



B.K. BIRLA CENTRE FOR EDUCATION

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



TERM - I EXAMINATION (2026-27)

ECONOMICS

ANSWER KEY

Class: XII

Date: 11.09.26

Admission no:

SET – 2

Time: 3hrs

Max Marks: 80

Roll no.

General Instructions:

1. This paper contains 20 Multiple Choice Type Questions of 1 mark each.
2. This paper contains 4 Short Answer Type Questions of 3 marks each to be answered in 60 to 80 words.
3. This paper contains 6 Short Answer Type Questions of 4 marks each to be answered in 80 to 100 words.
4. This paper contains 4 Long Answer Type Questions of 6 marks each to be answered in 100 to 150 words.

SECTION-A - Macro Economics & Indian Economy

1. (c) 1)
Commission earned by a property dealer is payment for a productive service rendered during the current year.
2. (B) (ii) and (iv) 1)
Nominal GDP = Physical output/quantity of final goods and services of current year × Current year prices.
3. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). 1)
4. (c) Repo rate 1)
Repo rate is a quantitative instrument of monetary policy.
5. (c) Statement 1 is correct, but Statement 2 is incorrect. 1)
Net Indirect Taxes = Indirect Taxes – Subsidies.
6. (a) Only Conclusion I follows 1)
Purchase of securities injects money and increases banks' lending capacity.
7. (c) 4 1)
 $k = 1/(1-MPC) = 1/(1-0.75) = 4$
8. (a) Average Propensity to Consume is equal to one 1)
At break-even income, consumption = income, hence $APC = 1$ and saving = 0
9. (b) involuntary unemployment 1)
10. (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A). Ex-post $S = I$ is an accounting identity. 1)
11. (b) (i) and (iii) only 1)
 $MPC + MPS = 1$; MPC normally lies between 0 and 1; with zero autonomous consumption, consumption curve starts from origin.
12. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). 1)

13. (a) Imposing heavy taxes on cigarettes and granting subsidies on solar equipment 1)
Taxing cigarettes and subsidising solar equipment reallocates resources towards socially desirable activities.

14. (b) Fiscal deficit less interest payments 1)
Primary Deficit = Fiscal Deficit – Interest Payments.

15. (c) Proceeds from disinvestment of a public sector unit 1)
Disinvestment proceeds are capital receipts, not revenue receipts.

16. (b) Depreciation 1)
Under flexible exchange rates, a fall in the value of domestic currency is depreciation.

17. (a) a rightward shift in the demand curve for foreign exchange and depreciation of the rupee 1)

18. (A). 1 and 3 only 1)

19. a) Only Statement 1 is correct 1)
Statement 2 is incorrect. Import substitution protected domestic firms from foreign competition.

20. (B) (i) and (ii) 1)
Agriculture dominated employment while manufacturing remained weak/declined; growth of services was not uniform across regions.

21. The investment multiplier is: 3)

$$K = \frac{1}{1 - MPC}$$

Therefore, the multiplier increases when MPC increases.

For example:

If $MPC = 0.5$,

$$K = \frac{1}{1 - 0.5} = 2$$

If MPC increases to 0.8,

$$K = \frac{1}{1 - 0.8} = 5$$

Thus, a higher Marginal Propensity to Consume results in a higher investment multiplier. Hence, the value of the investment multiplier is directly related to MPC

OR

(I) Given: 3)

$$C = 40 + 0.8Y$$

$$\text{Investment} = ₹110 \text{ crore}$$

At equilibrium:

$$Y = C + I$$

$$Y = 40 + 0.8Y + 110$$

$$Y - 0.8Y = 150$$

$$0.2Y = 150$$

$$Y = ₹750 \text{ crore}$$

(II) Consumption:

$$C = 40 + 0.8(750)$$

$$= ₹640 \text{ crore}$$

Saving:

$$S = Y - C$$

$$S = 750 - 640$$

$$S = ₹110 \text{ crore}$$

22. All transactions in the Balance of Payments are not autonomous because some transactions are undertaken to correct a BOP imbalance. 3)

Accommodating transactions are transactions undertaken by the government or Central Bank to finance a deficit or dispose of a surplus in the Balance of Payments.

