

CBSE 12th – 2022-23

Economics

Answers

Section A

1. Correct Answer: B

Transactions that take place to cover deficit or surplus are called Accommodating transactions.

2. Correct Answer: D

Standard of deferred payments function allows the payment to be delayed till a future date.

3. Correct Answer: D

The ratio of change in consumption to change in income is called MPC.

4. Correct Answer: C

A car running between Delhi and Agra at a speed of 120 km/h includes both a stock and a flow variable

5. Correct Answer: A

₹ 600 crore

$$APC = 0.6$$

$$Y = 1000 \text{ rs}$$

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

$$0.6 = \frac{C}{1000}$$

$$C = 1000 \times 0.6 = 600 \text{ cr}$$

OR

Correct Answer: B

Investment which varies directly with the level of income is known as induced investment.

6. Correct Answer: C

Infinity Explanation: Since the multiplier is a function of MPC, so when MPC is maximum, K must be maximum.

$$\text{Thus, } \frac{1}{1} - 1 = \text{infinity}$$

OR

Correct Answer: A

Change in the income to the change in the investment

Investment multiplier implies that investment multiplies income and the extent of increase in income is given by K .

$$K = \frac{\Delta Y}{\Delta I} \text{ or } K \times \Delta I = \Delta Y$$

Where K is multiplier

7. Correct Answer: D

As income increases, savings increases

There is positive relation between income and savings. As income increases, savings also increases.

8. Correct Answer: B

a credit balance of ₹ 200 crore

OR

Correct Answer: A

Balance of trade is defined as the difference between the value of imports and exports of only physical goods or visible items.

9. Correct Answer: D

The value of money is greater than the value of the commodity in India otherwise people would have melted the coins and sold the metal in the market at a price greater than a rupee.

10. Correct Answer: A

The Demand for forex reserves in international markets pushes up because the availability of forex reserves is low in the international market.

11. Government expenditure on child immunization programme raises GDP because it is government's is final consumption expenditure. It also raises welfare of the people because child immunization programme improve health and thus raise efficiency of the people.it will lead to welfare.

12. (i) Export and import of goods (Visible trade)

(ii) Export and import of services—non-factor and factor services(called Invisible trade)

(iii) Unilateral transfers (Transfer receipts/payments).

(iv) Investment income (Factor income from land, bonds, shares abroad).



OR

(i) Higher import bill which leads to fiscal deficit.

(ii) Travelling abroad becomes more expensive

13. i. Open Market Operations refers to sale and purchase of securities by the Central Bank on behalf of government in the open market. It directly affects the supply of money in the hands of Commercial Banks and citizens of the country. In case of Deflation, the Central Bank purchased securities from public. It increases the supply of money in the economy and credit/money creation power of Commercial Banks. Thus, the Aggregate Demand increases and ultimately the economy attain equilibrium.

ii. Role of Open Market operations in Correcting Inflationary Gap in an Economy: In case of Inflation, the Central Bank sell the securities to the public. It reduces the supply of money in an economy and credit/ money creation power of Commercial Banks. Thus, the Aggregate Demand decreases and ultimately the economy attains equilibrium

14. 1. Effect of Excess Demand Over:

2. Output 1. It does not affect the level of output because economy is already operating at full employment level.

3. Employment 1. There will be no change in the level of employment as the economy is already operating at full employment level.

4. Prices 1. Excess demand causes rise in prices because extra demand exerts (puts) extra pressure on the same output.

15. The Central bank acts as a banker to the central and state government. Central bank is a banker, agent and financial adviser to the government.

1. As a banker: Central bank performs the same function for the government as commercial banks perform for their customers. It maintains the accounts of the central as well as the state governments. It receives deposits from the government and makes short term advances to the government. It collects cheques and drafts deposited in the government accounts.

2. As a Fiscal agent: The central bank collects taxes and other payments on behalf of the government. It raises loans from the public and thus manages public debt.

