COMMON PRE-BOARD EXAMINATION -2023
ECONOMICS (030)
CLASS 12
ANSWER KEY

Max. Time:3 Hours   **Max.Marks: 80**

SECTION A
(MACROECONOMICS)

1.	d) Both statements 1 and 2 are false	1
2.	a) i, ii and iii are correct	1
3.	c) Profits of LIC, a public enterprise	1
4.	c) Statement 1 is true and Statement 2 is false	1
5.	a) C=30+0.75 Y **OR** d)) Equal to zero	1
6.	b) Assertion (A) is false but Reason (R) is true	1
7.	c) Dividends **OR** b)Tax revenue receipts	1
8.	(a) Likely to rise OR b) Negatively	1
9.	a) Both the statements are true.	1
10.	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).	1
11.	Following will not be included in estimation of National Income of India: a. As such transactions are mere paper claims and do not lead to any value addition. c. Compensation paid by the Government of India is mere transfer payment and does not lead to any flow of goods and services in an economy.	3

	OR Value of output of firm B= Sales of firm B to firm C+ Sales of firm B to firm D + Exports +Sales of firm B to Government = 70+40+30+5 = ₹ 145 crores Value Added by Firm B= Value of output by Firm B – Purchases by Firm B from firm A = 145 -80 = ₹ 65 crore	
12.	Revenue expenditure: The expenditure which does not result in the creation of assets or reduction of liability for the Government e.g. salaries and pensions to employees. Capital expenditure: This expenditure either creates an asset or causes a reduction in the liabilities of the government For eg. building roads, loans to states etc. **OR** Revenue deficit is equal to the excess of total revenue expenditure over the total revenue receipts. On the other hand, fiscal deficit is equal to the excess of total expenditure over the sum of revenue and capital receipts excluding borrowings. Thus, it is clear from the above statement, revenue deficit relates to total revenue receipts and total revenue expenditure, whereas, fiscal deficit relates to the difference in total expenditure (revenue and capital) and total receipts (revenue and capital) excluding borrowings.	3
13.	1. False, as current account of balance of payments account also records unilateral transfers. 2. True, as all kinds of foreign investments (foreign direct investments and portfolio investments) are included in the capital account of balance of payments. 3. False, as improvement in the exchange rate of a country's currency implies that less rupees are to be paid for a dollar than before. It points to the relative strength of the Indian rupee in the international market. 4. True, a rise in foreign exchange rate causes a rise in its supply because, there is a direct relation or positive relation between foreign exchange rate and supply of foreign exchange. As with the rise in exchange rate, foreign currency can buy more units of domestic good with the same amount, therefore it leads to increase in supply of foreign exchange.	4
14.	Credit multiplier measures the amount of money that the banks are able to create in the form of deposits with every initial deposits. Money multiplier = 1/ LRR The total deposit will be = Initial deposit × money multiplier The credit creation of the commercial bank depends on credit multiplier as it is inversly related to LRR. Higher the credit multiplier, higher will be the total credit created and vice versa.	4

