Sample Question Paper -1

ECONOMICS - Class XII

Maximum Marks: 100 **Time : 3 Hour**

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

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1. What happens to total utility when marginal utility is negative? (1)
2. Why is the PPC concave to origin? (1)
3. How many firms are there in Monopoly Market? (1)
4. When demand for a good rise due to rise in price of substitute goods? What is such a change in demand called? (1)
5. What is meant by Fixed Cost? (1)
6. A lot of people died and many factories are destroyed because of a severe earthquake in a country. How will it affect the country's PPC. (3)
7. Why does budget line slope downwards from left to right? (3)
8. Explain the effects of change in income of the buyers of a good on its demand. (3)

   OR

   Explain any there determinants of demand for a commodity for a household.
9. Explain the effect of "Change in Prices of inputs used" on the supply of a product. (3)
10. Define Perfect competition. State its any two features. (3)
11. A consumer buys 80 units of a good at a price of Rs. 5/- per unit. Suppose price elasticity of demand is (-)2. At what price will he buy64 units?(4)
12. Define Producer's Equilibrium. Explain producers Equilibrium with Marginal Revenue (MR) and Marginal cost (MC) approach under perfect competition. (4)

    Or

    Explain in case of perfect competition, determination of producer's equilibrium using TC and TR approach.
13. Calculate total variable cost and marginal cost at each given level of output from the following table- (4)

Output	0	1	2	3	4
Total	40	60	78	97	124

14. When will the equilibrium price of a commodity not change if its demand and supply both increase? Explain through a diagram. (6)

OR

There is a simultaneous 'decrease' in demand and supply of a commodity. When it will result in :No change in equilibrium Price. A fall in equilibrium price.

15. Explain the meaning of increasing returns to a factor with the help of TPP schedule and TPP curve. (6)

16. Explain different situation under which budget line shifts. Use diagram. (6)

SECTION B (MACRO ECONOMICS)

17. Give the meaning of ex-ante aggregate demand. 1

18. State the relationship between MPC and investment multiplier. 1

19. The price of 1 us dollar has fallen From Rs. 50 to Rs 48. Has the Indian currency appreciated or depreciated? 1

20. State the two components of money supply. 1

21. Name the primary function of money. 1

22. From the following data relating to a firm, calculates its net Value Added at factor cost: 3

	(Rs. In Lacs)
(i) Sales	1600
(ii) Subsidy	80
(iii) Closing stock	40
(iv) Depreciation	60
(v) Intermediate purchase	1000
(vi) Import of raw material	120
(vii) Exports	200
(viii) Opening stock	100
(ix) Purchase of machinery for own use	400

23. Distinguish between Domestic and National product. When can National product be more than Domestic product? 3

24. 'Machine' purchased is always a final good.' Do you agree ? Give reasons for your answer. 3

25. Give three reasons why people desire to have foreign exchange. 3

OR

Explain the effect of Appreciation of domestic currency on Imports.

26. Distinguish between the current account and capital account of balance of payments account. Is import of machinery recorded in current account or capital account? Give reasons for your answer. 3

27. Categories the following government receipts into revenue and capital receipts. Give reasons for your answer. 4

(a) Receipts from sale of share of a public sector undertaking.
(b) Borrowings from public.
(c) Profits of public sector undertakings.
(d) Income tax received by government.

28. Explain the meaning of equilibrium level of income and output using savings and investment approach. Use a diagram. 4

OR

Complete the following table-

Income	Marginal Propensity to Consume	Saving	Average Propensity to Consume
0	--	-40	--
100	--	-20	--
200	--	0	--
300	--	60	--
400	--	120	--

29. What is the government budget? Give the meaning of : 4
    (i) Revenue deficit,
    (ii) Fiscal deficit,
    (iii) Primary deficit.

30. In an economy S=-100+0.5Y is the saving function. (Where S=saving and Y=national Income) and investment expenditure is Rs. 7000. Calculate : 6
    (i) Equilibrium level of national income
    (ii) Consumption expenditure at equilibrium level of national income.