For example, if autonomous receipts are less than autonomous payments, the Central Bank may use its foreign exchange reserves or borrow from abroad to meet the deficit.

Thus, accommodating transactions are **induced by a BOP imbalance and are not autonomous in nature.**
OR

The statement is correct. A current account deficit is not always harmful. 3)

A deficit may arise because a developing country imports machinery, technology and capital goods required for future economic growth. Such imports can increase productive capacity and exports in the future.

However, a continuously rising current account deficit used mainly to finance consumption can become a concern because it may increase foreign liabilities and put pressure on the domestic currency.

Therefore, the nature and sustainability of the deficit are more important than the deficit alone.

23. Depreciation of domestic currency **does not always improve the trade balance.** 3)

Depreciation makes exports cheaper for foreigners and imports more expensive for domestic consumers.

Therefore, normally exports may rise and imports may fall.

However:

1. If demand for imports is highly inelastic, import quantity may not fall substantially.
2. Essential goods such as crude oil may continue to be imported even at higher prices.
3. In the short run, existing contracts may prevent immediate changes in imports and exports.

Therefore, the import bill can continue to rise despite depreciation, and improvement in the trade balance is not guaranteed.

24. (A) **Objectives of World Trade Organization** 3)

The main objectives of the WTO are:

1. **Promote international trade** by creating a rule-based trading system.
2. **Reduce tariff and non-tariff barriers** among member countries.
3. Ensure fair and non-discriminatory trade practices.
4. Provide a platform for negotiation and settlement of trade disputes.
5. Promote optimum use of global resources and improve standards of living.

OR

(B) **Privatisation and Social Welfare**

The statement can be **defended.**

Privatisation transfers ownership or management of public enterprises to the private sector. Private enterprises mainly work with the objective of earning profits.

As a result:

- socially important but less profitable services may be neglected;
- prices may rise if profit becomes the main motive;
- employment security may reduce;
- services in backward regions may receive less attention.

Therefore, although privatisation may improve efficiency, excessive privatisation can lead to neglect of social welfare objectives.

25. (A) **Multiplier** 4)

Given: $MPS = 0.25$

$$K = \frac{1}{MPS}$$

$$K = \frac{1}{0.25} = 4$$

Increase in investment = ₹4,000 crore

$$\Delta Y = K \times \Delta I = 4 \times 4000$$

$$\Delta Y = \text{₹}16,000 \text{ crore}$$

Increase in saving:

$$\Delta S = \text{MPS} \times \Delta Y = 0.25 \times 16000$$

$$\Delta S = \text{₹}4,000 \text{ crore}$$

OR

(B) Monetary Measures to Correct Excess Demand

4)

Excess demand causes an inflationary gap. The Central Bank can reduce it through contractionary monetary policy.

1. Increase in Repo Rate:

The Central Bank increases the repo rate. Borrowing by commercial banks becomes expensive, which raises lending rates. Credit and expenditure fall, reducing aggregate demand.

2. Increase in Cash Reserve Ratio:

The Central Bank increases CRR. Commercial banks have to keep a larger portion of deposits with the Central Bank. Their lending capacity falls, reducing credit and aggregate demand.

(Or any other monetary measure can be stated,)

26. Functions of Central Bank

4)

1. Custodian of Foreign Exchange Reserves

The Central Bank keeps and manages the country's foreign exchange reserves. It buys and sells foreign currencies whenever required and may intervene in the foreign exchange market to maintain stability in the external value of the domestic currency.

2. Lender of Last Resort

When commercial banks face a shortage of funds and cannot obtain finance from other sources, they can approach the Central Bank for financial assistance.

Therefore, the Central Bank acts as the **lender of last resort** and protects the stability of the banking system.

27. (i) Two Limitations of GDP as an Index of Welfare

3)

1. Distribution of GDP:

An increase in GDP does not necessarily increase welfare if the additional income is concentrated in the hands of a small section of society.

2. Externalities:

GDP does not properly account for positive and negative externalities. For example, industrial production may increase GDP but may also create pollution and reduce welfare.

Other acceptable point: non-monetary activities are not included in GDP.

