

MAHARASHTRA AGRICULTURAL UNIVERSITIES EXAMINATION BOARD, PUNE
SEMESTER END EXAMINATION
MODEL ANSWER SET
B.Sc. (Agri.) (Hons)

Semester : II (New)	Academic year : 2018-19
Course No. : ECON -121	Title : Fundamentals of Agricultural Economics
Credits : 2= (2+0)	Total marks : 80
Day & Date :	Time :

- Note : 1) Solve **ANY EIGHT** questions from **SECTION 'A'**
2) All questions from **SECTION 'B'** are compulsory.
3) All questions carry equal marks.
4) Draw neat diagrams wherever necessary.

SECTION 'A'

Q.1 Define economics, enlist divisions of economics and discuss the scope of economics.

Answer: Robbins defined Economics is a study of human behavior as relationship between ends (2) and scarce means which have alternative uses.

Adam Smith defined economics as the science of wealth

Divisions of Economics: Traditional (Consumption, Production, Exchange & distribution) and (3)
Modern approach (Microeconomics and Macroeconomics)

Scope of Economics: The scope of economics is explained by following points

- 1) The subject matter of economics (3)
 - a) Economic Activities- Human wants – Efforts – Satisfaction
 - b) Traditional Approach:-Consumption – Production – Exchange – Distribution
 - c) Modern approach:- Micro economics – (Price theory)-
Macroeconomics (Income theory) Growth theory
- 2) Economics is a social science
- 3) Economics is a Positive science or normative science
- 4) Economics is a science or art

Q.2 Enlist the characteristics of human wants and explain in brief the classification of wants.

Answer: Characteristics of human wants

(4)

- 1) Human wants are unlimited
- 2) Any particular want is satiable
- 3) Wants are complementary
- 4) Wants are competitive
- 5) Wants are both complementary and competitive
- 6) Wants are alternative
- 7) Wants vary with time, place and person
- 8) Wants vary in urgency and intensity
- 9) Wants multiply with civilization
- 10) Wants recur

- 11) Wants changes in to habits
- 12) Wants are influenced by income, salesman and advertisement
- 13) Wants are the result of custom
- 14) Present wants are more important than future wants

Classifications of Wants

(4)

Wants are broadly divided into three categories viz., necessities, comforts and luxuries.

1. Necessaries: Necessaries are those wants which must be satisfied. They are further classified into necessities of existence, necessities of efficiency and conventional necessities.

A) Necessaries of Existence: Human existence is not possible without fulfilling the necessities of existence. *Examples:* Food, water, clothes, shelter, etc.

Necessaries of Efficiency: These are not as essential as those of necessities of existence, but at the same time essential in improving the efficiency of an individual. *Examples:* Nutritious diet, table and chair to a student, class rooms with good ventilation, etc.

Conventional Necessaries: These are the necessities, which, arise out of customs or habits. *Examples:* Customs like celebration of functions and habits like smoking, drinking, etc.

2. Comforts: Comforts are those which fall between necessities and luxuries. Man is not satisfied with fulfilling necessities only. *Examples:* Cushion chairs in a classroom, revolving chair in the saloons, fans in house/office, etc.

3. Luxuries: Luxuries are those which satisfy superfluous wants of individuals. For example, well furnished bungalow, expensive food habits, etc.

Q.3 Explain the Law of Equimarginal Utility with example and give its practical importance.

Answers: The statement of the law -If we find that a rupee spent on one direction has a greater utility than in another, we shall go on spending rupees on the former object till the utilities derived from the last rupees spending the two cases are equal

(2)

Example with explanation

(3)

Units	Marginal utilities of oranges	Marginal utilities of apples
1	10	8
2	5	6
3	6	4
4	4	2
5	2	0
6	0	-2
7	-2	-4
8	-4	-6

Practical importance is explained by following points

(3)

1. Counsumption
2. Production
3. Exchange
4. Distribution
5. Public finance
6. Influences prices

Q.4 State Law of Demand, explain in brief extension contraction and increase decrease of demand with suitable diagram.

Law of demand: At any given time the demand for commodity or service at prevailing prices is greater than it would be at a higher prices and less than it would be at the lower prices (2)

Extension and Contraction of demand: When demand changes merely because of the price has changed, it is the case of extension and contraction When change is on higher side it is Extension and lower side it is contraction (1)

Figure with explanation (2)

Increase decrease of demand: When demand changes not merely because of change in price, but some other reason e.g. due to rise in his income or change in fashion. When change is on higher side it is increase and lower side it is decrease in demand (1)

Figure with explanation (2)

Q.5 What is elasticity of demand? Enlist methods of measuring elasticity of demand and explain in detail total expenditure method.

Answers- The quality of demand by virtue of which it changes (increases or decreases) when prices changes (decreases or increases) is called as elasticity of demand Elasticity means sensitiveness or responsiveness of demand to the change in price. (2)

Methods of measuring elasticity of demand (2)

1. Total expenditure method
2. Proportional method
3. Geometrical method

Explanation of total expenditure method (4)

Price of commodity (Rs)	No. demanded	Total amt spent (Rs)
2.00	2	4.00(1)
1.00	3	3.00.....(2)
0.75	4	3.00.....(3)
0.62	5	3.10.....(4)

1. Unity elasticity
2. Greater than unity
3. Less than unity

Q.6 What is national income? Explain the various concepts of national income.

