

CBSE Class 12 Economics
Sample Paper 08 (2020-21)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

- i. This question paper contains two parts: Part A - Macro Economics (40 marks) and Part B - Indian Economic Development (40 marks).
- ii. Marks for questions are indicated against each question.
- iii. Question No. 1-7 and Question No. 15 – 21 (including two Case Based Questions) are 1 mark questions and are to be answered in one word/sentence.
- iv. Case Based Questions (CBQ's) are Question No. 7 and Question No. 15.
- v. Question No. 8-9 and Question No. 22 – 23 are 3 marks questions and are to be answered in 60 - 80 words each.
- vi. Question No. 10-12 and Question No. 24 – 26 are 4 marks questions and are to be answered in 80-100 words each.
- vii. Question No. 13-14 and Question No. 27 – 28 are 6 marks questions and are to be answered in 100-150 words each.
- viii. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

PART A - MACRO ECONOMICS

1. Buying and selling of government securities by the central bank from the public and banks is called _____.
 - a. margin requirement
 - b. repo rate
 - c. reverse repo rate
 - d. open market operations

OR

One of the various quantitative instruments used by the central bank in during deflation is _____.

- a. Introduce bank rate
- b. Fix bank rate
- c. Reduce bank rate
- d. Raise Bank rate

2. Fill in the blanks:

If disposable income is ₹1000 and consumption expenditure is ₹750, the value of average propensity to save will be _____.

3. The rate of interest which commercial banks are entitled to, when they lend their surplus money to the RBI is called _____.

- a. Repo Rate
- b. Bank Rate
- c. None of these
- d. Reverse Repo Rate

4. Balance of current account includes

- a. None of the above
- b. Balance of trade and balance of payment
- c. Balance of trade and balance of visibles
- d. Balance of trade and balance of invisibles

5. APC can also be greater than one when

- a. APS will be one
- b. APS will be zero
- c. APS will be negative
- d. APS will be positive

6. The fixed exchange rate is:

- a. is fixed by the foreign exchange market
- b. is fixed by the anybody in an economy
- c. is fixed by the businesses in an economy
- d. is fixed by the Government in an economy

7. **Read the following case study and answer the following questions on the basis of the same:**

In modern times, the sources of supply of money are government, the central bank of the

country, and commercial banks. In India, it is the Ministry of Finance that issues Rs.1 notes and all the coins. Money is mainly supplied by the Central bank of the country.RBI issues currency on the basis of the minimum reserve system. Under this system, the reserve bank has to maintain a minimum reserve of Rs.200 crores in the forms of gold and foreign securities. Commercial banks create credit on the basis of demand deposits, and on the basis of their cash reserves. When the commercial banks provide credit to the people, they add to the supply of money.

On the other hand, when they reduce the provision of credit, the supply of money is reduced. Expansion or contraction of the money supply by the commercial banks is governed by the monetary policy of the Reserve Bank of India.

- i. When commercial banks create credit on the basis of deposit and reserves, it will _____. (create money, reduce money)
 - ii. The supply of currency in India is governed by _____. (Reserve bank of India/commercial bank)
 - iii. RBI maintains gold and foreign securities at a minimum level. Under _____ system such level is maintained. (cash reserve, minimum reserve)
 - iv. All types of currency are not issued by a single authority. _____ issues all coins and Rs. 1 paper notes. (RBI, Government of India)
8. State the two basic principles of the circular flow of income and product.
9. How will you treat the following while estimating National Income of India? Give reasons to your answer.
- i. Entertainment tax received by government.
 - ii. Salaries received by Indian residents working in Russian Embassy in India.
 - iii. Profits earned by an Indian bank from its abroad branches.

