

CBSE Class 12 Economics
Sample Paper 01 (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. Defined mixed income.

3. If the initial increase in the investment is Rs 1000 and $MPC=0.8$, the level of consumption expenditure will increase by

a. 3000

b. 4000

c. 2000

d. 1000

4. What is meant by depreciation of domestic currency?

OR

What is Real Effective Exchange Rate (REER)?

5. Another Implication of Fiscal deficit is

- a. it decreases financial burden for future generation
- b. it increases financial burden for future generation
- c. it does not affect financial burden for future generation.
- d. it maintains financial burden for future generation

6. Fill in the blanks:

_____ is the situation under which aggregate demand falls short of aggregate supply at full employment level.

7. Fill in the blanks:

If $MPC = 1$, the value of the multiplier is _____.

8. State true or false:

Foreign exchange received on account of export of sugar will be recorded in current account.

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) Profit earned by public sector	(i) capital expenditure
(b) Borrowing from public	(ii) revenue expenditure

(c) Wages paid	(iii) revenue receipt
(d) Construction of school building	(iv) capital receipt

11. Are fiscal deficits necessarily inflationary? Give reasons in support of your view.
12. In an economy autonomous consumption is 500, Marginal Propensity to Save is 0.2 and investment expenditure is Rs 2,000. Calculate its equilibrium level of income.

OR

In an economy, the consumption expenditure is Rs. 8,750 crore and the ratio of Average Propensity to Consume and Average Propensity to Save is 7:1. Calculate the level of income in the economy.

13. Explain the 'bank of issue' function of the Central Bank.
14. There has been a move from a regime of the commitment of fixed-price convertibility to one without commitments where residents enjoy greater freedom to convert domestic currency into foreign currencies but do not enjoy a price guarantee. With respect to the above statement, discuss some of the exchange rate arrangements that countries have entered into the bring about stability in their external accounts.

OR

In last few years, the trade balance of India is mostly negative. In order to make this trade balance positive, the government has started "Make in India". With respect to the above statement explain what is negative trade balance and why it is necessary to maintain trade balance in international trade? How the position of India's Trade Balance will improve with "Make In India" scheme?

15. Explain the 'Economic stability' objective of Govt. budget.
16. (i) GDP does not include all the economic transactions in it. Comment.

(ii) Calculate National Income from the following data:

Items	Rs in crore

Net current transfers to abroad	15
Net Exports	-20
Private final consumption expenditure	400
Net factor income to abroad	10
Government final consumption expenditure	100
Indirect Tax	30
Net Domestic Capital Formation	50
Change in Stocks	7
Subsidy	5
Depreciation	20

OR

From the following data, calculate Gross National Product at Market Price by :

- a. Income Method and
- b. Expenditure Method

Items	(Rs. in Crore)
Mixed-income of self-employed	400
Compensation of employees	500
Private final consumption expenditure	900
Net factor income from abroad	(-)20
Net indirect taxes	100
Consumption of fixed capital	120
Net domestic capital formation	280
Net exports	(-30)
Profits	350
Rent	100

Interest	150
Government final consumption expenditure	450

17. Explain determination of equilibrium level of income using consumption plus investment approach. Use diagram.

Section B

18. Why is New Economic Policy called the policy of 'economic reforms'?
19. State true or false:

All inputs which are required in the production process such as machine, tools and implements, factory building, etc are called human capital.

20. Match the following:

(a) Industrial reforms	(i) reforms related to foreign exchange etc.
(b) Financial reforms	(ii) reforms related to govt. taxation policies
(c) Fiscal reforms	(iii) reforms related to banking sector
(d) External sector reforms	(iv) reforms related to licensing, expansion etc.

21. TANWA stands for
- Tripura Women in industry
 - Tamil Nadu men in agriculture
 - Tamil Nadu Women in Agriculture
 - Tripura Women in agriculture

22. Fill in the blanks:

The _____ participation rate (WPR) is defined as the number of persons employed per thousand persons.

OR

Fill in the blanks:

_____ refers to the capital devoted to provision of services that facilitates production, distribution, and consumption.

23. Fill in the blanks:

More than _____ of farm produce gets wasted due to lack of storage.

24. Structural unemployment is due to

- a. shortage of raw materials
- b. privatisation
- c. heavy industry bias
- d. inflationary conditions

25. Fill in the blanks:

Destruction of the stratospheric ozone layer which shields the earth from ultra-violet radiation that are harmful to life is called _____.

