

CBSE
Class XII Economics
Sample Paper - 2 (Updated 2019 – 20)

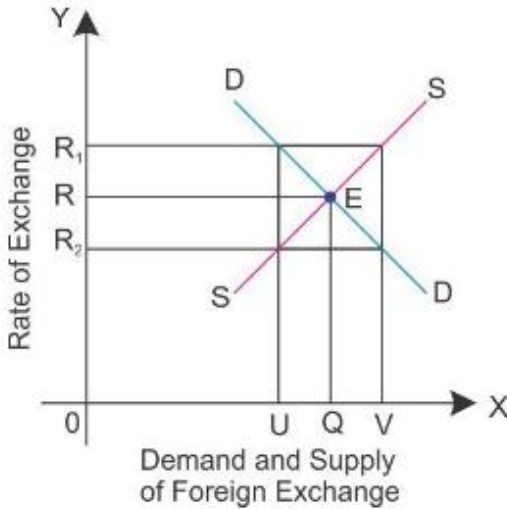
Note: Solutions provided here are to guide students to prepare effectively and to help them score more marks. Please write the answers in your exam as per the given question and the marks allotted to that question.

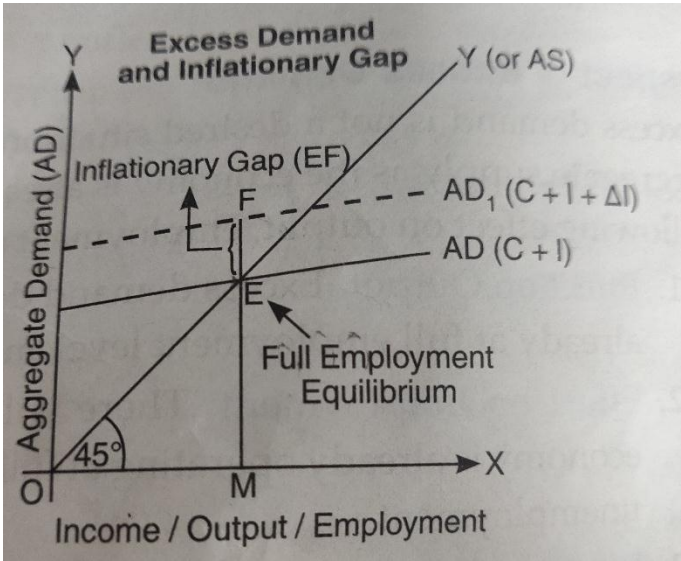
Section A (Macroeconomics)

Q. No.	Answer	Marks
1	NNP_{FC}	1
2	Bank rate refers to the rate at which the central bank lends to the commercial bank.	1
3	Loans offered by commercial banks are more than the deposits received by them. This function of the bank is known as <i>money/credit creation</i> .	1
4	<u>Marginal propensity to consume</u> is the ratio of change in consumption to change in income.	
5	As we know, equilibrium Y is $Y = C + I$ Substituting C and I in the income function, we get $Y = 340 + 0.8Y + 3000$ $Y - 0.8Y = 340 + 3000$ $0.2Y = 3340$ $Y = 3340/0.2 = \text{Rs } 16700$ <p style="text-align: center;">OR</p> False. Average propensity to save can be negative when consumption expenditure is greater than income.	1
6	Effective demand refers to that level of AD, where aggregate demand is equal to aggregate supply. It is that equilibrium point where planned spending on consumption and investment is exactly equal to the planned level of output.	1
7	False. Government budget is a statement of estimated receipts and expenditures of the government.	1
8	Payment of international loans, imports of goods and services, unilateral transfers sent abroad, foreign tours (Mention any two)	1
9	Fines and penalties, license fees or fees (Mention any two)	1
10	1-e, 2-a, 3-b, 4-c, 5-d	1