31. Explain the process of money creation by commercial banks. 6

32. From the following data calculate National Income by expenditure and Income method : 6

	(Rs in crores)
(i) Government final consumption expenditure	300
(ii) Subsidies	30
(iii) Rent	600
(iv) Wages and salaries	1800
(v) Indirect Tax	180
(vi) Private final consumption expenditure	2400
(vii) Gross domestic capita information	360
(viii) Social security contribution by employers	165
(ix) Royalty	75
(x) Net factor income paid to abroad	90
(xi) Interest	60
(xii) Consumption of fixed capital	30
(xiii) Profit	390
(xiv) Net exports	210
(xv) Change in stock	150

OR

Calculate Personal Income and Gross National Disposable Income from the given data :

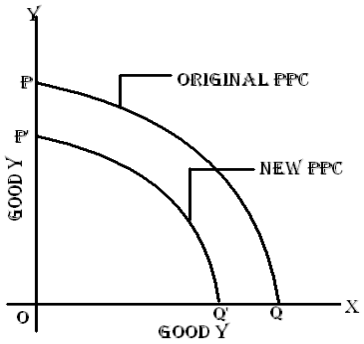
	(Rs in crores)
(i) Personal Tax	240
(ii) Net indirect tax	200
(iii) Corporation tax	180

(iv)	National income		2000
(v)	Net factor income abroad	10	
(vi)	Consumption of fixed capital		100
(vii)	National debt interest		140
(viii)	Retained earnings of private corporate sector		80
(ix)	Net current transfers to the rest of world		(-)40
(x)	Current transfers from government		60
(xi)	Current transfer from government		60
(xii)	Share of government in National income		160

MARKING SCHEME FOR MODEL QUESTION PAPER

SECTION A

1. Total utility should be falling. 1
2. Because of increased marginal opportunity cost. 1
3. One 1
4. Increase in demand. 1
5. Costs, which incurred on fixed factor. 1
6. With the death of lot of people amount of labour will fall and destruction of factories will cause a reduction in the stock of capital. This decrease in resources causes of shift of production possibility curve to the left showing less production of two goods than before. 1.1/2*2=3



7. Because with given income and given prices of two goods, if a consumer buys more of one good he has to buy less of the other good. 3
8. Normal goods – Increase in the income of consumer increases his demand. 1
   Inferior goods- Negative relationship between income and demand. 1

   Necessities of life- demand is unaffected. 1

OR

Following are the factors that affecting demand for a commodity by a consumer.

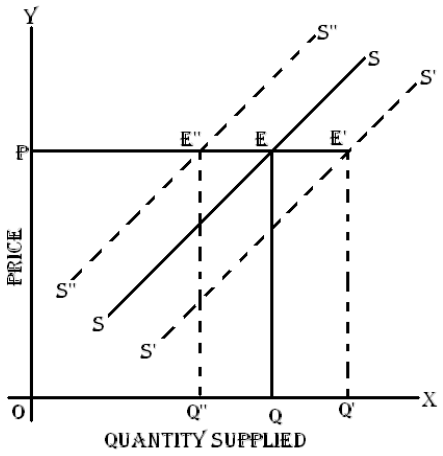
(1)Price of the commodity 1

(2)Income of the consumer 1

(3)Price of Related goods (Substitute and Complementary goods) 1

9. Supply curve shifts rightward and leftward due to increase or decrease in price of the inputs.

Diagram 3



10. Perfect competition- It refers to a market situation in which there are large number of buyers and sellers selling homogeneous product. 1

Features- (any two) 1*2=2

(1) Very Large number of buyers and sellers.

(2) Homogeneous Product

(3) Free entry and exit of firms

(4) Perfect knowledge about market

(5) No Transport Cost.

