

ICSE Board
Class X – Economics
Board Paper –2018

Time: 2 hrs

Total Marks: 80

General Instructions:

1. *Answers to this paper must be written on the paper provided separately.*
 2. *You will **not** be allowed to write during the first **15** minutes.*
This time is to be spent in reading the question paper.
 3. *The time given at the head of the paper is the time allotted for writing the answers.*
 4. *Attempt **all** questions from **Part I** and **any four** questions from **Part II**.*
 5. *The intended marks of questions or parts of questions are given in brackets [].*
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SECTION A (40 Marks)

*Attempt **all** questions from this section*

Question 1

- (a) Give two reasons as to why the division of labour is an advantage to the producer?[2]
- (b) Define the term cementer awareness. [2]
- (c) Why do small farmers suffer during inflation? [2]
- (d) Which are thence sources of public revenue? [2]
- (e) Define the term labour as a factor of production. [2]

Question 2

- (a) Explain any one factor that affects the supply of a commodity. [2]
- (b) What do you understand by the term 'near money'? [2]
- (c) A list of goods arc given below. Stale whether it is fixed capital or circulating capital [2]
 - (i) Machines
 - (ii) Raw material
 - (iii) Fuel
 - (iv) Office furniture
- (d) With the help of on example explain the term productive debt. [2]
- (e) Explain any two characteristics of capital. [2]

Question 3

- (a) How is land different from labour? [2]
- (b) Draw a diagram showing a perfectly elastic demand curve [2]
- (c) With help of an example explain the term complementary goods. [2]
- (d) Name any two source of external debt for India. [2]
- (e) Differentiate between creeping and running inflation. [2]

Question 4

- (a) Mention two ways by which efficiency of labour can he improved. [2]

- (b) What does the term 'nationalisation of banks' mean? [2]
- (c) Why is India considered to be in a virtual debt trap? [2]
- (d) Give any two reasons for giving the monopoly right of note issue to the Central Bank. [2]
- (e) Mention any two duties of a consumer. [2]

SECTION B (40 Marks)

Attempt any four questions from this Section

Question 5

- (a) Give any five differences between product and process based division of labour. [5]
- (b) Explain any five rights of the consumers as accepted by the Indian law. [5]

Question 6

- (a) How do the manufacturers and traders exploit the consumers? [5]
- (b) Explain the role of an entrepreneur in the economic development of the country. [5]

Question 7

- (a) How is a commercial bank different from a central bank? [5]
- (b) What are the merits of an indirect tax? [5]

Question 8

- (a) With the help of a graph explain relatively inelastic demand for a commodity. [5]
- (b) Discuss any five advantages of having a bank account. [5]

Question 9

- (a) Explain any five characteristics of tax. [5]
- (b) [5]
 - (i) What is meant by the term demand pull inflation?
 - (ii) Discuss any three causes of demand pull inflation.

Question 10

- (a) [5]
 - (i) Define the term demand.
 - (ii) Explain any three factors that affect the demand for a commodity.
 - (iii) Why articles of distinction or the Veblen are effect an exception to the law of demand?
- (b) Discuss any five reasons for growth of public expenditure in India. [5]

Solution

SECTION A

Answer 1

- a) The division of labour is an advantage to the producer because it ***increases the efficiency of labour***. This leads to an increase in the quantity of output and also ***improvement in the quality*** of the produced goods and services.
- b) Consumer awareness means a consumer must be ***aware about the availability of various goods and services*** such that he is able to take wise decisions. This will reduce the incidence of consumer's exploitation by sellers in the marketplace.
- c) Small farmers suffer during inflation because the ***major portion of their produce is not marketed but instead is kept for self-consumption***. They also purchase inputs such as seeds, fertilisers and insecticides at higher prices during inflation.
- d) Sources of public revenue:
 - **Tax revenue:** A tax is a compulsory payment imposed on individuals or companies by the government to meet expenditures.
 - **Administrative revenue/Non-tax revenue:** It is collected in order to provide administrative services to the people.

Answer 2

- a) Price of the product is one of the factors which affects the supply of a commodity. When there is an increase in the price of the product and if it is more than the marginal cost of production, it enables a firm to earn more profit by selling at a higher price. Hence, there is an increase in the supply of a product.
- b) Near money means highly liquid assets which can be easily be converted to cash at short notice such as bank deposits and treasury bills. It does not serve as a medium of exchange in our daily purchases of goods and services.
- c) Fixed capital and circulating capital
 - Machines and office furniture are fixed capital which can be used again and again for further production. It is also known as durable use producer goods.
 - Raw material and fuel are circulating capital which are used only once in production. It is also known as single use producer goods.
- d) A debt is called productive if the loan is financed for the projects which bring revenue to the government such as irrigation and power projects. Unproductive public loans are a net burden on the community. The government will have to resort to additional taxation for their servicing and repayment.
- e) Characteristics of capital
 - **Capital is man-made:** It is created by man and is not a gift of nature. It is the mixed result of past labour of workers on natural resources.

