

**CBSE Class 12 Economics**  
**Sample Paper 09 (2019-20)**

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**Maximum Marks: 80**

**Time Allowed: 3 hours**

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**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. What is meant by capital goods?

3.  $MPC + MPS =$

a. 1.0

b. 3

c. 2

d. 4

4. Why is flexible rate of exchange called the free rate of exchange?

**OR**

The country needs a huge amount of imports for developmental programmes. Name one step which the central bank can take to make imports cheaper using the foreign exchange market.

5. What is "mpc" or the 'marginal propensity to consume'?

a. none of these

b. the proportion of total additional income to total additional planned savings

c. the proportion of total additional planned savings to total additional income

d. the fraction of total additional income that is used for consumption

6. Fill in the blanks:

There is a parametric shift in the consumption line when \_\_\_\_\_ changes.

7. Fill in the blanks:

If MPC is 0.6, what will be the MPS is \_\_\_\_\_.

8. State true or false:

Depreciation of Indian rupees will occur when ₹55 have to be paid to exchange one US *instead of the present rate of ₹50/*.

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) Gross fiscal deficit	(i) Revenue expenditure - Revenue receipts
(b) Revenue deficit	(ii) Total expenditure - Total receipts other than borrowings
(c) Fiscal deficit	(iii) Borrowing from RBI + Borrowing from abroad + Net borrowing at home
(d) Primary deficit	(iv) Fiscal deficit - Interest payment

11. Categorise the following government receipts into revenue and capital receipts. Give reasons for your answer.
- Receipts from sale of shares of a public sector undertaking.
  - Borrowings from public.
  - Profits of public sector undertakings.
  - Income tax received by government.
12. In an economy 20% fall in investment results in 40% fall in income. Calculate the value of Marginal Propensity to Consume.

**OR**

From the following data calculate Marginal Propensity to Consume.

Equilibrium level of income = Rs. 2,000

Autonomous consumption = Rs. 200

Investment expenditure = Rs. 800

13. Explain the 'Unit of account' function of money.
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**

Distinguish between devaluation and depreciation of domestic currency.

15. Explain Wealth Tax and Value Added Tax.

16. (i) Measurement of national income suffers from various limitations which leads us to conclude that it is not an overall appropriate measure of the welfare of people still national income accounting is done and national income estimates are prepared. Justify.

(ii) Calculate "Sales" from the following data :

Items	(Rs. in Lakh)
(i) Net value added at factor cost	560
(ii) Consumption of fixed capital	60
(ii) Change in Stock	(-) 30
(iv) Intermediate cost	1000
(v) Exports	200
(vi) Indirect taxes	60

**OR**

Calculate from the following data:

- a. Private Income
- b. Personal Disposable Income
- c. Net National Disposable Income.

Items	(Rs. in crore)
National Income	3,000
Savings of private corporate sector	30
Corporation tax	80
Current transfers from government administrative departments	60
Income from property and entrepreneurship accruing to government administrative departments	150

Current transfers from the rest of the world	50
Savings of non-departmental government enterprises	40
Net indirect taxes	250
Direct taxes paid by households	100
Net factor income from abroad	(-) 10

17. What is 'inflationary gap'? Explain the role of Legal Reserve Ratio in removing this gap.

### Section B

18. Mention any three causes, which were responsible for economic reforms.
19. State true or false:

Human capital treats human beings as a means to an end, the end being the increase in productivity.

20. Match the following:

(a) Capitalistic economy	(i) system based on public ownership
(b) Socialist economy	(ii) system based on private ownership
(c) Mixed economy	(iii) system based on customs & beliefs
(d) Traditional Economy	(iv) system based on private & public ownership

21. Three basic objectives of Action plan for Rural development except
- Increase cattle productivity
  - Generating alternative means of employment
  - Increase crop productivity
  - Promoting access to health and education facilities

22. Fill in the blanks:

\_\_\_\_\_ is that proportion of the people who are engaged actively in the labour market, either by working or seeking work.

**OR**

Fill in the blanks:

Transmission and distribution losses occur due to \_\_\_\_\_.

