

Questions : 1-10 (1 Mark), 11-12 (3 Marks), 13-15 (4 Marks), 16-17 (6 Marks), 18-27 (1 Mark), 28-29 (3 Marks), 30-32 (4 Marks), 33-34 (6 Marks)

Section A: Introductory Macroeconomics

1. What is meant by 'floating exchange rate'?

Ans. The exchange rate determined by the market forces of demand and supply of foreign exchange is called the "floating exchange rate".

2. Money supply consists of:

- (a) Currency held by the public
- (b) Net demand deposits held by commercial banks
- (c) Currency held by the public + Net demand deposits with the banks
- (d) None of the above

Ans. (c)

3. Which of the following is a stock variable?

- (a) Wealth
- (b) Income
- (c) Savings
- (d) Capital formation

Ans. (a)

4. If MPC is given as 1, how much is MPS?

- (a) 1
- (b) 0
- (c) ∞
- (d) None of the above

Ans. (b)

5. The part of Legal Reserve Ratio (LRR) kept by the banks with themselves is called _____.

- (a) Statutory Liquidity Ratio (SLR)
- (b) Cash Reserve Ratio (CRR)
- (c) Reverse Repo Rate (RRR)
- (d) None of the above

Ans. (a)

6. _____ exchange rate is officially declared by the government.

Ans. Fixed

7. Give the meaning of ex-ante savings.

Ans. Savings intended to be done during the year are known as ex-ante savings.

8. Fiscal deficit equals:

- (a) Primary deficit minus interest payments
- (b) Primary deficit plus interest payments
- (c) Total budgetary expenditure minus total budgetary receipts
- (d) None of these

Ans. (b)

9. Which of the following is a capital receipt in the government budget?

- (a) Income tax
- (b) Interest receipt
- (c) Sale of shares of a Public Sector Undertaking (PSU) to X Limited (Private company)
- (d) Dividends from a Public Sector Undertaking (PSU)

Or

State any two examples of non-tax revenue.

Ans. (c)

Or

The two examples of non-tax revenue are interest and dividends.

10. A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's Balance of Payments Account?

- (a) Credit side of current account
- (b) Debit side of current account
- (c) Credit side of capital account
- (d) Debit side of capital account

Ans. (c)

11. Giving reason state how are the following treated in the estimation of national income.

- (a) Expenditure by the government on providing free educational services
- (b) Expenditure on purchasing a machine installed in a production unit

Ans. (a) Expenditure by the government on providing free educational services is included in the estimation of national income because it is a final expenditure.
(b) Expenditure on purchasing a machine installed in a production unit is included in the estimation of national income because it is an investment expenditure which is a part of the final expenditure.

12. State any three sources of demand for foreign exchange.

Or

Which of the following transaction item is a debit/credit in the current account of the Balance of Payments Account? Give reasons for your answer.

- (a) Lending to the rest of the world
- (b) Gift from foreigners

Ans. The three sources of demand for foreign exchange are:

- (a) Foreign exchange is demanded for importing goods and services from other countries.
- (b) Foreign exchange is demanded for making investment abroad.
- (c) Foreign exchange is demanded for making interest payments on loans taken from abroad.

Or

- (a) Lending to the rest of the world (R.O.W) is a debit item in the capital account and not in the current account of the Balance of Payments.
- (b) Gift from foreigners is treated as a private transfer and it is a credit item in the current account of Balance of Payments. This is so because it represents an inflow into the domestic country.

13. How does the Central Bank control credit creation by commercial banks through 'Open Market Operations'. Explain.

Or

Explain the "banker's bank" function of the Central Bank.

Ans. The buying and selling of securities like bonds etc. by the Central Bank in the open market to the public is known as 'open market operations'.

In order to control credit creation by the commercial banks, the Central Bank will sell the securities to the public and the money supply in the economy can be reduced. The buyers of these securities make payment by cheques. As a result,

the deposits with the commercial banks decrease as the buyers of these securities are account holders with these banks. This will, in turn, directly reduce the capacity of credit creation of the commercial banks. Thus, the borrowings from banks decrease, ultimately leading to a decrease in the demand for goods and services and thereby, controlling inflation or excess demand.

