



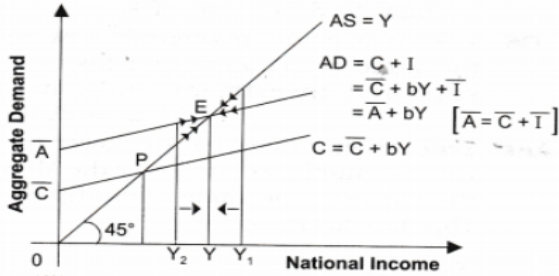
INDIAN SCHOOL AL WADI AL KABIR

First Rehearsal Examination 2023-24

ECONOMICS (030)

Answer Key-(SET-1)

SECTION A: MACRO ECONOMICS		
1	A: b	1
2	A: d	1
3	A: c	1
4	A: a) Credit side of current account	1
5	A: a	1
6	A: a	1
7	A:c	1
8	A: (a) A country uses it against other countries for self interest	1
9	A. Option (b) [$K = 1/1-MPC = 1/1-0.1 = 1/0.9 = 10/9 = 1.1$]	1
10	A: (c) Assertion is true but reason is not	1
11	When there is a rise in the visit of foreign countries by the people in India, the demand for foreign currency increases. With the supply of foreign currency remaining same, the foreign exchange rises, implying a depreciation of rupee.	3
12	Ans. We know, $NDP_{fc} = \text{Compensation of employees (CoE) + Rent + Interest + Profit + Mixed income (if any)}$ $\Rightarrow GDP_{mp} - \text{Depreciation} - \text{NIT} = \text{CoE} + \text{Rent} + \text{Interest} + \text{Profit}$ $\Rightarrow 200 - 50 - 10 = \text{CoE} + 25 + 45 + (20 + 5)$ $\Rightarrow 140 = \text{CoE} + 95$ $= 45$ OR	3

	<p>Ans. Externalities refer to the benefits or harms a firm or an individual cause to another for which they are not paid.</p> <p>Examples of negative externalities are:</p> <p>(i) River pollution created by an oil refinery has disastrous effects on aquatic life.</p> <p>(ii) It reduces the overall welfare of the society and creates negative externality.</p>	
13	<p>a.</p> <p>Yes all the given values are correct</p> $S = -50 + 0.2Y$ $\Rightarrow S = -50 + 0.2(2000) = -50 + 400 = ₹ 350 \text{ crores}$ <p>At equilibrium level of income:</p> $Y = C + S$ $\Rightarrow 2,000 = C + 350$ $\Rightarrow C = 2000 - 350 = 1,650 \text{ (in ₹ crores)}$ $MPC + MPS = 1$ $\Rightarrow MPC + 0.2 = 1$ $\Rightarrow MPC = 1 - 0.2 = 0.8$ <p>b.</p> <p>Price level do not rise before full employment because AS is assumed to be perfectly elastic. Whatever be the level of aggregate demand, AS converges with AD so that AD and AS tends to be equal without causing any change in price level. But when AD increases beyond its full employment level, then the mounting pressure of demand on the existing output casuses a rise in prices.</p>	4
14	<ol style="list-style-type: none"> 1. It refers to the point that has come to be established under the given condition of aggregate demand and aggregate supply, and has tendency to stick to that level under this given condition where Aggregate Demand= Aggregate Supply. 2. If due to some disturbance, we divert from that position, the economic forces will work in such a manner so as to drive us back to the original position, i.e., aggregate demand is equal to aggregate supply.  <ol style="list-style-type: none"> 3. In the above mentioned figure, at point P, income = consumption, which is known as to be a break-even point. The equilibrium level of national income is attained at point E, where aggregate demand = aggregate supply. 4. If due to some disturbance we divert from our position, like when $AD > AS$ [at Y_2], then, production will have to be increased to meet the excess demand. Consequently, national income will increase. As we know positive relationship exists between national income and consumption, so consumption will increase, which will thereby increase the aggregate demand till we reach the equilibrium. 5. As against it, when $AD < AS$ [at Y_1], then there would be stockpiling and producers will produce less. National income will fall and as a result consumption will start falling, which will thereby reduce the aggregate demand till we reach the equilibrium. <p>OR</p>	4

