

Solved Paper 2017

ECONOMICS

Class-XII

Time : 3 Hours

Max. Marks : 100

General Instructions :

- (i) All questions in both the sections are **compulsory**.
- (ii) Marks for questions are indicated against each question.
- (iii) Question Nos. 1–5 and 16–20 are very short answer questions carrying 1 mark each. They are required to be answered in **one sentence** each.
- (iv) Question Nos. 6–8 and 21–23 are short answer questions carrying 3 marks each. Answers to them should normally not exceed 60 words each.
- (v) Question Nos. 9–11 and 24–26 are also short answer questions carrying 4 marks each. Answers to them should normally not exceed 70 words each.
- (vi) Question Nos. 12–15 and 27–30 are long answer questions carrying 6 marks each. Answers to them should normally not exceed 100 words each.
- (vii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

Delhi Set – 1

Code No. 57/1/1

SECTION - A*

(Micro-economics)

SECTION – B (Macro economics)

16. The ratio of total deposits that a commercial bank has to keep with Reserve Bank of India is called (Choose the correct alternative): 1

- (a) Statutory liquidity ratio.
- (b) Deposit ratio.
- (c) Cash reserve ratio.
- (d) Legal reserve ratio.

Ans. (c) Cash Reserve Ratio.

[CBSE Marking Scheme 2017] 1

17. Aggregate demand can be increased by (Choose the correct alternative): 1

- (a) increasing bank rate.
- (b) selling government securities by Reserve Bank of India.
- (c) increasing cash reserve ratio.
- (d) none of the above.

Ans. (d) none of the above.

[CBSE Marking Scheme 2017] 1

18. Give the meaning of involuntary unemployment. 1

Ans. When people who are able and willing to work at the prevailing wage rate and do not get employment, it is a situation of involuntary unemployment.

[CBSE Marking Scheme 2017] 1

19. What is primary deficit ? 1

Ans. It is fiscal deficit net of interest payment.

[CBSE Marking Scheme 2017] 1

20. Give the meaning of balance of payments. 1

Ans. BOP is a record of inflows and outflows of foreign exchange.

[CBSE Marking Scheme 2017] 1

21. Distinguish between final goods and intermediate goods. Give an example of each. 3

Ans. (i) Final Goods:

Goods purchased for consumption and investment are final goods. 1

Example: Machinery purchased by a factory. ½

(or any other relevant example.)

(ii) Intermediate Goods:

Good purchased for resale or for using up completely during the year are intermediate goods. 1

Example: Raw materials purchased by a factory. ½

(or any other relevant example.)

[CBSE Marking Scheme 2017]

*22. Explain the store of value function of money. 3

OR

State the meaning and components of money supply. 3

Ans. It is the stock of money in the economy at a particular point of time.

Components of money supply = Currency with public + Demand deposits with banks.

[CBSE Marking Scheme 2017] 1 + 2

23. Explain the basis of classifying taxes into direct and indirect tax. Give examples. 3

Ans. When the burden of a tax and the liability to pay it falls on the same person, then it is a direct tax. When burden of tax and liability to pay it falls on different persons, then it is indirect tax. 2

Example :

Direct tax : Income tax, etc.

(Any other example) ½

Indirect tax : Service tax, etc.

(Any other example) ½

[CBSE Marking Scheme 2017]

24. Explain 'banker to the government' function of the central bank. 4

OR

Explain the role of reverse repo rate in controlling money supply. 4

Ans. Central bank provides the same banking service to the government as commercial banks provide to people. It accepts deposits of government departments and gives them loans in times of need. 4

OR

'Reverse repo rate' is the rate of interest at which the commercial banks park their surplus funds with the central bank. The central bank can control money supply by changing the reverse repo rate (RRR). Rise in RRR encourages commercial banks to park more funds with the central bank. This reduces funds available for lending to general public by the commercial banks. [CBSE Marking Scheme 2017] 4

Detailed Answer:

Central bank acts as a banker and financial advisor to the government. As a banker to the government, it performs the following functions:

- (i) It manages the account of the government.
- (ii) It accepts receipts from the government and makes payment on behalf of it.
- (iii) It grants short-term loans and credit to the government.
- (iv) It performs the task of managing the public debt.
- (v) The central bank advises the government on all the banking and financial related matters.

