

INDIAN SCHOOL MUSCAT
CLASS:12
PRE – BOARD EXAMINATION
Economics (030)
SET - B

QP.NO.	VALUE POINTS	SPLIT UP MARKS
1.	B. Petrol purchased by a house hold for using in their car.	1
2.	B. 5	1
3.	B. Deficit in Balance of Trade	1
4.	Repo Rate is the rate at which commercial bank borrow short fund from the central bank against approved securities and bonds on the guarantee that banks will purchase it back when ever central bank ask to do so. Bank rate is the rate at which central bank lends fund to commercial banks against approved securities as a lender of last resort	1
5.	True. Liability is created	1
6.	D. Marginal propensity to save. iv. Can never be negative.	1
7.	Currency and coins issued and circulated by the central bank of a country.	1
8.	Progressive income tax OR Street light	1
9.	D.Borrowing from IMF to finance deficit in balance of payment.	1
10.	D. 1	1
11.	a. Expenditure on intermediate goods purchased should be excluded b. Expenditure on purchase of second hand goods are to be excluded c. Expenditure by government on transfer payment must be excluded OR a. Value of intermediate goods is not included b. Production for self consumption is included c. Value of secondhand goods are not included (any three valid precautions with reason)	3
12.	Varying Reserve ratio requirements:- Banks are obliged to keep two types or reserves. a. Cash Reserve Ratio:- Banks are required to deposit certain percentage of their demand deposit and time deposits with Reserve Bank. A decrease in CRR will increase bank's ability to create credit. b. Statutory Liquidity Ratio:- Banks are required to keep a certain percentage of their demand and time liability in the form of designated liquid assets. Increasing SLR will reduce the ability of commercial bank to create credit.	3
13.	1. Allocation function :- Public good cannot be provided through market mechanism. It should be allocated through the government. Government has to reallocate resources in line with social and economic considerations in case market fails to do so, or does so inefficiently. 2. Distribution function :- Government tries to bring about their distribution of income that is considered to be fair. Government influences Personal Disposable Income through transfer	4

payment and collection of taxes. Government can bring fair distribution of income through fiscal tools like taxation, transfer payment, subsidies, public expenditure etc.

14. $\Delta Y = 2000$ $\Delta I = 500$ 4
 $K = 1/MPS$, $4 = 1/MPS$, $MPS = 0.25$
 $MPS = \Delta S/\Delta Y$, $0.25 = \Delta S/2000$, $\Delta S = 0.25 \times 2000 = 500$
 $\Delta C = 2000 - 500 = 1500$
 $K = 4$

15. Demand for domestic goods means aggregate demand for goods produced in the domestic territory of the economy. It does not include demand for goods and services produced abroad. At the same time it includes demand for domestic goods by foreigners. Import is excluded and export is included. (Export – Import) Trade surplus
Domestic demand for goods means total demand for goods by the residents of the country. It includes demand for foreign goods also. It does not include demand for domestic goods by the foreigners. Import is included but export is not included. (Import – exports) Trade deficit
OR

Balance of Payment current account:- It records import and exports of goods and services and unilateral transfers.

- a. Balance of visible trade:- It is the balance of exports and imports of goods. This is also called balance of trade.
- b. Balance of invisible trade:- It is the difference between exports and imports of services.
- c. Unilateral Transfers or unrequited transfers:- These are receipts which residents of a country receive, or payments that residents of a country make without getting anything in return. Receipts are entered as positive items and payments as negative items

Balance of Payment current account:- It records import and exports of goods and services and unilateral transfers. Current items that recurring in nature. Does not influence assets and liabilities.

Balance of Payment capital account: It records all international transactions that involve a resident of the domestic country changing his assets with foreign residents or his liabilities to foreign residents. Non-recurring items

16. Multiplier is the number by which the change in investment must be 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).

$$K = \Delta Y / \Delta I$$

Multiplier is related to MPC. Higher the MPC, higher the Multiplier and lower the MPC lower the Multiplier.

$$\text{Multiplier} = 1/1 - \text{MPC}$$

$$\frac{\Delta Y}{\Delta I} = \frac{1}{1 - \text{MPC}} \quad \text{OR} \quad \Delta Y = \frac{1}{1 - \text{MPC}} \times \Delta I$$

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

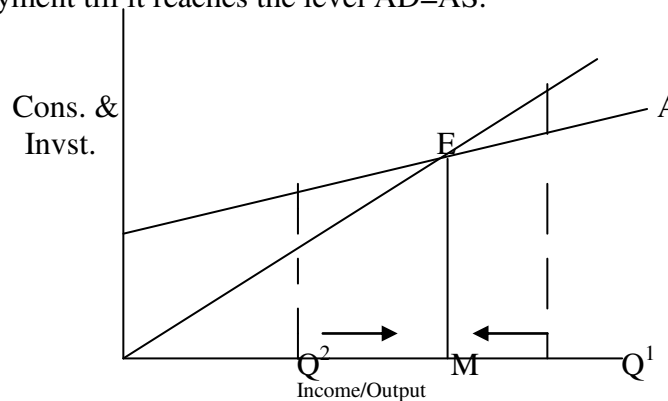
diminishing. The result is that the sum of increase in output and consumption spending will be many times more than the primary investment.

OR

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.

