Sample Question Paper – 2

CLASS-XII

SUB-ECONOMICS

Time : 3 Hrs Max. Marks - 100

General instructions:

1. Q. No. 1 to Q. No. 5 & 17 TO 21 are very short answer type carrying 1 mark each. Answer these questions in one sentence only.
2. Q.No. 6 to 10 & Q.No. 22 to 26 are short answer type carrying 3 marks each. Answer to them should not normally exceed 60 words each.
3. Q.No. 11 to 13 & Q.No. 27 to 29 are short answer type carrying 4 marks each. Answer to them should not normally exceed 70 words each.
4. Q No. 14 to 16 & Q. No. 30 to 32 are long answer type carrying 6 marks each. Answer to them should not normally exceed 100 words each.
5. There is no words limitation for numerical questions.

Section -A

1. What is law of demand?
2. State one feature of oligopoly
3. In which market form demand curve of a firm is perfectly elastic.
4. Why is demand for water inelastic?
5. Name the characteristic which make monopolistic competition different from prefect competition.
6. Explain any three factors that affect elasticity of demand.
7. Given below is the cost schedule of a firm. Its average fixed cost is Rs20 when it produced 3 units.

Output(units)	1	2	3
Average variable cost (Rs)	30	28	32

Calculate its marginal cost and average cost at each given level of output.

8. Total revenue at the price of Rs 4 per unit of a commodity is Rs 480. Total revenue increases by Rs 240 when its price rises by 25 percent. Calculate its price elasticity of supply.

OR

Differentiate between Change in Quantity supplied and Change in supply.

9. Explain the implication of ‘homogenous product ‘feature of prefect competition.

10. State & explain the law of diminishing marginal utility with the help of utility schedule.

11. Explain the effect of increase the income of buyer of a normal commodity on its equilibrium price.

OR

Why does the demand curve slopes downward?

12. Explain the problem of what to produce.

13. When the price of the commodity falls by Rs. 2 per unit, its quantity demanded increases by 10 units. Its price elasticity of demand is (-)1. Calculate its quantity demanded at the price before change which was Rs 10 per unit.

14. Explain the concept of consumer equilibrium when a consumer purchases two commodities. (IC Approach)

OR

Define Indifference Curve. Explain any two features of indifference Curve.

15. Explain the law of variable proportion with the help of total product and marginal product curve.

16. State whether the following statement are true or false. Give reason for your answer.

(a) When total revenue is constant average revenue will also be constant.

(b) Average variable cost can fall even when marginal cost is rising.

(c) When marginal product falls average product will also fall.

Section –B

17. State two sources of supply of foreign exchange.

18. Give the meaning of aggregate demand.

19. State the meaning of money supply.

20. How is the primary deficit calculated?

21. Give the meaning of deflationary gap.

22. How can Government budget be helpful in altering distribution of income in an economy? Explain.

23. Explain the 'currency authority' function of central bank.

24. Explain how distribution of gross domestic product has its limitation as a measure of economic welfare.

25. Distinguish between autonomous and accommodating transaction of balance of payment account.

OR

What are causes for disequilibrium of balance of payments?

26. Giving any two examples explain the relation between the rise in price of foreign currency and its demand.

27. Distinguish between:

(a) Capital receipts and revenue receipts.

(b) Direct tax and indirect tax.

28. Giving reason, state whether the following statement true or false:

(a) Average propensity to save is always greater than zero

(b) Value of investment multiplier varies between zero and infinity.

29. Explain the process of money creation by Commercial Banks.

OR

Explain briefly measures of money supply in India.

30. In an economy 75 percent of the increase in income is spent on consumption. Investment is increased by Rs 1,000 crores. Calculate:
    (a) Total increase in income
    (b) Total increase in consumption expenditure.

31. How will you treat the following while estimating national income of India?
    (a) Dividend received by an Indian from his investment in share of a foreign company.
    (b) Money received by a family in India from relative working abroad.
    (c) Interest received on loan given to a friend for purchasing a car.

