# CBSE

# Class XII Economics

**Time: 3 hrs** **Max. Marks: 80**

---

**General Instructions:**

i. **All** questions in both sections are **compulsory**.
ii. Marks for questions are indicated against each question.
iii. Question Nos. **1–4** and **13–16** are very short answer questions carrying **1** mark each. They are required to be answered in one sentence.
iv. Question Nos. **5–6** and **17–18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **60** words each.
v. Question Nos. **7–9** and **19–21** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **70** words each.
vi. Question Nos. **10–12** and **22–24** are long answer questions carrying **6** marks each. Answers to them should normally not exceed **100** words each.
vii. Answers should be brief and to the point, and the above word limits should be adhered to as far as possible.

---

## SECTION A

**1.** At the break-even point for a firm: [1]
   a. TR = TC
   b. TR > TC
   c. TR < TC
   d. TR = Zero

**2.** The demand curve of a firm would be a horizontal straight line under [1]
   a. Perfect competition
   b. Monopoly
   c. Oligopoly
   d. Monopolistic competition

**3.** Define oligopoly. [1]

**4.** Why does the Indian government believe in fixing the 'support price' for crops? Give reason. [1]

**5.** Because of a fall in price of a commodity, the quantity demanded rises by 10%. The price elasticity of demand is given as (−0.5). What is the percentage fall in price of the commodity? [3]

**6.** State the differences between fixed costs and variable costs. [3]

**7.** What is meant by market demand? What is market demand curve? How is it derived from the individual demand curve? [4]

**8.** With a 10% rise in the price a commodity, the quantity supplied rises from 500 units to 550 units. Calculate the price elasticity of supply. [4]

**9.** a. What is meant by production possibility curve?
b. What is the slope of PPC? What does it indicate? Why is PPC concave to the origin? [4]

**10.** With the help of a diagram, explain the impact of the following on the demand for a normal good. [6]
a. Rise in income of the consumer
b. Change in taste and preferences away from the good

**11.** Explain the following terms: [6]
a. Break-even point
b. Shut-down point

**12.** Explain the implications of the following features of perfect competition: [6]
a. Large number of buyers and sellers
b. Homogeneous products

## SECTION B

**13.** What is meant by revenue deficit? [1]

**14.** Which of the following is a capital expenditure? [1]
a. Subsidies
b. Expenditure on salaries to government staff
c. Expenditure on tax collection
d. Repayment of loans

**15.** State any one reason for the rise of excess demand. [1]

**16.** If the value of marginal propensity to consume is 0.5, calculate the value of multiplier. [1]

**17.** What is meant by money supply? Which is the most liquid measure of money supply as defined by RBI? Explain. [3]

**18.** What is meant by legal reserve requirements? How is it used by the Central Bank in controlling credit in the economy? [3]

**19.** In an economy, marginal propensity to consume is 0.80. If investment increases by Rs 300 crore, calculate: [4]

a. Total increase in income
b. Total increase in consumption

**20.** Calculate operating surplus from the following information: [4]

| Particulars | In Rs crore |
|---|---|
| i. Depreciation | 30 |
| ii. GDP at market price | 1,500 |
| iii. Net indirect taxes | 100 |
| iv. Compensation of employees | 100 |
| v. Mixed income of self-employed | 300 |

**21.** What are revenue receipts? State the two main sources of tax receipts. How does the government use the policy of taxation to reduce inequality in the economy? [4]

**22.** From the saving curve, derive the consumption curve. Also, state the steps in the procedure. [6]

**23.** a. Explain the difference between autonomous and accommodating items in BOP. [6]
b. How is a deficit or a surplus in BOP determined?

**24.** Calculate gross national product at market price from the following information: [6]

| Particulars | In Rs crore |
|---|---|
| i. Private final consumption expenditure | 600 |
| ii. Net indirect taxes | 30 |
| iii. Closing stock | 10 |
| iv. Net imports | 30 |
| v. Opening stock | 10 |
| vi. Government final consumption expenditure | 100 |
| vii. Net domestic fixed capital formation | 50 |
| viii. Net factor income to abroad | −20 |
| ix. Consumption of fixed capital | 30 |

# CBSE
# Class XII Economics
# Solution

---

### SECTION A

**Answer 1**
The correct answer is (a). Break-even point is said to take place when the firm can cover all the costs. At this point, TR is equal to TC.

