.

(vi) Availability of infrastructure facilities. If infrastructure facilities are available for expanding output of a particular good in response to the rise in prices, the elasticity of supply will be relatively more elastic. Supply is relatively inelastic as it takes time to manufacture heavy machinery.

Q.15 What is Public Finance? Write down the Difference between public finance & private finance. Give the importance/functions of Public Finance.

Ans: Dalton defines public finance as the science that is concerned with the income and expenditure of public authorities and the adjustment of one to the other.

Public Finance deals with "Why Government takes money how it gets money and where it spends money?"

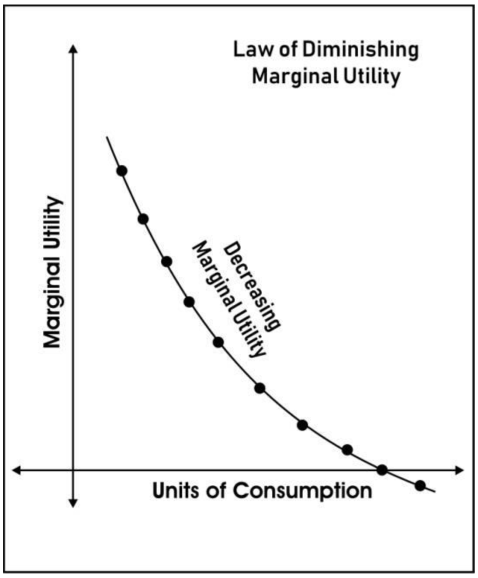
No	Public Finance	Private finance
1	Governed by Govt. of public.	Governed by individual.
2	A public authority can vary the amount of its income and expenditure within limits.	An individual can not change his income and expenses easily.
3	State is always repay its funds to people in services and does not save the funds.	After meeting the needs, individual prefers for saving the income.
4	State budgets are generally for one year.	For individual there is no fixed period of time. The income expenditure is continuous.
5	The state budget is public.	It is kept a secret.
6	State can issue paper Currency to meet its Expenditure.	It is not possible for individual.

Q.16 Write in brief about Law of diminishing Marginal Utility.

Ans: "The additional benefit which a person derives from a given increase of his stock of a thing diminishes with increase in the stock that he already has". –Marshall.

No. of Units of consumption	Marginal Utility	Total Utility
1	10	10
2	8	18
3	6	24
4	4	28
5	2	30
6	0	30
7	-2	28

In above table we consider example of eating mangoes. As we eat first the satisfaction will be more then it starts decline at a certain point we can't eat & vomits. So the Marginal Utility goes on decreasing. As the Graph Indicates below:



Exceptions to LDMU are as follows:

1. Hobbies: In case of certain hobbies like stamp collection or old coins, every additional unit gives more pleasure. MU goes on increasing with the acquisition of every unit.

2. Drunkards: It is believed that every dose of liquor Increases the utility of a drunkard.

3. Miser/Greedy: In the case of miser, greed increases with the acquisition of every additional unit of money.

4. Reading: The habit of reading of more books gives more knowledge and in turn greater satisfactions.

5. Very Small Units: If we are given water by spoon when we are thirsty each successive spoon will give us more satisfaction.

Importance of the Law:

1. The law of diminishing marginal utility is the basic law of consumption. The law of demand, the law of equi-marginal utility and the concept of consumers surplus are based on it.

2. The law helps in bringing variety in consumption and production.

3. The law helps to explain the phenomenon in the value theory that the price of a commodity falls when its supply increases. It is because with the increase in the stock of a commodity its marginal utility diminishes.

4. The famous diamond –water paradox of Smith can be explained with the help of this law. Diamonds are scarce and hence possess high marginal utility and hence higher price. On the otherhand, water is relatively abundant because of which it possess low marginal utility and low price even though its total utility is high

5. The principle of progressive taxation is based on this law.

Q.17 Write in Brief about Law of Equi-Marginal utility.

