B.K. BIRLA CENTRE FOR EDUCATION

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

TERM – I EXAMINATION (2025-26)
ECONOMICS

Class: XII **Time: 3 hrs**
Date: 10.09.25 **Max Marks: 80**
Admission no: **MARKING SCHEME** **Roll no.:**

---

1. (B) a straight line parallel to x-axis 1)

2. (C) 100 1)

3. (B) Statement 1 is false and Statement 2 is true. 1)

4. (D) (i), (iii) and (iv) 1)

5. (B) Statement 1 is false and Statement 2 is true. 1)

6. (B) Statement 1 is false and Statement 2 is true. 1)

7. (D) Net Indirect Taxes, subtracted 1)

8. (A) Resources are fully and efficiently utilised. 1)

9. (A) (i) and (iv) 1)

10. (B) Income generated from smuggling 1)

11. (C) 6.5, 125 1)

12. (B) Reserve Bank of India 1)

13. (C) Both Statements 1 and 2 are true. 1)

14. (B) loans provided by them create deposits. 1)

15. (C) Managed floating 1)

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

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

18. (B) increasing the bank rate 1)

19. (C) Value of output 1)

20. (C) 1000, 3200, 25000, 20000 1)

21.(A) Steps: **3)**

1. **Gross Investment (GDCF)** = Gross domestic fixed capital formation + Inventory investment
   = 200 + (−40) = **160**
2. **GDP at MP** = C + G + I + (X − M)
   = 470 + 320 + 160 + (50 − 60) = **940**

3. NDP at MP = GDP at MP − Depreciation
= 940 − 35 = **905**

4. NDP at FC = NDP at MP − Net Indirect Taxes
= 905 − 50 = **855 crores**
(NFIA is ignored because we need **domestic**, not national.)

OR

(B) (i) Externalities refer to benefits/harms which are caused by one entity to another without being paid/ penalised for it. 2)
For example: Newly developed public park

(ii) Compensation of employees is the total rewards, including monetary and non-monetary, that employees receive in exchange for their work and contributions to an organization. It aims to attract, retain, and motivate talented individuals by aligning their efforts with the organization's objectives. 1)

22. Steps: **3)**

1. Value of output = Sales + Change in stock = 1000 + 150 = **1150**.
2. Gross Value Added at MP = Value of output − Intermediate consumption = 1150 − 300 = **850**.
3. Gross Value Added at FC = 850 − Net indirect taxes (20) = **830**.
4. Depreciation = Gross investment − Net investment = 100 − 80 = **20**.
5. Net Value Added at FC = 830 − 20 = **810 crores**.

23. (A) Yes, I **agree** with the statement. 3)
The **Reserve Ratio (RR)** and **Credit Creation** are **inversely related** because:

Credit Multiplier (CM) = $\frac{1}{RR}$

When the Reserve Ratio increases, the Credit Multiplier decreases, leading to **less credit creation**.
When the Reserve Ratio decreases, banks can lend more, so **credit creation increases**.
Example:
When RR is **20%**, total credit is **50,000**. Initial Deposit is Rs. 10000/-
When RR is **10%**, total credit is **1,00,000**. Initial Deposit is Rs. 10000/-
Thus, **higher reserve ratio → lower credit creation** and **lower reserve ratio → higher credit creation**.

OR

(B) When inflation is high, there is **too much money in circulation**. To curb inflation, the **Reserve Bank of India (RBI)** uses monetary policy tools to **absorb liquidity** from the economy.

1. **Reverse Repo Rate Operation:**
   - RBI increases the **reverse repo rate**.
   - Banks now earn a better return for parking their surplus funds with RBI.
   - This makes it more attractive for banks to keep money idle with RBI rather than lend.
2. **Liquidity Absorption:**
   - Money parked with RBI reduces **liquidity** in the market.
3. **Inflation Control:**
   - With **lower money supply**, aggregate demand falls, helping to stabilize prices.

24. (i) The Reserve Bank of India (RBI) as the banker to the government maintains account, accepts receipts and makes payments, carries out exchange, remittance, and other banking operations. 3)

(ii) The Reserve Bank of India advances loans to the government to meet its requirements, in case of financial crisis. Thus, the Reserve Bank of India facilitates the same banking functions for the government just as the commercial banks do for the general public.

25. Identify the Final Goods and Services: **4)**

Only **final goods and services** produced within the domestic territory in a year are considered to avoid double counting.

