Economics
CBSE Class 12th

1. (a) current account BoP   ①
2. (b) unlimited legal tender   ①
3. (d) M_1 is the least liquid measure of money supply in India.   ①
4. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)   ①
5. (a) A-(i)   ①
6. (c) Depends upon trade balance   ①
7. (a) Increase in multiplier effect   ①
8. (a) Aggregate demand will increase   ①
9. fall   ①
10. direct   ①
    Or   ①
    Proportional   ①

11. Barter system suffered from following drawbacks are (any three)
    (i) **Lack of Double Coincidence of Wants** It was the major drawback of the barter system. It was very rare when the owner of some goods or services could find someone who wanted his goods or services and at the same time, he possessed that goods or services that the first person wanted.
    (ii) **Lack of Divisibility** In commodity exchange, difficulty of dividing the commodity was common. e.g. if a cow is to be exchanged for four goats, but the owner of cow requires two goats only, then the exchange cannot take place, because cow cannot be divided.
    (iii) **Lack of Store of Value** Due to absence of money in barter system, wealth was stored in terms of goods. Storing of goods carried some problems like cost of storage, loss of value, difficult to transfer from one place to other, etc. So, it was difficult for people to store their purchasing power.
    (iv) **Lack of Common Measure of Value** In barter system, there was absence of a common unit of measurement in which the value of goods and services can be measured.
    In the absence of common unit, proper valuation was not possible. e.g. cloth is measured in metre (i.e. length) while milk is measured in litre (i.e. capacity), hence both cannot be measured in a single unit, thereby complicating the process of exchange.   ①×3＝3

The difference between demand deposits and time deposits are

Basis	Demand Deposits	Time Deposits
Withdrawal	These deposits can be withdrawn on demand at any point of time.	These deposits cannot be withdrawn before a sepecified period of time.
Issue of cheques	Cheques can be issued against such deposits.	Cheques cannot be issued against such deposits.
Example	Savings and current deposits.	Recurring and fixed deposits.

$(1 \times 3 = 3)$

12. The main components of capital account are
    (i) **Foreign Investment** It includes Foreign Direct Investment and Foreign Institutional Investment or Portfolio Investment by the residents of the country in abroad or by rest of the world in domestic country.
    (ii) **Borrowings** It includes commercial borrowing by the government or private sector from rest of the world and external assistance to or by a country.
    (iii) **Official International Reserve** It includes the changes in gold and foreign exchange reserve with the Central Bank. $(1 \times 3 = 3)$

13. The following precautions are to be taken care of while using expenditure method for calculation of national income
    (i) Only expenditure on final goods and services is to be taken into account to avoid the problem of double counting.
    (ii) Expenditure on paper claim such as shares and bonds is not to be included in total expenditure as there is no value addition corresponding to these items.
    (iii) Expenditure on transfer payments by government is not to be included as these payments do not cause any value addition in the economy.
    (iv) Expenditure on second hand goods is not to be included because these goods are already accounted for when they were initially produced and used by final users. $(1 \times 4 = 4)$

Or

Gross Value Added at Market Price = Net Value Added at Factor Cost + Depreciation

+ Net Indirect Tax

$$= 300 + 30 + 20 = ₹ 350 \text{ lakh}$$

Also, Gross Value Added at Market Price = Value of Output – Intermediate Consumption

∴ $\qquad 350 = $ Value of Output $- 200$

⇒ $\qquad$ Value of Output $= 350 + 200 = ₹ 550$ lakh

Now,

$\qquad$ Value of output = Sales + Change in Stock

∴ $\qquad 550 = $ Sales $+ (-50) \quad ⇒ \quad 550 = $ Sales -50

⇒ $\qquad$ Sales $= 550 + 50 \qquad ⇒ \quad$ Sales $= ₹ 600$ lakh $\qquad$ ④

14.