3. As a Financial adviser: The central bank gives advice to the government on economic, monetary, financial and fiscal matters such as deficit financing, devaluation, trade policy and foreign exchange etc. According to De Kock, "The central bank operates as govt's banker because of the intimate connection between public finance and monetary affairs".

OR

i. Open market operations: Open market operations refer to buying and selling of government securities by the central bank from/to the public and commercial banks. RBI is authorised to sell or purchase treasury bills and government securities. Sale of securities by central bank reduces the reserves of the commercial bank. It adversely affects the bank's ability to create credit and therefore decreases the money supply in the economy. Purchase of securities by central bank increases the reserves and raises the bank's ability to give credit.

ii. Margin Requirements: Margin is the difference between the amount of loan and market value of the security offered by the borrower against the loan. If the margin fixed by central bank is 30% , then the commercial banks are allowed to give loan upto 70% of the value of securities. By changing the margin requirements the Central bank can alter the amount of loans made against securities by the bank.

16. 1: While using the expenditure method, the following precautions are required to be taken, related to the calculation of National Income:

- i. Only final expenditure is to be taken into account to avoid the error of double counting of expenditures,
- ii. Expenditure on second-hand goods is not to be included, because such expenditure has already been included when they are originally purchased. However, any commission or brokerage on such goods is included as it is a payment made for productive service.
- iii. Expenditure on the purchase of financial assets such as shares and bonds is not to be included in total expenditure, as these are mere paper claims and are not related to the production of final goods and services.
- iv. Expenditure on transfer payments by the government is not to be included as such payments are not connected with any productive activity and there is no value addition.
- v. Imputed value/estimated value of expenditure on goods produced for self-consumption should be taken into account, as these goods are reflected in the estimation of Gross Domestic Product (GDP).

Answer 2:

$$NDP_{fc} = \text{Compensation of employees} + \text{operating surplus} + \text{Mixed-Income}$$

Items	In crores
Compensation of employees (ix + ii)	640
Interest paid by firms	150
Rent	70
Royalty	30
Profits (i + iii + v)	100
Domestic income (NDP _{fc})	990

17. Answer questions (i) & (ii) OR questions (iii) & (iv).

i. One of the primary purposes of budgeting is to provide control over the revenues and expenditures of the government. The importance of government budget are as follows:

- i. It reflects the Fiscal policy that is the expenditure and receipts of the government. It is a part of overall economic and social policy of the government.
- ii. It shows how much and on what items government is going to get money (mainly out of taxation) to finance its expenditure.

ii. Budget Deficit: Budget deficit refers to the situation when the amount of the government's expenditure exceeds the tax revenue earned by the government. Budget deficit = Tax revenue – Government expenditure or Budget Deficit = $G - T$

Trade Deficit: Trade deficit is the excess of import expenditure over the export revenue earned by the economy. Trade Deficit = Import Expenditure – Export Revenue or Trade Deficit = $M - X$ It is given that,

$$I - S = ₹ 2000 \text{ crores.}$$

$$G - T = (-) ₹ 1500 \text{ crores.}$$

Therefore, Trade deficit = $[I - S] + [G - T]$

$$= 2000 + [-1500] = ₹ 500 \text{ crores}$$

iii. i. Wealth tax: It is a kind of direct tax as it is paid by the same person on which it is levied or imposed, i.e. burden of this tax is not possible to shift to the other person.

ii. Value added tax: Value added tax is imposed on one person and its burden shifts to another person therefore it is an indirect tax because in case of indirect taxes burden is shifted to another person.

iv. Revenue deficit is concerned with the revenue expenditures and revenue receipts of the government. It refers to an excess of revenue expenditure over revenue receipts during the given fiscal year. Revenue Deficit = Revenue Expenditure – Revenue Receipts Revenue deficit signifies that government's own revenue is insufficient to meet the expenditures on the normal functioning of government departments and provisions for various services.

