

# Solved Paper 2019

## 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. 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)

13. Give any two examples of flow concept. 1

Ans. National income, Investment.

(any other relevant example)  $\frac{1}{2} + \frac{1}{2}$

[CBSE Marking Scheme 2019]

14. Define the term 'tax'. 1

Ans. Tax is a compulsory payment made by the individuals and the firms to the government. 1

[CBSE Marking Scheme 2019]

15. Suppose in a hypothetical economy, the income rises from ₹ 5,000 crore to ₹ 6,000 crore. As a result, the consumption expenditure rises from ₹ 4,000 crore to ₹ 4,600 crore. Marginal propensity to consume in such a case would be ..... . (Choose the correct alternative) 1

- (a) 0.8                      (b) 0.4  
(c) 0.2                      (d) 0.6

Ans. (d) 0.6 1

[CBSE Marking Scheme 2019]

16. What is meant by primary deficit ? 1

OR

What is meant by fiscal deficit ? 1

Ans. Primary deficit is the difference between fiscal deficit and the interest payments made by the government. 1

OR

Fiscal deficit is the difference between the Government's budgetary expenditure and its budgetary receipts excluding borrowings.

[CBSE Marking Scheme 2019] 1

17. Define the problem of double counting in the computation of national income. State any two approaches to correct the problem of double counting. 3

OR

'Gross Domestic Product (GDP) does not give us a clear indication of economic welfare of a country.' Defend or refute the given statement with valid reason. 3

Ans. The problem of double counting arises when the value of some goods and services are counted more than once while estimating national income. 1

**Two ways to avoid double counting are:**

- (a) Deduct intermediate consumption from value of output to arrive at value added; 1
- (b) Take the value of final product only. 1

OR

Yes, given statement is defended as GDP may not take into account:

- (i) Non-monetary exchanges like services of housewife;
- (ii) Externalities i.e., benefits and harms which are caused due to economic activities;
- (iii) Distribution of income. 3

[CBSE Marking Scheme 2019]

18. If in an economy:

Change in Initial Investments ( $\Delta I$ ) = ₹ 500 crore

Marginal Propensity to Save (MPS) = 0.2

Find the values of the following:

- (a) Investment multiplier ( $k$ )
- (b) Change in final income ( $\Delta Y$ ) 3

Ans.  $k = \frac{1}{MPS}$  1

$k = \frac{1}{0.2} = 5$  1/2

$\Delta Y = k (\Delta I)$  1

$\Delta Y = 5 \times 500 = ₹ 2,500$  crore 1/2

[CBSE Marking Scheme 2019]

19. How are capital receipts different from revenue receipts? Discuss briefly. 4

Ans. Capital receipts are those receipts of government which either lead to increase in its liabilities or reduction in its assets. For example: Receipts from recovery of loans, borrowings, receipts from disinvestment. 2

whereas;

Revenue receipts are those receipts of government which neither lead to increase in its liabilities nor reduction in its assets. For example: Income tax, profit of PSU, dividends, fees and fines, etc. 2

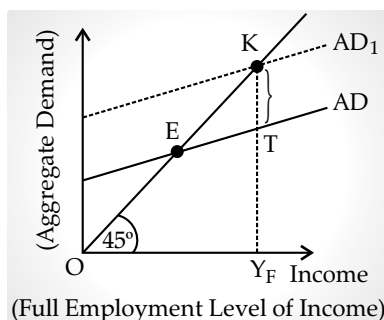
(any other relevant example)

[CBSE Marking Scheme 2019]

20. State and discuss the components of Aggregate Demand in a two sector economy. 4

OR

In the given figure, what does the gap 'KT' represent? State any two fiscal measures to correct the situation.