26. What was the alternative name of First Five Year Plan in 1956 of Pakistan?

- a. Long-term plan
- b. None of these
- c. Short-term plan
- d. Medium-term plan

27. Fertility rate is highest in

- a. China
- b. Pakistan

c. India

d. None

28. Looking at the current crisis of air pollution in northern India, what measures would you suggest to improve the environment?

OR

Should private health care be monitored? Why?

29. As an educated person, what will be your contribution to the cause of education?
30. India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?
31. What is Planning Commission? What are its functions?

OR

Write a brief note on International Monetary Fund (IMF). Also state its objectives.

32. Make a comparative study between India, China and Pakistan in the context of sex ratio, fertility and Urbanisation by understanding the given data.

Country (2015)	Sex ratio	Fertility	Urbanisation
India	929	2.43	33
China	941	1.50	56
Pakistan	947	2.62	39

33. Identify the benefits and limitations of organic farming.
34. Infrastructure contributes to the economic development of a country. Do you agree? Explain.

OR

Briefly discuss the various adverse effects of unemployment.

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Solution
Section A

1. Revenue deficit
2. Mixed income refers to the income generated by own account worker and unincorporated enterprises.
3. (b) 4000

Explanation: Here, MPC = 0.8

$$K = \frac{1}{1-0.8} = \frac{1}{0.2} = 5$$

$$\frac{\Delta y}{\Delta I} = 5$$

$$\Delta y = 5\Delta I \text{ --- (i)}$$

$$\text{Also, } \frac{1}{1 - \frac{\Delta C}{\Delta y}} = 5$$

$$\frac{\Delta y}{\Delta y - \Delta c} = 5$$

$$\Delta y = 5(\Delta y - \Delta c) \text{ --- (ii)}$$

from (i) and (ii) we get,

$$5\Delta I = 5(\Delta y - \Delta c)$$

$$1000 = 5000 - \Delta c \text{ --- using (i)}$$

$$\Delta c = 4000$$

4. Depreciation of domestic currency means that the value of domestic currency decreases in relation to the value of foreign currency typically in a floating exchange rate system in which no official currency value is maintained.

OR

It is that type of effective exchange rate which accounts for changes in the price level across different countries of the world.

5. (b) it increases financial burden for future generation Explanation:

Future generations inherit a laggard economy where GDP growth is low because a significant percentage of national income is used to pay the past debts.

6. Excess supply

7. Infinity

8. True

9. Debt Trap

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

11. Fiscal deficits are not necessarily inflationary; though, they are generally regarded as inflationary. When the government expenditure increases and tax reduces, there is a government deficit and there will be a corresponding increase in the aggregate demand. However, the firms might not be able to meet the growing demands, forcing the price to rise. Hence fiscal deficits are inflationary in this sense.

But on the other hand, initially if the resources are underutilized (due to insufficient demand) and output is below full employment level, then with the increase in government expenditure, more factor resources will be employed to cater to the increasing demand without exerting much pressure on price to rise. In this situation, a high fiscal deficit is accompanied by high demand, greater output level and lesser inflationary situation. Hence, whether the fiscal deficits are inflationary or not depends on how close is the original output level to the full employment level.

12. We have Autonomous Consumption $\bar{C} = 500$, Marginal Propensity to Save(MPS) = 0.2 and Investment Expenditure (I) = 2,000

We know that,

Marginal Propensity to Consume(MPC) = 1 - MPS = 1-0.2 = 0.8.

Therefore MPC = 0.8

Now Consumption function will be, $C = \bar{C} + bY$ [where $b = MPC$]
 $= 500 + 0.8Y$

At equilibrium level, National Income,

$$(Y) = C + I$$

$$\Rightarrow Y = 500 + 0.8Y + 2,000$$

$$\Rightarrow Y - 0.8Y = 500 + 2,000$$

$$\Rightarrow 0.2Y = 2,500$$

$$\Rightarrow Y = 2,500/0.2 = 12,500$$

$Y = \text{Rs. } 12,500$. Therefore equilibrium level of Income is equal to Rs.12,500.

OR

Calculations of the level of income in the economy:

Here, Consumption Expenditure (C) = Rs. 8,750 crore

$$\text{Also, } \frac{\text{Average Propensity to Consume (APC)}}{\text{Average Propensity to Save (APS)}} = \frac{7}{1}$$

so, the ratio of consumption to income (APC)

$$= \frac{7}{7+1} = \frac{7}{8}$$

$$\text{Also, } C = \frac{7}{8} \times Y$$

[Where Income (Y) = Consumption (C) + Saving (S)].

$$\text{or } Y = \frac{8}{7} \times 8,750$$

Hence the National Income = Rs 10,000 crore.