23. Fill in the blanks:

The excess of production over consumption which is sold in the market is called \_\_\_\_\_.

24. Which of the following programmes is associated with food security and nutritional status of the poor?

- a. Public Distribution System
- b. Mid Day Meal Scheme
- c. All of these
- d. Integrated Child Development Scheme

25. Fill in the blanks:

The \_\_\_\_\_ of the environment implies that the resource extraction rate is not above the rate of resources regeneration.

26. In 1958, there were \_\_\_\_\_ communes in China covering the entire farm population.

- a. 28,000
- b. 24,000
- c. 30,000
- d. 26,425.

27. People's Republic of China was established in

- a. 1949

- b. 1948
- c. 1947
- d. 1950

28. Green revolution has led to increase in the use of chemical pesticides which in turn pollutes the environment. What measures can be taken to resolve this problem?

**OR**

What is the significance of private sector in health care system in India?

29. As an educated person, what will be your contribution to the cause of education?
30. Discuss fiscal policy reforms under New Economic Policy 1991.
31. Why there was a need for protection of small scale industries? State the steps undertaken by the government for their growth.

**OR**

What was Navratna Policy? Make a list of companies included in Navratnas.

32. Mention the salient demographic indicators of China, Pakistan and India on the basis of population and Density by studying the table given below:-

<b>Country (2015)</b>	<b>Estimated population (in crores)</b>	<b>Annual growth of population</b>	<b>Density (per sq.km)</b>
India	131.1	1.2	407
China	137.1	0.5	145
Pakistan	18.8	2.1	245

33. How are credit and marketing significant for the progress of agriculture?
34. How has the private sector contributed to health care services in recent times?

**OR**

Study the following table showing the distribution of workers' population and analyse the different levels of participation of people in economic activities.

**Worker-Population Ration in India, 2011-2012**

Sex	Worker-Population Ratio		
	Total	Rural	Urban
Men	54.4	54.3	54.6
Women	21.9	24.8	14.7
Total	38.6	39.9	35.5



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**Solution**  
**Section A**

1. Revenue deficit
2. The goods which are used in the process of production of goods and services are known as capital goods and are considered as the fixed assets of the entrepreneur. For example building, plant and machinery etc.

3. (a) 1.0

**Explanation:**  $MPC + MPS = 1$

To see why, note that,  $\Delta C + \Delta S = \Delta YD$

Divide this equation by  $\Delta YD$  to obtain,

$$\frac{\Delta C}{\Delta YD} + \frac{\Delta S}{\Delta YD} = \frac{\Delta YD}{\Delta YD} \text{ or } MPC + MPS = 1$$

4. Flexible rate of exchange is called free rate of exchange, as it is freely determined by the forces of supply and demand in the international money market.

**OR**

The Central Bank can increase the supply of foreign exchange through Managed floating. An increase foreign exchange will lead to a fall in the foreign exchange rate (appreciation of domestic currency) and this will make imports cheaper.

5. (d) the fraction of total additional income that is used for consumption

**Explanation:** the fraction of total additional income that is used for consumption

6. Slope
7. 0.4
8. True

## 9. Debt Trap

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

11. a. Receipts from sale of shares of public sector undertaking is a capital receipt because it results in a reduction of assets.  
b. Borrowing from public is a capital receipt because borrowing creates a liability.  
c. Profits of public sector undertaking is a revenue receipt because it neither creates a liability nor reduces any asset.  
d. Income tax received by the government is a revenue receipt as it neither creates a liability nor reduces any asset.
12. We know that Investment Multiplier  $K = \text{Change in Income} / \text{Change in Investment} = 0.4/0.2 = 2$ . Therefore K is equal to 2.  
Since,  $K = 1/\text{MPS} \Rightarrow 2 = 1/\text{MPS} \Rightarrow \text{MPS} = 1/2 = 0.5$ . Therefore MPS is equal to 0.5. Now  $\text{MPC} = 1 - \text{MPS} = 1 - 0.5 = 0.5$ .

