Solved Paper 2013

ECONOMICS

Class-XII

Time : 3 Hours **Max. Marks : 70**

General Instructions:

(i) ***All*** *questions in both the sections are compulsory.*
(ii) Marks for questions are indicated against each question.
(iii) Question Nos. ***1 – 5*** *and* ***17 – 21*** *are Very Short-Answer questions carrying* ***1 mark*** *each. They are required to be answered in* ***one sentence*** *each.*
(iv) Question Nos. ***6 – 10*** *and* ***22 – 26*** *are Short-Answer questions carrying* ***3 marks*** *each. Answers to them should normally not exceed* ***60*** *words each.*
(v) Question Nos. ***11 – 13*** *and* ***27 – 29*** *are also Short-Answer questions carrying* ***4 marks*** *each. Answers to them should normally not exceed* ***70*** *words each.*
(vi) Question Nos. ***14 – 16*** *and* ***30 – 32*** *are Long-Answer questions carrying* ***6 marks*** *each. Answers to them should normally not exceed* ***100*** *words each.*
(vii) Question Nos. 11 and 19 are value-based question.
(viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

Outside Delhi Set I Code No. 2/1/1

SECTION - A*

(Micro-economics)

SECTION - B

(Macro-economics)

17. Give two examples of intermediate goods. **1**

Ans. Wheat, soil

18. State the components of supply of money. **1**

Ans. There are two main components of money supply, i.e., currency (or fiat money) and demand deposits.

19. What one step can be taken through market to reduce the consumption of a product harmful for health? **1**

Ans. Taxation is one of the steps that can be taken through market to discourage the consumption of a product harmful for health.

20. How can Reserve Bank of India help in bringing down the foreign exchange rate which is very high? **1**

Ans. RBI holds its own reserve of foreign exchange. When the foreign exchange rate becomes very high, the RBI can sell currency from its reserve in the market. This will lead to an increase in the supply of foreign currency in the market. The exchange, as a result, will decline.

21. What is revenue deficit ? **1**

Ans. A revenue deficit is a shortage of Government's funds to maintain daily affairs. It occurs when total revenue expenditure surpasses total revenue receipts.

22. Explain the 'medium of exchange' function of money.

OR

Explain the 'lender of last resort' function of central bank. **3**

Ans. **Medium of Exchange:** Right from the beginning, money has been performing the important function of medium of exchange in the society. Money facilitates transactions of goods and services as a medium of exchange. Producers sell their goods to wholesalers in exchange of money. Wholesalers, in turn, sell their goods to the retailers and the retailers sell these goods to the consumers in exchange for money. In the same way, all sections of society sell their services in exchange for money and with that money, buy goods and services which they need. Money, working as a medium of exchange, has eliminated inconvenience which was faced in barter transactions.

OR

When a commercial bank faces crisis and fails to obtain funds from other sources, then the central bank plays the vital role of "lender of last resort" and provides them with the financial assistance in the form of credit. This role of the central bank saves the commercial bank from bankruptcy. Thus, the central bank plays the role of guarantor for the commercial banks and maintains a sound and healthy banking system in the economy.

* Out of Syllabus

23. Distinguish between revenue receipts and capital receipts. Give an example of each. **3**

Ans.

Basis	Capital Receipts	Revenue Receipts
Meaning	It is the income generated from investing and financing activities.	It is the income generated from the business's operating activities.
Nature	Non-Recurring	Recurring
Shown	Shown on the liabilities side of the balance sheet.	Shown on the credit of profit and loss account or trading account.
Examples	Loans took the sale of fixed assets, capital contributions, etc.	Profits on sale of assets, interest received on loans, royalty, etc.
Received in exchange of	Source of income	Income

24. How can budgetary policy be used to reduce inequalities of income? **3**

Ans. The government the budget can achieve to reduce inequalities in the distribution of income and wealth in two ways:

(a) By imposing higher taxes on the income of rich and the goods consumed by the rich, which will reduce the disposable income of the rich.