Ans. Components of Aggregate Demand are:

- (i) Consumption expenditure (C) 1/2
- (ii) Investment expenditure (I) 1/2

(a) **Consumption expenditure (C):** It is that portion of income which is spent on purchase of goods and services by the consumers in an economy during the accounting period. 1 1/2

(b) **Investment expenditure (I):** The addition to the stock of physical capital and change in inventories of a firm in an economy. 1 1/2

OR

The vertical gap 'KT' represents 'Deficient Demand'. 1

The fiscal measures to correct 'Deficient Demand' are:

- (a) Increase in government expenditure
- (b) Reduction in taxes. 1 1/2 + 1 1/2

(Marks may be awarded for both 'Deficient Demand' or 'Excess Demand'. However, the 'measures to control' must be correct accordingly)

[CBSE Marking Scheme 2019]

21. Discuss the working of the adjustment mechanism in the following situations:

- (a) Aggregate Demand is greater than Aggregate Supply.
- (b) Ex-ante investments are lesser than Ex-ante savings. 4

Ans. (a) When Aggregate Demand is greater than Aggregate Supply ( $AD > AS$ ), buyers are planning to buy more goods and services than what producers are planning to produce. It will lead to fall in planned inventories below the desired level. The producers in turn will produce more, which will raise the income level i.e., AS, till AD becomes equal to AS. 2

(b) Ex-ante investments are lesser than ex-ante saving ( $I < S$ ) means buyers are planning to buy lesser output as to what producers are planning to produce. It will lead to rise

in planned inventories above the desired level. As a result, the producers will cut down production, leading to reduction of income till savings become equal to investments. 2

[CBSE Marking Scheme 2019]

22. (a) Define 'Trade Surplus'. How is it different from 'Current Account Surplus' ?

(b) 'Indian Rupee (₹) plunged to all time low of ₹ 74.48 against the US Dollar (\$)'.  
– The Economic Times

In the light of the above report, discuss the impact of the situation on Indian Imports. 6

Ans. (a) Trade Surplus refers to excess of value of export of visible items over value of import of visible items in the balance of payment account of a country. 1

Current account surplus refers to excess of receipts from value of export of visible items, invisible items and unilateral transfers over payments for value of import of visible items, invisible items and unilateral transfers. It is relatively broader concept as compared to trade surplus. 2

(b) Indian rupee plunged to all time low of ₹74.48 against US dollar. It is called depreciation in the value of Indian rupees. It may lead to fall in imports as foreign goods will become costlier for the domestic consumers. 3

(To be marked as a whole)

[CBSE Marking Scheme 2019]

23. (i) State any two components of  $M_1$  measure of money supply.

(ii) Elaborate any two instruments of credit control, as exercised by the Reserve Bank of India. 6

OR

Define credit multiplier. What role does it play in determining the credit creation power of the banking system ? Use a numerical illustration to explain. 6

Ans. (i) Two components of money supply are :

- (a) Currency held with the public;
- (b) Demand deposits held with commercial banks. 2

(ii) Two instruments of credit control are :

- (a) Repo rate : It is the rate of interest at which central bank lends to commercial banks for their short term requirements. An increase in repo rate will force commercial banks to increase their lending rates. It will make borrowings costlier to general public. 2

(b) Open market operations: It refers to buying and selling of government securities from the central bank to the general public. When central bank sells its securities, it reduces liquidity (deposits) with commercial banks and adversely affects credit creating power of banks. 2

(any other instrument with relevant explanation)

OR

Credit multiplier measures the amount of money that the banks are able to create in the form of deposits with every initial deposit. 1

The credit creation by commercial banks depends on credit multiplier as it is inversely related to LRR. Higher the credit multiplier, higher will be the total credit created and vice - versa. 2

For example suppose the LRR is 0.2 and initial deposit is ₹ 1,000

$$\text{Credit multiplier} = \frac{1}{0.2} = 5$$

Total credit created =  $5 \times ₹ 1,000 = ₹ 5,000$

Whereas, suppose LRR is 0.5 and initial deposit is ₹ 1,000

$$\text{Credit multiplier} = \frac{1}{0.5} = 2$$

Total credit created =  $2 \times ₹ 1,000 = ₹ 2,000$

Thus, with the same initial deposit total credit creation decreases with an increase in the value of credit multiplier.

