

Solution

Class 12 - Economics

Mock Paper

PART A - MACRO ECONOMICS

1. (c) Inflationary

Explanation: Doing so would increase money supply leading to lower interest rates and further excess demand via multiplier process.

OR

(c) Reduce bank rate

Explanation: It encourages investment and leads to increase in aggregate demand via multiplier process .

2. 1. 1

3. (b) Rs. 5000

Explanation: Money multiplier = $1/irr$. Here $irr = 0.1$. So, multiplier = 10 . Now, total deposits = money multiplier \times initial deposits .

4. (d) Factor income receipts from abroad

Explanation: The current account records receipt and payment of foreign exchange on account of such transactions which do not impact the asset-liability status of a country in relation to the rest of the world.

5. (a) C + S

Explanation: Supply curve = $C + S = Y$

6. (d) Likely to rise

Explanation: Other things remaining unchanged, when in a country the price of foreign currency rises, national income is likely to rise.

7. i. Create money

ii. Reserve Bank of India

iii. Minimum reserve

iv. Government of India

8. Final goods refer to those goods which are used either for consumption or for investment. Intermediate goods refer to those goods which are used either for resale or for further production in the same year. Milk purchased by a household is a final good because milk directly satisfies the wants of the household(s) or the consumer(s).

i. Purchase of rice by a grocery shop is an intermediate good because rice is purchased for resale to its final users.

ii. Purchase of an air conditioner for use in the shop is a final good because the air conditioner is an investment expenditure as it adds to the capital stock of the shopkeeper.

iii. The cloth used for making a sofa-set by the carpenter is an intermediate good as it is used as a raw material.

9.

- o Imputed salaries of these members will be included in national income.

- o It will not be included in national income because it is nonfactor payment as it is considered that general government borrows only for consumption purpose.

OR

i. As the profits earned by a branch of the foreign bank is a factor income paid to abroad. It will 'not be included' while estimating' National Income.

ii. As the loan is taken for consumption purpose, interest paid by an individual on loan taken to buy a car will 'not be included' while estimating National Income.

iii. As the expenditure on machines for installation in a factory is a capital formation by factory management, it will be 'included' while estimating National Income.

10.

- o Open market operations means buying and selling of government securities by the central bank in an open market.

Selling:

- Central bank sells the Government Securities to commercial banks and reduces their lending capacity or it sells Government Bonds to General Public to reduce their capacity to spend on consumer goods.

Buying:

- Central bank buys the securities back from commercial banks and increases their lending capacity (liquidity) or and it purchases its securities back from the public to increase their capacity to spend.

Credit Control:

- In case of Inflation or excess demand, Central Bank starts selling government securities in the open market.
- This reduces the money supply in the economy
- As a result Consumption, AD falls and there is reduction in Inflationary Gap.
- In case of deflation or deficient demand, Central Bank starts purchasing government securities in the open market.
- This increase the money supply in the economy.
- As a result Consumption, AD rises and there is fall in Deflationary Gap.

11. i. **Remittances from Non-Resident Indians to a resident in India:** It should 'not be included' in the estimation of domestic factor income as it is a transfer income, not factor income generated within the domestic territory of our country.
- ii. **Rent paid by the Embassy of Japan:** It should not be included in the domestic factor income as the Japanese embassy is not a part of the domestic territory of our country.
- iii. **Profits earned by branches of a foreign bank in India:** It should be Included in the domestic factor income, as the profit is earned within the domestic territory of India.

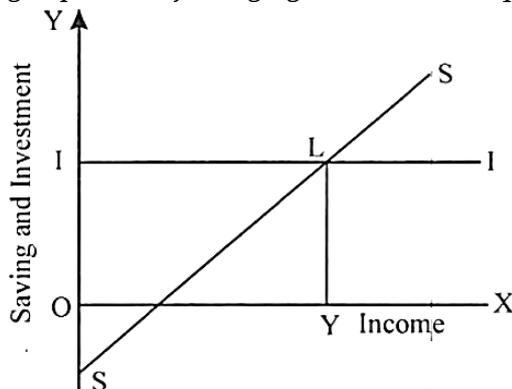
OR

The counting of the value of commodity more than once is called double counting. This lead to over estimation of the value of googs and services produced. For example a farmer produces one tonnes of wheat and sell it for Rs. 400 in the market to a flour mill. The flour mill sells it for ₹ 600 to the baker. The baker sells the bread to the shopkeeper for ₹800. The shopkeeper sells the entire bread to the final consumers for ₹ 900. Thus value of output =400+600+800+900=₹2700.the value of wheat and value of services of the Miller and of the baker have been counted more then once.it is double counting.

