Sample Paper-05 (2016-17)
Economics
Class – XII

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

Answers

1. (b) How to produce.
2. (c) tea and coffee
3. (c) Contraction of demand.
4. PPC shift when **(i)** resources increase or decrease **(ii)** technology changes.
5. PPC is a straight line when marginal opportunity cost or marginal rate of transformation is constant.
6. The central problems of the economy are as follows:
   (a) **What to produce**: An economy has millions of commodities to produce. It has to decide whether to produce luxury goods or wage goods or capital goods or consumer goods and so on.
   (b) **How to produce:** The next choice is the choice of technique of production. Every economy faces the problem of as to how resources should be combined for thr production of a given quantity. This is the problem of deciding whether to use capital intensive or labour intensive technique of production.
   (c) **For whom to produce**: What good should be consumed and by whom depends upon how national income is distributed among people.
7.

Cardinal utility approach	**Ordinal utility approach**
Utility is a measurable and quantifiable concept and can be expressed numerically.	Utility is psychological phenomenon and is inherently immeasurable.
Unit of measurement is 'utils'	It cannot be measured in absolute terms but it is possible for a consumer to scale his preferences by giving them ranks.

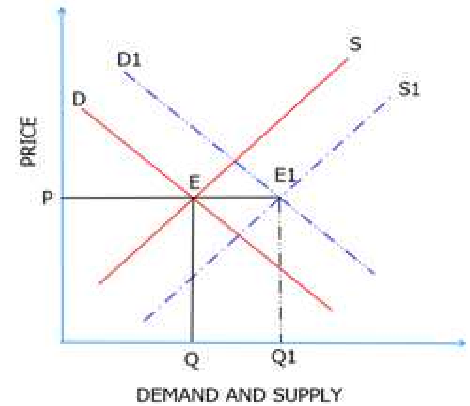
8.

Output	1	2	3	4	5	6	7	8
TC	90	105	115	120	135	160	200	260
TVC	30	45	55	60	75	100	140	200
TFC	60	60	60	60	60	60	60	60
AVC	30	22.5	18.33	15	15	16.67	20	25
AFC	60	30	20	15	12	10	8.571	7.5
ATC	90	52.5	38.33	30	27	26.67	28.57	32.5
MC	-	15	10	5	15	25	40	60

9. Followings are the factors that affect demand for a commodity:
   (a) **Price of the commodity**: generally when the price of the commodity goes up, demand for it falls and when the price goes down, demand increases.
   (b) **Income of the consumers**: generally when the income of the consumer increases, demand for the commodity foes up and when the income falls, demand goes down.
   (c) **Price of related goods**: In case of complementary goods like car and petrol, the demand for a commodity rises with a fall in price of a complementary good. In case of substitute goods like tea and coffee, demand for a commodity falls with a fall in price of other substitute goods.
10. MC curve is U shaped in the short run due to the operations of the law of returns to factor (law of variable proportion). Initially production is subject to law of increasing returns (decreasing cost), then law of constant returns (constant cost) and ultimately to the law of diminishing returns (increasing cost). As output is increased, AC first falls, reaches its minimum and then rises. That is why MC is U shaped.
11. (a) All the bundles that are available to the consumer are:
    (0,0) (0,1) (0,2) (0,3) (0,4)
    (1,0) (1,1) (1,2) (1,3)
    (2,0) (2,1) (2,2)
    (3,0) (3,1)
    (4,0)
    (b) Following bundles cost exactly Rs 40
    (0,4) (1,3) (2,2) (3,1) (4,0)
12.

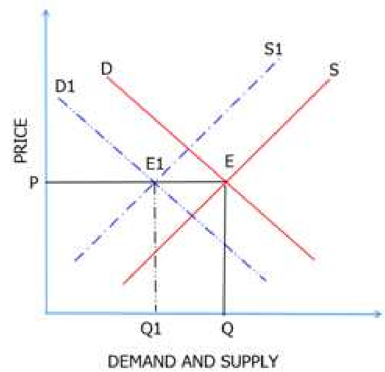
Basis	Perfect competition	Oligopoly
Number of buyers and sellers	Very large	Sellers are few but buyers are large
Nature of product	Homogenous	Homogenous or differentiated
Entry or exit of firms	Free entry and exit	Restricted entry and exit
Demand curve	Perfectly elastic	Intermediate/undefined
Knowledge of market conditions	Perfect knowledge	Imperfect knowledge
Price	Uniform	Indetermined

13. **Case 1:** When both demand and supply of the commodity increase. When both demand and supply increase in the same proportion, then there is no change in equilibrium price but equilibrium quantity increases. This is shown below:



In the diagram, supply increases from SS to S_1S_1 and demand increases from DD to D_1D_1. Both demand and supply increases in the same proportion, therefore equilibrium price remains unchanged at OP but equilibrium quantity increases from OQ to OQ_1.

Case 2: When both demand and supply of the commodity decreases. When both demand and supply decreases in the same proportion, then there is no change in equilibrium price but equilibrium quantity will decrease. This is shown below:



In the diagram, supply decreases from SS to S_1S_1 and demand decreases from DD to D_1D_1. Both decreases in equal proportion, therefore, the equilibrium price remains constant but equilibrium quantity decreases from OQ to OQ_1.

