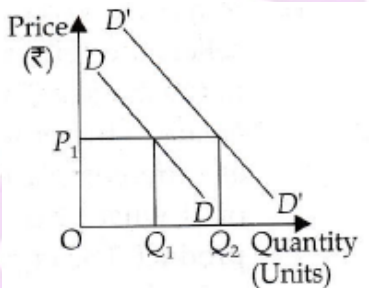
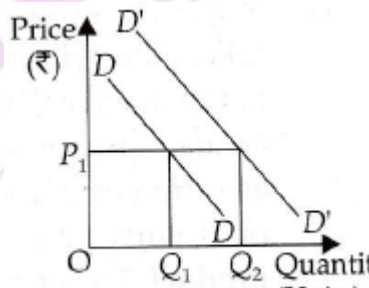


Economics Class 12

Solution 2017

Section A - Microeconomics		
1	(a) Price of goods	1
2	(c) Price of the good falls, expenditure on it remains unchanged.	1
3	Indifference curve is a diagrammatic presentation of an indifference set of a consumer. It is a locus of all such points which show different combinations of two commodities offering the same level of satisfaction to the consumer.	1
4	(a) Perfect competition	1
5	Product differentiation is one of the main features of monopolistic competition.	1
6	<p>PPF is a curve showing different possible combinations of two goods which can be produced with the available resources.</p> <p>The main characteristics of PPF are:</p> <p>(a) PPF always slopes downward from left to right: PPF has a negative slope which implies that more than one good can be produced only by loss of another good.</p> <p>(b) PPF is concave to the origin: The PPF is concave to origin and shows the tendency of increasing MRT.</p>	3
7	<p>'How to produce' refers to the choice of technique of production. It has two categories:</p> <p>(1) Labour-intensive technique: It implies greater use of labour than capital. It promotes employment.</p> <p>(2) Capital-intensive technique: It implies greater use of capital than labour. It promotes efficiency and accelerates the pace of growth. The choice of technique depends on the type of product manufactured by a company. For e.g.-A food and beverage company can use hundreds of workers with little application of capital (machinery) or can use more machines with few workers in order to produce the desired quantity of biscuits and soft drinks.</p>	3
8	Difference between 'increase in demand' and 'increase in quantity demanded' of a good is:	3

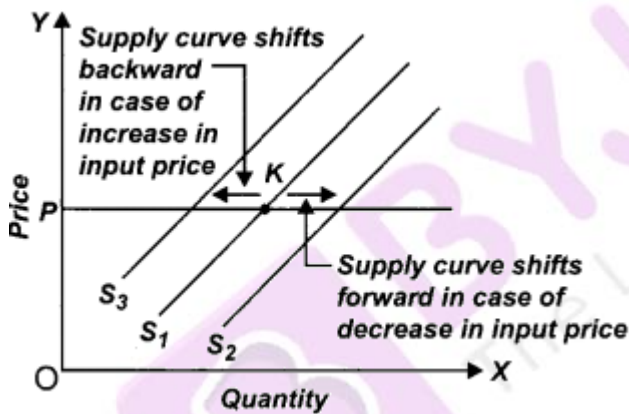
Basis	Increase in Demand	Increase in Quantity Demanded
(i) Cause	It is caused by factors other than a change in price namely-Increase in the income of the consumer. Increase in the price of the substitute goods Change in tastes and preferences in favour of the commodity expectation of price rise in future Increase in the total number of consumers.	It is caused by a fall in the price of the commodity when all other factors remain constant.
(ii) Other name	Rightward shift of the demand curve	Expansion in demand or downward movement along the demand curve
(iii) Diagram		
OR		
<p>'Budget set' refers to attainable combinations of a set of two goods, given prices of goods and income of the consumer. The budget set equation is: $P_1X_1 + P_2X_2 \leq Y$ Where P_1 = Price of good 1 X_1 = Quantity of good 1 P_2 = Price of good 2 X_2 = Quantity of good 2</p> <p>'Budget line' is a line showing different possible combinations of good 1 and good 2, which a consumer can buy, given his budget and the</p>		

