



B K BIRLA CENTRE FOR EDUCATION
SARALA BIRLA GROUP OF SCHOOLS
SENIOR SECONDARY CO-ED DAY CUM BOYS' RESIDENTIAL SCHOOL
MID-TERM EXAM (2024-25)
ECONOMICS (030)
ANSWER KEY



CLASS: XII

DATE: 16/09/2024

TIME: 3 hrs

MAX. MARKS:80

1. (A) rise in export of coffee to Japan 1)
2. (B) 4000 1)
3. (A) a – iv, b – iii, c – i, d – ii 1)
4. B) Managing the public debt . 1)
5. (C) Statement 1 is true and statement 2 is false. 1)
6. (B) Both the statements are false 1)
7. (D) Autonomous consumption, Induced Consumption 1)
8. (B) 4 1)
9. (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 1)
10. (B) \square 10000 crore 1)
11. (C) Create equitable distribution of income 1)
12. Given, Autonomous Consumption Expenditure (\bar{C}) = \square 25 crore 3)
Marginal Propensity to Save (MPS) = 0.1
Level of Income (Y) = \square 2,000 crore
Autonomous Investment (I) = \square 25 crore
Marginal Propensity to Consume (MPC) = 1 - MPS
 $1 - 0.1 = 0.9$
At equilibrium level of income, $Y = C + I$
Substituting the value of Y in (C + I)
 $C + I = \bar{C} + (MPC)Y + I$
 $= 25 + 0.9 \times 2000 + 25$
 $= 1,850$ crore
 $Y > C + I$ at an income level of 2,000 crore.
Thus, the economy is not in equilibrium.

OR

The statement is refuted. When ex-ante Aggregate Demand (AD) falls short of ex-ante Aggregate Supply (AS), it results in an increase, not a fall, in unintended inventories. This is because firms produce more than what is being purchased, leading to unsold goods accumulating as inventory.

When Aggregate demand is less than Aggregate supply, then the planned inventory rises above the desired level. To clear the unwanted increase in inventory, firms plan to reduce the production output till Aggregate demand becomes equal to Aggregate supply.

13. Devaluation and depreciation are different terms. 3)

Devaluation is the fall in the value of the domestic currency in relation to foreign currency as planned by the government in a situation when the exchange rate is not determined by the forces of supply and demand, but is fixed by the government of different countries.

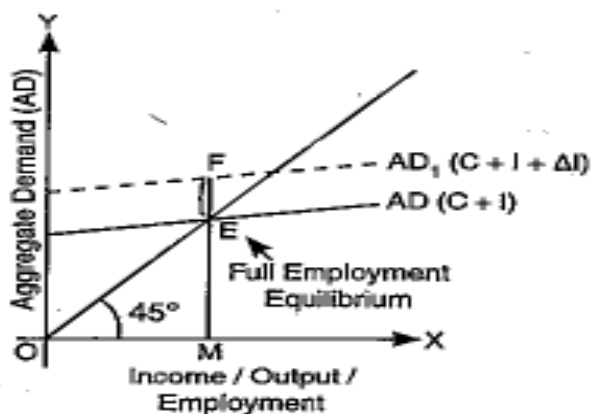
Depreciation, on the other hand, is the fall in the value of domestic currency in relation to foreign currency in a situation when the exchange rate is determined by the forces of supply and demand in the international money market, i.e. the system is flexible.

However, both devaluation and depreciation lead to a fall in the value of the domestic currency in relation to the foreign currency. Consequently, domestic goods become cheaper in terms of foreign currency. Accordingly, exports tend to rise (while imports are discouraged).

14. EF indicates the inflationary gap in the diagram. 3)

Inflationary gap is the excess of aggregate demand over and above the level required to maintain full employment equilibrium in the economy. It implies two things-

- 1) Planned aggregate demand in the economy happens to exceed its full employment level.
- 2) The level of aggregate demand surpasses the level of aggregate supply even when the available factors are fully utilized.