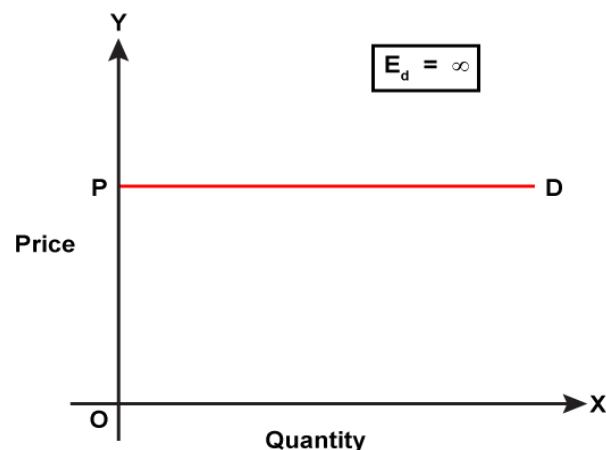
- **Capital is durable:** Capital goods such as machinery, plants and factory buildings are durable goods which might last for a few years, while others may last for decades.

Answer 3

a) Land is different from labour in the following ways:

- **Land is limited in supply:** Supply of land is fixed as it is given by nature. But other factors of production can be increased in supply to a greater or lesser extent.
- **Gifts of nature:** Land is a gift of nature which does not have any cost of production. Land is readily available for any use. However, other agents of production are available at a cost.

b) Perfectly elastic demand curve



- c) Complementary goods are goods which are used jointly to satisfy a particular want. For example, the demand for computer hardware and software is created jointly.
- d) **Two sources of external debt:** International Monetary Fund and World Bank are two sources of external debt for India.
- e) Creeping and running inflation
 Creeping inflation is inflation where the price level increases at a **very slow rate of 2 to 2.5% per annum**.
 Running inflation is inflation where the price level increases **a bit faster and is at the rate of 10% per month**.

Answer 4

a) Ways to improve efficiency of labour:

- **Improve educational facilities:** Literacy is perhaps the first priority to improve the efficiency of labour. Adequate provisions for imparting training to workers will improve the efficiency of labour.

- **Improved working condition:** Attention is to be given to the working condition in factories. More hygienic and congenial conditions of work will help in achieving higher levels of efficiency.
- b) Nationalisation means the taking over of a commercial bank by the government. The process of nationalisation of banks began when the Reserve Bank of India was nationalised on 1 January 1949. These banks work according to national priorities rather than the profit motive of private entrepreneurs.
- c) Heavy borrowings to meet the interest charges and expenditure on salaries, pension and day-to-day administrative work have put India into a virtual debt trap. In this case, the liabilities are being given to future generations.
- d) RBI has the sole authority for issue of paper currency notes because this leads to uniformity in note circulation and ensures public faith in the currency system.
- e) Duties of consumers:
- **Consumer awareness:** A consumer must be aware with regard to the *availability of various goods and services* such that decisions are informed.
 - **Look for quality marks:** A consumer must always purchase goods and services with the concerned *quality certification marks such as* ISI in electrical goods and AGMARK in agricultural goods.

SECTION II

Answer 5

- a) Product- and process-based division of labour:

Product-based division of labour	Process-based division of labour
• When a worker does the entire process of production of a single good or service himself or collectively by the members of the family.	• When the process of production of a good is divided into different operations and each worker does one or a few operations.
• When a person specialises in the production of a particular good or service.	• When a person specialises in a particular process of the production of a good or service.
• It is also known as simple division of labour.	• It is also known as complex division of labour.
• It is found in small businesses.	• It is found in large enterprises.
• It is based on labour-intensive technique of production.	• It is based on capital-intensive technique of production.

- b) Rights of consumers:

- **Right to be informed:** An important component of consumer protection is the right to be informed. Adequate and accurate information about quality, quantity, purity, standard and the price of goods and services must be provided to

consumers. This information helps consumers in their buying decision and use of the product.

- **Right to seek redressal:** Consumers have been given the right to redress their grievances relating to the performance, grade, quality etc. of goods and services. In case of any defect, the product must be repaired or replaced by the seller. The Consumer Protection Act has duly provided for a fair settlement of genuine grievances of consumers. It has also set up a proper mechanism for their redressal at the district, state and national levels.
- **Right to safety:** Every consumer has the *right to be safeguarded* against those goods and services which can be hazardous to life, health or property.
- **Right to choose:** Consumers have the *right to choose* from a variety of goods and services at competitive prices as per their own wishes, tastes and preferences.
- In case of any grievance or dissatisfaction, a consumer has the *right to file a complaint* under appropriate forums established by the government.
- **Right to be heard:** A consumer has the right to *seek redressal and compensation* in case of any exploitation.