(Any other relevant example) 3

[CBSE Marking Scheme 2019]

24. Given the following data, find the missing value of 'Government Final Consumption Expenditure' and 'Mixed Income of Self Employed'. 6

S. No.	Particulars	Amount (in ₹ crores)
(i)	National Income	71,000
(ii)	Gross Domestic Capital Formation	10,000
(iii)	Government Final Consumption Expenditure	?
(iv)	Mixed Income of Self-Employed	?
(v)	Net Factor Income from Abroad	1,000
(vi)	Net Indirect Taxes	2,000

(vii)	Profits	1,200
(viii)	Wages and Salaries	15,000
(ix)	Net Exports	5,000
(x)	Private Final Consumption Expenditure	40,000
(xi)	Consumption of Fixed Capital	3,000
(xii)	Operating Surplus	30,000

**Ans.** Government Final consumption expenditure  
 $= (i) - [(x) + (ii) + (v) + (ix)] + (vi) + (xi)$   $1\frac{1}{2}$   
 $= 71,000 - (40,000 + 10,000 + 1,000 + 5,000)$   
 $+ 2,000 + 3,000$   $1$   
 $= 20,000$  crores  $\frac{1}{2}$   
 Mixed income of self-employed  
 $= (i) - [(viii) + (xii) + (v)]$   $1\frac{1}{2}$   
 $= 71,000 - (15,000 + 30,000 + 1,000)$   $1$   
 Mixed income of self-employed = 25,000 crores  $\frac{1}{2}$   
**[CBSE Marking Scheme 2019]**

**Delhi Set – 2**

**Code No. 58/1/2**

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

**SECTION – B (Macroeconomics)**

**17. If in an economy:**

**Change in initial investments ( $\Delta I$ ) = ₹ 700 crores**

**Marginal Propensity to Save (MPS) = 0.2**

**Find the values of the following:**

**(a) Investment multiplier ( $k$ )**

**(b) Change in final income ( $\Delta Y$ )** **3**

**Ans.**  $k = \frac{1}{MPS}$  **1**

$k = \frac{1}{0.2} = 5$   $\frac{1}{2}$

$\Delta Y = k (\Delta I)$  **1**

$\Delta Y = 5 \times 700 = ₹ 3,500$  crore  $\frac{1}{2}$

**[CBSE Marking Scheme 2019]**

**20. How is capital expenditure different from revenue expenditure ? Discuss briefly.** **4**

**Ans.** Revenue expenditure is that expenditure of the government that neither creates any asset nor reduces any liability. For example: Expenditure on salaries, pensions, interest payments, etc. **2**

Whereas;

Capital expenditure is that expenditure of the government that either creates assets or reduces liabilities. For example: Expenditure on construction of flyovers, repayment of loans, etc. **2**

**[CBSE Marking Scheme 2019]**

**23. Given the following data, find the missing value of 'Private Final Consumption Expenditure' and 'Operating Surplus'.** **6**

S. No.	Particulars	Amount (in ₹ crores)
(i)	National Income	50,000
(ii)	Net Indirect Taxes	1,000
(iii)	Private Final Consumption Expenditure	?

(iv)	Gross Domestic Capital Formation	17,000
(v)	Profits	1,000
(vi)	Government Final Consumption Expenditure	12,500
(vii)	Wages & Salaries	20,000
(viii)	Consumption of Fixed Capital	700
(ix)	Mixed Income of Self Employed	13,000
(x)	Operating Surplus	?
(xi)	Net Factor Income from Abroad	500
(xii)	Net Exports	2,000

**6**

**Ans.** Operating Surplus  
 $= (i) - [(vii) + (ix) + (xi)]$   $1\frac{1}{2}$   
 $= 50,000 - (20,000 + 13,000 + 500)$   $1$   
 $= ₹ 16,500$  crore  $\frac{1}{2}$   
 Private Final Consumption Expenditure  
 $= (i) - [(iv) + (vi) + (xi) + (xii)] + (vii) + (ii)$   $1\frac{1}{2}$   
 $= 50,000 - (17,000 + 12,500 + 2,000 + 500)$   
 $+ 700 + 1,000$   $1$   
 $= ₹ 19,700$  crore  $\frac{1}{2}$

