

ICSE SEMESTER 2 EXAMINATION

SAMPLE PAPER - 1

ECONOMICS

Maximum Marks: 40

Time allowed: One and a half hours

Answers to this Paper must be written on the paper provided separately.

You will not be allowed to write during the first 10 minutes.

This time is to be spent in reading the question paper.

The time given at the head of this Paper is the time allowed for writing the answers.

*Attempt **all** questions from **Section A** and **any three** questions from **Section B**.*

SECTION A

*(Attempt **all** questions)*

Section-A (Attempt all questions)

Question 1.

Choose the correct answers to the questions from the given options. (Do not copy the question write the correct answer only.)

- (i) Who gave the functional classification of public expenditure?
 - (a) Adam Smith
 - (b) J. S. Mill
 - (c) David Ricardo
 - (d) Lionel Robbins
- (ii) Which of them is not a reason of consumer exploitation?
 - (a) Lack of unity among consumers
 - (b) Misleading advertisements
 - (c) Assembly elections
 - (d) Low literacy among consumers
- (iii) When was the last demonetization initiated in India?
 - (a) 26th January 2014
 - (b) 15th September 2015
 - (c) 08th November 2016
 - (d) 16th December 2017
- (iv) This is a measure of inflation:
 - (a) PQLI
 - (b) AQI
 - (c) CPI
 - (d) CRR
- (v) Expenditure on defence, law and order, civil administration and debt services is known as:
 - (a) Tertiary expenditure
 - (b) Secondary expenditure
 - (c) Marked expenditure
 - (d) Primary expenditure
- (vi) The full form of GST is:
 - (a) General Services Tax
 - (b) Gross Settlement Tax
 - (c) Goods and Services Tax
 - (d) Generalised Superior Tax
- (vii) This does not come under the scope of Public Finance:
 - (a) Foreign Trade
 - (b) Public Revenue
 - (c) Public Debt
 - (d) Financial Administration
- (viii) What is the full form of COPRA?
 - (a) Convenient Poverty Right Act
 - (b) Consumer Protection Act
 - (c) Complaint Power Regulation Act
 - (d) Consumer Power Reaction Act

- (ix) Open Market Operations is a _____ measure of credit control.
- | | |
|---------------|------------------|
| (a) Religious | (c) Qualitative |
| (b) Unknown | (d) Quantitative |
- (x) Highest rate of interest to a customer is available on:
- | | |
|---------------------|--------------------------|
| (a) Current account | (c) Savings bank account |
| (b) Fixed deposit | (d) Credit card |

Section-B (Attempt any three questions)

Question 2.

- What is special assessment?
- What do you mean by consumer exploitation?
- Write differences between direct and indirect taxes.
- How do you understand that food has been adulterated? (Three Points)

Question 3.

- What is CRR?
- What do you understand by unproductive expenditure?
- Why is consumer protection needed?
- What are the features of tax?

Question 4.

- Explain the bankers' bank function of RBI.
- What is cost push inflation?
- What are the demerits of direct taxes?
- Describe the composition of a district forum.

Question 5.

- Write any two features of inflation.
- What is discounting of Bill of Exchange?
- Write any three qualitative credit control measures.
- Write characteristics of degressive taxes.

Question 6.

- What are the two limitations of public debt?
- Write about the following:

(a) Recurring Deposit Account	(b) Cash Credit
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- Explain the "Custodian of Foreign Exchange" function of the central bank.
- Explain the credit creation function of a commercial bank.



Section-A

Answer 1.

- (i) (a) Adam Smith

Explanation :

Adam Smith gave the functional classification of public expenditure.

- (ii) (c) State elections

Explanation :

Assembly elections is in no way associated with consumer exploitation.

- (iii) (c) 08th November 2016

Explanation :

Last demonetisation in India was initiated on 8th November 2016.

- (iv) (c) CPI

Explanation :

Consumer Price Index (CPI) is a measure of inflation in India.

- (v) (d) Primary expenditure

Explanation :

The expenditure on defence, law and order, civil administration and debt service items is known as primary expenditure on the basis of classification given by Findlay Shirras.

- (vi) (c) Goods and Services Tax

Explanation :

The full form of GST is Goods and Services Tax.

- (vii) (a) Foreign Trade

Explanation :

Foreign Trade does not come under the scope of Public Finance.

- (viii) (b) Consumer Protection Act

Explanation :

The full form of COPRA is Consumer Protection Act.

- (ix) (d) Quantitative

Explanation :

Open Market Operations is a Quantitative measure of credit control.

