

[Time Allowed: 3 Hours]

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 bank money?

Ans. Bank money refers to the demand deposits created by the commercial banks.

2. Other things remaining the same, when foreign currency appreciates, the effect on the national income of the economy is likely to:

- (a) Increase
- (b) Decrease
- (c) Cannot be determined
- (d) No effect

Ans. (a)

3. If Savings are ₹ 2,000 at the income level of ₹ 10,000, then APS will be equal to:

- (a) 0.8
- (b) 0.5
- (c) 0.2
- (d) 0.6

Or

If the value of MPS is 0.25, calculate the value of multiplier.

Ans. (c)

Or

Given MPS = 0.25 and  $k = ?$

$$\therefore k = \frac{1}{\text{MPS}} = \frac{1}{0.25} = 4$$

$$\therefore \text{Multiplier } (k) = 4$$

4. When is Net Domestic Product equal to Net National Product?

Ans. When net factor income from abroad is zero  $\text{NDP} = \text{NNP}$ .

5. Which out of the following is an indirect tax?

- (a) Gift Tax
- (b) Wealth Tax
- (c) Profit Tax
- (d) Goods and Services Tax

Ans. (d)

6. When Balance of Trade shows a deficit of ₹ 2,500 crores and the value of imports of goods is ₹ 4,500 crores, the value of exports will be \_\_\_\_\_.

Ans. ₹ 2,000 crores

7. Out of the following which value can be greater than one?

- (a) MPC
- (b) MPS
- (c) APC
- (d) APS

Ans. (c)

8. Which government body has finalised a four-tier GST tax structure?

Ans. Goods and Services Tax Council (GST Council)

9. If Legal Reserve Ratio (LRR) is 0.1, the value of deposit multiplier is:

(a) 10

(b) 1

(c) Zero

(d) 20

Ans. (a)

10. Depreciation of domestic currency will lead to an \_\_\_\_\_ in exports.

Ans. Increase

11. Suppose a ban is imposed on consumption of liquor in the country. Examine its effect on Gross Domestic Product and Welfare.

Or

How do the negative externalities affect the welfare of the people? Explain by taking an example.

Ans. The ban imposed on consumption of liquor in the country will certainly bring down the consumption of liquor.

(a) Since the production of liquor is counted in Gross Domestic Product, now it will lead to a fall in GDP. This is because a fall in the consumption of liquor leads to a fall in its production too.

(b) Fall in the consumption of liquor will definitely improve the health of the people (both physical and mental). This in turn will lead to a rise in the welfare of the society.

This step of the government will go a long way to improve the well being of the liquor addict and also his family at large.

Or

Negative externalities refer to those activities which harm others. For example, factory waste being driven into the river causes water pollution and thereby environmental degradation, which in turn causes a loss of (social) welfare. But the impact of these externalities is not accounted for in the estimation of GDP, as an index of welfare. So, they act as a major limitation of GDP, as an index of welfare.

12. Distinguish between the fixed exchange rate and the floating exchange rate.

Ans. • If the government decides the conversion rate between currencies, it is known as 'fixed exchange rate', whereas if the market forces (demand and supply of foreign currency) determine the conversion rate, it is called market exchange rate or flexible/floating exchange rate.

• Fixed Exchange Rate does not vary with the changes in demand and supply of foreign currency, as the government only has the power to change it, whereas flexible exchange rate varies with changes in demand and supply of foreign exchange.

13. How has the introduction of plastic money enhanced the convenience of both the depositor and the bank? Explain.

Or

Explain the process of credit creation by commercial banks with the help of a numerical example.

Ans. The introduction of the plastic money (in the form of the debit/credit card) has definitely enhanced the convenience of both the depositor and the bank. This is keeping in view, the doing away with the burden of carrying money in bulky form (i.e., currency notes). It not only adds weight on the person but also the risk involved in carrying huge amount of cash on person. So the portability factor along with the convenience involved, has led to popularity of plastic money over the bank money. This earlier practise of the depositor/holder of cheque being physically present in the transaction with the bank has been done away with. The handy form of latest money—plastic money, is indeed a convenient form of money used for transactions.

Or

The process of money creation can be explained with the help of the following numerical example.

Suppose the initial deposit in banks is ₹ 100 and the LRR is 20%. Further suppose that banks keep only the minimum required, i.e., ₹ 20 as cash reserve. So now they are free to lend the remainder ₹ 80. Suppose they lend ₹ 80, for this, they open deposit accounts in the names of the borrowers.

