

COMMON PRE BOARD EXAMINATION**MARKING SCHEME****ECONOMICS (030)**

	SECTION A: MACRO ECONOMICS	
1	Option b: The consumption function is a functional relationship between consumption and national income.	1
2	Option c: INR will start appreciating with respect to the Indian economy. Explanation: Investment by MNC s will ensure inflow of foreign exchange. SS of FE will rise. Price of FE will fall. Less rupees to be paid for buying a unit of foreign currency. So, domestic currency will appreciate.	1
3	Option b: Cash deposits with commercial bank	1
4	Option a: Statement 1 is true and statement 2 is false	1
5	Option b: Statement 1 is false and statement 2 is true OR Option: a: A: Household B: Firms C: Money	1
6	Option d: 0.6	1
7	Option: a: total deposits	1
8	Option a: (-) Rs 50 lakh OR Ans: 60 crores	1
9	Option c: Assertion (A) is true but Reason (R) is false.	1
10	Option d: Assertion (A) is false but Reason (R) is true.	1
11	Solution: Wages n salaries + Employer's contribution to SSS + Operating Surplus + Mixed income + NFIfA = Rs 500 + 50 + 900 + 200 + (-) 10 = Rs 1640 crores	3
12	<ul style="list-style-type: none">• They are different terms.• Devaluation is the fall in the value of the domestic currency in relation to the foreign currency as planned by the Government.	3

	<ul style="list-style-type: none"> • It happens when exchange rate is not determined by the forces of demand and supply and is fixed by the Government of different countries. • Depreciation is the fall in the value of the domestic currency in relation to the foreign currency when exchange rate is determined by the forces of demand and supply in the international money market. • However, both devaluation and depreciation lead to a fall in the value of domestic currency in relation to the foreign currency. • Consequently, domestic goods become cheaper in terms of foreign currency. Exports tend to rise. (half marks for each point) <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> • Transactions that cause change in the official reserves of the central bank are known as official reserve transaction. • When current account balance and capital account balance is not equal to zero (and therefore, BOP is not in a state of balance), there are official reserve transactions of the central bank. • These transactions act as accommodating items in the balance of payments and are undertaken with a view to correcting BOP imbalance. 	
13	<p>Inv Multiplier = $1/MPS = 1/0.2 (1-m) = 5 (1-m)$ Inv multiplier = Change in Income/change in Inv (1-m) Substituting the value, we get Increase in income = 5000 (1-m)</p>	4
14	<p>Money supply has two components: Currency and demand deposits.</p> <ul style="list-style-type: none"> • Currency is issued by the central bank whereas demand deposits are created by the commercial banks. • Commercial banks create money in the form of demand deposits related to the loan offered by them. • Demand deposits of the commercial banks are many times more than their cash reserves and this is based on the historical experience of the commercial banks that cash withdrawal of funds is only a small % of total demand deposits. • Money created by the commercial banks in the form of demand deposits is used mainly for investment. Any rise in investment leads to many times more increase of national income via the multiplier effect. (1- mark each) 	4
15	<ul style="list-style-type: none"> • As a banker's bank, it has the same relation with other banks in the country as a commercial bank has with its customers. 3 observations are important in this context: • The central bank accepts deposits from the commercial banks and offers them loans. The central bank provides clearing house facility to the commercial banks. • In its supervisory role, the central bank ensures that commercial banks show compliance to its directives, particularly relating to CRR and SLR. The central bank changes CRR and SLR as and when required. 	4

