

Roll Number

Code Number

30/1



**INDIAN SCHOOL MUSCAT**  
**SECOND PRELIMINARY EXAMINATION**  
**ECONOMICS**

Sub. Code: 030

CLASS: XII

11.02.2019

Time Allotted: 3 Hrs.

Max. Marks: 80

**General Instructions:**

- (i) All questions in both the sections are compulsory
- (ii) Marks for questions are indicated against each question.
- (iii) Questions No. 1 – 4 and 13 – 16 are very short answer questions carrying **one** mark each. They are required to be answered in **one sentence** each.
- (iv) Questions No. 5 & 6 and 17 & 18 are short answer questions carrying **3** marks each. Answers to them should normally not exceed **60** words each.
- (v) Questions No. 7 – 9 and 19 – 21 are also short answer questions carrying 4 marks each. Answers to them should normally not exceed **70** words each.
- (vi) Questions No. 10 – 12 and 22 – 24 are long answer questions carrying **6** marks each. Answers to them should normally not exceed **100** words each.
- (vii) Answers should be brief and to the point and the above word limits should be adhered as far as possible.

**SECTION A**

- 1 A firm is able to sell any quantity of a good at a given price. The firm's marginal revenue will be : 1
- (a) Greater than Average Revenue
  - (b) Less than Average Revenue
  - (c) Equal to average revenue
  - (d) Zero

**OR**

The gap between Average Cost and Average Variable Cost is diminishing as the firm increases the output because:

- (a) Total fixed cost is diminishing as output is increasing.
  - (b) Total Variable Cost is diminishing as output is increasing.
  - (c) Average Variable Cost is diminishing as output is increasing.
  - (d) Average Fixed Cost is diminishing as output is increasing
- 2 State one point of difference between micro and macro economics. 1
- 3 Quantity supplied of a commodity by a firm will not change when its price increases only when its supply is: 1

- (a) Unitary elastic.
- (b) Perfectly inelastic.
- (c) Perfectly elastic.
- (d) Relatively elastic

- 4 A firm increases its output from 50 units to 60 units. As a result, its Total Variable cost rises from Rs.100 to Rs.200. What could be the Marginal Cost of Production? 1

**OR**

Total Variable cost and total fixed cost of producing 10 units are Rs.500 and Rs.200 respectively. What could be the value of average cost?

- 5 What happens to the slope of the Budget line when consumers income changes. Show with diagram. 3

- 6 Define Marginal Opportunity Cost. Explain the concept with a hypothetical numerical example. 3

**OR**

What will likely be the impact of large scale outflow of foreign capital on production possibility curve of the economy and why? Use diagram.

- 7 What is perfect competition? Explain the implication of 'Homogeneous product' in a perfectly competitive market. 4

**OR**

What is collusive oligopoly? Explain the feature 'price rigidity' in an oligopoly market.

- 8 Complete the following table: 4

Output (units)	Average fixed cost (Rs)	Marginal cost (Rs)	Total Cost (Rs)
1	-----	-----	-----
2	-----	10	82
3	20	8	-----
4	-----	-----	99
5	12	10	-----

- 9 When price of a product rises from Rs.10 to Rs.15 per unit, its quantity demanded decreases by 50 percent. Calculate its price elasticity of demand. At what price will its quantity demanded fall by 25 percent. 4

**OR**

What does perfectly inelastic demand mean? Calculate and comment on the nature of price elasticity of demand, if, with a rise in price of good X from Rs.5 to Rs.6, the quantity demanded falls by 20 per cent.

- 10 There is simultaneous decrease in demand and supply of a commodity. When will it result in: 6  
(a) No change in equilibrium price (b) a fall in equilibrium price. Use diagram to explain.

- 11 Explain the conditions of producer equilibrium with the help of a diagram. Use Marginal Cost and Marginal Revenue approach. 6

**OR**

Explain the distinction between change in quantity supplied and change in supply. Use diagrams.