To avoid the problem of double counting following two method are used-

- 1 Final output method -value of intermediate goods is not considered.
- 2.Value Added Method- estimate the total value added at each stage of production.

12. The equilibrium level of national income is determined where investment equals saving. At equilibrium, it is ex-ante savings which should be equal to ex-ante investment. If ex-ante savings are more than ex-ante investment, it implies a situation when a fall in expenditure through S is more than the rise in expenditure through I. Aggregate demand is more than aggregate supply and income level falls. Similarly, if ex-ante savings are less than the ex-ante investment, it implies a situation when a fall in expenditure through S is less than the rise in expenditure through I. Aggregate demand is less than aggregate supply and income level will go up. The adjoining figure shows the equilibrium level of national income.



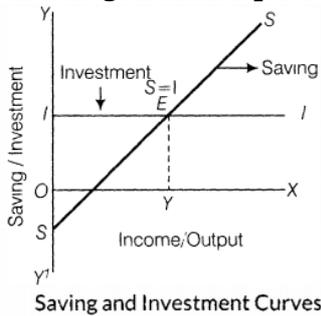
In the adjoining diagram, the equilibrium level of income is determined at L where saving and investment are equal.

If the equilibrium condition is not fulfilled there will be either deficient demand or excess demand. Deficient demand will lead to a deflationary gap which implies the build-up of inventories of unsold goods. Excess demand will lead to an inflationary gap which implies a rise in the price level.

13. ○ **Equilibrium level of income :**

1. Equilibrium level of income is determined at a point, where ex-ante or planned saving is equal to planned investment.
2. This is because, in equilibrium: Aggregate Supply = Aggregate Demand or Consumption + Saving = Consumption + Investment, or Saving = Investment or $AS = AD$ or $C + S = C + I$ or $S = I$

○ **Diagrammatic presentation:**



In the diagram given,

E is the point where $S = I$, hence, the point at which the economy is in equilibrium. OY is the equilibrium level of National Income.

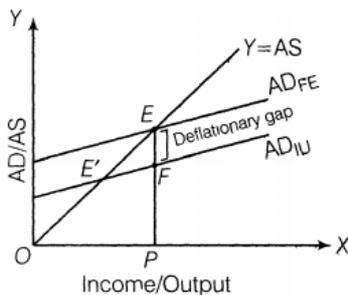
- **When $S > I$:** When savings are greater than investment in an economy, it refers to $AD < AS$. There will be a rise in inventory stock and prices will start to fall. The producers would now plan lesser output to clear their stocks. This would mean, lesser income in the economy. Lesser income implies lesser saving. The process would continue till $S = I$.
- **When $S < I$:** If investments are more than savings, it means that $AS < AD$. Stocks would reduce and prices will start to rise. The producers will increase their production to stand benefited from such a condition and this will lead to an increase in investments. The process would continue till $S = I$.

OR

Deficient demand refers to the situation when aggregate demand (AD) is less than the aggregate supply (AS) corresponding to the full employment level of output in the economy.

The situation of deficient demand arises when planned aggregate expenditure falls short of aggregate supply at the full employment level. It gives rise to a deflationary gap. Deflationary gap is the gap by which actual aggregate demand falls short of aggregate demand required to establish full employment equilibrium.

When there is involuntary unemployment in the economy, there is a shortfall in Aggregate Demand (AD) from the level that is required to maintain a full employment equilibrium. This shortfall is termed as a deflationary gap or deficient demand.



in this figure, $AD_{FE} = AD$ at full employment level $AD_{IU} = AD$ at involuntary unemployment level. The point E is the equilibrium point, where $AD = AS$. But at the current levels, deficient demand situation (due to involuntary unemployment) of AD_{IU} , the Aggregate Demand is less than the actual supply in the economy.

Hence, EF is the deflationary gap.

Deflationary Gap = Deficient Demand

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

Role of Bank Rate in Correcting Deficit Demand:

Repo rate refers to the rate at which commercial banks can borrow from Central Bank against some approved securities for a shorter period of time. During deficient demand, the central bank reduces the bank rate in order to expand credit. It leads to fall in the market rate of interest which induces people to borrow

more funds. Because of this, the level of Aggregate Demand increases in the economy and the problem of deficient demand is checked.

