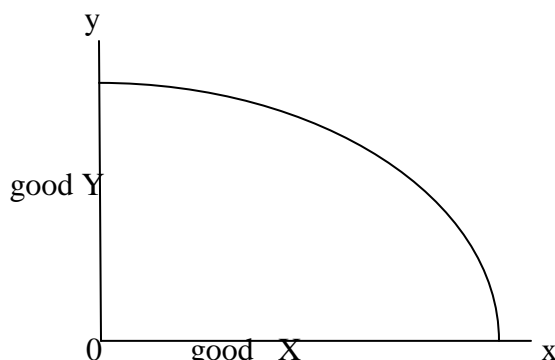


INDIAN SCHOOL MUSCAT
FIRST ASSESSMENT 2018
VALUE POINTS-ECONOMICS –CLASS XII
SECTION A

| | | |
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| 1 | <p>What shape will Production Possibility Curve take when Marginal Rate of Transformation values decrease?</p> <p>Ans: PPC becomes convex to the origin</p> | 1 |
| 2 | <p>If a good is available at free of cost, consumers is at equilibrium when: (Choose the correct option)</p> <p>a. Marginal Utility is maximum</p> <p>b. Total utility = Price of the good</p> <p>c. Total utility reaches zero</p> <p>d. Marginal utility reaches zero</p> <p>Ans: d. Marginal utility becomes zero</p> | 1 |
| 3 | <p>Total utility is------(choose the correct alternative)</p> <p>a. The sum of marginal utilities</p> <p>b. Utility from first unit x number of units consumed</p> <p>c. Always increasing</p> <p>d. Utility from the last unit x number of units consumed</p> <p>Ans: Sum of marginal utilities</p> | 1 |
| 4 | <p>Give an example for normative economic statement?</p> <p>Ans: Crop insurance should be introduced in order to protect the farmers from the risk of crop failure.</p> <p>Any suitable example</p> | 1 |
| 5 | <p>What does allocation of resource mean? What are the characteristics of economic resources?</p> <p>Ans: Distribution and use of resources in the production of various goods and services.</p> <p>Resources are scarce in supply in relation to its demand</p> <p>Resources have alternative uses</p> <p style="text-align: center;">OR</p> <p>Explain the problem of how to produce? Why does the problem arise?</p> <p>Related to technology or method of production- whether capital intensive or labour intensive- whatever be the technology it should enable us to produce various good with minimum use of resources.</p> | 3 |

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| | Problem arises because of scarcity of resources. | |
| 6 | <p>What are the assumptions of utility analysis?</p> <p>Ans: Utility is measurable cardinally</p> <p>Price of the good remains same</p> <p>Income of the consumer does not change</p> <p>Utility is measurable in terms of money</p> | 3 |
| 7 | <p>Define and draw Production Possibility curve. What does movement along the curve show? Explain using diagram</p> <p>Ans: Diagram that show all possible combination of two goods that can be produced with given resources and technology when resources are fully and efficiently utilized.</p> <p>Movement along the PPC indicates that, in order to produce more unit of one good some units of the other good is to be sacrificed. It indicates slope of PPC or marginal rate of transformation. PPC is down ward sloping</p> <p>Use diagram.</p> <p style="text-align: center;">OR</p> <p>What does shift in production possibility curve indicate? What could be reasons for the shift in production possibility curve to left?</p> <p>Increase or decrease in productive capacity of the economy.</p> <p>Shift in PPC to left indicate negative economic growth. It can be due to:</p> <ol style="list-style-type: none"> i. Natural calamities and widespread destruction of capital stock of the economy ii. Depletion of economic resources. iii. Large scale migration of labour and decrease in availability of labour due to factors like war, riots, civil war etc <p>(any three points)</p> | 4 |
| 8 | <p>Distinguish between:</p> <ol style="list-style-type: none"> a. Micro economics and macro economics <p>Ans: Micro economics is that branch of economics that studies about individual economic units and greater social welfare</p> <p>Helps in formulation of economic policies that enhances productive efficiencies</p> <p>Macro economics studies about aggregates in an economic system</p> <p>It gives an overall view of how a complex economic system work</p> <ol style="list-style-type: none"> b. Positive economics and normative economics <p>Ans: Positive economics states what a phenomenon is. It just explains a fact.</p> | 4 |