(b) Increasing government expenditure by providing free services to the poor like education, medical facilities etc. This will raise the disposable income of the poor. Thus, the gap between rich and poor can be reduced.

25. Explain the effect of depreciation of domestic currency on exports. **3**

Ans. Depreciation of the currency implies that more rupees are required to buy a dollar, or that a dollar can now buy goods worth more rupees than before. Accordingly. exports are expected to increase, while imports will take a hit.

26. How is exchange rate determined in the foreign exchange market? Explain. **3**

Ans. In a floating regime, exchange rates are generally determined by the market forces of supply and demand for foreign exchange. For many years, floating exchange rates have been the regime used by the world's major currencies – i.e., the US dollar, the euro area's euro, the Japanese yen and the UK pound sterling.

27. Calculate 'Sales' from the following data: **4**

		(₹ in lakhs)
(i)	**Subsidies**	**200**
(ii)	**Opening stock**	**100**
(iii)	**Closing stock**	**100**
(iv)	**Intermediate consumption**	**3,000**
(v)	**Consumption of fixed capital**	**700**
(vi)	**Profit**	**750**
(vii)	**Net value added at factor cost**	**2,000**

Ans.

GVA_{MP} = NVA fc + Dep + NIT
= 2000 + 700 + (0 – 200)
= 2500
GVA_{MP} = Sales
= change in stock – IC 2500
= Sales + (600 – 100)
– 3000 2500
= Sales – 2500
Sales = 5000

28. 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?

OR

Distinguish between stocks and flows. Give two examples of each. **4**

Ans. Nominal GDP refers to the GDP at current prices in the market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated during an accounting year, as estimated using the current year prices.

Real GDP refers to the GDP at constant prices in the market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated during an accounting year, as estimated using the base year prices.

Real GDP is a better indicator as it prevents money illusion- the illusion of a higher market value of disposable income.

OR

Basis	Stock	Flow
Definition	Stock is defined as a variable that is measured at a particular point in time	Flow is defined as a variable which is measurable over a period of time
Time Dimension	Stock does not have a time dimension attached with it	Flow has a time dimension attached with it
Nature	Stock is static in nature	Flow is dynamic in nature
Influence	Stock influences the flow, as such greater amount of capital will lead to greater flow of services	Flow influences the stock, as in increased flow of money supply in an economy results in increase in the quantity of money
Example	Bank deposits, capital, wealth, population	Capital formation, income, interest on capital, depreciation

29. Explain the credit creation role of commercial bank with the help of a numerical example. 4

Ans. Credit creation is the most important function of commercial banks. Commercial banks accept deposits and lend money to the needy borrowers. Through this process they create two types of deposits, (i) primary deposits and (ii) derivative or active deposits.

The former deposits refers to the cash or cheque deposited by a customer in a bank. The banker merely accepts cash and converts it into a deposit. But, this is merely a passive role performed by the banks, because these primary deposits do not add to the money stock in the economy. Banks know, from their experience and observation, that not all the customers will withdraw their deposits on any single day. However, commercial banks cannot use the entire amounts of public deposits for lending purposes. They are required to keep a certain percentage of amounts as reserve with the central bank for serving the cash requirements of depositors. After keeping the required amount of reserves, commercial banks lend the remaining portion of public deposits as loans. The amount of reserve maintained by the banks is known as Cash Reserve Ratio (CRR) and is determined by the central bank.

The process of credit creation by commercial banks is explained as follows:

Suppose 'A' deposit ₹ 10,000 in a bank X, which is the primary deposit of the bank. The cash reserve requirement of the central bank is 10%. Then, bank X will keep ₹ 1000 as reserve with the central bank and will lend remaining ₹ 9000 to needy borrowers.

