

# Solved Paper 2014

## ECONOMICS

### Class-XII

Time: 3 Hours

Max. Marks: 100

#### 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 questions.
- (viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

#### Delhi Set I

Code No. 2/1/1

#### SECTION - A\*

(Micro-economics)

#### SECTION - B

(Macro-economics)

17. What are demand deposits? 1

**Ans.** Demand deposits is a type of deposits with the commercial banks which can be withdrawn on demand.

18. What is involuntary unemployment? 1

**Ans.** Involuntary unemployment is a type of unemployment where people who are able to work and are willing to work at the existing wage rate are not getting the employment opportunity.

19. Define marginal propensity to consume. 1

**Ans.** Marginal propensity to consume refers to the ratio of change in the consumption expenditure and change in the disposable income.

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

20. Define government budget. 3

**Ans.** Government budget is an annual financial statement or document that denotes its expected

expenditure and expected revenue generation during a fiscal year.

21. Give meaning of balance of trade. 1

**Ans.** Balance of trade (BOT) is the difference between the value of goods and services exported by the country and the value of goods and services imported by the concern country for a given period.

22. Define externalities. Give an example of negative externality. What is its impact on welfare? 3

**Ans.** Externalities refers to circumstances when the effect of production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged for the goods and services being provided. There are two types of externalities to categorise the by-products of production and consumption.

- Positive externalities
- Negative externalities

When the activities of one result in harm to others with no payment made for the harm done, such activities are called negative externalities. Production of goods increases welfare but at the same time pollution reduces the welfare.

23. Explain the significance of 'store of value' function of money. 3

OR

**Explain the significance or 'medium of exchange' function of money.** 3

**Ans.** Store of value is the important function of money. Money can be saved, retrieved and exchanged at a later time. People can store surplus purchasing power and use it whenever they wish to. Generally, people have a tendency to save certain portion of their income in form of savings and to accumulate wealth. Under the Barter system, such storage of wealth was not possible due to perishable nature of certain commodities. Money serves as a store of value for goods in liquid form. People keep their wealth in the form of money because money is the most liquid form of wealth.

OR

Money is a medium of exchange and it makes transactions of goods and services as a medium of exchange, it is the most common definition of money. It can be used to make payments for all transactions of a producers regarding sell their goods to wholesalers. Wholesalers, in turn, sell their goods to the retailers and the retailers sell these goods to the consumers in exchange for money. Hence, it can be concluded that money has infused commercialisation, which has raised the overall level of economic activities and has made production market oriented.

**24. Is the following revenue expenditure or capital expenditure in the context of government budget? Give reasons.**

(i) Expenditure on collection of taxes.

(ii) Expenditure on purchasing computers. 3

**Ans.** (i) Expenditure on collection of taxes is revenue expenditure of the government because it does not result in creation of assets for Government of India and is treated as revenue expenditure.

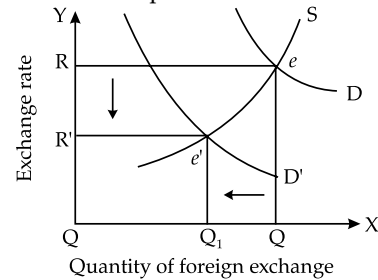
(ii) Expenditure on purchasing computers is a capital expenditure of the government because it causes reduction in the government liabilities as well as creates assets for the government.

**25. Explain the meaning of balance of payments deficit.** 3

**Ans.** Balance of payments deficit means the imports of goods and services become greater than the export of goods and services of a country. Balance of payments deficit occurs when debit side is greater than credit side. Deficit in the balance of payments leads to a higher demand for foreign currency to the detriment of national currency which would depreciate in this situation.

**26. Recently Government of India has doubled the import duty on gold. What impact is it likely to have on foreign exchange rate and how?** 3

**Ans.** Recently the government of India has doubled the import duty on gold. As result of increasing import tax, the import of gold declined. Increase in tax reduces the demand for foreign currency. With the supply of foreign currency remaining the same, the foreign exchange rate would fall. This implies appreciation of rupees.



