

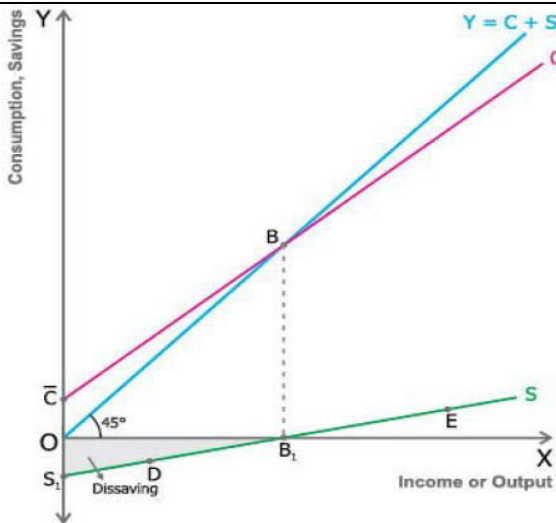
INDIAN SCHOOL MUSCAT
FINAL EXAMINATION
JANUARY 2021
CLASS XII

SET C

Marking Scheme – ECONOMICS [THEORY]

Q.NO.	Answers	Marks (with split up)
PART A - MACRO ECONOMICS		
1.	(d) Currency notes and coins	1 Mark
2.	(c) Time deposit	1 Mark
3.	(a) Rising GNP at constant prices	1 Mark
4.	(d) GDP is derived by adding Taxes on Products net of Subsidies on Products to GVA at Basic Prices.	1 Mark
5.	(a) Rising prices.	1 Mark
6.	(c) Output less intermediate cost.	1 Mark
7.	(c) $C = 100 + 0.75 Y$	1 Mark
8.	(b) Decrease in output, income, employment and price level.	1 Mark
9.	(a) Distribution objective	1 Mark
10.	Non debt creating capital receipts	1 Mark
11.	<ul style="list-style-type: none"> 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. Devaluation is value of a currency is decided by the government. Devaluation of currency is the deliberate value of currency decided by the government. 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. <p style="text-align: center;">OR</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.	<ul style="list-style-type: none"> 'Balance on Trade Account' is the difference between value of exports of goods and imports of goods. It is the difference between visible inflows and visible outflows of foreign exchange. 'Balance on Current Account' is the sum total of balance of trade and balance on invisibles. 	3 1 marks each for definition 1 mark each for other distinction

	<ul style="list-style-type: none"> It is the difference between the sum of both visibles and invisibles inflows and outflows of foreign exchange. 	
13.	<ul style="list-style-type: none"> 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. It gives loan to the government. It accepts receipts and makes payments for the government. It works as agent of the government in matters of collection of taxes, etc. It manages public debt. It also acts as a financial advisor to the government. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> As the banker to the commercial banks, the Central Bank holds surplus cash reserves of commercial banks. It also gives loans to the commercial banks when they are in need of funds. The Central Bank also provides a large number of routine banking functions to the commercial banks, like cheque clearing, remittance facilities, etc. 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. 	<p>4</p> <p>Any four points. 1 mark each.</p> <p>Any four points. 1 mark each</p>
14.	<p>(a) Value of MPC Given: In the economy 75% of the increase in income is spent on consumption $MPC = 75\% = 75/100 = 0.75$</p> <p>(b) Total increase in income Increase in investment $\Delta I = ₹1,000$ crore $k = 1/(1-MPC) = 1/(1-0.75) = 1/0.25 = 4$ $k = \Delta Y/\Delta I \Rightarrow 4 = \Delta Y/1,000$ $\Delta Y = ₹4,000$</p> <p>(c) Total increase in consumption $MPC = \Delta C/\Delta Y$. Given $MPC = 0.75$ and $\Delta Y = 4,000$ $= \Delta C/4,000 \Rightarrow \Delta C = 0.75 \times 4,000$ $= ₹3,000$</p> <p>(d) Change in Saving $\Delta S = \Delta Y - \Delta C = 4,000 - 3,000$ $= ₹1,000$</p>	4
15.	<p>Capital expenditure is an expenditure of the Government which either leads to creation of assets or reduces its liabilities.</p> <p>Examples:</p> <ul style="list-style-type: none"> (a) Expenditure on the acquisition of land, building, machinery, equipment, etc. (b) Investment in shares (c) Loans and advances by the central government to state and union 	<p>4</p> <p>2 marks definition + 2 marks for any two examples</p>

	<p>territory governments, PSUs and other parties</p> <p>(d) Construction of school buildings, hospitals, etc.</p> <p>(e) Repayment of loans</p>	= 4 marks
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"> 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 ($C = Y$). Therefore, savings is zero ($S = 0$). Step 2: Take OS_1 equal to O because at zero income, negative savings is exactly equal to the autonomous consumption. Step 3: From the break-even point B, we draw a perpendicular on X-axis which cuts the X-axis at B_1. At OB_1 level of income, savings must be zero because at this level of income consumption equals income. Step 4: Join S_1 and B_1 and extend it by a straight line to get the savings curve S_1S. <p style="text-align: center;">OR</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"> ◆ 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. ◆ 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. <p>Credit creation by commercial banks in inflationary situation in the economy increases the money supply and hence aggregate demand. It creates the situation of excess demand and inflationary gap if aggregate demand exceeds the full employment level of output/income</p>	6

