Solved Paper 2016

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* **16–20** *are very short answer questions carrying* **1 mark** *each. They are required to be answered in* **one sentence** *each.*
 (iv) *Question Nos.* **6–8** *and* **21–23** *are short answer questions carrying* **3 marks** *each. Answers to them should normally not exceed* **60** *words each.*
 (v) *Question Nos.* **9–11** *and* **24–26** *are also short answer questions carrying* **4 marks** *each. Answers to them should normally not exceed* **70** *words each.*
 (vi) *Question Nos.* **12–15** *and* **27–30** *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 – 1   **Code No. 58/1/1**

SECTION - A*

(Micro-economics)

SECTION – B (Macroeconomics)

16. Define Stocks. 1

Ans. Stocks are the variables whose magnitude is measured at a point of time. 1
[CBSE Marking Scheme 2016]

17. Depreciation of fixed capital assets refers to: (choose the correct alternative) 1
 (a) Normal wear and tear.
 (b) Foreseen obsolescence.
 (c) Normal wear and tear and foreseen obsolescence.
 (d) Unforeseen obsolescence.

Ans. (c) Normal wear and tear and foreseen obsolescence. 1
[CBSE Marking Scheme 2016]

18. What is Revenue expenditure ? 1

Ans. **Revenue expenditure:** Refers to the expenditure that neither creates any asset nor reduces any liability. 1
[CBSE Marking Scheme 2016]

19. Fiscal deficit equals: (choose the correct alternative) 1
 (a) Interest payments .
 (b) Borrowings.
 (c) Interest payments less borrowing.
 (d) Borrowings less interest payments.

Ans. (b) Borrowings 1
[CBSE Marking Scheme 2016]

20. Foreign Exchange Transactions dependent on other Foreign Exchange Transactions are called: (choose the correct alternative) 1
 (a) Current Account Transactions.
 (b) Capital Account Transactions.
 (c) Autonomous Transactions.
 (d) Accommodating Transactions.

Ans. (d) Accommodating Transactions 1
[CBSE Marking Scheme 2016]

21. Find Net Value Added at Factor Cost: 3

		(₹ in lakhs)
(i)	Durable use producer goods with a life span of 10 years	10
(ii)	Single use producer goods	5
(iii)	Sales	20
(iv)	Unsold output produced during the year	2
(v)	Taxes on production	1

Ans. NVA_{FC} = Sales + Unsold output – Single use producer goods – Depreciation – Taxes on production 1½

$$= 20 + 2 - 5 - \left(\frac{10}{10}\right) - 1 \qquad 1$$

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* Out of Syllabus

= 20 + 2 – 5 – 1 – 1 ½

= ₹ 15 lakh

[CBSE Marking Scheme 2016]

22. Distinguish between Marginal Propensity to Consume and Average Propensity to Consume. Give a numerical example. **3**

OR

Explain the role of taxation in reducing excess demand. **3**

Ans. Marginal Propensity to Consume is the ratio of change in consumption expenditure (ΔC) to change in total income (ΔY). **1**

Suppose $\Delta C = $ ₹ 70 and $\Delta Y = $ ₹ 100 then

$$MPC = \frac{70}{100} = 0.7 \qquad \text{½}$$

Average Propensity to Consume is the ratio of total consumption expenditure (C) to total income (Y). **1**

Suppose $C = $ ₹ 80 and $Y = $ ₹ 100 then

$$APC = \frac{80}{100} = 0.8 \qquad \text{½}$$

(Or any other example)

OR

By raising taxes, government can reduce Personal Disposable Income of the people. This in turn will reduce private final consumption expenditure depending upon Marginal Propensity to Consume. This will reduce aggregate demand. **3**

(Or any other example)

[CBSE Marking Scheme 2016]

23. In an economy, Investment is increased by ₹ 300 crore. If Marginal Propensity to Consume is 2/3, calculate increase in National Income. **3**

Ans. $\Delta Y = \Delta I \dfrac{1}{1-MPC}$ **1½**

$$= ₹\ 300\ \frac{1}{1-\dfrac{2}{3}} \qquad \textbf{1}$$

$= ₹\ 300 \times 3 = ₹\ 900$ crore ½

(Answer based on $\Delta Y = K \times \Delta I$ is also correct)

