

Solved Paper 2022

ECONOMICS (TERM-II)

Class-XII

Time : 2 Hours

Max. Marks : 40

General Instructions :

1. This question paper contains 13 questions.
2. All questions are compulsory. Marks are indicated against each question.
3. This question paper contains 5 questions of 2 marks each, 5 questions of 3 marks each and 3 questions of 5 marks each.
4. 2 marks questions are short-answer type questions and are to be answered in 30-50 words.
5. 3 marks questions are also short-answer type questions and are to be answered in 50-80 words.
6. 5 marks questions are long-answer type questions and are to be answered in 80-120 words.
7. There is no overall choice in the question paper. However, internal choices have been provided in few questions. The candidates need to attempt only one question from such questions.
8. This question paper contains Case/Source Based question also.

Delhi Set-I

Code No. 58/5/1

1. (a) Distinguish between Factor Income and Transfer Income. 2

OR

- (b) Distinguish between Domestic Income and National Income. 2

Ans. (a) Factor incomes are incomes received by the owners of factors of production for rendering their factor services to the producers. On the other hand, transfer income are all those unilateral payments corresponding to which there is no value addition in the economy, e.g., gifts, donations, etc.

OR

- (b) Domestic Income is the sum total of all the factor payments earned within the domestic territory of the country. On the other hand National Income is the sum total of all the factor payments earned by the normal residents of the country.

2. (a) "In an economy, the autonomous consumption is ₹ 100 and Marginal Propensity to Consume (MPC) is 0.6. If the equilibrium level of Income is 2,000, then the autonomous investment is ₹ 300."

Justify the statement with valid calculation.

OR

- (b) An Economy is in equilibrium, calculate the Marginal Propensity to Save (MPS) from the following: 2

- (i) National Income (Y) = ₹ 4,400
(ii) Autonomous Consumption (\bar{C}) = ₹ 1,000
(iii) Investment Expenditure (I) = ₹ 70

Ans (a) Given, $\bar{C} = ₹100$

$$MPC = 0.6$$

$$Y = ₹2,000$$

$$I = ₹300$$

We know,

$$Y = \bar{C} + b(Y) - \bar{I}$$

$$\Rightarrow Y = 100 + 0.6 Y + 300$$

$$\Rightarrow Y - 0.6Y = 400$$

$$= 0.4Y = 400$$

$$= Y = ₹1000$$

Thus, the economy is not in equilibrium.

OR

- (b) Given, $Y = ₹4,400$

$$\bar{C} = ₹1,000$$

$$I = ₹70$$

We know,

$$Y = \bar{C} + bY + I$$

$$4,400 = 1,000 + 4,400b + 70$$

$$4,400 = 1,070 + 4,400b$$

$$4,400b = 4,400 - 1,070$$

$$4,400b = 3,330$$

$$b = \frac{3,330}{4,400} = 0.76$$

$$MPS = 1 - MPC$$

$$= 1 - 0.76 = 0.24$$

3. 'Consumption function curve of an involuntary unemployed worker starts from some positive level on Y-axis even at zero level of Income.'

Justify the given statement. 2

Ans. Consumption function curve of an involuntary

unemployed worker starts from some positive level on Y-axis because it is his autonomous consumption expenditure and the consumption can never be zero for any individual.

4. 'Health is a yardstick of human well-being.'

Justify the given statement with valid explanation.

2

Ans. Health is a yardstick of human well-being as health determines the quality of life that an individual can lead. If the health infrastructure is good, it will lead to the welfare of the people and increase their productivity.

5. (a) Compare and analyse the sector-wise trends in employment, based on following information:

2

Trends in Employment (Sector-wise)

Sector	1999-2000	2011-12
Primary sector	60.4	48.9
Secondary sector	15.8	24.3
Tertiary sector	23.8	26.8
Total	100	100

OR

(b) Ram is an owner of a salon. He is temporarily absent from work due to injury.

Can he be considered as worker? Explain.

2

Ans. (a) From the trend we can see that the employment in the agricultural sector has decreased from 60.4% in 1999-2000 to 48.9% in 2011-12, whereas there has been an increase in the employment in both manufacturing and service sectors. This means that there has been a shift from agriculture to the manufacturing and service sector in the economy.

OR

(b) Ram is temporarily absent from work that means he is on leave and actually still working. In such a case he will be considered as a part of the workforce and will be called a self-employed worker.

