



B.K. BIRLA CENTRE FOR EDUCATION

SARALA BIRLA GROUP OF SCHOOLS
A CBSE DAY-CUM-BOYS' RESIDENTIAL SCHOOL
PRE MID-TERM EXAM 2025-26



ECONOMICS

Class: XII

Date: 06.08.25

Admission no:

MARKING SCHEME

Time: 1hr

Max Marks: 25

Roll no.:

1. C. Redistribution of income 1)
2. B. fiscal 1)
3. C. Both Statements 1 and 2 are true. 1)
4. (C) Money supply 1)
5. (B) 4,000 1)

6. Justify the following statements with valid arguments: 3)

The Central Bank is the sole currency issuing authority of an economy.

The Central Bank has the sole authority for issuing currency in the economy. This ensures uniformity in the issue of currency and it gives the Central Bank control over the money supply in the economy.

Money serves as a measure of standard of deferred payments.

Ans. Deferred payments are contracted to be made at some future date. Money facilitates such transactions of borrowing and lending. Hence, money serves as a standard of deferred payments.

7. The process of money creation is based on the assumptions that: 3)

- entire banking system is a single unit.
- all transactions are routed through the bank only.

When a commercial bank receives initial/primary deposits (say ₹ 1,000), as per the requirement of the Central Bank, it has to maintain some reserves. The remaining amount is made available for loans. The lent sum of money is received back in the next round of deposits as secondary deposits. This process of deposit, reserve and lending continues till initial deposits become equal to the sum total of reserves.

Round	Deposits	Loans	Reserves (20%)
1	1000	800	200
2	800	640	160
3	640	512	128
...
...
Total	5000	4000	1000

$$\begin{aligned}
 \text{Total deposit creation} &= \text{Initial deposits} \times \frac{1}{\text{Reserve Ratio}} \\
 &= 1000 \times \frac{1}{0.2} \\
 &= ₹ 5,000
 \end{aligned}$$

Hence total deposits of Rs. 5000/- are created.

8. (i) The above image indicates the situation of inflation. 4)

- (ii) To combat the situation of inflation, the two steps taken by the Reserve Bank of India (RBI) may be:
- The Government Securities are sold by the RBI in the open market. It will reduce the availability of funds with commercial banks, which in turn curtails their lending capacity. Consequently, the money supply in the economy falls. Thereby, decreasing Aggregate Demand and thus reducing inflation in the economy.
 - The increase in the Bank Rate by the RBI, leads to an increase in the lending rates by the commercial banks. This makes borrowing costlier for the general public. Thereby, discouraging them from borrowing more. As a result, Aggregate Demand in the economy falls, consequently reducing inflation.

9. (i) Interest received on loan is a revenue receipt because it neither creates any liability nor causes reduction in assets of the government. 4)

(ii) Disinvestment receipts from sale of a government company are capital receipts as it causes a reduction in assets of the government.

(iii) Financial assistance by the Government of USA for promoting girl education in India is a revenue receipt as it neither creates any liability nor causes a reduction in assets of the government

(iv) Corporate tax: Revenue receipt as it neither creates a liability nor reduces assets of the government.

10. (a) Direct taxes are those taxes whose impact and incidence lies on the same entity. 3)
In other words, the liability of paying direct taxes can't be shifted. For example: income tax.

Whereas;

Indirect taxes are those taxes whose impact and incidence may lie on different entities.
In other words, the liability of paying indirect taxes can be shifted. For example: GST.

(b) (i) Revenue Deficit = Revenue expenditure – Revenue receipts 3)

$$3700 - 3200 = 500$$

Revenue Deficit = 500 Answer

(ii) Fiscal Deficit = Total Expenditure – Total Receipts net of borrowings

Revenue deficit + Capital Expenditure – Non-Debt creating capital receipts

$$500 + 500 - (145 + 120)$$

$$500 + 500 - 145 - 120$$

$$500 + 500 - 265$$

Fiscal Deficit = 735 Answer
