

Xamidea
Sample Papers Simplified

ECONOMICS-XII

Sample Papers 6 to 15 (Solutions)

SAMPLE PAPER – 6

SECTION—A: MACROECONOMICS

1. (b) Statement 1 is false and statement 2 is true
2. (d) Rapid employment generation through infrastructural projects
3. (a) goods are exchanged for goods
4. (b) Statement 1 is false and statement 2 is true
5. (a) Statement 1 is true and statement 2 is false

OR

(d) All of these

6. (b) -200

OR

(d) both (b) and (c)

7. (a) Total deposits
8. Revenue Deficit = Revenue expenditure – Revenue receipts (Tax revenue + Non-tax revenue)
$$= ₹ 1,500 \text{ crore} - (₹ 1,000 \text{ crore} + ₹ 150 \text{ crore})$$
$$= ₹ 1,500 \text{ crore} - ₹ 1,150 \text{ crore}$$
$$= ₹ 350 \text{ crore}$$

Revenue deficit = ₹ 350 crore.

OR

Primary Deficit = Fiscal deficit – Interest payment by the government
$$= ₹ 9,000 \text{ crore} - ₹ 400 \text{ crore}$$
$$= ₹ 8,600 \text{ crore}$$

Primary deficit = ₹ 8,600 crore.

9. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
10. (c) Assertion (A) is true but Reason (R) is false

11.
$$\begin{aligned} \text{Real GDP} &= \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100 \\ &= \frac{625}{125} \times 100 \\ &= 500 \end{aligned}$$

Real GDP = ₹ 500.

12. Following are the principal objectives that the government pursues through the budget:
- (i) **Redistribution of Income and Wealth:** Distribution of income and wealth is sought to be improved through subsidies and taxation.
 - (ii) **Reallocation of Resources:** Learning from the past experience, the government seeks to reallocate resources with a view to maximising social welfare.
 - (iii) **Economic Growth:** The government seeks to accelerate the pace of growth through investment in efficient enterprises and disinvestment in inefficient enterprises.

OR

- (i) Expenditure on scholarships is a revenue expenditure because it neither reduces liability nor adds to the assets of the government.
 - (ii) Expenditure on purchasing laptops is a capital expenditure because this results in the creation of assets for the government. Hence, such expenditures add to the assets of the government.
13. False. The value of MPC will be equal to 0.6.

Here, $\Delta Y = 2,600 - 1,600 = 1,000$ and $\Delta I = 400$

We know that,
$$K = \frac{\Delta Y}{\Delta I}$$

\Rightarrow
$$K = \frac{1,000}{400} = 2.5$$

We also know that,

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

Or,
$$1 - \text{MPC} = \frac{1}{K}$$

Or,
$$1 - \text{MPC} = \frac{1}{2.5}$$

Or,
$$1 - \text{MPC} = 0.4$$

Or,
$$\begin{aligned} \text{MPC} &= 1 - 0.4 \\ &= 0.6 \end{aligned}$$

Therefore, marginal propensity to consume will be 0.6.

14. Bank rate is the rate at which the Reserve Bank of India lends money to the commercial banks. To boost the falling demand in the economy, bank rate is decreased. As a follow-up action, the commercial banks lower the market rate of interest (the rate at which the commercial banks lend money to the consumers and the investors). This increases demand for credit. Consequently, consumption expenditure and investment expenditure are increased. Implying an increase in aggregate demand, as required to boost falling demand in the economy.

15. In India, there are four alternative measures (or definitions) of money supply, popularly known as M_1 , M_2 , M_3 , and M_4 , given below:

M_1 = Currency with Public + Demand Deposits + Other Deposits with the Reserve Bank

M_2 = M_1 + Deposits with Post Office Saving Bank Account

M_3 = M_1 + Net Time Deposits with the Commercial Banks

M_4 = M_3 + Total Deposits with Post Offices (other than in the form of National Saving Certificate).

OR

Medium of exchange is an important function of money. It means that money acts as an intermediary for the goods and services in exchange transactions. Use of money as a medium of exchange has removed the major difficulty of double coincidence of wants in the barter system. In the monetary system, acts of sale and purchase of the goods and services have been separated from each other. If one wants to buy goods, he can do so with money. And, if one wants to sell goods, he can sell these for money. Accordingly, the volume of exchange has substantially risen, leading to growth of market economies.

16. (a)

Consumption of Fixed Capital	Capital Loss
(i) Consumption of fixed capital refers to depreciation of fixed assets. It refers to loss of value of fixed assets while these are being used in the process of production.	(i) Capital loss is a loss of value of fixed assets when these are not being used.
(ii) It is a loss due to (a) normal wear and tear, (b) accidental damages, and (c) expected obsolescence.	(ii) It is a loss due to (a) natural calamities (earthquake, floods, fire, etc.), and (b) fall in the market value of the assets during periods of economic recession.
(iii) It is managed through depreciation reserve fund.	(iii) It is managed through insurance of the fixed assets.

- (b) It is because of the following reasons that the flow of income and product is called a circular flow:

- (i) Corresponding to each real flow to one direction, there is a money/income flow from the opposite direction. **Example:** Corresponding to the flow of factor services (which is a real flow) from household to the producer sector, there is a flow of factor payments (which is a money flow) from producer to the household sector.
- (ii) Activities of production, income generation and expenditure never stop in the economy. They keep chasing one another in a circular manner.
- (iii) In a two sector economy, receipts of one sector are equal to payments to other sector. In case receipts are less than the payments (or payments are less than the receipts), circularity is bound to stop at one point or the other.

17. (a) It is evident from the given figure that with increase in demand for foreign currency the demand curve shifts from D to D_1 . This causes a rise in the equilibrium exchange rate from OR to OR_1 . Thus, other things remaining constant, increase in demand for

foreign currency leads to a rise in the exchange rate. This is described as a situation of currency depreciation (or depreciation of the domestic currency).

- (b) Visible items include all commodities of exports and imports. Current account, showing export and import of commodities, is often referred to as balance of trade account.

Invisible items refer to all types of services which are rendered to rest of the world as exports or received from the rest of the world as imports. Services are invisible simply because they are not made of any matter or material. **Examples:** (i) Export and import of shipping services, (ii) Export and import of banking services.

OR

- (a) Flexible exchange rate is determined by the forces of demand and supply in the foreign exchange market. It is also called free exchange rate, as it is freely determined by the forces of demand and supply in the international market. Thus, the theory of determination of rate of exchange is the demand and supply theory. According to this theory, the rate of exchange of a country's currency is determined by the demand for and supply of foreign exchange. If the demand for foreign exchange rises, its value will also rise and if demand for foreign exchange falls, its value will also fall. Similarly, supply of foreign exchange also influences the exchange rate. Greater the supply, lower the rate of exchange and *vice versa*.

- (b) Balance of payments is favourable when in order to balance the receipts and payments, a country receives gold from abroad or it gives short-term loans. In a state of favourable balance of payments, receipts (on account of autonomous items) are more than payments (on account of autonomous items) and the equality between the two is restored (generally) through loans to rest of the world.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. (b) 2015

19. (d) all of these

OR

(b) globalisation

20. (b) 12th Five Year Development Plan (2018-23)

OR

(a) European Union

21. (c) G-7

22. (c) C—(iii)

23. (c) Both statements 1 and 2 are true

24. (c) Both statements 1 and 2 are true

25. (b) casual workers

OR

(a) labour supply

26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
27. (c) Assertion (A) is true but Reason (R) is false
28. Following points highlight the importance and objectives of education:
- (i) Education produces responsible citizens.
 - (ii) It develops science and technology.
 - (iii) It facilitates use of natural and human resources of all regions of the country.
 - (iv) It helps economic development through greater participation of the people in the process of growth and development.
29. Following factors lead to increase in the level of unemployment in India:
- (i) **Rapid Growth of Population:** Constantly rising population has been a grave problem in India. It is one of the principal factors contributing to unemployment.
 - (ii) **Joint Family System:** It encourages disguised unemployment. In joint families, there is a high tendency to survive on joint income without work. Joint family system is more prevalent in rural areas; hence a high degree of disguised unemployment in these areas.
 - (iii) **Decay of Cottage and Small Industries:** Decay of cottage and small industries during the British regime has given a big blow to the potential of self-employment in India. Emergence of large industry in place of the small industry after independence has failed to yield employment opportunities to the desired extent.

OR

When an educated person is unable to find a suitable job, there emerges a situation of educated unemployment. Following are the principal causes leading to educated unemployment in India:

- (i) On account of rapid expansion of educational institutions, *viz.*, universities, colleges and schools, the number of educated persons has increased tremendously.
 - (ii) Education system in India is largely degree-oriented, instead of job-oriented.
 - (iii) Growth process in the country is not preceding according to the needs and means of the country. Instead, it is being driven by labour-saving innovative technology.
30. Yes, Navratna policy of the government has helped in improving the performance of public sector undertakings in India.
- Navratnas have often been quoted by the government as the epicentre of growth in the Indian economy. These enterprises have served not only as a significant source of employment, but also as a critical infrastructural base inducing private investment in diverse areas of industrial growth. In the wake of privatisation, the government had initially thought of divestment of Navratnas. But, owing to a stiff political resistance, it was decided to develop Navratnas as global players in their respective areas of production.
31. (a) Buffer stocks refer to the stocks meant to be used during period of deficient output in relation to demand.

- (b) True. Women in rural areas work at lower wages primarily for two reasons:
- (i) There is widespread poverty in rural areas. Poverty compels the women in rural areas to accept low-wage occupations.
 - (ii) Women in rural areas are averse to migration. Owing to the lack of education, they are not even capable of finding jobs outside rural areas. Accordingly, they prefer to be engaged in farm and non-farm activities, but in the rural areas only.

OR

False. Labour force is different from workforce. Labour force refers to the number of people who are able to work and willing to work at the existing wage rate. Workforce, on the other hand, refers to the number of people who are actually engaged in employment.

32. (a) The *zamindari* system during the British rule did not bring stability. Instead, it brought instability to Indian cultivation due to the following reasons:
- (i) This system led to frequent ejection of the tillers of the soil. They lost their permanent rights of cultivation, and accordingly, lost permanent interest in cultivation.
 - (ii) Under *zamindari* system, the tillers of the soil lacked ownership rights. As a result, they had no interest in improving the agriculture.
- (b) Plans must have goals. Without goals, there is no planning. In fact, planning is defined as a strategy that defines how to allocate the country's scarce resources to different uses with a view to achieving a given set of goals. These goals often relate to growth and social justice.
33. (a) Human capital refers to the stock of 'skill and expertise' of a nation at a point of time. It is the sum total of skill and expertise of engineers, doctors, professors and workers of all types who are engaged (or have the capacity and expertise to be engaged) in the process of production.
- (b) Worker-population ratio (WPR) is defined as the percentage of population engaged in production activity in the economy.

$$\text{WPR} = \frac{\text{Number of employed persons}}{\text{Total population}} \times 100$$

This ratio is used for analysing the employment situation in the country. Higher the ratio for a country, greater is the involvement of people in economic activities, and lower the ratio for a country, smaller is involvement of people in economic activities.

- (c) Environment is important to us due to the following reasons:
- (i) Environment offers resources for production.
 - (ii) Environment sustains life.
 - (iii) Environment assimilates waste.
 - (iv) Environment enhances quality of life.

OR

(a) The three principal objectives of cooperative credit societies in rural India are as follows:

- (i) To ensure timely and increased flow of credit to the farmers.
- (ii) To gradually eliminate the moneylenders from the profile of credit agencies.
- (iii) To spread credit facilities across all regions of the country.

(b) Yes, it is necessary to generate employment in the formal sector rather than in the informal sector. Because workers in formal sector can avail the following benefits as against informal sector workers:

- (i) Workers in the formal sector are entitled to social security benefits (such as provident fund, gratuity, pension, etc.) while workers in the informal sector are not.
- (ii) Economic interest of the workers in formal sector is protected through various labour laws, there are hardly any protective laws for the informal sector.
- (iii) To protect their economic interest, workers in the formal sector can form trade unions; no such unions exist in the informal sector.

34. (a) The reason lies in the area of 'political will' and 'enforcement drive'. India is far behind China in exhibiting its 'political will' to push its agenda of economic growth. Also, India is far behind China in exercising its 'enforcement drive'. Even long after the initiation of economic reforms (1991), India did not have the necessary political consolidation in the country. The country had been governed by a 'Coalition Government' which is always constrained in its decision-making process on account of the 'compulsions of coalition'. Likewise, enforcement of policies and programmes lags far behind in India compared to China. It is because India follows a democratic process of enforcement while China follows an autocratic process of enforcement. Here, we would like to state that democratic process is always better, as it allows wider freedom to the masses (by way of human rights) which itself is an indicator of social welfare.

(b) FDI in China is higher than that in India, because of the following reasons:

- (i) China allowed foreign investors hundred per cent equity investment.
- (ii) It allowed the foreign investors the freedom to 'hire and fire' the workers. It also offered them a lucrative infrastructure.
- (iii) By establishing SEZ (special economic zones), it offered lucrative infrastructural facilities to the foreign investors.
- (iv) China was liberal in allowing FDI in retail.



SAMPLE PAPER – 7

SECTION–A: MACROECONOMICS

1. (a) Statement 1 is true and statement 2 is false
2. (b) public goods
3. (d) all of these
4. (d) Both statements 1 and 2 are false
5. (a) Statement 1 is true and statement 2 is false

OR

- (c) Net factor income from abroad
6. (c) 1,050

OR

- (d) all of these
7. (b) sell securities in the open market
8. Fiscal Deficit = Net borrowings by government

$$= ₹ 780 \text{ crore}$$

Fiscal deficit = ₹ 780 crore.

OR

Fiscal Deficit = Borrowings = ₹ 32 billion

Fiscal deficit = ₹ 32 billion.

9. (d) Assertion (A) is false but Reason (R) is true
10. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

11.
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

Or,
$$\text{Nominal GDP} = \frac{\text{Real GDP} \times \text{Price Index}}{100}$$
$$= \frac{1,000 \times 120}{100}$$
$$= 1,200$$

Nominal GDP = ₹ 1,200.

12. A cut in subsidies is good for the economy in one sense: It leads to a cut in government revenue expenditure and to that extent reduces fiscal deficit or increases fiscal discipline. However, a cut in fiscal deficit is essential only when the economy is reeling under inflation that hinders GDP growth.

A cut in subsidies is certainly not a good option if subsidies are related to the production and consumption of essential goods, like life-saving drugs. Or, when subsidies are meant to protect income of the small and marginal farmers in India.

OR

Capital receipts are those receipts which either create a liability or lead to reduction in assets of the government. **Examples:** Borrowings (creation of liability) and disinvestment (reduction in assets).

On the other hand, revenue receipts are those receipts which do not create a liability or lead to reduction in assets of the government. **Examples:** Tax receipts, receipt of interest and dividend.

13. False. The economy is in equilibrium at an income level of 2,300.

Given, $C = 90 + 0.7Y$

Investment expenditure (I) = 600

At the equilibrium level,

$$\begin{aligned} & Y = C + I \\ \Rightarrow & Y = 90 + 0.7Y + 600 \\ \Rightarrow & Y = 690 + 0.7Y \\ \Rightarrow & Y - 0.7Y = 690 \\ \Rightarrow & 0.3Y = 690 \\ \Rightarrow & Y = \frac{690}{0.3} \\ & Y = 2,300 \end{aligned}$$

Thus, the economy is not in equilibrium. Because, the equilibrium level of income is 2,300 which is greater than the given income level of 2,000.

14. Cash reserve ratio (CRR) requires the commercial banks to maintain certain minimum cash reserves with the Reserve Bank of India, as a percentage of their total deposits.

To boost the falling demand in the economy, CRR is reduced. A cut in the cash reserve ratio raises credit creation capacity of the commercial banks. Because a cut in the cash reserves with RBI raises cash balances with the commercial banks. And a rise in cash balances with the banks causes a multiple-times rise in their demand deposits (implying creation of credit by the commercial banks). Accordingly, flow of credit in the market is increased; aggregate demand is increased, as required to boost falling demand.

15. One of the primary functions of money is to serve as a medium of exchange in the sale or purchase of goods and services. In the absence of money, goods were exchanged for goods which required double coincidence of wants. Thus, exchange was difficult and limited as well. Introduction of money has separated these two acts and hence double coincidence of wants is no longer required. Exchange function of money has changed the nature of production activity as well as the level of production activity. The nature of production has changed because production is now market-oriented and not subsistence-oriented. The level of production has substantially risen with the introduction of money because the acts of sale and purchase have now been separated.

OR

Money serves as a measure of value in terms of unit of account. Unit of account means that the value of each good or service is measured in the monetary unit. Measurement of value



was very difficult in the barter system: one good was valued in terms of the other. It was a cumbersome procedure and hence a hindrance in the process of exchange. Money serves as a standard unit of account for all goods and services. It has enhanced the process of exchange. Accordingly, size of the market has expanded, leading to higher opportunities of investment and growth.

16. (a) The given statement is refuted as all machines are not capital goods.

