

MOST

**IMPORTANT
QUESTIONS**



CBSE
Class XII Economics
Most Important Questions

SECTION A

Chapter 1: Introduction to Economics

Topic 1: Economic Systems and their Central Problems

1. Why does an economic problem arise? [3]
2. Explain the central problem “how to produce and for whom to produce”. [3]

Topic 2: Concept of Production Possibility Curve

3. What will be the impact of recently launched ‘Goods and Services Act (GST)’ on the production possibility curve of the economy and why? [3]
4. Give reason and comment on the shape of production possibilities curve based on the following schedule. [3]

| Good A | Good B |
|--------|--------|
| 0 | 20 |
| 1 | 15 |
| 2 | 10 |
| 3 | 5 |
| 4 | 0 |

Chapter 2: Theory of Consumer

Topic 1: Consumer Equilibrium through Utility Analysis

5. Given the price of the commodity X is Rs 4 and marginal utility of money is 5 utils. Find the consumer equilibrium point using the following schedule. [3]

| Units | MU_x |
|-------|--------|
| 1 | 36 |
| 2 | 32 |
| 3 | 24 |
| 4 | 20 |
| 5 | 16 |
| 6 | 12 |
| 7 | -8 |

6. A consumer consumes only two goods X and Y whose prices are Rs 4 and Rs 5 per unit respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 5 and that of Y equal to 4, is the consumer in equilibrium? Give reason. What will a rational consumer do in this situation? Use utility analysis. [6]

Topic 2: Consumer Equilibrium through Ordinal Approach

7. What is budget line? [1]
8. Explain the conditions of consumer's equilibrium using indifference curve analysis. [6]
9. A consumer consumes only two goods, each priced at Rs 2 per unit. If the consumer chooses a combination of the two goods with Marginal Rate of Substitution equal to 2, is the consumer in equilibrium? Why or Why not? What will a rational consumer do in this situation? Explain. [6]

Topic 3: Demand Movements and Shifts in Demand Curve

10. Distinguish between change in demand and change in quantity demanded of a commodity. [3]
11. What is market demand for a good? Explain the factors determining the market demand. [4]
12. Good Y is a substitute of good X. The price of Y falls. Explain the chain of effects of this change in the market of X. [6]

Topic 4: Elasticity of Demand

13. When price of a commodity X falls by 10 per cent. Its demand rises from 150 units to 180 units. Calculate its price elasticity of demand. How much should be the percentage fall in its price so that its demand rises from 150 to 210 units? [6]
14. Price elasticity of demand of two goods X and Y is -2 and -3 . Which of the two goods is more price elastic and why? [3]
15. Explain a situation when demand for a good is said to be perfectly inelastic. [3]
16. A consumer buys 20 units of a good at a price of Rs 5 per unit. He incurs an expenditure of Rs 120 when he buys 24 units. Calculate price elasticity of demand using the percentage method. Comment upon the likely shape of demand curve based on this information. [6]

Chapter 3: Production and Cost

Topic 1: Production Theories and Concept of TP, AP and MP

17. Explain the relationship that exists between marginal product and average product with diagram. [3]
18. Complete the following table: [6]

| Variable Factor (Units) | Total Product | Average Product (Units) | Marginal Product (Units) |
|-------------------------|---------------|-------------------------|--------------------------|
|-------------------------|---------------|-------------------------|--------------------------|

| | (Units) | | |
|---|---------|-----|-----|
| 0 | ... | ... | ... |
| 1 | ... | ... | 4 |
| 2 | 10 | ... | ... |
| 3 | ... | 6 | ... |
| 4 | 24 | ... | ... |
| 5 | ... | 5 | ... |

Topic 2: Law of Variable Proportions and Law of Diminishing Marginal Product - Returns to a Factor

19. What are the different phases in the Law of Variable Proportions in terms of Total Product? Give reasons behind each phase. Use diagram. [6]