11	<table><tr><th>Marginal Propensity to Consume</th><th>Average Propensity to Consume</th></tr><tr><td>Ratio of change in consumption (ΔC) to change in income (ΔY)</td><td>Ratio of consumption expenditure (C) to level of income (Y)</td></tr><tr><td>Example: $\Delta Y = \text{Rs } 500$ $\Delta C = \text{Rs } 100$ $MPC = c = \frac{\Delta C}{\Delta Y}$ $= \frac{100}{500} = 0.2$</td><td>Example: $Y = \text{Rs } 1,200$ $C = \text{Rs } 900$ $APC = \frac{C}{Y}$ $= \frac{900}{1,200} = 0.75$</td></tr></table>	Marginal Propensity to Consume	Average Propensity to Consume	Ratio of change in consumption (ΔC) to change in income (ΔY)	Ratio of consumption expenditure (C) to level of income (Y)	Example: $\Delta Y = \text{Rs } 500$ $\Delta C = \text{Rs } 100$ $MPC = c = \frac{\Delta C}{\Delta Y}$ $= \frac{100}{500} = 0.2$	Example: $Y = \text{Rs } 1,200$ $C = \text{Rs } 900$ $APC = \frac{C}{Y}$ $= \frac{900}{1,200} = 0.75$	3
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12	<p>a) Intermediate consumption = Value of output – Net value added at factor cost – Depreciation – (Sales tax – Subsidy) $= 300 - 100 - 10 - (20 - 10)$ $= \text{Rs } 180 \text{ crore}$</p> <p>b) Net value added at market price = Value of output (units of output \times price per unit) + (closing stock – opening stock) – intermediate cost – depreciation $= (900 \times 40) + (1000 - 800) - 20,000 - 800$ $= 3600 + 200 - 20,000 - 800$ $= 17,000$ Therefore, net value added at market price will be Rs 17,000 crore.</p> <p style="text-align: center;">OR</p> <p>Generally, it is considered that an increase in the gross domestic product (GDP) of any economy (India in this case) ensures increase in the welfare of the people of the country. However, this may not always be correct. Some of the prime reasons for the same are</p> <p>a) unequal distribution and composition of GDP It may be that with rise in GDP, inequalities in the distribution of income may also increase. GDP does not take this inequality into account.</p> <p>b) non-monetary transactions in the economy which are not accounted for in GDP For example, the contribution of a housewife. Such activities lead to welfare but are not accounted in GDP due to non-availability of data.</p>	3						

	<p>c) Occurrence of externalities in the economy (both positive and negative) Since such external effects are not a part of market transactions, they are not accounted for in the calculation of GDP.</p>	
13	<p>Revenue deficit in a budget refers to a situation where the revenue receipts of the government are less than the revenue expenditure during a fiscal year. Revenue Deficit = Revenue Expenditure – Revenue Receipts</p> <p>Indications Implications of revenue deficit:</p> <ol style="list-style-type: none"> The government is not able to meet its routine expenditure. The government is using savings to meet its consumption expenditure. The government is using capital receipts to cover the deficit, i.e. it is either creating liabilities or reducing its assets. Borrowings to meet the deficit lead to inflationary pressures in the economy. <p>Reduction Revenue deficit can be reduced through the following measures:</p> <ol style="list-style-type: none"> Reducing expenditure: Unnecessary and unproductive expenditure of the government should be reduced. Increasing revenue: Revenue earned from various taxes and non-tax sources should be increased. 	<p>1</p> <p>1½</p> <p>1½</p>
14	<p>i) <u>Lender of the last resort</u>: The central bank is 'lender of the last resort' to banks. This means if a commercial bank fails to get finance from anywhere, it approaches the central bank as the last resort. The central bank approves loans against approved securities. By offering loans to commercial banks in situations of emergency, the central bank ensures that the banking system does not suffer any set back and the money market is stable.</p> <p>ii) <u>Bank of issue</u>: The central bank is the sole authority for the issue of currency in the country. In India, the RBI has the sole right to issue paper currency notes (except one rupee notes and coins which are issued by the Ministry of Finance). Advantages of being the sole authority for the issue of currency:</p> <ul style="list-style-type: none"> - Leads to uniformity in note circulation - Gives power to influence money supply - Ensures public faith in the currency system 	<p>2</p> <p>2</p>