11. $e_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

(-)2 = $\frac{16}{\Delta P} x \frac{5}{80}$ 1

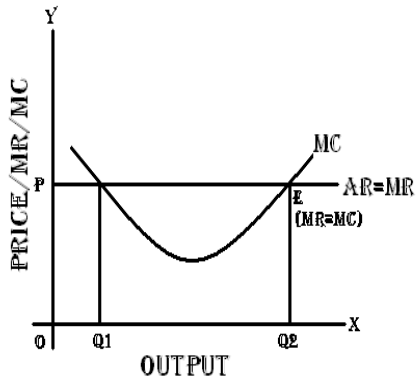
2 = $\frac{1}{\Delta P}$ 1

$\Delta P = \frac{1}{2}$

ΔP = 0.5 1

New price – P +ΔP = 5+0.5 = Rs 5.5 per unit. 1

12. PRODUCER'S EQUILIBRIUM-A producer's said to be in equilibrium when he produces the level of output at which his profit is maximum. 3+1=4



Under perfect competition, price =MR=AR which is parallel to X axis. Two conditions must be satisfied to achieve producer's equilibrium.

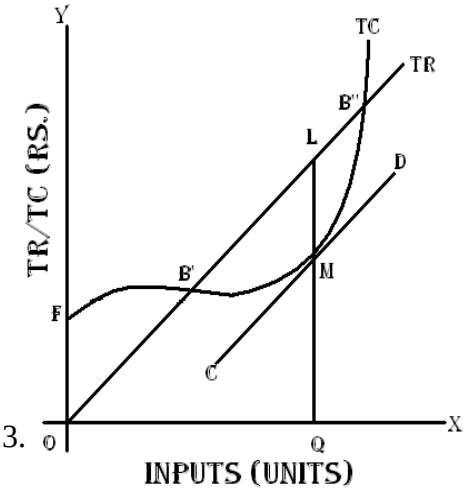
(1) MR=MC, (2) MC cuts MR from below

In the diagram OQ_2 is the equilibrium level of output because it satisfies both the conditions of equilibrium that is MR=MC and MC cuts MR from below.

(2). MC should be greater than MR after equilibrium output.

If the firm produces less than OQ_2 then profit are not maximize. On the other hand, if firm produces more than OQ_2 then there will be a loss and total profits will be reduced.<u>OR</u>

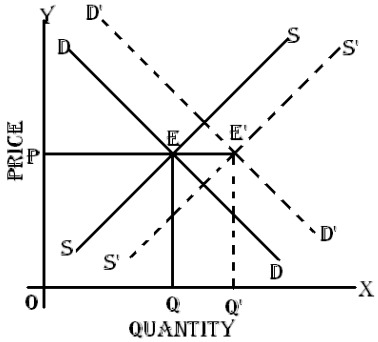
Under perfect competition, TR increases at constant rate as AR=MR and both AR, MR are constant as a firm is a price taker. Therefore, TR curve is a straight line from the origin. TC curve starts from F indicating of are a fixed cost. Line CD is tangent to TC curve such that it is parallel to TR curve. LM is the maximum vertical distance between TR and TC curves. Therefore, at OQ units of output firm earns maximum profit. Thus OQ is the firm's equilibrium level of output (Note : At point B' and B'', firm's TR=TC which therefore called as a Break-even point).



13. 2+2=4

Output	Total Cost	TFC	TVC	MC
0	40	40	0	0
1	60	40	20	20
2	78	40	38	18
3	97	40	57	19
4	124	40	84	27

14. When both demand and supply of a commodity increase (when both demand and supply curve of a commodity shift to the right), the equilibrium quantity will increase but the equilibrium price may or may not be affected. This can be shown by diagram.



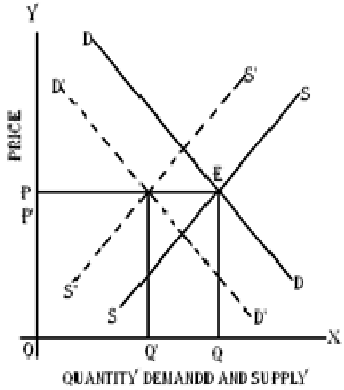
When both demand and supply of a commodity increase in equal proportion, the equilibrium price will remain the same. As shown in the diagram after change in both demand and supply price will remain the same as P and the equilibrium quantity changed from Q to Q'.

