

CBSE Class 12 Economics
Sample Paper 04 (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. Define stocks.

3. The important factor influencing the propensity to save in an economy is

- a. The level of savings
- b. The level of investment
- c. The level of consumption
- d. The level of income (Y)

4. What is the meaning of deficit in Balance of Payments?

OR

The balance of trade shows a deficit of Rs.300 crore. The value of exports is Rs. 500 crore. What is the value of imports?

5. Fiscal Policy refers to a policy of :

- a. Money lenders
- b. Monetary authority
- c. Commercial banks
- d. Government Finance

6. Fill in the blanks:

_____ is the rate at which the central bank (RBI) borrows money from commercial bank.

7. Fill in the blanks:

The expenditure and revenue policy taken by the general government to accomplish the desired goals is known as _____.

8. State true or false:

In spot market sale and purchase of foreign currency is settled on a specified future date.

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) Direct tax	(i) Escheat

(b) Indirect tax	(ii) Recovery of loan
(c) Non tax receipt	(iii) Income tax
(d) Capital receipt	(iv) G.S.T

11. What is disinvestment? Does it refer to revenue receipt or capital receipt of the government? Give an example.
12. Suppose that consumption equals $C = 100 + 0.75Y$, and investment equals $I = ₹50$ and $Y = C + I$. Find
 - (i) The equilibrium level of income
 - (ii) The level of consumption at equilibrium, and
 - (iii) The level of saving at equilibrium.

OR

Find consumption expenditure from the following.

Autonomous consumption = Rs. 100

Marginal Propensity to Consume = 0.70

National Income = Rs. 1,000.

13. What are open market operations? What is their effect on availability of credit?
14. Distinguish between the current account and capital account of balance of payments account. Is import of machinery recorded in current account or capital account? Give reasons for your answer.

OR

A surplus current account means that the nation is a lender to other countries and a deficit current account means that the nation is a borrower from other countries.

With respect to the given statement, analyze the components of Balance on Current Account.

15. Tax rates on higher-income group have been increased. Which economic value does it reflect? Explain.
16. Why are exports included in the estimation of Domestic Product by the

expenditure method? Can the gross domestic product be greater than the Gross National Product? Explain.

OR

Calculate Gross National Product at Factor Cost from the following data by

- i. Income method and
- ii. Expenditure method.

S.no.	Contents	(Rs. in crores)
(i)	Private Final Consumption Expenditure	1,000
(ii)	Net Domestic Capital Formation	200
(iii)	Profits	400
(iv)	Compensation of Employees	800
(v)	Rent	250
(vi)	Government Final Consumption Expenditure	500
(vii)	Consumption of Fixed Capital	60
(viii)	Interest	150
(ix)	Net Current Transfer from Rest of the World	(-) 80
(x)	Net Factor Income from Abroad	(-) 10
(xi)	Net Exports	(-) 20
(xii)	Net Indirect Taxes	80

17. i. Distinguish between autonomous investment and induced investment,
- ii. On the basis of the following information about an economy calculate its equilibrium level of income.

Autonomous consumption = Rs 100

Marginal Propensity to Consume = 0.75

Investment = Rs 5,000

Section B

18. Discuss the impact of fiscal sector reforms.

19. State true or false:

A teacher's salary is higher than a rickshaw puller because of education.

20. Match the following:

(a) Fifth plan	(i) generation of employment opportunity
(b) Sixth plan	(ii) focus on weaker section of society
(c) Seventh plan	(iii) strengthening of infrastructure
(d) Eighth plan	(iv) removal of poverty

21. Development of rural marketing relates to

- a. All of these
- b. Regulated market
- c. Storage
- d. Transportation

22. Fill in the blanks:

The process of moving from self-employment and regular salaried employment to casual wage work is known as _____ of the workforce.

OR

Fill in the blanks:

_____ refers to overseas patients visiting India for their medical treatment.

23. Fill in the blanks:

_____ is a production system that sustains the health of soils, ecosystem, and

people.

