

# Solved Paper 2020

## ECONOMICS

### Class-XII

Time : 3 Hours

Max. Marks : 80

#### General Instructions :

- (i) Question paper comprises two Sections – A and B. All questions are compulsory.
- (ii) Question number 1–10 and 18–27 are very short-answer questions carrying 1 mark each. They are required to be answered in **one** word or **one** sentence each.
- (iii) Question number 11–12 and 28–29 are short-answer questions carrying 3 marks each. Answers to them should not normally exceed 60–80 words each.
- (v) Question number 13–15 and 30–32 are also short-answer questions carrying 4 marks each. Answers to them should not normally exceed 80–100 words each.
- (vi) Question number 16–17 and 33–34 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100–150 words each.
- (vi) Answer should be brief and to the point also the above word limit be adhered to as far as possible.
- (vii) There is no overall choice. However, an internal choice has been provided in 2 questions of **one** mark, 2 questions of **three** marks, 2 questions of **four** marks and 2 questions of **six** marks. Only **one** of the choices in such questions have to be attempted.
- (viii) In addition to this, separate instructions are given with each section and question, wherever necessary.

Delhi Set – 1

Code No. 58/5/1

#### SECTION – A (Macroeconomics)

1. To reduce credit availability in the economy, the central bank may \_\_\_\_\_. (Choose the correct alternative)
  - (a) buy securities in the open market.
  - (b) sell securities in the open market.
  - (c) reduce reserve ratio.
  - (d) reduce repo rate. 1

Ans. (b) sell securities in the open market.
2. \_\_\_\_\_ deficit includes interest payment by the Government on the past loans. (Fill up the blanks with correct answer). 1  
Ans. Fiscal
3. State, whether the following statement is true or false : 'Inventory is a stock variable?' 1  
Ans. True
4. Which of the following is not a 'factor payment'? (Choose the correct alternative)
  - (a) Free uniform to defence personnel.
  - (b) Salaries to the Members of Parliament.
  - (c) Rent paid to the owner of a building.
  - (d) Scholarship given to the students. 1

Ans. (d) Scholarship given to the students.
5. In case of an underemployment equilibrium, which of the following alternative is not true? (Choose the correct alternative)
  - (a) Aggregate demand is equal to Aggregate Supply.
  - (b) There exist excess production capacity in the economy.
  - (c) Resources are not fully and efficiently utilised.
  - (d) Resources are fully and efficiently utilised. 1

Ans. (d) Resources are fully and efficiently utilised.
6. State, whether the following statement is true or false: 'All financial Institutions are banking institutions.' 1  
Ans. False
7. Combined factor income, which can't be separated into various factor income components is known as \_\_\_\_\_. (Fill up the blanks with correct answer) 1  
Ans. Mixed Income of self employed
8. If Marginal Propensity to Save (MPS) is 0.25 and initial change in investment is ₹ 250 crores, then the final change in income would be \_\_\_\_\_. (Choose the correct alternative)
  - (a) ₹ 1,000 crores
  - (b) ₹ 1,200 crores

- (c) ₹ 500 crores
- (d) ₹ 3,500 crores

Ans. (a) ₹ 1000 crores

9. Define the term 'Public Goods'.

Ans. Public goods are those goods which satisfy collective consumption needs, i.e., health, education, fresh air, civic amenities, etc.

10. Net Domestic Fixed Capital Formation + Change in Stock = \_\_\_\_\_.

(Fill up the blank with correct answer) 1

OR

When Nominal Gross Domestic Product (GDP) is ₹ 840 crores and price Index is 120, then the Real Gross Domestic Product (GDP) will be \_\_\_\_\_. (Fill up the blank with correct alternative)

- (a) ₹ 700 crores
- (b) ₹ 900 crores
- (c) ₹ 800 crores
- (d) ₹ 500 crores

Ans. Net Domestic Capital Formation.

OR

(a) ₹ 700 crores

11. "Subsidies to the producers, should be treated as transfer payments.' Defend or refute the given statement with valid reason. 3

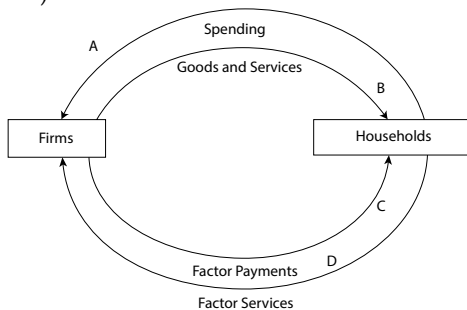
OR

Explain Circular Flow of Income in a two sector economy. 3

Ans. Subsidies to the producers cannot be treated as transfer payments because in order for it to be called a transfer payment, it needs to not contribute in the production or value addition. As for subsidies are concerned, it enables the producers to produce more and thus contribute to the GDP as such it cannot be considered as Transfer Payments.

OR

**Circular Flow of income in a two sector economy:** Households are owners of factors of production, they provide factor services to the firms (producing units). Firms provide factor payments in exchange of their factor services. So, factor payments flow from firms (producing units) to households.



Households purchase goods and services from firms (producing units) for which they make payment to them. So, consumption expenditure (spending on goods and services) flows from households to the firms.

12. Calculate Gross Value Added at Market Price:

| S. No. | Particulars               | Amount (₹ in Lakhs) |
|--------|---------------------------|---------------------|
| (i)    | Depreciation              | 20                  |
| (ii)   | Domestic Sales            | 200                 |
| (iii)  | Change in Stocks          | (-10)               |
| (iv)   | Exports                   | 10                  |
| (v)    | Single use producer goods | 120                 |

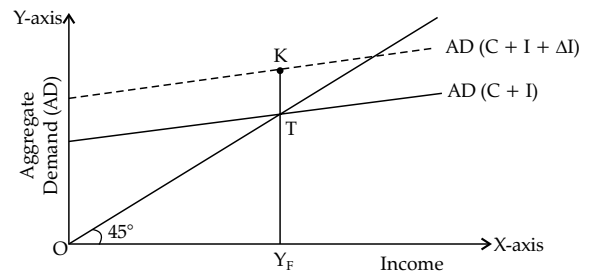
3

Ans.  $GVA_{MP} = [(ii) + (iv)] + (iii) - (v)$   
 $= [200 + 10] + (-10) - 120$   
 $= ₹ 80 \text{ lakh}$

13. 'Taxation is an effective tool to reduce the inequalities of income.' Justify the given statement with valid reasons. 4

Ans. Taxation can be an effective tool to reduce the income inequality because through progressive taxation, the government can intervene to promote equity and reduce inequality and poverty. Progressive tax system means more tax from those on higher levels of income and redistributes welfare benefits to those on lower incomes.

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



OR

Explain, how the 'Reverse Repo Rate' helps in correcting Excess Demand in an economy? 4

Ans. KT represents Excess Demand

The measures to control Excess Demand are:

- (a) 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.
- (b) 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.

