

Economic Applications

CISCE

Academic Year: 2023-2024

(English Medium)

Date & Time: 13th March 2024, 11:00 am

Duration: 2h

Marks: 100

1. Answers to this Paper must be written on the paper provided separately.
2. You will not be allowed to write during the first 15 minutes.
3. This time is to be spent reading the question paper.
4. The time given at the head of this Paper is the time allowed for writing the answers.
5. Attempt all five questions.
6. Attempt all questions from Section A and any four questions from Section B.
7. The intended marks for questions or parts of questions are given in brackets [].

SECTION A (40 Marks) : (Attempt all questions from this Section.)

Q1. Choose the correct answers to the questions from the given options. (Do not copy the questions, write the correct answers only.)

1.1 Identify the agency functions of the commercial banks from the following:

1. Accepting deposits
2. Giving outloans
3. Acting as a trustee of the property of the customers
4. Providing general utility services

Solution

Acting as a trustee of the property of the customers

1.2 Which of the following is not a characteristic of land?

1. Heterogeneous

2. Immobile

3. Carries an element of judgement

4. Fixed supply

Solution

Carries an element of judgement

Explanation:

Heterogeneous, Immobile and Fixed supply are the characteristics of land, but carrying an element of judgment is not characteristic of land because land does not include judgment.

1.3 Production of cotton textile products is an example of _____.

1. Vertical division of labour.

2. Horizontal division of labour.

3. Occupational division of labour.

4. Simple division of labour.

Solution

Production of cotton textile products is an example of vertical division of labour.

Explanation:

Cotton textile manufacture demonstrates vertical division of labour. The vertical division of work includes Organisations use functional departments and hierarchical reporting to specialise tasks within their hierarchy. The process involves growing cotton, spinning it into yarn, weaving or knitting it into fabric, and finally producing the finished product. Every stage adds value from raw cotton to finished cloth.

1.4 Which two forms of market earn normal profit in the long run?

1. Perfect competition and monopoly

2. Perfect competition and monopsony

3. Monopoly and monopolistic competition

4. Perfect competition and monopolistic competition

Solution

Perfect competition and monopolistic competition

Explanation:

Perfect competition allows for free entry and exit, limiting firms to normal earnings over time. Monopolistic competition has low entry barriers, making it easy for new enterprises to enter the market. As a result, market supply increases. Increased availability leads to price reductions by enterprises. Therefore, corporations can only earn typical profits in the long run.

1.5 Which of the following is not a function of the Central Bank?

1. Banker to Commercial Banks
2. Banker to the public
3. Fiscal agent of the Government
4. Monopoly of note issue

Solution

Banker to the public

Explanation:

The central bank does not provide banking services to the general public. The bank primarily serves commercial banks and the government, not private customers. Option (a), (c), and (d) describe the functions of a central bank.

1.6 Identify the market having a single buyer and many sellers from the following:

1. Monopoly
2. Monopsony
3. Perfect competition
4. Monopolistic competition

Solution

Monopsony

Explanation:

In a monopsony market system, there is only one buyer, and hence that buyer has tremendous power over demand. Because there are so many vendors, the buyer can obtain significant bargaining power and determine their terms.

1.7 The income of a person who carries the risk bearing function is called as _____.

1. Wages
2. Salary
3. Profit
4. Interest

Solution

The income of a person who carries the risk bearing function is called as Profit.

Explanation:

As profit is uncertain because it depends on business operations, it is considered risk bearing income of a person.

1.8 Assertion (A): Central Bank provides loans to the commercial bank in the situation of financial distress.

Reasoning (R): Central Bank can order the government to help the bank facing the financial crisis.

1. A is true but R is false.
2. A is false but R is true.
3. Both A and R are true and R explains A.
4. Both A and R are true but R does not explain A.

Solution

A is true but R is false.

Explanation:

When commercial banks have a financial crisis, the central bank serves as a lender of last resort, providing loans. However, the central bank cannot direct the government to assist the bank.

1.9 'Price is an indicator of quality'. The statement applies to _____.

1. Bandwagon effect

2. Snob effect

3. Veblen effect

4. Giffen effect

Solution

'Price is an indicator of quality'. The statement applies to Snob effect.