14. Main causes of the leftwards shift of the supply curve are:
    (a) **Use of less productive technology:** If the firm is using less productive technology, the unit cost of production will rise. With higher cost of production, the firm produces less and would supply less than before at the given price and therefore the supply curve will shift to the left.
    (b) **A rise in price of inputs**: A rise in price of inputs like wages, raw materials etc, increases the unit cost of production and therefore firms would supply less than before at the given price. As a result, supply curve shift to the left.
    (c) **A rise in price of other goods**: Suppose wheat and sunflower are the two goods that a farmer can produce. If the price of sunflower rises, then it would be more profitable for the farmer to produce and sell more sunflower. Therefore, the supply of wheat would decrease even though the price of wheat remained the same. Thus, the supply curve for wheat would shift to the left.
15. Following are the factors affecting price elasticity of demand:
    (a) **Availability of close substitutes for the commodity:** a commodity will have elastic demand if there are close substitutes available, e.g., Pepsi, Coca-cola etc. A commodity having no close substitutes, e.g., salt will have inelastic demand.

(b) **Nature of good**: generally, the demand for necessaries is inelastic and that for luxuries is elastic. This is because certain goods which are essential to life will be demanded at any price, whereas goods that are meant for luxuries can be dispersed easily if they appear to be costly.

(c) **Uses of the commodity:** if a commodity has only few uses e.g., butter, its demand is likely to be inelastic. If on the other hand, a commodity has many uses, its demand is likely to be elastic, e.g., milk, electricity.

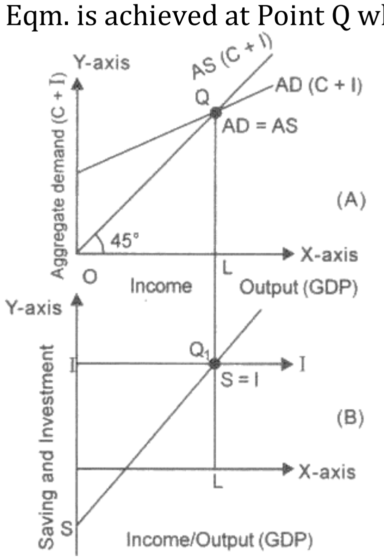
(d) **Tastes and preferences**: if the consumers are habitual of some commodities, the demand for such commodities will be usually inelastic because they will use them even if their price goes up. A smoker generally does not smoke less when the price of cigarette does up.

Section B

16. (c) 1929
17. (b) Rest of the world.
18. (b) Balance of trade.
19. National income' = Domestic income + Net factor income from abroad
$= 500 + (-5) = Rs. 495$ crores.
20. It is a system that allows adjustments in exchange rate according to a set of rules and regulations which are of facially declared in the foreign exchange market.
21. **Excess demand**: when aggregate demand exceeds aggregate supply at full employment level, then the situation is called an excess demand. Excess demand gives rise to inflationary gap. This situation leads to rise in prices.
Deficient demand: when aggregate demand falls short of aggregate supply at full employment level, then the situation is called deficient demand. It is a level of demand which is insufficient to eliminate underemployment. It gives rise to deflationary gap and reduces the level of income, output and employment.
22. Yes, mostly public debt prove to be a burden on the economy because:
(i) It proves to be a burden on common man if loans are taken for war and weapons
(ii) If hampers economic development of a country, and
(iii) It leads to unplanned spending.
23. NVA_{FC} = Sales + closing stock – opening stock – intermediate consumption – depreciation – NIT
= 200 + 10 – 15 – 48 -12 – 20
= 115 lakhs.
24. Balance of Trade = Export of goods – import of goods
= 340 – 400 = - 60 crores.
25. (i) With a fall in CRR, the availability of credit increases and as a result the money supply increases.
(ii) With a rise in SLR, the availability of credit and therefore money supply decreases.
(iii) With a rise in bank rate, the availability of credit decreases and therefore money supply decreases.
26. Statutory liquidity ratio (SLR) is the minimum percentage of deposits to be kept by commercial bank with itself. It is kept in the form of specified liquid assets including cash, gold and government securities.
Cash Reserve ratio (CRR) is the minimum percentage of deposit to be kept by commercial bank with the central bank.

The only difference between SLR and CRR is that in SLR, the commercial bank keep the minimum percentage of deposit with itself whereas in CRR the commercial bank keeps the minimum percentage of deposits with the central bank.