- 12 Explain with the help of diagram, the effect of following changes on the demand for a commodity 6  
 (a) A fall in the price of complementary goods.  
 (b) A rise in the price of substitute goods

### SECTION B

- 13 What is 'statutory liquidity ratio'? 1
- 14 Which of the following statement is true? (choose the correct answer) 1  
 (a) At the time of deflationary gap Central Bank should sell government bonds and securities in the open market.  
 (b) At the time of inflationary gap Central Bank should reduce Cash Reserve Ratio.  
 (c) When there is excess demand Central Bank should increase the Margin Requirement.  
 (d) At the time of deficient demand Central Bank should increase Bank Rate
- 15 When the value of Investment multiplier is 4, Marginal propensity to Save is: (choose correct answer) 1  
 (a) 0.8  
 (b) 0.5  
 (c) 0.25  
 (d) 0.75
- 16 What does underemployment equilibrium mean? 1  
**OR**  
 What does effective demand mean?
- 17 How can government budget help in reducing inequalities of income? Explain. 3  
**OR**  
 Explain the 'economic stability' objective of a government budget.
- 18 Giving reasons categorise the following into revenue receipt and capital receipts. 3  
 (i) Recovery of loans  
 (ii) Sale of public sector undertaking.  
 (iii) Dividends on investment made by government.
- 19 What is money supply? What are the major components of 'M3' measure of money supply? 4
- 20 An economy is facing the problem of recessionary situation (deficient demand). How can the government use its fiscal policy measures to bring back the economy to normal situation? 4  
**OR**  
 The saving function of an economy is  $S = -200 + 0.25Y$ . The economy is in equilibrium when income is equal to 2000. Calculate the following:  
 (i) Investment expenditure at equilibrium level of income  
 (ii) Autonomous consumption  
 (iii) Investment multiplier
- 21 a) Distinguish between real and nominal gross domestic product. 4  
 b) Assuming real income to be Rs.200 crore and price index to be 135, calculate nominal income.

- 22 (a) When price of a foreign currency falls, the supply of that foreign currency also falls. Why? 6  
(b) What is capital account balance of payment? How is foreign direct investment different from portfolio investment?

- 23 Calculate Gross Domestic Product at market price and (b) Net Factor Income from abroad. 6

Items	Rs.in crore
Profit	550
Exports	40
Compensation of employees	1,600
Gross National Product at factor cost	3,000
Net current transfers from rest of the world	90
Rent	300
Interest	400
Factor income to abroad	120
Net Indirect Taxes	300
Net domestic capital formation	650
Gross fixed capital formation	700
Change in stock	50

- 24 Explain national income equilibrium through aggregate demand and aggregate supply. Use diagram. Also explain the changes that take place in an economy when the economy is not in equilibrium 6

**OR**

Given that National income is Rs.80 crore and consumption expenditure is Rs.64 crore, find out Average propensity to save. When income rises to Rs.100 crore and consumption expenditure to Rs.78 crore, what will be the Average Propensity to consume and Marginal Propensity Consume?

**End of the Question Paper**

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# INDIAN SCHOOL MUSCAT

## SECOND PRELIMINARY EXAMINATION

### ECONOMICS

Sub. Code: 030

**CLASS: XII**

**11.02.2019**

**Time Allotted: 3 Hrs.**

**Max. Marks: 80**

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### SECTION A

- 1 . When does shift in supply curve take place? 1

**OR**

A statement about supply of a good includes information on:

- (a) Quantity
- (b) Price
- (c) Period of time
- (d) All the above

- 2 What happens to the difference between Total Cost and Total variable cost as output is increased? 1

- 3 Define Marginal Rate of Transformation. 1

- 4 A firm increases its output from 85 units to 90 units. As a result, its Total Variable cost rises from Rs.180 to Rs.200. What could be the Marginal Cost of Production? 1

**OR**

State the reason behind 'U' shape nature of Average Variable Cost curve.

- 5 Explain conditions determining how many units of a good consumer will buy at a given price, with the help of a utility schedule. 3
- 6 What is likely to be the impact of efforts towards reducing unemployment on the production potential of the economy? Explain. 3

**OR**

Define Production Possibility curve? Why Production Possibility curve is concave to the origin.

- 7 Explain the implication of product differentiation under the condition of monopolistic competition. 4

**OR**

Explain the implications of 'absence of close substitutes' for the product of the firm under the condition of monopoly.

- 8 4

Output (units)	Average Fixed Cost (Rs)	Marginal cost (Rs)	Total cost (Rs)
1	-----	-----	-----
2	-----	20	164
3	40	16	-----
4	-----	-----	198
5	24	20	-----

- 9 What does perfectly inelastic demand mean? Calculate and comment on the nature of price elasticity of demand, if, with a rise in price of good X from Rs.5 to Rs.6, the quantity demanded falls by 20%. 4

**OR**

When price of a product rises from Rs.10 to Rs.15 per unit, its quantity demanded decreases by 50 percent. Calculate its price elasticity of demand. At what price will its quantity demanded fall by 25 percent.