Explanation:

In microeconomics, the snob effect refers to consumers demand for rare and expensive products to differentiate themselves from the majority. The product's pricing indicates its quality. Consumers value uniqueness and choose to pay more.

1.10 Which of the following is a contingent function of money?

1. Measure of value

2. Store of value

3. Medium of exchange

4. Distribution of National Income

Solution

Distribution of National Income

Explanation:

Money serves as a measure of value and a means of trade, with distribution of national income considered a dependent function. It also serves as a store of wealth.

1.11 The continuous rain and lack of fresh supply have affected the availability of tomatoes in India during June - July 2023. What will be the impact on the supply curve for tomatoes?

1. Supply curve will shift to the right.
2. Upward movement along the supply curve.
3. Supply curve will shift to the left.
4. Downward movement along the supply curve.

Solution

Supply curve will shift to the left.

Explanation:

The supply of tomatoes has decreased owing to factors other than price. The supply curve for tomatoes will shift to the left.

1.12 When products are differentiated on the basis of advertisements, brand names etc., it is called as _____.

1. Real differentiation
2. Price differentiation
3. Artificial differentiation
4. Quality differentiation

Solution

When products are differentiated on the basis of advertisements, brand names etc., it is called as Artificial differentiation.

Explanation:

Artificial differentiation is the fabrication of perceived distinctions between items in the same market or category using marketing strategies including branding, promotion, and packaging.

1.13 Identify the merit of direct tax from the following:

1. Tax evasion
2. Greater cost of collection
3. Ensuring equity
4. Inconvenient

Solution

Ensuring equity

Explanation:

The progressive nature of direct tax is a significant advantage. Because of its progressive nature, it is sometimes viewed as encouraging equity and social justice by putting a heavier burden on those who can pay it more easily while providing relief to those with lesser earnings.

1.14 Identify the type of goods having price elasticity of demand greater than 1:

1. Luxury goods
2. Inferior goods
3. Necessary goods
4. Giffen goods

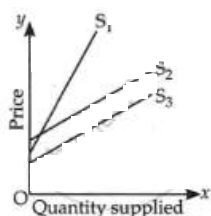
Solution

Luxury goods

Explanation:

The price elasticity of demand for luxury products is greater than 1 because the percentage change in demand exceeds the percentage change in price of luxury items.

1.15 Identify the elasticity of supply (e_s) of S_1 , S_2 and S_3 supply curves:



1. All have $e_s > 1$

2. All have $e_s < 1$

3. All have $e_s = 1$

4. All have $e_s = 0$

Solution

All have $e_s > 1$

Explanation:

In graphical presentation, when supply curves begin on the Y axis, the elasticity of supply is greater than 1. A curve beginning on the y axis indicates that even at a price close to zero, suppliers are prepared to deliver a certain number of goods. As the price rises, the quantity supplied grows at a faster rate, indicating high elasticity.

1.16 During deflation, the Central Bank usually _____.

1. Increases CRR

2. Increases SLR

3. Increases bank rate

4. Increases buying Government Securities

Solution

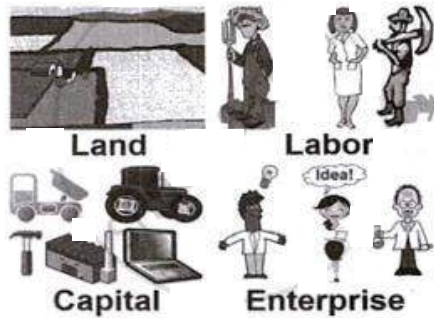
During deflation, the Central Bank usually increases buying Government Securities.

Explanation:

During deflation, the central bank works to raise the money supply in the economy, hence increasing the demand for products. This is only conceivable if Increases buying Government Securities is chosen, which involves increasing the money supply by purchasing government assets on the market.

1.17 Identify the produced means of production factor from the picture.

FACTORS OF PRODUCTION



1. Land
2. Labour
3. Capital
4. Entrepreneur

Solution

Capital

Explanation:

Capital is the means of production. It includes the machinery, structures, tools, and equipment used to manufacture goods and services. In the graphic, "capital" is represented by icons such as a gear, a hammer, and other tools, all of which are examples of capital in the sense that they are man-made resources employed in the manufacturing process.