Answer 6

(a) Trader and manufacturers exploit consumers in the following ways:

- ***Sale of adulterated goods***, i.e. addition of inferior substances to the product being sold is one of the ways to exploit consumers in the market.
- ***Sale of sub-standard goods***, i.e. sale of goods which do not confirm to prescribed quality standards.
- Use of ***false weights*** and measures leading to underweight.
- Supply of ***defective goods***.
- ***Misleading advertisements***, i.e. advertisements falsely claiming a product or service to be of superior quality, grade or standard.

(b) Role of an entrepreneur in the economic development of the country:

- ***Innovative power towards industrialisation:*** When entrepreneurs introduce cost-reducing or demand-creating innovations in various industries, industrial production becomes a factor. The country will become self-sufficient in the production of various types of industrial goods of high quality to cater to the changing needs of both domestic and foreign markets.
- ***Generation of higher employment:*** Different types of innovation results in higher profits for entrepreneurs. They use the earned income for productive purposes or in new ventures. This leads to increase in investment which generates employment opportunities in an economy.

- **Ability to predict future market and business condition:** Entrepreneurs make a complete analysis of market conditions at regular intervals. This enables a firm to take precautionary actions to overcome uncertain business conditions such as inflationary and deflationary conditions. So, the economy will be balanced at times of unfavourable business conditions with the help of entrepreneurs.

Answer 7

(a) Differences between Commercial Bank and Central Bank:

Central Bank	Commercial Bank
<ul style="list-style-type: none"> • The central bank is the apex bank and is also known as the bank of all the banks. 	<ul style="list-style-type: none"> • A commercial bank functions under the control of the central bank.
<ul style="list-style-type: none"> • It focuses on social welfare. 	<ul style="list-style-type: none"> • It focuses on profit maximisation.
<ul style="list-style-type: none"> • It does not accept deposits. 	<ul style="list-style-type: none"> • It accepts deposits from the public and provides loans to individuals and households.
<ul style="list-style-type: none"> • It issues currency. 	<ul style="list-style-type: none"> • It has no authority to issue currency.
<ul style="list-style-type: none"> • It is an advisor to the government on monetary issues. 	<ul style="list-style-type: none"> • It is not an advisor.

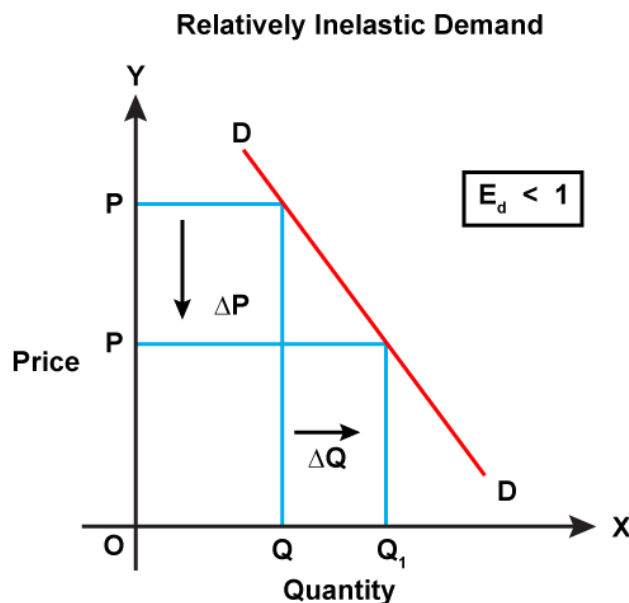
(b) Merits of indirect tax:

- **Broad coverage:** In the case of tax on a commodity, all the buyers of the commodity have to pay an indirect tax irrespective of their income level, whether they belong to high income groups or low income groups. By widening the tax net, the government can yield more revenue for public expenditure.
- **Convenient:** Indirect taxes are paid in small portions at regular intervals. It is not a burden to the tax payer as it is included in the price of the commodity.
- **Equity:** Indirect taxes can be made equitable by imposing taxes on luxury goods consumed by the rich people and low tax on the essential commodities.
- **Elastic:** Indirect taxes can be made elastic and productive particularly when they are imposed on essential goods whose demand is inelastic. So, the revenue of the government can increase by imposing tax on such commodities.
- **No evasion:** Indirect taxes are to be evaded as they are included in the price of the commodity. A person can evade indirect tax only when he decides not to purchase the taxed commodity.