A microwave in a bakery shop is a fixed asset of the baker; it is a capital good. But the same microwave with a consumer household is not a capital good. It is simply a durable-use consumer good. Likewise, a car with a tourist company is a capital good. But the same car with a consumer household is a durable-use consumer good. Thus, while identifying goods as capital goods, we must make sure about their end-user. If the end-user of a durable good is a household consumer, it is durable-use consumer good. On the other hand, if the end-user of a durable good is a producer, it is a capital good. Capital goods are only those durable goods which are used as producer goods, not as consumer goods.

- (b) Money flows are opposite to real flows. Because money flows are in response to the real flows. **Example:** There is real flow of goods and services from the producers to the households. It is in response to it, that the households make payments to the producers. So that money flows from the households to producers in terms of consumption expenditure. Likewise, there is a real flow of factor services from the households to the producers. It is in response to it, that the producers make payments to the households. So that, money flows from producers to the households in terms of factor payments.

17. (a) The given situation reflects a case of depreciation of India currency (rupees). It refers to a situation of a fall in the value of Indian currency (rupee) in relation to foreign currency (US dollar) in a situation when exchange rate is determined by the forces of supply and demand in the international money market. It implies that more rupees are now required to buy one US dollar. Consequently, domestic goods become cheaper for rest of the world, while imports become costlier. Accordingly, exports tend to rise and imports tend to fall.

- (b) Balance of payments is unfavourable when in order to balance its receipts and payments, a country has either to give gold or indulge in short-term borrowing from abroad. In a state of unfavourable balance of payments, receipts (on account of autonomous items) are less than the payments (on account of autonomous items) and the equality between the two is restored (generally) through borrowing from rest of the world.

OR

- (a) Following factors contribute to the flow of foreign exchange into the country:

- (i) Purchases of domestic goods by the foreigners.
- (ii) Direct foreign investment as well as portfolio investment in home country.
- (iii) Speculative purchases of foreign exchange.
- (iv) Transfer of foreign exchange by the residents of the country abroad.

- (b) It is only in the accounting sense that balance of payment always balances. From the practical point of view, it should not be interpreted as a situation of zero net financial

obligation for a country. A negative balance on the current account is equated with positive balance in the capital account. But the positive balance in capital account may have been achieved through loans from rest of the world. All loans are financial obligations to rest of the world.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. (c) mixed economy
 19. (a) reduction in government's control over economy

OR

- (d) 1995
 20. (b) secondary sector

OR

- (d) 1988
 21. (b) industries
 22. (d) D—(iv)
 23. (d) Both statements 1 and 2 are false
 24. (a) Statement 1 is true and statement 2 is false
 25. (a) informalisation

OR

- (a) labour force which is employed
 26. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
 27. (d) Assertion (A) is false but Reason (R) is true
 28. Expenditure on education is the most effective way of raising a productive workforce in the country. It is, therefore, a very important determinant of human capital formation. Most families decide to incur huge expenditure on education, even when they have to raise loans. **Reason:** Returns on such expenditures are substantially large.
 Education enables an individual to make a good living throughout his life. His total earnings during his life span would far exceed his initial expenditure on education.

29.

Formal Sector	Informal Sector
(i) Formal sector refers to organised sector of the economy.	(i) Informal sector refers to unorganised sector of the economy.
(ii) This sector includes all government departments, public enterprises and private establishments which hire 10 or more workers.	(ii) This sector includes all such private enterprises which hire less than 10 workers, besides farming and self-employment ventures.
(iii) Workers in the formal sector are entitled to social security benefits such as provident fund, gratuity, pension, etc.	(iii) Workers in the informal sector are not entitled to social security benefits.

OR

The important causes of massive unemployment in India are as these:

- (i) **Slow Economic Growth:** Indian economy is underdeveloped and its rate of growth is very slow. Slow growth rate fails to generate enough employment opportunities for the rising labour force.
 - (ii) **Rapid Growth of Population:** Constantly rising population has been a grave problem in India. It is one of the principal factors contributing to unemployment.
 - (iii) **Agriculture—A Seasonal Occupation:** Agriculture is underdeveloped in India and so offers seasonal employment. Its seasonal character does not provide stable jobs to the farmers throughout the year. Farmers often remain idle for three to four months in a year.
- 30.** Yes, India became the member of WTO. It is necessary for a country to become a member of WTO due to the following reasons:
- (i) WTO is supposed to promote free trade in the international market by reducing tariff barriers and by removing non-tariff barriers. It benefits all member countries.
 - (ii) By promoting world trade, WTO ensures optimum utilisation of resources of the member countries.
 - (iii) WTO promotes competition in the international market and free access to markets for member countries.
 - (iv) WTO facilitates bilateral as well as multilateral trade agreements among the member countries.
- 31.** (a) PDS implies distribution of food grains (and other essentials like sugar and kerosene) through 'fair price shops' at subsidised rates, so that the poorer sections of the society have an easy access to these things.
- (b) True. This is absolutely true that disguised unemployment lowers efficiency/productivity. As a matter of fact, disguised unemployment is defined as a situation when marginal productivity of labour is zero or negative.

OR

True. Lower employment among women in India points to our economic and social backwardness. It leads to economic backwardness, because the economy fails to generate enough jobs. It leads to social backwardness, because job work for the women is considered as a social taboo.

- 32.** (a) Agricultural sector in pre-independence India continue to experience stagnation owing to the following factors:
- (i) Exploitative Land Settlement System under the British Raj leading to exploitation of the tillers of the soil.
 - (ii) Forced commercialisation of agriculture leading to uncertainties of farm income.
 - (iii) Gulf between the owners of the soil and the tillers of the soil.
- (b) Yes, we opted for 'mixed economy' as an ideal economic system (economic order) for the reconstruction of the Indian economy. A mixed economy is the one which contains the merits of both capitalism and socialism, avoiding their demerits. In order to ensure

a perfect integration between the economic system (economic order) and the goals of five year plans, only this system (mixed economy) was found to be most appropriate, given the needs and means of the country.

33. (a) There is a 2-way relationship between human capital and economic growth: they promote each other.

Human capital is an essential ingredient of productivity as it encompasses expertise and skill. On the other hand, economic growth enhances income of the households. Higher income enables the households to acquire specialised skills which add to the stock of human capital.

- (b) Compared to urban women, more rural women are found working. This is because in rural areas, poverty compels women workforce to seek employment. Thus, employment (even without education) is a priority. In urban areas, on the other hand, high priority for education implies low priority for jobs at an early age.

- (c) Environmental pollution has three forms:

(i) **Air Pollution:** Air carries oxygen which is an essential element of life. Pollution of air implies pollution of an essential element of life. Accordingly, quality of life is impaired.

(ii) **Water Pollution:** Many states in India are on the brink of water famine. More serious is the problem of its pollution or contamination of water. Use of polluted water leads to the diseases like diarrhoea and hepatitis.

(iii) **Noise Pollution:** Mechanisation has raised the level of noise pollution. Noise pollution has recorded an exponential growth, because millions of vehicles fitted with loud horns and noise-generating engines are plying on the roads.

OR

- (a) The three main functions of NABARD are as these:

(i) To serve as an apex funding agency for the institutions providing credit in rural areas.

(ii) To take appropriate measures to improve the credit delivery system.

(iii) To coordinate the rural financing activities of all credit institutions and maintain liaison with Government of India, State Government, Reserve Bank, and other national level institutions concerned with policy formulation.

- (b) This statement is defended as owing to increase in informalisation of workers job security and conditions of work are uncertain and hence the vulnerability of the workforce is increasing.

Further, the workers and enterprises in the informal sector do not get regular income; they do not have any protection or regulation from the government. Workers are dismissed without any compensation. Informalisation of work not only leads to poverty but also disrupts the social harmony. For instance, closure of textile mills in Ahmedabad (offering employment to nearly 1,50,000 workers) and the consequent riots are a testimony to this assertion. According to one study, when mill workers were rendered unemployed, their families took to casual jobs and many of them even took to suicides as the ultimate solution to their hardships.

34. (a) Following observations highlight the global exposure of the economy of China:
- (i) Inward looking policy of self-sufficiency and protection of domestic industry from foreign competition has gradually been replaced by the policy of growth through competition.
 - (ii) It allowed the foreign investors the freedom to 'hire and fire' the workers. It also offered them a lucrative infrastructure.
 - (iii) China allowed foreign investors 100 per cent equity investment across most sectors of the economy.
- (b) Following observations highlight the structure of growth in India, Pakistan and China:
- (i) India and Pakistan adopted a 'mixed-economy' model of growth. While, China adopted 'Statism' as a model of growth.
 - (ii) India and Pakistan have relied more on tertiary sector while the economy of China has relied more on secondary sector for the GDP growth.
 - (iii) In China, contribution of secondary sector to GDP is much more than in India and Pakistan.



SAMPLE PAPER – 8

SECTION–A: MACROECONOMICS

1. (c) Both statements 1 and 2 are true
2. (b) capital receipt
3. (b) dynamic factor
4. (c) Both statements 1 and 2 are true
5. (c) Both statements 1 and 2 are true

OR

(b) Gross domestic fixed capital formation

6. (d) 0.6

OR

(d) both (a) and (b)

7. (c) the RBI
8. Budgetary Deficit = Total expenditure – Total receipts
= ₹ 1,00,000 crore – ₹ 88,000 crore
= ₹ 12,000 crore

Budgetary deficit = ₹ 12,000 crore.

OR

$$\begin{aligned}\text{Fiscal Deficit} &= \text{Total expenditure} - \text{Total receipts net of borrowings} \\ &= ₹ 80,000 \text{ crore} - ₹ 72,000 \text{ crore} \\ &= ₹ 8,000 \text{ crore}\end{aligned}$$

Fiscal deficit = ₹ 8,000 crore.

9. (c) Assertion (A) is true but Reason (R) is false
10. (d) Assertion (A) is false but Reason (R) is true
11. Doubtless, oil refinery contributes to GDP and thereby welfare of the people. But this claim needs to be discounted in so far as it impairs welfare by way of water pollution. Increase in environmental pollution (through water pollution) causes increase in water borne diseases and thereby leads to higher social cost of the maintenance of health. It also impairs the level of sustainable development, implying loss of welfare of future generations.
12. When the government raises its expenditure on producing public goods, it has two implications in terms of its economic value. First, it raises the level of social welfare as the people are provided with more of roads, parks, besides better law & order and defence of the country.

Second, it is expected to generate employment, so that the growth process becomes inclusive. More and more people share the benefits of growth, as more and more people are involved in the process of growth.

OR

Capital expenditure is that expenditure of the government which either creates assets for the government or causes a reduction in government liability. **Example:** Purchase of shares (creation of assets) and repayment of loans (reduction in liabilities).

Revenue expenditure, on the other hand, is that expenditure of the government which neither creates assets for the government nor causes a reduction in liabilities of the government. **Example:** Payment of subsidies and scholarships.

13. False. Marginal propensity to consume in this economy will be 0.6.

Given, equilibrium level of income (Y) = 800

$$\text{Autonomous consumption } (\bar{C}) = 70$$

$$\text{Investment expenditure (I)} = 250$$

At the equilibrium level,

$$Y = C + I$$

Or,

$$Y = \bar{C} + \text{MPC} (Y) + I$$

⇒

$$800 = 70 + \text{MPC} (800) + 250$$

⇒

$$800 = 320 + 800 (\text{MPC})$$

⇒

$$800 (\text{MPC}) = 800 - 320$$

⇒

$$800 (\text{MPC}) = 480$$

⇒

$$\text{MPC} = \frac{480}{800}$$

⇒

$$\text{MPC} = 0.6$$

Therefore, marginal propensity to consume in this economy will be 0.6.

14. Repo rate is the rate at which the Reserve Bank of India lends money to the commercial banks. To boost the falling demand in the economy, repo rate is decreased. As a follow-up action, the commercial banks lower the market rate of interest (the rate at which the commercial banks lend money to the consumers and the investors). This increases demand for credit. Consequently, consumption expenditure and investment expenditure are increased. Implying an increase in aggregate demand, as required to boost falling demand in the economy.
15. Following are the principal drawbacks of barter system of exchange:
- (i) **Double Coincidence of Wants:** Double coincidence of wants is a core characteristic of the barter system of exchange. Double coincidence of wants implies that (at a point of time), the two individuals are in possession of such goods which they are willing to exchange for the satisfaction of their wants.
 - (ii) **Lack of a Common Unit of Value:** There was lack of a common unit of value under barter system of exchange. Under such a system, your goods would be valued in terms of other goods like horses, cows or buffaloes, etc., simply because there is no money (or a common unit of value).
 - (iii) **Difficulty of Future Payments or Contractual Payments:** Contractual payments or future payments would certainly be very difficult under barter system of exchange.
 - (iv) **Difficulty of Storage of Value (Saving) and Transfer of Value:** Saving and transfer of funds are of crucial significance in the modern economies. But, in the C-C economy, saving is possible only by way of storage of goods. It involves substantial storage cost as well as the fear of capital loss (owing to natural disasters).

OR

Deferred payments refer to those payments which are to be made in some future date. Money is accepted as a standard of deferred payments because,

- (i) its value remains stable,
- (ii) it has general acceptability,
- (iii) it is more durable compared to other commodities.

Briefly, money is a convenient means of borrowing and lending and is therefore, accepted as a standard for deferred payments.

16. (a) Depreciation is the loss of value of fixed assets in use on account of: (i) normal wear and tear, (ii) accidental damages, and (iii) expected or foreseen obsolescence.
- On the other hand, depreciation reserve fund is a provision of funds to cope with depreciation losses. These funds are used for the replacement of fixed assets when these are worn-out or when these become obsolete/outdated.
- (b) Injections refer to addition of value in the process of circular flow. This causes positive multiplier effect on the level of income and employment in the economy. Important injections are:
- (i) Consumption expenditure by the government, (ii) Investment expenditure by the government, and (iii) Exports.

Leakages refer to loss of value in the process of circular flow. This has a negative multiplier effect on the level of income and employment in the economy. Important leakages are:

(i) Saving, (ii) Taxation, and (iii) Imports.

17. (a) The given situation reflects a case of depreciation of India currency (rupees). It refers to a situation of a fall in the value of Indian currency (rupee) in relation to foreign currency (US dollar) in a situation when exchange rate is determined by the forces of supply and demand in the international money market. It implies that more rupees are now required to buy one US dollar.

It is caused by:

- (i) Increase in demand for foreign currency due to repayment of international loans, investment abroad, imports, direct purchases from abroad, grants and donations to abroad, indulgence in speculative trading, etc.
 - (ii) Decrease in supply of foreign currency due to fall in exports, investments, income receipts, remittances by non-residents etc.
- (b) BoP surplus or BoP deficit occurs on account of the difference in receipts and payments of a country relating to autonomous transactions. In the event of a surplus or a deficit, accommodating transactions are introduced in the BoP account. These transactions are meant only to make such adjustments in the BoP account which eliminate the BoP surplus or deficit. Accordingly, BoP account is always in a state of balance.

OR

- (a) The main functions of the foreign exchange market are:

- (i) Foreign exchange market facilitates transfer of purchasing power across different countries of the world. This is called transfer function.
- (ii) Foreign exchange market facilitates credit for international trade. This is called credit function of the market.
- (iii) Foreign exchange market facilitates protection against risks of foreign exchange. This is called hedging function of the market.

- (b) Current account deficit (CAD) occurs when: 'export of goods as well as of invisibles' < 'import of goods as well as of invisibles'.

Current account surplus (CAS) occurs when: 'export of goods as well as of invisibles' > 'import of goods as well as of invisibles'.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. (c) Equality has not been an objective of planning in India

19. (c) there is no intervention by the state in the functioning of an economy

OR

- (c) General Agreement on Tariffs and Trade (GATT)

20. (d) both (a) and (b)

OR

secondary

21. (a) 1978
 22. (c) A—(iv), B—(i), C—(ii), D—(iii)
 23. (a) Statement 1 is true and statement 2 is false
 24. (c) Both statements 1 and 2 are true
 25. (d) all of these

OR

(b) $\frac{\text{Total workforce}}{\text{Total population}} \times 100$

26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 27. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 28. (i) Human capital formation increases productivity of physical capital (referring to output per unit of capital). Specialised engineers and skilled workers can certainly handle machines better than the others. It enhances productivity and accelerates the pace of growth.
 (ii) Human capital formation gives birth to innovative skill which leads to innovations, inventions and technical improvements, the undercurrent of growth and development.
 (iii) Larger the number of skilled and trained personnel, greater the possibilities of innovations, inventions and technical improvements in the area of production and related activities. These are the life-line of growth, we all know.

29.

Formal Workers	Informal Workers
(i) Formal workers work in organised sector of the economy.	(i) Informal workers work in unorganised sector of the economy.
(ii) Formal workers are entitled to social security benefits (like provident fund, gratuity, pension, etc.).	(ii) Informal workers are not entitled to social security benefits.
(iii) They are protected by various labour laws against uncertainties of the market.	(iii) They remain unprotected by labour laws, and are therefore highly vulnerable to uncertainties of the market.

OR

Following are the important measures to solve the problem of unemployment:

- (i) **Increase in Production:** To increase employment, it is essential to increase production in agriculture and industrial sectors. Development of small and cottage industries should be encouraged.
 (ii) **High Rate of Capital Formation:** Rate of capital formation in the country should be increased. Also, investment must be directed to such areas of production where employment potential is high. Notably, capital-output ratio should be kept low.
 (iii) **Help to Self-employed Persons:** Government should provide facilities like irrigation, better seeds, manure, implements, credit, etc., to small and marginal farmers in

agriculture. In addition, self-employed persons in urban areas should be given facilities of credit, marketing, raw material, technical training and the like.

