

CBSE Class 12 Economics
Sample Paper 10 (2019-20)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

- i. All the questions in both the sections are compulsory. Marks for questions are indicated against each question.
 - ii. Question number 1 - 10 and 18 - 27 are very short-answer questions carrying 1 mark each. They are required to be answered in one word or one sentence each.
 - iii. Question number 11 - 12 and 28 - 29 are short-answer questions carrying 3 marks each. Answers to them should not normally exceed 60-80 words each.
 - iv. Question number 13 - 15 and 30 - 32 are also short-answer questions carrying 4 marks each. Answers to them should not normally exceed 80-100 words each.
 - v. Question number 16 - 17 and 33 - 34 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100-150 words each.
 - vi. Answer should be brief and to the point and the above word limit be adhered to as far as possible.
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Section A

1. Fill in the blanks: _____ refers to the excess of revenue expenditure of the government over its revenue receipts.
2. Why is money received from the sale of shares is not included in national income?
3. In a two-sector economy Aggregate Demand equals
 - a. Consumption + Investment
 - b. Consumption + Exports
 - c. Consumption + Private consumption expenditure
 - d. Consumption + Government Expenditure
4. What are unilateral transfers?

OR

What are capital transfers?

5. One of the two components of Capital budget are
 - a. Capital receipts
 - b. Investment receipts
 - c. Expenditure receipts
 - d. Revenue receipts
6. Fill in the blanks: _____ is the value of MPC when $MPS = 0$.
7. Fill in the blanks: _____ is the gap showing an excess of current aggregate demand over 'aggregate supply at the level of full employment.
8. State true or false: An increase in demand for imported goods raises the supply for foreign exchange.
9. Fill in the blanks: A vicious circle set wherein the government takes more loans to repay earlier loans, which is called _____.
10. Match the following:

(a) Capital receipt	(a) does not cause reduction in asset of the govt.
(b) Revenue receipt	(b) does not cause any reduction the liability of the govt.
(c) Revenue expenditure	(c) reduction in the liability of the govt.
(d) Capital expenditure	(d) cause any reduction the asset of the govt.
11. Give the meaning of revenue deficit, fiscal deficit and primary deficit.
12. In an economy, the Marginal Propensity to Consume is 0.75. Investment expenditure in the economy increases by Rs.75 crore. Calculate the total increase in National Income.

OR

Complete the following table.

Income (Y)	Saving (S)	Marginal Propensity to Consume	Average Propensity to Save
0	-12		
20	-6
40	0
60	6

- | | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|
13. Explain the 'medium of exchange' function of money. How has it solved the related problem created by barter?
 14. Distinguish between devaluation and depreciation of domestic currency.

OR

The Central Bank takes steps to control rise in the price of foreign exchange. Explain the economic values it involves as far as the common man is concerned.

15. Explain the allocation function of a government budget.
16. (i) Are the following item included in estimating a country's national income? Give reason.
 - a. The free cloth was given to workers
 - b. Commission paid to the dealer in an old car
 - c. Leave travel allowance paid to employees by a company.
- (ii) Assuming real income to be Rs. 200 Crore and price index to be 135, Calculate nominal income.

OR

Calculate the National by Income and Expenditure method.

Particulars	(Rs. in Crore)
Private final consumption expenditure	350
Mixed-income of self-employed	35
Gross domestic fixed capital formation	70
Opening stock	15
Compensation of employees	250
Closing stock	25
Government final consumption expenditure	100
Rent	75

Consumption of fixed capital	10
Net indirect taxes	25
Interest	25
Net factor income from abroad	-5
Exports	10
Profit	100
Imports	20

17. Complete the following table.

Income (Y)	Saving (S)	Average Propensity to Consume (APC)	Marginal Propensity to Consume (MPC)
0	-40	-	-
50	-20	-	-
100	0	-	0.6
150	30	0.8	-
200	50	-	-

Section B

18. What is privatization?

19. State true or false:

Human capital it refers to the stock of skill, ability, expertise, education and knowledge in a nation at a point of time.

