

Roll Number

A



# INDIAN SCHOOL MUSCAT

## SECOND PRE-BOARD EXAMINATION

Economics												
CLASS: 12	Sub. Code: (030)	Time Allotted: 03 hours										
03.02.2020		Max. Marks: 80										
QP.NO.	VALUE POINTS	SPLIT UP MARKS										
SECTION – A – INTRODUCTORY MACROECONOMICS												
1.	State any two precautions to be taken while measuring national income by expenditure method. ANS: (i) only final expenditure (ii) expenditure on second hand goods (iii) expenditure on shares and bonds (iv) expenditure on transfer payments (v) imputed value of expenditure on goods produced for self-consumption (Any two precautions each carry ½ marks)	1										
2.	The percentage of demand deposits which the commercial banks are legally required to maintain as their liquid assets is called (a) CRR (b) Repo rate (c) SLR (d) Reverse repo rate Ans: c) SLR	1										
3.	If recession is to be combated: (a) Repo rate needs to be lowered (b) CRR needs to be lowered (c) Both (a) and (b) (d) Repo rate needs to be lowered and CRR needs to be raised Ans: (c) Both (a) and (b)	1										
4.	If MPS is 0.6, what will be change in savings when income increases by ₹ 50? Ans: 30	1										
5.	From the set of statements given column I and column II, choose the correct pair of statement: <table><tr><th>Column I</th><th>Column II</th></tr><tr><td>(a) At the Break Even point</td><td>(i) Equals National Income</td></tr><tr><td>(b) If MPC is equal to one</td><td>(ii) Value of k is infinity</td></tr><tr><td>(c) Value of aggregate demand</td><td>(iii) Depends upon investment</td></tr><tr><td>(d) Consumption in the economy</td><td>(iv) <math>C &gt; Y</math></td></tr></table> Ans: (b) If MPC is equal to zero – (ii) Value of K is infinity	Column I	Column II	(a) At the Break Even point	(i) Equals National Income	(b) If MPC is equal to one	(ii) Value of k is infinity	(c) Value of aggregate demand	(iii) Depends upon investment	(d) Consumption in the economy	(iv) $C > Y$	1
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6.	Does disinvestment refer to revenue receipts or capital receipts of the government? Give reasons. Ans: It is a capital receipt of the government, as it reduces assets of the government.	1
7.	What does zero primary deficit mean? Ans: It means the government resorts to borrowing only to clear the backlog of interest payments  <b>OR</b> The difference between fiscal deficit and interest payment is called _____. Ans: Primary deficit	1
8.	State whether the following statement is True/False and give valid reason for your answer. Trade of invisible items is a part of capital account of BoP. Ans: False. Capital account records all such transactions which cause a change in the ownership of assets between the domestic economy and rest of the world.	1
9.	What is official reserves account? Ans: It is the account indicating reserves of forex with the RBI.	1
10.	Accommodating items are those items of BoP which (a) Are not determined by considerations of profit (b) Are conditioned by the positive or negative BoP status (c) Lead to increase or decrease in official reserves with RBI (d) All of these Ans: (d) all of these	1
11.	Explain how 'non- monetary exchanges' are a limitation in taking gross domestic product as an index of welfare. Ans: (a) There are many goods and services which are left out of estimation of national income on account of practical estimation difficulties. For e.g.; services of housewives and other members, own account production, etc. (b) These are left on account of non-availability of data and problem in valuation. (c) It is generally agreed that these items contribute to economic welfare. (d) So, if we depend only on GDP, we would be underestimating economic welfare.	3
12.	When price of a foreign currency falls, the demand for that foreign currency rises. Explain, why? Ans: (i) When foreign currency becomes cheaper, we get more dollars per unit of our currency. Accordingly, imports become lucrative. This raises demand for foreign currency. (ii) When foreign currency becomes cheaper, domestic investors will be induced to make greater investment in rest of the world. Accordingly, demand for foreign currency rises.  <b>OR</b> When price of a foreign currency falls, the supply of that foreign currency also falls. Explain, why? Ans: (i) When foreign currency becomes cheaper, purchasing power of the foreign currency in the domestic market tends to fall. This leads to fall in foreign demand for the domestic goods. Implying fall in our exports. Accordingly, supply of foreign currency reduces. (ii) When foreign currency becomes cheaper, less rupees are available for a US dollar. Accordingly, foreigners are less inclined to make FDI. This reduces the supply of foreign currency.	3