[CBSE Marking Scheme 2016]

24. Government incurs expenditure to popularise yoga among the masses. Analyse its impact on Gross Domestic Product and welfare of the people. **4**

Ans. Government expenditure on popularising yoga raises Gross Domestic Product because it is government's final consumption expenditure. It also raises welfare of the people because yogic exercises may improve health and thus, raises efficiency of the people. **4**

[CBSE Marking Scheme 2016]

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*   Out of Syllabus

*25. Explain the 'Store of Value' function of money. How has it solved the related problem created by barter? **4**

OR

Explain the 'Unit of Account' function of money. How has it solved the related problem created by barter? **4**

26. Explain how 'Open Market Operations' are helpful in controlling 'Credit Creation'. **4**

Ans. **Open Market Operations** refers to selling and buying of government securities by the central Bank. By selling securities in the open market, money flow out of commercial banks and into central bank. This reduces demand deposits with the commercial banks and lowers their capacity to create credit. Borrowing from banks becomes less and money supply is reduced. **4**

[CBSE Marking Scheme 2016]

27. What is Government Budget? Explain how taxes and subsidies can be used to influence allocation of resources. **6**

OR

Define Revenue Receipts in a government budget. Explain how government budget can be used to bring in price stability in the economy. **6**

Ans. **Government Budget** is a statement showing estimated government expenditures and receipts during a financial year. **1**

Government can encourage production of selected goods and services by providing tax concessions. For example, electricity generation, etc. Government can also give subsidies to enterprises who are willing to undertake production in backward areas etc. In this way, government budget can be used to influence allocation of resources in the country. Increasing taxes and reducing subsidies will have the opposite effect. **5**

OR

Revenue Receipts are the receipts which do not create liabilities nor lead to reduction in assets. **1**

Stability in the economy means keeping fluctuations in the general price level within limits. When there is inflation, government can reduce its own expenditure to bring down the price level. When there is deflation, government can increase its own expenditure to fight it. Government can also use taxes and subsidies to influence Personal Disposable Income and bring in economic stability in the country. **5**

[CBSE Marking Scheme 2016]

28. **Given Consumption Curve, derive Saving Curve and state the steps taken in the process of derivation. Use diagram.** **6**

Ans. Given Consumption Curve (CC') the steps in derivation of Saving Curve are :

3
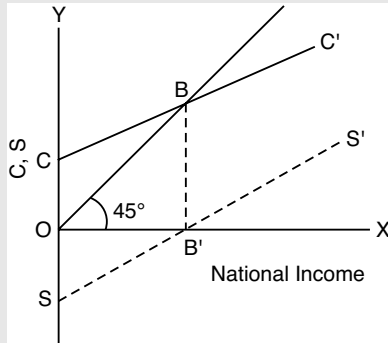
(i) Take OS equal to OC.
(ii) Draw a 45° line on OX-axis from point O intersecting CC' at point B.
(iii) Draw a perpendicular from B to intersect X-axis at B'.
(iv) Join S and B' and extend it to derive Saving Curve SS'. **3**
[CBSE Marking Scheme 2016]

29. **(i)** **In which sub-account and on which side of Balance of Payments Account will foreign investments in India be recorded? Give reasons.** **6**

(ii) **What will be the effect of foreign investments in India on exchange rate? Explain.** **6**

Ans. **(i)** Foreign investments will be recorded in the Capital Account of the BOP Account because these give rise to foreign exchange liabilities. Foreign investment will be recorded on the credit side because these bring in foreign exchange to the economy. **3**

(ii) Foreign investment add to supply of foreign exchange. Demand remaining unchanged, it brings downward influence on exchange rate. **3**
[CBSE Marking Scheme 2016]

30. **Find National Income:** **(₹ crores)**

(i)	Wages and Salaries	1000
(ii)	Net Current Transfers to Abroad	20
(iii)	Net Factor Income paid to Abroad	10
(iv)	Profit	400
(v)	National Debt Interest	120
(vi)	Social Security Contributions by Employers	100
(vii)	Current Transfers from Government	60
(viii)	National Income Accruing to Government	150
(ix)	Rent	200
(x)	Interest	300
(xi)	Royalty	50

