CBSE CLASS 12 ECONOMICS SAMPLE PAPER SET-2 (ANSWERS)

Sample Questions 2020-21

Class 12th   **Economics (030)**
MM – 80   **Time: 3 Hours**

General Instructions:

1. This question paper contains two parts:
      Part A - Macro Economics (40 marks)
      Part B - Indian Economic Development (40 marks).
2. Marks for questions are indicated against each question.
3. Question No. 1-10 and Question No. 18 – 27 (including two Case Based Questions)
are 1-mark questions and are to be answered in one word/sentence.
4. Case Based Questions (CBQ's) are Question No. 7-10 and Question No. 25-27.
5. Question No. 11-12 and Question No. 28 – 29 are 3 marks questions and are to be answered in 60 -
80 words each.
6. Question No. 13-15 and Question No. 30 – 32 are 4 marks questions and are to be answered in 80-
100 words each.
7. Question No. 16-17 and Question No. 33 – 34 are 6 marks questions and are to be answered in 100-
150 words each.
8. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Blue Print

Section-A Macro Economics					
Unit name	1 mark	3 Marks	4 Marks	6 marks	Total
National Income	1(R)	1(U)		1(A)	10
Money and Banking	1(U),1(A)		1(U)		6
Income determination	1(R), 1(U), 1(E)	1(A),		1(U)	12
Government Budget	1(U), 1(E)		1(R)		6
Balance of Payment	1(A), 1(E)		1(E)		6
Section A	10*1=10	2*3=6	3*4=12	2*6=12	40
Section- B Indian Economic Development					
Development Experience and Economic Reforms	1(R), 1(U), 1(A), 1(E)		1(R), 1(U)		12
Current Challenges facing Indian Economy	1(R), 1(U), 1(A), 1(E)	1(U), 1(A)		1(R), 1(E)	22
Development Experience of India	1(U), 1(E)		1(A)		6
Section B	10*1=10	2*3=6	3*4=12	2*6=12	40
Total	20*1=20	4*3=12	6*4=24	4*6=24	80

Creative Answer Type Questions: Q.No. – 29, 32, 34

Change in Questions:

| Marks Category	2018-19	2019-20	Changes
1 mark	8	20	Increased by 12
3 marks	4	4	No change
4 marks	6	6	No change
6 marks	6	4	Decreased by 2
Total Questions	24	34	

Solutions

Q	Macroeconomics	Marks
1	Decreases	1
2	An intermediate good is a product used to produce a final good or finished product—also referred to as a consumer good	1
3	K = 1/(MPS)	1
4	Bank rate and the repo rate.	1
5	False. It is selective credit control.	1
6	B. Commercial banks by the central bank	1

7	True	1
8	True	1
9	Current account and the capital account.	1
10	Revenue expenditure	1
11	(i) Intermediate expenditure as it involves expenditure on goods, which are single use producer goods. (ii) Final expenditure as it is an investment.	3
12	Let the income increase from 0 to 4000 with an increase of 1000. S = -200 + 0.5Y _(see table below)_ It can be observed that with the increase in income the APS is also increasing.	3
13	The total deposit created = 20000 Primary deposit = 2500 Total deposit created = Initial deposit X Money multiplier Thus, money multiplier = Total deposit/primary deposit Money multiplier = 20000/2500 = 8, Money multiplier = 1/reserve ratio Reserve ratio = 1/money multiplier Reserve ratio = ⅛ Reserve ratio = 12.5%	4
14	Selling of securities by Foreign Institutional Investors (FII's) in Indian capital market will lead to fall in the supply of foreign currency in the economy. This situation might lead to excess demand of foreign currency at the prevailing foreign exchange rate. As a result, a new equilibrium rate of foreign exchange will be determined which will be higher than the prevailing foreign exchange rate, leading to depreciation of domestic currency.	4

Table for Q.12:

Income	S = -200 + 0.5Y	APS
0	-200	-
1000	300	0.3
2000	800	0.4
3000	1300	0.434
4000	1800	0.45

exchange rate — Depreciation of Domestic Currency
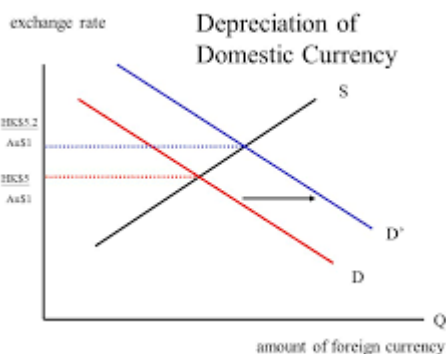
OR

Investments by large multinational corporations MNCs in India will ensure greater inflow of foreign exchange leading to an increase in the supply of foreign currency. This situation may result in excess supply of foreign currency in the economy at the prevailing foreign exchange rate. As a result, a new equilibrium rate of foreign exchange will be determined which will be lower than the prevailing foreign exchange rate leading to appreciation of domestic currency.