OR

Find out Gross National Product at Market Price and Net National Disposable Income from the following:

Items	(Rs.in Arab)
Opening stock	50
Private final consumption expenditure	1000
Net current transfers to abroad	5

Closing stock	40
Net factor income to abroad	(-) 10
Government final consumption expenditure	300
Consumption of fixed capital	30
Net imports	20
Net domestic fixed capital formation	150

10. What will be the effect of the following on the Balance of Payments?
- Make in India Programme.
 - Import of pulses.
11. Giving reasons state whether the following are included in national income:
- Transport expenses by a firm.
 - Expenditure on construction of a house.
 - Gift received from employer.
 - Purchase of a machine by a factory.
 - Salary received by an Indian resident working in US Embassy in New Delhi.
 - Interest paid on loan taken to buy a personal car.

OR

What is the Compensation of Employees?

12. What is the inflationary gap? What is its impact
13. Answer the following questions based on the data given below:
- (i) Planned Investments = ₹100 crore.
(ii) $C = 50 + 0.50 Y$
 - Determine the equilibrium level of income.
 - Calculate the value of Savings at the equilibrium level of National Income.
 - Calculate the value of Investment Multiplier.

OR

Distinguish between excess demand and deficient demand.

14. Given the following data estimate the values of (i) Revenue deficit, and (ii) Fiscal deficit :

S.No.	Particulars	
-------	-------------	--

		Amount (in Rs Crores)
1	Tax Revenue	1,000
2	Non-Tax Revenue	150
3	Net Borrowings by Government	780
4	Disinvestment Proceeds	50
5	Revenue Expenditure	1,500
6	Capital Expenditure	480

PART B - INDIAN ECONOMIC DEVELOPMENT

15. Jute industries were located in:
- Gujarat
 - Maharashtra
 - Bengal
 - Rajasthan
16. What is the value of GNP
- Value of all intermediate goods and services produced by the residents of a nation
 - Value of all intermediate goods and services produced within the domestic territory
 - Value of all final goods and services produced within the domestic territory
 - Value of all final goods and services produced by the residents of a nation
17. **Assertion (A):** Decline in the death rate is a pointer to the growth of social infrastructure in the economy.
- Reason (R):** Growth of social infrastructure leads to improved health care facilities which lead to a fall in death rate.
- Assertion and reason both are correct statements and reason is correct explanation for assertion.
 - Assertion and reason both are correct statements but reason is not correct explanation for assertion.
 - Assertion is correct statement but reason is wrong statement.
 - Assertion is wrong statement but reason is correct statement.

OR

Assertion (A): Food security and credit facilities guarantee social protection to the poor.

Reason (R): Leakages in the administration system perpetuates poverty.

- a. Assertion and reason both are correct statements and reason is correct explanation for assertion.
- b. Assertion and reason both are correct statements but reason is not correct explanation for assertion.
- c. Assertion is correct statement but reason is wrong statement.
- d. Assertion is wrong statement but reason is correct statement.

18. **Assertion (A):** China has achieved a higher HDI ranking than India and Pakistan.

Reason (R): A check on population growth, along with a sustained rise in GDP are the key factors explaining higher per capita GDP in China than in India and Pakistan.

- a. Assertion and reason both are correct statements and reason is correct explanation for assertion.
- b. Assertion and reason both are correct statements but reason is not correct explanation for assertion.
- c. Assertion is correct statement but reason is wrong statement.
- d. Assertion is wrong statement but reason is correct statement.

19. In which country the Great Proletarian Cultural Revolution was introduced?

- a. China
- b. China and Pakistan
- c. India
- d. Pakistan

20. The pre-condition of privatisation to be successful requires

- a. capital markets should be sufficiently developed
- b. liberalisation and de-regulation of the economy and capital markets should be sufficiently developed
- c. None of these
- d. liberalisation and de-regulation of the economy

21. **Read the following passage and answer the questions given below:**

The Healthcare system in India is divided is a three-tier healthcare system. First-tier includes primary health centers, community health sectors, and sub-sectors. These are small hospitals set up mostly in small towns and rural areas and managed by a single doctor. These centers have a focus on educating people on issues relating to healthcare

and providing immunization facilities against infectious diseases. Second-tier includes secondary healthcare institutions. These institutions are upgraded and have facilities for surgery, ECG, and X rays. Third-tier includes tertiary healthcare centers. These are high end and fully equipped medical centers offering specialized medical facilities.