30. Truly speaking, profit-making undertakings can be easily privatised. But, it does not mean that only profit-making enterprises should be privatised. In fact, the government should get rid of such enterprises which are the breeding centres of corruption and are the epicentres of inefficiency.

However, sometimes it is a compulsion for the government to resort to privatisation, particularly when welfare expenses and defence expenses are mounting. Also, privatisation is gaining momentum in the wake of expanding globalisation. The trend is that the governments are focusing on administration of the economy rather than the business ventures. Thus, privatisation is need of the hour, no matter public enterprises are making profits or losses.

31. (a) Diversification of crop production implies production of multiple crops rather than one specialised crop.
- (b) True. Because, when productivity rises in agriculture (owing to the use of innovative technology), less labour is needed to produce a given level of output. Thus, labour is displaced in the primary sector. It is this labour which migrates to the urban areas, finding jobs in the secondary and tertiary sectors.

OR

Disguised unemployment refers to a situation in which more people are engaged in a given job than are actually needed. If some of them are withdrawn from that job, total production will not fall. Its principal causes are as under:

- (i) Due to joint family system, farming families continue to work on family land, no matter the actual number of workers far exceeds the required number.
- (ii) Per person holding size continues to shrink with the expansion of the family size. Implying greater possibility of disguised unemployment.
- (iii) Lack of job opportunities outside agriculture compels the people to work on family farms. It further increases the possibility of disguised unemployment.
32. (a) **In Agriculture:** The farmers were forced to produce commercial crops in place of conventional crops.

In Industry: Introduction of railways in India by the Britishers led to expansion of the market for the low-cost British products. This resulted in the decay of Indian handicrafts.

- (b) Equal distribution means every individual in the society gets the same share in the country's national income.

Equitable distribution, on the other hand, refers to a situation when differences in income are allowed but only within socially justifiable limits.

Example: When a doctor gets ₹ 50,000 to perform a surgery (lasting for 1 hour) while, on the other hand, a factory worker gets ₹ 50,000 for the entire year (working 8 hours a day), the difference in income is too large to be socially justified. Such differences (which are socially unwarranted) must be corrected.

33. (a) Women's education in India is imminent as it improves their economic independence and social status. It enhances their empowerment.
- (b) Less women are found in regular salaried employment because of the following reasons:
- (i) Jobs generally require skills and high level of literacy. While, owing to gender bias, women are not getting as much education as men.
 - (ii) Lack of mobility among women in India is another factor that retards their employment as salaried workers. Because, household management is still considered to be a preferred option for the women in India.
- (c) Following are the two main environmental concerns faced by India in the present times:
- (i) **Problem of Pollution:** Pollution refers to those activities of production and consumption which challenge purity of air and water and thereby pollute the environment. It is a serious emerging challenge in the context of growth process, related to industrialisation in particular. It emerges by way of: (a) Air pollution, (b) Water pollution, and (c) Noise pollution.
 - (ii) **Problem of Excessive Exploitation of Natural Resources:** Second aspect of environmental problem relates to excessive exploitation of natural resources or degradation of resources. Excessive exploitation of natural resources lowers production capacity of future generation. The growth process becomes unsustainable.

OR

- (a) Micro-credit refers to small loans (available through SHGs) and meant for the impoverished people. These loans are offered without any security and at a moderate rate of interest. Presently, nearly 54 lakh women SHGs are operating across different rural areas. Credit provisions by the SHGs are known as Micro-credit Programmes. These programmes are becoming popular among small borrowers owing to their 'informal credit delivery mechanism' involving minimum legal formalities.
- (b) Less women are found in regular salaried employment because of the following reasons:
- (i) Jobs generally require skills and high level of literacy. While, owing to gender bias, women are not getting as much education as men.
 - (ii) Lack of mobility among women in India is another factor that retards their employment as salaried workers. Because, household management is still considered to be a preferred option for the women in India.
34. (a) Following observations highlight the areas where China has an edge over India:
- (i) China has successfully focused on pro-poor reforms.
 - (ii) Rural poverty has declined much faster in China than India.
 - (iii) In India, agricultural reforms have been far less effective than in China.
 - (iv) Export-driven manufacturing has more significantly grown in China than India.
 - (v) Global exposure of the economy has been far more wider in China than in India.
 - (vi) China is far ahead of India in terms of HDI (Human Development Index).

- (b) Both India and China had almost equal per capita GDP in 1980. But presently, China's per capita income is almost twice that of India.

China has emerged as the global manufacturing hub, and one of the leading export-economy in the world.

In comparison, India is a laggard economy and our exports have failed to impart a spurt to our GDP growth.

It is significant to note that Chinese GDP crossed \$ 1 trillion mark in 1998, while India reached this milestone nearly a decade later in 2007.

Presently, China and India are the 2nd and 5th largest economy of the world, respectively. This gulf is attributed to the fact that while GDP growth in China has had hovered around 10 per cent, India could never get close to this mark.



SAMPLE PAPER – 9

SECTION–A: MACROECONOMICS

- (c) Both statements 1 and 2 are true
- (b) Total expenditure – Total receipts other than borrowings
- (a) primary function of money
- (c) Both statements 1 and 2 are true
- (a) Statement 1 is true and statement 2 is false

OR

- (b) Retirement pension
- (c) 1.0

OR

- (b) the problem of involuntary unemployment
- (d) all of these
 - Budgetary Deficit = Revenue expenditure + Capital expenditure – (Revenue receipts + Capital receipts)
= ₹ 60,000 crore + ₹ 30,000 crore – (₹ 50,000 crore + ₹ 25,000 crore)
= ₹ 90,000 crore – ₹ 75,000 crore
= ₹ 15,000 crore

Budgetary deficit = ₹ 15,000 crore.

OR

Fiscal Deficit = Total expenditure – Revenue receipts – Non-debt capital receipts
= ₹ 75,000 crore – ₹ 60,000 crore – ₹ 5,000 crore
= ₹ 10,000 crore

Fiscal deficit = ₹ 10,000 crore.



9. (c) Assertion (A) is true but Reason (R) is false
10. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- 11.

Year	Units	Market Price	Real GDP	Nominal GDP
2020	200	100	20,000	20,000
2021	220	110	22,000	24,200

$$\begin{aligned} \text{Percentage Change in Real GDP} &= \frac{\text{Change in real GDP}}{\text{Base year GDP}} \times 100 && [\text{Base year: 2020} = 100] \\ &= \frac{22,000 - 20,000}{20,000} \times 100 \\ &= \frac{2,000}{20,000} \times 100 \\ &= 10\% \end{aligned}$$

$$\begin{aligned} \text{Percentage Change in Nominal GDP} &= \frac{\text{Change in nominal GDP}}{\text{Base year GDP}} \times 100 \\ &= \frac{24,200 - 20,000}{20,000} \times 100 \\ &= \frac{4,200}{20,000} \times 100 \\ &= 21\% \end{aligned}$$

Percentage change in real GDP = 10%.

Percentage change in nominal GDP = 21%.

12. Increasing the tax rates on higher income group implies that the government is following progressive tax policy. This would reduce the inequalities in the distribution of income. The purchasing power of higher income people would fall while it would remain the same for the low income people. This would reduce the gap between these two groups. Also, the revenue of government is likely to increase by increasing the tax on higher income people which can be used in developmental programs for the economy.

OR

The government influences the allocation of resources through its tax and subsidy policy. High taxes are levied on the production of luxury goods (meant for the rich) while subsidies are offered for the production of necessities of life (meant for the poor). Accordingly, production of goods (with higher tax) reduces, while the production of goods (with subsidy) increases. Implying reallocation of resources. The government seeks to reallocate resources with a view to maximising social welfare.

13. Given, marginal propensity to save (MPS) = 0.10
Change final income (ΔY) = ₹ 15,000 crore

We know that,

$$\text{Multiplier (K)} = \frac{1}{\text{MPS}} = \frac{1}{0.10} = 10$$

We also know,

$$K = \frac{\Delta Y}{\Delta I}$$

$$\Rightarrow 10 = \frac{15,000}{\Delta I}$$

$$\Rightarrow \Delta I = \frac{15,000}{10} = 1,500$$

Change in initial investment = ₹ 1,500 crore.

14. The situation suggests that the production activity in the domestic economy has tended to retard, owing to lockdown. The economy has witnessed a loss of employment and the consequent fall in income and expenditure. The economy is drifting towards a recessionary trend. Following two fiscal measures may be taken to correct this situation:

- (i) **Increase in Government Expenditure:** The government should increase its expenditure. This includes both consumption expenditure as well as investment expenditure. A rise in government expenditure leads to a rise in AD which is what is required to combat recession in the economy.
- (ii) **Modify Tax Structure:** Tax structure should be modified to induce private investment. The focus should be on such areas of production activity which generate employment, like real estate.

15. Deferred payments refer to those payments which are to be made in some future date. Money is accepted as a standard of deferred payments because,

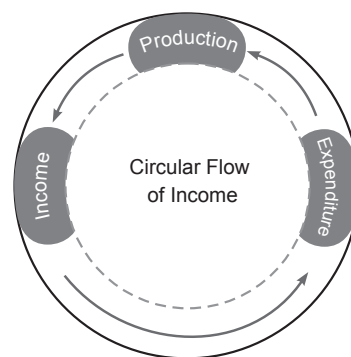
- (i) its value remains stable,
(ii) it has general acceptability,
(iii) it is more durable compared to other commodities.

Briefly, money is a convenient means of borrowing and lending and is therefore, accepted as a standard for deferred payments.

OR

Store of value implies store of wealth. Storing wealth has become considerably easy with the introduction of money. As a store of value, money is held without plans for immediate exchange for a good or service. Individuals try to save a part of their income for their future needs. This is called store of value and it is convenient to store value in terms of money because of its general acceptability, relative stability (compared to other commodities) and convenient storage. Stored wealth is a source of future income and investment.

16. (a) The flow of production, income and expenditure is a circular flow. Production gives rise to income, income gives rise to demand for goods and services, and demand in turn gives rise to expenditure. Expenditure leads to further production. Thus, the flow of production, income and expenditure becomes circular with no beginning or no end. This flow is shown in figure given alongside.



(b)

Stock	Flow
(i) Stock is that quantity of an economic variable which is measured at a particular point of time.	(i) Flow is that quantity of an economic variable which is measured over a period of time.
(ii) Stock has no time dimension.	(ii) Flow has time dimension as per hour, per day, per month.
(iii) Stock is a static concept.	(iii) Flow is a dynamic concept.
(iv) Examples: Quantity of money, wealth.	(iv) Examples: Consumption, investment.

17. (a) The given transaction takes place in the Forward Market. Forward market for foreign exchange is that market which handles such transactions of foreign exchange that are meant for future delivery.

Such transactions are signed today but are to materialise (or are to be honoured) on some future date.

Principal characteristics of forward market are that:

- (i) It only caters to forward transactions; it does not deal with spot transactions in foreign exchange.
 - (ii) It defines (or determines) forward exchange rate—the exchange rate at which forward transactions are to be honoured.
- (b) Two important uses of capital account inflow of foreign exchange are: (i) it may be used to correct CAD (current account deficit), and (ii) it may be used as investment in the domestic economy. Reduction in CAD improves our credit rating in the international money market. Likewise, increase in investment leads to increase in GDP growth. However, there is a flip side as well. Capital account inflow of foreign exchange relates mainly to: (i) borrowing, and (ii) FDI. Borrowing increases our liability against rest of the world. It raises financial liability of the future generations. Likewise, FDI leads to foreign ownership of assets in the domestic economy. So that the control of production activity in the domestic economy starts slipping from the resident producers to the non-resident producers.

OR

- (a) Appreciation is the rise in the value of domestic currency in relation to the foreign currency. When domestic currency appreciates, value of domestic currency in terms

of foreign currency rises. It implies that less rupees are now required to buy a unit of foreign currency (say one US dollar), which means that a dollar can now buy lesser amount of goods and services in the domestic economy. Accordingly, exports of the country are likely to fall.

Similarly, less rupees are now required to buy goods worth one US dollar in the US market. As a result, imports are likely to rise.

- (b) Balance on trade account includes only merchandised or material goods of trade. It is defined as the difference between export of material goods and import of material goods.

Balance on Trade Account = Export of material goods – Imports of material goods

Current Account Balance = Trade balance + Balance on account of invisibles.

Invisibles include factor and non-factor services as well as current transfers.

SECTION–B: INDIAN ECONOMIC DEVELOPMENT

18. (b) capitalist economy

19. (c) both (a) and (b)

OR

(d) disinvestment

20. (c) thought-process of the Chinese leadership itself

OR

(c) (ii), (i), (iii), (iv)

21. (b) China

22. (c) A—(ii), B—(iii), C—(iv), D—(i)

23. (c) Both statements 1 and 2 are true

24. (a) Statement 1 is true and statement 2 is false

25. (c) both (a) and (b)

OR

(d) both (a) and (b)

26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

27. (c) Assertion (A) is true but Reason (R) is false

28. Brain drain refers to migration of skilled manpower to developed countries of the world. Obviously, they migrate for greener pastures (higher wages and better quality of life). Those who migrate include scientists, engineers, doctors and educationists. These are the people of high Calibre. Migration of such people is a serious bottleneck in human capital formation in India. We know 'skill' is an important ingredient of growth. 'Loss of skill' causes a dent in the process and pace of growth.

29. Distribution of our workforce across primary, secondary and tertiary sectors of the economy, briefly called sectoral distribution of the economy.

In 2017-18, as high as 44.6 per cent of our workforce was engaged in primary sector, dominated by farming. Tertiary sector accounted for 31.0 per cent of employment, while the secondary sector offered employment to only 24.4 per cent of our workforce.

Thus:

- (i) A large segment of workforce continues to depend on primary activities to make a living.
- (ii) Greater employment in primary sector reveals that secondary and tertiary sectors have failed to generate ample job opportunities. This is a pointer to the backwardness of the Indian economy.
- (iii) Secondary sector lagging behind the tertiary sector points to the fact that industrialisation has failed to take-off to become the leading sector of growth.

OR

The important causes of massive unemployment in India are as these:

- (i) **Slow Economic Growth:** Indian economy is underdeveloped and its rate of growth is very slow. Slow growth rate fails to generate enough employment opportunities for the rising labour force.
- (ii) **Rapid Growth of Population:** Constantly rising population has been a grave problem in India. It is one of the principal factors contributing to unemployment.
- (iii) **Agriculture—A Seasonal Occupation:** Agriculture is underdeveloped in India and so offers seasonal employment. Its seasonal character does not provide stable jobs to the farmers throughout the year. Farmers often remain idle for three to four months in a year.

30. Demonetisation carried its pros and cons. It was a good move as it unearthed the stock of black money in the economy. It was a good move also because it induced (or compelled) people to shift to the digital mode of transactions. Further, it improved the degree of financial inclusion in the economy and significantly raised the liquid assets of the banks. But, demonetisation was not free from demerits. It led to a severe cash crunch in our cash-sensitive economy, implying a significant fall in production activity, causing a dent in GDP growth. Opportunities of employment were also deeply hurt.

In view of both the merits and demerits of demonetisation, it becomes rather difficult to either support or denounce it as a policy decision. However, it is a hard fact that we have failed to sustain the good impact of demonetisation over a longer period of time. Demonetisation was a one big blow to corruption, but never led to the end of it.

31. (a) Diversification of production activity implies a shift from crop farming to other areas of production activity or other areas of employment. It raises income as well as stabilises it.
- (b) True. Owing to the lack of opportunities of employment, people in the rural areas are compelled to migrate to the urban areas in search of livelihood. This compounds the problem of urban unemployment.

OR

To remove unemployment from the rural areas, 'Swarnajayanti Gram Swarozgar Yojana' was launched in the villages, in April 1999. Under this programme, a large number of small enterprises were established in rural areas. The small enterprises were organised as individual enterprises as well as on collective basis as Self-Help Groups (SHGs).

32. (a) (i) Under the discriminatory tariff policy, duty-free export of raw material (which was used by the Britishers) from India and duty-free import of British industrial products into India was allowed.
- (ii) Heavy duty on the export of final products from India was imposed, leading to loss of market for the domestically produced final goods in rest of the world.
- (b) Mixed economy refers to an economy in which there is private as well as public ownership of the means of production. However, there are government controls as well as regulations with a view to maximising social welfare.
33. (a) It is not denying the fact that education is an important means of reducing inequality of income. Education enhances productive capacities of the labour force, which in turns induces greater employment. Further, education increases the rate of participation (percentage of employment of the existing labour force). Increase in the rate of participation would lead to increase in the share of wages in GDP. Accordingly, inequality would reduce. However, while education can be seen as a potential eliminator of inequality, there are other factors which tend to promote inequality world-wide. Oligopolistic ownership of the global markets is one such factor which has tended to compound inequality despite the spread of education.
- (b) Victor is underemployed, as he works only for two hours in a day even when he is willing to work for 8 hours in a day.
- Persons like Victor could be doing part-time jobs like of a delivery boy, or of a tutor.
- (c) Sustainable development is that process which fulfils the needs of present generation without challenging the ability of the future generations to fulfil their needs. Implying that the resources are not fully exploited, but rationally utilised. In other words, it is a process of development that does not cause environment degradation and therefore, does not reduce production capacity of future generations.

