Sample Paper-02 (2016-17)
Economics
Class – XII

Time allowed: 3 hours **Maximum Marks: 100**

General Instructions:

(i) All questions in both sections are compulsory. However, there is internal choice in some questions.
(ii) Marks for questions are indicated against each question.
(iii) Question No.**1-5** and **16-20** are very short answer questions carrying **1 mark** each. They are required to be answered in one sentence.
(iv) Question No.**6-8** and **21-23** are short answer questions carrying **3 marks** each. Answers to them should not normally exceed 60 words each.
(v) Question No.**9-11** and **24-26** are also short answer questions carrying **4 marks** each. Answers to them should not normally exceed 70 words each.
(vi) Question No.**12-15** and **27-30** are long answer questions carrying **6 marks** each. Answers to them should not normally exceed 100 words each.
(vii) Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Section A

1. When will the elasticity of demand unitary?
2. Which of the following would be supplements?
   (a) Bread and butter
   (b) Car and petrol
   (c) Tea and coffee
   (d) All of the above
3. What happen to total utility when marginal utility is negative?
4. PPC is concave because of:
   (a) Increasing MC
   (b) Constant MC
   (c) Decreasing MC
   (d) All of the above
5. Which of the following would be complements?
   (a) Bread and butter
   (b) Car and petrol
   (c) Tea and coffee
   (d) All of the above
6. Discuss the subject matter of economics.
7. Assuming TFC is Rs 24. Complete the table:

Output (units)	1	2	3
ATC (Rs.)	50	40	45
AVC (Rs.)			
MC (Rs.)			

8. The price of a commodity is Rs 100 per unit and quantity supplied at this price is 500 units. If its price falls by 10 percent and quantity supplied falls to 400 units. Calculate its price elasticity.
9. Given that the price of bananas is fixed at Rs 2 per banana and the following table. Calculate optimum level of consumption.

Number of bananas	1	2	3	4	5	6	7	8
TU	5	9	13.5	17	20	22.5	24.5	26

10. What changes should take place in TR so that (a) marginal revenue is positive and constant and (b) marginal revenue is positive and falling ?
11. China is a big manufacturer of telephone instruments. It has recently become a member of WTO. Suppose it does export a large number of telephones to India.
    (a) How will it affect price and quantity sold of telephone instruments in India?
    (b) Suppose demand for telephone instruments is relatively elastic. How will it affect India's total expenditure on telephone instruments?
12. Price elasticity of demand is (-1). The consumer buys 50 units at price Rs 2 per unit. How many units will he buy if price rises to Rs 4 per unit? Answer this with the help of total expenditure method of determining price elasticity of demand.
13. Explain collusive and non- collusive oligopoly.
14. Explain the phases of changes in total product in law of variable proportions. Also explain the reason behind each phase. Use diagram.
15. Explain the term change in demand. Also, explain three factors responsible for change in demand.

Section B

16. What is the value of MPC when MPS is zero:
    (a) 1
    (b) 0
    (c) less than 1
    (d) greater than 1.
17. Which of the following is not included in GDP?
    (a) sale of second hand scooter
    (b) Expenditure of intermediate goods
    (c) Transfer payments
    (d) All of the above.
18. Suppose we want to keep our money safe and earn more rate of interest, which of the following should we keep our money:
    (a) Recurring Deposit (RD)
    (b) Systematic investment plan (SIP)
    (c) Shares
    (d) Fixed Deposit (FD).
19. What determines the level of household consumption demand in an economy?
20. Which one of the following is not an objective of Government Budget?
    (a) Re-annotation of resources
    (b) Economic Stability
    (c) To increase money supply
    (d) Economic Growth
21. Give the meaning of Marginal propensity to save and average propensity to save. Can the value of APS be negative? If yes, when?