13. The central bank is given the sole monopoly of issuing currency in order to secure control over the volume of currency and credit. These notes circulate throughout the country as legal tender money. It has to keep a reserve in the form of gold and foreign securities as per statutory rules against the notes issued by it. It may be noted that RBI issues all currency notes in India except one rupee note. Again, it is under the directions of RBI that one rupee notes and small coins are issued by government mints. Remember, the central government of a country is usually authorised to borrow money from the central bank. When the central government expenditure exceeds government revenue and the government is unable to reduce its expenditure, then it borrows from the RBI. This is done by selling security bills to RBI which creates new currency notes for the purpose. This is called monetisation of budget deficit or deficit financing. The government spends new currency and puts it into circulation to

meet its expenditure.

14. Mostly three exchange rates used to bring about stability In their external accounts by countries.
- a. **Fixed Exchanged Rate** The exchange rate that is official fixed and declared by the government. There are two kinds of fixed exchange rate
 - i. **Gold Standard System** As per this system gold was taken as the common unit of parity between currencies of different countries in the circulation. Each country was to define value of its currency in terms of the other currency was fixed considering gold value of each currency.
 - ii. **The Bretton Woods System** As per this system all currencies were pegged or related to US dollar at a fixed exchange rate This system gave birth to international and monetary funds as the central institution in the international monetary system.
 - b. **Flexible Exchange Rate** The exchange rate is determined by the forces of demand and supply of different and currencies in the foreign exchange market. It is a flexible rate because the value of a currency is allowed to fluctuate according to change in demand and supply of foreign exchange.
 - c. **Managed Floating Rate System** The system in which the central bank allows the exchange rate to be determined by market forces but intervenes at times to influence the rate. For this, central bank maintains reserves of foreign exchange to ensure that the exchange rate stays within the targeted value.

OR

Negative trade balance: If the import exceeds the exports, then it is called the negative trade balance.

The necessity of maintaining Trade Balance: It is necessary to maintain trade balance in international trade, otherwise there would be a negative trade balance.

Improvement with the "Make In India" scheme: Due to this, many foreign companies will produce their goods in India and will export them to foreign countries and this will help in improvement in the Balance of payments and increased Forex reserves.

15. Economic stability is an objective of government budget. Government tries to establish economic stability by its budgetary policies. It refers to a situation where there is no fluctuation in price level in an economy. Economic stability is achieved by saving the economy from harmful effects of various trade cycles and its phases, i.e. boom, recession, depression and recovery, through various budgetary tools.
16. (i) Indian Economy is a developing economy. There occur several non-monetary transactions. In rural India, people exchange some goods with other goods or exchange goods with services without involving money. Money Value of such transactions is excluded from GDP. Thus GDP is not a true index of all the transactions of a nation.

(ii) National Income

$GDP_{MP} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net domestic capital formation} + \text{Net exports}$

$= 400 \text{ crore} + 100 \text{ crore} + 50 \text{ crore} + (-) 20 \text{ crore}$

$GDP_{MP} = \text{Rs. } 530 \text{ crore}$

$NNP_{FC} = GDP_{MP} - \text{Net Factor Income to abroad} - \text{Net indirect taxes (Indirect Taxes - Subsidy)} - \text{Depreciation}$

$= 530 \text{ crore} - 10 \text{ crore} - (30 \text{ crore} - 5 \text{ crore}) - 20 \text{ crore}$

$= 475 \text{ crore}$

OR

Expenditure Method

$GDP_{MP} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross Domestic capital formation (Net domestic capital formation} + \text{Consumption of fixed capital)} + \text{Net exports (or - Net imports)}$

$GDP_{MP} = 900 + 450 + (280 + 120) + (-30)$

$GDP_{MP} = \text{Rs. } 1720$

$GNP_{MP} = GDP_{MP} + \text{Net factor income from abroad (or -Net factor income to abroad)}$

