

Economics

CBSE Class 12th

1. (c) Finance Minister ①
2. (b) ₹ 800 crore ①
- Hint* $C = \bar{C} + by$
- $= 100 + 0.7 \times 1000$
- $= 100 + 700 = 800$

Or (c) 1 ①

3. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) ①
4. (d) Currency notes are known as 'limited legal tender'. ①
5. (c) C-(iii) ①
6. (a) Demand for foreign exchange will shift to the right ①
7. increase ①
8. (b) decrease ①
9. (d) Both (a) and (b) ①
10. Fixed ①
11. Functions of Central Bank are explained below

- (i) **Lender of the Last Resort** The Central Bank acts as lender of last resort for the other banks of the country. It means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the Central Bank as a last resort. Central Bank advances loans to such banks against approved securities.
- (ii) **Custodian of Foreign Exchange** Central Bank is the custodian of nation's foreign exchange reserve. The Central Bank maintains foreign exchange reserves in order to promote international trade and stabilise exchange rate through managed floating. ①½ × 2 = 3

Or Money overcomes the problem of barter system by replacing the C-C economy with monetary economy.

The following problems are solved by money (any three)

- (i) In the barter system, there was a problem of double coincidence of wants. It was very difficult to match the expectations of two different individuals. Thus, money was invented to overcome the problem of double coincidence of wants.
- (ii) When there was no money, it was difficult to give common unit of value to goods or commodities but when money was evolved, it gave a common unit of value to every good and service.
- (iii) Money facilitates the contractual and future payments which was impossible at the time of barter system.
- (iv) Money as store of value solves the problem of storing wealth in physical form. ① × 3 = 3

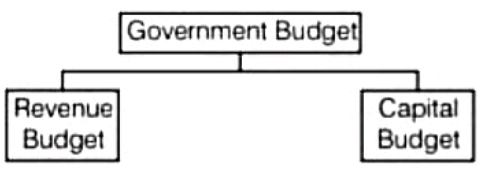
- 12.** Sources of foreign exchange for a country are as follows (any three)
- (i) **Exports** Export of goods and services would bring in foreign exchange to a country in terms of receipts for exports.
 - (ii) **Investments** Foreign direct investment and portfolio investment from rest of the world also brings in foreign exchange to a country.
 - (iii) **Remittances** NRIs remit foreign exchange from rest of the world which is an important source of supply of foreign exchange in India.
 - (iv) **Tourism** Tourists also bring foreign exchange with themselves. This serves as a major component of supply of foreign exchange in tourism-heavy countries like India.
 - (v) **Factor Incomes** By way of factor incomes also, foreign exchange flows from rest of the world to the domestic economy.
 - (vi) **Donations/Grants** Sometimes, grants and donations from rest of the world serve as a source of foreign exchange specially for poor countries. (1 × 3 = 3)

- 13.** Inflationary gap can be corrected with the help of the following tools
- (i) **Legal Reserve Ratio** Legal reserve ratio refers to that legal minimum fraction of deposits which the banks keep as cash with RBI and themselves. It is the sum total of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
To check inflationary gap, the legal reserve ratio is increased. This reduces the loan disbursement capacity of the commercial banks which further leads to a fall in the level of aggregate demand in the economy. With a fall in demand, the level of inflation is checked.
 - (ii) **Bank Rate** The bank rate is minimum rate at which the Central Bank of a country is prepared to give credit to the commercial banks. The increase in bank rate increases the rate of interest and credit becomes dear. Accordingly, the demand for credit is reduced. This further results in the fall in the level of aggregate demand in the economy. This checks the level of inflation in the economy. (2 × 2 = 4)

- Or Deflationary gap can be checked through the following measures
- (i) **Margin Requirements** Margin requirement refers to the difference between the amount of loan granted and the current value of security offered for loans. In case of deflationary gap, the margin requirements are lower to increase the flow of credit by encouraging people to borrow.
As a result of that, the aggregate demand increases and ultimately, the economy attains equilibrium.
 - (ii) **Open Market Operations** The sale or purchase of government securities by the Central Bank in open market is termed as open market operations. To solve the problem of deflationary gap, the Central Bank purchases the securities from public which releases money in the market.
As the money supply expands, the level of aggregate demand goes up and the level of deflation is checked. (2 × 2 = 4)