- (x) (b) Fixed deposit

Explanation :

Highest rate of interest to a customer is available on Fixed deposit.

Answer 2.

- (i) Special Assessment is also called as betterment charge. The government charges this tax when the government carries some activities of public improvement such as construction of roads, provisions of drainage and sanitation, street lighting etc., which apart from providing common benefits also results into special benefits to some people such as the appreciation in the value of their properties. Hence, a levy in proportion to this increase in wealth is called special assessment.
- (ii) When a consumer is cheated in any way, either by shopkeeper or the producer, by giving him poor quality or adulterated goods or by charging more price of a commodity or a service, it is called as consumer exploitation.

Consumer exploitation is said to take place when any of the following conditions take place:

1. When the producers cheat consumers of their hard earned money and hurt them either physically, mentally or financially by selling goods or services is called consumer exploitation.
2. Consumer exploitation also refers to the anti-consumer trade practices like adulteration of goods, offering spurious goods, unfair trade practices, etc., by the producers or the sellers.

- (iii) Following are the differences between direct and indirect taxes:

Direct Taxes		Indirect Taxes	
1.	The tax is paid by the same person, on whom it is imposed, e.g. income tax, property tax, profit tax, etc.	1.	The tax is imposed on one person and the final burden is borne by some other person, e.g. GST, excise duty, sales tax etc.

2.	These taxes generate civil consciousness.	2.	These taxes do not generate civil consciousness.
3.	They are more susceptible to evasion.	3.	They are less susceptible to evasion.

(iv) Food is said to be adulterated under the following conditions:

1. If it contains inferior or injurious substances.
2. If it contains prohibited preservatives or excess of permitted preservatives.
3. If it contains toxic ingredients that are injurious to health.

Answer 3.

- (i) All the commercial banks have to keep a certain percentage of their net deposits with the Central Bank. This percentage is known as Cash Reserve Ratio (CRR). By increasing the cash reserve ratio, the excess reserve of the commercial bank is reduced which restricts the credit-granting capacity of the commercial bank. Similarly, the reduction in cash reserve ratio increases the capacity of commercial banks to expand credits.
- (ii) Unproductive expenditure refers to the expenditure which does not increase the productive capacity of the nation. Rather helps to maintain it at the present level. For example, maintenance of army for defence, police for law and order, etc., are unproductive expenditure. But unproductive expenditure does not mean a wasteful expenditure.
- (iii) Consumer protection is needed for the following reasons:
 1. **For the Physical Protection of a Consumer:** Consumer protection is needed against the products that are unsafe or harmful to the health and welfare of a consumer.
 2. **Protection against Environmental Hazards:** Consumer protection is needed against the use of chemical fertilizers, certain refinery complexes that pollute air, water and food and cause a threat to human life.
 3. **Protection from Deceptive Advertising:** Consumer protection is needed against some producers who give incorrect information about their products and the consumer is misled by such fake advertisements which cost hard on their pockets.
- (iv) The main features of a tax are as follows :
 1. A tax is a compulsory payment to the government to be paid by the citizens who are liable to pay it.
 2. There is no direct quid-pro-quo between the tax payers and the public authority. In other words, the tax-payer cannot claim reciprocal benefits against the taxes paid.
 3. A tax is levied to meet public expenditure incurred by the government in the general interest of the nation. It is a payment for direct and indirect services provided by the government to the community as a whole.

Answer 4.

- (i) The Reserve Bank acts as Banker's Bank in the following respects:
 1. The Reserve Bank provides financial assistance to the scheduled commercial banks by discounting their eligible bills and granting loans and advances against approved securities.
 2. The RBI has been empowered the right to supervise and control the activities of various scheduled commercial banks. These powers are related to licensing, branch expansion, liquidity of assets, management and methods of working of the bank, and the inspection of banks etc.
- (ii) Cost push inflation refers to any inflationary rise in prices due to increase in costs. The rise in cost may take place due to the rise in wages, rise in the prices of raw materials or increase in profit margin etc.
- (iii) Following are the main demerits of direct taxes:
 1. **Inconvenient:** The greatest drawback of direct taxes is that they put the tax-payer to a lot of botheration and inconvenience, both financial and psychological. He has to make sufficient provisions for paying the tax, no matter whether he is facing some financial crisis.