**27. Define money supply and explain its components.**

OR

**Explain the 'lender of last resort' function of central bank.** 4

**Ans.** Money supply refers to the total stock of money in circulation among the people in an economy during a point of time. It estimates total volume of money held by the public at a particular point of time in an economy. Components of money supply are following:

- Currency such as notes and coins with the people.
- Demand deposits with the banks such as savings and current accounts
- Time deposit with the bank such as Fixed deposit and recurring deposits

Or

The central bank acts as a lender of last resort by providing money or financial grant to the commercial banks in times of cash crunch. Central bank can interface rescue of a bank that is solvent but faces temporary liquidity problems by supplying it with much needed liquidity. Thus, the central bank plays the role lender of last resort for the commercial banks and maintains a sound and healthy banking system in the economy.

**28. Calculate investment expenditure from the following data about an economy which is in equilibrium:**

National income = 1000

Marginal propensity to save = 0.25

Autonomous consumption expenditure = 200. 4

**Ans.** As we know that

Consumption function,  $C = c + b(Y)$

Whereas,  $Y =$  National income = 1000

$c =$  Autonomous consumption expenditure = 200

Marginal propensity to save = 0.25

We know that,  $MPC = 1 - MPS$   
 $= 0.75$

State of equilibrium level of output,

Aggregate Supply (AS) = Aggregate Demand (AD)

Or  $Y = C + I$

$[AD = Y \text{ and } AS = C + I]$

Or,  $1000 = 200 + 0.75(1,000) + I$

Or,  $1000 = 200 + 750 + I$

Or,  $1000 = 950 + I$

Thus,  $I = 50$

So, investment expenditure = 50

**29. Government raises its expenditure on producing public goods. Which economic value does it reflect? Explain.** 4

**Ans.** The principal feature of good governance is to maximise the public welfare and achieve optimum level of development. If a government raises its expenditure on producing public goods, it reflects that government is serving the objective of social welfare. The major objective of the budgetary policy of the government is to enhance the welfare of the society at large. Government should raise its expenditure on free services like education and health to the poor for achieving common welfare goal.

**30. Calculate national income and gross (national disposable income) from the following :\*\***

(₹ Arab)

(i) Net current transfers to abroad	(-) 15
(ii) Private final consumption expenditure	600
(iii) Subsidies	20
(iv) Government final consumption expenditure	100
(v) Indirect tax	120
(vi) Net imports	20
(vii) Consumption of fixed capital	35
(viii) Net change in stocks	(-) 10
(ix) Net factor income to abroad	5
(x) Net domestic capital formation	110

**Ans.** National Income ( $NNP_{FC}$ )

= Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation – Net imports – Net Indirect tax – Net factor income to Abroad.

$NNP_{FC} = (ii) + (iv) + (x) - (vi) - [(v) - (iii)] - (ix)$

$NNP_{FC} = 600 + 100 + 110 - 20 - (120 - 20) - 5$

= 685 Arab

**31. By giving reason explain how should the following be treated in estimating gross domestic product at market price ?**

(i) Fees to a mechanic paid by a firm.

(ii) Interest paid by an individual on a car loan taken from a bank.

(iii) Expenditure on purchasing a car for use by a firm.

6

**Ans. (i)** Fees to a mechanic paid by a firm are an intermediate consumption expenditure of a productive firm that's why it is not included in gross domestic product at market price.

(ii) Interest paid by an individual on a car loan taken from a bank is a consumption expenditure that's why it is not included in the estimation of the gross domestic product at market price.

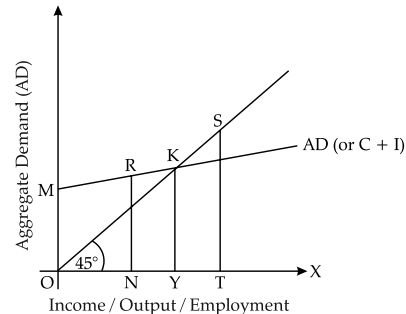
(iii) During the estimation of national income by expenditure method, we are including the gross domestic capital formation. A car is a capital good for a firm therefore, expenditure on purchasing a car for use by a firm will be a part of the gross domestic fixed capital formation and will be included in estimating GDP at market price by expenditure method.

