Economics Class 12 **Solution 2020**

	Section A - Macroeconomics	
1	(B) not defined (∞)	1
2	(C) durable consumer good **OR** (A) $\frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100$	1
3	Consumption Expenditure (C) and Investment Expenditure (I)	1
4	Reserve Bank of India (RBI)	1
5	False, The Central Bank should reduce the CRR.	1
6	capital/revenue (Both the answers to be considered correct)	1
7	False	1
8	Credit	1
9	Fees, Penalties	1
10	(C)1.0	1
11	The given statement can be defended on the following grounds, as GDP may not take into account: (i) Non-monetary exchanges like services of housewives - (ii) Externalities (benefits/harms) caused by human activities. (iii) Distribution of Income (GDP).	3
12	When Aggregate Demand is greater than Aggregate Supply (AD>AS), buyers are planning to buy more goods and services than what producers are planning to produce. It will lead to fall in planned inventories below the desired level. The producers in turn will produce more, which will raise the income level i.e., AS, till AD becomes equal to AS. **OR** (a) Investment multiplier (K) = $\frac{1}{MPS}$ $K = \frac{1}{0.2}$	3

	K = 5 ………………… (i) (b) Investment multiplier (K) = $\frac{\Delta Y}{\Delta I}$ Substituting K= 5 from ....(i) $5 = \frac{\Delta Y}{1000}$ ΔY = ₹ 5000 crores	
13	Credit multiplier measures the amount of money that the banks are able to create in the form of deposits with every initial deposit. The credit creation by commercial banks depends on credit multiplier as it is inversely related to LRR. Higher the value of credit multiplier, higher will be the total credit created and vice - versa. For Example: suppose LRR is 0.5 and initial deposit is Rs. 1,000 Credit multiplier = $\frac{1}{0.5}$ = 2 Total credit created = 2 x 1000 = 2,000 Whereas, Suppose the LRR is 0.2 and initial deposit is 1000 Credit multiplier = $\frac{1}{0.2}$ = 5 Total credit created = 5 x 1,000= 5,000 Thus, with the same initial deposit total credit creation increases with an increase in the value of credit multiplier. **OR** Two instruments of credit control are: ● **Repo rate -** It is the rate of interest at which the central bank lends to commercial banks for their short-term requirements. An increase in repo rate will force commercial banks to increase their lending rates. It will make borrowing costlier to the general public. ● **Open market operations-** It refers to buying and selling of government securities by the central bank from and to the general public. When the central bank sells its securities, it reduces liquidity (deposits) with commercial banks and adversely affects the credit creation power of banks.	4
14	The given condition indicates the situation of depreciation of home currency (₹) vis-a-vis foreign currency (US $). This implies that more units of Indian currency (₹) is to be paid to buy one unit of foreign currency (US $). This may lead to sorrow for importers, as they have to pay a higher amount for their imports. Also, this may bring smiles for exporters, as they would be getting higher earnings for their exports.	4
15	The given statement can be refuted as the fiscal deficit can exist without revenue deficit, if: (i) Capital Budget is in deficit (CE > CR) with balanced Revenue Budget (RE	4

	= RR). (ii) Capital Budget is in deficit (CE > CR) in greater proportion to Surplus Revenue Budget (RE)	
16	(a) In a two sector economy households and firms exist to run the economy. Households render factor services to the firms and earn factor incomes from them. Whereas; firms produce and sell goods and services to households and earn their income by an equal magnitude. Thus, in a circular income model, the axiom that one's expenditure is another's income holds true. (b) Value of output is the estimated money value of all the goods and services, inclusive of change in stock and production for self-consumption. Whereas; Value added is the excess of value of output over the value of intermediate consumption. **OR** GDP Deflator = $\frac{NOMINAL\ GDP}{REAL\ GDP}$ x 100	6
17	KT' represents inflationary gap two fiscal measures to correct the situation of inflationary gap are: **(a) Increase in Taxes -** To curb the inflationary gap the government may increase the taxes. This may reduce the purchasing power in the hands of the public which in turn may reduce the Aggregate Demand in the economy to bring it equal to the Aggregate Supply. **(b) Reduction in Government Expenditure -** To curb the inflationary gap the government may reduce its non-developmental expenditure. This may reduce the purchasing power in the hands of the people which in turn will reduce the Aggregate Demand in the economy to bring it equal to the Aggregate Supply. **For visually Impaired Candidates:** Deflationary gap is a situation when Aggregate Demand is lesser than Aggregate Supply corresponding to full employment level. Two fiscal measures are to control it are: **(a) Decrease in Taxes -** To curb the deflationary gap the government may	6

Table within question 16:

	2014-15	2015-16	2016-17
Nominal GDP =	10,000 (Assume)	10,840	11,815
Real GDP =	10,000 (Assume)	7742 (approx)	9452 (approx)

	decrease the taxes. This may increase the purchasing power in the hands of the people which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply. **(b) Increase in Government Expenditure-** To curb the deflationary gap the government may increase its expenditure. This may increase the purchasing power in the hands of the people which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.	

