

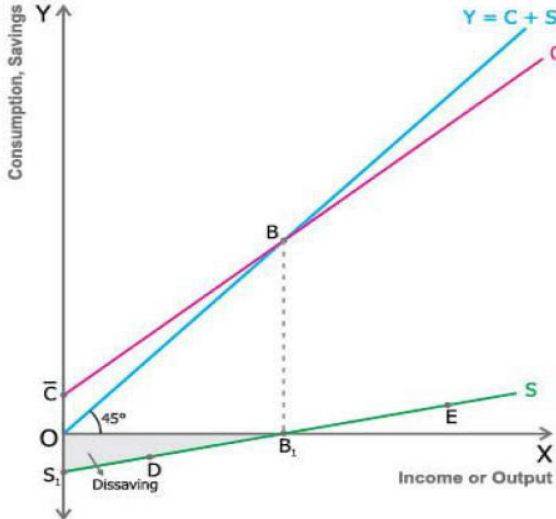
**INDIAN SCHOOL MUSCAT**  
**FINAL EXAMINATION**  
**JANUARY 2021**  
**CLASS XII**

**SET B**

**Marking Scheme – ECONOMICS [THEORY]**

Q.NO.	Answers	Marks (with split up)
<b>PART A - MACRO ECONOMICS</b>		
1.	(d) currency held by the public and demand deposit of the public in commercial banks	1 Mark
2.	(d) Currency notes and coins	1 Mark
3.	(a) Distribution objective	1 Mark
4.	(a) Rising GNP at constant prices	1 Mark
5.	(d) GDP is derived by adding Taxes on Products net of Subsidies on Products to GVA at Basic Prices.	1 Mark
6.	(a) Rising prices.	1 Mark
7.	(c) Output less intermediate cost.	1 Mark
8.	(a) Greater than one	1 Mark
9.	(c) $S = -80 + 0.20 Y$	1 Mark
10.	(c) Stabilisation function	1 Mark
11.	<ul style="list-style-type: none"> <li>Depreciation is used under the floating exchange rate system that is when the currency loses or gains value because of fluctuations in demand and supply.</li> <li>Devaluation is value of a currency is decided by the government. Devaluation of currency is the deliberate value of currency decided by the government.</li> <li>Both Depreciation and devaluation of a currency normally encourages exports from a country, as exports become cheaper for the foreign nationals and foreign currency can now buy more of domestic goods.</li> </ul> <p style="text-align: center;"><b>OR</b></p> <p>At the exchange rate ₹70 per US\$, it costs ₹700 per shirt in the US but only ₹600 in India. That is, international competitiveness of shirts reduced in India gets better. In that case, all foreign customers would buy shirts from India. Thus, exports of shirts from India will increase.</p>	3 2 marks for distinction 1 mark for affect on exports  3 marks
12.	(a) <b>Trade in goods:</b> It includes (i) exports of goods and (ii) imports of goods. (b) <b>Trade in services:</b> Services trade includes both net factor income and net non-factor income transactions. (i) Net factor income: Net factor	3 1+1 +1/2 +1/2 1 marks each