**32. Explain national income equilibrium through aggregate demand and aggregate supply. Use diagram. Also, explain the changes that takes place in an economy when the economy is not in equilibrium.**

OR

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

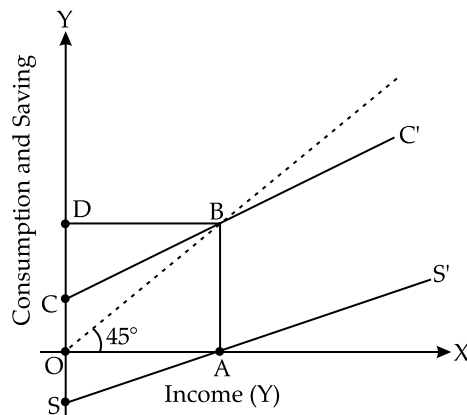
**Ans.** In an economy, income equilibrium is determined at a point where the elements of aggregate demand and aggregate supply become equal. Aggregate demand denotes the total demand of goods and services in the economy while aggregate supply represents total production of goods and services. In the diagram, the equilibrium is at K where AD intersects 45° line. At this point,  $AD = AS$ .



When, AD is less than AS on point S, then the planned inventory rises above the desired level. To clear the unwanted increase in inventory, firms plan to reduce the output till AD becomes equal to AS. So, equilibrium takes place only at point K, when  $AD = AS$ .

OR

In the given diagram,  $CC'$  is the consumption curve which shows autonomous consumption equal to  $OC$  at zero level of income and consumption equal to income at  $OA$  level of income. At zero level of income, saving expenditure is equal to  $OS$  which is equal to autonomous consumption of  $OC$  at that level of income. So,  $S$  is the starting point of savings curve. At  $OA$  level of income, consumption expenditure must be equal to  $OD = OA$  so savings are zero at  $OA$  level of income as the whole of income is spent on consumption. This gives a point  $A$  on the savings curve. By joining  $S$  and  $A$  and extending it further, we get savings curve.



## 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. What is 'current account deficit' in the balance of payments? 3

**Ans.** The current account measures the flow of goods, services and investments into and out of the country. A current account deficit implies a reduction of net foreign assets:

Current account = Change in net foreign assets.

24. Visits of foreign countries for sightseeing etc., by the people of India is on the rise. What will be its likely impact on foreign exchange rate and how? 3

**Ans.** With an increase in foreign visitors to India, there will be an increase in the demand for foreign currency. When foreign exchange rate rises it makes the countries imports costly. With the supply of foreign currency remaining same, the foreign exchange rises, implying a depreciation of rupee.

29. Calculate autonomous consumption expenditure from the following data about an economy which is in equilibrium.

National income = 1200

Marginal propensity to save = 0.20

Investment expenditure = 100 4

**Ans.** As we know that,

Consumption function,  $C = c + b(Y)$

Whereas,  $Y = \text{National income} = 1200$

$I = \text{Investment expenditure} = 100$

Marginal propensity to save = 0.20

We know that,  $MPC = 1 - MPS$   
= 0.80

State of equilibrium level of output,

Aggregate Supply (AS) = Aggregate Demand (AD)

Or  $Y = C + I$

[ $AD = Y$  and  $AS = C + I$ ]

Or,  $1200 = c + 0.80(1200) + 100$

Or,  $1200 = c + 960 + 100$

Or,  $1200 = 1060 + c$

Thus,  $c = 140$

So, autonomous consumption expenditure = 140

31. Calculate 'net national product' at factor cost and 'private income' from the following: 6

(₹ Arab)