**OR**

We have equilibrium level of income (Y) = Rs. 2,000;

Autonomous Consumption  $\bar{C}$  = Rs. 200,

Investment (I) = Rs. 800,

In order to calculate MPC we use following formula,

Consumption Expenditure (C) =  $\bar{C}$  + (MPC)Y and  $Y = C + I$

$Y = \bar{C} + (\text{MPC})Y + I$

$2,000 = 200 + (\text{MPC}) 2,000 + 800$  Or  $\text{MPC}(2,000) = 2,000 - 1000$  Or

$\text{MPC} = \frac{1,000}{2,000} = 0.5$ . Therefore Marginal Propensity to Consume is equal to 0.5.

13. 1. Another important function of money is that it serves as a common measure of value or a unit of account.  
2. Under barter economy there was no common measure of value in which the values of different goods could be measured and compared with each other. Money has also solved this difficulty. As Geoffrey Crowther Puts it, "Money acts as a standard measure of value to which all other things can be compared." Money measures the value of economic goods.

3. Money works as a common denominator into which the values of all goods and services are expressed.
  4. When we express the values of a commodity as a price, it is easy to calculate exchange ratios between them by knowing the price of various commodities..
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**

Depreciation of a currency means a decrease in the price of the domestic currency in terms of the foreign currency. It corresponds to an increase in the exchange rate. For eg. if the value of a rupee in terms of US dollar falls from Rs. 60 to Rs. 65, more rupees, i.e. 65 rupees will be required to buy one US dollar. Depreciation of currency encourages exports and discourages imports.

Like depreciation, devaluation means fall in the external value of the domestic currency in terms of the foreign currency. Both devaluation and depreciation make domestic goods cheaper for the foreigners.

However, devaluation is done when a country has adopted fixed exchange rate system while depreciation is done when a country has adopted a floating exchange rate system.

15. 1. Wealth Tax: The wealth tax is imposed on the individuals depending on the property one holds. The rate of wealth tax increases in the same way as the income tax i.e., the rate is increased with the increase in value of the property. This tax is a direct tax charged from the property holder which cannot be transferred upon others.
2. Value Added Tax: Value Added Tax ( VAT) is an indirect tax which is imposed on

value-added at the various stages of production. Value added refers to the difference between value of output and value of intermediate consumption. It is imposed on each stage of production and is a proportionate tax. This tax is paid by the consumers who use the commodities. Thus VAT can be shifted by the persons on whom it is levied.

16. (i) National Income Accounting:

- a. National income Accounting helps in identifying specific economic achievements of a country.
- b. It provides an objective base of evaluation and review of policies implemented.
- c. It indicates the specific contribution of each sector of the economy.
- d. Combined with additional detailed information on national income, policy measures can be devised to narrow them down.
- e. It helps the authorities in quantifying the problem of income and wealth inequalities and take corrective steps
- f. In spite of certain limitations, it is a measure of economic production if not overall welfare.

(ii) Given =  $NDP_{FC}$

$NDP_{FC} = GDP_{MP} - \text{Consumption of fixed capital} - \text{Net indirect taxes}$

$= (\text{Sales} - \text{Intermediate Cost} + \text{Change in stock}) - \text{Consumption of fixed capital} - \text{Net indirect taxes}$

$560 = \text{Sales} - 1000 - 30 - 60 - 60$

Sales = 1710 Lakh

**OR**

**Private Income:**

= National income - Income from property and entrepreneurship accruing to the government administrative departments - Savings of non-departmental government enterprises + Current transfers from government administrative departments + Current transfers from the rest of the world

= Rs. 3,000 crore - Rs. 150 crore - Rs. 40 crore + Rs. 60 crore + Rs. 50 crore = Rs. 2,920 crore

Private income = Rs. 2,920 crore.