	<ul style="list-style-type: none">It ensures that commercial banks show compliance to these changes so that the desired targets are achieved. (1- mark each) <p style="text-align: center;">OR</p> <table><tr><th>Central Bank</th><th>Commercial Bank</th></tr><tr><td>i. Functions as the apex bank of the country.</td><td>i. Functions as per the rules and regulation stipulated by the central bank.</td></tr><tr><td>ii. It designs and controls all instruments of monetary policy of the country</td><td>ii. Executes all monetary policy of the country as directed by the central bank.</td></tr><tr><td>iii. It is the sole authority of the note issuing.</td><td>iii. Contributes to the flow of money only by way of credit creation.</td></tr><tr><td>iv. It does not deal directly with the general public. It does not accept deposit or advance loans.</td><td>iv. It deals directly with the general public. It accepts deposit or advances loans.</td></tr></table>	Central Bank	Commercial Bank	i. Functions as the apex bank of the country.	i. Functions as per the rules and regulation stipulated by the central bank.	ii. It designs and controls all instruments of monetary policy of the country	ii. Executes all monetary policy of the country as directed by the central bank.	iii. It is the sole authority of the note issuing.	iii. Contributes to the flow of money only by way of credit creation.	iv. It does not deal directly with the general public. It does not accept deposit or advance loans.	iv. It deals directly with the general public. It accepts deposit or advances loans.	
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16	<p>a:</p> <p>Positive externality: When the new park is developed by the Municipal Corporation, it will increase the social welfare by improving the health status of the people and by increasing the aesthetic beauty of the locality.</p> <p>Negative externality: The park may be used by the anti-social elements which will lead to insecurity of the residents.</p> <p>(one n half mark for each)</p> <p>b.</p> <p>i. Only factor incomes which are earned by rendering productive services are included. All types of transfer income like old-age pension, unemployment allowance, etc. are excluded.</p> <p>ii. Sale and purchase of second-hand goods are excluded since they are not part of production of current year but commission paid on sale of second-hand goods is included as it is reward for rendering productive services. Likewise, sale proceeds of shares and bonds are not included.</p> <p>(iii) Imputed rent of owner-occupied dwellings and value of production for self-consumption is included but value of self-consumed services like those of housewife is not Included.</p> <p>(iv)Income from illegal activities like smuggling, black-marketing, etc. as well as windfall gains (e.g., from lotteries) are excluded.</p> <p>(any 3 points- 1 mark each)</p>	3+3										
17	<p>a. The above image highlights a case of deficit budget. This is a budget where Govt expenditures are more than Govt receipts.</p> <p>Merits:</p> <p>i. It is a key instrument to correct depression which is the low phase of economic activity owing to the low level of AD. Consequently, planned output is much lower than the full employment level of output. Unemployment becomes a national problem.</p> <p>ii. Deficit budget raises the level of AD in 2 ways:</p> <p>a. Directly, by way of high Govt Expenditure</p> <p>b. Indirectly, by way of greater (investment and consumption) expenditure by the people.</p> <p>Demerits:</p> <p>i. It is not desired during the periods of inflation. It is a period when AD exceeds AS at full employment. Deficit budget in such a situation will further increase the difference between AD and AS. Consequently, inflationary gap will rise.</p> <p>b.</p>	3+3										

	<p>Reallocation of resources – It helps to distribute resources, keeping in view the social and economic advantages of the country. The factors that influence the allocation of resources are:</p> <p>Allowance or Tax concessions – The government gives allowance and tax concessions to manufacturers to encourage investment.</p> <p>Direct production of goods and services – The government can take the production process directly if the private sector does not show interest.</p> <p>Minimise inequalities in income and wealth – In an economic system, income and wealth inequality is an integral part. So, the government aims to bring equality by imposing a tax on the elite class and spending extra on the well-being of the poor.</p> <p>Economic stability – The budget is also utilised to avoid business fluctuations to accomplish the aim of financial stability. Policies such as deficit budget during deflation and excess budget during inflation assist in balancing the prices in the economy.</p> <p>Manage public enterprises – Many public sector industries are built for the social welfare of people. The budget is planned to deliver different provisions for operating such business and imparting financial help.</p> <p>Economic growth – A country's economic growth is based on the rate of investments and savings. Therefore, the budgetary plan focuses on preparing adequate resources for investing in the public sector and raising the overall rate of investments and savings.</p> <p>Decrease regional differences – It aims to diminish regional inequalities by implementing taxation and expenditure policy and promoting the installation of production units in underdeveloped regions.</p> <p>(any three.)</p> <p style="text-align: center;">OR</p> <p>a. Sources of revenue receipts in government budget:</p> <p>i. Direct and Indirect taxes</p> <p>ii. Interest</p> <p>iii. Dividend on investment made by government</p> <p>Sources of Capital receipts in government budget:</p> <p>i. Recoveries of loans from state government, union territory government and other parties.</p> <p>ii. Borrowings from the market, RBI and other parties</p> <p>iii. Receipts on account of disinvestment</p> <p>(half-mark each)</p> <p>b.</p> <p>i. Disinvestment occurs when the government sells its stake or shares to the private entrepreneur. This is a good means of tackling revenue deficit, provided the disinvestment is related to such government companies/corporations which are running into losses</p> <p>ii. To the extent the revenue deficit is funded through disinvestment, need for borrowing is reduced.</p> <p>iii. Lesser borrowings are sign of fiscal discipline of the government which is good for growth and stability.</p> <p>(1-mark each)</p>	
	SECTION – B: INDIAN ECONOMIC DEVELOPMENT	
18	<p>A: a</p> <p>i. To get raw material from India at cheap rate.</p> <p>ii. To sell British manufactured goods in Indian market at high prices</p>	1
19	<p>A: d</p> <p>i. Big landlords registered their land in the name of close relatives, thus escaping from the land</p>	1

