

Solved Paper 2015

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 – 3 and 15 – 19 are Very Short-Answer questions carrying 1 mark each. They are required to be answered in one sentence each.
- (iv) Question Nos. 4 – 8 and 20 – 22 are Short-Answer questions carrying 3 marks each. Answers to them should normally not exceed 60 words each.
- (v) Question Nos. 9 – 10 and 23 – 25 are also Short-Answer questions carrying 4 marks each. Answers to them should normally not exceed 70 words each.
- (vi) Question Nos. 11 – 14 and 26 – 29 are Long-Answer questions carrying 6 marks each. Answers to them should normally not exceed 100 words each.
- (vii) 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. 58/1/1

SECTION - A*

(Micro-economics)

SECTION - B

(Macro-economics)

15. What is 'aggregate supply' in macroeconomics?

Ans. Aggregate supply is the value of total quantity of final goods and services planned to be produced in an economy during a period.

16. The value of multiplier is: (choose the correct alternative)

- (A) $\frac{1}{MPC}$ (B) $\frac{1}{MPS}$
 (C) $\frac{1}{1-MPS}$ (D) $\frac{1}{MPC-1}$ 1

Ans. (B) $\frac{1}{MPS}$

Explanation: Or $\frac{1}{1-MPS}$ (MPC – Marginal

Propensity to Consume and MPS – Marginal Propensity to Save)

17. Borrowing in government budget is: (choose the correct alternative)

- (A) Revenue deficit (B) Fiscal deficit
 (C) Primary deficit (D) Deficit in taxes 1

Ans. (B) Fiscal deficit

Explanation: The difference between total revenue and total expenditure of the government is termed as fiscal deficit.

18. The non-tax revenue in the following is: (choose the correct alternative)

- (A) Export duty (B) Import duty
 (C) Dividends (D) Excise 1

Ans. (C) Dividends

Explanation: Dividends and profits from public sector enterprises is not tax revenue of the government.

19. Other things remaining unchanged, when in a country the price of foreign currency rises, national income is: (choose the correct alternative)

- (A) Likely to rise
 (B) Likely to fall
 (C) Likely to rise and fall both
 (D) Not affected 1

Ans. (A) Likely to rise

20. If Real GDP is ₹ 200 and Price Index (with base = 100) is 110, calculate Nominal GDP. 3

Ans. Real GDP = $\frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$

$$200 = \frac{\text{Nominal GDP}}{110} \times 100$$

$$\text{Nominal GDP} = \frac{200 \times 110}{100} = 220$$

(No marks if only the final answer is given)

21. Name the broad categories of transactions recorded in the 'capital account' of the Balance of Payments Accounts.

OR

Name the broad categories of transactions recorded in the 'current account' of the Balance of Payments Accounts. 3

- Ans.** (i) Borrowings from and to abroad
 (ii) Investments from and to abroad.
 (iii) Decreases and increases in foreign exchange reserves.

OR

- (i) Exports and imports of goods
 (ii) Exports and imports of services
 (iii) Factor income receipts from abroad and payments to abroad.
 (iv) Transfers from and to abroad. (Any Three)

22. Where will sale of machinery to abroad be recorded in the Balance of Payments Accounts? Give reasons. 4

- Ans.** Sale of machinery to abroad is export of goods and thus recorded in the Current Account.
 Sale of machinery to abroad brings in foreign exchange and thus recorded on the credit side.
 (No marks if the reasons are not given)

23. Explain the 'bank of issue' function of the central bank. 4

OR

Explain 'Government's Bank' function of central bank.

- Ans.** The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. Firstly, because it leads to uniformity in the issue of currency, Secondly, because it gives central bank control over money supply.

OR

The central bank acts as a banker to the government. The central bank accepts receipts and makes payments for the government and carries out exchange, remittance and other normal banking operations for the government. The central bank manages public debt and also lends to government.
 (To be marked as a whole)

24. Government of India has recently launched 'Jan-Dhan Yojna' aimed at every household in the country to have at least one bank account. Explain how deposits made under the plan are going to affect national income of the country. 4

- Ans. (i)** Opening more bank accounts means more bank deposits.

(ii) More deposits means increase in the lending capacity of the commercial banks.

(iii) More lending by banks means more investment in the country.

(iv) More investment means more national income.