Ans: "If a person has a thing which can be put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all". – Marshall

OR

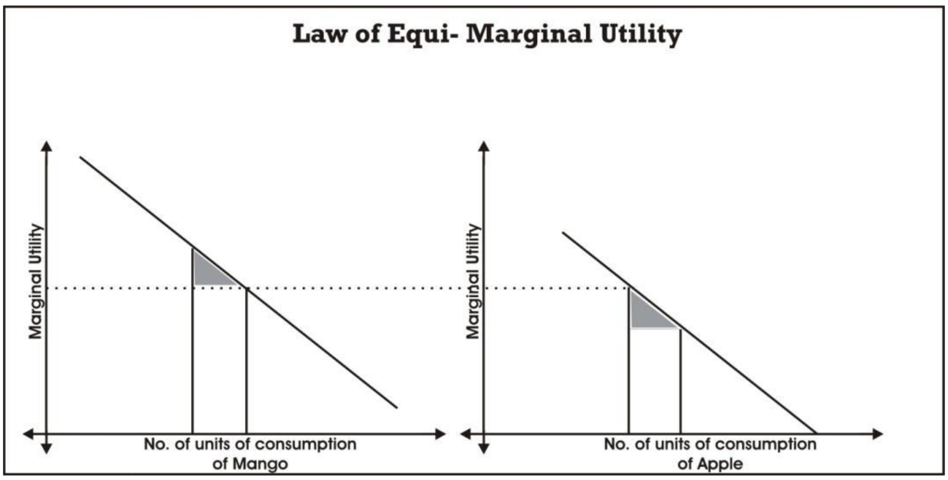
To get maximum satisfaction consumer combines the commodities in such a way that he replace the commodity having less utility with the commodity having Greater Utility till their marginal utilities become same.

Eg. A person has 70 rupees. He went to market for purchasing mangoes & apples. So the price of Apples=10 & Mangoes = 10. So the purchasing combinations be like.

No. of units of consumption	Marginal Utility of Mango	Marginal Utility of Apple
1	10	8
2	8	6
3	6	4
4	4	2
5	2	0
6	0	-2
7	-2	-4

The maximum satisfaction will get at 4 mangoes & 3 apples.

i.e. 4M +3A = (10+8+6+4) + (8+6+4)= 46. So the Graph can be plotted as:



Assumptions:

The main assumptions of the law of equi-marginal utility are as under:

(1) Independent utilities. The marginal utilities of different commodities are independent of each other and diminishes with more and more purchases.

(2) Constant marginal utility of money. The marginal utility of money remains constant to the consumer as he spends more and more of it on the purchases of goods.

(3) Utility is cardinally measurable.

(4) Every consumer is rational in the purchase of goods.

(5) Limited money income. A consumer has limited amount of money income to spend.

Q.18 What are the Types of Demand? Give the factors affecting Demand.

Ans: There are three different types of demand which are discussed below:

a) Price demand: Price demand refers to various quantities of a commodity that consumers demand per unit of time at different prices, assuming that their incomes, tastes and preferences and prices of related goods remain constant.

b) Income demand: Income demand refers to the different quantities of a commodity which consumers will buy at different levels of income, other things remaining the same.

c) Cross demand: It refers to the different quantities of a commodity that consumers purchase per unit of time at different prices of a related commodity, other things remaining the same.

Factors affecting Demand:

1. Price of the good: This is the most important determinant of demand. The relationship between price of the good and quantity demanded is generally inverse as we will see later while studying law of demand

2. Price of related goods:

- Substitutes: If the price of a substitute goes down than the quantity demanded of the good also goes down and vice versa.

- Complementary goods: If the price of gasoline goes up the quantity demanded of automobiles will go down. Thus the price of complements have an inverse relationship with the demand of a good

3. Income: Higher the income of the consumer the more will be quantity demanded of the good. The only exception to this will be inferior goods whose demand decreases with an increase in income level.

4. Individual tastes and preferences: a preference for a particular good may affect the consumer's choice and he / she may continue to demand the same even in rising prices scenario

5. Expectations about future prices & income: If the consumer expects prices to rise in future he / she may continue to demand higher quantities even in a rising price scenario and vice versa.

6.Population: As population increases, the number of consumers would also increase and as a result, more of goods will be purchased.

Q.19 Define Economics .Give the scope & Importance of economics.

Ans: Scope of Economics:

Economics is a Science or an Art Science is a systematized body of knowledge in which the facts are so arranged that they speak for themselves. Judged by this standard, economics is certainly a science. Economics is also an art because it lays down precepts or formulas to guide people to reach their goals. Economics therefore is a science as well as an art.

Economics – A Social Science: Economics deal with the activities of people living in an organized community or society, in such activities which relate to the earning and use of wealth or with the problems of scarcity, choice and exchange. Hence it called a social science.

