

CBSE
Class XII Economics
Sample Paper - 3 (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.

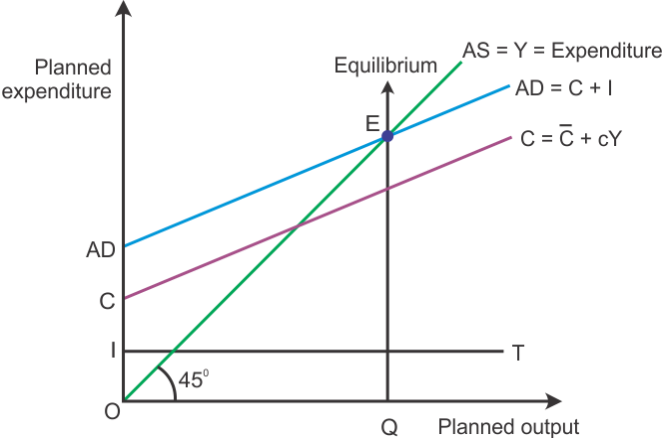
Section A (Macroeconomics)

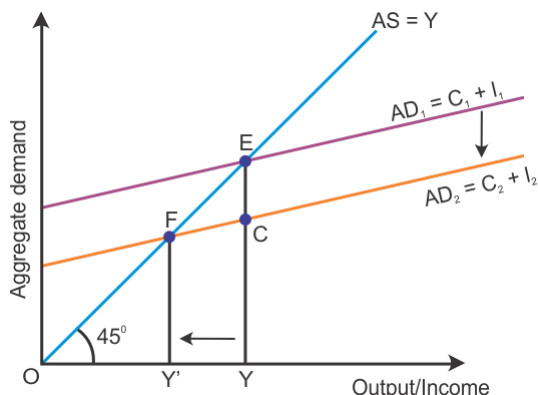
Q. No.	Answer	Marks
1	<p>Goods and services are bought and sold in the product market.</p> <p style="text-align: center;">OR</p> <p>A flow variable is a variable measured over a period of time. Example: Losses of a company—a flow variable measured over a period of time.</p>	1
2	Bank rate is the rate at which the central bank lends money to commercial banks to meet their financial needs.	1
3	<u>Statutory liquidity ratio</u> refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets.	1
4	Two sources of revenue receipts are tax receipts (direct taxes and indirect taxes) and non-tax receipts (such as receipts from interest, fines and licence fee).	1
5	Depreciation of domestic currency leads to a rise in <u>exports</u> .	1
6	<u>Fiscal deficit</u> indicates the total borrowing requirements of the government.	1
7	False. Export of machinery is recorded on the <u>credit side of the current account</u> .	1
8	When planned saving is less than planned investment, <u>national income is likely to rise</u> .	1
9	APC can never be zero because consumption can never be zero. Even at zero level of income, consumption is not zero (there is autonomous consumption).	1
10	In an economy, break-even point and equilibrium point may lie at the same level of income if ex-ante investments are <u>zero</u> .	1

11	<p>We know, National Income, $Y = C + I$ Now, $C = \bar{C} + cY$ So, $Y = \bar{C} + cY + I$ $Y = 150 + 0.80Y + 60$ $0.20Y = 210$ $Y = \text{Rs } 1,050 \text{ crore}$</p>	3						
12	<p>Two components of aggregate demand:</p> <p>i. Private (household) consumption expenditure (C)</p> <ul style="list-style-type: none">Refers to total expenditure to be incurred by all households on the purchase of goods and services such as food, clothing and housing.This is planned consumption expenditure, i.e. ex ante.Consumption expenditure is directly influenced by disposable income. Higher the disposable income, more is the consumption expenditure. <p>ii. Private investment expenditure (I)</p> <ul style="list-style-type: none">Refers to planned expenditure by private entrepreneurs on the creation of capital goods for profit motive.It includes an addition to the stock of physical capital assets such as machinery, building etc. and change in inventory.Investment under aggregate demand is assumed to be autonomous investment and is not influenced by the level of income. <p style="text-align: center;">OR</p> <p>Difference between average propensity to consume and marginal propensity to consume</p> <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: $Y = \text{Rs } 1,200$ $C = \text{Rs } 900$ $APC = \frac{C}{Y}$ $= \frac{900}{1,200} = 0.75$	
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13	<p>Government budget refers to an annual financial statement which presents the estimated receipts and expenditures of the government during a financial year.</p> <p>The role of the government budget helps in bringing stability in the economy and can be explained as follows:</p> <ul style="list-style-type: none"> • Every economy witnesses fluctuations in the form of inflation or deflation. Different budgetary policies are used to combat different phases in business cycles. • In the phase of inflation, the policy of surplus budget is followed. On the other hand, in the phase of deflation, the policy of deficit budget is followed. • Another major objective of the government budget is economic growth. For this, the budgetary policies aim at stimulating the rate of saving and investment in the economy. Various provisions and policies are followed such that they raise the rate of saving and investment in the economy. <p style="text-align: center;">OR</p> <p>a) <u>Revenue deficit</u></p> <ul style="list-style-type: none"> • Revenue deficit is the excess of revenue expenditure over revenue receipts. • Revenue deficit is calculated as Revenue Deficit = Revenue Expenditure – Revenue Receipts • It signifies that the government's own revenue is insufficient to meet the regular expenditures. <p>b) <u>Fiscal deficit</u></p> <ul style="list-style-type: none"> • Fiscal deficit is the excess of revenue expenditure over total receipts excluding borrowings. • Fiscal deficit is calculated as Fiscal Deficit = Total Expenditure – Total Receipts other than borrowing • It indicates the total borrowing requirements of the government. 	4
14	<p>The central bank is called the banker to the government as it performs various banking functions for it. It acts as a banker, agent and advisor to the government.</p> <p>In doing so, it performs the following functions for the government:</p> <p>As a banker:</p> <ol style="list-style-type: none"> Maintaining a current account for cash balances of the government Accepting receipts and making payments on behalf of the government 	4