1. **Classify and Sum Up Final Expenditures:**
   Calculate expenditure under these heads:
   - **Private Final Consumption Expenditure (C):** Spending by households and NPISHs on goods & services.
   - **Government Final Consumption Expenditure (G):** Spending by the government on goods & services for public welfare.
   - **Gross Domestic Capital Formation (I):** Investment in fixed capital, inventories, and residential construction.
   - **Net Exports (X − M):** Exports minus imports of goods and services.
2. **Add All Expenditures:**
   GDP at MP = C+G+I+(X−M)

   Adjust for Depreciation and Net Indirect Taxes:

   - **Subtract Depreciation** to get **NDP**.
   - **Subtract Net Indirect Taxes (NIT)** to get **NDP at Factor Cost + NFIA**
   - **= (National Income)**.

OR

Double counting means **counting the value of a good or service more than once** while estimating National Income.
It happens when the value of **intermediate goods** (used to produce final goods) is added along with the value of the **final goods**, inflating National Income artificially.

Example:

- A farmer sells wheat to a flour mill for □500.
- The mill makes flour and sells it to a baker for □800.
- The baker sells bread to consumers for □1,000.
  If we add □500 + □800 + □1,000 = □2,300, we **overestimate** income.
  Correct value is □**1,000** (the final product's price).

Ways to avoid double counting.

1. **Final Product Method:**
   - Include **only the value of final goods and services** produced in the economy.
2. **Value Added Method:**
   - Add **value added at each production stage** (output − intermediate consumption).
   - For the example:
     - Farmer's value added = □500
     - Mill's value added = □300 (□800 − □500)
     - Baker's value added = □200 (□1,000 − □800)
     - Total = □500 + □300 + □200 = □1,000

26. i) Gift received from employer: A gift received from an employer **is included** in national income 4)
because it is considered a part of the employee's compensation for services rendered and is classified as a factor income, not a mere transfer payment.

ii) Profits earned by a branch of a foreign bank in India are not included in India's national income because they are considered "factor income to abroad"—these profits ultimately belong to and are transferred to the foreign parent company, not to residents of India.

iii) Payment of fees to a lawyer engaged by a firm is not included in national income because it is treated as intermediate expenditure, not final output.
iv) Dividend received by an Indian firm from its investment in shares of a foreign company is included in national income. This is because it is considered as "factor income from abroad"—specifically, income earned by Indian residents from foreign sources—which is added to domestic income when calculating the national income of India.

27. Yes, devaluation and depreciation of currency may lead to fall in the value of domestic currency in relation to foreign currency. This may result in promotion/reduction of exports/imports, as the domestic/foreign goods become relatively cheaper/costlier. 4)
Hence, both devaluation and depreciation of currency have the same implications. However, devaluation of currency originates due to the actions taken by the government while depreciation of currency is caused by the market forces of demand and supply.

OR

A Current Account Deficit (CAD) means a country is importing more goods, services, and capital than it exports, resulting in an outflow of domestic currency to foreign markets.

Meaning of Current Account Deficit

The current account is a major part of a country's balance of payments, including trade in goods/services, income from investments, and transfers (like remittances).
A deficit occurs when the total value of imports and outflows exceeds exports and inflows, showing that the nation spends more overseas than it earns from abroad.

Reasons Behind Narrowing Down of Current Account Deficit

- Increase in Exports: Boosting the export of goods and services increases foreign earnings, reducing the gap between inflows and outflows.
- Decrease in Imports: Reducing non-essential imports (such as gold, electronics) directly lowers outflows, narrowing the deficit.
- Lower Commodity Prices: Declining global prices for key imports (like oil) help reduce the overall import bill, thereby improving the current account balance.
- Stable Currency: A stable or appreciating domestic currency can make imports cheaper and also reflects investor confidence, sometimes resulting in a smaller deficit.
- Increase in Remittances or Investment Income: Higher remittances from abroad or better earnings from overseas investments add to inflows, helping narrow the CAD.
- Government Policies: Implementation of tariffs, import restrictions, or incentives for domestic industries can diminish dependence on foreign goods and promote export-oriented growth, narrowing the deficit.

A narrowing CAD often signals improving economic fundamentals, better export performance, successful policies targeting import substitution.

28. (I) FPI inflows of US$ 32.4 billion are recorded in the capital account under the portfolio Investment sub-account. 3)
This appears on the credit side reflecting an inflow of capital from abroad into India's financial markets.