24. ____ it is a cut-off point on the line of distribution which divides the population into poor and non-poor

- a. Poverty line
- b. Poverty distribution
- c. Poverty
- d. Poverty cut off

25. Fill in the blanks:

An increase in earth's temperature results in an increase in the volume of water which contributes to a rise in the sea level is called _____.

26. Which of the following country is growing mainly due to manufacturing sector?

- a. China
- b. Pakistan
- c. None.
- d. India

27. Which of the following is not the parameter of human development

- a. Adult mortality rate
- b. Life expectancy
- c. Population below poverty line
- d. Infant mortality rate

28. Is environmental crisis a recent phenomenon? If so, why?

OR

Do you think India's installed capacity to generate electricity is sufficient?

29. A skilled worker like software professional generates more income than an unskilled worker. Why?
30. Explain the changing role of state in Indian economy since introduction of reforms.
31. What is subsidy? What is its objective?

OR

What was the impact of reforms on growth and employment in India?

32. Compare India and China in the context of various social indicators by studying the following data.

Social sector indicators 2012-15

Description	India	China
Gross enrolment ratio in primary school 2013(%)	100.1	116
Expenditure on research and development as % of GDP (2005-12)	0.8	2
adult literacy ratio 2013 (%)	62.8	95.1
Health expenditure (%GDP) (2014)	5.05	10.43
Doctor after one thousand population (2017)	0.7	1.6

33. What do you mean by organic farming. Why should we adopt organic farming?
34. Highlight important features of the infrastructure sector.

OR

What should be the main elements of 'employment policy' in India in the present context?

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Solution

Section A

1. Revenue deficit
2. Stock variables are defined as any quantity measured at a particular point of time e.g. number of machines in a plant on 31st March, the amount in the bank account on 1st July. National wealth, money supply is a stock variable. Stock variables are not time dimensional.
3. (d) The level of income (Y) **Explanation:** Saving is a function of income.

$$S=f(Y).$$

$$\text{So, APS} = S/Y = f(Y)/Y.$$

4. Deficit in BOP refers to a situation when receipts of the country arising out of autonomous transactions are less than the corresponding payments to the rest of the world during the period of an accounting year. Suppose, the receipts of the domestic country is Rs. 200 crore, whereas payments are Rs. 220 crore. Then BOP deficit will be
 $= 220 - 200 \text{ crore} = \text{Rs. } 20 \text{ crore}$

OR

$$\text{BOT} = \text{Exports} - \text{Imports}$$

$$= - \text{Rs. } 300 \text{ crore}$$

$$\text{Imports} = \text{Exports} - \text{BOT (Deficit)}$$

$$= \text{Rs. } 500 - (- \text{Rs. } 300 \text{ crore})$$

$$= \text{Rs. } 800 \text{ crore.}$$

5. (d) Government Finance
Explanation: Government Finance
6. Reverse repo rate

7. Fiscal policy
8. False
9. Debt Trap
10. (a)-(iii) , (b)-(iv) , (c)-(i) , (d)-(ii)
11. Disinvestment refers to the withdrawal of existing investment. For Example, The government of India is undertaking disinvestment by selling its shares in the Maruti Udyog. It is a capital receipt of the government as it reduces assets of the government.
12. i) $Y = C + I$
 $Y = 100 + 0.75Y + 50$
 $Y - 0.75Y = 150$
 $Y = \frac{150}{0.25} = ₹600$
(ii) $C = 100 + 0.75 * 600 = ₹550$
(iii) $S = Y - C = 600 - 550 = ₹50$

OR

Here we have Autonomous consumption $(\bar{C}) = \text{Rs.}100$,

Marginal Propensity to Consume (b) = 0.70 and Income (Y) = Rs. 1,000.

Now we have to find Consumption Expenditure which is given by the following equation,

$$\begin{aligned}
 (C) &= \bar{C} + bY \\
 &= 100 + 0.7 \times 1,000 \\
 &= 100 + 700 = \text{Rs. } 800. \text{ Therefore Consumption Expenditure is equal to Rs 800.}
 \end{aligned}$$

13. Open market operations refer to buying and selling of government securities by the central bank from/to the public and commercial banks.

