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SET B



## INDIAN SCHOOL MUSCAT FIRST PRELIMINARY EXAMINATION ECONOMICS

CLASS: XII  
06.01.2019

Sub. Code: 030

Time Allotted: 3 Hrs  
Max. Marks: 80

### General Instructions:

- i. All questions in both sections are compulsory.  
However, there is internal choice in some questions.
- ii. Marks for questions are indicated against each question.
- iii. Question No.1-4 and 13-16 are very short answer questions carrying 1 mark each. They are required to be answered in one sentence.
- iv. Question No.5-6 and 17-18 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60 words each.
- v. Question No.7-9 and 19-21 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.
- vi. Question No.10-12 and 22-24 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100 words each

### SECTION A - MICRO ECONOMICS

- 1 The government has decided to choose labor using technology, considering the situation of unemployment in the country. Identify the central economic problem highlighted in the above statement. 1
- OR**
- The government has decided to produce more rice and less wheat. Identify the central economic problem highlighted in the above statement.
- 2 A producer is said to be in equilibrium when marginal cost is equal to marginal revenue in which Marginal cost must be: 1
  - a) Diminishing
  - b) Constant and positive
  - c) Zero
  - d) Non diminishing
- 3 Give the meaning of market supply schedule. 1
- OR**
- What do you mean by contraction of supply?
- 4 At the stage of diminishing return to factor; 1
  - a) Total product initially rises then falls
  - b) Total product increases.
  - c) Total product falls only
  - d) Total product reaches zero

- 5 Analyze the importance of Marginal opportunity cost in terms of production possibility frontier using numerical example. 3

**OR**

Explain the concept of opportunity cost with the help of production possibility schedule.

- 6 Explain the chain of effects in the market demand for a commodity when there is fall in the price of its related goods. 3

- 7 By giving reason distinguish between demand curve under perfect competition and monopolistic competition. 4

**OR**

Define Non collusive Oligopoly. Why do demand curve under oligopoly indeterminate?

- 8 When the price of a good rises from Rs. 100 per unit to Rs. 120 per unit, its quantity demanded falls by 20 percent. Calculate its price elasticity of demand. How much would be the percentage change in its quantity demanded, if the price rises from Rs. 100 per unit to Rs. 130 per unit? 4

- 9 Complete the following table: 4

Output	Average fixed cost	Average cost	Average variable cost	Marginal cost
1	----	120	----	----
2	20	----	60	----
3	----	----	----	40

- 10 Discuss the nature of Total revenue, marginal revenue and Average revenue of a firm sells more output at a given price using the schedule. And also prove that average revenue of a firm equals to price. 6

**OR**

Write the relationship between (a) average revenue and marginal revenue and (b) marginal revenue and total revenue of a firm sells more quantity of output at reduced prices. Use diagram.

- 11 Define equilibrium price. Explain the chain of effects in the market for a normal commodity when there is fall in income of consumers. Use diagram. 6

- 12 Consumer buys two goods X and Y in his given level of Income. Explain the reason behind two alternative approaches to consumer equilibrium. 6

## **SECTION B - MACRO ECONOMICS**

- 13 ----- (choose the correct alternative) is not a component of M4 measure of money supply. 1
- a) Deposits from abroad
  - b) Net time deposits
  - c) Currency notes and coins
  - d) Savings under national saving schemes.

14 What do you mean by inflationary gap? 1

**OR**

What do you mean by deficient demand?

15 Point a difference between cash reserve ratio and statutory liquidity ratio. 1

16 Which of the following statement is true? 1

- a) The value of marginal propensity to consume can be more than 1.
- b) The rate of change in saving is less than proportionate to change in income.
- c) The rate of change in consumption is less than rate of change in income.
- d) The value of average propensity to consume falls as income rises.

17 Explain allocation function of government budget. 3

**OR**

Explain stabilization function of government budget.

18 Write the meaning and implication of Fiscal deficit. 3

19 Currency issued by the central bank, yet we say commercial bank create money. Explain. How is this money creation by commercial bank affect national income of country? 4

20 In an economy MPC equals MPS. The autonomous consumption and investment in the economy is Rs.400 crores. Calculate : 4

- a) Level ex ante aggregate demand if the national income is Rs. 1000 crores.
- b) Investment multiplier

21 How externalities becomes the limitation of National income for taking as an index of economic welfare. 4

**OR**

Define real GDP. How the Non-monetary activities act as a limitation of taking real GDP as an index of welfare.

22 Explain the steps to derive consumption curve from saving curve using diagram. 6

**OR**

Using a single diagram prove that, when economy reaches equilibrium aggregate demand is equal to aggregate supply, saving and investment are also equal.

23 a) Define Balance of Trade. Explain the concept of deficit in Balance of payment? 6

- b) State and explain whether the Indian rupee appreciates or depreciates when government of India reduces its import duty.

Items	Rs. Arab
Wages and salaries in cash	720
Rent and royalty	230
Retained earnings	150
Corporate tax	25
Interest	130
Dividend	75
Cost of intermediate goods	400
sales	700
Mixed income of self employed	100
Exports	25
Net indirect taxes	30
Consumption of fixed capital	20

**End of the Question Paper**