GBD refers to the global burden of disease which is an indicator to assess premature death due to a particular disease and the duration of disability of the persons suffering from that disease.

- i. Primary health care centres offered _____ treatments to patients with manageable limits. (preliminary, secondary)
 - ii. Secondary health care centres or institutions are located in _____ towns as tier two health centres. (big, small)
 - iii. Educational and medical research centres such as AIIMS, NIMHNS are established in _____ healthcare centres. (secondary, tertiary)
 - iv. Global burden of disease as an indicator is used to assess _____ of a life lived by the people. (quality and quantity, quality or quantity)
22. UNDP has identified two categories of poverty. Briefly explain those categories.

OR

State the challenges of rural development.

23. How worker in formal sector is different from informal sector?
24. 'Information technology plays a very significant role in achieving sustainable development and food security'. Comment.
25. Differentiate between Self Reliance and Self Sufficiency.

OR

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

26. Mention the areas where Pakistan has an edge over India.
27. Answer any two of the following questions:
- i. Explain absorptive capacity of environment with examples.
 - ii. 'Human resource is the main economic factor'. Discuss.
 - iii. Distinguish between policy of laissez faire, policy of restriction and policy of liberalisation.
 - iv. Give an account of the distribution of employment on the basis of gender.

28. Answer the following questions:

- i. Discuss the role of small scale industries in the generation of employment.
- ii. Discuss the constitutional provision with regard to elementary education and recent constitutional amendment in this respect.
- iii. Comment on 'MGNREGA'.

CBSE Class 12 Economics
Sample Paper 08 (2020-21)

Solution

PART A - MACRO ECONOMICS

1. (d) open market operations

Explanation: Open market operations refer to the sale and purchase of securities in the open market by the RBI on behalf of the government. By selling the securities in the open market, the RBI soaks liquidity from the economy and by buying the securities, the RBI releases liquidity.

OR

- (c) Reduce bank rate

Explanation: It encourages investment and leads to increase in aggregate demand via multiplier process.

2. 0.25

3. (d) Reverse Repo Rate

Explanation: The rate at which the RBI accepts deposits from the commercial banks is called reverse repo rate. It is also called the reverse repurchase rate. Reverse repo rate allows commercial banks to generate interest income.

4. (d) Balance of trade and balance of invisibles

Explanation: These items add to the current flow of goods and services and are included in national income.

5. (c) APS will be negative

Explanation: $APC = 1 - APS$

$$APC = 1 - (-APS)$$

$$APC = 1 + APS$$

So, $APC > 1$ when APS is negative.

6. (d) is fixed by the Government in an economy

Explanation: A fixed exchange rate is a country's exchange rate regime under which the government or Central bank ties the official exchange rate to another country's currency or to the price of gold. The purpose of a fixed exchange rate system is to maintain a

country's currency value within a very narrow band.

7.
 - i. Create money
 - ii. Reserve Bank of India
 - iii. Minimum reserve
 - iv. Government of India
8. The two basic principles of the circular flow of income and product are as follows:-
 - i. Money flows are opposite to the real flows (in terms of goods and services).
 - ii. The flow of income across different sectors always implies the identity between payments and receipts.
9.
 - i. Entertainment tax received by the government is not be included while estimating the National Income of India as it is an indirect tax and not included at factor cost.
 - ii. Salaries received by Indian residents working in the Russian Embassy in India will be included while estimating National Income in India, as it is a factor income from abroad.
 - iii. Profits earned by an Indian bank from its abroad branches is included while estimating National Income of India as it is a factor income from abroad.