(i) National debt interest	60
(ii) Wages and salaries	600
(iii) Net current transfers to abroad	20
(iv) Rent	200
(v) Transfer payments by government	70
(vi) Interest	300
(vii) Net domestic product at factor cost accruing to government	400
(viii) Social security contribution by employers	100
(ix) Net factor income paid to abroad	50
(x) Profits	300

**Ans.** National Income ( $NNP_{FC}$ )

= Wages and salaries + Social security contribution by employers + Rent + Interest + Profit – Net factor income paid to abroad

$NNP_{FC} = (ii) + (viii) + (iv) + (vi) + (x) - (ix)$

$NNP_{FC} = 600 + 100 + 200 + 300 + 300 - 50$

= ₹ 1450 Arab

**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)

**17. Define aggregate supply. 1**

**Ans.** In macroeconomics, Aggregate supply refers to the total supply of goods and services produced within an economy at a given overall price during a particular period of time.

**19. What is 'devaluation' ? 1**

**Ans.** Reduction in the value of currency or the value of one currency is reduced against another, is termed as devaluation in economics. Devaluation occurs when a country's central bank makes a conscious decision to lower its exchange rate in a fixed or semi-fixed exchange rate.

**23. How does giving incentives for exports influence foreign exchange rate ? Explain. 3**

**Ans.** If a country exports more than it imports, there is a high demand for its goods, and thus, for its currency. Increase in exports will bring more foreign exchange into the country. Demand for foreign exchange remaining unchanged, exchange rate is likely to fall.

**29. Calculate marginal propensity to consume from the following data about an economy which is in equilibrium:**

National income = 1500

Autonomous consumption expenditure = 300

Investment expenditure = 300 **4**

**Ans.** As we know that,

Consumption function,  $C = c + b(Y)$

Whereas,  $Y = \text{National income} = 1500$

$I = \text{Investment expenditure} = 300$

$c = \text{Autonomous consumption expenditure} = 300$

State of equilibrium level of output,

Aggregate Supply (AS) = Aggregate Demand (AD)

Or  $Y = C + I$

$[AD = Y \text{ and } AS = C + I]$

Or,  $1500 = 300 + b(1500) + 300$

Or,  $1500 = 600 + b(1500)$

Or,  $1500 - 600 = b(1500)$

Thus,  $b(1500) = 900$

$$b = \frac{900}{1500} = 0.6$$

So, marginal propensity to consume = 0.6

**32. Calculate net domestic product at factor cost and (net national disposable income\*\*) from the following: 6**

(₹ Arab)

(i) Net current transfers to abroad 5

(ii) Government final consumption expenditure 100

(iii) Net indirect tax 80

(iv) Private final consumption expenditure 300

(v) Consumption of fixed capital 20

(vi) Gross domestic fixed capital formation 50

(vii) Net imports (-) 10

(viii) Closing stock 25

(ix) Opening stock 25

(x) Net factor income to abroad 10

**Ans.** Net Domestic Product at factor cost ( $NDP_{FC}$ )

= Private final consumption expenditure +  
Government final consumption  
expenditure + Gross domestic fixed  
capital formation + closing stock - opening  
stock - Net Import - Net Indirect tax -  
Consumption of fixed capital

$NDP_{FC} = (iv) + (ii) + (vi) + (viii) - (ix) - (vii) - (iii) - (v)$

$NDP_{FC} = 300 + 100 + 50 + 25 - 25 - (-10) - 80 - 20$

= ₹ 360 Arab

**Outside Delhi Set I**

**Code No. 2/1/1**

**SECTION - A\***

(Micro-economics)

**SECTION - B**

(Macro-economics)

**17. What is time deposits? 1**

**Ans.** A time deposit is also known as term deposit. It is a deposit with commercial bank with a specific maturity period of time.

**18. Define inflationary gap. 1**

**Ans.** The inflationary gap is the difference between an actual GDP of an economy and its potential GDP with full employment. The inflationary gap occurs when too much money is chasing too few goods, which causes the prices to rise.