	prices of good-1 and good-2. Anywhere on the budget line, a consumer is spending his entire income either on good 1 or on good 2 or on both good 1 and good 2.									
9	<p>Suppose a consumer consumes two goods: X and Y. He wants one more unit of X in exchange for some amount of Y. It is explained in the following schedule:</p> <table border="1" data-bbox="263 504 1268 741"> <thead> <tr> <th>Combination of goods X and Y</th> <th>Marginal rate of substitution (MRS)</th> </tr> </thead> <tbody> <tr> <td>8X + 20Y</td> <td>-</td> </tr> <tr> <td>9X + 16Y-</td> <td>4Y : 1X</td> </tr> <tr> <td>10X + 13Y</td> <td>3Y : 1X</td> </tr> </tbody> </table> <p>Since the marginal utility of good X goes on falling with every increase in units of X, therefore, consumers will be willing to sacrifice a lesser quantity of good Y for obtaining additional units of X.</p> <p>Initially for getting an additional unit of X, consumer is willing to sacrifice $(20 - 16) = 4$ units of Y. So MRS is 4Y : 1X. When one more unit of X is acquired then $(16 - 13) = 3$ units of Y are sacrificed. MRS has fallen to 3Y : 1X. The reason is, as more units of X are consumed, marginal utility from each successive unit of X goes on falling, this makes the consumer sacrifice less units of Y to get additional units of X.</p> <p>Hence, we can say that the marginal rate of substitution is always diminishing.</p>	Combination of goods X and Y	Marginal rate of substitution (MRS)	8X + 20Y	-	9X + 16Y-	4Y : 1X	10X + 13Y	3Y : 1X	4
Combination of goods X and Y	Marginal rate of substitution (MRS)									
8X + 20Y	-									
9X + 16Y-	4Y : 1X									
10X + 13Y	3Y : 1X									
10	<p>Market supply is the total amount of a commodity that all the firms/producers in the industry are willing to sell at different possible prices of that commodity.</p> <p>For example: The table is showing market supply. It is based on the assumption that there are only two firms (A and B) supplying Good-X in the market.</p> <p>Market Supply Schedule</p> <table border="1" data-bbox="263 1684 1268 1852"> <thead> <tr> <th>Px (Price of Good-x) (₹)</th> <th>Qx (firm 'A') (Units)</th> <th>Qx (firm'B) (units)</th> <th>Market supply (Units)</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>0</td> <td>0</td> <td>0</td> </tr> </tbody> </table>	Px (Price of Good-x) (₹)	Qx (firm 'A') (Units)	Qx (firm'B) (units)	Market supply (Units)	5	0	0	0	4
Px (Price of Good-x) (₹)	Qx (firm 'A') (Units)	Qx (firm'B) (units)	Market supply (Units)							
5	0	0	0							

10	10	5	$10 + 5 = 15$
15	20	10	$20 + 10 = 30$
20	30	15	$30 + 15 = 45$

The above table shows the total market supply assuming only two firms in the market.

