



B.K. BIRLA CENTRE FOR EDUCATION

SARALA BIRLA GROUP OF SCHOOLS
A CBSE DAY-CUM-BOYS' RESIDENTIAL SCHOOL



TERM - I EXAMINATION (2026-27)

ECONOMICS

MARKING KEY

Class: XII

Date: 11 .09.26

Admission no:

SET – I

Time: 3hr

Max Marks: 80

Roll no.:

General Instructions:

1. This question paper contains two sections:

Section A – Macro Economics

Section B – Indian Economic Development

2. This paper contains 20 Multiple Choice Type Questions of 1 mark each.

3. This paper contains 4 Short Answer Type Questions of 3 marks each to be answered in 60 to 80 words.

4. This paper contains 6 Short Answer Type Questions of 4 marks each to be answered in 80 to 100 words.

5. This paper contains 4 Long Answer Type Questions of 6 marks each to be answered in 100 to 150 words.

SECTION-A - Macro Economics and Indian Economy

1. (d) All of the above

1)

All three persons retain their normal centre of economic interest in India. Local Indian employees of a foreign embassy in India are Indian residents; Indian officials posted in an Indian embassy abroad and diplomats on temporary foreign visits are also treated as residents of India.

2. Ans. (D) (iii) and (iv)

1)

Value Added = Value of Output - Intermediate Consumption. Value of output can be measured as units produced x price per unit. It is also sales + change in stock, not sales - change in stock

3. Answer:(d) Both statements are incorrect.

1)

National Income is income earned by normal residents, whether earned within domestic territory or from abroad. It excludes factor income of non-residents and includes Net Factor Income from Abroad (NFIA).

4. Answer: D

1)

In the intended context, milk used by the cooperative is an intermediate good, cheese sold for final use is a final good, and a cheese-processing machine is a capital good. Classification of cheese can depend on end-use, but the paper clearly intends all three as correct.

5. (a) Only Conclusion I follows

1)

A lower CRR leaves banks with more lendable funds, so credit creation increases. Since the reserve ratio falls, the money multiplier rises rather than falls.

6. (d) (i), (ii) and (iii)

1)

Barter transactions, unpaid household/family services and illegal activities may go unrecorded or are excluded from official estimates, so measured GDP can be lower than actual economic activity. Depreciation is already included in gross measures

7. (a) 30 1)
 Induced Consumption = Total Consumption - Autonomous Consumption = 130 - 100 = Rs. 30 crores.
8. (c) Reference line 1)
 The 45-degree reference line starts from the origin. Every point on it represents equality between the value on the vertical axis and income/output on the horizontal axis.
9. (b) (i) and (iv) 1)
 Equilibrium can be expressed as ex-ante AD = ex-ante AS, or equivalently, ex-ante Saving = ex-ante Investment.
10. (a) Both A and R are true, and R correctly explains A 1)
 $MPC + MPS = 1$. Therefore, if $MPS = 0.5$, $MPC = 1 - 0.5 = 0.5$, so both are equal.
11. (c) MPC remains constant, APC falls 1)
 For a straight-line consumption function $C = C_{bar} + bY$, MPC is the constant slope b . $APC = C/Y = C_{bar}/Y + b$, so it falls as income rises because C_{bar}/Y declines.
12. (c) Assertion true; Reason false 1)
 Interest paid on national debt is revenue expenditure because it neither creates an asset nor reduces a liability. The Reason actually defines capital expenditure, so it is false.
13. (d) Rationalization of taxes in pro-poor direction 1)
 Redistribution is achieved by taxing higher-income/luxury consumption more heavily and using public expenditure/subsidies for weaker sections, thereby reducing income inequality.
14. (b) Borrowings 1)
 Fiscal deficit shows the government's total borrowing requirement. It equals total expenditure minus total receipts excluding borrowings.
15. (d) Expenditure on construction of flyover 1)
 Construction of a flyover creates a government asset and is capital expenditure. Revenue deficit considers only revenue expenditure and revenue receipts.
16. (a) Exchange rate increases 1)
 The demand curve for US dollars shifts right from D to D1 while supply is unchanged. The equilibrium rate rises from R to R1, meaning more rupees are required per US dollar; the rupee depreciates.
17. (d) A rise in imports from country B to country A 1)
 Higher inflation makes country A's goods relatively more expensive and country B's goods relatively cheaper. Hence residents of A are likely to import more from B. A trade deficit may result, but it is not automatic.
18. (B) 2 and 3 only 1)
 British policy turned India into an exporter of raw/primary products and importer of British manufactured goods. The export surplus did not benefit India, and India did not have independent control over trade policy.