**Personal Disposable Income:**

= Private income - Savings of private corporate sector - Corporation tax - Direct taxes paid by households

= Rs. 2,920 crore - Rs. 30 crore - Rs. 80 crore - Rs. 100 crore = Rs. 2,710 crore

Personal Disposable Income = Rs. 2,710 Crore

**Net National Disposable Income:**

= National income + Net indirect taxes + Net current transfers from the rest of the world

= Rs. 3,000 crore + Rs. 250 crore + Rs. 50 Crore = Rs. 3,300 crore

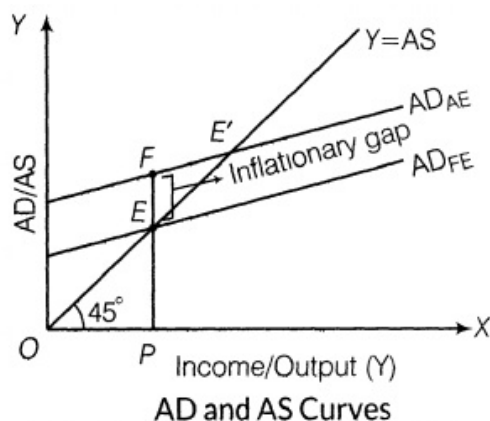
Net national disposable income = Rs. 3,300 crore.

17.      ◦ **Inflationary gap:**

When aggregate demand(AD) is greater than aggregate supply(AS), at full employment level in the economy, it is referred to as inflationary gap. This situation actually results in an increase in prices, i.e. inflation. Inflationary gap is also referred to as excess demand.

◦ **Graphical presentation:**

Graphically, it is represented by the vertical distance between the actual level of aggregate demand ( $AD_{AE}$ ) and the full employment level of output ( $AD_{FE}$ ).



In the above graph,

$AD_{FE}$  = AD at Full employment level.

$AD_{AE}$  = AD above Full employment level.

The point E is the equilibrium point where  $AD = AS$ ,

But at this point, Aggregate Demand  $AD_{AE}$  is more than the Aggregate Supply in the economy. This difference of actual Aggregate Demand and Aggregate Supply i.e.  $EF$  is the inflationary gap.

Inflationary Gap = Excess Demand

$$= AD_{AE} - AD_{FE} = EF$$

- **To remove the problem of the inflationary gap the following is the role of legal reserves ratio :**

The tools to correct the problems of the inflationary gap are legal reserves like Cash Reserve Ratio and Statutory Liquidity Ratio.

- i. **Cash Reserve Ratio (CRR):** Every Commercial Bank has to keep a certain proportion of its total demand and time deposits in the form of cash and other liquid assets with the Central Bank. This ratio is termed as cash reserve ratio. To correct the problem of the inflationary gap the Central Bank increases the CRR. It reduces the supply of money and credit money creation capabilities of commercial banks. Due to the lesser supply of money, the Aggregate Demand comes down and the economy attains equilibrium situation.
- ii. **Statutory Liquidity Ratio (SLR):** SLR refers to a fixed percentage of the total assets of a bank in the form of cash or other liquid assets that are required to be maintained by the bank with themselves. SLR is increased during the situation of the inflationary gap. This reduces the credit creation capacity of commercial banks and reduces the flow of money in the economy. As a result of that, the Aggregate Demand comes down and ultimately the economy attains equilibrium again.

### **Section B**

18.
  - i. Poor performance of public sector.
  - ii. Adverse in balance of payment.
  - iii. Huge burden of debts.

iv. Fall in foreign exchange reserves.

19. True

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

21. (a) Increase cattle productivity

**Explanation:** The action plan is to focus on the lingering and emerging challenges in rural areas.

22. Labour Force Participation Rate (LFPR)

**OR**

Inherent resistance

23. Agriculture surplus

24. (c) All of these

**Explanation:** All three mentioned programmes are associated with food security and nutritional status of the poor.

**Public Distribution Scheme:** Public distribution system is a government-sponsored chain of shops entrusted with the work of distributing basic food and non-food commodities to the needy sections of the society at very cheap prices.

**Integrated Child Development Scheme:** Integrated Child Development Services(ICDS) is a government programme in India which provides food, preschool education, and primary healthcare to children under 6 years of age and their mothers. The scheme was launched in 1975, discontinued in 1978 by the government of Morarji Desai, and then relaunched by the Tenth Five Year Plan.