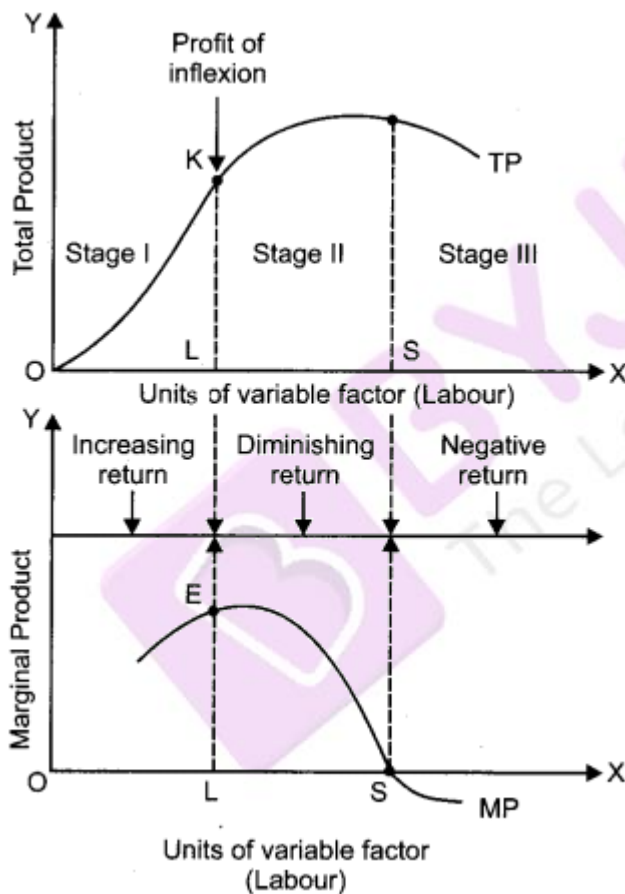
Effect of 'input prices' causing change in supply: Input price may increase or decrease. In case of increase in input price, cost of production tends to rise hence, producers will supply less of the commodity at its existing price. It will cause the backward shifting of the supply curve. Opposite will happen in case of decrease in input price as cost of production tends to decline hence, more supply of the commodity will be given at the existing price of the commodity. In such a case forward shifting of the supply curve will take place.



OR

Units of Land	Units of Labour	Total Product	Marginal Product	Remarks
1	1	2	2	Increasing MP shows increasing return to a factor
1	2	5	3	
1	3	9	4	
1	4	12	3	Diminishing MP shows diminishing
1	5	14	2	

1	6	15	1	returns to a factor
1	7	15	0	
1	8	14	-1	Negative MP shows negative return to a factors



The above figure shows:

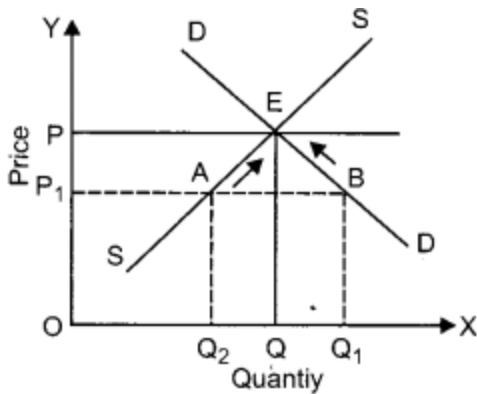
- (1) MP tends to rise till OL units of labour are used. This corresponds to point E on the MP curve. It shows increasing returns to a factor.
- (2) When MP is rising, TP tends to rise at an increasing rate. This occurs till point K on the TP curve. This corresponds to the situation of increasing returns to a factor.
- (3) Beyond OL units of labour. MP tends to decline and TP increases only at a diminishing rate. It occurs between E and S on the MP curve

	<p>and between K and T on the TP curve. This is a situation of diminishing returns to a factor.</p> <p>(4) When employment of labour exceeds OS units, MP becomes negative. Accordingly, TP starts declining. This is a situation of negative returns to a factor, occurring beyond point T on TP curve and beyond S on MP curve.</p>	
11	<p>Perfect knowledge means that both the buyers and sellers have full knowledge about the prices and costs prevailing in the different parts of the market. All firms have equal access to technology and inputs. This ensures the same per unit cost of production by all the firms in the industry.</p> <p>Implication of perfect knowledge: No firm is in a position to charge a different price and no buyer will pay a higher price for the same product. As a result, uniform price prevails. Since, there is uniform price and uniform cost, all firms earn uniform profits because profit equals price-cost.</p>	4
12	<p>Original Price (P) = ₹ 10 per unit New price (PI) = ₹ 12 per unit Change in Quantity demanded (ΔQ) = 20% Price elasticity of demand (E_d) = ? Change in prices (ΔP) = New price – Original price ₹ (12 – 10) = ₹ 2</p> $\text{Percentage change in price} = \frac{\text{Change in price}}{\text{Original price}} \times 100$ $= \frac{\Delta P}{P} \times 100$ $= \frac{2}{10} \times 100$ $= 20\%$ <p>Price elasticity of demand</p> $= \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in Price}}$ $E_d = \frac{20}{20}$ $E_d = 1$ <p>Now, further taking this elasticity of demand in another situation when price changes from ₹ 10 to ₹ 13 per unit Percentage change in price</p>	6