1.18 Which of the following is the adverse outcome of mining operation?

1. Aquatic ecosystem remains intact
2. Depleted the stock of natural resources
3. Cutting down of forest trees is absent
4. Soil quality remains the same

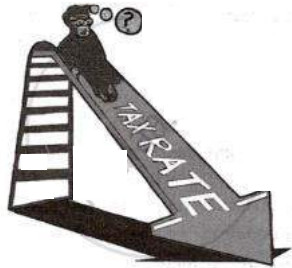
Solution

Depleted the stock of natural resources

Explanation:

Mining depletes scarce resources like minerals, metals, and fossil fuels quicker than they can replenish naturally. As a result, it depletes the natural resource base.

1.19 Identify the type of taxation.



1. Progressive
2. Regressive
3. Proportional
4. Degressive

Solution

Regressive

Explanation:

A regressive tax is one in which the tax rate drops as the tax base rises. The diagram depicts the case of regressive taxation. The tax line travels downward to the right, indicating that the tax rate reduces as the tax base expands.

1.20 Non-price competition is _____.

1. Reducing prices
2. Competition based on prices
3. Spending money on advertisement, packaging, branding
4. Sale of unused stock

Solution

Non-price competition is spending money on advertisement, packaging, branding.

Explanation:

Non-price competition is when businesses compete by investing in tools other than pricing. Firms in this form of rivalry typically spend money on advertising, packaging and branding to attract new customers.

Q2.

2.1 (a) Give one example of a pair of complementary goods.

Solution

Bread and Butter are complementary goods because they are often used together and their demand are interdependent.

2.1 (b) What will be the impact of a rise in price on the demand for its complementary goods?

Solution

If the price of the complementary good increases, demand will decrease. If the price of butter rises, it is extremely likely that some people will cease eating it. Consequently, demand for bread will decline.

2.2 State the two primary functions of money.

Solution

Medium of exchange and measure of value are the two primary functions of money. "Medium of exchange" allows for the easy exchange of goods and services since money is widely accepted as a medium of trade. The "Measure of Value" function makes calculating the monetary value of items or services easier. Comparing the market prices of various items makes it simple to calculate the exchange rate.

2.3 Explain the features of savings bank account.

Solution

Features of Saving bank account are as follows:

1. Account holders can withdraw their funds at any moment upon request.
2. Savings account holders can use internet and mobile banking.

3. This account earns a modest interest rate.
4. This account can be opened by one or more people.

2.4 (a) What type of tax is this?

(b) When do we pay this tax?



Solution

- a. The type of tax depicted in the given picture is Indirect tax.
- b. When we purchase products or services. We pay this form of tax since it is included into the price of the goods and services.

2.5 Indicate the adverse impacts of urbanisation on the ecosystem.

Solution

Urbanisation can have a substantial negative influence on ecosystems, including:

1. Air and water pollution caused by the emission of pollutants during industrial activity.
2. Urbanisation can harm biodiversity by destroying or modifying natural ecosystems.
3. Cities have altered natural terrain surfaces due to large housing complexes, roadways, malls, and other constructions.

Q3.

3.1 'One of the most important functions of an entrepreneur is to bear the risk associated with the business'. Explain the statement.

Solution

Important function of an entrepreneur is bearing the risk associated with the business. The reasons are as under:

1. Entrepreneurs take calculated risks by investing their time, money, and resources to launch a new enterprise.
2. Entrepreneurs make commercial judgements in imperfect conditions. The results are usually unpredictable.
3. Entrepreneurs create strategies and plans to manage and mitigate recognised risks. This may involve implementing risk mitigation methods and developing contingency plans to address potential risks.

3.2 In which type of market price discrimination is practiced ? Explain with an example.

Solution

Price Discrimination means selling the same product to different consumers at different prices. This is practiced in the markets where competition is imperfect such as "Monopoly".

3.3 Explain briefly the role of public sector enterprises in developing the industries with strategic importance.

Solution

The public sector focuses on promoting heavy and critical industries, which are strategically important. These industries contribute significantly to the growth of other fundamental industries. The public sector is responsible for developing strategic industries that prioritise societal welfare and require significant investment.

3.4 Both labour and entrepreneur are human factors of production. Is there any difference between them? Explain any two such differences.