**[CBSE Marking Scheme 2019]**

**Delhi Set – 3**

**Code No. 58/1/3**

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

**SECTION – B (Macroeconomics)**

**18. If in an economy :**

**Change in Initial Investment ( $\Delta I$ ) = ₹ 1,200 crore**

**Marginal Propensity to Save (MPS) = 0.2**

**Find the values of :**

**(a) Investment multiplier ( $k$ )**

**(b) Change in final income ( $\Delta Y$ )** **3**

Ans.  $k = \frac{1}{MPS}$  1  
 $k = \frac{1}{0.2} = 5$  ½  
 $\Delta Y = k (\Delta I)$  1  
 $\Delta Y = 5 \times 1,200 = ₹ 6,000$  crore ½  
**[CBSE Marking Scheme 2019]**

21. (a) How are tax receipts different from non-tax receipts ? Discuss briefly.  
 (b) State any two items of revenue expenditure in a Government budget. 4

Ans. (a) Tax receipt is the revenue earned by the government from taxes levied on income, wealth and commodities. E.g. Income Tax, GST, etc., whereas; non- tax receipts are the revenue earned by the government from sources other than taxes, e.g., fees, fines, interest earned, etc. 3  
 (b) Expenditure of the government on salaries, pensions, subsidies, grants, etc. 1  
 (any other relevant examples)  
**[CBSE Marking Scheme 2019]**

22. Given the following data, find the missing value of 'Gross Domestic Capital Formation' and 'Wages & Salaries'. 6

S. No.	Particulars	Amount (in ₹ crores)
(i)	Mixed Income of Self Employed	3,500

(ii)	Net Indirect Taxes	300
(iii)	Wages & Salaries	?
(iv)	Government Final Consumption Expenditure	14,000
(v)	Net Exports	3,000
(vi)	Consumption of Fixed Capital	300
(vii)	Net Factor Income from Abroad	700
(viii)	Operating Surplus	12,000
(ix)	National Income	30,000
(x)	Profits	500
(xi)	Gross Domestic Capital Formation	?
(xii)	Private Final Consumption Expenditure	11,000

Ans. Wages and Salaries  
 $= ix - [(i) + (viii) + (vii)]$  1½  
 $= 30,000 - (3,500 + 12,000 + 700)$  1  
 $= ₹ 13,800$  crore ½  
 Gross Domestic Capital Formation  
 $= (ix) - [(iv) + (v) + (vii) + (xii)] + (ii) + (vi)$  1½  
 $= 30,000 - (14,000 + 3,000 + 700 + 11,000) + 300$  1  
 $+ 300$  1  
 $= ₹ 1,900$  crore ½  
**[CBSE Marking Scheme 2019]**

**Outside Delhi Set – 1** **Code No. 58/2/1**

**SECTION – B (Macroeconomics)**

13. Primary deficit in a government budget will be zero, when ..... (Choose the correct alternative): 1  
 (a) Revenue deficit is zero.  
 (b) Net interest payments are zero.  
 (c) Fiscal deficit is zero.  
 (d) Fiscal deficit is equal to interest payment.

Ans. (d) Fiscal deficit is equal to interest payment. 1  
**[CBSE Marking Scheme 2019]**

14. In order to encourage investment in the economy, the central bank may ..... (Choose the correct alternative):

- (a) Reduce Cash Reserve Ratio.  
 (b) Increase Cash Reserve Ratio.  
 (c) Sell Government securities in open market.  
 (d) Increase Bank Rate. 1

Ans. (a) Reduce Cash Reserve Ratio. 1  
**[CBSE Marking Scheme 2019]**

15. What do you mean by a direct tax ? 1  
**OR**

What do you mean by an indirect tax ? 1

Ans. Direct taxes are those taxes which cannot be shifted to the other person/entity. Their monetary burden is borne by those on whom they are levied. 1

OR

Indirect taxes are those taxes which can be shifted to another person/entity. Their monetary burden is ultimately borne by final users of goods and services, rather than the person on whom the tax is levied.