- 14.**
- (i) **Government Expenditure on Street Lighting** It is a part of the estimated value of output of services provided by government. Therefore, it is included in national income from the production angle.
 - (ii) **Receipts from the Sale of Land** Land is a free gift of nature and does not constitute current production. So, receipts from the sale of land has nothing to do with the measurement of national income.
 - (iii) **Money Received from a Worker, Working Abroad by his Family** It is a transfer income for the family because his family does not render any service in return. So, it is not included in national income.
 - (iv) **Government Expenditure on Defence** It is a part of the imputed value of services provided by the government. Therefore, it is included in national income from the production angle. (1 × 4 = 4)

15. The budget of the Central Government has two components



Revenue Budget The revenue budget shows the current receipts of the government and the expenditure that can be met from these receipts.
Revenue budget is the statement of estimated revenue receipts and estimated revenue expenditure during a fiscal year.

Capital Budget The capital budget is an account of the assets as well as the liabilities of the Central Government, which takes into consideration the changes in capital.

Capital budget is the statement of estimated capital receipts and estimated capital expenditure during a fiscal year. (4)

16. Below diagram clearly depicts, savings at zero level of income is negative and equal to OA . It implies that consumption at zero level of income is positive and equal to OB . Therefore, consumption curve starts from B . At OY_1 , level of savings is equal to zero which implies consumption is equal to income. So, consumption curve must pass through Y line (sloped 45°). It cuts Y at E . Now, joining B and E and extending it forward, we get consumption curve.

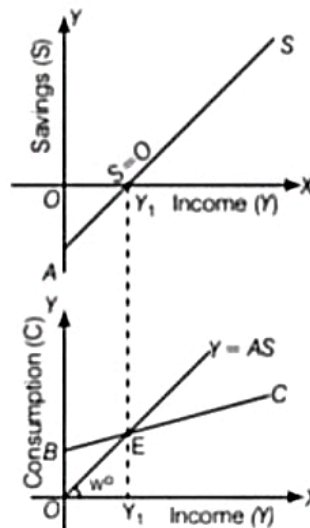


Diagram Showing Derivation of Consumption Curve

Here, straight line consumption curve shows level of consumption at zero level of income and $C = Y$ at Y_1 level of income. Now, $APC = \frac{C}{Y}$

\therefore APC is equal to 1, when consumption is equal to income, i.e. $C = Y$. This occurs at point E . (6)

17. By expenditure method, (Net Domestic Capital Formation - Depreciation)

Gross Domestic Product at Market Price

$$\begin{aligned} (GDP_{MP}) &= \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} \\ &\quad + \text{Gross Domestic Capital Formation} - \text{Net Imports} \\ &= ₹ 700 + 200 + (120 + 0) - (-10) \\ &= ₹ 1,030 \text{ crore} \end{aligned}$$

Net National Product at Factor Cost

$$\begin{aligned} (NNP_{FC}) &= GDP_{MP} - \text{Net Indirect Tax} - \text{Net Factor Income to Abroad} - \text{Depreciation} \\ &= ₹ 1,030 - 10 - (-5) - (-0) \\ &= ₹ 1,020 + 5 = ₹ 1,025 \text{ crore} \end{aligned}$$

Note Depreciation is assumed to be 0.

Or

To calculate NNP_{FC} , we would consider the following

- (i) **Estimation of Compensation of Employees**

It includes

- Wages and salaries in cash
- Payment in kind
- Employer's contribution to social security schemes
- Pension on retirement

(ii) **Estimation of Operating Surplus**

It refers to income from property and entrepreneurship.

It includes the following items

- (a) Rent and royalty (b) Interest (c) Profit

(iii) **Estimation of Mixed Income of Self-employed**

The income of the self-employed persons using their own land, labour, capital and entrepreneurship for production is termed as mixed income.