Solution

Difference between Labour and Entrepreneur are as follows:

Labour	Entrepreneur
1. Labour resources contribute to the creation of products and services. Labour is generally involved in operational parts of businesses, such as operating machines.	Entrepreneurs play an important part in creating a firm. An entrepreneur is responsible for discovering opportunities, organising resources, and developing plans.

2. Labour is focused on execution of tasks.	Entrepreneurs are mostly concerned with developing new ideas and providing leadership to move the business forward.
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3.5 What will happen to the value of money when price level rises? What is this phenomenon known as?

Solution

Money's value falls when prices rise. This is known as 'inflation'. Inflation is an increase in the price level of goods and services in an economy. The purchasing power of money decreases when each unit of currency purchases fewer products than previously.

SECTION B (60 Marks) : (Answer any four questions from this Section.)

Q4.

4.1 Explain the importance of land as a factor of production.

Solution

Importance of land are:

1. Natural Resources: Land supplies natural resources including minerals, water, and forests, which are crucial for industrial processes in various sectors.
2. Location: The location of land affects its value for specific activities. Proximity to markets, transportation networks, and resources can boost business efficiency and profitability.
3. Agriculture: Land is vital for agricultural activities, including crop cultivation and livestock raising for food production.
4. Infrastructure: Land is essential for infrastructure development, including buildings, roads, and utilities. These infrastructure aspects are crucial for economic and societal growth.
5. Real Estate: Land forms the foundation for real estate development, residences, commercial areas, and industrial sites. Real estate is a significant economic industry that drives growth and jobs.

4.2 (a) Identify the elasticity of supply for the following with proper reasoning:

Solution

Short-run supply elasticity is lower due to the assumption that producers cannot increase supply in the short term. However, in the long run, supply elasticity is higher. In the long run, manufacturers have time to alter supply.

4.2 (b) Identify the elasticity of supply for the following with proper reasoning:

Solution

The supply of perishable commodities is usually inelastic since they cannot be stored for long periods; hence, it cannot adjust quickly to changes in price. Excess perishable items cannot be stored and must be sold immediately to avoid waste. Durable goods have a more elastic supply due to their ability to be kept and modified to price changes without spoiling.

4.2 (c) Identify the elasticity of supply for the following with proper reasoning:

Solution

Entrepreneurs who take risks and innovate are more likely to adapt swiftly to price fluctuations, resulting in more elastic supply. Companies may invest in new methods or technology to expand production quickly in reaction to price fluctuations. Entrepreneurs who avoid risk and prefer old methods are less likely to adapt production in reaction to price changes, resulting in inelastic supply.

4.2 (d) Identify the elasticity of supply for the following with proper reasoning:

Solution

In advanced technologies, supply elasticity is greater than 1. Advanced technology enables producers to adapt supplies and reduce costs, leading to increased production. Inelastic supply occurs when a producer uses outdated technology and is unable to adjust supply elasticity.

Q5.

5.1

Price (in ₹)	Q _A (units)	Q _B (units)	Q _M (market demand) (units)
10	4	5	_____
20	3	4	_____
30	2	3	_____
40	1	2	_____

Complete the above schedule and answer the following:

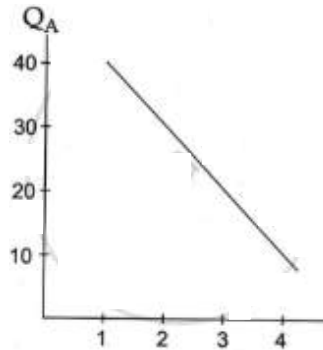
- Identify and state the underlying law.
- State four assumptions of the law.
- Draw three relevant curves based on the above schedule in one diagram.