	<p>iii. Carrying out exchange remittances and various other banking operations</p> <p>iv. Providing loans to the government</p> <p>As an agent:</p> <p>i. Managing public debt of the government</p> <p>As a financial advisor:</p> <p>i. Advising the government on economic, financial and monetary matters</p>	
15	<p>i. Import and export of goods/visible items: <u>Import of goods</u> leads to an outward flow of foreign exchange and hence is treated as a negative item in the current account of balance of payments. On the other hand, <u>export of goods</u> lead to an inward flow of foreign exchange and hence is treated as a positive item in the current account of balance of payments.</p> <p>ii. Import and export of services/invisible items: Similarly, <u>import of services</u> leads to an outward flow of foreign exchange and hence is treated as a negative item in the current account of balance of payments. On the other hand, <u>export of services</u> leads to an inward flow of foreign exchange and hence is treated as a positive item in the current account of balance of payments. Services which are included in the current account of balance of payments are</p> <ol style="list-style-type: none"> Banking, shipping and insurance services Other miscellaneous services such as consultancy services and telephone services <p>iii. Unilateral transfers are also known as transfers for free, such as the gifts and grants from foreign governments. A country <u>providing grants or donations</u> to the rest of the world leads to an outward flow of foreign exchange and hence is treated as negative items in the current account of balance of payments. A country <u>receiving grants or donations</u> from the rest of the world leads to an inward flow of foreign exchange and hence is treated as positive items in the current account of balance of payments.</p> <p>iv. Income receipts and payments: It includes investment income and receipts in the form of interest, rent and profit.</p>	4

16	<p>National income = Private final consumption expenditure + Government final consumption expenditure + (Net domestic fixed capital formation + Change in stock) – Net imports + Net factor income from abroad – Net indirect taxes</p> $= 500 + 300 + (50 + 20) - (-10) + 15 - 10$ $= \text{Rs } 885 \text{ crore}$	6
17	<p>According to Keynesian theory, the equilibrium level of income in an economy is determined when the AD (C+I) curve is equal to the total output AS.</p> <p>Equilibrium level of income is attained only when the aggregate demand is equal to the aggregate supply. The level of output where a producer's plan to produce an amount of goods is equal to a consumer's plan to purchase the amount of goods. Thus, equilibrium is struck where planned output (AS) is equal to planned expenditure (AD) during a period of time.</p>  <p>The determination of equilibrium by the aggregate demand and aggregate supply approach (AD and AS approach) can be explained as follows:</p> <p>In the diagram, we can see AD and AS intersect at point E. This is the equilibrium point where planned spending on consumption and investment is exactly equal to the level of output.</p> <p>OQ is the equilibrium level of output corresponding to point E.</p> <p>This situation is also termed as effective demand.</p> <p style="text-align: center;">OR</p> <p>Deficient demand occurs in a situation when the aggregate demand is short of the aggregate supply corresponding to full employment in the economy. It leads to a fall in the general price level and results in deflation, i.e. $AD < AS$.</p> <p>The deficient demand situation can be explained with the help of a diagram.</p>	6



Aggregate demand is shown by the AD curve and aggregate supply is shown by the AS curve. While the aggregate demand curve and the aggregate supply curve intersect each other, the full employment equilibrium is attained at Point E. OY is the full employment level of output, and EY is the aggregate demand at full employment level of output. If the aggregate demand decreases below the full employment level of output from EY to CY, then the economy will have **deficient demand**, (EY – CY = EC).