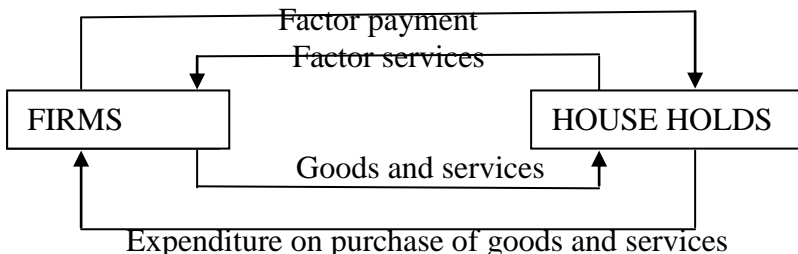
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|--------------------------|---|--------------------------|--------|--------|-----|---|---|----|----|---|---|----|---|---|---|----|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | <p>There are no value judgement</p> <p>Normative economics: It explains what a phenomenon ought to be.</p> <p>The question right or wrong always exist</p> <p>(two points each)</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | <p>Explain the relationship between marginal utility and total utility using suitable diagram.</p> <p>So long as marginal utility is positive, total utility must be rising</p> <p>When marginal utility is falling but positive, total utility must be rising at a diminishing rate.</p> <p>When marginal utility is zero, total utility is maximum and constant</p> <p>When marginal utility is negative, total utility must be falling</p> <p>Diagram</p> | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 | <p>Define marginal rate of transformation. Calculate marginal rate of transformation form the following schedule. Draw a production possibility curve for the given schedule. Giving reason comment on the shape of production possibility curve.</p> <p>MRT is the amount of good Y sacrificed for an additional unit of good X produced.</p> <table><tr><td>Production possibilities</td><td>Good X</td><td>Good Y</td><td>MRT</td></tr><tr><td>A</td><td>0</td><td>15</td><td>--</td></tr><tr><td>B</td><td>1</td><td>14</td><td>1</td></tr><tr><td>C</td><td>2</td><td>12</td><td>2</td></tr><tr><td>D</td><td>3</td><td>9</td><td>3</td></tr><tr><td>E</td><td>4</td><td>5</td><td>4</td></tr><tr><td>F</td><td>5</td><td>0</td><td>5</td></tr></table>  <p>MRT is increasing – Increasing slope-PPC is concave to the origin</p> | Production possibilities | Good X | Good Y | MRT | A | 0 | 15 | -- | B | 1 | 14 | 1 | C | 2 | 12 | 2 | D | 3 | 9 | 3 | E | 4 | 5 | 4 | F | 5 | 0 | 5 | 6 |
| Production possibilities | Good X | Good Y | MRT | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 0 | 15 | -- | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 1 | 14 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 2 | 12 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| D | 3 | 9 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| E | 4 | 5 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| F | 5 | 0 | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11 | <p>Explain the economic problem of ‘What to produce’ and ‘How to produce’. Also explain how these problems are solved in different economic system.</p> <p>What are the commodities to be produced and in what quantities-whether to produce luxuries or necessities-capital good or consumer good etc- goods produced should satisfy the most urgent needs of the society and generate maximum welfare.</p> <p>How to produce is related to method of production- what technology to be used-capital intensive or labour intensive- method of production should enable us to produce maxim output with minimum use of resources because resources are scarce.</p> <p>In a market economy these problems are solved through market forces of demand and supply</p> <p>In a centrally planned economy these problems are solved through deliberate decision making by central planning authority of the government</p> | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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|-------------------|---|-----------------|----|----|----|----|----|----|---|---|----------------|----|----|----|----|----|----|----|----|-------------------|----|---|---|---|---|---|---|---|---|
