CBSE EXAMINATION PAPER-2025

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 95

General Instructions :

Read the following instructions carefully and follow them :

i. This question paper contains **41 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 23** are multiple choice questions

v. **Section C** – questions number **24 to 29** are short answer type i

vi. **Section D** – questions number **30 to 37** are short answer type ii

vii. **Section E** – questions number **38 to 41** 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 :

Growing carbon footprint of industries have put power and steel sector in the spotlight as the major contributor to the climate crisis. The challenge of climate change can be tackled only by making our industries and businesses follow practices and processes that reduce their carbon footprint. It can be possible only with green financing.

Green financing aims to increase the level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities.

Global green finance has also started chasing Indian companies. Global development finance institutions and funds are ready to offer long-term support (both equity and debt) at cheap rates to projects like solar energy and hydropower. Green finance can positively affect environment quality, economic development and financial issues that promote the green economy, such as reducing greenhouse gas emissions, improving energy efficiency or enhancing the organic economy.

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

(1)

State the meaning and objective of green finance.

[3 Marks]

Answer: Green finance refers to the financial flows that promote sustainable development by supporting projects aimed at mitigating climate change and enhancing environmental sustainability. The primary objective of green finance is to channel investments into initiatives that reduce carbon emissions and improve energy efficiency, thereby fostering a transition towards a greener economy. This financial support can come from various sectors including banking, micro-credit, insurance, and investment.

Key Points: Definition of green finance - aim to promote sustainable development - support for climate change mitigation projects - focus on reducing carbon footprint and enhancing energy efficiency

(2)

Discuss any two benefits of green financing.

[3 Marks]

Answer: Two significant benefits of green financing are: 1) Environmental Improvement: Green financing enables investment in sustainable projects such as solar energy and hydropower, which reduces greenhouse gas emissions and enhances energy efficiency. This directly contributes to mitigating climate change and improving overall environmental quality. 2) Economic Development: By providing funding at lower rates, green financing promotes the growth of the green economy, encouraging companies to adopt sustainable practices that can lead to job creation, improved health outcomes due to less pollution, and the development of innovative green technologies.

Key Points: Environmental Improvement-Economic Development

Question 2.

Read the following text carefully :

Government provides certain goods and services which cannot be provided by the market mechanism. Examples of such goods are national defence, roads, government administration etc. which are referred to as public goods.

There are two major differences between public and private goods. One, the benefits of public goods are available to all and are not only restricted to one particular consumer. For example, if a person wears a shirt, it will not be available to others . It is said that thisperson's in rival relationship to the consumption of others. However, if we consider a public park or measures to reduce air pollution, the benefits will be available to all . ONe persons's consumption of agood does not reduce the amount available for consumption for others and so several people can enjoy the benefits, that is, the consumption of many people is' not rivalrous.

Two, in case of private goods, anyone who does not pay for the goods can be excluded from enjoying its benefits. If you do not buy a ticket, you will not be allowed to watch a movie at a local cinema hall. However, in case of public goods, there is no feasible way of excluding anyone from enjoying the benefits of the good. That is why public goods are called non-excludable. Even if some users do not pay, it is difficult and sometimes impossible to collect fees for the public good. These non-paying users are knownas ' Free rides' Consumers will not voluntarily pay for-what they can get for free and for which there is no exclusive title to the property being enjoyed. The link between the producer and consumer which occurs through the payment process is broken and the government must step in to provide for such goods.

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

(1)

Define free-riders. Explain the challenges posed by the free-riders in the context of public goods.

[3 Marks]

Answer: Free-riders are individuals who benefit from public goods without contributing to their cost. They take advantage of the non-excludable nature of public goods, meaning they can enjoy these benefits without paying for them. This creates significant challenges: first, it disincentivizes individuals from voluntarily contributing to the funding of public goods, as they can access them for free. Second, the presence of free-riders can lead to under-provision of public goods, as the government struggles to collect sufficient funds to maintain or improve these goods. Lastly, if too many individuals rely on free access, it can result in overcrowding or depletion of resources, undermining the overall effectiveness and sustainability of public goods.

Key Points: Definition of free-riders; Non-excludable nature leading to free usage; Disincentive for voluntary payment; Under-provision challenges; Potential resource depletion

(2)

Describe how the Government's role in providing public goods impacts community welfare.

[3 Marks]

Answer: The government's role in providing public goods significantly impacts community welfare in various ways. Firstly, public goods such as national defense, roads, and clean air create a safe and conducive environment for individuals to live and work. This leads to enhanced quality of life and overall societal well-being. Secondly, since public goods are non-excludable and non-rivalrous, their provision ensures that all individuals in the community benefit equally, promoting social equity and cohesion. Lastly, by providing public goods, the government can stimulate economic activities, as infrastructure like roads and public transportation facilitates trade and employment opportunities, ultimately improving the community's economic welfare.

Key Points: Enhances quality of life-social equity and cohesion-stimulates economic activities

Section B

Question 3.

