CBSE Class 12 Economics Question Paper Solution 2019

Economics Class 12 **Solution 2019**

<table>
<tr><td></td><td>Section A - Microeconomics</td><td></td></tr>
<tr><td>1</td><td>Horizontal Straight Line</td><td>1</td></tr>
<tr><td>2</td><td>Increase in resources
OR
Decreasing</td><td>1</td></tr>
<tr><td>3</td><td>Following are the two examples of implicit cost incurred by the firm:
(i) The imputed value of the services of the owner of the firm.
(ii) Imputed rent of the owner-occupied building.
OR
Variable cost is referred to as that type of cost that will show variations as per the changes in the levels of production. Eg. - The cost of raw material.</td><td>1</td></tr>
<tr><td>4</td><td>Elastic Supply</td><td>1</td></tr>
<tr><td>5</td><td>How to Produce: This problem refers to the choice of technique of production to employ in the production of the decided goods and services. That is, whether to employ labour intensive technique or to employ capital intensive technique of production. Here, the economy needs to decide which particular production technique should be adopted in order to utilize its available resources in the best possible efficient and optimal manner.
OR
(a) Normative economics: It deals with a situation as it ‘ought to be’.
(b) Positive economics: It deals with a real-life situation, justifiable by facts.
(No marks to be awarded if reason is not given)</td><td>3</td></tr>
<tr><td>6</td><td><table><tr><th>Quantity (in units)</th><th>TU (Utils)</th><th>MU (Utils)</th></tr><tr><td>1</td><td>10</td><td>10</td></tr><tr><td>2</td><td>13</td><td>3</td></tr><tr><td>3</td><td>15</td><td>2</td></tr><tr><td>4</td><td>19</td><td>4</td></tr><tr><td>5</td><td>19</td><td>0</td></tr><tr><td>6</td><td>16</td><td>-3</td></tr></table></td><td>3</td></tr>
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Relationship between total utility and marginal utility

- When total utility increases from 1st unit to 4th unit of consumption, marginal utility falls but remains positive.
- When total utility is maximum i.e. at 5th unit of consumption, marginal utility is zero.
- When total utility starts falling but remains positive i.e., at the 6th unit of consumption, marginal utility becomes negative.

(Or any other relevant schedule with explanation to be marked as a whole)

7 — 4

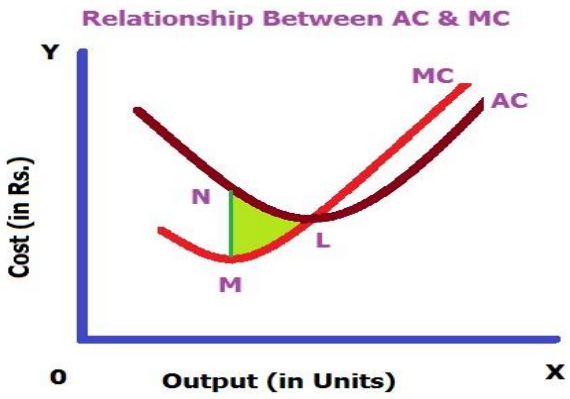
Output (in units)	Total Revenue (TR) (in ₹)	Marginal Revenue (MR) (in₹)		Total Cost (TC) (in ₹)	Marginal Cost (MC) (in₹)
1	20	**20**	=	20	**20**
2	40	20	>	30	10
3	60	20	>	36	6
4	80	20	>	40	4
5	100	**20**	=	60	**20**
6	120	20	<	90	30

Although MR = MC is equal at two different unit purchases but the firm will be in equilibrium at 5 units of output as at this level of output both the conditions of firm's equilibrium are satisfied. i.e.

(a) MR is equal to MC ₹20
(b) MC is increasing after the point of equilibrium

8	$E_d = -1.25$ $\text{Change in price } (\Delta P) = ₹4$ $\text{Percentage change in price } (\% \Delta P) = \frac{4}{10} \times 100 = 40\%$ $E_d = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$ $1.25 = \frac{\text{Percentage change in quantity demanded}}{40\%}$ (Ignoring minus sign) $\text{Percentage change in quantity demanded} = 1.25\,(40\%)$ $= 50\%$ (There is a fall in quantity demanded by 50%) **OR** **(a) The given statement is false:** A commodity has a positive relation with the coefficient of price elasticity, if that commodity can be used alternatively. If there is a fall in the price of such a commodity, the quantity demanded increases because consumers can put it for different uses. **(b) The given statement is false:** If the price of luxury goods increases, consumers may postpone their consumption. Hence the demand is elastic in nature.	4
9	**Price discrimination**: It refers to selling the same commodity at different prices to different consumers. For example: The railway sells their tickets at different prices to different consumers. **Product differentiation**: In monopolistic competition products are differentiated on the basis of brand, size, colour etc. The firms in the market sell commodities which are close substitute to each other. For example: Lux, Liril, Dove etc. in soap. **OR**	4