20. Give the meaning of returns to a factor. State the law of diminishing returns to a factor. [4]

Topic 3: Concepts of Cost & Revenue

21. Define the following: fixed cost, variable cost, explicit cost and implicit cost. Give one example of each. [4]

22. Explain the shapes of AVC, AFC and AC curves with the help of an imaginary schedule. [4]

23. Explain the relationship that exists between: [4]
(i) Average variable cost and marginal cost
(ii) Marginal cost and total cost

24. Complete the following table: [6]

| Output units | Total cost Rs | Average variable cost Rs | Marginal cost Rs | Average fixed cost Rs |
|--------------|---------------|--------------------------|------------------|-----------------------|
| 0 | 30 | | | |
| 1 | ... | ... | 20 | ... |
| 2 | 68 | ... | ... | ... |
| 3 | 84 | 18 | ... | ... |
| 4 | ... | ... | 18 | ... |
| 5 | 125 | 19 | ... | 6 |

25. Why is average revenue always equal to price? [3]

26. Explain the relationship that exists between total revenue and marginal revenue. [4]

Chapter 4: The Theory of the Firm under Perfect Competition

Topic 1: Market Forms and Introduction to Perfect Competition

27. Explain the implication of large number of buyers in a perfectly competitive market. [3]
28. Why is a firm under perfect competition a price taker? Give reason. [3]
29. Explain the significance of the following features- [4]
- There is no barrier in the entry and exit of firms under perfect competition
 - The buyers treat product of all the firms as homogeneous

Topic 2: Producer's Equilibrium-MR-MC Approach

30. From the following information about a firm, find the firm's equilibrium output in terms of marginal cost and marginal revenue. Give reasons. Also calculate profit at this output. [4]

| Output (Units) | Total revenueRs | Total cost Rs | Marginal revenue Rs | Marginal cost Rs | Profit |
|----------------|-----------------|---------------|---------------------|------------------|--------|
| 1 | 8 | 10 | ... | ... | -2 |
| 2 | 16 | 18 | 8 | 8 | -2 |
| 3 | 24 | 23 | 8 | 5 | 1 |
| 4 | 32 | 31 | 8 | 8 | 1 |
| 5 | 40 | 41 | 8 | 10 | -1 |

31. Given below is the cost schedule of a product produced by a firm. The market price per unit of the product at all levels of output is Rs 12. Using marginal cost and marginal revenue approach, find out the level of equilibrium output. Give reasons for your answer: [6]

| Output (Units) | 1 | 2 | 3 | 4 | 5 | 6 |
|-------------------|----|----|----|----|------|----|
| Average Cost (Rs) | 12 | 11 | 10 | 10 | 10.4 | 11 |

Topic 3: Supply and Elasticity

32. A producer supplies 80 units of a good at a price of Rs 10 per unit. Price elasticity of supply is 4. How much will he supply at Rs 9 per unit? [4]
33. Explain the distinction between "change in quantity supplied" and "change in supply". Use diagram. [4]

Chapter 5: Market Equilibrium

Topic 1: Market Equilibrium, Price Ceiling and Price Floor

34. If at a given price of commodity, there is excess demand, how will the equilibrium price be reached? Use diagram. [6]
35. What is maximum price ceiling? On what type of goods is it normally imposed? Use diagram. [6]

Topic 2: Market Equilibrium under Fixed Number of Firms

36. Explain the chain of effects of excess supply of a good on its equilibrium price. [6]

37. Market for a good is in equilibrium. The demand for the good 'decreases'. Explain the chain of effects of this change. [6]

Chapter 6: Imperfect Competitive Market Forms

Topic 1: Concept of Monopoly, Monopolistic and Oligopolistic Market Forms

38. Why is average revenue curve of a firm negatively sloped under monopolistic competition? Explain. [4]
39. Explain how firms are interdependent in an oligopoly market. [3]
40. Explain the implication of product differentiation feature of monopolistic competition. [3]