Now, as all the transactions are routed through the bank, the money spent by the borrowers comes back into the bank, into the deposit accounts of those who have received this payment. This increases demand deposits in the bank by ₹ 80, which is 80% of the initial deposit. This deposit of ₹ 80 has resulted on account of loan given by the bank. In this sense, the bank is responsible for money creation with this round, increase in total deposits is now ₹ 180 (100 + 80).

This way, the deposits go on increasing round after round, but each time 80% of the last round deposit. At the same time, cash reserves go on increasing each time, 80% of the last cash reserve. The deposit creation comes to end when total cash reserves become equal to the initial deposit (i.e., ₹ 100 in the given case) the total deposit creation comes to ₹ 500, i.e., five times the initial deposit as proven by the following schedule.

Deposit/Credit Creation by Commercial Banks

Round	Deposits (₹)	Loans (₹)	Cash Reserves (LRR = 0.2)
Initial	100	80	20
I	80	64	16
II	64	51.20	12.80
.	.	.	.
.	.	.	.
.	.	.	.
Total	500	400	100

14. Derive saving and investment approach from the aggregate demand and aggregate supply approach for determination of equilibrium level of national income.

Ans. For determination of the equilibrium level of National Income:

$$\text{Aggregate demand} = \text{Aggregate supply}$$

$$AD = AS$$

where

$$AD (C + I) = AS (C + S)$$

Now recasting the above equations

$$AD = AS$$

$$C + I = C + S$$

$$I = S$$

or

$$S = I$$

15. India is suffering from the problem of inequalities in the distribution of income and wealth. How can budget be used as an instrument to solve this problem?

Ans. India has been suffering from the problems of inequalities in the distribution of income and wealth. The government can use the instrument of 'budget' to solve this problem by taking the following steps.

- By providing essential items of foodgrains almost free to the families living below the poverty line, Government tries to reduce the gap between the rich and the poor. It is a step towards the reduction in inequalities in income.
- Government taxes the rich and spends the revenue thus raised on the poor.
- By taxing the richer section, government reduces the disposable income of the rich and increases the disposable income of the poor so as to make them 'better off'.

16. From the following information, calculate:

- (a) Net National Product at Factor Cost  
(b) Gross Domestic Product at Market Price

	(₹ in crores)
(i) Dividends	100
(ii) Compensation of employees	1,200
(iii) Net indirect tax	140
(iv) Rent	200
(v) Social security contributions by the employers	80
(vi) Corporate profit tax	60
(vii) Consumption of fixed capital	120
(viii) Net factor income to abroad	40

(ix) Retained earnings of private corporate sector

50

(x) Interest

300

(xi) Net current transfers to rest of the world

(-) 20

Ans. (a)

$$\begin{aligned} \text{NNP at factor cost} &= (ii) + (i) + (iv) + (vi) + (ix) + (x) - (viii) \\ &= 1,200 + 100 + 200 + 60 + 50 + 300 - 40 \\ &= ₹ 1,870 \text{ crores} \end{aligned}$$

(b)

$$\begin{aligned} \text{GDP at market price} &= \text{NNP}_{\text{FC}} + (vii) + (iii) - (viii) \\ &= 1,870 + 120 + 140 - (-40) \\ &= ₹ 2,170 \text{ crores} \end{aligned}$$

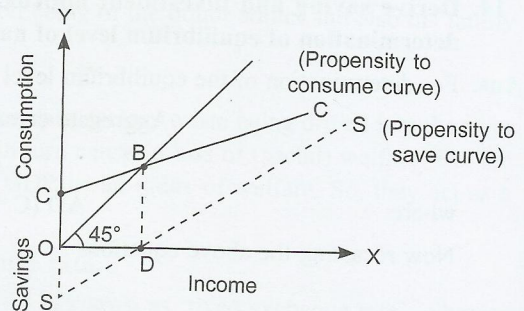
17. Draw a hypothetical propensity to consume curve and from it derive the propensity to save curve. Explain the steps involved.

Or

Explain the 'Consumption function' with the help of a schedule and a diagram.

