



B.K BIRLA CENTRE FOR EDUCATION
CLASS XII
ECONOMICS
MIDTERM EXAMINATION
ANSWER KEY



1. (c) (i), (iii) and (iv) 1)
2. (a) Deflationary gap and under-employment equilibrium 1)
3. (a) (i) and (iii) 1)
4. (a) Secondary deposits 1)
5. (c) Statement 1 is true and Statement 2 is false 1)
6. (b) 10.0 1)

OR

- (b) one, infinity
7. (d) Assertion (A) is false but Reason (R) is true. 1)
8. (a) $C = 30 + 0.75Y$ 1)
9. (d) income earners 1)
10. (d) Assertion (A) is false but Reason (R) is true. 1)
11. a) Both the statements are true 1)

12. When ex-ante Aggregate Demand is more than ex-ante Aggregate Supply, it means 3)
that households are planning to consume more than what the firms expect them to. This will lead to unintended fall in inventories. To restore the desired/intended level of inventories, producers may expand production. As a result, there may be an increase in the level of output, employment and income in the economy. Price level will not change until the full employment level is reached. However, if ex-ante Aggregate Demand becomes more than ex ante Aggregate Supply, corresponding to the full employment level, there will be rise in general price level, called 'demand pull inflation' (aggregate demand induced rise in the price level).

13. At equilibrium level of income $Y = C+I$ 3)
 $Y = (100 + 0.75Y) + 200$
 $0.25Y = 300$ ' $Y = 1,200$
At the Equilibrium level of income, $AD = Y$.. **AD = 1,200**

- 14.(i)** False. Dividend received from investment abroad is recorded on the credit side 3)
of current account, as neither assets nor liabilities of the country get affected.
- (ii)** True. Depreciation of the Indian currency will lead to promotion of Indian exports. As Indian exports become relatively cheaper for the rest of the world, thereby increasing the international competitiveness of Indian exports.

OR

Autonomous transactions are those international economic transactions which are independent of the state of Balance of Payments (BOP). These transactions generally take place with 'economic motive'. These transactions are called 'above the line transactions in the Balance of Payments account.

Whereas; Accommodating transactions are those international economic transactions which are undertaken (by competent authorities) to cover the surplus or deficit in Balance of Payments. These transactions are independent of any economic motive and are called 'below the line transactions in the Balance of Payments account.

15. The working of multiplier is based on the fact 'one's expenditure is other's income'. 4)

Given, the increase in investment is 4,000 crores and Marginal Propensity to Consume is 0.5: The table shows that an increase in investment of 4,000 crores leads to a total increase of 8,000 crores

Working note:

$$K = 1/(1 - MPC) = 1/(1 - 0.5) = 1/0.5 = 2$$

$$K = \Delta Y / \Delta I \Rightarrow 2 = \Delta Y / 4000 \Rightarrow \Delta Y = 8000$$

Rounds	ΔI	ΔY	ΔC	ΔS
1	4000	4000	2000	2000
2	--	2000	1000	1000
3	--	1000	500	500
Total	4000	8000	4000	4000

16. Possible Budgetary Incentives: Budgetary incentives refer to concession in taxation 4)

and granting subsidies to those production units which set up their units in economically backward areas. Tax concessions aim at reducing cost and thus raising profits. Subsidies aim at reducing prices of products to encourage sales and earning more profits. Clearly, tax concessions and subsidies both aim at raising profits. Reasons for giving tax concession and subsidies by the government:

(i) Economic Growth: The aim of giving tax rebates and subsidies for productive ventures and projects is that it can stimulate savings and investments in the economy leading to economic growth.

(ii) Allocation of resources: Government can influence allocation of resources by encouraging industries to produce selected goods by giving tax concessions and subsidies. Excise duty Indirect tax

OR

Indirect tax is a tax where the payer and the bearer of the tax are different people. Income tax (i) Direct tax Direct tax is a tax where the payer and bearer of the tax is the same person. Besides the objective of raising more revenue, the proposals also serve some welfare objectives: Allocation of resources: Raising excise duty on cigarettes will make them more expensive. The price rise is expected to discourage cigarette smoking, which will positively impact the health of people and raise their welfare. (i) Redistribution of income: Raising income tax on income above 1 crore will reduce the gap between the rich and poor people. In other words, income inequalities will reduce. The revenue raised from these proposals could be spent on health, education, etc. to improve the welfare of the poor.

17. (i) Fiscal Deficit = (iii) + (ii) - (iv) 2)
= 10 + 15 - (50/100 × 20) = **15 crore**

(ii) Primary Deficit = Fiscal Deficit - (v) = 15 - 4 = **11 crore** 2)

18. (a) The two monetary policy measures (Repo rate and Reverse repo rate) 3)
mentioned in the above text are of quantitative nature.

(b) The Monetary Policy Committee of Reserve Bank of India raised the repo rate by 2)
50 basis points.

(c) To deal with the situation of inflation, the Monetary Policy Committee (MPC) 1)
of Reserve Bank of India has increased the repo rate.

19. (a) In the given situation of deficient demand, an increase in the exemption 3 + 3)
limit by the Government would lead to decrease in the tax burden on the households, resulting an
increase in disposable income. Thus, Aggregate Demand (AD) will increase and deficient demand will
be managed accordingly.

(b) Given, MPS = 0.2; Y = C = 10,000 (:: At Break Even Point Y = C)

As we know, MPC + MPS = 1 MPC = 1 - 0.2 = 0.8

C = C + b Y 10,000 = C + 0.8 (10,000) Autonomous Consumption (C) = 2,000 crores

20. (a) Current Account Deficit (CAD) refers to excess of payments for value of import 3 + 3)
visible items, invisible items and unilateral transfers over the receipts from the value of export of visible
items (goods), invisible items (services) and unilateral transfers.
CAD signifies that the nation is a borrower from the rest of the world. the rest of the world.