In other words, the bank X does not give B cash while sanctioning the loan. Instead the bank merely opens a loan account in the name of B and credits to his account ₹ 9000. Then B pays to C, to whom he owes ₹ 9000, by way of cheque to settle his account with C.

C now deposits the cheque of ₹ 9000 in Y bank. The bank Y, after keeping a sum of ₹ 900 as CRR requirement of the central bank, lends ₹ 8100 to another borrower D. Thus, this process of deposits and credit creation continues till the reserve with commercial banks becomes zero.

Hence, the bank gets new deposit from the loan given and actively creates this new deposit. That is why, it is always said that loans create deposits. The new deposit created in this manner will add to the money stock of the economy. Whenever the loan is returned by the borrower to the bank, then there is no further possibility of creating new deposit.

30. From the data given below about an economy. Calculate 6

(a) investment expenditure and (b) consumption expenditure

(i)	**Equilibrium level of income**	**5000**
(ii)	**Equilibrium level of income**	**500**
(iii)	**Marginal propensity to consume**	**0.4**

Ans. (i) Consumption Function, C = 500+ 0.4 Y where Y in the income in the economy.

At equilibrium,

$$AS = AD$$
$$Y = C + I$$
$$= 5{,}000$$
$$= 500 + 0.4\,(5{,}000) + I$$
$$= 5{,}000 = 500 + 2{,}000 + I$$
$$= 5{,}000 = 2{,}500 + I$$
$$= I = 5{,}000 - 2{,}500 = 2{,}500.$$

(ii) Consumption Function, C = 500 + 0.4 Y where Y in the income in the economy.

So at national income 5,000 , consumption expenditure is

$$C = 500 + 0.4\,(5{,}000)$$
$$= 500 + 2{,}000$$
$$= 2{,}500$$

31. Explain the meaning of under-employed equilibrium. Explain two measures by which full employment equilibrium can be reached. 6

Ans. Under employment equilibrium occurs when AS = AD, short of their full employment level. Measures to correct under employment equilibrium:

(i) Bank rate central bank should decrease the bank rate. A decrease in bank rate lowers the rate of interest and credit becomes cheap. Accordingly, the demand for credit expands and Aggregate Demand increases.

(ii) Open market operations by buying the government securities, the central bank injects additional purchasing power into the system which results in the expansion of credit. As a result, Aggregate Demand increased.

32. Calculate 'Gross National Product at Market Price' from the following data:

		(₹ in crores)
(i)	**Compensation of employees**	**2,000**
(ii)	**Interest**	**500**
(iii)	**Rent**	**700**
(iv)	**Profits**	**800**
(v)	**Employer's contribution to social security schemes**	**200**
(vi)	**Dividends**	**300**
(vii)	**Consumption of fixed capital**	**100**
(viii)	**Net indirect taxes**	**250**
(ix)	**Net exports**	**70**
(x)	**Net factor income to abroad**	**150**
(xi)	**Mixed income of self employed**	**1,500**

6

Ans. NNPpc

= (i) + (ii) + (iii) + (iv) + (v) + (xi) + (vii) - (x) + (viii)

= Compensation of employees + Interest + Rent + profits + Employer's contribution to social security schemes + Mixed income of self-employed + Consumption of fixed capital

= 2,000 + 500 +700 + 800 + 200 + 1,500 + 100

= ₹ 5,800 crore

Outside Delhi Set II — Code No. 2/1/1

Note : Except for the following questions, all the remaining questions have been asked in previous set.

SECTION - A*

(Micro-economics)

SECTION - B

(Macro-economics)

23. Distinguish between revenue expenditure and capital expenditure in government Budget. Give an example of each. **3**

Ans.

S. no	Revenue expenditure	Capital expenditure
1	It neither creates any assets nor reduces liability.	It either creates an asset or reduces liability.
2	It is incurred for normal conduction of government departments and various services.	It is incurred mainly for acquiring assets and granting loans.
3	It is recurring in nature.	It is non-recurring in nature.
4	For example, expenditure on medicines and salaries of doctors in a hospital for rendering services is revenue expenditure..	For example, construction of hospital building is capital expenditure.