**Answer 2**
The correct answer is (a). Under perfect competition, the demand curve of a firm is a horizontal straight line parallel to the x-axis. This indicates perfectly elastic demand under perfect competition.

**Answer 3**
Oligopoly refers to a form of market in which there are only few giant firms against a large number of firms. There is a high degree of interdependence among the firms.

**Answer 4**
The Indian government believes in fixing the 'support price' for crops because the prices of some crops fall below the certain level which is not fair for the farmers to earn their livelihood.

**Answer 5**

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$

$$(-0.5) = \frac{10}{\text{Percentage change in price}}$$

$$\text{Percentage change in price} = (-)20\%$$

$$\therefore \text{ Price falls by } 20\%$$

**Answer 6**

| Fixed Costs | Variable Costs |
|---|---|
| Fixed costs refer to the costs which remain constant irrespective of the level of output. | Variable costs refer to the costs which vary with the level of output. |
| They are never zero; even at zero level of output, fixed costs have to be incurred. | They are zero at zero level of output. They rise with the rise in output and fall with the fall in the level of output. |
| Example: Costs of plant and machinery | Example: Cost of raw material |

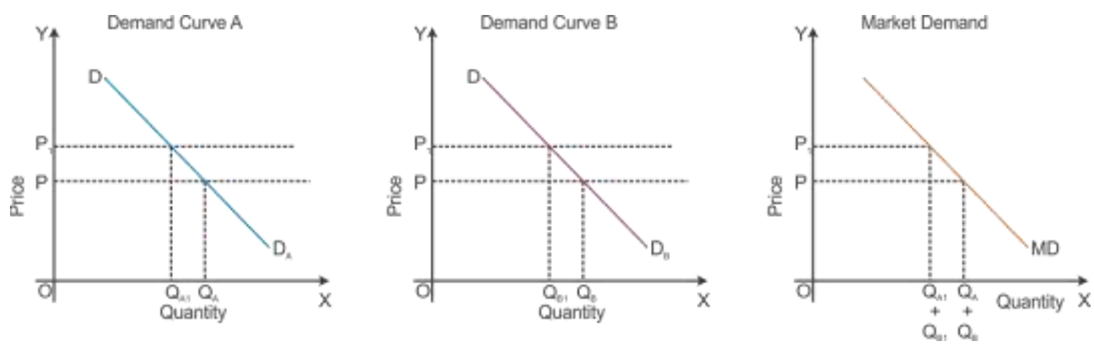
**Answer 7**

Market demand for a commodity refers to the total demand for the commodity by all the individual consumers in the market.

The market demand curve shows the different total quantities of the commodity which are demanded by all consumers in the market at different prices.

The market demand curve is derived from the individual demand curve by horizontally summing the various individual demand curves.

This can be understood with the help of the following diagram:




Suppose for a commodity in the market, there are two consumers A and B. $D_A$ is the demand curve for consumer A and $D_B$ is the demand curve for consumer B. At $P_0$ price, the quantity demanded of the commodity by the two consumers is $Q_A$ and $Q_B$. Accordingly, the market demand and the summation of the individual demand curve is $Q_A + Q_B$. As the price rises to $P_1$, the individual demand falls to $Q_{A1}$ and $Q_{B1}$. The market demand is $Q_{A1} + Q_{B1}$. By joining the two points as obtained for the market demand, we get the market demand curve $M_D$.

**Answer 8**

$$\text{Price elasticity of supply} = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in supply}}$$

Now,

$$\text{Percentage change in quantity supplied} = \frac{550 - 500}{500} \times 100 = 10$$

So,

$$\text{Price elasticity of supply} = \frac{10}{10} = 1$$

**Answer 9**

**a.** The production possibility curve refers to the curve which presents the alternative combinations of production possibilities of two goods which can be produced with the given resources and the given technology.