27. Under Income method, National Income is measured at the stages when factor incomes are paid out by the production units to the owners of the factors of production. The main steps involved in this method are as follows:
(i) First of all production units which uses factor services are identified.
(ii) Estimate the following factor incomes: a) compensation of employees (b) rent (c) interest (d) profits (e) mixed incomes.
(iii) The sum total of the above factor incomes gives us domestic factor income (i.e. NDP_{FC})
(iv) Add net factor income from abroad to NDP_{FC} to arrive at national income (NNP_{FC})
NI OR $NNP_{FC} = NDP_{FC}$ + Net factor income from abroad.
Precautions to be taken while measuring national income by income method are:
(i) Only factor incomes are included, but transfers are not included. Gifts, donations, charities, old age are not factor incomes but transfer income. These should not be included in the estimation of national income by income method.
(ii) The imputed rent of owners, self-occupied houses and value of production for self consumption are included.
(iii) Wealth tax, taxes on capital gains are not included in national income.
(iv) Direct taxes like income tax should be included.
28. Foreign exchange rate refers to the rate at which one country's currency is exchanged with the currency of other country. There are mainly two types of exchange rate:
(a) Fixed exchange rate: is the rate which is officially fixed in terms of gold or any other currency by the government. Such a rate does not vary with changes in demand and supply of foreign currency. Only the government has the power to change it.
(b) Flexible exchange rate: is that rate which is determined by the forces of demand and supply of foreign exchange. There is an official intervention. It is free to fluctuate according to changes in demand and supply of foreign currency.
29. The following figure shows the simultaneous equality between AS and AD as well as between S and I.
Eqm. is achieved at Point Q where AS = AD and at



Point Q_1, where S = I. OL is the equilibrium level of income, output and employment. Accordingly, there is one and only one level of equilibrium output (GDP) when AS = AD and S = I.

30. Consumption function equation is: C = a + bY
a= autonomous consumption; b= MPC
given a=150 and b= 0.70, Y=600, C = 150 + 0.70Y
For Y = 600, C = 150 + 0.70(600)
C = 570
For equilibrium level of income, Y = C + I
I = Y-C, I = 600 – 570, I = 30 crores.

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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. The central problem of economics of choosing the technique of production is the problem of:
   (a) What to produce
   (b) How to produce
   (c) For whom to produce
   (d) None of the above
2. Which of the following would be substitutes?
   (a) Bread and butter
   (b) Car and petrol
   (c) Tea and coffee
   (d) All of the above
3. When demand for a good falls due to rise in its own price, what is the change in demand called?
   (a) Expansion of demand
   (b) Contraction of demand
   (c) Increase in demand
   (d) Decrease in demand
4. Which factors lead to a shift in production possibility curve?
5. When is production possibility curve a straight line?
6. Discuss the central problems of an economy.
7. What is the difference between ordinal and cardinal utility analysis?
8. Complete the table if AFC at one unit of production is Rs 60.

Output	1	2	3	4	5	6	7	8
TC	90	105	115	120	135	160	200	260
TVC								

TFC								
AVC								
AFC								
ATC								
MC								

9. Explain any three determinants of demand for a commodity.
10. Why is MC curve in the short-run U shaped?
11. Suppose a consumer wants to consume two goods which are available only in integer units. The two goods are equally priced at Rs 10 and the consumer income is Rs 40.
    (a) Write down all the bundles that are available to the consumer.
    (b) Among the bundles that are available, identify those which cost her exactly Rs. 40.
12. Distinguish between perfect competition and Oligopoly.
13. When will
    (a) simultaneous increase and
    (b) simultaneous decrease in both demand and supply not affect equilibrium price? Explain with the help of diagram.
14. Explain three causes of the leftwards shift of the supply curve.
15. Explain four factors affecting price elasticity of demand.

Section B

16. The Great Depression took place in?
    (a) 1925
    (b) 1926
    (c) 1929
    (d) 1939.
17. Which of the following does not take place in a three- sector economy?
    (a) Households
    (b) Rest of the world
    (c) Firms
    (d) government
18. The difference between Export and import of goods is called?
    (a) Balance of payment
    (b) Balance of trade
    (c) Balance of invisible trade
    (d) None of the above.
19. If domestic income is Rs. 500 crore and the factor income from abroad is Rs (-5) crores, how much will be national income?
20. What is managed floating exchange rate?
21. Distinguish between deficient demand and excess demand in macroeconomics.
22. Does public debt impose a burden? Explain.
23. From the following data, calculate Net value added at factor cost by it:

	(Rs. In lakhs)
Purchase of materials	30
Depreciation	12

Sales	200
Excise duty	20
Opening stock	15
Intermediate consumption	48
Closing stock	10

24. The following figures are based on BOP accounts:

	(Rs. In crores)
Import of goods	400
Export of goods	300
Shipping	3
Travel Tourism etc	5
Interest, dividends. Etc	50
Unilateral transfers	40

Calculate Balance of Trade.

25. What will be the effect of the following on money supply:
(a) fall in CRR.
(b) rise in SLR.
(c) rise in bank rate.
26. Explain the distinction between 'statutory liquidity ratio' and 'legal reserve ratio'.
27. Explain the steps involved in estimating national income by Income method. Also, Explain some of the precautions taken in the income method.
28. What is foreign exchange rate? Distinguish between fixed and flexible exchange rate.
29. Show with the help of a diagram the simultaneous equality between AS and AD as well as between S and I.
30. Find Investment from the following:
National Income: Rs 600 crores
Autonomous consumption: Rs 150 crores
Marginal propensity to consume: 0.70