6. (a) Giving valid reasons, explain how the following would be treated while estimating domestic income?

3

(i) Payment made by a Japanese tourist for goods purchased in India.

(ii) Broker's commission on the sale of second hand goods.

OR

(b) "Gross Domestic Product (GDP) as an indicator of welfare loses its significance if the distribution of income turns unequal."

Justify the given statement with valid reason.

3

Ans. (a) (i) Payment made by Japanese tourist for the goods purchased in India is the part of the net factor income from abroad. Thus, while calculating the domestic income it will be added to the domestic income.

(ii) Brokers commission on the sale of second hand good is included in the domestic income as it forms the part of the factor payment for the services rendered by the broker.

OR

(b) GDP does not necessarily mean that there is equal distribution of wealth in the country. The income inequality between the rich and the poor is mostly widened in the case of increase in the GDP, that is the rich becomes richer and poor becomes poorer. The inequality in income of the rich and poor leads to the decrease in the welfare.

7. 'Women's health in India has become a matter of great concern.'

Defend or refute the given statement with valid argument.

3

Ans. Women constitute approximately half of Indian's total population, but they suffer from many disadvantages in health care. Traditionally, women health care had been on the back burner in India due to social considerations prevailing in the country. Gender ratio in the country is declining. The growing rate of female foeticide in the country is also a cause of concern. Most of the married women suffer from anaemia and nutritional anaemia leading to maternal deaths.

8. "The Government has raised the exemption limit for the payment of Income tax from ₹ 2 lakh to ₹ 2.5 lakh."

If the situation of deficient demand is prevailing in the economy, what will be the impact of this action taken by the Government?

3

Ans. As the government has reduced the income tax by increasing the exemption limit, there will be more money in the hands of the people. This will lead the people to increase their consumption expenditure. This in turn will lead to the increase in the aggregate demand in the economy, as consumption expenditure is its component. The aggregate demand will increase to the level of aggregate supply leading to the correction of the situation of deficient demand.

9. Define 'liberty indicator' with the help of an example and state its importance.

3

Ans. Liberty indicator may be defined as the measure of the extent of demographic participation in the social

and political decision making. Some examples of liberty indicator are the measures of the extent of the Constitutional Protection Rights given to the citizens and the extent of the constitutional protection of the independence of the judiciary and rule of law.

Its importance is that it is used to measure the participation of the people in taking decisions.

10. Briefly explain any two similar developmental strategies opted by India and Pakistan for their respective developmental path. 3

Ans. Following are the similarities in the developmental strategies of India and Pakistan:

(i) Both the countries had started planning their development strategies in similar ways. India announced its Five Year Plan in 1951–56, while Pakistan announced its Five Year Plan in 1956, which is called medium-term plan. India last had its Twelfth Five Year Plan(2012–17) after which it was changed with the introduction of the NITI Aayog.

(ii) Economic reforms took place in the two countries. Reforms started in India in 1991, and in Pakistan in 1988.

11. 'Investment multiplier and Marginal Propensity to Consume are directly related to each other.'

Explain with the help of numerical example. 5

Ans. Relationship of K (investment multiplier) with Marginal Propensity to Consume (MPC):

There is a direct relationship between K and MPC. If MPC is high, K will also be high and if MPC is low, K will also be low. Thus, K varies directly with value of MPC. In short, higher the value of MPC, higher will be the value of multiplier and vice versa.

$$\text{For example when the MPC is 0.2 then } K = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.2} = \frac{1}{0.8} = 1.25.$$

$$\text{Now when MPC} = 0.5 \text{ then } K = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.5} = 2$$

Thus, as MPC increases, K also increases.

12. (a) (I) From the following data, calculate the value of operating surplus: 3

S.No.	Items	Amount in (₹ crore)
(i)	Royalty	5
(ii)	Rent	75
(iii)	Interest	30
(iv)	Net domestic product at factor cost	400
(v)	Profit	45
(vi)	Dividends	20

- (II) Distinguish between 'Fixed Investment' and 'Inventory Investment'. 2

OR

- (b) (I) From the following data, calculate the value of compensation of employees (COE): 3

S.No.	Items	Amount in (₹ crore)
(i)	Old age pension	2,000
(ii)	Wages and salaries in cash	60,000
(iii)	Rent free accommodation to employees	30,000
(iv)	Employer's contribution to provident fund	7,500
(v)	Payment of life insurance premium by the employees	2,500
(vi)	Contribution to provident fund by employees	35,000

- (II) Distinguish between stock and flow variables. 2

Ans. (a) (I) Operating surplus = (i) Royalty + (ii) Rent + (iii) Interest + (v) Profit

$$= ₹ 5 + ₹ 75 + ₹ 30 + ₹ 45 = ₹ 155 \text{ crore}$$

(II) Fixed investment is the investment in the purchase of capital goods. On the other hand Inventory Investment is the investment in the purchase of stock.

