

INDIAN SCHOOL MUSCAT

FINAL EXAMINATION

NOVEMBER 2019

CLASS XII

SET A

Marking Scheme – ECONOMICS [THEORY]

Q.NO.	Answers	Marks (with split up)		
1.	Zero	1		
2.	B. 0.5	1		
3.	C. Appreciation of rupee	1		
4.	Increases	1		
5.	True. It increases liability	1		
6.	<table border="1"><tr><td>c. Remittances to relative staying abroad</td><td>iii. Debit side of current account of Balance of Payments</td></tr></table>	c. Remittances to relative staying abroad	iii. Debit side of current account of Balance of Payments	1
c. Remittances to relative staying abroad	iii. Debit side of current account of Balance of Payments			
7.	B. Zero	1		
8.	Increase of taxes or decrease in government expenditure OR Increase in Bank Rate or increase in Legal Reserve Ratio or selling government bonds and securities etc (any one)	1		
9.	Items in balance of payment account that arises due to other item that create deficit or surplus	1		
10.	C. Managed Floating System	1		
11.	No. welfare may not increase. a. Distribution of GDP: Welfare of masses depend on distribution of GDP among the people. If increased GDP is getting concentrated among a few rich people, welfare of the masses may not increase. b. <u>Externalities</u> :- Externalities refer to benefits or harms a firm can cause to others for which they are not paid or penalised. Externalities do not have a market. Value Added by a production unit is counted in national income but the harmful externalities like pollution caused by the firm reduces the welfare of the people. Negative externalities lead to overestimation of national income.	3		

OR

At equilibrium level of output should be equal to aggregate demand. That is:

$$Y=C+I; \quad Y = 80+0.8 \times 600+20; = 580; \quad 80 \text{ is less than } 600$$

Aggregate demand is less than the level of output. Economy is not at equilibrium. There is deficient demand in an economy.

12. Fiscal Deficit = Total expenditure – (Total Revenue receipt + total capital receipt excluding borrowings) 3

$$= (2200+1000+1100+2500) - (1500+800+1400+1300) = 1800$$
13. Allocation objective: Public goods cannot be provided by the market mechanism. It should be allocated by the government. Government has to reallocate the resources in line with social and economic considerations in case market fails to do so or does so inefficiently 4
 Distribution objective: Government tries to bring about the distribution of income that is considered to be fair. Government influences the personal disposable income through transfer payment and collection of taxes.
 Governments can bring fair distribution of income through fiscal tools like taxation and government expenditure.
 Stabilisation function: Economy may be subjected to fluctuations like inflation, deflation, unemployment etc. Government uses taxation and expenditure policy to regain full employment and price stability. (any Two)
14. Multiplier is the number by which the change in investment must be multiplied in order to determine the resulting change in output. Multiplier (k) 4
 is the ratio between change in output (ΔY) and change in investment (ΔI).

Process of Multiplier:- An increase in investment lead to an increase in income to an equal amount to those who are involved in the production process. This increased income will cause an increase in consumption depending on MPC. Increase in consumption causes increase in AD and calls for further production and there by further increase in income. Thus, an endless chain of secondary consumption is set in motion by the primary investment. This chain of secondary consumption is ever diminishing. The result is that the sum of increase in output and consumption spending will be many times more than the primary investment.

15. Currency devaluation makes domestic goods cheaper in the foreign market. 4
 Foreigners can get more goods for every dollar that they pay. Demand for domestic goods will increase in the foreign market. Export will increase. At the same time more units of domestic currency should be paid to every dollar worth of goods. This will make foreign goods costly. Demand for foreign goods will decrease. Import can be reduced. More foreign exchange flow into the country.

OR

Foreign Direct Investment and Foreign Institutional Investment will flow into the country. Increased inflow of foreign exchange.

Supply of foreign exchange increases. When supply of foreign exchange increases provided demand condition remain the same, Exchange rate of foreign currency will decrease. Domestic currency appreciates and foreign currency depreciates.

16. If AD for a level of output is more than the full employment level, then excess demand exists. Excess demand gives rise to inflationary gap.

Inflationary gap is the amount by which the actual aggregate demand exceeds the level of aggregate demand required to establish the full employment equilibrium.

Fiscal Policy measures to correct excess demand: Two important fiscal policy measures are

- i. Reducing Government Expenditure- Government expenditure is a part of AD. Reduction in government expenditure equal to the inflationary gap will bring down the AD back to full employment level.
- ii. Increasing Tax rate:- Increasing taxes will reduce the disposable income of the people Consumption expenditure decreases. Ad falls to eliminate inflationary gap.