The central bank of the country adopts a number of methods to control the quantity and quality of credit. For this purpose, it raises the bank rates, sells securities in the open market, raises the reserve ratio, and adopts a number of selective credit control measures, such as raising margin requirements and regulating consumer credit.

15. Complete the following table. Construct /Express the Consumption function at ₹200 crore level of income. 4)

Income(Y) (In ₹Crore)	Saving (in ₹Crore)	Average propensity to consume (APC)	Marginal Propensity to save (MPS)
0	(-) 30	-----	----
100	0	1	0.3
200	30	0.85	0.3
300	60	0.8	0.3

Consumption Function at ₹200 crore level of income:

$$C = \bar{C} + bY$$

$$C = 30 + 0.7Y$$

Working note: $MPC = 1 - MPS = 1 - 0.3 = 0.7$

Alternate answer for which marks may be awarded – Consumption at ₹200 crore level of income = ₹200 crore

16.

(a) Revenue expenditure refers to the expenses incurred by a business in its day-to-day operations to generate revenue. Examples of revenue expenditure include salaries and wages, rent, utility bills, advertising costs, and raw material expenses. 1)

(b) 3)

Direct Tax	Indirect Tax
Tax burden falls on taxpayers	Tax burden passed on to consumers
Calculated based on income, wealth, or assets	Calculated based on consumption or transaction value
Examples: income tax, property tax, wealth tax	Examples: sales tax, excise tax, value-added tax (VAT)
Paid directly by taxpayers	Collected by intermediaries
Progressive tax system	Regressive tax system

17. (i) Revenue deficit is equal to the excess of total revenue expenditure over the total revenue receipts. 2)
Revenue deficit = Revenue expenditure - Revenue receipts.

(ii) Fiscal Deficit in equation form is as, Fiscal Deficit = Total expenditure (Revenue expenditure + Capital expenditure) - Total receipts other than borrowings (Revenue receipts + Capital receipts except for borrowings) 2)

On the other hand, Fiscal Deficit = Revenue deficit + (Capital expenditure - Non-debt capital receipts).

The following are the formulae for calculating fiscal deficit:

1. Fiscal deficit = Total expenditure - Total receipts (excluding borrowings).
2. Fiscal deficit = (Revenue expenditure + Capital expenditure) - (Revenue receipts + Capital receipts excluding borrowings).
3. Fiscal deficit = (Revenue expenditure - Revenue receipts) + (Capital expenditure - Capital receipts excluding borrowings).
4. Fiscal deficit = Revenue deficit + (Capital expenditure - Capital receipts excluding borrowings).
5. Fiscal deficit = Borrowings.

OR

As indicated in the given chart:

(I) Transport: The expenditure on transport accounted for Rs3.32 lakh crore in the year 2021-22. 2)

In the year 2022-23, a revenue expenditure of Rs.3.90lakh crore was allocated for this sector.

Out of the total budget expenditure of the year 2023-24, Rs.5.17 lakh crore was allocated to transport.

(II) Rural Development: The expenditure on rural development accounted for Rs2.29 lakh crore in the year 2021-22. 2)

In the year 2022-23, a revenue expenditure of Rs.2.43 lakh crore was allocated for this sector.

Out of the total budget expenditure of the year 2023-24, Rs.2.38 lakh crore was allocated to transport.

18. (a) The correct answer is – Yes, I agree with the given statement that Reserve Ratio and Credit Creation are inversely related. The reserve ratio is the portion of deposits that commercial banks are required to hold in reserve, while credit creation is the process by which commercial banks create credit by making loans to customers. 3)

The relationship between reserve ratio and credit creation can be explained by the following example: Let's say that the Reserve Bank of India (RBI) sets the reserve ratio at 10%. This means that commercial banks are required to hold 10% of their deposits in reserve and can use the remaining 90% for lending to customers. Assuming that the total deposits in the banking system are Rs. 1,000 crores, the commercial banks would be required to hold reserves of Rs. 100 crores (10% of total deposits) and can lend the remaining Rs. 900 crores.