OR

Gross National Product at Market Price

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

$GNP_{MP} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross domestic capital formation} [\text{Net domestic fixed capital formation} + \text{Consumption of fixed capital} + \text{Change in stocks (Closing stock - Opening stock)}] - \text{Net imports} - \text{Net factor income to abroad}$

$= 1000 + 300 + 150 + (40 - 50) + 30 - 20 - (-) 10$

$= \text{Rs.1460 Arab}$

Net National Disposable Income

$= GNP_{MP} - \text{Consumption of fixed capital} - \text{Net current transfers to abroad}$

$= 1460 - 30 - 5$

$= \text{Rs.1425 Arab}$

10.
 - i. **Make in India Programme:** The aim of 'Make in India' programme is to attract foreign investment. This will increase the flow of foreign exchange in the country leading to an improvement in the Balance of Payments account.

- ii. **Import of pulses:** It would result in the outflow of foreign exchange. Due to this, there will be an adverse effect on Balance of Payments account.
- 11. i. Such expense is an intermediate cost and it is not included in the national income.
- ii. Such Expenditure is a residential investment and it is included in the national income
- iii. It is a transfer payment and it is not included in national income.
- iv. It is an investment so it is included in the national income.
- v. Salary received by an Indian resident working in US Embassy in New Delhi is a factor income from abroad and it is included in national income.
- vi. No - It is a non-factor receipt as the loan is not used for production but for consumption.

OR

Compensation of employees refers to amount paid to employees by employer for rendering productive services. It includes all the payments and benefits, which the employees receive, directly or indirectly, from the employer.

It includes:

- i. Wages and salaries paid in cash or kind.
 - ii. Employers contribution to social security schemes.
 - iii. Payment of pension to retired persons.
12. Inflationary gap is the excess of AD over AS at full employment level. Inflationary gap is the result of excess demand.
- Inflationary gap = Planned aggregate expenditure - Equilibrium level of expenditure.
- i. Impact on output : Inflationary gap generates extra pressure on existing flow of goods and services at the level of full employment. In this state, the output does not increase because the economy is already in the state of full capacity production.
 - ii. Impact on prices : As the inflationary gap generates pressure of demand on the existing flow of goods and services in the economy the price of goods and services tend to rise.
13. i. At Equilibrium $AD=AS$ or $I=S$
- $AD = Y = C + I$ (I is autonomous investment expenditure)
- thus, $Y = (50 + 0.5Y) + 100$
- $Y - 0.5 Y = 150$
- $Y = \frac{150}{0.5} = ₹ 300 \text{ crores}$

So, the equilibrium level of income = ₹ 300 crores.

ii. Consumption at equilibrium level of income

$$S = (-) c + (1-b)Y \text{ (saving function)}$$

$$S = (-)50 + (0.5)(300)$$

Savings = ₹ 100 crores (any other alternative correct method to be awarded marks)

$$\begin{aligned} \text{iii. Investment Multiplier} &= \frac{1}{1-MPC} \\ &= \frac{1}{1-0.5} \\ &= 2 \end{aligned}$$

OR

Deficient demand and excess demand can be distinguished from each other in the following manner:

- i. Deficient demand is a situation, which occurs due to excess of aggregate supply of output over the aggregate demand for output at the level of full employment. On the other hand, excess demand is a situation, which occurs due to the excess of aggregate demand for output over the supply of output at the level of full employment.
 - ii. Deficient demand generates a deflationary gap. But excess demand generates an inflationary gap.
 - iii. Deficient demand leads to a fall in output, employment, and price level. But excess demand leads only to an increase in the price level. Between the two – excess demand and deficient demand, the latter is worse.
14. i. Revenue Deficit = Total Revenue expenditure - Total revenue Receipt = Revenue Expenditure - (Tax revenue + Non Tax revenue) = 1500 - (1000 + 150) = Rs 350 crores
- ii. Fiscal deficit = Total expenditure – (Revenue Receipt + Disinvestment proceeds) = (1500+480) - (1000+150+50) = Rs 780 crores (Note: Fiscal Deficit is also equal to borrowing)

PART B - INDIAN ECONOMIC DEVELOPMENT

15. (c) Bengal

Explanation: Jute Textile Industry is one of the major Industries in Eastern India, particularly in Bengal.