Or

The Central Bank acts as a banker to commercial banks in various ways. Some of them are:

- It provides financial assistance to banks by discounting their bills and by giving loans and advances against approved securities.
- The commercial banks are required to maintain a certain percentage of deposits with the Central Bank. The sole aim of these reserves is to enable the Central Bank to provide financial assistance in times of financial emergency.
- It supervises, regulates and controls the activities of commercial banks.
- It provides the commercial banks with centralised clearing and remittance facility.

14. (a) Distinguish between ex-ante measure and ex-post measure of a variable. Which out of the two forms the basis of the theory of national income determination?

(b) National Income increases by ₹ 2,000 crore due to an additional investment of ₹ 400 crore. Calculate the value of investment multiplier.

Ans. (a) 'Ex-ante' variable is the planned or expected value of a variable whereas 'ex-post' variable is the actual or realised value of the variable.

It is the ex-ante variables which are the basis of the theory of income determination.

$$(b) \quad \text{Multiplier } (k) = \frac{\Delta Y}{\Delta I}$$

$$k = \frac{2,000}{400} = 5$$

15. The government under Ujjawala Yojana, is providing free LPG kitchen gas connections to the families living below the poverty line. What objective the government is trying to fulfill through the government budget and how? Explain.

Ans. The government under Ujjawala Yojana, is providing free LPG kitchen gas connections to the families living below the poverty line.

- Through this yojana, the government is trying to reduce the gap between the rich and the poor.
- The government sells LPG gas at a higher rate to those who can afford it. Revenue thus collected is used to provide LPG connection free of cost and also at subsidised rates to the families living below the poverty line.
- This effort undertaken by the government reduces the disposable income of the rich and increases that of the poor thereby reducing the gap between the rich and poor.

16. From the given data, calculate:

(a) Gross National Product at Market Price

(b) Net Domestic Product at Factor Cost

	(₹ in crores)
(i) Indirect tax	300
(ii) Sales	4,000
(iii) Opening stock	400
(iv) Closing stock	200
(v) Net factor income to abroad	60
(vi) Subsidies	40
(vii) Consumption of fixed capital	100
(viii) Intermediate costs	2,000

Ans. (a)

$$\text{GNP}_{\text{MP}} = \text{NDP}_{\text{FC}} + (vii) + (i) - (vi) - (v)$$

$$= 1,440 + 100 + 300 - 40 - 60$$

$$= ₹ 1,740 \text{ crores}$$

Alternate method:

$$\begin{aligned} \text{GNP}_{\text{MP}} &= (ii) + (iv) - (iii) - (viii) - (v) \\ &= 4,000 + 200 - 400 - 2,000 - 60 \\ &= ₹ 1,740 \text{ crores} \end{aligned}$$

(b) $\text{NDP at Factor Cost} = (ii) + (iv - iii) - (viii) - (vii) - (i) + (vi)$
 $= 4,000 + (200 - 400) - 2,000 - 100 - 300 + 40$
 $= 4000 - 200 - 2,000 - 100 - 300 + 40$
 $= ₹ 1,440 \text{ crores}$

17. (a) Why is the AD curve also called 'C + I' curve?

(b) Explain the determination of national income through aggregate demand and aggregate supply forces. Use diagram.

Or

(a) Explain the concept of "Excess Demand" with the help of a diagram.

(b) Explain the role of bank rate in reducing excess demand in the economy.

Ans. (a) AD curve is also called 'C + I' curve because it gives the value of final demand in an economy, which is nothing but a sum of final consumption demand (C) and investment demand (I). Thus, $AD = C + I$.

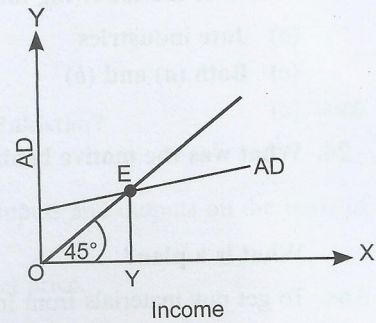
(b) Equilibrium level of income is determined at that point when aggregate demand is equal to aggregate supply.

Aggregate Demand represents the total expenditure on final goods and services in an economy. It consists of Consumption expenditure (C) and Investment expenditure (I). Thus, $AD = C + I$.

Aggregate supply refers to the total production of final goods and services in an economy. In other words, it refers to the country's National Product or National Income. Thus, $AS = Y$.