exchange rate — Appreciation of Domestic Currency
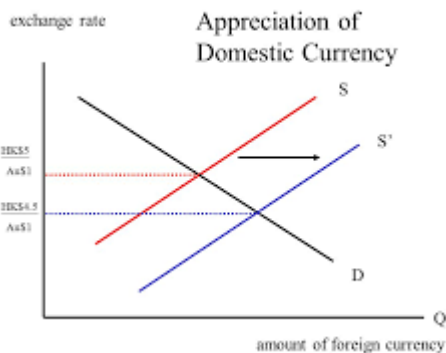
| 15 | The government does the allocation of resources in such a manner that there is a balance between the goals of profit maximisation of PSUs and social welfare in an economy. This allocation is done with the help of government budgetary policy. The government allocates the resources in accordance with the social and economic priorities of the country.
Government encourages the production of certain commodities by giving tax reliefs and providing necessary infrastructural requirements. On the other hand, it discourages production of hazardous and harmful goods by imposing heavy taxes, e.g., the government imposes tax on liquors and cigarettes. | 4 |

16	(a) Real Gross Domestic Product is a better indicator of economic growth than Nominal Gross Domestic Product as it is not affected by changes in general price level.	6

Numerical Example:

Suppose there are 3 products Appl, Banana and Guava

Products	Price in 2020 (P1)	Price in 2010 (P2)	Quantity in 2010 (Q1)	Nominal GDP (P1Q1)	Real GDP (P0Q1)
Apple	20	10	100	2000	1000
Banana	10	5	200	2000	1000
Guava	30	20	50	1500	1000
				Total Nominal GDP = ∑P1Q1 = 5500	Total Real GDP = ∑P0Q1 = 3000

In the above example the difference between Real GDP (∑P0Q1) and Nominal GDP (∑P1Q1) is 5,500-3,000 = ₹2,500. This is only the monetary difference as the quantity sold in the market remains unchanged and the variation in the value of GDP is merely due to the change in the prices in the economy.

(b) Calculation of depreciation of capital assets:

Depreciation = $\frac{\text{Capital value of the assets - Scrap value}}{\text{Estimated life of the assets}}$

$$= \frac{1{,}000\ cr - 0}{20\ years}$$

= 50 cr

OR

(a) The given statement is correct, In a two-sector circular flow model, there are obviously only two-sectors, namely, households and businesses.

The households are the owners of factors of production. They provide factor services to the businesses and earn factor incomes in return.

The businesses, on the other hand, use these factors to produce goods and services.

The households purchase these goods and services and pay consumption spending to the businesses. In this way, one's expenditure is the other's income.

(a) NDP at fc = GDP at mp - Depreciation - NIT

= 200 - 50 - 10

= 140

NDP at fc = Compensation of employee + Operating surplus + Mixed income of self employed

140 = COE + 20 + 45 + 25 + 5
COE = 140 - 95
COE = 45

17	Investment multiplier - The term investment multiplier refers to the concept that any increase in public or private investment spending has a more than proportionate positive impact on aggregate income and the general economy. In the working if investment multiplier, increase in income in the first round is always equal to additional investment. So, Increase in income in the first round =Rs.1,000 crores. The saving of Rs. 200 crores indicate that increase in consumption will be Rs. 800 crores in the first round. Additional consumption of Rs. 800 crores out of an additional income of Rs. 1,000 indicates that 80% of income is spent, Le. MPC = 0.8. The values of the second and third round are calculated on the basis of this data. Total Increase in Income = Additional Investment x kxk. In the given case: Multiplier (k)=1/1−MPC $\qquad$ =1/1−0.8 $\qquad$ =1/0.2 $\qquad$ =5 So, Total Increase in Income =1,000×5=Rs.5,000 crores Total Increase in Consumption = Total increase in Income × MPC =5,000 x 0.8=Rs.4,000 crores Total Increase in Saving == Total Increase in Income −− Total Increase in Consumption =5,000−4,000=1,000 crores Values of All other Rounds' is calculated after subtracting the values of first, second and third round from the total increase in income, consumption and saving respectively.	6

Round	Change in Investment	Increase in Income	Change in consumption	Change in saving
1	1000	1000	800	200
2	-	800	640	160
3	-	640	512	128
4	-	512	409.6	512
Total	1000	5000	4000	1000

	Indian Economic Development	
18	Central excise tax and service tax	1
19	Surplus of Balance of Payment	1

20	All of these	1
21	(d). Credit taken to meet expenditure on agriculture.	1
22	Disguised unemployment	1
23	(a)-ii, (b)-iv, ©-i, (d)-iii	1
24	UGC	1
25	Deforestation	1
26	China-India-Pakistan	1
27	a) 1978	1

28	The limits of organic farming in India;
	    a. Higher price
	    b. Lack of awareness
	    c. Less production
	
	 Merits of Organic farming in India
	    a. Healthier food
	    b. Sustains soil fertility
	    c. Generates income from exports
		3