19. (c) Both statements are correct

1)

The public sector was assigned a commanding role in infrastructure and basic/heavy industries. The private sector lacked the scale of capital and technical capability required for many long-gestation projects, and its activities were also regulated.

20. (D) (i), (ii) and (iii)

1)

On the eve of independence, Britain had monopoly control over a major part of India's trade, while the remaining trade was permitted mainly with countries such as China, Ceylon and Persia.

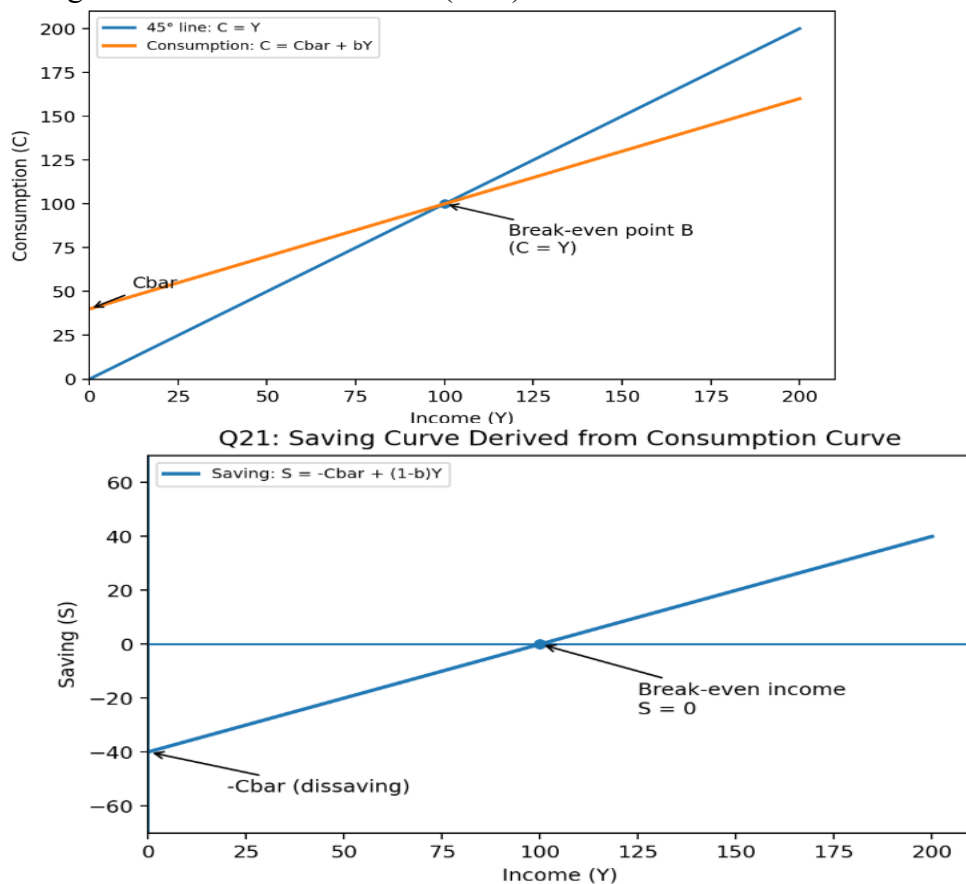
21. Yes. The saving curve is derived using the identity $S = Y - C$.