OR

Reverse Repo Rate is the rate of interest at which commercial banks can park their surplus funds with the central bank, for short period. If Reverse Repo Rate is increased, then it is followed by increase in market rate of interest. Accordingly, cost of credit also increases, which ultimately leads to lesser demand for credit. It reduces flow of credit as desired.

15. Discuss the function of central bank as 'Banker, Agent and Advisor' to the Government. 4

Ans. Central Bank as a government's bank : The Central bank acts as a banker to both central as well as State Governments. The central bank accepts receipts and makes payments for the government and carries out exchange, remittance and other banking operations. It advances credit/ loan to the government to meet its requirements in case of crisis. It also acts as an agent to buy and sell government securities and advises the government on various financial matters such as economic and money matters e.g., controlling inflation or deflation, devaluation or revaluation of the currency, deficit financing, balance of payments, etc.

16. (a) Differentiate between the concepts of demand for 'domestic goods and services' and 'domestic demand for goods and services'.

(b) Distinguish between 'Current Account Deficit' and 'Current Account Surplus'. 6

Ans. (a) Difference between Demand for Domestic Goods and Services and Domestic Demand for Goods and Services are:

| S. No. | Demand for Domestic Goods and Services   | Domestic Demand for Goods and Services  |
|--------|--|---|
| 1.     | The demand of goods and services which are produced within the boundaries of a nation. | The demand for goods and services in the domestic market irrespective of its place of production. |
| 2.     | It relates to the goods and services generally exported.                               | It relates to the goods and services generally imported.  |
| 3.     | It increases the export of domestic goods.   | It increases the imports of foreign goods.  |

(b) Difference between Current Account Deficit and Current Account Surplus:

| S. No | Current Account Deficit  | Current Account Surplus  |
|-------|--|--|
| 1.    | It results when the export of goods and services is less than the imports. | It results when the export of goods and services is more than the imports. |
| 2.    | It results in Trade Deficit.   | It results in Trade Surplus.   |
| 3.    | It results in outflow of foreign reserves.                                 | It results in inflow of foreign reserves.                                  |

17. Answer the following questions based on the data given below:

- (i) Planned Investments = ₹ 100 crores.
- (ii)  $C = 50 + 0.5Y$
- (a) Determine the equilibrium level of income.
- (b) Calculate the Value of Savings at equilibrium level of National Income.
- (c) Calculate the Value of Investment Multiplier. 6

OR

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

- (a) If Aggregate Demand is greater than Aggregate Supply.
- (b) If Ex-ante investments are less than Ex-ante savings. 6

Ans. Given,

$$C = 50 + 0.5Y$$

$$I = ₹ 100 \text{ crores}$$

(a) Equilibrium level of Income is determined by :

$$Y = C + I$$

$$Y = 50 + 0.5Y + 100$$

$$Y - 0.5Y = 150$$

or  $0.5Y = 150$

$$Y = \frac{150}{0.5} = ₹ 300 \text{ crores}$$

(b)  $C = 50 + 0.5Y$   
 $= 50 + 0.5 \times 300$   
 $= 50 + 150$   
 $= ₹ 200 \text{ crores}$

$$S = Y - C$$

$$= 300 - 200 = ₹ 100 \text{ crores}$$

(c)  $K = \frac{1}{1 - MPC}$   
 $= \frac{1}{1 - 0.5}$   
 $= \frac{1}{0.5}$   
 $= 2$

OR

(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 above the desired level. The producers in turn will produce more, which will increase the income level i.e., AS. This process will continue till AD becomes equal to AS.

(b) Ex-ante investments are less than ex-ante savings ( $I > S$ ) means buyers are planning to buy less output as to what producers are planning to produce. It will lead to rise in planned inventories below the desired level. As a result, the producers will reduce production, leading to decrease in income till savings becomes equal to investments.

**SECTION – B (Indian Economic Development)**

18. Policy of 'Import Substitution' was targeted to protect \_\_\_\_\_ industries.  
(Fill up the blank with correct answer) 1  
Ans. Domestic
19. Which of the following is not used as a strategy for Sustainable Development? (Choose the correct alternative)  
(a) Use of bio-gas  
(b) Use of solar power  
(c) Use of thermal power  
(d) Use of hydel power 1  
Ans. (c) Use of thermal power
20. Maternal Mortality Rate is high in \_\_\_\_\_ (China/Pakistan).  
(Fill up the blank with correct alternative) 1  
Ans. Pakistan
21. State the meaning of 'Marketed Surplus'. 1  
OR  
State the meaning of 'Subsidy'. 1  
Ans. The portion of agricultural produce that is sold by the farmer after retaining a part for personal consumption is marketed surplus.  
OR  
Subsidy is an aid in amount given by the government to the producer in order to boost the production or consumption of that product.
22. State, whether the following statement is true or false: 1  
'As per the Human Development Report, 2018, India was ranked at 180th position.'  
Ans. False
23. If a construction site Manager hires two workers on daily wages basis, such a situation is covered under \_\_\_\_\_ (formal/informal) sector.  
(Fill up the blank with correct alternative) 1  
Ans. Informal
24. Which of the following countries initiated its process of Economic Reforms in the year 1991? (Choose the correct alternative)  
(a) Pakistan  
(b) India  
(c) Russia  
(d) China 1  
Ans. (b) India
25. Greater proportion of women workers are found in \_\_\_\_\_ (urban/rural) areas as a component of Indian work force.  
(Choose the correct alternative) 1  
Ans. rural
26. State, whether the following statement is true or false :  
"GATT was established in 1923 with 48 member countries." 1  
Ans. False
27. 'GLF with respect to the People's Republic of China referred to as \_\_\_\_\_.  
(Choose the correct alternative)

- (a) Giant Leap Forward  
(b) Great Lead Forum  
(c) Great Leap Forward  
(d) Giant Leap Forum 1

- Ans. (c) Great Leap Forward  
28. Discuss briefly the concept of 'Informalization of workforce' in India. 3

OR

State any three challenges facing rural development in India. 3

- Ans. Informalization of workforce is a situation in which employment in unorganized sector is increasing while decreasing in the organised sector. The informalization of industrial labour in India has been rapidly increasing as the share of workforce. This is due to the increase in the use of temporary and contract workers in the manufacturing sectors.

OR

Some of the prime areas for the development of the rural India may be quoted as follows:

- (i) **Infrastructure development:** Basic infrastructure requirement like electricity, irrigation, credit availability, transport facilities, construction of village roads and feeder roads to nearby highways, etc. are the area which still need attention of the government so as to gain commanding heights.
- (ii) **Alleviation of poverty:** Poverty in rural India is a major challenge that should be taken up as a mission for improvement in the living conditions of particularly those living at the bottom of pyramid. The problem of poverty may be tackled by emphasising on greater access to productive employment opportunities.
- (iii) **Development of Human Capital:** Human Capital Formation is also a key issue due to lack of basic health and education facilities. Rural human capital must be developed by taking sincere steps in the direction of education and health.

