CBSE EXAMINATION PAPER-2025

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 94

General Instructions :

Read the following instructions carefully and follow them :

i. This question paper contains **40 questions.** All questions are **compulsory.**

ii. This question paper is divided into **5 sections.**

iii. **Section A** – questions number **1 to 2** are case based questions

iv. **Section B** – questions number **3 to 22** are multiple choice questions

v. **Section C** – questions number **23 to 28** are short answer type i

vi. **Section D** – questions number **29 to 36** are short answer type ii

vii. **Section E** – questions number **37 to 40** are long answer

viii. There is no overall choice given in the question paper. However, an internal choice has been provided in few questions.

ix. Use of calculator is NOT allowed.

Section A

Question 1.

Read the following text carefully :

The National-Level Multi-State Cooperative Society recently approved by the Union Cabinet for promoting organic production and exports, will help the farmers to increase their income manifold.

The arrangements for testing of land and selection of natural form of products will be set up in each district in the coming five years. Government has also decided to setup a cooperative society in all

Panchayats, which will ensure that the Central G reach the farmers. Wide use of urea has spoiled farm land, and lakhs of farmers have moved towards organic farming. To get better prices, there is a need for marketing and certification of such produce. Furthermore, steps must be taken to ensure that fake organic products do not hit the market.

On the basis of given text and common understanding, answer the following questions :

(1)

Define organic farming.

[1 Marks]

Answer: Organic farming is an agricultural methodology that emphasizes the use of natural inputs and sustainable practices to produce food in an environmentally friendly way. It avoids synthetic fertilizers, pesticides, and genetically modified organisms, focusing instead on maintaining soil health and biodiversity.

Key Points: Natural inputs - Sustainable practices - Avoids synthetic fertilizers and pesticides

(2)

State any two benefits of organic farming.

[2 Marks]

Answer: Organic farming offers several benefits, two of which are enhanced nutritional value and environmental sustainability. Studies have shown that organically grown food contains more nutrients compared to conventionally farmed produce, providing healthier options for consumers. Additionally, organic farming practices minimize the use of harmful pesticides, promoting a sustainable approach to agriculture that preserves soil health and protects the environment.

Key Points: Enhanced nutritional value-Environmental sustainability

(3)

Explain the steps taken by the government to promote organic product.

[3 Marks]

Answer: The government has taken several significant steps to promote organic farming in India. Firstly, it has approved the establishment of the National-Level Multi-State Cooperative Society, which aims to enhance organic production and exports, thereby increasing farmers' incomes. Additionally, arrangements for land testing and the selection of natural products will be implemented in every district over the next five years, ensuring that farmers have access to necessary resources and guidance. Furthermore, the government will set up cooperative societies in all Panchayats to facilitate the distribution of central resources directly to farmers, ensuring they benefit from government initiatives. Lastly, there are measures to ensure the marketing and certification of organic produce, which will help prevent counterfeit organic products from entering the market and safeguard the authenticity of organic farming.

Key Points: Establishment of National-Level Multi-State Cooperative Society - Arrangements for land testing and natural product selection in districts - Setting up of cooperative societies in all Panchayats - Marketing and certification of organic produce to prevent counterfeit products

Question 2.

Read the following text carefully:

The Union Budget 2025-26 introduces a series of measures aimed at strengthening the Micro, Small and Medium Enterprises (MSME) sector. It recognises the role of MSMEs as one of the key engines in India's journey of development, along with agriculture, investment and exports.

As a vital contributor to India's industrial landscape, the MSME sector plays a crucial role in manufacturing sector, exports and employment generation.

The new budgetary provisions aim to build on this strong foundation by fostering innovation, enhancing competitiveness and ensuring better access to resources.

Furthermore, the Government's ongoing initiatives like Udyam registration portal, PM Vishwakarma, PMEGP, SFURTI, and the Public Procurement Policy continue to demonstrate a combined effort towards integrating and empowering MSMES.

On the basis of given text and common understanding, answer the following questions:

(1)

MSMEs play a pivotal role in the India's journey of development Do you agree with the given statement?" Give valid reason in support of your answer.

[3 Marks]

Answer: Yes, I agree that MSMEs play a pivotal role in India's journey of development. The MSME sector significantly contributes to India's industrial landscape by fostering innovation and generating employment. With the ability to adapt quickly to market changes, they enhance competitiveness in the economy. Moreover, initiatives like Udyam registration and PMEGP make it easier for MSMEs to access resources, thus empowering them to contribute more effectively to the overall economic growth of the country.

Key Points: Contribution to employment generation-Importance in manufacturing sector-Fostering innovation and competitiveness

(2)

Explain key measures initiated by the Government for strengthening MSMEs.

