

CLASS : 12th

1244/1209

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MARKING INSTRUCTIONS AND MODEL ANSWERS

ECONOMICS

[New Syllabus]

ACADEMIC/OPEN

SEMESTER - II (Subjective Type)

(Only for Fresh & Re-appear Candidates)

उप-परीक्षक मूल्यांकन निर्देशों का ध्यानपूर्वक अवलोकन करके उत्तर-पुस्तिकाओं का मूल्यांकन करें। यदि परीक्षार्थी ने प्रश्न पूर्ण व सही हल किया है तो उसके पूर्ण अंक दें।

General Instructions :

- (i) Examiners are advised to go through the general as well as specific instructions before taking up evaluation of the answer-books.
- (ii) Instructions given in the marking scheme are to be followed strictly so that there may be uniformity in evaluation.
- (iii) Mistakes in the answers are to be underlined or encircled.
- (iv) Examiners need not hesitate in awarding full marks to the examinee if the answer/s is/are absolutely correct.
- (v) Examiners are requested to ensure that every answer is seriously and honestly gone through before it is awarded mark/s. It will ensure the authenticity as their evaluation and enhance the reputation of the Institution.

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- (vi) A question having parts is to be evaluated and awarded partwise.
- (vii) If an examinee writes an acceptable answer which is not given in the marking scheme, he or she may be awarded marks only after consultation with the head-examiner.
- (viii) If an examinee attempts an extra question, that answer deserving higher award should be retained and the other scored out.
- (ix) Word limit wherever prescribed, if violated upto 10%. On both sides, may be ignored. If the violation exceeds 10%, 1 mark may be deducted.
- (x) Head-examiners will approve the standard of marking of the examiners under them only after ensuring the non-violation of the instructions given in the marking scheme.
- (xi) Head-examiners and examiners are once again requested and advised to ensure the authenticity of their evaluation by going through the answers seriously, sincerely and honestly. The advice, if not heeded to, will bring a bad name to them and the Institution.

Set – A**Solution :****1. Meaning of Macro economics :**

Macro economics is concerned with the economy as a whole. It deals with large aggregates e. g. national income, general price level, aggregate demand, aggregate supply etc.

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2. The problem of unemployment in India is considered a macroeconomic study as it is concerned with the economy as a whole. It has macro implications.

3. Difference between National Income and Domestic factor Income :

(i) National income refers to the income generated by the normal residents of a country whereas domestic income refers to the income generated within the domestic territory of the country.

(ii) National income includes NFIA whereas domestic income excludes NFIA.

4. (a) Yes, because profits are earned within the domestic territory of India.

(b) No, because American Embassy is a part of domestic territory of America.

5. Autonomous consumption is defined as consumption that is independent of income.

Autonomous consumption expenditure will take place even when income is zero. It is the minimum level of consumption that has to be maintained for survival.

6. People prefer payments in money because money possesses the quality of general acceptability. Money is widely accepted as a medium of exchange without doubt. It has the legal power to discharge debts.
7. Commercial bank is a financial institution which accepts deposits for the purpose of lending or investments.
8. Demand deposits refer to those deposits at banks which can be withdrawn by their depositors at any time by means of cheque. Current account deposits and saving account deposits fall under this category.
9. M_1 is a narrow measure of money supply. It includes currency held by the public, demand deposits in banks and other deposits with the Reserve Bank of India of all economic units except government and banks.
10. Token money refers to token coins whose value as money is far above the value of the metal contained in them. All coins in India are token money.
11. (i) Government through its budgetary policy tries to allocate resources in line with social and economic consideration.
(ii) Budget is used to reduce inequalities of income and wealth.

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12. Fiscal Deficit=Primary Deficit+Interest Payment=20,000+8000

= Rs. 28,000 crores Ans.

13. The equality in the BOP account refers to the equality between the aggregate receipts from and aggregate payments to other countries, whereas equilibrium in BOP account implies the equality between aggregate autonomous receipts and aggregate autonomous payments.