	<p>ceiling legislation.</p> <p>ii. There have been cases in which tenants were evicted and landlords claimed to the actual tillers.</p> <p>iii. Landlords used loopholes in the legislation to their comparative advantage to own large areas of land.</p> <p style="text-align: center;">OR</p> <p>A: c . Inward looking trade strategy</p>	
20	<p>A: d d. All of these</p> <p style="text-align: center;">OR</p> <p>A: d d. Both (b) and (c)</p>	1
21	<p>A: a a. Regional rural banks</p>	1
22	<p>A:c C - (iii)</p>	1
23	<p>A: c c. Both statements 1 and 2 are true</p>	1
24	<p>A: c c. Both statements 1 and 2 are true</p>	1
25	<p>A: c c. Both (a) and (b)</p> <p style="text-align: center;">OR</p> <p>A: b b. Carrying capacity</p>	1
26	<p>A: a a. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A).</p>	1
27	<p>A: b b. Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A)</p>	1
28	<p>The given image indicates towards the environmental challenge of 'global warming'. Global warming is a gradual increase in the average temperature of the earth's lower atmosphere as a result in the increase in greenhouse gases.</p> <p>The statement given, 'we are running out of time, act now before it's too late' represents the urgency of actions to be taken to control the situation. Various studies have shown that global warming is causing rise in sea level, loss of coastal land, increase risks of floods etc.</p>	3
29	<p>"It is necessary to create employment in the formal sector rather than in the informal sector". The statement is defended because workers of the formal sector enjoy social security benefits and job security which remain protected by the labour laws. On the other hand, people engaged in the informal sector do not enjoy any social security benefits and do not have job security. As a result, informal workers are generally very poor and live in slums.</p> <p style="text-align: center;">OR</p> <p>No, both are different terms. Diversification of crop production implies production of a diverse variety of crops rather than one specialised crop. It implies a shift from single-cropping system to multi-cropping system. It involves a shift in cropping pattern from food grain to cash crops. In</p>	3

	<p>India, agriculture is still dominated by subsistence farming and farmers give prime importance to cereals in the cropping system. Multi-cropping system reduces the dependence of farmers on one or two crops as they are engaged in growing variety of crops.</p> <p>To conclude farmers 'income and to minimise their risks, there is a need to resort to crop diversification.</p>	
30	<p>a. As evident Pakistan – highest growth of population-2.1 percent per annum. India and China – 1.2 and 0.5 percent respectively. (1)</p> <p>The low rate of growth of population in case of China is on account of its successful implementation of One Child Policy, introduced in 1979. The growth rate of population continues to be fairly high in India and alarmingly high in Pakistan. (1)</p> <p>b. India has the most skewed sex ratio. It reflects a strong preference for a male child by the Indian families. (1+1)</p>	4
31	<p>a. India is a preferred destination for global outsourcing of research and development, manufacturing, software development and IT-enabled services. It is due to the large-scale availability of required manpower which is at a low cost and skilled people. (2)</p> <p>b. To improve efficiency, infuse professionalism and to enable PSUs to compete effectively in the market, government awarded the status of 'navaratnas' to the following nine PSUs: 1) Indian Oil Corporation Ltd (IOCL) 2) Bharat Petroleum Corporation Ltd (BPCL) 3) Hindustan Petroleum Corporation Ltd (HPCL) 4) Oil and Natural Gas Corporation Ltd (ONGC) 5) Steel Authority of India Ltd (SAIL) 6) India Petro-chemicals Corporations Ltd (IPCL) 7) Bharat Heavy Electricals Ltd (BHEL) 8) National Thermal Power Corporation (NTPC) 9) Videsh Sanchar Nigam Ltd (VSNL)</p> <p>These corporations were granted a greater degree of financial, managerial and operational autonomy. This boosted their efficiency and effectiveness. They also became highly competitive and some of them are becoming the giant global players. Consequent to their better performance, government retained them under public sector and enabled them to grow themselves not only in the domestic market but also in the international market. These corporations are self-reliant and financially self-sufficient. Thus, the navaratna policy has certainly improved the performance of these PSUs. (2)</p> <p style="text-align: center;">OR</p> <p>It has been rightly said that subsidies encourage farmers to use new technology but they are also a huge burden on government finances. Points for usefulness of subsidies: i. Subsidies help in encouraging farmers to use new and innovative technology. In India, more than 50% of the farmers are very poor and cannot afford new technology in their farming activity. In this regard, the government can help them by providing subsidies. ii. The abolishment of subsidy will violate the goal of equity because it raises differences between poor and rich farmers in India. iii. The application of new technology in farming will increase the total output of agricultural products in developing nations. (2)</p> <p>Points against subsidies: i. Some economists are of the view that once technology is widely accepted, the government</p>	4