OR

(b)

(I) Compensation of employees = (ii) Wages and salaries in cash + (iii) Rent free accommodation + (iv) Employer's contribution to provident fund

$$\text{COE} = ₹ 60,000 + ₹ 30,000 + ₹ 7,500 = ₹ 97,500 \text{ crore}$$

(II) Stock is a quantity measurable at a particular "point of time", e.g. wealth, assets, money, inventory, etc. A stock variable is nothing but an accumulated sum of flows. On the other hand Flow is a quantity that can be measured over a specific "period of time", e.g. national income, change in stock, etc.

Case/Source Based question

13. Read the following text carefully and answer question number 13(a) and 13(b) given below:

Green investment and sustainability are priorities in public policy. India has emerged as a global leader at the front of the climate change. India has pledged to seek solutions for the future.

Government schemes and policies such as Swachh Bharat Mission, Pradhan Mantri Awas Yojna, Smart Cities, Deen Dayal Upadhyay Gram Jyoti Yojana

among other, all contribute towards achieving sustainable development goals.

The government has contributed to maintain economic growth by introducing and implementing various policies and measures relating to sustainable development, climate change, energy efficiency and air pollution.

Pradhan Mantri Ujjwala Yojana Scheme, has actively contributed to cleaner air. It has resulted in drastic reduction of respiratory diseases and ultimately death as per recent medical report.

The Jal Jeevan Mission was launched with the objective of achieving water security. We have seen 68 percent decline in the size of population of various animal species and amphibian over the last 60 years. The issue of green house gases and rising temperature of the earth are a global concern. India is one of those countries that will be affected by the over 2 degree celsius rise in global temperature.

'India has already taken a lot of steps in the area of innovation and development of different production methodologies which are environmentally friendly in the long run.'

Source: The Economic Times; Oct. 27, 2021

(a) State and discuss any two steps involved in attaining sustainable development in India. 3

(b) From the given text, state any two factors which challenged the carrying capacity of the environment. 2

Ans. (a) The two steps involved in attaining sustainable development in India are:

(i) Pradhan Mantri Ujjwala Yojana Scheme:

The scheme involves providing LPG gas cylinders to the poor households. This has reduced the dependence on coal as a cooking fuel leading to cleaner air and also reducing the respiratory ailments.

(ii) Swachh Bharat Abhiyaan: The focus of the mission is to make India clean. This will lead the country to reduce the pollution and curtail the problems that it may face due to increase in pollution.

(b) The two factors that challenged the carrying capacity of the environment are:

(i) There has been a 68% decline in the population of the animal and amphibian species.

(ii) India is among the countries that have the maximum threat with the change in the global temperature.

Delhi Set-II

Code No. 58/5/2

Note: Except these all other Questions are from Delhi Set-I.

4. (a) Distinguish between Factor Cost and Market Price. 2

Ans. (a) Factor Cost refers to all factor payments made by the producing units (firms) to the factors of production involved in the production of goods and services. On the other hand, Market price refers to the price at which a commodity is sold and purchased in the market.

5. (a) 'Ram is able to get work only for two hours in a day. Rest of the day, he is looking for work.' Is he unemployed? What kind of job could person like Ram be doing? 2

Ans. (a) Ram is a casual worker and in under employed, though not completely unemployed. He is not being able to find a job according to his capabilities and willingness and therefore, even after two hours of work in a day he remains jobless.

He can do other part time jobs like those of delivery man, till he finds a regular wage employment suiting his education and skills.

6. 'Infrastructure facilities boost production.' Do you agree? Explain. 3

Ans. Infrastructure, both social and economic, facilitates production. The role of infrastructure in economic production can be understood well by the following example: If agriculture is devoid of irrigation facilities then it would entirely depend on the monsoon that may hamper its production and productivity. As irrigation is necessary to enhance the productivity of agricultural sector, in the same manner infrastructure is essential for the smooth and efficient production of all sectors of the economy. Similarly, industrial production in the absence of proper means of transportation may lead to delays in the movement of raw materials, capital goods and finished goods. This, in turn, leads to delays in the production process and, thereby, hampers industrial production. Infrastructure is the necessary condition for higher productivity and higher production.