29. Compare and analyse the given data of India & China, with valid reasons.

| Country | Annual Growth Rate of Population (2015) | Gender Ratio (Per thousand males) (2015) |
|---------|---|--|
| India   | 1.2%                                    | 929                                      |
| China   | 0.5%                                    | 941                                      |

Source : World Development Indicators, 2015. 3

- Ans. The given data shows that the annual growth rate of population at a mere 0.5% in case of China, due to a direct result of the One Child Policy adopted. The annual population growth rate of India is in the danger zone of more than 1% p.a. indicating India will be overtaking China as the most populous country in the world in near future.

Between the two countries stated in given table, India has more skewed data sex ratio (929 females per 1000 males). The reason behind this could be the female feticide and low socio economic status of women in India. This is one of the major concerns for the demographers in India and need to promote the equality between the two sexes.

30. **Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' front under the Economic Reforms of 1991.** 4

**Ans.** The two major steps taken by the government on Financial Sector Front are:

- (i) One of the major aims of financial sector reforms is to transform the role of RBI from regulator to facilitator of financial sector. This means that greater autonomy may be granted to the financial sector in taking decisions on various matters without consulting the RBI. The reform policies led to establishment of private sector banks.
- (ii) Banks have been given freedom to setup new branches. Banks have also been given permission to generate resources from India and abroad through capital market.

31. **Discuss briefly any two salient features of India's pre-independence occupational structure.** 4

OR

**Discuss briefly, the rationale behind "equity with growth" as planning objectives for Indian Economy.** 4

**Ans.** The following are the salient features of India's pre-independence occupational structure:

- (i) **Predominance of Agriculture:** Under the colonial rule, India was basically an agrarian economy, with nearly 75% of its workforce engaged directly or indirectly in agriculture. Due to massive poverty and widespread illiteracy during the colonial rule, a large proportion of the population was engaged in farming and related activities to earn their subsistence.
- (ii) **Lack of Opportunities in Industry:** Only a small proportion of population was employed in manufacturing sector. Nearly 10% of the total workforce was engaged in manufacturing and industrial sector. This was due to the stiff competition that the Indian industries faced from the machine made cheap goods from Britain.

OR

Both growth and equity are the two important objectives of Indian planning. While growth refers to the increase in national income over a long period of time, equity refers to an equitable distribution of this income so that the benefits of higher economic growth can be passed on to all sections of population to bring about social

justice. Growth is desirable as you must have the cake to distribute it but growth in itself does not guarantee the welfare of society. Growth is assessed by the market value of goods and services produced in the economy (GDP) and it does not guarantee an equitable distribution of the income from this production. In other words, the major share of Gross Domestic Product (GDP) might be owned by a small proportion of population which may result in exploitation of weaker sections of society. Hence, growth with equity is a rational and desirable objective of planning. This objective ensures that the benefits of high growth are share by all people equally and hence, inequality of income is reduced along with growth in income.

- \* 32. **State and discuss any two problems faced by power sector in India.** 4

33. (a) **Explain, how does 'Investment in Human Capital' contributes to growth of an economy.**

(b) **State the meaning of 'Agricultural Marketing'.** 6

**Ans.** (a) Increase in investment in Human Capital Formation leads to increase in economic growth as :

(i) Educated person can contribute to economic growth more than that of uneducated person. In fact skills of an educated person are more. Education changes the outlook of a person. Educated labour force adopts new technologies easily. It increases the production, as a result, higher rate of economic growth is achieved.

(ii) Investment in health keeps labourers healthy and enables them to work for a long period. A sick person always abstains from work and therefore, there is loss of productivity. But healthy person contributes in production resulting higher rate of economic growth.

(b) Agriculture marketing includes all those activities which are related with the agricultural produce to deliver from farmers to ultimate consumers.

- \* 34. **Critically examine the results of Poverty Alleviation Programmes implemented in India since Independence.** 6

OR

(a) **"Ujjawala Yojana has been a game changer for rural India." State any three conventional fuels being targeted under the Ujjawala Yojana.**

(b) **"Economists believe that India should spend atleast 6% of its GDP on Education for achieving desired results." Justify the statement with valid reason.** 3 + 3

Delhi Set – 2

Code No. 58/5/2

**SECTION – A (Macroeconomics)**

3. State, whether the following statement is true or false: 'Purchase of machinery by a producer is an intermediate good.' 1

Ans. False

10. Which of the following statement is incorrect?  
 (a) Gross Domestic Product (GDP) at Market price = GDP at factor cost plus Net Indirect taxes.  
 (b) Net National Product (NNP) at Market price = NNP at factor cost.  
 (c) Gross National Product (GNP) at Market price = GDP at Market price Plus Net Factor Income From Abroad.  
 (d) Net National Product (NNP) at Factor cost = National Income. 1

OR

If the Real Gross Domestic Product (GDP) in an economy is ₹520 crores and Nominal Gross Domestic Product (GDP) is ₹650 crores, calculate the price Index. 1

- Ans. (b) Net National Product (NNP) at Market price = NNP at factor cost.

OR

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

$$= \frac{650}{520} \times 100 = 125$$

12. Calculate Net Value Added at factor cost from the following data :

| S. No. | Particulars  | Amount (₹ in lakhs) |
|--------|--|---------------------|
| (i)    | Durable producers goods (with a life span of 10 years) | 10                  |
| (ii)   | Single use producer goods                              | 5                   |
| (iii)  | Sales  | 20                  |
| (iv)   | Unsold Goods (Stock)                                   | 2                   |
| (v)    | Goods & Services Tax (GST)                             | 1                   |

3

- Ans.  $NVA_{FC} = \text{Sales} + \text{Unsold output} - \text{Single use producer goods} - \text{Depreciation} - \text{Taxes on production}$

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

$$= 20 + 2 - 5 - 1 - 1$$

$$= ₹ 15 \text{ lakh}$$

15. Explain the 'bank of note issue' function of central bank. 4

Ans. The Central Bank of a country has the sole authority of issuing currency notes and coins in the country. All the currency issued by the central bank is unlimited legal tenders. No other commercial bank or financial institution can issue these currencies except central bank. Often, the central bank divides its functions into two departments—Banking Department and Issue Department. It is the issue department that is responsible for note-issuing. It issues currency to cope with the demand for it, which depends upon the level of economic activity in the economy. Hence, central bank is also known as Bank of Issue.

17. (a) "Recently Indian Rupee (₹) has depreciated significantly. This has led to distress for Indian importers.' Defend or refute the given statement with valid reasons.

(b) Distinguish between 'trade deficit and 'current account deficit'. 6

Ans. (a) The depreciation in the Indian Rupee has led to the distress in the Indian Market. This is because the depreciation will make the goods that are imported to the country expensive leading to a fall in the imports of foreign goods or the imports being very expensive.

For instance, the cloth imported from US market will be costing more than before due to the depreciation of the Indian Rupee leading it to be more expensive decreasing its import.