25. An economy is in equilibrium. Calculate national income from the following:

Autonomous consumption = 100

'Marginal propensity to save = 0.2

Investment expenditure = 200 4

- Ans.** $Y = \bar{C} + MPC(Y) + I$
 $Y = 100 + (1 - 0.2)Y + 200$
 $0.2Y = 300$
 $Y = 1500$

(No marks if only the final answer is given)

26. Giving reason, explain how should the following be treated in estimation of national income:

(i) Expenditure by a firm on payment of fees to a chartered accountant.

(ii) Payment of corporate tax by a firm.

(iii) Purchase of refrigerator by a firm for own use. 6

- Ans. (i)** Payment of fees to chartered accountant by a firm is intermediate cost to the firm and, therefore not included.

(ii) Payment of corporate tax by a firm is a transfer payment and thus not included.

(iii) Purchase of a refrigerator by a firm for own use is investment expenditure and thus included.

(No marks if reason is not given)

27. Explain the concept of Inflationary Gap. Explain the role of Repo Rate in reducing this gap. 6

OR

Explain the concept of Deflationary Gap and the role of 'Open Market Operations' in reducing this gap.

- Ans. The Inflationary Gap** is the amount by which the Aggregate Demand exceeds Aggregate Supply at the full employment level. It is called inflationary because it leads to rise in price level.

Repo Rate is the rate of interest at which central bank lends to commercial banks for a short period. When central bank raises Repo Rate, the borrowings by the commercial banks become costly. This forces the commercial banks to raise their lending rates. People borrow less, and therefore spend less. This helps in reducing inflationary gap.

(Diagram not required)

OR

Deflationary Gap is the amount by which the Aggregate Demand falls short of Aggregate Supply at the full employment level. It is called deflationary because it leads to a fall in price level.

(Diagram not required) 2

Open Market Operations refer to buying and selling of government securities by the central bank in the open market. central bank can reduce deflationary gap by buying securities. Those who sell receive payments by cheques from the central bank. The money flows out from central bank into the commercial banks. This raises lending capacity of commercial banks. Banks lend more. Spending rises which reduces deflationary gap.

28. Explain the role the government can play through the budget in influencing allocation of resources.6

Ans. Government can influence allocation of resources by influencing market mechanism through taxes, subsidies and direct participation in production. Heavy taxes can be imposed on production units engaged in producing harmful products like liquor, cigarettes etc. Tax concessions and subsidies can be given to encourage production of products useful

for the masses. Government can directly produce goods and services normally ignored by the private sector due to lack of enough profits.

(To be marked as a whole)

29. Calculate National Income

6

		(₹ crores)
(i)	Private final consumption expenditure	600
(ii)	Undistributed profits	30
(iii)	Private income	650
(iv)	Government final consumption expenditure	100
(v)	Corporate tax	50
(vi)	Net domestic fixed capital formation	70
(vii)	Net indirect tax	60
(viii)	Depreciation	14
(ix)	Change in stocks	(-) 10
(x)	Net imports	20
(xi)	Net factor income to abroad	10

Ans. N.I. = ii + v + (vii + x) - xi - viii + xii
 = 600 + 100 + 70 + (-10) - 20 + 60 - 10
 = ₹ 670 crore.

Delhi Set II

Code No. 58/1/2

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

SECTION - B

(Macro-economics)

21. If the Nominal GDP is ₹ 1200 and Price Index (with base = 100) is 120, calculate Real GDP. 3

Ans. $\text{Real GDP} = \frac{\text{Nomial GDP}}{\text{Price Index}} \times 100$

$$\begin{aligned}\text{Real GDP} &= \frac{1200}{120} \times 100 \\ &= ₹ 625\end{aligned}$$

(No marks if only the final answer is given)

23. An economy is in equilibrium. Find 'autonomous consumption' from the following:

National income = 1000

Marginal propensity to consume = 0.8

Investment expenditure = 100

Ans. $Y = \bar{C} + \text{MPC}(Y) + I$

$$1000 = \bar{C} + 0.8(1000) + 100$$

$$\bar{C} = 1000 - 800 - 100 = 100$$

(No marks if only the final answer is given)

