FIRST PRELIMINARY EXAMINATION

SET B

JANUARY 2019

CLASS XII

Marking Scheme – SUBJECT [THEORY]

<table>
<tr><th>Q.NO.</th><th>Answers</th><th>Marks (with split up)</th></tr>
<tr><td>1.</td><td>How to produce
Or
what to produce</td><td>1</td></tr>
<tr><td>2.</td><td>d) Non diminishing</td><td>1</td></tr>
<tr><td>3.</td><td>The table which shows quantity of commodity offered for sale by all firms in the market at a particular price in given period of time.
Or
The downward movement along the supply curve due tofall in price and fall in quantity supply.</td><td>1</td></tr>
<tr><td>4.</td><td>Total product increases</td><td>1</td></tr>
<tr><td>5.</td><td>A production possibility curve is downward sloping because of MOC. It means society must sacrifice one commodity to produce one more unit of another commodity.
Good1   Good 2   MOC
1   15   ---
2   14   1
3   12   2
4   9   3
Or
Opportunity cost is defined as the next best alternative sacrifice. Due to MOC a production possibility curve is down ward sloping
Good1   Good 2   MOC
1   15   ---
2   14   1
3   12   2
4   9   3</td><td>1mark

Table
2mark

1 mark

2mark</td></tr>
<tr><td>6.</td><td>The related goods are of two types , substitute and complimentary good. When the price of substitute rises demand for the commodity under consumption increases because substitute becomes expensive.
When the price of complimentary rises demand for the commodity under study decreases because they are jointly demanded. (No need diagram)</td><td>1 ½ +1 ½</td></tr>
<tr><td>7.</td><td>The demand curve under perfect competition is perfectly elastic ie, parallel to X axis .Under this market firms charge uniform price to sell more quantity</td><td>2+2</td></tr>
</table>

<table>
<tr><td></td><td>and product has close substitutes.
Under monopolistic market firms are able to sell more output at less price so demand curve slopes downward but elastic as there are substitutes available.
Or
A form of oligopoly market in which firm do not cooperate each other and follow independent price policy. Due to interdependency among the firm, the ruling price is rigid under this market so we cannot find demand curve under this market. (1+ 3)</td><td></td></tr>
<tr><td>8.</td><td>Elasticity of demand = 20% / 20 % = -1

The % quantity = 30 %</td><td>2 marks
2marks</td></tr>
<tr><td>9.</td><td><table>
<tr><th>Output</th><th>Average fixed cost</th><th>Average cost</th><th>Average variable cost</th><th>Marginal cost</th></tr>
<tr><td>1</td><td>--40--</td><td>120</td><td>---80-</td><td>-80---</td></tr>
<tr><td>2</td><td>20</td><td>--80--</td><td>60</td><td>--40--</td></tr>
<tr><td>3</td><td>--- 13.3----</td><td>--66.6--</td><td>---53.3-</td><td>40</td></tr>
</table></td><td>½ x8=4</td></tr>
<tr><td>10.</td><td>When a firm sells more output at given price
Total revenue increases at constant rate
Marginal revenue is constant and positive and average revenue is constant

Output price total revenue MR AR
1 10 10 10 10
2 10 20 10 10
Any relevant numbers with constant price.

AR = TR/Q , TR = PXQ so AR = P

Or
When Price falls AR falls so MR also Falls bur AR > MR (diagram)

When MR falls and Positive TR increases at diminishing rate.
MR reaches Zero TR maximum and constant
MR is negative TR falls . (MR and TR diagram)</td><td>2

3 marks

1 mark

2mark

4 marks</td></tr>
<tr><td>11.</td><td>Equilibrium price is the price at which market demand equals to market supply.
When income falls Market demand for normal commodity decreases which results excess supply in the market. Excess supply bring the competition among the sellers in the market. So price falls and qty falls . (diagram)</td><td>4+2</td></tr>
</table>