[3 Marks]

Answer: The Government has initiated several key measures aimed at strengthening the MSME sector. Firstly, the Udyam registration portal has been established to simplify the registration process, providing MSMEs better access to government schemes and resources. Secondly, initiatives such as PM Vishwakarma and PMEGP focus on enhancing skills and providing financial support to small enterprises. In addition, the SFURTI scheme promotes the development of clusters, encouraging collective entrepreneurship and enhancing competitiveness. Lastly, the Public Procurement Policy ensures that a certain percentage of government purchases are reserved for MSMEs, thereby boosting their market presence and contributing to their sustainability and growth.

Key Points: Udyam registration portal- PM Vishwakarma initiative- PMEGP financial support- SFURTI cluster development- Public Procurement Policy

Section B

Question 3.

Read the following statements carefully:

Statement 1: Keeping other things constant, there exists positive correlation between the price of foreign exchange and its demand.

Statement 2: The foreign exchange rate indicates a country's purchasing power in international markets.

In the light of the given statements, choose the correct option from the following :

[1 Marks]

(A) Both Statements 1 and 2 are true.

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

(C) Both Statements 1 and 2 are false.

(D) Statement 1 is true and Statement 2 is false.

Explanation:

Statement 1 is false because a rise in the price of foreign exchange actually reduces demand for foreign exchange, as it increases the cost of purchasing foreign goods, leading to a decrease in imports. Statement 2 is true as it refers to the concept of purchasing power parity, indicating the significance of stable purchasing power in international markets.

Question 4.

Using the given information, complete the table:

(Choose the correct option)

[1 Marks]

	2014 – 2015	2016 – 2017
Nominal GDP	6·5	9
Real GDP	...(i)...	7·2
GDP deflator	100	...(ii)...

(A) 100, 6.5

(B) 6.5, 125

(C) 125, 100

(D) 125, 110

Explanation:

Find Real GDP for 2014–2015 (i) GDP Deflator=(6.5 /Real GDP)×100=100⇒6.5/Real GDP=1⇒Real GDP=6.5

Find GDP Deflator for 2016–2017 (ii)

GDP Deflator=(97.2)×100=1.25×100=125

(i) Real GDP (2014–15) = 6.5 (ii) GDP deflator (2016–17) = 125

answer 6.5, 125

Question 5. _____ releases data of money supply in India.

[1 Marks]

(A) Corporation Bank

(B) Reserve Bank of India

(C) Commercial Banks

(D) State Bank of India

Explanation: The correct answer is 'Reserve Bank of India' because it is identified as the monetary authority of the country that regulates the supply of money. The context specifically states that the RBI controls the money supply in India through various mechanisms, making it responsible for releasing data regarding the money supply.

Question 6.

Read the following statements Assertion (A) and Reason (R) carefully.

Choose the correct option from those given below :

Assertion (A): Shipping service provided by an Indian company to foreign companies will be recorded in current account of Balance of Payments (BOP).

Reason (R): Current account of Balance of Payments (BOP) does not alter the status of the asset or liabilities of the residents of India.

[1 Marks]

(A) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(B) Assertion (A) is false, but Reason (R) is true.

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

(D) Assertion (A) is true, but Reason (R) is false.

Explanation:

Assertion (A) is true because shipping services provided by an Indian company to foreign companies are treated as exports of services and are recorded in the current account of the Balance of Payments. **Reason (R) is also true** because current account transactions do not change the ownership of assets or liabilities. However, this reason does not directly explain why shipping services are recorded in the current account. Therefore, both statements are true, but Reason (R) is not the correct explanation of Assertion (A).

Question 7.

Commercial banks are regarded as money creators because:

(Choose the correct option)

[1 Marks]

(A) They purchase securities from the Central Bank.

(B) Loans provided by them create deposits.

(C) They regulate the lending rate in the economy.

(D) They act as a banker to the government.

Explanation: The correct option is 'Loans provided by them create deposits.' This is because when commercial banks lend money, they create new deposits in the borrower's account, effectively increasing the overall money supply in the economy. This process exemplifies how commercial banks contribute to money creation, as mentioned in the context where it states that banks can lend a portion of the deposits they hold, leading to an increase in total deposits.

Question 8.

Suppose, the consumption function is given as: C = 205 + 0.9 Y(where c= Total Consumption and Y = National Income) The value of Investment Multiplier (K) would be _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) 9.0

(B) 0.9

(C) 10.0

(D) 0.09

Explanation: To calculate the investment multiplier, we use the formula K = 1 / (1 - c), where c is the marginal propensity to consume (mpc). In this case, c = 0.9. Therefore, K = 1 / (1 - 0.9) = 1 / 0.1 = 10.0. Hence, the correct option is 10.0.