Sale of securities by central bank reduces the reserves of the commercial banks. This adversely affects the bank's ability to create credit and this decreases the money supply in the economy. Purchase of securities by central bank increases the reserves and raises the bank's ability to give credit.

14. (i) Current account: Current account is that account which records imports and exports of goods and services and unilateral transfers, income and transfer payments during a year.
- (ii) Capital account: Capital account is that account which records all such transaction between residents of a country and rest of the world which cause a change in the asset or liability status of the residents of a country or its government.
- (iii) Import of machinery is an import item. So, it will be included or recorded under the current account.

OR

Balance on Current Account has two components:

- Balance of Trade or Trade Balance
- Balance on Invisibles

Balance of trade is the difference between the value of exports and value of imports of goods of a country in a given period of time. Export of goods is entered as a credit item in BOT, whereas import of goods is entered as a debit item in BOT. It is also known as Trade Balance.

Net Invisibles is the difference between the value of exports and value of imports of invisibles of a country in a given period of time. Invisibles include services, transfers and flows of income that take place between different countries. Services trade includes both factor and non-factor income. Factor income includes net international earnings on factors of production (like labour, land and capital). Non-factor income is net sale of service products like shipping, banking, tourism, software services, etc.

15. The economic value that is reflected in the rise in the tax rate for higher-income group is 'Equality and Social Welfare'. Individual welfare is availed by people themselves provided they have higher income but, welfare to all other people is not availed by individuals as they have no incentive to do that. Since the government aims at welfare rather than profit, it frames policies for economic equality and social welfare. The main objective of the budgetary policy of the government is to reduce inequalities of income and wealth in the country. Even distribution of wealth and social welfare remains the main objective of budgetary policy. Inequality arises when

the income of one group is greater than the other group. The government uses progressive taxation policy to reduce the inequalities of income and wealth in the country. The government imposes high tax rates on higher-income group and a low tax rate on lower-income group. People with income below a certain level are not levied any direct tax altogether. All this is done so that the wealth is smoothly distributed among all classes of society.

16. The expenditure method estimates expenditure on domestic product i.e., expenditure on final goods and services produced within the economic territory of the country. It includes expenditure incurred by residents and non-residents both. Exports though purchased by non-residents are produced within the economic territory and therefore a part of domestic product.

Domestic Product = National Product + Net factor income from abroad.

i.e Domestic Product = National Product + (Net factor income received from abroad- Net factor income paid to abroad).

So for Domestic product to be greater than National Product, Net Factor income received from abroad should be negative and this will be possible when Net factor income paid to rest of the world is greater than the Net factor income received from the rest of the world.

So we can conclude that Domestic product would be less than National product only when Net factor income received from rest of world is Negative.

OR

Calculation of Gross National Product at Factor Cost :

By Income Method	By Expenditure Method
$GNP_{FC} = \text{Compensation of Employees} + \text{Profits} + \text{Rent} + \text{Interest} + \text{Consumption of Fixed Capital} + \text{Net Factor}$	$GNP_{FC} = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Net Domestic Capital Formation} + \text{Consumption of Fixed Capital} + \text{Net Exports} - \text{Net Indirect Taxes} + \text{Net Factor Income from Abroad}$

Income from Abroad	
= 800 + 400 + 250 + 150 + 60 + (-10) = Rs. 1,650 crores	= 1,000 + 500 + 200 + 60 + (- 20) - 80 + (- 10) = 1,760 - 110 = Rs. 1,650 crores

17. i. Differences between autonomous investment and induced investment

SR. No.	Basis	Autonomous Investment	Induced Investment
1.	Motive	To promote social welfare, Autonomous Investment is done	Induced Investment is driven by profit motive.
2.	Sector	It is generally undertaken by the government sector.	It is generally done by the private sector.
3.	Income elasticity	It is not affected by the changes in income level.	It is affected by the change in the income level.

ii. **Calculation of equilibrium level of income:**

Given,

- i. Autonomous consumption = Rs 100
- ii. Marginal Propensity to Consume = 0.75
- iii. Investment = Rs 5,000