OR

- (a) In order to develop rural markets (or agricultural marketing), the government has initiated a series of steps, as under:
- (i) Regulated markets have been set-up.
- (ii) Provision of warehousing facilities.
- (iii) Cooperative agricultural marketing societies have been formed.
- (iv) MSP policy (focusing on some stable income to the farmers), maintenance of buffer stock of wheat & rice and distribution of food grains through PDS.
- (b) Disguised unemployment is rampant in India because:
- (i) Due to joint family system, farming families continue to work on family land, no matter the actual number of workers far exceeds the required number.

- (ii) Per person holding size continues to shrink with the expansion of the family size. Implying greater possibility of disguised unemployment.
 - (iii) Lack of job opportunities outside agriculture compels the people to work on family farms. It further increases the possibility of disguised unemployment.
34. (a) Following observations pointing to re-emergence of poverty in Pakistan:
- (i) Pakistan has failed to bring about stable institutional reforms in agriculture. Accordingly, performance of agricultural sector has remained volatile.
 - (ii) For its foreign exchange requirements, Pakistan has relied largely on remittances from abroad, and (volatile) agricultural exports. A setback to these sources of foreign exchange has caused a corresponding setback to the process of growth.
 - (iii) Lack of political stability in Pakistan has caused huge public expenditure on law and order.
 - (iv) Pakistan is allocating huge funds to build a strong defence-system, even when it implies a huge cut in developmental expenditure.
- (b) Following four observations highlight the areas where Pakistan has an edge over India:
- (i) Pakistan has achieved better results with regard to migration of workforce from agriculture to industry, or migration of people from rural to urban areas.
 - (ii) Pakistan has shown brighter signs of urbanisation as compared to India.
 - (iii) Even when the rate of investment in Pakistan has been lower than in India, efficiency/productivity of investment has been higher.
 - (iv) Pakistan had achieved better results as regards access to improved water resources. But, in the recent past, India has shown better results.



SAMPLE PAPER – 10

SECTION–A: MACROECONOMICS

1. (d) Both statements 1 and 2 are false
2. (b) direct tax
3. (b) plastic money
4. (c) Both statements 1 and 2 are true
5. (b) Statement 1 is false and statement 2 is true

OR

- (c) Intermediate consumption
6. (c) ₹800 crore

OR

- (a) $AD > AS$ (corresponding to full employment level)
7. (a) short-term borrowings by the commercial banks

$$\begin{aligned}
 8. \text{ Revenue Deficit} &= \text{Revenue expenditure} - \text{Revenue receipts} \\
 &= ₹ 60,000 \text{ crore} - ₹ 50,000 \text{ crore} \\
 &= ₹ 10,000 \text{ crore}
 \end{aligned}$$

Revenue deficit = ₹ 10,000 crore.

OR

Fiscal Deficit = Borrowings = ₹ 9,000 crore

Fiscal deficit = ₹ 9,000 crore.

[Interest is not included in fiscal deficit.]

9. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
10. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- 11.

Years Nations	2018-19	2019-20	Growth Rate of GDP Change in GDP $= \frac{\text{Change in GDP}}{\text{Base Year GDP}} \times 100$ (Base Year = 2018-19)
X	₹ 2,000 crore	₹ 4,000 crore	$= \frac{2,000}{2,000} \times 100 = 100\%$
Y	₹ 1,20,000 crore	₹ 2,00,000 crore	$= \frac{80,000}{1,20,000} \times 100 = 66.67\%$

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

12. Primary deficit is the difference between fiscal deficit and interest payment. It indicates estimated borrowing by the government on account of the excess of current year expenditures over current year receipts, exclusive of the burden of interest payment related to past debts. Primary deficit thus indicates the extent to which the government needs to borrow to implement its budgetary programmes and policies for the year ahead.

OR

The given statement can be refuted as the fiscal deficit can exist without revenue deficit. Because fiscal deficit is worked out by accounting for both the revenue and capital receipts & expenditures of the government. So that, even when revenue receipts and revenue expenditure are in a state of balance, there could be excess of capital expenditure over capital receipts, causing fiscal deficit.

13. Given, marginal propensity to consume (MPC) = 0.75

Change in initial investment (ΔI) = ₹ 2,000 crore

We know that,

$$\begin{aligned}
 \text{Multiplier (K)} &= \frac{1}{1 - \text{MPC}} \\
 &= \frac{1}{1 - 0.75} = \frac{1}{0.25} = 4
 \end{aligned}$$

$$\begin{aligned}\text{Increase in Income } (\Delta Y) &= K \times \Delta I \\ &= 4 \times 2,000 \\ &= 8,000\end{aligned}$$

Change in final income = ₹ 8,000 crore.

14. Keynesian theory is related to the problem of developed economies. In these economies, unemployment occurs because of the lack of aggregate demand (AD). Lack of AD leads to a cut in planned output. Accordingly, lay-off occurs and excess capacity emerges. In such situations, increase in expenditure (implying increase in AD) would lead to increase in planned output, without any increase in the price level. The inflationary gap would emerge only when AD continues to rise even when excess capacity is totally exhausted and full employment is reached.

In less developed countries like India, unemployment occurs not because of the lack of AD, because of the lack of production capacity or the lack of capital. Unlike developed countries, there is no excess capacity in less developed countries like India. Accordingly, price level starts rising following increase in AD, even when there is unemployment in the economy.

15. Store of value means store of wealth in terms of money.

In the absence of money, people used to save in terms of expensive goods which involved difficulty of storage and transportation/portability. With the invention of money, people found a very convenient means of saving their wealth on account of the following characteristics of money:

- (i) Saving in terms of money allows convenient portability. It involves only paper titles which can be handled anywhere and in any part of the world with just a click of the mouse.
- (ii) Saving in terms of money allows fractional denominations to any extent. It is unlike saving in terms of goods which have limited divisibility.
- (iii) Saving in terms of money allows a high degree of liquidity which is not possible in case of goods.

OR

In the barter system, people can save only in terms of expensive goods. This leads to two basic problems: (i) the problem of storage, and (ii) the problem of transfer of savings. Consequently, savings remain low. It leads to low level of investment, and therefore, rate of GDP growth. Evolution of money has made storage and transfer of wealth much easier. Saving has considerably expanded. Investment has proportionately risen. Accordingly, GDP growth has tended to rise enormously.

16. (a) Flow of income refers to the flow of goods and services (or their money value) across different sectors of the economy. It is called real flow in case it occurs in form of goods and services, *e.g.* households rendering their factor services to the producers and in return producers offering final goods and services to the households.

It is called money flow in case there is flow of money value from one sector to the other, *e.g.* producers make factor payments to the households and households make payments to the producers for the purchase of goods and services.

(b) The difference between intermediate goods and final goods are as under:

Intermediate Goods	Final Goods
(i) Intermediate goods are those goods which are used as raw material for further production or are purchased for resale.	(i) Final goods are those goods which are used either for final consumption or for investment.
(ii) These goods are within the boundary line of production.	(ii) These goods have crossed the boundary line of production.
(iii) Value is yet to be added to these goods by way of further processing or resale.	(iii) Value is not to be added to these goods by way of further processing or resale.
(iv) These goods are not included in the estimation of national income.	(iv) These goods are included in the estimation of national income.
Example: A carpenter buys wood worth ₹ 5,000 and converts it into chairs worth ₹ 10,000. Here, chairs are final goods while wood is an intermediate good.	

17. (a) Spot market for foreign exchange is that market which handles only spot transactions or current transactions.

Its principal characteristics are that:

- (i) In terms of 'period of transaction', the spot market is of 'daily nature'. It does not trade in future deliveries.
 - (ii) The rate of exchange which is determined in the spot market is known as spot rate of exchange. The spot rate of exchange (or current rate of exchange) is that rate which prevails at the time when transactions are made.
- (b) NRI deposits in India are reflected as capital receipts in the BoP accounts. These add to the supply of foreign exchange for the Indian economy. This foreign exchange can be used to offset the current account deficit which usually remains high. In the event of low NRI deposits, we have to depend on commercial borrowings from the rest of the world which lead to high burden of interest payments.

Also, constant supply of foreign exchange (by way of NRI deposits) keeps the exchange rate under check. This facilitates the import of essential goods like crude oil.

OR

- (a) Managed floating is a tool employed by the central bank to restore the value of the country's currency (in relation to other currencies) within the desired limits, even when exchange rate is determined by the market forces of supply and demand in the international money market. But (at times) the government (central bank) intervenes to place some influence on the exchange rate so that it remains within the desired limits. It is done through the sale and purchase of foreign currency in the international money market.
- (b) Trade surplus refers to excess of value of export of visibles (goods) over value of import of visibles (goods) in the balance of payments of a country.

Trade Surplus:

Export of goods > Import of goods

Current account includes receipts and payments of foreign exchange on account of all items of exports and imports (visibles as well as invisibles). Current account surplus occurs when the foreign exchange receipts are in excess of the foreign exchange payments relating to visible as well as invisible items of trade.

SECTION–B: INDIAN ECONOMIC DEVELOPMENT

18. (c) Mixed economy

19. (d) Both (a) and (b)

OR

(c) privatisation

20. (c) Special Economic Zones

OR

(c) 1958

21. (a) Mao Zedong

22. (a) A—(iii), B—(iv), C—(i), D—(ii)

23. (b) Statement 1 is false and statement 2 is true

24. (b) Statement 1 is false and statement 2 is true

25. (d) all of these

OR

(a) Disguised unemployment

26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

27. (d) Assertion (A) is false but Reason (R) is true

28. Migration contributes to human capital formation as it facilitates utilisation of (otherwise) inactive skills of the people, or it facilitates fuller/better utilisation of the skills.

Migration involves cost:

(i) cost of transportation from one place to the other, and

(ii) cost of living in different social environments.

Yet people migrate in search of better job opportunities as aims of migration (in terms of higher salaries) are greater than the cost of migration. Implying that migration leads to human capital formation, through fuller/better utilisation of skills.

29. In this regard, observe the following facts:

(i) More than 94 per cent of the workforce in India belongs to informal sector working without any written contract, and devoid of social security benefits.

(ii) In the informal sector, male workers account for 70 per cent of the workforce while the female workers are only 30 per cent.

(iii) Even in the organised sector, informalisation is rising owing to outsourcing of jobs.

OR

Following measures have been taken by the Government of India to remove unemployment in India:

- (i) **Prime Minister's Employment Generation Programme (PMEGP):** This scheme was started in 2008. It aims at providing an assistance of ₹ 25 lakh for setting up a manufacturing enterprise and ₹ 10 lakh in service sector.
- (ii) **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):** Launched in 2005, under this Act, all those who are willing to work at the minimum wage are offered work for a minimum period of 100 days. Those seeking employment are to report in those rural areas where the employment programme is being launched.
- (iii) **National Rural Livelihood Mission (NRLM):** This scheme is also known as 'Aajeevika'. NRLM is expected to provide self-employment to 90 lakh persons. The programme has now been renamed as Deendayal Antayodaya Yojana.

30. The four main gains of privatisation are as follows:

- (i) Privatisation implies supremacy of 'self-interest' over 'social interest'. It is expected to lead to higher productivity.
- (ii) Under privatisation, enterprises work in a competitive environment. Competition induces upgradation and modernisation.
- (iii) Privatisation promotes diversification of production.
- (iv) Privatisation promotes consumers' sovereignty. Higher degree of consumers' sovereignty implies wider choice and better quality of life.

31. (a) Operation flood is a system under which the member farmers are required to pool their produce of milk for collective sale in the market.

- (b) True. Because, (i) Women rendering household services as housewives are not considered as workers, as they are not paid for their work and it is difficult to ascertain market value of the services rendered, and (ii) Women working in family-owned farms or enterprises are not considered as workers.

OR

Prime Minister's Rozgar Yojana (PMRY) started in 1993, this was the first programme aimed at creating self-employment in urban areas. The scheme is for providing employment to educated unemployed. The scheme provides a loan of up to ₹ 1 lakh for opening one's own enterprise and ₹ 2 lakh for other activities.

32. (a) Following are the features of India's demographic profile during the British rule:

- (i) High birth rate and death rate.
 - (ii) High infant mortality rate (death rate of children below the age of one year per 1000 live births).
 - (iii) Low life expectancy (average life of a person).
 - (iv) Low female literacy rate indicating high degree of gender-bias in the society.
- (b) A big push of investment (supported by the government) was needed in the Indian economy to break the vicious circle of economic backwardness. Indian economy, at the time of independence, was not only backward but stagnant as well. It was backward

as the level of output and productivity were low. And, it was stagnant as the GDP growth was extremely low. Such an economy could not be left to the market forces of supply and demand. Hence, the recourse to economic planning.

33. (a) Following are the difficulties being faced in the human capital formation in India:

- (i) **Rising Population:** Rapidly rising population adversely affects the quality of human capital. This is because it reduces per head availability of the existing facilities relating to housing, sanitation, drainage, water-system, hospitals, education, power supply, etc. In turn, this leads to a fall in the capacity to acquire specialised skills and knowledge.
 - (ii) **Insufficient On-the-Job Training in Primary Sector:** Primary sector (agriculture in particular) is the backbone of Indian economy. Unfortunately, it has not received due attention in the area of professional skills.
- (b) Casual wage labourers are the daily wagers. They are not hired by their employers on regular basis. Such labourers are casually engaged in some work and generally paid on daily basis. **Example:** Construction workers.
- (c) Carrying capacity of environment refers to the situation when:
- (i) exploitation of resources does not exceed the regeneration of resources, so that the resource endowment is not exhausted or depleted, and
 - (ii) generation of wastes does not exceed the absorption capacity of environment, so that environment is not polluted.

OR

- (a) Green Revolution refers to a spurt in farm output during mid 60's, consequent upon the use of HYV seeds, chemical fertilizers and increase in crop productivity. It focused on solving food problem in India. Besides, it was expected to raise the level of farm productivity, farm output and income from farming. Golden Revolution, on the other hand, refers to a revolutionary rise in production of horticulture crops (vegetables and fruits) and honey owing to technology transformation.
- (b) Disguised unemployment is a characteristic feature of the Indian agriculture. It is almost rampant there owing to a heavy pressure of population, joint family system and the lack of vocational avenues outside agriculture. But it is a phenomenon not confined to agriculture alone.

Have a deeper look into the functioning of the public sector enterprises. It will not be surprising to find lots of persons idling all the time. It is a pointer to the fact that more people are employed than actually needed. Surely, it is a sign of disguised unemployment.

34. (a) Following four observations highlight the common failures of India and Pakistan:

- (i) The relatively inward-looking economic policies and high protection to domestic industry did not allow India and Pakistan to take timely advantage of globalisation.
- (ii) Both the countries recorded a dismal performance in terms of fiscal management.
- (iii) Urban services are deficient in both the countries which are a big hurdle in their process of growth and development.
- (iv) Large proportion of tax revenue is spent to meet defence expenditures and internal debt servicing. It hampers the process of growth.

- (b) Following four observations highlight the common success story of India and Pakistan:
- (i) India and Pakistan both have succeeded in more than doubling their per capita income.
 - (ii) The incidence of absolute poverty has also been reduced significantly in both the countries.
 - (iii) Food self-sufficiency has been achieved with improved nutritional status.
 - (iv) A well-developed modern sector (along with a backward traditional sector) has emerged in both the countries.



SAMPLE PAPER – 11

SECTION–A: MACROECONOMICS

1. (b) Statement 1 is false and statement 2 is true
 2. (d) fiduciary money
 3. (b) non-plan expenditure
 4. (c) Both statements 1 and 2 are true
 5. (a) Statement 1 is true and statement 2 is false
- OR**
- (c) Dissavings
6. (d) 5
- OR**
- (d) all of these
7. (c) both (a) and (b)
 8. (a) 0.80
- OR**
- (c) ₹ 50
9. (d) Assertion (A) is false but Reason (R) is true
 10. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
 11. National Income
= $GNP_{MP} - \text{Depreciation} - \text{Net indirect taxes}$
= ₹ 1,40,000 crore – (20% of ₹ 5,00,000 crore) – (₹ 30,000 crore – ₹ 15,000 crore)
= ₹ 1,40,000 crore – ₹ 1,00,000 crore – ₹ 15,000 crore
= ₹ 25,000 crore
National income = ₹ 25,000 crore.
 12. Margin requirement refers to the difference between market value of the security offered for loan and the amount of loan offered by the commercial banks.



In case credit creation is to be controlled (reduced), the RBI raises margin requirement. It would lower the demand for loans and increase liquidity of the commercial banks for a given amount of loans. When liquidity rises against a given amount of loans, credit creation capacity of the commercial banks is reduced.

OR

Qualitative credit control refers to selective credit control that focuses on allocation of credit to different sectors of the economy. Flow of credit is encouraged to the priority sectors, while it is discouraged to the non-priority sectors (particularly those engaged in speculative business activity). Quantitative credit control, on the other hand, refers to overall credit control in the economy, affecting all sectors of the economy equally and without discrimination.