2. **Evadable:** By submitting false returns of income, the direct taxes are likely to be evaded which results into emergence of black money in the economy.
 3. **Uneconomical:** The direct taxes are uneconomical to collect when the number of tax payers is large but the tax amounts they pay are small.
- (iv) Each district forum consists of:
1. A president, who is or has been qualified to be a district judge, to be nominated by the State Government.
 2. A person of eminence in the field of education, trade or commerce.
 3. A lady social worker.
- Each member of the forum will hold office for a term of five years or up to the age of 65 years whichever is earlier and will not be eligible for re-appointment.

Answer 5.

- (i)
 1. Inflation is always associated with a rise in prices which is continuous and persistent.
 2. Excess of demand of goods and services over the available supply is the basic cause of inflation. It is a condition of economic disequilibrium.
- (ii) The banks provide financial help to the merchants and exporters by way of discounting their bills of exchange. In such facility, the bank pays the amount of bill presented by the customer after deducting the usual bank discount. In this way, the customer gets the amount of the bill before the date of its maturity. As such the bank assists its customers to a great extent by accepting their bills and providing them with liquid assets (money).
- (iii) **The qualitative credit control measures are:**
 1. **Credit Rationing:** The RBI may specify a ceiling limit on the maximum amount of credit which can be given to a specific industry or sector of economy. This way the credit may be channelised towards the priority sectors. This is known as credit rationing.
 2. **Change in Margin Requirements:** Margin is the percentage difference between the value of the security offered by borrowers against the loan and the amount of loan or advance granted by the banks. For example, against the asset worth ₹ 1 lakh offered as security, the bank may approve loan of ₹ 90,000. Hence, the margin requirement is 10 percent. RBI may change this limit to influence the amount of credit in the economy.
 3. **Moral Suasion:** Suasion means to persuade. It is a method of request and advice to the commercial banks by the Central Bank. Under certain circumstances, the Central Bank requests and persuades the commercial banks not to grant credits for speculative and non-essential activities and follow RBI's Instructions.
- (iv) The various features of regressive taxation are as follows:
 1. Regressive taxation is a mixture of proportional and progressive tax system.
 2. In this system the tax rate rises with the rise in income and becomes stable at a higher slab of the income.
 3. Regressive tax finds its application in the practice of income tax in India.

Answer 6.

- (i) Two limitations of public debt are as given below:
 1. **Possibility of Excessive Borrowing :** Public debt is an easy way of borrowing for the government. There may be a possibility that government may borrow in excess of what may be required. In this situation the government may fall into the situation of debt trap.
 2. **Taxation for Repayment:** Generally public debts are raised for financing public project. It is assumed, that repayment of these debt will be made from the outflow of these projects. But in practice this does not happen. At the time of repayment of these debts, the government imposes new taxes to raise money for repayment of debts. Thus, public debt leads to a greater tax burden on the public.

- (ii) (a) **Recurring Deposit Account:** In case of such deposits, an account holder has to deposit certain fixed amount every month for a specified period. The amount accumulated along with interest is paid to the depositor after the specified period. Rate of interest paid by the bank is higher than the savings account but less than the fixed deposit account.
- (b) **Cash Credit:** In cash credit, the bank advances a 'cash loan' up to a specified limit to the customer against a bond or any other security. A borrower is required to open a current account and bank allows the borrower to withdraw up to the full amount of the loan. The interest is charged only on the amount actually utilised by the borrower and not on the loan sanctioned.
- (iii) Custodian of foreign exchange reserves is an important function of a central bank. Under this system, the central bank controls both, receipts as well as payments of foreign exchange. All the receipts of foreign exchange ultimately reach to the reservoir of the central bank. Similarly, it provides foreign exchange to various distributing agencies from its reservoir so that they may provide the foreign exchange to the needy. It may buy or sell foreign currencies in the market to minimize the fluctuations which in turn helps to maintain stable foreign exchange rate in the market. During the period of emergency, the Reserve Bank may impose control on transaction of foreign currencies in the market. In this way, Reserve Bank performs the duty of custodian of exchange reserves.
- (iv) The commercial banks are known as the creator of credit. The commercial banks perform this function through advancing of loans. The process of credit creation takes place in the following way:

It is a general practice that whatever money comes in a bank in the form of primary deposit, the bank provides loans on the basis of such deposits by keeping a certain portion as statutory reserve. But whenever a bank grants a loan to their customers, it does not lend the money in cash but opens an account in the name of the customer and credits (transfers) that amount of loan to his account. In other words, whenever a loan is granted by a bank, the bank creates a deposit known as secondary or derived deposits. As the deposits of the bank circulate as money (demand deposits) in the economic system, such creation of secondary deposits lead to a net increase in the money-stock of the economic system. This act of bank is known as creation of credit.