B K BIRLA CENTRE FOR EDUCATION, PUNE
(SENIOR SECONDARY CO-ED DAY CUM BOYS' RESIDENTIAL SCHOOL, AFFILIATED TO CBSE NEW DELHI)
PRE MID-TERM (2024-25)
SUBJECT – ECONOMICS
MARKING KEY
CLASS XII

Q1. **Assertion (A)–** Supply of money consists of currency held by the people and net demand   1)
deposits held by the Commercial Banks
      Reason (B) – Supply of money is the quantity of money over a period of time.
(c) Assertion (A) is true but Reason (R) is false

Q2. (b) Government of India issues all the coins and ₹1 currency note.   1)

Q3. **Assertion (A**) - Recovery of loans is Capital receipt.   1)
   Reason (R) - Revenue receipts of the govt. are those money receipts which do not create
a liability for the govt. and as well do not lead to reduction in assets of the govt.
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct
explanation of Assertion (A)

Q4. The government has increased the rate of income tax. The objective of government is: 1)
(b) redistibute income and wealth

Q5. Which of the following is a revenue expenditure in a government budget?   1)
(i) Expenses incurred for the normal functioning of the government departments and various services.
(ii) Interest payments on debt incurred by the government.
(iii) Grants given to a state government for creation of assets.
(d) All of these

Q6. Money is anything which is commonly accepted as a medium of exchange.   3)
Money supply consists of currency with the public + demand deposits with the commercial banks +
other deposits with the RBI.

Q7. The following formula can be used to determine the total credit creation.   3)
Total credit creation = Original deposit $\times$ Credit multiplier coefficient
Where,
Credit multiplier coefficient = 1/r
r = Cash reserve requirement also known as cash reserve ratio (CRR)
Let us understand this with an example.
If the money deposited in a bank is ₹10,000 and the bank has a CRR of 10%, then what will be the credit
multiplier coefficient?
Credit multiplier coefficient = 1/10%
= 1/0.1
= 10
Total credit creation = 10,000 $\times$ 10 = 1,00,000
Similarly, if CRR = 20%

Then,

Credit multiplier coefficient = 1/20%

= 1/0.2

= 5

Therefore, total credit creation = 10,000 × 5 = 50,000

Q8. (i) Two monetary policy measures are Repo rate and Reverse Repo rate. 4)
They are quantitative in nature.

   (ii) Raising the repo rate makes borrowing expensive for banks which in turn reduces the money supply. It also encourages savings that help curb inflation.

Q9. Redistribution of income to reduce inequalities. 4)
Through progressive income taxation, the redistribution objective is sought to be achieved. In this case, when the income is higher, the tax rate is higher. On a proportional basis, the companies will be taxed. The tax rates will be in a particular proportion of the profits.
Petroleum products, tobacco and luxury goods will be taxed heavily, semi-luxuries and comforts will be taxed moderately, and the necessities of life will be taxed at low rates.

Q10. Categorise the following into revenue expenditure and capital expenditure. 6)
Give reasons.
(i) Payment of salaries to staff of government officials: Revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(ii) Investment in shares: Capital expenditure as it creates assets of the govt.

(iii) Subsidies: Revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(iv) Expenditure on building a bridge: Capital expenditure as it creates assets of the govt.

(v) Defence services expenditure: Revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(vi) Grants to state governments for creation of assets.: Revenue expenditure as it neither creates any asset nor reduces any liability of the government.

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