	$= \frac{\text{Change in price}}{\text{Original price}} \times 100$ $= \frac{13 - 10}{10} \times 100$ $= \frac{3}{10} \times 100 = 30\%$ <p>Price elasticity of demand</p> $= \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$ $1 = \frac{\text{Percentage change in quantity demanded}}{30}$ <p>Percentage change in quantity demanded</p> $= 30 \times 1$ $= 30\%$																															
13	<table border="1" style="margin: auto; border-collapse: collapse;"> <thead> <tr> <th style="padding: 5px;">Output (units)</th> <th style="padding: 5px;">AFC (₹)</th> <th style="padding: 5px;">MC (₹)</th> <th style="padding: 5px;">AVC (₹)</th> <th style="padding: 5px;">AC (₹)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">60</td> <td style="text-align: center;">20</td> <td style="text-align: center;">20</td> <td style="text-align: center;">80</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">30</td> <td style="text-align: center;">18</td> <td style="text-align: center;">19</td> <td style="text-align: center;">49</td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">20</td> <td style="text-align: center;">16</td> <td style="text-align: center;">18</td> <td style="text-align: center;">38</td> </tr> <tr> <td style="text-align: center;">4</td> <td style="text-align: center;">15</td> <td style="text-align: center;">18</td> <td style="text-align: center;">18</td> <td style="text-align: center;">33</td> </tr> <tr> <td style="text-align: center;">5</td> <td style="text-align: center;">12</td> <td style="text-align: center;">23</td> <td style="text-align: center;">19</td> <td style="text-align: center;">31</td> </tr> </tbody> </table>	Output (units)	AFC (₹)	MC (₹)	AVC (₹)	AC (₹)	1	60	20	20	80	2	30	18	19	49	3	20	16	18	38	4	15	18	18	33	5	12	23	19	31	6
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14	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Out-put</th> <th style="text-align: center;">TR (₹)</th> <th style="text-align: center;">TC (₹)</th> <th style="text-align: center;">MR</th> <th style="text-align: center;">MC</th> <th style="text-align: center;">Remark</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">10</td> <td style="text-align: center;">8</td> <td style="text-align: center;">10</td> <td style="text-align: center;">8</td> <td></td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">18</td> <td style="text-align: center;">15</td> <td style="text-align: center;">8</td> <td style="text-align: center;">7</td> <td></td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">24</td> <td style="text-align: center;">21</td> <td style="text-align: center;">6</td> <td style="text-align: center;">6</td> <td></td> </tr> <tr> <td style="text-align: center;">4</td> <td style="text-align: center;">28</td> <td style="text-align: center;">25</td> <td style="text-align: center;">4</td> <td style="text-align: center;">4</td> <td style="text-align: center;">= in equilibrium</td> </tr> <tr> <td style="text-align: center;">5</td> <td style="text-align: center;">30</td> <td style="text-align: center;">33</td> <td style="text-align: center;">2</td> <td style="text-align: center;">8</td> <td></td> </tr> </tbody> </table> <p>The firm will be in equilibrium at output unit 4, where $MC = MR$ i.e., 4. At this point, the two conditions of $MC = MR$ approach fulfills. These conditions are:</p> <p>(i) MC should be equal to MR.</p> <p>(ii) At the point of equilibrium, MC should be rising i.e., MC should rise just after the equilibrium unit.</p> <p>Both these conditions are fulfilled at output unit 4. Where $MC = MR$ and MC is rising on the next unit than revenue. Hence, the firm will be in equilibrium at output unit 4.</p>	Out-put	TR (₹)	TC (₹)	MR	MC	Remark	1	10	8	10	8		2	18	15	8	7		3	24	21	6	6		4	28	25	4	4	= in equilibrium	5	30	33	2	8		6
Out-put	TR (₹)	TC (₹)	MR	MC	Remark																																	
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15	<p>Difference between perfect oligopoly and imperfect oligopoly: In an oligopoly market, when firms produce homogeneous products, it is called perfect oligopoly whereas when firms produce differentiated products, it is called imperfect oligopoly.</p> <p>It is rare to find a perfect oligopoly type of situation. Examples: cement, steel, aluminum and chemical producing industries. While examples of imperfect oligopoly are: passenger cars, cigarettes and soft drinks.</p> <p>Interdependence between the firms: There is an interdependence of firms for taking decisions about price and output. Since there are a few firms, a change in price and output of a product by any firm is likely to influence the output and profit of rival firms whose reaction may prove counterproductive. This makes the firms mutually dependent on each other, in case of decisions about price and output. For example, there is an interdependence of decisions about price between Pepsi and Coca-Cola. If Pepsi reduces price, Coca-Cola may do the same substantially.</p> <p style="text-align: center;">OR</p>	6																																				