Positive Economics and Normative Economics: 1. Positive economics is concerned with „what is" whereas Normative economics is concerned with „what ought to be".

2. Positive economics describe economic behaviors without any value judgment while normative economics evaluate them with moral judgment.

3. Positive economics is objective while normative economics is subjective.

4. The statement, " Price rise as demand increase" is related to positive economics, whereas the statement, " Rising prices is a social evil" is related to normative economics.

Subject matter of economics: There are 2 parts of economics. 1.Macro economics 2. Micro economics. Microeconomics or price theory consists of consumption, production, exchange, distribution & the aggregate consumption, aggregate production, aggregate income, National income can be studied in Macro economics. So the subject matter of economics includes micro & macro economics along with Growth economics.

Importance of Economics:

1.Theorotical importance:

- Building Good Citizenship
- Self-Dependence
- Determination of Economic Schedules
- Gives Information.
- Improve Thinking / Reasoning Ability

2. Practical importance

- i)Removing Poverty.
- ii) Understanding Professional values.
- iii) Home budget Planning
- iv)Planning budget for Nation / Individual.
- v) Know the economic rights.

Q.20 Give the Classification of Goods.

Ans: Classification of Goods

The goods are classified based on supply, durability, consumption and transferability.

1) Based on Supply: The goods are categorized as economic goods and free goods based on the supply criteria

i) Free goods are those goods that exist in lenty that can be used as much as we like. They are gifts of nature and used without payment Example: Air, sunshine etc.

ii) The economic goods, are scarce and can be had only on payment. They are limited and generally man- made and hence those can be available only on payment. In Economics, we are concerned with economic goods only. Economic goods mean wealth.

2) Based on Consumption: The Goods are categorized as Consumer goods and Producer Goods.

I) Consumer goods are those which yield, satisfaction directly. They are used by consumer directly to satisfy the wants Example: food, clothing, etc. These goods are known as the Goods of First order.

II) Producer goods are these goods which help us to produce other goods. They give satisfaction indirectly by producing other goods which will yield final satisfaction. Example: machinery, tools etc. They are also termed goods of the second order.

3) Based on Durability: This classification emphasized on the nature of the goods and their usage.

i) Mono Period Goods are those goods which can be used only once in the production and consumption process. Example: Seeds, Fertilizers,food etc.,

ii) Poly Period Goods are those which can be used repeatedly during the production and consumption process over several periods. Example: refrigerator machinery, implements etc.

4) Based on Transferability:

1. External Material Transferable good. Example: Land, Buildings etc.,
2. External material non-Transferable good. Example: Degree Certificate, PAN card etc
3. External non material transferable good. Example: Goodwill of a business
4. External non material Non-transferable good. Example: Friendship, life.
5. Internal non material Non-Transferable good. Example: Intelligence, Beauty etc.

Q.21 What are the Sources of Public Revenue?

Ans: Major Sources:

1. Tax: A compulsory contribution imposed on the public.

2. Price: A price is the payment for a service of business character, for example, charges for travelling on railways. The price is different from fee. The fee is for public interest. You can escape a price by not purchasing the said service / commodity.

Minor Sources:

1. Fee: It is also a compulsory payment but made only by those who obtain a definite service in return from the government. The fee covers the part of the cost of service provided to the consumer / client. The licence fee, however, is much more than the cost of service and there is not much of a positive service in return.

2. Special Assessment: This is a compulsory contribution, levied in proportion to the special benefit derived, to defray the cost of a specific improvement to property undertaken in the public interest. Suppose the government build a road or bridge or provide mass transport system or makes suitable sewerage and water supply arrangements, all the property will appreciate in value. The State has the right to levy a special tax on the owners of land or property known as „special assessment".

3. Rates: They are levied by the local bodies, municipalities and district boards for local purposes. They are generally levied on immovable property of the residents, but not necessarily for any special improvements effected or special benefits conferred.

4. Escheat: It refers to the property that is claimed by Government of the deceased without successors or will.

5. Tributes and indemnities: Tributes are paid by the conquered countries. Indemnities are paid for any damage done to the country by way of war of aggression.

6. Grants, gifts and donations: Grants are the funds provided by the apex organizations to its sub-ordinate organizations. For Example: ICAR grants to SAU"s. Gifts are those funds granted by the foreign countries during natural calamities etc., Donations are for specific purposes like educational buildings etc., funded by individuals.