| | In a mixed economy private sector will function according to market forces of demand supply. Public sector will function according to decisions taken by the central planning authority | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12 | <p>A consumer buys two goods X and Y and is in equilibrium. What happens to demand for X and Y under the following situation so that consumer remains in equilibrium?</p> <p>a. When price of good X increases</p> <p>b. When price of good Y decreases.</p> <p>Consumer is at equilibrium when $MU_x/P_x = MU_y/P_y$. When price of good X increases MU_x/P_x will be lower than MU_y/P_y. Consumer is not at equilibrium. Consumer has to re adjust his spending in such a way that these two should be at equilibrium. He should buy lesser units of good X and more units of good Y till $MU_x/P_x = MU_y/P_y$</p> <p>When price of good Y decreases, MU_y/P_y will be greater than MU_x/P_x. Consumer should buy more units of good Y so that MU_y decreases and she should buy less units of good X, so that MU_x will increase. Consumer has to readjust her purchase in such a way the $MU_x/P_x = MU_y/P_y$.</p> <p style="text-align: center;">OR</p> <p>Consider the following utility schedule of a consumer. Giving suitable reasons explain how many units of this commodity the consumer should buy so that she is at equilibrium if market price of the good is Rs. 3 each. Also explain what adjust will take place in her demand if price of the commodity increases to Rs.5 per unit so that she is at equilibrium.</p> <table><tr><td>Units consumed:</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td></tr><tr><td>Total Utility:</td><td>10</td><td>18</td><td>25</td><td>30</td><td>34</td><td>37</td><td>38</td><td>38</td></tr><tr><td>Marginal Utility:</td><td>--</td><td>8</td><td>7</td><td>5</td><td>4</td><td>3</td><td>1</td><td>0</td></tr></table> <p>Consumer is at equilibrium when $MU = P$ and $MU/P = 1$</p> <p>When price is Rs. 3 consumer is at equilibrium at 6 units of good because marginal utility at 6th unit is 3. Till the 6th unit $MU > Price$ so that consumer is not at equilibrium and she will buy more units . After 6 units $MU < price$ so that consumer buys lesser units.</p> <p>If price of the commodity increases to Rs. 5, consumer is at equilibrium at 4th unit. At 4th unit $Mu = Price$ and consumer is at equilibrium.</p> | Units consumed: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | Total Utility: | 10 | 18 | 25 | 30 | 34 | 37 | 38 | 38 | Marginal Utility: | -- | 8 | 7 | 5 | 4 | 3 | 1 | 0 | 6 |
| Units consumed: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | | | | | | | | | | | | | | | | | | | | |
| Total Utility: | 10 | 18 | 25 | 30 | 34 | 37 | 38 | 38 | | | | | | | | | | | | | | | | | | | | | |
| Marginal Utility: | -- | 8 | 7 | 5 | 4 | 3 | 1 | 0 | | | | | | | | | | | | | | | | | | | | | |
| | SECTION B | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13 | <p>Net Domestic Product at factor cost is equal to Net Domestic Product at market prices when:</p> <p>a. Subsidies are less than Indirect taxes</p> <p>b. Subsidies are equal to Indirect taxes</p> <p>c. Subsidies are more than Indirect taxes</p> | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | <p>d. Net factor income from abroad is zero</p> <p>Ans: When Subsidies are equal to indirect taxes</p> | |
| 14 | <p>If Nominal Gross Domestic Product is Rs. 4400 and Price Index is 110, Calculate Real Gross Domestic Product.</p> <p>Ans: Real GDP= (Nominal GDP/Price Index) x 100; $(4400/110) \times 100 = 4000$</p> | 1 |
| 15 | <p>Which of the following is a stock variable? (choose correct alternative)</p> <p>a. Production</p> <p>b. Population</p> <p>c. Depreciation</p> <p>d. Investment</p> <p>Ans: Population</p> | 1 |
| 16 | <p>How is capital loss different from depreciation?</p> <p>Capital loss is loss of value of fixed capital due to unexpected factors like fire theft etc</p> <p>Depreciation is loss of value due to wear and tear and expected obsolescence</p> | 1 |