3)

- At zero income, consumption is equal to autonomous consumption (C_{bar}). Therefore, saving is negative: $S = -C_{bar}$. This is dissaving.
- At the break-even level of income, $C = Y$. Hence $S = 0$. This point on the consumption diagram corresponds to the point where the saving curve cuts the X-axis.
- Beyond the break-even income, $Y > C$, so saving becomes positive. The slope of the saving curve is $MPS = 1 - MPC$.

Consumption function: $C = \bar{C} + bY$

Saving function: $S = Y - C = -\bar{C} + (1 - b)Y$



OR

Economy A: Break-even income

$$C = 40 + 0.6Y$$

At break-even: $C = Y$

$$40 + 0.6Y = Y \Rightarrow 0.4Y = 40 \Rightarrow Y = \text{Rs. } 100 \text{ crores}$$

Economy B: Equilibrium income

$$Y = C + I = 40 + 0.8Y + 100$$

$$Y - 0.8Y = 140 \Rightarrow 0.2Y = 140 \Rightarrow Y = \text{Rs. } 700 \text{ crores}$$

22. Current Account Deficit and trade deficit

3)

The statement is refuted. A current account deficit does not necessarily require a trade deficit.

- The Current Account includes trade in goods plus services, primary income and transfers (invisibles).
- A country may have a trade surplus but still have a current account deficit if net payments on services/income/transfers are sufficiently large.
- Similarly, a trade deficit can coexist with a current account surplus if net invisible receipts are large enough.

Current Account Balance = Trade Balance + Net Invisibles

Marking focus: The core scoring point is that trade balance is only one component of the current account; hence trade deficit is not a necessary condition for CAD.

23. Managed floating exchange rate system

3)

Yes, the situation reflects a managed floating exchange rate system.

- Under managed floating, the exchange rate is primarily determined by market demand and supply of foreign exchange.
- However, the central bank intervenes when movements are considered excessive or disorderly. To check sharp rupee depreciation, the RBI may sell US dollars and buy rupees, increasing dollar supply and supporting the rupee.
- In a purely flexible exchange rate system, the central bank does not routinely intervene to target or defend a particular level; market forces alone determine the rate.

Marking focus: 1 mark identification, 1 mark managed-float feature/intervention, 1 mark distinction from pure flexible exchange rate

24. External sector reforms after 1991

3)

The statement is correct. External sector reforms improved India's integration with the world economy and facilitated foreign exchange inflows.

- Foreign investment rules were liberalised, allowing larger inflows of FDI and portfolio investment.
- Trade restrictions and quantitative controls were reduced and tariff rates were rationalised, encouraging trade and export growth.
- Exchange-rate reforms, including movement towards market determination and convertibility on the current account, made foreign exchange transactions easier and improved export competitiveness.

Marking focus: Any three valid reform-linked arguments earn full credit.

OR

(A) GST and multiplicity of taxes

2)

- GST subsumed many indirect taxes of the Centre and States into a common tax framework, reducing multiple layers of taxation on goods and services.
- The input tax credit mechanism allows tax paid on inputs to be set off against output tax, reducing the cascading tax-on-tax effect and creating a more integrated national market.

(B) Tariff vs Non-tariff barrier

1)

- Tariff barrier: a tax or customs duty imposed on imports. Non-tariff barrier: a restriction other than a tax, such as quotas, import licensing, standards or quantitative restrictions.

25. Investment multiplier numerical

4)

Given: Increase in investment = Rs. 10,000 crores; MPC = 0.80

$$\text{MPS} = 1 - \text{MPC} = 1 - 0.80 = 0.20$$

$$\text{Multiplier (k)} = 1 / \text{MPS} = 1 / 0.20 = 5$$

Increase in income (Delta Y) = K x Delta I = 5 x 10,000 = Rs. 50,000 crore

Increase in consumption (Delta C) = MPC x Delta Y = 0.80 x 50,000 = Rs. 40,000 crore

Final answer: Income rises by Rs. 50,000 crore and consumption expenditure rises by Rs. 40,000 crore.

