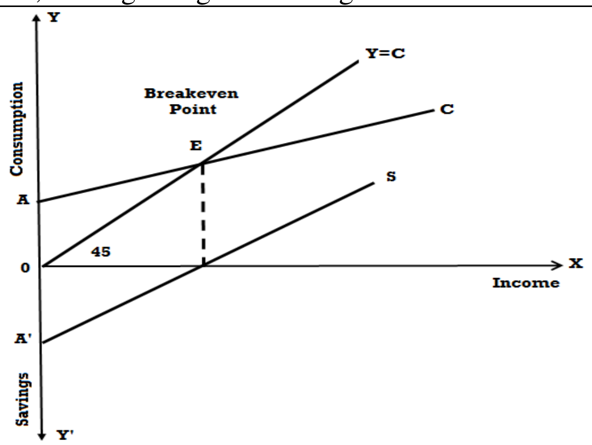
INDIAN SCHOOL MUSCAT

CLASS: 12

HALF YEARLY EXAMINATION

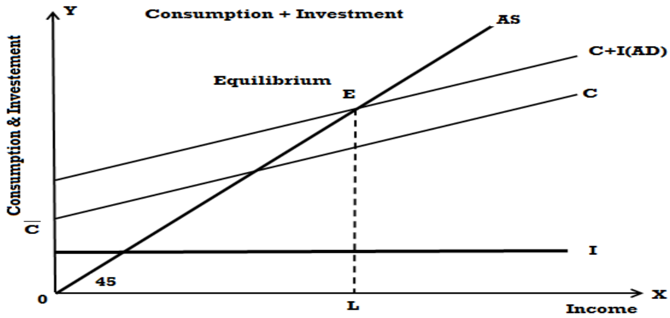
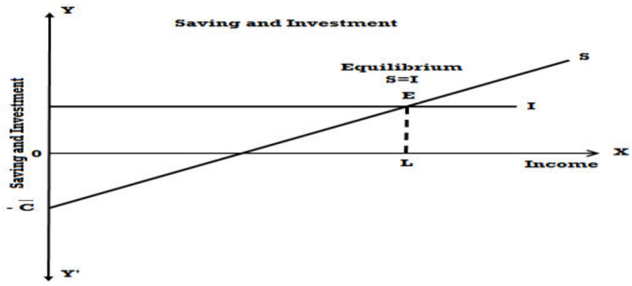
Economics (030)

SET - C

QP.NO.	VALUE POINTS	SPLIT UP MARKS
SECTION – A: INTRODUCTORY MACROECONOMICS		
1.	False: A stock is a quantity measured at a particular point of time.	1
2.	True	1
3.	Constant	1
4.	(c) $\frac{1}{\text{Legal Reserve Ratio}}$	1
5.	(b) Factors of production	1
6.	APC	1
7.	(c) Change in Income and change in investment.	1
8.	(c) Point above the origin	1
9.	Externalities refer to positive and negative impact of an economic activity on other's without involving any price or penalty.	1
10.	Autonomous consumption refers to minimum level of consumption, even when income is zero. It is indicated by $\bar{C}$ in the consumption function. **OR** Answer: MPC is the ratio of change in consumption per unit change in income. $\mathbf{MPC} = \frac{\Delta C}{\Delta Y}$	1
11.	If repo rate is cut, industrial growth is expected to accelerate in two ways, as given: (a) **Cost of investment would decrease:** A cut in repo rate will lead to cut in the market rate of interest. Investors take loan from the commercial banks and a reduction in repo rate will reduce the cost of investment lending to higher industrial investment and higher industrial growth. (b) **Consumer loans would become cheaper:** This will increase the demand for credit for purchase of consumer durables. Increase in demand for consumer durables would induce higher industrial investment, leading to higher rate of growth.	3
12.	 C is the consumption function curve and S is the saving function curve. OA is the minimum level of consumption and OA' is negative saving when income is zero. At point E, consumption is equal to income and saving is zero. This is called 'break-even point'. **OR**	3

Income (₹)	Change in Income ΔY	Consumption expenditure (₹)	Change in Consumption ΔC	MPC $= \frac{\Delta C}{\Delta Y}$	MPS = 1 - MPC
400	--	240	--	--	--
500	100	320	80	$\frac{80}{100} = 0.8$	1 – 0.8 = 0.2
600	100	395	75	$\frac{75}{100} = 0.75$	1 – 0.75 = 0.25