	In a perfect competition form of market, a firm is a price taker as the equilibrium price is determined by the free market forces of demand and supply. Industry is the key role player in price determination and the firms have to accept the market price as they have significant share in the market and can't influence the price determined by the industry.	
10	$(a)\ P_X Q_X + P_Y Q_Y = M$ $50.Q_X + 25.Q_Y = 500$ $(b)\ Slope = \frac{-P_X}{P_Y} = \frac{50}{25} = -2$ $(c)\ Q_X = \frac{M}{P_X} = \frac{500}{10} = 50\ units\ of\ Good\ X.$ $(d)\ Q_Y = \frac{M}{P_Y} = \frac{500}{50} = 10\ units\ of\ Good\ Y.\ (Since\ price\ of\ commodity\ Y\ has\ doubled)$ **OR** The given partial statement is true. As the consumer will get stable equilibrium only when the following two conditions are satisfied. For a consumer to be in the state of equilibrium, following conditions must be fulfilled: **First Condition**: $\frac{MUx}{Px} = \frac{MUy}{Py}$ Where, MUx = Marginal Utility of commodity X; Px = Price of commodity X MUy = Marginal Utility of commodity Y; Py = Price of commodity Y If $\frac{MUx}{Px}$ is not equal to $\frac{MUy}{Py}$ then the consumer is not in the state of Equilibrium. **If** $\frac{MUx}{Px} > \frac{MUy}{Py}$ then per rupee MUx > per rupee MUy. So, consumers will buy more of X and less of Y. This will reduce MUx and increase MUy. These changes will continue until $\frac{MUx}{Px} = \frac{MUy}{Py}$ **If** $\frac{MUx}{Px} < \frac{MUy}{Py}$ then per rupee MUx < per rupee MUy. So, consumers will buy more of Y and less of X.	6

	This will reduce MUy and increase MUx. These changes will continue until $\frac{MUx}{Px} = \frac{MUy}{Py}$ **Second Condition**: Unless MU falls as more of a good is consumed the consumer will not reach at equilibrium level.	
11	(a) **Perfect competition** The feature stated are, (i) There are a very large number of buyers and sellers. (ii) The products offered for sale in this market are homogeneous, i.e. exactly identical in all respects be it size, shape, colour, design etc. (iii) It implies that there is no restriction on entry or exit of a firm. (iv) Under perfect competition industry is the price maker and firms are price takers. (v) Perfect knowledge among buyers implies that they know everything about the product like, the size, quality, price etc. **(b) Price floor:** Price fixed by the government at a higher level than the equilibrium price to support the interest of the producers. Consequence of price floor: ● Excess supply ● Unsold stock with the producers	6
12	(a) Short run marginal cost (MC) curve is U shaped because of the application of the law of variable proportion. (b) (i) AC falls till MC curve lies below AC curve i.e. MC < AC. (ii) AC is minimum and constant where MC curve intersects AC curve i.e. MC=AC. (iii) AC rises when MC curve is above AC curve i.e. MC>AC ● Both AC and MC are U 'shaped' i.e. with increase in output initially they fall and after reaching their minimum point they start rising. ● Shaded region 'LMN' shows that AC can fall even if MC is rising.  	6

	Section B - Macroeconomics	
13	Demand deposits are those deposits which are withdrawable at any time.	1
14	Fees, Files, Penalties, Escheat etc. **OR** (a) Non tax revenue receipts	1
15	Central bank is the only bank that can come to the rescue of the concerned bank in case of a financial emergency.	1
16	Measures to control Revenue Deficit: (a) To increase taxation (b) To reduce the burden of subsidy (c) To reduce government administrative expenses	1
17	Given, APC = 1, which means income (Y) is equal to the consumption (C), i.e. Y = C C = 40 + 0.8Y Y = 40 + 0.8Y (since Y = C) Y - 0.8Y = 40 0.2Y = 40 Y = ₹200 crores **OR** Average propensity to consume (APC) cannot be negative even at zero level of income, because there will be a minimum amount of consumption (i.e. autonomous consumption) for survival. While, Average propensity to save (APS) can be negative at zero level of income, because of dis-savings.	3
18	Ex-ante savings are lesser than ex-ante investment (S < I) means buyers are planning to buy more goods and services as to what producers are planning to produce. It would lead to decrease in planned inventories below the desired level. As a result the producers will increase production, leading to rise of income till savings becomes equal to investments.	3
19	Reserve deposit ratio is the minimum reserves that a commercial bank must maintain as per the guidelines of the central bank. Credit creation is inversely related to the reserve deposit ratio. **For example:** Suppose the reserve ratio is 0.2 and initial deposit is ₹1,000	4