14. Dividends earned from Indian Oil Corporation, receipt of grant from Bill gates foundation for AIDS patients, profit of ONGC, a public enterprises and license and court fee received by the government of India during year 2015-16 fall in the category of revenue receipts. Loan taken from USA for the infrastructural development and funds raised from public in the form of National Saving certificates fall in the category of capital receipts.

PART B - INDIAN ECONOMIC DEVELOPMENT

15. (d) Jute

Explanation: Jute industry suffered heavily due to a lack of raw material after partition.

16. (a) India was an agrarian economy

Explanation: This sentence includes most of the indicators of underdevelopment i.e. illiteracy, absence of family planning, low per capita income and the dominant primary sector.

17. (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

Explanation: The decline in the death rate is a pointer to the growth of social infrastructure in the economy since the growth of social infrastructure leads to improved health care facilities which lead to a fall in the death rate.

OR

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Explanation: Both statements are correct, but reason is not the correct explanation of the statement. Poverty alleviation programmes failed because of the inefficiency of administration and concerned staff because of complex procedures involved. Also, there was no one to monitor the follow-up action.

18. (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

Explanation: Higher HDI rank reflects better performance of a country with regard to the availability of essential goods and services to the people. It implies better sanitation, improved health services and better Nourishment of the people. Certainly, China has performed better than India and Pakistan in the area of Nourishment.

19. (d) 1953

Explanation: China's first five-year plan was an economic program that ran from 1953 to 1957. It sets ambitious goals for industries and areas of production deemed priorities by the CCP.

20. (b) Competition Act, 2002

Explanation: Competition Act, 2002 has been enacted to replace MRTP Act, 1969

21. i. Reduced

ii. Decreased

iii. 10%

iv. Rural

22. Following are the measures to remove poverty :

- i. **To Speed up the Pace of Economic Growth-** When the pace of growth is accelerated, new opportunities of employment are generated. More and more workers will find employment in farms and factories. Greater the employment, more inclusive would be the growth process, implying lesser poverty.
- ii. **To Reduce Inequality of Income-** The government should take measures to reduce inequality of income and wealth by taxing the rich and taking welfare measures for the poor.
- iii. **To Reduce the Rate of Population-** Efforts should be made to reduce the growth rate of the population. Poverty can be removed only if the growth rate of population is moderated so that increase in GDP is translated into an increase in per capita GDP.

OR

Census reports reveal that around 42 million people work for the **non-farming activities** in rural India. This census constitutes nearly about 47% of the total nonfarm employment of rural areas. Manufacturing, social or personal service and most importantly retail trade are the three major own account establishments of **non-farming activities**. The percentage of the three however varied to a large extent.

- 1) So while the category of retail and manufacturing constituted about 43.12%, example pickle industry, farm based manufacturing and handicraft etc.
 - 2) the social and personal service shopkeeper etc. constituted only about 7.67% of the total employment in the own account establishments in the rural areas.
 - 3) Employment in the non-farming sectors like mining, quarrying, electricity, gas and water supply, or other activities like financial inter mediation was found to be near to negative. However, trade, transport, manufacturing, business services or construction- such non-farming activity percentage was seen to be much higher.
23. Unemployment is a situation in which the people who are willing to work at the prevailing wages are unable to find jobs. The most common types of unemployment found in India are:
- i. **Seasonal Unemployment:** This type of unemployment takes place when people are not able to find jobs during some months of the year. The situation of seasonal unemployment arises mainly in the agricultural sector people are busy during sowing, harvesting, weeding and threshing. However, there are certain months in which they do not get much work.
 - ii. **Disguised Unemployment:** In disguised unemployment, more than required persons are engaged in a job. This type of unemployment usually happens among family members engaged in agricultural activity.
24. Economic reforms provide opportunities to multinational companies to expand their functions all around the country. Many multinational companies are entering in rural marketing. They are doing well for the sake of farmers as stated below:
- i. They are offering them pre-decided prices.
 - ii. They are making contracts with farmers.
 - iii. They are providing them seeds and other inputs.
 - iv. They are motivating farmers to grow desirable food, fruits and vegetables of the desired quality.
25. There were many shortcomings of IPR 1956.
1. Many industries which could easily be handed over to private sector were kept under public sector control.
 2. Too many industries were covered under license policy which created hurdle in industrial development.
 3. Too many regulations led to low level of industrial development.
 4. This Resolution reduced the scope for the expansion of the private sector significantly. Private sector apprehended that the expansion of public sector meant swallowing of the private sector.