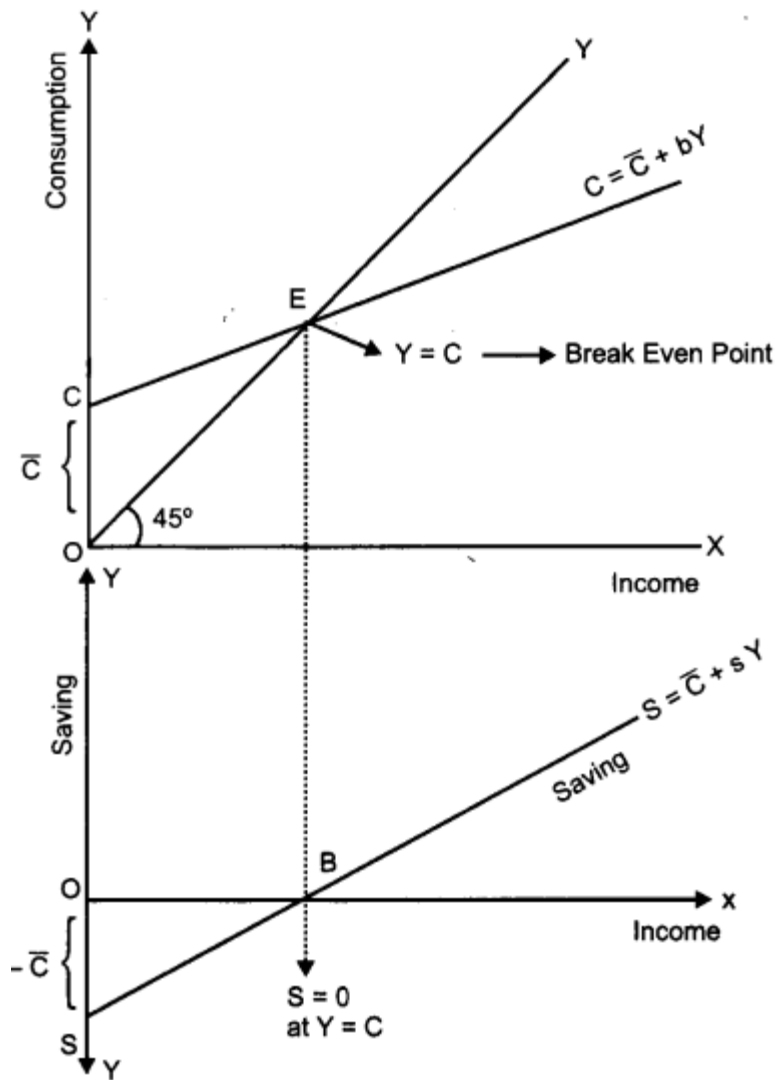|		
	OR	
	The components of M_1 measure of money supply: $M_1 = C + OD + DD$ Where C = Currency held by the public OD = Other deposits DD = Demand deposits held by commercial banks OD is the other deposits with the RBI. These are the demand deposits held by the RBI of all economic units except the government and banks. It includes demand deposits of public financial institutions (like IDBI, etc.), foreign Central Banks and government, IMF, World Bank etc. DD is demand deposits which means those deposits which can be withdrawn at any time by the account holders. Current account deposits are included is demand deposits.	
15.	Given, National Income (Y) = ₹ 2000 Autonomous consumption expenditure = ₹ 200 Investment expenditure =100 As we know in equilibrium, Y = C +1 Since, C = C + cY We get Y = C + cY + I 2000 = 200 + c (2000) + 100 1700 = 2000c $\Rightarrow$ c = 0.85 Therefore, marginal propensity to consume is 0.85.	4
16.	An economy is said to be operating at an under employment equilibrium level, if the planned aggregate expenditure falls short of available output in the economy, corresponding to the full employment level. It results into excess of output available over the anticipated aggregate demand at full employment level. To tackle such a situation the aggregate demand has to be increased up to the level that the stocks can be cleared. Following measures may be taken for the same: (i) Decrease in taxes: The government under its fiscal policy may decrease the rate of taxes (both direct and indirect taxes). This will ensure greater purchasing power in the hands of general public. This will help to increase aggregate demand and remove the deflationary gap. ii) Increase in money supply: Central bank through its expansionary monetary policy can increase the money supply in the economy. Central bank can use tools like bank rate, cash reserve ratio, repo and reverse repo rates etc. to ensure greater money in the hands of general public which would, in turn, increase the aggregate demand in the economy and be helpful in reducing/removing the deflationary gap.	6

OR

In the diagram C¯ + bY is the consumption curve. The 45° line is the aggregate supply curve.

