
Time allowed: 3 hours

Maximum Marks: 100

- All questions are compulsory.
- The question paper comprises of two sections, A and B. You are to attempt both the sections.
- Questions 1 to 5 in section A and 16 to 18 in section B are MCQ's of one mark each. Choose the correct option.
- Questions 6 to 8 in section A and 19 to 23 in section B are three marks questions. These are to be answered in about 30 words each.
- Questions 9 to 11 in section A and 24 to 25 in section B are four marks questions. These are to be answered in about 50 words each.
- Questions 12 to 15 in section A and 26 to 29 in section B are six marks questions. These are to be answered in about 70 words each.

1. A growth of resources in an economy is shown on PP by:
a) leftward shift
b) unchanged PPC
c) Rightward shift
d) None of the above
2. Which of the following is not a feature of perfect competition ?
a) large no. of buyers
b) free entry and exit
c) large no. of sellers
d) differentiated products
3. Which of the following is not a feature of monopoly ?
a) single seller
b) No freedom of entry
c) close substitute
d) none of the above
4. A point below PPC indicates:
a) underutilization of resources
b) over utilization of resources
c) Inefficient use of resources
d) Both A and C.
5. Consumer preferences are monotonic means :
a) consumer prefers less of both the goods
b) consumer prefers more of both the goods
c) Consumer prefers more of at least one of the goods
d) Both B and C.
6. Discuss the subject matter of economics.
7. Assuming TFC is Rs 24. Complete the table:

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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. Explain the meaning of investment multiplier. What can be its minimum value and why?
20. Explain the meaning of GNP and NNP. How are they related to each other?
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. The following figures are based on BOP accounts:

(Rs. In crores)

Import of goods	400
Export of goods	300
Shipping	3
Travel Tourism etc	5
Interest, dividends. Etc	50
Unilateral transfers	40

Calculate Balance of Trade.

25. **What will be the effect of the following on money supply:**
- a) fall in CRR.**
- b) rise in SLR.**
- c) rise in bank rate.**
26. Explain the distinction between 'statutory liquidity ratio' and 'legal reserve ratio'.
27. Explain the steps involved in estimating national income by Income method. Also, Explain some of the precautions taken in the income method.
28. What is foreign exchange rate? Distinguish between fixed and flexible exchange rate.
29. Find Investment from the following:
- National Income: Rs 600 crores
- Autonomous consumption : Rs 150 crores
- Marginal propensity to consume: 0.70
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CBSE SAMPLE PAPER-5 (solved)
ECONOMICS
Class – XII

ANSWERS

1. Option C. Rightward shift.
2. Option B. differentiated products.
3. Option C. close substitute.
4. Option D. Both A and C.
5. Option C. Consumer prefers more of at least one of the goods.
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.

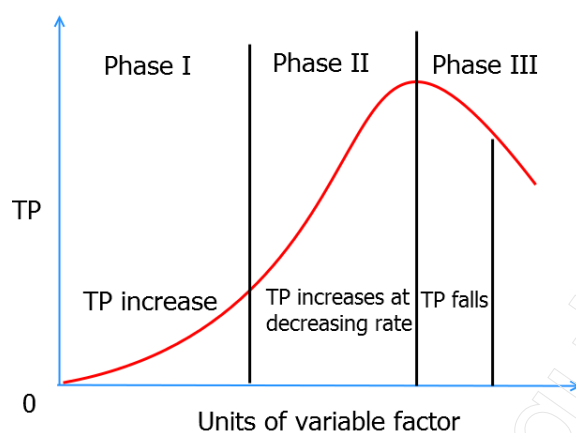
14. Law of variable proportions explains the behavior of total product mainly in three phases:

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:

- 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.