OR

Reasons for India as an outsourcing destination:

- i. Availability of skilled manpower- India has vast skilled manpower which enhances the faith of MNCs.
 - ii. Favourable Government policies- MNCs get various types of lucrative offers from the Indian government such as tax holidays, tax concessions, etc.
 - iii. Availability of cheap labour in India.
26. The two demographic parameters in favour of China are:-
- o Moderate growth rate of population
 - o Low density of population
- Measures taken by china to achieve this are:-
- o One child policy was adapted by china since 1979 to reduce the growth rate of the population to nearly half from 1.33% to 0.47% in the recent past.
 - o To control its density of population they focused on the quality of life rather than the sustenance of the people.
27. Answer any two of the following questions:
- a) In India, air pollution is wide-spread in urban areas because of vehicles, factories and other reasons. Air pollution is a great concern because it has serious harmful effects on the general population. For example, the number of motor vehicles has increased from about 3 lakh in 1957 to 67 crores to 2003. In 2003, personal transport vehicles (two wheelers vehicles and cars only) constituted . about 80% of the total number of registered vehicles. This growth directly contributes to air pollution.
 - b) 1. When vocational education is mixed with general education, it is called vocationlisation of education. Vocationalisation of education is designed to introduce manual skills in general

education. Vocationalisation of education means training in some vocations at the secondary, Higher Secondary level with general education.

2. To relate education with work, the government now lays stress to provide vocational education, at 'plus 2' level, specially to children in rural areas and to girl child.
 3. Practical knowledge of a specific work is given to children, so that they possess necessary skills needed and are able to find employment.
- c) Globalisation may be defined as a process of integrating the economy with economies of other countries through free trade and free movement of capital.

Following are the arguments in favour of globalisation:

- i. **Increase in Size of Market-** Globalisation is beneficial to industries since they are expanding their activities in the direction of global markets.
 - ii. **Free Flow of Capital and Technology-** Globalisation ensures the free flow of capital technology and manpower.
- d) 1. **Labour Force:** It refers to the number of persons actually working or willing to work. It does not depend upon the wage rate and is measured in terms of the number of days.
2. **Labour Supply:** It refers to the number of persons willing to work at different wage rates. It depends upon the existing wage rate and is measured in terms of man-days.
3. **Workforce:** It refers to the number of persons actually working. This measure does not include those persons who are willing to work but are not getting work.

28. Answer the following questions:

- a) Green Revolution led to an increase in the production of food grains. With the use of modern technology, extensive use of fertilisers, pesticides and HYV seeds there was a significant increase in the agricultural productivity and product per farmland. In addition, the spread of marketing system, abolition of intermediaries and easy availability of credit has enabled farmers with a greater portion of marketable surplus. All these factors enabled the government to procure sufficient food grains to build the buffer stock and to provide cushion against the shocks of famines and shortages. The other measures accompanying the Green Revolution such as the development of the marketing system, abolition of intermediaries and subsidised credit for farm investment also led to an increase in the level of marketable surplus. All these factors contributed to high crop yield which enabled the government to procure sufficient foodgrains to build the buffer stock to be used in time of shortages due to scanty rainfall, delayed monsoon, drought and other natural calamities.
- b) Of all the factors of production, viz land, labour, capital and organisation; labour or human resource is the most important economic factor because it is the only factor which is active. All the other factors are inactive. Nature's bounty becomes significant only when people find it useful. It is people with their demands and abilities that turn them into 'resources'. Hence, human resource is the ultimate resource. Healthy, educated and motivated people develop resources as per their requirements. In the absence of human resource, production in an economy will come to a stand. Therefore, it is correctly said that human resource is the main economic factor.
- c) Population explosion is a cause of poverty because the population explosion lowers per capita income. Population explosion eats away growing income and an economy is not in a position to raise the rate of capital formation. Because of the high growth rate of population, savings have been eroded and expenditure on welfare activities has increased resulting in less capital formation. Population explosion is an effect of poverty. High level of poverty leads to a high growth rate of the population. The poor people add to the population more because children are considered as a source of increasing family income.