Sample Paper-01 (2016-17)
Economics
Class – XII

Time allowed: 3 hours **Maximum Marks: 100**

General Instructions:

(i) All questions in both sections are compulsory. However, there is internal choice in some questions.
(ii) Marks for questions are indicated against each question.
(iii) Question No.**1-5** and **16-20** are very short answer questions carrying **1 mark** each. They are required to be answered in one sentence.
(iv) Question No.**6-8** and **21-23** are short answer questions carrying **3 marks** each. Answers to them should not normally exceed 60 words each.
(v) Question No.**9-11** and **24-26** are also short answer questions carrying **4 marks** each. Answers to them should not normally exceed 70 words each.
(vi) Question No.**12-15** and **27-30** are long answer questions carrying **6 marks** each. Answers to them should not normally exceed 100 words each.
(vii) Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Section A

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. Give meaning of consumer's equilibrium.
3. Which of the following is not a feature of monopoly?
   (a) single
   (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. Define price elasticity of demand.
6. What factors lead to a rightward shift of PPC?
7. Total Fixed costs of a firm are Rs 100. Its average variable cost at different levels of output is given. Calculate total cost and marginal cost.

Output (unit)	1	2	3	4
TC (Rs.)	60	56	60	64

8. When is the supply of a commodity said to be (i) elastic (ii) inelastic (iii) unitary elastic?
9. Mention the assumptions of Indifference curve analysis.
10. Draw Total Fixed Cost and Average Fixed Cost curves. Explain their shape.
11. As a result of high wage settlement in New York City due to taxi strike of several years ago, taxi owners increased taxi fares. Was this the right decision?
12. Under perfect competition, MR=AR, but under monopoly, MR<AR. Explain.

13. What will happen if the price prevailing in the market is:
    (i) below the equilibrium price?
    (ii) above the equilibrium price?
14. At the market price of Rs 10, a firm supplies 4 units of output. The market price increases to 30. The price elasticity of firm's supply is 1.25. what quantity will the firm supply at the new price?
15. Explain with the help of diagrams the effect of the following changes on the demand of a commodity:
    (i) An unfavourable change in the taste of the buyer for a commodity.
    (ii) A fall in the income of its buyer if the commodity is inferior.

Section B

16. When MPS = 0.25, MPC is:
    (a) 0.80
    (b) 4
    (c) 0.75
    (d) None of the above.
17. Which of the following is not a factor payment?
    (a) Rent
    (b) Interest
    (c) Borrowings
    (d) Profits
18. Which of the following is not a currency:
    (a) Dollar
    (b) Yen
    (c) Renminbi
    (d) chen
19. It is a ratio of change in consumption expenditure to change in total income.
    (a) Marginal Propensity to Consume
    (b) Average Propensity to Consume
    (c) Average Propensity to Save
    (d) Consumption Function
20. Why borrowings by the government are capital receipts?
21. Explain the components of the equation: $C = C_0 + bY$
22. How is tax revenue different from administrative revenue?
23. From the following, calculate gross value added at factor cost by it:

	(Rs. in lakhs)
sales	500
Purchase of intermediate products	350
Profit	70
Subsidies	40
Consumption of fixed capital	60
Change in stock	30

24. What is meant by open market operations? Briefly describe their effects on credit creation by commercial banks.

25. Distinguish between Revenue receipts and capital receipts in a government budget. Give two examples of each.
26. Explain main functions of the commercial bank.
27. How are following treated in the estimation of national income?
    (a) Transfer payments
    (b) Services of owner occupied houses.
    (c) Commission received from sale of second hand goods.
    (d) Non –marketable goods.
28. Explain the three categories in which BOP transactions are classified.
29. How is exchange rate determined in the foreign exchange market? Explain.
30. From the table given below:

Income	Consumption	Savings	Investment	AD= C+ I	AS= Y
100	120	-20	40	160	100
200	200	0	40	240	200
300	280	20	40	320	300
400	360	40	40	400	400
500	440	60	40	480	500
600	520	80	40	560	600

Answer the following questions:
(a) Identify the break-even point
(b) Locate the equilibrium level of income.
(c) Calculate MPS when income changes from Rs. 400 to Rs. 500.
(d) Calculate APC at income level of Rs. 100 crores.
(e) Calculate APS at income level of Rs. 500 crores.

