CBSE
Class XII Economics
Sample Paper - 5 (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	Two components of money supply are currency held by the public and demand deposits with banks.	1
2	Circular flow of income refers to the continuous process of circulation of production, income generation and expenditure involving different sectors of the economy.	1
3	The correct option is (b). **Fiscal year** is the year which begins on 1st April and ends on 31st March of the following year.	1
4	Balance of trade will show a deficit when imports of visible items is more than exports of visible items.	1
5	Involuntary unemployment refers to a situation where a person is willing and is capable to work at the prevailing wage rate but does not get work.	1
6	The correct option is (c). Borrowing is a capital receipt because it creates a liability on the government. **OR** Fiscal Deficit = Total Expenditure - Total Receipts (excluding borrowing)	1
7	The correct option is (b). Deficient demand causes involuntary unemployment in the economy due to a fall in the planned output by firms.	1
8	The correct option is (c). APC can have a value more than one.	1
9	Accommodating transactions are undertaken to cover the deficit or surplus in balance of payments.	1
10	Money supply refers to the total stock of money held by the people of an economy at a particular point of time.	1
11	Precautions which must bes taken while calculating national income using the expenditure method: i) **Expenditure on intermediate goods should not be included in national income:** As its value is included in the value of final expenditure. If included, it will lead to double counting of expenditures. ii) **Transfer payments are not included:** As such payments are not associated with any productive activities. iii) **Purchase on second-hand goods will not be included:** As its expenditure has already been included when they were originally produced. **OR**	3

Stock	Flow
i. Stock is a variable which is measured at a particular time.	i. Flow is a variable which is measured over a long period of time.
ii. Stock is static.	ii. Flow is dynamic.
iii. Time dimension is not applied to the stock concept.	iii. Time dimension is applied to the flow concept.
iv. Examples: National wealth and bank deposits	iv. Examples: National income and interest on capital

| 12	At equilibrium $Y = C + I$ $Y = 400 + 0.75Y + 2000$ $Y = 9,600$ Putting the value of Y in consumption function $C = 400 + 0.75Y$ $C = 400 + 0.75 \times 9600$ $C = 7,600$	3
13	a) Components of legal reserve ratio: i) **Cash reserve ratio (CRR):** It refers to the minimum percentage of a bank's total deposits required to be kept with the central bank as cash reserves. ii) **Statutory liquidity ratio (SLR):** Every bank is required to maintain a fixed percentage of its assets in the form of cash or other liquid assets, called SLR. The major components of liquid assets are reserves with RBI, the Government and other approved securities. In order to control credit in the economy, the central bank increases or decreases these rates. b) Money multiplier = $\dfrac{1}{LRR}$ Where LRR is the legal reserve ratio.	4
14	1. It is a capital receipt as it creates a liability for the government. 2. It is a revenue receipt as it neither reduces any assets nor creates a liability. 3. It is a revenue receipt as it neither reduces any assets nor creates a liability. 4. It is a capital receipt as it reduces the assets of the government.	1 1 1 1

15			4

Fixed Exchange Rate System	*Flexible Exchange Rate System*
The exchange rate is determined by the government.	The exchange rate is determined by the market forces of demand and supply.
It is also known as the pegged exchange rate system.	It is also known as the floating exchange rate system.
There is complete control of the government.	There is no control of the government.
The exchange rate remains stable.	The exchange rate keeps changing.

OR

A rise in the demand for foreign exchange implies that there is a rise in the demand for the foreign exchange rate to make payments for imports. With the supply of foreign exchange remaining the same, this would lead to a rise in the foreign exchange rate (currency depreciation).
This can be understood with the help of the following diagram:
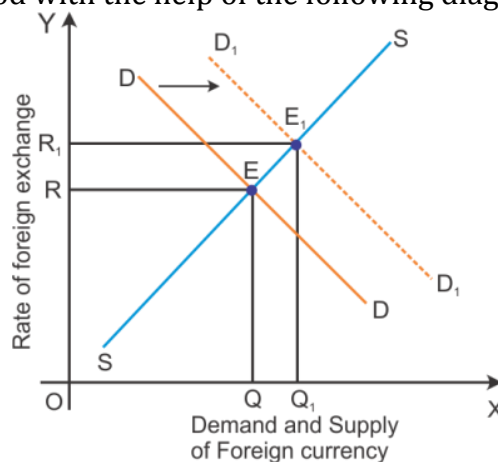
In the diagram, DD and SS are the initial demand curve and the initial supply curve, respectively. Initial equilibrium is determined at Point E, and therefore, OQ is the initial equilibrium quantity and OR is the initial equilibrium exchange rate.
With the rise in demand for foreign exchange, the initial demand curve shifts outwards to the right to D_1D_1. With the supply curve remaining the same, the new equilibrium is determined at Point E1. Accordingly OQ1 is the new equilibrium quantity and OR1 is the new equilibrium exchange rate.