11. 'Investment multiplier and Marginal Propensity to Save are indirectly related to each other.' Explain with the help of numerical example. 5

Ans. Relationship of K (investment multiplier) with Marginal Propensity to Save (MPS)

There is an indirect relationship between K and MPS. If MPS is high, K will be low but if MPC is low, K will be high. Thus, K varies inversely with value of MPS. In short, higher the value of MPS, lower will be the value of multiplier and vice versa.

For example when the MPS is 0.2 the $K = \frac{1}{MPS} = \frac{1}{0.2} = 5$.

Now when MPS = 0.5 then $K = \frac{1}{MPS} = \frac{1}{0.5} = 2$

Thus as MPS increases K decreases, making an indirect relation between the multiplier and MPS.

12. (a) (I) From the following data, calculate the value of operating surplus: 3

S.No.	Items	Amount in (₹ crore)
(i)	Royalty	10
(ii)	Rent	70
(iii)	Interest	25
(iv)	Net domestic product at factor cost	500
(v)	Profit	50
(vi)	Dividends	20

(II) Distinguish between 'Fixed Investment' and 'Inventory Investment'. 2

OR

(b) (I) From the following data, calculate the value of compensation of employees (COE): 3

S.No.	Items	Amount in (₹ crore)
(i)	Old age pension	1,250
(ii)	Wages and salaries in cash	49,500
(iii)	Rent free accommodation to employees	13,500
(iv)	Employer's contribution to provident fund	8,900

Delhi Set-III

Code No. 58/5/3

Note: Except these all other Questions are from Delhi Set-I.

2. (a) Distinguish between Consumption goods and Capital goods. 2

OR

(b) Distinguish between net export and net factor income from abroad. 2

Ans. (a) The goods purchased for satisfaction of the individual wants are called consumer goods. On the other hand goods that are used for producing other goods are known as capital goods.

OR

(v)	Payment of life insurance premium by the employees	3,000
(vi)	Contribution to provident fund by employees	35,600

(II) Distinguish between Real Gross Domestic Product (GDP) and Nominal Gross Domestic Product (GDP). 2

Ans. (a) (I) Operating surplus = (i) Royalty + (ii) Rent + (iii) Interest + (v) Profit
 $= 10 + 70 + 25 + 50$
 $= ₹ 155 \text{ crore}$

(b) Find investment refers to the expenditure by producer made on the purchase of fixed asset, where as inventory investment refers to the change in the stocks of materials, work in process etc.

OR

(b) Compensation of employees = (ii) Wages and Salaries in cash + (iii) Rent free accommodation + (iv) Employer's contribution to provident fund

$COE = 49,500 + 13,500 + 8,900$
 $= ₹ 71,900 \text{ crore}$

(II) When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at base year's prices or constant price, it is called real GDP or GDP at constant prices. On the other hand, When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at current year's prices or current prices, it is called Nominal GDP or GDP at current prices

(b) Net export is the difference between the imports and exports of the country. Whereas, Net Factor Income from Abroad (NFIA) is the difference between the income earned from abroad for rendering factor services by the normal residents of the country to the rest of the world and the income paid for the factor services rendered by non-residents in the domestic territory of a country.

5. (a) At the break-even point level income for the economy is ₹ 10,000 crores and if the people tends to save 20 percent of their additional income, then calculate the value of autonomous consumption.

Ans. (a) Given,

$$Y = ₹10,000 \text{ crore}$$

$$MPS = 20\% = 0.2$$

$$Y = \bar{C} + (1 - MPS)Y$$

$$₹10,000 = \bar{C} + (1 - 0.2) 10,000$$

$$₹10,000 = \bar{C} + 0.8 (10,000)$$

$$₹10,000 = \bar{C} + ₹8,000$$

$$\bar{C} = ₹10,000 - ₹8,000 = ₹2,000 \text{ crores}$$

7. Why infrastructure needs to be upgraded? 3

Ans. Infrastructure needs to be upgraded because of the following benefits:

(i) Infrastructure increases productivity:

Infrastructure, both economic and social, facilitates production. Availability of quality infrastructure guarantees increase in both production and productivity. Infrastructure ensures easy movement of goods and raw materials thereby reducing inefficiencies and lead to efficient utilisation of scarce resources and eliminate wastages.