| 17 | <p>Should the following be treated as domestic product of India? Give reason.</p> <p>a. Payment of income tax by an employee.</p> <p>b. Purchase of machinery by a factory for its own use.</p> <p>c. Purchase of uniform for nurses by a hospital</p> <p>Ans: a. Not included because it is paid from compensation of employees which is already included in national income</p> <p>b. Included because it's a part of gross Investment</p> <p>c. Not included . it is considered as a part of intermediate consumption</p> <p style="text-align: center;">OR</p> <p>Should the following be included in Gross Domestic Product of India?</p> <p>a. Purchase of shares of a new company.</p> <p>Ans: Not considered. It is financial asset not considered as production activity.</p> <p>b. Commission received by a dealer in second hand goods.</p> <p>Ans: Included. It is a payment for a service rendered</p> <p>c. Money sent by a non resident Indian to his mother in India.</p> <p>Ans: Not considered. It is considered as transfer payment</p> | 3 |
| 18 | <p>What are nonmonetary exchanges? Give one example. Explain their impact on the use of Gross Domestic Product as an index of economic welfare of the people.</p> <p>Exchanges without the mediation of money. Barter exchanges. Its money value cannot be calculated.</p> | 3 |

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|--------------------------------------|---|---------------------------------|-----|-------------------|------|-----------------------------------|------|--------------------------------------|------|---------------------------------|-----|--------------|-----|------------|-----|-------------------|-----|---------------------------------|------|---|
| | There are not exchanged through organized market. Their value do not come in the estimation of GDP. Production took place and welfare is generated but not included in GDP. Lead to underestimation of GDP | | | | | | | | | | | | | | | | | | | |
| 19 | <p>Calculate Value of Output and Gross Value Added at factor cost from the following information.</p> <table><tr><td>a. Consumption of fixed capital</td><td>200</td></tr><tr><td>b. Domestic Sales</td><td>5600</td></tr><tr><td>c. Purchase of Intermediate goods</td><td>2000</td></tr><tr><td>d. Purchase of machinery for own use</td><td>1000</td></tr><tr><td>e. Opening stock of inventories</td><td>800</td></tr><tr><td>f. Subsidies</td><td>300</td></tr><tr><td>g. Exports</td><td>400</td></tr><tr><td>h. Indirect taxes</td><td>800</td></tr><tr><td>i. Closing stock of inventories</td><td>1000</td></tr></table> <p>Value of output = Domestic sales + Exports + Changes in stock =5600+400+(1000-800) = 5800</p> <p>GVA_{fc} = Value of output-purchase of intermediate goods-net indirect taxes =5800-2000-(800-300) =3300</p> | a. Consumption of fixed capital | 200 | b. Domestic Sales | 5600 | c. Purchase of Intermediate goods | 2000 | d. Purchase of machinery for own use | 1000 | e. Opening stock of inventories | 800 | f. Subsidies | 300 | g. Exports | 400 | h. Indirect taxes | 800 | i. Closing stock of inventories | 1000 | 4 |
| a. Consumption of fixed capital | 200 | | | | | | | | | | | | | | | | | | | |
| b. Domestic Sales | 5600 | | | | | | | | | | | | | | | | | | | |
| c. Purchase of Intermediate goods | 2000 | | | | | | | | | | | | | | | | | | | |
| d. Purchase of machinery for own use | 1000 | | | | | | | | | | | | | | | | | | | |
| e. Opening stock of inventories | 800 | | | | | | | | | | | | | | | | | | | |
| f. Subsidies | 300 | | | | | | | | | | | | | | | | | | | |
| g. Exports | 400 | | | | | | | | | | | | | | | | | | | |
| h. Indirect taxes | 800 | | | | | | | | | | | | | | | | | | | |
| i. Closing stock of inventories | 1000 | | | | | | | | | | | | | | | | | | | |