At point E, consumption = income i.e. (Y = C)

C¯ represents the autonomous consumption i.e., consumption at zero level of income. Steps for derivation of supply curve from consumption curve as follows:

(i) Corresponding to C¯ in the consumption function we have C¯ in the saving function. That is, there are negative savings equal to autonomous consumption at Y = 0. This is represented by S on the negative axis in the lower panel.

(ii) At point E (Y = C¯). This implies that all the income is spent on consumption expenditure. Thus, savings equal to zero. This is shown as S = 0 in lower panel. This point is also known as the Break-even point.

	iii) Beyond the break-even point, by connecting points S and Y we derive the straight upward sloping saving curve.- (iv) SS is the required saving curve.	
17.	Find the missing value of Government Final Consumption Expenditure' and Mixed Income of Self Employed: Mixed income of self-employed = (i) − [(viii) + (xii) + (v)] = 71,000 − [15,000 + 30,000 + 1000] = ₹ 25,000 crores Government final consumption expenditure = (i) − [(x) + (ii) + (v) + (ix)] + (vi) + (xi) = 71,000 − (40,000 + 10,000 + 1000 + 5000] + 2,000 + 3000 = ₹ 20,000 crores	6
	SECTION: B **INDIAN ECONOMIC DEVELOPMENT**	
18.	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)	1
19.	a) Distribution of working force among the different occupations **OR** d)Kerala and West Bengal	1
20.	a) Both the statements are true.	1
21.	b) A(iii), B(iv), C(i), D(ii)	1
22.	b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).	1
23.	c) 1949 **OR** b)Association of South East Asian Countries	1
24.	d). Guarding green cover **OR** c) Use of thermal power	1
25.	b) Self-help groups	1
26.	d) Assertion (A) is false but Reason (R) is true.	1
27.	d). Both statements 1 and 2 are false	1
28.	Ans. Human capital formation raises the process of economic growth and economic growth raises the process of human capital formation. There is a cause and effect relationship between human capital and economic growth as it is, shown below-	3

	Rise in human capital ↓ Modern attitude and outlook, better quality of life, higher life expectancy ↓ More efficiency ↓ More production ↓ More economic growth	Rise in economic growth ↓ Rise in per capita income ↓ More investment in education and health ↓ Rise in human capital	
	OR The following are the importance of non-farm employment opportunities in promoting rural diversification: There is greater risk in depending exclusively on farming for livelihood. Non-farm employment provides productive sustainable livelihood option to rural people. Most of the agricultural employment activities are concentrated in the kharif season. However, during the Rabi season, it becomes difficult to find gainful employment in the areas where there are inadequate irrigation facilities. So, diversification into non-farm areas proves to be crucial. Non-farm activities have several segments of non-farm activities possess dynamic linkages that permit healthy growth. The output of non-farm sectors acts as an input for the large scale industries. For example, agro processing industries, leather industry, etc.		
29.	Ans. (i) Environment is defined as the total planetary inheritance or the totality of all resources. It includes all biotic (birds, animals, plants, forest, etc.) and a abiotic (water, sun, land, mountains, etc.) factors that influence or depend on each other. (ii) When the rate of resource extraction exceeds that of regeneration, then environment fails to perform its important functions and it leads to the situation of environmental crisis.		3
30.	a) The given statement is appropriate. Over the years India has not been able to raise the educational standards to the desired level. Education Commission of 1964-66 had recommended that at least 6 % of GDP should be spent on education so as to make a noticeable rate of growth in educational achievements. However, the current expenditure level has been quite inadequate. Thus, necessary steps must be taken by the government in this direction. b) The given statement is refuted. In rural areas, non-farm job opportunities are limited. People generally do not show preference to acquire skill and training for non-farm occupation. They prefer to stay on family farms and fields as self-employed		4
31.	a) Indian Oil Corporation Limited. 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		4