The equilibrium level of income is determined at a point where $AD = AS$.

In the diagram, AD and AS curves intersect each other at point E, which is the point of equilibrium at which the national income is determined. Thus, the equilibrium level of income is OY.

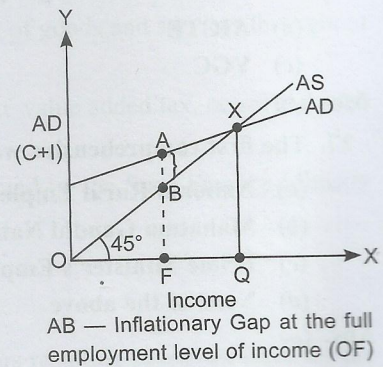


Or

(a) The situation of excess demand exists when Aggregate Demand (AD) exceeds Aggregate Supply (AS) at the level of full employment.

When at the full employment level of income, AD is greater than AS, a situation of inflationary gap emerges, which is conceptually denoted by "Excess Demand". It leads to inflation in the economy. We can explain this with the help of the diagram given.

- Point X in the given diagram denotes the point of equilibrium, because of the intersection of the AD curve with the 45° line.
- OQ denotes equilibrium income.
- OF denotes full employment income.
- Since income is same as aggregate supply, BF denotes Aggregate Supply (AS) at full employment.
- AF denotes Aggregate Demand (AD) at the full employment since $AF > BF$ by the distance "AB" denoting inflationary gap/excess demand at the full employment level of income.



(b) During the situation of excess demand, the Central Bank should raise its bank rate.

- As a result, the commercial banks will be compelled to raise their lending rate.
- On account of this, the demand for loans, to meet investment and consumption needs is likely to fall. This will thereby reduce the excess demand in the economy.

Section B: Indian Economic Development

18. Which of the following is not a source of human capital formation?

- (a) Education
- (b) Saving
- (c) Health
- (d) Information

Ans. (b)

19. National Food for Work Programme was launched in _____.

Ans. February 2001

20. Electricity generated from water is known as _____.

Ans. Hydel Power

21. Name the movement started by National Literacy Mission.

Ans. The movement started by National Literacy Mission is "Education for all".

22. ASEAN stands for _____.

Ans. Association of South-East Asian Nations

23. Which of the following industries were adversely affected due to partition?

- (a) Jute industries
- (b) Textile industries
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

Ans. (c)

24. What was the motive behind the deindustrialisation by the colonial government in India?

Or

What is a plan?

Ans. To get raw materials from India at cheap rate.

Or

A plan is a document showing detailed scheme, programme and strategy, worked out in advance for fulfilling an objective.

25. Give one reason for comparing the development strategies pursued by two neighbouring countries.

Ans. To understand their own weaknesses and strengths of their neighbours.

26. Which of the following organisations functions as an apex organisation to provide quality school education?

- (a) AICTE
- (b) NCERT
- (c) VGC
- (d) Ministry of Education

Ans. (b)

27. The first comprehensive wage employment programme introduced in India was:

- (a) National Rural Employment Programme
- (b) Mahatma Gandhi National Rural Employment Guarantee Scheme
- (c) Prime Minister's Employment Generation Programme
- (d) None of the above

Ans. (a)

28. 'In developed economies like the USA, salaries are higher than in developing economies like India.' Evaluate using your knowledge of relationship between human capital formation and economic development.

Ans. In developed countries labour productivity is much higher than in the developing countries because of intensive training and skill formation, use of modern technology, capital inputs and better infrastructure. Thus, the per capita income in developed countries is higher than in developing countries.

29. Explain why urban poverty in India has been a spillover of rural poverty. Suggest any one measure to reduce rural poverty in our country.

Or

Briefly explain the need for different forms of government intervention in education and health sector.

Ans. Yes, urban poverty is a spillover of rural poverty to a large extent. In India widespread poverty in rural areas compels the people to move to urban areas in search of jobs as most of the industries are concentrated in cities. Besides, skilled people in the rural areas do not find suitable employment opportunities. Also the agricultural activities being seasonal in nature, people move to urban areas.

Creation of alternative non-agricultural employment opportunities can help in reducing rural poverty, e.g., small scale industry.

