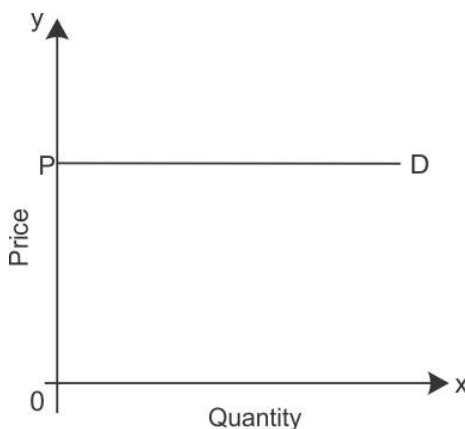


**ICSE Board
Class X Economics
Board Paper – 2017 Solution**

SECTION A

Answer 1

- a) ***The supply of land is fixed.*** It is a gift of nature and it is impossible to increase the supply of land. Other factors of production can be increased in supply to a greater or lesser extent. Hence, land differs from other factors of production with respect to its supply.
- b) ***An increase in the general price level of an economy with an increase in the average cost of production*** is called cost-push inflation. Cost-push factors are increase in the wage rate, increase in the prices of raw materials etc. Producers increase the prices of goods and services in order to maintain the profit rates after an increase in the cost of production.
- c) The demand curve is parallel to the x-axis. ***A small change in the price causes an infinitely large change in the amount demanded.*** The demand curve indicates perfectly elastic demand for the commodity.



- d) ***Complex division of labour*** is followed in the automobile industry. This is because different workers are engaged in the production of different parts of automobiles. One group may be concerned with the manufacture of engines, another group may be manufacturing chassis and still another may fit the wheels.
- e) Substitute goods are goods which can be ***used in place of one another for satisfaction of a particular want.*** Demand for a commodity varies directly with the price of a substitute good, say coffee and tea.
Complementary goods are goods which are ***used together to satisfy a particular want.*** Demand for a commodity varies inversely with the price of a complementary good, say computer hardware and software.

Answer 2

- a) Supply is directly proportional to price, because with an increase in the prices of raw materials, the firm earns lower profits than before. So, ***the firm is willing to supply less of that commodity at the prevailing price.***
- b) ***Bandwagon effect*** is an exception to the law of demand as the price and demand do not move in opposite directions. Bandwagon effect means that a consumer's demand for a commodity gets influenced by the taste and preference of the social class to which the consumer belongs. For example, a businessman may increase the demand for golf balls in order to show that he is a successful businessman.
- c) A debt is called unproductive if the ***loan is financed for war and other relief operations*** in case of emergency. Unproductive public loans are a net burden on the community. The government will have to resort to additional taxation for their servicing and repayment.
- d) ***Assisting the operation of a credit system*** is one of the contingent functions of money. With the gradual expansion of trade and commerce, the credit system has become important. However, money forms the basis of such credit operations performed by the business units in an economy.
- e) If the cost of production increases, then there is an adverse impact on supply. If the cost of production increases, then the ***supply does not change with change in price*** and the supply of such a commodity will be ***perfectly inelastic***.

Answer 3

- a) In proportional tax, the ***tax rate is constant irrespective of an increase in the income***. All tax payers pay an equal proportion of their income in the form of taxes. In progressive tax, ***the tax rate increases with the increase in income***. There is different rate of tax at every income slab.
- b) When a ***machine is used again and again to generate income***, it gradually depreciates with use. This is how capital depreciates over a period of time, and it may not be suitable for further use.
- c) A person with a particular good has to find a person who has the good of his wants and he should also possess the good wanted by the other person. This is known as the double coincidence of wants. The introduction of money resulted in the end of the barter system where goods were exchanged according to the needs. Now, ***money acts as an intermediate in the exchange process***, and thus, it is known as a medium of exchange. Anyone can exchange his goods for money and buy commodities required by him or his family.
- d) COPRA - Consumer Protection Act, 1986. Consumer grievances and complaints against traders are checked at three levels. They are National Consumer Commission at the national level, State Consumer Commission at the state level and District Forum at the district level. Currently, there are more than 500 district courts functioning in the three-tier system of India. Their main objective is to provide ***speedy and inexpensive*** redressal to the grievances of consumers.

- e) Indirect taxes levied on cigarette and other harmful substances will decrease the demand for such goods. This helps in protecting the health of the people in an economy. Hence, it is true that the indirect taxes helps in social reforms.

Answer 4

- a) Fixed capital is employed for once at the initial stage of the production process which is ***not used up within a single period of production***; for example, machinery. On the other hand, floating capital is the capital which can be ***used in alternative lines of production***; for example, steel, wood, raw materials etc.
- b) Deferred payments refer to payments which are made in the future. Money has made deferred payments easier. When money is borrowed, the principal and interest amounts have to be returned to the lender. However, these transactions are not possible in terms of goods and services. Money performs this function more effectively.
- c) Public expenditure is the expenditure incurred by the government of any nation. Any government incurs a large amount of expenditure for the welfare of the nation for activities such as development of roadways, education, irrigation systems etc. and also to maintain law and order.
- d) Consumer awareness refers to measures taken to make the consumer aware of his rights in order to prevent his exploitation by sellers in the market.
- e) Time deposits are fixed term deposits with a fixed maturity period which cannot be payable on demand. On the other hand, demand deposits are deposits which can be withdrawn on demand.

