



**INDIAN SCHOOL AL WADI AL KABIR
DEPARTMENT OF COMMERCE**

CLASS -XII- ASSESSMENT- I -2023-24

DATE: /09/2023

ANSWER KEY-ECONOMICS (030)

MARKS: 80

| Q. No. | SECTION A: MACRO ECONOMICS | Marks |
|--------|---|-------|
| 1 | A: c | 1 |
| 2 | A: d | 1 |
| 3 | A: a | 1 |
| 4 | A: b | 1 |
| 5 | A: c | 1 |
| 6 | A: c | 1 |
| 7 | Government receipts, that either creates liabilities (of payment of loan) or reduce assets (on disinvestment) are called capital receipts. Sources: a. Borrowings b. Disinvestment | 1 |
| 8 | A: a | 1 |
| 9 | A: b | 1 |
| 10 | A: a | 1 |
| 11 | Many individuals opened their savings account in the bank. This paved the way to commercial banks to provide loans for investment activities. Thus, an economy increases the production level which leads to an increase in the level of national income. <p style="text-align: center;">OR</p> No. Cash transfer of subsidy is to be treated as transfer payment. Of course, it increases the annual income of the HHs. But the increase is not related to the factor services rendered by HHs. Accordingly, transfer of cash subsidy does not mean an increase in domestic income of India. | 3 |

| | | |
|----|--|-----|
| 12 | <p>In the given diagram, CC' is the consumption curve which shows autonomous consumption equal to OC at zero level of income and consumption equal to income at OA level of income.</p> <ul style="list-style-type: none"> * At zero level of income, saving expenditure is equal to OS which is equal to autonomous consumption of OC at that level of income. So, S is the starting point of savings curve. * At OA level of income, consumption expenditure must be equal to OD=OA so Savings are zero at OA level of income as the whole of Income is spent on consumption. This gives a point A on the savings curve. * By joining S and A and extending it further, we get savings curve. | 3 |
| 13 | <p>a. Though it seems reasonable to treat a person's income level as his or her level of well-being in terms of greater availability of goods and services because of more purchasing power, but welfare is a much broader concept. So not fully correct.</p> <p>b. GDP is often used as an index to measure the welfare of people. Welfare here refers to the sense of material well-being amongst people. The welfare of people depends upon the per head availability of goods and services. It means that higher GDP is good for a country, as it indicates greater welfare for the people.</p> | 4 |
| 14 | <p>a. A government budget is an annual financial statement showing item-wise estimates of expected revenue and anticipated expenditure during a fiscal year.</p> <p>Objectives: Economic stability Reallocation of resources (any other points)</p> <p>b. Tax Revenue: Direct tax Indirect tax (Explain)</p> | 2+2 |
| 15 | <p>The maximum value of the investment multiplier is infinity when the value of MPC is 1.</p> $K = \frac{\Delta Y}{\Delta I} = \frac{1}{1-b} = \frac{1}{1-mpc} = \frac{1}{mps}$ <p>When MPC = 1, K = infinity</p> <p>The minimum value of the investment multiplier is 1 when the value of MPC is 0.</p> $K = \frac{\Delta Y}{\Delta I} = \frac{1}{1-b} = \frac{1}{1-mpc} = \frac{1}{mps}$ <p>When MPC = 0, K = 1</p> | 4 |

OR

(i) $Y = C + I$
 Where $C = 100 + 0.4Y$ and I is ₹ 1,100
 $\therefore Y = 100 + 0.4Y + 1,100$
 $= 1,200 + 0.4Y$
 or $0.6 Y = 1,200$
 $\therefore Y = \frac{12,000}{6} = ₹ 2000$
 (ii) $C = 100 + 0.4Y$ (Given) $= 100 + 0.4 \times 2,000$
 $= 100 + 800 = ₹ 900$

16

a. Deficit budget
 b.