6

Ans. NI = (i + vi) + (ix + xi) + x + iv – iii **2**
= 1,000 + 100 + 200 + 300 + 400 – 10 **1½**
= ₹ 2,040 crore **½**
[CBSE Marking Scheme 2016]

Delhi Set II — Code No. 58/1/2

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

SECTION – B (Macroeconomics)

19. **What are Revenue Receipts in a Government Budget ?** **1**

Ans. Revenue Receipts are receipts which neither reduce assets nor increase liabilities. **1**
[CBSE Marking Scheme 2016]

21. **Suppose Marginal Propensity to Consume is 0.8. How much increase in Investment is required to increase National Income by ₹ 2,000 crore? Calculate.** **3**

Ans. $\Delta Y = \Delta I \dfrac{1}{1-MPC}$ **1½**

$2,000 = \Delta I \dfrac{1}{1-0.8}$

₹ $2,000 = \dfrac{\Delta I}{0.2}$ **1**

$\Delta I = ₹ 400$ crore **½**
(Answer based on $\Delta Y = K \times \Delta I$ **is also correct)**
[CBSE Marking Scheme 2016]

22. **Find Net Value Added at Factor Cost:** **3**
(₹ in lakhs)

(i)	Fixed capital good with a life span of 5 years	15
(ii)	Raw materials	6
(iii)	Sales	25
(iv)	Net change in stock	(–)2
(v)	Taxes on production	1

Ans. NVA_{FC} = Sales + Net Change in Stock – Raw Material – Depreciation **1½**

$= 25 + (-2) - 6 \left(\dfrac{15}{5}\right)$ **1**

$= 25 - 2 - 6 - 3$

$= ₹ 14$ lakh ½

[CBSE Marking Scheme 2016]

27. Find Net Domestic Product at Factor Cost:

(₹ in crores)

(i)	Rent	200
(ii)	Net Current Transfers to Abroad	10
(iii)	National Debt Interest	60
(iv)	Corporate Tax	100
(v)	Compensation of Employees	900

(vi)	Current Transfers from Government	150
(vii)	Interest	400
(viii)	Undistributed Profits	50
(ix)	Dividend	250
(x)	Net Factor Income to Abroad	(–)10

6

Ans. $NDP_{fc} = v + i + vii + (iv + viii + ix)$ **2**

$= 900 + 200 + 400 + (100 + 50 + 250)$ **1½**

$= ₹ 1,900$ crore ½

[CBSE Marking Scheme 2016]

Delhi Set III
Code No. 58/1/3

Note : *Except these, all other Questions are from Delhi Set-I and Set-II*

SECTION – B (Macroeconomics)

22. In an economy, an increase in Investment by ₹ 100 crore led to 'increase' in National Income by ₹ 1,000 crore. Find Marginal Propensity to Consume. **3**

Ans. $\Delta Y = \Delta I \dfrac{1}{1 - MPC}$ **1½**

$₹ 1,000 = 100 \dfrac{1}{1 - MPC}$ **1**

OR

$₹ 1,000 - ₹ 1,000\ MPC = 100$

$MPC = \dfrac{900}{1,000} = 0.9$ ½

[CBSE Marking Scheme 2016]

23. Find Gross Value Added at Market Price:

(₹ in lakhs)

(i)	Depreciation	20
(ii)	Domestic sales	200
(iii)	Net change in stocks	(–) 10
(iv)	Exports	10
(v)	Single use producer goods	120

3

Ans. $GVA_{MP} = (ii) + (iv) + (iii) - (v)$ **1½**

$= 200 + 10 + (-10) - 120$ **1**

$= ₹ 80$ lakh ½

[CBSE Marking Scheme 2016]

29. Find Net National Product at Market Price:

$4 + 2 = 6$

(₹ in crores)

(i)	Wages and Salaries	1,200
(ii)	Undistributed Profit	50
(iii)	Rent	300
(iv)	Corporation Tax	200
(v)	Private Income	2,000
(vi)	Interest	400
(vii)	Net Indirect tax	300
(viii)	Net Factor Income to Abroad	20
(ix)	Profit	500
(x)	Social Security Contributions by Employers	250