13.	$C = \bar{C} + bY$ (b = MPC) Substituting the given values 8, 000 = 500 + b (10,000) 8,000 = 500 + 10, 000b 10,000b – 8,000 – 500 10,000b = 7,500 $b = \frac{7{,}500}{10{,}000} = 0.75$ **b(MPC) = 0.75** MPC + MPS = 1 OR MPS = 1 – MPC = 1 – 0.75 MPS = 0.25	4
14.	Central bank acts as a banker, agent and financial advisor to the government. As a banker to the government, it keeps the accounts of all government banks and manages government treasuries. It provides government with interest free short term loans. It also transfers government funds. It also buys, sells securities, treasury bills on behalf of the government. It advises the government on economic, financial and monetary matters. **OR** As bankers' bank, the central bank offers loans to the commercial bank and also, accepts deposits from them. It keeps cash balances of commercial banks as a compulsory deposit. It offers short term loans to the commercial banks (based on repo rate) and also the facility to park their surplus funds and provides interest (based on reverse repo rate).	4
15.	(a) **Included:** It is part of net factor income from abroad. (b) **Not Included:** Payment of GST only increases the market value of goods and services. It is a tax and therefore a transfer payment. (c) **Not Included:** It is a transfer payment. (d) **Included:** It is part of government final consumption expenditure	4
16.	**(a) Income method** Net national product at factor cost = Compensation of employees + Rent + Interest + Profit + Mixed income of self-employed + Net factor income from abroad = 600 + 200 + 250 + 450 + 500 + (-) 150 = ₹ 1, 850 crores **(b) Expenditure method** Net national product at factor cost = Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net exports + Net factor income from abroad – Net indirect taxes = 1,100 + 700 + 375 + (-) 25 + (-) 150 – 150 = 1,100 + 700+ 375 – 25 – 150 - 150 = ₹ 1, 850 crores	6

17.	 C – Line indicates the behaviour of consumption with respect to income. I – line is shown as a horizontal straight line because autonomous investment is considered in context to income. C+I line shows the aggregate demand (AD). Equilibrium is achieved at point E where AD intersects the 45° line (line of reference). OL is the equilibrium level of income. **OR**  An economy is in equilibrium at a point where ex-ante or planned saving is equal to planned investment and there no further tendency of any change. S – Line indicates the behavior of savings with respect to income. I – line is shown as a horizontal straight line because autonomous investment is considered in context to income. Equilibrium is at point E where S-Line and I – Line intersect each other. OL is the equilibrium level of income.	6
SECTION – B: INDIAN ECONOMIC DEVELOPMENT		
18.	Occupational structure	1
19.	(b) Produce goods in India which are imported from abroad	1
20.	Institutional	1
21.	True	1
22.	(c) both (a) and (b)	1
23.	False **OR** True	1
24.	(c) India transformed into supplier and consumer of finished industrial products	1
25.	Devaluation is the fall in the value of domestic currency in relation to foreign currency as planned by the government or exchange rate is fixed by the government.	1
26.	True	1
27.	True **OR** False	1
28.	• **Structural changes:** Changes in the composition of Gross domestic Product with greater share coming from industrial and services sector • **Equity:** To make sure that the benefits of economic success reach the poor sections also and not only enjoyed only by the rich. • **Quantitative restrictions:** Restrictions in the form of total quantities or quotas imposed on imports to reduce deficit in balance of payments and protect domestic industry. **OR** • **Self-sufficiency in food grains:** The spread of green revolution	3