13. Given, marginal propensity to save (MPS) = 20% = $\frac{20}{100} = 0.2$

$$\begin{aligned}\text{Marginal propensity to consume (MPC)} &= 1 - \text{MPS} \\ &= 1 - 0.2 = 0.8\end{aligned}$$

$$\text{Autonomous consumption } (\bar{C}) = ₹ 100 \text{ crore}$$

Consumption function would be:

$$\begin{aligned}C &= \bar{C} + \text{MPC}(Y) \\ &= 100 + 0.8Y\end{aligned}$$

14. Government spending leads to multiple times increase in GDP only when there is excess capacity in the economy or when planned output is low owing to lack of aggregate demand (AD). But, in situations when excess capacity does not exist (or when AD is not deficient), government spending would only contribute to inflationary spiral in the economy. In such situations (when inflation needs to be curbed), the government must curb fiscal deficit.

15. Fiscal deficit is the excess of total expenditure over total receipts, other than borrowings.

$$\text{Fiscal Deficit} = \text{Total expenditure} - \text{Total receipts other than borrowings}$$

Some features associated with fiscal deficit are:

- (i) It reflects the extent of borrowings by the government when interest payment is accounted for.
- (ii) High fiscal deficit (in terms of borrowings) points to the lack of fiscal discipline in the country. It is a hurdle in the process of GDP growth.

OR

When the government spends more on free services like education and health to the poor, health and education levels are expected to rise. This leads to a rise in human capital formation. Consequently, efficiency and productivity levels are expected to rise. Improvement in physical health has a direct bearing on efficiency of the workers. On the other hand, improvement in education standards leads to skill formation. It facilitates research and innovations. Level of technology tends to scale up. Consequently, PPC tends to shift to the right. Higher level of output is achieved with the same level of inputs.

16. (a) Exports incentives are given for the promotion of exports of a country. With the increase in the exports of an economy, the inflow of foreign exchange is expected to increase. This implies an increase in the supply of foreign exchange. Demand remaining constant, increase in supply of foreign exchange will lead to a fall in foreign exchange rate.

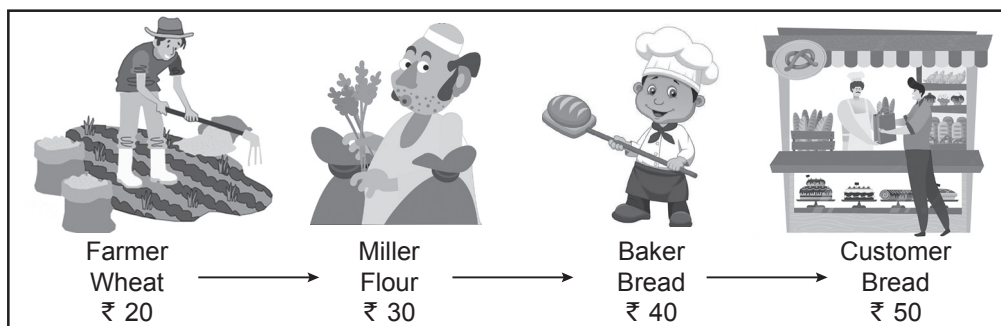
(b) Trade surplus refers to excess of value of export of visibles (goods) over value of import of visibles (goods) in the balance of payments of a country.

Trade Surplus: $\text{Export of goods} > \text{Import of goods}$

Trade deficit refers to excess of value of import of visibles (goods) over value of export of visibles (goods) in the balance of payments of a country.

Trade Deficit: $\text{Export of goods} < \text{Import of goods}$

17.



(a) The problem of double counting is avoided in case either of the following two methods is adopted for the estimation of GDP:

(i) **Final Output Method:** According to this method, only final goods and services (in terms of their end-use) are to be considered in the estimation of GDP. Intermediate goods are not to be considered. We know (in terms of their end-use), final goods are those goods which have crossed the boundary line of production and which are ready for use by their final users who may be consumers or producers. Intermediate goods are not to be considered, as these are within the boundary line of production and are yet not ready for use by their final users. In the given example, the bread sold to the consumers is the final good. Only the value of final good (bread in this case), *i.e.*, ₹ 50 will be included in the estimation of GDP.

(ii) **Value Added Method:** According to this method, sum total of value added by all the producing units within the domestic territory of the country is to be considered in the estimation of GDP. Value added refers to the difference between value of output and the value of intermediate consumption of each producing unit in the country. In the given example, value added at each stage of production, *i.e.*, ₹ 20 + ₹ 10 + ₹ 10 + ₹ 10 = ₹ 50 will be included in the estimation of GDP.

(b) Examples of items that are excluded from GNP are: leisure time activities (like gardening), services rendered by housewives and other such activities whose value cannot be measured in monetary terms; income generated through unlawful activities is also not included, because such income is not legally accountable.

OR

- (a) Factor inputs or primary inputs are factors of production and classified as land, labour, capital and enterprise while non-factor or secondary inputs are those non-durable producer goods and services which are used by the producers for production of goods and services. These are also called intermediate goods. **Examples:** Seeds, manures.
- (b) Following are the necessary precautions to be taken while using the income method of measuring national income:
- (i) Income from transfer payments should not be included.
(**Example:** ₹ 5,000 given to you by your father as your b'day gift.)
 - (ii) Income in terms of capital gain should not be included.
(**Example:** Gain from the sale of old property, shares and bonds.)
 - (iii) Imputed rent of owner-occupied houses must be included.
 - (iv) Imputed value of self-owned factor inputs (like use of own premises or own funds in business) should be taken account of.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. Pakistan

19. (d) All of these

OR

(b) Prime Minister

20. (c) High import tariffs, reduced import quota

OR

(a) They led to lobbying and personal benefits for big industrial houses

21. (c) Indian Oil Corporation Ltd.

22. (d) D—(iv)

23. (a) Statement 1 is true and statement 2 is false

24. (c) Both statements 1 and 2 are true

25. (d) all of these

OR

(d) both (b) and (c)

26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

27. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

28. Economic growth occurs when GDP rises. It implies increase in the level of output.

Increase in the level of output is achieved in two ways:

- (i) through greater employment, and/or
- (ii) through better technology.

In poor countries like India where there is staggering unemployment, economic growth becomes meaningful only when it is associated with greater opportunities of employment, so that poverty is combated.

Unfortunately, Indian economy is experiencing GDP more through technology than the employment of labour. It is a situation of jobless growth.

29. Following observations highlight the growth story of India, China and Pakistan:

- (i) China has outpaced both India and Pakistan with regard to GDP growth.
- (ii) India has performed better than Pakistan. But compared with China, India is way behind.
- (iii) The relative success of China is credited to political stability in China. China has proved that the more relevant factor in the context of GDP growth is not the availability of resources but 'good governance' by the state and 'good compliance' by the citizens.

OR

The principal features of strategy of growth adopted by India and Pakistan are as under:

- (i) Both India and Pakistan adopted mixed economy as a model of growth.
 - (ii) The strategy of growth in both countries underlined the significance of both private and public sectors.
 - (iii) Public sector was assigned the key role of 'kick-starting' the process of growth in both the countries.
- 30.** The main non-farm activities for increasing rural income are:
- (i) Animal Husbandry also called livestock farming, (ii) Fisheries, and (iii) Horticulture.
- By taking up non-farm activities, the farmers can increase their income without incurring extra labour cost. This is because of the fact that there is lot of disguised unemployment in Indian farming sector. In case, some labour force is withdrawn from the existing farm activities and employed in non-farming activities, farms production is not going to reduce while, on the other hand, non-farm activities of production are expected to generate income. However, the government must provide the farmers enough credit facilities so that they are able to undertake non-farm activities as a supplement source of income.
- 31.** (a) Infant mortality rate refers to the death rate of children (per thousand) below the age of one year.
- (b) Following four observations highlight the areas where Pakistan has an edge over India:
- (i) Pakistan has achieved better results with regard to migration of workforce from agriculture to industry, or migration of people from rural to urban areas.
 - (ii) Pakistan has shown brighter signs of urbanisation as compared to India.
 - (iii) Even when the rate of investment in Pakistan has been lower than in India, efficiency/productivity of investment has been higher.
 - (iv) Pakistan had achieved better results as regards access to improved water resources. But, in the recent past, India has shown better results.



OR

The principal factors that led to rapid growth in economic development in China are as these:

- (i) Shift from a centrally planned economy to a market economy.
- (ii) Focus on export-related domestic production.
- (iii) Influx of FDI [through SEZs (special economic zones)] and hundred per cent equity of the foreign investors and free flow of FDI in the retail sector.
- (iv) Availability of cheap labour force, giving China a comparative cost advantage.

Of all these factors, “Influx of FDI [through SEZs (special economic zones)] and hundred per cent equity of the foreign investors and free flow of FDI in the retail sector” has played the most vital role in accelerating the process of growth in China. In fact it is due to this factor that China has emerged a global hub of manufacturing activity.

32. (a) Absorptive capacity means the ability of the environment to absorb degradation. It points to the threshold of environmental crisis. When environmental pollution and environmental degradation cross their threshold level, the social cost of production and consumption activities tend to rise. Consequently, quality of life of the present generation is impaired and production capacity of the future generation is reduced.

(b) Environment is defined as all those conditions and their effects which influence human life. It is the sum total of surroundings and the totality of resources that affect our existence and the quality of our life.

33. (a) Organic farming is a system of farming that relies upon the use of organic inputs for cultivation and discards the use of chemical inputs. Animal manures and composts are examples of organic inputs used.

Organic farming focuses on ‘soil health’ rather than ‘crop health’ through the use of animal manures and composts. Hence, organic farming promotes sustainable development by maintaining soil fertility over a long period of time.

(b) Owner of a salon, cobbler and a tuition master are odd man out because they are self-employed and the rest are hired workers who render their services to others and as a reward, get wages/salaries.

(c) Environment is defined as all those conditions and their effects which influence human life. It includes: biotic (or living) components, *viz.*, birds, plants & animals, forests, fisheries and abiotic (or physical) components, *viz.*, air, water, land, soil, climate, mountains, minerals.

OR

(a) Human capital formation is indicated by a rise in the level of education and health of the residents of a country. It is also indicated by a rise in the level of skill formation in the country. It contributes to the process of growth as under:

(i) Availability of educated and skilled labour force through human capital formation raises the emotional and material environment of growth.

(ii) It raises productivity of physical capital.

(iii) It facilitates innovative skill that accelerates the process of growth.

- (b) Green Revolution refers to a spurt in farm output during mid 60's, consequent upon the use of HYV seeds, chemical fertilizers and increase in crop productivity. It focused on solving food problem in India. Besides, it was expected to raise the level of farm productivity, farm output and income from farming. Golden Revolution, on the other hand, refers to a revolutionary rise in production of horticulture crops (vegetables and fruits) and honey owing to technology transformation.
34. (a) Prior to NEP, domestic industry was offered protection from the foreign competition. It was expected that the domestic industry would grow faster if the foreign competitors are not allowed in the domestic market. However, this policy proved to be a bad economic decision because of these reasons:
- (i) Because of the lack of competition, domestic industrialists were never prompted to improve their production technology.
 - (ii) There was no inducement for diversification as there was no deficiency of demand in the domestic market.
 - (iii) Devoid of competition, the domestic entrepreneurs never strived for cost efficiency. Consequently, the domestic industry failed to find a space in the international market.
- It is in view of these consequences that NEP favoured withdrawal of protection to the domestic industry.
- (b) Two steps taken by the Government of India on financial sector under the Economic Reforms of 1991 were:
- (i) **Change in the Role of Reserve Bank of India (RBI):** The role of RBI has been modified from regulator to facilitator of the financial sector. This means that financial sector has been granted greater autonomy in their decision-making process.
 - (ii) **Emergence of Private Banks:** The reform process has led to the emergence of private sector banks of the Indian as well as foreign origin.



SAMPLE PAPER – 12

SECTION–A: MACROECONOMICS

1. (d) Both statements 1 and 2 are false
2. (c) fiat money
3. (c) borrowings by the government
4. (a) Statement 1 is true and statement 2 is false
5. (c) Both statements 1 and 2 are true

OR

- (c) 60
6. (c) ∞

OR

- (b) deficient demand



7. (b) ratio between consumption and income
 8. (b) ₹3,200 crore

OR

(a) 0.33

9. (c) Assertion (A) is true but Reason (R) is false
 10. (c) Assertion (A) is true but Reason (R) is false

11.
$$\begin{aligned} \text{Real GDP} &= \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100 \\ &= \frac{600}{120} \times 100 \\ &= 500 \end{aligned}$$

Real GDP = ₹ 500.

12. Cash reserve ratio (CRR) requires the commercial banks to maintain certain minimum cash reserves with the central bank, as a percentage of their total deposits. Statutory liquidity ratio (SLR) requires the commercial banks to maintain a specified percentage of their deposits (implying their liabilities) in the form of liquid assets. The liquid assets include: (i) cash reserves held by the commercial banks with themselves, (ii) gold reserves of the commercial banks, and (iii) unencumbered approved securities held by the commercial banks. When CRR or SLR are raised (as during inflation), credit creation capacity of the commercial banks is curtailed. On the other hand, when CRR and SLR are lowered (as during deflation), credit creation capacity of the commercial banks is enhanced.

OR

The repo rate is the rate at which the central bank of the country offers loans or gives short period credit to the commercial banks. To control credit creation, when supply of money/credit is to be reduced, repo rate is increased. This reduces borrowing by the commercial banks, implying a reduction in their cash reserves and therefore, a reduction in their capacity to create credit. Following this increase in repo rate, market rate of interest is also raised, implying a check on borrowings from the commercial banks. Thus, the overall supply of credit/money is reduced in the economy.

13. Given, marginal propensity to save (MPS) = 10% = $\frac{10}{100} = 0.1$

$$\begin{aligned} \text{Marginal propensity to consume (MPC)} &= 1 - \text{MPS} \\ &= 1 - 0.1 = 0.9 \end{aligned}$$

Autonomous consumption (\bar{C}) = ₹ 200 crore

Consumption function would be:

$$\begin{aligned} C &= \bar{C} + \text{MPC} (Y) \\ &= 200 + 0.9Y \end{aligned}$$

14. Cash reserve ratio (CRR) requires the commercial banks to maintain certain minimum cash reserves with the central bank, as a percentage of their total deposits. To correct the situation of inflationary gap, CRR is raised. A rise in the cash reserve ratio reduces credit

creation capacity of the commercial banks. Because a rise in the cash reserves with RBI reduces cash balances with the commercial banks. And reduction in cash balances with the banks causes a multiple-times reduction in their demand deposits (implying a cut in the creation of credit by the commercial banks). Accordingly, flow of credit in the market is reduced; aggregate demand is decreased and inflationary gap is corrected.

15. Merits

- (i) The government does not indulge in wasteful expenditure.
- (ii) A balanced budget ensures financial stability. It signals fiscal discipline in the economy.

Demerits

- (i) Balanced budget does not offer any solution to the problem of unemployment. Particularly, when unemployment is linked with the lack of AD. It happened in most European Countries during 1930's.
- (ii) Balanced budget is not conducive to growth in less developed countries. Kick-start of growth in these economies depends on a big-push of investment expenditure by the government. This often leads to deficit budget.

OR

Two serious implications of fiscal deficit are as these:

- (i) Fiscal deficit highlights the extent to which the government resorts to borrowing to cope with its expenditures. Higher borrowing implies higher burden of repayment of loans. As this burden cumulates year after year, net availability of resources (net of the accumulated past payments) for future generations tends to shrink. This retards the process of growth.
- (ii) Inflation is the other serious implication of fiscal deficit. Rising fiscal deficit to finance rising expenditure (on non-productive activities) generally causes a greater stress of demand on the existing flow of goods and services. Inflation is the obvious consequence in such a situation. It is bad as it widens the gulf between the rich and the poor. Also, inflation leads to a rise in the rate of interest. Accordingly, investment is reduced and GDP growth is impeded.

- 16. (a)** A unit of the domestic currency will now buy less goods from rest of the world while a unit of foreign currency can now buy more goods and services in the domestic economy. Goods produced in the domestic economy become cheaper to the buyers in foreign countries while foreign goods become relatively expensive to the domestic buyers. As a result, exports are likely to rise while imports are expected to fall.
- (b)** Trade deficit refers to excess of value of import of visibles (goods) over value of export of visibles (goods) in the balance of payments of a country.

Trade Deficit: $\text{Export of goods} < \text{Import of goods}$

Current account includes receipts and payments of foreign exchange on account of all items of exports and imports (visibles as well as invisibles). Current account deficit occurs when the foreign exchange receipts fall short of the foreign exchange payments relating to visible and invisible items of trade.

17. (a) Scholarship is not a factor income. Factor income refers to income earned by a person as a reward for rendering his factor service. It may be in the form of wage/salary for his labour, rent for his land, interest for his capital or profit for his entrepreneurship. It must be noted that factor incomes are only 'earned' incomes. It does not include any income which is 'not earned' or for which a factor service has not been rendered. Scholarship (financial support) is not earned income. It is just a help by the government without anything in return. Such receipts or payments are called transfer receipts or transfer payments. These are not included in the estimation of national income.