Sample Paper-01 (2016-17)
Economics
Class – XII

Time allowed: 3 hours **Maximum Marks:**

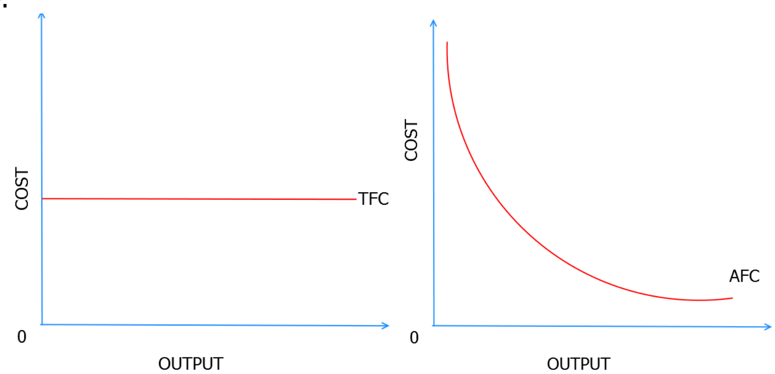
Answers

1. (c) Rightward shift.
2. A consumer is in a state of equilibrium when he maximises his satisfaction by spending his given income on different goods and services and has no tendency to change his way of existing expenditure.
3. (c) close substitute.
4. (d) Both A and C.
5. The relative response of a change in quantity demanded to a change in price.
$$\frac{\%\text{Change in Quantity Demanded}}{\%\text{ Change in Price}}$$
6. PPC shifts to the right because of the following reasons:-
   (a) When **resources increase** or grow, more of the two goods can be produced. For eg., when more capital is accumulated or new natural resources are discovered and used for production, PPC shifts to the right.
   (b) PPC also shifts to the right when there is an **improvement in technology**. When technological progress takes place, it is possible to produce more of two goods with a given amount of resources.
7.

Output	1	2	3	4
TVC	60	112	180	256
TFC	100	100	100	100
TC	160	212	280	356
MC	-	52	68	76

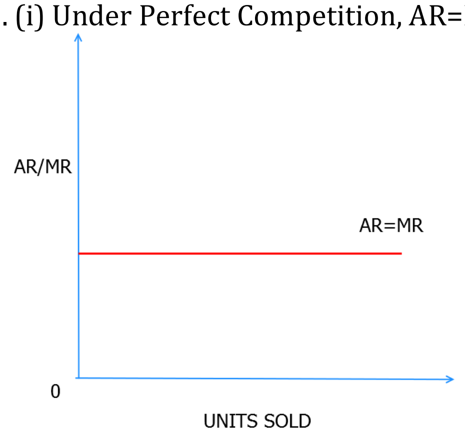
8. (a) **Elastic Supply**: When the percentage change in quantity supplied is more than percentage change in price, the supply is said to be elastic. In this case the coefficient of price elasticity of supply is greater than unity, i.e., $e_S>1$
   (b) **Inelastic Supply**: When the percentage change in quantity supplied is less than percentage change in price, the supply is said to be inelastic. In this case coefficient of price elasticity of supply is less than unity, i.e., $e_S<1$.
   (c) **Unit Elastic Supply**: When the percentage change in quantity supplied is equal to the percentage change in price, the supply is said to be unit elastic. In this case, the coefficient of price elasticity of supply is equal to unity, i.e., $e_S=1$.
9. Assumptions of indifference curve analysis are:
   (a) It assumes that utility is ordinally measurable, i.e. the consumer can rank all the commodities in the order of his preferences.
   (b) With given money income and prices of the goods, the consumer will make those choices by which he can maximize his total satisfaction.
   (c) Consumer is consistent in his choice of goods and services i.e. if he prefers X over Y in one period, he will not choose good Y over X in another period or treat them as indifferent.
   (d) Diminishing marginal rate of substitution exists.
   (e) Tastes and habits of consumers remains constant.

10.