25. Explain how government budget can be used to influence distribution of income ? 4

Ans. Government can impose higher rate of tax on income of the rich and on the goods consumed by the rich. This will bring down disposable income of the rich. The amount so collected can be spent on providing free services, like education, subsidised food to the poor people. e.g., This will raise disposable income of the poor reducing the gap between rich and poor.

[CBSE Marking Scheme 2017] 4

26. An economy is in equilibrium. From the following data about an economy calculate autonomous consumption: 4

(i) Income = ₹ 5,000

(ii) Marginal propensity to save = 0.2

(iii) Investment expenditure = ₹ 800

Ans. $Y = \bar{C} + MPC(Y) + I$ 2

$$5,000 = \bar{C} + (1 - 0.2)(5,000) + 800 \quad 1$$

$$\bar{C} = 5,000 - 4,000 - 800 \quad \frac{1}{2}$$

$$= 200 \quad \frac{1}{2}$$

(No mark if only the final answer is given)

[CBSE Marking Scheme 2017]

27. Why does the demand for foreign currency falls and supply rises when its price rises? Explain. 6

Ans. When price of foreign exchange rises, import becomes costlier, demand for imports will fall. As a result, demand for foreign currency falls. 3

When price of foreign exchange rises, domestic goods become cheaper for foreign buyers, because they can now buy more from one unit of foreign currency. As a result, demand for exports rise, leading to increase in supply of foreign exchange.

[CBSE Marking Scheme 2017] 3

28. Explain 'non-monetary exchanges' as a limitation of using gross domestic product as an index of welfare of a country. 6

OR

How will you treat the following while estimating domestic product of a country? Give reasons for your answer.

- (i) Profits earned by branches of country's bank in other countries.
- (ii) Gifts given by an employer to his employees on independence day.
- (iii) Purchase of goods by foreign tourists. 6

Ans. Non-monetary exchanges include activities like services of family members provided to each other, etc. These activities may be left out from estimate of national income due to the non-availability of data. But these activities do contribute to welfare of the people. Since GDP may not account for such activities, it may be underestimated. As a result, welfare of the people is also underestimated. This is thus, a limitation of GDP as an index of welfare. 6

(To be marked as a whole)

OR

- (i) Not a part of domestic product as it is not generated in the domestic territory of the country. 2
- (ii) Not a part of domestic product as it is a transfer payment. 2
- (iii) Part of domestic product as these are exports produced in the domestic territory. 2

[CBSE Marking Scheme 2017]

29. Calculate (i) net domestic product at factor cost: 6

| | | ₹ in crores |
|--------|------------------------------------------|-------------|
| (i) | Private final consumption expenditure | 8,000 |
| (ii) | Government final consumption expenditure | 1,000 |
| (iii) | Exports | 70 |
| (iv) | Imports | 120 |
| (v) | Consumption of fixed capital | 60 |
| (vi) | Gross domestic fixed capital formation | 500 |
| (vii) | Change in stock | 100 |
| (viii) | Factor income to abroad | 40 |
| (ix) | Factor income from abroad | 90 |
| (x) | Indirect taxes | 700 |
| (xi) | Subsidies | 50 |
| (xii) | Net current transfers to abroad | (-) 30 |

Ans. (i) $NDP_{FC} = i + ii + (vi+vii) + (iii - iv) - v - x + xi$
 $= 8,000 + 1,000 + (500 + 100) + (70 - 120) - 60 - 700 + 50$
 $= ₹ 8840 \text{ crore}$

(No mark if only the final answer is given)

[CBSE Marking Scheme 2017]

30. Assuming that increase in investment is ₹ 1,000 crore and marginal propensity to consume is 0.9, explain the working of multiplier. 6

Ans. Given that $\Delta I = ₹ 1,000$ and $MPC = 0.9$, increase in income is in the following sequence:

- (a) Increase in I raises income of those who supply investment goods by ₹ 1,000. This is first round increase.
- (b) Since $MPC = 0.9$, income earners spend ₹ 900 on consumption leading to second round increase of ₹ 900 = $1,000 \times 0.9$.
- (c) The third round increase in the similar way is ₹ 900 $\times 0.9 = ₹ 810$.
- (d) In this way income goes on increasing round by round, with each round increase in income equal to 90 percent of the previous round.
- (e) The total increase in income is:

$$\Delta Y = \Delta I \frac{1}{1 - MPC}$$

$$= ₹ 1,000 \times \frac{1}{1 - 0.9}$$

$$= ₹ 10,000 \text{ crore}$$

(Working explained on the basis of tabular presentation is also correct)

(To be marked as a whole)

[CBSE Marking Scheme 2017]

Delhi Set – 2

Code No. 57/1/2

Note : Except these, all other questions are from Delhi Set-I.

SECTION – B (Macroeconomics)

27. Assuming that increase in investment is ₹ 800 crore and marginal propensity to consume is 0.8, explain the working of multiplier. 6

Ans. Given that $I = ₹ 800$ and $MPC = 0.8$, increase in income is in the following sequence:

- (i) Increase in I raises income of those who supply investment goods by ₹ 800. This is first round increase.
- (ii) Since $MPC = 0.8$, income earners spent ₹ 640 = ₹ 800 $\times 0.8$ on consumption. This is second round increase of income.
- (iii) In the similar way third round increase is ₹ 512 = ₹ 640 $\times 0.8$.
- (iv) In this way income goes on increasing round by round with each round increase in income equal to 80 percent of the previous round.

(v) The total increase in income is:

$$\Delta Y = \Delta I \frac{1}{1 - MPC} = 800 \times \frac{1}{1 - 0.8}$$

$$= ₹ 4,000 \text{ crore}$$

(Working explained on the basis of tabular presentation is also correct)

(To be marked as a whole)

[CBSE Marking Scheme 2017] 6

29. Calculate (i) national income: 6

| | | ₹ in crores |
|-------|----------------------------------------------|-------------|
| (i) | Net factor income to abroad | (-) 50 |
| (ii) | Net indirect taxes | 800 |
| (iii) | Net current transfers from rest of the world | 100 |
| (iv) | Net imports | 200 |
| (v) | Private final consumption expenditure | 5,000 |
| (vi) | Government final consumption expenditure | 3,000 |
| (vii) | Gross domestic capital formation | 1,000 |

| | | |
|--------|------------------------------|--------|
| (viii) | Consumption of fixed capital | 150 |
| (ix) | Change in stock | (-) 50 |
| (x) | Mixed income | 4,000 |
| (xi) | Scholarship to students | 80 |

Ans. (i) N.I. = v + vi + vii - iv - viii - ii - i 1½
= 5,000 + 3,000 + 1,000 - 200 - 150 - 800
- (-50) 1
= ₹ 7,900 crore ½
[CBSE Marking Scheme 2017]

Delhi Set – 3**Code No. 57/1/3**

Note: Except these, all other questions are from Delhi Set-I and Set-II.

SECTION – B (Macroeconomics)

20. What is fiscal deficit? 1

Ans. It is the excess of total expenditure over the sum of revenue receipts and non-debt capital receipts.

[CBSE Marking Scheme 2017] 1

29. Calculate net national product at market price: 6

| | | ₹ in crores |
|------|----------------------------------------|-------------|
| (i) | Gross domestic fixed capital formation | 400 |
| (ii) | Private final consumption expenditure | 8,000 |

| | | |
|--------|------------------------------------------|--------|
| (iii) | Government final consumption expenditure | 3,000 |
| (iv) | Change in stock | 50 |
| (v) | Consumption of fixed capital | 40 |
| (vi) | Net indirect taxes | 100 |
| (vii) | Net exports | (-) 60 |
| (viii) | Net factor income to abroad | (-) 80 |
| (ix) | Net current transfers from abroad | 100 |
| (x) | Dividend | 100 |

Ans. $NNP_{MP} = (ii) + (iii) + (i) + (iv) + (vii) - (v) - (viii)$
= 8,000 + 3,000 + 400 + 50 - 60 - 40 - (-80)
= ₹ 11,430 crore

[CBSE Marking Scheme 2017] 6

Outside Delhi Set I**Code No. 58/1****SECTION – B (Macroeconomics)**

16. Demand deposits include (Choose the correct alternative): 1

- (a) Saving account deposits and fixed deposits.
(b) Saving account deposits and current account deposits.
(c) Current account deposits and fixed deposits
(d) All types of deposits.

