INDIAN SCHOOL MUSCAT
SECOND PRELIMINARY EXAMINATION

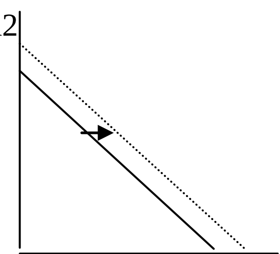
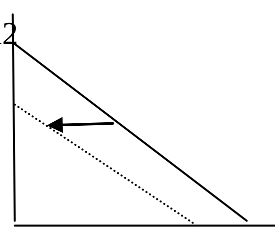
SET – 1

ECONOMICS

CLASS: XII | **Sub. Code:030** | **Time Allotted: 3 Hrs.**

11.02.2019 | **Max. Marks:80**

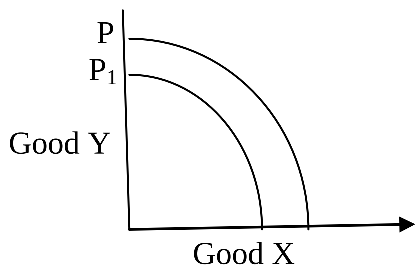
EXPECTED VALUE POINTS AND SCHEME OF EVALUATION

<table>
<tr><th>Q.NO.</th><th>Answers</th><th>Marks (with split up)</th></tr>
<tr><td>1.</td><td>C. Equal to Average Revenue.
OR
d. Average Fixed Cost is diminishing as output is increasing</td><td>1</td></tr>
<tr><td>2.</td><td>Micro economics studies individual economic units and macroeconomics studies aggregate economic units</td><td>1</td></tr>
<tr><td>3.</td><td>b. Perfectly inelastic</td><td>1</td></tr>
<tr><td>4.</td><td>Rs.10
OR
Rs.70</td><td>1</td></tr>
<tr><td>5.</td><td>Slope of budget line does not change. Slope of BL=P_1/P_2. Prices of both the good do not change. When income increases BL shift to outward parallel to right. When income decreases, BL shifts inward parallel to left.
good2

good1
When income increases
good2

Good1
when income decreases</td><td>1+2</td></tr>
<tr><td>6.</td><td>The rate at which output of one commodity is sacrificed to produce one more unit of the other commodity is called marginal opportunity cost.
MOC=unit of one good sacrificed/more units of other Good produced.
<table>
<tr><th>Good X</th><th>Good Y</th><th>MOC</th></tr>
<tr><td>0</td><td>10</td><td>----</td></tr>
</table></td><td>1+2</td></tr>
</table>

1	9	1Y :1X
2	7	2Y : 1X
3	4	3 Y: 1X
4	0	4 Y: 1 X

OR

Large scale out flow of foreign capital indicates decrease in resource of the country. As a result production possibility curve shift leftward.



In the diagram P is he original production possibility curve and as a result of decrease in resources it shift leftward from P to $P_{1.}$

7. Perfect competition is a form of market with large number of buyers and sellers, selling homogeneous product with no control over price by an individual firm. — 1+3

Homogeneous product ensures uniform price. The products are identical in colour, shape, quality etc. they are perfect substitutes to each other. The demand curve is perfectly elastic.

OR

It is a form of market in which there are few firms in the market and all firms co-operate each other in deciding price and output.

In oligopoly market prices are administered by the firms. Each rival firm reacts immediately to the changed price by its competitors due to which the price remains rigid in this market.so if a producer in this market form lowers his price , then competitors will immediately follow and lowers their price as well and if he increases his price, the competitors will not increase their price and he will lose his customers. Therefore firms follow a rigid price policy and concentrate on non-price competition.