Question 9.

Marginal Propensity to Consume (MPC) exhibits the slope of _____ function.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Saving

(B) Production

(C) Cost

(D) Consumption

Explanation: The correct option is 'Consumption'. The Marginal Propensity to Consume (MPC) measures the change in consumption (△C) resulting from a change in income (△Y). Therefore, it reflects the relationship between consumption and income, which is the slope of the consumption function.

Question 10.

Read the following statements carefully:

Statement 1: Open Market Operations refers to purchase/sale of Government Securities (G-Sec) by the Central Bank.

Statement 2: To decrease money supply, Central Bank will sell the Government Securities to commercial banks.

In the light of the given statements, choose the correct option from the following :

[1 Marks]

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

(B) Both Statements 1 and 2 are false.

(C) Both Statements 1 and 2 are true.

(D) Statement 1 is false and Statement 2 is true.

Explanation: Statement 1 is true because Open Market Operations indeed involves the buying and selling of Government Securities by the Central Bank. Statement 2 is also true since to decrease the money supply, the Central Bank sells Government Securities, which results in a reduction of reserves in the economy. Therefore, the correct option is 'Both Statements 1 and 2 are true.'

Question 11.

Aggregate expenditure in the economy during an accounting year is also known as _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Aggregate supply

(B) Aggregate demand

(C) Induced investment

(D) Autonomous investment

Explanation: The correct option is 'Aggregate demand'. Aggregate expenditure represents the total spending in an economy, which includes consumption and investment. This corresponds directly to the concept of aggregate demand, as it reflects the total demand for goods and services at different levels of income, as detailed in the provided context.

Question 12.

The 45° line in Keynesian economics indicates _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Income > Consumption

(B) Consumption > Income

(C) Savings > Investments

(D) Income = Consumption

Explanation: The correct option is 'Income = Consumption.' In Keynesian economics, the 45° line represents the point where income and consumption are equal, indicating that all of the income is being used for consumption and none is being saved. This is consistent with the context provided, which discusses consumer income and how it affects consumption choices.

Question 13.

Identify, which of the following is not a feature of physical capital. (Choose the correct option)

(i) Tangibility

(ii) Tradability

(iii) Immobility

[1 Marks]

(A) (i), (ii) and (iii)

(B) (i) and (iii)

(C) (i) and (ii)

(D) (ii) and (iii)

Explanation:

The correct option is (ii) and (iii). Immobility is not a feature of physical capital because physical capital is generally mobile between countries. Tradability is also a feature of physical capital since it can be easily sold in the market. Therefore, the characteristics of immobility and tradability do not apply to physical capital.

Question 14.

Prime beneficiary of the Minimum Support Price (MSP) fixed by the government is _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Farmer

(B) Labourer

(C) Consumer

(D) Trader

Explanation:

The correct answer is 'Farmer' because the Minimum Support Price (MSP) is a policy instrument aimed at protecting the income of farmers by ensuring they receive a guaranteed price for their crops. This is explicitly mentioned in the context provided, which highlights that MSP is designed to benefit farmers by stabilizing their incomes.

Question 15.

Identify, the incorrect feature associated with the formal sector of employment in any economy. (Choose the correct option)

[1 Marks]

(A) Irregular payments

(B) Social security benefits

(C) Fixed working hours

(D) Job security

Explanation: The incorrect feature is 'Irregular payments'. In the formal sector, workers typically receive regular and timely payments, unlike in the informal sector where payments can be irregular. The context emphasizes that formal sector workers enjoy job security, fixed working hours, and social security benefits.

Question 16.

Read the following statements carefully :

Statement 1 : In order to address the problem of water and air pollution in India, the Government of India had established the Central Pollution Control Board (CPCB).

Statement 2 : Deforestation leads to the permanent destruction of indigenous forests.

In the light of the given statements, choose the correct option from the following :

[1 Marks]

(A) Both Statements 1 and 2 are true.

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

(C) Both Statements 1 and 2 are false.

(D) Statement 1 is true and Statement 2 is false.

Explanation: Both Statements 1 and 2 are true. The Central Pollution Control Board (CPCB) was indeed established by the Government of India in 1974 to tackle water and air pollution, as mentioned

in the context. Additionally, deforestation does lead to the permanent destruction of indigenous forests, which is a widely recognized environmental issue. Thus, both statements correctly address their respective environmental concerns.

Question 17.