	technology enabled India to achieve self-sufficiency in food grains and the country no longer had depend on other countries for meeting food requirements. • **Marketed surplus:** Green revolution lead to high increase in output of food grains. A large amount of agricultural produce is sold in the market by the farmers for earning profits (marketed surplus). • **Decrease in price of food grains:** The price of food grains decreased compared to other things of consumption. The low-income groups benefited from this decrease in prices. The government acquired sufficient amount of food grains to build a stock which could be used in times of food shortage.	
29.	• **Land settlement**: The main interest of the zamindars (landlords) was only to collect rent and tax. Landlords did nothing to improve the condition of agriculture. Consequently, agricultural productivity was very low. • **Revenue settlement**: Fixed amount of tax and fixed dates for tax payment. This strict attitude of the landlords was also responsible for agricultural stagnation. Farmers who did not pay rent and tax were evicted from ownership of their land. • **Outdated farming technology**: Farmers used obsolete and primitive farming techniques. Irrigation facilities were inadequate, dependency on monsoon and negligible use of fertilizers also decreased level of agricultural productivity.	3
30.	• **Monopoly control:** Britain maintained a monopoly control over India's exports and imports. More than half of India's foreign trade was restricted to Britain. India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery produced in Britain. • **Generation of export surplus:** India's foreign trade throughout the colonial period was the generation of a large export surplus. Several essential commodities-food grains, clothes, kerosene etc. - became noticeable by their acute shortage in the local market. This export surplus did not result in any flow of gold or- silver into India rather it was used for making payments war fought by the British government and the import led to the drain of Indian wealth **OR** • **Transport:** Railways, ports, water transport, posts and telegraphs did develop. The railways contributed in two important ways. One, it allowed people to travel long distance and second, it promoted commercialization of Indian agriculture. However, the real motive behind this development was not to provide basic amenities to the Indian people but to serve the Britishers. Roads that were constructed was mainly for moving British army within India and for transporting raw materials from the villages to the nearest railway station or port to send these to England. The British also developed the inland trade and sea lanes. The volume of India's export trade expanded but its benefits rarely went to Indians • **Post and Telegraph:** The introduction of the expensive system of electric telegraph helped the British to maintain law and order. The postal services were also introduced by the British.	4
31.	GST is a destination-based single tax on the supply of goods and services from the manufacturer to the consumer levied by the Central and the State governments thereby, converting the country into a unified market. Benefit and empowerment: (Any Three) (a) Improve the ease of doing business in tax compliance (b) Reduce the tax burden by eliminating tax-on-tax (No hidden taxes) (c) Improve tax administration	4

	(d) Mitigate tax evasion (e) Broaden the organised segment of the economy (Increased economic activity) (f) Boost tax revenues	
32.	• **Lack of private capital:** At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development • **Undeveloped markets:** The market was not big enough to encourage industrialists to undertake major projects • **Socialist pattern of development:** The decision to develop the Indian economy on socialist lines led to the policy of the state controlling the commanding the Indian economy. • **Reduced role of private sector**: The policies of the private sector would have to be complimentary to those of the public sector, with the public sector leading the way to development	4
33.	Inward looking trade strategy refers to the policy of import substitution and protection to the domestic industry through import restrictions and import duties. **Role of tariffs and quotas** (a) Import tariffs are raised to protect the domestic industry, focusing on domestic production of the goods which otherwise need to be imported. (b) Import quotas are fixed for the domestic producers with a view of minimising imports and encouraging production of import substitution. Imposition of tariffs and quotas on imports acts as barriers to trade.	6
34.	(a) **Privatisation:** It means removing the ownership or management of a government owned enterprise. Government companies can be converted into private companies (b) **Disinvestment:** selling off part of the shares of Public Sector Units to the public **<u>Reforms in the Industrial sector:</u>** • **Abolition of Industrial License:** Industrial licensing was abolished (Except for alcohol, cigarettes, hazardous chemicals industrial explosives, electronics, aerospace and drugs and pharmaceuticals.) • **Limited Role of public sector:** Industries reserved for the public sector are defence equipment, atomic energy generation and railway transport. • **De-reservation of goods:** Many goods produced earlier reserved to be produced only by small scale industries have now been de-reserved. • **Market mechanism:** The market (Demand and Supply) has been allowed to determine the prices. **OR** • **Decrease in agricultural output:** Reforms have not been able to benefit agriculture, where the growth rate has been decelerating. Public investment in agriculture sector especially in infrastructure, which includes irrigation, power, roads, market linkages and research and extension, has been reduced in the reform period. Removal of fertilizer subsidy has led to increase in the cost of production badly affecting small and marginal farmers. • **Policy changes:** Agriculture 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 which have badly affected Indian farmers as they now have to face increased international competition. • **Export promotion:** 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 instead of food grains	6