Ans. The steps involved in the derivation of the saving curve (Propensity to save curve) from the consumption curve (Propensity to consume curve) are:

- We can find savings at different levels of income by taking the vertical distance between the consumption curve (CC) and the 45° line.
- At point B in the diagram, income and consumption expenditure are equal  $Y = C$ , i.e., savings are zero.
- To the left of point B, CC curve is higher than the 45° line. This implies savings are negative (or Dissaving) to the left of point B, in the diagram.
- To the right of point B, CC curve is lower than the 45° line, this implies  $C < Y$  and savings are positive.
- By plotting the distance between the CC curve and 45° line at different levels of income just below the upper part we can derive the saving curve SS. Since the CC curve is a straight line, the derived savings curve  $\rightarrow$  SS, must also be a straight line. For this we are required to locate only 2 points.
  - (a) Plot a perpendicular from point B on the consumption curve, intersecting the OX axis, at point D, which must be on the OX axis, because savings is zero when  $Y = C$ .
  - (b) Plot OS on the lower part of OY axis as equal to OC on the Y-axis on the upper part. This gives us point S, from where the saving curve will start.
- Joining points S and D and extending the straight line upwards we derive the straight line savings curve—'SDS'.



Or

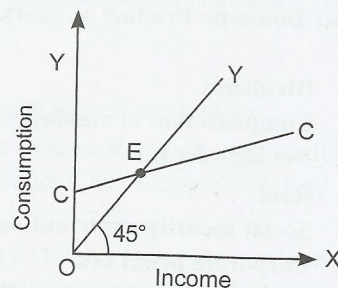
Consumption function shows the relationship between consumption and income.

$$C = f(Y)$$

This equation states that there is a direct relation between consumption and the level of income. As the level of income increases, consumption also increases but the increase in consumption is less than the increase in income.

The concept of consumption function can be further explained by the following consumption schedule and curve:

Income	Consumption (₹ crores)
0	50
100	100
200	150
300	200
400	250
500	300



The above table and diagram show that as the income increases, consumption also increases but the increase in consumption is less than increase in income.

## Section B: Indian Economic Development

18. \_\_\_\_\_ are the people who regularly move in and out of poverty.

Ans. Churning poor

19. Define Special Economic Zone.

Or

Name the programme started in China with the aim of industrialisation.

Ans. Special Economic Zone is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investment.

Or

Great Leap Forward (GLF)

20. Gender bias is a hindrance in the process of skill formation. (True/False)

Ans. True

21. The various types of goods and services we export and import are known as:

- |                          |                      |
|--------------------------|----------------------|
| (a) Direction of trade   | (b) Balance of trade |
| (c) Composition of trade | (d) None of these    |

Ans. (c)

22. The most widespread contamination of water occurs from industrial water. (True/False)

Ans. True

23. Which infrastructure is essential for the development of a country?

- |            |                      |
|------------|----------------------|
| (a) Social | (b) Economic         |
| (c) Health | (d) Both (a) and (b) |

Ans. (d)

24. Define ozone depletion.

Ans. Ozone depletion refers to the phenomenon of reduction in the amount of ozone in the stratosphere.

25. What is commune system of farming?

Ans. Commune system of farming is a system of collective farming.

26. In India, education sector is regulated by:

- |                           |                      |
|---------------------------|----------------------|
| (a) NCERT                 | (b) UGC and AICTE    |
| (c) Ministry of Education | (d) All of the above |

Ans. (d)

27. What was the idea behind abolition of intermediaries?

Ans. The aim of abolition of intermediaries (*zamindars*) was to make direct link between the government and the real cultivators so that the cultivators can get maximum profit.

28. What are the benefits before India for becoming a cashless economy?

Ans. The benefits of a cashless economy are:

- It will enhance our current banking system. There will be increased access to credit for people who do not fall in any banking network.
- It will help in widening the bracket of tax payers. All the transactions are monitored and traced back to a given individual. It will be difficult to evade tax then.
- The risk of counterfeit currency is minimised as the circulation of notes is reduced.
- It will facilitate faster transfer of money to places across India. Making and receiving payments will be safe, convenient and hasslefree.

(any three)

29. 'Subsidies put a huge burden on the government finances but are necessary for poor and marginal farmers.' Explain.

Or

Explain the meaning of Green Revolution and evaluate its contribution in improving agricultural sector in India.

Ans. The government should continue with agricultural subsidies as:

- (a) Farming in India continues to be a risky business.
- (b) Majority of the farmers are very poor and will not be able to afford the required inputs without subsidies.
- (c) Eliminating subsidies still increase the income inequality between rich and poor farmers and violate the ultimate goal of equity.

Or

Green Revolution implies use of better quality inputs like high yielding variety of seeds, modern machines and tools, use of chemical fertilisers and pesticides to increase agricultural productivity.

