

## **SAMPLE QUESTION PAPER - 3**

**Economics (030)**

**Class XII (2024-25)**

**Time Allowed: 3 hours**

**Maximum Marks: 80**

### **General Instructions:**

1. This question paper contains two sections:  
Section A – Macro Economics  
Section B – Indian Economic Development
2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

### **SECTION A – MACRO ECONOMICS**

1. **Statement I:** Any international transaction which leads to inflow of foreign exchange is recorded on the credit side in the balance of payments accounts (the current account or the capital account). **[1]**

**Statement II:** While FDI involves foreign investors taking a controlling and lasting stake in productive enterprises, portfolio investments represent holdings of minor equity (without management control) or debt through the stock markets by foreign investors for the purpose of earning return on investment.

- |   |   |
|---|---|
| a) Statement II is true and statement I is false. | b) Statement I is true and statement II is false. |
| c) Both the statements are true.                  | d) Both the statements are false.                 |

2. The broad definition of money is based on: **[1]**

- |                                |                               |
|--------------------------------|-------------------------------|
| a) Medium of payment function  | b) Transferability of money   |
| c) Store of the value function | d) Broad money is most liquid |

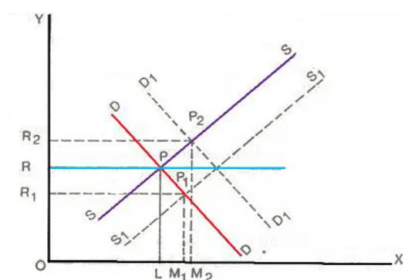
3. Consumption function is the functional relationship between \_\_\_\_\_ and \_\_\_\_\_ [1]
- a) Consumption, National Income      b) Aggregate Demand, Aggregate Supply
- c) Consumption, Aggregate demand      d) National Income, Private Income
4. If there is increase in income in the home country, the domestic currency will be \_\_\_\_\_ [1]
- a) Increasing      b) Appreciating
- c) Depreciating      d) Decreasing
5. If  $C = 100 + 0.75 Y$ , then the corresponding Savings Function will be expressed as [1]
- a)  $S = 100 + 0.25Y$       b)  $S = 75 + 0.25Y$
- c)  $S = -100 + 0.75Y$       d)  $S = -100 + 0.25Y$
6. Issue of new currency notes is a method of [1]
- a) revenue policy      b) deficit financing
- c) expenditure policy      d) monetary policy
7. When income is zero, savings will be \_\_\_\_\_. [1]
- a) infinity      b) negative
- c) zero      d) positive
8. Which of the following is an example of intermediate goods? [1]
- a) All of these      b) Car purchased by a dealer of second hand car
- c) Fertilizers purchased by a farmer      d) Steel and cement used to construct a flyover
9. The creation of \_\_\_\_\_ is called credit creation. [1]
- a) Demand deposit      b) Secondary deposits

c) Primary deposits

d) Time deposits

10. The equilibrium exchange rate is determined at the point where the

[1]



a) Demand for and Supply of foreign exchange has maximum gap

b) Demand for and Supply of foreign exchange has normal gap

c) Demand for and Supply of foreign exchange has minimum gap

d) Demand for and Supply of foreign exchange is equal

11. Calculate National income or NNP at FC.

[3]

Particulars	₹ in crores
(i) GDP at MP	4,800
(ii) Indirect Taxes	300
(iii) Net Factor income from abroad	80
(iv) Consumption of Fixed Capital	200
(v) Subsidies	60

National Income = ₹ 4,440 Crores

12. Why is it said that the balance of payments is always balanced?

[3]

OR

What is depreciation of rupee? What is its likely impact on Indian imports and how?

13. What is Fiscal Policy? What possible fiscal policy measures can be taken with respect to expenditure and income to correct (i) Excess demand and (ii) Deficient demand in the economy.

[4]

14. What is the investment multiplier? Explain the relationship between marginal propensity to consume and investment multiplier.