22. What is meant by revenue deficit? What are its implications?
23. Suppose GDP_{MP} of a country in a particular year was Rs 1100 crores. Net factor Income from Abroad was Rs. 100 crores. The value of indirect taxes – subsidies was Rs. 150 crores and National Income was Rs. 850 crores. Calculate the aggregate value of depreciation.
24. Briefly explain how a Central bank can control credit creation by commercial banks by changing the bank rate?
25. Define a government budget. State its three objectives.
26. Differentiate between Central bank and commercial banks.
27. What is barter system? What are the drawbacks of the barter system?
28. Explain how foreign exchange rate is determined in the foreign exchange market. Use diagram.
29. Explain briefly the determination of equilibrium level of income. Use diagram.
30. Find Gross Domestic Product at Factor Cost and Personal Disposable Income:

		(Rs crore)
(i)	Personal tax	100
(ii)	Net National Disposal Income	800
(iii)	Corporation tax	50
(iv)	Net factor income to abroad	(-)10
(v)	Retained Income	200
(vi)	Indirect tax	170
(vii)	Private income	600
(viii)	Subsidy	30
(ix)	Consumption of fixed capital	60
(x)	Net current transfer from abroad	10

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Answers

1. When the percentage change in quantity demanded is equal to percentage change in price. ($E_d = 1$).
2. (c) Tea and coffee
3. When marginal Utility is negative, total Utility starts declining.
4. (a) Increasing MC.
5. (b) car and petrol
6. Microeconomics studies the behavior of the industries of the economy such as consumers, producers and explains through their interaction how resources are allocated among competing uses. It also explains how the prices of goods and services and of factors are determined. It is also called price theory.
   Macroeconomics studies the economy as a whole and explains how aggregates of the entire economy such as national income, aggregate demand, level of employment, general price level are determined. It is also called income and employment theory.
7.

Output (units)	1	2	3
TC (Rs.)	50	80	135
TVC (Rs.)	26	56	111
ATC (Rs.)	50	40	45
AVC (Rs.)	26	28	37
MC (Rs.)	-	30	55

8.

Price	10	10%
Quantity supplied	500	400

% change in price = 10 %
% change in quantity supplied = (change in Q/Q) * 100 = (100 / 500) * 100 = 20 %.
Therefore, E_s = % change in quantity supplied / % change in price = 20 % / 10 % = 2.

9.

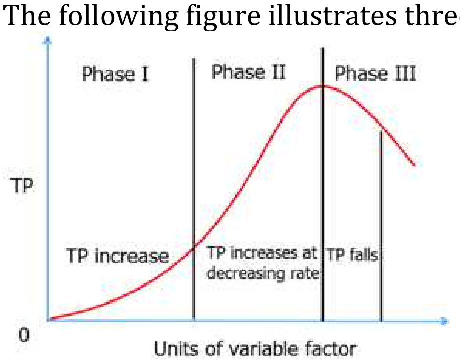
Number of bananas	1	2	3	4	5	6	7	8
TU	5	9.5	13.5	17	20	22.5	24.5	26
MU	5	4.5	4	3.5	3	2.5	2	1.5

The optimum level of consumption is 7 bananas because at this level of Consumption $MU_X = P_X = 2$.

10. MR represents addition to TR.
    (a) When MR is positive and constant, then TR rises at a constant
    (b) When MR is positive and falling, then TR rises at a diminishing rate.
11. (a) Availability of Chinese telephone instruments in India will reduce the price and increase the quantity sold.
    (b) if demand for telephone instruments is elastic, India's total expenditure on telephone instruments will increase.
12. E_D = (-)1

Price	Quantity demanded
2	50
4	?

According to expenditure method, elasticity of demand is equal to one when prices changes (rises or falls), but there is no change in total expenditure.
When price is Rs 2, total expenditure is Rs 100,
Therefore at price 4, total expenditure will also be 100.
Thus, number of units that consumer consumes at price 4 = 100 / 4 = 25 units.
13. Collusive oligopoly refers to a situation where firms cooperate with each other rather than compete in setting price and output. Agreement may be entered to cooperate by raising prices, restricting output, dividing markets or otherwise, with the objectives of restraining competition and to keep their bargaining position stronger against the buyer.
Non-collusive oligopoly refers to the situation where the firms compete with each other and follows its own price and quantity and output policy independent of its rival firms. Every firm tries to increase its market share through competition.
14. Law of variable proportions explains the behavior of total product mainly in three phases:
Phase I: When more and more variable factors are combined along with the fixed factors, TP increase at an increasing rate.
Phase II: In the second phase, TP increases at a diminishing rate and then reaches its maximum point.
Phase III: In the third phase, TP starts declining and sloping downwards.
The following figure illustrates three phases of TP:



REASONS
Phase I: initially the amount of variable factor is small that the fixed factors are underutilized. As the quantity of input increases, specialization can be introduced which leads to increase in efficiency of the variable input and MP increases and TP increases at an increasing rate.
Phase II: there is a pressure on fixed factors as the quantity of variable input increases. This reduces efficiency of the variable input and MP falls and TP increases at a diminishing rate.