Marking focus: Award marks for MPC/MPS, multiplier, income change, and consumption change with correct units.

OR

Yes, the statement is correct.

4)

- At the full-employment output level, if actual/planned aggregate demand is less than output, firms cannot sell all the goods they expected to sell.
- The unsold goods appear as unintended (unplanned) inventory accumulation. This means actual investment becomes greater than planned investment because inventories rise unintentionally.
- Firms respond by reducing production. With lower production, employment and income also fall.
- The adjustment continues until output equals aggregate demand and unintended inventory changes disappear.

Thus, deficient demand can pull the economy below full-employment equilibrium.

26. RBI as banker to the government

4)

The Reserve Bank of India acts as banker, agent and adviser to the Central and State Governments.

- It maintains government deposit accounts and receives money on behalf of the government, such as taxes and other receipts.
- It makes payments on behalf of the government and manages day-to-day banking transactions.
- It manages public debt by issuing, servicing and redeeming government securities and helps the government raise loans.
- It can provide short-term financial accommodation such as Ways and Means Advances and also advises the government on banking, monetary and financial matters.

27. GDP deflator and income from property & entrepreneurship

3)

(i) The statement is incorrect.

GDP Deflator = (Nominal GDP / Real GDP) x 100

- Nominal GDP values current output at current-year prices, while Real GDP values current output at base-year prices. The deflator measures the overall price level relative to the base year.

Example: Nominal GDP = Rs. 550 crore, Real GDP = Rs. 500 crore

GDP Deflator = (550 / 500) x 100 = 110

- A deflator of 110 indicates that the general price level is 10% above the base-year level.

The ratio Real GDP / Nominal GDP would therefore be the wrong formula.

(ii) Income from property and entrepreneurship : It refers to operating surplus earned by owners of property and enterprises, including rent/royalty, interest and profit.

1)

28. Credit creation by the banking system

4)

Illustrative example: Suppose the public deposits Rs. 1,000 in Bank A and the required reserve ratio is 20%. Banks lend the remaining 80%, and the loans are redeposited in the banking system.

Round	Deposit (Rs.)	Reserve 20%	Loan 80%	New deposit
A	1,000	200	800	800
B	800	160	640	640
C	640	128	512	512
...	...	...	...	...

Deposit multiplier = $1 / 0.20 = 5$

Total deposits = Initial deposit x multiplier = $1,000 \times 5 = \text{Rs. } 5,000$

Total credit created = Total deposits - Initial cash deposit = $5,000 - 1,000 = \text{Rs. } 4,000$

- The process continues in smaller rounds until the total required reserves equal the original cash deposit.

29. Green Revolution and commercialisation of agriculture

(A) Green Revolution and self-reliance

3)

- The use of HYV seeds, assured irrigation, chemical fertilisers, pesticides and modern machinery sharply raised productivity, especially for wheat and rice.
- Higher foodgrain output reduced India's dependence on imports and food aid, improving national food security.
- Larger domestic production enabled the government to build buffer stocks and support the public distribution system, making the country more self-reliant in foodgrains.

(B) Commercialisation of agriculture

1)

It means producing agricultural goods mainly for sale in the market and profit rather than primarily for the farmer's own consumption. It is associated with a shift from subsistence crops to market/cash crops.

30. Industrial licensing and de-industrialisation

(A) Industrial Licensing Policy

2)

- Under the licensing system, private firms needed government permission to establish a new unit, expand capacity or change the product line. It was intended to direct scarce resources to priority industries, prevent concentration of economic power and promote balanced regional development.
- However, excessive controls created the license-permit system, restricted entry and expansion, reduced competition and often caused delays and inefficiency. Hence the policy had developmental aims but also serious administrative costs.

