

**CBSE**  
**Class XII Economics**  
**Sample Paper - 1 (Updated 2019 – 20)**

**Note:** Solutions provided here are to guide students to prepare effectively and to help them score more marks. Please write the answers in your exam as per the given question and the marks allotted to that question.

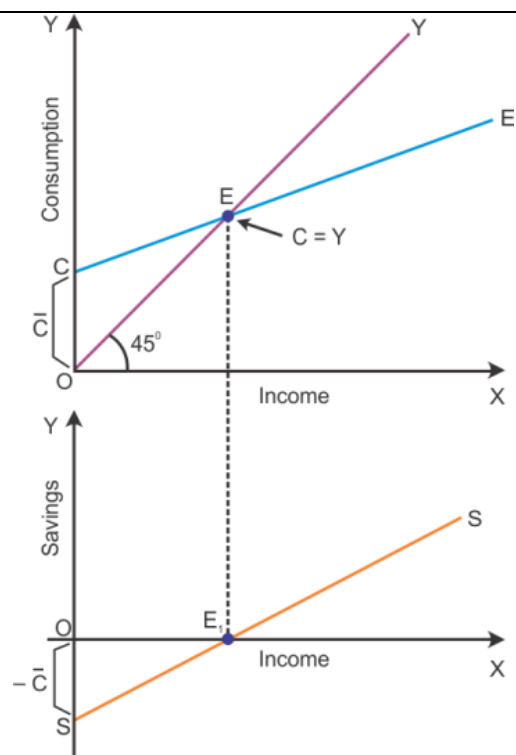
**Section A (Macroeconomics)**

Q. No.	Answer	Marks
1	Borrowings is a capital receipt because it <u>creates a liability</u> for the government.	1
2	Money multiplier = $1/LRR$ = $1/20\%$ or 0.2 Money multiplier = 5	1
3	<u>Managed floating exchange rate</u> is a system in which the exchange rate is determined by the forces of demand and supply in the foreign exchange market, but the central bank intervenes to influence the exchange rate and keep it within the desired limit.	1
4	<u>Excess demand</u> refers to a situation when AD is more than AS corresponding to full employment equilibrium. <b>OR</b> The gap by which actual aggregate demand exceeds the aggregate demand required to establish full employment equilibrium is known as the <u>inflationary gap</u> .	1
5	The algebraic relationship between the multiplier and MPC is $k = \frac{1}{1 - MPC}$	1
6	The inventory rises above the desired level. When planned investment falls short of planned saving, it means that households are not consuming as expected by the firms.	1
7	Depreciation is the loss of value of fixed assets in use due to normal wear and tear, normal rate of accidental damages and expected or foreseen obsolescence. It is also called consumption of fixed capital.	1
8	c) a-iv, b-iii, c-i, d-ii	1
9	Balance of payments is a <u>flow</u> concept.	
10	False. The value of the money multiplier <u>decreases</u> with an increase in cash reserve ratio. Increase in CRR reduces the reserves with banks and thus limits the credit-creating capacity of banks.	1
11	a) a. Paper purchased by a publisher is an intermediate product as it	½

	<p>will be used for further production.</p> <p><b>b.</b> Purchase of a computer by an office is a final product as it is an investment.</p> <p><b>b)</b></p> <p><b>a.</b> Expenditure on fertilisers by a farmer will not be included in the estimation of national income because it is an intermediate consumption to improve crop productivity.</p> <p><b>b.</b> Purchase of a tractor by a farmer will be included in the estimation of national income because it is a part of gross domestic capital formation.</p>	<p>1/2</p> <p>1</p> <p>1</p>
12	<p>During deflationary demand, the central bank aims to reduce the cost of borrowing, thereby making credit available. This is done through its monetary policy. Bank rate and open market operations are the two quantitative instruments used by the central bank.</p> <p><b>Bank rate:</b> During deficient demand, the central bank reduces the bank rate in order to expand credit. This then reduces the interest rate offered by banks which then induces people to borrow more. This ultimately leads to an increase in AD.</p> <p><b>Open market operations (OMO):</b> During deficient demand, the central bank purchases securities from the open market. This increases money supply in the economy and the purchasing power capacity, thus increasing AD in the economy.</p> <p style="text-align: center;"><b>OR</b></p> <p>Excess demand occurs in the economy when actual AD is more than AD required to establish full employment equilibrium. To solve this situation, a change needs to be made in AD.</p> <p>The role of the government in correcting excess demand in the economy is done in two ways:</p> <p>i) <b>Changes in government expenditure:</b> Here, the government needs to reduce its expenditure in order to decrease the level of AD.</p> <p>ii) <b>Increase in taxes:</b> The government increases the rate of taxes and also imposes new taxes so that prices increase, and this reduces consumption expenditure and decreases the level of AD.</p>	3