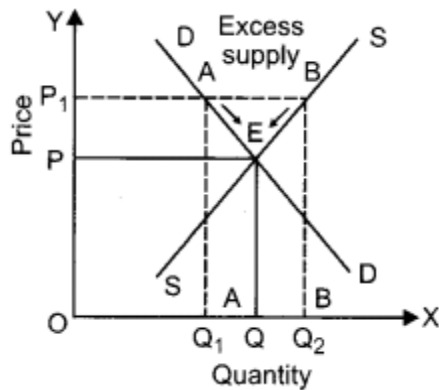
When there is excess demand : Excess demand refers to a situation where at a given price, quantity demanded exceeds quantity supplied. The situation of excess demand can be explained with the help of following graph and schedule:



In the given figure, OP is the equilibrium price and OP₁ is the market price. At OP₁ price quantity demanded is OQ and quantity supplied is Q₂. Thus, there is an excess demand equal to $AB = (OQ_1 - OQ_2)$. This will result in a competition among buyers. Price will rise leading to rise in supply and fall in demand as shown by arrows along DD and SS curves. This change will continue till price rises to OP which is the equilibrium price.

Price	Quantity Demanded	Quantity Supplied
14	1	7
12	2	6
10	3	5
8	4	4 = Market Equilibrium
6	5	3
4	6	2
2	7	1

When there is excess supply: Excess supply refers to a situation where quantity supplied exceeds quantity demanded. The situation of excess supply can be explained with help of the following graph:



In the above figure, OP is the equilibrium price and OP₁ is the market price. At OP₁ quantity supplied is OQ₂ and quantity demanded is Q₁. Thus, there is an excess supply equal to AB = (OQ₂ – OQ₁). This will lead to competition among sellers. Price will fall leading to fall in supply and rise in demand as shown by arrows along DD and SS curves. Process of this change will continue till price falls to OP which is the equilibrium price.

Section B - Macroeconomics		
16	(b) Saving account deposits and current account deposits.	1
17	MPC is the ratio of change in consumption to change in income. Symbolically, $MPC = \Delta C / \Delta Y$ Where, ΔC = change in consumption ΔY = change in income MPC = Marginal propensity to consume.	1
18	(d) equal to 5	1
19	Government budget is a detailed statement of the estimates of government receipts and government expenditure during a financial year.	1
20	Depreciation of domestic currency means fall in the value of domestic currency in relation to foreign currency i.e., a situation where exchange rate is determined by the market forces of supply and demand for foreign exchange in the international money market.	1