SECTION B

Chapter 1: National Income Accounting

Topic 1: Circular Flow of Income

1. Distinguish between stock and flows with examples. [3]

Topic 2: Macroeconomic Aggregates

2. How will you treat the following while estimating domestic factor income of India? Give reasons for your answer. [6]
- Remittances from non-resident Indians to their families in India
 - Rent paid by the embassy of Japan in India to a resident Indian
 - Profits earned by branches of foreign bank in India
3. How will you treat the following while estimating domestic product of a country? Give reasons for your answer: [6]
- Profits earned by branches of country's bank in other countries
 - Gifts given by an employer to his employees on Independence Day
 - Purchase of goods by foreign tourists
4. Give two examples of intermediate goods and final goods [3]

Topic 3: Classification of Goods, Value Added Method, income and expenditure method

5. Find net value added at factor cost: **Rs (in lakhs)** [6]
- | | |
|--|----|
| a. Durable use producer goods with a life span of 10 years | 10 |
| b. Single use producer goods | 5 |
| c. Sales | 20 |
| d. Unsold output produced during the year | 2 |
| e. Taxes on production | 1 |

6. Calculate sales from the following data.

[3]

| S. No. | Particulars | Rs (in lakhs) |
|--------|--------------------------------|---------------|
| 1 | Net value added at factor cost | 560 |
| 2 | Depreciation | 60 |
| 3 | Change in stock | (-30) |
| 4 | Intermediate cost | 1000 |
| 5 | Exports | 200 |
| 6 | Indirect taxes | 60 |

7. Explain 'non-monetary exchanges' as a limitation of using gross domestic product as an index of welfare of a country.

[6]

8. Distinguish between 'real' gross domestic product and 'nominal' gross domestic product. Which of these is a better index of welfare of the people and why?

[4]

9. Calculate GDP_{MP} by expenditure method.

[6]

| Items | Rs (in crore) |
|--|---------------|
| a) Net factor income from ROW | (-) 15 |
| b) Imports | 150 |
| c) Exports | 350 |
| d) Government final consumption exp. | 120 |
| e) Indirect Taxes | 60 |
| f) Gross business fixed investment | 90 |
| g) Gross inventory investment | 100 |
| h) Subsidies | 20 |
| i) Interest on national debt | 40 |
| j) Residential construction investment | 160 |
| k) Gross public investment | 70 |
| l) Depreciation | 80 |
| m) Private final consumption exp. | 640 |

Topic 4: Personal and Private Income, National and Personal Disposable Income

10. Find national income and private income:

[6]

| | (Rs crore) |
|---|------------|
| (i) Wages and salaries | 1,000 |
| (ii) Net current transfer to abroad | 20 |
| (iii) Net factor income paid to abroad | 10 |
| (iv) Profit | 400 |
| (v) National debt interest | 120 |
| (vi) Social security contributions by employers | 100 |
| (vii) Current transfers from government | 60 |

| | |
|---|-----|
| (viii) National income accruing to government | 150 |
| (ix) Rent | 200 |
| (x) Interest | 300 |
| (xi) Royalty | 50 |

11. Calculate National Income from the following data: [6]

| S. No. | Particulars | (Rs in crores) |
|--------|--|----------------|
| (i) | Private final consumption expenditure | 900 |
| (ii) | Profit | 100 |
| (iii) | Government final consumption expenditure | 400 |
| (iv) | Net indirect taxes | 100 |
| (v) | Gross domestic capital formation | 250 |
| (vi) | Change in stock | 50 |
| (vii) | Net factor income from abroad | (-) 40 |
| (viii) | Consumption of fixed capital | 20 |
| (ix) | Net imports | 30 |

12. Calculate net national disposable income from the following data: [6]

| S. No. | Particulars | (Rs in crores) |
|--------|--|----------------|
| (i) | Gross domestic product at market price | 2,000 |
| (ii) | Net current transfers to rest of the world | (-) 200 |
| (iii) | Net indirect taxes | 150 |
| (iv) | Net factor income to abroad | 60 |
| (v) | National debt interest | 70 |
| (vi) | Consumption of fixed capital | 200 |
| (vii) | Current transfers from Government | 150 |