15	<p>In a flexible exchange rate system, the interaction of the forces of demand and supply of foreign currency determines the equilibrium level of the exchange rate.</p> <p>This can be illustrated with the help of a diagram:</p> <div></div> <ul style="list-style-type: none">• The demand curve DD is the demand for foreign currency and the supply curve SS is the supply of foreign currency. The DD curve intersects the SS curve at Point E, which represents the equilibrium exchange rate.• If there is an increase in the exchange rate to OR1, then the supply of foreign currency will be more than the demand for foreign currency. This will push the exchange rate to level OR because of excess supply.• On the other hand, if there is a fall in the exchange rate to OR2, then the demand for foreign currency will be more than the supply of foreign currency. Eventually, it will push the exchange rate from OR1 to OR.• Therefore, the exchange rate will be determined where DD for foreign exchange = SS of foreign exchange (OR = OQ). <p style="text-align: center;">OR</p> <table border="1"><thead><tr><th>Balance of Trade (BOT)</th><th>Balance of Payments (BOP)</th></tr></thead><tbody><tr><td>It refers to the difference between exports and imports of goods.</td><td>It refers to the accounting statement which provides information of all economic transactions which take place between residents of the country and the rest of the world at a particular period of time.</td></tr></tbody></table>	Balance of Trade (BOT)	Balance of Payments (BOP)	It refers to the difference between exports and imports of goods.	It refers to the accounting statement which provides information of all economic transactions which take place between residents of the country and the rest of the world at a particular period of time.	<p>1</p> <p>1 ½</p> <p>1 ½</p>
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	<p>It includes only visible items.</p> <p>It is a narrow concept as compared to BOP. It is in fact a part of BOP.</p> <p>Unfavourable BOT can be met out of favourable BOP.</p>	<p>It includes visible items, invisible items, capital transfers and unilateral transfers.</p> <p>It is a wide concept as compared to BOT. It includes BOT.</p> <p>Unfavourable BOP cannot be met out of favourable BOT.</p>	
16	<p>GDP at factor cost = Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net exports + Consumption of fixed capital – Net indirect taxes</p> $= 500 + 500 + 150 + 30 + 10 - 150$ $= \text{Rs } 1,040 \text{ crore}$	6	
17	<p>The existence of excess demand in the economy where AD is more than AS gives rise to an inflationary gap.</p> <p>The inflationary gap refers to the gap by which actual aggregate demand exceeds aggregate demand required to establish equilibrium.</p> <p>The concept of inflationary gap can be explained with the help of the following diagram:</p>  <ul style="list-style-type: none"> • In the diagram, Income Output and Employment is measured on the X-axis and AD is measured on the Y-axis. • AD is the planned aggregate demand, and similarly, AS is the planned aggregate supply. • AD and AS intersect at point E which is full employment equilibrium. • Now, due to excess demand in the economy, the AD curve shifts to AD₁. As a result, a gap is created between actual AD and AD required to establish full employment equilibrium. This gap is known as the inflationary gap and is represented by EF. 	1	3

2

Fiscal measures to correct the inflationary gap:

The problem of excess demand, and therefore, the resultant inflationary gap can be corrected by bringing changes in AD. Government expenditure is an important component of AD, and therefore, the fiscal policy of the government is an important measure to correct the inflationary gap in the economy.

The government can do so by

1. **Decrease in government spending:** Changing or decreasing the level of government expenditure helps to control the situation of excess demand in the economy.
2. **Increase in taxes:** If the government increases tax rates or imposes new taxes, the prices are likely to increase. As a result, there can be a decrease in the level of AD.

OR

Given that

Value of MPC = 0.5

Initial increase in investment = Rs 800 crore

So, every increase of Re 1 in the income, 0.5 part of the increased income will be consumed by people.