21	<p>The basis of classifying goods into final goods and intermediate goods is whether the goods are purchased for final use or for the use in further production.</p> <p>(i) Final goods: All goods which are meant either for consumption by consumers or for investment by firms are called final goods. They are meant for final use and the final use of a product is only for consumption or investment. In other words, final goods are acquired for own use i.e., by consumers for satisfaction of their wants and by producers for capital formation. For example, biscuits, flour, and clothes are final goods when purchased by a consumer for their personal use or for satisfaction of their wants. Machine bought by a household is a final good but a machine bought by a firm for its use in production is not a final good.</p> <p>(ii) Intermediate goods: All goods which are used as raw material for further production of other goods, or for resale in the same year are known as intermediate goods. For example, flour, milk, sugar, salt, fuel, etc., when purchased by a firm in order to prepare biscuits are intermediate goods. The cloth if purchased by a dressmaker is also an intermediate good. Machine if purchased by a firm for resale in the same year is an intermediate good.</p>	3
22	<p>In the barter system of exchange, it was difficult for the people to store wealth or generalise purchasing power for future use in the form of goods like cattle, wheat, potatoes and other perishable items, etc. Holding of stocks of such goods involved costly storage and deterioration.</p> <p style="text-align: center;">OR</p> <p>MEDIUM OF EXCHANGE:</p> <ul style="list-style-type: none">● It means that money can be used to make payments for all transactions of goods and services.● A buyer can buy goods through money, and a seller can sell goods for money.● It is an essential function of money.	3

23	<p>Difference between direct and indirect taxes :</p> <table border="1"> <thead> <tr> <th data-bbox="269 331 602 394">Basis</th> <th data-bbox="602 331 935 394">Direct taxes</th> <th data-bbox="935 331 1273 394">Indirect Taxes</th> </tr> </thead> <tbody> <tr> <td data-bbox="269 394 602 793">Meaning</td> <td data-bbox="602 394 935 793">When the liability to pay tax and the burden of that tax falls on the same person, it is called direct tax or we can say when impact & incidence of tax is on the same person.</td> <td data-bbox="935 394 1273 793">When the liability to pay tax is on one person and the burden of that tax falls on some other person, the tax is called an indirect tax. Hence impact and incidence is on different persons.</td> </tr> <tr> <td data-bbox="269 793 602 894">Examples</td> <td data-bbox="602 793 935 894">Eg: Income tax, wealth tax</td> <td data-bbox="935 793 1273 894">Eg: Excise duty, custom duty.</td> </tr> <tr> <td data-bbox="269 894 602 995">Nature</td> <td data-bbox="602 894 935 995">It is progressive in nature</td> <td data-bbox="935 894 1273 995">It is regressive in nature.</td> </tr> <tr> <td data-bbox="269 995 602 1209">Shift if burden</td> <td data-bbox="602 995 935 1209">A direct tax is the tax whose burden is borne by the person on whom it is imposed.</td> <td data-bbox="935 995 1273 1209">Indirect tax is a tax whose burden can be shifted to others.</td> </tr> <tr> <td data-bbox="269 1209 602 1444">Coverage</td> <td data-bbox="602 1209 935 1444">They have a limited reach as they do not reach all the sections of the economy.</td> <td data-bbox="935 1209 1273 1444">They have a wide coverage as they reach all the sections of the society.</td> </tr> </tbody> </table>	Basis	Direct taxes	Indirect Taxes	Meaning	When the liability to pay tax and the burden of that tax falls on the same person, it is called direct tax or we can say when impact & incidence of tax is on the same person.	When the liability to pay tax is on one person and the burden of that tax falls on some other person, the tax is called an indirect tax. Hence impact and incidence is on different persons.	Examples	Eg: Income tax, wealth tax	Eg: Excise duty, custom duty.	Nature	It is progressive in nature	It is regressive in nature.	Shift if burden	A direct tax is the tax whose burden is borne by the person on whom it is imposed.	Indirect tax is a tax whose burden can be shifted to others.	Coverage	They have a limited reach as they do not reach all the sections of the economy.	They have a wide coverage as they reach all the sections of the society.	3
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24	<p>As a banker's bank, central banks work in a similar way as commercial banks deal with their customers. It accepts deposits from the commercial banks and offers them loans. The central bank also provides 'clearing house' facilities to the commercial banks.</p> <p>It is a cheque clearing facility provided at one centre to all the banks. Central bank is the custodian of their cash reserves. Banks of the country are required to keep a certain percentage of their deposits with the central bank and in this way the central bank is the ultimate holder of the cash reserves of commercial banks.</p>	4																		