1+3+2

(a) Revenue deficit = (ii) - (iv)
 $= 100 - 70 = ₹ 30$ Arab
 (b) Fiscal deficit = [(i) + (iii) + (ii)] - [(iv) + (v)]
 $= 120 + 80 + 100 - [70 + 140]$
 $= 300 - 210 = ₹ 90$ Arab
 (c) Primary deficit = Fiscal deficit - (vi)
 $= 90 - 30 = ₹ 60$ Arab.

c. Explain

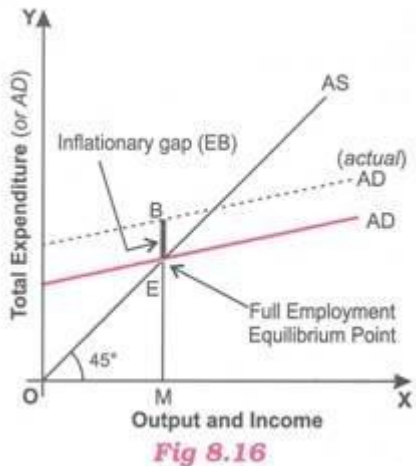
17

Ans. Investment multiplier is the change in final income.
 Now explaining its working by using a numerical example:
 Suppose $\Delta I = ₹ 100$ crores
 $MPC = 0.8$
 Initial investment of 100 crores raises the income by ₹ 100 crores.
 In the first round, this additional income causes an increase in consumption expenditure, which in turn generates more income (as one man's expenditure is another man's income). This process continues till the total income is equal to multiple times the initial investment.

| Round | ΔY | ΔC | ΔS ($\Delta Y - \Delta C$) |
|--------------|------------|------------|---|
| I | 100 | 80 | 20 |
| II | 80 | 64 | 16 |
| III | 64 | 51.2 | 12.8 |
| : | : | : | : |
| : | : | : | : |
| : | : | : | : |
| Total | 500 | 400 | 100 |

$k = \frac{1}{1 - MPC}$
 $k = \frac{1}{1 - 0.8} = \frac{1}{0.2}$
 $= 5$
 So, $\Delta Y = k \cdot \Delta I$
 $= 5 \times 100$
 $\Delta Y = ₹ 500$ [Explanation without schedule is also acceptable]

6

| | | |
|---|--|---|
| | <p>Inflationary gap:</p>  <p>Explain Repo rate: Define and Explain.</p> | |
| SECTION B: INDIAN ECONOMIC DEVELOPMENT | | |
| 18 | A: d | 1 |
| 19 | A: d | 1 |
| 20 | A: b | 1 |
| 21 | Land-ceiling is a policy of land-reform, under which the maximum size of the agricultural land that can be hold by a landowner is fixed. | 1 |
| 22 | A: d | 1 |
| 23 | A: b | 1 |
| 24 | A: c | 1 |
| 25 | A: b | 1 |
| 26 | A: b | 1 |
| 27 | Ans: c | 1 |
| 28 | By import substitution, the government protected the domestic industries from foreign competition. | 3 |

