



INDIAN SCHOOL AL WADI AL KABIR

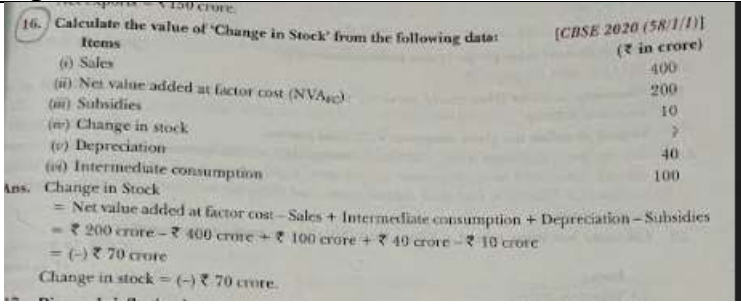
First Rehearsal Examination 2022-23

SUB: ECONOMICS (030)

Answer Key

Class: XII

Maximum Marks: 80

Q.No	SECTION- A: MACRO ECONOMICS	Marks														
1	d	1														
2	d. Number of students going to UK for higher studies will increase. Explanation: When price of \$ falls, it becomes cheaper to go abroad for higher education. No. of students going abroad will rise, leading to a rise in demand for British pound.	1														
3	d	1														
4	b	1														
5	Option b Or: Option a	1														
6	Option b	1														
7	a) 1,2 and 4 are correct, 3 is a wrong statement	1														
8	A: b Soln: Current account balance = Balance of visible trade (Export of goods – Import of goods) + Balance of invisible trade = 18000 OR A: Rs 300 lakh Soln: Balance on non-factor services = Current account balance – Trade balance (Export – Import) – Balance on income – Balance on transfers = 300	1														
9	Option c	1														
10	Option d	1														
11	 <p>16. Calculate the value of 'Change in Stock' from the following data: [CBSE 2020 (58/1/11)]</p> <table><thead><tr><th>Items</th><th>(₹ in crore)</th></tr></thead><tbody><tr><td>(i) Sales</td><td>400</td></tr><tr><td>(ii) Net value added at factor cost (NVA_{FC})</td><td>200</td></tr><tr><td>(iii) Subsidies</td><td>10</td></tr><tr><td>(iv) Change in stock</td><td>?</td></tr><tr><td>(v) Depreciation</td><td>40</td></tr><tr><td>(vi) Intermediate consumption</td><td>100</td></tr></tbody></table> <p>Ans. Change in Stock = Net value added at factor cost – Sales + Intermediate consumption + Depreciation – Subsidies = ₹ 200 crore – ₹ 400 crore + ₹ 100 crore + ₹ 40 crore – ₹ 10 crore = (-) ₹ 70 crore Change in stock = (-) ₹ 70 crore.</p> OR	Items	(₹ in crore)	(i) Sales	400	(ii) Net value added at factor cost (NVA _{FC})	200	(iii) Subsidies	10	(iv) Change in stock	?	(v) Depreciation	40	(vi) Intermediate consumption	100	3
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(vi) Intermediate consumption	100															

12. Firm A spent ₹ 500 on non-factor inputs and produced goods worth ₹ 900. It sold goods worth ₹ 600 and ₹ 300 to Firm B and consumer households respectively. Find out Gross Value Added by Firm A.

Gross Value Added by Firm A
 = Value of goods produced (Sold to firm B + Sold to consumer households) - Value of non-factor inputs
 = ₹ 900 (₹ 600 + ₹ 300) - ₹ 500
 = ₹ 400

Gross value added by firm A = ₹ 400.