Ans. (b) Saving account deposits and current account deposits.

[CBSE Marking Scheme 2017] 1

17. Define marginal propensity to consume. 1

Ans. It is the ratio of change in consumption expenditure to change in income.

[CBSE Marking Scheme 2017] 1

18. If the marginal propensity to consume is greater than marginal propensity to save, the value of the multiplier will be (Choose the correct alternative): 1

- (a) greater than 2. (b) less than 2.
(c) equal to 2. (d) equal to 5.

Ans. (a) greater than 2.

[CBSE Marking Scheme 2017] 1

19. Define Government Budget. 1

Ans. It is a financial statement showing expected receipts and expected expenditure of the government during a fiscal year.

[CBSE Marking Scheme 2017] 1

20. What is meant by depreciation of domestic currency? 1

Ans. When in the foreign exchange market the price of foreign currency rises in terms of domestic currency, it is depreciation of domestic currency.

[CBSE Marking Scheme 2017] 1

21. Explain with the help of an example, the basis of classifying goods into final goods and intermediate goods. 3

Ans. Goods are classified as final goods and intermediate goods on the basis of the end use. If goods are purchased for consumption or investment, these would be classified as final goods. For example; machine purchased for use in a factory is a final good. Milk purchased by households is also final good as it is purchased for consumption.

When a good is purchased for resale or for using it up completely in production during the year, it is called intermediate good. For example, raw material purchased for producing goods.

(Any other relevant example) 3
[CBSE Marking Scheme 2017]

- * 22. Explain 'difficulty in storing wealth' problem faced in the barter system of exchange. 3

OR

Explain the 'medium of exchange' function of money. 3

23. Distinguish between direct taxes and indirect taxes. Give an example of each. 3

Ans. When the burden of tax and its liability to pay falls on the same person, it is a direct tax. When the burden of a tax and its liability to pay is on different persons, it is an indirect tax. 2

Direct tax - Income tax, etc. ½

Indirect tax - Sales tax, etc. ½

[CBSE Marking Scheme 2017]

24. Explain the 'bankers' bank' function of the central bank. 4

OR

Explain the process of credit creation by commercial banks. 4

Ans. Commercial banks keep a part of their deposits with central bank. This is called cash reserve ratio. This ratio is decided by the central bank and can be changed from time to time. In times of need, central bank gives loans to commercial banks. 4

OR

When a commercial bank receives deposits it keeps a part of it with the central bank and a part with itself. These are called legal reserves. The money lent comes back to it as deposits. Again it keeps a part of it with the central bank and a part with itself and lends the rest.

This process continues. In this way, bank gives loans which is many a times the original deposit. The total credit creation will be

$$\frac{1}{\text{Legal Reserve Ratio}} \quad 4$$

[CBSE Marking Scheme 2017]

25. An economy is in equilibrium. From the following data, calculate the marginal propensity to save:

- (i) Income = ₹ 10,000
(ii) Autonomous consumption = 500
(iii) Consumption expenditure = ₹ 8,000 4

Ans. $C = \bar{C} + MPC (Y)$ 1½

$8,000 = 500 + MPC (10,000)$ 1

$MPC = \frac{7,500}{10,000} = 0.75$ ½

So, $MPC = 1 - 0.75 = 0.25$ or $\frac{1}{4}$ 1

[CBSE Marking Scheme 2017]

26. Explain how government budget can be helpful in bringing economic stabilisation in the economy. 4

Ans. Economic stability means stability of prices. Too much fluctuation in prices is not good for the economy. Government uses taxation policy and expenditure policy in controlling the prices. For example: in an inflationary situation, government can reduce its expenditure and this would reduce aggregate demand. During deflationary situation, government can reduce taxes and increase its expenditure.