Modernization is an important economic planning objective that focuses on _____. (Choose the correct option to fill in the blank)

(i) Adoption of innovative technology

(ii) Bringing positive change in social outlook

(iii) Equal distribution of income and wealth

(iv) Abolition of intermediaries

[1 Marks]

(A) (i) and (iii)

(B) (i) and (iv)

(C) (i), (iii) and (iv)

(D) (i) and (ii)

Explanation: The correct answer is (i) and (ii). Modernization involves the adoption of innovative technology (i), which is essential for increasing productivity, as mentioned in the context. Additionally, bringing about a positive change in social outlook (ii) is also crucial as modernization should aim to improve the overall quality of life, not just technological growth. The excerpt emphasizes that high growth and modern technology alone do not guarantee improved living conditions for the people, highlighting the importance of social factors in modernization.

Question 18.

Recently, India hosted and chaired the summit of _____ one of the regional and economic groupings.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) G8

(B) SAARC

(C) ASEAN

(D) G20

Explanation: India recently hosted and chaired the summit of the G20, which is a prominent global regional and economic grouping consisting of major world economies. While options like ASEAN and SAARC are regional groupings in Asia, and G8 is an older group largely replaced by G20, the context and recent global events indicate that India chaired the G20 summit.

Question 19.

Under _____ unemployment the marginal productivity of a worker is equal to zero.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Disguised

(B) Involuntary

(C) Seasonal

(D) Structural

Explanation: The correct option is 'Disguised' unemployment. In disguised unemployment, more workers are employed than necessary for the production process, leading to a situation where the marginal productivity of additional workers becomes zero. This concept is illustrated by the example of a farmer employing more workers than needed, resulting in no net increase in output.

Question 20.

_____ is one of the demographic indicators in which Pakistan is ahead of India and China.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Urbanisation

(B) Population density

(C) Fertility rate

(D) Sex ratio

Explanation: The correct answer is 'Fertility rate'. According to the context, the fertility rate is very high in Pakistan compared to China, which has a low fertility rate due to policies like the one-child norm. This clearly shows that Pakistan is ahead of both India and China in terms of fertility rates.

Question 21.

Outsourcing from India has become more intensified in recent times due to the expansion of the _____ sector. (Choose the correct option to fill in the blank)

[1 Marks]

(A) Information Technology

(B) Construction

(C) Manufacturing

(D) Agriculture

Explanation:

The correct option is 'Information Technology' because the context highlights the growth of the IT sector as a major factor in the intensification of outsourcing from India, which has facilitated efficient communication and numerous outsourcing services to developed countries.

Question 22.

Suppose the percentage of casual workers rises in an economy as compared to the regular workers. This situation may be known as _____ of workforce. (Choose the correct option to fill in the blank)

(i) Formalisation

(ii) Casualisation

(iii) Unemployment

[1 Marks]

(A) (i) and (ii)

(B) only (ii)

(C) only (i)

(D) (ii) and (iii)

Explanation: The correct option is (ii) Casualisation. According to the provided context, the process of moving from self-employment and regular salaried employment to casual wage work is explicitly referred to as the casualisation of the workforce. This indicates a rise in the percentage of casual workers compared to regular workers.

Section C

Question 23.

Calculate the value of 'Sales' from the following data:

[3 Marks]

S. No.	*Particulars*	*Amount (in ₹ lakh)*
(i)	Subsidies	200
(ii)	Operating surplus	500
(iii)	Opening stock	100
(iv)	Closing stock	600
(v)	Intermediate consumption	3,000
(vi)	Consumption of fixed capital	700
(vii)	Profits	750
(viii)	Net Value Added at Factor Cost (NVA_{FC})	2,000

Answer:

Calculate Value of Output

- Net Value Added at Factor Cost (NVA_{FC}) = ₹2,000 lakh
- Consumption of Fixed Capital (CFC) = ₹700 lakh
- Intermediate Consumption = ₹3,000 lakh

Value of Output=2000+700+3000=₹5700 lakh

Apply Sales Formula

- Opening Stock = ₹100 lakh
- Closing Stock = ₹600 lakh

Sales=5700−600+100=₹5200 lakh

Key Points:

Sales=Value of Output−Closing Stock + Opening Stock

Where:

Value of Output=NVA FC + CFC+ Intermediate Consumption

Question 24.

State and explain any two precautions that must be taken while estimating national income by income method .

[3 Marks]

Answer: When estimating national income using the income method, two important precautions should be taken. First, it is crucial to ensure that double counting is avoided. This means that the value of production should only account for final goods and services, excluding intermediates to prevent inflation of figures. Secondly, proper adjustments for informal economic activities are essential. Many transactions occur outside official channels, and if unrecorded, they can lead to underestimations of national income. Taking these precautions helps in obtaining a more accurate national income figure.

Key Points: Avoid double counting by only including final goods and services; Adjust for informal economic activities to ensure accurate estimation

Question 25.