29. Calculate 'Gross National Product at Market Price'.

		(Rs. crores)
(i)	Rent	100
(ii)	Net current transfers to rest of the world	30
(iii)	Social security contributions by employers	47
(iv)	Mixed income	600
(v)	Gross domestic capital formation	140
(vi)	Royalty	20
(vii)	Interest	110
(viii)	Compensation of employees	500
(ix)	Net domestic capital formation	120
(x)	Net factor income from abroad	(-) 10
(xi)	Net indirect tax	150
(xii)	Profit	200

6

Ans. $\text{GNP}_{\text{MP}} = \text{viii} + (\text{i} + \text{vi}) + \text{vii} + \text{xiii} - \text{iv} + (\text{v} - \text{ix}) + \text{x} + \text{xi}$
 = 500 + 100 + 20 + 110 + 200 + 600 + (140 - 120) + (-10) + 150
 = ₹ 1690 crore.

Delhi Set III **Code No. 58/1/3**

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

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

22. If the Real GDP is ₹ 300 and Nominal GDP is ₹ 330, calculate Price Index (base = 100). 4

Ans.
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$300 = \frac{300 \times 100}{300} = 100$$

(No marks if only the final answer is given)

24. An economy is in equilibrium. Find Marginal Propensity to Consume from the following:

National income = 2000

Autonomous consumption = 400

Investment expenditure = 200 4

Ans.
$$Y = \bar{C} + MPC(Y) + I$$

$$2000 = 400 + MPC(2000) + 200$$

$$MPC = \frac{2000 - 400 - 200}{2000} = 0.7$$

(No marks if only the final answer is given)

29. Calculate 'Net Domestic Product at Factor Cost'. 6

		(₹ crores)
(i)	Net current transfers to abroad	15
(ii)	Private final consumption expenditure	800
(iii)	Net imports	(-)20
(iv)	Net domestic capital formation	100
(v)	Net factor income to abroad	10
(vi)	Depreciation	50
(vii)	Change in stocks	17
(viii)	Net indirect tax	120
(ix)	Government final consumption expenditure	200
(x)	Exports	30

Ans.
$$NDP_{fc} = \text{ii} + \text{ix} + \text{iv} - \text{iii} - \text{vii}$$

$$= 800 + 200 + 100 - (-20) - 120$$

$$= ₹ 1000 \text{ crore.}$$

Outside Delhi Set I **Code No. 58/1**

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

15. What is 'Aggregate Demand' in macroeconomics ? 1

Ans. Value of final products the buyers are planning to buy during a given period at a given level of income.

16. If MPC = 1, the value of multiplier is: (Choose the correct alternative)

- (A) 0 (B) Between 0 and 1
 (C) 1 (D) Infinty 1

Ans. (D) Infinty

$$\text{Investment Multiplier (K)} = \frac{1}{1 - MPC}$$

MPC is given as 1

Thus,
$$K = \frac{1}{1 - 1}$$

or
$$K = \frac{1}{0}$$

so
$$K = \text{Infinity}$$

17. Primary deficit in a government budget is: (Choose the correct alternative)

- (A) Revenue expenditure – Revenue receipts
 (B) Total expenditure – Total receipts
 (C) Revenue deficit – Interest payments
 (D) Fiscal deficit – Interest payments 1

Ans. (D) Fiscal deficit Minus interest payment

Primary deficit indicates the amount of borrowing which the government needs excluding the interest component. It means it is the difference that exists between the fiscal deficit of the current year and the interest payment that was needed to be paid in the previous fiscal year.

18. Direct tax is called direct because it is collected directly from: (Choose the correct alternative)

- (A) The producers on goods produced
 (B) The sellers on goods sold
 (C) The buyers of goods
 (D) The income earners 1

Ans. (D) the income earners

Direct tax is a type of tax in which the final burden of paying the tax is borne by the person on whom it is imposed (income earners) that's why it is called direct.

* Out of Syllabus

19. Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely: (Choose the correct alternative)

- (A) to rise (B) to fall
(C) to rise or to fall (D) to remain unaffected

1

Ans. (B) to fall

20. If the Real GDP is ₹ 400 and Nominal GDP is ₹ 450, calculate the Price Index (base = 100). 3

Ans.
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$400 = \frac{450}{\text{Price Index}} \times 100$$

$$\text{Price Index} = \frac{450 \times 100}{400} = 112.5$$

21. What are fixed and flexible exchange rates ?

OR

Explain the meaning of Managed Floating Exchange Rate. 3

Ans. Fixed Exchange Rate is the exchange rate fixed by the government / central bank and is not influenced by the demand and supply of foreign exchange. 1½
Flexible exchange rate is the exchange rate determined by the forces of demand and supply of foreign exchange in the market and is influenced by the market forces.

