

ECONOMICS (856)

Aims:

1. To enable candidates to acquire knowledge (information) and develop an understanding of facts, terms, concepts, conventions, trends, principles, generalisations, assumptions, hypotheses, problems, processes, etc. in Economics.
2. To acquaint candidates with tools of economic analysis.
3. To develop an understanding of important economic problems.
4. To acquaint candidates with the main institutions through which the productive process is carried out.
5. To develop an understanding of the role of institutions in the functioning of an economy.
6. To enable candidates to compare their own economic structure with that of the other areas of the world.

CLASS XI

There will be one paper of 3 hours duration of 100 marks divided into 2 parts.

Part 1 (30 marks) will consist of ***compulsory*** short answer questions testing knowledge, application and skills relating to elementary/ fundamental aspects of the entire syllabus.

Part 2 (70 marks) will consist of ***eight*** questions out of which the candidate will be required to answer ***five*** questions. Each question in this Part shall carry 14 marks.

Note: The syllabus is intended to reflect a study of the theory of Economics with specific reference to the Indian Economy. Therefore, examples and specific references to the Indian Economy must be made wherever relevant.

1. Understanding Economics

- (i) Definition of Economics: Adam Smith, Alfred Marshall, Lionel Robbins, Samuelson.

Basic understanding of economics and economic phenomena to be explained especially in the context of the concept of scarcity and allocation of resources. Students may be introduced to the main points on which the various definitions of economics could be analyzed. Features of definitions and two- three criticisms.

- (ii) Basic concepts: utility, price, value, wealth, welfare, money, market, capital, investment, income, production, consumption, saving.

A conceptual understanding of the terms: utility – types and features, total utility,

marginal utility and diminishing marginal utility; price – definition and general rise and fall in price; value – real vs nominal value; wealth – explanation of the term, classification (personal and social); welfare – economic welfare, social welfare and relation between wealth and welfare; money – barter economy vs money economy; market – meaning and size; capital – meaning; investment – meaning, investment as a process of capital formation; income – meaning, factor incomes; production – meaning; consumption – meaning; saving – meaning and saving vs savings.

The above terms to be explained with the help of relevant examples.

- (iii) Basic problems of an economy: what to produce; how to produce; for whom to produce; efficient use of resources; economic growth and development.

The basic problem of scarcity and choice must be emphasized. As this problem is universal in character, i.e. faced by all economies, irrespective of the economic system they follow, it must be explained using the concept of Production Possibility Curve. The three problems - what to produce, how to produce and for whom to produce - must be highlighted. The role of technology and a shift in the Production Possibility Curve must be explained. A brief explanation of the term 'economic growth', 'economic development' and distinction between the two is required.

- (iv) Types of economies: developed, under developed and developing; Economic systems: capitalism, socialism and mixed economy; mechanism used to solve the basic problems faced by each economy.

Characteristics of developed and developing economies; Development experience of India: a comparison with neighbouring countries (Pakistan and China) in terms of growth, population and sectoral development (introducing regional and global economic grouping such as SAARC, European Union, ASEAN, G-8, G-20 - basic knowledge); different types of economic systems; definition, features, merits and demerits of capitalism, socialism and mixed economic system; mechanisms used to solve the basic problems under each economic system to be explained with the help of case studies. The role of government along with the price mechanism to be emphasized.

2. Indian Economy - Challenges

- (i) Population: Theories of Population (Malthusian and Optimum); Theory of Demographic Transition; population growth over the years; census of 2001; age, sex composition; density of population and occupational distribution; the current National Policy on Population. Overpopulation and under population - merits and demerits.

A brief introduction of features of Malthusian, Optimum and Demographic theories of population. Conceptual understanding of the following: changes in age, sex ratio, density of population and the occupational distribution (emphasis to be laid on trends and not on statistical data). Effects of population growth on the economy. The manner in which demographic profile of Indian population is changing, must be explained. Main features of the latest National Policy on Population of the Government of India.

- (ii) Problem of unemployment: meaning, types; causes and measures to remove unemployment; government measures to remove unemployment post 1991. Basic knowledge of the concept of full employment.

