Solved Paper 2018
ECONOMICS
Class-XII

Time : 3 Hours   **Max. Marks : 80**

General Instructions :

 (i) *All questions in both the sections are compulsory.*

 (ii) *Marks for questions are indicated against each question.*

 (iii) *Question Nos. 1–4 and 13–16 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.*

 (iv) *Question Nos. 5–6 and 17–18 are short-answer questions carrying 3 marks each. Answers to them should normally not exceed 60 words each.*

 (v) *Question Nos. 7–9 and 19–21 are also short-answer questions carrying 4 marks each. Answers to them should normally not exceed 70 words each.*

 (vi) *Question Nos. 10–12 and 22–24 are long-answer questions carrying 6 marks each. Answer 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 for as possible.*

SECTION - A*

(Micro-economics)

SECTION – B (Macroeconomics)

13. Which of the following affects national income? (Choose the correct alternative) 1
 (a) Goods and Services tax
 (b) Corporation tax
 (c) Subsidies
 (d) None of the above

Ans. (c) Subsidies 1
[CBSE Marking Scheme 2018]

14. Define money supply. 1

Ans. Money supply constitutes money held by the public (or outside the banks) and demand deposits. **[CBSE Marking Scheme 2018]** 1

15. The central bank can increase availability of credit by : (Choose the correct alternative) 1
 (a) Raising repo rate
 (b) Raising reverse repo rate
 (c) Buying government securities
 (d) Selling government securities

Ans. (c) Buying government securities 1
[CBSE Marking Scheme 2018]

16. Why does consumption curve not start from the origin? 1

Ans. Consumption curve does not start from origin because of the assumption that there is some minimum level of consumption even at zero level of income. 1
[CBSE Marking Scheme 2018]

17. Which among the following are final goods and which are intermediate goods? Give reasons.
 (i) **Milk purchased by a tea stall**
 (ii) **Bus purchased by a school**
 (iii) **Juice purchased by a student from the school canteen.** 3

OR

Given nominal income, how can we find real income? Explain. 3

Ans. (i) Milk purchased by a tea stall is intermediate good because it is purchased from another production unit for resale indirectly. 1
 (ii) Bus purchased by a school is a final product because expenditure on school bus is investment expenditure. 1
 (iii) Juice purchased by a student from the school canteen is a final good because it was purchased by consumer for own use and not for resale. 1
(No marks to be awarded if the reason is not given or incorrect reason is given)

OR

Given nominal income other than base year we can find real income by eliminating changes in price index. The effect of change in prices on the nominal income of current year can be eliminated in the following way :

$$\text{Real income} = \frac{\text{Nominal income}}{\text{Price index}} \times 100$$

Price index plays the role of deflator deflating current price estimates into constant price estimate. **3**

(To be marked as a whole)
[CBSE Marking Scheme 2018]

18. Define multiplier. What is the relation between marginal propensity to consume and multiplier? Calculate the marginal propensity to consume if the value of multiplier is 4. 3

Ans. Multiplier (investment multiplier) is a measure of the effect of change in initial investment on change in final income. **1**

There exist a direct relation between MPC and multiplier. Higher the value of MPC, the higher is the value of multiplier. **½**

$$K = \frac{1}{1 - MPC}$$ **½**

$$4 = \frac{1}{1 - MPC}$$ **½**

$$MPC = 0.75$$ **½**

[CBSE Marking Scheme 2018]

* 19. Explain the role of the Reserve Bank of India as the "Lender of last resort". 4

20. What is meant by inflationary gap ? State three measures to reduce this gap. 4

OR

What is meant by Aggregate Demand ? State its components. 4

Ans. Inflationary gap is the situation when AD exceeds AS corresponding to the full employment income level of income/output. **1**

Measures to reduce the inflationary gap are:
  (i) Decrease in government spending
  (ii) Increase in the level of taxes
  (iii) Increase in bank rate **1×3**

(or any other relevant measure)

OR

Aggregate Demand refers to the value of final goods and services which all sectors of an economy are planning to buy during a year. **2**

Components :
  (i) Private consumption expenditure
  (ii) Government consumption expenditure
  (iii) Investment expenditure
  (iv) Net exports **½×4 = 2**

[CBSE Marking Scheme 2018]