If the RBI decides to increase the reserve ratio to 20%, the commercial banks would be required to hold reserves of Rs. 200 crores (20% of total deposits) and can lend only Rs. 800 crores. This means that the credit creation capacity of the commercial banks has been reduced.

On the other hand, if the RBI decides to decrease the reserve ratio to 5%, the commercial banks would be required to hold reserves of Rs. 50 crores (5% of total deposits) and can lend Rs. 950 crores. This means that the credit creation capacity of the commercial banks has been increased.

(b) The RBI's initiative to encourage commercial banks to store their excess cash with it is a strategy taken to curb inflation in the economy by lowering lending activity and the money supply. 3)

The amount of money in circulation in the economy is effectively decreased when the RBI encourages commercial banks to lodge their surplus cash with it. This occurs as a result of banks having to scale back their lending operations owing to a lack of funding. Lower spending in the economy as a result of this decrease in loans can assist in easing inflationary pressures.

19. (a) In the diagram $\bar{C} + bY$ is the consumption curve. The 45° line is the aggregate supply curve. 4)

At point A, consumption = income i.e ($Y=C$)

\bar{C} represents the autonomous consumption i.e consumption at zero level of income.

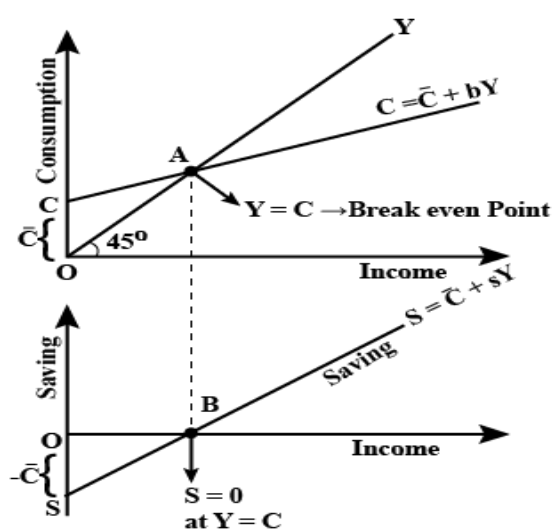
Steps for derivation of supply curve from consumption curve as follows.

(i) Corresponding to \bar{C} in the consumption function we have $-\bar{C}$ in the saving function. That is, there are negative savings equal to autonomous consumption at $Y=0$. This is represented by the negative axis in the lower panel.

(ii) At point B ($Y=\bar{C}$). This implies that all the income is spent on consumption expenditure. Thus, savings equal to zero. This is shown as $S=0$ in lower panel. This point is also known as the Break-even point.

(iii) Beyond the break-even point, by connecting points S and Y we derive the straight upward sloping saving curve.

(iv) SS is the required saving curve.



(b) $K = \frac{1}{1-MPC}$ 2)

$$= \frac{1}{1-0.75} = \frac{1}{0.25} = 4$$

$$K = 4$$

$$K = \frac{\Delta Y}{\Delta I} \quad 4 = \frac{\Delta Y}{2000} \quad 2000 \times 4 = 8000$$

Answer
 $\Delta Y = \text{Rs. } 8000 \text{ crore}$

20. (a) **Definition** 3)

Fixed rate is the system where the government decides the exchange rate

Flexible exchange rate is the system which is dependent on the demand and supply of the currency in the market

Deciding authority

Fixed rate is determined by the central government

Flexible rate is determined by demand and supply forces

Impact on Currency

Currency is devalued and if any changes take place in the currency, it is revalued.

Currency appreciates and depreciates in a flexible exchange rate

Involvement of Government Bank

Government bank determines the rate of exchange in fixed exchange rate

No such involvement of government bank in flexible exchange rate

(b) **Trade Surplus:** a situation in which a country sells more to other countries than it buys from other countries: the amount of money by which a country's exports are greater than its imports. 3)

What is Current Account Surplus?

Every country needs to record their inflows and outflows occurring due to trade in a particular period. The current account is a statement that records the income and expenditure of a country with other countries. It comprises the value of exports and imports of goods and services, interest, dividends and profits, unilateral receipts/or payments from/to the rest of the world. But what is the current account surplus?