	<p>income includes net international earnings of factors of production (ii) Net non-factor income is net sale of service products like shipping, banking, tourism, software services, etc.</p> <p>(c) <b>Transfer payments:</b> Foreign transfers are the receipts which the residents of a country get for 'free', without having to provide any goods or services in return.</p>	for definition ½ mark each for other distinction
13.	<ul style="list-style-type: none"> <li>As the banker to the government, the central bank provides a large number of routine banking functions to the government like maintaining the balances, arranging and managing funds of the government and so on.</li> <li>It gives loan to the government.</li> <li>It accepts receipts and makes payments for the government.</li> <li>It works as agent of the government in matters of collection of taxes, etc.</li> <li>It manages public debt.</li> <li>It also acts as a financial advisor to the government.</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>As the banker to the commercial banks, the Central Bank holds surplus cash reserves of commercial banks.</li> <li>It also gives loans to the commercial banks when they are in need of funds.</li> <li>The Central Bank also provides a large number of routine banking functions to the commercial banks, like cheque clearing, remittance facilities, etc.</li> <li>It also acts as a supervisor and a regulator of the banking system. It makes rules regarding their licensing, branch expansion, liquidity of assets, amalgamation (merging of banks) and liquidation (the winding up of banks), etc. The control is exercised by periodic inspection of banks and the returns filed by them.</li> </ul>	<p>4</p> <p>Any four points. 1 mark each.</p> <p>Any four points. 1 mark each</p>
14.	<p>(a) <b>Value of MPC</b> Given: In the economy 75% of the increase in income is spent on consumption  <math>MPC = 75\% = 75/100 = 0.75</math></p> <p>(b) <b>Total increase in income</b>            Increase in investment <math>\Delta I = ₹1,000</math> crore  <math>k = 1/(1-MPC) = 1/(1-0.75) = 1/0.25 = 4</math>  <math>k = \Delta Y/\Delta I \Rightarrow 4 = \Delta Y/1,000</math>  <math>\Delta Y = ₹4,000</math></p> <p>(c) <b>Total increase in consumption</b>  <math>MPC = \Delta C/\Delta Y</math>. Given <math>MPC = 0.75</math> and <math>\Delta Y = 4,000</math>  <math>= \Delta C/4,000 \Rightarrow \Delta C = 0.75 \times 4,000</math>  <math>= ₹3,000</math></p> <p>(d) <b>Change in Saving</b>  <math>\Delta S = \Delta Y - \Delta C = 4,000 - 3,000</math>  <math>= ₹1,000</math></p>	4
15.	Revenue receipts are those receipts of government which neither lead to	4

	<p>increase in its liabilities nor reduction in its assets. For example: income tax, profit of PSU, dividends, fees and fines etc.</p> <p>No, Disinvestment are capital receipts of the government as it leads to reduction in assets and “loan proceeds from abroad” are also capital receipts of the government as it increases the liabilities of the Government.</p>	<p>2 + 2 = 4 marks</p>
16.	 <p>Derivation of savings curve from consumption curve</p> <p>The given figure shows the derivation of savings curve from consumption curve.</p> <ul style="list-style-type: none"> <li>• Step 1: Draw a 45° line from origin. Given consumption curve CC intersects it at B (Break-even point). Corresponding to the Break-even point is the level of income at which consumption equals income (<math>C = Y</math>). Therefore, savings is zero (<math>S = 0</math>).</li> <li>• Step 2: Take OS1 equal to O because at zero income, negative savings is exactly equal to the autonomous consumption.</li> <li>• Step 3: From the break-even point B, we draw a perpendicular on X-axis which cuts the X-axis at B1. At OB1 level of income, savings must be zero because at this level of income consumption equals income.</li> <li>• Step 4: Join S1 and B1 and extend it by a straight line to get the savings curve S1S.</li> </ul> <p style="text-align: center;"><b>OR</b></p> <p>The economy will be in full-employment equilibrium if aggregate demand is equal to aggregate supply at full employment. However, the equilibrium level of income/output is not always associated with full employment.</p> <ul style="list-style-type: none"> <li>◆ If aggregate demand is less than aggregate supply at full employment, then it is a situation of deficient demand in the economy which gives rise to deflationary gap.</li> <li>◆ On the other hand, if aggregate demand is more than aggregate supply at full employment, then a situation of excess demand exists in the economy which gives rise to inflationary gap.</li> </ul> <p>Credit creation by commercial banks in inflationary situation in the economy increases the money supply and hence aggregate demand. It creates the</p>	6

	situation of excess demand and inflationary gap if aggregate demand exceeds the full employment level of output/income	
17.	<p>(a) <b>False:</b> Sales by a firm includes sales not only to domestic buyers but also to buyers abroad (i.e. exports).</p> <p>(b) <b>True:</b> GDP<sub>mp</sub> includes the market value of all final goods and services produced within the domestic territory of a country in a year, regardless of whether production unit is owned by a local company or a foreign entity.</p> <p>Domestic factor income (NDP<sub>fc</sub>) = Compensation of employees (wages and salaries) (+) Interest received by households (+) Rent and royalty (+) Profit (+) Mixed income of self-employed  = 500 + 60 + 70 + 120 + 800  = ₹ 1,550 lakhs</p> <p>Gross Domestic Product at market price = Domestic factor income (NDP<sub>fc</sub>) (+) Net indirect tax + Consumption of fixed capital  = 1550 + 85 + 80  = ₹1715 lakhs</p>	6