$1720 + (-20) = \text{Rs. } 1700 \text{ crore}$

Income Method

NDP_{FC} = Compensation of employees + Operating surplus + Mixed-income

Operating surplus = Rent + Royalty + Interest + Profit

$NDP_{FC} = 500 + (100 + 0 + 150 + 350) + 400$

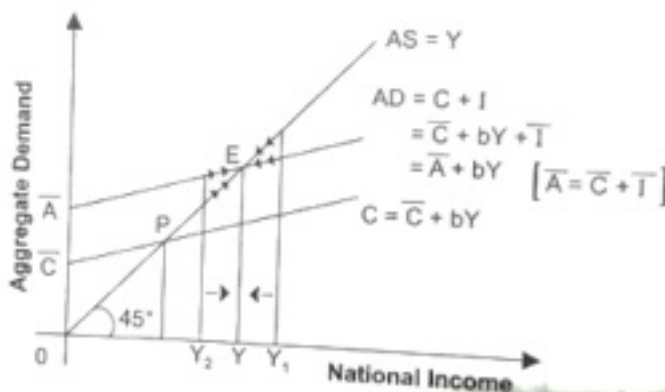
= Rs.1500

$GNP_{MP} = NDP_{FC} + \text{Depreciation} + \text{Net factor income from abroad} + \text{NIT}$

$GNP_{MP} = 1500 + 120 + (-20) + 100$

$GNP_{MP} = \text{Rs.1700 crore}$

17. i. Keynes assumes AS as perfectly elastic. Keynes considers AS as only the passive determinant of equilibrium GDP. He treats AD as the principal determinant of GDP. AD has components C and I. There is always some minimum level of consumption which is denoted by \bar{C} called autonomous consumption. C rises as Y rises. The behaviour of C can be written as $C = \bar{C} + bY$
- Investment (I) is constant at all level irrespective of any change in income. This is autonomous investment. AD shows the combined behaviour of C+I. Relating AD to Y we get equilibrium GDP when $AS=AD$ or when $Y = C+I$.
- ii. If due to some disturbance, we divert from that position, the economic forces will work in such a manner so as to drive us back to the original position, i.e., aggregate demand is equal to aggregate supply.



- iii. In the above-mentioned figure, at point P, income = consumption, which is known as to be a break-even point. The equilibrium level of national income is attained at point E, where aggregate demand = aggregate supply.
- iv. If due to some disturbance we divert from our position, like when $AD > AS$ [at Y_2], then, production will have to be increased to meet the excess demand.

Consequently, national income will increase. As we know positive relationship exists between national income and consumption, so consumption will increase, which will thereby increase the aggregate demand till we reach the equilibrium.

- v. As against it, when $AD < AS$ [at Y_1], then there would be stockpiling and producers will produce less. National income will fall and as a result consumption will start falling, which will thereby reduce the aggregate demand till we reach the equilibrium.

Section B

18. New Economic Policy is called the policy of economic reforms since it seeks to remove the inefficiencies in the economic system. Moreover, it lead to the reformation of the economy since 1991.

19. False

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

21. (c) Tamil Nadu Women in Agriculture

Explanation: TANWA is a project launched in Tamil Nadu with a view to training women in diverse techniques of farming.

22. Work force

OR

Infrastructure

23. 10%

24. (b) privatisation

Explanation: Structural unemployment is a type of long-term unemployment caused by shifts in the economy.

25. Ozone depletion

26. (d) Medium-term plan

Explanation: The five-year plans were given the name of Medium Term Development Framework (MTDF) in 2004.

27. (b) Pakistan

Explanation: The number of children who would be born per woman (or per 1,000 women) if she/they were to pass through the childbearing years bearing children according to a current schedule of age-specific fertility rates.

28. The following measures can help in reducing air pollution: - a) Use of public transport like buses and metro so as to reduce vehicular pollution. b) Use of CNG instead of petrol or diesel. c) The government should take immediate steps to educate the farmers about the ill effects of stubble burning and also provide alternate methods to dispose off the farm stubble. d) The inspection and maintenance system should be strengthened so that erring individuals/firms are fined.

OR

It is necessary for the government to monitor health sector due to following reasons:

(a) Health is a fundamental human right and is basic to human survival. These services can't be left free from government intervention in the hands of private sector which is typically profit-minded.

(b) The impact of health sector is life long and irreversible. In case of no government intervention, it may create damaging impact on the human capital of the economy.

(c) Expenditure on this sector is important for the economic growth of a nation for which government must intervene.

29. As an educated person, I will contribute to the cause of education in following ways:

- a. Each one teach one: I will teach one illiterate person every year. Each year I must make at least one person literate.
- b. Create Awareness about consumer rights, women rights and duties of a good citizen in our surroundings: An educated person can create awareness about consumer rights, women rights and duties of a good citizen in our surrounding.
- c. I will prepare kids to become global citizens in a way that really nurtures their uniqueness.