The nature of unemployment problem in India and types of unemployment - seasonal, involuntary, voluntary, disguised, cyclical, structural, open, frictional and under-

employment to be explained. An analysis of the causes of the problem and main points of the recent employment policy of the Indian government to be analyzed with the help of statistical information on the subject.

- (iii) Poverty: meaning of poverty line; vicious circle of poverty; causes of poverty; attempted solutions including governmental measures.

Poverty should be defined on the basis of calorie intake (and not in monetary terms). The meaning of poverty - absolute poverty and relative poverty to be explained. The concept of poverty line with reference to calorie intake, the vicious circle of poverty, both on demand side as well as on supply side with solutions for breaking the vicious circle of poverty. The various programmes (post 1991) and the latest policy of the government to solve this problem.

- (iv) Inequalities in income distribution; causes; consequences and measures to reduce inequalities.

Meaning of inequality in income distribution - rural-rural, urban-urban and rural-urban (emphasis to be laid on trends and not on statistical data). A basic understanding of the problem of inequalities in income distribution to be emphasized. A brief analysis of the causes and consequences. The various programmes (post 1991) and the latest policy of the government to solve this problem.

- (v) Indian Agriculture: role of agriculture in Indian Economy - an overview; Indian agricultural policy; importance of land reforms, agricultural inputs and Green Revolution, modern agricultural practices; sources of agricultural finance: institutional vs. non-institutional; food security; public distribution system in India.

An overview of the role of agriculture in the Indian economy with respect to its contribution to national income, industry and employment. Why land reform is needed to overcome the problem of sub-division and fragmentation of agricultural holdings which have been the cause of low productivity of Indian agriculture (including the problem created due to absentee landlordism). The important role played by the Green Revolution in solving food problem. Special focus on modern agricultural practices, for e.g. biotechnology, agricultural research and agricultural marketing The sources of agricultural finance - institutional

vs. non-institutional. The role of Public Distribution System in providing food security in India. The various programmes (post 1991) and the latest policy of the government.

- (vi) Industrial sector: role and performance of public sector in Indian economy; problems of public sector enterprises; the issue of privatization in the light of liberalization.

The role of industrial sector in India's development to be explained. The rationale behind public sector enterprises in India. Various problems being faced by these enterprises (emphasis to be laid on trends and not on statistical data). The question of privatization - its pros and cons, disinvestment of PSU to be explained. The Industrial Policy of 1991, New Economic Policy and the latest Industrial Policy of the government.

- (vii) Capital formation in India: why the rate of savings and capital formation is low in India. Human capital formation.

Capital formation - meaning, process, causes of low rate of savings and capital formation, remedies. A basic understanding of these issues to be given with the help of latest statistical data.

Human capital formation: how people become resource; role of human capital in economic development: growth of education sector in India.

3. Money and Banking

- (i) Money: meaning, functions of money.

Meaning, evolution of money, kinds of money, functions of money (primary, secondary and contingent) to be explained.

- (ii) Banks: functions of commercial bank; reserve money, credit creation by commercial banks; Central Bank: need, functions.

Basic understanding of the functions of commercial banks, credit creation process. The regulatory role of the Central Bank, its functions and the way it controls the flow of credit needs to be explained. A brief mention may be made of CRR, SLR, Bank Rate policy and Open Market Operations.

- (iii) Inflation: definition, types, causes: cost-push, demand-pull; effects of inflation on different groups of society; fiscal, monetary and other measures to control inflation.

Definition, types of inflation. The factors on the demand side - demand pull inflation and on the supply side - the cost push inflation, must be explained. The effects of inflation on salaried classes, borrowers, lenders, hoarding, inventory, etc. to be explained. A brief explanation of the measures to check inflation - fiscal, monetary and other measures.

4. Statistics

- (i) Statistics: definition, scope and limitations of statistics.

Statistics: definition, scope and limitations of statistics. Special emphasis to be laid on importance of statistics in economics.

- (ii) Measures of Central Value: average defined; type of averages: arithmetic mean; simple and weighted; median and mode; ungrouped and grouped data; numericals, relationship between mean, median and mode.