Q.22 What do you mean by supply? State the law of supply.

Ans: It is the amount of a commodity that sellers are able and willing to offer for sale at different prices per unit of time.

Law of supply: Law of supply is stated as follows: Other thing remaining the same, as the price of a commodity raises its supply is extended, and as the price falls its supply is contracted. The quantity offered for sale varies directly with price i.e. higher the price the larger is the supply, and vice versa.

Q.23 What are the Factors of Production?

Ans: The factors of production are traditionally classified as land, labour, capital and organization.

i) Land: Land, as ordinarily understood, refers to earth's surface. But in economics, the term land is used in a very wider sense. Marshall defined land as "the materials and forces which nature gives freely for man's aid in land and water, in air and light and heat". Land refers to those natural resources that are useful and scarce. In other words, land stands for all natural resources, which yield an income or have an exchange value.

ii) Labour: Labour would mean any work, manual or mental, which is done for a reward. Marshall defined labour as "any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasure derived directly from the work". A person who is working in his rose-garden as a hobby is not a labour. But, if he works in rose garden, which is cultivated for sales, then he is a labour

iii) Capital: Capital in a man-made material. Man produces capital equipments or goods to help him in the production of other goods and services. Capital is, therefore, defined as "the produced means of further production". The word 'capital' is often interchangeably used for concepts like money, wealth and land.

iv) Enterprise or Organization An entrepreneur is the co-coordinator of all other factors of production. He has to plan, organize and direct other factors of production, arrange for marketing the produce and take risks and uncertainties.

Q.24 What do you mean by market? Give the types of markets?

Ans: Market: A market is the area within which the forces of demand and supply converge to establish a single price.

*On the basis of competition, markets may be classified into the following

categories : 1. Perfect Markets 2. Imperfect Markets

Perfect market: In this type of market the following conditions hold good:

a. There is a large number of buyers and sellers:

b. All the buyers and sellers in the market have perfect knowledge of demand, supply and prices.

c. Prices at any one time are uniform over a geographical area, plus or minus the cost of getting supplies from surplus to deficit areas:

d. The prices are uniform at any one place

e. The pries of different forms of a product are uniform, plus or minus the cost of converting the product from one form to another.

Imperfect Markets: The markets in which the conditions of perfect competition are lacking are characterized as imperfect markets. The are the different types of imperfect markets.

a. Monopoly Market: Monopoly is a market situation in which there is only one seller of a commodity. He exercises sole control over the quantity or price of the commodity. In this market, the price of a commodity is generally higher than in other markets. Indian farmers operate in monopoly market when purchasing electricity for irrigation. When there is only on buyer of a product the market is termed as a monopoly market.

b. Duopoly Market: A duopoly market is one which has only two sellers of a commodity. They may mutually agree to charge a common price which is higher than the hypothetical price in a common market. The market situation in which there are only two buyers of a commodity is known as the duopoly market.

c. Oligopoly Market: A market in which there are more than two but still a few sellers of a commodity is termed as an oligopoly market. A market having a few (more than two) buyers is known as oligopoly market.

d. Monopolistic Competition: When a large number of sellers deal in heterogeneous and differentiated form of a commodity, the situation is called monopolistic competition.

Q.25 Give the types of Following: 1)Elasticity of Demand 2) Wealth.

Ans: I.Types of Elasticity of Demand:

(1) Price Elasticity of Demand: Price elasticity of demand is the degree of responsiveness of quantity demanded of a good to a change in its price. Precisely, it is defined as the ratio of proportionate change in the quantity demanded of a good caused by a given proportionate change in price.

(2) Income Elasticity of Demand: Income is an important variable affecting the demand for a good. When there is a change in the level of income of a consumer, there is a change in the quantity demanded of a good, other factors remaining the same. The degree of change or responsiveness of quantity demanded of a good to a change in the income of a consumer is called income elasticity of demand. Income elasticity of demand can be defined as the ratio of percentage change in the quantity of a good purchased, per unit of time to a percentage change in the income of a consumer.

(3) Cross Elasticity of Demand: The concept of cross elasticity of demand is used for measuring the responsiveness of quantity demanded of a good to changes in the price of related goods. Cross elasticity of demand is defined as the percentage change in the demand of one good as a result of the percentage change in the price of another good.