30. Most multinational corporations and even small companies are outsourcing their services to India because of the following advantages:

- i. **Availability of Cheap Labour:** India is a country with a large population and thus has abundant supply of labour. Due to this reason, labour in India is available at low wage rates. This helps the foreign companies in reducing their cost of operation by outsourcing their business processes to India.
- ii. **Skill and Accuracy:** India has made a pool of talent in the form of educated and trained youth who have the required skill and can work with accuracy in the business processes such as accounting, record keeping, IT consultancy, etc. There is an availability of English speaking persons and skilled human resources are plenty in India. They are highly conscious towards quality.
- iii. **Continuity and Risk Management:** Periods of high employee turnover add uncertainty to the operations of a company. Outsourcing will provide a level of continuity to the company while reducing the risk that a substandard level of operation would bring to the company.
- iv. **Reduced Overhead:** Overhead costs of performing back-office functions are extremely high but due to the outsourcing these costs can be reduced.
- v. **Advanced Technology:** There is availability of advanced technology at par with western countries.
- vi. **Flexible Human Resource:** We have flexible human resource to work in various time zones.
- vii. **Multilingual Support:** Indians can also offer multilingual support to their customers.

31. Immediately after the adaptation of new constitution on January 26, 1950, the Planning commission came in to existence. Planning Commission is a constitutional body. Prime Minister is ex-officio chairman of this commission. The broad functions of Planning Commission are:

- i. Assessment of material, capital and human resources
- ii. Formulation of plan for their most effective and balanced utilization
- iii. Determination of priorities and allocation of resources etc.
- iv. To execute suitable policies for the economic development of India.

OR

IMF was conceived at the Bretton Woods Conference held in 1944 and set-up in 1946.

The main objective of setting up of such an organisation was to administer a code of good conduct in international liquidity of its member countries and to grant short-term loans to economies, experiencing a temporary deficit in Balance of Payments (BoP). IMF started to function from March 1947.

Its headquarters is located in Washington DC. There are 189 member countries including India. The highest authority of the IMF is the Board of Governors, which consists of the most part of Ministers of Finance or Central Bank Governors of the member countries. Each member country appoints one Governor. The board generally meets only once in a year. The main objectives of IMF are as follows

- i. **To promote international monetary cooperation:** IMF provides the machinery for consultation and collaboration on international monetary problems. During the Second World War, IMF had played a vital role to promote monetary co-operation amongst the different countries of the World.
- ii. **To promote exchange stability:** Before the Second World War, great instability was prevailing in the foreign exchange rates of different countries which had adversely affected international trade. Thus, IMF has the objective to promote exchange stability and to avoid the bad effects of depreciation on exchange rates.
- iii. **Establishment of Multilateral Trade and Payment:** To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions.
- iv. **Confidence to member nations:** To give confidence to members by making the general resources of the fund temporarily available to them under adequate safeguards.

32. The table reveals the picture as under:

- Sex ratio:- It is highest in Pakistan (947) followed by China (941) and India (929). In this way, Pakistan achieved the first rank whereas China achieved the second rank but India got the last rank among these countries.
- Fertility rate:- It is lowest in China (1.5) in comparison to India (2.43) and Pakistan (2.62). Due to the lowest fertility rate, the growth rate of the population is also the lowest in China.
- Urbanisation:- Urbanisation is highest in China (56%) but the lowest in India (33%). It is 39% in the case of Pakistan. In this way, In comparison to India, the

position of China and Pakistan is far better.

33. Following are the benefits of organic farming:

- i. Organic farming substitutes costlier agricultural inputs such as HYV seeds, chemical fertilisers, pesticides, etc with locally produced organic inputs which are cheaper and thereby generate better returns on investment for farmers.
- ii. Organic farming generates income through exports as the global demand for organically grown crops is increasing.
- iii. Organically grown food has more nutritional value than food grown through chemical farming thus creating a positive effect on health.
- iv. Organic farming is appropriate for India as organic farming is more labour intensive than conventional farming.
- v. Organic farming promotes soil that is teeming with life and rich in micronutrients which can be used for decades to grow crops virtually year-round in many parts of the world. Extensive use of dried foliage and kitchen compost not only reduces the investment overheads but also ensures the growth of crops that are devoid of synthetic interference.
- vi. The technique is characterized by the use of green manure, biological pest control methods and special cultivation techniques to maintain soil productivity.