[CBSE Marking Scheme 2017] 4

27. Distinguish (a) between current account and capital account, and (b) between autonomous transactions and accommodating transactions of balance of payments account. 6

Ans. (i) Current account records exports and imports of goods and services and transfer payments whereas capital account records borrowings and lending to and from abroad, investments to and from abroad and changes in foreign exchange reserves. 3

(ii) Transactions made independent of the state of balance of payments are called autonomous transactions whereas transactions made on account of the state of balance of payments are called accommodating transactions.

[CBSE Marking Scheme 2017] 3

28. Explain the precautions that should be taken while estimating national income by expenditure method. 6

OR

Will the following be included in the domestic product of India? Give reasons for your answer.

- (i) Profits earned by foreign companies in India.
(ii) Salaries of Indians working in the Russian Embassy in India.
(iii) Profits earned by a branch of State Bank of India in Japan. 6

Ans. Precautions to be taken while estimating N.I. by expenditure method:

- (i) Expenditure on intermediate goods should not be included other wise it will result in double counting.
- (ii) Transfer payments such as gifts, old age pension etc. should not be included. These payments are not made for factor services.
- (iii) Expenditure on financial assets like shares, etc. should not be included. This does not result in any production. It is only the transfer of money.

(or Any other) 2 × 3

OR

- (i) Yes, as it is a factor income earned within domestic territory of India.
- (ii) No, because Russian Embassy is not a part of the domestic territory of India. It is a factor income from abroad.
- (iii) No, as profits are not earned within the domestic territory of India.

[CBSE Marking Scheme,2017] 2 × 3

29. Calculate (i) National Income: 6
(₹ in crore)

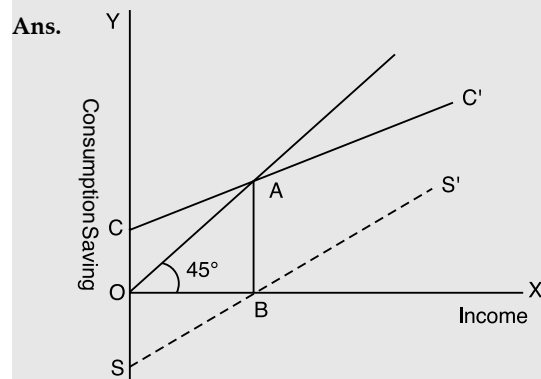
| | | |
|--------|-------------------------------|-------|
| (i) | Compensation of employees | 2,000 |
| (ii) | Rent | 400 |
| (iii) | Profit | 900 |
| (iv) | Dividend | 100 |
| (v) | Interest | 500 |
| (vi) | Mixed income of self-employed | 7,000 |
| (vii) | Net factor income to abroad | 50 |
| (viii) | Net exports | 60 |

| | | |
|------|---------------------------------|-----|
| (ix) | Net indirect taxes | 300 |
| (x) | Depreciation | 150 |
| (xi) | Net current transfers to abroad | 30 |

Ans. $NI = (i) + (ii) + (iii) + (v) + (vi) - (vii)$ 2
 $= ₹ 2,000 + 400 + 900 + 500 + 7,000 - 50$ 1½
 $= ₹ 10,750$ crore ½

[CBSE Marking Scheme 2017]

30. Given a consumption curve, outline the steps required to be taken in deriving a saving curve from it. Use diagram. 6



CC' is the given consumption Curve. 2

Steps taken in deriving saving curve from it :

Take OS = OC

Draw a 45° Line on OX at O.

It intersects CC' at point A.

Draw a perpendicular for A at OY meeting OY at B.

Join SB and extend it to S'

SS' is the required saving curve. 4

[CBSE Marking Scheme 2017]

Outside Delhi Set II

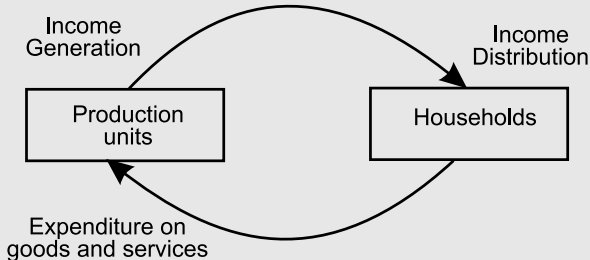
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Note : Except these, all other questions are from Outside Delhi Set-I.