If the value of Investment Multiplier (K) is 5, the relevant saving function would be _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) S = - 60 + 0.75 Y

(B) S = - 60 + 0.20 Y

(C) S = - 60 + 0.60 Y

(D) S = -60 + 0.25 Y

Explanation: The correct saving function is S = -60 + 0.20 Y. The multiplier K is related to the marginal propensity to consume (MPC) by the formula K = 1/(1-c). If K=5, then 1-c = 1/5, which means c = 0.8. The corresponding marginal propensity to save (MPS) is 1-c = 0.2. Therefore, the saving function S must include a term that reflects this MPC, leading to the correct option which indicates savings at a rate of 0.20Y.

Question 4.

Identify, which of the following items will not be included in estimating National Income of India.

(Choose the correct option)

[1 Marks]

(A) Salary to Indian residents working at the Russian Embassy in India

(B) Interest paid by a firm to a bank

(C) Income generated from smuggling

(D) Payments to farm workers in the form of foodgrains

Explanation: The correct option is 'Income generated from smuggling' because it is considered an illegal activity and thus is not included in the calculation of the national income. National income aims to capture legal economic activities that contribute to the economy.

Question 5.

If an upward sloping straight line consumption function makes an intercept at the Y-axis at a positive coordinate, it implies that Marginal Propensity to Consume (MPC) _____ and Average Propensity to Consume (APC) _____ as the income increases.

(Choose the correct option to fill in the blanks)

[1 Marks]

(A) remains constant, falls

(B) remains constant, rises

(C) falls, falls

(D) rises, rises

Explanation:

The correct answer is: Marginal Propensity to Consume (MPC) remains constant, and Average Propensity to Consume (APC) falls as the income increases.

- An upward sloping straight-line consumption function with a positive Y-intercept means consumption starts from a positive value even when income is zero, indicating autonomous consumption.
- Since the slope of the straight line represents MPC, it remains constant.

- APC = Consumption ÷ Income. As income increases, the fixed autonomous consumption becomes a smaller proportion of total income, causing APC to fall.

Question 6.

Read the following statements Assertion (A) and Reason (R) carefully. Choose the correct option from those given below :

Assertion (A) : Other things remaining constant, devaluation of domestic currency may lead to rise in National Income of the nation.

Reason (R) : Devaluation of domestic currency refers to reduction in the value of domestic currency by the government with respect to foreign currency under the fixed exchange rate system.

[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 true, but Reason (R) is false.

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

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

Explanation:

Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). Devaluation can increase national income by making exports cheaper and boosting foreign demand, which raises production and income. However, the reason only defines devaluation as a reduction in the value of domestic currency under a fixed exchange rate system. It does not explain how this leads to a rise in national income. Therefore, Reason (R) is not the correct explanation of Assertion (A).

Question 7.

Central Bank can decrease the money supply in the economy by _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) lowering the cash reserve

(B) increasing the bank rate

(C) purchase of G-Secs (Government Securities)

(D) lowering the bank rate

Explanation: The correct option is 'increasing the bank rate'. This is because when the bank rate is increased, loans taken by commercial banks become more expensive, leading to a reduction in the reserves held by these banks. Consequently, this decreases the overall money supply in the economy.

Question 8.

If the total credit created by the banks is ₹500 and Reserve Ratio is 20%, the value of primary deposits would be _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) ₹ 300

(B) ₹ 500

(C) ₹ 100

(D) ₹ 200

Explanation:

The correct answer is ₹100.

The reserve ratio is 20% (0.20), so the credit multiplier is calculated as:

Credit multiplier = 1 / Reserve Ratio = 1 / 0.20 = 5.

Total credit created by banks is equal to primary deposits multiplied by the credit multiplier:

Total credit = Primary deposits × Credit multiplier

500 = Primary deposits × 5

Primary deposits = 500 / 5 = ₹100.

Therefore, the value of primary deposits is ₹100.

Question 9.

Using the given information, complete the following table:

(Choose the correct option)

[1 Marks]

Income (Y) (in ₹ crore)	Savings (in ₹ crore)	Consumption (in ₹ crore)	Average Propensity to Consume (APC)
0	...(i)...	30	–
100	0	...(ii)...	1
200	30	170	0·85
300	60	240	0·8

(A) 0, 70

(B) - 30, 120

(C) 30, 120

(D) -30, 100

Explanation:

The total income is divided into consumption and savings. At Y = 0, consumption is ₹30 crore, so savings must be –₹30 crore (indicating dissaving).
At Y = 100, savings is ₹0, so entire income is consumed, making consumption ₹100 crore.
Hence, the correct completion of the table is option (D) –30, 100.

Question 10.

Identify, which of the following is not a source of demand for foreign exchange.

(Choose the correct option)

[1 Marks]

(A) Imports of goods and services

(B) Indian tourists visiting foreign countries

(C) Gifts by Indians to their families living abroad

(D) Loans from Rest of the World

Explanation: The correct answer is 'Loans from Rest of the World.' This option does not represent a source of demand for foreign exchange as it pertains to borrowing rather than spending on foreign goods, services, or gifts, which directly creates a demand for foreign currency. In contrast, gifts by Indians to their families abroad, imports of goods and services, and Indian tourists visiting foreign countries all necessitate the use of foreign currency, thereby driving demand for foreign exchange.