(b) Differences between Trade Deficit and Current Account Deficit :

| S. No. | Trade Deficit   | Current Account Deficit  |
|--------|---|--|
| 1.     | It is the excess of imports over exports of goods only. | It is the excess of imports over exports of both goods and services. |
| 2.     | It does not include Transfer Payments.                  | It also includes Transfer Payments.                                  |
| 3.     | It is a part of current account deficit.                | Trade deficit is a part of it.                                       |

**SECTION – B (Indian Economic Development)**

18. Define "Quota". 1

Ans. Quantitative restrictions on imports for the protection of the domestic firms from abroad. Under this, quantity of goods which can be imported is specified by the state.

31. "Modernisation as a planning objective shows a dichotomy with employment generation." Justify the statement. 4

OR

State the two-fold motive for the systematic deindustrialisation of indigenous Indian industries in the British era. 4

Ans. Modernisation refers to the use of new and modern technology in the production process. This may make some people lose their jobs in the initial stages. But gradually, the use of modern technology and input will raise the productivity and consequently, the income of the people that will further raise the demand for goods and services. In order to fulfil this increased demand, more production output will be required and there will be more job opportunities that will lead to higher employment in the economy. Even in short run, modernisation leads to creation of employment opportunities for skilled workers and if proper training and vocational education is provided, it will lead to better employment in terms of quality of work and earnings. Hence, both modernisation and employment generation are not contradictory but are complementary to each other.

OR

The following were the two-fold motives behind the systematic de-industrialisation effected by the British:

- (i) **Making India a Supplier of Raw Materials:**  
The main motive of the British Government was to make India a mere supplier of cheap raw materials to feed its own rapidly expanding industrial base.
- (ii) **Making India a Market for Finished**

**Goods:** Another important objective of the British Government in de-industrialising Indian economy was to use India as a large and growing market to sell the finished goods produced by the British industries, so that their industries never face a demand shortage and could keep on flourishing.

- 34. (a) **Discuss the need for on-the-job training for a employee.**
- (b) **Discuss the role played by horticulture in the direction of rural development in India.** 6

Ans. (a) **There is a need for on-the-job training due to the following reasons:**

- (i) It improves the productivity and efficiency of the workers.
- (ii) The employees can gain more experience and get a better paying job later.
- (iii) The firm confirms the retention of the employees until the cost undergone for training is recovered. Thus, reducing the labour turnout ratio.
- (b) Horticulture plays an important role in providing crops for nutrition and food, besides addressing employment concerns. It gives employment to around 19% of the total labour force. It has become a means of improving livelihood for many women and unprivileged classes too. Flower harvesting, nursery maintenance, hybrid seed production and tissue culture, propagation of fruits and flowers and food processing give employment and remunerative options for women in rural areas.

Delhi Set – 3

Code No. 58/5/3

**SECTION – A (Macroeconomics)**

6. State, whether the following statement is true or false :

‘Margin requirement is raised by the Central Bank to increase money supply.’ 1

Ans. False

10. **Rent + Interest + Profit = \_\_\_\_\_.** (Fill up the blank with correct answer) 1

OR

When Nominal Gross Domestic Product (GDP) is ₹ 850 crores and Price Index is 170, Real Gross Domestic Product (GDP) will be \_\_\_\_\_. (Fill up the blank with correct answer) 1

Ans. Operating surplus

OR

₹ 500 crores

Detailed Explanation :

$$\text{Real} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100 = \frac{850}{170} \times 100 = 500$$

12. Calculate Net Domestic Product at factor cost.

Ans.

| S. No. | Particulars                     | Amount (₹ in crores) |
|--------|---------------------------------|----------------------|
| (i)    | Interest                        | 700                  |
| (ii)   | Compensation of Employees       | 3,000                |
| (iii)  | Net Indirect Taxes              | 500                  |
| (iv)   | Rent and Profit                 | 700                  |
| (v)    | Transfer Payments by Government | 10                   |

3

$$\begin{aligned} \text{NNP}_{\text{FC}} &= (i) + (ii) + (iv) \\ &= 700 + 3,000 + 700 \\ &= ₹ 4,400 \text{ crores} \end{aligned}$$

15. Explain the function of central bank as ‘Banker’s Bank and Supervisor.’ 4

Ans. **Banker’s Bank:** As the bankers 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.

17. (a) Explain the relationship between fall in price of a US Dollar (\$) and its demand.  
 (b) Distinguish between Autonomous items and Accommodating items. 6

Ans. (a) The fall in the price of US (\$) Dollar will lead to the imports getting cheaper as compared to before. This will lead to an increase in the imports of the goods and so there will be a rise in the demand of the US Dollars. Thus, we can say that the fall in price of US Dollar leads to the rise in the demand, following the law of demand.

(b) **Autonomous Transactions:** These are independent of all other transactions in the BOP. These transactions are not influenced by the foreign exchange position of the country. Exports, imports, etc., are some examples.

**Accommodating Transactions:** These are undertaken to cover deficit or surplus in the autonomous transactions. Therefore, their magnitude is determined by the Autonomous Transactions.

### SECTION – B (Indian Economic Development)

24. \_\_\_\_\_ is one of the main positive contribution made by the British in India.  
 (Fill up the blank with correct answer) 1

Ans. Railways

### Outside Delhi Set – 1

Code No. 58/4/1

### SECTION – A (Macroeconomics)

1. Two components of money supply are \_\_\_\_\_ and \_\_\_\_\_. (Fill up the blank with correct answer) 1

OR

The main aim of monetary policy is \_\_\_\_\_.  
 (Choose the correct alternative)

- (a) to bring price stability in the economy.  
 (b) employment generation in the country.  
 (c) to increase trade surplus.  
 (d) to generate greater tax revenue 1

Ans. Currency and Demand Deposits

OR

- (a) to bring the price stability in the economy

2. State, whether the given statement is true or false : 'Unexpected obsolescence is a component of depreciation.' 1

Ans. False

3. ₹ 2,000 note lying in wallet of Rohini, a student is an example of \_\_\_\_\_ (stock/flow) variable.  
 (Fill up the blank with correct alternative) 1

Ans. Stock

4. Define intermediate consumption. 1

Ans. Intermediate consumption is the consumption of goods and services which are consumed or to be used in the process of production.

5. Loans offered by commercial banks \_\_\_\_\_ (increase/decrease) the money supply in the economy.  
 (Fill up the blank with correct alternative) 1

Ans. Increase

6. The sum of factor payments is equal to \_\_\_\_\_.  
 (Choose the correct alternative)

- (a) Domestic Income  
 (b) National Income

(c) Per Capita Real Income

(d) Per Capita Nominal Income. 1

Ans. (b) National Income

7. State, whether the given statement is true or false : 'Expenditure on Ujjwala Yojana launched by the Government is an example of capital expenditure.' 1

Ans. True

8. Define full employment. 1

Ans. It refers to a situation, where all those workers who can work and willing to work get employment at prevailing wage rate.