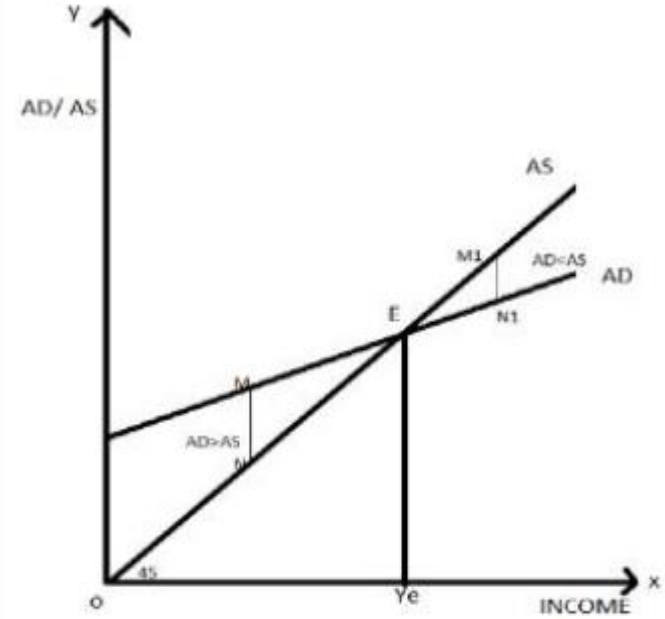
	$Total\ Credit\ Created = \frac{1}{RR} \times Initial\ deposits = \frac{1}{0.2} \times 1,000 = ₹5,000$ *Whereas, suppose LRR is* 0.5 *and initial deposit is* ₹$1,000$ $Total\ Credit\ Created = \frac{1}{RR} \times Initial\ deposits = \frac{1}{0.5} \times 1,000 = ₹2,000$ *Thus, increase in reserve deposit will decrease the credit creation power of the banking system.*	
20	**Real GDP:** Real GDP means the market value of all the final goods and services produced within the domestic territory of a country during an accounting year. It is estimated at the base year prices. **Nominal GDP:** Nominal GDP means the market value of all the final goods and services produced within the domestic territory of a country during an accounting year. It is estimated at the current year prices. $Real\ GDP = \frac{Nominal\ GDP}{Price\ Index} \times 100$ *Let, Real GDP* ₹480, *Price Index* ₹240 $Nominal\ GDP = Real\ GDP \times \frac{Price\ Index}{100}$ $= 480 \times \frac{240}{100}$ $= ₹1,152$	4
21	Every government tries to reduce inequality of income among people so as to ensure progress of the people with lesser monetary resources. Inequality of income can be reduced either by rationalisation of taxation policy or regulating the expenditure policy of the government or both. **OR** Government allocates the resources of the economy through budgetary policy. This may be in accordance with the economic and social priorities of the economy through the tax concessions/subsidies or directly producing goods and services.	4
22	Effective demand is that level of income where the aggregate demand (AD) is equal to the aggregate supply (AS).	6

(all figures in ₹ crores)

Income	Consumption (C)	Savings (S)	Investments (I)	Aggregate demand (C+I)	Aggregate Supply (C+S)
0	50	- 50	100	150	0
100	100	0	100	200	100
200	150	50	100	250	200
300	**200**	**100**	**100**	**300**	**300**
400	250	150	100	350	400
500	300	200	100	400	500

As the schedule above shows, Effective demand (ED) is obtained at ₹300 crores level of income which is the equilibrium level of income.

Diagram



Explanation: The effective demand is established at 'E' where AD = AS. If the economy is facing an MN situation where AD > AS, the producers will be trying to produce more thereby moving towards equilibrium and vice-versa.

23	(a) Net factor income from abroad: It is the excess of factor incomes (rent, wages, interest and profit) earned from abroad over factor incomes (rent, wages, interest and profit) paid to abroad, whereas; Net Export: It refers to the excess of the value of exports over the value of	6

imports of a country in an accounting year.

(b)

$$GDP_{MP} = NDP_{FC} + Depreciation + Net\ indirect\ Tax$$

$$(i) = (vii) + (ii) + \left[(iv) + (vi) + Rent\right] + (viii) + \left[(xi) - (iii)\right]$$

$$₹18,000 = ₹6,000 + ₹7,000 + (₹800 + ₹975 + Rent) + ₹1,000 + (₹2,000 - ₹250)$$

$$₹18,000 = ₹17,525 + Rent$$

$$Rent = ₹475\ crores$$

24 (a) Two factors responsible for inflow of the foreign currency are:
(i) Investments from abroad
(ii) Export of goods and services

(b) (i) Interest on loan received from Nepal: It will be recorded on the credit/ received side of the current account as it brings in funds to the country.
(ii) Import of mobile phone from china: It will be recorded in the debit/ payment side of the current account as it represents outflow of the foreign currency through visible imports.

OR

(a)

Basis	Autonomous Transactions	Accommodating Transactions
Meaning	Autonomous transactions are those transactions which are undertaken for some economic purposes.	Accommodating transactions are those transactions which are undertaken to restore BOP balance.
Implication	Causes imbalance in BOP	Restore balance in BOP
Impact on which account.	These transactions take place on both capital and current accounts.	These transactions take place in capital accounts.

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(b)

Basis	Depreciation of Currency	Devaluation of Currency
Meaning	If there is a fall in the value of a currency due to the change in demand and supply of the currency in the foreign exchange market.	If there is a fall in the external value of a currency as notified by the government of the country.
Where does it take place?	It takes place under the flexible exchange rate system	It takes place under the fixed exchange rate system.
Who does it?	Depreciation takes place under the influence of changes in demand for and supply of a currency.	Devaluation is done by the government deliberately to correct the Balance of Payment (BOP) situation.