**Mid Day Meal Scheme:** This scheme was launched on 15 August 1995 with an objective to give a boost to universalisation of primary education by increasing enrolment, attendance and retention and also improving nutritional status of children in primary schools

25. Carrying capacity

26. (d) 26,425.

**Explanation:** Some 120 million households (including some non-peasant ones) or 98.2 percent of the total number of households in the Chinese countryside, were organized into 26,425 people's communes.

27. (a) 1949

**Explanation:** Mao declared the founding of the People's Republic of China on October 1, 1949.

28. The chemical pesticides contaminate food products and it also leads to pollution of water bodies. We can use better methods of pest control like neem-based pesticides. These are environment-friendly and does not cause any side effects. Animals and birds like snakes, lizards, owl and peacock are natural pest controllers. Farmers can also opt for mixed cropping and growing different crops in consecutive years to reduce the ill effects posed by chemical pesticides.

**OR**

Private sector is playing a significant role in health care system India. At present, private sector has proved much better than public sector in delivering quality health services. More than 70% of the hospitals in India are run by the private sector. 80% of out-patients and 46% of in-patients are handled by private sector. In 2001-02, there were more than 13 lakh medical enterprises employing 22 lakh people. 80% of them are single person owned and operated by one person occasionally employing a hired worker. Since the 1990s, owing to liberalisation measures, many non-resident Indians and industrial and pharmaceutical companies have set up state of the art, super-speciality hospitals to attract India's rich and medical tourists.

29. As an educated person, I will contribute to the cause of education in following ways:

- a. Each one teach one: I will teach one illiterate person every year. Each year I must make at least one person literate.
- b. Create Awareness about consumer rights, women rights and duties of a good citizen in our surroundings: An educated person can create awareness about consumer rights, women rights and duties of a good citizen in our surrounding.
- c. I will prepare kids to become global citizens in a way that really nurtures their



uniqueness.

30. Fiscal reforms mean increasing the revenue receipts and reducing the public expenditure of govt. in a manner that production and economic welfare are not adversely affected. Its main objective was to reduce fiscal deficit which stood at 8.5 per cent of GDP in 1990-91. Taxation system was made more scientific and rational. Income tax slabs were reduced upon the recommendations of TRC. The peak rate of customs duties has been reduced to **15%** in budget 2006-07. Excise duty on several commodities were reduced. Govt. made special efforts to cut public expenditure.

**Rationalisation of Tax Systems:** To rationalise the indirect tax system at the centre by removing distortion in the structure there is a need to remove multiplicity of tax rates of central excise duties on various goods and services. With tax reform initiated since 1991, this has been now achieved with few exceptions.

Now, there is a single excise duty called CENVAT (which is in the form of value added tax) on all products which enter a production chain. The argument for a single CENVAT is that it will remove the distortions in the tax system as a result of multiplicity of rates of excise duties.

**The Fiscal Responsibility and Budget Management Act (FRBMA), 2003** has been implemented and it emphasises on

- a. Revenue led fiscal consolidation
  - b. Better expenditure outcomes.
  - c. Rationalisation of tax regime.
31. The policy of protection is based on the notion that industries of developing countries are not in a position to compete against the goods produced by more developed economies. It is assumed that if the domestic industries are protected they will learn to compete in the course of time.
- i) Deregulation of Industrial Sector: removed many of the restrictions.
  - ii) Industrial licensing was abolished from almost industries.
  - iii) Financial sector includes financial institutions, such as commercial banks, investment banks, stock exchange operations and foreign exchange market.

## OR

Originally, the term Navaratna meant a talisman or ornament composed of nine precious gems. Later, this symbology was adopted in the courts of Emperor Vikramaditya and the Mughal Emperor Akbar, where the Navaratnas were a group of nine extraordinary men in their respective courts. In 1997 Govt. of India announced Navratna Policy in order to improve efficiency, enhance professionalism and enable them to compete effectively in the liberalised global environment. The Navratna status is offered to PSEs, which gives a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad. Under this policy, 9 most profitable PSUs were given status of navratna and 97 other profit-making PSUs were called Mini ratnas.

