CBSE SAMPLE PAPER-4 (solved)
ECONOMICS
Class – XII

Time allowed: 3 hours Maximum Marks: 100

General Instructions:

a) All questions are compulsory.
b) The question paper comprises of two sections, A and B. You are to attempt both the sections.
c) Questions 1 to 5 in section A and 16 to 18 in section B are MCQ's of one mark each. Choose the correct option.
d) Questions 6 to 8 in section A and 19 to 23 in section B are three marks questions. These are to be answered in about 30 words each.
e) Questions 9 to 11 in section A and 24 to 25 in section B are four marks questions. These are to be answered in about 50 words each.
f) Questions 12 to 15 in section A and 26 to 29 in section B are six marks questions. These are to be answered in about 70 words each.

Section A

1. An economy produces on the PP curve when:

   a) Resources are efficiently used b) There is scarcity of resources
   c) Resources are inefficiently used d) None of the above

2. Which of the following would be supplements?

   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 the price of the commodity, what is the change in demand called?

   a) Expansion of demand b) Contraction of demand
   c) Increase in demand d) Decrease in demand

4. PPC is concave because of:

   a) Increasing MC b) Constant MC
   c) Decreasing MC d) All of the above

5. Total utility is maximum when MU is:

   a) positive b) Zero
   c) Negative d) None of the above.

6. Define and draw production possibility curve. What does the movement along this curve show?

7. Total Fixed costs of a firm are Rs 100. Its average variable cost at different levels of output is given. Calculate total cost and marginal cost.

Output (units)	1	2	3	4
TVC (Rs.)	20	38	60	86

8. Explain change in quantity supplied.

9. What is meant by consumer equilibrium? State its condition in case of a single commodity.

10. Which cost, fixed or variable, determines marginal cost? Give reasons.

11. If the local pizzeria raises the price of medium pizza from Rs 60 to Rs 100 and quantity demanded falls from 700 to 100 pizzas a night, what is the price elasticity of demand for pizzas?

12. Explain the three features of a monopoly market.

13. How does a cost saving technological progress affect market price and the quantity exchanged of a commodity? Use diagram.

14. At the market price of Rs 40, a firm supplies 400 units of output. When its price falls by 10 percent, the quantity supplied falls by 36 units. Calculate its elasticity of supply. Is its supply elastic.

15. Define the price elasticity of demand. Discuss the factors affecting price elasticity of demand.

SECTION B

16. When MPS = 0.25, MPC is :

a) 0.80 b) 4

c) 0.75 d) None of the above.

17. Which of the following is not a factor payment?

a) Rent b) Interest

c) Borrowings d) Profits.

18. Which of the following is not a currency:

a) Dollar b) Yen

c) Renminbi d) chen

19. Derive the multiplier when MPS is (i) 0.10 (ii) 0.20. Using these multipliers, find the change in equilibrium level of income that results from Rs 20 crores decrease in investment.

20. How does Nation income at market price differ from national income at factor cost?

21. Explain the components of the equation : $C = C_0 + bY$

22. How is tax revenue different from administrative revenue?

23. From the following, calculate gross value added at factor cost by it:

(Rs. In lakhs)

sales	500
Purchase of intermediate products	350
Profit	70
Subsidies	40
Consumption of fixed capital	60
Change in stock	30

24. What are open market operations? How do these effect availability of credit?.

25. Suppose BOP of current account of India in a year was – 2579 million US$, whereas BOP on its capital account was 8409 million $, how will this effect the foreign exchange reserve of India?

26. Briefly explain the agency functions performed by commercial banks.

27. What are the uses of national income accounting?

28. Explain the relation between foreign exchange rate and supply of foreign exchange.

29. Show with help of saving and investment curves, the determination of equilibrium level of income.

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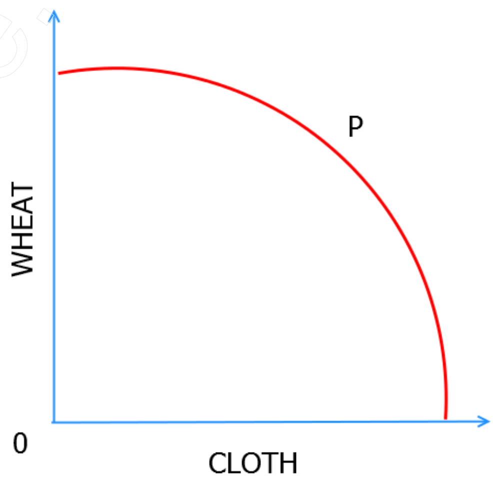
ANSWERS

1. Option A. Resources are efficiently used
2. Option C. Tea and coffee
3. Option B. Contraction of demand.
4. Option A. Increasing MC.
5. Option B. Zero.
6. PPC curve graphically represents the various combination of two goods which can be produced with a given amount of resources assuming that resources are fully employed and most efficiently used.