Solution

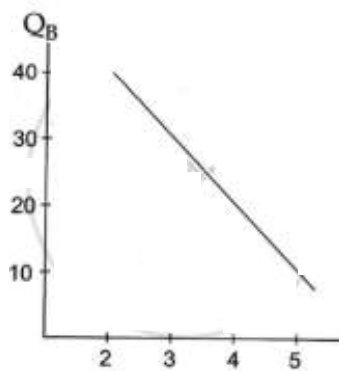
Price (in ₹)	Q _A (units)	Q _B (units)	Q _M (market demand) (units)
10	4	5	9
20	3	4	7
30	2	3	5
40	1	2	3

- The above schedule demonstrates the law of demand. According to the law of demand, increasing the price of a commodity leads to decreased demand and vice-versa provided other parameters stay unchanged.
- Assumptions of the law of demand are:
 - The price of related commodities, such as substitutes or complementary goods, remains constant.
 - The consumer's expectations remain unchanged.
 - Consumer income levels remain stable.
 - Consumer tastes and preferences remain stable.
-

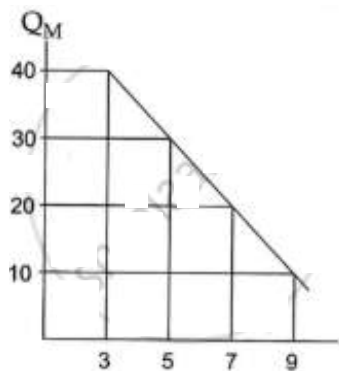
1.



2.



3.



5.2 (a) What is meant by the Privatisation of public sector industries?

Solution

Privatisation is the process of transferring ownership, control, and management of government-owned enterprises to private companies. Privatisation strives to increase efficiency and reduce the load on government funds.

5.2 (b) What do you mean by horizontal division of labour?

Solution

Horizontal division of labour involves assigning duties and responsibilities to individuals or groups depending on their specialised abilities, expertise, or organisational functions. Horizontal division of labour helps organisations harness their workforce's different talents and competencies, resulting in increased productivity, innovation, and cooperation within certain functional areas or teams.

5.2 (c) State any three differences between labour and capital.

Solution

Difference between labour and capital are as follows:

S. No.	Labour	Capital
1.	Labour refers to the physical and mental efforts made by humans during the production process.	Capital refers to the man-made goods utilised in the manufacturing process to produce goods and services.
2.	Labour contributes to production by completing tasks such as operating machines and engaging in other activities necessary to convert input into output.	Capital supplements labour in the production process by providing tools, equipment, and infrastructure that increase productivity and efficiency.
3.	Labour is remunerated through wages, salaries and other forms of compensation.	Capital earns return on investment (ROI) through profit, rent, interest, or dividends.

5.2 (d) Explain any three disadvantages of division of labour.

Solution

Disadvantages of Division of Labour are:

1. Division of labour can cause workers to get bored and disengaged as a result of repetitive duties.
2. Excessive specialisation can make businesses more susceptible to shocks or changes in specialised skills or technologies.

3. A product is produced by a group of people via division of labour. Nobody can be blamed for poor production because no one produces the entire article; hence, there is a lack of accountability.

Q6.

6.1 (a) Identify the factors of production of the following case and differentiate between them.

Solution

Active production components, including labour and entrepreneurship, directly contribute to production. Passive variables such as land and capital play an indirect role in production.

6.1 (b) Identify the factors of production of the following case and differentiate between them.

Solution

Single-use machinery focuses on certain activities and functions, while multiple-use machinery adapts to different production requirements.

Examples:

Single use - Stamping machines in metal working.

Multiple use - Computer numerical control machines.

6.1 (c) Identify the factors of production of the following case and differentiate between them.

Solution

1. Creative problem-solving: Innovative individuals can think critically, creatively, and outside the box. Humans with lack inventive capacity tend to focus on repeating duties inside established frameworks.
2. Adaptability: Innovative individuals see problems as chances to learn and grow. Humans that lack innovation are hesitant to adjust to changing circumstances. They prefer to complete everyday tasks efficiently and properly.

6.2 (a) Citing reasons, evaluate the performance of private sector over public sector enterprises in the following case:

Solution

The private sector's focus is completing projects on time due to its focus on efficiency, competition, risk management, client satisfaction, and quick decision-making. In contrast, the public sector faces bureaucratic hurdles, political influences, and budget constraints that can hinder timely completion.

6.2 (b) Citing reasons, evaluate the performance of private sector over public sector enterprises in the following case:

Solution

Private sector decision-making procedures are often more efficient than those in the public sector. The public sector frequently faces political considerations, public scrutiny and regulatory constraints. The private sector's swift and efficient decision-making allows for optimal resource allocation and market advantage.

6.2 (c) Citing reasons, evaluate the performance of private sector over public sector enterprises in the following case:

Solution

It refers to managers capacity to allocate resources effectively and carry out plans to achieve organisational goals effectively and efficiently.