[4]

OR

With reference to Consumption Function answer the following questions:

- i. What is consumption function?
- ii. What is break even point?
- iii. Consumption curve starts from Y-axis. What does this implies?

15. Explain the banker to the Government<sup>9</sup> function of the Central bank. [4]

16. Answer the following questions: [6]

(i) i. Calculate national income: [3]

Items	(₹ In crore)
(i) Compensation of employees	2000
(ii) Interest paid by production units	500
(iii) Rent	700
(iv) Profits	800
(v) Employers' contribution to social security schemes	200
(vi) Dividends	300
(vii) Consumption of fixed capital	100
(viii) Net indirect taxes	250
(ix) Net exports	70
(x) Net factor income to abroad	150
(xi) Mixed income of self-employed	1500

ii. Calculate **Gross National Product at Market Price** and **Net National Disposal Income** from the following: [3]

Items	(Rs.in Arab)
Net factor income to abroad	(-) 10
Net current transfers from rest of the world	20
Wages and salaries	400
Corporation tax	50
Profit after corporation tax	150
Social Security contributions by employees	50

Rent	100
Interest	70
Mixed income of self-employed	300
Net indirect tax	140
Consumption of fixed capital	80

(ii) **OR**

- i. Mention the situations in which following equations will hold true: [3]
  - i. Value of Output is equal to Value Added.
  - ii. National income at Current Price = National income at Constant Price
  - iii. Gross domestic capital formation = Gross domestic fixed capital formation
  - iv. Operating Surplus = Rent + Royalty + Profit
- ii. Giving valid reasons explain, which of the following will not be included [3] in the estimation of National Income of India?
  - a. Purchase of shares of Sethi Ltd. by an investor in the Bombay Stock Exchange.
  - b. Salaries paid by Indian Embassy situated at Japan, to the local workers.
  - c. Depreciation on capital assets charged by firms.

17. **Answer the following questions:** [6]

- (i) **A large fiscal deficit leads to a higher revenue deficit in future.** Do you [3] agree with the statement? Give reasons in support of your answer.
- (ii) Giving reasons, classify the following as direct and indirect taxes: [3]
  - i. Income Tax
  - ii. Goods and Services Tax
  - iii. Corporate Tax
  - iv. Capital Gains Tax

### SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. Consumption of a product is: [1]

a) Economic activity

b) Production activity

d) Non - Economic activity

- 
- An illustration of a rural village scene. In the foreground, a hand in a white suit sleeve holds a large, glowing orange coin with a rupee symbol (₹) on it. To the right, a man with a mustache, wearing a white dhoti and a white headband, sits on a brick wall, holding a small pink flower. In the background, several people are working in a green paddy field. One person is plowing the field with a bullock, while others are planting seedlings. The landscape features rolling green hills, palm trees, and a small body of water in the distance. The sky is a light blue. The text 'RURAL CREDIT' is written in white capital letters on a green rectangular background in the top right corner. A small green logo is visible in the top right corner.

- a) Both A and R are true and R is the correct explanation of A.
- b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

23. To provide the educational facilities to the children of transferable central government employees \_\_\_\_\_ were established. [1]

a) Both Kendriya and Navodaya Vidyalayas

b) Kendriya Vidyalayas

c) Navodaya Vidyalayas

d) Army Public School

24. \_\_\_\_\_ announce its five year plan in 1951. While \_\_\_\_\_ announced its five year plan in 1956. \_\_\_\_\_ announced its five year plan in 1953. [1]

a) Pakistan, India, China

b) Pakistan, China, India

c) India, China, Pakistan

d) India, Pakistan, China

25. We are now faced with increased demand for environmental resources and services but their supply is limited due to \_\_\_\_\_. [1]

a) Overuse of environmental resources

b) Misuse of environmental resources

c) Overuse and Misuse of environmental resources

d) Affluent consumption standards

26. **Statement I:** During the British colonial period, India's agriculture was starved of investment in terracing, flood-control, drainage and desalinisation of soil. [1]

**Statement II:** While a small section of farmers changed their cropping pattern from food crops to commercial crops, a large section of tenants, small farmers and sharecroppers neither had resources and technology nor had incentive to invest in agriculture.

a) Statement II is true, but statement I is false.

b) Statement I is true, but statement II is false.

c) Both the statements are true.

d) Both the statements are false.