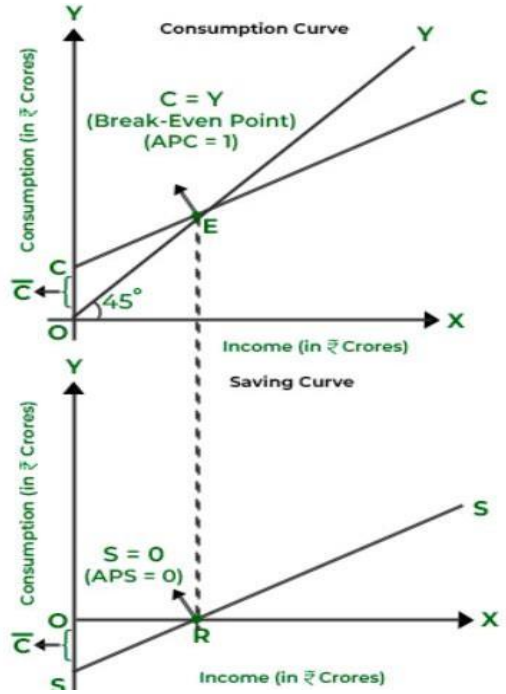
1. Portfolio Investment: FPI refers to investments in equity and debt securities of an economy by foreign investors without seeking control. Such transactions are explicitly classified under the portfolio investment sub-account of the capital account.
2. Credit Side Entry: When foreign investors bring capital into the country (net inflows), it is a receipt for the domestic economy, so it is recorded as a credit in the capital account.

(II) A Balance of Payments Deficit means that a country's total payments to the rest of the world exceed its total receipts from them during a specific period. In simple terms, it occurs when a nation imports more goods, services, and capital than it exports, resulting in more money flowing out of the country than coming in. 1)

29. Y = C + S, which means that as Consumption and Savings together make up income, the consumption 4) curve and saving curve are complementary curves. Therefore, it is possible to derive the saving curve from consumption curve and consumption curve from saving curve.
Let us derive saving curve from consumption curve.

For this, first of all, draw a consumption curve CC with OC as autonomous consumption and a 45° line OY representing the income curve as shown in the below graph. The point where the consumption curve CC and income curve OY intersects is the break-even point; i.e., Point E. At this point Consumption is equal to Income and Average Propensity to Consume is one.

At zero income level, OC is the autonomous consumption ($\bar{c}$)($\bar{c}$), which means that savings ($-\bar{c}$)($-\bar{c}$) at zero income level will be OS. Therefore, the savings curve will start from point S on the negative Y-axis because, at zero level of income, savings are negative. Now the point where the CC curve and OY curve intersects; i.e., point E is the break-even point. It means that at this point C = Y, APC = 1, and Savings = 0. Therefore, the savings curve will intersect the X-axis at point R. Now, join the points S and R and extend it further to get the Saving Curve SS.



OR

(I) Break-even Level of Income for Economy A

- Consumption function: $\boxed{C=\bar{c}+MPC\times Y}$
- At break-even, Y=C $Y=C$ (since saving S = 0).
- For Economy A:

  MPC=0.6, $\boxed{\bar{C}}$ =□40 crore.

Calculation:
Set C=Y
$\boxed{Y=40+0.6Y}$
$\boxed{Y-0.6Y=40}$
$\boxed{0.4Y=40}$
$\boxed{Y=40/0.4 \quad =100}$
Break-even income for Economy A: □ 100 crore.

(II) Equilibrium Level of Income for Economy B

Equilibrium condition:

Y=C+I

Consumption function for B:

MPC=0.8, $\bar{c}$ = □40 crore, I = □100 crore.

Calculation:

Consumption:

C=40+0.8Y

Y=(40+0.8Y)+100

2Y=1400 Y = 700

Equilibrium income for Economy B: □ 700 crore.

30. Increase in Investment (ΔI) = □1,000 crore 4)

Marginal Propensity to Save (MPS) = 0.20

Marginal Propensity to Consume (MPC) = 1−MPS= 1−0.20= 0.80

Multiplier (k):

K = $\frac{I}{MPS}$ = 5

Change in National Income (ΔY) = K. ΔI = Rs. 5000/-

Explanation of the Working Process:

1. **Initial Investment Injection:**
   - The government increases **capital investment** by □1,000 crore in infrastructure and productive capacity.
2. **First Round of Income Creation:**
   - This □1,000 crore becomes **income** for workers, contractors, and suppliers involved in the projects.
3. **Consumption Spending:**
   - With MPC of 0.8, people spend **80% of their new income** (□800 crore), creating additional demand.
4. **Successive Rounds:**
   - This spending becomes income for others, who in turn spend 80% again, and so on.
   - The process continues, but each round of spending gets **smaller** due to savings (MPS = 0.20).
5. **Total Impact:**
   - The multiplier effect magnifies the initial □1,000 crore investment to **□5,000 crore increase in National Income**.
   - This boosts **growth and employment** significantly.