14. (i) Yes, because it is a final investment expenditure.

(ii) Yes, because it is a part of compensation of employees.

(iii) No, because gifts are transfer payments.

(iv) Yes, because it is paid out of company's profits.

15. Precautions :

(i) Imputed rent of owner-occupied houses should be included.

(ii) Imputed value of goods produced for self consumption should be included.

(iii) Sale and purchase of second-hand goods should not be included.

(iv) Unpaid domestic services are not included.

16. Calculation of Net value Added at Factor Cost :

(i) Value of output = Sales + change in stock

$$= \text{Rs. } 350 + (20 - 30)$$

$$= \text{Rs. } 340 \text{ Thousand}$$

(ii) Net value Added at Factor Cost = value of output-
(v) + (vi)-(vii)

$$= \text{Rs. } 340 - 170 + 40 - 30$$

$$= \text{Rs. } 180 \text{ Thousands Ans.}$$

17.

$$K = \frac{1}{1 - MPC}$$

$$= \frac{1}{1 - .75} = \frac{1}{.25}$$

$$= 4$$

$$\text{Total Increase in income} = \text{Increase in investment } (\Delta I) \times K$$

$$= 200 \times 4$$

$$= \text{Rs. } 800 \text{ crore Ans.}$$

18. *Fiscal Measures for controlling excess demand :*

In order to correct the situation of excess demand, the aggregate demand has to be reduced by an amount equal to the

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inflationary gap. Fiscal measures to reduce the aggregate demand are :

- (i) reducing the government expenditure and,
- (ii) increasing the amount of taxes.

These measures will reduce the disposable income and thus cause a parallel downward shift of the consumption function. Consequently, the level of aggregate demand will fall.

- 19.** Full employment refers to a situation when all resources in an economy are fully and efficiently employed. For simplicity, full employment is restricted to full employment of labour only.

In a situation of full employment some natural unemployment can exist. Frictional and structural unemployment can exist in a situation of full employment.

- 20.** Acceptance of deposits and advancing of loans are the two primary functions of Commercial Banks. Commercial Banks accept mainly three types of deposits namely current account deposits, saving account deposits and term deposits.

Commercial banks offer loans to firms and households and thereby earn interest. They advance following types of loans :

- (i) Cash credit

- (ii) Demand loans
- (iii) Term loans
- (iv) Overdraft
- (v) Discounting of bills of exchange

21. Public expenditure is broadly classified into revenue expenditure and capital expenditure. The basis of this classification is whether public expenditure creates any physical or financial assets or not. Capital expenditure results in creation of assets whereas revenue expenditure does not.

Examples :

Revenue Expenditure : payment of salaries and scholarship

Capital Expenditure : Repayment of loan

22. Demand for foreign currencies arises from the following :

- (i) for making payments of imports of goods and services
- (ii) for making investments and lending abroad
- (iii) for outward unilateral transfers such as sending gifts to other countries
- (iv) for speculation purpose

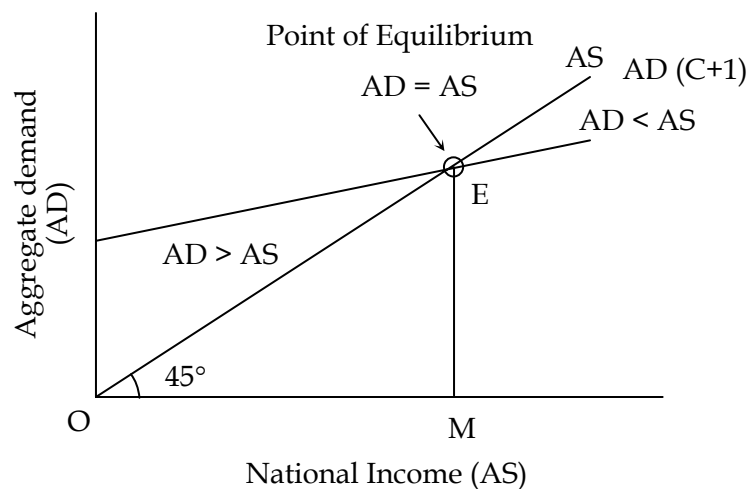
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- 23. Visible items of Trade :** All types of physical goods exported and imported are called visible items as they can be seen, touched and measured.