27. Match the following. options are as follows [1]

a. Industries Act	i. 1973
b. MRTP	ii. 1951

c. FERA	iii. 1956
---------	-----------

- |            |             |
|------------|-------------|
| a) a. (i)  | b) a. (iii) |
| b. (iii)   | b. (ii)     |
| c. (i)     | c. (i)      |
| c) a. (ii) | d) a. (ii)  |
| b. (i)     | b. (iii)    |
| c. (iii)   | c. (i)      |

28. Government allocates forest lands to industries to use forest materials as industrial raw materials. Twelve years after setting up a paper mill in Uttar Kanara area, bamboo has been wiped out from that area. Even if a paper mill employs thousands of workers, but if they deprive the daily needs of million people, is it acceptable? What do you think? [3]

OR

How do the Water contamination factor contribute to the environmental crisis in India? What problem do they pose for the government?

29. Write a note on changing structure of employment. [3]
30. Give a chronology of different Five Year Plans of India. [4]
31. Why there was need for economic reforms? [4]

OR

What measures have been taken for globalisation of Indian economy?

32. Identify how Human Development Index is calculated? What is the position of India in the World Human Development Index? [4]
33. **Answer the following questions:** [6]
- (i) i. What is organic farming and how does it promote sustainable development? [3]
- ii. Classify rural credit in different categories on the basis of time period. [3]

(ii) **OR**



- i. Discuss briefly, how institutional reforms (land reforms) have played a significant role in transforming Indian agriculture. [3]
- ii. Write a note on National Bank for Agricultural and Rural Development (NABARD). [3]

34. Read the following text carefully and answer the questions given below: [6]

### **The Impact of COVID-19 on South Asian Economies - Pakistan**

**EARLY IMPACT OF THE PANDEMIC** On February 26, 2020, Pakistan confirmed its first two cases of COVID-19. The pandemic could not have come at a worse time: the economy was growing at a tepid rate, jobs were hard to come by, and high inflation continued to erode the purchasing power of millions of households. As the case count grew, fear that the virus would spread rapidly across the country led to a vociferous “lockdown versus livelihoods” debate. Khan made a public case for protecting livelihoods and argued against a countrywide lockdown. Nevertheless, provincial governments began to issue their own lockdown orders, shutting down all nonessential businesses. The enforcement of these orders brought Pakistan’s economy to a standstill by the end of March.

Early estimates predicted that the economy would lose between 12 and 18 million jobs during the lockdown. The World Bank predicted that the country would enter its first recession in decades. Consequently, on March 24, 2020, Khan announced a stimulus package to prop up the economy and pave the way for a quick recovery. Totalling Rs.1.2 trillion (about 3 percent of GDP), the stimulus included an Rs.200 billion fund to protect laborers, Rs.150 billion to expand the country’s existing cash transfer program to poor families, and another Rs. 100 billion for pandemic-related emergencies.

The biggest success of the stimulus was the rapid expansion of the country’s cash transfer mechanism. More than 15 million families received funds through the program, ensuring that millions of citizens did not fall into extreme poverty. The State Bank also played a key role in supporting the economy, extending credit to small- and medium-sized businesses and protecting millions of jobs in the formal economy. The cumulative support provided by the central bank reached Rs. 1.3 trillion by October 2020. It also sharply cut interest rates from 13.25 percent to 9 percent in April 2020 and pushed them down to 7 percent by the end of June.