	<p style="text-align: center;">OR</p> <p>The process of credit creation by commercial banks can be easily understood by taking an example. Suppose a person, say X, deposits ₹ 2000, with a bank and the LRR is 10% which means the bank keeps only the minimum required ₹ 200 as cash reserve.</p> <p>The bank can use the remaining amount ₹ 1800 (= 2000-200) for giving loan to someone. The bank lends ₹ 1800 to, say F, for this purpose and an account is opened in the name of Y and the amount is credited in his account. This is the first round of credit creation in the form of a secondary deposit (₹ 1800) which equals 90% of the initial deposit.</p> <p>Now again from the deposit of Y, the bank keeps 10% or LRR i.e., 180 and remaining ₹ 1620 is advanced to, say, Z. The bank gets, new demand deposit. This is the second round of credit creation till secondary deposit becomes zero. In the end, the volume of total credit created becomes multiple of the initial deposit.</p> <p>The quantitative outcome is called money multiplier. In short, money (or credit) creation by commercial banks depends on two factors: (i) amount of initial deposit and (ii) LRR. Symbolically: Total credit creation = Initial deposit × (1/LRR)</p>	
25	<p>Applying the equation: $C = C\text{-bar} + bY$ Where, c = Consumption expenditure (8, 000) C-bar = Autonomous consumption (500) b = MPC (marginal propensity to consume) Y = Income (10,000) $8,000 = 500 + b \times 10,000$ $8000 = 500 + 10,000b$ $8000 - 500 = 10,000b$ $7,500 = 10,000b$ $b = 7500/10000$ $b = 0.75,$ MPC = 0.75 Now, $MPS + MPC = 1$</p>	4

	$\begin{aligned} \text{MPS} &= 1 - \text{MPC} \\ &= 1 - 0.75 \\ &= 0.25 \end{aligned}$ Hence, the value of MPS = 0.25	
26	Government budget can be helpful in bringing economic stabilization in the economy. Economic instability occurs when there are frequent price fluctuations in the economy. Such price fluctuations can be controlled through the budget by taxes, subsidies and expenditure. For instance, if there is the condition of inflation (continuous rise in prices), the government can reduce its own expenditure, tax rates can be increased or subsidies can be withdrawn or reduced to control the expenditure on the part of both consumer and producer. While in the condition of depression characterised by falling output and prices, the government can reduce taxes and grant subsidies to encourage spending by people.	4

27

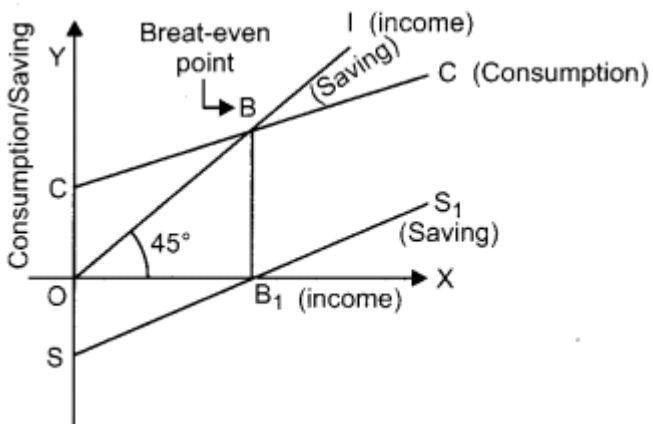
6

Current Account BOP	Capital Account BOP
(1) It records exports and imports of goods and services and current transfers.	(1) It records all such transactions between residents of country and rest of the world which causes a change in the ownership of the assets.
(2) Transactions of current account does not affect asset liability status of the country in relation to the rest of the world.	(2) Transaction of capital account affect the asset liability status of the country in relation to the rest of the world.
(3) Current account transactions impact capital account transactions, Example : Deficit on current account often leads to borrowing.	(3) Capital account transactions impact current account transactions. Example : FDI leads to factor income to the rest of the world.
(4) Principal components of current account BOP are: (a) export and import of goods (b) export and import of services, and (c) current transfers	(4) Principal components of capital account BOP are: (a) borrowing, and (b) foreign investment