SECTION II

Answer 5

- a) Labour means the capacity to exert physical or mental effort for the purpose of producing a good or service.

Three methods to improve the efficiency of Indian labour:

- ***Better conditions of work***: A healthy and conducive work environment increases the level of efficiency. Facilities available in the workplace determine the labour efficiency to a great extent.
- ***Adequate training facility***: Proper training facilities for labourers in India will improve efficiency of labour. This will increase the quantity of output produced by labour with better quality.
- ***Attitude of labourers***: Attitude of the ability and willingness of labourers to work and to learn skills depend on the health of a worker, on the wage rate and the standard of living. Improvement in the standard of living leads to an improvement in health through better nourishment. It also depends on the age of the labourer.

- b) Capital formation means the creation of capital. A change in the stock of capital during a particular period of time is called capital formation.

Reasons for the low rate of capital formation in India:

- **Lack of ability to save:** Due to poverty, poor people are unable to save more than a negligible part of their earnings. Hence, low rate of savings leads to low rate of capital formation in the Indian economy.
- **Lack of willingness to save:** In certain parts of the country, there still exists a feudal economic system. Even people who have the ability to save money are not willing to save and spend all their income on day-to-day consumption.
- **Insufficient mobilisation of savings:** People are not mobilising savings for capital formation. Most of their savings are kept in the form of gold and cash at home. These savings are not used productively due to poor banking knowledge and poor banking network in underdeveloped states.

Answer 6

- a) The central bank is the apex bank and is also known as a bank of all the banks. While a commercial bank functions under the control of the central bank.

Loans advanced by a commercial bank:

- **Ordinary loans:** Commercial banks advance ordinary loans for purchasing consumer durables, building houses etc.
- **Cash credit:** Commercial banks allow the borrower to withdraw up to a certain amount on a given security which constitutes stocks of goods and bills receivable from others. Interest will be paid by the borrower only on the actual amount withdrawn from the bank.
- **Overdraft facilities:** Under overdraft facilities, an account holder can withdraw money in excess of the amount deposited with the bank. The borrower is required to pay an interest on the excess amount withdrawn from the bank.

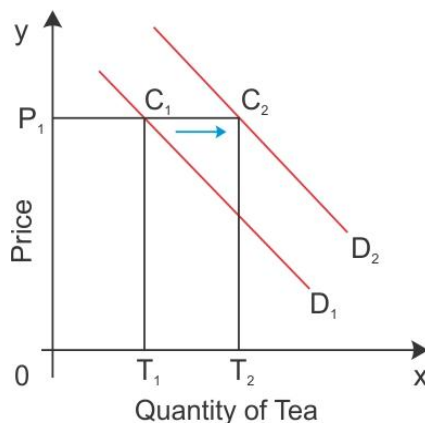
- b) An entrepreneur is a person who carries the risk of business and co-ordinates the activities of all the other factors of production.

Entrepreneurs contribute to economic growth in the following ways:

- **Innovative power towards industrialisation:** When entrepreneurs introduce cost-reducing or demand-creating innovations in various industries, industrial production becomes profitable. The country will become self-sufficient in the production of various types of industrial goods of high quality to cater to the changing needs of both domestic and foreign markets.
- **Generation of higher employment:** Different types of innovation result in higher profits for entrepreneurs. They use the earned income for productive purposes or in new ventures. This leads to increase in investment which generates employment opportunities in an economy.
- **Ability to predict future market and business conditions:** Entrepreneurs make complete analysis of market conditions at regular intervals. This enables a firm to take precautionary actions to overcome uncertain business conditions such as inflationary and deflationary conditions. So, the economy will be balanced at times of unfavourable business conditions because of entrepreneurs.

Answer 7

- a) Change in demand means a shift in the demand curve. An increase in demand or a rightward shift in the demand curve is caused by a change in factors other than the price of the good. For example, if there is an increase in the price of a substitute good, say coffee, then the demand curve for tea shifts to the right. Thus, the consumer demand curve shifts from D_1 to D_2 , consuming more of tea even when its price is constant.



Two determinants of demand:

- **Increase in price of related commodity:** The demand for any commodity depends on the prices of related commodities. For example, if the price of tea falls, the demand for coffee may decline because a consumer may now substitute tea for coffee.
 - **Increase in income of the consumer:** A level of demand schedules also affect income changes. With an increase in income, a consumer will tend to buy more of any particular commodity. Hence, the demand schedule will shift to the right.
- b) The central bank enjoys the monopoly of note issue. It performs the following functions:
- **Banker to the government:** The central bank is a banker, agent and financial advisor to the government. As a banker, it manages government accounts across the country. It buys and sells securities on behalf of the government as an agent of the government. It helps the government in framing policies to regulate the money market by acting as an advisor to the government.
 - **Banker's bank:** The central bank acts as banker's bank in the form of
 - **Custodian of cash reserves of commercial banks:** Commercial banks are required to keep a certain proportion of their deposits with the central bank. In this way, it acts as a custodian of cash reserves of commercial banks.
 - **Lender of the last resort:** The central bank also provides financial assistance to commercial banks by rediscounting eligible bills of exchange. When commercial banks do not get loan facilities from any other sources, they approach the central bank as a last resort. The central bank advances loans to such banks against approved securities.