As its domestic economy struggled, Pakistan had to pause its USD 6 billion fiscal stabilization program (which had started in 2019) and seek emergency relief from the IMF. By mid-April, the IMF also approved a USD 1.39 billion loans to alleviate

the economic pain from the pandemic. In the following months, the World Bank provided USD 505 million in low-interest, soft loans; the Asian Development Bank approved a USD 500 million emergency loan; and the Asian Infrastructure Investment Bank approved a USD 250 million loans. Nevertheless, by December 2020, debt relief program talks with the IMF stalled as the Khan government resisted the demands and restrictions posed by the IMF. These included demands to increase energy tariffs and to sustainably reduce debt in the power sector, among others.

**Questions:**

- i. Discuss the projected impact of the countrywide lockdown on Pakistan's economy.
- ii. Analyse the implications of the pandemic on the domestic economy of Pakistan.

**Solution**  
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**SECTION A – MACRO ECONOMICS**

1.

(c) Both the statements are true.

**Explanation:**

Both the statements are true.

2.

(c) Store of the value function

**Explanation:**

Broad money is less liquid. So, based on the store of the value function.

3. (a) Consumption, National Income

**Explanation:**

Consumption, National Income

4.

(c) Depreciating

**Explanation:**

Depreciating

5.

(d)  $S = -100 + 0.25Y$

**Explanation:**

$S = -100 + 0.25Y$

6.

(b) deficit financing

**Explanation:**

deficit financing

7.

(b) negative

**Explanation:**

When income is 0, savings will be negative.

8. (a) All of these

**Explanation:**

All of these because all the given options have resale value.

9.

(b) Secondary deposits

**Explanation:**

Secondary deposits

10.

**(d)** Demand for and Supply of foreign exchange is equal

**Explanation:**

At this point, the market for foreign exchange gets cleared.

11.  $NNP_{FC} = 4,800 - 200 + 80 - (300 - 60)$

$$NNP_{FC} = 4,800 - 200 + 80 - 240$$

$$NNP_{FC} = 4,440 \text{ crores}$$

12. Since the balance of payment is based upon system of double-entry book-keeping, the total debits must equal to total credits. This is because two aspects of each transaction recorded are equal in amount but appear on opposite sides of the balance of payments account. In this accounting sense, balances of payments for a country must always balance.

OR

Depreciation is the fall in the value of the domestic currency (i.e. Indian rupee) in relation to foreign currency when the exchange rate is determined by the forces of supply and demand.

- i. Depreciation of the Indian currency implies that more rupees are required to buy a unit of foreign currency.
  - ii. It will make the imports costly and thus reduces import.
  - iii. Another view could be less dollars are required to buy a unit of Rupee.
  - iv. It will make imports cheap for a foreign country and thus induces exports.
13. Fiscal policy is the revenue and expenditure policy of the government with a view to combat the situation of inflationary and deflationary gap in the economy.

**(i) Fiscal measures to correct excess demand:**

1. Reduction in government expenditure on public works, public walker and defense etc.
2. Reduction in public expenditure on transfer payments and subsidies.
3. Increase in taxes to lower the disposable income with the people.
4. Restricted deficit financing to check the flow of money in the economy.
5. Reduction in purchasing power through greater public borrowings.

**(ii) Fiscal measures to correct deficient demand.**

1. Increase in government expenditure and investment.
2. Increase in transfer payments and subsidies.
3. Reduction in taxes to increase the disposable income of the people.
4. More use of deficit financing to increase the flow of money.
5. Repayment of public debts.

14. The investment multiplier means the rate of change in national income due to the change in investment. Thus,

$$\text{Multiplier} = \frac{\text{Change in National Income}}{\text{Change in Investment}}$$

The multiplier depends on the value of the marginal propensity to consume (MPC).

The marginal propensity to consume is the proportion of income that is consumed out of additional income. When there is an increase in investment, there will be an increase in the income of some persons who will again spend it on consumption goods which will again become the income of producers of consumption goods. Higher marginal propensity to consume means higher consumption which induces producers to produce more resulting in an increase in national income. Thus, the investment multiplier is positively related to the marginal propensity to consume. Investment multiplier can be denoted by K.