29. How does central bank control credit creation by commercial banks through open market operations? Explain. **4**

Ans. Open market operations refer to buying and selling of securities in an open market, in order to affect the money supply in the economy. The selling of securities by Reserve Bank of India will wipe out extra cash balance from the economy, thereby limiting the money supply resulting in controlled credit creation.

31. Distinguish between inflationary gap and deflationary gap. State two measures by which these can be corrected. **6**

Ans. Excess demand or inflationary gap is the excess of Aggregate Demand over and above its level required to maintain full employment equilibrium in the economy.

Deficient demand or deflationary gap refers to the situation when Aggregate Demand is short of Aggregate Supply corresponding.

Two measures of correcting inflationary and deflationary gaps are as follows:

(1) Margin requirement refers to the difference between the current value of security offered for loan and the value of loan granted. During deficient demand or deflation, the central bank decreases the margin in order to increase the credit creation capacity of the commercial bank and as a result, the money supply in an economy gets increased and the deficient demand or deflationary gap is combated. Whereas, during inflationary gap the margin requirement is increased by the central bank.

(2) Open market operation is the policy that focuses on increasing and decreasing the stock of liquidity with the people, through sale and purchase of securities by the central bank. During excess demand or inflation, the central bank tries to sale securities. Sale of securities reduces purchasing power from the market. Consequently, Aggregate Demand is decreased and excess demand or inflationary gap gets combated. Whereas during deflationary gap, the central bank tries to purchase securities to inject the expenditure in the economy.

32. In an economy C = 200 + 0.75Y is the consumption function where C is consumption expenditure and Y is national income. Investment expenditure is 4,000. Calculate equilibrium level of income and consumption expenditure. **6**

Ans. (i) At equilibrium,

$$AS = AD$$
$$Y = C + I$$
$$= Y = 200 + 0.75\,Y + I$$
$$= Y - 0.75\,Y = 200 + 4{,}000$$
$$= 0.25\,Y = 4{,}200$$
$$= Y = 4{,}200/\,0.25$$
$$= 16{,}800$$

(ii) Consumption Function, C = 200+ 0.75 Y where Y in the income in the economy.

So, at national income 16,800, consumption expenditure is

$$C = 200 + 0.75\,(16{,}800)$$
$$= 200 + 12{,}600$$
$$= 12{,}800$$

* Out of Syllabus

Outside Delhi Set III — Code No. 2/1/1

Note : Except for the following questions, all the remaining questions have been asked in previous set.

SECTION - A*

(Micro-economics)

SECTION - B

(Macro-economics)

23. State three sources each of revenue receipts and capital receipts in government budget. **3**

Ans. Three sources of revenue receipts in government budget are: goods and services tax, fees, and escheat.

Three sources of capital receipts in government budget are recovery of loans, borrowing from RBI, disinvestment.

29. Explain any two methods of credit control used by central bank. **4**

Ans. The central bank acts as a controller of money supply and credit by using the following methods:

(i) Margin requirement a margin refers to the difference between market value of the security offered for loan and the amount of loan offered by the commercial banks. During inflation, supply of credit is reduced by raising the requirement of margin. During deflation, supply of credit is increased by lowering the requirement of margin. This measure is often used to discourage the flow of credit into specified business activities.

(ii) Moral suasion it refers to the moral pressure exercised by the central bank on the commercial banks to be restrictive and selective in lending during inflation and to be liberal in lending during deflation. Generally, this measure is used as a selective credit control instrument to channelise the flow of credit to priority areas.

30. From the following data about an economy, calculate (a) equilibrium level of national income and (b) equilibrium level of national income and (b) total consumption expenditure at equilibrium level of national income.

(i) C = 200 + 0.5Y is the consumption function where C is consumption expenditure and Y is national income.