13.	<p>Explain the 'Redistribution of income' objective of a government budget.</p> <p>Ans: The distribution of income and wealth is highly skewed in countries like India. 'Economic Divide' is huge and alarming. The budgetary policy helps solve the problem of economic divide. 'Taxation and subsidies' is the key policy instrument used by the government in this context. By imposing taxes on rich and giving subsidies to the poor, the government redistribute incomes in favour of poorer sections of the society. The government pursues the policy of progressive taxation. It implies higher rate of taxation on higher incomes and lower rate of taxation on lower incomes. It reduces the gulf between disposable income of the rich and that of the poor. Further the government spends a lot of money in providing food grains of BPL population at a very nominal price. This raises quality of life of the BPL families.</p> <p style="text-align: center;"><b>OR</b></p> <p>Explain the 'Economic stability' objective of a government budget.</p> <p>Ans:</p> <ul style="list-style-type: none"><li>(i) Free play of market forces are bound to generate trade cycles.</li><li>(ii) These refer to the phases of recession, depression, recovery and boom in the economy.</li><li>(iii) The government of a country is always committed to save the economy from business cycles. Budget is used as an important [policy instrument to combat the situations of deflation and inflation.</li><li>(iv) By doing it the government tries to achieve the state of economic stability.</li><li>(v) Economic stability leads to more investment and increases the rate of growth and development.</li></ul>	4								
14.	<p>Explain the role of the following in correcting the inflationary gap in an economy:</p> <ul style="list-style-type: none"><li>(a) Legal Reserves</li><li>(b) Bank rate</li></ul> <p>(a) Legal Reserves: Banks are obliged to maintain reserves with the central bank, which is known as legal reserve ratio. It has two components. One is the cash reserve ratio and other is the statutory liquidity ratio. CRR: CRR is raised to correct situations of excess demand. A rise in CRR reduces credit creation capacity of the commercial banks with their given cash reserves. Reduction in the creation of credit implies a reduction in the availability of credit in the market. Accordingly, AD reduces, as required to correct excess demand.</p> <p>(b) Bank rate: Bank rate is the rate of interest at which the central bank lends money to the commercial banks without any collateral. To correct the situation of excess demand, repo rate is increased. As a follow up action the commercial banks raise the market rate of interest. This reduces demand for credit. Consequently, consumption expenditure and investment expenditure are reduced. Implying a reduction in AD, as required to correct excess demand.</p>	4								
15.	<p>Explain the distinction between 'Statutory Liquidity ratio' and Legal Reserve Ratio'.</p> <table><tr><th>CRR</th><th>SLR</th></tr><tr><td>It refers to the ratio between cash reserves It refers to the ratio between cash reserves of the commercial bank of the commercial banks with the central bank and their deposits.</td><td>It refers to the ratio between liquid assets and total deposits of the commercial banks.</td></tr><tr><td>CRR is raised to correct the situation of excess demand</td><td>During situations of excess demand , SLR is raised with a view to soaking liquidity</td></tr><tr><td>CRR is lowered when deficient demand needs to be corrected</td><td>SLR is lowered when deficient demand needs to be corrected</td></tr></table>	CRR	SLR	It refers to the ratio between cash reserves It refers to the ratio between cash reserves of the commercial bank of the commercial banks with the central bank and their deposits.	It refers to the ratio between liquid assets and total deposits of the commercial banks.	CRR is raised to correct the situation of excess demand	During situations of excess demand , SLR is raised with a view to soaking liquidity	CRR is lowered when deficient demand needs to be corrected	SLR is lowered when deficient demand needs to be corrected	4