Section B (Indian Economic Development)

18	India and Pakistan adopted the mixed economic system.	1
19	Two functions performed by the environment: (Any two) a) To assimilate waste b) To provide resources for production c) To sustain life d) To provide aesthetic services OR The government set up the Central Pollution Control Board to control <u>air pollution</u> .	1
20	False. Unemployment which occurs in certain seasons of the year is known as <u>seasonal unemployment</u> .	1
21	In terms of the sectoral contribution to GDP in Pakistan and India, the major contribution is from the tertiary sector. According to 2016 data, contribution of the tertiary sector to GDP (%) was 53% in India, 54% in Pakistan and 48% in China.	1
22	Differences in male and female literacy rates indicate that the education in India is gender biased.	1
23	a-3, b-5, c-4, d-2, e-1	1

24	In <u>1955</u> , the Karve Committee noted the possibility of using small-scale industries for promoting rural development.	1
25	<p>a) Outsourcing Hiring of regular services from external sources, mostly from foreign countries, which was previously provided internally or from within the country is known as outsourcing.</p> <p>b) Import substitution The policy which aims at replacing or substituting imports with domestic production by protecting domestic industries from foreign competition is known as import substitution.</p>	<p>½ </p> <p>½</p>
26	Under a capitalist economy, activities are controlled and operated by the private sector .	1
27	a-5, b-4, c-3, d-1, e-2	1
28	<p>Sustainable development is development which meets the needs of the present generation without compromising the ability of the future generation to meet their own needs.</p> <ul style="list-style-type: none"> This simply means that it is our duty to protect our environment and the Earth in such a way that the benefits and quality of life enjoyed today can be enjoyed by future generations as well. A major responsibility lies on the present generation to build a better and healthy environment for the next generation. In doing so, the present generation can <ol style="list-style-type: none"> conserve our natural assets preserve the regenerative capacity of the natural ecosystem avoid any practice which would put a risk on the future generation <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Prior to industrialisation, the demand for environmental resources was lower as compared to the supply. This meant that the resources were not overused and the problem of pollution was within limits. Since the rate of extraction and overutilisation of the environmental resources was less than the rate of regeneration of these resources, environmental problems did not arise. Presently, with rapid industrialisation and a growing population, there has been a growing demand for resources for production and consumption purposes. This has put pressure on the resources as the extraction of resources is greater than its regeneration, thus causing an imbalance where the demand for resources is more than the supply. So, since the demand is huge, the supply is limited due to overuse and misuse. This has led to the reversal of supply-demand of resources resulting in the environmental problems of waste 	3

	generation and pollution.	
29	<p>Micro-credit is a worldwide credit scheme extended to the rural poor and women for their better standard of living, preferably with the satisfaction of basic needs.</p> <p>The micro-credit programmes initiated credit and other financial services through self-help groups (SHGs) and non-governmental organisations.</p> <ul style="list-style-type: none"> • An SHG is a group of about 15–20 members who pool their savings. Members of SHGs can take loans from the group's savings on a decided rate of interest. • The rate of interest is much lower than the interest which is charged by informal sources. After two years of regular savings, the SHG can also take a loan from the bank. A loan is given in the name of the group and creates tremendous opportunities for self-employment of members. • Thus, the micro-credit programme abandons the need of collateral to avail loans. This micro-credit programme enabled women to become economically independent. This has led to women empowerment at the rural level. 	3
30	<p>Main causes of India's agricultural stagnation during the colonial period:</p> <ul style="list-style-type: none"> • Land revenue system: The colonial government in India introduced various systems of land settlement. The zamindari system was one such land settlement system. Under the zamindari system, the zamindars were the owners of the land and used to collect rent from cultivators. They were also required to pay a certain specified sum of revenue to the colonial government. • Lack of investment: Despite using agricultural land as a source of income, neither the colonial government nor the zamindars made any attempt to improve the condition of the land. They did not focus on developing the agricultural sector. There was no incentive given to farmers and there was a lack of investment in this sector. • Commercialisation of agriculture: Under the British rule, farmers were forced to shift their cultivation from food crops to cash crops which would benefit the British industries. The fall in the production of food crops was responsible for frequent famines in India during the colonial period. • Low level of productivity: Low level of technology, lack of irrigation facilities and negligible use of fertilisers resulted in the low level of productivity. 	4
31	<p>Some of the major indicators of human development are life expectancy, mean years of schooling, GDP per capita, population using improved sanitation (%), population with sustainable access and improved water source (%).</p> <ul style="list-style-type: none"> • China has had a better performance in most of the indicators compared to India and Pakistan, such as in life expectancy (76.4, 68.8 and 66.6), access to sanitation (75, 44.2 and 58.3) and mortality rate 	4