(iv) **Estimation of NDP_{FC}**

Estimation of National Income by income method

- (a) $NDP_{FC} = \text{Compensation of employees} + \text{Rent and Royalty} + \text{Interest} + \text{Profit} + \text{Mixed Income of Self-employed}$

- (b) $NNP_{FC} = NDP_{FC} + NFIA$

Note • Operating Surplus = Rent and Royalty + Interest + Profit

• Profit = Retained Earnings + Dividend + Corporation Tax

• Formula of National Income (by income method) $NNP_{FC} = NDP_{FC} + \text{Net Factor Income from Abroad}$

Where,

$NDP_{FC} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income of Self-employed}$

18. (b) Capitalist

19. (a) G-8

20. (c) Industrial sector's contribution in GDP was remained more or less in India.

21. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

22. (b) B-(ii)

23. (d) All of these

24. Montreal

25. 1974

26. (c) water and air pollution

27. Weekly status unemployment

Or

Usual status unemployment

28. Ozone depletion refers to the phenomenon of reduction in the ozone layer in the stratosphere. It is caused by high levels of chlorine and bromine compounds in the stratosphere.

Ozone depletion leads to more ultraviolet rays reaching Earth and causing damage to living organisms, skin cancer in humans and low production of phytoplankton affecting aquatic organisms. It also influences the growth of terrestrial plants.

Or Global warming is a gradual increase in the average temperature of the Earth's lower atmosphere as a result of increase in greenhouse gases. It is caused by increases in emission of carbon dioxide and other greenhouse gases through the burning of fossil fuels and due to deforestation.

In the long-term, global warming can cause melting of polar ice with a resulting rise in sea level and coastal flooding; disruption of drinking water supplies dependent on snow melts; extinction of species as ecological niches disappear; more frequent tropical storms; and an increased incidence of tropical diseases.

29. The development of health infrastructure has shown gender, income and regional biasness in India. Rural areas do not have access to or cannot afford medical care. Even though majority of population lives in rural areas, only one-fifth of India's hospitals are located in rural areas with only half the number of dispensaries. Out of 6.3 lakh beds, roughly 30% of them are available in rural areas. The PHCs in rural areas do not offer basic medical care like X-ray or blood testing devices.

In rural areas, the percentage of people who have no access to proper aid has risen from 15 in 1986 to 24 in 2003. States like Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh are relatively lagging behind in healthcare facilities.

30. The following measures have been taken for globalisation of Indian economy

- (i) **Increase in Equity Limit of Foreign Investment** Equity limit in general, has been raised from 40% to 51%. Also, in 47 high priority industries and in export trading houses, Foreign Direct Investment (FDI) is allowed upto the extent of 100%.
- (ii) **Partial Convertibility** It means sale and purchase of foreign currency at a price determined by the market forces of demand and supply.

It is called partial convertibility because it is allowed 100% in current account transactions but it is only 51% for capital account transactions. (2 × 2 = 4)

Or Two objectives of liberalisation are as follows

- (i) To decrease the debt of the country.
- (ii) To expand the size of the market.

(1 × 2 = 2)

Two objectives of globalisation are as follows

- (i) To help the economy to adopt new and flexible methods of production.
- (ii) To increase the flow of foreign capital into the country.

(1 × 2 = 2)

31. Differences between formal sector and informal sector are as follows (any four)

Formal Sector	Informal Sector
All public and private sector establishments which employ 10 or more hired workers comprise the formal sector.	All establishments which employ less than 10 workers comprise the informal sector.
Government exercises control over this sector by passing necessary acts and formulating rules and regulations.	Government has no control over this sector. Except for the Minimum Wages Act, no other act is applicable on this sector.
Workers working in this sector are entitled to social security benefits.	Workers working in this sector are not entitled to social security benefits.
The workers working in formal sector have a right to form trade unions.	The workers working in informal sector do not enjoy any such right.
Formal sector offers better pay scales to its workers.	The pay scales in the informal sector are comparatively low.
Workers working in formal sector enjoy job security. They cannot be dismissed without giving them a due notice and/or compensation.	Workers working in informal sector does not enjoy job security. They can be dismissed without a notice and no compensation is offered to them.