32. From the following data calculate (a) GDP at factor cost and (b) factor income to abroad:

ITEMS	Rs. In crore)
(I) compensation of employees	800
(II) profit	200
(III) dividend	50
(IV) GNP at market price	1400
(IV) rent	50
(V) interest	100
(VI) gross domestic capital formation	300
(VII) net fixed capital formation	200
(IX) change in stock	50
(X) factor income from abroad	60
(XI) net indirect taxes	120

OR

Distinguish between –
(a) factor Income and Transfer Income
(b) Final Goods and Intermediate Goods
(c) Consumption goods And Capital Goods

<u>MARKING SCHEME</u>

1. Inverse relationship between price and demand of a good , other things remains constant , is termed law of demand .
2. (a) few firms
   (b) Firms are interdependence in taking price and output decision.
   (c) Non price competition (any one)
3. Prefect competition.
4. Because it is a necessity.
5. Firms produced differentiated products.
6. (i) <u>Nature of good 1\2</u>

Demand is inelastic in case necessities while elastic in case of luxuries 1

(II) Number of substitutes ½

More the number of substitution more the choice the consumer has and therefore more elastic the demand 1

7.

output	AVC	AFC	TVC	MC	ATC	
						½*6
1	30	60	30	30	90	
2	28	30	56	26	58	
3	32	20	96	40	52	

8.

PRICE (Rs)	TR(Rs)	OUTPUT(RS)	
4	480	120	1
5	720	144	1

Ed= % change in quantity/% change in price 1

= 24/1*4/120

= 0.8

Or

CHANGE IN QUANTITY SUPPLIED: - It is caused by a rise/fall in the price of a commodity. It is expressed either in form of an expansion in supply or contraction in supply. Expansion and contraction in supply are represented diagrammatically in the form of a movement along a given supply curve. Contraction is due to fall in price.

CHANGE IN SUPPLY:- A change in supply of a commodity caused by factors other than Price such as
i) change in technology.
ii) change in taxation policy of the government
iii) change in goals of the forms etc.
Change in supply is represented graphically by a rightward or leftward shift. Decrease is due to fall in Factors other than the price. Leftward shift shifting of supply curve leads to decrease the supply.

9. Due to homogenous product price remain constant .Because supplier has no ground to change price.

Consumption units	Total utility	Marginal utility
1	4	4
2	7	3
3	9	2
4	10	1

Or any other relevant schedule

Explain the law of diminishing marginal utility on the basis of above schedule

10. Increase in income leads to increase in demand at the given price ;4
    1. This lead to excess demand.
    2. Leads to competition among the buyers as a result price start rising.
    3. Rise in price leads to rise in supply and fall in demand
    4. These change continue till supply and demand become equal at new equilibrium price.
    5. Equilibrium price rise.

or

The demand curve slopes downward because of :- i) Law of diminishing marginal utility : According to this law, as a consumer in a given time, increases the consumption of a thing, the utility from each successive unit goes on diminishing A Consumer gets maximum satisfaction. When the price of a commodity is equal he its marginal utility. As more units are bought, their marginal utility diminishes. Thus, a consumer will buy more units of a commodity, with fall in its price.

ii)<u>Income effect</u> : Change in the price of a commodity causes a change in the real income of the consumer. With fall in price, real income increases. The increased real income is used to buy more units of the commodity.

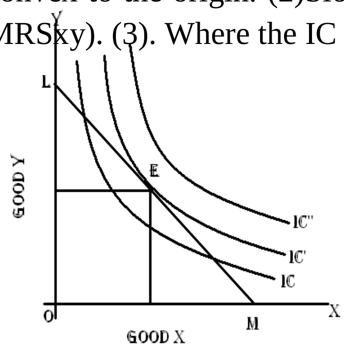
iii)<u>Substitution effect</u> : When the price of community X falls it becomes cheaper in relation to commodity. Accordingly, X is substituted for the commodity. A consumer in order to get more satisfaction, will boy more units of the commodity whose price has fallen in relation to the commodity.

iv)<u>Uses of commodity</u> : If a commodity has diverse uses, with the fall in the price of product consumer will buy more.

11. The economy can produce different possible combination of goods and services from the given resource.
    The problem is that which of this combination should be economy produce. This is the problem of choice if more of one goods produced then lesser resources are left for producing other goods.

12. Given
    change in price = -4
    change in quantity = -10
    ed = %change in quantity of demand /%change in price
    -1=10/-2*10/Q
    Q = 50 UNITS.