	<p>should stop providing goods at subsidised rates.</p> <p>ii. Subsidies are provided to benefit farmers, but it has been observed that the fertiliser industry has benefited more than farmers.</p> <p>iii. Also, farmers from prosperous regions benefited from subsidies more than farmers from poor areas. (2)</p>	
32	<p>a. True, H.C is the stock of skill and expertise of a nation at a point of time. When skill and expenditure of the people rise human capital of a nation is raised. (1+1)</p> <p>b. False, they are not identical terms. Education is a much wider concept than literacy (which is merely an ability to read and write) (1+1)</p>	2+2
33	<p>a. Diversification is essential because there is greater risk in depending exclusively on farming for livelihood and to provide productive sustain able livelihood options to rural people.</p> <p>b. Modern farming methods make excessive use of chemical fertilisers and pesticides, which led to loss of soil fertility; soil, water and air pollution, and high chemical contents in food grains. Therefore, there is an urgent need to conserve the environment and eco-system and hence, promote sustainable development. Organic farming is an eco-friendly and inexpensive farming technology, which can be easily purchased by small and marginal farmers. It restores, maintains and enhances the ecological balance. Moreover, organically grown food is considered more nutritious and healthier than chemically grown food.</p> <p>c. The formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. A vast proportion of poor rural households tend to remain out of the credit network as some kind of collateral is required to take loan from banks. Self-Help Groups (SHGs) have emerged to fill the gap in the formal credit system. A typical SHG consists of 15-20 members. These members usually belong to one neighborhood, who meet and save regularly. Saving per member depends on the ability of the people to save. The SHG can extend these savings as small loans or micro credit to the needy members from the group I itself. Although the group charges interest on these loans, it is still less than what the moneylenders charge. Total SHG savings with banks increased from ₹ 23.9 billion as on 31st March, 2006 to around ₹ 70 billion as on 31 st March, 2011.</p> <p style="text-align: center;">OR</p> <p>a. 'Brain drain' is the migration of highly skilled labour. It adversely affects economic development. A large portion of the population lives below the poverty line. Due to the low level of income, they cannot afford higher and quality education or expensive medical facilities. (3)</p> <p>b. Theoretically, there is a negative relationship between education level and degree of inequality. This relationship has been practically established across the world in recent decades. Education not only imparts technical skills but also at the same time enhances productivity of a person. An educated person, endowed with higher productivity and efficiency enjoys relatively higher income earning capacity. The higher income earning capacity and greater acceptability of modern techniques raise the standard and quality of living. Distribution of income has become less skewed and gap between the rich and the poor has been narrowing slowly. Gradually, the importance of education is being realised world-wide and, consequently, governments of</p>	2+2+2

	by employing better technology rather than generating greater employment opportunities. Thus, employment generated in the country does not commensurate with the growth of GDP in India (3)	
34	<p>a. The import substituting industrialisation was the objective of second FYP (1956-61) till the Seventh FYP (till 1990). The Mahalanobis strategy of development was based on import substitution. The rationale of the import substitution strategy is based on infant industry argument. It helped to save foreign exchange by drastically reducing import of goods. The foreign exchange saved was to be used for the developmental imports such as capital goods, sophisticated technology, etc. It created a protected market and large demand for domestically produced goods.</p> <p>b. Private sector was given minimum role in IPR 1956. New industry could start operation after it had obtained licence from the government. Licence was given after scrutiny by the government.</p>	3+3