20. Match the following:

(a) Fiscal deficit	(i) inflation
(b) Balance of	(ii) the trading of one currency for another

payment	
(c) Price spiral	(iii) statement which records all the monetary transactions made between residents & the rest of the world
(d) Foreign exchange	(iv) shortfall in a government's income compared with its spending

21. MSP are determined with the recommendation of the commission for

- a. Aggregated Cost and Prices
- b. Agricultural Consumption and Prices
- c. Agricultural Cost and Production
- d. Agricultural Cost and Prices

22. Fill in the blanks:

_____ is defined as the number of persons unemployed per thousand persons in the labour force.

OR

Fill in the blanks:

Resources which are not in use for a long period of time and have been recently discovered are called _____ of energy.

23. Fill in the blanks:

_____ means the provision of loans especially in production for agriculture and non-agricultural sectors.

24. The Planning Commission has defined the poverty line on the basis of recommended nutritional requirement of ____ calories per person per day for urban areas

- a. 3100
- b. 2400

c. 3400

d. 2100

25. Fill in the blanks:

Extinction of plants, animals, and micro-organisms due to deforestation is called _____ loss.

26. Which policy was adopted by China in 1979

a. One child policy

b. GLP

c. Great Proletarian Cultural Revolution

d. SEZ

27. Liberty indicator indicates

a. The extent of democratic participation in social decision making

b. The extent of democratic participation in political decision making

c. None

d. Both

28. 'India has abundant natural resources'. Substantiate the statement.

OR

What kind of energy is generally used by persons at home? Can you suggest cheaper sources of lighting in homes?

29. "School Dropouts are giving way to child labour". Discuss how this is a loss to human capital?

30. Critically appraise the fiscal reforms initiated under NEP of 1991.

31. Give a chronology of different Five Year Plans of India.

OR

What was Navratna Policy? Make a list of companies included in Navratnas.

32. Compare Indo-Pak and China in brief on terms of GDP growth by studying the following data. and also tell which country has gained pace in recent years

Country	1980-90	2005-13	2015-17	2016-17	2017-18
India	5.7	7.6	7.3	7.1	6.7
China	10.3	10.2	6.8	6.7	6.4
Pakistan	6.3	4.4	5.3	5.3	5.8

33. Critically evaluate the role of the rural banking system in the process of rural development in India.

34. Though it is widely understood that infrastructure is the foundation of development, but India is yet to wake up to the call. Do you agree with this statement?

OR

What are different aspects of quality of employment?

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Solution
Section A

1. Revenue deficit
2. Because sale and purchase of shares does not involve any production of goods and services. These financial assets are mere paper claims, do not contribute to current flow of goods and services.
3. (a) Consumption + Investment **Explanation:** Because there are only two sectors: households and firms. Households consume and firms invest.
4. They refer to one-sided transfers from one country to the other. These are not trading transactions. There is no payment in response to the receipt of unilateral transfers.
Example: Gifts, aids, donations.

OR

They are concerned with capital receipts and capital payments. These involve the transfer of assets. They involve acquisition or disposal of assets by at least one of the parties to the transaction.

5. (a) Capital receipts **Explanation:** capital receipts refers to those money receipts of the government which either create a liability for the government or cause a reduction in the assets
6. 1
7. Inflationary gap
8. False
9. Debt Trap
10. (a) - (iv), (b) - (i), (c) - (ii), (d) - (iii)

11. **Revenue deficit:** When the revenue receipts are less than the revenue expenditures in a government budget, this shortfall is termed as revenue deficit. Revenue Deficit = Revenue Expenditure - Revenue Receipts

Fiscal deficit: Fiscal deficit in the budget is an important measure of deficit. IMF and World Bank generally prescribe targets for the budget deficit in terms of fiscal deficit. The Fiscal deficit is the difference between the government's total expenditure and total receipts excluding borrowings. Fiscal Deficit = Total Budget Expenditure - Total Budget Receipts (Excluding borrowings) or Fiscal Deficit = Borrowings.