(ii) Infrastructure encourages investment:

Infrastructure provides an environment conducive to investment. Lack of facilities discourage investment. For example, an investor will not invest in absence of basic infrastructure such as transport and communication.

(iii) Infrastructure generates linkages in production: Infrastructure promotes economic development by way of various linkages: forward and backward linkages. In other words,

infrastructure provides scope for expansion of one industry due to the expansion of the other by way of forward and backward linkages. The process of economic growth becomes a dynamic process in the presence of sufficient infrastructure facilities.

(iv) Infrastructure enhances size of the market:

Infrastructure widens the size of the market. The fast and cost effective movement of raw materials and finished goods in bulk enables a producer to offer his products across the country and even across international boundaries.

[Any 3]

12. (a) (I) From the following data, calculate the value of net domestic product at factor cost: 3

S.No.	Items	Amount in (₹ crore)
(i)	Royalty	5
(ii)	Rent	75
(iii)	Interest	30
(iv)	Compensation of employees	600
(v)	Profit	45
(vi)	Dividends	20
(vii)	Mixed income of self employed	100

(II) Distinguish between final goods and intermediate goods. 2

Ans. (a) (I) $NDP_{fc} = 5 + 75 + 30 + 600 + 45 + 100 = ₹ 855 \text{ crore}$

(II) Intermediate goods are those goods which are purchased in order to change it into final good. On the other hand, final goods are those goods that are purchased for final consumption.

Outside Delhi I

Code No. 58/3/3

1. "In India women participation rate is lower in urban areas than in the rural areas." Explain with valid arguments. 2

OR

"Infrastructure contributes directly to the economic development of a country." Do you agree with the given statement? Explain.

Ans. The percentage of female workforce in the rural areas is nearly 30% while it is only 14% in the urban areas. This depicts that as compared to the urban women, more rural women account for higher share in the female workforce. While on one hand, the rural women are less educated, unskilled and low productive, on the other hand, urban women being

more skilled and productive have higher probability to get employment. Ironically, the urban female accounts for lesser share in the female workforce as compared to their rural counterparts.

The following are the reasons for low share of urban females in the total female workforce:

- In the agricultural and allied activities high degree of skills and specialisations are not required. So, rural women engage themselves to support their family on farms.
- As poverty in the rural areas is more wide spread than in the urban areas, so, the rural women engage themselves in low productive jobs just to support the livelihood of their families.

- (iii) As the urban family usually earn comparatively higher income than the rural families and further poverty in the urban areas is not as widespread as that of in the rural areas, so, there is lesser need for female members to get themselves employed.
- (iv) The decision to take up jobs by the female members depends on the family rather than herself.
- (v) Although female literacy in India is improving, yet it has to get much better before urban female accounts for higher share in the total female workforce.

[Any 2]

OR

The following are the reasons which show that Infrastructure directly contributes to the economic development of the country:

- (i) **Infrastructure increases productivity:** Infrastructure, both economic and social, facilitates production. Both availability of quality infrastructure guarantees increase in production and productivity. Infrastructure ensures easy movement of goods and raw materials thereby reducing inefficiencies and lead to efficient utilisation of scarce resources and eliminate wastages.
- (ii) **Infrastructure encourages investment:** Infrastructure provides an environment conducive to investment. Lack of facilities discourage investment. For example, an investor will not invest in the absence of basic infrastructure such as transport and communication.
- (iii) **Infrastructure generates linkages in production:** Infrastructure promotes economic development by way of various linkages: forward and backward linkages. In other words, infrastructure provides scope for expansion of one industry due to the expansion of the other by way of forward and backward linkages. The process of economic growth becomes a dynamic process in the presence of sufficient infrastructure facilities.
- (iv) **Infrastructure enhances size of the market:** Infrastructure widens the size of the market. The fast and cost effective movement of raw materials and finished goods in bulk enables a producer to offer his products across the country and even across the international boundaries.

[Any 2]

2. On the basis of following schedule, answer the given questions:

Income (in ₹ crores)	0	50	100	150	200
Savings (in ₹ crores)	-20	-10	0	30	60

(a) Calculate Marginal Propensity to Save (MPS) at ₹ 150 crores level of income. 1

(b) What is the value of Autonomous Consumption? 1

OR

In an economy 75 percent of the increase in income is spent on consumption. Investment increased by ₹ 1,000 crore.