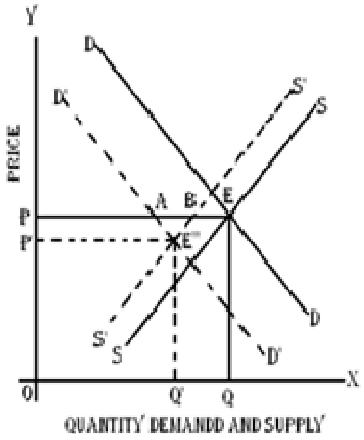
3+3=6

OR

Decrease means less quantity at the same price. Decrease in demand shift the demand curve to the left downwards. Decrease in supply shifts the supply curve to the left upwards.

(i)If decrease in demand is equal to decrease in supply, there will be no change in the equilibrium price .In the figure, both demand and supply decrease by E'E = Q'Q at a given price OP



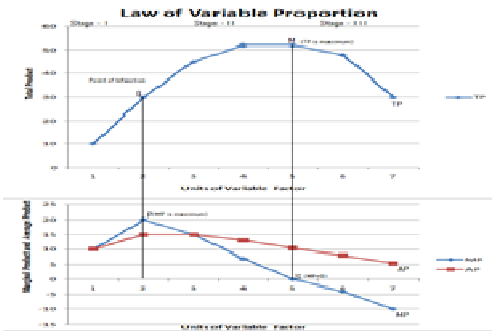


(ii)If decrease in demand is greater than decrease in supply, the equilibrium price will fall. In the figure, decrease in DD=AE. While decrease in supply is lower i.e. BE''. Therefore, equilibrium price falls from OP to OP'.

15 law of variable proportions – The law of variable proportion states that if we go on using more and more units of a variable factor (Labour) with a fixed factor (land), the total physical product increases at an increasing rate in the beginning,then increases at a decreasing rate after a level of output and ultimately it falls. In accordance with the law , the Marginal Physical Product increases in the beginning, then its start falling but remain positive and ultimately it continues to fall but also becomes negative. The following schedule and diagram illustrate the law.

Schedule and Diagram-

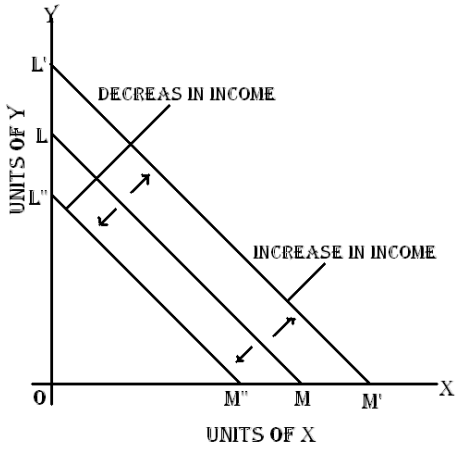
Fixed	Variable	Total	Marginal	Average	Stages
1	1	10	10	10	First Stage (Increasing Returns to Factor)
1	2	30	20	15	
1	3	45	15	13	Second Stage (Decreasing Returns to factor)
1	4	52	7	13	
1	5	52	0	10.4	
1	6	48	-4	8	Third Stage (Negative Returns to a Factor)
1	7	38	-10	5.4	



The schedule and the diagram shows that there are three phases of the law of variable proportions. In the First phase, TPP increases at an increasing rate and MPP rises. In phase II, TPP increases at a diminishing rate and MPP falls but remain positive. In phase III, TPP starts falling and MPP becomes negative. Phase I is up to unit 2 and phase II is from unit 2 to unit 5. Phase III is after unit 5**.** 2+2+2=6

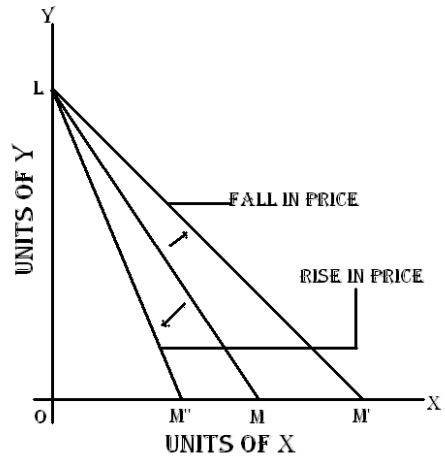
1. Shifts In Budget Line.