Primary deficit: The difference between fiscal deficit and interest payment is known as primary deficit. Primary Deficit = Fiscal Deficit - Interest Payments. Interest Payments on public debt are transfer payments made by the government.

12. Here, Marginal Propensity to Consume (MPC) = 0.75, and Change in Investment = Rs.75 crore

We know that change in investment equals to change in savings,

Change in Savings (AS) = Rs.75 crore

We know that Marginal Propensity to Save (MPS) = 1 - MPC

Therefore MPS = 1 - 0.75 = 0.25.

Also, $MPS = \frac{\text{Change in Saving } (\Delta S)}{\text{Change in Income } (\Delta Y)}$

or $0.25 = \frac{75}{\Delta Y}$

or $\Delta Y = \frac{75}{0.25}$

or Total increase in National Income (ΔY) = Rs. 300 crore.

OR

Income (Y)	Change in Income (ΔY)	Saving (S)	Consumption (C)	Change in Consumption Expenditure (ΔC)	Marginal Propensity to Consume	Average Propensity to Save
0	-	-12	12	-	-	-
20	20	-6	26	14	0.7	-0.3
40	20	0	40	14	0.7	0

60	20	6	54	14	0.7	0.1
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Formulae used

$C = Y - S$, $MPC = \Delta C / \Delta Y$, $APS = S / Y$.

13. The most important function of money is that it serves as a medium of exchange between the parties involved in the transaction. In the barter economy there were the problems of wastage of time and resources, money avoids these problems and improves the transactional efficiency. It also promotes allocational efficiency in the trade and production of goods and services. Hence, it can be said that money has separated the acts of sales and purchases. This function of money has also solved the problem of 'double coincidence of wants' created by the barter system of exchange. In the barter system, the difficulty was experienced in the exchange of goods as the exchange in barter system required a double coincidence of wants. Money has removed this difficulty. Now a person can sell his goods to any other person for money and then he can use that money to buy the goods he wants from others who have these goods. So, the 'medium of exchange' function of money has solved the problem of 'double coincidence of wants' related to the barter system of exchange.
14. Depreciation of a currency means a decrease in the price of the domestic currency in terms of the foreign currency. It corresponds to an increase in the exchange rate. For eg. if the value of a rupee in terms of US dollar falls from Rs. 60 to Rs. 65, more rupees, i.e. 65 rupees will be required to buy one US dollar. Depreciation of currency encourages exports and discourages imports.

Like depreciation, devaluation means fall in the external value of the domestic currency in terms of the foreign currency. Both devaluation and depreciation make domestic goods cheaper for the foreigners .

However, devaluation is done when a country has adopted fixed exchange rate system while depreciation is done when a country has adopted a floating exchange rate system.

OR

The Central Bank's steps to control rise in the price of foreign exchange involves the following economic values as far as the common man is concerned.

- i. Exports will reduce. This will ensure an adequate supply of goods in the domestic markets.
- ii. It will increase imports in the country and help to check the inflation of necessary items.

15. Market economies achieve optimum allocation of resources by producing such goods and services which the consumers wish to buy. But this optimum allocation of resources achieved by the market forces of demand and supply does not necessarily mean that the resources are efficiently utilised in terms of social welfare. Private enterprises will always desire to those areas of production where profits are high. Social welfare often suffers as the market economies do not produce enough of public goods which satisfy the needs of the society. These market economies also fail to account for externalities such as environmental pollution and excessive exploitation of the non-renewable resources. So, the government, through its budget should be make sufficient provisions for the supply of public goods like defence, law and order, public administration. It should also address environmental issues by offering subsidies on the use of cleaner energy like CNG, PNG, Solar energy and wind energy. Since the resources are scarce, distribution of the scarce resources in a balanced way is the topmost objective of the government budget. To reallocate the resources it can levy heavy taxes on luxury goods and can provide subsidies on socially useful goods. Through budget government can allocate the resources keeping in mind the needs of future generation also.