| 20 | <p>Define GDP deflator. What are the advantages of real GDP over nominal GDP?</p> <p>Ans:Ratio of nominal GDP to Real GDP multiplied with hundred.</p> <p>Real GDP is useful for estimating the real development capacity of the economy. Nominal GDP cannot because it is influenced by the price change</p> <p>Real GDP enables us to make year-to-year comparison of changes in the growth of output of goods and services. It neutralizes the effect of price change.</p> <p>Real GDP is also useful to make international comparison of economic performance across the countries.</p> | 4 | | | | | | | | | | | | | | | | | | |
| 21 | <p>Distinguish between:</p> <p>a. Factor payment and Transfer payment</p> <p>Ans: Factor payment- payment to factors of production for their services rendered to the production process-bilateral in nature-included in national income accounts. Example: wages rent, interest profits</p> <p>Transfer payment: payment without any contribution to production process-unilateral in nature-not included in national income. Eg: donation, gifts, charities etc.</p> <p>b. Net Factor Income from abroad and Net Exports</p> | 4 | | | | | | | | | | | | | | | | | | |

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|--|--|------------|------|----------------------------------|------|-------------------|-----|--|------|---------------------------------|-----|-------------|------|---------------------------------------|-----|---------|------|--------------|-----|-----------------------------------|-----|---|
| | <p>Ans: Net factor income from abroad is factor income received from abroad less factor income paid to abroad- for factor services rendered and received-Not included in domestic product.</p> <p>Net exports: Total value of export less imports of goods. It is related to exchange of produced goods and services with other countries. Included in domestic product</p> <p style="text-align: center;">OR</p> <p>Distinguish between:</p> <p>a. Capital goods and consumer goods</p> <p>Ans: Capital goods are produced goods meant for further production- producers final goods meant to assist for the production of other goods-they have derived demand or demand derived from the demand for the goods that the capital goods help to produce. Machineries</p> <p>Consumer goods are those goods demanded for the satisfaction of consumers wants- meant for direct consumption-they have direct demand. Milk, butter etc.</p> <p>b. Intermediate goods and final goods</p> <p>Ans: Goods meant for the production of other goods and meant for resale in the same accounting year- Not finished goods- still in the production process- meant for resale in the same accounting year- not included in GDP measurement</p> <p>Final goods are goods meant for final consumption or for investment- not meant for resale in the same accounting year-not included in GDP measurement.</p> | | | | | | | | | | | | | | | | | | | | | |
| 22 | <p>Calculate Gross National Product at market prices and compensation of employees from the following data. (All figures are in Rs. Crores)</p> <table><tr><td>a. Profits</td><td>1800</td></tr><tr><td>b. Mixed income of self employed</td><td>1200</td></tr><tr><td>c. Indirect taxes</td><td>800</td></tr><tr><td>d. Net Domestic Product at factor cost</td><td>8600</td></tr><tr><td>e. Consumption of fixed capital</td><td>500</td></tr><tr><td>f. Interest</td><td>1000</td></tr><tr><td>g. Factor income received from abroad</td><td>300</td></tr><tr><td>h. Rent</td><td>1300</td></tr><tr><td>i. Subsidies</td><td>400</td></tr><tr><td>j. Factor payment made to abroad.</td><td>100</td></tr></table> <p>GNPmp = NDPfc + depreciation + NRI from abroad + Net Indirect Taxes</p> <p>=8600+500+(300-100)+(800-400) =Rs.9700Cr</p> <p>NDPfc = Compensation of employees + Rent + Interest + Profits + Mixed income of self</p> | a. Profits | 1800 | b. Mixed income of self employed | 1200 | c. Indirect taxes | 800 | d. Net Domestic Product at factor cost | 8600 | e. Consumption of fixed capital | 500 | f. Interest | 1000 | g. Factor income received from abroad | 300 | h. Rent | 1300 | i. Subsidies | 400 | j. Factor payment made to abroad. | 100 | 6 |