**19. What is full employment? 1**

**Ans.** Full employment is a situation in which AD become equal to AS or  $S = I$  along with fuller utilisation of resources.

**20. Define fiscal deficit. 1**

**Ans.** Fiscal deficit is the excess of total expenditure over total receipts, other than borrowings. Fiscal deficit is also known as Gross fiscal deficit and it is an indication of the total borrowings needed by the government.

**21. Define foreign exchange rate. 1**

**Ans.** Foreign exchange rate refers to the rate at which domestic currency exchanges for the other currency in the international money market.

**22. What are externalities? Give examples of a positive externality and its impact on welfare of the people. 3**

**Ans.** Externalities refers to circumstance when the effect of production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged for the goods and services being provided. There are two types of externalities to categorize the by-products of production and consumption.

- Positive externalities
- Negative externalities

Positive externalities refer to benefits caused by one entity to another, without being paid for it. Negative externalities refer to the harms caused by one entity to another without being penalized for it. Plantation by a person affects the life of the people living in the surrounding areas; it enhances the overall welfare of the society and positive externality.

**23. Explain the significance of the 'Unit of Account' function of money. 3**

OR

**Explain the significance of the 'Standard of Deferred Payment' function of money. 3**

**Ans.** Evolution of money has given us a common unit of value and therefore money is a unit of account that can be used to value goods and services, record debts, and make calculations. Money acts as a standard measure and a common denomination of trade. Money is a measure of the value of all products (and services) and is the amount that is required to be paid/received while transacting. Therefore, it is one of the essential functions of money.

OR

Money can be used conveniently for deferred payments which need to be paid by individuals. Deferred payment means those payments which are to be made in future. This is an important function of money. Money performs this function successfully because its value remains more or less stable as compared to other commodities. Money has general acceptability nature and it is more durable as compared to other commodities. Because of deferred payments functions of money, there has been significant expansion of domestic and international trade.

**24. Is the following a revenue receipt or a capital receipt in the context of government budget and why?**

- (i) Tax receipts
- (ii) Disinvestment

**Ans. (i)** Tax receipts is a revenue receipt of the government because it should not create any liability for the government. Tax revenue receipt is the income gained by the government through taxation without creating any liabilities.

**(ii)** Disinvestment is a capital receipt of the government because as it reduces assets of the government. Those receipts which create liability for the government or cause a reduction in assets of the government is known as capital receipt.

**25. Distinguish between 'autonomous' and 'accommodating' Balance of Payments transactions. 3**

**Ans.**

Autonomous transaction	Accommodating transaction
Autonomous transactions are those which are not influenced by other transactions in Balance of Payment Account.	Accommodating transactions are those which are undertaken to cover Deficit/Surplus in Balance of Payment
Autonomous transactions are undertaken for profit motive.	Autonomous transactions are undertaken for Balancing in Balance of Payment

**26. Foreign exchange rate in India is on the rise recently. What impact is it likely to have on exports and how? 3**

**Ans.** Foreign exchange rate refers to the rate at which one unit of currency of a country can be exchanged for the number of units of currency of another country. Rise in foreign exchange rate means that one unit of foreign currency is worth more rupees than earlier. When there is an increase in the exchange rate in India, there will be a decrease in the demand for import of goods and services in India and with the rise in foreign exchange rate in India, the demand for foreign currency increases and it will be an increase in the demand for export of goods and services in India. Rise in foreign exchange rate encourages exports from a country and discourages imports from rest of the world.

**27. Explain 'Banker to the Government' function of the central bank. 4**

OR

**Explain 'Bankers' Bank' function of the central bank. 4**

**Ans.** Central bank functions as a banker to the government — both central and state governments. As a Banker to the government central banks performs various functions. It maintains account of the government transactions and submits the details to the government from time to time. Central bank makes payment of all the government expenses from government account. It arranges loan from national or international level and deposit them in government account. It arranges and makes payment of interest and the amount of matured debts on behalf of the government. It carries out all banking business of the government. Central bank provides short-term loans to the government whenever it is required.