Since at the equilibrium level, Saving = Investment

Income (Y) = Consumption (C) + Investment (I),

Also, Consumption Expenditure (C) = $\bar{C} + bY$

Where, (\bar{C}) = Autonomous consumption, b = Marginal Propensity to Consume, and Y = Income

So, from the above two relations, we get

$$Y = \bar{C} + bY + I$$

$$Y = 100 + 0.75Y + 5000$$

$$Y - 0.75Y = 5100$$

$$0.25Y = 5100$$

$$Y = \frac{5,100}{0.25} = \text{Rs } 20,400$$

∴ **The equilibrium level of income = Rs 20,400**

Section B

18. Fiscal sector reforms had not produced desirable results. Reducing tax rates have not led to increase in government revenue. Reform policies like tariff reduction have reduced the scope of increasing government revenue. Tax incentives offered to attract MNCs has further reduced scope of increasing government revenue. However fiscal sector reforms have helped to raise the rate of savings and investments in India, which to some extent have further enhanced the productivity of public expenditure.

19. True

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

21. (a) All of these

Explanation: Agricultural marketing includes all these processes between harvesting and final sale of the produce by the farmers.

22. Casualisation

OR

Medical Tourism

23. Organic farming

24. (a) Poverty line

Explanation: A minimum income level used as an official standard for determining the proportion of a population living in poverty is called poverty line.

25. Global warming

26. (a) China

Explanation: Sectoral Share of Employment and GDP (%)

Sector	Contribution to GDP (2003)			Distribution of WorkForce		

	India	China	Pakistan	India(2000)	China(1997)	Pakistan(2000)
Agriculture	23	15	23	60	54	49
Industry	26	53	23	16	27	18
Service	51	32	54	24	19	37
Total	100	100	100	100	100	100

27. (a) Adult mortality rate

Explanation: Development Index (HDI) combines three dimensions: A long and healthy life: Life expectancy at birth, Education index: Mean years of schooling and Expected years of schooling, A decent standard of living: GNI per capita.

28. Yes, the environmental crisis is a very recent phenomenon. The sparks of such crisis were never visible in the past. In recent years, the population has increased. It has increased demand for natural resources while the supply of natural resources is fixed. It creates excess demand and exerts pressure on natural resources. Consequently, the mounting pressure on the carrying capacity of the environment is paving the way for environmental crises.

OR

India's installed capacity to generate electricity is not sufficient to feed an annual economic growth of 7-8%. In order to meet the growing demand for electricity, between 2000 and 2012, India needs to add 100000 MW of new capacity, whereas at present India is able to add only 20000 MW a year. The role of private sector power generators and foreign investors has been limited. The thermal power sector is facing a shortage of raw material and coal supplies.

29. A skilled worker generates more income than an unskilled worker. The productivity of an educated and skilled person is higher than an unskilled one. Skilled workers often refer to a line of work that requires technical skills or specialized training. So there is a great demand for skilled workers. Due to this fact, a skilled worker also commands higher earnings and gainful employment and they cannot be substituted easily because it takes years to generate manpower which is skilled in a particular field. On the other hand, unskilled labor occupations typically don't require workers

to have any kind of special training or skills, For e.g. an unskilled worker like a rickshaw puller can be easily substituted and such workers easily compromise on their earnings.

30. The changing role of state is reflected in the eighth five-year plan which mentioned that the planning in India will be indicative increasingly. In order to give some correctness to the changing role of state the eighth five-year plan has identified the principles governing public sector. These are :

1. The public sector must withdraw from the areas where no public sector is served by its presence.

2. State should make investments only in those areas where investment is of main infrastructural nature where private sector is not likely to come forth to an adequate extent within a reasonable time perspective.