Question 11.

Suppose in an economy, planned spendings are greater than planned outputs. Identify the correct option with respect to effects on the economy:

(i) Decrease in planned inventories in the economy

(ii) Rise in National Income

(iii) Decrease in real output level in the economy

(iv) Decrease in employment level in the economy

[1 Marks]

(A) Only (i)

(B) (i) and (ii)

(C) (ii), (iii) and (iv)

(D) (iii) and (iv)

Explanation: The correct option is (i) and (ii). When planned spending exceeds planned output, it indicates that demand is higher than supply, leading businesses to decrease their inventories to meet the excess demand. This heightened spending can stimulate economic activity, resulting in a rise in national income as firms increase production to match demand, potentially leading to higher employment levels as well. The other options (iii) and (iv) are inconsistent with the scenario, as increased spending would not typically cause a decrease in real output or employment.

Question 12.

Read the following statements carefully:

Statement 1: The price of a given currency in terms of another is known as bank rate.

Statement 2: Demand curve for foreign exchange is a downward sloping curve.

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 true.

(C) Both Statements 1 and 2 are false.

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

Explanation: Statement 1 is false because the price of a given currency in terms of another is known as the exchange rate, not the bank rate. Statement 2 is true as the demand curve for foreign exchange is typically downward sloping; as the price (exchange rate) of foreign currency increases, the demand for it decreases. Therefore, the correct answer is Statement 1 is false and Statement 2 is true.

Question 13.

Read the following statements - Assertion (A) and Reason (R) carefully. Choose the correct alternative from those given below :

Assertion (A) : The year 1921 is called as the Year of Great Divide.

Reason (R) : After the year 1921, India experienced a sharp rise in its population growth rate.

[1 Marks]

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

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

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

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

Explanation:

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

- Assertion (A) is true: The year 1921 is called the "Year of Great Divide" in India’s demographic history.
- Reason (R) is also true: It is because before 1921, India’s population growth was fluctuating or stagnant, but after 1921, the population began to rise steadily and sharply due to a decline in death rates, better medical facilities, and some control over famines and epidemics.
- Therefore, the reason clearly explains the assertion.

Question 14.

Mao initiated the 'Great Leap Forward' movement in the year _____.(Choose the correct option to fill in the blank)

[1 Marks]

(A) 1951

(B) 1958

(C) 1955

(D) 1962

Explanation: The correct option is 1958. According to the provided context, the Great Leap Forward (GLF) campaign was initiated in 1958 with the aim of industrialising the country on a massive scale, including the establishment of communes in rural areas.

Question 15.

The Indian Government adopted a policy of fixing maximum land holiding limit (ownership) for an individual. It is commonly known as _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Golden Revolution

(B) Marketable Surplus

(C) Land Ceiling

(D) Green Revolution

Explanation: The correct answer is 'Land Ceiling'. This term refers to the policy implemented by the Indian Government to fix the maximum amount of land that an individual can own, aimed at reducing the concentration of land ownership and promoting equity within the agricultural sector.

Question 16.

Study the following image and identify the measure adopted by the Government to improve agricultural marketing.

(Choose the correct option)

[1 Marks]



(A) Regulated markets

(B) (A) Cooperative credit societies

(C) Transportation facilities

(D) Dissemination of information

Explanation:

The correct option is 'Regulated markets'. The context highlights that the government has implemented measures like the regulation of markets to create orderly and transparent conditions, which benefits both farmers and consumers. This approach aims at realizing the full potential of rural markets by establishing regulated market places.

Question 17.

Identify, which of the following measure is not adopted by the government to improve agricultural marketing.

[1 Marks]

(A) Cooperative credit societies

(B) Unregulated markets

(C) Better transportation facilities

(D) Dissemination of information

Explanation: The correct option is 'Unregulated markets' because the provided context discusses the government's efforts to regulate markets to create orderly and transparent marketing conditions for the benefit of farmers and consumers. Unregulated markets contradict this effort and are not a measure taken by the government to improve agricultural marketing.

Question 18.

In China, under _____, peasants were provided with pooled land to create larger fields that could yield greater output and they shared farm implements.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Joint Farming System

(B) Green Revolution

(C) Great Proletarian Cultural Revolution

(D) Commune System

Explanation: The correct option is 'Commune System'. Under the Commune System, people collectively cultivated land, which involved pooling resources and sharing farm implements, thus aiming for increased agricultural output.

Question 19.

White Revolution is associated with _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Animal Husbandry

(B) Fisheries

(C) Dairy Production

(D) Horticulture

Explanation: The correct answer is 'Dairy Production'. The White Revolution in India refers to the significant increase in milk production and dairy farming that was initiated by the National Dairy Development Board. It aimed to enhance productivity through improved technology and better breeds of animals, which aligns closely with dairy production.

Question 20.

_____ indicator may be defined as the measure of the extent of demographic participation in social and political decision-making.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Health

(B) Demographic

(C) Economic

(D) Liberty

Explanation: The correct answer is 'Liberty'. The context refers to 'liberty indicators' as measures of democratic participation in social and political decision-making, specifically indicating the importance of citizen rights and judicial independence.