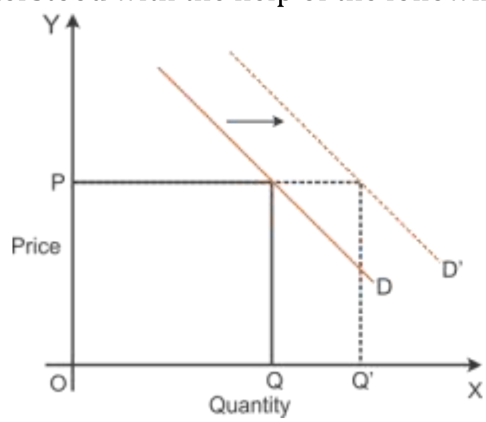
**b.** The slope of the production possibility curve is the marginal opportunity cost or the marginal rate of transformation. It indicates the units of one good which must be sacrificed for each additional unit of the other good.

The slope of PPC is given by $\frac{\Delta Y}{\Delta X}$ .

The PPC is concave to the origin because of a rising marginal rate of transformation, or in other words, the rising slope of PPC. As the number of units produced of one good rises, for each additional unit of the good, greater units of the other good must be sacrificed. In other words, the opportunity cost of producing the good rises. This gives rise to the concave shape of PPC.

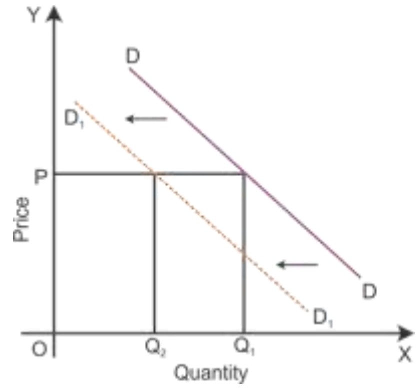
**Answer 10**

***a. Rise in income***: With a rise in income of the consumer, the demand for normal good increases. This can be understood with the help of the following diagram:




According to the diagram, DD is the initial demand curve. At OP price, $OQ_1$ quantity is demanded. If the income of the consumer rises, the demand curve shifts parallelly rightwards to $D_1D_1$. Here, at the same price, the quantity demanded of the commodity rises to $OQ_2$.

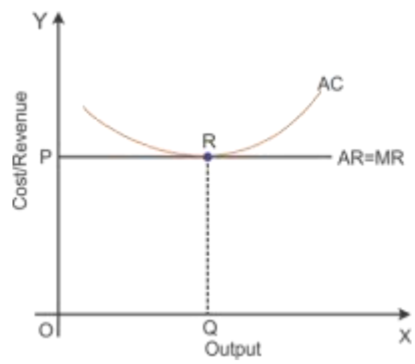
**b.** ***Change in taste and preferences of consumers away from the commodity***: With change in taste and preferences of consumers away from the commodity, the quantity demanded of the commodity falls. This can be understood with the help of the following diagram:




According to the diagram, DD is the initial demand curve. At OP price, $OQ_1$ quantity is demanded. If the taste and preferences of the consumer moves away, the demand curve shifts parallelly leftwards to $D_1D_1$. Here, at the same price, the quantity demanded of the commodity falls to $OQ_2$.

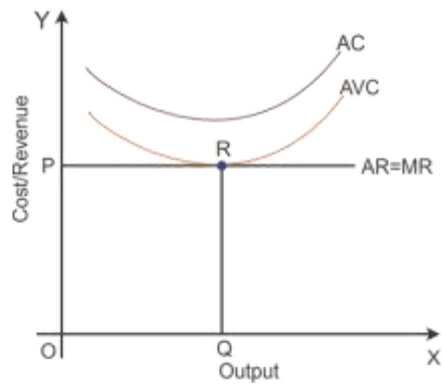
**Answer 11**

**a.** ***Break-even point***: A firm is said to be at the break-even point when it is just able to cover all its costs, i.e. when price is equal to average cost.