	<p>Why are the banks required to keep only a fraction of deposits as cash reserves? What will banks do if the demand for cash withdrawn is more than cash reserves at some point of time?</p> <p>There are two reasons:</p> <ol style="list-style-type: none"> 1. First, the banking experience has revealed that not all depositors approach the banks for withdrawal of money at the same time, and also that normally they withdraw a fraction of deposits. 2. Secondly, there is a constant flow of new deposits for withdrawal of cash, it is sufficient for banks to keep only a fraction of deposits as cash reserve. <p>Assumptions:</p> <ol style="list-style-type: none"> 1. Let us assume that the entire commercial banking system is one unit. Let us call this one unit simply 'banks'. 2. Let us also assume that all receipts and payments in the economy are routed through the banks. One who makes payment does it by writing a cheque. The one who receives payment deposits the same in his deposit account. <p>Let us now explain the process. Suppose the initial deposit in banks is ₹ 100 and the LRR is 20% (Note: $20\% = \frac{20}{100} = 0.2$). Further, suppose that banks keep only the minimum required i.e. ₹ 20 as cash reserve. Banks are now free to lend the remainder ₹ 80. Suppose they lend ₹ 80. What banks do is to open deposit accounts in the names of the borrowers who are free to withdraw the amount whenever they like. Suppose they withdraw the whole of amount for making payments.</p> <p>Now, since all the transactions are routed through the banks, the money spent by the borrowers comes back into the banks into the deposit accounts of those who have received this payment. This increases demand deposits in banks by ₹ 80. It is 80% of the initial deposit. These deposits of ₹ 80 have resulted on account of loans given by the banks. In this sense, the banks are responsible for money creation. With this round increase in total deposits is now ₹ 180 (=100+80).</p> <p>When banks receive a new deposit of ₹ 80, they keep 20% of it as cash reserves and use the remaining ₹ 64 for giving loans. The borrowers use these loans for making payments. The money comes back into the accounts of those who have received the payments. Bank deposits again rise but by a smaller amount of ₹ 64. The Total deposits now increase to ₹ 244 (=100+80+64).</p> <p>The deposit creation continues in the above manner. The deposit creation comes to an end when total cash reserves become equal to the initial deposit. The total deposit creation comes to ₹ 500, five times the initial deposit as shown in the table below:</p>	
15	<ol style="list-style-type: none"> 1. d 2. c 3. b 4. b 	4
16	<p>a. Public goods are those goods where there is no competition, and the use of goods is not restricted to only one individual. These goods are for use by all individuals in society. Such goods are used for the welfare of society.</p> <p>Therefore, the government should provide public goods for the following reasons So that benefits of the public goods can be enjoyed by all members of the society. So that the consumption of these goods will not impact the consumption of any other individual.</p>	6

b. A fiscal deficit is referred to as a shortfall in the government's income as compared to its spending. A high fiscal deficit means that the government is borrowing more money than it is earning. A higher fiscal deficit creates a burden of loan and interest payments for the future generation.

Fiscal deficit is determined by

Total Expenditure – Total Receipts excluding borrowings

c. A revenue deficit is referred to as an excess of revenue expenditure as compared to earnings by revenue receipts of the government. A fiscal deficit is a bigger phenomenon where the difference is between the total expenditure and total receipts obtained by the government. When the revenue deficit increases correspondingly, the fiscal deficit also increases.

OR

a.

Sol. (a) Revenue Deficit = Revenue expenditure – Revenue receipts 4,000
 = ₹ 11,000 crore – ₹ 8,000 crore
 = ₹ 3,000 crore

(b) Fiscal Deficit = Revenue expenditure + Plan capital expenditure + Non-plan capital expenditure – Revenue receipts – Capital receipts net of borrowing
 = ₹ 11,000 crore + ₹ 13,000 crore + ₹ 9,000 crore – ₹ 8,000 crore – ₹ 15,000 crore
 = ₹ 33,000 crore – ₹ 23,000 crore
 = ₹ 10,000 crore

(c) Primary Deficit = Fiscal deficit – Interest payments
 = ₹ 10,000 crore – ₹ 4,000 crore
 = ₹ 6,000 crore

(a) Revenue deficit = ₹ 3,000 crore.
 (b) Fiscal deficit = ₹ 10,000 crore.
 (c) Primary deficit = ₹ 6,000 crore.

b.