OR

The central bank acts as a banker to the other commercial banks, just as the commercial banks have a relationship with its customers. The central bank keeps some cash balances of the commercial banks as a compulsory deposit. The central bank can easily settle claims of various commercial banks against each other by making debit and credit entries in their accounts and with a view to meeting liabilities of these banks in times of crises. Due to this act of the central bank, it is also called custodian of cash reserves. These cash balances are kept by the commercial bank.

28. Calculate Marginal Propensity to Consume from the following data about an economy which is in equilibrium:

National income = 2000

Autonomous consumption expenditure = 200

Investment expenditure = 100 4

Ans. As we know that

Consumption function,  $C = c + b(Y)$

Whereas,  $Y =$  National income = 2000

$c =$  Autonomous consumption expenditure = 200

$b =$  marginal propensity to consume

State of equilibrium level of output,

Aggregate Supply (AS) = Aggregate Demand (AD)

Or  $Y = C + I$

[ $AD = Y$  and  $AS = C + I$ ]

Or,  $200 = 200 + b(2,000) + 100$

Or,  $2,000 = 300 + b(2,000)$

Or,  $b(2,000) = 2,000 - 300$

Thus,  $b = \frac{1700}{2000} = 0.85$

So,  $MPC = 0.85$

29. Tax rates on higher income group have been increased. Which economic values does it reflect? Explain. 4

Ans. Progressive income taxation may result in a more equitable income distribution. Increasing the tax rates on higher income group implies that the government is following progressive tax policy. A higher tax is collected from the taxpayers who earn more and lower taxes from taxpayers earning less. The economic value that is reflected in the rise in tax rate for higher income group is the 'equality and social welfare'. This would reduce the inequalities in the distribution of income. The purchasing power of the rich would fall while it would remain the same for the poor. This would reduce the gap between these two groups.

30. Calculate 'Net National Product at Factor Cost' of following: 6

(₹ in Arab)

(i) Social security contributions by employees	90
(ii) Wages and salaries	800
(iii) Net current transfers to abroad	(-) 30
(iv) Rent and royalty	300
(v) Net factor income to abroad	50

(vi) Social security contributions by employers	100
(vii) Profit	500
(viii) Interest	400
(ix) Consumption of fixed capital	200
(x) Net indirect tax	250

Ans. Net National Product at Factor cost ( $NNP_{FC}$ )

= Wages and salaries + social security contribution by employers + rent and royalty + profit + interest- net factor income to abroad

$NNP_{FC} =$  (ii) + (vi) + (iv) + (vii) + (viii) - (v)

$NNP_{FC} = 800 + 100 + 300 + 500 + 400 - 50$

= ₹ 2050 Arab

31. How should the following be treated in estimating national income of a country? You must give reasons for your answer.

(i) Taking care of aged parents

(ii) Payment of corporate tax

(iii) Expenditure on providing police services by the government 6

Ans. (i) Taking care of aged parents will not be included in the national income, as it does not involve any production of good and services. Only expenditure incurred on purchase of goods and services towards taking care of the aged parents will be included in the estimation of national income.

(ii) Payment of corporate tax is not included in the national income as it is a mere transfer payment from the firm to the government. It is a part of corporate profits which already form part of national income. That's why, it should not be separately included in national income.

(iii) Expenditure on providing police services by the government is included in the national income of a country as it forms a part of government final consumption expenditure.

32. When is an economy in equilibrium? Explain with help of Saving and Investment functions. Also explain the changes that take place in an economy when the economy is not in equilibrium. Use diagram.