(b)

Domestic Income (NDP _{FC})	National Income (NNP _{FC})
(i) Domestic income is the sum total of factor incomes generated within the domestic territory of a country.	(i) National income is the sum total of factor incomes generated by normal residents of a country, no matter where this income is generated (within the domestic territory or in rest of the world).
(ii) It includes income generated both by the residents as well as non-residents of a country.	(ii) It includes income generated only by the normal residents of a country.
(iii) It does not include net factor income from abroad.	(iii) It includes net factor income from abroad.

National Income = Domestic income + Net factor income from abroad

OR

- (a) Production units engaged in exploiting natural resources are grouped under primary sector. **Example:** Crop farming. Those engaged in transforming one type of commodity into another are grouped into secondary sector. **Example:** Cloth manufacturing. Those rendering services are grouped into tertiary sector. **Example:** Shipping services.
- (b) The following precautions are to be taken while estimating national income by expenditure method:
- (i) Only final expenditure is to be taken into account to avoid error of double counting. Expenditure on intermediate goods (also called intermediate expenditure) is not to be considered.
 - (ii) Expenditure on second-hand goods is not to be included.
 - (iii) Expenditure on shares and bonds is not to be included.
 - (iv) Expenditure on transfer payments (called transfer expenditure) is not to be included.
 - (v) Expenditure on self-use of own produced goods (like the farmer using his production of wheat or the house-owner using his own house) should be included.
- Briefly, expenditure on only final goods and services is to be taken account of. Expenditure on intermediate goods is to be considered only as intermediate consumption.

SECTION–B: INDIAN ECONOMIC DEVELOPMENT

18. False
19. (c) scientific farm management practices
OR
(a) capitalist
20. (b) development of small-scale industries
OR
(b) Many landlords were able to escape the legislation
21. (d) International Bank for Reconstruction and Development
22. (b) B—(ii)
23. (c) Both statements 1 and 2 are true
24. (d) Both statements 1 and 2 are false
25. (a) income per head of total population in the country
OR
(a) occupational structure
26. (c) Assertion (A) is true but Reason (R) is false
27. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
28. Disguised unemployment occurs when the number of workers engaged in a job is much more than actually required to accomplish it. If some of them are withdrawn from that job, total production will not fall.
Disguised unemployment is rampant in Indian agriculture.
The principal causes are as under:
(i) On account of joint family system, farming families continue to work on family land, no matter the actual number of workers far exceeds the required number.
(ii) Per person holding size continues to shrink with the expansion of the family size.
(iii) Lack of job opportunities outside agriculture compels the people to work on family farms.
29. India, Pakistan and China relied on planned development programmes as their basic strategy of growth and development. But, whereas in India and Pakistan, mixed-economy served as the basic premise of the growth model, in China all critical areas of production were brought under state ownership, and command-economy served as the basic premise of the growth model. Thus, China adopted 'statism' as the model of growth.

OR

It is an undisputed fact that FDI is growth-friendly. After all, it is an investment and increases production capacity of the nation. The opposition to FDI in retail in India is not because it may be a roadblock in the process of growth. It is because it may generate unwarranted competition for the retail traders in India who may be marginalised and finally driven out of the market. Such a situation may erode the opportunities of self-employment in the country, and may also lead to concentration of economic power with the foreign investors. On the other hand, China was liberal in allowing FDI in retail. China allowed foreign investors 100 per cent equity investment.

30. Horticulture is an alternative source of employment in the rural areas. It is more like diversification of crop production. Horticultural crops include fruits, vegetables and flowers besides several others. Over time, there has been a substantial increase in area under horticulture. There has been a significant rise in income levels of the farming families engaged in horticultural production. Shifting to horticultural farming has reduced economic vulnerability of the small and marginal farmers, and has led to overall rural development.

However, an alarming fact is that the bulk of acreage under horticulture has expanded at the cost of acreage under pulses. Causing a severe shortfall in supplies of pulses and a cut in their consumption owing to high prices. Important it is to note that pulses are an important source of protein for the bulk of households in India relying on vegetarian diet. Accordingly, a cut in the consumption of pulses implies a loss of protein intake by the vegetarians.

31. (a) Maternal mortality rate refers to the death rate of women (per thousand) after giving birth to a new born.
- (b) The principal factors that led to rapid growth in economic development in China are as these:
- (i) Shift from a centrally planned economy to a market economy.
 - (ii) Focus on export-related domestic production.
 - (iii) Influx of FDI [through SEZs (special economic zones)] and hundred per cent equity of the foreign investors and free flow of FDI in the retail sector.
 - (iv) Availability of cheap labour force, giving China a comparative cost advantage.

OR

Following observations prove the point that India has an edge over Pakistan:

- (i) In 2020, GDP of India was estimated to be 2.6 trillion USD (US dollars). Whereas, GDP of Pakistan was estimated to be 258 billion USD (US dollars) in 2020.
- (ii) Between the period 1991-2019, average annual GDP growth rate in India increased to around 6 per cent per annum. In 2020, it slumped to –8.0 per cent. Whereas, in Pakistan it has slumped to 3.75 per cent between the period 2008-2016. In 2020, it further slumped to 0.5 per cent.

This is how China has an edge over both India and Pakistan:

- (i) In 2020, GDP in China was estimated to be 14.62 trillion USD (US dollars). While in 2020, GDP of India was estimated to be 2.6 trillion USD (US dollars). Whereas, GDP of Pakistan was estimated to be 258 billion USD (US dollars) in 2020.
- (ii) Between 1979-2017, average annual GDP growth in China was estimated to be about 9 per cent. In 2020, GDP growth rate was 2.3 per cent. In 2020, it slumped to –8.0 per cent. Between the period 1991-2019, GDP growth rate in India increased to around 6 per cent per annum. The average annual GDP growth rate of Pakistan had slumped to 3.75 per cent between the period 2008-2016. In 2020, it further slumped to 0.5 per cent.

32. (a) Carrying capacity of environment refers to the situation when:
- (i) exploitation of resources does not exceed the regeneration of resources, so that the resource endowment is not exhausted or depleted, and
 - (ii) generation of wastes does not exceed the absorption capacity of environment, so that environment is not polluted.
- (b) The main functions of environment are as these:
- (i) **Environment Offers Resources for Production:** Environment includes physical resources (minerals, wood, water, soil and others) which are available to us as a free gift of nature. These resources are used as inputs for production. In fact, production is simply the process of conversion of natural resources into useful things.
 - (ii) **Environment Sustains Life:** Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. Absence of these elements of environment implies the end of life.
 - (iii) **Environment Assimilates Waste:** Production and consumption activities generate wastes. This occur mostly in the form of garbage. Environment absorbs it.
 - (iv) **Environment Enhances Quality of Life:** Surroundings include rivers, oceans, mountains and deserts. Man enjoys these surroundings, adding to the quality of his life.
33. (a) Information technology plays a significant role in achieving sustainable development and food security. Global covid crises has further enhanced the use of information technology in rural areas. Presently, internet users in India are more in rural than the urban areas. This underscores the significance of information technology as an alternative source of employment for the educated youth in the rural areas. This would reduce their dependence upon crop farming as a conventional source of livelihood which is extremely overcrowded and highly uncertain.
- (b) Between the years 1950-51 to 2017-18, percentage of workforce engaged in primary sector has declined from 72.72 per cent to 44.6 per cent. This is notable, but not a significant shift. Indeed, from the view point of growth and development, this can be termed as a modest shift. In no way, does it demolish the supremacy of agricultural sector in the Indian economy. This also points to the fact that the secondary and tertiary sectors have failed to generate ample opportunities of employment, because of their deficient growth and development. Indian economy is yet to takeoff as an industrial economy, absorbing the bulk of labour force.
- (c) (i) **Rising Population:** Pressure of rising population on land has tremendously increased and consequently land has been ruthlessly exploited. Population explosion has caused substantial conversion of forest land into industrial and residential buildings.
- (ii) **Air Pollution:** Air carries oxygen which is an essential element of life. Pollution of air implies pollution of an essential element of life. Accordingly, quality of life is impaired.



(iii) **Water Contamination:** Pollution of water implies contamination of water. Use of polluted/contaminated water leads to diseases like diarrhoea and hepatitis.

(iv) **Affluent Consumption Standards:** The affluent consumption standards of the developed world have caused a huge stress on the environment. Consumption related garbage/waste is far exceeding the ability of the environment to absorb degradation. Hence, environmental crisis.

OR

(a) It is essential for the government to regulate the fee structure in education and healthcare institutions. This is because of the following reasons:

(i) Private investors in health and education sectors incur huge investment expenditure which they hope to recover through high fee structure of education and expensive healthcare. But, in a developing country like India, most people are unable to afford high costs. Consequently, quality education and good healthcare remain to be a distant dream for the bulk of population in India.

(ii) Consumers of these services are unaware about the quality and costs of these services, which enables the private service providers to fix exploitative prices of these services.

(b) Horticultural crops include fruits, vegetables and flowers besides several others.

Over time, there has been a substantial increase in area under horticulture. Horticulture is another alternative source of employment in the rural areas. It is more like diversification of crop production rather than a source of employment different from crop farming. Horticulture contributes one-third of value of agricultural output and 6 per cent of GDP of India.

Presently, India is second largest producer of fruits and vegetables in the world. We are emerging as a leading producer of mangoes, bananas, coconuts, cashew nuts and a variety of spices.

34. (a) It was in the wake of economic reforms (LPG policy 1991) that the RBI was expected to shift its role from being a regulator to a facilitator of the financial sector. It was a step towards free play of the market forces so as to revitalise the financial sector: making it more vibrant and efficient. Significantly, the commercial banks were now allowed to decide their own interest-rate structure. This led to a substantial rise in institutional funding of the production units in the economy.

(b) Economic reforms refer to a set of economic policies directed to accelerate the pace of growth and development.

Measures of Privatisation:

(i) Outright sale of the government enterprises to the private entrepreneurs.

(ii) Withdrawal of the government ownership and management from the mixed enterprises.



SAMPLE PAPER – 13

SECTION–A: MACROECONOMICS

1. (a) Statement 1 is true and statement 2 is false
2. (c) e-money
3. (d) both (a) and (b)
4. (d) Both statements 1 and 2 are false
5. (a) Statement 1 is true and statement 2 is false

OR

(c) ₹ 100 crore

6. (a) 0.1

OR

(b) $AD_E - AD_F$

7. (b) Propensity to consume
8. (b) one

OR

(c) 0.5

9. (d) Assertion (A) is false but Reason (R) is true
10. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

11.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

Or,

$$\begin{aligned}\text{Nominal GDP} &= \frac{\text{Real GDP} \times \text{Price Index}}{100} \\ &= \frac{220 \times 120}{100} \\ &= 264\end{aligned}$$

Nominal GDP = ₹ 264.

12. Statutory liquidity ratio (SLR) requires the commercial banks to maintain a specified percentage of their deposits (implying their liabilities) in the form of liquid assets. The liquid reserves may be in the form of (i) cash reserves, (ii) gold reserves, and (iii) unencumbered approved securities.

Legal reserve ratio may be defined as CRR, referring to cash reserves held by the commercial banks with the central bank, as a percentage of their demand deposits and as a matter of legal requirement.

[**Note:** Legal reserve ratio should not be confused as comprising of two components, *viz.*, SLR and CRR. These are just the two variants of legal reserve ratio.]

OR

As a lender of last resort, the central bank stands as a guarantor to the commercial banks during financial emergencies. A commercial bank may lose confidence of the depositors prompting them to withdraw their deposits enmass. Since cash reserves of the commercial bank are only a fraction of its demand deposits, its reserves may run out, pushing the bank into financial crises. It is the central bank during such times that stands by the commercial bank as a guarantor and saves it from insolvency.

13. Given, $C = 40 + 0.8Y$

Average propensity to consume ($APC = \frac{C}{Y}$) will be one when:

$$Y = C$$

$$Y = 40 + 0.8Y$$

$$Y - 0.8Y = 40$$

$$0.2Y = 40$$

$$Y = \frac{40}{0.2} = 200$$

Average propensity to consume will be one when the level of income = ₹ 200 crore.

14. Open market operations is the policy that focuses on increasing and decreasing the stock of liquidity (or cash balances) with the people as well as with the commercial banks, through sale and purchase of securities by the central bank. During the situation of deficient demand, when cash balances need to be increased (to stimulate the level of aggregate demand), the central bank starts buying securities. Purchase of securities injects purchasing power into the money market. Cash balances of the commercial banks start picking up. This enhances their capacity to create credit. Flow of credit increases, leading to increase in aggregate demand, as required to correct deficient demand.
15. Tax receipts (or tax revenue) are receipts of the government from all types of direct as well as indirect taxes levied by the government on the individuals, households, institutions or corporations. These include receipts from income tax, corporation tax, wealth tax, sales tax, excise duty, etc.

Non-tax receipts (or non-tax revenue) are those receipts of the government which arise from sources other than taxes. These include receipts from fees, fines, interest, dividend, grants, donations, etc.

OR

The following is the importance of the government budget:

- (i) It reflects fiscal policy (revenue and expenditure policy) of the government, giving a direction to the pace of growth and development of the country. It reflects how the government is going to influence the allocation of resources in the economy.
- (ii) It reflects revenue deficit, fiscal deficit and primary deficit of the government budget. Together, these deficits point to the degree of fiscal discipline in the country. Higher these deficits, greater is the degree of economic instability in the economy.
- (iii) Government budget is an important instrument of fiscal policy that is often used to correct the situations of inflationary/deflationary gap in the economy.

(iv) Government budget reflects efforts of the government to achieve equality in the distribution of income and wealth.

16. (a) Rising demand for the Indian goods in the US market imply that our exports are tending to rise. Consequently, supply of foreign exchange (US dollar) tends to rise. Other things remaining constant, it would lead to a fall in foreign exchange rate. Implying that the domestic currency (Indian rupee) will start appreciating in relation to the US dollar.

(b) Sale of machinery to abroad is recorded under trade balance or current account BoP. Because sale/purchase of machinery is a part of the merchandise, and all merchandise is recorded as a trade balance in the current account BoP.

17. (a) Value Added by firm A

= Sales by firm A – Purchases from firm B + Change in stock (Closing stock – Opening stock)

= ₹ 100 lakh – ₹ 50 lakh + (₹ 20 lakh – ₹ 25 lakh)

= ₹ 100 lakh – ₹ 50 lakh – ₹ 5 lakh

= ₹ 45 lakh

Value Added by firm B

= Sales by firm B – Purchases from firm A + Change in stock (Closing stock – Opening stock)

= ₹ 200 lakh – ₹ 60 lakh + (₹ 35 lakh – ₹ 55 lakh)

= ₹ 200 lakh – ₹ 60 lakh – ₹ 20 lakh

= ₹ 120 lakh

Value Added by firm A = ₹ 45 lakh.

Value Added by firm B = ₹ 120 lakh.

(b)

$$\text{NDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Depreciation} - \text{Net indirect taxes}$$

The equation offers following observations relating to the difference between GDP_{MP} and NDP_{FC} :

Gross Domestic Product at Market Price (GDP_{MP})	Net Domestic Product at Factor Cost (NDP_{FC})
(i) It is the market value of the final goods and services produced within the domestic territory of a country during the period of an accounting year, inclusive of depreciation (consumption of fixed capital).	(i) It is the sum total of factor payments (compensation of employees + rent + interest + profit + mixed income of self-employed) generated within the domestic territory of a country during the period of an accounting year.
(ii) It includes depreciation.	(ii) It does not include depreciation.
(iii) It includes net indirect taxes.	(iii) It does not include indirect taxes.

OR

- (a) The following data are required:
- (i) **Production Phase:** The data relating to net value added at factor cost in primary, secondary and tertiary sectors and net factor income from abroad.
 - (ii) **Income Phase:** The data relating to net interest, net rent, net profit, net wages and net factor income from abroad.
 - (iii) **Expenditure Phase:** The data relating to private consumption expenditure, government consumption expenditure, gross domestic capital formation, net exports, depreciation, net indirect taxes and net factor income from abroad.
- (b) (i) Fees to a mechanic paid by a firm will not be included in the estimation of gross domestic product of India because this fee is an intermediate expenditure for the firm and not a final expenditure.
- (ii) Expenditure on purchasing a car for use by a firm will be included in the estimation of gross domestic product of India because it is an investment expenditure. The car purchased will be used by the firm for many years and the firm will be a final user of the car, provided it is neither a second-hand car nor purchased for further sale.
- (iii) Salary of Indian residents working in Russian Embassy in India is not included in gross domestic product of India because Russian Embassy is not a part of domestic territory of India.

SECTION–B: INDIAN ECONOMIC DEVELOPMENT

18. (b) India
19. (a) Karve Committee

OR

- (b) economic order
20. (b) Fourth Five Year Plan

OR

- (c) promoting equality in Indian agriculture
21. (c) April, 2001
22. (c) A—(ii), B—(iv), C—(i), D—(iii)
23. (d) Both statements 1 and 2 are false
24. (c) Both statements 1 and 2 are true
25. (c) working population

OR

- (c) both (a) and (b)
26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
27. (c) Assertion (A) is true but Reason (R) is false

28. (i) These are some recently launched campaigns by the Government of India to generate opportunities of employment.
- (ii) These campaigns are yet to actualise into the models of growth and development.
- (iii) However, one can hope that once these schemes become operational, the Indian economy would generate abundant of opportunities of employment, particularly those through 'self-employment'.
29. Historical experience of the developed countries shows that in terms of the percentage share in GDP, it was first the secondary sector and later the tertiary sector which emerged as the leading sectors of the economy. However, in the Indian context, what was witnessed was that a major shift directly from primary sector to the tertiary sector. Primary sector on the eve of independence was the largest contributor to GDP. Now, tertiary sector has the lead in terms of contribution to GDP. Thus, a major shift directly from primary sector to tertiary sector has been observed in India. This implies a lesser emphasis has been accorded to industrial expansion in India.