21. The value of marginal propensity to consume is 0.6 and initial income in the economy is ₹ 100 crore. Prepare a schedule showing Income, Consumption and Saving. Also show the equilibrium level of income by assuming autonomous investment of ₹ 80 crore. 4

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* Out of Syllabus

Ans. The answer based on any assumption about autonomous consumption should be awarded marks. **4**

[CBSE Marking Scheme 2018]

Detailed Answer :

Income (in ₹ (crores)	Consumption MPC = 0.60	Savings 1 – MPC = MPS MPS = 0.40	Invest- ment (in ₹ crores)
100	60	40	80
200	120	80	80
300	180	120	80
400	240	160	80

In the above table, the equilibrium level of income at autonomous investment of ₹ 80 crore is at ₹ 200 crore.

22. Explain the meaning of the following:
  (i) Revenue deficit
  (ii) Fiscal deficit
  (iii) Primary deficit 6

OR

Explain the following objectives of government budget :
  (i) Allocation of resources
  (ii) Reducing income inequalities 6

Ans. (i) Revenue deficit refers to the excess of total revenue expenditure over total revenue receipts. **2**

It means that government will not be able to meet its revenue expenditure from its revenue receipts.

  (ii) Fiscal deficit refers to the excess of total expenditure over total receipts excluding borrowings. **2**

It indicates borrowing requirements of the government.

  (iii) Primary deficit is defined as fiscal deficit less interest payments.

It indicates borrowing requirements of the government to meet fiscal deficit net of interest payments. **2**

OR

  (i) Government can influence allocation of resources through budget in many ways. It can encourage or discourage production of selected goods through taxes and subsidies. For discouraging, it can impose taxes and for encouraging it can give subsidies.

Government can also directly participate in production of goods and services like water supply, sanitation, etc. **3**

(To be marked as a whole)

(ii) Government can influence inequalities of income through taxes and public expenditure. It can impose taxes on the rich reducing their disposable income. The amount so collected can be spent to provide free services like education, health, etc to the poor for raising their standard of living. **3**

(To be marked as a whole)

[CBSE Marking Scheme 2018]

23. (i) Explain the impact of rise in exchange rate on national income.

(ii) Explain the concept of 'deficit' in balance of payments. **6**

Ans. (i) Rise in foreign exchange rate means appreciation in the value of foreign currency in relation to the domestic currency, i.e., one unit of foreign currency can buy more goods and services from India.

It makes exports cheaper to foreign buyers and imports costlier to Indian buyers. As a result, exports rise and imports fall leading to rise in net exports. A rise in net exports may lead to rise in national income. **3**

(to be marked as a whole)

(ii) A deficit in Balance of Payments occurs when during the year autonomous inflows of foreign exchange fall short of autonomous outflows of foreign exchange. Autonomous transactions are the transactions which are independent of other transactions in the Balance of Payments. **3**

(to be marked as a whole)

[CBSE Marking Scheme 2018]

24. Calculate (a) Net National Product at market price, and (b) Gross Domestic Product at factor cost :

		(₹ in crores)
(i)	Rent and interest	6,000
(ii)	Wages and salaries	1,800
(iii)	Undistributed profit	400
(iv)	Net indirect taxes	100
(v)	Subsidies	20
(vi)	Corporation tax	120
(vii)	Net factor income to abroad	70
(viii)	Dividends	80
(ix)	Consumption of fixed capital	50
(x)	Social security contribution by employers	200
(xi)	Mixed income	1,000

6

Ans. (a) NNP_{MP} = [(ii) + (x)] + (i) + [(iii) + (vi) + (viii)] + (xi) + (iv) – (vii) **2**

= (1,800 + 200) + 6,000 + (400 + 120 + 80) + 1,000 + 100 – 70 **½**

= ₹ 9,630 Crore **½**

(b) GDP_{FC} = (ii + x) + i + (iii + vi + viii) + xi + ix **2**

= (1,800 + 200) + 6,000 + (400 + 120 + 80) + 1,000 + 50 **½**

= ₹ 9,650 Crore **½**

(Alternative solution of 24(b))

GDP_{FC} = NNP_{MP} + vii – iv + ix **1**

= 9,630 + 70 – 100 + 50 **½**

= ₹ 9,650 Crore **½**

[CBSE Marking Scheme 2018]

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