Identify and explain any one function of Central Bank as indicated in the image given below :

[3 Marks]



Answer: One of the key functions of a central bank, such as the Reserve Bank of India, is issuing currency. The central bank is responsible for producing and distributing the nation's banknotes and coins, which serve as legal tender. This function ensures that there is adequate currency in circulation to meet the demands of the economy. Additionally, the currency issued by the central bank is

considered high-powered money or reserve money, which forms the foundation for credit creation by commercial banks. The proper issuance of currency helps in maintaining price stability and confidence in the financial system.

Key Points: Issuance of currency - Legal tender - High-powered money - Foundation for credit creation - Price stability

Question 26.

Many economists believe that India paid a very heavy price for the British industrialisation, by becoming their feeder economy. Justify the given statement with any one valid argument.

[3 Marks]

Answer: One valid argument to justify that India paid a heavy price for British industrialisation is the structural transformation of its economy into a feeder for British industries. Under British rule, India was transformed into a supplier of raw materials, such as cotton, indigo, and jute, essential for British industries while being relegated to a consumer of British finished products. This led to the stagnation of India's own industrial sector, which required modernization and diversification, and resulted in the depletion of local resources and labor exploitation. The agricultural sector remained stagnant and unable to develop, further entrenching economic dependence and limiting India’s growth potential even after independence.

Key Points: Transformation into feeder economy; Supplying raw materials to Britain; Exploitation of agricultural and industrial sectors; Stagnation of local industries; Economic dependence limiting growth

Question 27.

Some economists argue that :

Post-1991 economic reforms, globalisation played a major role in poor performance of the industrial sector.

Present your arguments to justify the given statement.

[3 Marks]

Answer: The post-1991 economic reforms and globalisation have significantly impacted India's industrial sector, leading to its poor performance. The liberalisation allowed for cheaper imports, making domestic products less competitive. The shift towards a market-oriented economy caused public sector enterprises to lose focus and efficiency while private sector growth was not balanced with adequate support for small industries. As a result, many local industries struggled to survive against global competition, leading to stagnation and declining investment, especially in smaller enterprises. Moreover, the reforms did not adequately address the uneven benefit distribution across

sectors, exacerbating disparities and hindering sustainable industrial growth, particularly in rural and agrarian sectors.

Key Points: Impact of liberalisation on industrial competition-Cheaper imports affecting domestic products-Inefficiency in public sector and lack of support for small industries-Disparities in benefits across sectors-Need for balanced growth and investment

Question 28.

Critically appraise, infrastructural development in India during the British rule.

[3 Marks]

Answer: Infrastructural development in India during British rule saw notable advancements, particularly in the construction of railways, roads, ports, and telecommunication systems. The British established rail and road networks primarily for strategic military purposes and to facilitate resource extraction from rural areas to urban ports for export. This infrastructure development, while modernizing some aspects of the Indian economy, served primarily colonial interests rather than benefiting the indigenous population. Consequently, these efforts often neglected the needs of the local economy and society, resulting in a legacy of underdevelopment. Post-independence, India inherited a mixed infrastructure legacy that necessitated significant investment and planning to meet national needs.

Key Points: Development of railways and roads, Mainly for colonial interests, Neglect of local economy, Legacy of underdevelopment, Post-independence challenges

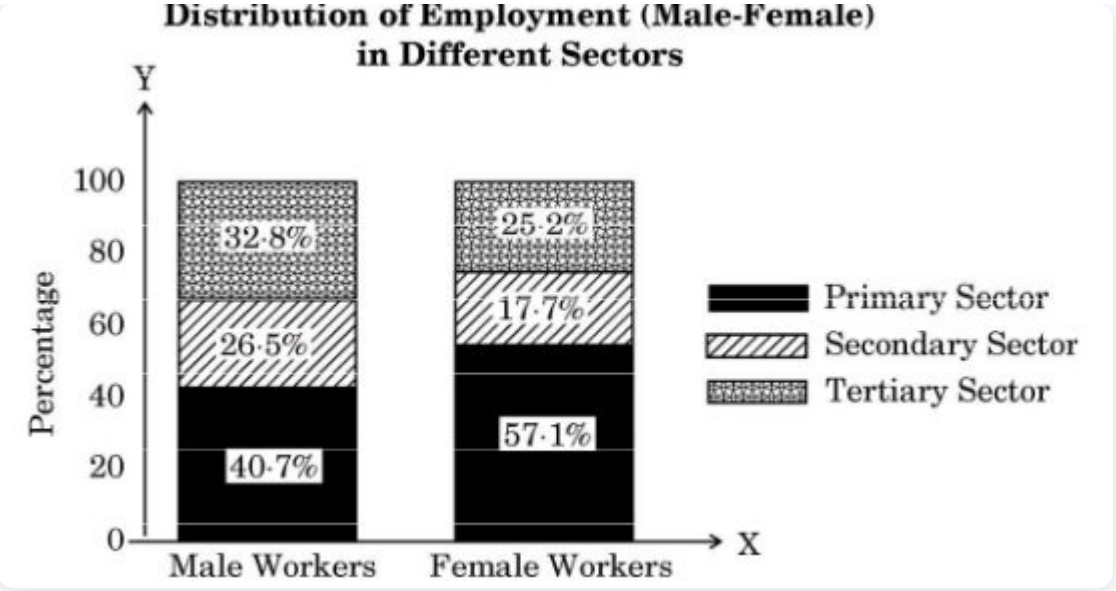
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Section D

Question 29.