Case I – When consumer's money income increases but price of commodities remain constant. 3



If LM is the Budget Line. Suppose if money income is increases then consumer will be able to purchase more goods with the new income at the given prices, therefore budget line will shift to the right (L'M'). Suppose if money income is decreases then consumer will be able to purchase less goods with the new income at the given prices, therefore budget line will shift to the left (L''M''). New budget line L'M' and L"M" is parallel to the original budget line LM because slope of new budget lines remain same since price do not change.

Case II – When prices of good X change and income of consumer's remain constant. 3



If LM is the Budget Line. Suppose if price of good X falls but money income and price of Y good remain constant then consumer will be able to purchase more of good X only, therefore budget line will shift to the right (L'M'). Suppose if price of good X rises but money income and price of Y good remain constant then consumer will be able to purchase less of good X only, therefore budget line will shift to the right (L''M'').

SECTION B

17. Ex-ante aggregate demand refers to the anticipated total demand for goods and services in an economy during a given period of time. 1

18. Multiplier (K) = 1/1-mpc 1

19. Indian currency has appreciated. 1

20. The two components of money supply are : Currency held with the public and demand deposits with commercial banks. 1

21. Money as the measure of Value And Money as a medium of exchange. 1

22. NVA_{fc} = 1600+40-100-1000-60+80

= Rs560 lakhs 3

23. Domestic Product refers to the output produced by all production units located within the domestic territory of a country during a accounting period. 1

National product refers to the output produced by normal resident of a country (within and outside the country) during an accounting year. 1

When Net Factor Income from Abroad is positive then National product can be more than Domestic product 1

24. Whether machine is a final good or not depends on how it is being used .
If the machine is bought by a household, then it is a final good. 1
If the machine is bought by a firm for its own use, then also it is a final good. 1
If the machine is bought by a firm for resale then it is an intermediate good. 1

25. Three reasons. (1x3 = 3)

(1) To purchase goods and services from other countries by the domestic residents.
(2) To send gifts and grants to foreign countries.
(3) To invest and purchase financial assets in some other country

OR

Appreciation of domestic currency means a rise in the price of domestic currency (say rupee) in terms of a foreign currency (say $). It means one rupee can be exchanged for more $. So with the same amount of money more goods can be purchased from USA. It means imports from USA have become cheaper. They may result in increase of imports (from USA). **3**

26. The current account records transactions relating to the export and import of goods and services, income and transfer receipts and payments during a year. 1

The capital accounts records transactions affecting foreign assets and foreign liabilities during a year. **1**

Since import of machinery is an import of good, it is recorded in the current account. 1

27. (a) It is a capital receipt as it results in reduction of assets. 1

(b) It is a capital receipt as it creates a liability. 1

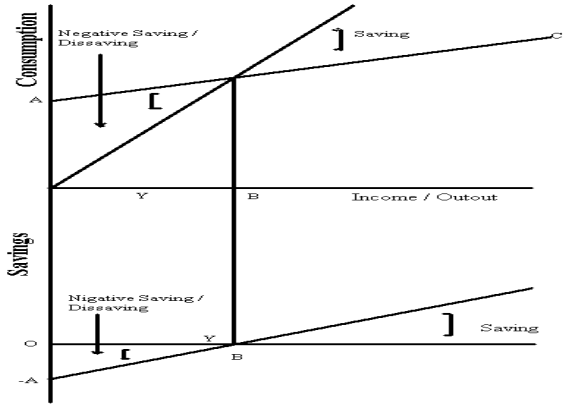
(c) It is a revenue receipt as it neither creates a liability nor reduces any assets. 1

(d) It is a revenue receipt as it neither creates a liability nor reduces any assets. 1

28. AC is the consumption curve and OA is the consumption expenditure at zero level of income. Income minus consumption is saving. When income is zero, the economy's consumption level is OA. Thus, the corresponding level of saving is –OA. So A is the starting point of saving curve.