PART B - INDIAN ECONOMIC DEVELOPMENT		
18.	(d) Low level of literacy, high mortality rates, low life expectancy and high level of poverty.	1 mark
19.	(b) Structural Composition	1 mark
20.	(b) Reduced	1 mark
21.	(d) All of these	1 mark
22.	(b) 0.63 ha	1 mark
23.	(d) Decrease marginally	1 mark
24.	(d) Assertion (A) is false but Reason (R) is true	1 mark
25.	Disinvestment	1 mark
26.	(c) It sustains life by providing genetic and biodiversity.	1 mark
27.	Unemployment	1 mark
28.	<p>In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security, etc.).</p> <p>As a form of economic activity, outsourcing has intensified, in recent times,</p>	<p>3</p> <p>2 marks for outsourcing</p> <p>1 mark each</p>

	because of the growth of fast modes of communication, particularly the growth of Information Technology (IT).	for intensification
29.	<p>Firms spend on giving on-the-job training to their workers. Workers may be trained in the firm itself under the supervision of a skilled worker or sent for off-campus training. After their on-the-job training, firms can recover the benefits of the enhanced productivity owing to the training. Expenditure regarding on-the-job training is a source of human capital formation as the return of such expenditure in the form of enhanced labour productivity is more than the cost of it</p> <p style="text-align: center;"><b>OR</b></p> <p>To know the level of salaries associated with various types of jobs, whether the educational institutions provide the right type of employable skills and at what cost. This information is necessary to make decisions regarding investments in human capital as well as for efficient utilisation of the acquired human capital stock</p>	3 marks
30.	<ol style="list-style-type: none"> <li><b>Fall in public investment in agriculture sector.</b> Public investment in agriculture sector especially in infrastructure, which includes irrigation, power, roads, etc. has fallen in the reform period.</li> <li><b>Removal of fertiliser subsidy.</b> The removal of fertiliser subsidy has led to increase in the cost of production, which has severely affected the small and marginal farmers.</li> <li><b>Increased international competition.</b> Agriculture sector has been experiencing a number of policy changes such as reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions on agricultural products. These have adversely affected Indian farmers as they now have to face increased international competition.</li> <li><b>Export-oriented policy strategies in agriculture.</b> Because of export-oriented policy strategies in agriculture, there has been a shift from production for the domestic market towards production for the export market focusing on cash crops in lieu of production of food grains. This puts pressure on prices of food grains.</li> </ol>	<p>4 marks</p> <p>1 mark each</p> <p>Any other valid point</p>
31.	<p>Monetary value (monthly per capita expenditure) of the minimum calorie intake that was estimated at 2,400 calories for a rural person and 2,100 for a person in the urban area.</p> <p>Based on this, in 2011-12, the poverty line was defined for rural areas a consumption worth ₹816 per person a month and for urban areas it was ₹1,000.</p> <ol style="list-style-type: none"> <li>It groups all the poor together and does not differentiate between the very poor and the other poor.</li> <li>This mechanism takes into account expenditure on food and a few select items as proxy for income. Other factors such as accessibility to basic education, health care, drinking water and sanitation are not considered.</li> <li>Does not take into consideration social factors that perpetuate poverty such as illiteracy, ill health, lack of access to resources, discrimination or lack of civil and political freedoms.</li> </ol> <p style="text-align: center;"><b>OR</b></p>	<p>4</p> <p>Poverty line 2 marks</p> <p>1 mark each</p>