	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. OR After independence the government of India took several institutional/land reforms to ensure transformation of Indian agriculture, such as: i) Land ceiling – It ensured reduction of concentration of land ownership in few hands. ii) Abolition of Zamindari system – It focused on elimination of farmers' exploitation and promotion of agricultural growth. These reforms have led to stability of farming as an occupation and promoted equity	
32.	<table><tr><td rowspan="2">Country</td><td colspan="3">Exports from India (in ₹ crore)</td><td colspan="3">Imports to India (in ₹ crore)</td></tr><tr><td>2004- 05</td><td>2018-19</td><td>Annual rate of growth (%)</td><td>2004- 05</td><td>2018-19</td><td>Annual rate of growth (%)</td></tr><tr><td>Pakistan</td><td>2,341</td><td>14,426</td><td>3.7</td><td>427</td><td>3,476</td><td>5.1</td></tr><tr><td>China</td><td>25,232</td><td>1,17,289</td><td>2.6</td><td>31,892</td><td>4,92,079</td><td>10.3</td></tr></table> The above table shows that during the given periods the Exports from India to Pakistan have increased at an annualized rate of 3.7 % while the same with China shows 2.6% of growth. On the other hand, India's import from China accounted for a massive 10.3 %. The corresponding figure with Pakistan witnessed an average of 5.1% respectively. The situation indicates that Indian imports from China are too high in comparison to the exports to China. This shows that Indian economy was over-dependent on Chinese economy for goods and services, over the given period of time. Whereas, in case of Pakistan gap is quite narrow, which may be due to various reasons.	4
33.	Though, many Public sector undertakings are incurring huge losses but they are still useful in the areas of strategic concerns. These are required for: → Enhancing Nation's Welfare: The main motive of the PSU was to provide goods and services that add to the welfare of the country as a whole. For example, schools, hospitals, electricity, etc. These services not only enhance welfare of country's population but also enhance the future prospects of economic growth and development. → Long Gestation Projects: It was not feasible and economically viable for the private sectors to invest in the big and wide projects like basic industries and electricity, railways, roads, etc. This is because these projects need a very huge initial investment and have long gestation period. Hence, PSU is the most appropriate to invest in these projects. → Basic Framework: An important ideology that was inherited in the initial	6

five year plans was that the public sector should lay down the basic framework for industrialisation that would encourage the private sector at the latter stage of industrialisation.

→ Socialist Track: In the initial years after independence, Indian planners and thinkers were more inclined towards socialist pattern. It was justified on the rational ground that if the government controls the productive resources and production, then it won't mislead the country's economic growth. This was the basic rationale to set up PSUs. These PSUs produce goods not according to the price signals but according to the social needs and economic welfare growth of the country.

→ Reduce Inequality of Income and Generate Employment Opportunities: It was assumed that in order to reduce inequalities of income, eradicate poverty and to raise the standard of living, government sector should invest in the economy via PSUs.

OR

There has been deceleration in agricultural growth. This deceleration is the root cause of the problem of rural distress that reached crisis in some parts of the country. Farmers find themselves into crippling debt due to low farm incomes combined with low prices of output and lack of credit at reasonable prices. This has led to widespread distress migration.

Economic reforms have not been able to benefit the agricultural sector because:
(a) Liberalisation has forced the small farmers to compete in a global market where prices of goods have fallen while removal of subsidies has led to increase in the cost of production. It has made farming more expensive.
(b) Various policy changes like reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions have increased the threat of international competition to the Indian farmers.
(c) The export-oriented growth has favoured increased production of cash crops rather than food grains. This has increased the prices of food grains.
(d) Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research has been reduced in the reform period.

34.	a) Discuss what types of structural problems are faced by the agricultural sector? Inequality in Land Distribution: ... Land Tenure System: ... Sub-division and Fragmentation of holdings: ...	6

Cropping Pattern: ...

Instability and Fluctuations: ...

Conditions of Agricultural Labourers: ...

Poor Farming Techniques and Agricultural Practices: ...

Inadequate Use of Inputs

b) "It is necessary to create employment in the formal sector rather than in the informal sector." Defend or refute the given statement with valid argument. Ans. "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 enjoys 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.