FIRST PRELIMINARY EXAMINATION

JANUARY 2019

SET C

CLASS XII

Marking Scheme – SUBJECT [THEORY]

Q.NO.	Answers		Marks (with split up)	
1.	d) Non diminishing		1	
2.	What to produce			1
		Or		
	For whom to produce			
3.	Total product increases			1
4.	The graphical representation of quanti price in a given period of time.		l firms at particular	1
	Increase or decrease in supply or shift influencing supply other than price.	of the supply cur	rve due to factor	
5.	Depending on the relation with income normal good.			1 ½ +1 ½
	When there is rise in income of the consumer demand for normal good increases so demand curve shift to its right. When income rises demand for an			
	inferior good decreases so demand cur	-		
6.	A production possibility curve is down			1mark
0.	means society must sacrifice one com			Tillark
	another commodity.	mounty to produc	e one more unit or	
	-	od 2 MO	OC .	Table
	1 1		<u>-</u>	2mark
	2 1	4 1		
	3 1	2 2		
	4 9			
	O	•		
	Opportunity cost is defined as the next best alternative sacrifice. Due to MOC a production possibility curve is down ward sloping			1 mark
	Good1 Good		OC	2mark
	1 1		-	
	2 1 3 1			
	4 9	3		

7.	Elasticity =	25%/ 2/10 x10	0 = -1.25			2+2
		quantity demand				
8.	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				2marks	
	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					
				-	te 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)	s market so we	camot mid de	mand curve unde	
		(113)				
9.	Output	Average fixed	Average	Average	Marginal cost	½ x8=4
		cost	cost	variable cost		
	2	120 60	200 130	80- 70	-80 60	
	3	40	130	60-	40	
10.	Cardinal App					3+3
		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.					
	litely.					
	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					
						7
						<u>'</u>
		ches equilibrium			missing — price	
11.		s reduction in th		11 *	•	4+2 m for
		supply curve sh			11 0	daigram
					ellers in the mark	et.
	(diagram)	ower of the buye	er mereases se	price rans and	qualitity fails	
12.		sells more outpu	it at given pric	e		2
		e increases at co				
	Marginal revenue is constant and positive and average revenue is constant					
	Output	price total re	venue MR	AR		
	1	10 10	10	10		
	2	10 20	10			2 1
	Any relevant numbers with constant price.				3 marks	
	AR = TR/Q, $TR = PXQ$ so $AR = P$					
	$\Delta V = VV$, IN - IAQ SC) AIX — I			

		1 mark
	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)	2mark
		4 marks
	SECTION B (MACRO ECONOMICS)	
13.	C) The rate of change in consumption is less than rate of change in income	1
14.	In An economy when actual AD > AS at full employment equilibrium is called excess demand Or	1
	Total value of goods and services produced in an economy in year.(NI)	
15.	Repo rate is for short term loans interest paid by commercial bank and reverse repo rate is the interest paid by central bank to commercial bank	1
16.	D) savings under national saving scheme	1
17.	Revenue Deficit:-It refers to the excess of total revenue expenditure of the government over its total revenue receipts. Revenue deficit = Total Revenue expenditure - Total Revenue receipts Implication	3
	Government is dissaving Interest liability increases forced to cut daily consumption expenditure	
18.	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	1 ½ x 2
	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.	
19.	Externalities are the benefits or harms that a third party experience due to production. Benefits are called positive externalities and harms are called	4

	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		
20	It causes under estimation of GDP.	4	
20.	Sum of ratio = 5 so mpc is $4/5 = 0.8$ a) AD = $200 + .80 \times 2000 = 1800$	4	
	b) Multiplier = 1/0.2 = 5		
21.	Currency issued by central bank but deposits created by commercial bank. By	4	
	creating deposits central bank create adequate credit also depends on the		
	initial 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.		
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 $S=0$.	4+2	
	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 eqn $C+I = C+S$, So $S=I$		
	Economy can be in eqm both the conditions are satisfied. 3 marks (Diagram) 3 marks with labelling		
23.	a) BoP is a systematic record of all eco transaction between residents and	3+3	
	ROW.		
	When Autonomous inflow is not equal to autonomous outflow BoP is		
	imbalance. To correct this balance accommodating items are used		
	because BoP must be balanced.		
	b) The withdrawal causes outflow of forex which leads to decrease in		
	supply of forex . Excess demand for forex rises . Market exchange rate		

	rises which means value of domestic currency falls so depreciation of	
	currency	
24.	GDPmp = wages and salaries + rent and royalty + retained earning + c tax +	4 + 2
	Changes in stock $= 1190$	