

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

QP.NO.	VALUE POINTS	SPLIT UP MARKS
1.	D. 1	1
2.	D. 10	1
3.	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.	False. Provident Fund is capital receipt. Liability created.	1
6.	A. Deficient demand i. Accumulation of inventory in the economy	1
7.	Legal tender money backed by the law of the country	1
8.	Disinvestment from public sector enterprises (any one measure) OR Fiscal deficit minus interest payment	1
9.	C. Large flow of investment by domestic firms to abroad	1
10.	B. Petrol purchased by a house hold for using in their car.	1
11.	GDP deflator measures the average level of prices of all goods and services in an economy. It is the ratio of nominal GDP to real GDP multiplied by 100. $\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$	3
12.	In order to eliminate the effect of price change we have to deflate the GDP with the average level of price change in the economy. Bank Rate is the rate at which RBI lends funds as a 'lender of last resort' to banks against approved securities. An increase in Bank Rate increases the cost of securing funds from the Reserve Bank. This will reduce the ability of commercial banks to create credit. This reduces money supply. A rise in bank rate will force the commercial banks to increase their lending rate of interest, which will discourage the businessmen to take loans. A reduction in Bank Rate will have opposite effect.	3
13.	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. Distribution function:- Government tries to bring about their distribution of income that is considered to be fair. Government influences Personal Disposable Income through transfer payment and collection of taxes. Government can bring fair distribution of income through fiscal tools like taxation, transfer payment, subsidies, public expenditure etc.	4
14.	<ul style="list-style-type: none"> • $K = 1/1-mpc$, $4 = 1/1-mpc$; $4(1-mpc) = 1$; $4-4mpc = 1$; $3 = 4mpc$; $3/4 = mpc$. Marginal propensity to consume = 0.75 • $Mps = 0.25$; $0.25 = \Delta S/\Delta Y$; $0.25 = 400 \times .25 = 100$ *Change in consumption expenditure = $0.75 \times 400 = 300$	4

*Value of multiplier = $\Delta Y / \Delta I = 400/100 = 4$

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.

- Balance of visible trade:- It is the balance of exports and imports of goods. This is also called balance of trade.
- Balance of invisible trade:- It is the difference between exports and imports of services.
- 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.

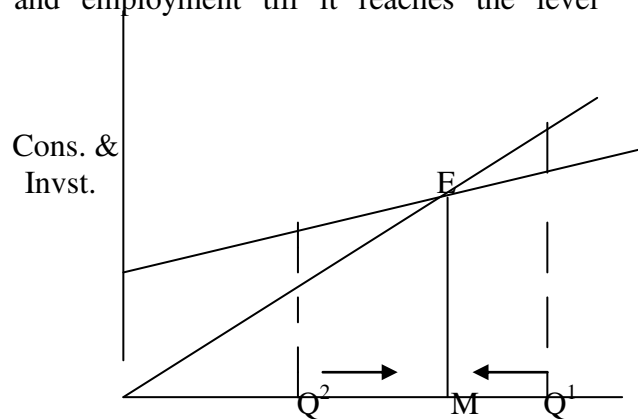
OR

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

6

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

$$= 1330 + 1600 + 500 + 100 = 3530$$

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.

$$= 2900 + 380 + (630 + 100) + (170 - 180) + 100 - 200 - (400 - 30) =$$

SECTION B

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| 18. | A. P.C. Mahalanobis | 1 |
| 19. | D. Increase in the production of horticultural crops | 1 |
| 20. | C. Demographic Transition | 1 |
| 21. | A. Policy to correct balance of payment deficit | 1 |
| 22. | Usually poor (Chronic poor) | 1 |
| 23. | B. The Great Leap Forward | 1 |
| 24. | Operation flood | 1 |
| 25. | D. High density of population | 1 |
| 26. | B. India's foreign trade during the British period ii. Characterized by the generation of a huge export surplus. | 1 |
| 27. | Special Economic Zones | 1 |
| 28. | a. Public health care system should be decentralized so that all citizens get the benefits | 3 |

- b. It is necessary to create awareness on health and hygiene and provide efficient system
- c. Primary health care should be strengthened and made more effective
- d. Private and public partnership can ensure reliability, quality and affordability.
- e. Accessibility and affordability need to be integrated in our basic health structure
- f. The divide between urban and rural care should be reduced.