Ans. $NDP_{MP} = (ii + xi) + iv + vii + x - ix + viii$ **2**

$= 1,200 + 250 + 300 + 400 + 500 - 20 + 300$ **1½**

$= ₹ 2,930$ crore ½

[CBSE Marking Scheme 2016]

Outside Delhi Set I
Code No. 58/1

SECTION – B (Macroeconomics)

16. Define Flows. **1**

Ans. Flows are variables whose magnitude is measured over a period of time. **1**

[CBSE Marking Scheme 2016]

17. National Income is the sum of factor incomes accruing to: **1**

(Choose the correct alternative)

(a) Nationals

(b) Economic territory

(c) Residents

(d) Both residents and non-residents

Ans. (c) Residents   1

[CBSE Marking Scheme 2016]

18. **What are Revenue Receipts in a government budget ?**   1

Ans. Revenue Receipts are the receipts which neither reduce assets nor increase liabilities.   1

[CBSE Marking Scheme 2016]

19. **Primary Deficit equals:**   1

(Choose the correct alternative)

(a) Borrowings

(b) Interest payments

(c) Borrowings less interest payments

(d) Borrowings and interest payments both

Ans. (c) Borrowing less interest payments   1

[CBSE Marking Scheme 2016]

20. **Foreign Exchange transactions which are independent of other transactions in the Balance of Payments Account are called :**   1

(Choose the correct alternative)

(a) Current Transactions

(b) Capital Transactions

(c) Autonomous Transactions

(d) Accommodating Transactions

Ans. (c) Autonomous Transactions.   1

[CBSE Marking Scheme 2016]

21. **Assuming Real Income to be ₹ 200 crore and Price Index to be 135, calculate Nominal income.**   3

Ans. Real income = $\dfrac{\text{Nominal income}}{\text{Price Index}} \times 100$ 1½

$₹200 = \dfrac{\text{Nominal income}}{135} \times 100$ 1

Nominal income = $\dfrac{₹200 \times 135}{100}$ = ₹ 270 crore ½

[CBSE Marking Scheme 2016]

22. **What is Aggregate demand? State its components.**   3

OR

Explain how controlling money supply is helpful in reducing excess demand.   3

Ans. Aggregate demand refers to the value of final goods and services which all sectors of an economy are planning to buy during a year.   1

Components:

(i) Private final consumption expenditure

(ii) Government final consumption expenditure

(iii) Investment expenditure

(iv) Net exports   ½ × 4

OR

Less money supply i.e. stock of money with people leaves less purchasing power in their hands. Therefore, people demand less goods and services. AD falls.   3

[CBSE Marking Scheme 2016]

23. **An economy is in equilibrium. Calculate Marginal Propensity to Consume :**

National income = ₹1,000

Autonomous Consumption Expenditure = ₹200

Investment Expenditure = ₹100   3

Ans. $Y = \overline{C} + MPC(Y) + I$ 1½

$1,000 = 200 + MPC\,(1,000) + 100$ 1

$MPC = \dfrac{1,000 - 200 - 100}{1,000} = \dfrac{700}{1,000} = 0.7$ ½

[CBSE Marking Scheme 2016]

24. **Sale of petrol and diesel cars is rising particularly in big cities. Analyse its impact on Gross Domestic Product and Welfare.**   4

Ans. Final sales of cars raises GDP, because final sales are final products. Cars provide convenience in transportation but at the same time, it causes traffic jams, air pollution and noise pollution reducing the welfare of the people. Pollution has bad effects on the health of the people.   4

[CBSE Marking Scheme 2016]

*25. **Explain the 'Medium of Exchange' function of money. How has it solved the related problem created by barter ?**   4

OR

Explain the 'Standard of Deferred Payment' function of money. How has it solved the related problem created by barter ?   4

26. **Explain how 'Repo Rate' can be helpful in controlling 'Credit Creation'.**   4

Ans. Repo Rate is the rate of interest at which central bank lends money to commercial Banks for short period.