31. (A) 4)

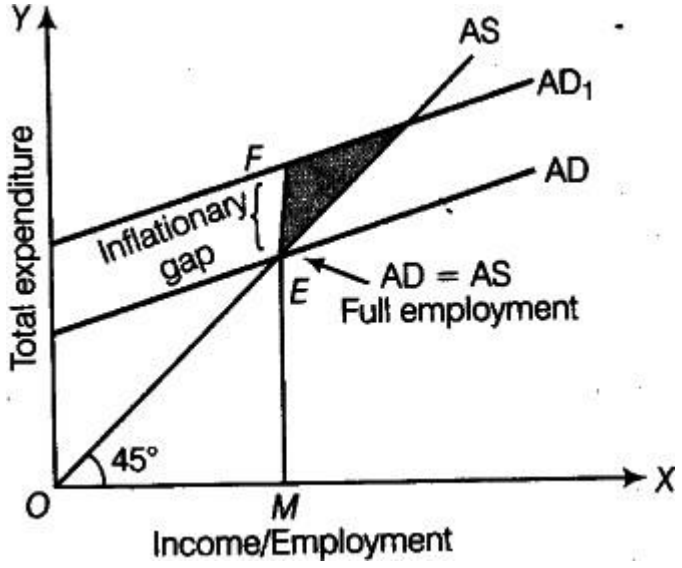
Income (Y) □Crore	Saving (S) □Crore	APC	MPS
0	–30	–	–
100	**0**	1.00	**0.30**
200	**30**	0.85	**0.30**
300	**60**	0.80	**0.30**

C=30+0.70Y Consumption Function at Income level Rs. 200 crores.

(B) The 45° line depicts all combinations where aggregate demand (expenditure) and aggregate supply (output/income) are equal—that is, every point on the satisfies Y=AE or Y=C+S (where Y is income and AE is aggregate expenditure). 2)

Its slope is one because both axes (income and expenditure) are measured in the same units, making it a direct comparison line.

32. (A) An inflationary gap is the amount by which actual aggregate demand exceeds the level needed for full employment in an economy, causing upward pressure on prices. It is the excess of actual output over potential output at the full employment level, reflecting too much spending chasing too few goods. 4)



Policy Measures to Reduce Inflationary Gap

One Monetary Measure

Increase the repo rate or interest rates: By making borrowing costlier, this reduces consumer and business spending, thereby lowering aggregate demand.

One Fiscal Measure

Increase taxes or reduce government spending: Raising taxes or cutting public expenditure directly reduces disposable income and overall demand, helping close the gap.

(B) $C = \bar{c} + MPC(Y)$ 2)

$= 400 + 0.8(Y)$

OR

(A) The statement is refuted. 3)

When planned demand is less than planned supply, firms cannot sell all their output.

This results in an increase in unintended inventories, signalling firms to cut back production to restore equilibrium.

Hence, the statement that a fall in AD relative to AS results in a fall in unintended inventories is incorrect; it actually leads to a rise in unintended inventories.

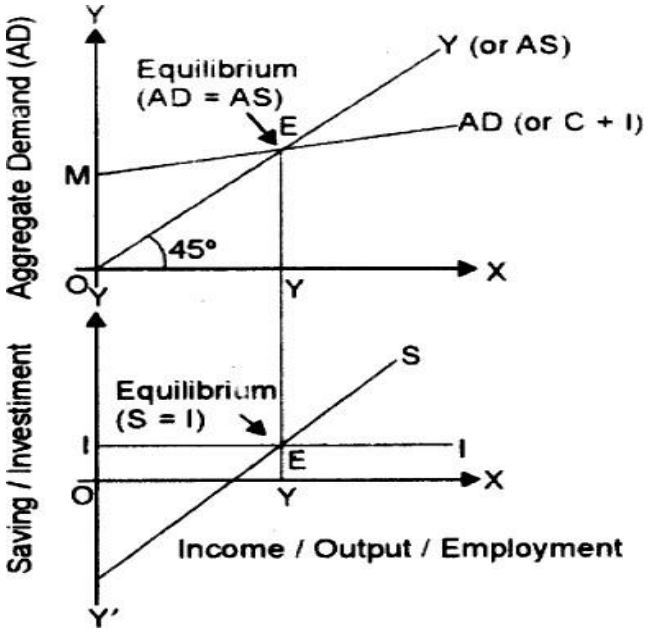
(B) . National income determination through the Saving-Investment approach is explained by the equilibrium condition where planned saving (S) equals planned investment (I). This equality determines the level of national income or output in the economy. 3)

