

INDIAN SCHOOL MUSCAT

FINAL EXAMINATION

NOVEMBER 2019

SET B

CLASS XII

Marking Scheme – SUBJECT [THEORY]

Q.NO.	Answers	Marks (with split up)		
1.	Aggregate Investment	1		
2.	C. Two	1		
3.	Reduction of taxes or Increase in government expenditure OR Reduction in Bank Rate or reduction in Legal Reserve Ratio or buying government bonds and securities etc (any one)	1		
4.	C. Zero	1		
5.	A. Devaluation of Rupee	1		
6.	Decrease	1		
7.	B. Managed Floating System	1		
8.	False. Tax is a revenue receipt	1		
9.	Visible items of trade	1		
10.	<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			
11.	Primary Deficit =Fiscal Deficit – interest payment Fiscal Deficit = Total Expenditure – Revenue Receipt and capital receipt excluding borrowings Fiscal deficit = (1200=1800+1100+2500) –(2200+1000+700+1300) = 1400 Primary Deficit = 1400-1200 = 200	3		
12.	At equilibrium level of output should be equal to aggregate demand. That is: Y=C+I; Y = 50+0.75x500+20; = 445; 500is not equal to 445 Aggregate demand is less than the level of output. Economy is not at equilibrium. There is deficient demand in an economy.	3		

OR

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. Externalities:- 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.

13. Budget Deficit beyond a level is inflationary in nature. Budget deficit is financed through borrowing from RBI. This will increase money supply. Deficit can be reduced by:
Increased Tax Revenue by increasing tax rate or imposing new taxes.
Reducing unproductive government expenditure through better and efficient management
Raising revenue through disinvestment from public sector units.
By participating the private sector in infrastructure development. Etc. 4
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) 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. 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

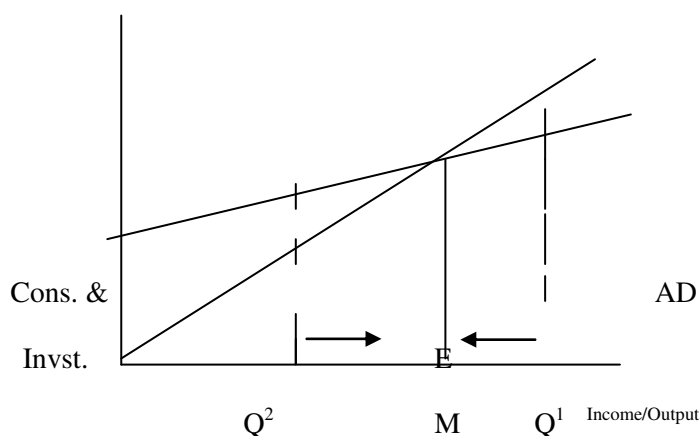
In Keynesian framework, determination of income, output and employment is determined solely by the level of Aggregate Demand. In a two sector model of an economy AD consists of only aggregate consumption and aggregate investment. $AD = C + I$.

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. $NDP_{fc} = \text{Private final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross Domestic Capital Formation} + \text{Net Exports} - \text{Depreciation} - \text{Net Indirect Taxes}$ 3+3
 $= 1300 + 600 + 400 + (300 - 100) - 200 - (250 - 150) = 2200$
 $\text{Compensation of Employees} = NDP_{fc} - \text{Rent and Interest} - \text{Profits} - \text{Mixed Income}$
 $= 2200 - 800 - 400 - 500 = 500$

SECTION B

- | | | |
|-----------|--|---|
| 18. | D. Disguised unemployment | 1 |
| 19. | Service Sector | 1 |
| OR | | |
| Morbidity | | |
| 20. | A. 1953 | 1 |
| 21. | B. EU | 1 |
| 22. | C. 1978 | 1 |
| 23. | B. The Great Leap Forward | 1 |
| 24. | Pakistan | 1 |
| 25. | 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 |

26.

B. Women education	ii.decreases the fertility rate among women
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 1
27. 2400 1
28. India has not achieved this goal. India at present spends only 4% of GDP on education.
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 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. No. There is great difference in the health facilities available in rural and urban sector of India 4

70% of the Indian population is living in rural areas but only 20% of hospitals are located in those areas.

In rural areas Only 0.36 hospital are available for every one lakh people but in urban sector its 3.6.

Only 11% of hospital beds are available in rural sector where 70% of the population are living

Primary Health Facilities available in rural sector do not have even the basic infrastructure and sufficient medical personnel

Rural area is deprived of specialized medical care compared to the urban sector.

32. After establishment of the People's Republic of China under one party rule, all the critical sectors of the economy, enterprises and land owned and operated by the individuals were brought under government control. 4

The Great Leap Forward campaign initiated in 1958 aimed industrializing the country at a massive scale.

In the rural areas Communes were started under which people collectively cultivated land.

In 1965, Mao introduced the the Great Pleterial Cultural Revolution under which students and professionals were sent to work and learn from the country side.

China initiated economic reforms in 1978 which were introduced in three phases.

- i. In the first phase reforms were introduced inagriculture, foreign trade and investment sextors. Commune land were divided into small plots and were handed over to individual households. They were allowed to keep their entire income after paying the stipulated taxes.
- ii. In the second phase reforms were initiated in the industrial sector. Private sector firms, which were operated by the local collectives, were allowed to produce goods. Enterprises owned by the government were to face competition from the private sector.

In the third phase Special Economic Zones were set up in order to attract foreign investment. Dual pricing system was introduced in which farmers and industrialist were required to buy and sell fixed quantities of inputs and outputs on the basis of price fixed by the government and the rest were purchased and sold at the market prices

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. 6

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):		59.7	65.8
Male	37.2		
Female	36.2	60.9	69.3
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.