At OB level of income consumption is equal to income, so saving are zero. So B is another point of saving curve. Join A and B and extend this line to S, AS is the saving curve. 1

(a) The level of income at which APC is equal to one is OB. 1/2
(b) A level of income at which APS is negative is OY. 1/2
2



OR

Income	Δ Y	Saving	Consumption	Δ C	MPC	APC
0	**--**	**-40**	**40**	**--**	**--**	**--**
100	**100**	**-20**	**120**	**80**	**0.8**	**1.2**
200	**100**	**0**	**200**	**80**	**0.8**	**1.0**
300	**100**	**60**	**240**	**40**	**0.4**	**0.8**
400	**100**	**120**	**280**	**40**	**0.4**	**0.7**

29. Government Budget is a statement of expected receipt and expenditure of the government during a financial year. 1

(a) Revenue deficit is the excess of revenue expenditure over revenue receipts. 1
(b) Fiscal deficit is the excess of total expenditure over total receipts excluding borrowings. 1
(c) Primary deficit refers to the deference between fiscal deficit of the current year and interest payments on the previous borrowings. 1

30. Saving Function $S = - 100 + 0.5 Y$

Consumption Function $C = Y- S$

$C = Y + 100 – 0.5 Y$

$C = 100 + 0.5 Y$

Investment I = 7000

(a) Equilibrium Level of National Income 3

$Y = AD = C + I$

$Y = 100 + 0.5\ Y + 7000$

$0.5\ Y = 7100$

$Y = 7100 / 0.5 = Rs.\ 14200$

(b) Consumption expenditure at equilibrium level of national income 3

$C = Y + 100 – 0.5\ Y$

$Y = 14200 = 100 + 0.5\ (14200)$

$= 7200$

31. Money creation or deposit creation or credit creation by the bank is determine by (1) the amount of the initial fresh deposits and (2) the Legal Reserve Ratio (LRR), the minimum ratio of deposit legally required to be kept as cash by banks. It is assumed that all the money that goes out of bank is redeposited in to the banks.

Let the LRR be 20% and there is a fresh deposit of Rs. 10000. As required, the banks keep 20% i.e. Rs. 2000 as cash. Suppose the bank lend the remaining Rs. 8000. Those who borrow use this money for making payments. As assumed who receive payments put the money back in to the bank. In this way bank receive fresh deposit of Rs, 8000.

The bank again keep the 20% i.e. Rs. 1600 as cash and lend Rs. 6400, which is also 80% of the last deposit. The money again comes back to the banks leading to a fresh deposit of Rs. 6400. The money goes on in multiplying in this way, and ultimately total money creation is Rs. 50000.

33. <u>Expenditure Method</u>

National Income	=	vi + i + vii + xiv – v + ii – xii – x	1
	=	2400+300+360+210-180+30-30-90	1.1/2
	=	Rs. 3000 Crores.	1/2

<u>Income Method</u>

National Income	=	iv + viii + (iii + ix) +xi + xiii – x	1
	=	1800+165+(600+75)+60+390-90	1.1/2
	=	Rs. 3,000 Crores.	1/2

<u>OR</u>

<u>Personal Income</u>	=	(iv - xi) + (vii- ix- x) – viii – iii	1
		=2000 - 160 + 140- (-40) + 60 – 80 – 180	1.1/2

	=	Rs. 1820 Crores.	1/2
GNDI	=	iv + ii + vi – ix	1
	=	2000 + 200 + 100 - (-40)	1.1/2
	=	Rs. 2340 Crores.	1/2