- i. Corporation Tax: Revenue receipts, because it neither creates liability nor leads to reduction in assets
- ii. Dividends on investment made by the Govt: Revenue receipts
- iii. Sale of a public sector undertaking: Capital receipts, because it reduces assets

17 a. Yes, the given statement is correct. In a two-sector economy, the firms produce goods and services and make factors payments to the households. The factor income earned by the households will be used to buy the goods and services which would be equal to the income of firms. The aggregate consumption expenditure by the households in the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy (income of the producers).

b. No. Capital goods are those final goods that help in the production of other goods and services. A machine purchased by a firm will be a capital good when it is used for the production of other goods and services. However, if it is purchased by a firm for resale purposes in the same year, it will be considered as an intermediate good and not a capital good.

c.

Value of Output (in ₹)	Intermediate Consumption (in ₹)	Value Addition (in ₹)
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6

	<p>A 2000 (to B) 1000 (Purchases) 2000 - 1000 = 1000</p> <p>B 2500 (exports) + 1500 (domestic sales) = 4000 2000 (purchased from A) 4000 - 2000 = 2000</p> <p>Total 6000 3000 3000</p> <p>Net Domestic Product at MP = Gross Domestic Product at MP – Consumption of Fixed Capital = 3,000 – 200 = ₹ 2,800</p>	
	SECTION – B: INDIAN ECONOMIC DEVELOPMENT	
18	A: b	1
19	A: d	1
20	A: a	1
21	A: c	1
22	A: d	1
23	A: d	1
24	A: a	1
25	A: a	1
26	A: c	1
27	A: b	1
28	<p>Yes, we do agree with the above statement that the traditional handicrafts industries were ruined under the British times. The following are the reasons in favour of the statement.</p> <p>1. Discriminatory Tariff Policy: The British rule in India corresponded with its industrialisation. The British rule used India both as a source of cheap raw materials as well as easy accessible market for their finished products. Thereby, they imposed heavy tariffs (export duties) on India's export of handicraft products, while allowed free export of India's raw material to Britain and free import of British products into India. This made Indian exports costlier and its international demand fell drastically leading to the collapse of handicrafts industries.</p> <p>2. Competition from Machine made Britain Goods: The demand for the handicraft's products experienced a downward trend in the domestic markets as well. This was due to stiff competition from the machine-made textiles from Britain. This was because of the reason that the goods produced mechanically in Britain were comparatively cheaper and of superior quality than the Indian handicraft goods. This narrowed the market for Indian industries.</p> <p>3. Emergence of New Class: The British rule in India popularized western lifestyle in India. There was an emergence of a new section of population (consisting mainly of zamindars) in India who liked the British goods. This section used to spend lavishly on the British products that provided impetus for the development of British industries at the cost of the domestic industries. Hence, gradually Indian industries perished away.</p>	3

	OR	
	<p>Agricultural sector: Low productivity Surplus labour Industrial sector: Outdated machines No diversification Low capacity Less public investment (Explain)</p>	
29	<p>Organic farming refers to a system of farming that sustains and enhances the ecological balance. In other words, this system of farming relies upon the use of organic inputs for cultivation. The traditional farming involves the use of chemical fertilisers, toxic pesticides, etc. that harms the eco system drastically. So, this type of farming is practiced to produce toxic-free food for the consumers while simultaneously maintaining the fertility of the soil and contributing to ecological balance. This type of farming enables eco friendly sustainable economic development.</p>	3
30	<p>China is moving ahead of India and Pakistan in terms of Human Development indicators as shown below: HD Indicators India China Pakistan Life expectancy 68.8 76.4 66.6 People below poverty line 60.4 23.5 46.4 Infant Mortality Rate 34.6 8.5 64.2 Maternal Mortality Rate 174 27 178 Following are some of the reasons for growth in economic development in China. •Establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralised planning and existence of small enterprises helped positively in improving the social and income indicators in the post reform period. •Through the commune system, there was more equitable distribution of food grains. •Each reform measure was first implemented at a smaller level and then extended on a massive scale. •The experimentation under decentralised government enabled to assess the economic, social, and political costs of success or failure. For instance, when reforms were made in agriculture by handing over plots of land to individuals for cultivation, it brought prosperity to a vast number of poor people. It created conditions for the subsequent phenomenal growth in rural industries and built up a strong support base for more reforms.</p>	4
31	<p>a. False, Labour Force - It refers to the number of persons actually working or willing to work. It does not depend upon the wage rate and is measured in terms of number of days. Workforce - It refers to the number of persons actually working. This measure does not include those persons who are willing to work but are not getting work.</p> <p>b. The following are the various steps initiated by the Indian government to develop the rural markets: 1. Regulated Markets: The government came up with the concept of regulated market where the sale and purchase of the products are monitored by the Market Committee. This Market Committee consists of farmers, government agents and traders. This infuses greater transparency in the marketing system through the use of proper scales and weights. Such committees ensure the farmers and the consumers in receiving fair price in exchange of their products</p>	4