16. (d) Value of all final goods and services produced by the residents of a nation

Explanation: Gross national product (GNP) is a broad measure of a nation's total economic activity. GNP is the value of all finished goods and services produced in a

country in one year by its nationals.

17. (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

Explanation: The decline in the death rate is a pointer to the growth of social infrastructure in the economy since the growth of social infrastructure leads to improved health care facilities which lead to a fall in the death rate.

OR

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Explanation: To raise the standard of living of the poor, minimum needs programme was launched during the fifth plan. However, poverty alleviation programmes have failed to deliver the desired results. The administration and concerned staff were inefficient and could not work effectively because of the complex procedures involved.

18. (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

Explanation: Higher HDI rank reflects better performance of a country with regard to the availability of essential goods and services to the people. It implies better sanitation, improved health services and better Nourishment of the people. Certainly, China has performed better than India and Pakistan in the area of Nourishment.

19. (a) China

Explanation: Great proletarian cultural revolution was launched in 1965, making it mandatory for the students and professionals to go to the countryside, they were to work with and learn from the rural masses.

20. (b) liberalisation and de-regulation of the economy and capital markets should be sufficiently developed

Explanation: Once, economy is liberalised then only production can be made competitive subject to non - intervention of government and capital market will facilitate ease of investment

21. i. primary

ii. big

iii. tertiary

iv. quality and quantity

22. United Nations Development Programme (UNDP) has identified two categories of poverty which are explained below:

- i. Human poverty is a denial of opportunity for living a tolerable life, and
- ii. Income poverty which arises due to lack of necessities of material well-being

OR

Following are the main problems of rural development:

- i. **Growth Rate of Agriculture-** The growth rate of agriculture is very less due to a decline in public investment in agriculture. As a result, there is large scale poverty in rural areas.
 - ii. **Inadequate Infrastructure-** There is inadequate economic infrastructure like irrigation, electricity, credit, marketing, transport, etc. There is inadequate social infrastructure like health and education.
 - iii. **Lack of Non-farm Activities-** There are inadequate non-farm activities to support agriculture such as animal husbandry, dairying, fisheries, etc. Non-farm activities provide supplementary gainful employment and enable people to overcome poverty.
23. Following table shows the distinction between a worker in formal sector and worker in the informal sector.

Basis of distinction	Formal sector worker	Informal sector worker
Sector	A worker in the formal sector works in organised sector i.e., public sector establishments and big and medium-sized private establishments	A worker in the informal sector works in unorganised sector i.e., small-sized private establishments.
Nature	A worker in the formal sector is a regular worker because he is protected by various labour laws.	A worker in the informal sector is a casual worker because he is not protected by labour laws and is subject to uncertainties.
Status	A worker in the formal sector is entitled to various rights such as social security benefits, trade union etc.	A worker in the informal sector is not entitled to any rights.

24. Information technology plays a very significant role in achieving sustainable development and food security in the following ways:
- i. It can act as a tool for releasing the creative potential and knowledge embedded in our people.
 - ii. It has the potential for employment generation in rural areas.
 - iii. The quality and quantity of crops can be increased manifold if the farmers are made aware of the latest equipment, technologies and resources.
 - iv. Issues like weather forecasting, crop treatment, fertilizers, pesticides, storage conditions, etc can be well administered if expert opinion is made available to the farmers.
25. Difference between Self reliance and Self Sufficiency can be summarised as below:
- i. An economy must have enough resources or foreign exchange to purchase all inputs required for production, if they are not available within the country. If it has enough resources to buy these resources it is said to be self-reliant. On the contrary, when a country can produce everything within its domestic territory, it is said to be self-sufficient.
 - ii. It is possible to be self-reliant but it is not possible for an economy to be self sufficient.
 - iii. Self-sufficiency is also not desirable economically because it may be cheaper and better to buy certain inputs from other countries. For that a country needs foreign exchange. If a country has foreign exchange, it is self-reliant.
 - iv. Self - Sufficiency means a country is possessing (or producing) all the resources it needs.
- Self - Reliance is depending on own resources of the country and avoiding dependence on external flows.