Calculate the total increase in income on the basis of given information. 2

Ans. (a) $MPS = \frac{\Delta S}{\Delta Y} = \frac{30 - 0}{150 - 100} = \frac{30}{50} = 0.6$

(b) Autonomous consumption = ₹ 20 crore as at 0 level of Income the savings are - 20 crore.

OR

Given,

$$\Delta I = ₹ 1,000 \text{ crore}$$

$$25\% \text{ of } \Delta Y = 1000 \text{ crore}$$

$$\Delta Y = 1000 \times 100 \div 25 = ₹ 4,000 \text{ crore}$$

3. 'Excess demand creates greater opportunities of employment in the economy.' Defend or refute the given statement with valid explanation. 2

Ans. This statement is defended as the situation of excess demand leads to the increase in production due to the rise in the investment. This leads to the rise in the employment level.

4. State any two precautions that are taken while estimating National income by value added method. 2

OR

Distinguish between depreciation and capital loss.

Ans. The precautions to be taken while estimating National Income by Value Added Method are:

- (i) The value of intermediate goods should not be included.
- (ii) Purchase and sale of second hand goods should not be included.
- (iii) Imputed or estimated value of self-consumed goods should be included but self-consumed services should not be included.
- (iv) Own account production should be included.
- (v) Commission earned on account of sale and purchase of second hand goods is included.

[Any 2]

OR

Depreciation means fall in value of fixed capital goods due to normal wear and tear, expected obsolescence and efflux of time. While, Capital loss is the unforeseen obsolescence of fixed capital goods during production.

5. **Briefly discuss the problems associated with informal sector.** 2

Ans. The problems with informal sector are:

- (i) There is no security in the employment in case of informal sector.
 (ii) The informal sector employees do not get the benefits that the formal sector do get.

6. **Giving valid reasons, explain how the following would be treated while estimating National income:**

- (a) **Payment of indirect taxes by a firm.** 1½
 (b) **Purchase of goods by foreign tourists.** 1½

OR

Using the following information, calculate and analyse the value of Gross Domestic Product (GDP) deflator: 3

Year	2014-15	2016-17
Nominal GDP	6.5	9
Real GDP	6.5	7.2

Ans. (a) Payment of indirect taxes by the firm is deducted from the GDP while estimating the National Income.

- (b) Payment made by foreign tourist for the goods purchased in India is the part of the net factor income from abroad. Thus while calculating the Domestic Income, it will be added to the domestic income.

OR

$$\text{GPD Deflator}_{2014-15} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{6.5}{6.5} \times 100 = 100\%$$

$$\text{GDP Deflator}_{2016-17} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{9}{7.2} \times 100 = 125\%$$

The GDP deflator has increased from 2014-15 to 2016-17.

7. **State the meaning of Environmental crisis and its impact on resources.** 3

Ans. Environmental crisis is the problems arising out of the depletion of the natural environment due to

the effect of industry and other economic growth activity.

The impact of Environmental crisis on the resources are:

- (i) The resources are depleting. For example, with deforestation, the availability of wood in the timber industry is decreasing.
 (ii) The soil is becoming less productive reducing the agricultural production.

8. **Explain briefly the problems faced by Great leap forward campaign.** 3

Ans. The problems faced by Great Leap Forward are:

- (i) A severe drought caused havoc in China killing about 30 million people.
 (ii) When Russia had conflicts with China, it withdrew its professionals who had earlier been sent to China to help in the industrialisation process.

9. **Compare and analyse the Annual Growth rate of population of India and China.** 3

Country	Annual Growth rate of population (2015)
India	1.2%
China	0.5%

Ans. As from the table we can see that the annual growth rate of population of India is 1.2% and that of China is 0.5%. In such a case we can say that the increase in the population of India is comparatively higher than that of China. As the average rate of 2 is considered for replacement of the population, so we can say that the rate of population is declining in both the countries.