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Basis	Devaluation	Depreciation
Meaning	Devaluation is the fall in the value of the domestic currency in relation to foreign currency under the fixed exchange rate regime. It is planned by the Government in a situation when the exchange rate is not determined by the forces of demand and supply.	It occurs when the value of domestic currency decreases in relation to the value of foreign currency in the foreign exchange market under the flexible exchange rate regime. It takes place due to market forces of demand and supply.
Example	The government has changed the exchange rate of \$1 from Rs. 40 to Rs. 45. This is an example of the devaluation of currency made by the government.	The increase in demand or decrease in supply for the foreign exchange causes depreciation of domestic currency, e.g. \$1 exchanges rate is Rs. 45 instead of Rs. 40 due to the market forces of demand and supply. Here there is no government intervention. The depreciation is happening solely due to the effect of changes in demand and supply for the foreign exchange.

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When there is an excess of receipts over payments made by a country, it is called favourable balance of payment. This situation is favourable because there is more money coming into the country than what is going out of the country. Favourable balance is when $R > P$. or $R - P > 0$.

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Suppose the original savings function is given as,
 $S = -50 + 0.5Y$ and investment $(I) = 25 + 0.25Y$.
 Equilibrium level of income will be attained at the level where
 Saving = Investment ! $-50 + 0.5Y = 25 + 0.25Y$
 $0.25Y = 75$ $Y = 300$
 Therefore, savings at $Y=300$ will be $S = -50 + 0.5 (300) = 100$
 ii. Multiplier =2
 iii. Min value:1
 Maximum value: infinity

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14

13. "To boost the falling demand in the economy, the Reserve Bank of India recently reduced the Bank Rate." Elaborate the rationale behind the steps taken by the Central Bank.

Bank rate is the rate at which the Reserve Bank of India lends money to the commercial banks. To boost the falling demand in the economy, bank rate is decreased. As a follow-up action, the commercial banks lower the market rate of interest (the rate at which the commercial banks lend money to the consumers and the investors). This increases demand for credit. Consequently, consumption expenditure and investment expenditure are increased. Implying an increase in aggregate demand, as required to boost falling demand in the economy.

"To boost the falling demand in the economy, the Reserve Bank of India recently reduced the Cash Reserve Ratio." Elaborate the rationale behind the steps taken by the Central Bank.

Cash reserve ratio (CRR) requires the commercial banks to maintain certain minimum cash reserves with the Reserve Bank of India, as a percentage of their total deposits. To boost the falling demand in the economy, CRR is reduced. A cut in the cash reserve ratio raises credit creation capacity of the commercial banks. Because a cut in the cash reserves with RBI raises cash balances with the commercial banks. And a rise in cash balances with the banks causes a multiple-times rise in their demand deposits (implying creation of credit by the commercial banks). Accordingly, flow of credit in the market is increased; aggregate demand is increased, as required to boost falling demand.

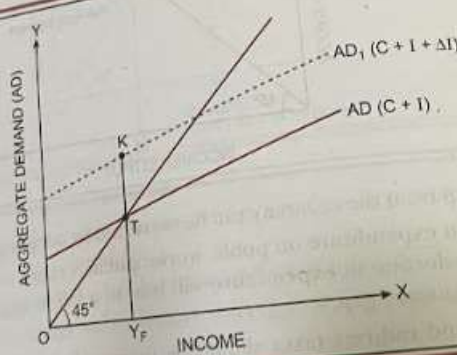
(Choose the correct alternative)

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

FIGURE 9



15. In the given figure, 'KT' represents excess demand or inflationary gap. Excess demand, also known as inflationary gap, occurs when aggregate demand is greater than aggregate supply corresponding to full employment level in the economy. Excess demand from the economy can be corrected by adopting following two measures:

- (i) **Reduction in Government Expenditure:** Government expenditure on public works, public welfare and public investment should be reduced. Reduction in expenditure will lead to fall in aggregate demand.
- (ii) **Increase in Taxes:** The direct and indirect taxes should be increased. It will lead to decrease in disposable income and thereby, decrease in demand.