9. If the value of Average Propensity to Consume (APC) is 0.8 and National income is ₹ 4,000 crores, the value of savings will be \_\_\_\_\_.  
 (Choose the correct alternative.)

(a) ₹ 100 crores

(b) ₹ 200 crores

(c) ₹ 800 crores

(d) ₹ 500 crores 1

Ans. (c) ₹ 800 crores

10. Give any one example of 'debt creating capital receipts' in the Government Budget. 1

Ans. Loans received from Foreign Government.

11. 'Domestic services (Household services) performed by a woman are not considered as an economic activity.' Defend or refute the given statement with valid reason. 3

Ans. Domestic Services (Household Services) as performed by a woman is not considered as an economic activity because the services done by her does not generate any income or result in the production of goods or services. Such activities are performed out of love and affection and hence their valuation is not possible.



12. Calculate Net Value Added at Factor Cost ( $NVA_{FC}$ ) from the following data:

| S. No. | Particulars              | Amount (in ₹ crores) |
|--------|--------------------------|----------------------|
| (i)    | Value of Output          | 800                  |
| (ii)   | Intermediate Consumption | 200                  |
| (iii)  | Indirect taxes           | 30                   |
| (iv)   | Depreciation             | 20                   |
| (v)    | Subsidies                | 50                   |
| (vi)   | Purchase of machinery    | 50                   |

3

OR

State the three components of Income from Property and Entrepreneurship. 3

Ans.  $NVA_{FC} = (i) - (ii) - (iii) - (iv) + (v)$   
 $= 800 - 200 - 30 - 20 + 50$   
 $= ₹ 600 \text{ crores}$

OR

The components are:

- (i) **Rent:** Rent is paid for the services provided by the land or other immovable assets. It covers so many different expenses such as maintenance, repairs and interest on a mortgage.
  - (ii) **Interest:** Interest is payment for the immediate use of a sum of money, i.e., paid for the services of capital.
  - (iii) **Profit:** Profit is earned for undertaking entrepreneurial activities of producing goods and services. Economic or pure profit is the excess of revenues over all explicit and implicit cost
13. Elaborate the objective of 'allocation of resources' in the Government Budget. 4

Ans. 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 effects.

14. Define effective demand. Discuss how, effective demand can be restored, if ex-ante Aggregate Demand (AD) is more than ex-ante Aggregate Supply (AS). 4

Ans. Effective demand refers to that level of output where Aggregate Demand is equal to the Aggregate Supply.

If Ex-ante Aggregate Demand exceeds Ex-ante Aggregate Supply, it means buyers are planning to buy more goods and services than producers are planning to produce. Thus, the inventories in hand with the producers will start falling. As a result, producers will plan to raise the production. This will increase the level of income up to the level Aggregate Demand is equal to Aggregate Supply.

15. Explain the function of central bank as a 'Banker, Agent and Advisor' of the Government. 4

OR

Elaborate, how does a central bank stabilise money supply through 'Bank Rate'. 4

Ans. **Central Bank as Government's Bank:** The central bank acts as a banker to both Central as well as State governments. The central bank accepts receipts and makes payments for the government and carries out exchange, remittance and other banking operations. It advances credit/loan to the government to meet its requirements in case of crisis. It also acts as an agent to buy and sell government securities and advises the government on various financial matters such as economic and money matters e.g., controlling inflation or deflation, devaluation or revaluation of the currency, deficit financing, balance of payments, etc.

OR

Bank rate is the rate at which central bank offers loans to the commercial banks as a lender of last resort. During inflation, when supply of credit is to be reduced, bank rate is increased. This reduces borrowing by the commercial banks, implying a reduction in their cash reserve and therefore, a reduction in their capacity to create credit. Following increase in bank rate, market rate of interest is also raised, implying a check on borrowings from the commercial banks. Thus, overall supply of credit is reduced in the economy. Exactly opposite is done to combat deflation, bank rate is lowered to increase the supply of credit.

16. State, giving valid reasons whether the following statements are true or false:

- (i) Trade deficit is always a great cause of worry for an economy.
- (ii) Depreciation of currency has same effect on exports as devaluation of currency.
- (iii) 'Indians investing in assets abroad' will be recorded under debit side of capital account in Balance of Payments. 6

OR

- (a) Explain, what can be the likely impact of depreciation of the home currency on imports to the country.
- (b) Distinguish between Current Account Deficit (CAD) and Current Account Surplus (CAS). 6

Ans. (i) The statement is true because, it means that there is more outflow of income from the economy than inflow. It represents that exports are more than imports which can lead to further devaluation of currency to restore the balance.

(ii) The statement is true because both the depreciation of currency and devaluation of currency leads to the fall in the price of the currency leading to increase in exports.

(iii) The statement is true as the investment creates foreign exchange reserve.

OR

(a) The depreciation in the Indian Rupee has led to the distress in the Indian Market. This is because the depreciation will make the goods that are imported to the country expensive leading to a fall in the imports of foreign goods or the imports being very expensive.

For instance, the cloth imported from US market will be costing more than before due to the depreciation of the Indian Rupee leading it to be more expensive decreasing its import.

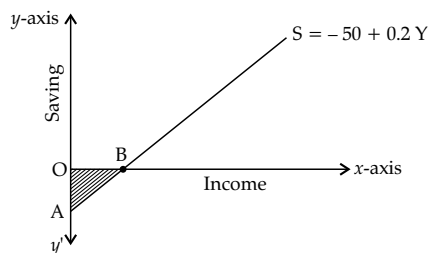
(b) **Difference between Current Account Deficit and Current Account Surplus:**

| S. No. | Current Account Deficit  | Current Account Surplus  |
|--------|--|--|
| 1.     | It results when the export of goods and services is less than the imports. | It results when the export of goods and services is more than the imports. |
| 2.     | It results in Trade Deficit.   | It results in Trade Surplus.   |
| 3.     | It results in outflow of foreign reserves.                                 | It results in inflow of foreign reserves.                                  |

17. (a) On the basis of following information, identify whether the economy is in equilibrium or not:

| S. No. | Particulars   | Amount (₹)   |
|--------|---|--------------|
| (i)    | Autonomous Consumption and Investment Expenditure (A) | 500 crores   |
| (ii)   | Marginal Propensity to Save (MPS)                     | 0.2          |
| (iii)  | National Income                                       | 4,000 crores |

(b) Answer the following questions on the basis of given figure:



(i) What does the shaded area AOB indicate?

(ii) What is the significance of point B? 6

Ans. (a) Autonomous Consumption Expenditure

$$(A) = ₹ 500 \text{ crores}$$

$$MPS = 0.2$$

$$\text{National income } (Y) = ₹ 4,000 \text{ crores}$$

$$MPC = 1 - MPS$$

$$= 1 - 0.2$$

$$= 0.8$$

For an economy to be in equilibrium:

$$Y = A + MPC (Y)$$

$$= 500 + 0.8 \times 4000$$

$$= 500 + 3,200$$

$$= ₹ 3,700 \text{ crores}$$

∴ The economy is not in equilibrium.