13. If the Nominal GDP is Rs. 1200 and Price Index (with base = 100) is 120, calculate Real GDP. [4]

14. Give one example of 'externality' which reduces welfare of the people. [1]

Chapter 2: Money and Banking

Topic 1: Barter System and Evolution and Functions of Money

15. Explain the problem of double coincidence of wants faced under barter system. How has money solved it? [3]

16. Explain the 'lender of last resort' function of central bank. [3]

17. Explain the significance of 'medium of exchange' function of money. [3]

Topic 2: Demand and Supply of Money

18. Define money supply and explain its components. [3]

Topic 3: Commercial Banks & Money Creation Process

19. Explain the process of money creation by commercial banks. [4]

Topic 4: Functions of Reserve Bank of India and Instruments of Monetary Policy

20. Government of India has recently launched 'Jan-DhanYojna' aimed at every household in the country to have at least one bank account. Explain how deposits made under the plan are going to affect national income of the country. [3]
21. Explain how open market operations are helpful in controlling credit creation. [3]

Chapter 3: Income Determination

Topic 1: Aggregate Demand and Aggregate Supply

22. Define aggregate demand and its components. [1]
23. Define marginal propensity to consume. [1]
24. If national income is Rs 90 crore and consumption expenditure Rs 81 crore, find out average propensity to save. When income rises to Rs 100 crore and consumption expenditure to Rs 88 crore, what will be the marginal propensity to consume and marginal propensity to save? [4]

| National income | Consumption expenditure | APS | MPC | MPS |
|-----------------|-------------------------|-----|-----|-----|
| 90 | 81 | ? | ... | ... |
| 100 | 88 | ... | ? | ? |

25. Outline the steps required to be taken in deriving saving curve from the given consumption curve. Use diagram. [6]

Topic 3: Equilibrium: AD-AS & S-I Approach and Adjustment Mechanism

26. Explain national income equilibrium through aggregate demand and aggregate supply. Use diagram. Also explain the changes that take place in an economy when the economy is not in equilibrium. [4]
27. An economy is in equilibrium. Find 'autonomous consumption' from the following: [4]
National income = 1000
Marginal propensity to consume = 0.8
Investment expenditure = 100
Give the meaning of involuntary unemployment.

Topic 4: Multiplier Mechanism, Deficit and Excess Demand

28. Assuming that increase in investment is Rs 1000 crore and marginal propensity to consume is 0.9, explain the working of multiplier. [6]

29. Explain the concept of Inflationary Gap. Explain the role of Repo Rate in reducing this gap. [6]
30. Explain the concept of Deflationary Gap and the role of 'Open Market Operations' in reducing this gap. [6]

Chapter 4: The Government: Budget and The Economy

Topic 1: Government Budget and its Objectives

31. What is revenue expenditure? [1]
32. Explain the basis of classifying taxes into direct and indirect tax. Give examples. [3]
33. What is government budget? Explain how taxes and subsidies can be used to influence allocation of resources. [4]
34. Government raises its expenditure on producing public goods. Which economic value does it reflect? Explain. [4]

Topic 2: Budget Deficit and its Measures

35. Give the meaning of primary deficit. [1]
36. How can budgetary policy be used to reduce inequalities of income? [3]

Chapter 5: Open Economy Macroeconomics

Topic 1: Concept of Balance of Payments

37. Explain the meaning of balance of payments deficit. [3]
38. In which sub-account and on which side of balance of payments account will foreign investments in India be recorded? Give reasons. [3]

Topic 2: Exchange Rate: Meaning and Types

39. What will be the effect of foreign investments in India on exchange rate? Explain. [3]
40. Why does the demand for foreign currency fall and supply rises when its price rises? Explain. [3]
41. Explain the effect of depreciation of domestic currency on exports. [3]

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