According to the diagram, the break-even point is at Point R where price (OP) is equal to average cost (OQ).

**b.** ***Shut-down point***: A firm is said to be at the shut-down point when it is just able to cover only the variable costs. At this point, price is equal to average variable cost. As the firm is not able to cover the fixed cost, it is incurring loss equal to fixed costs. However, the firm will continue production till it can cover the fixed costs.



According to the diagram, the break-even point is at Point R where price (OP) is equal to average variable cost (OQ).

**Answer 12**

**a.** ***Large number of buyers and sellers***: Under a perfect competition market, there are a large number of buyers and sellers such that each individual buyer or each individual seller constitutes only a small proportion of the total market. Consequently, no individual firm or individual buyer can influence the price in the market by altering the supply or demand of the commodity. This implies that in a perfect competition market, the price remains constant as determined by the industry. An individual firm is only a price taker.

Implications of the feature:

i. Firms remain a price taker.

ii. Firms face a perfectly elastic demand curve.

**b.** ***Homogeneous products***: Under perfect competition, the products sold by firms are completely homogeneous. In other words, they are exactly identical to each other in terms of size, shape and colour. Accordingly, the products of various firms are perfect substitutes of each other. Also, there is no need for any kind of selling costs or advertising costs.

The presence of homogeneous products has the following implications:

i. No single firm can control the market prices. There prevails uniform market price.

ii. There is absolutely zero product differentiation.

iii. Because of homogeneity of products, the market price which prevails is the minimum possible.

**SECTION B**

**Answer 13**

Revenue deficit in a budget refers to a situation where the revenue receipts of the government are less than the revenue expenditure during a fiscal year.

**Answer 14**

The correct answer is (d). Capital expenditure refers to expenditures of the government as a result of which there is either a creation of liability or a reduction in assets of the government.

Repayment of loans is a capital expenditure as it leads to reductions in assets of the government. On the other hand, subsidies, expenditure on salaries to government staff and expenditure on tax collection are revenue expenditure.

**Answer 15**

One reason that gives rise to excess demand is the increase in public expenditure on goods and services.

**Answer 16**

Given that

MPC = 0.5

The value of multiplier is

$$\text{Multiplier (k)} = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.5} = 2$$

**Answer 17**

Money supply is the total amount of money which is held by individuals and business firms at a certain point of time. However, it does not include the cash held by the government or the banking system. Money supply is a stock concept as it is measured at a point of time.

RBI has defined four measures of money supply—M1, M2, M3 and M4. Of these, M1 is the most liquid measure.

M1 = Currency held by the public + Demand deposits of commercial banks + Other deposits with RBI

i. ***Currency held by the public***: It comprises the currency notes and coins as held by the public. Currency money is fiat money or legal tender money. That is, it is backed by the government and is legally accepted as the medium of payment.

ii. **Demand deposits of commercial banks:** It refers to the demand deposits of the public held by commercial banks. Such deposits are payable on demand. They are treated at par with currency. It must however be noted that it does not include interbank deposits of commercial banks.

iii. ***Other deposits with RBI***: It comprises the deposits of foreign banks, World Bank, public financial institutions etc. held by the RBI. However, it does not include the deposits of Indian commercial banks and the Indian government.

**Answer 18**

Legal reserve requirements, as defined by the RBI, refer to the minimum reserves which must be held by commercial banks. Reserve requirements are of the following two types:

i. ***Cash reserve ratio***: CRR refers to the minimum proportion of net time and demand liabilities which commercial banks must hold with the Central Bank. An increase in CRR implies a reduction in the excess reserves held by commercial banks, which in turn implies a reduction in their credit creation capacity.

ii. ***Statutory liquidity ratio***: SLR refers to the minimum proportion of net time and demand liabilities which commercial banks must hold with themselves in the form of liquid assets. An increase in the SLR implies a reduction in the proportion of deposits which can be used by commercial banks for providing credit.