(Any other valid definition) 1  
[CBSE Marking Scheme 2019]

16. Define 'Money Multiplier'. 1

**Ans.** Money Multiplier is the number by which total deposits can increase due to a given change in deposits. It is inversely related to legal reserve ratio. 1

(Any other valid definition)  
[CBSE Marking Scheme 2019]

17. Calculate change in final income, if Marginal Propensity to Consume (MPC) is 0.8 and change in initial investment is ₹ 1,000 crore. 3

**Ans.** Investment Multiplier (K) 1

$$= \frac{1}{1 - MPC} = \frac{1}{1 - 0.8}$$

$$K = \frac{1}{0.2} = 5 \quad \frac{1}{2}$$

Also,  $K = \frac{\Delta Y}{\Delta I} \quad \frac{1}{2}$

$$5 = \frac{\Delta Y}{\text{₹ 1,000}} \quad \frac{1}{2}$$

$$\Delta Y = \text{₹ 5,000 crore}$$

Change in final income = ₹ 5,000 crore 1/2

[CBSE Marking Scheme 2019]

18. State the impact of "Excess Demand" under the Keynesian theory on employment, in an economy. 3

OR

State the meaning of the following :

- (a) Ex-Ante Savings  
(b) Full Employment  
(c) Autonomous Consumption 3

**Ans.** In case of 'Excess Demand' under the Keynesian Theory, there will be no change in the employment as the economy is already working at full employment. Thus, there is no further scope of creation of employment. 3

OR

- (a) **Ex-Ante Savings:** It refers to the planned savings, at different levels of income in an economy. 1  
(b) **Full Employment :** It refers to a situation of no involuntary unemployment. 1

- (c) **Autonomous Consumption:** It refers to the minimum level of consumption for survival even at a zero level of income. 1

(Any other valid definitions)

[CBSE Marking Scheme 2019]

19. Classify the following statements as revenue receipts or capital receipts. Give valid reasons in support of your answer.

- (a) Financial help from a multinational corporation for victims in a flood affected area.  
(b) Sale of shares of a Public Sector Undertaking (PSU) to a private company, Y Ltd.  
(c) Dividends paid to the Government by the State Bank of India.  
(d) Borrowings from International Monetary Fund (IMF). 4

**Ans.** (a) **Revenue receipt** of the government, as it is neither creating any liability nor reducing any assets for the government. 1

(b) **Capital receipt** of the government, as it is reducing the assets of the government. 1

(c) **Revenue receipt** of the government, as it is neither creating any liability nor reducing any assets for the government. 1

(d) **Capital receipt**, as it is increasing the liability of the government. 1

[CBSE Marking Scheme 2019]

20. 'Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy.' Do you agree with the given statement? Give valid reason in support of your answer. 4

OR

Explain the meaning of Real Gross Domestic Product and Nominal Gross Domestic Product, using a numerical example. 4

**Ans.** 'Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy.' This statement is not true.

(i) If the rate of population growth is more than the rate of growth of GDP, the per capita availability of goods and services will fall. 2

(ii) GDP does not account for changes in inequalities in distribution of income. If the rising GDP is concentrated in a few hands, per capita availability of goods in the economy might not increase. 2

(Any two other relevant reasons)

OR

**Nominal Gross Domestic Product (GDP)** is measured as the product of current year output ( $Q_1$ ) of final goods and services and their current year price ( $P_1$ ). 1

**Real Gross Domestic Product (GDP)**, on the other hand, is measured as product of current year output ( $Q_1$ ) and their base year price ( $P_0$ ). Real GDP will increase if the output of goods and services produced in an economy is increasing. 1

**For Example:** Suppose current year's production in a hypothetical economy is 1,000 units at a price of ₹ 500, the GDP at current year price is  $1,000 \times ₹ 500 = ₹ 5,00,000$ , so the nominal GDP is ₹ 5,00,000

Suppose base year price is ₹ 400, the GDP at base year prices is  $1,000 \times ₹ 400 = ₹ 4,00,000$ . So the Real GDP is ₹ 4,00,000. 2

(Any other relevant example)  
[CBSE Marking Scheme 2019]

21. Distinguish between 'Qualitative and Quantitative tools' of credit control as may be used by Central Bank. 4

**Ans.** The tools used by the central bank to control money supply can be quantitative tools or qualitative tools. Quantitative tools control the extent of money supply by changing the CRR or bank rate or open market operations. Qualitative tools include persuasion by the central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc.