After that we saw a major shift in the Indian economy and the role of state has been changing from a controller, regulator and participator to that of a facilitator, observer and guide. The changes that took place in the role of state since 1991 are as under:

- a. Before economic reforms, government had its share in all sectors of the economy. It was producing bread, butter, biscuits, milk, running hotels and many of these were actually not required to be in public sector. Government withdrew herself from these sectors through delicensing, deregulation and disinvestment.
- b. As a regulator, during 1947-1990, Government regulated all activities with the laws and acts. But after 1991, except some basic and strategic goods and services, decisions were made to be market-driven. For this purpose, regulatory authorities were set up for different sectors.
- c. Since 1991, Government has focused its attention on development of social sector like education, health, defence, law and order.

Overall, we can say that the role of state has changed from producer to production facilitator.

31. A subsidy is a benefit given by the government to the producers as an incentive to produce. To farmers a subsidy is given to lower the cost of inputs. It is given on

electricity to the producers to lower cost of production and it is given to consumers especially those living below poverty line on necessities to make basic needs affordable for them.

The objective of subsidy is to bolster the welfare of the society. It is a part of non-plan expenditure of the government. Major subsidies in India are petroleum subsidy, fertiliser subsidy, food subsidy, interest subsidy, etc.

OR

The study reveals that economic growth which started after independence took momentum after economic reforms were introduced in the economy. Now India is recognized as second fast-growing country after china and is emerging as a superpower in the years to come. Although there has been an increase in the growth rates during reform period, however scholars point out that growth has not led to creation of employment opportunities. Private-sector job growth increased but couldn't keep pace with the annual increase in labour force and pace of job losses in the public sector. As a consequence number of people working in the organised sector in India as a percentage of total labour force has decreased. This failure of private sector to generate enough jobs to compensate for the shrinking public sector is partly to do with India's terrible educational outcome and the rigidity in the labour market regulation. Moreover, economic reforms had not led to growth of all the sectors equally.

32. With impressive achievements in the economic sphere, China has also fared better in terms of the social sector. The table shows that the enrolment ratio in primary school is higher in China than that of India. So, the adult literacy ratio is far greater in China as compared to India. Moreover, health expenditure in China is double in comparison to India. Education has been given special importance in the social indicator.

The level of education is known by the comparison of the mean year of schooling of both the countries i.e, India and China. It indicates that the position of China (7.8) is better in comparison to India (6.4).

33. It is a whole system of farming that restores, maintains and enhances the ecological balance.

Organic agriculture offers a means to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilizers, pesticides etc.) with locally produced organic inputs that are cheaper and thereby generate good returns on investment. Organic agriculture also generates income through exports as the demand for organically grown crops is on a rise. Studies across countries have shown that organically grown food has more nutritional value than chemical farming thus providing us with healthy foods. Since organic farming requires more labour input than conventional farming, India will find organic farming an attractive proposition. Finally, the produce is pesticide-free and produced in an environmentally sustainable way.

34. Following are the important features of infrastructure:

1. **Public Goods:** Most of the physical infrastructure services have some elements of public good in them i.e. it is not always possible to exclude those consumers who chose not to pay for them.
2. **Externalities:** The social benefit of the infrastructure services is more than the cost involved in their generation. It makes it difficult to price them economically.
3. **Monopolies:** Monopolies are more prevalent in infrastructure.
4. **Public Sector Domination:** Public sector dominates in supply of infrastructure due to above-mentioned features.
5. **Lumpy Investment:** Infrastructure projects are such that any expenditure on a part of the project is not useful until the whole project is ready for operations.
6. **Indivisibilities:** It means one can not divide and sub-divide such projects in small parts and activate them.

OR

Following should be the main elements of employment policy in India in the present context:

- i. The employment policy should emphasise on both complete and more productive employment.
- ii. Employment policy must have the objective of a higher rate of capital formation.
- iii. Employment should be generated in the normal process of development.
- iv. There should be an effective reform of the educational system. Emphasis should be on vocational and technical knowledge.

- v. Emergence of destabilising factors in the economy should be avoided through greater efficiency in planning.
- vi. Measures should be taken to increase employment opportunities for women.
- vii. Employment policy should give more emphasis to self-employment.
- viii. Cottage industry should be promoted to reduce seasonal unemployment.