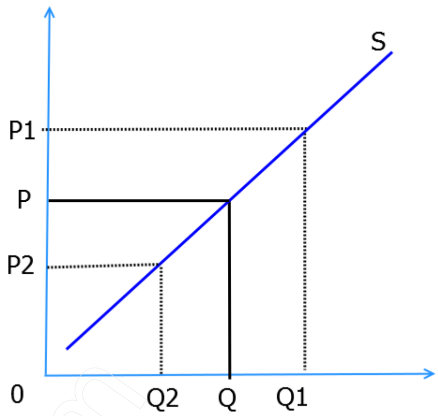


In the figure, a production possibility curve PP between wheat and cloth has been drawn. It slopes downward from left to right and is generally concave to the origin.
MOVEMENT ALONG PPC- The movement from one point on PPC to another signifies the process of the resource allocation. In other words it means shifting resources from production of one combination of two goods to the other.

7.

Output	1	2	3	4
TVC	20	38	60	86
TFC	30	30	30	30
TC	50	68	90	116
AC	50	34	30	29
MC	-	18	22	26

8. **MOVEMENT ALONG THE SUPPLY CURVE OR CHANGE IN QUANTITY SUPPLIED.** When the supply of a good rises due to rise in the price of a good alone, it is termed as expansion of supply. When supply of a good falls due to fall in its price, it is called contraction of supply. Graphically it means movement along the supply curve.



In the given diagram, at price OP, the supply is OQ. When the price rises to OP_1, the supply rises to OQ_1. In this case, the producer moves from A to B upwards but remains on the same supply curve. When price falls to OP_2, supply falls to OQ_2. The producer moves from A to C but remains on the same supply curve.

9. A consumer is said to be in equilibrium if he is spending his given income on various goods ans=d services in such a way that maximizes his satisfaction.

Condition for consumer equilibrium in case of a single commodity: it is attained when marginal utility of the commodity measured in terms of money is equal to its price. That is, $MU_X = P_X$.

10. Variable cost determines marginal cost. The reason is that the fixed cost do not change with change in level of output. It is the variable cost only which changes with the level of output. MC by defining is the addition made to total cost due to an additional unit of commodity produced. And this addition in TC is due to variable cost only as fixed cost remains constant. Therefore, MC depends on variable cost.

11.

Price (Rs)	**Quantity (units)**
60	**700**
100	**100**

By percentage method, e_D = (change in Q/change in p)*(p/q) =(-600 / 40) * (60 / 700) = -0.8.

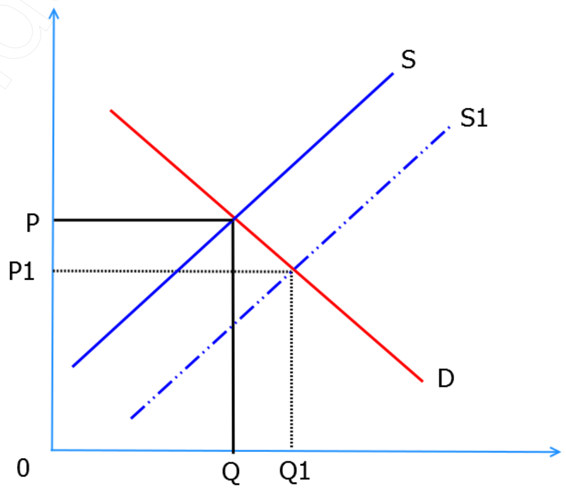
12. <u>FEATURES OF MONOPOLY MARKET</u>:

(I) <u>A single seller</u> –The first main feature of a monopoly is that there is only one seller(or firm) of a commodity in the market with the reason that there is no distinction between industry and firm. The firm itself is the industry and has full control over the supply of a commodity. The monopolists may be an individual, affirm or a group of firms or a government corporation or even a government itself. Against a single seller, there can be any number of buyers for the commodity under monopoly.