| 16 | Consumption of fixed capital = GDP at market price + NFIA − (Indirect taxes − Subsidies) − NNP at factor cost
= 300 + 10 − (20 − 5) − 250
= Rs 45 crore

OR

No, I do not agree that 'Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy'.
Increase in GDP means increase in the level of output in the economy, and this means greater per capita availability of goods in the economy which leads to the welfare of people; thus showing a strong relationship between GDP growth and welfare.
However, there are certain limitations related to this relationship such as
1. **Distribution of GDP:** It is possible that with a rise in GDP, inequalities in the distribution of income may also rise; hence, the welfare of people may not rise as much as the rise in GDP.
2. **Non-monetary exchanges:** GDP does not take into account many activities such as services by a housewife, unpaid farm labour etc. This leads to under-estimation of GDP. Thus, GDP loses its appropriateness as an index of welfare.
3. **Externalities:** This refers to benefits or harms of an activity caused by a firm or an individual for which they are not paid or penalised.
Impact of externalities is not accounted in the index of social welfare in terms of GDP.
4. **Population growth:** GDP does not consider changes in population. Thus, if the growth of population is higher than the rate of growth of GDP, then this would result in the decrease in the per capita availability of goods and services which will directly affect the welfare of people.
Thus, we can conclude that while there is a strong relationship between GDP and welfare, the relationship also suffers from certain limitations. | 6 |
| 17 | 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 | 6 |

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**

The above shows the multiplier process continues and the income will increase due to increase in consumption.

Change in income (AY) = Rs 1600

Change in investment (Al) = Rs 800

As we know that

$$k = \frac{1}{1 - MPC} = \frac{\Delta Y}{\Delta I}$$

$$k = \frac{1}{1 - 0.5} = \frac{\Delta Y}{800}$$

$$\frac{1}{0.5} = \frac{\Delta Y}{800}$$

$$\Delta Y = \frac{800}{0.5} = 1600$$

Hence, an initial increase in the investment by 800 crore leads to an increase in income and output by 1600 crore.

Section B (Indian Economic Development)

18	One child norm introduced in China.	1
19	i) To ensure optimum utilisation of world resources ii) To facilitate international trade through removal of tariff and non-tariff barriers **OR** False. Globalisation is the process of increasing economic integration among nations of the world.	1
20	National Bank for Agriculture and Rural Development	1
21	Coal and petroleum	1
22	The correct option is b. The <u>service sector</u> contributes more to the GDP in India and Pakistan.	1
23	The Village and Small-Scale Industries Committee is also called the <u>Karve Committee.</u>	1
24	The correct option is c. Industrial Policy Resolution, 1956, classified industries into <u>three</u> categories.	1

25	i) Less popular: People need to be made aware of the benefits of organic farming and farmers must be encouraged to adopt the new technology that is required. ii) Shorter shelf life: Organic produce perish faster as compared to sprayed produce.	1
26	The correct option is c. The <u>NSSO</u> collects data through sample surveys and gives estimates on employment and unemployment in the country.	1
27	<u>Outsourcing</u> refers to contracting out some activities to a third party which was earlier performed by the organisation.	1
28	Growth of the rural economy depends on the timely infusion of capital. Credit is required • To meet certain expenses because the gestation period between crop sowing and realisation of income after production is long. • To invest in seeds, manure and fertilisers. Non-farm sectors such as cottage and small-scale industries also require credit. • For rural people for self-employment. Sources of rural credit are classified into 1. Non-institutional sources: Money lenders, friends, relatives and landowners. 2. Institutional sources: 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.	3
29	• Owing to the lack of employment opportunities in rural areas, people are compelled to migrate to urban areas in search of job opportunities, better lifestyle, higher income etc. • However, due to the lack of the required educational qualifications, training and skills, they are unable to find jobs, and as a result, they are unemployed. This adds to the problem of urban unemployment. Hence, we can say that urban unemployment is a spillover of rural unemployment. **OR** Points or features which will help us know that a worker is working in the informal sector: i) They are those enterprises which hire less than 10 workers. ii) Workers who work in such enterprises are known as informal workers such as farmers, agricultural labourers, construction workers etc. iii) These workers are not entitled to social security benefits such as pension, mediclaim, paid leave etc. iv) They do not get regular income and their job is not secured. They face the risk of being removed without compensation. v) In India, over 90% of the total workforce is employed in this sector.	3