- **Clearing house:** As the central bank holds the cash reserves of all the commercial banks, it becomes easier for it to act as their clearing house.
- **Supervisor:** As a supervisor, the central bank regulates and controls commercial banks related to licensing and expansion of branches.

Answer 8

- a) The law of supply states that other factors being equal, the quantity of a good supplied increases with an increase in the price level and decreases with a decrease in the price level of a good.

Factors determining supply in the market:

- **Number of firms:** If the number of firms selling the same product in the market increases, then the supply of that product at a given price will increase in the market.
- **Prices of the factors of production:** Given the other factors, if the prices of the factors of production increase, there is a decline in the profit of the firm. Hence, the firm would reduce the quantity of supply at the current price level.
- **Technological condition:** Technological improvement in production enables the firm to increase the supply at the current price level.

- b) Meaning of impact, shifting and incidence:

- **Impact:** When the government imposes a tax, a person or institution **bears the burden of tax at the first incidence**; this is called the impact of tax.
- **Shifting:** When the tax **burden is shifted to another person**, it is an act of shifting the burden of tax.
- **Incidence:** When the tax burden can be shifted to another person, the **final point of the tax burden** is called the incidence of tax.

Merits of indirect taxes:

- **Broad coverage:** In the tax on commodity, all the buyers of the commodity have to pay indirect tax irrespective of the income level whether they belong to the high income group or low income group. By widening the tax net, the government can yield more revenue for public expenditure.

Demerits of indirect tax:

- **Uncertain:** Taxes on goods with elastic demand are very uncertain. When the commodity is taxed, prices of the commodity increase, which reduces the demand for the commodity in the market. Hence, the revenue from indirect tax is uncertain.
- **Discourage savings:** Most of the income is spent on consumption of goods where the price of goods includes indirect tax, thus making savings impossible.

Answer 9

- a) **Sale of adulterated goods**, i.e. addition of inferior substances to the product being sold, is one of the ways to exploit consumers in the market.

Two reasons for the exploitation of consumers in India:

- Consumers **buy a wide range of goods without taking adequate initiatives** to know consumer rights.
- Due to **illiteracy**, consumers do not challenge the quality and quantity of goods supplied by the seller, even though the goods and services provided by them are not satisfactory.

Hence, consumers are exploited by providing false statements about the quality of the product and cheat consumers by falsely representing old goods as new goods in the market.

b) Two reasons for the growth of public expenditure in India in the modern days:

- Public expenditure tends to increase with the **expansion of administrative machinery**, maximisation of social and economic welfare, providing of salary and other benefits like old-age pension, sickness benefits, accident benefits, free education to industrial workers etc.
- Public expenditure tends to increase with the **huge interest payments** on market borrowings.
- Public expenditure tends to increase with **infrastructural development activities** to improve the production efficiency of industries and increases employment opportunities.
- Public expenditure increases as the government **encourages private enterprises** by initialising state-owned financial and banking institutions to provide cheap credit.

Answer 10

a) Inflation is defined as a sustained increase in the aggregate price levels. It refers to a state of rising prices and not a state of high prices.

Impact on debtors: Debtors borrow from creditors to repay the loan with interest at some future date. Changes in the price levels affect them differently at different time periods. During inflation, when the prices rise and the real value of money goes down, **debtors pay back less in real terms** than what they had borrowed and thus to that extent they are gainers.

Types of inflation:

- **Creeping inflation** is inflation where the price level increases at a very slow rate of 2 to 2.5 percent per annum.
- **Walking inflation** is inflation where the general price level of the economy increases at the rate of 5 to 6 percent per annum.
- **Hyperinflation** is inflation where the general price level increases at the rate of 200 percent or more per month. Here, the price rise is ten or even a hundred-fold in a month.

b) Due to geographical reasons, certain areas specialise in the production of certain goods; for example, carpet weaving takes place in Kashmir.

Advantages of division of labour:

- **Increases the efficiency of labour:** The worker becomes more specialised if a worker is entrusted with only a part of the work in the process of production. Increase in the efficiency of labour leads to an increase in the quantity and quality of production. It also enables the producer to produce goods at a lower cost of production.
- **Rise in profits:** Increase in the quantity and improvement in the quality of output are important aspects of division of labour. It brings greater profit to the producer in the market.

- i. ***Large-scale production:*** Large-scale production is feasible with the division of labour. A manufacturing company with a reasonable number of workers can produce more through division of labour.