(II) No close substitutes of the product –The second feature of a monopoly is that the product sold by the monopolists has no close substitutes. The goods sold by the monopolists does not face any competition. Though substitutes of the product are available, yet they are not close substitutes. The consumer will have to buy the commodity from the monopolists or go without it altogether.

(III) No freedom of entry of new firms –The third feature of monopoly is that there is no freedom for the new firms to enter the industry. It may be done to government order. For example, producing of some public good like electricity, water supply, etc. is the monopoly of the government. Another reason behind the denial of freedom is patent laws. Those who develop new products are granted patent rights. An author may have a copyright of his book; a firm may patent a particular design etc., which results in monopoly.

13. A cost saving technological progress reduces unit cost of production of a commodity. This will cause an increase in supply of a commodity and leads to a rightward shift of a supply curve as shown in the given diagram. The demand curve of a commodity remaining the same, this will cause the market price of a commodity to fall and the quantity to rise.



It is clear from the diagram that as a result of increase in supply, the supply curve shifts rightwards. As a result the price falls from OP to OP_1 and the quantity rises from OQ to OQ_1.

14. Given:

Price (RS)	Supply (units)
40	400
40 – 4 = 36	400 – 36 = 364

e_s = (change in q_s/ change in p) * p/q_s

= (-36 / 4) * (40/400) = 9/10 = 0.9 < 1

As e_s < 1, the supply is inelastic.

15. Price elasticity of demand refers to the degree of responsiveness of quantity demanded of a good to a change in its price. Following are the factors affecting it:

(i) AVAILABILITY OF CLOSE SUBSTITUTES FOR THE COMMODITY –A commodity will have elastic demand if there are good substitutes available, eg. , Pepsi, Coco Cola, Frooti. A commodity having no substitutes, eg., salt will have inelastic demand.

(ii) NATURE OF GOOD –Generally, the demand of necessaries is inelastic and that for luxuries elastic. This is so because certain goods which are essential to life will be demanded at any price, whereas goods meant of luxuries can be dispersed easily if they appear to be costly.

(iii) USES OF THE COMMODITY –If a commodity has only few uses such as 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 such as milk, electricity.

(iv) SHARE IN TOTAL EXPENDITURE ON THE COMMODITY –The demand for such commodities where a part of income spent is generally inelastic such as commodities like needle, match box, etc. on the other hand, the demand for such commodities where a significant part of income spent, is very elastic, such as demand for woollen suit, luxuries, etc.

(v) TASTES AND PREFERENCES/HABITS –If the consumers are habitual of some commodities, the demand for such commodities will be usually inelastic, because they will use them even their prices go up. A smoker generally does not smoke less when the prices of cigarette goes up.

(vi) POSTPONEMENT OF USE –Usually the demand for such commodities whose use can be postponed for some time is elastic. For example, the demand for DVD player is elastic because its use can be postponed for some time if its price goes up, but the demand of wheat and rice is inelastic, because their use cannot be postponed when their prices go up.

(vii) LEVEL OF INCOME –At a higher level of income, demand is less elastic and at lower levels of income, demand is more elastic.

SECTION B

16. Option C. 0.75.
17. Option C. Borrowings.
18. Option D. Chen.

19. We know: multiplier (k) = 1/MPS

When MPS = 0.10 = 1/10. k = 1/(1/10) = 10

When MPS = 0.20 = 1/5, k = 1/(1/5) = 5.

Change in Y = k. change in I

(i) Change in Y = 10 * 20 = - Rs 200 crore.

(ii) Change in Y = 5 * 20 = - Rs 100 crore.

20. The difference between NNP_{MP} and NNP_{FC} arises due to net indirect taxes.

NNP_{MP} = GNP_{MP} – depreciation

NNP_{FC} = GNP_{MP} – depreciation – Net indirect taxes.

21. The consumption function is C = C0 + bY.

Here C0 is called the intercept term and it represents the amount of consumption when there is zero level of income, i.e. autonomous consumption. The consumption is positive as zero level of income. The co-efficient 'b' measures the slop of the consumption function i.e. the increase in consumption per unit increase in income. This is known as the marginal propensity to consume. Consumption changes in the same direction as income.