	Section B - Indian Economic Development	
18	(B) 2009 **OR** (A) ICMR	1
19	False	1
20	(D) a-(ii),b-(iv),c-(i),d-(iii)	1
21	(C) 1958	1
22	NABARD	1
23	Import substitution /inward looking trade	1
24	(B) Coal	1
25	True	1
26	Indian Oil Corporation Limited or Steel Authority of India Ltd	1
27	(C) Greater possibilities for import	1
28	**Major challenges faced by the power sector in India are, as follows:** (i) India's installed capacity to generate electricity is not sufficient. Even the installed capacity is underutilized because power plants are not running properly. (ii) State Electricity Board which distribute electricity are incurring losses due to obsolete transmission and distribution system and wrong pricing. (iii) Thermal power plants are facing shortage of raw material and coal supplies. **OR**	3

	The given statement is appropriate. Over the years India has not been able to raise the educational standards to the desired level. The Education Commission of 1964-66 had recommended that at least 6 % of GDP should be spent on education so as to make a noticeable rate of growth in educational achievements. However, the current expenditure level has been quite inadequate. Thus, necessary steps must be taken by the government in this direction.	
29	The decision taken by the Government of India to merge BSNL and MTNL is quite appropriate. The Government has merged the two loss incurring businesses, with a motive to: (i) achieve higher economic and functional efficiency. (ii) minimise possible losses	3
30	After independence the government of India took several institutional/land reforms to ensure transformation of Indian agriculture, such as: (i) **Land ceiling –** It ensured reduction of concentration of land ownership in a few hands. (ii) **Abolition of the Zamindari system –** It focused on elimination of farmers' exploitation and promotion of agricultural growth. These reforms have led to stability of farming as an occupation and promoted equity. **OR** The given statement is appropriate as the policy aimed at: (i) Protecting the domestic industries from foreign competition by substituting imports with domestic production. (ii) Saving scarce foreign exchange by restricting the volume of imports. Thus, in the early post-independence era the dual objectives helped India to move towards the goal of self-reliance	4
31	The occupational structure of India on the eve of independence had the following two main features: **(i) Predominance of agriculture sector:** The agricultural sector accounted for the largest share of workforce with approximately three-fourths of the workforce depending on agriculture, directly or indirectly. **(ii) Growing regional variation:** Due to rise of the manufacturing and services sector in some parts of India (like the then Madras, Bombay and Bengal Presidencies) the dependency ratio of workforce in the agricultural sector declined.	4
32	(a) The given data shows that China could arrest its annual population growth rate with the implementation of some stringent measures in late 1970's like the introduction of one child norm. This step has been instrumental in controlling the growth of population in China. India stands virtually more than double to China at its annual population growth rate of 1.2% as compared to China's annual population growth rate of 0.5% pa.	4

	(b) The social dynamics of both the countries are similar to each other; sex ratio is low and biased in both the countries due to preference for male child. Whereas, India 2 Page | 12 58/2/1 stands at 929 females per 1000 males, China is not far ahead at 941 females per 1000 males.	
33	**(a) Carrying capacity of environment:** It implies that the resources extraction is not above the rate of regeneration of the resources and wastes generated are within the assimilating capacity of the environment. **(b) Bio - composting:** It refers to the process of converting organic waste of various types into natural manure. **(c) Sustainable Development**: It refers to the development process that meets the needs of the present generation without compromising on the ability of the future generations to meet their respective needs. **(d) Absorptive capacity of the environment:** - It means the ability of the environment to absorb degradation without causing environmental damage.	6
34	(a) In recent years India has witnessed an unprecedented growth of informal sector or unorganised sector. In India almost the entire agricultural sector and a very large number of industrial and service sector units fall in the informal sector. Those employed under this sector, generally, are not entitled to get regular salary and other social security benefits. Thus, informalisation of the labour force refers to a situation whereby the proportion of workforce in the informal sector to total workforce increases. Keeping in view the growth of this sector and disadvantages attached to it, the Indian government, in recent times, has initiated the modernisation of this sector and provision of social security measures to the workers in this sector. (b) Worker Population Ratio refers to the ratio of total number of workers to the total population. It is generally expressed in percentage. $\text{Worker population} = \dfrac{\text{Total no. of workers}}{\text{Total population}} \times 100$ **OR** Poverty Alleviation Programmes are the designated programmes to target reduction in/removal of poverty in a country. India, which inherited poverty from British rule, tried her level best to eradicate poverty through various Poverty Alleviation Programmes over the years. As a result, the percentage of absolute poor in some states has fallen well below the national average of poverty.	6

	However, the problems of malnourishment, hunger and illiteracy continue to be a common feature in many parts of India, because of the following reasons: ● There has been no radical change in the ownership of assets. ● Due to unequal distribution of land and other assets, benefits from such programmes have been appropriated by the non-poor. ● Inadequate resource allocation for these programmes. ● The Government officials responsible for implementing these programmes were ill motivated and inadequately trained. To conclude we may say that poverty alleviation programmes were a great step but could not achieve desired results due to improper implementation.	