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16.	<p>(a) Find 'Investment' from the following: National Income - ₹ 800 Autonomous Consumption - ₹50 Marginal Propensity to Consume - 0.8</p> <p>(b) In an economy the marginal propensity to consume is 0.75. Investment expenditure in the economy increases by ₹ 75 crores. Calculate the total increase in national income.</p> <p>Ans:</p> <p>(a) At equilibrium <math>Y=C+I</math> <math>800=50+(0.8*800)+I</math> <math>800=50+640+I</math> <math>I=110</math></p> <p>(b) In an economy the marginal propensity to consume is 0.75. Investment expenditure in the economy increases by ₹ 75 crores.. Calculate the total increase in national income.</p> <p>Ans:</p> $k = \frac{1}{1 - MPC} \qquad k = \frac{1}{1 - 0.75}$ $k=4$ <p>We also know that <math>k = \frac{\Delta Y}{\Delta I} \qquad 4 = \frac{\Delta Y}{75}</math> <math>\Delta Y = ₹ 300 \text{ crores.}</math></p> <p style="text-align: center;"><b>OR</b></p> <p>Outline the steps required to be taken in deriving the consumption curve from the given saving curve.</p> <p>Ans:</p> <p>(a) Step-1, -C indicates negative saving when <math>Y=0</math>. This is equal to (-) OP. corresponding to it, C would be equal to OP. thus P becomes the starting point of C – function (when <math>Y= 0</math>)</p> <p>(b) Step-2, when <math>S=0</math>, <math>C=OP</math>. this corresponds to income level OL in both the figures. Thus between O to OL level of, <math>C&gt;Y</math>.</p> <p>(c) Step-3, Starting from P and passing through point Q, we stretch the C-function as a straight line. The line shows constant slope (=b). This corresponds to the constant slope of S-function = (1-b)</p>	6																				
17.	<p>From the following data, estimate the net value added at factor cost and show that it is equal to the sum of factor incomes.</p> <table border="1"><thead><tr><th></th><th>(₹ in crores)</th></tr></thead><tbody><tr><td>i. Sales</td><td>9600</td></tr><tr><td>ii. Increase in stocks</td><td>2080</td></tr><tr><td>iii. Intermediate consumption</td><td>2370</td></tr><tr><td>iv. Depreciation</td><td>450</td></tr><tr><td>v. Wages and salaries</td><td>5400</td></tr><tr><td>vi. Interest</td><td>250</td></tr><tr><td>vii. Rent</td><td>750</td></tr><tr><td>viii. Profit</td><td>2150</td></tr><tr><td>ix. Net indirect taxes</td><td>310</td></tr></tbody></table> <p>Ans:</p> <p>NVA<sub>fc</sub> = Sales + Increase in Stocks – Intermediate consumption – Depreciation – Net Indirect Taxes</p> $= 9600 + 2080 - 2370 - 450 - 310$ $= 11680 - 3130$ $= ₹8550 \text{ crores}$		(₹ in crores)	i. Sales	9600	ii. Increase in stocks	2080	iii. Intermediate consumption	2370	iv. Depreciation	450	v. Wages and salaries	5400	vi. Interest	250	vii. Rent	750	viii. Profit	2150	ix. Net indirect taxes	310	6
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	Sum of factor incomes (NDP <sub>fc</sub> ) = Wages and salaries + Rent + Interest + Profit = 5400 + 750 + 250 + 2150 = ₹8550 crores = 150=250+640+1000-30 = ₹2010 cores													
<b>SECTION B: INDIAN ECONOMIC DEVELOPMENT</b>														
18.	On the eve of independence, India was net exporter of: (a) Primary products (b) Finished industrial goods (c) Both (a) and (b) (d) None of these Ans: (a) primary products	1												
19.	The period of First Five Year plan was _____. Ans:1951 to 1956  <b>OR</b> Which of the following is not a component of privatization? (a) Contraction of public sector (b) Disinvestment in public sector enterprise (c) Sale of public sector's share (d) Purchase of public sector's share by the government Ans: (d) Purchase of public sector's share by the government	1												
20.	Arrange the following states in chronological order as per the population below poverty line in 2011 – 2012 and choose the correct alternative: i. Uttar Pradesh ii. West Bengal iii. Karnataka iv. Gujarat Choose the correct alternative. (a) (iii), (iv), (i), (ii) (b) (iii), (i), (iv), (ii) (c) (iv), (ii), (iii), (i) (d) (ii), (i), (iii), (iv) Ans: (d) (ii),(i),(iii), (iv)	1												
21.	Micro finance is a credit scheme extended to the poor through _____. Ans: SHGs	1												
22.	What is Head Count Ratio? Ans: when the number of poor is estimated as the provision of people below poverty line, it is known as 'Head count ratio'	1												