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16

How is Real Gross Domestic Product (GDP) different from Nominal Gross Domestic Product (GDP)? Explain using a numerical example. [CBSE 2019 (58/4/1)]

Real GDP (Gross Domestic Product) is the market value of the final goods and services produced within the domestic territory of a country during an accounting year, estimated using the base year prices. Base year is the year of comparison.

Nominal GDP (Gross Domestic Product) is the market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated using the current year prices. Current year prices are the prices prevailing during the year of estimation.

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

If real GDP = ₹ 600 and price index = 110, then

$$\begin{aligned} \text{Nominal GDP} &= \text{Real GDP} \times \frac{\text{Price Index}}{100} \\ &= 600 \times \frac{110}{100} \\ &= ₹ 660 \end{aligned}$$

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6. What precautions are necessary while estimating national income by expenditure method?

Ans. The following precautions are to be taken while estimating national income by expenditure method:

- Only final expenditure is to be taken into account to avoid error of double counting on intermediate goods (also called intermediate expenditure) is not to be included.
- Expenditure on second-hand goods is not to be included.
- Expenditure on shares and bonds is not to be included.
- Expenditure on transfer payments (called transfer expenditure) is not to be included.
- Expenditure on self-use of own produced goods (like the farmer using wheat or the house-owner using his own house) should be included.

Briefly, expenditure on only final goods and services is to be taken account while estimating national income. Expenditure on intermediate goods is to be considered only as intermediate consumption.

7. Is net of exports...

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Ans. Revenue receipts: The receipts of government which neither create any corresponding liability of the government, nor it create any reduction in assets, are termed as revenue receipts, e.g. tax receipts of the government.

Capital expenditure: The expenditure by the government which leads to an increase in government assets and reduction in government liabilities, is termed as capital expenditure, e.g. expenses on construction of national highways, dams and repayment of loans, etc.

Ans. The economic value reflected by the above act of the government is 'Promoting Social Welfare'. The government uses the fiscal instruments of subsidies and taxation to improve the distribution of income and wealth in the economy. By spending more on provision of free services like education, health, government is trying to promote social justice. Social justice is the principal objective of the budget of a developing country like India. It leads to fair and equitable distribution of income in the economy.

OR

a. Government has started spending more or providing free services like education and health to the people. Explain the economic value it reflects.

b. Give meanings of revenue receipts and capital expenditures with one example for each.

Ans. Revenue receipts: The receipts of government which neither create any corresponsibility for the government, nor it create any reduction in assets, are termed as revenue receipts, e.g. taxes, etc.

Capital expenditure: The expenditure by the government which leads to an increase in government liabilities, is termed as capital expenditure, e.g. expenses on national highways, dams and repayment of loans, etc.

Ans. The economic value reflected by the above act of the government is 'Promoting the growth of the economy'. The government uses the fiscal instruments of subsidies and taxation to improve the distribution of wealth in the economy. By spending more on provision of free services like education, health, etc., the government is trying to promote social justice. Social justice is the principal objective of annual budget in a country like India. It leads to fair and equitable distribution of income in an economy.

OR

A: a. Surplus budget is that budget in which estimated government receipts are more than estimated expenditure.

or

Surplus Budget = estimated Receipts > estimated Expenditure.

a. Fiscal deficit is always a wider concept than revenue deficit.

b. Revenue deficit is defined as the excess of government's revenue expenditure over revenue receipts. In terms of formula:

Revenue Deficit = Revenue Expenditures (RE) – Revenue Receipts (RR)

c. In short, there will be revenue deficit in a government budget when revenue expenditure is more than revenue receipts.

d. Fiscal deficit is defined as the excess of total budget expenditure over total revenue receipts.

e. Initially, Fiscal deficit does not take into account all types of receipts. It does not include borrowing. But finally they have to depend on borrowing to meet fiscal deficit.