- i. i) Scarce resources: In all the economies, resources are scarce in relation to their wants. So, to
- ii. (ii) To balance between the goal of profit maximisation and social welfare - but through the budget government can maintain a balance. To reallocate the resources it can levy heavy taxes on luxury goods and can provide subsidies on socially useful goods.
- iii. (iii)Future needs:

16. (i) Treatment of the following items in the calculation of the national income:

- a. Free cloth given to the workers is a part of wages in kind i.e. compensation to the employee such compensation to employee is paid for the productive services in the economy, it is included in the national income.
- b. Commission paid to a dealer in an old car is included in the estimation of national income because it is the income of the dealer for his productive services to various parties. Whether it is for a new car or an old car, this commission will always be included.
- c. Leave travel allowance paid to employees by a company, yes, it is a part of Compensation of Employees as it is fixed under their employee-agreement so it will be included in national income.

$$(ii) \text{ Real Income} = \text{Real Income} = \frac{\text{Nominal Income}}{\text{Price Index}} \times 100$$

$$\text{Nominal Income} = \frac{200 \times 135}{100}$$

Nominal Income = 270 Crore

OR

Income Method:

$\text{NDP}_{\text{FC}} = \text{Compensation of Employees} + \text{Operating surplus (Rent + Royalty + Interest + Profit)} + \text{Mixed income of self employed}$

$$= 250 + (75 + 0 + 25 + 100) + 35 = \text{Rs.485 crore}$$

$\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{Net factor income from abroad}$

$$= 485 + (-5) = \text{Rs. 480 crore}$$

Expenditure Method:

$\text{GDP}_{\text{MP}} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross domestic capital formation [Gross domestic fixed capital formation + Change in stocks (Closing stock - Opening stocks)]} + \text{Net exports(Exports - Imports)}$

$$\text{GDP}_{\text{MP}} = 350 + 100\{70 + 25 - 15\} + (10 - 20)$$

$$= \text{Rs.520 crore}$$

$\text{NNP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Depreciation} + \text{Net factor income from abroad} - \text{NIT}$

$$\text{NNP}_{\text{FC}} = \text{Rs.520} - 10 + (-5) - 25$$

$NNP_{FC} = \text{Rs.480 crores}$

17.

Income (Y)	Saving (S)	Consumption (C)	Average Propensity to Consume (APC)	Marginal Propensity to Consume (MPC)
0	-40	40	∞	-
50	-20	70	1.4	0.6
100	0	100	1	0.6
150	30	120	0.8	0.4
200	50	150	0.75	0.6

Formulae Used

$$C = Y - S; APC = C/Y, MPC = \frac{\Delta C}{\Delta Y}$$

Section B

18. It is the process that transfer of ownership from the public sector to the private sector.

19. True

20. (a) - (iv), (b) - (iii), (c) - (i), (d) - (ii)

21. (d) Agricultural Cost and Prices

Explanation: The government decided the support prices for various agricultural commodities after taking recommendations of Commission for Agricultural Costs and Prices

22. Unemployed rate

OR

Non-conventional sources

23. Rural credit

24. (d) 2100

Explanation: In India, defining a poverty line has been a controversial issue, especially since mid-1970s when the first such poverty line was created by the erstwhile Planning Commission. It was based on minimum daily requirement of 2,400 and 2,100 calories for an adult in rural and urban areas, respectively.

25. Bio-diversity

26. (a) One child policy

Explanation: The one-child policy, a part of the family planning policy, was a population planning policy of China. It was introduced in 1979

27. (d) Both

Explanation: Liberty indicators are the rights of citizens of a country to play a part in the governance of their country. We strongly feel that liberty indicators should be considered as indicators of the development because development is a multi-dimensional phenomenon. Liberty indicators are - important components of quality of life which represents the functioning of an economy.