OR

- (i) Life expectancy—higher the better.
- (ii) Adult literacy rate—higher the better.
- (iii) Percentage of population below poverty line—lower the better.
- (iv) Infant mortality rate—lower the better.
- (v) Maternal mortality rate—lower the better.
- (vi) Percentage of population having access to improved water sources—higher the better.
- (vii) Percentage of undernourished population—lower the better.
30. Rural credit or agricultural credit means credit for farming. Credit is the lifeline of farming activity in rural areas. This is because of two reasons:
- (i) Most farmers in India are small and marginal holders, producing just enough for their subsistence. They seldom generate surplus for further investment. The need for credit, therefore, is unavoidable.
- (ii) The gestation lag between sowing and harvesting of the crops is quite long. This compounds the need for credit to meet the initial investment on seeds, fertilizers, implements and some family expenses like marriage, death, birth, or other religious ceremonies.
31. (a) Commune system of farming means collective cultivation of land by the farmers.
- (b) Following observations highlight the salient demographic indicators of China, Pakistan and India:
- (i) Growth rate of population has been cut to half in China, following strict enforcement of its policy of 'one child norm'. India and Pakistan are still wrestling with the problem of high growth rate of population, which is about 1.03 per cent in India and 2.05 per cent in Pakistan.
- (ii) The size of population is comparatively very small in Pakistan, just about 1/10th of China or India.

- (iii) Density of population is low in China, thanks to its large geographical area compared with India and Pakistan. It is estimated to be 148 persons per square kilometer in China compared to 455 and 275 persons per square kilometer in India and Pakistan, respectively.

OR

Historical experience of the developed countries shows that in terms of the percentage share in GDP, it was first the secondary sector and later the tertiary sector which emerged as the leading sectors of the economy. However, in the Indian context, what was witnessed was that a major shift directly from primary sector to the tertiary sector. Primary sector on the eve of independence was the largest contributor to GDP. Now, tertiary sector has the lead in terms of contribution to GDP. Thus, a major shift directly from primary sector to tertiary sector has been observed in India. This implies a lesser emphasis has been accorded to industrial expansion in India.

- 32.** (a) Carrying capacity of environment refers to the situation when:
- (i) exploitation of resources does not exceed the regeneration of resources, so that the resource endowment is not exhausted or depleted, and
 - (ii) generation of wastes does not exceed the absorption capacity of environment, so that environment is not polluted.
- (b) Degradation of land means loss of fertility (or loss of productivity) of land which occurs due to inappropriate land-use or land-management practices.
- 33.** (a) Some problems faced by farmers during the initial years of organic farming are as under:
- (i) Awareness and willingness on the part of farmers to adapt new technology act as a hindrance in adaptability towards organic farming.
 - (ii) Inadequate infrastructure and the problem of marketing the products are major concerns which need to be addressed apart from an appropriate agriculture policy to promote organic farming.
 - (iii) Yields from organic farming are less than modern agricultural farming in the initial years. Therefore, small and marginal farmers may find it difficult to adapt to large-scale production.
- (b) Such situations are often found among poor families in the rural areas. Most working members of these families are unskilled casual workers, working on the fields and farms of others. Owing to the lack of skill (along with the fact that there are limited job opportunities), these workers are often paid low wages. It is low wage (or subsistence wage) that compels most members of the family (including women and children) to engage themselves in some kind of work so that they can cope with their subsistence needs. Working at the subsistence wage rate leads to low gross income of the family.
- (c) Following steps have been taken for attaining sustainable development in India:
- (i) Increasing reliance on non-conventional sources of energy.
 - (ii) Use of LPG, goobar gas in rural areas.
 - (iii) Use of CNG in urban areas.

- (iv) Use of wind power.
- (v) Use of solar power.
- (vi) Use of mini-hydel plants.

OR

- (a) The Union Ministry of education and Ministries of education at State level, Departments of education and various organisations like National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) facilitate the functioning of schools and institutions related to education. Similarly, the Ministries of health at the Union and State level, Departments of health and various organisations like Indian Council for Medical Research (ICMR) facilitate institutions which come under the health sector.
 - (b) Three principal sources of institutional credit in rural India are:
 - (i) **Cooperative Credit Societies:** The cooperative credit societies provide adequate credit to the farmers at reasonable rate of interest.
 - (ii) **State Bank of India and Other Commercial Banks:** The State Bank of India was set-up in 1955 with a focus on rural credit. The nationalisation of certain banks was done in 1969. The nationalised commercial banks (through their branch expansion programmes) were directed to offer credit directly to the farmers as well as indirectly through cooperative societies.
 - (iii) **Regional Rural Banks and Land Development Banks:** Regional rural banks and land development banks were set-up to promote credit supplies, particularly in the remote rural areas and backward districts.
34. (a) Privatisation implies transfer of ownership and management of public sector enterprises to the private entrepreneurs. It is a process involving disinvestment in public sector enterprises. By and large divestment (disinvestment) is planned for such public sector enterprises which are inefficient and run into huge losses. Disinvestment leads to fiscal consolidation in two ways: (i) Losses of the public sector enterprises are plugged, and (ii) Revenue of the government rises on account of the sale of shares of public enterprises.
- (b) (i) Liberalisation refers to a situation in which economy is free from direct or physical controls imposed by the government. Laissez-faire, on the other hand, refers to a system in which there is no government intervention in the functioning of an economy.
 - (ii) Under liberalisation, direct participation of the government (in the country's growth process) is not ruled out. But under laissez-faire, the government plays no role in the growth process.
 - (iii) Under laissez-faire, there is a free play of the market forces of supply and demand. Liberalisation, on the other hand, does not rule out regulation of the market forces by the government.



SECTION–A: MACROECONOMICS

1. (b) Statement 1 is false and statement 2 is true
2. (c) Ministry of Finance
3. (d) fiscal deficit is equal to interest payment
4. (a) Statement 1 is true and statement 2 is false
5. (c) Both statements 1 and 2 are true

OR

(a) 4,600

6. (c) 4

OR

(c) increase in imports

7. (c) remains constant
8. (a) 0.2

OR

(d) $\frac{\Delta C}{\Delta Y}$

9. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
10. (c) Assertion (A) is true but Reason (R) is false

11.
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

Or,
$$\text{Price Index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{450}{400} \times 100$$

$$= 112.5$$

Price index = 112.5.

12. With the introduction of 'Jan-Dhan Yojana' by the Government of India, millions of households have opened their bank account in the country. This has enhanced primary deposits of the commercial banks. It is on the basis of their primary deposits (cash deposits) that the banks are able to create secondary deposits. Expansion of cash deposits leads to expansion of credit creation capacity of the commercial banks. Increase in the creation of credit implies a increase in the availability of credit in the market. This is expected to raise the demand for credit for investment purpose. Higher investment leads to increase in national income of the country.

OR

Central bank is a banker, agent, and financial advisor to the government.

- (i) As a banker to the government, it manages accounts of the government.
- (ii) As an agent to the government, it buys and sells securities on behalf of the government.
- (iii) As an advisor to the government, it frames policies to regulate the money market.

13. (a) zero

14. Repo rate is the rate at which the central bank lends money to the commercial banks. To correct the situation of excess demand, repo rate is increased. As a follow-up action, the commercial banks raise the market rate of interest (the rate at which the commercial banks lend money to the consumers and the investors). This reduces demand for credit. Consequently, consumption expenditure and investment expenditure are reduced. Implying a reduction in aggregate demand, as required to correct excess demand.

15. The budgetary policy reduces inequalities of income through redistribution of income and wealth in the economy. To achieve this objective, government uses fiscal instruments of taxation and subsidies. By imposing taxes on rich and giving subsidies to the poor, the government redistributes income in favour of poorer sections of the society. Progressive taxation in India focuses on the equitable distribution of disposable income. Higher rate of taxation on higher incomes and lower rate of taxation on lower incomes reduces the gulf between disposable income of the rich and the poor. Subsidies are offered to the BPL (below poverty line) population with a view to enhancing purchasing power of their money income. Thus in India, BPL families are offered monthly quota of rice and wheat at a nominal price of 3 to 4 rupees per kg. Budgetary allocation to social welfare schemes such as MGNREGA is another budgetary initiative to combat inequality. Assured employment is offered for 100 days to the BPL population in rural areas. It is combating inequality by way of combating poverty.

OR

The following is the difference between revenue budget and capital budget:

- (i) Revenue budget shows only revenue receipts and revenue expenditures of the government. Capital budget, on the other hand, shows capital receipts and capital expenditure of the government.
- (ii) Revenue budget does not reflect any asset and liability status of the government. Because, by definition, revenue receipts and revenue expenditure refer only to such receipts and expenditures which do not affect asset and liability status of the government. Capital budget, on the other hand, is a reflection on the asset and liability status of the government. Because, capital receipts and capital expenditures, by definition, refer to all such transactions of the government which affect its asset and liability status.
- (iii) Revenue budget and capital budget should not be viewed as independent of each other. In fact, fiscal deficit and primary deficit (which are the two principal indicators of fiscal discipline in the economy) are measured by accounting for both the revenue as well as capital receipts and expenditures.



- (iv) When revenue deficit mounts up (in the revenue budget), it is invariably reflected in terms of higher capital receipts (through borrowings or through the sale of government shares of public sector undertakings), causing increase in government liability or decrease in government assets.
16. (a) Depreciation is the fall in the value of domestic currency in relation to foreign currency in a situation when exchange rate is determined by the forces of supply and demand in the international money market. Devaluation, on the other hand, is the fall in the value of domestic currency in relation to foreign currency as planned by the government in a situation when exchange rate is not determined by the forces of supply and demand but is fixed by the government of different countries. Both depreciation and devaluation result in fall in the value of domestic currency in terms of foreign currency. Consequently, domestic goods become cheaper in terms of foreign currency. Accordingly, exports tend to rise while imports are discouraged.
- (b) Charity to foreign countries is recorded under invisibles current account BoP. Because charity to foreign countries is a part of the current transfers, and all current transfers are recorded as a invisible balance in the current account BoP.
17. (a) The major components of compensation of employees are as follows:
- (i) **Wages and Salaries in Cash:** It refers to cash paid or transferred to the salary account of the employees by the employers as a reward for the work done during the period of an accounting year.
 - (ii) **Payments in Kind:** It refers to benefits in kind (like rent-free accommodation) given to the employees by the employers.
 - (iii) **Employers' Contribution to Social Security:** It refers to such payments as provident fund contributions by the employers on behalf of the employees.
 - (iv) **Pension on Retirement:** To be specific, it does not refer to old-age pensions. It only refers to pension payments as a part of the 'Service-Contract' between the employer and the employees.
- (b) No, subsidies to the producers should not be treated as transfer payments. Transfer payments are those payments corresponding to which there is no value addition in the economy, like scholarships to the students or old-age pensions. In the case of subsidies, value addition has already occurred. In fact, subsidies tend to lower the market value of the goods produced. Accordingly, these are added to the market price (while indirect tax is deducted) to make it equal to the factor cost. Subsidies are a part of NNP_{FC} which is why these are deducted from factor cost to equate it with market price.

OR

- (a) No, net of exports ($X - M$) is not a part of net factor income from abroad. Income from exports is a part of domestic income. Because, what we export is a part of domestic product. Imports are just the opposite of exports. Thus, net of exports is a component of domestic product or expenditure on domestic product.
- (b) (i) Purchase of taxi by a taxi driver will be included in the estimation of national income because it is an investment expenditure. A taxi will be used by the taxi driver for several years to earn his living.

- (ii) Bonus paid to employees will be included in the estimation of national income since it is a component of compensation of employees.
- (iii) Expenditure on providing police services by the government will be included in the estimation of national income because expenditure incurred by the government is a part of government's final consumption expenditure.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. (c) Great Leap Forward

19. (d) both (a) and (c)

OR

(d) both (a) and (c)

20. (b) institutional reforms

OR

(c) Cooperative farming

21. (d) Both (b) and (c)

22. (a) A—(iv), B—(iii), C—(ii), D—(i)

23. (c) Both statements 1 and 2 are true

24. (b) Statement 1 is false and statement 2 is true

25. (d) less than 2 per cent, close to half per cent

OR

(c) finished goods

26. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

27. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

28. Hired workers may further be categorised as: (i) casual workers, and (ii) regular workers.

(i) **Casual Workers:** These are the daily wagers. They are not hired by their employers on regular basis. They are not given social security benefits, like provident fund, gratuity or pension.

(ii) **Regular Workers:** These are on permanent pay-roll of their employers. They are entitled to all social security benefits including pension, gratuity and provident fund.

It is often found that casual workers are unskilled workers, like a worker working at the construction site. A regular worker, on the other hand, is usually a skilled worker, like an engineer working in a factory.

29. The basic components of New Economic Policy of India are:

(i) A massive shift towards privatisation.

(ii) A transformation towards liberalisation (doing away with controls and quotas).

(iii) Greater reliance on export-promotion rather than import substitution.

(iv) Greater reliance on FDI rather than the domestic investment.

OR

Following observations highlight the areas where India has an edge over Pakistan:

- (i) Skilled manpower and research & development institutions in India are far more superior than in Pakistan.
 - (ii) India has shown a remarkable breakthrough in the export of software, while Pakistan is far behind.
 - (iii) Human capital formation in India has emerged as a much more significant determinant of growth than in Pakistan.
 - (iv) India also has a better record of investment in education.
- 30.** (i) At the time of independence, institutional credit showed only a notional existence.
- (ii) Non-institutional credit ruled the roost. It was dominated by moneylenders, traders and commission agents who charged exorbitantly high interest rates, and manipulated the accounts to exploit the illiterate farmers.
 - (iii) In fact, non-institutional credit often led to a debt trap for the farmers.
 - (iv) A significant change occurred in 1969 with nationalisation of commercial banks.
 - (v) It was then that the concept of social banking was put into practice and credit needs of the farmers were addressed as a priority issue in the context of rural development.
- 31.** (a) Great Leap Forward (GLF) was the campaign launched in China in 1958 to accomplish economic and industrial development at faster rate.
- (b) (i) In most areas of human development, China has performed better than India and Pakistan. China's HDI rank in the world is 87, contrasting with 130 and 154 for India and Pakistan, respectively. However, India may attain a higher ranking if some liberty parameters are included in HDI.
 - (ii) GDP per capita is higher in China compared with India and Pakistan.
 - (iii) Besides higher GDP per capita, China has performed better (than India and Pakistan) in the area of nourishment.
 - (iv) China has also performed better with regard to infant mortality rate and maternal mortality rate.

OR

After independence in 1947, Pakistan adopted development strategy similar to India's. It had the following principal features:

- (i) It was a mixed-economy model of growth.
 - (ii) Public sector was assigned the key role of kick-starting the process of growth.
 - (iii) The process of industrialisation was based on the policy of import substitution. It allowed protection to the domestic industry by way of heavy duty on the competing imports. Also, competing imports were controlled and managed by the government.
 - (iv) As in India, Green Revolution was the hallmark of change in the agricultural sector which raised the production of food grains.
- 32.** (a) Bio-composting refers to the process of reusing the compost made from organic wastes of different types. As a result of this process, earthworms can convert organic matter into compost faster than the normal composting process. This process is now being widely used.

- (b) Following principal factors contributing to degradation of land in India:
- (i) Excessive grazing, leading to loss of vegetation.
 - (ii) Erosion of soil caused by tree-felling.
 - (iii) Shifting cultivation, leading to deforestation [when a plot of land loses its fertility, it is abandoned and cultivation is shifted to the other plot of land].
 - (iv) Forest fires, leading to loss of vegetation.
33. (a) The statement that rural economic development is essential for Indian economic development is supported through the following observations:
- (i) Nearly 70 per cent of the Indian population lives in rural areas. Rural development would mean focusing on the quality of life of bulk of the population in India.
 - (ii) Rural population offers a huge demand-potential for the growth of the Indian economy. A laggard rural sector, would mean lack of aggregate demand. GDP growth cannot pick-up in case aggregate demand is low.
- (b) (i) 'Start-ups' are expected to generate opportunities of self-employment, and are therefore, solution to the problem of unemployment.
- (ii) 'Start-ups' are to be aided with technical and financial support by the government. Accordingly, these are expected to encourage the use of latent resources (particularly entrepreneurial skill and small savings). When latent resources are used, employment opportunities are bound to arise.
- (c) (i) Examples of Overuse of Environmental Resources:
- (1) Excessive exploitation of fossil fuels.
 - (2) Excessive tree-felling to cope with the rising need of housing in urban areas.
- (ii) Examples of Misuse of Environmental Resources:
- (1) Use of wood as a household fuel.
 - (2) Use of rivers to absorb industrial effluents.

