

Roll Number		
-------------	--	--

Code Number	A
-------------	---



INDIAN SCHOOL MUSCAT

Class : XII

SECOND PERIODIC TEST

Time Allotted: 50 mts

09.09.2018

Economics (030)

Max. Marks: 20

SUGGESTED VALUE POINTS AND SCHEME OF EVALUATION

Section A: Introductory Microeconomics

Q.NO.	Suggested Value Points	Marks (with split up)
1.	Define the term substitute goods.	1
Ans.	These refer to those goods which can be used in place of another good to satisfy a particular want.	
2.	Increase in total production with employment of an additional unit of variable factor input is called: (Choose the correct alternative)	1
	(a) Total Product	
	(b) Average Product	
	(c) Marginal Product	
	(d) None of the above	
Ans:	(c) Marginal Product	
3.	Explain any three properties of indifference curve.	3
Ans:	<ol style="list-style-type: none"> IC is always a downward slope curve: this is due to the Marginal Rate of Substitution i.e. the ratio of loss of Good Y by the Gain in Good X. IC is always a Convex Shape Curve: This is due to the law of diminishing marginal utility. When the buyer buys more of one good, the satisfaction from that good diminishes, while the other good which is sacrificed, the relative importance on the good increases due to which the rate of sacrifice on that good keeps on decreasing. Higher the IC implies greater level of satisfaction: This implies that when the IC shift rightwards, the consumer is able to buy more of both the goods or at least more of one & no less of other good in his consumption basket. This kind of movement is referred to as Monotonic preference. Two Curves cannot intersect each other: Intersection of two IC curves implies same level of satisfaction from two different IC. This is not true as higher IC gives greater satisfaction. (ANY THREE) 	1 X 3 = 3 Marks
4.	Distinguish between 'expansion of demand' and 'increase in demand'.	3

Expansion of Demand	Increase in demand
★ It means more units of a commodity are demanded due to decrease in price of the commodity, other factor influencing demand remain constant	★ It means more units of a commodity are demanded due to change in other factor of demand while the price of the good remains the same.
★ It is due to decrease in price of the commodity	★ It is due to increase in factors other than the price of the commodity
★ Consumer moves along the	★ Consumer shifts to a new

same demand curve in a downward direction	demand curve right to the original one.
---	---

5. Briefly explain as how 'availability of close substitutes' influences the price elasticity of demand. 3

Ans: If a good has close substitutes, its demand will be more elastic than the one whose number of substitutes is less. For e.g. Soaps which have various brands. So if price of one of the brand of soap rises, its demand falls to a larger extent. On contrary, there are goods which have either no or very less substitutes have less elastic demand.

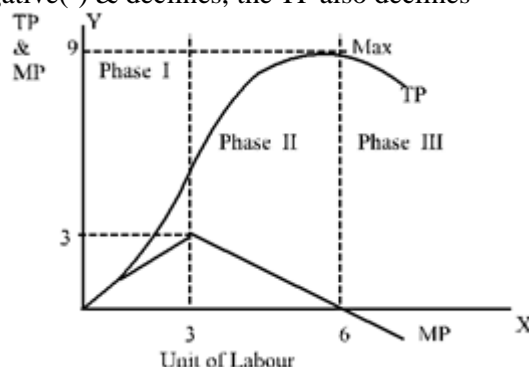
6. Explain the relationship between total Product and marginal product with the help of a schedule & diagram. 4

Ans:

Units of Labour	Total Product (Units)	Marginal Product (Units)
1	2	2
2	6	4
3	14	8
4	20	6
5	24	4
6	26	2
7	26	0
8	24	-2

Relationship between TP & MP

1. When MP rises, the TP increases at increasing rate,
2. When MP is at its maximum, the rate of change in TP changes,
3. When MP declines but remains positive, TP rises at diminishing rate,
4. When MP is 0(Zero), TP is at its maximum & constant,
5. When MP is negative(-) & declines, the TP also declines



Section B: Introductory Macroeconomics

Q.NO.	Suggested Value Points	Marks (with split up)
7.	What is a barter system?	1
Ans:	It refers to the exchange of goods for goods. In other words, it refers to the direct exchange of goods & services with another.	
8.	Define the term money supply.	1
Ans:	It refers to the total stock of money in an economy at any point of time, held by the general public i.e. the private individuals and business firms (money is in disposable form). In other words, it is the amount of money which is in circulation in an economy at a given point of time.	
9.	Explain the process of credit creation (money supply) by banks with a suitable example.	3

Credit creation by the banks is determined by

- (a) The amount of initial deposits and
- (b) The legal reserve ratio (LRR).

It is assumed that all the money that goes out of banks is redeposit into the banks, and LRR consists of CRR & SLR.

Illustration of the process of credit creation:

Let the LRR be 20% and there is a Fresh Deposit Account of ₹10000. The banks keep 20% i.e. ₹2000 as cash and lend the remaining ₹8000 to a borrower.

As assumed, the amount of ₹ 8000 will come back to the banks as fresh deposit from which once again the bank will keep 20% i.e. ₹1600 as LRR and rest ₹6400 will be lend to some other borrower. This process continues and the money goes on multiplying till the sum of LRR and the fresh deposit amount is same or the new deposit becomes nil. Finally, when we add the total money creation, we get ₹50, 000 as the total deposit creation.

ROUNDS	INITIAL DEPOSIT	LRR (20%)	SECONDARY DEPOSIT
1	₹10000	₹2000	₹8000
2	₹8000	₹1600	₹6400
-	-	-	-
-	-	-	-
-	-	-	-
TOTAL	₹50000	₹10000	₹40000

Total credit creation = Initial deposit X 1/LRR = 10000 X 1/20%
= ₹10000 X 100/20 = ₹50,000