(Or any other limitation besides this)

(ii) Net Factor Income from Abroad

1)

Net Factor Income from Abroad is the **difference between factor income earned by normal residents of a country from the rest of the world and factor income earned by non-residents within the domestic territory.**

$$\text{NFIA} = \text{Factor income from abroad} - \text{Factor income to abroad}$$

28. Money multiplier is inversely related to the Legal Reserve Ratio.

4)

$$\begin{aligned} \text{Money Multiplier} &= \frac{1}{\text{LRR}} \quad \text{Suppose LRR} = 20\% \\ &= \frac{1}{0.20} = 5 \end{aligned}$$

If LRR falls to 10%:

$$\text{Money multiplier} = \frac{1}{0.10} = 10$$

Thus, when LRR falls from 20% to 10%, the money multiplier rises from 5 to 10.

Hence, **higher LRR leads to a lower money multiplier and lower LRR leads to a higher money multiplier.**

29. (A) Role of Public Sector During the Planning Period

2)

The public sector was assigned an important role because the private sector lacked sufficient capital and was unwilling to invest in projects involving high risk and long gestation periods.

The public sector was expected to:

- develop basic and heavy industries;
- create infrastructure;
- promote balanced regional development;
- prevent concentration of economic power;
- encourage self-reliance.

However, over time many public enterprises suffered from inefficiency, overstaffing and low profitability.

(B) Inward-Looking Trade Strategy

2)

An inward-looking trade strategy refers to the policy of **import substitution**.

India attempted to replace imported goods with domestically produced goods. Domestic industries were protected through high tariffs, import quotas and restrictions on imports.

The aim was to encourage domestic industries and reduce dependence on foreign countries.

OR

Railways: A Double-Edged Sword

4)

Railways introduced during British rule had both positive and negative effects.

Positive effects:

- connected different regions of the country;
- facilitated movement of people and goods;
- encouraged commercialisation of agriculture;
- helped develop markets.

Negative effects:

- made it easier to transport Indian raw materials to ports for export;
- helped British manufactured goods reach Indian markets;
- promoted British commercial interests rather than Indian development.

Thus, railways helped integrate the economy but also facilitated colonial exploitation.

30. (A) Need for Land Reforms

3)

After independence, Indian agriculture suffered from exploitative intermediaries, unequal ownership of land and insecure tenants. Land reforms were therefore required to improve agricultural productivity and ensure social justice.

Three important measures were:

1. **Abolition of intermediaries:** Zamindars and other intermediaries were removed.
2. **Tenancy reforms:** Tenants were provided security of tenure and regulation of rent.
3. **Land ceiling:** Maximum limits were imposed on land holdings and surplus land was to be redistributed.

Other acceptable measure: consolidation of fragmented land holdings.

(B) Marketable Surplus

1)

Marketable surplus is the **portion of agricultural produce which is available for sale in the market after meeting the farmer's requirements for self-consumption, seeds, feed, wages in kind and other needs.**

31. Case Study: Externalities

(i) Define Externalities

1)

Externalities are the **positive or negative effects of an economic activity on third parties which are not reflected in the market price and are generally not included in national income estimation.**

(ii) Positive vs Negative Externalities

3)

Positive Externalities

- a) Benefits received by third parties.
- b) Increase social welfare.
- c) Example: education or vaccination.

Negative Externalities

- a) Costs imposed on third parties.
- b) Reduce social welfare.
- c) Example: pollution caused by a factory.

(iii) Why Carbon Pricing Should Be Promoted

2)

Carbon pricing places a cost on activities that create greenhouse gas emissions.

It should be promoted because it:

- makes polluters bear the social cost of pollution;
- discourages excessive carbon emissions;
- encourages firms to adopt cleaner technology;
- can provide funds or incentives for environmentally sustainable activities.

The case given in the paper specifically refers to carbon taxes, green cess and related mechanisms.

OR

1. National Income (NNP at FC)

3 + 3)

$NNP \text{ at FC} = NDP \text{ at FC} + NFIA$

$= 720 + 20$

$NNPFC = ₹ 740 \text{ crore}$

Therefore, National Income = ₹740 crore.