8. AFC : 60 30 20 15 12 — ½ x 8 =4

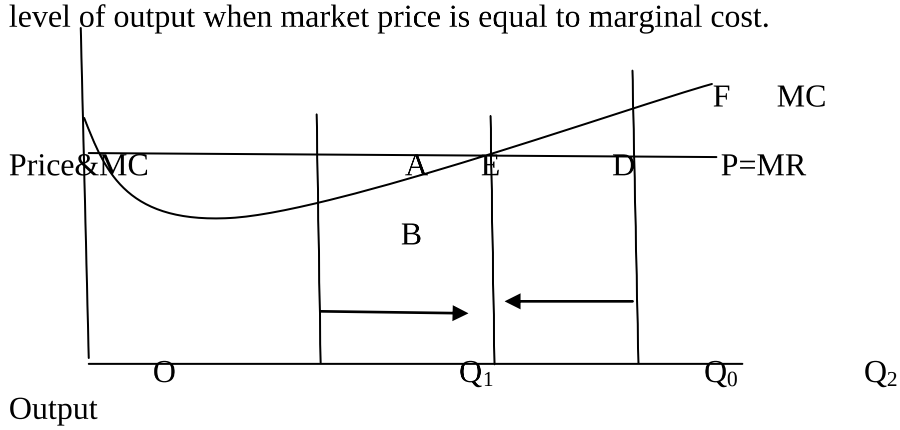
MC 12 10 8 9 10

TC 72 82 90 99 109

9. Ed = % change in quantity demanded / % change in price. — 1+1+2

$= -50\%/ (\Delta p/p)\ 100 = -50\%/ (5/10)100 = -50\%/50 = -1$

$-1 = -25\%/(\Delta p/10)100 = \Delta p = 2.5$. New Price = 10+2.5 = 12.5

	OR Quantity demanded is not at all responsive to change in price of the good. Ed= % change in quantity demanded / % change in price = -20% / (1/5) 100; -20/20 =-1 Unitary elastic demand. Percentage change in quantity demanded is equal to percentage change in price.	
10.	When both demand and supply decreases in the same proportion, equilibrium price remains the same but equilibrium quantity falls. (Diagram) When decrease in demand is more than decrease in supply equilibrium price and quantity both fall. (diagram)	3+3
11.	In perfect competition Market Price is constant so that it is equal to Marginal revenue. Market price becomes addition to total revenue from an additional unit of output produced. If Market price is more than the marginal cost, addition to total revenue is more the addition to total cost when firm increases the output. Firms can increase profits by increasing output. Firm cannot be at equilibrium because it wants to increase the output. If market price is less than the marginal cost, addition to total cost is more than the addition to total revenue by increasing the output. Profit falls by increasing the output. On the other hand if the firm reduces the output, decrease in total cost is more than the decrease in revenue. Firm can increase the profits by reducing the output Firm cannot be at equilibrium because it wants to reduce the output. This means that firm can make maximum profit when market price is equal to marginal cost and firm is at equilibrium when it produces a level of output when market price is equal to marginal cost.  At Q_1 output MP is more than the MC. Firm increases Output. By	6

<table>
<tr><td></td><td>increasing the output to Q0Increase in Total Revenue Q_1Q_0EA is more than the increase in total cost Q_1Q_0EB. Firm's gross profit will increase by an area ABE.
At Q_2 level of output MC is more than MP. Firm will reduce the level of output. By reducing the output, decrease in total cost Q_0Q_2FE is more than decrease in total revenue Q_0Q_2DE. Firm can increase the profit by reducing the output by an area EDF.
At output Q_0 MC=MP, firm gets maximum profits and is at equilibrium.
OR
<table>
<tr><td>Change in quantity supplied</td><td>Change in supply</td></tr>
<tr><td>More units of a commodity can be supplied at higher price and less can be supplied at lower price</td><td>More or less units can be supplied at the same price</td></tr>
<tr><td>It is due to change in price</td><td>It is due to change in factors other than price.i.e., change in price of inputs, government tax, change in technology etc</td></tr>
<tr><td>The supply curve moves upward or downward in the same supply curve.</td><td>The supply curve shifts rightward or leftward,</td></tr>
<tr><td>It is also known as expansion and contraction of supply</td><td>It is also known as increase or decrease in supply</td></tr>
<tr><td>Diagram</td><td>diagram</td></tr>
</table>
</td><td></td></tr>
<tr><td>12.</td><td>Complementary goods are those goods which are used jointly to satisfy a want. When a fall in the price of complementary goods, the demand for given good increases and the demand curve shift rightward.
(Diagram)
These are those goods which can be used in place of each other, such as tea and coffee. In case of such goods increase in the price of one causes increase in demand for other and vice-versa.
When price of substitute good increases the demand for given good increases and the demand curve shift rightwards.
Diagram.</td><td>3+3</td></tr>
<tr><td>13.</td><td>A fraction of total deposit that each commercial bank must keep with themselves in liquid assets.</td><td>1</td></tr>
<tr><td>14.</td><td>c. When there is excess demand central bank should increase margin requirement.</td><td>1</td></tr>
<tr><td>15.</td><td>c. 0.25</td><td>1</td></tr>
<tr><td>16.</td><td>Under employment equilibrium means equilibrium level of income and output when all the resources of the economy are not fully employed.</td><td>1</td></tr>
</table>