	<p>2. Infrastructure Development: The present infrastructure is not sufficient to meet the growing demands of the farmers. The government of India has provided cold storages and warehouses that help the farmers to sell their product at the time when the price is attractive. Also, railways offer subsidised transport facilities to the farmers. This enables the farmers to bring their product to urban areas where they can earn huge profits.</p> <p>3. Co-operative Agricultural Marketing Societies: The government also started co-operative marketing under which the farmers get access to fair prices. This is due to the better and enhanced bargaining power of the farmers via collective sale in the market.</p> <p>4. MSP Policy: Minimum Support Price is a minimum legislated price that a farmer may charge in exchange of his products. This enables them to sell their products in the open market at a higher price. The MSP insulates the farmers in case of price fall as this is the minimum price that they can receive. Given the uncertainties faced by the farmers, the need of such assurance to them is of immense importance.</p> <p style="text-align: center;">OR</p> <p>Though we have witnessed slow growth of employment, scholars say that in India, people cannot remain completely unemployed for very long because their desperate economic condition would not allow them to be so.</p>	
32	<p>Formal sector</p> <ul style="list-style-type: none"> • Direct generation of employment opportunities: The Government employs people in various departments for administrative purposes. It also runs industries, hotels and transport companies and hence provides employment directly to workers. • Indirect generation of employment opportunities: When the output of goods and services from government enterprises increases, then private enterprises which receive raw materials from government enterprises will also raise their output and hence increase the number of employment opportunities in the economy. This is the indirect generation of employment opportunities by the government initiatives in the economy. 	1+3
33	<p>a. The new agricultural strategy implied use of better and improved inputs of agriculture which required more capital. Green Revolution would have benefitted only the rich farmers if the government had not played an important role in ensuring that the small farmers should also gain from the new technology. The government provided loans at low rate of interest. The fertilisers and High Yielding Varieties (HYVs) of seeds were subsidized. Easy and cheap credit was made available to the farmers so that they could buy expensive farm equipment and machinery.</p> <p>b. Land ceiling means fixing the maximum size of land which could be owned by an individual, beyond which it would be taken over by the government and would be allotted to landless and small farmers. The purpose of land ceiling was to reduce the concentration of land ownership in few hands and promote equity</p> <p style="text-align: center;">OR</p> <p>a.</p> <ul style="list-style-type: none"> . Lack of coordination: The land reform policy in India is being implemented at a slow pace and also in an uncoordinated manner leading to a total delay in implementing the reforms. Differences in the Laws related to Land Reforms: The laws related to land reforms have differences in different states. <p>b. The motive of the Indian Government behind the merger of MTNL and BSNL (the two loss-incurring businesses) are as follows:</p>	3+3

	<ul style="list-style-type: none"> • Achievement of higher economic and functional efficiency: As both businesses are incurring losses which might be due to a lack of efficient management, by merging them the Government aims at achieving proper and functional efficiency in the company by combining their resources (human and capital). With higher efficiency, the companies can ultimately help in economic efficiency and growth. • Minimise possible losses: Both businesses are incurring losses which can be minimised by combining them, their funds, resources, skilled personnel, etc. In simple terms. the resources lacking in one business can be rectified by the better resources of the other. • Increase Competitiveness: Individually both businesses are not providing any competitiveness among other businesses in the industry. By combining them and their resources, the Government aims at increasing competitiveness in the industry 	
34	<p>1. A: d</p> <p>2.</p> <p>a. Absorptive capacity of the environment means the ability of the environment to absorb degradation.</p> <p>b. Carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the wastes generated are within the assimilating capacity of the environment.</p> <p>3.</p> <p>Important causes of environmental degradation are as follows:</p> <ul style="list-style-type: none"> • Population explosion and industrial revolution have increased the demand for environmental resources, but their supply is limited due to misuse and overuse. • The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of the vital resources. • Extinction of many resources and the continuous rising population has also resulted in an environmental crisis. • Due to affluent consumption and production standard of the developed world, the waste generated is beyond the absorptive capacity of the environment. • The development process has polluted the environment, water and atmosphere and there is a decline in air and water quality. It has resulted in an increased incidence of respiratory and water-borne diseases. 	1+2+3