OR

Managed floating exchange rate is the flexible exchange rate with intervention by the central bank through the market for foreign exchange to reduce fluctuations in the rate. When foreign exchange rate is too high, the central bank starts selling the foreign currency from its reserves. When it is too low central bank starts buying foreign currency in the market.

22. Where is 'borrowings from abroad' recorded in the Balance of Payments Accounts ? Give reasons. 3

Ans. 'Borrowings from abroad' is recorded in the 'capital account' of BOP account because it increases international liability of the country.

It is recorded on the credits side because it brings in foreign exchange into the country.

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

OR

Explain the 'Bank of Issue function' of the central bank.

Ans. As the banker to the banks, the central bank holds a part of the cash reserves of commercial banks. From these reserves it lends to commercial banks when they are in need of funds. Central bank also provides cheque clearing and remittance facilities to the commercial banks.

OR

The central bank is the sole authority for the issue of currency in the country. It promotes efficiency

in the financial system. It leads to uniformity in the issue of currency, and it gives Central Bank control over money supply.

24. Currency is issued by the central bank, yet we say that commercial banks create money. Explain. How is this money creation by commercial banks likely to affect the national income ? Explain. 4

Ans. Money supply has two components: Currency and demand deposits with commercial banks. Currency is issued by the central bank while deposits are created by commercial banks by lending money to the people. In this way commercial banks also create money.

Commercial banks lend money mainly to investors. The rise in investment in the economy leads to rise in national income through the multiplier effect.

25. An economy is in equilibrium. Calculate the Investment Expenditure from the following:

National Income = 800

Marginal Propensity to Save = 0.3

Autonomous Consumption = 100 4

Ans.
$$Y = \bar{C} + MPC(Y) + I$$

$$800 = 100 + (1 - 0.3)800 + I$$

$$I = 800 - 100 - 560$$

$$Y = 140$$

26. Giving reason explain how the following should be treated in estimation of national income:

- (i) Payment of interest by a firm to a bank
(ii) Payment of interest by a bank to an individual
(iii) Payment of interest by an individual to a bank 6

Ans. (i) Payment of interest by a firm to bank is treated as a factor payment by the firm because the firm borrows money for carrying out production and therefore included in national income.

(ii) Payment of interest by bank to an individual is a factor payment because bank borrows for carrying out banking services and therefore included in national income.

(iii) Payment of interest by an individual to bank is not included in national income because the individual borrows for consumption and not for production.

(No marks if reason is not given)

27. What is 'deficient demand' ? Explain the role of 'Bank Rate' in removing it. 6

OR

What is 'excess demand' ? Explain the role of 'Reverse Repo Rate' in removing it.

Ans. Deficient Demand: is the amount by which the Aggregated Demand falls short of Aggregate Supply at full employment level. It causes fall in price level.

Bank Rate: is the rate of interest at which central bank lends to commercial banks for long term. The central bank can reduce deficient demand by lowering Bank Rate. When central bank lowers bank rate. Commercial banks also lower their lending rates. Since borrowing becomes cheaper, people borrow more. This leads to rise in Aggregate Demand and thus helps in reducing deficient demand.

OR

Excess Demand: is the amount by which the Aggregated Demand exceeds Aggregate Supply at full employment level. It causes inflation.

Reverse Repo Rate: is the rate of interest paid by the central bank on deposits by commercial banks. Central bank can reduce excess demand by raising the Reverse Repo Rate. When the rate is raised, it encourages the commercial banks to park their funds with the central bank. This reduces lending capacity of the commercial banks. Lending by the commercial banks to public declines leading to fall in Aggregate Demand.

28. Explain how the government can use the budgetary policy in reducing inequalities in incomes. 6

Ans. The budget of a government shows its comprehensive exercise on taxation and subsidies.

- (i) A government uses fiscal instruments of taxation and subsidies with a view of improving the distribution of income and wealth in the economy.
- (ii) A government reduces the inequality in the distribution of income and wealth by imposing taxes on the rich and giving subsidies to the poor, or spending more on the welfare of the poor.
- (iii) It will reduce the income of the rich and raises the living standard of the poor, thus, leads to equitable distribution of income.