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* Out of Syllabus

Increasing Repo Rate makes borrowing by commercial banks costlier. So, these banks are forced to raise their lending rates. Since, borrowing becomes costly for people, they borrow less. Banks therefore, create less credit.
[CBSE Marking Scheme 2016] 4

27. **What is the difference between Revenue Expenditure and Capital Expenditure? Explain how taxes and government expenditure can be used to influence distribution of income in the society.** **6**

OR

What is the difference between Direct Tax and Indirect Tax ? Explain the role of government budget in influencing allocation of resources. **6**

Ans. **Revenue expenditure** is expenditure that neither creates any assets nor reduces any liability while **Capital expenditure** either creates assets or reduces liabilities. **2**

Taxes and Expenditure can be used to alter distribution of income. Government can impose higher taxes on incomes of the rich and goods and services consumed by them.

The money so collected can be spent on providing free goods and services to the poorer sections of the society. This will reduce disposable income of the rich and raise that of the poor. This can alter distribution of income. **4**

OR

Direct tax is the tax whose liability to pay and incidence lies on the same person on whom it is levied. **Indirect tax** is the tax whose liability to pay and incidence lie on different persons. **2**

The Government can influence allocation of resources for production of different goods and services through its budget. When the government wants that more resources be used in the production of some goods, it provides incentives to the producers in the form of tax concessions and subsidies. **4**
[CBSE Marking Scheme 2016]

28. **Given Saving Curve, derive Consumption Curve and state the steps in doing so. Use diagram.** **6**

Ans. Given Saving Curve SS′
(i) Draw a 45° line from the origin.
(ii) Take OC equal to OS on the Y-axis.
(iii) Draw a perpendicular line from B to B′ on OX-axis which intersect 45° line at point B.
(iv) Join C and B and extend it to get consumption curve CC′. **4**

2
[CBSE Marking Scheme 2016]
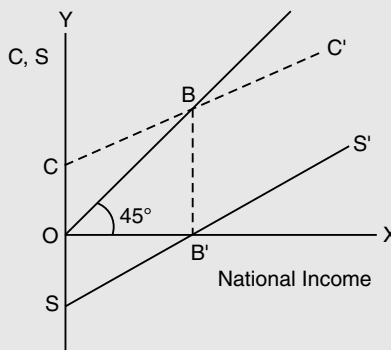
29. **Indian investors lend abroad. Answer the following questions :**
   (i) **In which sub-account and on which side of the Balance of Payments Account such lending is recorded ? Give reasons.**
   (ii) **Explain the impact of this lending on Market Exchange Rate.** **6**

Ans. (i) Indians lending abroad is recorded in Capital Account of BOP Account because it leads to creation of foreign exchange assets. It is recorded on the debit side because it leads to outflow of foreign exchange. **4**
   (ii) Lending abroad increases demand for foreign exchange. Supply of foreign exchange remains unchanged, exchange rate may rise. **2**
[CBSE Marking Scheme 2016]

30. **Find Gross National Product at Market Price:**
(₹ crore)

(i)	Private Final Consumption Expenditure	800
(ii)	Net Current Transfers to Abroad	20
(iii)	Net Factor Income to Abroad	(–) 10
(iv)	Government Final Consumption Expenditure	300
(v)	Net Indirect Tax	150
(vi)	Net Domestic Capital Formation	200
(vii)	Current Transfers from Government	40
(viii)	Depreciation	100
(ix)	Net Imports	30
(x)	Income Accruing to Government	90
(xi)	National Debt Interest	50

6

Ans. GNPmp = i + iv + (vi + viii) – ix – iii **2**
= 800 + 300 + 200 + 100 – 30 – (– 10) **1½**
= ₹ 1,380 crore **½**
[CBSE Marking Scheme 2016]

Outside Delhi Set II   Code No. 58/2

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

> **SECTION – B (Macroeconomics)**

19. Define Fiscal Deficit.   **1**

Ans. Fiscal Deficit equals excess of total expenditure over total receipts excluding borrowing of the Government. **1**

[CBSE Marking Scheme,2016]

21. An economy is in equilibrium. Find Investment Expenditure: **3**

National income = ₹ 1,200

Autonomous Consumption Expenditure = ₹ 150

Marginal Propensity to Consume = 0.8

Ans. $Y = \overline{C} + MPC(Y) + I$ **1½**

$₹1,200 = ₹150 + (0.8 \times ₹1,200) + I$ **1**

$I = ₹1,200 – ₹150 – ₹960$

$I = ₹90$ **½**

[CBSE Marking Scheme ,2016]