OR

Autonomous transactions (BOP)	Accommodating transactions (BOP)
(1) Autonomous transactions refer to such BOP transactions which are under-taken for consideration of profit.	(1) Accommodating transactions are free from the considerations of profit.
(2) Autonomous items are the cause of BOP imbalance (BOP surplus or BOP deficit)	(2) Accommodating items are meant to restore BOP balance.
(3) Autonomous items may involve the movement of goods across the borders (like export and import of consumer goods or capital goods).	(3) Accommodating items does not involve the movement of goods across the borders. These items only involve the movement of official reserves with the RBI.
(4) Autonomous items are classified as 'above the line' items of BOP.	(4) Accommodating Items are classified as 'below the line' items of BOP.

28	<p>The following precautions need to taken for correct estimation of national income by expenditure method:</p> <ul style="list-style-type: none"> ● To avoid double counting, expenditure on all intermediate goods and services is excluded. For example, purchase of vegetables by a restaurant, expenses on electricity by a factory. ● Government expenditure on all transfer payments such as scholarship, unemployment allowance, pension, etc. ● Expenditure on purchase of second-hand goods is excluded from national income because this type of expenditure is not on currently produced goods. ● Expenditure on purchase of old shares/ bonds or new shares/bonds, etc., is excluded because it is not the payment done for goods and services currently produced. It shows a mere transfer of property from one person to another. ● Imputed expenditure on own account output (e.g.-owner occupying his house, self- consumed output by a farmer) should not be included. <p style="text-align: center;">OR</p>	6
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	<p>(a) Profit earned by foreign companies in India: Yes, it is included in domestic income of India because profits are earned by the company within India's domestic territory irrespective of ownership of the company.</p> <p>(b) Salaries of Indians working in Russian embassy in India: No, it is not included in the domestic product of India because Russian embassy in India is not a part of the domestic territory of India (but a part of the domestic territory of Russia).</p> <p>(c) Profits earned by a branch of the State Bank of India in Japan: No, it is not included in the domestic income of India because it is not earned in Indian domestic territory.</p>	
<p>29</p>	<p>(a) $NI = NDP_{fc} + NFLA$ (Net factor income from abroad) $NDP_{fc} = COE + \text{Mixed income} + \text{operating surplus}$ $= COE + MI + (\text{Rent} + \text{Royalty} + \text{Interest} + \text{Profit})$ $= 2,000 + 7,000 + 400 + 500 + 900$ $= ₹ 10,800$ crores $NNP_{fc} \text{ or } NI = NDP_{fc} - \text{Net factor income to abroad}$ $= 10,800 - 50 = 10,750$ crore.</p> <p>Net National Disposable Income is not a part of the syllabus anymore so it is not given here.</p>	<p>6</p>
<p>30</p>	 <p>In the above diagram : CC = Consumption function OI = 45° degree line showing income drawn from the origin O.</p>	<p>6</p>

B = Breakeven point where consumption = income, i.e., a point where there is no saving.

Following are the steps used in drawing saving curve from consumption function:

(1) Take a point B on the consumption curve and from it draw a perpendicular on X-axis intersecting it on point B₁.

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(2) Take the OS on the Y-axis of the lower part as equal to OC (OS = OC). This gives point S from where the saving curve will start.

(3) Join points S and B₁ and extend the straight line upward and thus we get the saving curve SS₁.

In this way, the saving curve is diagrammatically drawn from the consumption curve.