List of companies included in Navratnas is as follows:

- i. Indian Oil Corporation Ltd. (IOC)
- ii. Bharat Petroleum Corporation Ltd.(BPCL)
- iii. Hindustan Petroleum Corporation Ltd.(HPCL)
- iv. Oil and Natural Gas Corporation Ltd.(ONGC)
- v. Steel Authority of India Limited (SAIL)
- vi. Indian Pharmaceuticals Corporation Ltd.(IPCL)
- vii. Bharat Heavy Electronics Ltd. (BHEL)
- viii. National Thermal Power Corporation Ltd. (NTPC)
- ix. Videsh Sanchar Nigam Ltd. (VSNL)

**Later two more PSUs were included in the list:**

1. Gas Authority of India Limited (GAIL)
2. Mahanagar Telephone Nigam Limited (MTNL)

32. The table reveals the picture as under:-

- Population size:- Out of every six persons living in this world, one is an Indian

and another Chinese. The population size of India is higher than that of Pakistan but lower than China.

- The density of population:- Density of population is higher in India(407) but the lowest in China(145). It is lowest in China as compared to both the countries India and Pakistan. The main reason is that China has a larger geographical area.

33. **Importance of Credit:** In agriculture there is a long gap between crop sowing and realisation of income, farmers are in strong need for credit. Farmers need money to meet initial investment on seeds, fertilisers, implements and other family expenses especially when they are seasonally unemployed. Therefore, credit is one of the factors which contribute in rural development. If institutional sources are not be available, farmers will borrow from informal sources which will increase cost of borrowing and thereby cost of production. Therefore growth of rural economy depends primarily on infusion of capital from time to time to realise higher productivity in agricultural and non-agricultural sectors.

**Importance of Marketing:** Marketing is important for any production process. What if goods are produced but due to lack of marketing facilities they do not reach to the consumer especially agriculture produce which will perish after some time? It will be total waste of output. Therefore, we need marketing facilities in the form of regulated markets, proper transportation and communication facilities, market information, storage, insurance etc. Even today 10% of goods produced in farms are wasted due to lack of storage. So orderly and transparent marketing is very important for rural development.

34. In today's world, the private sector's contribution to health care services is highly appreciable and they have become the dominant source of health care services. The following points highlight their role:-

- a. In India, more than 70% of hospitals are run by the private sector.
- b. 80% of the outpatients and 46% of the in-patients are taken care of by the private sector.
- c. Nearly 60% of the dispensaries are run by the private sector.
- d. Many super-speciality hospitals have been established by NRIs, industrialists to attract rich people and medical tourists.

- e. They have gained a dominant presence in all the submarkets like medical education and training, medical technology and diagnostics, manufacture and sale of pharmaceuticals and hospital construction and ancillary services.

**OR**

The given table shows the different levels of participation of people in economic activities. For every 100 persons, about 39 (by rounding off 38.6) are workers in India. In urban areas, the proportion is about 36 whereas, in rural India, the ratio is about 40. Such a noteworthy difference can be because of the following reasons:

People in rural areas have limited resources to earn a higher income and participate more in the employment market. Many do not go to schools, colleges and other training institutions. Even if some go, they discontinue in the middle to join the workforce; whereas, in urban areas, a considerable section is able to study in various educational institutions. Urban people have a variety of employment opportunities. People look for an appropriate job to suit their qualifications and skills. In rural areas, people cannot stay at home as their economic condition may not allow them to do so.

Compared to females, more males are found to be working. The difference in participation rates is very large in urban areas: for every 100 urban females, only about 15 are engaged in some economic activities. In rural areas, for every 100 rural women about 25 participate in the employment market. The reason for women not working in urban as well as rural areas can be: It is common to find that where men are able to earn high incomes, families discourage female members from taking up jobs.

**Overall the following conclusion can be derived from the table:**

- Overall rate of participation in the country is not very high, implying not many people are engaged in production activity.
- Participation rate in rural areas is higher than in urban areas.
- Participation rate for women is higher in rural areas compared with urban areas.