- (iv) Expenditure on special anti-poverty and employment schemes will be increased to bring more people above the poverty line.
- (v) Public distribution system should be inferred so that only the poor could get foodgrains and other essential items at subsidized prices.
- (vi) Equitable distribution of income and wealth is a sign of social justice which is the principal objective of any welfare state in India.

29. Calculate the 'National Income' (₹ crores) 6

(i) Rent	200
(ii) Net factor income to abroad	10
(iii) National debt interest	15
(iv) Wages and salaries	700
(v) Current transfers from government	10
(vi) Undistributed profits	20
(vii) Corporation tax	30
(viii) Interest	150
(ix) Social security contributions by employers	100
(x) Net domestic product accruing to government	250
(xi) Net current transfers to rest of the world	5
(xii) Dividends	50

Ans. N.I. = (iv + ix) + i + viii + (vi + vii + viii) - ii
 = 700 + 100 + 200 + 500 + 20 + 30 + 50 - 10
 = ₹ 1240 crore.

Outside Delhi Set II

Code No. 58/2

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

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

21. If the Real GDP is ₹ 500 and Price Index (base = 100) is 125, calculate the Nominal GDP. 3

Ans. $Real\ GDP = \frac{Nominal\ GDP}{Price\ Index} \times 100$
 $500 = \frac{Nominal\ GDP}{125} \times 100$
 $Nominal\ GDP = \frac{500 \times 125}{100}$
 = ₹ 625

23. An economy is in equilibrium. Calculate the Marginal Propensity to Save from the following:

National Income = 1000

Autonomous Consumption = 100

Investment = 120

4

Ans.

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

$$1000 = 100 + MPC(1000) + 120$$

$$MPC = \frac{1000 - 100 - 120}{1000} = 0.78$$

$$= 1 - MPC$$

$$= 0.22 \quad \frac{1}{2}$$

29. Calculate 'Net National Product at Market Price': 6 (₹ crores)

(i) Transfer payments by government	7
(ii) Government final consumption expenditure	50
(iii) Net imports	(-) 10
(iv) Net domestic fixed capital formation	60
(v) Private final consumption expenditure	300
(vi) Private income	280
(vii) Net factor income to abroad	(-) 5
(viii) Closing stock	8
(ix) Opening stock	8
(x) Depreciation	12
(xi) Corporate tax	60
(xii) Retained earnings of corporations	20

Ans. $NNP_{mp} = v + ii + (iv + viii - xi) - iii + vii$
 = 300 + 50 + 60 + 8 - 8 - (-10) - (-5)
 = ₹ 425 crore.

Outside Delhi Set III

Code No. 58/3

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

SECTION - A***

(Micro-economics)

SECTION - B

(Macro-economics)

22. If the Nominal GDP is ₹ 600 and Price Index (base = 100) is 120, calculate the Real GDP. 3

Ans.
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\begin{aligned} \text{Real GDP} &= \frac{600}{120} \times 100 \\ &= 500 \end{aligned}$$

24. An economy is in equilibrium. Calculate the National Income from the following:

Autonomous Consumption = 120

Marginal Propensity to Save = 0.2 4

Investment Expenditure = 150

Ans.
$$\begin{aligned} Y &= \bar{C} + \text{MPC}(Y) + I \\ &= 120 + (1 - 0.2)Y + 150 \\ 0.2Y &= 270 \\ Y &= 1350 \end{aligned}$$

29. Calculate 'Net Domestic Product at Market Price':

6

(₹ crores)

(i) Private final consumption expenditure	400
(ii) Opening stock	10
(iii) Consumption of fixed capital	25
(iv) Imports	15
(v) Government final consumption expenditure	90
(vi) Net current transfers to rest of the world	5
(vii) Gross domestic fixed capital formation	80
(viii) Closing stock	20
(ix) Exports	10
(x) Net factor income to abroad	(-) 5

Ans.
$$\begin{aligned} \text{NDP}_{mp} &= i + v + (\text{vii} + \text{viii} - \text{ii}) + (\text{ix} - \text{iv}) - \text{ix} \\ &= 400 + 90 + 80 + 20 - 10 + 10 - 15 - 25 \\ &= ₹ 550 \text{ crore.} \end{aligned}$$

□□