II. Types of Wealth: 1. Individual Wealth: It consists of all tangible and intangible possessions of the individuals besides loans due to them. Example: Land, bonds, deposits are tangible possessions while, intangible possessions are copyrights, patents etc.,

2. Social Wealth : It is the wealth, which is collectively used by all the people in a nation. Example: Railways, Public Parks, Government colleges etc.,

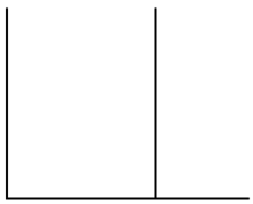
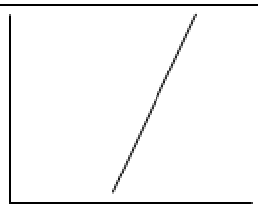
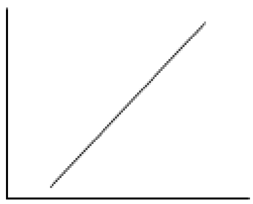
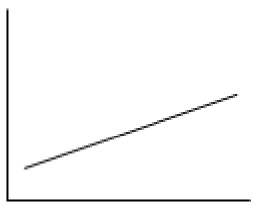
3. Representative Wealth: It is that form of wealth in the form of title deeds

4. National Wealth : It is an aggregate of all individuals wealth and social wealth of the country inclusive of loans due to people and to the nation debts have to be deducted. Example: Rivers, mountains.

5. Cosmopolitan Wealth: It is wealth of the whole word. It is a sum total wealth of all nationals.

6. Negative Wealth: It refers to the exclusive debts owed by the individuals and the nation.

Q.26 Write down about Elasticity of Supply with Graphs.

TYPE	VALUE	GRAPH	DESCRIPTION
Perfectly Inelastic	0		No change in supply no matter what the price i.e. cinema even if the demand increases seat capacity can't be increased in short run
In elastic supply	0-1		Supply is less responsive to change in price
Unitary	1		Supply is equally responsive to change in price
Elastic	Greater than 1		Supply is highly responsive to change in price
Perfectly elastic	Infinity		No change in price no matter what the supply.

Definitions

Economics: Economics is the study of administration of the scarce recourses & of the determinants of income & employment. – J.M.Keynes (Modern definition of economics)

Agril.Economics: "Agricultural economics is the study of relationships arising from the wealth-getting and wealth-using activity of man in agriculture" - Prof.Hibbard,

Goods: It is defined as anything that satisfies human wants or needs.

Want: Anything that we desire is a want.

Utility: It means the power to satisfy a human want.

Value: Value can be referred to as the capacity of agood to command other things in exchange.

Price: Value expressed in money is termed as Price.

Wealth: It consists of all potentially exchangeable means of satisfying human wants. (J.M.Keynes)

Demand :Demand in economics means a desire to possess a good supported by willingness and ability to pay for it.

Elasticity of Demand: The elasticity of demand measures the responsiveness of quantity demanded to a change in any one of the factors by keeping other factors constant.

Supply: It is the amount of a commodity that sellers are able and willing to offer for sale at different prices per unit of time.

Elasticity of Supply: it is defined as the responsiveness or sensitiveness of supply to the changes in the price of the good.

Market: A market is the area within which the forces of demand and supply converge to establish a single price.

Perfect competition market: It is a market under which no buyer or seller can affect unilaterally.

National Income : National Income is that part of objective income of the community, including income derived from abroad, which can be measured in money" - Pigou.

Public Revenue: The expenditure of the Government has to be met from the revenue that is accrued by the Government from various sources.

Public finance: It studies how the government gets money and how it spends it.

Public Expenditure: The expenditure incurred by public authorities is called public expenditure.

Tax: Seligman defines tax as a compulsory contribution from a person to the state to defray the expenses incurred in the common interest of all, without reference to special benefit conferred.

Inflation: Inflation indicates the rise in price of a basket of commodities on a point-to-point basis.

Deflation : A general decline in prices, often caused by a reduction in the supply of money or credit.

Money: "all media of exchange and payment, whose acceptance the law requires in discharge of debts", may be called money.

THANK YOU!!

Reference from :1)TNAU Notes: Principle of Agricultural Economics

2) ANGRAU Notes: AECO-141

3)J V Knowledge Point