17.	<p>(a) False: Sales by a firm includes sales not only to domestic buyers but also to buyers abroad (i.e. exports).</p> <p>(b) True: GDPmp 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 (NDPfc) = Compensation of employees (wages and salaries) (+) Interest received by households (+) Rent and royalty (+) Profit (+) Mixed income of self-employed $= 500 + 60 + 70 + 120 + 800$ $= ₹ 1550 \text{ arab}$</p> <p>Gross Domestic Product at factor cost = Domestic factor income (NDPfc) (+) Consumption of fixed capital $= 1550 + 80$ $= ₹ 1630 \text{ arab}$</p> <p>Gross National Product at factor cost = Domestic factor income (NDPfc) (+) Consumption of fixed capital + Net factor income from abroad $= 1550 + 80 + 10$ $= ₹ 1640 \text{ arab}$</p>	6
-----	---	---

PART B - INDIAN ECONOMIC DEVELOPMENT		
18.	Import Substitution, Inward looking trade strategy	1 mark
19.	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).	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.	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)	1 mark
25.	(b) Socialist economy	1 mark
26.	(b) Disinvestment	1 mark
27.	Head Count ratio	1 mark
28.	Land reforms refer to change in the ownership of landholdings (to abolish	3

	<p>intermediaries) and fixing the maximum size of land which could be owned by an individual</p> <p>Land ceiling means fixing the maximum size of land which could be owned by an individual.</p> <p>The purpose of land ceiling was to reduce the concentration of land ownership in a few hands.</p>	1 mark each for explanation
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;">OR</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.	<p>The financial sector in India is regulated by the Reserve Bank of India (RBI). One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.</p> <ul style="list-style-type: none"> • The reform policies led to the establishment of private sector banks — both Indian as well as foreign banks. • Foreign investment limit in banks was raised to around 50 per cent. • Those banks which fulfil certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalise their existing branch networks. • Banks have been given permission to generate resources from India and abroad. • Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets. 	4
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> <ul style="list-style-type: none"> (i) It groups all the poor together and does not differentiate between the very poor and the other poor. (ii) 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. (iii) Does not take into consideration social factors that perpetuate poverty such as illiteracy, ill health, lack of access to resources, 	<p>4</p> <p>Poverty line 2 marks</p> <p>1 mark each</p>

	<p>discrimination or lack of civil and political freedoms.</p> <p style="text-align: center;">OR</p> <p>(a) Prime Minister's Rozgar Yojna (PMRY) – 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) Mahatma Gandhi National Rural Employment Guarantee Act, 2005 – 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.	<ul style="list-style-type: none"> • Investments in education: Investments in education by individuals increase their future income. An educated person like an engineer or a doctor earns more than an illiterate person, e.g. a factory worker. • Expenditure on migration is also a source of human capital formation because the enhanced earnings in the new place (higher salaries) outweigh the costs of migration (higher cost of living) 	<p>4</p> <p>2 marks each</p>
33.	<ul style="list-style-type: none"> • 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. • 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. <p>Key Issues in Rural Development</p> <p>Some of the areas which are challenging and need fresh initiatives for development in rural India include:</p> <ul style="list-style-type: none"> • Development of human resources including – literacy, more specifically, female literacy, education and skill development – health, addressing both sanitation and public health • Land reforms • Development of the productive resources of each locality <p style="text-align: center;">OR</p> <ol style="list-style-type: none"> 1. Regulation of markets: The first step was to create orderly and transparent marketing conditions. By and large, this policy benefited farmers as well as consumers. 2. Provision of physical infrastructure: The second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units. 3. Cooperative marketing: 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. 4. Policy instruments: The fourth element is the policy instruments like: 	<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>

	<p>a. assurance of minimum support prices (MSP) for agricultural products,</p> <p>b. maintenance of buffer stocks of wheat and rice by Food Corporation of India and</p> <p>c. Distribution of food grains and sugar through Public Distribution System (PDS).</p> <p>5. These instruments are aimed at protecting the income of the farmers and providing food grains at a subsidized rate to the poor.</p>	
34.	<p>The given statement is correct.</p> <p><u>INDIA</u></p> <ul style="list-style-type: none"> • The annual growth of GDP increased moderately from 5.7% during 1980-90 to 7.3% during 2015-2017. • The share of service sector in GDP is the largest (53%). • A majority of its people still depend on agriculture. In 2015-2017 about 43% of India workforce was engaged in agriculture. • Infrastructure is lacking in many parts of the country. • It is yet to raise the level of living of more than one-fourth of its population that lives below the poverty line <p><u>PAKISTAN</u></p> <ul style="list-style-type: none"> • The annual growth rate of GDP has fallen from 6.3% during 1980-90 to 5.3% during 2015-2017. • 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. • 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. • 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. <p><u>CHINA</u></p> <ul style="list-style-type: none"> • 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. • China has used the market mechanism to create additional social and economic opportunities. • By retaining collective ownership of land holdings and allowing individuals to cultivate lands (Commune Farming), China ensured social security in rural areas. • Public investment in infrastructure brought about positive results in human development indicators in China. 	<p>6</p> <p>2 marks each for any two points each on the three countries.</p>