**Answer 19**

We know,

$$\text{Multiplier} = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.80} = 5$$

Now,

$$\text{Multiplier} = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{\Delta Y}{300}$$

$$\Delta Y = 1{,}500$$

Also,

$$\text{MPC} = \frac{\Delta C}{\Delta Y}$$

$$0.80 = \frac{\Delta C}{1{,}500}$$

$$\Delta C = 1{,}200$$

**Answer 20**

Operating surplus = GDP at market price − Depreciation − Net indirect taxes − Compensation of employees − Mixed income of self-employed
= 1,500 – 30 – 100 – 100 – 300
= Rs 970 crore

**Answer 21**

Revenue receipts refer to receipts of the government as a result of which there is neither any creation of liability nor any reduction in assets of the government.

Two main sources of revenue receipts of the government:

i. ***Tax receipts***: It refers to the receipts from taxes and other such duties as imposed by the government. Taxes can further be classified as follows:

   a**. *Direct taxes*:** Direct taxes refer to taxes which are imposed directly on the individual and companies. The burden of such taxes cannot be passed onto others. Examples: Income tax, corporation tax

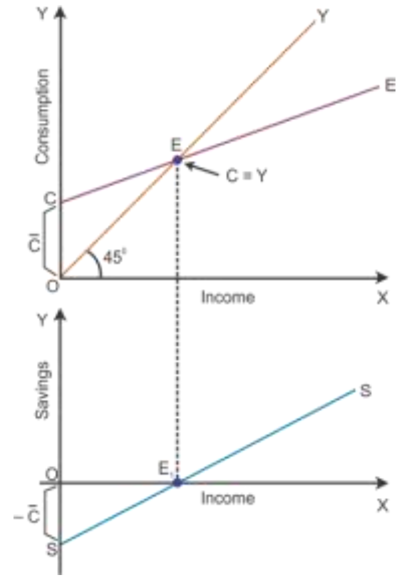
   b. ***Indirect taxes*:** Indirect taxes are taxes which are imposed on the consumption of goods and services. The burden of such taxes can be shifted to others. Examples: Sales tax, service tax

ii. ***Non-tax receipts***: Non-tax receipts refer to various receipts of the government from sources other than taxes. Some major sources of non-tax revenue receipts are interests on loans, fees and fines, licence fees, escheats, forfeitures, gifts and grants etc.

   The system of taxation and subsidies by the government can be used to reduce the inequality of income in the economy. This can be done by imposing higher taxes on high-income groups and providing subsidies to low-income groups.

**Answer 22**

The consumption curve can be derived from the saving curve with the help of the following diagram.




At zero level of income, savings are negative. Accordingly, there is autonomous consumption equal to OC. Point C becomes the start point of the consumption curve. At E1 level of income, savings are zero. Corresponding to this, consumption is equal to income. It is represented by Point E on the consumption curve.

By joining Point C and Point E and extending further, we get the consumption curve.

**Answer 23**

**a.**

| ***Autonomous Items*** | ***Accommodating Items*** |
|---|---|
| Autonomous items in BOP refer to economic transactions which arise out of profit motive or other such economic motive. | Accommodating items in BOP refer to transactions which arise out of the motive to cover a deficit or a surplus in BOP. |
| Such transactions are undertaken independently of the status of BOP. | Such transactions are dependent on the status of BOP and are undertaken with the motive to cover a deficit or a surplus in BOP. |
| These transactions can take place in both current account and capital account of BOP. | These transactions take place only in capital account of BOP. |
| These are also called 'above the line items'. | These are also called 'below the line items'. |

**b.** Deficit or surplus in BOP is determined by autonomous transactions. BOP is said to be in surplus when the inflow of foreign exchange because of autonomous transactions is more than the outflow of foreign exchange because of autonomous transactions.

**Answer 24**

GNP at market price = Private final consumption expenditure + Government final consumption expenditure + (Net domestic fixed capital formation + Closing stock − Opening stock + Consumption of fixed capital) − Net imports − Net factor income to abroad

= 600 + 100 + (50 + 10 − 10 + 30) − 30 − (−20)

= Rs 770 crore