(1 × 4 = 4)

32. The percentage of poor was 40% in Pakistan during 1960s that reduced to 25% in 1980s and started going up in 1990s.

The causes for the slowdown of growth and re-emergence of poverty are as given below

- (i) The agricultural growth was not the result of technology improvement. Rather, it was based on good climatic conditions. When the conditions were good, the economic growth showed positive trends and *vice-versa*.
- (ii) In Pakistan, a considerable part of foreign exchange came from remittances from Pakistani workers in the middle East.
- (iii) In Pakistan, there is more dependence on foreign borrowings and increasing difficulty in paying back the loans.
- (iv) Inadequate infrastructure for manufacturing sectors.

(1 × 4 = 4)

33. Mixed economy is an economic system in which economic decisions are taken by the Central Government authority, as well as, are left to free play of the market. It is the basic framework of planning in India.

In this economy, the market will provide whatever goods and services it can produce economically and the government will provide essential goods and services which the market fails to provide. (2)

The following features of Indian economy prove that mixed economy is the basic framework of planning in India

- (i) In India, agriculture and most of the industrial and service sectors are in the private hands.
- (ii) Market forces of demand and supply have free role in determining prices in various markets *i.e.* goods having higher demand will be highly priced and *vice-versa*.
- (iii) Over the period of time, many big business houses have come into being and have been growing, such as Reliance, Infosys, Bajaj, etc.
- (iv) After Independence, the government recognised the need to provide infrastructure for the growth of the private sector. So, public sector was developed on a large scale.

(1 × 4 = 4)

34. The causes of unemployment in India are given below

- (i) **Slow Economic Growth** In Indian economy, the rate of economic growth is very slow. This slow growth rate fails to provide enough employment opportunities to the rising population. Supply of labour is much more than the available employment opportunities.
- (ii) **Rapid Growth of Population** Constant increase in population has been a grave problem of India. It is one of the main causes of unemployment. The number of unemployed persons has actually increased instead of decreasing during the plan period.
- (iii) **Faulty Employment Planning** The Five Year Plans in India have not been designed for employment generation. A frontal attack to solve the problem of unemployment was missing. In the FYPs, it was assumed that economic growth will take care of unemployment problem.
- (iv) **Excessive Use of Foreign Technology** There is lack of scientific and technical research in India due to its high cost. This has resulted in excessive use of foreign technology which has led to technical unemployment in our country.
- (v) **Lack of Financial Resources** The expansion and diversification programme of agriculture and small scale industries have suffered because of lack of financial resources.
- (vi) **Agriculture still a Seasonal Occupation** Even after approximately 70 years of Independence, agriculture in India, still does not have access to adequate irrigation facilities, rendering it to be a seasonal occupation. Because of this, the workforce engaged in farming activities remain unemployed for 3-4 months in a year.

$1 \times 6 = 6$

Or

Four strategies of sustainable development are

- (i) **Use of Eco-friendly Fuel** (CNG, LPG) The fuels such as petrol and diesel emit huge amount of carbon dioxide that add to the green house impact. In order to control pollution, the use of CNG and LPG should be promoted. These fuels are cleaner and eco-friendly. Also, pooling of vehicles in the locality should be promoted.
- (ii) **Use of Renewable Resources** (Wind power) India being a tropical country is well endowed with sunlight, water and wind energy. These natural resources are renewable and pollution free.
Thus, attempts should be made to harness solar and wind energy by employing different technologies and to go for rain water harvesting. It would help in sustainable economic development.
- (iii) **Recyclable Products** The household waste materials like newspapers, old bottles, used batteries, etc should be accumulated and should be distinguished as biodegradable and non- biodegradable wastes.
The biodegradable wastes are those wastes that can be decomposed and can be used as manure for organic farming. The non-biodegradable wastes like plastic, etc should be recycled and re-used. Use of polythene bags should be discouraged.
- (iv) **Judicious Use of Electricity** Electricity is a resource which is used in all households in our locality. It is one such resource which is already in short supply and may not be available to future generations, if we do not start using it judiciously.
Therefore, the easiest strategy for sustainable development is to use power in an efficient manner without wasting it. This can be done by using energy efficient equipments.

$1\frac{1}{2} \times 4 = 6$