10. **If in an economy Bank rate is increased, how will it affect the demand for credit? Explain.** 3

Ans. Bank rate is the rate at which Central Bank offers loans to the Commercial Banks as a lender of last resort. During inflation, when supply of credit is to be reduced, bank rate is increased. This reduces borrowing by the Commercial Banks, implying a reduction in their cash reserve and therefore, a reduction in their capacity to create credit. Following increase in bank rate, market rate of interest is also raised, implying a check on borrowings from the Commercial Banks. Thus, overall supply of credit is reduced in the economy. Exactly opposite is done to combat deflation, bank rate is lowered to increase the supply of credit.

11. (a) (i) From the following data, calculate Net Value Added at Factor Cost (NVA_{FC}): 3

S. No.	Particulars	Amount in (₹ Crores)
(i)	Price per unit of output	20
(ii)	Output sold (units)	1250 units
(iii)	Excise duty	5,000
(iv)	Consumption of fixed capital	1,000
(v)	Change in stock	(-) 500
(vi)	Single use producer goods	6,000

- (ii) Why there is a need to make distinction between final and intermediate goods? 2

OR

- (b) (i) Discuss briefly the concept of 'Externalities', with suitable example. 3

- (ii) Export are not a part of 'Net Factor Income from abroad'. 2

Elaborate the reason behind the given statement.

Ans. (a) (i) $NVA_{FC} = (i) \times (ii) - (iv) - (v) - (iii) - (vi)$
 $= 20 \times 1250 - 1000 - 500 - 5000 - 6000$
 $= 25000 - 1000 - 11500$
 $= ₹ 12500 \text{ crore}$

- (ii) Intermediate goods are those goods which are purchased in order to change it into final good. On the other hand, final goods are those goods that are purchased for final consumption. There is need to make distinction between them in order to escape from the risk of double counting in while calculating national income.

OR

- (b) (i) Externalities refer to benefits or harms of an activity caused by a firm or an individual, for which they are not paid or penalized. Externalities are those factors which also influence the activity of the firm in the future. For example, environmental pollution caused by industrial plants is a negative externality and building a flyover is a positive externality.

- (ii) Net factor income from abroad is the difference between the income earned from abroad for rendering factor services by the normal residents of the country to the rest of the world

and the income paid for the factor services rendered by non-residents in the domestic territory of a country. On the other hand exports are the income earned through the exchange of goods and services with the foreign country. Thus exports are not included in the Net Factor Income from Abroad.

12. Explain the role of Repo rate and Reverse Repo Rate in correcting deflationary gap in an economy. 5

Case Study

Read the following text carefully and answer question number 13(a) and 13(b) given below:

The centre's PM Gati Shakti Scheme will give much needed push to infrastructure development and logistic across India. This scheme will drive the economic growth by giving boost to industries such as steel and cement.

Greater connectivity is expected to improve economic opportunities for small farmers and small and medium enterprises through new roads, cargo terminals etc.

The Gati Shakti Scheme features at the centre stage of Budget 2022-23, highlighting the importance of quality multi-modal transport in achieving overall cost competitiveness.

Under Gati Shakti Scheme, the railways will develop new products and services targeted at small farmers and businesses to help them become a part of layer supply chain.

Source: The Economic Times, Feb. 2, 2022
(Modified)

- Ans. Repo rate is the rate at which the central bank gives loan to the commercial bank. In the case of deflationary situation the central bank reduces the repo rate leading to the commercial bank taking more loans from the central bank. This will lead to the increase in the money supply in the economy. This increase in the money supply will increase the consumption expenditure. As the consumption expenditure is a part of the Aggregate Demand in the economy, it increases the aggregate demand so much so that it reaches in the equilibrium with the Aggregate Supply, correcting the deflationary situation.

Reverse Repo Rate is the rate at which the commercial bank keeps its money with the central bank. In the case of deflationary situation, the central bank will

reduce the reverse repo rate which will lead to increase the money supply. This in turn causes the aggregate demand to rise correcting the deflationary situation.

13. (a) State the meaning of infrastructure. 2
(b) Explain any two objectives of PM Gati Shakti Scheme. 3

Ans. (a) Infrastructure refers to the basic supporting structure which is built to provide different kinds of services in an economy. These services include roads, railways, ports, airports, dams, power stations, oil and gas pipelines,

telecommunication facilities, schools and colleges, health system including clean drinking water facilities, banks, insurance and other financial institutions.

- (b) The two objectives of PM Gati Shakti Scheme are:
(i) To improve connectivity so as to improve the economic opportunity of the small farmers and small and medium enterprises.
(ii) To make the farmers and businesses part of the layer supply chain.

□□