Q1] **c-** If the government raises output above the free market level, consumers will get no benefit from the extra units of output.

Q2] **c-** The gap between *S+tax* and *S* will be £5 at each quantity.

Q3] a- Marginal revenue = average cost

Q4] c- Is rival and excludable.

Q5] c- Improved terms of trade for all countries.

Q6] b- Stay the same and real GDP will rise

Q7] d- The prohibition of quotas

Q8] b- To reduce the influence of trade on consumer tastes

Q9] c- There is a large demand for petrol.

Q10] b- Nominal GDP is adjusted for changes in prices; real GDP is not adjusted for changes in prices.

Q11] c- the periodic fluctuations of output around the long run trend.

Q12] c- Net income from abroad

Q13] c- This could lead to 'black' market where the cylinders are sold at more than ceiling price

Q14] c- Rs. 120 Cr

Q15] b- Rs. 266.67 Cr

Q16] b- Restrict printing of currency in inflationary times

Q17] d- Zero net social benefit

Q18] b- Only negative externality exists

Q19] c- Y = C + I + G + X

Q20] b- Government expenditure

Q21] b- 606 billion

Q22] a- 538 billion

Q23] d- 621 billion

Q24] c- 556 billion

Q25] b- Shadow Economy

Q26] b- GDP at constant prices for 2021 is estimated with the base year as 2010-11.

Q27] b- Country Y has a comparative advantage in the production of mobiles

Q28] c- £270 million.

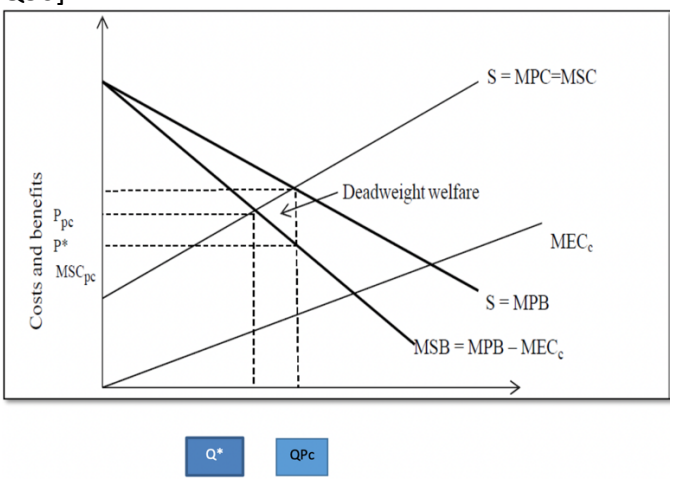
Q29] (a) Using Income Method,
Net Domestic Income (NDP at FC) = Compensation of employees + Operating Surplus + Mixed income of self-employed = Rs.[24,000 + 10,000 + 28,000] crores = Rs.62,000 crores.

(b) Gross Domestic Income (GDP at MP) = NDP at FC + Depreciation + Net Indirect Tax (Indirect Tax - Subsidies) = Rs[62,000 + (-300) + (9,000 - 1,800)] crores = Rs.68,900 crores.

(c) Net National Income (NNP at FC) = NDP at FC + Net Factor Income From Abroad = Rs.[62,000 + (-300)] crores = Rs.61,700 crores.

(d) Net National Product at Market Price (NNP at MP) = NNP at FC + Net Indirect Tax (Indirect Tax - Subsidies) = Rs.[61,700 + (9,000 - 1,800)] crores = Rs.68,900 crores.

Q30]



1. MSC- Marginal Social cost
2. MPC- Marginal Private Cost

3. MPB- Marginal Private Benefit
4. MSB- Marginal Social Benefit
5. MECc- Marginal External Cost of consumption
6. Q*- Socially optimum level of output at price P*
7. QPc- Market level of output at price Ppc.
8. Deadweight loss of social welfare happens when MSC> MPC
9. Social welfare loss occurs as QPc > Q*

1. As plastic is causing environmental pollution, it has social cost. Individuals are using plastic as it is convenient for them. Therefore, Marginal Social Cost (MSC) differs from Marginal Personal Cost (MPC).