Compare and analyse the following information related to distribution of employment in India :

[4 Marks]



Answer: In India, the distribution of employment between formal and informal sectors highlights significant disparities. A large segment of the workforce, particularly women, is self-employed, with 52% of female workers engaged in this category. In contrast, only 24% of male workers are self-employed. The casual wage labor sector employs 24% of male and 27% of female workers, indicating a reliance on unstable employment. Urban areas present a different scenario, with 47% of workers in regular salaried positions while rural areas heavily depend on casual labor. This shift to the service sector has not translated into job stability, revealing a growing prevalence of informal employment without fair wages. These statistics paint a picture of a workforce grappling with economic uncertainty.

Key Points: Distribution of workforce - Formal vs Informal sector; Self-employment rates - Women vs Men; Casual wage labor reliance; Urban vs Rural employment trends; Growth in service sector but informal jobs; Job stability issues and wage fairness

Question 30.

State and explain any two steps undertaken by the Government of India for the protection and promotion of Small-scale Industries between 1950 -1990.

[4 Marks]

Answer: Between 1950 and 1990, the Government of India implemented several key measures to promote and protect small-scale industries (SSIs). Firstly, the reservation policy was established, wherein certain industries and products were exclusively reserved for small-scale units. This aimed to protect SSIs from competition with larger firms and foreign products, ensuring their growth and development. Secondly, the government provided various financial incentives, such as lower interest rates on loans and reduced excise duties. These measures facilitated easier access to capital for small businesses, enabling them to invest in technology and enhance production capacity. Overall, these steps were crucial in fostering indigenous industries, particularly in sectors like electronics and automobiles.

Key Points: Reservation policy for certain products-small-scale units received financial incentives-lower interest rates and excise duties-fostering indigenous industries in electronics and automobile sectors

Question 31.

Elaborate the role of land ceiling as an institutional reform in agricultural sector during the planning period of India.

[4 Marks]

Answer: Land ceiling was a crucial reform during India's planning period aimed at achieving equity in the agricultural sector. By setting a maximum limit on land ownership, it aimed to dismantle the concentration of land in the hands of a few landlords, thus supporting small farmers and ensuring a fairer distribution of resources. The historical context shows that under colonial rule, land tenure systems favored intermediaries, leading to inefficiency and low agricultural productivity. With independence, land reforms, including ceilings, became vital to reduce inequality and encourage productivity. However, the implementation faced legal challenges from landlords, who often exploited loopholes to retain their land. Despite these challenges, the land ceiling was a step towards promoting agricultural equity and supporting the Green Revolution, contributing to India's food self-sufficiency goals.

Key Points: Land ceiling promotes equity; maximum land ownership limits; addresses historical inequality; reduces concentration of land; supports small farmers; reform against colonial land tenure systems; faced legal challenges; loopholes exploited by landlords; contributes to Green Revolution; aids food self-sufficiency.

Question 32.

Argue in favour of the need for different forms of government intervention in education and health sectors.

[4 Marks]

Answer: Government intervention in education and health sectors is crucial for several reasons. Firstly, both sectors create significant private and social benefits, justifying the presence of both private and public institutions. Government funding ensures that basic education and healthcare are accessible to all, especially to underprivileged communities. Furthermore, these sectors require substantial long-term investments that can shape a society's future, making state intervention necessary. The Constitution mandates government involvement in promoting these rights. Promoting education and health leads to human capital development, economic growth, and social equity, ultimately creating a balanced society.

Key Points: Public and private benefits of education and health-Need for basic rights in education and health-Government is mandated by the Constitution to intervene-Long-term investments for societal progress-Promotion of human capital for economic growth and social equity

Question 33.

(i) Distinguish between Balance of Payments and Balance of Trade.

(ii) Define Current Account Surplus.

[4 Marks]

Answer: The Balance of Payments (BoP) is a comprehensive record of all economic transactions between residents of a country and the rest of the world over a specific period, which includes both the current account and the capital account. The Balance of Trade (BoT), however, is a specific component of the current account that records the difference between exports and imports of goods and services. A Current Account Surplus occurs when the total receipts from exports, services, and transfer payments exceed total payments made for imports and other current account transactions, indicating that the country is earning more from international trade than it is spending.