13	Autonomous transaction	Accommodating transaction	4
	It refers to international economic transactions which are made due to some economic motive, such as profit motive.	It refers to international economic transactions which are not made with the profit motive such as government financing.	
	These transactions are independent of the state of the BOP account.	These transactions are made to maintain balance in the BOP account.	
	It is also known as 'above the line items' in BOP.	It is also known as 'below the line items' in BOP.	
	Autonomous transactions take place on both current and capital account.	Accommodating transactions take place only on capital account.	
14	Revenue expenditure	Capital expenditure	4
	Revenue expenditure refers to expenditures of the government; there is neither any creation of liability nor any reduction in assets of the government.	Capital expenditure refers to expenditures of the government; there is either a creation of liability or a reduction in assets of the government.	
	They are incurred primarily for routine functioning of the government.	They are incurred primarily for acquiring assets or for granting loans by the government.	
	They are recurring in nature.	They are non-recurring in nature.	
	Example: Expenditure on salaries and pension of government staff	Example: Expenditure on acquiring assets by the government	
	<b>OR</b>		
	i. <b>Provision of subsidies</b> by the government is <b>revenue expenditure</b> as it neither leads to creation of assets for the government nor causes a reduction in liabilities.		
	ii. <b>Amount borrowed from China</b> repaid is <b>capital expenditure</b> as it reduces the liability of the government.		
	iii. <b>Providing grants to the state governments</b> is <b>revenue expenditure</b> as it neither leads to creation of assets for the government nor causes a reduction in liabilities.		
	iv. <b>Construction of government hospital</b> is <b>capital expenditure</b> as it creates an asset for the government.		
	15	Money multiplier refers to the number of times the value of money increases from the reserves held by commercial banks. Algebraically, it is the reciprocal of the legal reserve ratio.	

	<p>Money multiplier = <math>1/\text{LRR}</math></p> <p>According to the given information: Initial deposit = Rs 500 crore Legal reserve ratio is 10%.</p> <p>Money multiplier = <math>1/\text{LRR}</math> = <math>1/0.10 = 10</math></p> <p>Total deposits = Money multiplier * Initial deposits <b>Total deposits = <math>10 * 500 = \text{Rs } 5000 \text{ crore}</math></b></p>	
16	<p>a. <b><math>\text{NDP}_{\text{FC}}</math></b> = Compensation of employees + Rent + Interest + Dividend + Royalty + Undistributed profits + Corporation tax = <math>700 + 300 + 400 + 100 + 40 + 20 + 50</math> = Rs 1,610 crore</p> <p>b. <b><math>\text{NNP}_{\text{MP}}</math></b> = <math>\text{NDP}_{\text{FC}}</math> + Net Indirect taxes + NFIA = <math>1,610 + 60 + (-10)</math> = Rs 1,660 crore</p> <p><b>Gross National Disposable Income</b> = <math>\text{NNP}_{\text{MP}}</math> + Depreciation – Net current transfers to abroad = <math>1,660 + 70 - (-30)</math> = Rs 1,760 crore</p> <p style="text-align: center;"><b>OR</b></p> <p><b>National income</b> = Compensation of employees + Rent + Interests + Profit + NFIA = <math>500 + 100 + 200 + 500 + 10</math> = Rs 1,310 crore</p>	6
17	<p>The derivation of the saving curve from the consumption curve can be explained with the help of the following diagram:</p>	6



In the upper portion of the diagram, the 45 degree line represents income, while CC represents the consumption curve. The autonomous consumption (consumption at zero level of income) is represented by  $\bar{C}$ . Corresponding to this, the savings is negative equal to OS. Accordingly, the saving curve starts from the negative axis. The consumption curve and the income curve intersect at Point E. Point E is the point of equilibrium where consumption is equal to income. Accordingly, the savings is zero. At this point, the saving curve intersects the x-axis. In the diagram, it is represented by Point E<sub>1</sub>. Joining Point S with E<sub>1</sub> and extending it, we get the saving curve SS.