Green Revolution has helped in:

- (a) Increasing the agricultural productivity.
- (b) Increasing the farmer's incomes through greater marketable surplus resulting in commercialisation.
- (c) Attaining self-sufficiency in food grains and reduced dependences on imports. (any two)

30. Mention the industrial reforms introduced by the Indian government under the New Economic Policy to enhance country's industrial competitiveness.

Ans. The steps which have been undertaken in India under the New Economic Policy to enhance industrial competitiveness are:

- (a) Deregulation of industries-creating one window for licensing
- (b) Dereservation of products under government sector
- (c) Removal of quantitative restrictions on imports and exports
- (d) Freedom to import capital goods by industries to upgrade their technology

31. Explain the challenges faced by the power sector in India.

Or

Explain the relationship between human capital and economic growth.

Ans. The challenges faced by the power sector in India are:

- (a) India's installed capacity to generate electricity is not sufficient to feed an annual economic growth of 7 to 8 percent. Even the installed capacity is underutilised, because plants are not running properly.
- (b) State Electricity Boards incur losses. This is due to transmission and distribution losses, wrong pricing of electricity and other inefficiencies.
- (c) This is general public unrest due to high power tariffs and power cuts.
- (d) Shortage of raw material in thermal power plants
- (e) Lack of technology to use renewable sources of power generation (any four)

Or

Human capital stimulates the process of economic growth. However, economic growth also impacts human capital formation.

Growth implies increase in per capita income. Higher income facilitates higher investment on education and skills implying human capital formation. Thus, human capital formation prompts the process of growth and growth prompts the process of human capital formation.

32. The infrastructural reforms introduced by China proved to be successful while Pakistan lagged far behind. Do you agree? Give reasons in support of your answer.

Ans. Yes, I agree that introduction of infrastructural reforms in a phased manner in China created a favourable environment for its industries and helped to set up a strong support base for further reforms as.

- Establishment of infrastructure in education, transport and health accelerated economic growth.
- Commune system led to equitable distribution of food grains.

- Decentralized planning enables to assess and effectively implement the reforms.
- Promoted small enterprises.

(any two)

While China progressed by leaps and bounds, Pakistan lagged because of:

- Lack of adequate and uniform reforms.
- Ineffective implementation of reforms.
- Low rate of savings and investment.
- Growing dependence on other countries.

(any two)

**33. Explain any three benefits of Organic Farming and problems faced by farmers during organic farming.**

**Ans.** The three benefits of organic farming are:

- It offers a means to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilisers, pesticides etc.) with locally produced organic inputs that are cheaper.
- It generates income through exports as the demand for organically grown crops is high.
- Organically grown food has more nutritional value than chemical farming.
- Since organic farming requires more labour input than conventional farming, it will generate more employment.

(any three)

The problems faced by farmers during the initial years of organic farming are:

- Inadequate infrastructure.
- The yields from organic farming are less than modern agricultural farming in the initial years.
- Organic produce may also have more blemishes and a shorter shelf life than sprayed produce.
- Choice in production of off-season crops is quite limited in organic farming.

(any three)

**34. (a) What is worker population ratio? Why is it calculated?**

**(b) In India, male workers constitute a higher percentage than female workers. Explain why is it so ?**

**Or**

**'Information technology plays a very significant role in achieving sustainable development and food security'. Justify giving any four reasons in support of your answer.**

**Ans.** (a) Worker population ratio refers to the population of workforce in total population. It can be expressed as:

$$\frac{\text{Workforce}}{\text{Total Population}} \times 100$$

Worker population ratio is calculated to find out the percentage of population that is actively engaged in the production of goods and services.

(b) In India male workers constitute a higher percentage of total workers as compared to that of female workers because of the following reasons:

- Lower education or skills among the women.
- Social structure which discourages females to take up jobs outside homes.
- Gender inequality at workplace.
- Limited avenues of work available to the females.

(any two)

**Or**

Information technology plays a very significant role in achieving sustainable development and food security as:

- Government can predict areas of food insecurity and vulnerability using appropriate information and software tools so that action can be taken to prevent or reduce the likelihood of an emergency.
- It also has a positive impact on the agriculture sector as it can disseminate information regarding emerging technologies and its applications, prices, weather and soil conditions for growing different crops etc.
- It can act as a tool for releasing the creative potential and knowledge embedded in the society.
- It also has potential of employment generation in rural areas.