Measures of Central Value: average defined; type of averages: arithmetic mean; simple and weighted; median and mode; ungrouped and grouped data. Numericals only on mean, median and mode for both ungrouped and grouped data. Relationship between mean, median and mode - the nature of the frequency distribution - symmetrical, positively skewed and negatively skewed.

- (iii) Measures of dispersion: definition, methods of studying variation - range; standard deviation; the mean or average deviation; coefficient of variation; the Lorenz curve.

Numericals on measures of dispersion required.

- (iv) Correlation: introduction, scatter diagram; Karl Pearson's coefficient of correlation; Spearman's coefficient of correlation.

Significance of correlation to be explained along with types and degrees. Numericals on coefficient of correlation required.

- (v) Index numbers: simple and weighted - meaning, types and purpose. Problems involved in constructing a Price Index Number.

What does an Index number show, measure or indicate (like a Price Index Number). Difference between simple and weighted - Price weighted or quantity weighted. Problems involved in constructing Price Index Number - the choice of the base year, the number of commodities to be included (coverage), choice of prices and the method to be used.

CLASS XII

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1. Micro Economic Theory

- (i) Meaning of micro and macro economics: Meaning, difference.

A basic understanding of the micro and macro economics is needed. Interdependence and differences between micro and macro economics.

- (ii) Demand: meaning, factors affecting demand; Demand function; Law of Demand; derivation of demand curve; movement and shift of the demand curve; exceptions to the Law of Demand.

Law of Diminishing Marginal Utility, Law of Equimarginal Utility, consumers equilibrium through utility approach.

The concept of demand (exante) and effective (expost) demand. A demand function to be specified incorporating the determinants of demand. Diagrams should be used in explaining the Law of Demand, its derivation using demand schedule. Derivation of market demand curve from individual demand curve.

Law of Diminishing Marginal Utility, Law of Equimarginal Utility and consumer's equilibrium with the help of schedule and graph.

- (iii) Elasticity of demand: meaning, types of elasticity of demand, measurement of elasticity of demand; factors affecting elasticity of demand; importance of the concept of elasticity of demand.

Various methods of measurement of the elasticity of demand: point method, arc method, percentage method, expenditure method and geometric method. (Numericals required on percentage method only). The cross and income elasticity of demand must be explained. Use diagrams wherever necessary. Degrees of elasticity of demand to be explained.

- (iv) Supply: meaning; difference between stock and supply; determinants of supply; time period and supply; Law of Supply; movement and shift of the supply curve; elasticity of supply

Difference between stock (actual supply) and supply (intended supply) with reference to the time period, with the help of certain examples. A supply function should be specified and explained. Law of Supply, supply schedule and supply curve. Derivation of market supply curve from individual supply curve. Movement and shift of the supply curve. Meaning and degrees of elasticity of supply (methods of measuring elasticity of supply are not to be included).

- (v) Equilibrium price and effect of changes in demand and supply on the equilibrium price.

A basic understanding of the concept of equilibrium. The effects of changes in demand and supply - both along the curves and shift of the curves to be explained.

- (vi) Concept of product and production function: returns to a factor, total, average and marginal physical products; Law of Variable Proportions and its three stages; returns to scale.

A production function to be specified and explained (concept only - specific production function not required). Law of Variable Proportions: statement, assumptions, schedule (for the purpose of understanding and not for testing), diagram and explanation to the three stages and criticism. A comparison should be made between Law of Variable Proportion and the returns to scale concepts.

- (vii) Main market forms: perfect competition, monopolistic competition, oligopoly, monopoly; characteristics of the various market forms; equilibrium of firm under short run and long run under perfect competition.

Features of perfect competition, monopolistic competition, oligopoly and monopoly. Equilibrium of firms under short run and long run, under perfect competition (to be explained with the help of diagrams).

- (viii) Cost and revenue: Basic concepts of cost; fixed cost, variable cost, total cost, marginal cost and average cost – their relationships; opportunity cost; short run and long run cost curves – internal and external economies and diseconomies. Revenue: meaning; average revenue, marginal revenue and total revenue and their relationships under perfect competition and imperfect competition.