14.The indifference curve on the budget line to find the point of consumer's equilibrium. The teacher will state the conditions for consumer equilibrium. (1)Indifference Curve should be convex to the origin. (2)Slope of Budget Line should be equal to the slope of IC. (Px/Py = MRSxy). (3). Where the IC is tangent to Budget line.



The teacher will use power point slides to show the diagram and explain the conditions. (1) Why will the consumer not choose a bundle on IC'. (2)Why will the consumer not choose a bundle on IC''.

OR

<u>Indifference Curve</u> – It is the locus of various points which represent the various combination of two goods which give equal level of satisfaction to the consumer. 2

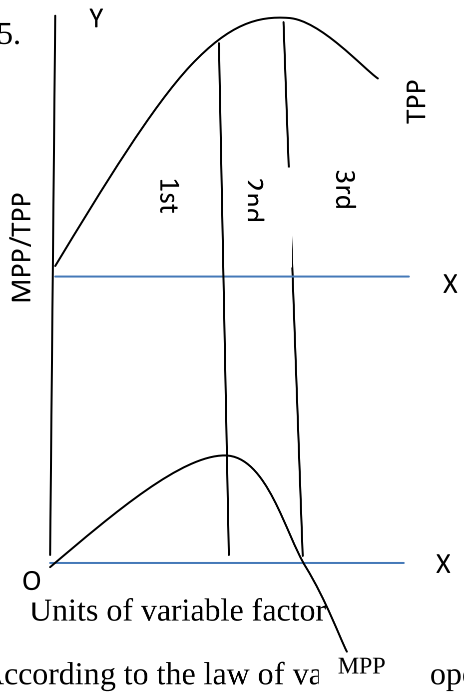
<u>Features of IC</u> (Explain Any two) 2*2=4

(i) Sloping down ward from left to right. 2

(II) Strictly convex to the origin

(III) Higher indifference curve represent higher utility

15.



According to the law of va oportion when only one factor is increased while other factor remain unchanged, MP and TP change in the following manner:

Phase - 1 MP increases and TP increases at increasing rate

Phase - 2MP decreases but is positive and TP increases at decreasing rate

Phase - 3 MP decrease and is negative and TP falls

or

1	2	3	4	5	6	7	8	9	10
3	7	12	16	19	21	22	22	21	19
3	3.5	4	4	3.8	3.5	3.14	2.75	2.33	1.9
3	4	5	4	3	2	1	0	-1	-2

Law of Variable Proportions-The law states that if we go on using more and more units of a variable factor (Labour) with a fixed factor(land , Capital) the total output initially increases at an increasing rate but beyond certain point, it increases at a diminishing rate and finally it falls.

This can be studied in three stages (I, II, and III) Total Physical Product (TPP) :- The total output of commodity at a particular level of employment of an input(Labour), Average Physical Product (APP):- Dividing the TPP by the number of inputs. Marginal Physical Product (MPP):- An addition made to the TPP by employing an additional unit of a variable input

TPP & MPP Relationship:- a) When MPP is positive, TPP increases at increasing rate (I stage) b) When MPP is zero, TPP is maximum,(II stage) c) When MPP is negative, TPP is falling(III stage) (or)

(i) It means that TPP increases at an increasing rate and consequently MPP rises. It is due to (a) more efficient utilization of fixed input and (b) division of labour andspecialisation due to increase in the quantity of variable input. (3)

(ii) It means output increasing in greater proportion than the increase in all input simultaneously and in the same proportion. It is due to (a) more division of labour leading to specialisation that increases productivity and(b) use of specialized machines.

16. (a) false because when TR is constant, AR will fall as output increases
    (b) True, provided MC‹AP.
    (c) False because AP falls only when MP‹ AP. AP falls not because MP falls but because MP‹ AP.

SECTION - B

17. Exports, foreign tourists etc.
18. It is the expected demand for all goods and services in the economy.
19. (i) Currency and coin with public (ii) demand deposit of commercial bank.
20. Primary deficit = fiscal deficit - interest paid.
21. Excess of aggregate supply over aggregate demand at full employment level

Three marks answer

22. Through the budget government can reduce inequality of income. It can adopt progressive taxation policy and spend more on requirement of the poor.
23. It has sole authority to issue currency. It does so in accordance with the requirement of the economy.
24. If with increase in GDP inequality of income increase, poor become poorer while rich become richer. This may lead to decline in welfare even though GDP has increased.
25. Autonomous transaction take place independently of the state of B.P.O. Accommodating transaction are transaction that are determine by net consequence of Autonomous transaction.

or

DISEQUILIBRIUM IN BOP: It is a state of either deficit BOP status or surplus BOP status. Equilibrium in BOP is achieved when the net balance of all receipts & payments is zero.