Question 21.

Which of the following country/countries followed the Five Year Planning structure of economic development ?

(i) India (ii) China

(iii) Pakistan (iv) USA (Choose the correct option)

[1 Marks]

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

(B) (ii) and (iii)

(C) (i) and (iv)

(D) Only (iv)

Explanation: The correct option is (i), (ii) and (iii). India, China, and Pakistan all implemented Five Year Plans for economic development, starting with India in 1951, China in 1953, and Pakistan in 1956. The USA, however, did not adopt a Five Year Plan structure for its economic policies.

Question 22.

Read the following statements carefully :

Statement 1 : Employment is an activity which enables a person to earn means of livelihood for his/her family.

Statement 2 : A worker is the one who contributes to the process of Gross Domestic Product (GDP) by rendering his productive services.

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

[1 Marks]

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

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

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

Explanation: Both statements are true. Statement 1 accurately describes employment as a means to earn a livelihood for oneself and their family, which aligns with the context provided. Statement 2 correctly defines a worker as someone who contributes to GDP through productive services, also supported by the context discussing economic activities and their contribution to national income.

Question 23.

Identify, which of the following correctly defines liberalization.

(Choose the correct option)

[1 Marks]

(A) Outright sale of part of shares of Public Sector Undertakings (PSUs)

(B) Removal of restrictions imposed by government on different sectors of the economy

(C) Focus on import substitution

(D) Increased integration with the rest of the world

Explanation:

The correct option is 'Removal of restrictions imposed by government on different sectors of the economy' because the provided context states that liberalisation was introduced to eliminate rules and laws that hindered economic growth and development, thereby opening various sectors up to more freedom and integration with the economy.

Section C

Question 24. Distinguish between autonomous transactions and accommodating transactions in the Balance of Payments of the economy.

[3 Marks]

Answer: Autonomous transactions in the Balance of Payments (BoP) refer to international transactions that occur independently of the BoP situation; they are motivated by reasons other than balancing the BoP, such as profit generation. These are classified as 'above the line' items. In contrast, accommodating transactions are directly influenced by the BoP scenario and are necessary to correct any surplus or deficit that arises from autonomous transactions. They are referred to as 'below the line' items. While autonomous transactions can lead to both surpluses and deficits, accommodating transactions work to ensure the BoP achieves equilibrium by adjusting to these net outcomes. This distinction indicates that autonomous transactions are driven by profit motives, while accommodating transactions are reactionary adjustments to the BoP's state.

Key Points: Autonomous transactions are independent of the BoP; Accommodating transactions depend on the BoP; Autonomous are 'above the line' items, Accommodating are 'below the line'; Autonomous transactions aim for profit, while Accommodating transactions correct imbalances.

Question 25.

Calculate Domestic Income (NDPFC) from the data given below:

[3 Marks]

Calculate Domestic Income (NDP_{FC}) from the data given below :

S. No.	*Particulars*	*Amount (in ₹ lakh)*
(i)	Gross National Product at market price	2,500
(ii)	Consumption of fixed capital	200
(iii)	Goods and Services Tax	20
(iv)	Subsidies	50
(v)	Net Factor Income from Abroad	50
(vi)	Changes in Stocks	30
(vii)	Unexpected loss of a fixed asset	500

Answer:

onvert GNP^{MP} to GDP^{MP}

GDPMP=GNPMP−NFIA=2500−50=₹2450 lakhGDP_{MP} = GNP_{MP} - NFIA = 2500 - 50 = ₹2450 \text{ lakh}GDPMP=GNPMP−NFIA=2500−50=₹2450 lakh

Convert GDP^{MP} to NDP^{MP}

NDPMP=GDPMP−Depreciation=2450−200=₹2250 lakhNDP_{MP} = GDP_{MP} - Depreciation = 2450 - 200 = ₹2250 \text{ lakh}NDPMP=GDPMP−Depreciation=2450−200=₹2250 lakh

Convert NDP^{MP} to NDPFC (Domestic Income)

NDPFC=NDPMP−IndirectTaxes+Subsidies=2250−20+50=₹2280 lakhNDP_{FC} = NDP_{MP} - Indirect Taxes + Subsidies = 2250 - 20 + 50 = ₹2280 \text{ lakh}NDPFC=NDPMP −IndirectTaxes+Subsidies=2250−20+50=₹2280 lakh

Key Points:

GNP^{MP} = ₹2500 lakh

Subtract NFIA:
GDP^{MP} = 2500 − 50 = ₹2450 lakh

Subtract Depreciation:
NDP^{MP} = 2450 − 200 = ₹2250 lakh

Subtract Indirect Tax, Add Subsidies:
NDP_{FC} = 2250 − 20 + 50 = ₹2280 lakh

Question 26.

Define Net Factor Income from Abroad (NFIA) and discuss its components.