Multiplier coefficient is obtained by the following formula:

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

$$MPC + MPS = 1$$

It implies that the higher the marginal propensity to consume, the higher will be the multiplier. The minimum value of the investment multiplier can be 1 because the minimum value of MPC can be 0.

OR

- i. Consumption Function refers to functional relationship between consumption and national income.
  - ii. It is the point where consumption is equal to national income.
  - iii. It implies that there is autonomous consumption even when national income is zero.
15. The Central bank acts as a banker to the central and state government. Central bank is a banker, agent and financial adviser to the government.
1. As a banker : Central bank performs the same function for the government as commercial banks perform for their customers. It maintains the accounts of the central as well as the state governments. It receives deposits from the government and makes short term advances to the government. It collects cheques and drafts deposited in the government accounts.
  2. As a Fiscal agent: The central bank collects taxes and other payments on behalf of the government. It raises loans from the public and thus manage public debt.
  3. As a Financial adviser: The central bank gives advice to the government on economic, monetary, financial and fiscal matters such as deficit financing, devaluation, trade policy and foreign exchange etc. According to De Kock, "The central bank operates as govt's banker because of the intimate connection between public finance and monetary affairs".

16. Answer the following questions:

(i) i.  $NDP_{MP} = NDP_{FC} - \text{Net factor income to abroad}$

Items	(₹ in crore)	(₹ in crore)
Compensation of employees		2000
Operating surplus:		
Interest paid by production units	500	
Rent	700	
Profits	<u>800</u>	2000
Mixed-income of self-employed		1500
minus: Net factor income to abroad		(-)150
<b>National Income (<math>NNP_{FC}</math>)</b>		<b>5350</b>

ii. **Income method:**

$NDP_{FC} = \text{Compensation of employees (Wages and salaries + Social Security contribution by employers)} + \text{Operating surplus [Rent + Royalty + Interest + Profit (Profit after corporation tax + Corporation tax)]} + \text{Mixed income}$   
 $= (400 + 50) + [100 + 0 + 70 + (150 + 50)] + 300$   
 $= \text{Rs.1120 Arab}$

**Gross National Product at Market Price:**

$GNP_{MP} = NDP_{FC} + \text{Net factor income to abroad} + \text{Net indirect tax} + \text{Depreciation}$   
 $= 1120 - (-)10 + 140 + 80$   
 $= 1120 + 10 + 140 + 80$   
 $= \text{Rs.1350 Arab}$

$MNDI = NDP_{FC} + \text{Net factor income to abroad} + \text{Net current transfer from the Rest of the World} + \text{Net indirect tax}$   
 $= 1120 + 10 - 20 + 140$   
 $= \text{Rs.1250 Arab.}$

(ii) OR

- i. i. When intermediate consumption is zero.
- ii. When Price in the base year = Price in the current year.
- iii. When change in stock (or inventory investment) is zero.
- iv. When there is no income in the form of interest.
- ii. a. Purchase or sale of financial assets like shares is not included while calculating national income. As such transactions are mere paper claims and do not lead to any value addition.

- b. It will be included in the domestic income as Indian embassy is a part of domestic territory of India. However it will not be included in the national income as it is a part of factor income paid abroad. It is subtracted from domestic income to get national income.
- c. It is not taken into consideration while calculating national income because it is not a financial expense that a producer has to bear.

17. Answer the following questions:

- (i) Yes, a large fiscal deficit will leads to a higher revenue deficit in the future.

Reason for this:

A large fiscal deficit means large amount of borrowings. This creates a large burden of repayment of loans in future and interest payments. More interest payments will increase revenue expenditure. Hence, revenue deficit in future will increase.