Monetary Policy to correct inflationary Gap:-It operates through a reduction of investment demand by firms. It is possible by-

- i. Increasing rate of interest:- At higher rate of interest investment demand will decrease.
- ii. Reducing availability of credit by increasing cash reserve ratio and by raising Bank Rate.

OR

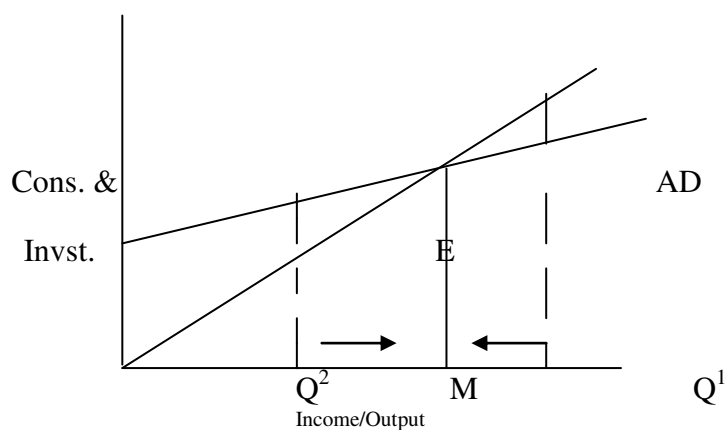
In Keynesian framework, determination of income, output and employment is determined solely by the level of Aggregate Demand. In a two sector model of an economy AD consists of only aggregate consumption and aggregate investment. $AD = C + I$.

When the Desired Aggregate demand in an economy is equal to the total level of output in an economy, equilibrium level of income, output and employment is determined.

Adjustment mechanism:- Equilibrium occurs when planned spending (AD) is equal to planned output. If planned spending is not equal to planned output, then output will tend to adjust up or down until the two are equal.

If planned spending is less than the planned output ($AD < AS$), Total demand would be less than the total supply of goods and services. This leads to unplanned increase in inventory stock of unsold goods with the firms. Firms would reduce the output and employment. This process will continue until it reaches the $AD = AS$.

If planned spending is more than the planned output, $AD > AS$. This leads to unplanned decrease in inventory stock. Firms have to increase the output and employment till it reaches the level $AD=AS$.



Economy is in equilibrium at the point E at which $AD=AS$. At the output level Q^1 $AD < AS$, so that output will come back to M where $AD=AS$. At output level Q^2 $AD > AS$, so that output increases to M.

17. $NDP_{fc} = \text{Private final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross Domestic Capital Formation} + \text{Net Exports} - \text{Depreciation} - \text{Net Indirect Taxes}$
 $= 260 + 120 + 80 + (60 - 20) - 40 - (50 - 30) = 440$
 $\text{Compensation of Employees} = NDP_{fc} - \text{Rent and Interest} - \text{Profits} - \text{Mixed Income}$
 $= 440 - 160 - 80 - 100 = 100$

SECTION B

18. 2100 1
19.

B. Women education	ii. Decreases the fertility rate among women
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 1
20. Casualisation 1
21. C. Thermal Power 1
22. Service sector 1
- OR
- Morbidity
23. False. Agricultural Marketing is a process that involve the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country. 1

24. India 1
25. The Great Leap Forward 1
26. A. The Great Proletarian Cultural Revolution 1
27. D. EU 1
28. India has not achieved this goal. India at present spends only 4% of GDP on education. 3
 Throughout the period after independence increase in expenditure on education has not been uniform.
 Elementary education takes the major share of this expenditure.
 Government of India made free and compulsory education for children between the age group 6-14.
 Government has also initiated a two per cent 'education cess' on all union taxes.
- OR
- Over all health status of the country. The health status of the country can be accessed through infant mortality rate, maternal mortality rate, life expectancy, malnutrition etc
 According to the data of 2008, infant mortality rate in India is as high as 68 per thousand live birth
 India's health expenditure is only 1.4% of the GDP which is very low compared to the world average.
 The country has 20% of Global Burden of Diseases.
 Malnutrition and inadequate supply of vaccines is causes 2.2 million children every year. (Any three Points)
29. Solution for Rural credit
 India adopted social banking and multi agency approach to adequately meet the need of rural credit
 NABARD was set up in 1982 as an apex body to coordinate the activities of all institutions involved in rural financial system
 Commercial banks, regional rural banks, cooperative and land development bank etc were set up.
 SHGs have emerged to fill the gap in the rural formal credit system through micro credit programme.
30. Informalisation of work force means the process of shifting over of work force from formal or organized sector to unorganized sector. 4
 Consequences:
 Movement of regular salaried employment to casualisation of workforce.
 Quality of employment has been deteriorating
 Workers are deprived of any social security benefits
 Lower salary compared to regular workers and loss of bargaining power.
- OR
- Organic farming is the whole system of farming that restores, maintains and enhances the ecological balance. Unlike conventional farming it does not rely

on chemical fertilizers , pesticides etc that enter the food supply, penetrate the water sources, harm the live stock, deplete the soil and devastate the natural ecological system.