[3 Marks]

Answer: Net Factor Income from Abroad (NFIA) is the difference between the factor income earned by domestic factors of production employed overseas and the factor income earned by foreign factors of production employed domestically. It is crucial for calculating the Gross National Product (GNP), as it adjusts the Gross Domestic Product (GDP) by adding net incomes received from abroad. The primary components of NFIA include income from investments, wages, and interests that residents earn abroad, minus the income that foreign residents earn from investments in the domestic economy. Understanding NFIA is essential as it reflects the economic ties a nation has with the rest of the world, influencing overall national income calculations.

Key Points: Definition of NFIA - Difference between domestic factor income abroad and foreign factor income domestically - Components: income from investments, wages, interests - Importance for GNP calculations.

Question 27.

During the British rule, contribution of industrial sector to the Gross Domestic Product (GDP) remained very low. Justify the given statement with valid arguments in support of your answer.

[3 Marks]

Answer: During British rule, the industrial sector in India struggled to contribute significantly to the GDP for several reasons. The British colonial policies prioritized raw material extraction over industrial development, leading to the collapse of traditional handicrafts without establishing a modern industrial base. Additionally, the limited public sector operation and its inefficiencies resulted in losses, further limiting industrial growth. Despite some growth in the sector, particularly post-independence and through import substitution policies, the overall contribution to GDP remained low due to a largely stagnant agricultural sector and insufficient investment in modernization and diversification.

Key Points: Collapse of traditional handicrafts due to colonial policies; Limited growth of the industrial sector and public sector inefficiencies; Import substitution policies raised GDP contribution post-independence; Stagnation in agriculture sector affecting industry growth.

Question 28.

The real motive behind infrastructural development under the British rule was not to provide basic amenities to the people of India but to subserve various colonial interests."

Do you agree with the given statement? Give valid reasons in support of your answer.

[3 Marks]

Answer: I agree with the statement that the infrastructural development during British rule primarily served colonial interests rather than the welfare of the Indian populace. The railways, roads, and ports constructed were mostly aimed at facilitating the transport of raw materials to Britain. While they inadvertently offered some connectivity and services, their primary function was to serve the colonial economy and military needs. The improvements made to road infrastructure were largely for mobilizing the army and exploiting India's resources, focusing on extracting profit for Britain. This was evident in how economic policies were designed to enrich the British economy while neglecting the needs and development of India. Therefore, it can be concluded that the infrastructural advancements were not truly for the benefit of Indian society.

Key Points: 1. Infrastructure served colonial economic interests. 2. Railways and roads facilitated resource extraction. 3. Primary focus was military mobilization rather than public welfare. 4. Economic policies prioritized British profits over local development.

Question 29.

On the basis of the given image, explain the source of human capital formation which may contribute to the economic growth in India.

[3 Marks]



Answer: Human capital formation in India primarily stems from investments in education, health, vocational training, and information. Education enhances skills and productivity, leading to a better workforce capable of innovation and efficiency. Health improves individuals' capabilities, reducing absenteeism and medical costs while increasing productivity. The government's significant financial commitments to both sectors illustrate the importance of nurturing human resources. These investments not only facilitate economic growth but also foster all-round development, promoting social equity and welfare across society.

Key Points: Education as a primary source of human capital; importance of health for productivity; role of government investment; link between human capital and economic growth; all-round development aspect

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Section D

Question 30.

In the 1990s, on the advice of Reserve Bank of India (RBI) ,the Government of India took a decision of hypothecation of gold reserves to different nations. In light of above statement, discuss briefly the role of Central Bank as Banker, Agent and Adviser to the Government.

[4 Marks]

Answer: The Reserve Bank of India (RBI) plays a pivotal role as the central bank of India, functioning as a banker, agent, and adviser to the government. As a banker, the RBI manages the government's accounts, facilitating transactions and treasury operations, ensuring liquidity, and optimizing funds. In

its role as an agent, the RBI safeguards the country's foreign exchange reserves and implements monetary policy. As an adviser, it provides expertise on economic matters, guiding the government on fiscal policies, managing inflation, and ensuring financial stability. The hypothecation of gold reserves in the 1990s attests to the RBI's strategic advisory role, serving national interests and meeting international obligations.

Key Points: RBI as banker: manages government accounts, liquidity; RBI as agent: safeguards foreign reserves, implements policy; RBI as adviser: economic guidance, fiscal policies, inflation management.

Question 31.

(a) Estimate the value of Aggregate Demand (AD) in an imaginary economy
:

(i) Autonomous Investment (I0) = ₹ 100 crore

(ii) Marginal Propensity to Save (MPS) = 0.2

(iii) Level of Income (Y) = ₹ 4,000 crore

(iv) Autonomous Consumption Expenditure (c̄) =₹ 50 crore

(b) State the meaning of propensity to consume.

[4 Marks]

Answer:

(a)To estimate Aggregate Demand (AD) in this imaginary economy, we begin by noting the provided values. Autonomous Investment (I0) is less than 100 crore, so let's assume it's 100 crore for calculation purposes. With an MPS of 0.2, the Marginal Propensity to Consume (MPC) is 0.8 (since MPC + MPS = 1). Given the income level (Y) is 4,000 crore and considering autonomous consumption expenditure of 50 crore, we can calculate total consumption (C) as C = 50 + 0.8*4000 = 3,250 crore. Thus, AD = C + I0 = 3,250 + 100 = 3,350 crore, estimating the AD at 3,350 crore.