	<p>(a) <b>Prime Minister's Rozgar Yojna (PMRY)</b> – The educated unemployment from low-income families in rural and urban areas can get financial help to set up any kind of enterprise that generates employment.</p> <p>(b) <b>Mahatma Gandhi National Rural Employment Guarantee Act, 2005</b> – This Act provides guaranteed wage employment to every rural household whose adult volunteer is to do un- skilled manual work for a minimum of 100 days in a year. The poor unskilled people in rural areas who are ready to work at the minimum wage can report for work in areas where this programme is implemented.</p>	2 marks each
32.	<p><b>GBD</b> is an indicator used by experts to gauge the number of people dying prematurely due to a particular disease, as well as, the number of years spent by them in a state of 'disability' owing to the disease.</p> <p><b>Urban-Rural and Poor-Rich Divide:</b> People living in rural India do not sufficient medical infrastructure.</p> <ul style="list-style-type: none"> <li>Nearly 70% of the population of India lives in rural areas which has only 20% of the total hospitals of the country.</li> <li>Out of the 6.3 lakh beds in government hospital, only 30% are available in rural areas.</li> <li>Only 38% of the Primary Health Centers have the required number of doctors and only 30% PHCs have sufficient stock of medicines.</li> <li>The PHCs located in the rural areas do not even offer X ray or blood testing facilities.</li> </ul>	<p>4</p> <p>2 marks for GBD</p> <p>2 marks for any two points</p>
33.	<p>The given statement is correct.</p> <p><b><u>INDIA</u></b></p> <ul style="list-style-type: none"> <li>The annual growth of GDP increased moderately from 5.7% during 1980-90 to 7.3% during 2015-2017.</li> <li>The share of service sector in GDP is the largest (53%).</li> <li>A majority of its people still depend on agriculture. In 2015-2017 about 43% of India workforce was engaged in agriculture.</li> <li>Infrastructure is lacking in many parts of the country.</li> <li>It is yet to raise the level of living of more than one- fourth of its population that lives below the poverty line</li> </ul> <p><b><u>PAKISTAN</u></b></p> <ul style="list-style-type: none"> <li>The annual growth rate of GDP has fallen from 6.3% during 1980-90 to 5.3% during 2015-2017.</li> <li>The official data of Pakistan indicate rising poverty there. The proportion of poor which was 25 per cent in 1980s started rising again in 1990s.</li> <li>Political instability over a long period of time, over dependence on remittances and foreign aid and volatile performance of agricultural sector are the reasons for the slowdown of the Pakistan economy.</li> <li>However, during the last three years, Pakistan has recovered its economic growth. In 2015-16, GDP growth rate was 4.7%, highest in last 8 years. Many macroeconomic indicators also began to show stable and positive results.</li> </ul> <p><b><u>CHINA</u></b></p>	<p>6</p> <p>2 marks each for any two points each on the three countries.</p>

	<ul style="list-style-type: none"> <li>• In China, the lack of political freedom and its implication for human rights are major concerns; yet, in the last three decades, it used the 'market system without losing political commitment' and succeeded in raising the level of growth along with alleviation of poverty.</li> <li>• China has used the market mechanism to create additional social and economic opportunities.</li> <li>• By retaining collective ownership of land holdings and allowing individuals to cultivate lands (Commune Farming), china ensured social security in rural areas.</li> <li>• Public investment in infrastructure brought about positive results in human development indicators in China.</li> </ul>	
34.	<ul style="list-style-type: none"> <li>• Rural development is quite a comprehensive term but it essentially means a plan of action for the development of rural areas which are lagging behind in socio-economic development.</li> <li>• Inadequate infrastructure, lack of alternate employment opportunities in the industry or service sector, increasing casualisation of employment etc., impede rural development. The impact of this phenomenon can be seen from the growing distress witnessed among farmers across different parts of India.</li> </ul> <p><b>Key Issues in Rural Development</b> Some of the areas which are challenging and need fresh initiatives for development in rural India include:</p> <ul style="list-style-type: none"> <li>• Development of human resources including – literacy, more specifically, female literacy, education and skill development – health, addressing both sanitation and public health</li> <li>• Land reforms</li> <li>• Development of the productive resources of each locality</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ol style="list-style-type: none"> <li>1. <b>Regulation of markets:</b> The first step was to create orderly and transparent marketing conditions. By and large, this policy benefited farmers as well as consumers.</li> <li>2. <b>Provision of physical infrastructure:</b> The second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units.</li> <li>3. <b>Cooperative marketing:</b> Cooperative marketing, in realising fair prices for farmers' products, is the third aspect of government initiative. The success of milk cooperatives in transforming the social and economic landscape of Gujarat and so- me other parts of the country is testimony to the role of cooperatives.</li> <li>4. <b>Policy instruments:</b> The fourth element is the policy instruments like:             <ol style="list-style-type: none"> <li>a. assurance of minimum support prices (MSP) for agricultural products,</li> <li>b. maintenance of buffer stocks of wheat and rice by Food Corporation of India and</li> <li>c. Distribution of food grains and sugar through Public Distribution System (PDS).</li> </ol> </li> </ol>	<p>6</p> <p>2 marks for definition</p> <p>2 marks for need of infrastructure</p> <p>2 marks for key issues</p> <p>Any three</p> <p>2 marks each</p>

	5. These instruments are aimed at protecting the income of the farmers and providing food grains at a subsidized rate to the poor.	
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