(b) (i) The shaded area AOB indicates dis-saving that is the savings are decreasing beyond the point with consumption being over the income.

(ii) The significance of point B, the point where there is 0 saving are:

(a) The consumption is equal to Income.

(b) There is no investment in the economy.

(c) To the left of this point there are dis-savings.

(d) To the right of this point there are positive savings.

### SECTION – B (Indian Economic Development)

18. \_\_\_\_\_ policy followed in first seven five year plans of India, aimed at substituting imports with domestic production.

(Fill up the blank with correct answer) 1

Ans. Import Substitution

19. Which of the following is not a benefit of organic farming?

(Choose the correct alternative)

(a) Cheaper inputs

(b) Attractive returns on investment

(c) Greater import possibilities

(d) Higher nutritional value 1

Ans. (c) Greater Import Possibilities

20. Define mixed economy. 1

Ans. Mixed economy is the type of economy where the public sector and the private sector work together.

21. World Trade Organisation (WTO) was established in 1995, as a successor organisation to \_\_\_\_\_.

(Fill up the blank with correct answer) 1

Ans. General Agreement on Tariffs and Trade (GATT)

22. India is not a member of which of the following regional/global economic grouping?

(Choose the correct alternative)

(a) SAARC

(b) BRICS

(c) G-7

(d) G-20 1

Ans. (c) G-7

23. In the past few decades \_\_\_\_\_ (primary/secondary/tertiary) sector has created maximum jobs opportunities in India. (Fill up the blank with correct alternative) 1

Ans. Tertiary

24. The main aim of Great Leap Forward' (GLF) in China was to ensure rapid increase of \_\_\_\_\_.  
(Choose the correct alternative)

- (a) agriculture
- (b) industries
- (c) services
- (d) exports

Ans. (b) Industries

25. Define disguised unemployment. 1

Ans. Disguised unemployment is the type of unemployment where the workers seem to be working but the productivity is negligible.

26. State whether the following statement is true or false:

World Bank is also known as International Bank for Registration and Delimitation (IBRD)'

OR

Define Marketed Surplus. 1

Ans. False

OR

The portion of agricultural produce that is sold by the farmer after retaining a part for personal consumption is marketed surplus.

27. Introduction of Economic Reforms in China took place in the year \_\_\_\_\_. (Choose the correct alternative)

- (a) 1978
- (b) 1980
- (c) 1988
- (d) 1991

Ans. (a) 1978

\* 28. "Rapid increase in economic growth surely trickles down to the people under the absolutely poor category." Defend or refute the given statement with valid argument. 3

OR

\* "Human Capital Formation gives birth to innovation, invention and technological improvements." Do you agree with the given statement? Support your answer with valid arguments..

29. Compare and analyse the given data of India and China, with valid reasons:

| Country | Annual Growth rate of population (2015) | Gender Ratio (Per of population Males) (2015) |
|---------|---|---|
| India   | 1.2%                                    | 929   |
| China   | 0.5%                                    | 941   |

3

Source: World Development Indicators, 2015.

Ans. The given data shows that the annual growth rate of population at a mere 0.5% in case of China, due to a direct result of the One Child Policy adopted. The annual population growth rate of India is in the danger zone of more than 1% p.a. indicating India will be overtaking China as the most populous country in the world in near future.

\* Out of Syllabus

Between the two countries stated in given table, India has more skewed data sex ratio (929 females per 1000 male). The reason behind this could be the female feticide and low socio economic status of women in India. This is one of the major concerns for the demographers in India and need to promote the equality between the two sexes.

30. Discuss briefly any two salient features of India's pre-independence occupational structure. 4

OR

Discuss briefly the rationale behind choosing 'self-reliance' as a planning objective for Indian economy. 4

Ans. The following are the salient features of India's pre-independence occupational structure:

(i) **Predominance of Agriculture** : Under the colonial rule, India was basically an agrarian economy, with nearly 75% of its workforce engaged directly or indirectly in agriculture. Due to massive poverty and widespread illiteracy during the colonial rule, a large proportion of the population was engaged in farming and related activities to earn their subsistence.

(ii) **Lack of Opportunities in Industry** : Only a small proportion of population was employed in manufacturing sector. Nearly 10% of the total workforce was engaged in manufacturing and industrial sector. This was due to the stiff competition that the Indian industries faced from the machine made cheap goods from Britain.

OR

Self-reliance as an objective of economic planning is necessary for a developing country because a nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations. The first Seven Five Year Plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity in order to reduce our dependence on foreign countries especially for food. It is understandable that people who were recently freed from foreign domination should give importance to self-reliance.

31. India is often called as 'Outsourcing Destination' of the world. Discuss the prime reasons for this name given to India. 4

Ans. Most multinational corporations and even small companies are outsourcing their services to India as our country has the following advantages:

(i) **Availability of Cheap Labour**: India is a country with a large population and thus, abundant supply of labour. Due to this reason, labour in India is available at low

wage rates. This helps foreign companies in reducing cost of operation by outsourcing their business processes to India.

- (ii) **Skill and Accuracy:** India has, a wide pool of talent in the form of educated and trained youth who have the required skills and can work with accuracy in the business processes such as accounting, record keeping, IT consultancy, etc. Here outsourcing plays a vital role it gives a platform to the people so that they can enhance their skills and secondly they need low training period and thus, low cost of training.
- (iii) **No communication Barriers:** Countries, outsourcing their non core activities to India don't face any language or communication barriers as India is one of the largest English speaking nations in the world.
- (iv) **Government Support:** India is a safe destination for outsources as it has a stable government which has taken several initiatives over the years to promote India as an outsourcing destination.
32. Define the following:
- (i) Carrying capacity of environment
- (ii) Bio-composting

- (iii) Sustainable Development
- (iv) Absorptive capacity of the environment

4

- Ans. (a) Carrying capacity refers to the maximum population size of the species which can be supported by the environment within natural resource limits and without degrading the natural social, cultural and economic environment for present and future generations.
- (b) Bio-composting is the technique of creating a compost using bio-degradable things that is plant and animal waste.
- (c) Development that means the need of the present generation without compromising the ability of future generation to meet their own needs is called sustainable development.
- (d) Absorptive capacity is the ability of the environment to absorb the pollutants and restrict it from degradation, beyond which it will pose threat to the environment.
33. (a) Define worker-population ratio. What does it signifies? 6
- (b) Analyse the trends in sectoral distribution of work force in India on the basis of data:

**Trends in Employment Pattern  
(Sector-wise), 1972-2012 (in %)**

| Sector       | 1972-73      | 1983         | 1993-94      | 1999-2000    | 2011-2012    |
|--------------|--------------|--------------|--------------|--------------|--------------|
| Primary      | 74.3         | 68.6         | 64           | 60.4         | 48.9         |
| Secondary    | 10.9         | 11.5         | 16           | 15.8         | 24.3         |
| Services     | 14.8         | 16.9         | 20           | 23.8         | 26.8         |
| <b>Total</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