Phase III: The quantity of variable input increases so much that the fixed input is now over utilized. As a result, MP becomes negative and TP starts falling.

15. Change in demand or shift in demand curve is associated with change in demand due to factors other than the price of the commodity such as price of related goods, income etc. Factors responsible for change in demand are:
    (a) Change in income of the consumer- this is the most important factor for the change in demand. Generally, when the income of a consumer goes up, the demand for the commodity also goes up at the same price when income falls, demand for the commodity also falls at the same price.
    (b) Change in price of substitute goods- a fall in price of substitute good, increases its demand and reduce the demand for the given good while a rise in the price of substitute good decreases its demand and increases for the given good.
    (c) Change in price of complementary goods- a fall in price of complementary good, increases not only its demand(say petrol) but also increase the demand or the given good (car)demand while a rise in the price of complementary good decreases the demand for both the goods.

Section B

16. (a) 1.
17. (d) All of the above.
18. (d) Fixed Deposit (FD).
19. The level of household consumption demand is determined by the income level of the household.
20. (c) To increase money supply.
21. Marginal propensity to save (MPS) is the ratio of change in saving to the change in income.
    MPS = change in saving / change in income
    Average propensity to save (APS) is the ratio of total saving to total income
    APS = total saving / total income
    The value of APS can be negative when consumption expenditure exceeds income. At lower levels of income saving is negative. For example, if income is Rs 1000 and consumption expenditure is Rs 1200. Saving = - 200. It means APS = - 200 / 1000 = - 0.2
22. Revenue deficit refers to the excess of total revenue expenditure over total revenue receipts.
    Implications: There are 2 implication of revenue deficit. Firstly, a part of the revenue deficit is financed through borrowed funds from the capital account. This implies that government's investment is reduced to the extent of deficit on the revenue account. This affects economic growth of the economy. Secondly, because of high revenue deficit, government has to borrow from the market which reduces the resources available for private investment. This again lowers the rate of economic growth.
23. National income (NNP_{FC}) = GDP_{MP} – De[recitation + NFIA – Net Indirect taxes
    850 = 1100 – Depreciation + 100 – 150
    Depreciation = 1100 + 100 – 150 – 850
    = 200 crores.
24. **Bank rate** is the rate at which the Central bank gives credit/loans to the commercial banks.
    A rise in bank rate causes an increase in the rate of interest i.e. the cost of borrowings goes up. Higher cost of borrowing discourages borrowers from demanding loans. Thus, there would be contraction of credit.
    When the Central bank reduces the bank rate, the rate of interest or cost of borrowing goes down. Lower cost of borrowings encourages customers to demand more loans. Thus, there

would be expansion of credit. Thus, the Central bank can control credit creation by the commercial banks by changing the bank rate.

25. A government budget is a detailed statement of the estimates of government receipts and government expenditure during a financial year.

Objectives

(a) **Promoting economic growth:** The government can promote economic growth by setting up basic and heavy industries like steel, furniture, building etc.. These industries are not normally taken up by the private sector because these involves huge amount of expenditure and their margin of profits is very low.

(b) **Reducing inequalities of Income**: The government can reduce inequality of income by taxing the rich people more in the budget and spending more on the poor.

(c) **Ensuring stability in prices:** The government ensures price stability particularly of essential commodities and services by opening fair price shops, keeping sufficient stock of food grains, etc.

26.

Central bank	Commercial banks
It is the apex monetary institution which controls the entire money and banking system in the economy.	It is a constituent unit of the banking system
The central bank does not operate with profit motive. Its aim is to maximize public welfare through monetary measures.	They have profit motive as the main objective
The central bank is a state owned system.	They are either state owned or private owned institutions.
It does not deal directly with public.	Commercial banks have direct dealing with the public.

27. The direct exchange of goods and services without the exchange of money is called barter system.

The major drawbacks of the barter system are:

(a) **Lack of double coincidence of wants**: It is very rare when owner of some good or service could find someone who wanted his goods or services and possessed that good or service that the first person wanted. No exchange is possible if the double coincidence of want is not there.