- (ii) i. It is a direct tax as its impact and incidence lie on the same person.
  - ii. It is an indirect tax as its impact and incidence lie on different persons.
  - iii. It is a direct tax as its impact and incidence lie on the same person.
  - iv. It is a direct tax as its impact and incidence lie on the same person.

## SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. (a) Economic activity

**Explanation:**

Production, consumption and capital formation are called the basic economic activities of an economy.

19. (a) 81

**Explanation:**

"The HDI is the actual level of human development (accounting for inequality)" and "the HDI can be viewed as an index of "potential" human development (or the maximum IHDI that could be achieved if there were no inequality)".

20.

(b) 2020.0

**Explanation:**

This is because the rate of increase in national income (GDP) must be more than the rate of growth of population so that per capita income also increases. With the population rate slowing down to to about 1.6 percent per annum, a growth rate of of GDP of around 9 percent per annum will be sufficient to quadruple the per capita income by 2020.

21.

(d) Money lenders

**Explanation:**

Landlords, village traders and Moneylenders are the three important sources of non-institutional source. They charge exorbitantly high interest rates and manipulated the accounts to exploit the illiterate farmers. Non-institutional credit led to a debt trap for the farmers.

22. (a) Both A and R are true and R is the correct explanation of A.

**Explanation:**

Both A and R are true and R is the correct explanation of A.

23.

- (b) Kendriya Vidyalayas

**Explanation:**

The Kendriya Vidyalayas were established to cater to the educational needs of transferrable Central Government employees including Defence and Para-military personnel by providing a common program of education.

24.

- (d) India, Pakistan, China

**Explanation:**

**Five-Year Plans** (FYPs) are centralized and integrated national economic programs. The process began with setting up of Planning Commission in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community.

25.

- (c) Overuse and Misuse of environmental resources

**Explanation:**

Overuse and Misuse of environmental resources

26.

- (c) Both the statements are true.

**Explanation:**

Both the statements are true.

27.

- (d)

a. (ii)

b. (iii)

c. (i)



**Explanation:**

Industries Act was established in the year 1951 for the regulation and development of certain industries. Monopolies and Restrictive Trade Practices act aims to prevent concentration of economic power, provide for control of monopolies, and protect consumer interest. FERA was established to conserve the foreign exchange resources of the country.

28. No, I do not think that it is acceptable. The negative impacts of such a decision far outweighs the positive impacts. Deforestation has many adverse effects such as soil erosion, loss of biodiversity, disruption of the climatic cycle, etc. Therefore to benefit a few thousand people, the future of millions should not be compromised upon. So not acceptable.

OR

Water Contamination : Life depends to a great extent on water. However, increase in population, waste disposal from factories etc., contaminate water. The development process has also polluted water and is responsible for the decreasing level of water that is harmful for animals living in water. The government has taken many steps to solve the problem of water contamination but it had failed to achieve desired success.

29. We know, India is an agrarian nation. A major section of our population lives in rural areas and is dependent on agriculture as their main livelihood. The developmental strategies in many countries, including India, have always aimed at reducing the proportion of people depending on agriculture.

In 1972 - 73, 74.3% of workforce was engaged in primary sector, which declined to 44.6% in 2017 - 18. It shows substantial shift from farm work to non-farm work. It may be due to greater number of job opportunities available in the other two sectors.

Secondary and service sectors are showing promising future for the Indian workforce as shares of these sectors have increased from 10.9% to 24.4% and from 14.8% to 31% respectively. It may be because of rapid industrialisation and improvement of infrastructural facilities.