[CBSE Marking Scheme 2019] 2+2=4

22. (a) Define "Trade Surplus" and "Trade Deficit".  
(b) Discuss briefly the concept of managed floating system of foreign exchange rate determination. 6

**Ans. (a)** Trade surplus will arise if the total value of country's exports of merchandise is more than the value of its imports of the merchandise.

**Trade deficit** will arise if the value of country's imports is more than the value of its exports during the year. 3

(b) **Managed floating exchange rate system** is the amalgamation of the flexible exchange rate system and the fixed exchange rate system. Under this system, central banks intervene to buy and sell foreign currencies in an attempt to moderate exchange rate movements. This system is also called 'dirty floating'. 3

(to be marked as a whole)

[CBSE Marking Scheme 2019]

23. Discuss the adjustment mechanism in the following situations:

(a) Aggregate Demand is lesser than Aggregate Supply.

(b) Ex-ante investments are greater than Ex-ante savings. 6

**Ans. (a)** When Aggregate Demand is lesser than Aggregate Supply ( $AD < AS$ ), buyers are planning to buy lesser goods and services than what producers are planning to produce.

It will lead to rise in planned inventories above the desired level. The producers in turn will produce less, which will reduce the income level i.e. AS. This process will continue till AD becomes equal to AS. 3

(b) **Ex-ante investments are greater than ex-ante saving ( $I > S$ )** means buyers are planning to buy more output as to what producers are planning to produce. It will lead to fall in planned inventories below the desired level. As a result the producers will raise production, leading to increase in income till savings becomes equal to investments. 3

[CBSE Marking Scheme 2019]

24. Define the following:

- (a) Value Addition
  - (b) Gross Domestic Product
  - (c) Flow Variables
  - (d) Income from Property and Entrepreneurship 6
- OR

Given the following data, find the values of 'Gross Domestic Capital Formation' and 'Operating Surplus'. 6

S. No.	Particulars	Amount (in ₹ crores)
(i)	National Income	22,100
(ii)	Wages and Salaries	12,000
(iii)	Private Final Consumption Expenditure	7,200
(iv)	Net Indirect Taxes	700
(v)	Gross Domestic Capital Formation	?
(vi)	Depreciation	500
(vii)	Government Final Consumption Expenditure	6,100
(viii)	Mixed Income of Self-Employed	4,800
(ix)	Operating Surplus	?
(x)	Net Exports	3,400
(xi)	Rent	1,200
(xii)	Net Factor Income from Abroad	(-) 150

- Ans. (a) Value Addition:** It is the excess of value of output over the value of intermediate consumption.
- (b) Gross Domestic Product:** It is the money value of all final goods and services produced in an economy during an accounting year.
- (c) Flow Variables:** Flow variables are those economic variables which can be measured over a period of time e.g. national income, money creation, etc.
- (d) Income from Property and Entrepreneurship:** These are incomes earned by property owners. It includes, rent and royalty, profit, interest, etc., It can also be termed as Operating Surplus.  
(any other valid definition)  $1\frac{1}{2} \times 4 = 6$

OR

$$\begin{aligned} \text{Gross Domestic Capital Formation} &= (i) - \{iii+vii+x\} + vi - xii + iv \\ \text{GDCF} &= 22,100 - \{7,200 + 6,100 + 3,400\} + 500 - (-150) + 700 \\ \text{GDCF} &= ₹ 6,750 \text{ crore} \quad 3 \\ \text{Operating Surplus} &= \text{National Income} - \text{Wages and Salaries} - \text{Mixed Income of Self Employed} - \text{Net Factor Income from Abroad} \\ &= (i) - (ii) - (viii) - (xii) \\ &= 22,100 - 12,000 - 4,800 - (-150) \\ &= ₹ 5,450 \text{ crore} \quad 3 \end{aligned}$$

[CBSE Marking Scheme 2019]