OR

Outline the steps required to be taken in deriving the Consumption Curve from the given Saving Curve. Use diagram. 6

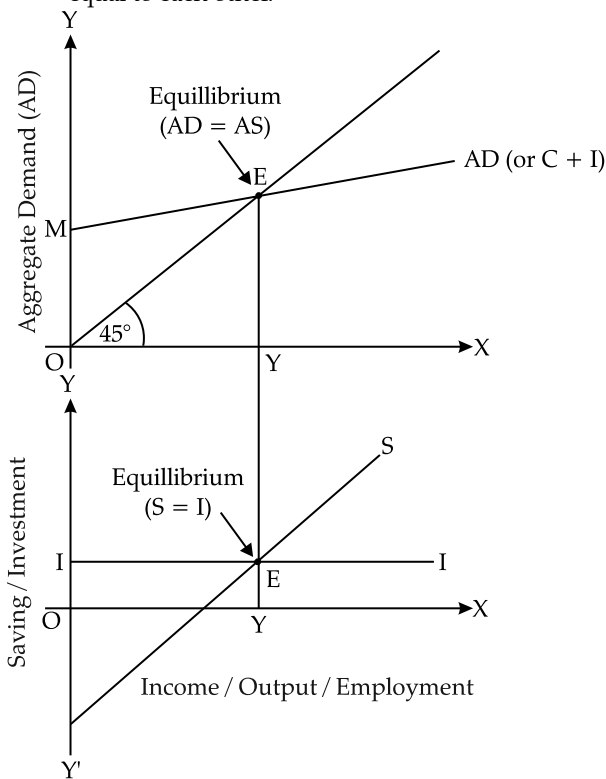
Ans. The economy is in state of equilibrium at that income level at which saving = investment. According to the Keynes, income — employment equilibrium is determined at a point where saving is equal to investment.

The equilibrium level of income is OM as at this level  $S = I$ . When the economy is not in equilibrium saving is not equal to investment. When S is less than I, then the planned inventory rises above

the desired level. To clear the unwanted increase in inventory, firms plan to reduce the output till  $S$  becomes equal to  $I$ . So, equilibrium takes place only at point  $E$ ,

When  $S = I$

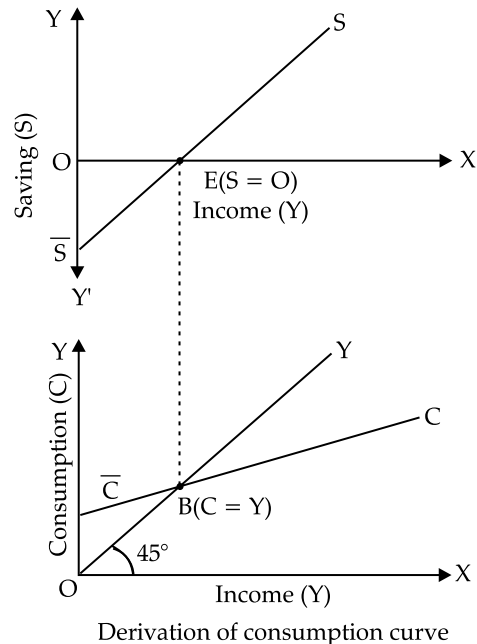
When planned saving is less than planned investment that is before point in figure, it means that households are consuming more and saving less, than what the firms expected them to. As a result, planned inventory would fall below the desired level. To bring the inventory back to the desired level, firms would plan to increase the production till saving and investment become equal to each other.



OR

Steps taken for derivation of consumption curve are:

- (i) At zero level of income, the savings are  $O$  over line  $\{S\}$  which is the amount of autonomous consumption at  $Y = 0$ . So,  $-O$  over line  $\{S\} = O$  over line  $\{C\}$ . Hence, the consumption will start from the point  $\overline{C}$  over line  $\{C\}$ .
- (ii) We draw a  $45^\circ$  line passing through the origin which shows that  $C = Y$ . This is the income line.
- (iii) Now, we draw a vertical line from the point  $E$ , where saving is zero. At zero level of saving,  $C = Y$ . So,  $B$  is the break-even point.
- (iv) The consumption curve is derived meeting  $C$  and  $B$  and extending it forward.