Answer:-National Income:- National Income for any period consists of the money value of the goods and services becoming available for consumption during the period that period reckoned at their current value plus addition to capital reckoned at the prices actually paid for the new capital goods minus depreciation (2)

Concepts of National income

- a) Gross National product :- It is a the total market value of all final good and services produced in a year (1.5)
- b) Net national product = G N P – depreciation (1.5)
- c) National income at factor cost = N N P (at market prices) - indirect taxes + subsidies (1.5)
- d) Personal income = National income – Social security contributions – corporate income – Undistributed corporate taxes + transfer payments (1.5)

Q.7 Write short notes on (any Two)

ا) Cannon's of taxation

ب) Functions of money

ج) Types of economy

ا) Cannon's of taxation:

(4)

Adam Smith, the father of economics, made significant contributions to the economic theory and particularly in the field of taxation. His statements are considered! as canons of taxation. They are simple, clear and known for clarity.

1. Canon of Equality
2. Canon of Sacrifice:
3. Canon of Certainty
4. Canon of Convenience
5. Canon of Economy

ب) Functions of money

(4)

1. Medium of exchange
2. Store value
3. Standard measure of value
4. Standard of deferred payments
5. Means of transferring value

ج) Types of economy

(4)

1. Socialistic Economy
2. Capitalist Economy
3. Underdeveloped & Developed Economy
4. Free Enterprise Economy
5. Planned economy
6. Mixed economy

Q.8 What is public expenditure? Explain in brief principles of public expenditure.

Answer: - Public Expenditure aids in employment creation through public works programme thus raising the level of income and employment. It helps in toning down the inequalities of income and wealth distribution in the country. (2)

The Principles of Public Expenditure (6)

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 operation which it conducts.
2. Principle of Economy: It means that extravagance and waste of all types should be avoided. Public expenditure has great potentiality for public good but it may also prove injurious and wasteful.
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.
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.
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.
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.
7. Principle of Surplus: - As far as possible public expenditure should kept well within the revenue of the State so that a surplus is left at the end of year

8. Promotion Economic growth and stability: It should promote economic development and economic stability

Q.9 What is consumer's surplus? Explain with suitable example and give its importance

Answer: - Consumer's surplus:- It is the excess of what we are prepared to pay over to what we actually pay for a commodity. It is difference between what we are prepared to pay and what we actually pay (2)

Explanation

To illustrate let us suppose that a consumer is willing to buy one jamun if it price were Rs.1/-, 2 jamun if the price were 75 paise. 3 jamun at 50 paise and 4 at 25 paise. Suppose the market price is 25 paise per jamun. At this price the consumer will buy 4 jamun and enjoy a surplus of Rs.1.50 (0.75 + 0.50 + 0.25). (3)

This is shown in the table

Units of jamun	Marginal Utility Price willing to pay	Actual Price	Consumer surplus
1	1.00	0.25	0.75
2	0.75	0.25	0.50
3	0.50	0.25	0.25
4	0.25	0.25	-

Our hypothetical consumer is prepared to pay Rs.2.50/- (Rs.1.00 + 0.75 + 0.50 + 0.25) for four jamuns but actually pays Rs.1/- and therefore derives a surplus of Rs.1.50/- (Rs.2.50/- - Rs.1.00/-). It can also be expressed as

CS = Total utility – Marginal Utility

CS = TU – (Price x NO. Of units of the commodity)

Importance of Consumers Surplus

(3)

1. Importance : When the people enjoy larger consumers surplus, it does not indicate that they are better off. Thus it serves as an index of economic betterment.
2. Useful to the Monopolist: The monopolist can freely raise the process of the goods it hey bring in higher consumer's surplus, without any fear of foregoing the sales.
3. Helps in Public Finance and Taxation: More taxes can be impose by the government to get more revenue, on those goods for which consumers surplus is high
4. Helps to measure benefits from International Trade: International trade implies transaction of commodities across the frontiers. Generally, those commodities which happen to be cheaper in the foreign markets are imported thereby resulting in higher consumers surplus of satisfaction for the commodity

Q.10 Define elasticity of supply. Discuss in brief the causes of changes in supply ?

Answer:

Definition: The elasticity of supply measures the degree of responsiveness of quantities supplied to the changes in the price of a commodity. Elasticity of supply is the ratio between percentage change in quantity supplied and percentage change in price. (2)

Causes in changes in supply :

(6)

1. Natural condition.
2. Technical progress
3. Changes in factor prices

4. Transport improvements
5. Calamities
6. Monopolies
7. Fiscal policies

SECTION 'B'

Q.11 Define the following.


(8)


- 1) Price: Value expressed in terms of money
- 2) Utility: The want satisfying quality in a good is called utility
- 3) Consumption: means the satisfaction of our wants by the use of commodities and services
- 4) Rent: A tenant's regular payment to a landlord for the use of property or land.
- 5) Cross demand: means quantities of a good or services which will be purchased with reference to change in the price not of this good but prices of other related goods
- 6) Value: Purchasing power in terms other commodities and services or value in exchange, use
- 7) Microeconomics: it is a study small individual parts of economy.
- 8) Wealth: Anything which has value is called wealth

Q. 12 Fill in the blanks

(8)

- 1) A demand for common salt is inelastic
- 2) Negative wealth refers debts owned by individuals
- 3) In Macro – economics we study the working of the economic system as a whole
- 4) If more is demand at the same price, it is a case of increase in demand
- 5) In progressive taxation, as income increases tax increases
- 6) Transport creates place utility
- 7) Sale tax is indirect tax.
- 8) Long form of GST is Goods and Service Tax.


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