Basic concepts – private cost, economic cost, social cost, money cost, real cost, explicit cost, implicit cost.

Cost concepts – Fixed cost, variable cost, total cost, marginal cost, average cost with schedule and diagram; relationship between average cost, marginal cost, total cost. Derivation of long run average cost curve from short run average cost curve. Opportunity cost – meaning only.

Revenue – Average revenue, marginal revenue, total revenue – concepts and relationships under perfect competition and imperfect competition.

- (ix) Factor pricing: basic concepts of rent, wages, interest and profit.

Basic concepts of economic rent, transfer earning, quasi-rent; nominal wages and real wages, collective bargaining; gross interest, net interest, gross profit and net profit.

2. National Income

- (i) Circular flow of Income.

A simple model explaining the circular flow of income with two, three and four sector models with leakages and injections.

- (ii) Nature of goods and services produced.

Economic and non economic goods, economic and non economic services, intermediate and final goods, consumer goods and producer goods, single-use and durable-use goods.

- (iii) Concepts and definition of NY, GNP, GDP, NNP, private income, personal income, personal disposable income and per capita income; relationship between the income concepts.

A brief understanding of the mentioned national income aggregates is needed. The concepts of GNP and NNP should be explained both at factor cost and market prices.

- (iv) Methods of measuring National Income: product or value-added method; income method and expenditure method with simple numericals based on them.

Simple numericals based on all the methods to be covered for better understanding of the concept. Precautions and difficulties of measuring National Income for each method.

3. International Trade

- (i) Need for international trade; basis of international trade in terms of the Theory of Comparative Costs (Ricardo).

Need, advantages, disadvantages of international trade; the Theory of Absolute Cost and Comparative Cost in terms of Opportunity Cost to be explained as a basis of international trade. Production Possibilities Curve (PPC) - to be used for illustration.

- (ii) Balance of Payments: Balance of Trade - meaning; causes of disequilibrium in B.O.P.; measures to correct the disequilibrium in the B.O.P.

The concepts of balance of trade, balance of current account and balance of capital account to be explained. The causes of disequilibrium and the measures, both monetary and fiscal to be explained.

4. Public Finance

- (i) Public Revenue: meaning; Taxes: types, direct, indirect taxes, canons of taxation; progressive, proportional, regressive, digressive (meaning only). Sources of central and state revenue (names only); VAT.

A basic understanding of the above mentioned concepts. The concept of VAT to be explained. MODVAT, CENVAT (for the purpose of understanding and not for testing).

- (ii) Public Expenditure: meaning, reasons for growth of public expenditure in recent times.

The growth of the public expenditure in view of increasing functions and responsibilities of the government to be explained.

- (iii) Public Debt: reasons for external and internal borrowing by the government; methods of debt redemption; effects of borrowing on the Indian economy.

Public Debt: meaning; types: internal-external, productive-unproductive, redeemable-irredeemable, funded-unfunded, voluntary and forced, short-term and long-term, marketable and non-marketable debts; reasons for external and internal borrowing by the government; debt redemption methods, effects of borrowing on the Indian economy.

- (iv) Fiscal Policy: meaning, objectives and instruments of fiscal policy.

Meaning, objectives and instruments of fiscal policy (taxation, public debt, public expenditure).

- (v) Deficit Financing: meaning, types of deficit, “why” deficit financing and effects of deficit financing. Indian compulsion for deficit financing.

To be explained in the context of rising public expenditure and inadequacy of revenues of the government to meet this requirement. Types of deficits: a conceptual understanding of fiscal deficit, budget deficit, revenue deficit and primary deficit.

- (vi) Budget: meaning, importance and types; budgetary procedure: preparation, enactment, execution and parliamentary control over finance, in brief.

Meaning, importance and types of budget – union, state, planned, performance, supplementary, zero-base, vote on account, revenue, capital; concept of deficit, surplus and balance budgets.

The budgetary procedure requires only a brief mention (for the purpose of understanding and not for testing).