Fiscal Deficit = Revenue Deficit + Capital Deficit (Excluding Borrowing)

= Borrowing

= Net borrowing at home + Borrowing from RBI + Borrowing from abroad

c. The deficit in a government budget can be reduced by the following step:

a. Taxes should be increased. Government can make a plan for rising direct taxes. Direct taxes can also be raised by increasing rates of taxes or by imposing new taxes. Direct taxes are preferred because their cost of collection is quite lower.

b. Reduction in Government Expenditures: It can be done through making government services more efficient through better planning of programmes and better administration.

c. Disinvestment – The government can raise its receipts through the sale of state-owned undertakings (Disinvestment).

d. Changing the scope and role of government by withdrawing from some areas.

SECTION B: INDIAN ECONOMIC DEVELOPMENT

18	A: a	1
19	A: Human capital	1
20	A: c	1
21	Agricultural diversification refers to change in cropping pattern and/ or a shift of workforce from agriculture to other allied activities and non-agriculture sector. OR A: c	1
22	A: b	1
23	A: d OR	1

	A: c	
24	A: c	1
25	A: c	1
26	A: a	1
27	A: a	1
	OR	
	A: c	
28	<p>(i) False. Labour force is different from workforce. Labour force refers to the number of people who are able to work and willing to work at the existing wage rate. Workforce, on the other hand, refers to the number of people who are actually engaged in employment.</p> <p>(ii) True. Lower employment among women in India points to our economic and social backwardness. It leads to economic backwardness, because the economy fails to generate enough jobs. It leads to social backwardness, because job work for the women is considered as a social taboo.</p>	3
29	<p>The main causes of India's agricultural stagnation during the colonial period were:</p> <p>(i) Land revenue system under the British rule The Britishers in India established the zamindari system. Under this system, the zamindars were the permanent owners of the land. For their ownership rights, they were required to pay a fixed sum to the government as land revenue and they were given full freedom to charge any revenue they wanted from the tillers. The zamindars had lavish and extravagant lifestyles and they mercilessly exploited the poor tillers and did nothing for their upliftment.</p> <p>(ii) Lacking of resources Because the tillers had to pay huge amount of rent, referred to as 'Lagaan', they were not left with any surplus to be able to provide for resources needed in agriculture in the form of fertilisers or providing for irrigation facilities. This further lowered the agricultural productivity.</p> <p>(iii) Commercialisation of agriculture Instead of producing food crops, farmers were producing cash crops, which were ultimately used by British industries. This further compounded the plight of the tillers. While earlier they were growing crops to meet their family needs, now they had to purchase from the market. This led to an increase in indebtedness and they were constantly borrowing from moneylenders and landlords at very high rate of interests. Production of indigo is a good example of the same.</p>	3
30	<p>The main non-farm activities for increasing rural income are:</p> <p>(i) Animal Husbandry also called livestock farming, (ii) Fisheries, and (iii) Horticulture.</p> <p>By taking up non-farm activities, the farmers can increase their income without incurring extra labour cost. This is because of the fact that there is lot of disguised unemployment in Indian farming sector. In case, some labour force is withdrawn from the existing farm activities and employed in non-farming activities, farm production is not going to reduce while, on the other hand, non-farm activities of production are expected to generate income.</p> <p>However, the government must provide the farmers enough credit facilities so that they are able to undertake non-farm activities as a supplement source of income.</p>	4
31	<p>A: b:</p> <p>The following are the two-fold motive behind the systematic de-industrialisation affected by the British</p> <p>(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.</p> <p>(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</p>	4