Income (Y)	Change in Income (ΔY)	Savings (S)	Consumption (C)	Change in Consumption (ΔC)	MPC	APC
0	—	−20	20	—	—	—
50	50	−10	60	40	0.8	1.2
100	50	0	100	40	0.8	1.0
150	50	30	120	20	0.4	0.8
200	50	60	140	20	0.4	0.7

Formulae used

$$MPC = \frac{\Delta C}{\Delta Y}, \quad C = Y - S$$

$$APC = \frac{C}{Y}$$

④

15. No, the objective is not only to earn revenue. (1)

The other possible welfare objective that is reflected in the rise in tax rate for higher income group is equality and social welfare. The main objective of the budgetary policy of the government is to reduce inequalities of income and wealth in the country.

The government uses progressive taxation policy to reduce the inequalities of income and wealth in the country. Government imposes high tax rates on higher income group and low tax rate on lower income group. People with income below a certain level are not levied any direct tax altogether. (3)

16. (i) True, because in a condition when consumption is greater than income, then Average Propensity to Save (APS) is negative due to dissavings. This relation can be expressed as

$$C > Y \Rightarrow APS > 1$$

(ii) False, because Marginal Propensity to Save (MPS) is ratio between additional savings and additional income which is always positive. Infact, MPS can never be negative.

(iii) False, because value of Average Propensity to Save (APS) is negative when consumption is greater than income, but it is not necessarily true that Marginal Propensity to Save (MPS) will also be negative as MPS is only the ratio between ΔS and ΔY and it has no relation with total consumption or saving. $(2 \times 3 = 6)$

17. National Income

= Sales + Change in Stock – (Purchase of Raw Material from Domestic Market + Import of Raw Material) – Consumption of Fixed Capital + Subsidies + Net Factor Income from Abroad

= $800 + 50 - (400 + 100) - 40 + 30 + 10 = ₹ 350$ lakh (6)

Or

By income method,

Net Domestic Product at Factor Cost (NDP$_{FC}$)

= Wages and Salaries + Social Security Contribution by Employers
+ Corporation Tax + Retained Earnings of Private Corporations

= $2,000 + 110 + 30 + 10 = ₹ 2,150$ crore (6)

18. (d) Both (a) and (b) (1)

19. (c) expensive technology (1)

Or (d) None of these (1)

20. (c) Opening of Suez Canal by Colonial government, reduced the cost of production and made Indian market accessible. (1)

21. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) (1)

22. (c) C-(iii) (1)

23. (d) All of the above (1)

24. (d) Both (a) and (c) (1)

25. Mixed (1)

26. capitalist (1)

27. 1949 (1)

28. Rural development is important for our country because even today more than two-third of India's population depends on agriculture which is not generating enough output to provide a decent living for them. It is also important because one-third of rural India still lives in extreme poverty. (2)

Two key issues involved are

(i) Provision of adequate credit. (ii) Improving agricultural marketing. $(½ \times 2 = 1)$

29. The two major sources of human capital in a country are

(i) Education   (ii) Health

Education and health are considered as important inputs for the development of a nation. A better educated person has greater skills and knowledge and therefore greater opportunity to work and earn higher income.

Similarly, a healthy person is an asset for the nation as he is more productive than a sick person. Hence, expenditure on education and health are important sources of human capital formation.   ③

Or The following are the three social effects of unemployment

(i) It causes enormous sufferings to unemployed workers due to their nil income.

(ii) Many social evils like dishonesty, immorality, drinking, gambling etc. are the outcomes of unemployment.

(iii) It causes social disruption in the society and the government has to incur a heavy expenditure on law and order.   (1 × 3 = 3)

30. The following were the objectives of demonetisation

(i) It was undertaken to control black money generation in the country.

(ii) It was undertaken to control inflation.

(iii) It was undertaken to check the flow of funds to illegal activities and to terrorism.

(iv) It aimed at making India a cashless society.   (1 × 4 = 4)

Or

Factors responsible for growth of tertiary sector in India are

(i) **High Income Elasticity of Demand** It has been noticed that income elasticity of demand for services is more than one. Hence, the demand for services increases at a faster rate than demand for commodities, with the increase in income.

(ii) **Technical and Structural Changes** The technical and structural changes in the economy, have made it an attractive destination for outsourcing, contributing towards the growth of service sector.

(iii) **Information Technology Revolution** With the advent of the information technology revolution, it has become possible to deliver services over long distance at a reasonable cost. Thus, trading in services has increased worldwide, also benefitting India.