Consumption = Rs 0.50

Saving = Rs 0.50

Round	Increase in investment ΔI	Change in income ΔY	Induced change in consumption ΔC	Savings ΔS
1	800	800	400	400
2	-	400	200	200
3	-	200	100	100
4	-	100	50	50
5	-	50	25	25
6	-	25	12.5	12.5
7	-	12.5	6.25	6.25
8	-	6.25	3.12	3.12
9	-	3.12	1.56	1.56
10	-	1.56	0.78	0.78
11	-	0.78	0.39	0.39
12	-	0.39	0.2	0.2
13	-	0.2	0.1	0.1
Total	800	1600	800	800

	<p>The above table shows that the multiplier process continues, and the income will increase due to an increase in consumption. Change in income (ΔY) = Rs 1600 Change in investment (ΔI) = Rs 800</p> <p>As we know that</p> $k = \frac{1}{1 - MPC} = \frac{\Delta Y}{\Delta I}$ $k = \frac{1}{1 - 0.5} = \frac{\Delta Y}{800}$ $\frac{1}{0.5} = \frac{\Delta Y}{800}$ $\Delta Y = \frac{800}{0.5} = 1600$ <p>Hence, an initial increase in the investment by 800 crore leads to an increase in income and output by 1600 crore.</p>	
	Section B (Indian Economic Development)	
18	Notable economists who estimated India's national income and per capita income during the colonial period were Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai.	1
19	<u>Demonetisation</u> is the act of removing a currency unit of its status as legal tender.	1
20	The National Bank for Agriculture and Rural Development (NABARD)	1
21	One-child norm	1
22	False. Under the financial sector reforms, 'the role of the RBI changed <u>from a regulator to a facilitator</u> of the financial sector'.	1
23	Poverty line is that line (in terms of per capital expenditure) which divides people of a region as poor and non-poor.	1
24	<p>Three main central problems of the economy:</p> <ol style="list-style-type: none"> 1) What to produce? 2) How to produce? 3) For whom to produce? <p style="text-align: center;">OR</p> <p>The first official census was conducted in the year <u>1881</u>.</p>	1
25	The Indian System of Medicine recognises 6 systems of medicine—Ayurveda, Yoga & Naturopathy, Unani, Sidha and Homeopathy (AYUSH).	1
26	1-d, 2-c, 3-a, 4-e, 5-b	1
27	In 1978, reforms were introduced in <u>China</u> .	1
28	Organic farming is a technology which restores, maintains and enhances the ecological balance. To improve food safety across the world,	3

	<p>organically grown food is highly demanded.</p> <p>Advantages of organic farming:</p> <ol style="list-style-type: none"> Organic farming does not require costly inputs such as HYV seeds and chemical fertilisers; rather, it uses only cheap organic inputs and creates high returns on investment. It generates more employment opportunities as it is based on a labour-intensive technique. It boosts exports of organic products from India. It has more nutritional value and provides healthy food in the economy. <p style="text-align: center;">OR</p> <p>Carrying capacity of the environment refers to the situation when the exploitation of resources does not exceed the reservation of resources so that the resources are not depleted.</p> <p>Absorptive capacity of the environment refers to the waste generated which the environment can absorb so that the environment is not polluted.</p> <p>When this is not so, the environment fails to perform its vital function of life sustenance, resulting in an environmental crisis.</p>	
29	<p>Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was the scheme launched by the Government of India.</p> <ul style="list-style-type: none"> This scheme provides minimum 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work. If work is not provided within a 15-day period, then the applicant is eligible for unemployment allowance by the state government. In 2018, under this scheme, 4.6 crore households were provided jobs. 	3
30	<p>Equity refers to equitable distribution of national income.</p> <p>One of the important objectives of planning is to attain stable growth with equity in the economy. For every nation, it is essential to have growth along with equity. If there is only growth (without equity) in the economy, then it means that everyone is not enjoying the benefit of growth.</p> <p>In this regard, planners have to ensure that the prosperity of economic growth should reach all the people. Individuals should be able to fulfil their basic needs of food, house, education and healthcare. The government should ensure appropriate allocation of wealth among the people to reduce economic inequality. Hence, 'growth with equity' is a more rational and desirable objective of planning for a nation.</p> <p style="text-align: center;">OR</p>	