When the country's outflow is more than the inflow, meaning that the rest of the world owes more to it than what is owed by said country, it is said to have a Current Account Surplus. The surplus shows a growth in the net assets of the country (Net assets = Assets-Liabilities).

If the current account balance is positive, it shows a current account surplus. Generally, Net exports (X-M) is the main determinant of the current account balance.

OR

(a) 'Borrowings from abroad' is recorded in the 'capital account' of BOP account because it increase international liability of the country. It is recorded on the credit side because it brings in foreign exchange into the country. 3)

Capital Account

The capital account is used to finance the deficit in the current account or absorb the surplus in the current account. The three major components of the capital account:

1. **Loans to and borrowings from abroad** – These consist of all loans and borrowings given to or received from abroad. It includes both [private-sector loans](#), as well as public-sector loans.
2. **Investments to/from abroad** – These are investments made by non residents in shares in the home country or investment in real estate in any other country.
3. **Changes in foreign exchange reserves** – Foreign exchange reserves are maintained by the central bank to control the exchange rate and ultimately balance the BOP.

(b) Current account deficit occurs when a nation sends more money abroad than it receives. 2)
A trade deficit is the largest component of a current account deficit, which occurs when a country imports more than it exports in a given period of time.
Current account deficit indicates (CAD) that a country is a borrower from the Rest of the world.

(c) A **foreign direct investment (FDI)** refers to purchase of an asset in another country, such that it 1)
gives direct control to the purchaser over the asset (e.g. purchase of land and building).
In other words, it is an investment in the form of a controlling ownership in a business, in real estate or in productive assets such as An example would be McDonald's investing in an Asian country to increase the number of stores in the region. Factories in one country by an entity based in another country.

INDIAN ECONOMY

21. (D) (i), (ii) and (iii) 1)

22. (A) Statement 1 is true and Statement 2 is false. 1)

23. (C) Russian economic model was the base for the Indian economic system 1)

24. (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 1)

25. (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 1)

26. (C) 2015 1)

27. (B) On the job training will reduce the skills of labour 1)

28. (D) Inappropriate planning of human resource improves human capital formation. 1)

29. (A) It is separable from its owner 1)

30. (i) On the job training 1)

(ii) Regular training and development programs empower employees to strengthen their weaknesses 2)
and acquire new skills and knowledge. As a result, their overall performance is optimized, benefiting both the employees and the organization.

OR

The given statement is correct, investment made in the education system of India has been a complete 3)
failure, because of which the economists believe that India should spend at least 6% of its GDP on Education.

In 1952, the spending on the education system was 0.6% of the nation's GDP which rose to only 4% in 2014. The spending is shorter than the proposed 6% target by the Education Commission, 1964. Besides, the increase in education expenditure throughout this period has irregularly risen and fallen. If the government has spent the targeted percentage of GDP on the education system of India, the present education system would have been a lot better. Therefore, it is essential for the government to take the necessary steps in this regard.

31. The debate over Subsidies: Any two each 4)

Arguments against subsidies:

1. Subsidies to benefit the farmers but fertilizer subsidy also benefits the fertilizer industry.
2. Huge burden on government's finances
3. Does not benefit the target group

Arguments for subsidies:

1. Subsidies should continue as farming is a risky business.
2. It violates the goal of equity
3. It provides an incentive for adoption of the new HYV technology. Benefitted the small and rich farmers.

32. (i) 3)

Women have been neglected when it comes to education in India. The access to education has Always been biased towards male population due to our social system which is patriarchal. The lack of education has caused exploitation of women and has resulted in a lower social status of women in India. There is an imminent need or promoting female education in India, because of the following reasons:

- (i) Women's education is essential for providing them economic independence and empowering them to save them from exploitation and domestic violence.
- (ii) Women's education is essential in order to raise the social status of women so that the quality of life of women can be improved.
- (iii) Educating woman helps in promoting family welfare programmes and thus, in population control.