	<p>(27, 174 and 178).</p> <ul style="list-style-type: none"> • Pakistan is ahead of India in its proportion of people below the poverty line (46.4, 60.4) and access to sanitation (91, 94). • As per 2016-17 data, India's HDI rank in the world was 130, China's rank was 86 and Pakistan's rank was 150. 	
32	<p>The Indian economy adopted the five year plans for the removal of the backwardness of the Indian economy. Each five year plan listed the basic goals of India's development which served as the guiding principles of Indian planning.</p> <p>These basic goals are</p> <ol style="list-style-type: none"> 1. Growth: This aims to increase the country's capacity to produce goods (within the country). This is indicated by an increase in GDP. Growth depends on the contribution of the primary, secondary and tertiary sectors. 2. Modernisation: This aims at adoption of new technology to increase the production of goods and services and also change in the social outlook such as gender empowerment, equal rights for men and women etc. 3. Self-reliance: It aims to make the country self-reliant and to reduce our foreign dependence. The policy of self-reliance was essential to reduce foreign dependence and avoid foreign interference. 4. Equity: It aims to ensure that everyone should be able to meet his/her basic needs and to reduce inequality in the distribution of wealth. It aims to raise the standard of living of all people and promote social justice. <p style="text-align: center;">OR</p> <p>1921 is regarded as the year of great divide or the defining year to mark the demographic transition from the first to the second decisive stage. Prior to 1921, population growth in India was never consistent.</p> <ul style="list-style-type: none"> • In the first decisive stage till 1921, there was a high birth and death rate. • The high death rate caused a dip in the growing population of India before 1921. • After 1921, there was a significant increase in the population because of a low death rate and high birth rate in India. 	4
33	<ul style="list-style-type: none"> • The country's development as well as the development in the quality of life of people require both economic and social infrastructure. • Infrastructure for the improvement in the quality of life of people by making provisions for better health. • Inadequate infrastructure can have adverse effects on the health of people. • Apart from hospitals, nursing homes, dispensaries and other 	6

	<p>healthcare facilities provided by both public and private sectors, sanitation and clean water supply are equally essential for better health.</p> <ul style="list-style-type: none"> Improvement in sanitation by means of public toilets, garbage collection, waste water disposal and provision of clean water for consumption have a direct impact on morbidity, i.e. the proneness to fall ill from water-borne and other diseases. In addition to sanitation and water supply, maintaining the quality of transport and communication infrastructure can affect access to healthcare and can affect morbidity. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> After independence, the government had the responsibility to regulate the health sector in India. However, despite its efforts and the progress in the health sector, the government's investment in infrastructure was inadequate, thus the private sector in partnership with the government emerged to meet the infrastructural needs of the country. In India, there is an imbalance in the development of the urban and rural sectors. While the former has most of the infrastructural facilities, the latter is lagging behind despite majority of the population living there. The census of 2001 showed that <ol style="list-style-type: none"> Only 56% households had an electricity connection in rural India. About 43% use kerosene and 90% of the rural households use biofuels for cooking. Only 24% of rural households had access to tap water, and 76% drink water from open sources. Access to improved sanitation was only 20%. India's investment in infrastructure is only 34% of its GDP (2014). Economists have projected India to be the third largest economy in the world in the near future. However, in achieving this, India needs to boost its expenditure on infrastructure. As with the development of the country, the share of agriculture decreases with progress in the industrial and service sectors which require electricity generation, transport and communication facilities. Inadequacy of such facilities will hinder the development of India. 	
34	<p>a) Transmission and distribution losses can be reduced in the following ways:</p> <ol style="list-style-type: none"> By improving the plant load factor Promoting the role of the private sector Better research and development efforts Proper check on power theft and taking strict action against 	6

	<p>culprits</p> <p>v. Power can be provided at subsidised rates to poor and marginal farmers</p> <p>b) Since independence, the power management in Delhi has changed several times. The Delhi State Electricity Board (DSEB) was set up in 1951; this was then succeeded by the Delhi Electric Supply Undertaking (DESU) in 1958 and by Delhi Vidyut Board (DVB) in 1997.</p> <ul style="list-style-type: none"> • Now the distribution of electricity rests with two leading private players: <ul style="list-style-type: none"> a) Reliance Energy Ltd. (BSES Rajdhani Power Limited and BSES Yamuna Power Limited) and Tata Power Limited (NDPL). • They supply electricity to approximately 46 lakh customers in Delhi. • The tariff structure and other regulatory issues are monitored by the Delhi Electricity Regulatory Commission (DERC). • It was expected that there would be greater improvement in the power distribution and consumers would benefit in a major way; however, till now, results in power management and distribution in Delhi are unsatisfactory. 	
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