Saving is considered a withdrawal from the income stream, while investment is an injection into the income stream.

When planned investment exceeds planned saving, it means more money is injected into the economy than withdrawn, leading to an increase in national income.

When planned saving exceeds planned investment, more money is withdrawn than injected, causing a decrease in national income.

The equilibrium national income occurs at the point where saving equals investment; here, total withdrawals equal total injections, so income remains stable.



33. i) i) Interest received on loan - **Revenue Receipt** 6)

Regular income, no liability or asset reduction

ii) Disinvestment receipts from sale of company - **Capital Receipt**

Sale of assets, reduces government assets, non-recurring

iii) Financial assistance from Government of USA for promoting girl child. **- Revenue Receipt**

Grants aid with no liability, used for current expenditure

34. (A) **3)**

Basis of Difference	Direct Tax	Indirect Tax
Definition	A tax that is **directly levied on an individual's or firm's income and wealth** and is **paid by the same person on whom it is imposed**.	A tax that is **levied on goods and services** and is **paid indirectly by consumers via sellers**.
Burden of Tax	The burden **cannot be shifted** to another person; the taxpayer and the tax bearer are the same.	The burden **can be shifted**; the seller collects it from buyers and pays it to the government.
Nature	Progressive in nature (higher income → higher tax rate).	Regressive in nature (affects all consumers equally, regardless of income).
Examples	Income Tax, Wealth Tax, Corporate Tax, Property Tax.	GST (Goods and Services Tax), Excise Duty, Customs Duty, Sales Tax.

(B) The government uses the budget as a tool to promote social and economic justice by redistributing income through: 3)

1. Progressive Taxation
   - The government imposes progressive taxes (higher tax rates on higher income groups).
   - This ensures that the rich contribute a larger share of their income as taxes.
   - Example: Higher income slabs in Income Tax attract higher tax rates.
2. Subsidies and Welfare Schemes
   - The revenue collected from taxes is used to provide subsidies, free education, health care, food security, housing, and other welfare benefits to lower-income groups.
   - This raises their standard of living and narrows income inequality.
3. Public Expenditure
   - Government spends more on social and rural development projects, job creation, and infrastructure that benefit the poor, thereby redistributing resources.

OR

(I) Step 1: Calculate Revenue Deficit **4)**

Revenue Deficit = Revenue Expenditure - Revenue Receipts
Where,
Revenue Receipts = Tax Receipts + Non-Tax Receipts
Revenue Receipts=1200+2000=3200
Revenue Deficit=3700−3200 = 500 crore Answer

Step 2: Calculate Fiscal Deficit
Fiscal Deficit = Total Expenditure - Total Receipts (excluding borrowings)
Total Expenditure = Revenue Expenditure + Capital Expenditure
Total Receipts (excluding borrowings) = Revenue Receipts + Recovery of Loans + Disinvestment

Calculate total expenditure: 3700 + 500 = 4200

Calculate total receipts excluding borrowings:
3200 + 145 + 120 = 3465

Fiscal Deficit: 4200 – 3465 = 735 crore

(II) Understanding Fiscal Deficit **2)**

1. A **fiscal deficit** happens when a government's **expenditure exceeds its revenue (excluding borrowings)**.
To cover this gap, the government **borrows money** (from the public, banks, or the central bank) or **prints more currency**.

2. Deficit Financing by Printing Money (Monetisation of Deficit)
If the government borrows from the **central bank**, the bank may print new money.
This **increases money supply**, reducing the currency's value → **inflationary pressure.**

3. Crowding Out & Higher Costs
Heavy government borrowing can push interest rates up, raising costs for private producers.
Producers might pass on higher costs to consumers, leading to cost-push inflation.

**********All The Best**********