(ii) Investment expenditure is 1,500. **6**

Ans. (i) At equilibrium,

$$AS = AD$$
$$Y = C + I$$
$$= Y = 200 + 0.5\,Y + I$$
$$= Y - 0.5\,Y = 200 + 1{,}500$$
$$= 0.5\,Y = 1{,}700$$
$$= Y = 1{,}700/0.5 = 3{,}400$$

(ii) Consumption Function, C = 200+ 0.5 Y where Y in the income in the economy.

So at national income 3,400, consumption expenditure is

$$C = 200 + 0.5\,(3{,}400)$$
$$= 200 + 1{,}700$$
$$= 1{,}900$$

31. Explain all the changes that will take place in an economy when Aggregate Demand is not equal to Aggregate Supply. **6**

Ans. (i) When $AD > AS$, it means that the buyers are planning to buy more goods and services than the producers are planning to produce or supply. In this situation, inventories start falling and come below the desired level, the producers expand their production. This raises the income level, which keeps rising till *AD* and *AS* are equal again.

(ii) When $AD < AS$, it means that the buyers are planning to buy fewer goods and services than the producers are planning to produce or supply. In this situation, inventories start rising and move above the desired level. So, the producers curtail the production and retrench the workers and unemployment prevails. This reduces the income level, which keeps on falling till *AD* and *AS* become equal again.

Delhi Set I — Code No. 2/1/1

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

17. How can increase in foreign direct investment affect the price of foreign exchange? **1**

Ans. If the foreign direct investment increases, the price of foreign exchange will fall as foreign direct investment is a component of the demand of foreign exchange and we know, components of the demand of foreign exchange is inversely related to the foreign exchange rate.

18. What are demand deposits? **1**

Ans. Current account deposits (also known as demand deposits) refer to those deposits that provide the depositor the liberty to withdraw money at any point of time. Such deposits prove useful for businessmen as they are required to deal with many transactions in a single day.

19. Give one example of 'externality' which reduces welfare of the people. **1**

Ans. An 'externality' which reduces welfare of the people is environmental pollution caused by industrial plants.

20. Give two examples of indirect taxes. **1**

Ans. Examples of indirect taxes are excise tax, VAT, and service tax.

* Out of Syllabus

21. What is a Government budget? 1

Ans. Government budget refers to an annual financial statement that denotes its anticipated expenditure and expected revenue generation in a fiscal year. It is presented by the government in Lok Sabha at the beginning of every fiscal year, to give an estimate of its expenditure and receipts for the upcoming year.

22. Distinguish between revenue expenditure and capital expenditure in Government budget. Give an example of each.

OR

Distinguish between revenue deficit and fiscal deficit. 3

Ans.

S.no	revenue expenditure	capital expenditure
1	It neither creates any assets nor reduces liability.	It either creates an asset or reduces liability.
2	It is incurred for normal conduction of government departments and various services.	It is incurred mainly for acquiring assets and granting loans.
3	It is recurring in nature.	It is non-recurring in nature.
4	For example, expenditure on medicines and salaries of doctors in a hospital for rendering services is revenue expenditure..	For example, construction of hospital building is capital expenditure.

OR

A revenue deficit records the difference between the projected amount of income and what the income actually was. A fiscal deficit is when a government is spending beyond its means, or there is a shortfall in income compared with spending.

23. Explain any one objective of Government Budget. 3

Ans. The objectives of the government budget are Reallocation of resources evenly across the nation.

24. Explain the effect of appreciation of domestic currency on imports. 3

Ans. Appreciation of domestic currency means lower price of foreign currency in terms of domestic currency. This increases the price of domestic goods for foreign buyers. This means imports become cheaper. As a result, the demand for imports may rise.

25. Distinguish between balance of trade and balance on current account. 3

Ans. Balance of trade refers to the balance occurring on account of export and import of visible items (goods only). Current account balance includes the balance of trade well as balance on invisible items.