Invisible Items : Invisible items of trade refer to all types of services given and received. These are invisible items as services are not visible. Examples : shipping, banking service.

- 24. Determination of Equilibrium level of Income :**

Equilibrium level of income is that level of income where aggregate demand equals aggregate supply. Aggregate demand has two components namely consumption demand (C) and investment demand (I) we can illustrate the determination of equilibrium level of income with the help of following diagram :



In the above diagram, equilibrium level of income is determined at point E. Where AD AS. The 45° line enables us to identify this equilibrium point because every point on this line is equi-distant from both the. OM represents aggregate supply which is equal to aggregate demand EM. If there is any deviation from equilibrium level of income, interaction between AD and AS will again establish equilibrium. For example if $AD < AS$, there will be tendency in decrease in production and income till AS becomes equal to AD.

There can be unemployment at equilibrium level of income. This will happen where AD falls short of AS at full employment level.

25. National Income :

$$\begin{aligned} \text{(a) Income Method} &= \text{(i)} + \text{(iv)} + \text{(v)} + \text{(viii)} + \text{(xi)} \\ &= 40 + 60 + 120 + 800 + (-)20 \\ &= \text{Rs. 1000 crore Ans.} \end{aligned}$$

$$\begin{aligned} \text{(b) Expenditure Methods} &= \text{(ii)} + \text{(iii)} + \text{(vi)} + \text{(vii)} - \text{(x)} + \text{(xi)} \\ &= 800 + 20 + 200 + 100 - 100 + (-)20 \\ &= \text{Rs. 1000 crore Ans.} \end{aligned}$$

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26. (a) *Difference between Direct Taxes and Indirect Taxes :*

<i>Direct Taxes</i>	<i>Indirect Taxes</i>
(i) Direct tax is imposed on persons	(i) Indirect tax is imposed on commodities.
(ii) The burden of direct taxes cannot be shifted onto others.	(ii) The burden of indirect taxes can partially or wholly be shifted onto others.
(iii) Income tax and corporate tax are examples of direct taxes.	(iii) Excise duty, sales tax, entertainment tax are examples of indirect taxes.

(b) *Difference between Fiscal Deficit and Primary Deficit :*

Fiscal deficit is the excess of total expenditure (both on revenue and capital accounts) over revenue receipts and capital receipts excluding borrowings. It indicates the total borrowing requirements of the government. It is thus equal to borrowings.

Primary deficit is fiscal deficit minus interest payments. It indicates how much government borrowing is gone to meet expenses other than interest payments. It thus reflects the real burden of government finance as it excludes the interest burden on loans taken in the past.

Set – B

Solution :

1. (i) National Income
(ii) General Price level

These two macro economic variable relate to the entire economy.

2. No, because firm is an individual economic unit. Hence the level of output of a firm is the subject matter of micro economics.
3. National income is the sum total of factor incomes generated by the residents of a country. It also includes net factor income from abroad.

National disposable income is the total income in the hands of the country. It is the maximum level of income (including transfer income of the country) that the country can dispose off or use the way it desires.

4. (a) No, because Indian banks located abroad do not fall under India's domestic territory.

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(b) Yes, because Indian Embassy in America is a part of India's domestic territory.

5. Autonomous investment is defined as investment that is independent of income. Investment remains constant when income levels change. Here the investment curve is a horizontal line parallel to the x-axis.
6. Near money refers to those assets which do not function as money but are close to money. They can be converted into money quickly. Treasury bills, term deposits are examples of near money.
7. A central bank is an institution which is charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of general public. It constitutes the apex as monetary and banking structure of the country.
8. Demand deposits at banks are a part of the money supply as they can be used as medium of exchange through cheques. The creation of demand deposits by way of loan transactions is called credit creation.