12.	Cardinal Approach A consumer is in equilibrium when MUx = MUy When MUx > MUy consumer buys more of X by transferring income from the consumption of Y. So marginal utility from X diminishes until MUx = MUy. Ordinal approach A consumer is in equilibrium when MRS = price ratio. When MRS xy > price ratio means consumer now sacrifices more units of Y than actually required. So consumer loses his utility. Later consumer sacrifices less and less units of Y so MRS diminishes until MRSxy = price ratio and reaches equilibrium. **SECTION B (MACRO ECONOMICS)**	3+3
13.	D) savings under national saving scheme	1
14.	The gap arises in the economy when actual AD > AS at full employment equilibrium Or The situation when Actual AD less than full employment equilibrium output.	1
15.	The reserve from deposit kept in the form of cash and reserve kept in the form of liquid assets.	1
16.	The rate of change in consumption is less than rate of change in income	1
17.	The government seeks to reallocate resources in consideration with social welfare when market or private providers fail do so is called allocation function It means provision of public goods like street light or discouraging the production of goods which are injurious to health like wine . On the other hand production of socially useful goods like Khadi is encouraged through subsidies. This function is achieved through budgetary instruments of taxation and expenditure policy. Or Stabilization function indicates bringing Price stability and Economic stability and achieving stable economic growth. The expenditure policy in Budget uses to remove the problems like unemployment and ensures economic stability in the economy. In order to maintain price stability that is correcting inflation and deflation Government uses taxation policy	3
18.	Fiscal Deficit: Fiscal deficit is defined as excess of total expenditure over total receipts excluding borrowing during a fiscal year. Fiscal deficit shows the borrowings requirements of the govt. during the budget year. It increases the foreign dependence.	1 + 2

	It makes country to fall in debt trap. It may lead to inflation in the economy.	
19.	Currency issued by central bank but deposits created by commercial bank. By creating deposits central bank create adequate credit also depends on the intial deposit and LRR . Commercial bank mainly lend money to investors , so investment in the economy increases. Due the action of investment multiplier national income of the country increases.	4
20.	MPC = MPS means each one is 0.5 as MPC + MPS = 1 a) AD = 200 + .5 x 1000 = 700 b) Multiplier = 1/0.5 = 2	4
21.	Externalities are the benefits or harms that a third party experience due to production. Benefits are called positive externalities and harms are called negative externalities. There is no market for externalities so the externalities causes over estimation or under estimation of GDP. Or The Value of goods and services are calculated on the basis constant or base year price is called Real GDP. No monetary transaction are the exchanges without the use of Money .Eg:Mother cooks for her family members or transaction like barter exchanges. Normal estimates of GDP its value not includes so It causes under estimation of GDP.	4 3 + 1
22.	1. Draw a saving curve which is upward sloping from –ve section to positive in which label –A as dissaving B as breakeven point where S= 0 . 2. Draw another X and Y axis below the saving curve in which X axis shows income and Y axis shows consumption. 3. Draw 45 degree line and take –A as A to represent autonomous consumption and extend the point B as B' on 45 degree line to show c= y or breakeven point. 4. Draw a straight line starts from A which passes through B' is the consumption curve. (Diagram) Or An economy is in equilibrium when planned AD = Planned AS AS = Y (Income) = C + S AD = C + I in a two sector economy. At eqm C+ I = C+ S , So S = I Economy can be in eqm both the conditions are satisfied . 3 marks (Diagram) 3 marks with labelling	4 + 2

23.	a) BoT is a difference between export of good and import of good.. When Autonomous inflow is less than autonomous outflow BoP is ideficit. This deficit creates imbalance in BoP . To correct this imbalance accommodating items are used because BoP must be balanced. b) When Gvt reduces import duty imports will increase. So demand for forex rises. Excess demand for forex exists . Market exchange rate rises so domestic currency depreciates.	3+3
24.	a) GDPmp = 720+230+150+25+75+130 +100+20 = 1450 b) Changes in stock = GDP mp – sales + intermediate cost 1450-700 + 400 = 1150	4 + 2