Current Account Surplus (CAS) refers to excess of receipts from value of exports of visible items,
invisible items and unilateral transfers over payments for value of import of visible items, invisible
items and unilateral transfers. CAS signifies that the nation is a lender to the rest of the world.

(b) Managed floating is dirty floating. This is hybrid mode. When the rate of exchange is not within the
desired limits RBI intervenes to manage the float.

OR

(b) (i) The given statement is false as the Current Account of Balance of Payments 2 X 3
records unilateral transfers along with exports and imports of goods and services.

(ii) The given statement is false as the borrowings from abroad are recorded in the Capital Account of
Balance of Payments on the credit side as it results in an inflow of foreign currency in the economy.

(iii) True: As Indian exports become relatively cheaper for ROW, thereby increasing international
competitiveness of Indian exports.

INDIAN ECONOMY

- 21.** (a) India suffered from large trade deficit 1)
- 22.** a) Both the statements are true 1)
- 23.** (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 1)
- 24.** (c) Development of small scale industries 1)
- 25.** (d) iii, iv, i, ii 1)
- 26.** (d) Providing a platform for member countries to decide future tariff-related strategies. 1)
- 27.** (d) inadequate spread of vocational Education 1)
- 28.** (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 1)

OR

- (b) On the job training will reduce the skills of labour
- 29.** (c) (i) , (ii) and (iii) 1)

30. Investment in education system in India has been a woeful failure. The fact of the matter is that, in 1952 we were spending a meager 0.6% of our GDP on education that rose to only 4% in 2014. This has fallen well short of 6% target as proposed by the Education Commission, 1964. Moreover, throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall. This shows the apathy of the government towards investment in the education system. One can imagine, if the recommended 6% p.a. of the GDP would have been spent properly the present education system would have reached unforeseen heights. 3)

OR

The statement is correct.

Investment in human capital formation (investment in education and health) enhances efficiency productivity, skills ,capabilities implying economic growth.

Technical skills acquired through sources of human capital formation such as education, training and education sound health etc. provides opportunity to labour supply to make better use of given resources

Investment in education creates ability to adopt newer technologies, facilitates invention and innovation since educated workforce generally adapts to modern technologies and innovation.

- 31.** Human development is a broader term as compared to human capital. 4)
- (i) Human capital considers education and health as a means to increase labour productivity. On the other hand, human development t is based on the idea that education and health are integral to human well-being because only when people have the ability to read and write and the ability to lead a long and healthy life, they will be able to make other choices which they value.
- (ii) Human capital treats human beings as a means to an end; the end being the increase in productivity. In this view, any investment in education and health is unproductive if it does not enhance output of goods and services. In the human development perspective, human beings are ends in themselves. Human welfare should be increased through investments in education and health even if such investments do not result in higher labour productivity.

32. (i) Benefits of green Revolution

4)

- a) Stagnation in Indian agriculture broken down
 - b) Large scale increase in production
 - c) Self Sufficiency in food grains
 - d) Availability of financial resources and irrigation facilities
- (ii) Argument against pesticide and subsidies

It benefits the affluent states and does not benefit the target group.

Huge burden on the governments finances

33. Two steps taken on financial sector under the economic reforms of 1991 were 2 + 2)

(i): Change in the role of Reserve Bank of India RBI: The role of RBI was reduced from The role of regulator to facilitator of financial sector This means that financial sector was given greater autonomy (to take decisions) on many matters independent of RBI.

(ii) Origin of Private Banks: The reform process led to establishment of private sector banks of Indian as well as foreign origin.

(ii) a) Reasons for India as outsourcing destination: Availability of skilled manpower- India has vast skilled manpower which enhances the faith of MNCs for investment in India.)

b) Favourable Government policies- MNCs get various types of lucrative offers from the Indian government such as tax holidays, tax concessions etc.

OR

The given statement that Agriculture Sector was adversely affected by reform process is correct.

This can be supported with the following arguments:

(a) Reduction in public investment in agriculture sector: Public investment in agriculture sector especially in infrastructure like irrigation power, etc. has been reduced in the reform period.

(b) Removal of fertilizers subsidy: Removal of fertilizer subsidy has increased the cost of production affecting hereby the small and marginal farmers. The agriculture sector was adversely affected by the reform process in the following manner.

(c) Increased international competitiveness due to liberalisation and reduction of import duties.

(d) Shift from food crops to cash crops due to export-oriented policy in agriculture led to a rise in prices of food-grains.

34. a) (i) The private sector kept under state control through a system of licences. 3 + 3)

(ii) No new industry without a licence from govt.

Promoting industry in backward areas.

Such units given certain concessions such as tax benefits and electricity at a lower tariff.

Existing industry had to obtain a licence for expanding output or for diversifying production.

b) Small scale industries are labour intensive and generate more employment.

They are equality oriented. Promote regional equality

They are equity oriented. Income equality. Require small investment and avoids of concentration of economic power.

(5)

OR

- (i) This strategy was adopted to save foreign exchange and achieve self reliance . 3 + 3)
Industries of developing countries were not able to face stiff foreign competition. It was assumed that if these industries were protected, they would be able to face competition.
- (ii) India was a poor, stagnant and backward economy on the eve of independence.
There were heavy imports of foodgrains. There was a need to be self-reliant.
- a) self-sufficiency in food grains was required
 - b) import substitution was required
 - c) increase in exports was required
 - d) to avoid foreign dependence and foreign interference in economic conditions self-reliance was required.

*****end of paper*****