23.	The following table shows the population and worker population ratio for India in 1999-2000. Can you estimate the work force (urban) for India? <table><tr><td>Region</td><td>Estimates of population</td><td>Worker population ratio</td><td>Estimated No. of workers</td></tr><tr><td>Rural</td><td>71.88</td><td>41.9</td><td>30.12</td></tr><tr><td>Urban</td><td>28.52</td><td>33.7</td><td>?</td></tr></table> Ans: 9.61	Region	Estimates of population	Worker population ratio	Estimated No. of workers	Rural	71.88	41.9	30.12	Urban	28.52	33.7	?	1
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24.	An establishment with four hired workers is known as _____ (formal/informal) sector establishment. Ans: Informal	1										
25.	State whether the following statement is True/False with valid reason. Health services measured in monetary terms, life expectancy and mortality rates may not reflect the true health status of the people in a country. Ans: True. Using the indicators an analysis of improvement in health sectors and growth in real per capita income in both developing and developed countries shows that there is convergence in the measures of human capital but no sign of convergence of per capita real income.	1										
26.	Urbanisation in China is _____ %. Ans:56%	1										
27.	Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: <table border="1"><thead><tr><th>Column I</th><th>Column II</th></tr></thead><tbody><tr><td>a) Economic reforms in China</td><td>Between 1980 - 1984</td></tr><tr><td>b) Great Leap Forward Campaign</td><td>1978</td></tr><tr><td>c) Great Proletarian Cultural Revolution</td><td>1965</td></tr><tr><td>d) Special Economic Zones</td><td>1958</td></tr></tbody></table> Ans(d) Special Economic Zones - 1958	Column I	Column II	a) Economic reforms in China	Between 1980 - 1984	b) Great Leap Forward Campaign	1978	c) Great Proletarian Cultural Revolution	1965	d) Special Economic Zones	1958	1
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28.	Why was the public sector given the flagship role in the process of growth and development after independence? Ans: (i) Lack of capital (ii) Low inducement to invest (iii) Growth with social justice	3										
29.	Explain how there was a reversal of growth process under the British Raj in India. Ans: Prior to the colonial Rule in India, Indian economy was a vibrant economy. Doubtless, the agricultural sector was the main source of livelihood. But there was an all-round prosperity across all sectors of the economy. Agriculture was subsistence based, but the cultivators enjoyed the ownership rights and were to pay a reasonable amount of land revenue directly to the king. There were no middleman, and therefore, no exploitation. Industry was dominated by handicrafts, but it enjoyed worldwide reputation of producing quality products. <p style="text-align: center;"><b>OR</b></p> Why was it essential to reverse the economic policy in 1991? Ans: 1. Fiscal deficit 2. Balance of payment deficit 3. Gulf crisis 4. Fall in foreign exchange reserves 5. Inflation 6. Poor performance of public sector undertakings	3										
30.	What were the features of the industrial policy of 1956? Ans: New Classification of industries: The Industrial Policy of 1956 adopted the classification of industries into three categories viz., (i) Schedule A industries, (ii) Schedule B industries, and (iii) Schedule C industries according to the degree of state ownership and	4										

	<p>participation in their development:</p> <p>(a) Schedule A, which contained 17 Industries. All new units in these industries, such where their establishment in the private sector has ready been approved, would be set up only by the state.</p> <p>(b) Schedule B which contained 12 industries, such industries would be progressively state owned, but private enterprise is expected to supplement the efforts of the state in these fields.</p> <p>(c) Schedule C. All remaining industries fell in this category; the future development of these industries had been left to:</p> <p>(i) The initiative and enterprise of the private sector.</p> <p>(ii) Industrial licensing</p> <p>(iii) Industrial Sops</p>	