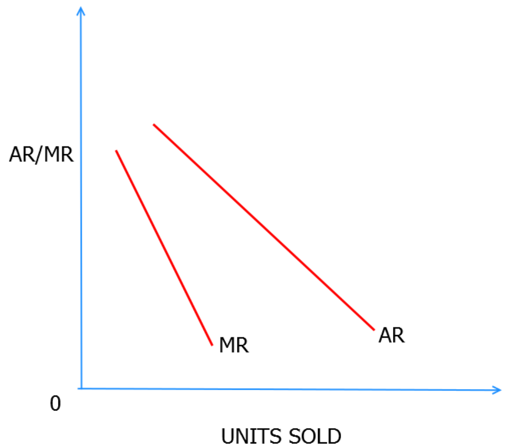
Shape of TFC: Fixed cost are the cost which do not change in the short run irrespective of change in output. For eg., rent of a building, salaries of permanent staff etc. Total fixed curve will be horizontal line parallel to the x-axis because total fixed cost always remains constant.
Shape of AFC: Average fixed cost means per unit cost on fixed factors. Average fixed cost is obtained by dividing the total fixed cost by the number of units produced. With the increase in output, average fixed cost goes on declining. Thus, the average fixed cost will be a downward sloping curve.

11. The answer depends on the price elasticity of demand for taxi rides in New York City. If the demand for taxi rides is price-inelastic, the decision was correct. If the demand is elastic, the increase in taxi fares reduces the total revenue of the taxi owners. In order to see what happened to the total profits of taxi –owners, we must compare this decrease in total revenue with the change in total cost (higher wages for taxi drivers but fewer taxis and fewer drivers).
12. (i) Under Perfect Competition, AR=MR.



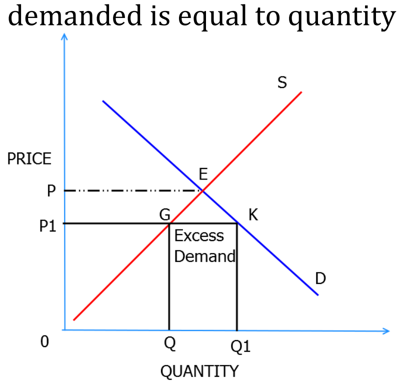
Here, industry is the price maker and firm is the price taker. A firm has to accept the price as given by the industry. At this price a firm can sell any amount of the commodity it wants to sell. This means that with the sale of every additional unit, additional revenue(i.e. MR) and average revenue(i.e. AR) will be equal to the price and thus equal each other.

(ii) Under Monopoly, AR>MR.



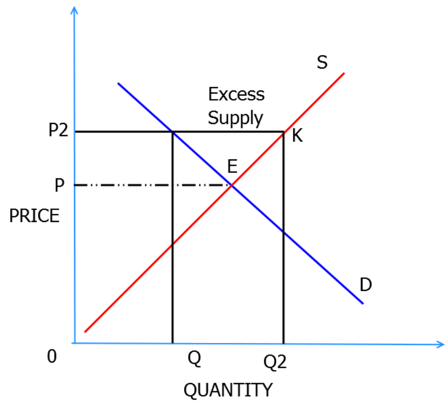
Here ,more of a commodity can be sold at a lower price and thus AR>MR. AR and MR curves of a firm becomes downward sloping indicating more units of output can be sold at a lower price. MR curve is below AR curve because sale of extra unit forces down the price at which all units can be sold.

13. (i) In a perfectly competitive market, at any price lower than the equilibrium, the quantity demanded for a commodity exceeds quantity supplied. It is called a situation of excess demand. Excess demand pushes up the market price by causing competition among the buyers. A rise in price leads to contraction of demand and expansion of supply. The rise in price continues till it reaches the equilibrium price at which quantity demanded is equal to quantity supplied.



In the diagram, at price OP_1, the quantity demanded is OQ1 but quantity supplied is OQ0. So there is excess demand equal to Q0Q1. As a result of this excess demand, the price will rise till OP is reached at which quantity demanded is equal to quantity supplied.

(ii) In a perfectly competitive market, at any price greater than the equilibrium price, the quantity supplied of a commodity exceeds quantity demanded. It is called a situation of excess supply. Excess supply causes a fall in price by causing competition among the sellers. A fall in the price leads expansion of demand and contraction of supply. The fall in price continues till it reaches the equilibrium price at which quantity demanded is equal to quantity supplied.



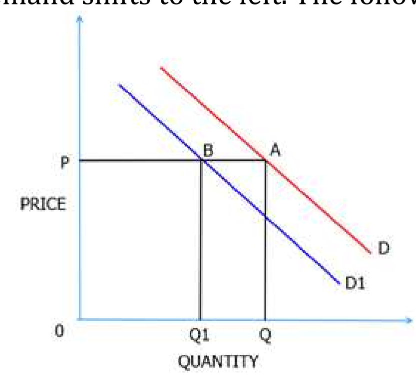
In the diagram, at price OP_2, the quantity supplied is OQ_2, but demanded is OQ_0. So there is excess supply equal to Q_0Q_2. As a result of excess supply, the price will go on declining till OP is reached at which quantity demanded is equal to quantity supplied.