9. M_3 is a broad measure of money supply. It is the most commonly used measure of money supply. It consists of currency with the public, demand deposits at banks, other deposits with the RBI and net time deposits of banks.
10. Aggregate supply refers to the total supply of goods and services in the economics in an accounting year. It is measured as the sum total of consumption and saving in the economy.

11. *Difference :*

<i>Revenue Expenditure</i>	<i>Capital Expenditure</i>
(i) It does not create asset for the government.	(i) It creates assets for the government.
(ii) It does not cause any reduction in liability of the government.	(ii) It causes reduction in government liability.

12. Fiscal Deficit = Primary deficit + Interest Payments

$$= 20,000 + 7000$$

$$= \text{Rs. } 27,000 \text{ crore Ans.}$$

13. Current account of BOP records economic transactions relating to exchange of goods and services and unilateral transfers

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whereas capital account records capital transactions of borrowing and lending, sale and purchase of assets etc.

- 14.** (i) No, because old age pension is a transfer payment.
- (ii) Yes, because it accrues to the normal residents of a country.
- (iii) No, because it is a transfer income.
- (iv) Yes, because it is a part of final investment expenditure.

15. *Measurement of Domestic Factor Income by Income Method :*

Steps Involved :

- (i) Identifying enterprises which employ on factors of production (land, labour, capital and enterprise).
- (ii) Classifying the various types of a factor payments into rent, wages interest, profit, mixed income.
- (iii) Estimating amount of factor payments made by each enterprise.
- (iv) Summing up all factor payments made within domestic territory to obtain domestic factor income.

While measuring domestic income, we should include only those incomes that originate with the production of goods and services.

16. Calculating of GVA_{MP}

$$\begin{aligned} \text{(i) Values of output} &= \text{Sales} + \text{change to stock} \\ &= 350 + (20-30) \\ &= \text{Rs. 340 Thousand} \end{aligned}$$

$$\begin{aligned} \text{(ii) } GVA_{MP} &= \text{value of output} - \text{Intermediate Products} \\ &= 340 - 170 \\ &= \text{Rs. 170 Thousands Ans.} \end{aligned}$$

$$\begin{aligned} \text{17. } k &= \frac{1}{1-MPC} \\ &= \frac{1}{1-.8} = 5 \end{aligned}$$

$$\begin{aligned} \Delta y &= k \cdot \Delta 1 \\ &= 5 \times 200 \\ &= \text{Rs. 1000 crore Ans.} \end{aligned}$$

18. Remedy for Deficient Demand :

In order to remedy the problem of deficient demand, the aggregate demand has to be increased by an amount equal to the deflationary gap. This may be done by either increasing the

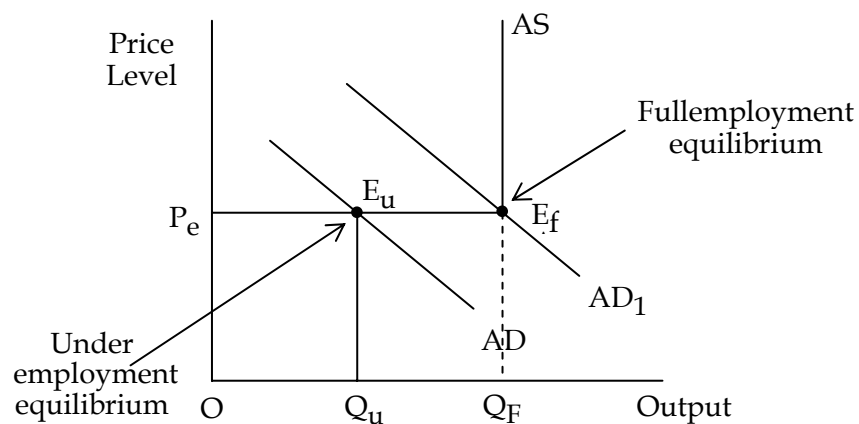
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level of government expenditure or by reducing the amount of taxes. By a mix of these two fiscal measures, the level of aggregate demand may be increased by an amount equal to the deflationary gap. This will restore the economy to the full employment equilibrium.