26. Calculate "Sales" from the following data: 3

		(₹ in lakhs)
(i)	Net value added at factor cost	560
(ii)	Depreciation	60
(iii)	Change in stock	(–) 30
(iv)	Intermediate cost	1000
(v)	Exports	200
(vi)	Indirect taxes	60

Ans. Using Value Added Method,

Gross Value Added at Market Price (GVA at MP)

= Value of Output (Sales + Change in stock) – Intermediate Cost

= [Sales + ₹ (– 30)] – ₹ 1,000 lakh

= Sales – ₹ 1,030 lakh.

NVA at FC = GVA at MP – Depreciation – Net Indirect Tax (Indirect Tax – Subsidies)

= ₹ [Sales – 1,030 – 60 – (60 – 0)] lakh

= ₹ [Sales – 1,150] lakh.

₹ 560 lakh = ₹ [Sales – 1,150].

Sales = ₹ 1,710 lakh.

27. Giving reasons categorise the following into stock and flow:

(i) Capital

(ii) Saving

(iii) Gross domestic product

(iv) Wealth 4

OR

Explain the circular flow of income.

Ans. (i) Loss is a flow because losses are always with reference to a period of time.

(ii) Capital is a stock because it is measured at a point of time.

(iii) Production is a flow as it is always with reference to a period of time.

(iv) Wealth is a stock because it is always measured at a point of time.

OR

It refers to the cycle of generation of income in the production process, its distribution among the factor of production and finally, its circulation from households to firms in the form of consumption expenditure on goods and services produced by them.

28. Explain Banker to the Government function of the central bank. 4

Ans. The central bank functions as a commercial bank for the government. As banker to the government, the central bank provides all those services and facilities to the government which the public gets from the ordinary banks. It operates the accounts of the public enterprises.

29. C = 100 + 0.4Y is the Consumption Function of an economy where C is Consumption Expenditure and Y is National Income. Investment expenditure is 1100. Calculate:

(i) Equilibrium level of National Income.

(ii) Consumption expenditure at equilibrium level of National Income. 4

Ans. (i) At equilibrium,

$$AS = AD$$
$$Y = C + I$$
$$Y = 100 + 0.4\,Y + I$$
$$Y - 0.4\,Y = 100 + 100$$
$$0.6\,Y = 200$$
$$Y = 200/0.6 = ₹\,334$$

(ii) Consumption Function, C = 100+ 0.4 Y where Y in the income in the economy.

So, at national income ₹ 334, consumption expenditure is

$$C = 100 + 0.4\,(334)$$
$$= 100 + 133.6 = ₹\,233.6$$

30. Complete the following table: **6**

Income (₹)	Consumption expenditure (₹)	Marginal propensity to save	Average propensity to save
0	80	—	—
100	140	0.4	—
200	—	—	0
—	240	—	0.20
—	260	0.8	0.35

Ans.

Income (₹)	Consumption expenditure (₹)	Marginal propensity to save	Average propensity to save
0	80	—	—
100	140	0.4	– 0.40
200	240	0	– 0.20
300	240	1	0.20
400	260	0.8	0.35

31. Calculate National Income from the following data: **6**

(₹ 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**

Ans. Using Expenditure Method,

GDP at MP = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation - Net imports

$$= 900 + 400 + 250 - 30$$
$$= ₹\,1{,}520 \text{ crores}$$

National Income (NNP at FC) = GDP at MP - Consumption of fixed capital + Net factor income from abroad - Net indirect taxes

$$= ₹\,1{,}520 - 20 + (-40) - 100$$
$$= ₹\,1{,}360 \text{ crores}$$

Delhi Set II — Code No. 2/1/1

Note : Except for the following questions, all the remaining questions have been asked in previous set.

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

29. How do commercial banks create deposits? Explain. **4**

Ans. Commercial banks are the important sources of money supply in the economy. They contribute to money supply by creating credit.