1. Managers in the private sector have more autonomy than those in the public sector, thus they respond faster.
2. Private sector managers prioritise maximising return on investment while minimising costs. Budget constraints and bureaucratic procedures may present challenges for public sector management.

6.2 (d) Citing reasons, evaluate the performance of private sector over public sector enterprises in the following case:

Solution

While both private and public sectors prioritise customer happiness, their approaches and considerations may differ depending on their aims.

1. Private sector prioritises consumer pleasure. They assure their customers like a king. They recognise that client happiness is crucial for having a competitive advantage in the industry.
2. While public sector enterprises try to serve the public interest, they may not prioritise consumer pleasure as much as the private sector. The public sector has less competitive pressure to improve customer services.

Q7.

7.1 The image above shows a departmental store of a market structure.

- a. Identify the form of market as observed from the above image.
- b. Discuss the features of this market form with respect to:
 1. Type of product
 2. Entry and exit of firms
 3. Selling cost



Solution

- a. The above graphic depicts a monopolistic market. The department store offers a diverse range of brands and items, demonstrating competition among firms. However, product differentiation gives each firm considerable market power.
- b. The features of the monopolistic competition market with respect to the given points:

1. Type of product: Firms differentiate their products by offering modest variations from competitors. Differentiation can be based on perceived uniqueness, such as quality or brand.
2. Entry and Exit of firm: The market has low entry and exit barriers, allowing new and current enterprises to enter and quit without major losses. This helps keep the market competitive.
3. Selling cost: Monopolistic competition requires firms to invest in marketing and advertising to differentiate their products and attract customers. In contrast, perfect competition eliminates the necessity for promotion because all products are the same.

7.2 Explain the functions of the RBI with respect to the following:

- a. Custodian of foreign exchange reserves.
- b. Monopoly of note issue.
- c. Clearing house facility.
- d. Banker and fiscal agent to the government.

Solution

- a. Custodian of foreign exchange reserves: The Reserve Bank of India manages foreign exchange reserves to ensure market stability. The RBI intervenes in the foreign exchange market to keep rates within certain levels.
- b. Monopoly of note issue: The Reserve Bank of India is solely responsible for issuing currency notes. The RBI manages currency supply to keep prices stable and inflation under control.
- c. Clearing house facility: RBI provides clearing house facilities to facilitate the settlement of inter bank transactions i.e payments through cheques, drafts etc.
- d. Banker and fiscal agent to the government: The RBI supervises government transactions and accounts. It advises the government on monetary and fiscal policies. The RBI issues securities to the public to meet the government's financial needs.

Q8.

8.1 (a) What do you mean by migration?

Solution

Migration is the temporary or permanent relocation of individuals to a new location. Migration can occur inside or between countries.

8.1 (b) Explain 'migration' as a factor contributing towards adverse impact on the ecosystem.

Solution

It can be driven by different forces, including:

1. **Habitat Destruction:** Migrants clearing land for agriculture, housing, and infrastructure often change natural habitats into urban areas or agricultural fields, resulting in biodiversity loss.
2. **Deforestation:** Migration causes deforestation as people settle in forested areas and use natural resources for survival. It negatively impacts world biodiversity.
3. **Over Exploitation of Natural Resources:** Migration can lead to over-exploitation of natural resources for food, water, and shelter. Increased demand for resources can lead to unsustainable practices like overgrazing, overhunting, and environmental deterioration.

8.2 (a) Explain the Fiscal policy.

Solution

Fiscal policy refers to the government's use of taxation, spending, and borrowing to achieve economic growth and price stability. The government alters taxes and spending to impact economic activity.

There are three instruments of fiscal policy namely:

1. Taxation policy
2. Public expenditure policy
3. Public debt policy

8.2 (b) Explain the Monetary policy.

Solution

The RBI prepares monetary policy to counteract inflation or deflation in the Indian economy. The goal of this policy is to balance the money supply in the economy. The tool set includes both quantitative and qualitative methods. The Central Bank uses many ways to balance the money supply.

8.2 (c) Explain the Degressive taxes.

Solution

Degressive taxes are those that do not increase in proportion to income growth. This approach allows for increases in tax rates up to a specified limit, after which a uniform rate is applied.