14. Given $e_s = 1.25$

Price (Rs)	Supply (units)
10	4
30	?

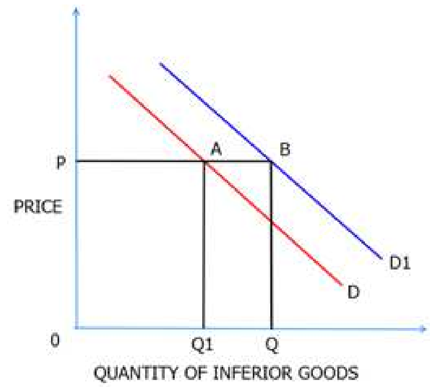
e_s = (change in q_s/ change in p) * p/q_s
1.25 = (change in q_s/ 20) * 10/4
change in q_s = (1.25 * 20 * 4)/10 = 10
New supply = 4 + 10 = 14.

15. (i) The demand for a commodity and unfavourable change in the taste of a buyer are inversely related to each other. When there is unfavourable change in the taste of a buyer for a commodity, the demand for the commodity falls at the same price and as a result the demand shifts to the left. The following diagram shows the effect:



In the diagram, demand curve of X is shown by the DD curve. With an unfavourable change in the taste of a buyer for a commodity, the quantity demanded of good X, falls from OQ to OQ_1 at the same price OP. The demand curve shifts leftward from DD to D_1D_1.

(ii) The demand for an inferior good and change in the income of the buyer are inversely related to each other. When there is a fall in the income of a buyers, the demand for the inferior good rises and as a result, the demand curve shifts to the right. The following diagram shows the effect:



In the diagram, demand curve of X (inferior good) is shown by DD curve. With the fall in the income of the buyer, the quantity demanded of inferior goods rises from OQ to OQ_1 at the same price OP. The demand curve shifts rightwards from DD to D_1D_1.

Section B

16. (c) 0.75.
17. (c) Borrowings.
18. (d) Chen.
19. (a) Marginal Propensity to Consume
20. Borrowings of the Government are capital receipts because they create a liability for the government.
21. The consumption function is C = C0 + bY.
    Here C0 is called the intercept term and it represents the amount of consumption when there is zero level of income, i.e. autonomous consumption. The consumption is positive as zero level of income. The co-efficient 'b' measures the slop of the consumption function i.e. the increase in consumption per unit increase in income. This is known as the marginal propensity to consume. Consumption changes in the same direction as income.
22. **<u>TAX REVENUE</u>:** Tax is the main source of revenue of the government. Tax revenue is the revenue that arises on account of taxes levied by the government. It consists of the proceeds of taxes and others duties levied by the government. Taxes are of two types: direct taxes and indirect taxes. Direct taxes are those levied immediately on property and income of persons, eg. , income tax, corporate tax, etc. , whereas indirect taxes are the taxes levied on the production and sale of the goods like sales tax, excise duty, etc. **<u>ADMINISTRATIVE REVENUE:</u>** It is the revenue that arises on account of the administrative function of the government. It includes (i) fees(college/school) (ii) license fees paid to the permission to perform a service (iii)fines and penalties levied for an infringement of a law (iv) forfeitures of surety or bonds by court (v) Escheat which means claim of the government on the property of a person who dies without having a legal heir or without having a will.
23. Gross value added at factor cost = sales + change in stock – purchase of intermediate products + subsidies
    = 500 + 30 – 350 + 40
    = Rs 220 lakhs.
24. Open market operations refer to the sale and purchase of government securities by the Central Bank to influence credit creation by commercial banks. Sale of government securities reduces the cash reserves with the banks directly and indirectly. Reduction of cash reserves forces a multiple decline of deposits, ultimately contracting bank credit. Purchase of securities increases the cash reserves with the bank. This forces a multiple increase in deposits. Thus, there would be expansion of bank credit.