OR

- (a) Difference between human capital and physical capital is as under:

Physical Capital	Human Capital
(i) Physical capital refers to the produced means of production.	(i) Human capital refers to the stock of 'skill and expertise' of a nation at a point of time.
(ii) Physical capital is tangible, and can be sold in the market like any commodity.	(ii) Human capital is intangible, it cannot be sold in the market like a commodity.
(iii) Physical capital separable from owner, therefore, presence of owner is not essential in the place of production.	(iii) Human capital is inseparable from its owner; therefore, it is essential that the owner be present at the place where the services are being sold.

- (b) Agriculture could be a profitable business for the small and marginal farmers provided the following steps are initiated by the government:
- (i) Easy and low cost credit is provided to farmers.
 - (ii) Grants and subsidies are offered for the purchase of agricultural inputs.

(iii) Farmers are encouraged to shift to allied activities like dairy farming, fisheries, bee-hiving and poultry farming to supplement their income.

34. (a) When India approached the World Bank (also known as International Bank for Reconstruction and Development—IBRD) and the International Monetary Fund (IMF), it received a loan of US \$ 7 billion on the condition that Indian economy would be opened up to foreign investors by removing quantitative restrictions and liberalised to ensure increased participation of the private sector in the process of economic growth.

Additionally, it was also required that the participation of the government sector would be reduced in areas in which it had established monopoly.

It was by agreeing to these conditions that NEP was launched beginning 1991. Thus, NEP was more a matter of compulsion, rather than a considered independent choice of the government.

- (b) (i) Prior to 1991, government had imposed several types of controls on private enterprises in the domestic economy. These included industrial licensing system, price control or financial control on goods, import licence, foreign exchange control, restrictions on investment by big business houses, etc.
- (ii) It was experienced by the government that several shortcomings had emerged in the economy on account of these controls.
- (iii) These controls had given rise to corruption, undue delays and inefficiency.
- (iv) Growth rate of GDP had fallen sharply and high-cost economic system (rather than a low-cost competitive economic system) came into being.



SAMPLE PAPER – 15

SECTION–A: MACROECONOMICS

1. (d) Both statements 1 and 2 are false
2. (d) both (a) and (c)
3. (a) non-tax revenue receipts
4. (b) Statement 1 is false and statement 2 is true
5. (b) Statement 1 is false and statement 2 is true

OR

- (b) 216
6. (b) 200
- OR**
- (c) both (a) and (b)

7. (a) zero
8. (c) 0.75

OR

- (d) 0.5

9. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
10. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

$$\begin{aligned}
 11. \text{ Depreciation on Capital Asset} &= \frac{\text{Capital value of the asset} - \text{Scrap value}}{\text{Estimated life of the asset}} \\
 &= \frac{\text{₹ 1,000 crore} - 0}{20 \text{ years}} \\
 &= \frac{\text{₹ 1,000 crore}}{20 \text{ years}} = \text{₹ 50 crore}
 \end{aligned}$$

Depreciation on capital asset = ₹ 50 crore.

12. It is true that a cut in repo rate is expected to lead to a cut in market rate of interest. Accordingly, cost of investment would fall and investment would increase. But, sometimes RBI does not appreciate lowering repo rate. This is because a cut in repo rate allows commercial banks to build up their cash reserves and increase their capacity to create credit. If the supply of credit/money increases, the rate of inflation starts multiplying. Thus, RBI is reluctant to lower repo rate in a situation when the existing rate of inflation is high and is expected to rise further.

OR

CRR refers to that ratio of demand deposits of the commercial banks which they are legally bound to keep as reserves with the RBI. To increase the investment in the economy, it would be appropriate to reduce the CRR. Reduction of CRR increases credit creation capacity of the commercial banks. Accordingly, the flow of credit increases in the market.

Also, rate of interest tends to decrease when the availability of credit increases. Consequently, demand for credit increases for the purpose of investment.

$$\begin{aligned}
 13. \text{ MPC} &= \frac{\Delta C}{\Delta Y} \\
 &= \frac{1,300 - 300}{4,000 - 2,000} = \frac{1,000}{2,000} = 0.5
 \end{aligned}$$

$$\begin{aligned}
 \text{MPS} &= \frac{\Delta S}{\Delta Y} \\
 &= \frac{(4,000 - 1,300) - (2,000 - 300)}{4,000 - 2,000} \\
 &= \frac{2,700 - 1,700}{2,000} = \frac{1,000}{2,000} = 0.5
 \end{aligned}$$

Marginal propensity to consume = 0.5.

Marginal propensity to save = 0.5.

14. Government plays an important role in reviving the economy during periods of depression. During this period, investment in the private sector tends to slide to its bottom, because of falling prices and low profits. The economy is caught in a low level equilibrium trap. The government can break the deadlock of low demand → low investment → low employment → low output by pumping investment into the economy and thereby, raising the level of AD till the time private investment is revived to achieve a higher level of output and employment.
15. Primary deficit is the difference between fiscal deficit and interest payment.

$$\text{Primary Deficit} = \text{Fiscal deficit} - \text{Interest payment}$$

Some features associated with primary deficit are:

- (i) It reflects the extent of borrowings by the government when interest payment is not accounted for.
- (ii) It points to the need for borrowings even when interest payment on the existing loans is ignored. It reflects continuous lack of fiscal discipline in the country.

OR

Government budget or budgetary policy of the government plays a significant role in fighting inflationary and deflationary tendencies in the country. To combat inflationary tendencies, fiscal deficit is reduced by lowering government expenditure and raising government receipts. Expenditure is lowered, particularly by cutting subsidies and receipts are raised particularly by increasing taxation.

Likewise, deflationary tendencies are combated by increasing government expenditure (both investment expenditure as well as consumption expenditure) and by lowering receipts particularly by way of moderate tax structure.

Briefly, to combat inflation, AD is lowered by lowering government expenditure and raising government revenue. And, to combat deflation, AD is raised by increasing government expenditure and lowering government revenue.

16. (a) Demand for domestic goods and services includes demand for goods and services by the domestic consumers and by the foreigners. Domestic demand for goods and services, on the other hand, is the demand for goods and services produced domestically as well as those produced abroad.

$$\text{Demand for domestic goods and services} = C + I + G + (X - M).$$

$$\text{Domestic demand for goods and services} = C + I + G.$$

$$\text{So that, Demand for domestic goods and services} = \text{Domestic demand for goods and services} + (X - M).$$

- (b) BoP deficit is measured as the excess of payments to rest of the world over and above the receipts from rest of the world on account of the autonomous items, relating to current as well as capital account BoP. It leads to a decrease in official reserves of foreign exchange.

17. (a)

Nations \ Years	2018-19	2019-20	Growth Rate of GDP Change in GDP = $\frac{\text{Current Year GDP} - \text{Base Year GDP}}{\text{Base Year GDP}} \times 100$ (Base year = 2018-19)
X	₹ 2,000 crore	₹ 4,000 crore	$= \frac{4,000 - 2,000}{2,000} \times 100 = 100\%$
Y	₹ 1,20,000 crore	₹ 2,00,000 crore	$= \frac{2,00,000 - 1,20,000}{1,20,000} \times 100 = 66.67\%$

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

- (b) Factor income to abroad is the factor income earned by non-residents who are temporarily residing in our country. **Example:** Salaries of Americans working in Indian embassy in America.

Factor income from abroad is the factor income earned by our residents who are temporarily residing abroad. **Example:** Salaries of Indians working in Russian embassy in India.

OR

- (a) High component of 'X – M' in the total expenditure on final goods and services is a sign of higher exports than imports of the domestic economy. It implies:

- (i) that the inflow of foreign exchange (on account of exports) is greater than the outflow of foreign exchange (on account of imports). Accordingly, balance of trade is favourable.
- (ii) that the domestically produced goods are able to find markets abroad. So that, deficiency of domestic demand no longer remains a hurdle in the growth process of the domestic economy.
- (iii) that we are, by and large, self-sufficient. Our imports are so limited that we don't have to depend much on other countries.

Briefly, high component of X – M is a sign of high rate of GDP growth.

- (b) (i) Payment of corporate tax by a firm should not be included in the estimation of national income because it is a transfer payment by the firm. It is paid out of income and therefore, it is not to be separately added in the national income.
- (ii) Purchase of uniforms for nurses by a hospital is not included in the estimation of national income, because uniform is provided by the hospital at the time of work. It is to be treated as an intermediate consumption.
- (iii) Expenditure by a firm on payment of fees to a chartered accountant is not included in the estimation of national income because fees to a chartered accountant is an intermediate expenditure for the firm and not a final expenditure.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. (b) industrialisation
19. (c) Output of wheat – On-farm consumption of wheat

OR

- (b) 1950
20. (c) both (a) and (b)

OR

- (b) institutional reforms
21. (a) 1948
22. (b) A—(iv), B—(iii), C—(i), D—(ii)
23. (b) Statement 1 is false and statement 2 is true
24. (c) Both statements 1 and 2 are true
25. (b) They were exploited and forced to pay rent regardless of the produce

OR

- (c) stagnant and backward economy
26. (c) Assertion (A) is true but Reason (R) is false
27. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
28. This is because of the following reasons:
(i) Female education in India is still a far cry, implying low opportunities for jobs.
(ii) Among most families in urban areas, job work for women is still governed by family decisions rather than the individual's own decision. Implying that even the available opportunities are not actually utilised.
(iii) Higher employment among women in rural areas is owing to widespread rural poverty. Female workers in rural areas are largely engaged in low paid and less productive jobs just to add to their family income. Many of them are given wages in terms of grains during the harvesting season, the season when they find most jobs.
29. 'One Child Policy' adopted by China in 1979 has been very successfully pursued. Consequently, growth rate of population has reduced to nearly half, from 1.33 per cent in 1979 to 0.46 per cent in the recent past. With a check on population growth, China can now focus on raising the quality of life rather than striving for the sustenance of the people.

OR

Countries are trying to strengthen their own domestic economies by adopting the following means:

- (i) Regional and global economic groupings are being formed such as the SAARC, European Union, ASEAN, G-8, G-20, BRICS, etc. Within these groups, the member countries take collective decisions to foster their domestic economies.

- (ii) In the wake of global economic and political crises, different countries are trying to strengthen their domestic economies by departing from free trade agreements. We find India and China increasing their import tariffs to protect their domestic industry.
 - (iii) Countries like China are aggressively pursuing ‘Dirty Floating’ (policy of devaluing the domestic currency) to increase demand for their domestic products.
- 30.** After harvesting, the farmers need to assemble their produce on the farm, process it, grade it, package it and store it before it is finally brought to the market for sale. Agricultural marketing includes all these processes between harvesting and final sale of the produce by the farmers. Thus, agricultural marketing may be defined as the process that involves:
- (i) gathering the produce after harvesting,
 - (ii) processing the produce (like separating the straw from the grains),
 - (iii) grading the produce according to its quality,
 - (iv) packaging the produce according to buyers’ preferences,
 - (v) storing the produce for future sale, and
 - (vi) selling the produce when the price is lucrative.
- Briefly, agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.
- 31.** (a) Special Economic Zone (SEZ) is an area within the country where economic regulations are different than those in rest of the country.
- (b) FDI in China is higher than that in India, because of the following reasons:
- (i) China allowed foreign investors hundred per cent equity investment.
 - (ii) It allowed the foreign investors the freedom to ‘hire and fire’ the workers. It also offered them a lucrative infrastructure.
 - (iii) By establishing SEZ (special economic zones), it offered lucrative infrastructural facilities to the foreign investors.
 - (iv) China was liberal in allowing FDI in retail.

OR

India, China and Pakistan have travelled more than seven decades of development path simultaneously, but the results are substantially different.

China has surpassed both India and Pakistan in terms of the pace of GDP growth. In fact, China has emerged as a global manufacturing hub, and the second largest economy in the world, next only to USA. India and Pakistan are lagging far behind. The principal reasons are as under:

- (i) **SEZ (Special Economic Zones):** China presented itself as an attractive destination for FDI (foreign direct investment) by developing SEZ which offered substantial tax (and non-tax) rebates to the foreign investors.
- (ii) China successfully explored and exploited market in rest of the world by offering its domestic products at cheaper rates.
- (iii) Labour supply in China was abundantly available at a low wage rate.



- (iv) 'One Child Policy' policy was successfully implemented in China. It controlled the growth rate of population. Accordingly, maintenance investment (expenditure to maintain the existing population) was kept low while development investment was significantly increased.
32. (a) Absorptive capacity means the ability of the environment to absorb degradation. It points to the threshold of environmental crisis. When environmental pollution and environmental degradation cross their threshold level, the social cost of production and consumption activities tend to rise. Consequently, quality of life of the present generation is impaired and production capacity of the future generation is reduced.
- (b) **Renewable Resources:** (i) Trees, (ii) Fish, (vi) Water.
Non-renewable Resources: (iii) Petroleum, (iv) Coal, (v) Iron-ore.
33. (a) Importance of rural credit in rural development is clear from the following observations:
- (i) Most rural people are poor and most farmers are small & marginal holders. As the small and the marginal farmers produce only for their subsistence, they fail to generate sufficient surplus to reinvest on their lands leading to degradation of the land. Thus, credit helps the small and marginal farmers to carrying out permanent improvements on their land and commercialise their farming.
 - (ii) Owing to a long gestation lag between sowing and harvesting of the crops, short-term credit is required for the purchase of inputs (seeds, fertilizers, etc.).
 - (iii) Agriculture continues to depend on uncertain monsoon. Credit is needed to cope with uncertainties of nature or natural calamities.
- (b) It is since ages that the women have suffered gender-discrimination. Men have been getting priority in matters relating to education, health, inheritance, marriage and policies. Empowerment of women aims at achieving gender equality. Of all the measures related to empowerment of women, employment of women is of central significance. Employment makes the women economically independent. This enhances their ability as decision-makers in all walks of life.
- Once the women are independent decision-makers, they can always strive for gender equality. It is, therefore, required that the participation of women (as a workforce) is raised, particularly in secondary and tertiary sectors of the economy.
- (c) (i) **Industrialisation:** Rapid industrialisation has rapidly contributed to air, water and noise pollution. Industrial smoke is a serious pollutant, leading to serious health hazards.
- (ii) **Urbanisation:** Increasing urbanisation has caused pressure on housing and other civic amenities. It has resulted in increasing demand for land and excessive exploitation of natural resources.
- (iii) **Reduction of Forest Coverage:** Reduction of forest coverage is the direct consequence of rising population and its soaring density. Loss of forest leads to environmental degradation by way of land-slides and soil erosion.
- (iv) **Poaching:** Poaching is a serious social menace. It has led to the extinction of many species, implying loss of biotic component of environment. Poaching continues

unabated despite stringent laws in place. This is owing to administrative lapses and deep rooted corruption in the system.

OR

(a) Following are the main difficulties being faced in the human capital formation in India:

- (i) **Rising Population:** Rapidly rising population adversely affects the quality of human capital. This is because it reduces per head availability of the existing facilities relating to housing, sanitation, drainage, water-system, hospitals, education, power supply, etc. In turn, this leads to a fall in the capacity to acquire specialised skills and knowledge.
- (ii) **Brain Drain:** Migration of persons (born, educated and trained in India) to developed countries is a serious threat to the process of human capital formation in the country. This is described as the problem of brain drain. This slows down the process of human capital formation in the domestic economy.
- (iii) **Deficient Manpower Planning:** India is facing an explosive problem relating to graduate unemployment. It is a sad reflection on the wastage of human power and human skill.

(b) The main advantages of organic farming in India are as follows:

- (i) **Discards the Use of Non-renewable Resources:** Unlike conventional farming, organic farming does not use synthetic chemicals which are petroleum-based.
- (ii) **Environment-friendly:** Organic farming is environment-friendly. Chemical fertilizers pollute the groundwater by raising its nitrate content which is health-hazard and pollute the environment. Organic farming discards the use of chemical fertilizers.
- (iii) **Sustains Soil Fertility:** Use of animal manures and composts helps sustain soil fertility. Accordingly, organic farming is conducive to sustainable development of agriculture.

34. (a) Liberalisation virtually implied de-regulation of industrial sector of the economy. Following observations highlight how it happened:

- (i) **Abolition of Industrial Licensing:** In July 1991, a new industrial policy was announced. It abolished the requirement of licensing except for the following five industries: (1) liquor, (2) cigarette, (3) defence equipments, (4) industrial explosives, and (5) dangerous chemicals.
- (ii) **Contraction of Public Sector:** Under the new industrial policy, number of industries reserved for public sector was reduced from 17 to 8. In 2010-11, the number of these industries was reduced merely to three including: (1) Atomic energy, (2) Railways, and (3) Defence equipments.
- (iii) **De-reservation of Production Areas:** Many production areas which earlier were reserved for SSI (small-scale industries) were de-reserved. Forces of the market were allowed to determine allocation of resources (rather than the directive policy of the government).



(b) Some salient features of trade policy followed by India after liberalisation are:

- (i) Import quotas have been abolished.
- (ii) Import licensing (except in case of goods which are not environment-friendly and are hazardous) has been abolished.
- (iii) There is a moderation/reduction of import duty to enhance competitiveness in the domestic market.)