31.	<p>How does investment in human capital contribute to economic growth?</p> <p>Ans:</p> <ol style="list-style-type: none"> <li>1. Change in emotional and material environment of growth</li> <li>2. Higher productivity of physical capital</li> <li>3. Innovative skills</li> <li>4. Higher rate of participation</li> </ol> <p>(With explanation , Each carries 1- mark)</p> <p><b>OR</b></p> <p>What problems are being faced by the power sector in India?</p> <p>Ans:</p> <ol style="list-style-type: none"> <li>1. Inadequate generation of electricity</li> <li>2. Transmission loss</li> <li>3. Less capacity utilization</li> <li>4. losses of electricity boards</li> </ol> <p>(With explanation)</p>	4
32.	<p>What led to rapid growth in China, even when India, China and Pakistan together adopted the strategy of economic development?</p> <p>Ans: Various factors that led to the rapid growth in economic development in China:</p> <ol style="list-style-type: none"> <li>(i) Establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralized planning and existence of small enterprises helped positively in improving the social and income indicators in the post reform period.</li> <li>(ii) Through the commune system, there was more equitable distribution of food grains</li> <li>(iii) Each reform measure was first implemented at a smaller level and then extended on a massive scale.</li> <li>(iv) The experimentation under decentralized government enabled to assess the economic, social and political costs of success or failure. For instance, when reforms were made in agriculture by Handing over plots of land to individuals for cultivation, it brought prosperity to a vast number of poor people. It created conditions for the subsequent phenomenal growth in rural industries and built up a strong support base for more reforms. Scholars quote many such examples on how reform measures led to rapid growth in China.</li> </ol>	4
33.	<p>Do you agree with a view that tourism in India is less developed owing to the lack of essential infrastructure?</p> <p>Ans:</p> <p>It is true that tourism in India is less developed owing to the lack of essential infrastructure. Transport and communication are the two important elements of infrastructure related to tourism industry.</p> <p>While communication has shown a big breakthrough over the last two decades,</p>	6

	<p>transport facilities continue to be highly deficient. Of course, the transport facilities have grown over time. But the supply-demand gap continues to be as alarming as ever in the past. Indian railways continue to grapple with deficiency as well as inefficiency. Airways are expanding, but the expansion is slow, besides lacking in quality. Likewise, road transport is expanding but poor quality continues to be its distinct characteristic. Domestic water transport is yet to emerge as of any notable significance India must improve its transport infrastructure to promote its tourism industry. Foreign tourism can be a rich source of foreign exchange, but only when we have developed means of domestic transportation.</p>	
34.	<p>Distinguish between absolute poverty and relative poverty. Do you think GDP growth is the ultimate solution to the problem of poverty in India?</p> <p>Ans:</p> <p>Relative poverty: it refers to poverty of one set of people in relation to the other</p> <p>Absolute poverty: those below poverty line are deemed as absolutely poor.</p> <p>No, other measures are there to enhancing the quality of life of the poor.</p> <ul style="list-style-type: none"> <li>(i) Development of agriculture</li> <li>(ii) Stability in the price level</li> <li>(iii) Eradication of unemployment</li> <li>(iv) Labour intensive technique of production</li> <li>(v) Provision for minimum needs of the poor</li> <li>(vi) Special focus on backward regions</li> <li>(vii) Opportunity for self-employment</li> <li>(viii) Effective public distribution system</li> </ul> <p style="text-align: center;"><b>OR</b></p> <p>What is sustainable development? Discuss the strategy of sustainable development.</p> <p>Ans:</p> <p>Sustainable development is that process of development which meets the needs of present generation without reducing the ability of future generation to meet their own needs. (1 mark)</p> <p>Strategies:</p> <ul style="list-style-type: none"> <li>(i) Use of non-conventional sources of energy</li> <li>(ii) LPG, Gobar Gas in rural areas</li> <li>(iii) CNG in urban areas</li> <li>(iv) Wind power</li> <li>(v) Solar power</li> <li>(vi) Mini hydel plants</li> <li>(vii) Traditional knowledge and practices</li> <li>(viii) Bio composting</li> <li>(ix) Bio pest control</li> </ul> <p style="text-align: right;">(Any 5 with explanation – 5 marks)</p>	6