Or

There is a need for different forms of government intervention in education and health sector to:

- (a) control the private sector and regulate them so that they follow the standard norms fixed by the government.
- (b) control the private sector for overpricing of the basic services like education and health.
- (c) control difference in health and education sector as more funds can be allocated by the government in poor and backward areas.

30. Discuss the dual pricing policy in the reform process of China.

Or

What is the condition of liberty indicators in India as compared to China and Pakistan?

Ans. Dual pricing policy means fixing the prices in two ways, i.e.,

- (a) Farmers and industrial units were required to buy and sell fixed quantities of inputs and outputs on the basis of prices fixed by the government.
- (b) For other transactions, the inputs and outputs were purchased and sold at market price.

Or

HDI rating of India is low as compared with China, partly because HDI does not include parameters of liberties of life, like political liberty of participating in state administration and social liberty of freedom of speech, and related human rights. If these indicators are also included in the construction of HDI, India's ranking is likely to considerably improve, as these parameters are placed fairly high in India, compared with China and Pakistan.

31. How will goods and service tax be a comprehensive indirect tax? Explain. How is the GST going to be administered?

Ans. GST will be a comprehensive indirect tax on the manufacture, sale and consumption of goods and services throughout India, to replace taxes levied at the central and state level.

For example, a car's price varied among states because of different rates of taxes like value added tax, octroi and road tax. But, GST has removed all these and made India a single tax market.

It is the goods and services tax headed by the Union Finance Minister and represented by the State Finance Minister who decide the rates as per the proposed GST law.

32. Explain the obstacles faced by the farmers in marketing their produce.

Ans. The obstacles faced by the farmers in marketing their products are:

- (a) Long chain of intermediaries between the cultivators and the ultimate consumers resulting in low incomes for the farmers.
- (b) Inadequate infrastructure leading to wastage and pilferage of the agricultural products.
- (c) Absence of access to the markets due to inadequate transport facilities and carriages etc. forces the farmers to sell their output in the village itself at lower prices.
- (d) Lack of regulated markets exposes the cultivators to a number of malpractices and lower returns.

33. Explain inefficient management and deficit in BoP as reasons of economic reform.

Ans. Inefficient Management. Inefficient management is famed for the origin of financial crises. The government was unable to generate sufficient revenue from internal sources such as taxation, running of public sector enterprises, etc.

- Government expenditure began to exceed its revenue.
- Foreign exchange borrowed from other countries and international financial institutions was spent on consumption goods.

Deficit in BOP. Deficit in BoP arises when payment for imports exceed foreign receipts from exports. There was slow growth of exports due to low quality and high prices of Indian goods in international market.

34. Bring out clearly the need for diversification in Indian agriculture. In this context, discuss the importance of agro-processing industries.

Or

Briefly explain the three dimensional attack on poverty adopted by the government.

Ans. Diversification in agricultural sector is required to:

- reduce the risks in agricultural sector.
- provide productive sustainable livelihood.
- provide gainful employment.

(any other relevant point)

Agro-processing industries are those Industries that involve further refining and processing of agricultural output, e.g. juices, pickles, jam manufacturing, etc.

The importance of agro-processing industries is as follows:

- (a) They provide huge employment generation potential.
- (b) They create agricultural linkages.
- (c) They reduce agricultural wastage.
- (d) They are a source of supplementary income.

(any three)

Or

The government's approach to poverty reduction has three dimensions:

- (a) **Growth-oriented approach.** This approach was initiated from the First Five Year Plan. This approach is based on an expectation that effects of economic growth (rapid increase in GDP and per capita income) would spread to all sections of the society and will trickle down to the poor section also. It was felt that rapid industrial development and transformation of agriculture through green revolution in select regions, would benefit the underdeveloped regions and more backward sections of the community.
- (b) **Poverty alleviation programmes.** This second approach has been initiated from the Third Five Year Plan and progressively enlarged since then. The government has introduced a variety of programmes for reduction of poverty.
- (c) **Minimum needs programme.** This approach has been initiated from the Fifth Five Year Plan. It aims to provide minimum basic amenities to the people. Programmes under this approach are expected to supplement the consumption of the poor, create employment opportunities and bring improvements in health and education. The three major programmes that aim at improving the food and nutritional status of poor are:
 - (i) Public Distribution System
 - (ii) Integrated Child Development Scheme
 - (iii) Mid-day Meal Scheme