### Section B (Indian Economic Development)

18	The Great Leap Forward (GLF) campaign which started in 1958 concentrated on <b>industrialisation</b> .	1
19	<b>Kudumbashree</b> is the community-based poverty reduction programme for women implemented in Kerala. It was started as a small savings bank for poor women with the objective to encourage savings.	1
20	<b>Mahalanobis</b> is the statistician who contributed to the formulation of Five Year Plans in India. He can be regarded as the Architect of Indian Planning.	1
21	<b>Medium-term development plan</b> was the alternative name of the First Five Year Plan in 1956.	1
22	a-iv, b-i, c-ii, d-iii	1
23	<b>164</b> countries are members of the WTO.	1

	The full form of GATT is <b>General Agreement on Tariff and Trade.</b>	
24	The process which undertakes the functions of assembling, storage, processing and packaging of agricultural commodities throughout the country is called <u>agricultural marketing</u> .	1
25	Montreal Protocol	1
26	Worker-Population Ratio	1
27	False. The Planning Commission was set up in <b>1950</b> .	1
28	<p><u>Importance of rural credit:</u> Credit is required to meet certain expenses because the gestation period between crop sowing and realisation of income after production is long. Farmers require credit to invest on seeds, manure and fertilisers. Non-farm sectors such as cottage and small-scale industries also require credit. Credit is required for rural people for self-employment.</p> <p><u>Sources of rural credit:</u> There are two sources of rural credit, namely:</p> <ol style="list-style-type: none"> <li><b>1. Non-institutional sources</b> of rural credit are money lenders, friends, relatives and landowners.</li> <li><b>2. Institutional sources of rural credit</b> are National Bank for Agriculture and Rural Development (NABARD), self-help groups (SHGs), The Poor Women's Bank, regional rural banks, commercial banks, cooperative banks and cooperative credit societies.</li> </ol>	3
29	<p>Causes of poor health in India:</p> <ol style="list-style-type: none"> <li><b>High birth rate:</b> Because of the rapid growth in population, providing safe and sufficient drinking water supply and proper sanitation for the community becomes difficult. This leads to many health risks in society.</li> <li><b>Malnutrition:</b> Malnutrition contributes innumerable health problems and serious health issues among children.</li> <li><b>Insanitary conditions and housing facilities:</b> Poor households survive in crowded and insanitary places. They face the problem of contaminated food and water, and live in sub-standard dwellings lacking in space, air and sunlight.</li> </ol>	3

	<p style="text-align: center;"><b>OR</b></p> <p>Three dimensions of the government approach to reduce poverty:</p> <ol style="list-style-type: none"> <li><b>Economic growth-oriented approach:</b> This approach anticipated that the indicators of economic growth such as gross domestic product and per capita income will affect all sections of society. Growth of GDP will be an appropriate solution to overcome the problem of poverty. This will generate new employment opportunities, and thus, more workers will find jobs in farms and factories.</li> <li><b>Poverty alleviation programme:</b> Policy makers made an attempt to increase income and employment for the poor through poverty alleviation programmes. Example: MGNREGA</li> <li><b>Providing minimum basic amenities to the poor:</b> This approach focused on providing minimum basic amenities to the poor such as food, housing, education and health facilities.</li> </ol>	
30	<p>Yes, I agree.</p> <ul style="list-style-type: none"> <li>Foreign investments, both foreign direct investment (FDI) and foreign institutional investment (FII), have increased from about US \$100 million in 1990–91 to US \$74 billion recently.</li> <li>This has changed the status of India from a ‘begging bowl’ in the 1990s to a ‘self-dependent’ economy at present.</li> <li>Due to the opening up of the Indian economy, India has become one of the largest foreign exchange reserve holders in the world.</li> <li>India registered an increase in the foreign exchange reserves from US \$6 billion in 1990–91 to about US \$321 billion in 2014–15.</li> </ul>	4
31	<p>Ways through which the British exploited the Indian economy:</p> <ul style="list-style-type: none"> <li>Indian economy under the British colonial regime remained basically agrarian as about 85% of the people lived in villages and survived with agricultural activity. <b>Indian agriculture stagnated</b> because of the <b>various systems of land settlement</b> which were introduced by the colonial government, particularly under the zamindari system.</li> <li>The motive behind the <b>systematic de-industrialisation</b> put in effect by the British in pre-independent India was to use <b>India as an exporter of raw materials</b> for the modern industries in Britain and <b>expanded the Indian market for finished products</b> of those industries.</li> <li>The <b>structure and volume of foreign trade</b> were adversely affected because of the <b>restrictive policies</b> of commodity production and trade and tariff pursued by the colonial government.</li> <li>Thus, under the British rule, the Indian economy suffered as the economic policies pursued were more with the protection and promotion of their own economic interests rather than the</li> </ul>	4