30. Chronology of different Five Year Plans announced so far is given below:

	Plan	Time Period
1st	Plan	1951-1956
2nd	Plan	1956-1961
3rd	Plan	1961-1966
Three one year Plan		1966-1969 (It is also known as plan holiday)
4th	Plan	1969-1974

5th	Plan	1974-1979
One year Plan		1979-1980
6th	Plan	1980-1985
7th	Plan	1985-1990
One year Plan		1990-1992
8th	Plan	1992-1997
9th	Plan	1997-2002
10th	Plan	2002-2007
11th	Plan	2007-2012
12th	Plan	2012-2017

31. Ans. Need for economic reforms or the New economic policy was felt mainly because of the following measures:

1. **Mounting fiscal deficit:** Prior to 1991, fiscal deficit of the government had been mounting year after year on the account of continuous increase in its non-development expenditure. Fiscal deficit means difference between the total expenditure and total receipts. Due to persistent rise in fiscal deficit there was corresponding rise in public debt and interest payment liability. There was possibility that the economy might lead to debt-trap situation. Thus it becomes essential for the government to reduce its non-development expenditure and restore fiscal discipline in the economy.
2. **Adverse balance of payment:** Balance of payments is the systematic record of country's exports and imports with rest of the world. When receipts of foreign exchange fall short of their payments, the problem of adverse balance of payment arises. Despite the restrictive policy adopted by the government till 1990 import substitution and export promotion the desired result could not be met. Our export could not compete in terms of price and quality in the international market. As a result there was slow growth of export and rapid increase in imports. Accordingly, the burden of foreign debt services increased tremendously and led to depletion of foreign exchange reserves.
3. **Gulf Crises:** On account of Iraq war in 1990-91 prices of petrol shot-up. Besides, India used to receive huge amount of remittances from gulf countries in terms of foreign exchange which stopped due to this war. Gulf crisis thus further accentuated the already adverse balance of payments position.
4. **Poor performances of PSUs:** Due to poor performances of public sector undertakings, they degenerated in to a liability. Most of public sector undertakings were incurring loss and their performance was quite satisfactory.

5. **Rise in price:** Due to rise in prices of foodgrains there was pressure of inflation prior to 1991, which deepened the economic crisis from bad to worse.
6. **Fall in foreign exchange reserves:** In 1990-91 India's foreign exchange reserves fell to such a low level that there was not enough to pay for an import bill of even 10 days. The situation grew so acute that Chandrashekhar had to mortgage country's gold to discharge its foreign debt servicing obligations. In such situation the government had to helplessly resort to policy of liberalisation as suggested by international institutions, in order to secure loans from them. On the account of the above compelling factors, it became inevitable for the govt. to adopt New Economic Policy.

OR

The following measures have been taken for globalisation of Indian economy

- i. **Increase in Equity Limit of Foreign Investment:** Equity limit, in general, has been raised from 40% to 51%. Also, in 47 high priority industries and in export trading houses, Foreign Direct Investment (FDI) is allowed up to the extent of 100%.
- ii. **Partial Convertibility:** It means sale and purchase of foreign currency at a price determined by the market forces of demand and supply. It is called partial convertibility because it is allowed 100% in current account transactions but it is only 51% for capital account transactions.
- iii. **Liberal Foreign Trade Policy:** A long-term liberal trade policy has been implemented which encourages free trade among countries.
- iv. **Reduction in Tariffs:** Custom duties have been reduced drastically. Pre 1991, customs duties were as high as 400%, but post 1991, maximum rate of duty is just 10%.
- v. **Withdrawal of Quantitative Restrictions:** The quantitative restrictions on all import items have been totally withdrawn from 2001, in conformity with the guidelines issued by the World Trade Organisation (WTO).

Many other measures have also been announced from time to time. For instance, foreign companies have been allowed to use their trademarks in India and carry on any activity of trading, commercial or industrial nature: repatriation of profits by foreign companies has been allowed, foreign companies (other than banking companies) wanting to borrow money or accept deposits are now allowed to do so without taking the permission of the RBI, foreign companies can deal in immovable property in India—restrictions on transfer of shares from one non-resident to another non-resident have been removed.