SECTION – B (Macroeconomics)

21. Explain the circular flow of income. 3

Ans.



A brief explanation of the above diagram. 3
(Complete and correct answer without a diagram should also be awarded full marks).

[CBSE Marking Scheme 2017]

28. Explain the precautions that are taken while estimating national income by value added method. 6

OR

Will the following be included in the national income of India? Give reasons for your answer.

- (i) Financial assistance to flood victims.
- (ii) Profits earned by the branches of a foreign bank in India.
- (iii) Salaries of Indians working in the American Embassy in India. 6

- Ans.** (i) Value of only final goods should be included and not the value of intermediate goods as it would result in double counting.
 (ii) Value of production for self consumption should be included as it is also a part of production.
 (iii) Sale/Purchase of second hand goods should not be included as their value had been included when these were produced.

(or any other relevant precaution) 2 × 3

OR

- (i) No, financial assistance to flood victims are not included as it is a transfer payment.
- (ii) No, it is a factor income to abroad.
- (iii) Yes, included as it is a factor income from abroad so it is added to NDP to get NI.

[CBSE Marking Scheme 2017] 2 × 3

29. Calculate Net National Product at Market Price: 6
(₹ in crores)

| | | |
|-------|-------------------------------|-------|
| (i) | Mixed income of self-employed | 8,000 |
| (ii) | Depreciation | 200 |
| (iii) | Profit | 1,000 |
| (iv) | Rent | 600 |

| | | |
|--------|---------------------------------|--------|
| (v) | Interest | 700 |
| (vi) | Compensation of employees | 3,000 |
| (vii) | Net indirect taxes | 500 |
| (viii) | Net factor income to abroad | 60 |
| (ix) | Net exports | (-) 50 |
| (x) | Net current transfers to abroad | 20 |

Ans. $NNP_{MP} = (i) + (iii) + (iv) + (v) + (vi) + (vii) - (viii)$
 $= ₹ 8,000 + 1,000 + 600 + 700 + 3,000 + 500 - 60$
 $= ₹ 13,740$ crore
 [CBSE Marking Scheme 2017]

Outside Delhi Set III

Code No. 58/3

Note : Except these, all other questions are from Outside Delhi Set-I and Set-II.

SECTION – B (Macroeconomics)

16. Define revenue deficit. 1

Ans. When Revenue Expenditure of the government is greater than Revenue Receipts during a given fiscal year.

[CBSE Marking Scheme 2017] 1

20. Define marginal propensity to save. 1

Ans. It is the ratio of change in saving to change in income.
 [CBSE Marking Scheme 2017] 1

21. Distinguish between stocks and flows. Give an example of each. 3

Ans. Stocks are variables measured at a point of time, whereas flows are variables measured over a period of time. 2

Example: Stock – Population, etc.

Flow – Growth rate of population, etc.

[CBSE Marking Scheme 2017] ½ × 2

26. What are non-debt creating capital receipts? Give two examples of such receipts. 4

Ans. Capital receipts are those receipts of government which either create liabilities or reduce assets. Capital receipts excluding borrowings are known as non-debt creating capital receipts. 2

Example: Disinvestment, Recovery of loans

[CBSE Marking Scheme 2017] 1 + 1

29. Calculate the (i) Gross National Product at Market Price: 6
(₹ in crores)

| | | |
|--------|------------------------------------------|-------|
| (i) | Compensation of employees | 2,500 |
| (ii) | Profit | 700 |
| (iii) | Mixed income of self-employed | 7,500 |
| (iv) | Government final consumption expenditure | 3,000 |
| (v) | Rent | 400 |
| (vi) | Interest | 350 |
| (vii) | Net factor income from abroad | 50 |
| (viii) | Net current transfer to abroad | 100 |
| (ix) | Net indirect taxes | 150 |
| (x) | Depreciation | 70 |
| (xi) | Net exports | 40 |

Ans. $GNP_{MP} = (i) + (ii) + (iii) + (v) + (vi) + (vii) + (ix) + (x)$
 $= ₹ 2,500 + 700 + 7,500 + 400 + 350 + 50 + 150 + 70$
 $= ₹ 11,720$ crore
 [CBSE Marking Scheme 2017]