(B) Systematic de-industrialisation under British rule

2)

- British policies deliberately weakened India's traditional handicrafts and manufacturing, while Indian markets were opened to cheap machine-made British goods.
- India was increasingly reduced to a supplier of raw materials to Britain and a market for British finished products, causing decline of artisans, crafts and indigenous industry.

OR

Any two changes in occupational structure during British rule

4)

- Predominance of agriculture increased: roughly three-fourths of the workforce depended on agriculture, partly because indigenous industries declined and displaced workers moved to land.
- Manufacturing employment remained very low or declined, reflecting the de-industrialisation of handicrafts and the weak growth of modern industry.
- Regional variation existed: in parts of the Madras Presidency, Bombay and Bengal, dependence on agriculture declined somewhat with growth of manufacturing/services, while in states such as Orissa, Rajasthan and Punjab it increased. Any two changes with explanation are enough.

31. Government budget objective and non-tax receipts

(A) Objective: Redistribution of income

4)

- Krish is suggesting the budget objective of redistribution of income and wealth, i.e., reducing excessive economic inequality.
- The government can impose higher taxes on luxury goods and on sections with a greater ability to pay. This follows the principle of progressive taxation.

- At the same time, essential items used by poor and middle-income households can be taxed lightly or exempted, and the government can provide subsidies and welfare expenditure for weaker sections.
- Through such tax-and-expenditure policy, disposable income is shifted relatively from richer sections toward poorer sections, improving social equity.

(B) Any two non-tax receipts

2)

- Interest receipts on loans given by the government.
- Dividends and profits from public sector enterprises / RBI. Other acceptable examples: fees, fines, penalties, licence fees and external grants.

32. National Income and GDP at Factor Cost - numerical

3 + 3

(A) Working

Domestic Income = NDP at FC = Rs. 720 crores

NNP at FC (National Income) = NDP at FC + NFIA

= 720 + 20 = Rs. 740 crore

GDP at FC = NDP at FC + Consumption of Fixed Capital

= 720 + 200 = Rs. 920 crore

Final answers: National Income (NNP at FC) = Rs. 740 crores; GDP at FC = Rs. 920 crore.

- Check: Wages 300 + Rent 120 + Interest 30 + Profits 200 + Mixed Income 70 = Rs. 720 crore, confirming Domestic Income. Dividend is a distribution out of profit, so it is not added again. Indirect taxes and subsidies are not needed because the required aggregates are at factor cost.

OR

(B)(i) Externalities

1)

- Externalities are benefits or costs of an economic activity that affect third parties but are not reflected in the market price and are not fully accounted for in national income estimates.

(ii) Positive vs negative externalities

3)

Basis	Positive externality	Negative externality
Effect on third parties	Creates an external benefit	Creates an external cost / harm
Social vs private outcome	Social benefit exceeds private benefit	Social cost exceeds private cost
Example	Education, vaccination, tree plantation	Air pollution, noise, carbon emissions

(iii) Why promote carbon pricing

2)

- A carbon tax/green cess makes polluters bear part of the social cost of emissions, thereby internalizing the negative externality and discouraging carbon-intensive production and consumption.
- It creates an incentive to adopt cleaner technology and energy efficiency. Revenue collected can also support green infrastructure or environmental programmes, while subsidies/rebates can reward lower emissions.

33. Multiplier numerical and AD-AS diagram

(A) Incremental investment

3)

Increase in equilibrium income (Delta Y) = Rs. 50,000 crore

MPS = 0.5 => Multiplier k = 1/MPS = 1/0.5 = 2

Delta Y = k x Delta I

50,000 = 2 x Delta I => Delta I = Rs. 25,000 crore

Final answer: Incremental investment = Rs. 25,000 crores.

(B) Diagram-based answers**3)**

(a) The intersection of AD and AS (45-degree line) represents equilibrium income/output, where planned aggregate demand equals aggregate supply/output. There is no unintended change in inventories.