25. Receipts of government can be classified into:
   (a) **Revenue receipts:** These are government receipts which do not create liabilities or lead to reduction in assets. Revenue receipts include tax revenue and non-tax revenue receipts of the government. Tax revenue includes income from corporation tax, income tax, excise duty etc. Non-tax revenue receipts include income from public enterprises, interest and dividends on investment made by government, receipts of fees etc. Government is under no future obligation to return the amount.
   (b) **Capital receipts**: the capital receipts are the government receipts which create liabilities or lead to reduction in assets. These include loans raised by the government from the public. These are called market loans, borrowings by the government from RBI and other parties through the sale of treasury bills, loans received from foreign government, recoveries of loans granted to state and union territories etc.
   Being borrowings, the government is under the obligation to return the amount along with interest.
26. The main functions of the commercial bank are:
   (a) **Accepting deposits**: commercial banks receive money from the public and businessmen in the form of deposits. People can deposit their cash balance with a bank in either of the following accounts: (i) Current Deposit Account (ii) Fixed deposit Account (iii) Savings deposit Account (iv) Recurring deposit Account.
   (b) **Advancing loans:** commercial banks provide various types of loans to the borrowers in either of the following forms: (i) Cash deposit (ii) Term loans (iii) Demand loans (iv) Overdrafts (v) discounting of bills of exchange.
   (c) **Investment of funds**: the banks invest their surplus funds in three types of securities (i) government securities (ii) other approved securities (iii) other securities.
27. (a) Transfer payments such as old-age pensions, scholarships, gifts etc. do not contribute to the flow of goods and services. They do not generate any national income and therefore they should not be included in the national income.
   (b) Services of owner occupied houses should be included in the national income as the inputed value of owner occupied housed can be estimated and evaluated.
   (c) Commission received from sale of second hand goods is included in the national income because the dealer has rendered new services in the sale of second hand goods.
   (d) Non-marketable goods are those goods which have been consumed without using organized markets. Since organized markets are not used, no exchange of money takes place.
28. The BOP transactions are classified into following three categories:
   (a) **Visible transactions**: These include exports and imports of goods only (not services). These are visible in the sense that these are made of some matter or material.
   (b) **Invisible transactions**: These include transaction in (i) services such as travel, transport etc. (ii) transfers such as gifts and donations (iii) income in the form of wages, rent, interest and dividends.
   (c) **Capital transactions**: These are concerned with capital receipts and payments such as foreign investment, loans, banking capital, monetary movements.
29. Flexible exchange rate is determined by the interaction of the forces of demand and supply. The equilibrium exchange rate is determined at a level where demand for foreign exchange is equal to the supply of foreign exchange. This will be clear from Fig. (A)

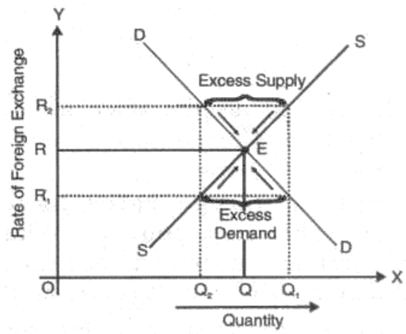


Fig. (A)

As seen in the diagram, demand and supply of foreign exchange are measured on the X-axis whereas rate of foreign exchange on the Y-axis. DD is the downward sloping demand curve of foreign exchange and SS is the upward sloping supply curve of foreign exchange. Both the curves intersect each other at 'E'. The equilibrium exchange rate is determined at OR and equilibrium quality is determined at OQ.

Any exchange rate (other than OR) is not the Equilibrium exchange rate.

(i) If the exchange rate is more than equilibrium rate. If the exchange rate rises to OR_2, then demand for foreign exchange will fall to OQ_2 and supply will rise to OQ_1. It will be a situation of excess supply. As a result, exchange rate will fall till it again reaches the equilibrium level of OR.

(ii) If the exchange rate is less than equilibrium rate. If exchange rate falls to OR_1, then demand will rise to OQ_1 and supply will fall. It OQ_2 will be a case of excess demand. It will push up the exchange rate till it reaches.

30. (i) Break-even point is the point where consumption equal income. It is achieved at Y = 200 because here Y = C.

(ii) Equilibrium level of income is Rs. 400 crores because here AD = AS, i.e. 400 = 400.

(iii) MPS = change in S/change in Y = 20/100 = 0.20

(iv) Value of APC at the income level of Rs. 100 crores = 120/100 = 1.20 >1

(v) Value of APC at the income level of Rs. 500 crores = 60/500 = 0.12.