(ii) False. 1)

Rising population can indeed have an impact on the quality of human capital formation.

Human capital refers to the knowledge, skills, and abilities that individuals possess and can use to create economic value. A larger population can mean more potential human capital, but it can also put a strain on resources such as education and healthcare, which can affect the quality of human capital formation.

33. Land Reforms in the agrarian set up. 4)

At the time of independence, the land tenure system was characterised by intermediaries called zamindars, jagirdars, etc. They collected rent from the actual tiller without contributing to improvements on the farm. This demotivated the actual tillers and resulted in low productivity. Due to this reason, there was an urgent need for land reform policy.

The agricultural sector in India adopted the following types of land-reform strategies:

- (i) Abolition of Intermediaries: The zamindari system was abolished and ownership rights were given to the actual tiller of land.
- (ii) Regulation of Rent: Rent was regulated and a maximum limit of 33% of the value of the crop was fixed.
- (iii) Land Ceiling: The maximum size of landholding that an agricultural household could own was limited. The surplus land was acquired after paying compensation and was re-distributed among poor farmers.
- (iv) Consolidation of Landholding: To increase productivity, farmers were given a big piece of land in place of small and fragmented fields.
- (v) Cooperative Farming: Cooperative farming was encouraged to get benefit from the gains of consolidation of holdings.

OR

Although with the advent of Green Revolution, Indian agricultural production increased substantially 4) that enabled India to attain the status of self-sufficiency in foodgrains, however, India failed to achieve structural transformation associated with economic growth and development.

The industrial sector's growth was not very significant during this period and thus, this sector could not provide employment opportunities to the surplus labour from agricultural sector.

The industrial sector in India failed to generate significant employment opportunities in order to attract and absorb excess agricultural labour. This led to disguised unemployment in agriculture. The slow growth of the secondary sector has been responsible for a majority of the population (65%) to remain in agricultural occupation till 1990.

34. (i) Trade policy reforms aimed at: 4)
- a) Reduction of tariff rates
 - b) Removal of licensing procedures for imports
 - c) dismantling of quantitative restrictions on imports and exports

(ii) Tariff reductions have been mainly confined to non-agricultural, industrial goods. 2)

OR

(i) India has certain advantages which makes it a favourite outsourcing destination. 3)
What are these advantages?

Most multinational corporations and even small companies are outsourcing their services to India owing to the following advantages:

(i) Availability of Cheap Labour: India is a country with a large population and thus, an abundant supply of labour. Due to this reason, labour in India is available at low wage rates. This helps foreign companies in reducing cost of operation by outsourcing their business processes to India.

(ii) Skill and Accuracy: India has a wide pool of talent in the form of educated and trained youth who have the required skills and can work with accuracy in the business processes such as accounting, record keeping, IT consultancy, etc.

(iii) Continuity and Risk Management: Periods of high employee turnover add uncertainty to the operations of a company. Outsourcing will provide a level of continuity to the company while reducing the risk that a substandard level of operation would bring to the company.

(iv) Reduced Overhead Costs: Overhead costs of performing back-office functions are extremely high but due to the outsourcing these costs can be reduced.

(ii) I agree with the given statement. 3)

Explanation: In order to improve efficiency, infuse professionalism and enable Public Sector Undertakings (PSUs) to compete more effectively in the liberalised global environment, the government identified profit making PSUs.

An efficient and profit earning PSU is a revenue generator for the government. But if, a PSU is an inefficient and loss making one, then the same PSU exerts unnecessary burden on the government's scarce revenues and further may lead to budget deficit.

The loss making PSUs should be privatised whereas it would not be fair to privatise a profit making PSU.

Privatising a PSU may lead to concentration of monopoly power in the private hands. Further some of the PSUs like, water, railways, etc. enhance the welfare of nation and is meant to serve general public at a very nominal cost. Privatisation of such important PSUs will lead to loss of welfare of poor people. Hence, only less important PSUs should be privatised while leaving the core and important PSUs to be owned by the public sector.