(iv) **Economic Reforms in 1991** Economic reforms initiated in 1991, increased demand for manufacturing industry, thereby benefitting the service sector also. Liberalisation of financial sector boosted the growth of financial services. Reforms in certain segments of infrastructure also contributed to the growth of services.   (1 × 4 = 4)

31. The following problems are related to human capital formation in India

(i) Constantly rising population adversely affects the rate of human capital formation.

(ii) India faces the problem of 'brain drain'. Intelligent and innovative professionals migrate to other countries in search of better job opportunities. This also adversely affects human capital formation.

(iii) Human capital formation is also adversely affected by inefficient man-power planning.

(iv) High incidence of poverty in India also adversely affects human capital formation.   (1 × 4 = 4)

32. The following points are important in this context

(i) China has the second largest GDP (PPP) of US $ 15.6 trillion, whereas India's GDP is US $ 6.6 trillion. Pakistan's GDP (PPP) stands at $ 0.83 trillion, which is roughly 13% of India's GDP.

(ii) In both India and Pakistan, the contribution of agriculture to GDP was at 18% and 25% respectively. However, in China it is only 10%.

(iii) In China, service sector 46% towards GDP. However, in India and Pakistan, the service sector contributes 50% towards GDP.

(iv) In China, the contribution of industrial sector is high at 44%. For India and Pakistan it is 25% and 21% respectively.   (1 × 4 = 4)

33. The negative environmental impact has high opportunity costs as explained below

  (i) The industrial development in past has polluted and dried up rivers and other aquifers making water an economic good. Also, cleaning up of polluted rivers and replenishing water resources require huge investments.

  (ii) The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of these resources. Huge amount of funds need to be spent on technology and research to explore new resources.

  (iii) The health costs of degraded environmental quality are also rising as decline in air and water quality has resulted in increased incidence of respiratory and water-borne diseases.

  (iv) Global environmental issues such as global warming and ozone depletion also contribute to increased financial commitments for the government.

Thus, it is clear that the opportunity costs of negative environmental impacts are high. $(1\frac{1}{2} \times 4 = 6)$

34. Main problems of human capital formation in India are:

  (i) **Rising Population** Rapidly rising population adversely affects the quality of human capital formation in developing countries. It reduces per capita availability of existing facilities. A large population requires huge investment in education and health. This diverts the scarce money to production of human capital at the cost of physical capital.

  (ii) **Long Term Process** The process of human development is a long-term policy because skill formation takes time. The process which produces skilled manpower is thus slow.

  (iii) **High Regional and Gender Inequality** Regional and gender inequality lowers the human development levels.

  (iv) **Brain Drain** Migration of highly skilled labour termed as "Brain Drain" adversely affects the economic development.

  (v) **Insufficient On-the-Job-Training in Agriculture** Agriculture sector is neglected where the workers are not given on-the-job training to absorb emerging new technologies.

  (vi) **High Poverty Levels** A large proportion of the population lives below poverty line and do not have access to basic health and educational facilities. A large section of society cannot afford to get higher education or expensive medical treatment for major disease. $(1 \times 6 = 6)$

Or

Measures initiated by the government to improve agricultural marketing are as follows

  (i) Regulation of market is required to create orderly and transparent marketing conditions. In regulated markets, sale and purchase of the produce is checked by the Market Committee consisting of representatives of government, farmers and the traders.

  (ii) Improvement in physical infrastructure is to improve the agricultural marketing. As the current existing facilities such as roads, railways, warehouses, processing units are not sufficient to meet the growing demand. Hence, government ensures the improvement in physical infrastructure.

  (iii) Cooperative marketing is the measure taken by the government in realising the fair prices for farmer products. Farmers, as members of these societies, bargain well for better prices for their produce through collective sale.

  (iv) The supportive policy instrument are assurance of Minimum Support Prices (MSP) for agricultural products, maintenance of buffer stocks of wheat and rice by Food Corporation of India (FCI) and distribution of food grains and sugar through Public Distribution System (PDS) $(1\frac{1}{2} \times 4 = 6)$