Implications of revenue deficit are as follows:

i. High revenue deficit shows accumulated and recurring expenses of government such as expenses on defence, payment of interest etc.

ii. The revenue deficit is managed by borrowing or by disinvestment. Hence, high revenue deficit either increases government liability or reduces government assets.

iii. High revenue deficit leads to an inflationary situation in the economy, as high government expenditure increases the aggregate demand of the economy.

iv. High revenue deficit implies a high future burden of loan and interest payments on the government

Section B

18. **Correct Answer: A**

The action plan is to focus on the lingering and emerging challenges in rural areas.

19. **Correct Answer: C**

Investment which varies directly with the level of income is known as induced investment.

OR

Correct Answer: C

The spread of education not the objective of economic plans

20. **Correct Answer: B**

Maximum limit to start small scale in present scenario is 1 crore.

OR

Correct Answer: A

Land reforms were successful in Kerala and West Bengal because these states had governments committed to the policy of land to the tiller.

21. **Correct Answer: D**

All the options are the initiative taken for the development of rural India.

22. **Correct Answer: A**

In 1991, Dr. Manmohan Singh as Finance Minister, freed India from the Licence Raj, source of slow economic growth and corruption in the Indian economy for decades. He liberalised the Indian economy, allowing it to speed up development dramatically.

23. **Correct Answer: D**

All three are indicators of educational attainments. A higher value of Gross Enrolment ratio and Literacy rate, and lower value for Drop-out ratio is desired for a country.

24. Correct Answer: A

In a mixed economy, the market will provide whatever goods and services it can produce well, and the government will provide essential goods and services which the market fails to do.

25. Correct Answer: B

Mechanism action has raised the levels of efficiency, but it has equally raised the level of noise pollution. Because millions of vehicles fitted with loud horns and noise generating engines have invaded the environment. Excessive noise causes irritation and unnecessarily fatigues the body and the mind.

OR

Correct Answer: C

The Index of Sustainable Economic Welfare (ISEW) is an economic indicator intended to replace the GDP, which is the main macroeconomic indicator of System of National Accounts (SNA). Rather than simply adding together all expenditures like the GDP, consumer expenditure is balanced by such factors as income distribution and cost associated with pollution and other unsustainable costs.

26. Correct Answer: A

The owners of the soil indulged in conspicuous consumption. During the British rule, while tillers of the soil confronted absolute poverty and accepted indebtedness as their way of life.

27. Correct Answer: C

Structural change implies a shift in the sectoral share in GDP: the share of secondary and tertiary sectors should gradually rise and that of the primary sector should gradually fall. It does not imply a situation where the primary sector is neglected. It only means that the epicentre of GDP growth shifts from the primary sector to the secondary and tertiary sectors.

28. In India, air pollution is wide-spread in urban areas because of vehicles, factories and other reasons. Air pollution is a great concern because it has serious harmful effects on the general population. For example, the number of motor vehicles has increased from about 3 lakh in 1957 to 67 crores to 2003. In 2003, personal transport vehicles (two wheelers vehicles and cars only) constituted . about 80% of the total number of registered vehicles. This growth directly contributes to air pollution.

29. We find hidden unemployment (disguised unemployment) is agriculture when other employment opportunities are not available. People start working in their family occupations say agriculture. The fact is that family occupation does not require any additional hands. For example, two persons are employed in the field. Since there are no other employment opportunities, two more family members start working in the same field. But they do not add to total productivity. These two persons will constitute hidden unemployment. Hidden unemployment can be in household enterprises and other informal activities.

OR

No, I don't agree. It is dependent on the priority of goals in a person's life. A person whose foremost goal is to earn higher income may choose it. But a person who gives more importance to stability, security, social status may not like it. A marginal farmer is happier than an agriculture labour because his earnings may be low but he has freedom and not exploited by anyone. Similarly, a permanent and regular worker of the pharmaceutical company will not be happy to become a daily wage worker even if his total income decreases as there is no security, stability and status in casual employment.