| | | |
|----|--|---|
| | <p>Protection from import took two forms:</p> <ol style="list-style-type: none"> Tariffs – are a tax on imported goods. They make imported goods more expensive and thus discourage their use. Quotas – specify quantity of goods which can be imported. <p>By these two means, domestic firms were protected from foreign competition.</p> | |
| 29 | <p>Agricultural Marketing is defined as a process of marketing farm produce through wholesalers and stockiest to ultimate consumers.</p> <p>Defects of Agricultural Marketing are:</p> <ol style="list-style-type: none"> Inadequate Warehouses Multiplicity of Middlemen Malpractices in Unregulated Markets Improper Measuring for Weighing, Grading and Standardisation Lack of Adequate Finance Inadequate means of Transport and Communication Inadequate Market Information. | 3 |
| 30 | <p>The economic justification of subsidies in agriculture at present is a debatable question. It is generally agreed that it was necessary to use subsidies to provide an incentive for adoption of the new technology by farmers in general and small farmers in particular. Some economists believed that once technology is found profitable, adopted subsidies should be stopped. Further the subsidies are meant to benefit the farmers and among the farmers it benefits largely those farmers in more prosperous regions. Therefore, it is argued that there is no point of continuing subsidies as it does not benefit the target groups. On the other hand, some believe that government should continue with agriculture subsidies because farming in India is important and most farmers are very poor and will not be able to afford required input so eliminating subsidies will increase inequality between rich and poor farmers. As a result, experts argue that subsidies should be given and see that the poor farmers enjoy the benefits.</p> | 4 |
| 31 | <ol style="list-style-type: none"> In India wages are low and skilled workers are more. There is a revolutionary growth of IT industry in India. <p>* Thus, India is able to take advantage of competitiveness of the manpower.</p> <p>* most of the MNC s and even small companies are outsourcing their services to India where they can get their jobs done at a cheaper cost with a reasonable skill and accuracy.</p> | 4 |
| 32 | <p>Education is an important source of human capital formation. Investment in education stimulates economic development in the following ways:</p> <ol style="list-style-type: none"> Raises production. Knowledgeable and skilled workers can make better use of resources at their disposal. It will increase production in the economy. An educated and trained person can apply his knowledge and skill at farm, factory and office to increase production. Raises efficiency and productivity. Investment in education increases efficiency and productivity, and hence yields higher income to the people. Brings positive changes in outlook and attitudes. Knowledgeable and skilled people have modern outlook and attitudes, that they make rational choice in respect of places and jobs. Improves quality of life. Education improves quality of life as it provides better job, high income and improves health. It results in better standard of living. <p>NCERT n UGC</p> <p style="text-align: center;">OR</p> | 4 |

| | | |
|----|--|-----|
| | <p>Human capital is a stock of skill and expertise of a nation at a particular point of time. The contribution of human skills and expertise towards economic growth and development is invaluable</p> <p>i. Investment in Educational Sector: Education not only raises the standard and quality of living but also encourages modern attitude of the people. Moreover, education increases the productive capacity and productivity of a nation s workforce by honing their skills. Further, education increases the acceptability of modern techniques and also facilitates a primitive economy to break the shackles of tradition and backwardness. An investment in educational sector has two fold benefits. It not only increases the income earning capacity but also reduces the skewed distribution of income thereby forming an egalitarian society. The investment in educational sector has long lasting returns. It not only enhances the present economic condition but also improves the future prospects of a country. The importance of education is not only limited to making people educated. but also in facilitating an underdeveloped economy to solve different but interrelated macro economic problems like, poverty, income inequality, population, investments, under utilisation of resources. Therefore, investment in education must be accorded high priority in an underdeveloped country as it leads to the enhancement of human capital qualitatively.</p> <p>ii. Investment in Health Sector: There is a saying the greatest wealth is health The wealth of a country can be increased with the efforts of healthy workforce. Investment in health sector increases efficiency, efficacy and productivity of a nation workforce. In contrast to an unhealthy person, a healthy person can work better with more efficiency and, consequently, can contribute relatively more to the GDP of the country. Good health and medical facilities not only increase life expectancy but also improves quality and standard of life. Investment in health sector ensures the perennial supply of healthy workforce. Some of the common expenditures incurred in the health sector are on providing better medical facilities, easy availability of life saving drugs, common vaccination, spread of medical knowledge, provision of proper sanitation and clean drinking water, etc. Thus, the expenditure incurred on health is important in building and maintaining a productive work force that in turn leads to the development of quality human capital in a country.</p> | |
| 33 | <p>a.</p> <ul style="list-style-type: none"> • A: The PSUs which are making profit should not be privatized. • Privatization implies shedding off ownership of a government owned enterprise. • The public sector’s main motive is social or economic welfare of the people and the private sector’s main motive is to earn profit even at the cost of public welfare. • So, those PSUs which are making profit should never be privatized or it will damage the interest of the poor section of the society. • We can achieve growth with justice only through the participation of the public sector. • It is essential to privatize only those PSUs which are making losses. <p>b. A set of economic policies directed to achieve improvement</p> | 3+3 |

in economic efficiency.