17. Income method

NNP_{fc} = Compensation of employees + Rent + Interest + Profits + Profits + Mixed income + Net factor income from abroad.

$$= 7660 + 5620 + 2460 + 100 = 15840$$

Expenditure method

Private final consumption exp. + Government final consumption exp. + Gross Domestic fixed capital formation + changes in stock + Net exports + Net factor income from abroad – Consumption of fixed capital – Net indirect taxes.

$$= 5800 + 7600 + 2860 + 200 + (340 - 360) + 100 - 440 - (380 - 120) = 15840$$

SECTION B

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|-----|---|---|
| 18. | Special Economic Zone | 1 |
| 19. | B. The Great Leap Forward | 1 |
| 20. | C. Demographic Transition | 1 |
| 21. | Policy of globalization | 1 |
| 22. | Usually poor | 1 |
| | OR | |
| | Churning poor | |
| 23. | Increase in the production of horticultural crops | 1 |
| 24. | Operation flood | 1 |

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| 25. | D. High density of population | 1 |
| 26. | C. India's foreign trade during the British period iii. Characterized by the generation of a huge export surplus. | 1 |
| 27. | A. P.C. Mahalanobis | 1 |
| 28. | a. Public health services should be decentralized so that all citizens get the benefit.
b. Education and efficient health infrastructure should be ensured.
c. It is necessary to create awareness on health and hygiene.
d. Primary Health Care should be strengthened and made more efficient.
e. Private and public partnership can ensure reliability, quality and affordability | 3 |

OR

Population explosion and advent of industrial revolution to meet the growing needs of expanding population has resulted in increased demand for resources both for production and consumption.

This increased demand for resources went beyond the regeneration of the resources.

The pressure on the absorptive capacity of environment has increased. This resulted in a reversal of supply –demand relationship for environmental quality.

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| 29. | Open Unemployment
Disguised unemployment
Seasonal unemployment | 3 |
| 30. | Public investment on infrastructure like irrigation, power, road market linkage etc has reduced.
Removal of fertilizer subsidy has increased the cost of production
Very frequent policy changes like removal of import duty and quantitative restriction on import of agricultural product has reduced market price of cotton.
Removal of minimum support price after the economic reforms also adversely affected farmers like him | |

OR

Usefulness of public sector under takings

Public sector is not always meant for earning profits but to promote welfare of the nation.

Public sector should be evaluated on the bases of their contribution to the national welfare

Public sector is an important source of employment and income generation.

Public sector can also help to expand the industrial base by starting capital and heavy industries that need huge investment

It can also help in the regional balanced development of the country

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| 31. | After establishment of the People's Republic of China under one party rule, all the critical sectors of the economy, enterprises and land owned and operated by the individuals were brought under government control. The Great Leap Forward campaign initiated in 1958 aimed industrializing the country at a massive scale.
In the rural areas Communes were started under which people collectively cultivated land.
In 1965, Mao introduced the the Great Pleterial Cultural Revolution under which students and professionals were sent to work and learn from the country side.
China initiated economic reforms in 1978 which were introduced in three phases. | |
|-----|---|--|

- i. In the first phase reforms were introduced in agriculture, foreign trade and investment sectors. Commune land was divided into small plots and were handed over to individual households. They were allowed to keep their entire income after paying the stipulated taxes.
- ii. In the second phase reforms were initiated in the industrial sector. Private sector firms, which were operated by the local collectives, were allowed to produce goods. Enterprises owned by the government were to face competition from the private sector.

In the third phase Special Economic Zones were set up in order to attract foreign investment. Dual pricing system was introduced in which farmers and industrialist were required to buy and sell fixed quantities of inputs and outputs on the basis of price fixed by the government and the rest were purchased and sold at the market prices.

32.
 - a. The sector was kept under state control through a system of licensing.
 - b. Private sector was not allowed in many of the industrial sectors.
 - c. No new industries were allowed unless a license was obtained from the government.
 - d. Policy was used to promote industries in backward regions. It was easy to get license if industrial unit is established in economically backward region.
 - e. Concessions like tax benefits, electricity at lower cost, investment subsidy etc were given to promote regional equality.
 - f. Even existing industries were to get license to expand their production.
 - g. Production of a number of products were reserved exclusively for small scale industries
 - h. There was control on price fixation and distribution of selected industrial products
33. Expenditure of education
Expenditure on health facilities
Expenditure on on-the job training
Expenditure on migration
Expenditure on collecting information (with brief explanation)

34. Sector wise:
There is a substantial change farm work to non farm work. Between the two period it has decreased from 73% to 49%.
Secondary and tertiary sector show a promising future for Indian work force.
Reducing the proportion of workforce depending on agriculture is considered as a health trend.
However the employment pattern in the secondary sector still remained low which should be higher in a developing economy like that of India.
Status wise
There is increased casualisation of employment and self employment continues to be the largest employment provider.
This indicate the employment in the informal sector which is the sum of self-employment and casual wage labourers comes to around 83% of the total work force.
This signifies that the quality of employment in the country is deteriorating.
Workers in this sector do not get any social security benefits, regular income, and protection from employment and are likely to be exploited

due to lack of bargaining power.

OR

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.

Areas of special attention needed are:

- a. Development of human resources including literacy, female education, skill development etc
- b. Land reforms
- c. Development of productive resources of each locality
- d. Infrastructure development
- e. Social measures for alleviation of poverty (with brief expln.)