29	Investment in the education system in India has been a woeful failure. The fact of the matter is that, in 1902 we were spending a meager 0.6 % of our GDP on education that rose to only 4% in 2014. This has fallen well short of 6 % target as proposed by the Education Commission. Moreover, throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall. This shows the apathy of the government towards investment in the education system. One can imagine, if the recommended 6 % p.a. of the GDP would have been spent properly the present education system would have reached unforeseen heights.	3
30	I defend the statement; I think subsidy is a burden still it needs to be provided to the farmers for their upliftment in the Indian society. Subsidies are more essential to encourage the farmers to test the new technology. Some economists felt the subsidies are a huge burden on the government finances. Hence, the subsidies should be phased out, once the technology is profitable and widely accepted. Fertiliser subsidy benefits the fertiliser industry in the prosperous regions and it does not benefit the target group. Few other economists believed that the government should continue with subsidies because the removal of subsidy will increase inequality between rich and poor farmers. Therefore, experts have to take steps to ensure only the poor farmers enjoy the benefits.	4
31	(a) Disinvestment - Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets. The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources. In some cases, disinvestment may be done to privatise assets.	4

	(b) Import Substitution - Import substitution is a strategy under trade policy that abolishes the import of foreign products and encourages the production in the domestic market. The purpose of this policy is to change the economic structure of the country by replacing foreign goods with domestic goods. OR (a) Outsourcing - Outsourcing is the practice of passing individual tasks, subareas, or business processes over to a third-party and thereby receiving the results from outside of your own company. Services that your company was responsible for fulfilling will now be provided by a specialized service provider. These tasks are often a business's secondary functions: tasks that must be fulfilled in order for a company to focus on its central activity. (b) Quota - A tariff quota permits the import of a certain quantity of a commodity duty-free or at a lower duty rate, while quantities exceeding the quota are subject to a higher duty rate. An import quota, on the other hand, restricts imports absolutely. If the quantity imported under a quota is less than would be imported in the absence of a quota, the domestic price of the commodity in question may rise.	
32	One child norm introduced in China in the late 1970's as the major reason for the population growth. This measure led to decline in the sex ratio, ie. the proportion of females, for 1000 males. For instance, after a few decades in China, there will be more elderly people in proportion to young people. This will force China to take steps to provide social security measures with fewer workers.	4
33	The various remedial measures needed to solve the problem of unemployment in India are: (i) Change in industrial technique: Production technique should suit the needs and means of the country. It is essential that labour intensive technology should be encouraged in place of capital-intensive technology. (ii) Policy regarding seasonal unemployment: Seasonal unemployment is found in the agriculture sector and agro based industries. To remove it: (a) Agriculture should have multiple cropping, (b) Plantations, horticulture, dairying and animal husbandry should be encouraged, (c) Cottage industries should be encouraged. (iii) Change in education system: Educational patterns should be completely changed. Students who have a liking for higher studies should be admitted to colleges and universities. Emphasis should be given on vocational education. Qualified engineers should start their own small units. (iv) Expansion of Employment exchanges: More employment exchanges should be opened. Information regarding employment opportunities should be given to people. (v) More assistance to self-employed people: Most people in India are self-employed. They are engaged in agriculture, trade, cottage and small-scale industries etc. These persons should be helped financially, providing raw materials and technical training. (vi) Full and more productive employment: The main objective of the county's employment policy should be to increase employment opportunities and productivity of labour. Govt. should adopt a policy that provides employment to all people.	6

34	The major problems faced by the rural banking system in India are as follows:	6
	1. Haste and Lack of Coordination in Branch Expansion: Haste in branch expansion programmes in many cases has resulted in lopsidedness due to lack of coordination. In several cases, it could not be ensured that the branches of the RRBs are opened at centres where no commercial or co-operative banking facilities were provided. **2. Difficulties in Deposit Mobilisation:** The RRBs encountered a number of practical difficulties in deposit mobilisation. On account of their restrictive lending policy which excludes richer sections of the village society, these potential depositors show least interest in depositing their money with these banks. **3. Constraints in Deposit Mobilisation:** The RRBs exclude the richer sections of the village society in providing direct financial assistance. These sections have potential savings to deposit. But they are least interested in depositing them with the RRBs in view of the restrictive credit policy of these banks. Further, state and local governments and their agencies also have not co-operated much by maintaining their deposit accounts with the RRBs. **4. Urban-Orientation of Staff:** A crucial practical difficulty experienced in their working by the RRBs is the urban orientation of their staff which is rarely inclined to serve in rural areas. There is no true local involvement of the bank staff in the village where they serve. **5. Procedural Rigidities:** The RRBs follow the procedures of the scheduled commercial banks in the matter of deposits and advancing loans which are highly complicated and time-consuming from the villagers' point of view. The rural borrowers always appreciate informal ways and simple procedures as have been followed by the money-lenders and the indigenous bankers.	