22. <u>TAX REVENUE</u>: Tax is the main source of revenue of the government. Tax revenue is the revenue that arises on account of taxes levied by the government. It consists of the proceeds of taxes and others duties levied by the government. Taxes are of two types: direct taxes and indirect taxes. Direct taxes are those levied immediately on property and income of persons, eg. , income tax, corporate tax, etc. , whereas indirect taxes are the taxes levied on the production and sale of the goods like sales tax, excise duty, etc. <u>ADMINISTRATIVE REVENUE:</u> It is the revenue that arises on account of the administrative function of the government. It includes (i) fees(college/school) (ii) license fees paid to the permission to perform a service (iii)fines and penalties levied for an infringement of a law (iv) forfeitures of surety or bonds by court (v) Escheat which means claim of the government on the property of a person who dies without having a legal heir or without having a will.

23. Gross value added at factor cost = sales + change in stock – purchase of intermediate products + subsidies

= 500 + 30 – 350 + 40

= Rs 220 lakhs.

24. Open market operations refer to the purchase and sale of government securities in the open market by the central bank. By selling the government securities , the central bank loses equivalent amount of cash reserves thereby restricting their capacity to lend. By buying government securities , the central bank injects additional purchasing power into the system which results in the expansion of credit. Thus, depending on the situation of excess demand (or deficient demand), the central bank may resort to sale (or purchase) of government securities resulting in fall (or a rise) in the availability of credit.

25. Since surplus of balance of capital account (8409 million $) exceeds the deficit 2579 million $, there will be addition of 5830 million $ to the foreign exchange reserve of India (8409 – 2579 = 5830 million $)

26. The commercial bank performs the following agency functions for their customers in return for a commission:

a) Transfer of funds: The commercial bank provided facility of cheap and easy remittance of funds from one place to another through demand drafts, mail transfers etc.

b) Collection of funds: The banks undertake to collect funds on behalf of its customers for cheques, demand drafts, bills, hundis etc.

c) Sale and purchase of securities: The banks help the customers to buy and sell stocks and shares of the private companies as well as government securities.

d) Income tax consultant: Banks may also employ income tax experts to prepare income tax returns for their customers and to help them to get refund of income tax.

27. National income accounting is a set of rules and definitions for measuring economic activity in the economy. The followings are the various uses of national income accounting:

(i) It shows as to how the national income is shared among the various factors of production.

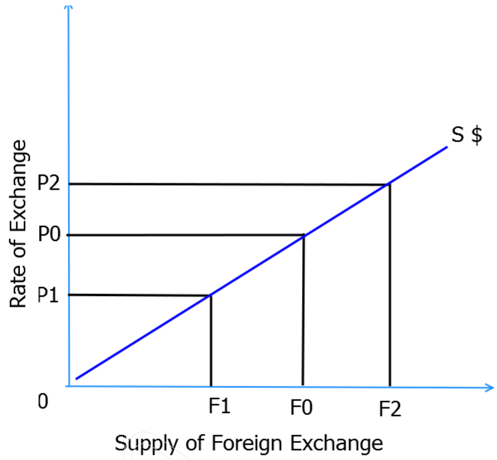
(ii) It serves as a record of economic function, viz., production, consumption, savings and capital formation.

(iii) It indicates the specific contribution of individual sectors to aggregate performance as well as growth of these sectors.

(iv) It indicates the changes in the sectoral composition of national output, thus giving knowledge of the structural changes in the economy.

(v) These accounts are helpful in analysing the functioning, growth and structure of the economy's strength and failures.

28. There is a direct relation between foreign exchange rate and supply of foreign exchange. Higher the exchange rate, higher the supply of foreign exchange and vice cersa. Suppose the price of US dollar in India falls from Rs. 50 to Rs. 40. It means that earlier, USA could by Rs. 50 worth of goods from India by parting one US dollar. Now it can buy only Rs. 40 worth of goods from India. Indian goods becomes costlier for USA. Therefore, USA buy less of Indian goods. This reduces the supply of US dollars to India. So lower the foreign exchange (i.e. price of US dollar) lower the supply and vice versa. Graphically the supply curve of foreign exchange is upward sloping signifying the direct relation between foreign exchange rate and supply of foreign exchange.



In the figure, at price P_0, the supply of foreign exchange is F_0. At a lower price P_1, the supply is F_1, i.e., lower. At a higher price P_2, the supply is F_2, i.e., higher.

29. The equilibrium level of income is determined at a point where saving and investment are equal i.e. S = I.

The following table and diagram illustrates the idea:

Income (Y)	Consumption (c)	Saving (Y - C)	Investment (I)
0	50	- 50	100
100	10	0	100
200	150	50	100
300	**200**	**100**	**100**
400	250	150	100

The table and diagram shows that the equilibrium level of income is Rs 300 crores and at this point S = I = 100.