Key Points: Balance of Payments is a comprehensive economic record; Balance of Trade is part of the current account focusing on exports and imports; Current Account Surplus occurs when receipts exceed payments.

Question 34.

(i) Using suitable example, distinguish between Foreign Direct Investments (FDI) and Foreign Institutional Investments (FII).

(ii) State one example of External Assistance as a component of capital account.

[4 Marks]

Answer:

Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) are two forms of foreign investments but differ significantly. FDI refers to an investment made by a company or individual in one country in business interests located in another country. For example, a Japanese automobile company setting up a manufacturing plant in India represents FDI, as it involves establishing a long-term, direct interest in the local economy. On the other hand, FII pertains to investments in the financial markets of a country, primarily through stocks and bonds, without acquiring direct control or management of the companies. For instance, a US-based mutual fund investing in Indian equities is an example of FII. While FDI is aimed at gaining a lasting interest and control, FII focuses on portfolio investments with intent for profits through stock price appreciation, thus reflecting a more passive

approach. One prominent example of external assistance as a component of the capital account is the net external assistance recorded in the financial statements. In the provided context, this is represented by external assistance netting at 0.15 million USD. This type of assistance often comes as loans or grants from international organizations or foreign governments, aimed at promoting economic development. Such assistance can support various sectors, including infrastructure, health, and education, thus enhancing a country's growth potential and fiscal stability.

Key Points:

Definition of FDI - long-term investment; Example of FDI - Japanese automobile company in India; Definition of FII - short-term financial investment; Example of FII - US mutual fund in Indian stocks; Difference in control - FDI involves control, FII does not. External assistance example; recorded as 0.15 million USD; loans or grants from international entities; supports economic development; sectors like infrastructure and health.

Question 35.

Margin requirement are extrements are extremely helpful in correcting the situation of deflationary gap in an economy. Justify the given statement with valid arguments .

[4 Marks]

Answer: Margin requirements are a critical monetary policy tool used by central banks to combat deflationary gaps. By increasing margin requirements, the central bank can curb excessive speculation in investment, leading to a more stable economic environment. Furthermore, higher margin requirements reduce the money supply, encouraging prudent lending and investment practices. This, in turn, leads to a decrease in deflationary pressures as it stabilizes prices. When demand is stimulated, it allows the economy to approach its full potential, ultimately correcting the deflationary gap.

Key Points: Margin requirements control excessive investment-speculation; Higher margin leads to reduced money supply; Encourages stable lending & investment practices; Helps stimulate demand & stabilize prices; Corrects deflationary gap.

Question 36.

(i)'In an economy, ex-ante investment (I) exceeds ex-ante savings (S)'.

Explain the likely impact of the given situation on output, employment and income.

(ii) Define excess demand.

[4 Marks]

Answer: Excess demand occurs when the quantity of goods and services demanded in an economy exceeds the quantity supplied at a given price level. This situation typically arises in a market when consumers are willing to purchase more than what producers are able to offer. In such cases, the demand surpasses supply, leading to upward pressure on prices. As a result, excess demand can indicate an overheating economy, where inflation may occur due to increased spending. It also highlights a potential misalignment between resource allocation and consumer needs within the economy, demanding adjustments in production and pricing strategies to restore equilibrium.

Key Points: Definition of excess demand-Occurs when demand exceeds supply-Impacts pricing and inflation-Indicates market imbalance-Need for adjustments in production

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Section E

Question 37.

(i) China used the tool of Special Economic Zones for its economic development very effectively. Justify the given statement with valid explanation.

(ii) Mention and discuss any two indicators of human development, where China has performed well.

[6 Marks]

Answer:

China effectively used Special Economic Zones (SEZs) as a strategy to stimulate its economic development. By establishing SEZs, the government aimed to attract foreign investment and enhance manufacturing capabilities. These zones provided favourable conditions for businesses, including tax incentives, simplified regulations, and infrastructure support. This approach allowed China to maintain rapid industrial growth and a high GDP per capita, surpassing the growth rates of India and Pakistan. While India and Pakistan struggled with privatization efforts, China leveraged its market system to generate social and economic opportunities without compromising political stability. The SEZs also ensured rural social security by retaining collective land ownership, while individuals cultivated the land. Consequently, China managed to maintain near double-digit growth in the 1980s, alleviating poverty and boosting economic prospects, contrasting sharply with the stagnation seen in its regional counterparts.