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. | <p>Open Unemployment</p> <p>Disguised unemployment</p> <p>Seasonal unemployment (with meaning)</p> | 3 |
| 30. | <p>Public investment on infrastructure like irrigation, power, road market linkage etc has reduced.</p> <p>Removal of fertilizer subsidy has increased the cost of production</p> <p>Very frequent policy changes like removal of import duty and quantitative restriction on import of agricultural product has reduced market price of cotton.</p> <p>Removal of minimum support price after the economic reforms also adversely affected farmers like him</p> <p>OR</p> <p>Usefulness of public sector under takings</p> <p>Public sector is not always meant for earning profits but to promote welfare of the nation.</p> <p>Public sector should be evaluated on the bases of their contribution to the national welfare</p> <p>Public sector is an important source of employment and income generation.</p> <p>Public sector can also help to expand the industrial base by starting capital and heavy industries that need huge investment</p> <p>It can also help in the regional balanced development of the country</p> | 4 |
| 31. | <p>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.</p> <p>The Great Leap Forward campaign initiated in 1958 aimed industrializing the country at a massive scale.</p> <p>In the rural areas Communes were started under which people collectively cultivated land.</p> <p>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.</p> <p>China initiated economic reforms in 1978 which were introduced in three phases.</p> <ul style="list-style-type: none"> 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 | 4 |

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.

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| 32. | The argument was not fully correct | 4 |
| | <ul style="list-style-type: none">a. Basic infrastructure did develop to certain extent but was not to provide basic amenities to the people or for the development of the country.b. Roads were built primarily to mobilize army within India and to draw out resources from the country side to nearest railway station. There was acute shortage of all weather roads in rural areac. Railways were introduced to enable the British to transport commercial crops to seaport for export and to move military from one part of the country to other. Social benefits were too low and economic cost was too highd. Water ways constructed proved to be uneconomical and abandoned.e. The electric telegraphic system was too expensive for the common people.f. The postal services introduced were inadequate compared to the need of it. | |
| 33. | <ul style="list-style-type: none">a. A large section of population in India is living below the poverty line who cannot have access to basic health and education facilities.b. Substantial section of our population cannot afford super specialty health care and higher educationc. It is essential to provide education and health services at free of cost for deserving citizens.d. Primary Health Centers in the rural areas do not have basic infrastructure and specialized staff.e. In the rural area people do not have access to medical care and educational facilitiesf. As individual consumers do not have complete information about the quality of services and their cost, the providers of these services acquire monopoly power and exploit the consumers. (any six points) | 6 |
| 34. | 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:
Development of human resources including literacy, female education, skill development etc
Land reforms
Development of productive resources of each locality
Infrastructure development | 6 |

Social measures for alleviation of poverty

OR

In 1951 GDP growth rate was 3.6% and employment generation was 0.4%

In 1961 employment generation has reached to the level of 2.03% even though GDP growth rate was just 4.2%

In 2010 Employment generation has reached to the pre independence level of just 0.3% irrespective of a GDP growth rate of 8%

This indicated country is growing without generating employment opportunities.

This may be due to the use of labour saving capital intensive technologies in various sectors of the economy even in primary sector and decline in small scale and cottage industries in the country.

The various employment generation programmes of govt. of India are

- a. National Rural Employment Guarantee Act 2005 which guarantees employment of at least 100 days in a year to all rural households who volunteer to do unskilled manual work.
- b. Direct employment by the government in various departments and production units run by the government.
- c. Indirect employment generation by demanding goods and services from private sector enterprises and providing needed raw materials and other inputs to encourage private enterprises to expand employment opportunities
- d. Employment generation programmes like provision of rural drinking water, community assets, construction of houses. Rural roads, development of waste land sanitation facilities, primary health, primary education etc.