High fiscal deficit

b. BPO crises and fall in forex reserves

c. Rise in price

d. Inefficiency of public sector enterprises

e. The government was not able to repay its external debt.

* Due to the above reasons India was facing problem of declining foreign exchange, growing imports, high inflation.

* In order to deal with the financial crisis and pressure from financial institutions like World Bank and IMF, India had to adopt the 1991 New Economic Policy.

OR

a.

| (ii) | Bilateral Trade | Multilateral Trade |
|------|---|--|
| a) | It is a trade agreement between two countries | It is a trade agreement among more than two countries. |
| b) | This is an agreement that provides equal opportunities to both the countries. | This is an agreement that provides equal opportunities to all the member countries in the international market |

b.

RBI used to control and regulate all the banks and other financial institutions in India prior to 1991. The RBI used to decide the amount of money that the banks can lend and the amount they should keep as reserves, determine the interest rates and prioritise lending to various sectors apart from regulating foreign exchange. However, all this changed with the declaration of the New Industrial Policy (NEP). One of the major aims of the financial sector reforms was 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 the establishment of private sector banks. Banks were given freedom to set up new branches and determine the rate of interest to be offered on various deposits. Banks have been given permission to generate resources from India and abroad through capital market. All this has led to substantial growth in the financial sector.

| | | |
|----|---|-----------------|
| | <p>C.</p> <p>The economic reforms of 1991 did not benefit the agricultural sector significantly. The following are the reasons that explain the adverse effects of the economic reforms on India's agriculture sector:</p> <p>1. Reduction of Public Investment: There has been a drastic decrease in the volume of public investment in the agricultural sector. There has been an acute cutback from the Indian government to provide sufficient irrigation facilities, electricity, information system, market linkages and roads. Moreover, investment in agricultural research and development was not as extensive as it was during green revolution phase</p> <p>2. Removal of Subsidies: Removal of subsidies on fertilisers pushed up the cost of production of agriculture. This made farming more expensive, thereby, adversely affecting the poor and marginal farmers.</p> <p>3. Liberalisation and Reduction in Import Duties on Agricultural Products: Due to adherence to the WTO commitments, Indian government reduced import duties on agricultural products that forced the poor and marginal farmers to compete with their foreign counterparts in the international markets. Stiff competition in the international market along with traditional techniques of farming badly affected the poor farmers.</p> <p>4. Shift towards Cash Crops and Lack of Food Grains: The export oriented production strategies led to the shift of agricultural production from food grains to the production of cash crops like cotton, jute, etc. This led to reduced availability of food grains and, consequently, t lower nutritional values which further reduced their productivity.</p> <p>5. Inflationary Pressures on Food Grains: The shift towards cash crops production along with the removal of subsidies exerted inflationary pressures on the prices of food grains. This in turn adversely affected the agricultural sector's performance by making the cost of producing food grains more expensive.</p> | |
| 34 | <p>Ans:</p> <p>1-B 2-B</p> <p>3. Animal husbandry is the most important non-farm employment in India. It is also known as Livestock Farming. Poultry, cattle and goats/sheep are the important components of livestock farming in India. Most of the rural families carry out livestock farming together with crop farming in order to increase their income. The share of livestock farming is comparatively higher in the semi-arid and arid areas than the irrigated areas. This is because the arid areas have lesser access to irrigation facilities and thereby, crop farming is less feasible. Thus, in other words, it can be said that livestock farming provides sustainable livelihood to the people in the semi-arid and arid regions where farming can be performed well. Further, capital investment in livestock farming is comparatively less than that in crop farming. In addition, livestock farming is an important source of employment for rural women. Presently, animal husbandry is the most important source of alternative employment, employing approximately 70 million small and marginal farmers. Besides providing employment, livestock farming has resulted in increased production of milk, eggs, meat, wool and other by-products, enhancing the consumption bundle qualitatively and nutritionally.</p> <p>4. Diversification into non-farm activities is important because it will:</p> <ul style="list-style-type: none"> • reduce the risk from agriculture sector. • provide sustainable livelihood options to people living in villages. • provide ecological balance | 1+1+2 +2 |