19. Full Employment and Under-Employment Equilibrium :

Full employment equilibrium is a state of equilibrium where all resources in the economy are fully employed. On the other hand, underemployment equilibrium signifies a situation where all resources are not fully employed. The problem of deficient demand pushes an economy into under-employment equilibrium.

Full employment and under-employment equilibrium are shown in the following figure :



In the above diagram P_e is the equilibrium price level and Q_u is the equilibrium level of output as AD equals AS at this level. Point E_u is an under employment equilibrium whereas point E_f is denotes full employment equilibrium. In the figure, when AD curve shifts from AD to AD, output increases from Q_u to Q_f . But when AD further rises, there will be no corresponding increase in output after reaching full employment level of output.

20. Difference between a Central Bank and a Commercial Bank :

<i>Central Bank</i>	<i>Commercial Bank</i>
1. Central bank is an apex institution of the monetary and banking structure of the country. It regulates the entire banking system of the country.	1. Commercial bank is a bank that deals money and credit for purposes of earning profit. It operates under the guidelines of the central bank.
2. Its main objective is to promote social welfare.	2. Its main objective is to earn profits.
3. It has got the monopoly right of note-issue.	3. Commercial bank does not have such rights.
4. It is a banker of the government. It is also the banker of the commercial banks.	4. It is a banker of the general public only.

21. Difference between revenue receipts and capital receipts :

<i>Revenue Receipts</i>	<i>Capital Receipts</i>
<p>1. In case of revenue receipts, govt. is under no obligation to return the amount in future.</p> <p><i>Example :</i></p> <p>Income from taxes.</p>	<p>1. In case of capital receipts, govt. has to return the amount along with interest.</p> <p><i>Example :</i></p> <p>Borrowings</p>
<p>2. Revenue receipts neither create liabilities nor cause any reduction in assets.</p>	<p>2. Capital receipts either create liabilities or reduce assets.</p>

22. Sources of Supply of Foreign Exchange :

The supply of foreign exchange comes from the following sources :

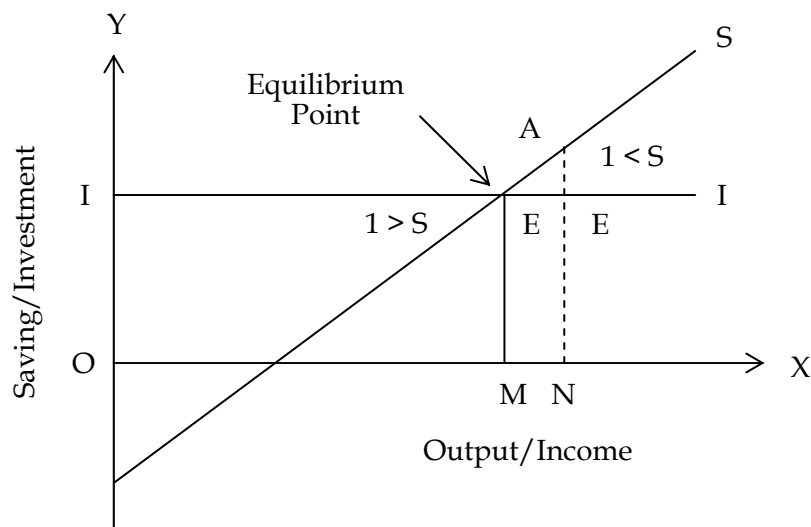
- (i) The domestic exporters as goods and services.
- (ii) The foreigners who invest and lend in the home country.
- (iii) Unward unilateral transfers such as received of gifts from abroad.

23. Main Components of Current Account of BOP Account :

Current account of BOP deals with inflows and outflows of foreign exchange resulting from flow of goods, services and unrequited transfers. Main components of current account of BOP are :

- (i) Export and import of goods (i.e visible trade)
- (ii) Export and import of services (i.e. invisible trade)
- (iii) Unrequited (unilateral) transfers.