(b) The propensity to consume refers to the likelihood or tendency of individuals to spend their disposable income on consumption rather than saving it. It is often represented by the marginal propensity to consume (MPC), which measures the change in consumption that occurs with a change in income. Specifically, the MPC indicates the percentage of additional income that will be used for consumption. The average propensity to consume (APC) is another measure, representing total consumption divided by total income. These concepts are crucial in understanding consumer behavior and its impact on aggregate demand.

Key Points: Aggregate Demand formula; Understanding MPS and MPC; Impact of autonomous consumption and investment on AD; Calculation approach.

Question 32.

An economy is operating at under - employment level of income. What does this situation indicate ? Discuss any one fiscal measure to tackle this situation.

[4 Marks]

Answer: When an economy operates at an under-employment level of income, it indicates that there are unused resources, particularly labor, leading to a deficiency in aggregate demand. This lack of demand results in insufficient employment opportunities and income generation, leading to a stagnation in economic growth. One fiscal measure to address this situation is increased government spending. By investing in infrastructure projects, education, and healthcare, the government can stimulate demand. This spending will create jobs and foster consumer confidence, ultimately helping to increase overall economic activity and shift the economy towards full employment.

Key Points: Indicates unused resources; causes insufficient income; deficiency in aggregate demand; can lead to stagnation; fiscal measure - increased government spending; investment in infrastructure; creates jobs; stimulates economic activity; shifts economy towards full employment.

Question 33.

Elaborate using a hypothetical numerical example, how a given initial increase in investment affects the level of final income of the economy.

[4 Marks]

Answer: To understand the impact of an initial increase in investment on final income, consider a simple two-sector model where Consumption (C) is represented by the equation C = 40 + 0.8Y, and initial Investment (I) is 10. Here, the initial equilibrium income is calculated to be 250. Now, if we increase the investment to 20, the new equilibrium income rises to 300. This signifies that the income increased from 250 to 300, representing a change of 50. This increase exemplifies the investment multiplier effect, where an initial rise in investment ultimately leads to a more substantial increase in the overall economic output due to the circular flow of income.

Key Points: Initial Income 250 - Investment raised to 20 - New Income 300 - Increase by 50 - Demonstrates investment multiplier

Question 34.

Evaluate any two factors that led to the rapid growth in economic development in China.

[4 Marks]

Answer: Two significant factors that contributed to China's rapid economic development are the implementation of economic reforms and the growth of its industrial sector. In the late 1970s, China introduced market-oriented reforms that shifted from a centrally planned economy to a more open market system, allowing for foreign investments. This attracted capital and technology, stimulating growth. Additionally, China's industrial sector experienced rapid expansion, which propelled overall GDP growth, enabling per capita income to rise significantly compared to India and Pakistan. By maintaining double-digit growth rates in the 1980s, China established itself as a leading global economy.

> **Key Points: Economic reforms, Industrial sector growth, Market-oriented policies, Foreign investment attraction, GDP growth comparison with India and Pakistan**

Question 35.

IT can play a critical role in achieving sustainable development and food security in the 21st century in the country. Justify the given statement with valid arguments.

[4 Marks]

Answer: Information Technology (IT) is pivotal for sustainable development and food security. By providing timely information about market prices, weather forecasts, and soil conditions, IT equips farmers with the knowledge needed to make informed decisions. E-governance initiatives streamline access to government resources, reducing inefficiencies in agricultural policies. Moreover, IT fosters employment opportunities in rural areas, mitigating poverty and enhancing livelihoods. The success of IT-driven projects in agriculture demonstrates its potential to transform rural economies and support sustainability.

> **Key Points: Role of IT in providing real-time information-Impact on farmers' decision-making-E-governance streamlining resources-Employment generation in rural areas-Transformative potential of IT in agriculture**

Question 36.

Explain the importance of credit availability in rural development.

[4 Marks]

Answer: The availability of credit is crucial for rural development as it directly impacts agricultural output, income levels, and overall employment opportunities. After the Green Revolution, the expansion of the banking system allowed farmers to access necessary funds for production, leading

to increased productivity. However, the requirement of collateral often excludes poorer households from traditional banking, making initiatives like Self-Help Groups (SHGs) vital. SHGs promote savings among members and provide loans with manageable repayment terms, thus fostering economic growth and social cohesion within rural communities.

Key Points: Importance of credit for agricultural output - Accessibility of funds for rural households - Role of Self-Help Groups in bridging credit gaps - Impact on employment opportunities - Need for affordable credit services

Question 37.

It is necessary to generate more employment in the formal sector rather than in the informal sector. Justify the given statement with valid arguments.