	<p>industries, so that their industries never face a demand shortage and could keep on flourishing.</p> <p>A: a</p> <p>Under the British rule, basic infrastructures such as railways, ports, water transport, postage and telegraph developed, but the objective behind the development of infrastructure was not to provide basic amenities to the people but to cater to their colonial interests.</p> <p>The objectives of the Britishers behind the development of infrastructure were</p> <ul style="list-style-type: none"> • Roads were developed for the purpose of mobilising armies and transporting raw materials to the nearest railway station or port. • Railways was developed to encourage commercialisation of agriculture. <p>Postage and telegraph were introduced to enable them to control the large sub-continent.</p>	
32	<p>Write about Self reliance</p> <p style="text-align: center;">OR</p> <p>A: b</p> <p>Foreign trade refers to the exchange of goods and services among different countries.</p> <p>In the first seven Five Year Plans, India followed an inward looking trade strategy. This strategy aimed at replacing or substituting imports with domestic production, i.e. instead of importing goods made in a foreign country, industries would be encouraged to produce them in India itself. This concept is referred to as import substitution. Thus, the government protected the domestic industries from foreign competition through this policy.</p> <p>Protection from imports took two forms</p> <ul style="list-style-type: none"> • Tariffs, i.e. a tax on imported goods to make imported goods more expensive and discourage their use. • Quotas specify the quantity of goods which can be imported. <p>The policy of import substitution provides protection to domestic industries from foreign competition. The rationale for this policy is that industries of developing countries like India are not in a position to compete against the goods produced by developed economies. It is assumed that if the domestic industries are protected in the infant stage, they will gain strength by being able to produce on large scale and through experience they will be able to compete globally in the course of time.</p>	4
33	<p>1,</p> <p>Workforce refers to the number of persons actually working and does not account for those who are willing to work but not able to get any work.</p>	1+3+1+ 1

s. It is necessary to generate employment in the formal sector rather than in the informal sector because workers and enterprises in the informal sector do not get regular income. They also do not have any protection or regulation from the government. Workers in this sector can get dismissed without any compensation. i.e., no job security.

- Technology used in the informal sector enterprises is outdated and they also do not maintain proper accounts.
- Workers of the informal sector live in slums and are squatters.

Thus for qualitative employment more employment should be generated in the formal sector.

2.
3. Micro Small Medium Enterprises
4.A: a

34

A: b:

Subsidy is an economic benefit, direct or indirect, granted by a government to domestic producers of goods or services, often to strengthen their competitive position against foreign companies.

It helps farmers to buy HYV seeds, fertilizers and other inputs. The burden of granting subsidies falls on the government. The government has to bear the burden of financing subsidies.

There is scope for improving the resource use efficiency by reducing subsidies and aiming them better to small farmers and regions lagging behind.

A: a

Green Revolution. This strategy, which was launched in October 1965, has been given different names such as, New Agricultural Strategy (NAS), or Seed-Fertilizers Water Technology.

Before adopting the New Agricultural Strategy (NAS), the state of Indian agriculture was as follows:

- (a) there was low and erratic growth,
- (b) there was extreme regional unevenness and growing interclass inequality,
- (c) there were serious droughts for two consecutive years
- (d) there was a war with Pakistan
- (e) USA denied India PL 480 imports.

India decided to get rid of this dependence on foreign aid in such a vital matter as food supply.

And that was the genesis of our Green Revolution, i.e., biochemical technology to step up output per acre by using scientifically inclined techniques and methods of production.

Benefits of Green Revolution.

(i) Increase in Income. Since the Green Revolution was limited to wheat and rice for a number of years, its benefits were enjoyed by wheat and rice growing areas of Punjab, Haryana, Western Uttar Pradesh and Andhra Pradesh. The income of farmers in these States grew sharply. Green Revolution succeeded in removing rural poverty in these States.

(ii) Impact on Social Revolution. Along with economic revolution there was a social revolution. The old social beliefs and customs were destroyed and people were willing to accept changes in technology, seeds and fertilizers.' The

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	<p>traditional methods of farming were transformed into modern methods of farming.</p> <p>(iii) Increase in Employment. Green Revolution solved the problem of seasonal unemployment to a great extent because with the possibility of growing more than one crop on a piece of land, more working hands were needed throughout the year. Also, package inputs required better irrigation facilities which raised the employment rate.</p>	
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