32. The Human Development Index (HDI) is a composite statistic (composite index) of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development. A country scores higher HDI when the lifespan is higher, the education level is higher, and the GDP per capita is higher. For calculating Human Development Index, three indices are used:

- a. **Longevity:** It is indicated by life expectancy at birth.
- b. **Knowledge:** It is measured by adult literacy rate (two third weightage) and gross enrollment ratio (GER) (one third weightage) of primary, secondary and tertiary levels taken together.
- c. **Standard of Living:** It is measured by real GDP per capita.

India ranks 131 out of 182 countries which show poor human development of the country. Value of India's HDI is 0.624.

33. Answer the following questions:

- (i) i. Conventional agriculture relies on chemical fertilisers and toxic pesticides for higher yields of crops. These chemicals and pesticides enter the food supply, penetrate the water sources, harm the livestock, deplete the soil and damage the natural environment. It leads to the degradation of soil and health. Organic farming is an eco-friendly technique of growing crops, which promotes sustainable development. Organic farming excludes the use of chemical fertilizers and pesticides. Organic farming can thus be considered as a basis of sustainable agriculture and thereby sustainable development.

In other words, organic agriculture is a whole system of farming that restores, maintains and enhances the ecological balance and enhances food safety, thus encouraging the practices towards sustainable development.

ii. Rural credit may be classified as:

- i. **Short-term Credit:** These loans are for a period of 6 to 12 months. These loans are required for buying seeds, tools, manure, fertilisers, etc. These loans are given to the needy borrowers by cooperatives, moneylenders and banks.
- ii. **Medium-term Credit:** Such loans generally stretch over a period of 12 months to 5 years. These loans are required for purchasing machinery, constructing fences and digging wells.
- iii. **Long-term Credit:** These loans are for a period of 5 to 20 years. These loans are required to acquire permanent assets like tractors, land, costly equipment, tube wells, etc.

(ii) OR

- i. After independence, the government of India took several institutional/land reforms to ensure the transformation of Indian agriculture. Institutional reforms which played a significant role in transforming Indian agriculture are:-
  - i. Land ceiling- It ensured the reduction of the concentration of land ownership in a few hands.
  - ii. Abolition of the Zamindari system- It focused on the elimination of farmers' exploitation and promotion of agricultural growth.

These reforms have led to the stability of farming as an occupation and promote equity.

- ii. National Bank for Agriculture and Rural Development (NABARD) is an apex development finance institution fully owned by Government of India. The bank has been entrusted with matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) under the Chairmanship of Shri B. Sivaraman, conceived and recommended the establishment of the National Bank for Agriculture and Rural Development (NABARD).

An apex body to coordinate the activities of all institutions involved in the rural financing system. The main objective behind the set up of NABARD was to uplift rural India by increasing the credit flow for elevation of agriculture & rural non farm sector.

NABARD is active in developing financial inclusion policy and is a member of the Alliance for Financial Inclusion. NABARD replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC).

Headquarters of NABARD is situated in Mumbai, Maharashtra, India.

#### 34. ANS

- i. The pandemic hit Pakistan at a worse time when it was already struggling with a slow economic growth rate, low jobs, and high inflation. The government issued lockdown orders of shutting down all nonessential businesses when the cases began to grow rapidly. This led to a vociferous “lockdown versus livelihoods” debate. The enforcement of these orders brought Pakistan’s economy to a standstill by the end of March. Early estimates predicted that the economy would lose between 12 and 18 million jobs during the lockdown. The World Bank predicted that the country would enter its first recession in decades. Consequently, the economy was in bad shape and the government had to rope in the stimulus package for its recovery.
- ii. The internal economic condition of Pakistan was grappled with a cash crunch which compelled the government to pause its USD 6 billion fiscal stabilization program (which had started in 2019) and seek emergency relief from the IMF. By mid-April, the IMF also approved a USD 1.39 billion loan to alleviate the economic pain from the pandemic. Later, other loans were accrued from various other sources, for instance, the World Bank provided USD 505 million in low-interest, soft loans; the Asian

Development Bank approved a USD 500 million emergency loan, and the Asian Infrastructure Investment Bank approved a USD 250 million loans.