INDIAN SCHOOL MUSCAT
SAMPLE PAPER – SOLVED -2

SUBJECT : ECONOMICS

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

Max. Marks: 80

SECTION A (MICRO ECONOMICS)

1	What does a rightward shift of production possibility curve indicate? Growth of resources or improvement in technology.	1
2	Define marginal product. Marginal Product is the addition to the total product by employing an additional unit of variable factor (labour).	1
3	Which of the following cost decreases continuously with increase in production? (choose the correct alternative) a) Total Variable cost b) Marginal cost c) Average Total cost d) Average Fixed Cost (d) Average Fixed Cost	1
4	A firm is operating in a market where it can sell any quantity of a commodity at a given price. As more units of the commodity are sold, the relation between marginal revenue(MR) and average revenue is (AR) is: (choose the correct alternative) a) Average Revenue>Marginal Revenue (AR>MR) b) Average Revenue=Marginal Revenue (AR=MR) c) Average Revenue<Marginal Revenue (AR<MR d) None of the above (b) Average Revenue = Marginal Revenue (AR = MR)	1
5	Define marginal opportunity cost. Discuss briefly the concept with the help of a numerical example. OR State any three assumptions on which a production possibility curve is based.	3

<table>
<tr><td></td><td>Marginal opportunity cost is the ratio of number of units of a good sacrificed (Good Y) to produce an additional unit of another good (Good X).
<table>
<tr><td>combinations</td><td>Good X</td><td>Good Y</td><td>MOC = $\frac{\Delta y}{\Delta x}$</td></tr>
<tr><td>A</td><td>0</td><td></td><td></td></tr>
<tr><td>B</td><td>1</td><td></td><td></td></tr>
<tr><td>C</td><td>2</td><td></td><td></td></tr>
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Suppose an economy shifts from combination (0X,15Y) to (1X,14Y), then MOC of producing one more unit of X is 1Y. Similarly, if the economy shifts from combination (1X,14Y) to (2X,12Y), then MOC of producing one more unit of X is 2Y.
(any other relevant numerical example)
OR
Assumptions of Production Possibility Curve:
1. Available resources are fixed.
2. State of technology remains unchanged.
3. Available resources are fully utilised.
4. The resources are efficiently employed.
5. The resources are not equally efficient in production of all products.
(any three)</td><td></td></tr>
<tr><td>6</td><td>What is market demand? State any two factors causing “increase” in market demand.
Market demand is the sum of quantity demanded which all the consumers are willing to buy at a given price during a period of time.
Factors of increase in market demand :-
1. Rise in income of consumers (in case of a normal goods).
2. Favourable change in taste & preferences.
3. Increase in number of consumers.
4. Fall in price of complementary goods.
5. Rise in price of substitute goods.
(any two)
(any other relevant factor must be evaluated)</td><td>3</td></tr>
<tr><td>7</td><td>A 5% fall in the price of Good X, leads to a 10% rise in its quantity demanded. A 20% rise in price of Good Y, leads to a 10% fall in its quantity demanded. Calculate the price elasticities of demand of the two goods. Out of the tow good which one is more elastic.
EdX = $\frac{percentage change in quantity demanded of Good X}{percentage change in price of the Good X}$
EdX = $\frac{10\%}{-5\%}$</td><td>4</td></tr>
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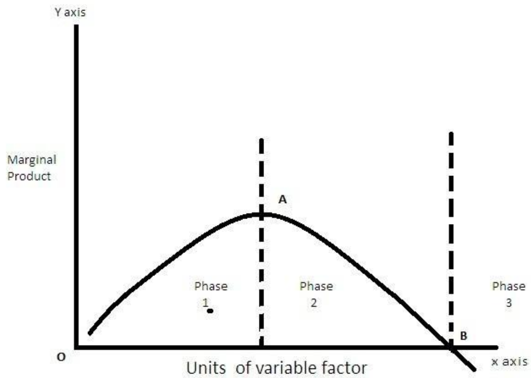
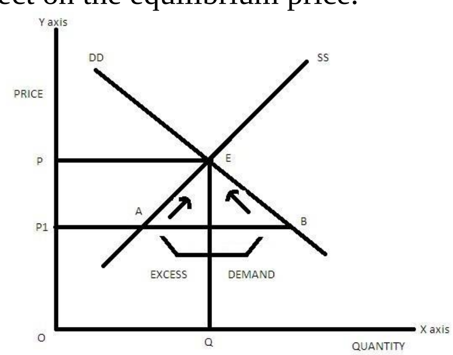
	= -2 EdY= $\frac{percentage change in quantity demanded of Good Y}{percentage change in price of the Good Y}$ EdY = $\frac{-10\%}{20\%}$ = -0.5 Good X is more elastic	
8	Why are firms interdependent in taking price and output decisions under Oligopoly? Explain. OR Why is a firm under perfect competition a price taker and a price maker under monopoly? Explain. Under oligopoly as there are only a few big firms competing in the market, each firm considerably affects and is affected by the other firms. Any action of a firm with respect to price or output is likely to create quick reaction by the rival firms and they may change their own price and output plans. Therefore, the given firm, expecting reactions from its rivals, takes into account such possible reactions before taking any decision about the price and output. It makes each firm dependent on other firms in the industry. OR Under perfect competition there are large numbers of sellers. Each firm has insignificant share in total market supply, so the firm cannot influence the market price by changing its supply. Thus the firm has no alternative but to sell its output at the prevailing market price and is therefore called a**'price-taker'**. Whereas, under monopoly there exists only a single seller, any change in the supply plan of that seller has substantial influence over the market price. That is why a monopolist is called a **'price-maker'**.	4
9	A producer is said to be in equilibrium at that level of output at which marginal cost is equal to marginal revenue. Why? Is equality between marginal cost and marginal revenue sufficient to ensure equilibrium? Explain. A producer is said to be in equilibrium at that level of output where MR=MC, because at this level of output producer earns maximum profit but it should be followed by rising MC at additional level of output. **Equality between marginal revenue and marginal cost is not a sufficient condition** as there may be a possibility of MC being less than MR (MC<MR), if additional units are produced.In this situation it will not be profitable for the firm to stop production. Therefore, in this case even though MC = MR the producer is not in equilibrium. However, after this level of output (MR=MC) if MC becomes greater than MR (MC>MR), it will be less profitable for the firm to produce more. **(Diagram not required)** **(to be marked as a whole)**	4