Benefits:

Organic agriculture offers a means to substitute costlier agricultural inputs.

It generate income through exports

Organically grown food has more nutritional value

31. Pakistan followed a mixed economic model with co-existence of public sector and private sector. 4

It followed a policy of tariff protection for manufacturing of consumer goods together with direct import control on competing imports.

It followed a policy of Green Revolution led by mechanization and increase in public investment in infrastructure in selected areas.

In 1970s capital good industries were nationalized and in 1980s they promoted denationalization and privatization.

Economic reforms were initiated in 1988 which has worsened the economic indicators.

32. a. Use of non-conventional sources of energy: wind power, Solar rays are good examples of cleaner and greener energy sources. 4
- b. LPG, Gobar Gas in Rural areas: LPG is a cleaner energy which will reduce household pollution to a large extent. Gobar Gas plants in rural area will produce gas and at the same time provides good organic fertilizer and soil conditioner.
- c. CNG in Urban area: Compressed Natural Gas in Public transport system can reduce air pollution to a significant level
- d. Wind Power: In the area where speed of wind is usually high, wind mills can provide electricity without any adverse impact on environment.
- e. Solar Power through Photovoltaic Cells: Solar energy can be converted in electricity with the help of photovoltaic cells. This technology is extremely useful for remote areas and places where supply of power through grid or power lines is either not possible or proves costly.
- f. Mini-Hydel Plants: These power plants are more or less environmental friendly as they do not change the land use pattern in areas where they are located. They can generate enough power to meet local demand.
- g. Traditional knowledge and practices: Traditional systems like Ayurveda, Unani, Tibetan and folk system are environmental friendly and relatively free from side effects and do not involve large scale industrial and chemical processing.
- h. Bio composting: Using compost made from organic waste can be used

as a substitute for chemical fertilizers. (Any four)

33. Demographic indicators 6
 Population of Pakistan is very small. It is only one tenth of India and China
 Density of population is lowest in China but highest in India among these three nations.
 Rate of growth of population is lowest in china and is highest in Pakistan
 China has more elderly people in proportion to young people
 Fertility rate is lowest in China and is highest in Pakistan
 GDP and sectors
 China has the second largest GDP in the world. Pakistan's GDP is only one tenth of India's GDP
 In china agriculture contribute 15% of the GDP where as in India and Pakistan it is 23%
 Proportion of workers in agriculture is more India compared to Pakistan and China
 In China manufacturing sector contribute 53% of the GDP where as in India and Pakistan it is service sector contribute the maximum
34. More than two third of Indian population lives in rural areas. Of this one third lives in absolute poverty. Development of rural India is necessary to achieve the real development of the country.
 Areas of special attention needed are:
 Development of human resources including literacy, female education, skill development etc
 Land reforms
 Development of productive resources of each locality
 Infrastructure development
 Social measures for alleviation of poverty

OR

Particulars	1951	1991	2013
Real Per capita Income	3,687	7,321	41,255
Crude Death Rate (per 1000 population)	25.1	9.8	7
Infant Mortality Rate	146	80	40
Life Expectancy at Birth (in Years):	37.2	59.7	65.8
Male	36.2	60.9	69.3
Female			
Literacy Rate %	16.67	52.1	74

There are two opinions regarding Human capital formation and economic growth.

First is Human capital formation leads to economic growth. It is clear from the table that The basic ingredients of human capital formation like Health(represented by Crude Death rate, Infant mortality rate, Life expectancy), and Education (represented by literacy rate) has improved drastically between 1951 to 2013. As a result the per capita income has

increased from 3,687 to 41,255 during the same period.

The second opinion is that human capital formation is not possible without economic growth. Per capita income has increased by around 11 times. It is not clear that the human capital leads to economic growth. Literacy rate does not indicate quality of education. Life expectancy may not reflect the real health status of the people. Human capital in developing countries has been faster but growth per capita income has not been that fast.

But there are reasons to believe that the causality between human capital and economic growth flows in each direction. Higher income causes higher human capital and higher human capital causes higher income.