22. If Nominal Income is ₹ 500 and Price Index is 125, calculate Real Income.   **3**

Ans.   Real income = $\dfrac{\text{Nominal income}}{\text{Price Index}} \times 100$ **1½**

Nominal income = $\dfrac{₹500 \times 100}{125}$ **1**

= ₹ 400   **½**

[CBSE Marking Scheme,2016]

24. Explain the role of 'Cash Reserve Ratio' in controlling 'Credit Creation'.   **4**

Ans. CRR refers to the percentage of deposits which commercial banks are legally required to keep with the central bank. Raising CRR reduces funds with the commercial banks for lending. Credit Creation is thus decreased. **4**

[CBSE Marking Scheme,2016]

27. Calculate Net National Product at Market Price:

(₹ in crores)

(i)	Net Current Transfers to Abroad	10
(ii)	Private Final Consumption Expenditure	500
(iii)	Current Transfers from Government	30
(iv)	Net Factor Income to Abroad	20
(v)	Net Exports	(–)20
(vi)	Net Indirect Tax	120
(vii)	National Debt Interest	70
(viii)	Net Domestic Capital Formation	80
(ix)	Income Accruing to Government	60
(x)	Government Final Consumption Expenditure	100

6

Ans. NNP_{MP} = ii + x + viii + v – iv   **2**

= 500 + 100 + 80 + (– 20) – (20)   **1½**

= ₹ 640 crore   **½**

[CBSE Marking Scheme 2016]

Outside Delhi Set III   Code No. 58/3

Note : *Except these, all other Questions are from Outside Delhi Set-I and Set-II.*

> **SECTION – B (Macroeconomics)**

20. What are Capital receipts in a government budget ?   **1**

Ans. Capital receipts are the receipts which either reduce assets or create liability. **1**

[CBSE Marking Scheme 2016]

22. An economy is in equilibrium. Find Investment Expenditure: **3**

National income = ₹ 1,000

Autonomous Consumption = ₹ 100

Marginal Propensity to Consume = 0.8

Ans. $Y = \overline{C} + MPC(Y) + I$ **1½**

$₹1,000 = ₹100 + 0.8 \, (₹1,000) + I$ **1**

$I = ₹1,000 – ₹100 – ₹800 = ₹100$ **½**

[CBSE Marking Scheme 2016]

23. If Real Income is ₹ 400 and Price Index is 105, calculate Nominal income.   **3**

Ans.   Real income = $\dfrac{\text{Nominal income}}{\text{Price Index}} \times 100$ **1½**

$₹400 = \dfrac{\text{Nominal income}}{105} \times 100$ **1**

Nominal income = $₹\dfrac{400 \times 105}{100} = ₹ 420$ **½**

[CBSE Marking Scheme,2016]

25. Explain the role of 'Reverse Repo Rate' in controlling 'Credit Creation'. **4**

Ans. Reverse Repo Rate refers to the rate of interest paid of interest paid by the central bank on deposits made by the commercial banks. When it is raised, commercial banks are encouraged to make more deposits with ventral bank. As a result, funds available for lending with the commercial banks decrease. Their capacity of lending declines and credit creation is less. **4**
(Answer based on fall in Reverse Repo Rate is also correct)
[CBSE Marking Scheme, 2016]

29. Calculate National income: **6**

(₹ in crores)

(i)	Corporation Tax	100
(ii)	Private Final Consumption Expenditure	900
(iii)	Personal Income Tax	120
(iv)	Government Final Consumption Expenditure	200
(v)	Undistributed Profits	50
(vi)	Change in Stocks	(–) 20
(vii)	Net Domestic Fixed Capital Formation	120
(viii)	Net Imports	10
(ix)	Net Indirect Tax	150
(x)	Net Factor Income from Abroad	(–) 10

Ans. NI = ii + iv + (vii + vi) – viii – ix + x **2**
= 900 + 200 + (120 – 20) – 10 – 150 + (– 10) **1½**
= ₹ 1030 crore **½**
[CBSE Marking Scheme,2016]

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