Answer 8

(a) Relatively inelastic demand for a commodity:

When a large change in the price does not bring so much change in the demand, the demand is said to be inelastic. In this situation, percentage change in demand is lesser than the percentage change in price. For example, a fall in the price of 10% leads to a rise in demand by only 5%. Such a situation will arise when the demand for a commodity is very urgent. Here, the numerical value of price elasticity of demand will be $E < 1$. The slope of the inelastic demand curve is steep.



(b) Advantages of a bank account:

- **Encourage savings:** People keep their savings in the bank. This develops the habit of saving in a primitive economic system where banks did not exist and people either did not save or saved little.
- **Mobilisation of savings for investment:** Banks play a role of mobilising savings for the purpose of investment.
- **Loans advanced by a commercial bank:** Banks allow the borrower to withdraw up to a certain amount on a given security which constitutes stocks of goods and bills receivable from others. Interest is paid by the borrower only on the actual amount withdrawn from the bank. This enables people to start their own business.
- **Raise the rate of economic growth:** Loans given for productive activities increase the rate of growth of the national income of an economy.

- **Assisting foreign trade:** Banks extend credit facilities to exporters on easy terms which encourage them to involve in exporting activities. This helps in promoting new ventures and entrepreneurship in the fields of foreign trade.

Answer 9

(a) Characteristics of tax:

- **Compulsory payment:** A tax is a compulsory payment to the government by the citizens of a nation. It is imposed only by the government. No one can deny paying tax. Refusal to pay tax is subjected to legal action by the government.
- **General welfare:** Tax collected by the government is utilised for common benefits of tax payers. The government incurs expenditure for the welfare of the nation.
- **No fixed basis of taxation:** The state can impose tax on any basis. Thus, income taxes are imposed on the citizens on the basis of income.
- **Not an exchange relationship:** A tax does not involve any exchange relationship. The state imposes taxes in order to cover the expenses of running the government.
- **Establish social justice:** The government can also impose high taxes on rich people. This progressive tax policy can reduce the extent of income inequalities within society.

(b) Demand pull inflation:

Demand pull inflation means an inflation generated by the pressure of excess demand in the economy. If there is an excess of aggregate demand over aggregate supply, the general price level will tend to increase, which leads to inflation in the economy.

Causes of demand pull inflation

- **Poor performance of farm sector:** If agricultural production, especially food grains production is very low, it would lead to shortage of food grains, leading to inflation.
- **Industrial dispute:** In countries where trade unions are powerful, they may curtail production level. Trade unions resort to strikes, and if they happen to be unreasonable from the employers' point of view and prolonged, they force the employers to declare lock-outs. In both cases, industrial production falls and thereby causing a decrease in supply of goods and services. If the unions succeed in increasing money wages of their members, then the productivity of labour, supply of goods and services change. This also tends to reduce the production and supply of goods.
- **Natural calamities:** Drought or flood is a factor which adversely affects the supply of agricultural products. They create shortages of food products and raw materials, thereby creating inflationary pressures.
- **Artificial scarcities:** Artificial scarcities are created by hoarders and speculators who indulge in black marketeering. Thus, they are instrumental in creating a shortage of supply of goods and services to raise their prices.
- **Other reasons** are capital bottlenecks, entrepreneurial bottlenecks, infrastructural bottlenecks and foreign exchange bottlenecks.

Answer 10

(a) **Term demand:** Demand means the quantity of a commodity or service which the consumer is willing to buy at a given price and at a given time.

Two determinants of demand:

- **Price of the commodity:** With constant money income of the consumer and an increase in the price of a commodity, the purchasing power of the consumer reduces and *vice versa*. Thus, the consumer purchases less of a commodity with an increase in its price.
- **Income of the consumer:** Other things remaining constant, an increase in the individual income would mean an increase in the purchasing power of the consumer. Thus, the consumer can purchase commodities with an increased income.
- **Climatic condition:** During the winter season, the demand for woollen clothes increases. During the summer season, the demand for cotton clothes increases. Hence, the climatic condition affects the market demand of a commodity.

Veblen effect: Some people consider the price of a commodity as a true indicator of its quality. Hence, they purchase more of a commodity with the increase in its price.

(b) Growth of public expenditure

- i. Public expenditure tends to increase with the expansion of administrative machinery, maximisation of social and economic welfare, providing of salary and other benefits such as old-age pension, sickness benefits, accident benefits and free education to industrial workers.
- ii. Public expenditure tends to increase with the huge interest payments on market borrowings.
- iii. Satisfying the defence needs has further increased the requirement of government revenue.
- iv. Prevention of monopolisation leads to large demand for government funds. Monopolies affect the economic system and concentration of economic power.