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)

20. Define deflationary gap. 1

Ans. Deflationary gap is the measurement of deficient demand and is equal to the differences between aggregate demand at full employment (AD) and

actual aggregate demand (AD). It is the amount by which the aggregate demand falls short of aggregate supply at the full employment level.

24. When foreign exchange rate in a country is on the rise, what impact is it likely to have on imports and how? 3

Ans. Foreign exchange rate refers to the rate at which one unit of currency of a country can be exchanged for the number of units of currency of another country. Rise in foreign exchange rate means that one unit of foreign currency is worth more rupees than earlier. When there is an increase in the exchange rate in India, there will be a decrease in the demand for import of goods and services in India.



29. Calculate investment expenditure from the following data about an economy which is in equilibrium.

National income = 1000

Marginal propensity to save = 0.20

Autonomous consumption expenditure = 100 4

Ans. Given, The value of  $MPS = 0.20$ , then

$$MPC = 1 - MPS = 1 - 0.20 = 0.80$$

As we know that

Consumption function is  $C = 100 + 0.8 (Y)$

Where,  $Y$  is the income in the economy.

Thus, at equilibrium level of output,

$$AS = AD$$

$$Y = C + I$$

$$\Rightarrow 1000 = 100 + 0.8 (1,000) + I$$

$$\Rightarrow 1000 = 100 + 800 + I$$

$$\Rightarrow 1000 - 900 = I$$

$$\Rightarrow I = ₹ 100$$

31. Calculate 'National Income' from the following: 6  
(₹ in Arab)

(i) Net change in stocks	50
(ii) Government final consumption expenditure	100
(iii) Net current transfers to abroad	30
(iv) Gross domestic fixed capital formation	200
(v) Private final consumption expenditure	500
(vi) Net imports	40
(vii) Depreciation	80
(viii) Net factor income to abroad	(-) 10
(ix) Net indirect tax	120
(x) Net capital transfers to abroad	25

Ans. National Income ( $NNP_{FC}$ )

= Government final consumption expenditure + Private final consumption expenditure + Gross domestic fixed capital formation + Net change in stocks - Net imports - Depreciation - Net indirect tax - Net factor income to abroad.

$$\text{National Income (} NN P_{FC} \text{)} = 100 + 500 + 200 + 50 - 40 - 80 - 120 - (-)10$$

$$\text{National Income (} NN P_{FC} \text{)} = ₹ 620 \text{ Arab.}$$

**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)

17. What is 'excess demand' in macroeconomics? 1

Ans. Excess demand in macroeconomics refers to the situation when aggregate demand is more than the aggregate supply corresponding to the full employment level in an economy. It means, more consumers will want to buy the good than suppliers are willing to sell.

19. What is 'managed floating exchange rate'? 1

Ans. Managed floating exchange rate refers to the exchange rate system that allows central banks intervene to buy and sell foreign currencies in an attempt to moderate exchange rate.

23. Explain the effect of appreciation of domestic currency on exports? 3

Ans. Currency appreciation is an increase in the value of one currency in relation to another currency.

This makes exports costlier for the foreign buyers. Therefore exports of goods and services are likely to decline.

27. Calculate Autonomous Consumption Expenditure from the following data about an economy which is in equilibrium:

Nation income = 500

Marginal Propensity to save = 0.30

Investment expenditure = 100 4

Ans. Given,  $MPS = 0.30$

Formula for  $MPC$  is

$$MPC = 1 - MPS$$

$$\text{or } 1 - 0.30 = 0.70$$

Consumption function is  $C = c + 0.70 (Y)$

[Where,  $Y$  in the income in the economy and  $c$  = Autonomous consumption]

State of equilibrium level of output,

$$AS = AD$$

$$Y = C + I$$

$$[\text{Income (} Y \text{)} = \text{Consumption (} C \text{)} + \text{Investment (} I \text{)}]$$

$$\text{Thus, } 500 = c + 0.70 (500) + 100$$

$$500 = c + 350 + 100$$

$$500 = c + 450$$

$$\text{Autonomous Consumption Expenditure (} c \text{)} = 50$$

□□