Outside Delhi Set – 2

Code No. 58/2/2

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

## SECTION – B (Macroeconomics)

17. Estimate the change in initial investment if Marginal Propensity to Save (MPS) is 0.10 and change in final income is ₹ 15,000 crore. 3

**Ans.** Investment Multiplier ( $K$ ) =  $\frac{1}{MPS}$   $\frac{1}{2}$

$$K = \frac{1}{0.1} = 10 \quad \frac{1}{2}$$

Also,  $K = \frac{\Delta Y}{\Delta I}$   $\frac{1}{2}$

$$10 = \frac{₹ 15,000}{\Delta I} \quad \frac{1}{2}$$

$$\Delta I = \frac{₹ 15,000}{10} \quad \frac{1}{2}$$

Change in final income = ₹ 1,500 crore  $\frac{1}{2}$

[CBSE Marking Scheme 2019]

19. Discuss briefly the following functions of a Central Bank:

(i) Banker's bank;

\* (ii) Lender of last resort. 4

**Ans. (i) Banker's Bank:** As the banker to the banks, the central bank holds surplus cash reserves of commercial banks. It also lends to commercial banks when they are in need of funds. Central bank also provides a large number of routine banking functions to the

commercial banks. It also acts as a supervisor and a regulator of the banking system. 2

(any other relevant explanation) 2

[CBSE Marking Scheme 2019]

22. (a) Distinguish between appreciation of home currency and depreciation of home currency.

(b) What is meant by 'current account surplus' ?

(c) State any one source of supply of foreign currency for a country. 6

**Ans. (a)** Appreciation of home currency implies that purchasing power of home currency in terms of a foreign currency has gone up, whereas; depreciation of a home currency implies fall in the purchasing power of domestic currency in terms of foreign currency. 2  
Appreciation makes foreign goods cheaper for the domestic buyer whereas; depreciation of home currency implies fall in the price of domestic goods for the foreign buyers. 2

(b) Current account in BOP is in surplus when the total receipts on account of total export of goods and services are greater than payments on account of import of goods and services in a year. 1

(c) Exports of goods and services. 1

(any other relevant example)

[CBSE Marking Scheme 2019]



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

**SECTION – B (Macroeconomics)**

18. Estimate the change in final income if Marginal Propensity to Consume (MPC) is 0.75 and change in initial investment is ₹ 2,000 crore. 3

Ans. Multiplier =  $\frac{1}{1 - MPC}$  ½

When MPC = 0.75

$K = \frac{1}{1 - 0.75}$  ½

$K = \frac{1}{0.25} = 4$  ½

$K = \frac{\Delta Y}{\Delta I}$  ½

$4 = \frac{\Delta Y}{\text{₹}2,000}$  ½

$\Delta Y = 8,000$

Change in final income = ₹ 8,000 crores ½

[CBSE Marking Scheme 2019]

20. Discuss briefly the 'credit controller' function of a central bank. 4

**Ans. Central Bank as Controller of Credit:** The primary objective of credit control is to remove causes responsible for instability in price fluctuations which in turn are related to the supply of money. By controlling credit, the central bank can exercise an effective control

over economic activity and mobilise it in the desired direction. Central bank regulates the volume and use of credit by using quantitative and qualitative tools.

(to be marked as a whole) 4

[CBSE Marking Scheme 2019]

24. (a) Distinguish between 'Trade Deficit' and 'Current Account Deficit'.

- (b) Discuss briefly the concept of flexible exchange rate system of foreign exchange rate determination. 6

**Ans. (a)** Trade deficit will arise if the value of a country's merchandise imports is more than the value of its merchandise exports during a year. 1½

Current account is in deficit when receipts from exports of visible and invisibles are less than payments against imports of visible and invisible items. 1½

- (b) **Flexible Exchange Rate:** This exchange rate is determined by the market forces

of demand and supply. It is also known as Floating Exchange Rate. The exchange rate is determined at the price where the demand for foreign currency is equal to the supply of foreign currency. In a completely flexible system, the central bank do not intervene in the foreign exchange market. 3

[CBSE Marking Scheme,2019]