	<p>The planning objective of self-sufficiency is that a developing nation has to promote the economic growth with their resources.</p> <ul style="list-style-type: none"> • An economy has to reduce the dependency on foreign countries for the import of food items, technology and capital goods. • As we depend more on imported goods, it may lead our economy to a vulnerable condition. • Hence, the first seven Five Year Plans highlighted the significance of self-reliance, i.e. restricting the imports of goods which could be produced within our economy. • The basic idea of self-sufficiency was not to expose the Indian economy to political pressure from the rest of the world as we are dependent on them for the supply of essential goods. 	
31	<p>According to the official data, Pakistan indicated rising poverty. Major reasons for the slowdown of growth and re-emergence of poverty in Pakistan:</p> <ul style="list-style-type: none"> • Failed to bring about agricultural reforms and the performance of the agricultural sector in terms of economic indicators showed a stagnant or negative trend. • There was a reduction in the development expenditure incurred as large funds were used to build a strong defence system. • Pakistan's foreign exchange requirements were from Pakistani workers in the Middle East and exports of its highly volatile agricultural products. The foreign exchange had an impact on the slow pace of economic growth of Pakistan. • Pakistan was highly dependent on foreign loans, which were difficult to repay. 	4
32	<p>The positive impact on the Indian economy under the colonial rule:</p> <ol style="list-style-type: none"> i. The railway network was introduced by the British in India in 1850. People were thus able to undertake long distance travel which in turn removed cultural and geographical barriers. ii. It promoted the commercialisation of Indian agriculture which affected the comparative self-sufficiency of the village economies in India. iii. Infrastructure developed in India by the British proved to be useful for Indians. With other modes of transport, the British also developed inland trade and sea lines. iv. British free-trade policy, which is globalisation today, led to an increase in India's exports. v. Expensive electric telegraph in India maintained law and order. 	4
33	<p>Yes, I agree that the inability of the public sector in delivering health services has led to the dominant role of the private sector in the health infrastructure of India.</p> <ul style="list-style-type: none"> • More than 70% of the hospitals in India are run by the private 	6

	<p>sector. They are responsible for more than 40% of the available beds.</p> <ul style="list-style-type: none"> • They provide healthcare for 80% of out-patients and 46% of in-patients. • The private sector has been providing medical education and training, medical technology and diagnosis, manufacture and sale of pharmaceuticals, hospital construction and the provision of medical services. • In 2001-02, there were more than 13 lakh medical enterprises employing 22 lakh people, most being single person owned and operated. • The lack of regulation of the private sector in India has resulted in a number of practitioners not being registered doctors (also referred to as quacks). • Economic reforms have permitted NRIs, industrial and pharmaceutical companies to set up super-specialty hospitals which cater to the needs of rich Indians and tourists. 	
34	<p>Economic activities in India are grouped into the primary, secondary or tertiary sector.</p> <p>According to the data in the given table, it is observed that</p> <ul style="list-style-type: none"> • About 64% of the workforce in the rural areas are engaged in agriculture and its allied activities (primary sector) as compared to 6% in the urban areas. • 20% of the rural workers work in manufacturing and other industrial activities (secondary sector) as compared to 30% of the urban workforce. • About 16% of the rural workforce and nearly 60% of the urban workforce work in the service sector (tertiary sector). • 63% of women are engaged in activities in the primary sector, while men get opportunities in both sectors. • Agriculture is not the main activity in urban areas as the majority of the people are engaged in the tertiary sector. Men workers are equally concentrated in all three sectors, while women workers are concentrated more in primary activity. • Urban workers have more opportunities as compared to rural workers in the service sector due to the lack of education and skill that is required. • Most of the rural workers are engaged in the secondary sector in the construction, manufacturing and other industrial activities as compared to urban workers who are engaged in the service sector. <p style="text-align: center;">OR</p>	6

	<p>Some of the measures to tackle the problem of poverty:</p> <ol style="list-style-type: none"> Allocation of funds for poverty alleviation programmes must be increased to meet the requirement of the poorest group who is in need of assistance. Vocational training should be provided to the youth to earn their livelihood. Certain schemes need to be focused more on providing income-generating assets which can provide sustainable income for the poor. An enhanced delivery mechanism should be encouraged in schools so that the level of education is brought up to the minimum required standards. Targeted Public Distribution System (TPDS) should be adopted to provide food security to below the poverty line (BPL) families. Credit facilities through banks should be provided to save people from indebtedness to exploitative moneylenders. 	
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