

CBSE
Class XII Economics
Sample Paper - 4 (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	Gross investment = Net investment + <u>Depreciation</u> OR Net indirect taxes = Indirect taxes - <u>Subsidies</u>	1
2	False. The rise in bank rate will decrease money supply.	1
3	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.	1
4	Money supply refers to the total volume of money held by the public at a particular point of time in an economy.	1
5	Dividend received by the government from a company is a <u>revenue receipt</u> as it neither creates any liability nor reduces any asset of the government.	1
6	Foreign exchange rate is the rate at which one currency is exchanged for the other.	1
7	One reason which gives rise to excess demand is the increase in <u>public expenditure</u> on goods and services.	1
8	Inflationary gap shows the extent by which current AD exceeds the AD required for full employment equilibrium.	1
9	Aggregate supply and <u>national income</u> are always equal.	1
10	Exports lead to an <u>inflow of foreign exchange</u> in the country; thus, they are recorded as positive (credit) items.	1
11	Operating surplus = GDP at market price – Depreciation – Net indirect taxes – Compensation of employees – Mixed income of self-employed = 1,500 – 30 – 100 – 100 – 300 = Rs 970 crore OR There is minimum consumption even when the income level is zero. This is the minimum consumption which is needed for survival at zero level of income. This is known as 'autonomous consumption'. Such consumption is independent of income and is met from past	3

	savings, borrowings or sale of some asset.	
12	<p>a. When $MPC = 0$, the value of the multiplier is</p> $\text{Multiplier}(k) = \frac{1}{1 - MPC}$ $= \frac{1}{1 - 0} = 1$ <p>b. When $I > S$, it indicates that $AD > AS$. This will lead to an increase in the level of output. However, it will rise only up to the level of the full employment level.</p>	3
13	<p>Legal reserve requirements, as defined by the RBI, refer to the minimum reserves which must be held by commercial banks. Reserve requirements are of the following two types:</p> <p>i. Cash reserve ratio (CRR): CRR refers to the minimum proportion of net time and demand liabilities which commercial banks must hold with the central bank. An increase in CRR implies a reduction in the excess reserves held by commercial banks, which in turn implies a reduction in their credit creation capacity.</p> <p>ii. Statutory liquidity ratio (SLR): SLR refers to the minimum proportion of net time and demand liabilities which commercial banks must hold with themselves in the form of liquid assets. An increase in the SLR implies a reduction in the proportion of deposits which can be used by commercial banks for providing credit.</p>	4
14	<p>Revenue receipts refer to receipts of the government as a result of which there is neither any creation of liability nor any reduction in assets of the government.</p> <p>Tax receipts refer to the receipts from taxes and other such duties as imposed by the government.</p> <p>Two main sources of tax receipts of the government:</p> <p>a. Direct taxes: Direct taxes refer to taxes which are imposed directly on the individual and companies. The burden of such taxes cannot be passed onto others. Examples: Income tax, corporation tax</p> <p>b. Indirect taxes: Indirect taxes are taxes which are imposed on the consumption of goods and services. The burden of such taxes can be shifted to others. Examples: Sales tax, service tax</p> <p>The system of taxation and subsidies by the government can be used to reduce the inequality of income in the economy. This can be done by imposing higher taxes on high-income groups and providing subsidies to low-income groups.</p>	4

15	Differences between Balance of Trade and Balance of Payments:	4										
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16	GNP at market price = Private final consumption expenditure + Government final consumption expenditure + (Net domestic fixed capital formation + Closing stock – Opening stock + Consumption of fixed capital) – Net imports – Net factor income to abroad = 600 + 100 + (50 + 10 – 10 + 30) – 30 – (–20) = Rs 770 crore	6										

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We know,

$$\text{Multiplier} = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.80} = 5$$

Now,

$$\text{Multiplier} = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{\Delta Y}{300}$$

$$\Delta Y = 1,500$$

Also,

$$\text{MPC} = \frac{\Delta C}{\Delta Y}$$

$$0.80 = \frac{\Delta C}{1,500}$$

$$\Delta C = 1,200$$

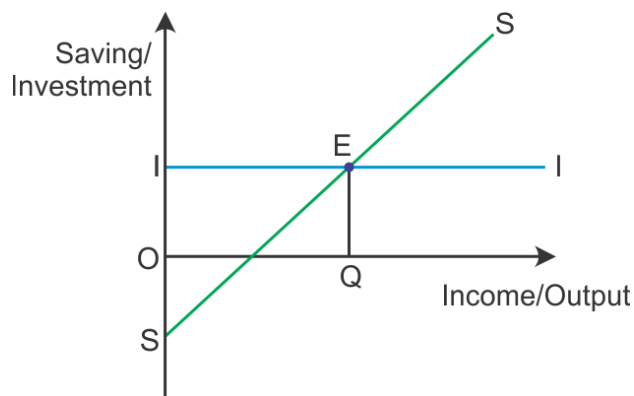
OR

a) An economy is in equilibrium when any of the following two conditions are satisfied:

- i. Aggregate demand = Aggregate supply
- ii. Saving = Investment

Saving and Investment Approach:

In the saving and investment approach, equilibrium is attained at the point where saving and investment will intersect each other, i.e. leakages are equal to injections.



In the diagram, SS and II is the saving curve and investment curve, respectively. The II curve is a horizontal line which implies the autonomous investment. OQ is the equilibrium level of income where the SS and II curves intersect each other at Point E.

a) The economy is not in equilibrium when either **S < I** or **S > I**.

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	<p>a) Saving < Investment on the left side of equilibrium point E: Investment exceeding saving implies that the injection into the circular flow of income is more than the withdrawal from the income. Supply of goods and services is not sufficient to meet the demand for goods and services. As consumption is high, there will be a low amount of saving and thereby planned output is not sufficient to meet the demand. This leads to a fall in the inventory, and therefore, saving needs to increase. This is possible only when saving is again equal to investment and the equilibrium is restored.</p> <p>Saving > Investment on the right side of equilibrium point E: Saving exceeding investment implies that the withdrawal from the income is more than the injection into the circular flow of income. Consumption of goods and services is less than the supply of goods and services. As saving is high, there will be low amounts of consumption and thereby the sold output is less than the planned output. This leads to accumulation of inventory, and therefore, saving needs to reduce. This is possible only when saving is again equal to investment and the equilibrium is restored.</p>	
	Section B (Indian Economic Development)	
18	Reforms were introduced in India in 1991, in China in 1978 and in Pakistan in 1988.	1
19	The correct option is A. Licensing	1
20	<u>Land ceiling</u> refers to the maximum size of land holding which an agricultural household can own.	1
21	$\text{Rate of unemployment} = \frac{\text{Number of persons unemployed}}{\text{Size of labourforce}} \times 100$	1
22	Life expectancy of India during the colonial rule was very low — <u>44 years.</u> OR The correct option is C. 1853	1
23	The minimum calorie intake estimated is 2,400 calories for a person in the rural areas and 2,100 for a person in the urban areas.	1
24	In 1950, the Planning Commission was set up with the Prime Minister as the chairman.	1
25	Workers who own and operate an enterprise to earn their livelihood are known as <u>self-employed workers.</u>	1
26	True. India and Pakistan introduced economic reforms under the pressure of the World Bank and IMF.	1
27	The correct option is D. The programmes introduced by the government to improve food and nutritional level of the poor were PDS, Midday Meal Scheme and Integrated Child Development Scheme.	1

28	<p>In the given situation, since each person has a different status and their jobs differ from each other, they are also called differently. The three types of workers are</p> <ul style="list-style-type: none"> Workers who own and operate an enterprise to earn their livelihood are known as self-employed. Thus, Karthik the cement shop owner is self-employed. Sahil, the construction worker, is known as a casual wage labourer. Such labourers undertake different casual jobs and receive payment for them. Raj is an engineer employed with a company. When workers are engaged by someone or an enterprise and are paid wages on a regular basis, they are known as regular salaried employees. 	3
29	<p>In India, since majority of the people in the rural areas work on land, there is greater risk in depending on only agriculture. Thus, finding employment in non-farm activities will help reduce the risk associated with depending on one source.</p> <p><u>Importance of non-farm employment opportunities in promoting rural diversification:</u></p> <ol style="list-style-type: none"> Non-farm employment provides productive sustainable livelihood options to the rural people as the risk of depending on one source for their living is reduced. Diversification into non-farm activities help people to find gainful employment during the off season (such as the Rabi season) as most agricultural activities in India are done during the Kharif season. The output from non-farm sectors act as an input for large-scale industries. For example, production of milk in dairying is used by industries to produce different milk products such as cheese, butter etc. <p style="text-align: center;">OR</p> <p>Important role of education in economic development:</p> <ol style="list-style-type: none"> Education makes people more <u>receptive to modern and scientific ideas</u>. This leads to innovation which is crucial for development. It results in <u>greater awareness about the available opportunities</u>. Education imparts to people knowledge and skills which would <u>increase their participation in productive programmes</u>. Education, being one of the major sources of human capital formation, produces skilled and trained individuals which increase their productivity, thus making them an asset for the country. 	3
30	<p>The main causes of India's agricultural stagnation during the colonial period:</p> <ul style="list-style-type: none"> The colonial government in India introduced various systems of land settlement. The zamindari system was one such land revenue system. Under the zamindari system, the zamindars were the owners of the land and used to collect rent from cultivators. Their main 	4