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- 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. Option A. 1.
17. Option D. All of the above.
18. Option D. Fixed Deposit (FD).
19. Investment multiplier is defined as a ratio of change in income to change in investment.
Multiplier (k) = change in income / change in investment
The value of multiplier is determined by Marginal Propensity to Consume (MPC). It is directly related to MPC.
 $K = 1 / 1 - MPC$
As the minimum value of MPC is zero, so the minimum value of k will be units (one).
 $K = 1 / 1 - MPC = 1 / 1 - 0 = 1.$
20. GDP_{MP} is the money value of all final goods and services produced in the domestic territory of a country in a year. It includes consumption of fixed capital (or depreciation) and indirect taxes. It does not include net factor income from abroad. When depreciation is subtracted, and NFIA is added to GDP_{MP} we obtain NNP_{MP} .
 $NNP = GDP - Depreciation + Net factor income from abroad.$
21. Marginal propensity to save (MPS) is the ratio of change in saving to the change in income.
 $MPS = \text{change in saving} / \text{change in income}$
Average propensity to save (APS) is the ratio of total saving to total income
 $APS = \text{total saving} / \text{total income}$
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 $APS = - 200 / 1000 = - 0.2$
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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}) = $GDP_{MP} - \text{De[recitation]} + \text{NFIA} - \text{Net Indirect taxes}$
 $850 = 1100 - \text{Depreciation} + 100 - 150$
 $\text{Depreciation} = 1100 + 100 - 150 - 850$
 $= 200 \text{ crores.}$
24. Balance of Trade = Export of goods – import of goods
 $= 340 - 400 = - 60 \text{ crores.}$
25. **(i) With a fall in CRR, the availability of credit increases and as a result the money supply increases.**
(ii) With a rise in SLR, the availability of credit and therefore money supply decreases.
(iii) With a rise in bank rate, the availability of credit decreases and therefore money supply decreases.
26. Statutory liquidity ratio (SLR) is the minimum percentage of deposits to be kept by commercial bank with itself. It is kept in the form of specified liquid assets including cash, gold and government securities.
- Cash Reserve ratio (CRR) is the minimum percentage of deposit to be kept by commercial bank with the central bank.
- The only difference between SLR and CRR is that in SLR, the commercial bank keep the minimum percentage of deposit with itself whereas in CRR the commercial bank keeps the minimum percentage of deposits with the central bank.
27. Under Income method, National Income is measured at the stages when factor incomes are paid out by the production units to the owners of the factors of production. The main steps involved in this method are as follows:
- (i) First of all production units which uses factor services are identified.
 - (ii) Estimate the following factor incomes: a) compensation of employees (b) rent (c) interest (d) profits (e) mixed incomes.
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- The sum total of the above factor incomes gives us domestic factor income (i.e. NDP_{FC})
- (iii) Add net factor income from abroad to NDP_{FC} to arrive at national income (NNP_{FC})
- NI OR $NNP_{FC} = NDP_{FC} + \text{Net factor income from abroad.}$

Precautions to be taken while measuring national income by income method are:

- a) Only factor incomes are included, but transfers are not included. Gifts, donations, charities, old age are not factor incomes but transfer income. These should not be included in the estimation of national income by income method.
 - b) The imputed rent of owners, self-occupied houses and value of production for self consumption are included.
 - c) Wealth tax, taxes on capital gains are not included in national income.
 - d) Direct taxes like income tax should be included.
28. Foreign exchange rate refers to the rate at which one country's currency is exchanged with the currency of other country. There are mainly two types of exchange rate:
- a) Fixed exchange rate: is the rate which is officially fixed in terms of gold or any other currency by the government. Such a rate does not vary with changes in demand and supply of foreign currency. Only the government has the power to change it.
 - b) Flexible exchange rate: is that rate which is determined by the forces of demand and supply of foreign exchange. There is an official intervention. It is free to fluctuate according to changes in demand and supply of foreign currency.
29. Consumption function equation is: $C = a + bY$
- $a = \text{autonomous consumption; } b = \text{MPC}$
- given $a=150$ and $b=0.70$, $Y=600$, $C = 150 + 0.70Y$
- For $Y = 600$, $C = 150 + 0.70(600)$
- $C = 570$
- For equilibrium level of income, $Y = C + I$
- $I = Y - C$, $I = 600 - 570$, $I = 30$ crores.
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