2. Plastic usage cause environmental pollution and animals may die due to consumption of plastic bags. Therefore, there is Marginal external Cost which may be incurred to keep water bodies clean and to protect animals from consumption of plastic.

3. Therefore, MSB is lower than MPB. MSB= MPB - MECc. This is represented by MSB curve below MPB curve in the diagram. Market will have equilibrium position at QPc with Price Ppc. At socially optimal equilibrium at output Q* of price P* , MSB = MSC.

4. The external cost of consumption result in level of output above socially optimum level, QPc > Q* From society's point of view, too many plastic bags are being produced and consumed. This results in a dead weight welfare loss caused by overconsumption and represented by a triangle in diagram A.

Q31] The **short-run aggregate supply (SAS) curve** is considered a valid description of the supply schedule of the economy *only* in the short-run.

The short-run aggregate supply curve is upward sloping because the quantity supplied increases when the price rises. In the short-run, firms have one fixed factor of production (usually capital). When the curve shifts outward the output and real GDP increase at a given price. As a result, there is a positive correlation between the price level and output, which is shown on the short-run aggregate supply curve.

Q32] i) Negative Externality Definition - Negative externalities occur when production and/or consumption impose external costs on third parties outside of the market for which no appropriate compensation is paid. This causes social costs to exceed private costs.
An example of a negative externality:

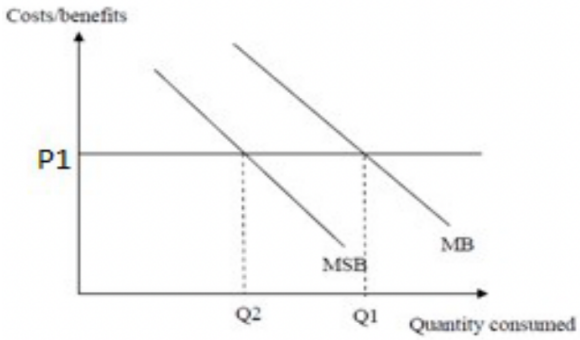
i. People may smoke in public places and ignore harmful impact of toxic passive smoking on non-smokers.
ii. The passive smoking may harm health of non-smoker and may cause various respiratory diseases.
iii. In young ladies passive smoking may cause pre-mature child birth and asthma.
iv. Passive smoking increases the risk of respiratory illnesses in children, including asthma, bronchitis and pneumonia.

v. Healthcare expenditure involved in treatment of smoking related illnesses ii)

ii)Price Related Intervention:

a) The Government imposes a tax on the producer that reflects the marginal cost of the externality.
b) Fines are imposed if smoking is done in public places Non- Price Related Intervention: a) Smoking is banned in public places like gardens, restaurants, libraries, work places, etc. b) A law prohibiting any manufacturer, retailer, or distributor of tobacco from selling or distributing products to persons under age eighteen.
c) Use of media / advertisements, public education to emphasize ill effects of smoking and motivate smokers to leave smoking
d) Specially designed medical care and or programs for smokers to quit smoking.

iii) Diagram- marginal social benefit curve and marginal private benefit curve when a negative externality in consumption exists-



Q1- Consumption by private sector
Q2- Ssocially optimal level of consumption
MSB- Marginal Social Benefit
MB- Marginal Private Benefit
P1- Market price

Q33] i) Difference between actual and potential growthThe term actual economic growth refers to increases in the real Gross Domestic Product or real Gross National Product. The economic growth rate measures the percentage increase in the real Gross Domestic Product from one year to the next. The term actual economic growth refers to the increase in the trend rate of real Gross Domestic Product rather than the actual increase in output. Potential economic growth refers to the speed at which the economy could grow and so it measures the percentage increase in an economy's capacity to produce.

34] Income measure- This measures the total of factor earnings. These are factor payments to land, labour and capital. Transfer payments are not included (to avoid double counting).

Output measure -This measure the value of goods and services produced. To avoid double counting we only include the "value added" component of firms' output.

Expenditure method -This includes all expenditure (including exports minus imports) in the economy and also what would have to be spent to purchase increases in inventories (or stocks). To avoid double counting, we include only expenditure on final goods.

The three concepts are identically equal. However, in practice difficulties of measurement and collection of data (e.g. the black economy) mean that the three measures will not be equal.