10	Answer the following: a) Meaning and equation of budget line. b) Meaning and equation of budget set. c) Meaning of indifference map. OR If a consumer faces the budget line equation: 20X + 10Y = 500 answer the following question i) What will be the slope of budget line? ii) How many units would be able to buy it the entire sum of Rs 500 is to be spent on Good X only? Show calculation. iii) Construct a new budget line equation if the price of Good Y falls by 50%. Also, write the slope of the new budget line equation. a) Budget line – is the locus of all such possible bundles of two goods (X and Y), which would cost the consumer exactly equal to his income. (Px)(Qx) + (Py)(Qy) = M b) Budget set – is the combinations of all possible bundles of two goods (X and Y), which the consumer can afford/purchase within his given money income at the prevailing market prices. (Px)(Qx) + (Py)(Qy) ≤ M c) Indifference map – is the set (or family) of indifference curves representing different levels of satisfaction for the consumer. **(Diagrams not required)** **Or** (i) Slope of the Budget Line = $\frac{Px}{Py}$ (ignoring minus sign) = $\frac{20}{10}$ = 2 (ii) Units of Good X, if entire income of consumer (₹ 500) is to be spent on Good X only (X-intercept) = $\frac{M}{Px}$ = $\frac{500}{20}$ = 25 units (iii) New Price of Good Y = Original Price – 50% of Original Price =10 – 5 = ₹5 New Budget line equation ☐20X+5Y = 500	6