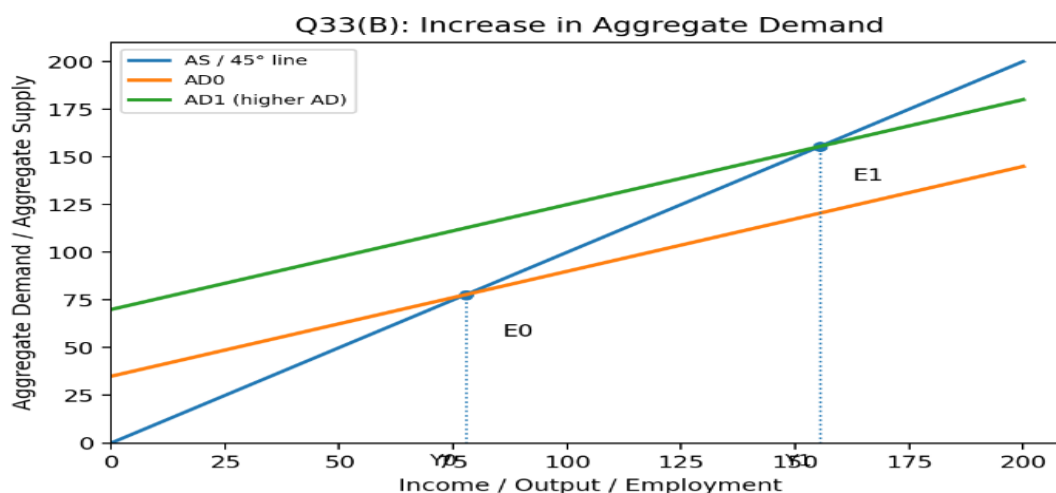
(b) If AD increases, the AD curve shifts upward from AD₀ to AD₁. The new intersection with the 45-degree line occurs at a higher equilibrium income Y₁. Therefore, output and employment rise, provided the economy is operating below full employment and has spare capacity. Otherwise, they will not rise.

(c) One Reason for Increase in AD

An increase in **investment expenditure** can cause aggregate demand to rise.

Other acceptable reasons:

- increase in government expenditure;
- increase in consumption expenditure;
- reduction in taxes.

**34. Outsourcing, globalization, disinvestment and WTO****(A)(i) Why India is called an outsourcing destination****3)**

- India has a large pool of educated, technically skilled and IT-trained workers, including engineers and software professionals.
- A large English-speaking workforce can communicate effectively with international customers, making India suitable for BPO, customer support, analytics and back-office services.
- Wage and operating costs are relatively lower than in many developed countries, while telecom/IT infrastructure and time-zone differences allow round-the-clock service delivery.

(ii) Criticisms of globalization**3)**

- The gains from globalization have been uneven; all countries, regions and social groups have not benefited equally.
- Small domestic producers and workers may face intense competition from large MNCs and cheaper imports, leading to closures, job insecurity or pressure on wages.
- Developing countries are often asked to liberalise their markets even when developed countries continue to use subsidies or non-tariff barriers, creating an unequal playing field. Environmental and cultural concerns may also arise.

OR

(B)(i) Strategic sale and minority sale as methods of disinvestment**3)**

- The statement is correct. Disinvestment means the government sells part or all of its equity in a public sector enterprise.
- Strategic sale involves sale of a substantial stake, generally along with transfer of management control to a strategic buyer.

- Minority sale means sale of a smaller portion of government equity while the government continues to retain majority ownership and management control. Both reduce government shareholding, so both are methods of disinvestment.

(B)(ii) Objectives of the World Trade Organization

3)

- To promote freer, predictable and non-discriminatory international trade by reducing tariffs and other trade barriers under agreed multilateral rules.
- To provide a forum for trade negotiations and a rules-based mechanism for settling disputes among member countries.
- To expand world trade and improve the use of global resources while raising living standards, income and employment, with special provisions for developing economies where applicable.

*****ALL THE BEST*****