OR

- (a) "The Prime Minister urged to increase the rural income by increasing non-farm activities." Explain how non-farm activities can lead to rise in income of people in rural sector.
- (b) "Indian health system needs the increased dose of public expenditure to cure itself." Defend or refute the given statement with valid arguments. 6
- Ans. (a) Worker-population ratio is defined as the proportion of population that is actively contributing to the production of goods and services. It is measured by the ratio between the country's workforce and its total population.  
This ratio acts as an indicator for assessing the employment level in a particular country at any point of time. Higher the worker population ratio, higher is the engagement of people in the productive activities and vice-versa. Thus, it signifies the productive capacity of the economy.
- (b) The table shows the change in the employment pattern in the various sectors of the Indian Economy. From the data, we can see that there has been a considerable decline in the employment rate in the primary sector from 74.3% people

employed in 1972-73 to 48.9% people employed in 2011-12. The employment has increased in both the secondary and service sectors which is necessary for the country to become developed in the future. With the increase in the workforce in these sectors imply that India is slowly moving towards industrialisation and focusing on the growth of service sector.

OR

- (a) The non-farm activities can lead to the rise in the income as :
- (i) A substantial portion of Indian farming is dependent on the vagaries of monsoon, making it a risky affair to rely upon solely. Hence, non-farm employment opportunities are to be explored to enable the farmers to earn from alternative non-farm occupations. This will lessen the excess burden on agriculture by reducing disguised unemployment.
- (ii) The non-farm sector provides employment opportunities for the whole year as compared to the farming occupation. So, it helps to eradicate poverty from the rural areas.

- (iii) The non-farming sector has several segments that have dynamic linkages. Such linkages enhance the healthy growth of the rural areas in turn increasing the income.
- (b) **The government needs to invest more in the Health Sector due to the following reasons:**
  - (i) **High Birth Rate and Rapid Growth of Population:** It has created a number of health risks. Population growth has made it difficult to provide safe or sufficient water supply, garbage disposal and sanitation for the community.

- (ii) **Malnutrition:** Widespread malnutrition has contributed to the number of health problems including infections and diseases among children.
- (iii) **Unsanitary Conditions and Housing:** A large number of people live in poor households located in crowded and unsanitary surroundings. People face the problem of contaminated food, water and soil, insufficient personal hygiene and sewage disposal. A sizeable population lives in sub standards dwellings lacking in space, ventilation and sunlight.

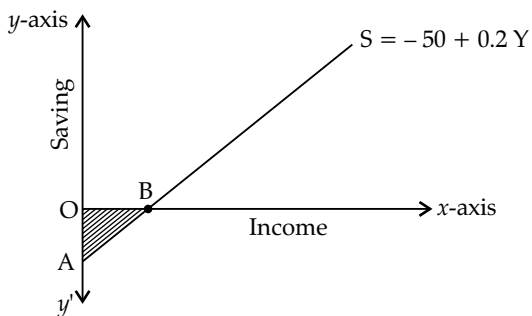
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**SECTION – A (Macroeconomics)**

3. If income rises from ₹ 50,000 to ₹ 60,000, consumption increases from ₹ 40,000 to ₹ 48,000. In this situation, what will be the value of Marginal Propensity to Consume (MPC)? (Choose the correct alternative.)
- (a) 0.80                      (b) 0.20  
 (c) 0.10                      (d) 0.90                      1
- Ans. (a) 0.80
8. Define inventory (stock). 1
- Ans. Stock is a quantity of goods and services available for sale or raw material available to produce goods for sale. It is measurable at a particular "point of time".
11. "Management of a water polluting oil refinery says that it (oil refinery) ensures welfare through its contribution to Gross Domestic Product." Defend or refute the argument of management with respect to GDP as a welfare measure of the economy. 3
- Ans. Even though the industry contributes to the GDP of the economy, the management's claim that it ensures the welfare, is not a correct claim. As the water is being polluted in the course of the oil refinery, it is creating a negative externality, that is a threat to the environment by causing water pollution. Thus, GDP cannot not be considered as the measure of welfare of economy as it doesn't include these types of externalities.
17. (a) Given the following information, identify whether the economy is in equilibrium or not.

| S. No. | Particulars   | Amount         |
|--------|---|----------------|
| (i)    | Autonomous Consumption & Investment Expenditure (Ā) | ₹ 200 crores   |
| (ii)   | Marginal Propensity to Consume (MPC)                | 0.70           |
| (iii)  | National Income                                     | ₹ 1,000 crores |

- 3
- (b) Answer the following questions based on the figure given below:



- (i) At which level of income, Average Propensity to Consume will be equal to one and why?
- (ii) What is the significance of saving curve above the point B. 3
- Ans. (a)  $A = ₹ 200$  crores  
 $MPC = 0.7$   
 National Income ( $Y$ ) = ₹ 1,000 crores  
 For an economy to be in equilibrium  
 $Y = A + MPC (Y)$   
 $= 200 + 0.7 \times 1000$   
 $= 200 + 700$   
 $= ₹ 900$  crores  
 $\therefore$  The economy is not in equilibrium.
- (b) (i)  $S = -50 + 0.2 Y$   
 For the APC to be equal to 1, Income has to be equal to Consumption, leading to Savings be 0.  
 $0 = -50 + 0.2 Y$   
 $0.2 Y = 50$   
 $Y = 50 \div 0.2$   
 $= ₹ 250$  crores  
 Thus, APC will be one when income is equal to ₹ 250, crores.
- (ii) The significance of saving curve above the point B are :
- (a) The consumption is less to income, leading to savings
  - (b) There is investment in the economy.
  - (c) There are positive savings which keeps on increasing.

**SECTION – B (Indian Economic Development)**

18. Which of the following countries adopted 'One Child Policy' as a measure to control population? (Choose the correct alternative)

- (a) India  
(b) China  
(c) Pakistan  
(d) Russia

1

Ans. (b) China

30. Distinguish between:

- (i) Tariff and Non-tariff Barriers,  
(ii) Bilateral and Multilateral trade.

4

Ans. (i) Difference between Tariff and Non-tariff Barriers are:

| S. No. | Tariff Barriers   | Non-tariff Barriers  |
|--------|---|--|
| 1.     | It refers to the taxes imposed on the imports by a country for providing protection to its domestic industries.           | It refers to the restrictions other than taxes, imposed on imports by a country for providing protection to its domestic industries. |
| 2.     | Tariff barriers are allowed by world trade organisation to be imposed by its member countries though at reasonable rates. | Non-tariff barriers like import quotas and voluntary export restraints are now abolished under WTO regime.                           |
| 3.     | Tariff barriers are more explicit.  | Non-tariff barriers such as sanitary, conditions and labour issue are not that explicit.   |

(ii) Difference between Bilateral and Multi-lateral Trade are:

| S. No. | Bilateral Trade   | Multi-lateral Trade   |
|--------|---|---|
| 1.     | It is a trade agreement between two countries.  | It is a trade agreement among more than two countries.            |
| 2.     | Separate negotiations required to be done with different countries on one to one basis. | Negotiations done with many countries together which saves time.  |
| 3.     | Encourages economic cooperation between two countries                                   | Encourages globalization integrating many countries of the world. |

34. (a) State and discuss any two environmental concerns faced by India in the present times.