	Slope of the new Budget line = $\frac{Px}{Py}$ (ignoring minus sign) = $\frac{20}{5}$ = 4	
11	What is the difference between short run and long run functions? State the different phases of the short run production function on the basis of marginal product. Use diagram. In short run production function, only one factor input is varied and other inputs remaining unchanged, whereas; in long run production function all the factor inputs are varied.  **Three phases** Phase I - Initially, MP rises till it reaches to its maximum point A. Phase II - MP falls but remains positive, between points A and B. Phase III - MP becomes negative after point B.	6
12	Explain the meaning of excess demand with the help of a diagram. Discuss its effect on the equilibrium price.  Excess demand means a situation when market demand is greater than market supply at a given price. As shown in the figure, excess demand(AB) will lead to the competition among buyers which will push the price upwards, because buyers will not be	6

	able to buy all they want to buy. As a result price will start moving upwards. At higher price sellers will supply more and buyers will demand less. There will be upward movement along the demand and supply curves, till the market reaches equilibrium at point E.	

SECTION B (MACRO ECONOMICS)

13	What is meant by money? Anything which is commonly accepted as a medium of exchange.	1
14	Define the revenue receipts of a governor. Revenue receipts are those receipts of the government which neither create any liabilities nor reduce any assets.	1
15	____________is the main source of money supply in an economy. (choose the correct alternative) a) Central bank b) commercial banks c) Both (a) and (b) d)Government (c) both (a) and (b)	1
16	Primary deficit is borrowing requirements of government for making________ (choose the correct alternative) a) Interest payments b) Other than interest payments c) All types of payments d) Some specific payments (b) Other than interest payments	1
17	If in an economy C=500+0.9Y and I = Rs 1000 crores. (where C = consumption expenditure, Y=National income, I=Investment) Calculate the following: i) Equilibrium level of income ii) Value of investment mulitipier (i) Equilibrium level of income will be determined when Y=C+I Y = 500+0.9Y+1000 Y-0.9Y = 1500 Y = 1500/0.10 = ₹15,000 crore. (ii) Value of Investment Multiplier = $\frac{1}{1-MPC}$ = $\frac{1}{1-0.9}$ = 10	3

18	Explain the role of bank rate in dealing with the problem of deficient demand. OR Explain the role of margin requirements in dealing with the problem of excess demand. Bank rate is that rate of interest at which the central bank lends money to the commercial banks. In case of deficient demand there is a need to liberalize credit. It can be done by reducing bank rate so that the commercial banks also reduce their lending rate, thereby increasing the availability of credit in the economy.**(to be marked as a whole)** Or Margin requirement is the difference between amount of loan offered and the market value of security offered against the loan. Higher the margin requirement lesser will be the demand for loan. In this situation of excess demand there is a need to restrict loan/credit which can be done by raising the margin requirements. **(to be marked as a whole)**	3
19	Give reasons, classify the following as Revenue expenditure and Capital expenditure: a) subsidies b) repayment of loans c) expenditure on collection of taxes d) expenditure on building a bridge (a) Subsidies – Revenue Expenditure, as it neither lead to any reduction in liabilities nor any increase in assets. (b) Repayment of Loans – Capital Expenditure, as it leads to reduction in liabilities. (c) Expenditure on collection of taxes - Revenue Expenditure, as it neither lead to any reduction in liabilities nor any increase in assets. (d) Expenditure on building a bridge – Capital Expenditure, as it leads to creation of an asset. (**No marks to be allotted if no reason is given or reason is wrong)**	4
20	Explain how "non-monetary exchanges" are a limitation of the Gross Domestic Product (GDP) as an indicator of welfare. **Non Monetary Exchanges:** are those activities in an economy which cannot be evaluated in terms of money due to non-availability of data, e.g. domestic services provided by family members at home, barter exchanges etc. Although these activities contribute to welfare, they are a major cause of underestimation of GDP in the economy. Therefore, GDP may not give the true picture of welfare of a country. **(to be marked as a whole)**	4
21	Explain the "bankers' bank" function of central bank. OR Explain the working of money multiplier with help of a numerical example. Banker's Bank – the central bank controls, organizes, regulates,	4