They create credit out of their total deposits which are many more times greater than their initial level of deposits.

Money creation is determined by:

(i) The amount of the initial fresh deposits.

(ii) The Legal Reserve Ratio (LRR), which is the minimum ratio of deposits legally required to be kept as cash by the banks.

$$\text{Money Creation} = \text{Initial Deposits} \times \text{LRR}/1$$

Example, let the LRR be 20%,

$$\text{Fresh Deposits} = ₹\,10{,}000$$

As required, the banks keep 20% i.e., ₹ 2000 as cash. Suppose the banks lend the remaining amount of ₹ 8000. Those persons who borrow, use this money for making payments.

Further, it is also assumed that, persons receiving the payment will deposit the amount in the bank. This will result in banks receiving fresh deposits of ₹ 8000. The banks again keep ₹ 1600 as cash and lend ₹ 6400, which is also 80% of the last deposit, the money again comes back to the banks leading to a fresh deposit of ₹ 6400. In this way, the money goes on multiplying and ultimately, total money creation is ₹ 50000.

According to the formula,

$$\text{Money Creation} = 10000 \times 20\%1$$
$$= ₹\,50{,}000$$

30. In an economy, S = – 100 + 0.6Y is the saving function, where S is saving and Y is National Income. If investment expenditure is 1100. Calculate:

(i) Equilibrium level of National Income

(ii) Consumption expenditure of equilibrium level of National Income. **6**

Ans. We know, S = I – 100 + 0.6Y = 1,100

Or $\quad 0.6Y = 1{,}100 + 100$

Or $\quad 0.6Y = 1{,}200$

100	0	—	0.6
150	30	0.8	—
200	50	—	—

Ans.

Income	Savings	Consumption	APC	MPC
0	– 40	40	—	—
50	– 20	70	1.4	0.6
100	0	100	1	0.8
150	30	120	0.8	0.4
200	50	150	0.75	0.6

Delhi Set III — Code No. 2/1/1

Note : Except for the following questions, all the remaining questions have been asked in previous set.

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

27. Calculate "sales" from the following data: **4**

(₹ in lakhs)

Intermediate costs	**700**
Consumption of fixed capital	**80**
Change in stock	**(–) 50**
Subsidy	**60**
Net value added at factor cost	**1300**
Exports	**50**

Ans. Sale = (v + ii – iv + i) – iii
= 1,300 + 80 – 60 + 700 – (– 50)
= ₹ 2,070 lakh.

31. C = 50 + 0.5 Y is the consumption function where C is consumption expenditure and Y is National Income and investment expenditure is ₹ 2,000 is an economy.

Calculate (i) Equilibrium level of (National Income) (ii) Consumption expenditure at equilibrium level. **6**

Ans. (i) At equilibrium,

$$AS = AD$$
$$Y = C + I$$
$$\Rightarrow \quad Y = 50 + 0.5\,Y + I$$
$$\Rightarrow \quad Y - 0.5\,Y = 50 + 2{,}000$$
$$\Rightarrow \quad 0.5\,Y = 2{,}050$$
$$\Rightarrow \quad Y = 2{,}050/\,0.5 = ₹\ 4{,}100$$

(ii) Consumption Function, C = 50+ 0.5 Y where Y in the income in the economy.

So at national income 4,100, consumption expenditure is

$$C = 50 + 0.5\,(4{,}100)$$
$$= 50 + 2{,}050$$
$$= ₹\ 2{,}100$$

32. Complete the following table:

Consumption expenditure (₹)	Savings (₹)	Income	Marginal Propensity to Consume
100	50	150	—
175	75	—	—
250	100	—	—
325	125	—	—

6

Ans.

Consumption expenditure (₹)	Savings (₹)	Income (₹)	Marginal Propensity to Consume
100	50	150	—
175	75	250	0.75
250	100	350	0.75
325	125	450	0.75