	<p>development of the Indian economy.</p> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>Land reforms refer to the change in the ownership of land holdings.</li> <li><b>Need for land reforms:</b> It was important that India adopted land reforms after Independence as majority of the population was dependent on it and also to ensure equity.</li> <li>Types of land reforms: Measures taken under land reforms: <ul style="list-style-type: none"> <li>i) <b>Abolition of intermediaries:</b> The idea behind this was to give ownership to the tillers (farmers). This ownership of land would give incentives to the tillers to make improvements and increase the agricultural output. Therefore, the abolition of intermediaries would result in equity in agriculture.</li> <li>ii) <b>Land ceiling:</b> This refers to fixing a specific limit of land which could be owned by an individual. The purpose was to reduce the concentration of land ownership in few hands and thereby promote equity in agriculture.</li> </ul> </li> </ul>	
32	<p>With reference to the given data, the following points highlight the comparison of the demographic features of India, China and Pakistan:</p> <ol style="list-style-type: none"> <li>The <u>population</u> of Pakistan is very small compared to India and China.</li> <li>With respect to <u>density</u>, although China is the largest nation and geographically occupies the largest area compared to India and Pakistan, its density is the lowest at 146 per sq.km.</li> <li>The <u>growth of population</u> is highest in Pakistan, followed by India and China. This is mainly the result of China's One Child Norm that was introduced in 1970s. This also led to the decline in the sex ratio.</li> <li>The <u>sex ratio</u> is low and biased against females in all three countries. This is due to the preference of the male child in all the three countries.</li> <li>The <u>fertility rate</u> is low in China and very high in Pakistan.</li> <li><u>Urbanisation</u> is the highest in China (56%). The percentage of people living in urban areas is 33% in India and 39% in Pakistan.</li> </ol>	4
33	<p>The concept of sustainable development focuses on the process of economic development that benefits and raises the quality of life of the present as well as the future generation without threatening the environment.</p> <p>In doing so, certain strategies need to be followed for achieving it. These strategies are explained as follows:</p> <p><b>1. Shift to organic farming:</b></p>	6



	<p>To increase agricultural production, we have been using excess chemical fertilisers and pesticides, but this has affected soil fertility, thus affecting the production capacity of the future generation. Now farmers have started using compost from organic waste as well as earthworms are used to convert organic waste to compost which is used for organic farming.</p> <p><b>2. Use of LPG and CNG:</b> Most rural households use cow dung and wood. This affects the environment by causing deforestation, air pollution etc. To solve this, subsidised <b>LPG</b> is being provided to them as well as gobar gas plants are being provided through easy loans and subsidies.</p> <p><b>3. To use environmental friendly sources of energy:</b> Thermal and hydro power plants are sources of energy on which India is highly dependent on; however, both have adverse impacts on the environment by emitting greenhouse gases and fly ash causing pollution. We can encourage the use of solar energy and wind power (non-conventional sources of energy) which are environment-friendly.</p> <p><b>4. Change in unsustainable patterns of consumption and production:</b> Increase in income, wasteful consumption due to unlimited wants and increasing production are stressing our resource base. To counter this, public awareness, legislation, incentives and education are required.</p> <p style="text-align: center;"><b>OR</b></p> <p>Yes, I agree.</p> <ul style="list-style-type: none"> <li>• The rising population resulting in an increase in consumption and thereby production has placed huge pressure on the environment. As a result, many resources have depleted and the waste generated is beyond the absorption capacity of the environment. This in turn has resulted in a number of environmental crises.</li> <li>• The development process has polluted and dried up rivers.</li> <li>• The extensive and intensive extraction of resources has exhausted the vital resources which has led to huge amounts being spent on technology and research to explore new resources.</li> <li>• The degraded environment quality which includes air and water has caused an increase in respiratory diseases and water-borne diseases, resulting in an increase in expenditure for healthcare services.</li> <li>• Global issues such as global warming and ozone depletion have contributed to increased financial commitments for the government.</li> </ul> <p>Thus, it is clear that the opportunity costs of negative environmental impacts are high.</p>	
34	India has been making efforts to increase its power generation. However, the generation of power is still insufficient to its requirement.	6

	<p>Some of the challenges faced by India's power sector:</p> <ol style="list-style-type: none"> <li>1. India's installed capacity to generate electricity is insufficient to feed an annual economic growth of 7-8%. In order to meet the growing demand for electricity, India's commercial energy needs to grow at 7%. India's installed capacity is underutilised because plants are not run properly.</li> <li>2. Losses faced by state electricity boards (SEBs) are over Rs 500 billion. SEBs face losses due to transmission and other inefficiencies. Distribution of electricity to farmers also incurs a lot of losses. Electricity in many areas are stolen, which is another problem area for SEBs.</li> <li>3. The private sector and foreign investors are yet to play a major role in power generation.</li> <li>4. Prolonged power cuts and high power tariffs cause public unrest in many areas.</li> <li>5. Shortage of raw materials and coal supplies is a major problem to the thermal power plants which are the mainstay of India's power generation.</li> <li>6. Due to rapid and continued economic growth, increase in population has led to an increase in the demand for electricity, which is higher than what India is currently producing. Thus, the power sector needs more public investment, research and development efforts, exploration and technological innovation.</li> </ol>	
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