2. Gross Domestic Product at Factor Cost (GDP at FC)

$GDP \text{ at FC} = NDP \text{ at FC} + \text{Consumption of Fixed Capital}$

$= 720 + 200$

$GDP \text{ at FC} = ₹920 \text{ crore}$

Final Answer

National Income (NNP at FC) = ₹740 crore

$GDP \text{ at FC} = ₹920 \text{ crore}$

Note: Domestic Income can also be verified using factor incomes:

Rent + Profits + Mixed Income + Wages + Interest

$= 120 + 200 + 70 + 300 + 30 = ₹720 \text{ crore}$

Dividend is not added separately because it is already included in profits.

32.

(A) The diagram shows AD intersecting AS at the equilibrium point.

(a) Meaning of Intersection of AD and AS

1)

The intersection of AD and AS represents the **equilibrium level of income, output and employment**, where planned

aggregate demand is equal to aggregate supply. $AD=AS$

(b) Increase in AD

1)

If AD increases, the AD curve shifts upward.

The new AD curve intersects AS at a higher level of income. Therefore:

In the diagram, draw a new curve **AD₁ above AD** and mark the new equilibrium to the right of the original equilibrium.

Excess demand/full-employment situation.

Once the economy is already at full employment, a further increase in AD mainly creates inflationary pressure rather than increasing real output and employment.

(c) One Reason for Increase in AD

1)

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.

(B) Excess demand refers to a situation where **aggregate demand exceeds aggregate supply corresponding to the full-employment level of output.**

3)

$AD > AS$

Two fiscal measures are:

1. Reduction in Government Expenditure:

The government reduces its expenditure, which directly lowers aggregate demand.

2. Increase in Taxes:

Higher taxes reduce disposable income and consumption expenditure, thereby reducing aggregate demand.

33. (A) Objective of Government Budget

4)

The objective suggested by Krish is **redistribution of income and wealth.**

The government can reduce inequalities through taxation. Higher taxes on luxury goods mainly consumed by richer sections reduce their disposable income, while lower or zero taxes on essential goods benefit poor and middle-income households.

Thus, the taxation system can be used to promote a more equitable distribution of income.

The question specifically links higher GST on luxury items with the government-budget objective.

(B) Two Examples of Non-Tax Revenue Receipts

2)

Any two:

1. **Fees and fines received by the government**
2. **Interest receipts on loans given by the government**

Other examples include dividends and profits from public sector enterprises.

34. Economic Reforms of 1991

(A) (i) Three Benefits of Globalisation

3)

1. Greater Foreign Investment:

Globalisation has encouraged foreign companies to invest in India, increasing the inflow of capital.

2. Access to Better Technology:

Indian firms have gained access to modern technology, production techniques and managerial practices.

3. Larger Markets:

Indian producers have obtained access to international markets, increasing opportunities for exports and expansion. Other benefit: consumers get greater variety and improved quality due to increased competition.

(ii) Three Financial Sector Reforms After 1991

3)

1. The role of the RBI was changed from being a strict regulator towards becoming more of a facilitator of the financial sector.
2. Private sector banks, including Indian and foreign banks, were allowed to enter the banking industry.
3. Foreign Institutional Investors were allowed to invest in Indian financial markets.

Other acceptable point: reforms in the stock market and strengthening of SEBI.

OR

34. (B)

(i) How Agriculture Was Adversely Affected by Reforms

3)

The agricultural sector did not benefit from reforms to the same extent as other sectors because:

1. Public investment in agricultural infrastructure such as irrigation, power, roads and research declined.
2. Reduction in subsidies increased the cost of agricultural inputs.
3. Reduction in import restrictions exposed Indian farmers to competition from cheaper agricultural imports.
4. Greater focus on export-oriented cash crops increased farmers' exposure to international price fluctuations.

Hence, agricultural growth and farmers' incomes faced pressure during the reform period.

(ii) Trade and Investment Policy Reforms

3)

Major reforms included:

1. **Reduction in import duties:** Tariffs on imported goods were substantially reduced.
2. **Removal of quantitative restrictions:** Import licensing and quotas were gradually removed for most commodities.
3. **Liberalisation of foreign investment:** Restrictions on Foreign Direct Investment were relaxed and foreign companies were allowed greater participation in India.
4. India's trade regime became more open and integrated with the global economy.

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

