

INDIAN SCHOOL MUSCAT**FINAL EXAMINATION****NOVEMBER 2019****SET C****CLASS XII****Marking Scheme – ECONOMICS [THEORY]**

Q.NO.	Answers	Marks (with split up)		
1.	Zero	1		
2.	B. Zero	1		
3.	Increase in Taxation or reduction in government expenditure OR Reduction in Bank Rate, Reduction in Legal Reserve Ratio, Sale of government bonds and securities etc (any One measure)	1		
4.	C. Zero	1		
5.	D. Depreciation of Rupee	1		
6.	Decreases	1		
7.	True because it reduces assets	1		
8.	<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
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9.	C. Managed Floating System	1		
10.	Autonomous items are those transactions that occur on its own or independent of balance of payment position.	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:
 $Y=C+I$; $300 = 40+0.8 \times 300+10$; 300 is not equal to 290
 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 non liability creating Capital Receipt. 3
 $= (3200+1800+1100+2500) - (2700+700+1000+2000)$
 $= \text{Rs. } 2200 \text{ cr.}$
13. 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.

14. Budget Deficit beyond a level is inflationary in nature. Budget deficit is 4
 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.
15. Multiplier is the number by which the change in investment must be 4
 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.

16. $NDP_{fc} = \text{Private final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross Domestic Capital Formation} + \text{Net Exports} - \text{Depreciation} - \text{Net Indirect Taxes}$ 3+3
 $= 130 + 60 + 40 + (30 - 10) - 20 - (25 - 15) = 220$

$\text{Compensation of Employees} = NDP_{fc} - \text{Rent and Interest} - \text{Profits} - \text{Mixed Income}$
 $= 220 - 80 - 40 - 50 = 50$

17. If AD for a level of output is less than the full employment level, then deficient demand exists. Deficient demand gives rise to deflationary gap.

Deflationary gap is the amount by which the actual aggregate demand falls short of the level of aggregate demand required to establish the full employment equilibrium.

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

- i. Increasing 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. Decreasing 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 increase of investment demand by firms. It is possible by-

- i. Reducing rate of interest:- At higher rate of interest investment demand will decrease.
- ii. Increasing 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. $AD = C + I$.

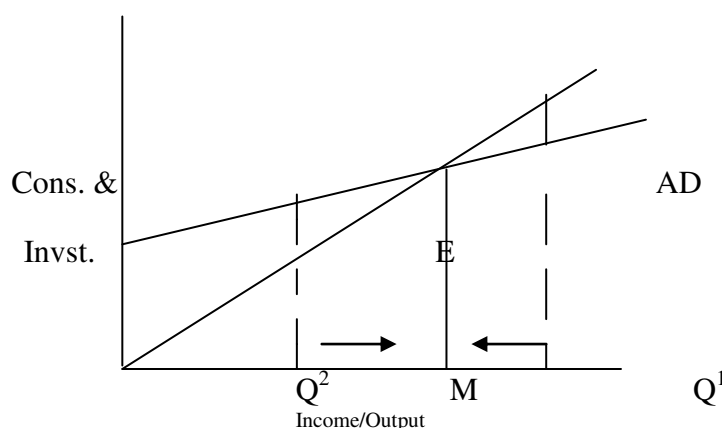
When the Desired Aggregate demand in an economy is equal to the total level

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.

SECTION B

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|------------------------------|---|------------------------------|-------------------------------------|---|
| 18. | 2100 calorie | 1 | | |
| 19. | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">A. The level of unemployment</td> <td style="width: 50%; padding: 5px;">i. Highest among the educated youth</td> </tr> </table> | A. The level of unemployment | i. Highest among the educated youth | 1 |
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| 20. | 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 | | |
| 21. | D. Disguised unemployment | 1 | | |

22. Service sector 1
- OR
- Morbidity
23. B. 1953 1
24. D. E.U. 1
25. C. 1978 1
26. The Great Leap Forward 1
27. India 1
28. Solution for Rural credit 3
- 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.
29. 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)
30. a. Use of non conventional sources of energy 4
- b. LPG, Gobar Gas in rural areas

- c. CNG in urban areas
 - d. Wind power
 - e. Solar power through photovoltaic cells
 - f. Mini-hydel power
 - g. Bio pest control
 - h. Bio composting etc (any four with brief explanation)
31. 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
 This method employs more labour
 The produce is pesticide free so that environmentally sustainable.
32. China is moving ahead of India and Pakistan in HDI 4
- China is well ahead of India and Pakistan in GDP per capita, reduction of poverty, health indicators, literacy etc.
 Pakistan is ahead of India in reducing proportion of population living below the poverty line, sanitation, access to water, performance of education etc.
 Maternal mortality rate is as low as 50 but in India and China it is more than 500.
 India and Pakistan are ahead of China in providing improved water sources.
 In liberty indicators such as democratic participation, constitutional protection, rule of law and independent judiciary India is ahead of both China and Pakistan.
33. 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):	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 flows in each direction. Higher income causes higher human capital and higher human capital causes higher income.

34. Demographic indicators

3+3

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