[4 Marks]

Answer: Generating more employment in the formal sector is essential for several reasons. Firstly, formal sector jobs typically offer better wages and job security compared to informal jobs, which are often casual and lack benefits. Secondly, workers in the formal sector enjoy social security benefits like health insurance and pensions, enhancing their overall well-being. Additionally, promoting formal employment helps in tax collection and contributes to government revenue, allowing for better public services. Lastly, as the economy develops, shifting more workers into formal roles will reduce disguised unemployment. This transition is crucial for sustainable economic growth and poverty alleviation.

Key Points: Better wages-Job security-Social security benefits-Tax revenue-Reduce disguised unemployment-Sustainable economic growth

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Section E

Question 38.

(i) Suppose, there are only three firms in a hypothetical economy, viz. A, B and C. During a given period of time, the following transactions were under, taken by them :

(I) Firm A sold goods worth ₹ 2,000 to firm B and 1,200 to Firm C.

(II) Firm B sold goods worth₹ 1,100 to Firm A and 3,500 to Firm C.

(III) Firm C sold to households for final consumption, goods worth ₹ 5,700.

Estimate the value of Net Domestic Product at Market Price (NDPMP) assuming depreciation to be ₹ 120.

ii) Explain the likely impact of construction of 2000 new schools providing high-quality education in a nation on Gross Domestic Product and welfare in an economy.

[6 Marks]

Answer:

To calculate the Net Domestic Product at Market Price (NDPMP), we start by determining the Gross Domestic Product (GDP) using the final expenditure method. Firm C sells goods worth ₹ 5,700 for final consumption. The inter-firm transactions do not count in GDP as they are not final goods. Thus, GDP equals ₹ 5,700. Next, we subtract depreciation of ₹ 120 from this value: NDPMP = GDP - Depreciation = ₹ 5,700 - ₹ 120 = ₹ 5,580. Therefore, the NDPMP for the economy is ₹ 5,580.

The construction of 2000 new schools providing high-quality education can significantly impact a nation's Gross Domestic Product (GDP) and overall welfare. Education is a vital component of human capital formation, contributing to economic growth. High-quality education leads to a more skilled workforce, increasing productivity and innovation. Moreover, access to education reduces unemployment rates, as more individuals gain necessary skills to participate in the economy. This, in turn, boosts economic activity and consumption, positively affecting GDP. Furthermore, improved education fosters social equity by providing opportunities to underserved populations, enhancing overall welfare. Health and education are interconnected; as education improves, so do health outcomes, leading to a more productive labor force. The cumulative effect of these schools will be seen over the long term, as educated individuals contribute not only to GDP but also to societal well-being, reduced poverty, and improved standards of living. Thus, the investment in new schools is not just a financial allocation; it is a strategic move towards sustainable economic and social development in the country.

Key Points:

Calculate GDP based on final consumption; Inter-firm sales are not included in GDP; NDPMP = GDP - Depreciation; Final consumption by households is ₹ 5,700; Depreciation is ₹ 120; Thus, NDPMP = ₹ 5,580.

Impact on GDP-increased workforce productivity-skill development-reduced unemployment-enhanced social equity-improved health outcomes-long-term economic growth.

Question 39.

(i) Distinguish between Real Gross Domestic Product (GDP) and Nominal Gross Domestic Product.

(ii) As per a news dated April 11, 2023 : 'Electric Vehicle sales crossed one million mark in FY 2023' Analyse its impact on Gross Domestic Product (GDP) and economic welfare.

[6 Marks]



Answer:

Real Gross Domestic Product (GDP) and Nominal Gross Domestic Product differ primarily in how they account for inflation and changes in price levels. Nominal GDP measures a country's economic output using current market prices, without adjusting for inflation. For instance, if a country produces bread and its price rises over time, Nominal GDP reflects that increase directly, potentially overestimating real growth. In contrast, Real GDP adjusts for inflation, providing a more accurate picture of an economy's actual growth by using constant prices from a base year. This distinction allows economists to assess whether growth is due to increased production or merely rising prices. The GDP deflator, which is the ratio of Nominal GDP to Real GDP, serves as an important indicator of the price level changes in an economy. By analyzing both forms of GDP, policymakers can make informed decisions about economic policies and understand the real health of the economy. The crossing of one million electric vehicle (EV) sales in FY 2023 is a significant milestone that positively impacts India's Gross Domestic Product (GDP) and overall economic welfare. Firstly, increased EV sales lead to higher production levels, contributing to GDP growth by adding to the market value of goods produced. This surge in production can also stimulate related industries, such as battery manufacturing and charging infrastructure, further enhancing economic activity. Moreover, as EVs generally require less fuel and maintenance, consumer savings can be redirected towards other consumption, boosting economic welfare. Additionally, transitioning to EVs aligns with environmental sustainability goals, which can improve long-term welfare by reducing air pollution and fossil fuel dependence. The job creation in the burgeoning EV sector additionally supports economic growth. Lastly, the growth of EV sales signifies a paradigm shift towards cleaner energy, potentially attracting foreign investment, enhancing long-term GDP growth prospects. Overall, increased EV sales contribute to not only immediate economic growth but also long-term sustainable development and improved quality of life.