China has demonstrated notable improvements in various human development indicators, with life expectancy and literacy rates being two prominent examples. Life expectancy in China has significantly increased over the years, reaching approximately 77 years by 2019. This remarkable statistic reflects the advancements in healthcare, nutrition, and living conditions, which have collectively contributed to healthier populations. Additionally, China boasts a high literacy rate, which

stood at around 96% during the same period. This achievement can be attributed to the comprehensive education policies implemented by the government, focusing on accessibility and quality of education. The emphasis on education has empowered individuals, contributed to economic growth, and enhanced overall quality of life. Together, these indicators underscore China's commitment to improving human development and highlight its position as a leader compared to India and Pakistan.

Key Points:

Establishment of SEZs to attract foreign investment-Provided favourable business conditions and incentives for growth-High industrial growth rate leading to increased GDP per capita-Contrast with India and Pakistan's privatization struggles-Maintained social security through collective land ownership-Political stability aided economic strategies-Double-digit growth in the 1980s alleviating poverty.

Life Expectancy: Increased to 77 years, improved healthcare and nutrition; Literacy Rate: Around 96%, effective education policies and accessibility.

Question 38.

(i) Explain any two similar developmental strategies followed by India and Pakistan in post 1947 era.

(ii) State and discuss any two reasons for slow economic growth in Pakistan.

[6 Marks]

Answer: In the post-1947 era, both India and Pakistan adopted similar developmental strategies aimed at fostering economic growth and national development. Firstly, both nations embraced a large public sector, which played a crucial role in industrialization and infrastructure development. This approach aimed to direct investment towards essential services and industries, significantly impacting their economic landscape. Secondly, both countries raised public expenditure on social development, focusing on education, healthcare, and poverty alleviation to improve living standards. \n\nDespite these efforts, Pakistan has faced several challenges that have hindered its economic growth. One major reason is political instability, characterized by frequent changes in government and governance issues, which have created an uncertain investment climate. Furthermore, the country's over-dependence on remittances and foreign aid has resulted in a lack of self-sufficiency and innovation in the economy. These factors, combined with the volatile performance of the agriculture sector, have significantly constrained Pakistan's economic growth in comparison to its neighbor, India.

Key Points: Large public sector in both countries; Increased public expenditure on social development; Political instability in Pakistan; Over-dependence on remittances and foreign aid; Volatile agriculture sector in Pakistan

Question 39.

(i) Domestic income is always less than national income. Do you agree with the given statement ? Support your answer with valid arguments.

(ii) Distinguish between positive externalities and negative externalities with suitable examples.

[6 Marks]

Answer: The statement that domestic income is always less than national income is valid in many contexts. Domestic income refers to the income generated within a country's borders, regardless of who receives it, while national income includes the income earned by a country's residents, both domestically and abroad. If a country has substantial foreign investment, income generated by foreign entities can contribute to national income without affecting domestic income. For instance, if a foreign company operates in India, its profits are included in India's Gross National Product (GNP) but may not count toward domestic income. This illustrates how national income can exceed domestic income due to the role of foreign stakeholders. Furthermore, measuring national income considers all income sources for the residents, which again emphasizes that domestic income can be lower depending on external factors, such as investment flow and labor mobility. In contrast to this, regarding externalities, positive externalities occur when a third-party benefits from an economic transaction, such as when education improves societal productivity. Negative externalities, however, arise when the costs of a transaction spill over to others, such as pollution from a factory affecting local health. Therefore, understanding domestic versus national income alongside the impact of externalities plays a crucial role in economic analysis.

> **Key Points: Definition of domestic income and national income, Role of foreign investment, Example of foreign company profits, Concept of positive externalities with education, Concept of negative externalities with pollution**

Question 40.

(i) In a two-sector economy, consumption expenditure by households is always equal to aggregate expenditure on goods and services produced by the firm. Do you agree with the given statement ? Support your answer with valid explanation.

(ii) Problem of Double Counting leads to overestimation of output in an economy. Justify the given statement with the help of suitable example.

[6 Marks]

Answer: In a two-sector economy, the statement holds true as the aggregate consumption expenditure by households directly corresponds with the total value of goods and services produced by firms. As households earn income from their factors of production, they utilize this income to purchase goods and services, thus driving firm revenues. When households increase consumption, firms produce accordingly, leading to equilibrium in income and expenditure. On the other hand,

double counting occurs when the same output is calculated multiple times in the production process, leading to an inflated GDP figure. For instance, if a car is produced and sold to a consumer, it counts as final output. However, if the value of intermediate parts is also included in GDP calculations, it results in overestimation. Hence, recognizing final goods only is crucial to avoid this.

Key Points: Aggregate consumption equals aggregate expenditure- effect on equilibrium income; income flows in a closed economy; double counting definition; example of car production overestimating GDP; importance of considering only final goods.