28. India is fortunate enough to have abundant natural resources. It comprises of rich and fertile soil, plenty of rivers and tributaries, green forests, mineral deposits, mountains, etc. The Indo-Gangetic plains are the most fertile, densely populated and cultivated plains in the world. It stretches from the Arabian Sea to the Bay of Bengal. The black soil of the Deccan Plateau is suitable for the cultivation of cotton in the country. India's lush green forests serve as a natural cover for the majority of the population. India holds more than 20 % of the world's total iron ore reserves. There are mountain ranges that facilitate the operation of the mini hydel plants. It also has a vast variety of flora of 15,000 species of plants. The country is also endowed with numerous minerals that are found under the earth's surface like coal, natural gas, copper, diamonds, etc.

OR

The consumption of energy for domestic purposes heavily depends on electricity. New and advanced lighting technology is Compact Fluorescent Lamp (CFL) which is a more efficient alternative to domestic energy consumption. According to the Bureau of Energy Efficiency (BEE), the Compact Fluorescent Lamps (CFLs) consume 80% less power as compared to ordinary bulbs. Solar energy could also be generated for domestic use. Biogas can be used for cooking. More than 60% of Indian households depend on the traditional source of energy to meet their regular cooking and heating needs. Firewood, agricultural waste and dried dung are a non-commercial source of energy.

29. A child labour earns in his entire life what a doctor or an engineer earns in one year. If the child would have taken education, he would have been an asset for the

economy as well as society. But since children are dropping out from the school and joining labour force due to their miserable economic conditions, they are not getting requisite education and skills to get converted into human capital. Today human capital is considered to be an important factor of economic growth, but the child who is a school dropout is not added to the human capital as a result of which he will not be able to contribute to the economic growth of a country. Therefore school dropouts is a loss to human capital.

30. Fiscal reforms are concerned with the reforms initiated in government's taxation and public expenditure policies.

The following reforms were introduced in this category

- i. The fiscal reforms simplified the tax structure and lowered the rates of taxation. The maximum rate of income tax was brought down to 30% from 51%. Since 1991 there has a considerable reduction in the tax rates of individuals as it was felt that higher tax rate was one of the main reason for tax evasion. The procedures relating to taxation were also simplified.
- ii. The rates of various indirect taxes, such as custom duty, excise duty, etc were reduced considerably.
- iii. The government decided to reduce subsidies so that it can control expenditure.
- iv. Conscious efforts were made by the government to control its expenditure so that a mounting deficit could be controlled.
- v. Liberalisation of the trade and investment regime was initiated to increase the international competitiveness of industrial production and also foreign investments and technology into the economy. The trade policies aimed at reducing tariff rates and removal of licensing procedures for imports. These measures helped to reduce tax evasion and increased government's revenues. By controlling its expenditure and by increasing revenues, the government succeeded to a certain extent in controlling the budget deficit.

31. 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

OR

Originally, the term Navaratna meant a talisman or ornament composed of nine precious gems. Later, this symbology was adopted in the courts of Emperor Vikramaditya and the Mughal Emperor Akbar, where the Navaratnas were a group of nine extraordinary men in their respective courts. In 1997 Govt. of India announced Navratna Policy in order to improve efficiency, enhance professionalism and enable them to compete effectively in the liberalised global environment. The Navratna status is offered to PSEs, which gives a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad. Under this policy, 9 most profitable PSUs were given status of navratna and 97 other profit-making PSUs were called Mini ratnas. List of companies included in Navratnas is as follows:

- i. Indian Oil Corporation Ltd. (IOC)

- ii. Bharat Petroleum Corporation Ltd.(BPCL)
- iii. Hindustan Petroleum Corporation Ltd.(HPCL)
- iv. Oil and Natural Gas Corporation Ltd.(ONGC)
- v. Steel Authority of India Limited (SAIL)
- vi. Indian Pharmaceuticals Corporation Ltd.(IPCL)
- vii. Bharat Heavy Electronics Ltd. (BHEL)
- viii. National Thermal Power Corporation Ltd. (NTPC)
- ix. Videsh Sanchar Nigam Ltd. (VSNL)

Later two more PSUs were included in the list:

- 1. Gas Authority of India Limited (GAIL)
 - 2. Mahanagar Telephone Nigam Limited (MTNL)
32. Pakistan has gained pace in recent years in terms of GDP China was the leader of economic growth but its growth rate is falling. The table indicates that China was the leader of growth rate upto 2013. Now India is becoming the leader in 2015-16, 2016-17 and 2017-18 also because the rate of growth of GDP in India is at the top.
33. Rural banking has raised the level of rural farm and non-farm output, income and employment, especially after the Green Revolution.