CAUSES OF DISEQUILIBRIUM: Disequilibrium in BOP is caused by a number of factors, broadly categorized as (a) economic factors (b) political factors (c) social factors. Following are the details:

ECONOMIC FACTORS: -Huge development expenditure: Huge development expenditure by the government owing to which there are large scales imports. It may cause a deficit BOP disequilibrium.

Business cycle: Business cycles in terms of recession, depression, recovery & boom. A period of boom may witness a large scale export of a country. Accordingly a 'surplus BOP disequilibrium' may occur.

High rate of inflation: High rate of inflation in domestic market, compelling large scale imports of essential goods. This drives the economy towards deficit BOP disequilibrium

26. When price of foreign exchange rises,

(i) Import become dearer resulting in less import and therefore falls demand for foreign currency.

(ii) Tourism abroad become costlier and so demand for foreign currency falls.(or any other points)

27. (a) Receipts which lead to either reduction in assets or increase in liabilities are called capital receipts. Receipts which neither reduced assets not create any liability are revenue receipts.

(b)Direct tax is a tax whose incidence and impact fall on the same person .indirect tax is a tax whose incidence and impact fall on the different person.

28. (I) false, it can be negative at low level of income when consumption expenditure is

greater than income.

(II) false, it varies from 1 to infinity.

29. Money creation by bank is determine by (1) fresh deposit and(2) legal reserve ratio. Suppose fresh deposit is Rs 10000 and LRR is 20%. Initially bank keeps Rs. 2000 as cash and lendsRs 8000. Those who barrow spend this Rs8000. it is assumed that this rupees 8000 comes into bank as a fresh deposit .bank again keep 20% of it as cash reserve and lend the rest in this way money creation goes on. Total money creation is Rs 50000.

Money creation = initial deposit X 1/LRR.

OR

M_1 = Currency with Public + Demand Deposits + Other deposit with RBI

M_2 = M_1 + Deposit with post office savings bank account

M_3 = M_1 + Time Deposits with Banks

M_4 = M_3 + Total deposits with post offices (Excluding NSC)

30. MPC = 3 / 4 , MPS =1 / 4, K = 4

(I) $\Delta Y = \Delta I * K$

$= 1000*4$

= RS4000 Crore

(II) Given that $\Delta Y = \Delta C + \Delta I$

$\Delta C = \Delta Y - \Delta I$

$= 4000 - 1000$

Rs 3000 crore

31. (a) it is factor income from abroad , so will be included in N.I

(b) It is transfer receipts, so it is not included in N.I.

(c) Not included in N.I. because it is a non-factor receipt as the loan is not used for production but for consumption.

32. (A) GDP at factor cost = (i) + (ii) + (v) + ((VI) - (vii) - (viii+ix))

= 800 + 200 +150 + 100+ (300-200-50)

= Rs 1300 crore.

(B) NFIFA = GNP @MP – GDP @ MP

= (VI) - (GDP@FC+ (XI))

= 1400-(1300+120)

= -20

FITA = FIFA - NFIFA

= 60- (-20)

=Rs 80 crore

OR

FACTOR INCOME- Factor Income is the income received by the factors of production for rendering factor services in the process of production (wage, rent, interest and profit).

TRANSFER INCOME- Transfer Income refers to the income received without rendering any productive services in return (old age pension , unemployment allowances).

FINAL GOODS- Final Goods are those goods which are used either for consumption or for investment (Cloths, TV set , Cars, Machinery).

INTERMEDIATE GOODS- Intermediate Goods are those goods which are used either for resale or for further production (Milk purchase by dairy shop, tyres purchased by a cycle shop).

CONSUMPTION GOODS- Consumption Goods are those goods which satisfy the wants of the consumers directly (Bread, Butter, Shirts etc).

CAPITAL GOODS- Capital Goods are those goods which help in production of goods and services (Machinery, equipments, Plants etc).