Key Points:

Nominal GDP measures economic output at current prices; Real GDP adjusts for inflation; Nominal GDP can overestimate growth due to price increases; Real GDP provides an accurate growth picture; GDP deflator indicates price level changes.

Impact on GDP due to increased production - Stimulates ancillary industries - Savings redirecting to consumption - Environmental sustainability - Job creation in EV sector - Attracting foreign investments - Long-term growth prospects

Question 40.

(i) Globalisation has been a process for India with only positive results.

Defend or refute the given statement with valid explanation.

(ii) The goal of equity was served by 'Abolition of Intermediaries' in agriculture in the post independence period. Do you agree with the given statement ? Support your answer with valid explanation.

[6 Marks]

Answer:

Globalisation has brought both positive and negative outcomes for India. On the positive side, globalisation has opened up access to international markets, allowing Indian industries to expand and innovate, which has led to increased economic growth and job creation. Additionally, it has facilitated access to advanced technologies, enhancing productivity in various sectors. However, globalisation also poses significant challenges. Critics argue that it amplifies economic disparities, as the benefits of growth are often unevenly distributed, predominantly favoring urban centers and established industries. Moreover, the widespread influx of foreign goods can undermine local businesses and cultural identity. Globalisation can also expose Indian farmers and smaller industries to global market fluctuations, leading to vulnerabilities. Therefore, while globalisation has enabled India to become a key player on the world stage, its implications require careful management to ensure equitable growth and protect local interests.

The abolition of intermediaries in agriculture post-independence aimed to empower tenants and ensure equity in land ownership. By eliminating zamindars, about 200 lakh tenants gained direct ownership, liberating them from exploitation and allowing them to cultivate their land without fear of oppression. This encouraged increased agricultural output and growth. However, the goal of equity was not entirely met since land reforms alone could not address broader socio-economic issues like caste dynamics, access to credit, and resource distribution that continued to affect marginal farmers. While these reforms marked a significant step, they needed to be complemented by additional measures to truly promote equity in agriculture. For example, the introduction of social banking in 1969 attempted to alleviate exploitation by providing credit access to the rural poor and reducing their dependency on moneylenders. In summary, while the abolition of intermediaries was a critical move towards achieving equity in agriculture, it was necessary to pursue further reforms and policies to fully realize the goals of economic justice and equity for all agricultural workers.

Key Points:

Economic growth and job creation-positive outcomes-access to international markets-positive outcomes-advancement in technology-negative outcomes-economic disparities-criticism of globalisation-impact on local businesses-cultural identity-vulnerability to market fluctuations-need for careful management.

Abolition of intermediaries gave ownership to tenants-200 lakh tenants liberated from zamindars exploitation-increased agricultural output-need for land reforms is crucial to equity-limited success due to ongoing socio-economic challenges-social banking introduced in 1969 to help poor farmers-need to complement reforms with broader measures for true equity.

Question 41.

(i) Farm subsidies put a huge burden on the government finances, but are necessary for poor and marginal farmers. Justify the given statement with valid explanation.

(ii) Discuss briefly the role of small scale industries in generating of employment and equity in India under the planning period.

[6 Marks]

Answer:

Farm subsidies serve as a crucial lifeline for poor and marginal farmers in India, who often lack the financial resources to purchase necessary inputs like seeds, fertilizers, and equipment. The agricultural sector is inherently risky, with unpredictable weather patterns and market fluctuations that threaten farmers' livelihoods. By providing subsidies, the government helps nurture the adoption of new technologies that can significantly increase productivity, particularly for small farmers who may see such investments as risky. However, it's essential to target these subsidies effectively to ensure they reach the intended beneficiaries rather than affluent farmers or the fertilizer industry. While the financial burden on the government is considerable, the benefits of supporting marginal farmers outweigh the costs, fostering equity and reducing income disparity within the agricultural sector. If subsidies were to be eliminated entirely, it would exacerbate inequality and jeopardize the livelihoods of those who are already vulnerable. Therefore, continuing and reforming agricultural subsidies is justified as they are integral to enhancing food security and promoting equitable growth in a critical economic sector. Small scale industries (SSIs) have played a crucial role in India's economic development, particularly in generating employment and promoting equity. They provide opportunities for entrepreneurs who lack the capital to establish large-scale businesses, allowing individuals from various socio-economic backgrounds to enter the market. SSIs are inherently more labor-intensive, leading to higher employment generation compared to larger firms. The protection offered to these industries from foreign competition has enabled them to flourish, notably in sectors like electronics and automobiles. The Karve Committee of 1955 emphasized the potential of SSIs for rural development, underscoring their importance in creating jobs in rural areas, thereby reducing regional

disparities. Overall, SSIs contribute significantly to fostering equity by empowering local communities and enhancing inclusive growth.

Key Points:

Subsidies support poor farmers; Agricultural risks and unpredictability; Incentive for adopting new technology; Targeting subsidies to reach marginal farmers; Financial burden vs. social equity; Impact on income disparity; Maintaining food security and promoting growth. Opportunities for low-capital entrepreneurs-labor intensity and employment generation-protection from foreign competition-rural development emphasis by Karve Committee-equity and inclusive growth.