24. Equilibrium Level of Income : Equilibrium level of income is that level of income where planned saving and planned investments are equal. This shown in the following diagram.



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In the above diagram, line SS represents planning savings and the horizontal line II represents planned investment. These two curves (SS & II) intersect each other at point E. This point determines equilibrium level of income at OM level. At this level of income, what the firms planned to invest (EM) is equal to what the households plan to save (EM). Therefore, OM will be the equilibrium level of income.

Let us now consider how output adjusts when planned savings exceeds planned investment. In the diagram at ON level on income, savings exceed investment by AB amount. This implies that households are consuming lesser than the investment of firms (i.e. level of output). As a result, firms' stock of unsold goods will pile up. In order to reduce this undesired/unplanned build-up of inventories of unsold stock, firms will cut back production and reduce employment. This will lead to fall in income and output which will continue till it reaches at OM level of output where planned saving and planned investment are equal.

25. Calculation of National Income (NNP_{FC})

Income Method :

$$\begin{aligned} NNP_{FC} &= (i) + (iv) + (v) + (viii) + (xi) \\ &= 50 + 70 + 130 + 800 + (-)30 \\ &= \text{Rs. } 1020 \text{ crore Ans.} \end{aligned}$$

Expenditure Method :

$$\begin{aligned} \text{NNP}_{\text{FC}} &= (\text{ii}) + (\text{iii}) + (\text{vi}) + (\text{vii}) - (\text{x}) + (\text{xi}) \\ &= 810 + 20 + 220 + 100 - 100 + (-)30 \\ &= \text{Rs. 1020 crore Ans.} \end{aligned}$$

26. (a) *Fiscal Deficit*

Fiscal deficit is the excess of total expenditure (both on revenue and capital accounts) over revenue and capital receipts excluding borrowings. It indicates the borrowing requirement of the government.

Fiscal deficit has serious implications on an economy. When the government borrows from the central bank to meet about its fiscal deficit supply of money is the economy increases leading to inflation.

Where the government borrows from other countries of the world, it increases foreign dependence which is usually associated with economic and political interference by the lending countries. Further, fiscal deficit creates the problem of not only of payment of interest but also of repayment of loans.

(b) *Objectives of a Government Budget :*

- (i) Government through its budgetary policy tries to allocate resources in line with social and economic consideration.

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- (ii) Budget is used to reduce inequalities of revenue and increase through levying taxes and granting subsidies. For example, imposition of progressive taxes and death duties would secure funds for the government which can be utilized for the welfare of weaker sections of the society.
- (iii) Government budget is used to present economic fluctuations.
- (iv) Budget is used to affect the availability of goods and services in the country.

Set – C

Solution :

1. See Q. No. 2, Set- A
 2. See Q. No. 6, Set- A
 3. See Q. No. 10, Set- A
 4. See Q. No. 7, Set- A
 5. See Q. No. 9, Set- A
 6. See Q. No. 1, Set- A
 7. See Q. No. 5, Set- A
 8. See Q. No. 4, Set- A
 9. See Q. No. 3, Set- A
 10. See Q. No. 13, Set- A
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- 11. See Q. No. 12, Set- A
- 12. See Q. No. 8, Set- A
- 13. See Q. No. 11, Set- A
- 14. See Q. No. 22, Set- A
- 15. See Q. No. 20, Set- A
- 16. See Q. No. 19, Set- A
- 17. See Q. No. 18, Set- A
- 18. See Q. No. 15, Set- A
- 19. See Q. No. 23, Set- A
- 20. See Q. No. 21, Set- A
- 21. See Q. No. 14, Set- A
- 22. See Q. No. 17, Set- A
- 23. See Q. No 16, Set A
- 24. See Q. No. 26, Set- A
- 25. See Q. No. 24, Set- A
- 26. See Q. No. 25, Set- A

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