30. Equity is the development path of India, Pakistan and China. All three nations had started towards their development path at the same time. These nations have similar development strategies. India and Pakistan got freedom in 1947. The people's Republic of China was established in 1949. India introduced its first five-year plan for 1951-56 followed by Pakistan in 1956 and but China announced in 1953.

The growth rates and per capita incomes of these three countries were the same till 1980. Now, there is a huge economic gap between the three countries.

31. Answer first two questions (i & ii) OR answer the last question (iii):

(i) Conditions imposed by World Bank

(ii) Following measures of privatisation have been adopted by the Indian government:

i. Productive Assets- The government ownership of productive assets have been transferred to the private sector.

ii. Disinvestment- The government has sold a part of equity holdings held by the government in any public sector undertakings to a private investor. Disinvestment has been done to provide fiscal support to the government and to improve the efficiency and accountability of public enterprises.

iii. Role of Private Sector- The number of industries exclusively reserved for the public sector has been reduced from 17 to 3. The scope of the public sector has been restricted. The New Industrial Policy has scrapped the various restrictions relating to production capacity and investment.

iii. Following are the measures under the globalisation concept:

i. Import Licensing- There has been the abolition of most of the licensing regulation. Most of the imports have been put under Open General Licence where no permission to import is required.

ii. Tariff Reduction- Under economic reform, custom duties and tariffs imposed on exports and imports are being reduced gradually.

iii. Foreign Exchange Rate- Under the globalisation, rupee value is determined by the market forces of demand and supply of Indian currency.

iv. Convertibility of Rupee- Free convertibility of rupee has been allowed in the current account of the balance of payments.

32. State whether the following statements are true/false, with valid arguments:

i. (a) True

Explanation: True. Right to Education was enacted in the year 2009.

(ii) (b) False

Explanation: False. Education cess is levied on central taxes.

33. (i) NABARD

(ii) Because institutional credit involves lots of formalities including tangible security.

(iii) Operation flood is a system whereby all the farmers can pool their milk produce on a cooperative basis and the same is marketed to urban areas through cooperatives.

(iv) No, we do not agree because:

i. It has been noticed that 60% of defaulters are wilful defaulters.

ii. First each case should be seen individually. In cases where crop failure or genuine conditions prevail, we can reduce the rate of interest and extend the time for repayment, reduce the EMI amount instead of waiving off loans.

iii. The amount of loan being waived off is coming from the pockets of honest tax payers. Transferring the burden of wilful defaulters' loans on honest taxpayers is neither advisable nor justified.

(v) The Government of India has adopted the policy of buffer stocks to minimise the fluctuations in the food prices. Buffer stocks serve as shock absorbers in the economy and provide a defense mechanism against the widely fluctuating price levels.

Under the buffer stock policy, the government fixes the minimum support price (MSP) and builds up stocks of food through direct purchases from the farmers and releases these stocks for sale in the domestic market where prices are increasing. Also, buffer stock operations aim at eliminating unduly low prices consequent to bumper crops. Buffer stocks of rice and wheat are maintained by the Food Corporation of India. The government safeguards the interest of farmers and supplies this buffer stock through fair price shops.

34. i) The inclusion of India's trade with Hong Kong and Macao (as also India's rising trade with Taiwan, and the possibility of eventual unification of Taiwan) has made Greater China emerge as India's largest trading partner and one of its kind. In terms of its share in their total foreign trade, while India accounts for little more than 1% of China's total foreign trade, China now accounts for over 5% of India's total foreign trade which creates substantial stakes for mutual cooperation.

ii) The foreign exchange reserves provide perhaps the easiest layman's indicator of the international economic position of a country. The foreign direct investment (FDI) inflows of a country, too, indicate its economic standing. China and India have often been projected as strong competitors. However, both have again continued to sustain growth simultaneously without any major friction. Their FDI remains perhaps the strongest mover/factor of their foreign trade and especially in the case of China, it has come to be known as the main locomotive for their economic success