	directs and supervises the commercial banks. It performs various banking functions with the commercial banks like lending funds, maintaining reserves of the banks, parking the surplus funds of the banks etc. These kinds of the reserves can be utilized by the central bank in the case of any crisis. **(to be marked as a whole)** **Or** Money multiplier refers to the process of creation of credit by the commercial banks, with the help of initial deposits made by the public and legal reserve ratio. Money Multiplier = $\frac{1}{legal reserve ratio}$ Suppose there is an initial deposit of ₹1000 crores and the legal reserve ratio is 10%; then Money Multiplier = $\frac{1}{0.10}$ = 10 Total Deposits = Initial Deposit x $\frac{1}{legal reserve ratio}$ Credit Creation = 1000 x 10 = ₹10,000 crores **(Or any other relevant numerical example with explanation)** **(to be marked as a whole)**	
22	i) Calculate "Real Gross Domestic Product at Factor Product". ii) Calculate Gross National Product at market prices by (a) expenditure method and (b) income method. ITEMS — Rs. (crores) Compensation of employees — 100 Private final consumption expenditure — 200 Rent — 20 Government final consumption expenditure — 50 Profits — 10 Interest — 10	6

	Gross domestic capital formation 60 Net imports 10 Consumption of fixed income 20 Net Indirect Tax 30 Net factor income from abroad (-)20 change in stocks 10 Mixed income 110 **i) Real GDP:** When Gross Domestic Product is evaluated at constant/base year prices. ii) a) GNPmp (Expenditure Method) = (ii) + (iv) + (vii) – (viii) + (xi) = 200+50+60-(10)+(-20) = ₹280 crores b) GNPmp (Income Method) = (i) + (iii) + (v) +(vi)+(xiii)+(ix)+(x)+(xi) = 100+20+10+10+110+20+30+ (-20) =₹280 crores	
23	Giving reasons state whether the following statements are true or false: i) Average propensity to save cannot be negative. ii) Value of marginal propensity to consume can be greater than one. iii) Average propensity to consume can be greater that one. **(i)** False, average propensity to save can be negative at a level whenconsumption is greater than income. (ii) False, value of marginal propensity to consume cannot be greater than one as change in consumption cannot be greater than change in income. (iii) True, average propensity to consume can be greater than one, when consumption is greater than income. **(no marks if reason not given or reason is wrong)**	6
24	Answer the following: a) Distinguish between "devaluation" and "depreciation" of domestic currency. b) Distinguish between autonomous transactions and accommodating	6

	transactions in the balance of payments. What is the significance of this distinction? OR Giving reason explain how the following will be entered in (a) current account or capital account and (b) on credit side or debit side of balance of payments: i) Imports of machinery Investments from abroad **(a)** Devaluation of currency means fall in the value of domestic currency with respect to a foreign currency under the fixed exchange rate system, whereas, depreciation of currency means the fall in the value of domestic currency under theflexible exchange rate system (b) Autonomous transactions in BoP are transactions which are independent of the state of BOP whereas, accommodating transactions are the transactions undertaken to cover deficit/surplus in BOP. Significance of distinction: The deficit/surplus in BOP is determined by autonomoustransactions only. BOP is said to be in deficit when autonomous receipts fall short of autonomous payments. Or (i) Imports of Machinery – a) Recorded as visible items in the current account , because it does not change any liability or an asset. b) Recorded on debit side because it leads to outflow of foreign exchange. (ii) Investments from aboarda) Recorded in capital account because it creates a liability to pay foreign exchange. b) Recorded on credit side because it leads to inflow of foreign exchange. i) **(No marks if reason is not given)**	