Income	Rate of tax
10,000	5%
15,000	6%
20,000	7%
25,000	7%
30,000	7%

8.2 (d) Explain the Indirect tax can be used to increase social welfare.

Solution

Indirect taxes can be used to increase social welfare through various ways:

1. The government can use indirect taxes to help low-income citizens afford and access critical goods and services.
2. Indirect taxes can promote socially favourable consequences. For example, taxes on damaging commodities to health and the environment.
3. The government can allocate a percentage of indirect tax revenue to support social welfare projects for disadvantaged or vulnerable people.

Q9.

9.1 Read the extract given below and answer the questions that follow:

MONEY CONTROL NEWS

June 12, 2023/07: 05 PM IST

The Reserve Bank of India (RBI) on June 12 imposed monetary penalties on four cooperative banks citing various rule violations. These are Cooperative Bank of Rajkot, Telangana State Cooperative Apex Bank Ltd, The Bihar State Cooperative Bank Ltd and Jowai Cooperative Urban Bank Ltd.

The RBI's enforcement operations are conducted by the Enforcement Department. The RBI's EFD was set up in April 2017 to separate enforcement action from the supervisory process. The EFD identifies actionable violations from the inspection reports, risk assessment reports and scrutiny reports. Market intelligence reports, references from the top management and complaints are also used for investigation.

- a. Which type of credit control method of the RBI has been highlighted in the above case study?
- b. Citing reasons state the advantage of credit card over currency notes.
- c. Briefly explain the following credit control methods adopted by the Central Bank:
 1. Publicity
 2. Moral suasion

Solution

- a. The extract highlights the direct-action credit control mechanism. The RBI penalised four cooperative banks for various regulation infractions. The RBI uses direct credit control measures, such as issuing penalties, to ensure compliance with banking regulations.
- b. The advantage of credit card over currency notes are:
 1. Convenience: Credit cards provide greater convenience than carrying monetary notes. They are convenient for in-person and online transactions, as they eliminate the need for actual cash.

2. **Safety and Security:** Credit cards offer superior security against theft and loss. If a credit card is lost or stolen, it can be blocked and replaced. However, money notes are typically irrecoverable. Credit card transactions can be traced and monitored to prevent fraud.
- c. Credit control methods adopted by the Central Bank:
 1. **Publicity:** The Central Bank shares information with the public to educate and influence borrowers and lenders. The process involves releasing guidelines, policies, and warnings about the economic conditions to influence lending habits and ensure financial stability.
 2. **Moral suasion:** The central bank persuades and encourages commercial banks to follow its policies and regulations. The central bank can achieve monetary and credit conditions through informal contact, meetings, and speeches, rather than explicit mandates or orders.

9.2 (a) Define the form of market which has a perfectly elastic demand curve.

Solution

Perfectly competitive market has a perfectly elastic demand curve. It is a market in which large number of sellers and buyers exist. They have perfect knowledge about goods and services available in the market. This market deals with homogeneous goods and allows free entry and free exit for the firms.

9.2 (b) Explain three features of Perfect competitive market.

Solution

1. **Homogeneous products:** In this market, enterprises sell homogeneous or identical products. Consumers perceive no difference in products given by different merchants on the market.
2. **Free entry and exit:** There are no obstacles preventing new firms from entering the market. Similarly, there are no obstacles to leaving. Firms have the option to exit the market if they are unable to generate enough revenue to cover their costs.

3. Large numbers and sellers: In this market, there exists a significant number of both buyers and sellers. No buyers or sellers have the power to influence the demand and supply, respectively.

9.2 (c) How is Perfect competitive market is different from a monopoly market?

Solution

Perfect competitive market is different from a monopoly market on the basis of following points:

1. In a perfectly competitive market, sellers do not have control over the price. However, in a monopoly, the seller has complete control over the price.
2. In a perfect competitive market, there are close substitutes, while in a monopoly, there are no available alternatives.
3. In a competitive market, price is influenced by the interplay of demand and supply forces. However, in a monopoly, the seller has the power to determine the price. In a perfect competitive market, there are no barriers to entry.
4. In monopoly, there exists a significant barrier to entry. There may be various barriers, such as patents or government regulations, that could potentially hinder progress.