	OR The level of aggregate demand which is equal to aggregate supply or aggregate demand at equilibrium level of income and output.	
17.	The budgetary policy reduces inequalities of income through redistribution of income and wealth in the economy. To achieve this objective, government uses fiscal instruments of taxation and subsidies. By imposing taxes on rich and giving subsidies to the poor, the government redistributes income in favour of poorer sections of the society. Higher rate of taxation on higher incomes and lower rate of taxation on lower incomes reduces the gulf between income of rich and poor. OR The government tries to prevent business fluctuations and maintain price and employment stability. Economic stability stimulates inducement to invest and increases the rate of growth and development.	3
18.	(i) Capital Receipts- because it reduces financial assets of the government. (ii) Capital Receipt- It reduces the assets of the government. (iii)Revenue Receipt- it does not create any liability	1+1+1
19.	Money supply refers to total quantity or stock of money available in the economy at a particular point of time. Currency and coins held by the public Net demand deposit with the banks Net time deposits with the banks	4
20	**Fiscal Policy measures to correct Deficient Demand**: Fiscal policy is the taxation and expenditure policy of the government. When there is deficient demand, aggregate demand should increase to the extent of deflationary gap. For this two fiscal policy measures are suggested. i. Increasing the level of government expenditure:- An increasing the government expenditure equal to the amount of deflationary gap can push up the AD. Economy can restore the full employment equilibrium ii. Reduction of Taxation: A reduction in taxes will increase the disposable income of the people. As a result consumption demand increased to the extent of MPC times of increase in disposable income. This increases AD. Thus, a mix of increasing government expenditure and reduction of taxation can solve the problem of deficient demand. OR	2+1+1

	S=-200+0.25Y At equilibrium savings are equal to investment. S=-200+0.25x2000 S=300 I=300 Autonomous consumption = 200 Investment Multiplier = 1/0.25 = 4	
21	Gross domestic product when expressed in physical quantities called real GDP. It is measured on the basis of base year price. When expressed in terms of the current market value of these quantities, it is called nominal GDP. (b) Nominal Income = Real income x price index/100 = 200x135/100 = Rs.270 crore.	2+2 2+1+1
22	(a)Fall in the price of foreign currency leads to fall in its supply,. Now domestic currency becomes dearer in relation to the foreign currency. Foreign investors make less investment in the domestic economy. Domestic goods become expensive for foreigners. Lesser purchase by the non-residents in the domestic market. Export will decrease and this leads to fall in supply of foreign currency. (b)Capital account of balance of payment is that account which records all such transactions between resident of a country and rest of the world which cause a change in ownership of assets. It is a statement of all capital inflows and capital outflows during a period of an accounting year. Foreign direct investment means the investors have full control over the asset .but portfolio investment means investing in the form of shares and do not have full control over the asset.	3+3
23	GDP mp = Compensation of employees + Rent+ Interest+ profit+ depreciation+ Net Indirect Tax 1600+300+400+550+ (700+50 – 650) +300 + Rs.3250cr NFIA = GNPmp – GDPmp = 3000+300 – 3250 = Rs.50cr	
24	In Keynesian framework, determination of income, output and employment is determined solely by the level of Aggregate Demand. In a two sector	2+2+2

	model of an economy AD consists of only aggregate consumption and aggregate investment. AD=C+I. When the Desired Aggregate demand in an economy is equal to the total level of output in an economy, equilibrium level of income, output and employment is determined. At equilibrium. **AD = AS** **(Diagram)** If AD is greater than AS, there is a reduction of planned inventory. To keep the desired level of inventory production increases, employment increases, income and output increases till AD=AS. If AD is less than AS stock of inventory will increase. Production decreases, income and output decreases till the economy back to equilibrium level. OR Y = Rs.80cr C = Rs.64cr S =Y-C = 80-64=Rs.16cr. APS = S/Y = 16/80=0.20 APC = C/Y = 78/100= 0.78 MPC = ΔC/ΔY = 14/20 = 0.70	2+2+2