The following are the advantages of an increase in rural banking facilities:

- i. Raising farm and non-farm output by providing services and credit facilities to farmers.
- ii. Achieving food security which is clear from the abundant buffer stocks of grains.
- iii. Generating credit for self-employment schemes in rural areas.

However, the expansion and promotion of rural banking sector have taken a back seat after reforms, and it suffers from the following limitations:

- i. The source of institutional finance is inadequate to meet the requirements of agricultural credit.
- ii. Small and marginal farmers receive only a very small portion of the institutional credit.
- iii. Rural banking is suffering from the problems of a large amount of over dues and default rate.
- iv. There exist regional inequalities in the distribution of institutional credit.

To improve the situation, banks should build a relationship with farmers. Also, the

farmers should be made understand the importance of thrift and of efficient utilisation of the loaned amount.

34. The statement given above is true. At present India invests only 34% of its GDP on infrastructure which is far below that of China. So, India needs to boost its infrastructural investment. Unless proper attention is paid to the development of infrastructure, it is likely to act as severe constraint on economic development. To understand this better, the following points highlights the state of infrastructure in India:

- Earlier the government has been solely responsible for developing the country's infrastructure. But the government's investment in infrastructure was inadequate. So the private sector in partnership with the public sector started playing an important role in the development of infrastructure in India.
- Even after so much of technical progress, rural women(about 90%) in India still use bio fuels to meet their energy requirements.
- In the census of 2001, only 56% of the rural households had electricity connection and 43% still use kerosene.
- Tap water availability is limited to only 24% rural households and access to improved sanitation in rural areas was only 20%.

OR

There are certain criteria on the basis of which we can check quality of employment such as productivity of employment; proportion of workers engaged in regular and casual labour; and proportion of workers in organized and unorganized sectors.

1. Productivity of employment: Only the status of being employed does not itself necessarily ensure a decent level of living in India. In 1999-2000, of the total employed persons about 23.87% are the working poor. This means that the major problem relates to that of the working poor as the productivity of employment is very low. Low educational and skill levels of the workers are main causes of the low productivity of employment.

2. Proportion of workers in organized and unorganized sector: If the share of unorganized employment increases it means an overall deterioration in the quality of

employment. The quality of employment can be considered low if the size of unorganized sector is larger than the organized sector. It was only about 7% of the total employment in 1999-2000 and over the years the share of the organized sector employment has been shrinking. We may note that manufacturing construction, trade and transport are sectors where there is large concentration of unorganized workers. The share of the unorganized sector employment which was estimated to be around 93% before 1997 should have gone up and may further increase over the coming years as there was an increase in the absolute numbers. Many studies at micro-level show that flexibility in the labour market increased after the introduction of economic reforms in the country. Despite the existence of restrictive labour laws, the firms have been able to retrench a large number of permanent workers while many units were closed leading to unemployment of thousands of workers during the reform period.

3. Proportion of workers engaged as regular and casual labour: At present, low earning, poor condition of work, lack of social protection vulnerability to the risks, hazards, irregularity and uncertainty of work availability. Such problems in the economy has been felt due to the increase in the casualisation of the workforce. This is also a dimension of deterioration in the quality of employment. Those in regular wage paid or salaried jobs continue to constitute around 14% of all workers for over two decades from 1977-78 to 1999-2000. The category of casual employment has steadily increased from 27% in 1977-78 to 32% in 19993 -1994 and rose further to 33% in 1999-2000.