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.
26.
 - i. Urbanisation
 - ii. Less percentage of population below poverty line.
 - iii. More percentage of population having access to improved water sources.
 - iv. Migration of workers from agricultural sector to industrial sector on large scale.
27. Answer any two of the following questions:
- i. The absorptive capacity of the environment may be defined as the ability of the environment to Absorb degradation. It is the maximum amount of waste material that can be naturally absorbed by the environment on a sustainable basis, without causing environmental damage. As a result of economic development, many natural resources have become extinct. For example, wastes of industries have polluted and dried up rivers and other aquifers making water an economic good. Similarly, deforestation has resulted in habitat damage, biodiversity loss, and aridity.
 - ii. Of all the factors of production, viz land, labour, capital and organisation; labour or human resource is the most important economic factor because it is the only factor which is active. All the other factors are inactive. Nature's bounty becomes significant only when people find it useful. It is people with their demands and abilities that turn

them into 'resources'. Hence, human resource is the ultimate resource. Healthy, educated and motivated people develop resources as per their requirements. In the absence of human resource, production in an economy will come to a stand.

Therefore, it is correctly said that human resource is the main economic factor.

- iii. a. **Policy of Laissez Faire-** Policy of laissez-faire means a policy under which the government does not impose restrictions on economic activities.
- b. **Policy of Restriction-** Policy of restriction means the policy under which the government imposes a number of restrictions on economic activities through taxation policy, industrial policy, trade policy and monetary policy.
- c. **Policy of Liberalisation-** Policy of liberalisation means the policy under which the government withdraws some of the existing restrictions on economic activities.
- iv. Self-employment accounts for more than 50 percent of the workforce and hence, is the major source of livelihood for both men and women. A casual wage job is the second major source for both men and women, more. It accounts for 32 and 37 percent of the male and female workforce respectively. In the case of regular salaried employment, men are found to be more engaged. While the male workforce forms 18 percent, the female workforce forms only 10 percent.

28. Answer the following questions:

- i. Small-scale industries are labour intensive in character. They provide employment opportunities to women, skilled and unskilled people in India and also removes regional disparities by industrializing rural and backward areas and brings balanced regional development. Small Scale Industries play a major role in distributing the national income in a more efficient and equitable manner among the various participants of the society. It helps to mobilize and utilize local resources effectively and in turn, helps in the development of society by reducing the concentration of income and wealth in few hands.
- ii. There is a constitutional provision with regard to elementary education which directs the state to secure free and compulsory education to the children below 14. The government tried to implement this provision but could not get much success. There is a recent constitutional provision "Right to Education Act" in respect of elementary education. This Act makes the right to free and compulsory education for children in the age group of 6-14, a fundamental right and for parents/guardians a

fundamental duty to provide opportunities for their children. This Act will be successful only when there is a strong social movement for universal elementary education.

Steps are taken for free and compulsory education for children priority shall be given to programmes relating to (a) elementary school so that the child moves from the Anganwadi.

- iii. MGNREGA is the largest social security scheme in the world — guaranteeing 100 days of unskilled manual work to all rural households in India. Last year, about 235 crore person-days of work were generated under the scheme. The MGNREG Act actually gives rural households the right to work — making it obligatory for the State to give them work on demand. Household could actually sue them for not doing so — at least on paper. The work is usually on projects to build durable assets like roads, canals, ponds and wells. In reality, there are quite a lot of rules on how the money may be spent. The Act stipulates a minimum wage-material ratio of 60:40. The average wage per day per person in 2016-17 was ₹161.