

There will be two papers in the subject:

Paper I - Theory: 3 hours80 marks

Paper II- Project Work20 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.

PAPER – I (THEORY) – 80 Marks

1. Micro Economic Theory

- (i) 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, consumer's equilibrium through utility approach (Cardinal) and indifference curve analysis (Ordinal).

The concept of demand: meaning, types of demand. A demand function to be specified incorporating the determinants of demand. Diagrams should be used in explaining the Law of Demand, reasons for downward slope of demand curve, its derivation using demand schedule. Derivation of market demand curve from individual demand curve.

- (a) Cardinal Utility Analysis: meaning of utility, total utility, marginal utility, relationship of TU and MU, Law of Diminishing Marginal Utility (schedule and diagram, only assumptions to be taught, criticisms not required), Consumer's equilibrium – one commodity (schedule and diagram), Law of Equimarginal Utility (statement, schedule) and conditions of consumer's equilibrium using marginal utility;
- (b) Ordinal Utility Analysis: Indifference Curve – its meaning and properties (including MRS and DMRS), indifference map, consumer's budget line, Consumer's equilibrium – condition (to be explained with the help of a diagram).
- (ii) Elasticity of demand: meaning, types of elasticity of demand, measurement of elasticity of demand; factors affecting elasticity of demand.

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

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

Difference between stock (intended supply) and supply (actual supply) with the help of relevant examples. A supply function should be specified and explained. Law of Supply: Meaning, supply schedule and supply curve. Derivation of market supply curve from individual supply curve. Movement and shift of the supply curve, exceptions to the Law of Supply. Elasticity of Supply: Meaning, degrees of elasticity of supply and measurement of elasticity of supply by percentage method and geometric method.

- (iv) Market Mechanism: Equilibrium and disequilibrium; Equilibrium price and effect of changes in demand and supply on the equilibrium price. Simple applications of tools of demand and supply.

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. Basic understanding of Price control, rationing, Price ceiling and Floor price with the help of demand and supply curves.

- (v) Concept of production and production function: (short run and long run production function), returns to a factor, returns to scale (meaning only) total, average and marginal physical products; Law of Variable Proportions and its three stages.

A production function (concept only). Law of Variable Proportions: statement, assumptions, schedule (for the purpose of understanding and not for testing), diagram and explanation to the three stages.

- (vi) 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. Revenue: meaning; average revenue, marginal revenue and total revenue and their relationships under perfect competition and imperfect competition, Producer's equilibrium.

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 (only concepts of long run and short run cost curves, derivations not required). Opportunity cost – meaning only. Difference between accounting cost and opportunity cost.

Revenue – Average revenue, marginal revenue, total revenue – concepts and relationships under perfect competition and imperfect competition. Producer's equilibrium (Profit maximization goal) – meaning; conditions:

(a) TR and TC approach along with diagram

(b) MR and MC approach along with diagram.

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

Features of perfect competition, monopolistic competition, oligopoly, monopoly and monopsony (meaning only). Equilibrium of a firm in perfect competition under short run (explanation and diagram, shut down point and break-even point) and long run (diagram not required).

2. Theory of Income and Employment

Basic concepts and determination of Income and Employment

The concept of demand (ex ante) and effective (ex post) demand. Aggregate demand and its components, propensity to consume and propensity to save (average and marginal), equilibrium output; investment multiplier (its meaning and mechanism with the help of a diagram). Simple numerical based on the above. Meaning of full employment. Problems of excess demand and deficient demand; measures to correct them.

3. Money and Banking

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

Meaning, kinds of money, functions of money (primary, secondary and contingent) to be explained; supply of money (only meaning of M_0 , M_1 , M_2 , M_3 & M_4). Inflation: meaning, demand pull and cost push (diagrams not required)

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

Basic understanding of the functions of commercial banks, credit creation process with limitation. 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 quantitative CRR, SLR, Bank Rate policy (repo rate and reverse repo rate) and Open Market Operations) and qualitative methods.

4. Balance of Payment and Exchange Rate

Balance of Payment – meaning, components; foreign exchange – meaning, determination of exchange rate (Flexible).

Balance of Payment - Meaning and components; Causes of disequilibrium and how the disequilibrium can be corrected; Foreign Exchange Rate – meaning, meaning of fixed and flexible exchange rate, determination of exchange rate in a free market. Concepts of depreciation, appreciation, devaluation and revaluation (meaning only).

5. Public Finance

- (i) Fiscal Policy: meaning and instruments of fiscal policy.

Meaning and instruments of fiscal policy – Public Revenue: Meaning, taxes (Meaning and types), difference between direct and indirect taxes; Public Expenditure: Meaning and importance; Public Debt: Meaning and redemption; Deficit Financing: meaning.

- (ii) Government Budget: meaning, types and components.

Meaning and types of Government budget – union, state; components – revenue and capital. Concept of deficit budget: revenue deficit, fiscal deficit, primary deficit – their meaning and implications.

6. 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) Concepts and definition of NY, GNP, GDP, NNP, private income, personal income, personal disposable income, National 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, real GDP and nominal GDP, National Disposable Income (Gross and Net), GDP and Welfare, GDP as an indicator of Economic welfare.

- (iii) 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.

PAPER II – PROJECT WORK – 20 Marks

Candidates will be expected to have completed two projects from any topic covered in Theory.

Light & Life

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