- 10 Explain with the help of diagram, the effect of following changes on the demand for a commodity 6
- (a) A fall in the price of complementary goods.
- (b) A rise in the price of substitute goods.

- 11 The market for motorcycles is in equilibrium. Suppose the price of steel parts, used in motorcycles, increases. Explain the effect of rise in the price of steel parts on equilibrium price and quantity of motor cycles. (Use diagram) 6

- 12 Explain with the help of a schedule, the likely behavior of Total Product and Marginal Product in case of increasing production when only one input is increased while all other inputs are kept constant. 6

**OR**

Giving reasons explain the effect on market supply of a good under the following situation. Use diagram.

- a. Prices of inputs for production of good increase.
- b. Government increases unit tax on the good

## SECTION B

- 13 Which of the following statement is not true? (choose the correct answer) 1
- (a) At the time of deflationary gap Central Bank should sell government bonds and securities in the open market.
  - (b) At the time of inflationary gap Central Bank should increase Cash Reserve Ratio.
  - (c) When there is excess demand Central Bank should increase the Margin Requirement.
  - (d) At the time of deficient demand Central Bank should reduce Bank Rate.
- 14 What are demand deposits? 1
- OR**
- What is fiat money?
- 15 When the value of Investment multiplier is 5, Marginal propensity to Save is: (choose correct answer) 1
- (a) 0.8
  - (b) 0.5
  - (c) 0.2
  - (d) 0.75
- 16 What does involuntary unemployment mean? 1
- 17 What is meant by capital receipts? What are the components of capital receipt of the government? 3
- OR**
- What is fiscal deficit? What are the implications of fiscal deficit?
- 18 How can budgetary policy be used to reduce inequalities of income? 3
- 19 Distinguish between : 4
- Net exports and Net factor income from abroad
  - Gross Fixed capital formation and changes in inventory capital.
- 20 In an economy, 75% of the increase in income is spent on consumption. Investment is increased by Rs.1000 crore. Calculate: 4
- (a) Total increase in income
  - (b) Total increase in consumption expenditure.
- OR**
- In an economy  $S = -100 + 0.6y$  is the saving function, where S is saving and Y is national income. If investment expenditure is 1,100, calculate:
- (i) Equilibrium level of national income
  - (ii) Consumption expenditure at equilibrium level of national income.
- 21 Explain 'banker to the government function' of the Central Bank. 4
- 22 (a) When price of a foreign currency falls, the supply of that foreign currency also falls. Why? 6
- (b) What is capital account balance of payment? How is foreign direct investment different from portfolio investment?
- 23 What does 'inflationary gap' mean? How does it arise? How can the government use its fiscal policy measures to bring back the economy to normal situation? Use diagram 6

**OR**

Using Consumption and Investment Approach, explain the theory of determination of equilibrium level of income and output in an economy. Also explain the changes that take place in an economy when the economy is not in equilibrium. Use diagram.

- 24 From the following data, calculate Gross domestic product at factor cost and (b) Factor income to abroad.

Items	Rs.in crores
Compensation of employees	1,000
Profits	200
dividends	80
Gross national product at market price	1800
Rent	250
Interest	200
Gross domestic capital formation	300
Net fixed capital formation	200
Change in stock	50
Factor income from abroad	80
Net indirect taxes	120

**End of the Question Paper**



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**SECTION A**

- 1 State the reason why Total Variable Cost (TVC) curve and Total Cost (TC) curve are parallel to each other. 1

**OR**

State the reason behind U shape nature of Average Variable Cost Curve.

- 2 State two features of resources that give rise to an economic problem 1
- 3 Quantity supplied of a commodity by a firm will not change when its price increases only when its supply is: 1
- (a) Unitary elastic.
  - (b) Perfectly inelastic.
  - (c) Perfectly elastic.
  - (d) Relatively elastic.

- 4 Average Revenue is always equal to: 1
- (a) Price (b) Cost (c) Profit (d) Revenue

**OR**

A firm is able to sell more quantity of a good only by lowering the price. The firm's marginal revenue, as he goes on selling, would be:

- (a) Greater than average revenue
- (b) Equal to average revenue
- (c) Less than average revenue
- (d) zero

5 Why is an indifference curve convex to the origin? Explain. 3

6 What is likely to be the impact of efforts towards reducing unemployment on the production potential of the economy? Explain. 3

**OR**

Giving reasons comment on the shape of production possibility curve based on the following schedule.