| a. Profits | 1800 | | | | | | | | | | | | | | | | | | | | | |
| b. Mixed income of self employed | 1200 | | | | | | | | | | | | | | | | | | | | | |
| c. Indirect taxes | 800 | | | | | | | | | | | | | | | | | | | | | |
| d. Net Domestic Product at factor cost | 8600 | | | | | | | | | | | | | | | | | | | | | |
| e. Consumption of fixed capital | 500 | | | | | | | | | | | | | | | | | | | | | |
| f. Interest | 1000 | | | | | | | | | | | | | | | | | | | | | |
| g. Factor income received from abroad | 300 | | | | | | | | | | | | | | | | | | | | | |
| h. Rent | 1300 | | | | | | | | | | | | | | | | | | | | | |
| i. Subsidies | 400 | | | | | | | | | | | | | | | | | | | | | |
| j. Factor payment made to abroad. | 100 | | | | | | | | | | | | | | | | | | | | | |

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| | <p>employed</p> <p>$8600 = \text{compensation of employees} + 1300 + 1000 + 1800 + 1200$</p> <p>$8600 - 1300 - 1000 - 1800 - 1200 = \text{Rs. } 3300\text{cr.}$</p> | |
| 23 | <p>What does circular flow of income mean? Using suitable illustration explain the circular flow of income of a two sector economy. Also give examples of leakages and injection that can arise in circular flow of income.</p> <p>Two basic sectors are House Holds and Firms House Holds supply factor services for the firms and get factor income in return. They spend their income on expenditure incurred to purchase of goods and services produced by firms Firms produce goods and services with the factor services purchased from households. They make factor payment in return. They sell the produced goods and services to the households and get their business return</p>  <pre> graph LR F[FIRMS] H[HOUSE HOLDS] H -- "Factor services" --> F F -- "Factor payment" --> H F -- "Goods and services" --> H H -- "Expenditure on purchase of goods and services" --> F </pre> <p>Leakages are withdrawals from the flow of income. Important leakages are Savings, Taxes and Imports</p> <p>Injections are additions made to the flow of income. Important injections are Investment, Government expenditure and exports.</p> | 6 |
| 24 | <p>What are the components of domestic expenditure? Explain each</p> <p>Ans: Private final consumption expenditure Government purchase of goods and services Gross domestic investment Net exports (with brief explanation of each)</p> <p style="text-align: center;">OR</p> <p>What are the steps involved in the estimation of national income through value added method? What precautions are to be taken while using this method?</p> <p>According the value added method the gross value added by all production units in the economy is GDP. Steps are</p> <ol style="list-style-type: none"> Identify the production units and classify them into various industrial sectors like Primary, Secondary, and Tertiary sector and into their subsectors. Find the value added by the production units by suing the formula: Value added = Value of output – value of intermediate goods | 6 |

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| | <p>III. Take the sum of value added by all the production units of all the three sectors in order to arrive at GDPmp</p> <p>IV. $GDPmp = \text{Value added by primary sector} + \text{value added by secondary sector} + \text{value added by tertiary sector.}$</p> <p>V. Deduct depreciation and Net indirect taxes from GDPmp in order to get NDPfc $NDPfc = GDPmp - \text{depreciation} - \text{net indirect taxes.}$</p> <p>VI. Add net factor income from abroad with NDPfc to get national income $\text{National income} = NDPfc + \text{NFI from abroad}$ OR $NNPfc = \text{Value of output of all sectors} - \text{Intermediate cost of all sectors} - \text{Depreciation} - \text{Net indirect taxes} + \text{Net factor income from abroad.}$</p> | |
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