(b) Discuss the importance of credit in rural development. 6

Ans. (a) The two environmental concerns in India are:

(i) **Air Pollution:** In India, air pollution is widespread in urban areas because of vehicles, factories and other reasons. Air pollution is a great concern because it has severe harmful effects on the general population. For example, the number of motor vehicles has increased from about 3 lakh in 1957 to 230 million to 2016. This growth directly contributes to air pollution.

(ii) **Water Contamination:** Life depends to a great extent on water. However, increase in population, waste disposal from factories etc., contaminate water. The development process has also polluted water and is responsible for the decreasing level of water that is harmful for animals living in water. The government has taken many steps to solve the problem of water contamination, but it had failed to achieve desired success.

(b) The importance of credit in rural development are as follows:

(i) **Credit for production:** In this, all type of credits is included which are used for various farm activities such as credit for seeds, fertilizers, irrigation and fodder. The farmers have credit to borrow to pay the rent of land, wages of the labourers, government tax, etc. All these activities are related to production, Therefore, the credit received to meet their needs is called productive credit.

(ii) **Credit for consumption:** Indian farmers borrow not only for productive works but for consumption also. In this, the credit is received for the following objectives :

- (a) For marriage and death.  
(b) To repay the old debts.  
(c) For the repair, construction and purchase of houses.  
(d) For irrigation.

**SECTION – A (Macroeconomics)**

1. If the value of Average Propensity to Save (APS) is 0.2 and National Income is ₹ 4,000 crores, then consumption will be \_\_\_\_\_. (Choose the correct alternative)

- (a) ₹ 4,000 crores
- (b) ₹ 3,200 crores
- (c) ₹ 3,800 crores
- (d) ₹ 2,600 crores 1

Ans. (b) ₹ 3,200 crores

13. Define Effective Demand. Discuss how effective demand can be restored if ex-ante saving is less than ex-ante investment. 3

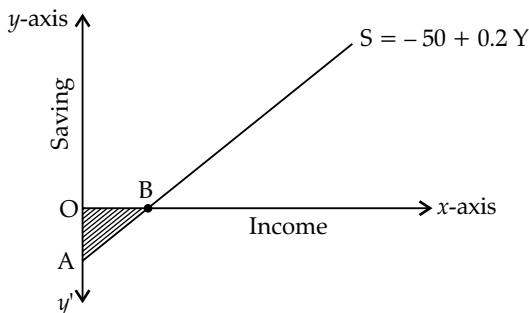
Ans. Effective Demand refers to that level of output where Aggregate Demand is equal to the Aggregate Supply.

If Ex-ante savings is less than Ex-ante Investment, it means buyers are planning to buy less goods and services than producers are planning to produce. Thus, the inventories in hand with the producers will start rising. As a result, producers will plan to reduce the production. This will decrease the level of investment up to the level of Ex-ante savings making them equal.

16. (a) Given the following information, state whether the economy is in equilibrium or not:

| S. No. | Particulars   | Amount         |
|--------|---|----------------|
| (i)    | Autonomous Consumption & Investment Expenditure (A) | ₹ 700 crores   |
| (ii)   | Marginal Propensity to Consume (MPC)                | 0.8            |
| (iii)  | National Income                                     | ₹ 4,000 crores |

(b) Answer the following questions based on the figure given below:



- (i) At which level of income Average Propensity to Save (APS) will be equal to zero and why?
- (ii) What does 'OA' signifies with respect to consumption function? 6

Ans. (a)  $A = ₹ 700$  crores  
 $MPC = 0.8$

National Income  $(Y) = ₹ 4,000$  crores

For an economy to be in equilibrium.

$$\begin{aligned}
 Y &= A + MPC (Y) \\
 &= 700 + 0.8 \times 4000 \\
 &= 700 + 3,200 \\
 &= ₹ 3,900 \text{ crores}
 \end{aligned}$$

∴ The economy is not in equilibrium.

(b) (i)  $S = -50 + 0.2 Y$

For the APS to be equal to 0, Savings has to be 0.

$$\begin{aligned}
 0 &= -50 + 0.2 Y \\
 0.2 Y &= 50 \\
 Y &= 50 \div 0.2 \\
 &= ₹ 250 \text{ crores}
 \end{aligned}$$

Thus, APS will be zero when Income is equal to ₹ 250 crores.

(ii) The significance of OA with respect to consumption function is:

- (a) The consumption is more than the Income and it reduces that is, it keeps on getting equal to the level of Income when we move from A to O.
- (b) Point O indicates that the consumption is equal to Income.
- (c) Point A indicates that consumption is more and thus savings is dis-saving.

**SECTION – B (Macroeconomics)**

20. Great Proletarian Cultural Revolution was introduced under the leadership of \_\_\_\_\_. (Choose the correct alternative)

- (a) Mao Zedong
- (b) J.L. Nehru
- (c) M.K. Gandhi
- (d) M.A. Jinnab 1

Ans. (a) Mao Zedong

31. "Some economists believe that the economic reforms have adversely affected the agriculture sector in India." Do you agree with the given statement? Justify your answer with valid reason. 4

Ans. Yes, I agree with the statement. Economic reforms did not benefit the agriculture and the agricultural growth rate has been decelerating.

- (i) Public investment in agriculture sector has been reduced in the reform period due to which irrigation, power, roads, market linkages and agricultural research have suffered.
- (ii) Further, the removal of fertiliser subsidy has led to increase in the cost of production which has severely affected the small and marginal farmers.
- (iii) Globalisation and membership of WTO has resulted in policy changes such as reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions on agricultural products which have increased international competition for Indian farmers making their condition more miserable.
- (iv) There has been a shift from production for the domestic market towards production for the export market because of export oriented policy strategies in agriculture. This has shifted the focus on cash crops in place of production of food grains which has led to a fall in supply of food grains thereby creating pressure on prices of food grains.

**33. What is meant by sustainable development? Discuss briefly any two strategies of sustainable development.** 6

**Ans.** Development that means the need of the present generation without compromising the ability of future generation to meet their own needs is called sustainable development.

**The two main strategies in Sustainable Development are :**

- (i) **Use of Non-Conventional Source of Energy:** The main strategy in sustainable development is to increase the use of non-conventional sources of energy like Solar Energy, Nuclear Energy, etc. so as to reduce the carbon emission of that are caused due to the use of Thermal Energy.
- (ii) **Use of LPG and Gobar Gas in Rural Areas:** LPG and Gobar Gas emit much less carbon dioxide in the atmosphere as compared to the use of coal and wood for cooking. This will enable to reduce the emission of green-house gases as compared to the use of conventional cooking fuels.