Good X(units)	0	1	2	3	4
Good Y(units)	30	27	21	12	0

7 When price of a product falls from Rs.10 to Rs.5 per unit, its quantity demanded doubles. Calculate its price elasticity of demand. At what price will its quantity demanded fall by 50 percent? 4

**OR**

What does relatively inelastic demand mean? Calculate and comment on price elasticity of demand for the good X if its price rises from Rs.8 to Rs.10 and its quantity demanded falls by 20 percent.

8 Complete the following table: 4

Output (Units)	Average Variable cost (Rs)	Total Cost (Rs)	Marginal Cost (Rs)
1	----	60	20
2	18	----	----
3	----	----	18
4	20	120	----
5	22	-----	----

9 Define Monopoly. Explain the implications of 'absence of close substitutes' for the product of the firm under the condition of monopoly. 4

**OR**

Define Monopolistic competition. Explain the implication of product differentiation under the condition of monopolistic competition.

10 Why is there an inverse relationship between price of a commodity and its demand? Discuss any three factors. 6

11 Explain the conditions of producer equilibrium with the help of a diagram. Use Marginal Cost and Marginal Revenue approach. 6

**OR**

Explain with the help of a schedule, the likely behavior of Total Product and Marginal Product in case of increasing production when only one input is increased while all other inputs are kept constant.

- 12 Using suitable diagram, explain the effect on market price and quantity exchanged in the market of good X under the following situations. 6
- Good X is complementary to good Y and market price of good Y increases.
  - Good X is a substitute for good Y and market price of good Y increases.

### SECTION B

- 13 When the value of Investment multiplier is 2, Marginal propensity to Save is: (choose correct answer) 1
- 0.8
  - 0.5
  - 0.2
  - 0.75
- 14 Which of the following statement is not true? (choose the correct answer) 1
- At the time of deflationary gap Central Bank should purchase government bonds and securities in the open market.
  - At the time of inflationary gap Central Bank should increase Cash Reserve Ratio.
  - When there is excess demand Central Bank should decrease the Margin Requirement.
  - At the time of deficient demand Central Bank should reduce Bank Rate
- 15 State the two components of money supply. 1
- 16 Reverse Repo Rate is: (choose the correct alternative) 1
- Equal to repo rate
  - Higher than repo rate
  - Lower than repo rate
  - None of these.

**OR**

What is the relationship between investment multiplier and marginal propensity to consume?

- 17 What is fiscal deficit? State the implications of fiscal deficit. 3
- 18 How can government budget help in reducing inequalities of income? Explain. 3
- OR**
- Explain the 'economic stability' objective of a government budget
- 19 (a) Distinguish between real and nominal gross domestic product. 4
- (b) Assuming real income to be Rs.200 crore and price index to be 135, calculate nominal income
- 20 An economy is facing the problem of recessionary situation (deficient demand). How can the government use its fiscal policy measures to bring back the economy to normal situation? 4

**OR**

The saving function of an economy is  $S = -200 + 0.25Y$ . The economy is in equilibrium when income is equal to 2000. Calculate the following:

- Investment expenditure at equilibrium level of income
- Autonomous consumption

(iii) Investment multiplier

- 21 Explain 'Banker's bank and supervisor' function of central bank. 4
- 22 Calculate Gross Domestic Product at Market Price and (b) Factor Income from abroad from the following data: 6

Items	Rs.in crore
Profit	550
Exports	40
Compensation of employees	1,600
Gross National Product at factor cost	3,000
Net current transfers from rest of the world	90
Rent	300
Interest	400
Factor income to abroad	120
Net Indirect Taxes	300
Net domestic capital formation	650
Gross fixed capital formation	700
Change in stock	50

- 23 Explain the meaning of inflationary gap with the help of a diagram. Briefly explain the role of Bank rate policy to control inflationary gap. 6

**OR**

Given that National income is Rs.80 crore and consumption expenditure is Rs.64 crore, find out Average propensity to save. When income rises to Rs.100 crore and consumption expenditure to Rs.78 crore, what will be the Average Propensity to consume and Marginal Propensity to Consume?

24. (a) 'Devaluation and depreciation of currency is one and the same thing'. Do you agree? How do they affect the exports of a country? 6
- (b) In which sub-account and on which side of Balance of payments Account will foreign investments in India be recorded? Give reasons.

**End of the Question Paper**