	<p>interest was to collect rent from the cultivators.</p> <ul style="list-style-type: none"> • They were also required to pay a certain specified sum of revenue to the colonial government. 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. • There were low levels of technology, lack of irrigation facilities and little use of fertilisers which all added to the backwardness of the sector and therefore resulted in low productivity. The agricultural sector lacked resources and investment. • Commercialisation of agriculture was another reason as farmers were forced to shift their farming from subsistence crops to commercial crops which was ultimately used by British industries. This did not benefit farmers in anyway; instead, it put the farmers in heavy debt. <p>Hence, Indian agriculture stagnated and remained underdeveloped during the colonial government.</p>	
31	<p>Similarities in the development strategies of India and Pakistan:</p> <ol style="list-style-type: none"> After Independence in 1947, both India and Pakistan initiated their development process on economic planning. To strengthen their economies, Pakistan introduced reforms in 1988 and India in 1991, which was around the same time. They also announced Five Year Plans for growth and development around the same time period. India's first five year plan was in 1951 and Pakistan in 1956. They followed the mixed economic system involving the co-existence of both public and private sectors. Both countries relied more on the public sector for initiating the process of growth and development. 	4
32	<p>An economy consists of the economic system of a country or region in terms of the production and consumption of goods and services. There are three types of economies:</p> <ol style="list-style-type: none"> Capitalist economy: Consumers and producers are the two vital elements of an economy. In case of a capitalist economy, individuals are free to own and control their economic resources. Everyone is independent to choose her or his own business, profession and occupation. A capitalist economy is also known as a free trade economy. Socialist economy: Socialist economy is an economy which is owned and controlled by society. Economic resources are owned by society, and they are used in the public interest. All important decisions are taken by the government. Individuals in a socialist economy do not have the right to own private properties. The economy is managed and controlled by the Planning Commission as the central authority. There is least inequality of income. Mixed economy: Mixed economy is the mixed form of socialist and capitalist economy. Certain economic activities are fully owned and controlled by the government. All the economic activities are not 	4

allowed by the government. The private and public sectors coexist in the economy. India has adopted a mixed economy.

OR

In accordance with the state playing the central role in managing the economy, the Industrial Policy Resolution (IPR) 1956 was adopted.

The principal elements of IPR 1956 were

1. Classification of industries:

According to the IPR 1956, industries were classified into three categories:

Schedule A: Industries exclusively owned by the state.

Schedule B: The state would take the initiative of setting up the industries and the private sector will supplement the work done by the state.

Schedule C: Those industries which are not included under schedules A and B would be under this which were to be a part of the private sector.

2. Industrial licensing:

According to industrial licensing, the government had to issue a license for

- a) Setting up of new industries
- b) Expansion of existing industries
- c) Diversification of products

The government also provided liberal licenses to private industries who established their industries in backward regions. This was done to promote regional equality.

3. Industrial concession: While the government played the leading role in the industrialisation process, private entrepreneurs were given concessions and incentives for establishing their industries in the backward regions.

33	<p>In order to eradicate poverty, it is important that the root causes of poverty is known. Important causes of poverty:</p> <ul style="list-style-type: none"> i) Population explosion: The rapid growth of population is one of the major causes of poverty, especially among the rural poor. As the distribution of PCI is very low. ii) High illiteracy rate: Due to the lack of income, most rural people are unable to receive education, and as a result, they do not have the necessary skills and knowledge to find jobs in other sectors apart from agriculture. iii) Unemployment: In order to improve their living conditions and to have access to wider opportunities, rural people migrate to urban areas; however, as they do not have the necessary skills and knowledge, they are unable to find proper jobs and thus engage in casual jobs, thus making them either temporary employed or unemployed. iv) Inflation: The continuous rise in prices, especially of essential goods, adds to the misery of the poor as the rise in price does not match the level of income of the poor, and as a result, they are unable to have access to their basic needs for survival. 	6
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