Following are the limitations of organic farming:

- i. Organic farming is labour intensive. Thus, it is beneficial only for small farmers who have abundant labour in his/her family.
- ii. Organic farming is very expensive, the farmer has to carry out the transition, modify the soil structure, etc.
- iii. An organic farm cannot produce as much yield as a conventional or industrialized farm.
- iv. Organic produce is not traded in many markets, therefore marketing is difficult.
- v. Organic food prices are not stable and keep fluctuating from time to time.
- vi. Organic farming requires a lot of time and greater interaction between a farmer and his crop. An organic farmer requires a greater understanding of his crop and needs to keep a close watch on his crops as there are no quick fixes involved, like pesticides or chemical fertilizers. Sometimes it can be hard to meet all the

strenuous requirements and the experience to carry out organic farming.

34. Infrastructure and economic development go hand-in-hand. Infrastructure contributes to the economic development of a country in the following ways:

- i. **Impact on Productivity:** Infrastructure plays a major role in the raising productivity of all the three sectors, viz. primary, secondary and the tertiary sector.
- ii. **Induces Investment:** Infrastructure induces investment. A well-developed infrastructure attracts foreign investors which opens new investment avenues and gives birth to profitable ventures.
- iii. **Generates Linkages in Production Better:** means of transport and communication and a robust system of banking and finance generates better inter-industrial linkages. It is a situation when the expansion of one industry facilitates the expansion of the other.
- iv. **Enhances Size of the Market:** Infrastructure enhances the size of the market by providing better transportation and warehousing facilities. These facilities enable large scale production of goods and services which further help a business to capture more markets.
- v. **Enhances Ability to Work:** Social infrastructure improves the quality of life of workers, thereby increasing their efficiency. Healthcare centres, educational institutions and other such facilities develop the skills of the workers, which increases their ability and efficiency to work.
- vi. **Facilitates Outsourcing:** India is emerging to be a global destination for all kinds of outsourcing. For example, call centres, study centres, medical transcription and such other services, owing largely to its sound system of social and economic infrastructure.
- vii. **Infrastructure is essential for Economic Development:** Infrastructure acts as a support system. It directly influences all economic activities by increasing the productivity of the factors of production and improving the quality of life. In the last six decades, India has made considerable progress in building the infrastructure. However, its distribution has been uneven, in terms of rural-urban divide. Many parts of rural India are yet to get good roads, telecommunication facilities, electricity, schools and hospitals.

OR

Unemployment results in a number of adverse effects which can be classified as economic effects and social effects.

These effects are explained below:

- i. **Economic Effects:** These effects are visible in terms of loss which is measurable in monetary terms. The various adverse effects belonging to this category are explained below
 - a. **Loss of Output:** Unemployment in an economy results in underutilisation of the human resources of the country which leads to loss of output or low level of output in the economy.
 - b. **Loss of Human Resources:** Unemployment is a situation in which the productive capacity of able and willing persons is wasted. Those who are able and willing to work do not get employment opportunities. This leads to a waste of human resources.
 - c. **Low Productivity:** As India is predominantly an agrarian economy, unemployment increases the dependence on agriculture and this results in low productivity per unit of labour as more labour is employed for doing a job which can be done effectively with less number. Low productivity adversely affects the growth rate of the economy.
 - d. **Low Rate of Capital Formation** Capital formation depends on the level of income in the country. Due to unemployment, the income levels are low, resulting in low rate of capital transformation.
- ii. **Social Effects** These effects manifest themselves in the form of many social problems which are discussed below
 - a. **Rise in Poverty:** Unemployment and poverty are directly related. With increase in unemployment, the level of poverty in an economy increases and this will result in many more problems for a nation. To bring people out of poverty, we need employment and if there are not much employment opportunities, the nation will remain a poor nation.
 - b. **Increase in Inequalities:** Unemployment generates inequality in the distribution of income and wealth, thus defying the objective of social justice and resulting in class conflicts between the rich and the poor. In a country like

India, unequal distribution of income is a major problem and over time these inequalities are only increasing due to more number of unemployed persons.

- c. **Low Standard of Living:** Unemployment affects the income of an individual adversely and leads to a fall in his standard of living.
- d. **Social Unrest:** An unemployed person creates social unrest by indulging in anti-social activities like theft, extortion, kidnapping, etc. In extreme cases, he can also resort to terrorism.
- e. **Results in Depression:** An unemployed person considers himself unwanted and useless as he is unable to earn his living, and may suffer from depression.