(b) **Lack of common measure of value**: the second drawback is that there is the absence of a common unit of measurement in which the value of goods and services can be measured. In the absence of common unit, proper accounting is not possible.

(c) **Lack of standard for deferred payment**: it lacks satisfactory unit to engage in contracts involving future payments. In a barter economy, future payments would have to be stated in specific goods or services which may involve disagreement over the quality of goods or even on the commodity used for repayment.

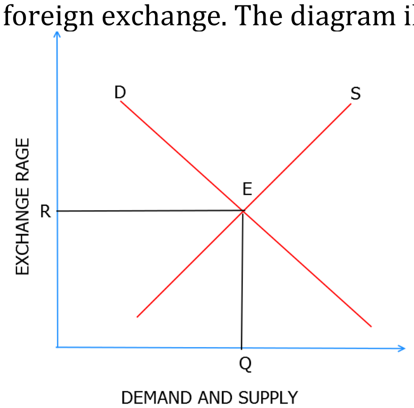
(d) **Lack of store of value**: the barter system does not provide any method of storing purchasing power for future use. It can be stored only in terms of commodities which is subject to storage cost, durability, or increase or decrease in the value of good and the difficulty in disposing of the commodity without loss.

28. The flexible exchange rate is determined by the forces of demand and supply in the foreign exchange market.

Demand for foreign exchange: demand for foreign exchange is made to a) purchase goods and services b) send gifts and grants c)invest and purchase of financial assets in some other country and d) speculate on the value of foreign currencies. As the exchange rate rises, less foreign exchange is demanded and vice-versa. The demand for foreign exchange is downward sloping.

Supply of foreign exchange: the supply of foreign exchange in a particular country comes from a) foreigners purchasing home countries goods and services through exports b) foreigners investment in home country and c) flow of foreign exchange through speculation. The supply curve of foreign exchange (say dollars) varies directly with the exchange rate. As the exchange rate rises, the supply of foreign exchanges increase and vice-versa.

Determination : The flexible exchange rate is determined at a point where the demand for and supply of foreign exchange are equal. i.e. demand for foreign exchange = supply of foreign exchange. The diagram illustrates determination of equilibrium exchange rate.

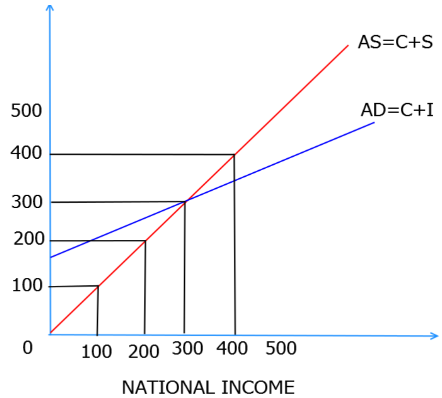


The diagram shows that demand for dollars and supply of dollars curves intersect each other at point E. the equilibrium exchange rate is OR and the equilibrium quantity is OQ.

29. Equilibrium level of income is determined at a point where aggregate demand is equal to aggregate supply.
    (i) **Aggregate demand:** It represents the total expenditure on goods and services in an economy. Aggregate demand consists of (a) consumption expenditure (b) investment expenditure. Thus AD = C+I.
    (ii) **Aggregate supply:** It refers to the total production of goods and services in the economy. It refers to country's national income. Thus, AS = Y

    Determination of equilibrium income: The equilibrium income is determined at a point where AD = AS. This is shown below:

Y	C	I	AD = C+I	AS= Y
0	50	100	150	0
100	100	100	200	100
200	150	100	250	200
300	200	100	300	300
400	250	100	350	400
500	300	100	400	500



The above table and diagram shows that the equilibrium level of income is Rs. 300 crores because at this level of income AD (300) = AS (300).

30. GDP_{FC} = Net National Disposable Income – Net Current Transfers from Abroad -Net Indirect Taxes – Net
Current Transfers from Abroad – Net Factor Income to Abroad + Consumption of fixed capital
= 800 – (170 - 30) - 10 + (–10) + 60 = Rs 700Crores
Personal Disposable Income = Private Income – Corporation Tax – Personal Tax - Retained Income
= 600 – 50 –100 – 200
= Rs 250 Crores