30	• The Reserve Bank of India (RBI) is the central bank of India. The RBI controls, regulates and monitors all the banks and financial institutions in India. • The RBI decides the amount of money that the banks can lend and the amount they should keep as reserves. The RBI determines interest rates and prioritises lending to various sectors and also regulates foreign exchange. • One of the aims of the financial sector reforms is to transform the role of the RBI from a regulator to a facilitator. This means giving greater autonomy and freedom to the financial sector to take decisions on various matters without consulting the RBI. • The reform policies led to establishment of private banks, freedom of branch expansion and banks could generate resources from India and abroad through the capital market.	4
31	a) A Special Economic Zone (SEZ) is a geographical region with economic laws which are different from the country's general laws. • SEZs offer high quality infrastructure facilities and support services. • They allow duty-free import of capital goods and raw materials. • Attractive fiscal incentives and simpler customs, banking and other procedures are offered in such zones. • The goal of SEZs is to attract foreign investors and thereby increase foreign investment. b) China set up SEZs in order to attract foreign investors. **OR** Points highlighting the similarities in the developmental strategies followed by India and Pakistan: i) India and Pakistan both started their development process on economic planning after getting independence in 1947. ii) Both countries adopted the mixed economic system involving the co-existence of both public and private sectors. iii) Both countries relied more on the public sector for initiating the process of growth and development. iv) Both of them introduced economic reforms around the same time to strengthen their economies. Pakistan initiated reforms in 1988 and India in 1991. v) They both announced First Five Year Plans for growth and development.	4
32	• Inward-looking strategy aims at replacing or substituting imports with domestic production. This is also known as import substitution. For example, instead of importing automobile parts from a foreign country, domestic industries would be encouraged to produce them in India itself. • The policy of import substitution provides protection to domestic industries from foreign competition. Protection from imports took two forms, i.e. tariffs (tax on imported goods) and quotas (limit on the quantity of goods imported). • The basis for adopting this policy is that industries of developing	4

	countries like India are not in a position to compete with foreign-produced goods. • It is assumed that if domestic industries are protected in the initial stages, they will gain strength over time and be able to compete with foreign industries.	
33	a) Sustainable development is the process of economic development which aims at raising the quality of life of the present and future generations without threatening the environment. b) Possible strategies which can be adopted for attaining sustainable development in India: i) **Use input-efficient technology**: We must devise such production technologies where with efficient use of inputs or resources, output can be maximised. This will put less pressure on our resources. ii) **Use of environment-friendly sources of energy**: Use of LPG and gobar gas in rural areas and use of CNG as a fuel in urban areas can be encouraged. This will help tackle the problem of pollution. iii) **Shift to organic farming**: Excessive use of chemical pesticides and fertilisers has raised crop yield but has affected soil fertility and quality of produce. Shifting to organic farming focuses on soil health and will help in producing nutritious crop yield. iv) **Manage wastes**: Rather than allowing industrial waste and household garbage to litter around and flow into water bodies, we can systematically manage them by recycling or treating them without causing damage to the environment. **OR** a) Agricultural diversification refers to the re-allocation of some farm's productive resources into new activities. Diversification includes two aspects: i) Diversification of crop production ii) Diversification of production activity/employment b) The need for diversification mainly arises i) **To reduce risk**: There is more risk associated with depending only on farming for living/livelihood. Therefore, if the cropping pattern is shifted from the single crop to multi-crop system, it will help farmers to grow a wide variety of crops. ii) **To enable supplementary gainful employment:** This would provide alternative opportunities of sustainable livelihood and thereby raise their income. Also, the problem of disguised unemployment- prevalent in the agricultural sector-can be tackled. Some examples of non-farm activities include animal husbandry, horticulture, fisheries and cottage industries.	6

| 34 | Economic activities in India are grouped into the primary, secondary and tertiary sectors. According to the Distribution of Workforce by Industry, 2011–2012:

• About 64% of the workforce in rural areas is engaged in agriculture and its allied activities (primary sector) compared to 6% in urban areas.
• 20% of rural workers work in manufacturing and other industrial activities (secondary sector) compared to 30% in urban areas.
• About 16% of the rural workforce is provided jobs in the service sector (tertiary sector) compared to nearly 60% of the urban workforce.
• 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 people are engaged in the tertiary sector. Men workers are equally concentrated in all the three sectors, while women workers are concentrated more in primary activities.
• Urban workers have more opportunities compared to rural workers in the service sector due to lack of education and required skills.
• Most of the rural workers are engaged in the secondary sector in construction, manufacturing and other industrial activities compared to urban workers who are engaged in the service sector. | 6 |