CBSE EXAMINATION PAPER-2025

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 100

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 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 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:

The Labour Force Participation Rate (LFPR) measures the percentage of the population either employed or actively seeking employment in a nation. In India, the labour force grew by 99-2 million persons between 2000-2019. The labour force grew from 396-3 million to 495-5 million.

During 2012-2019, the labour force grew without a matching increase in employment, leading to higher unemployment.

The gender disparity in India's labour market is notable with women's LFPR at 32-8% in 2022, significantly lower than men's LFPR at 77-2%. This is a major reason for India's overall low LFPR, which is lower than the global average of 47-3%.

During 2000-2019, rural LFPR declined by 14-1%, compared to a 3-5% decline in urban areas. This trend reversed between 2019 - 2022, with rural LFPR increasing by 6% (especially among rural women) and urban LFPR by 2-1%. These shifts suggest that fluctuations occur in women's labour market participation, particularly in rural areas.

This significantly affected the overall LFPR. Women join the workforce during economic hardships and move out when conditions improve.

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

(1)

Define unemployment.

[1 Marks]

Answer: Unemployment refers to the situation where individuals who are capable and willing to work are unable to find any jobs. It can be categorized into various types, such as open unemployment and disguised unemployment, where the latter is prevalent in rural areas of India.

Key Points: Definition of unemployment-Types of unemployment-Open unemployment-Disguised unemployment

(2)

Write the meaning of Labour Force Participation Rate (LFPR).

[2 Marks]

Answer: The Labour Force Participation Rate (LFPR) is a measure that indicates the percentage of a nation's population that is either employed or actively seeking employment. It reflects the active engagement of individuals in the labour market and is an important indicator of economic activity within a country.

Key Points: Definition of LFPR - Percentage of population employed or seeking employment - Indicator of economic activity

(3)

Comment upon the gender disparities in rural and urban Labour Force Participation Rate (LFPR) during 2000- 2019.

[3 Marks]

Answer: The gender disparities in the Labour Force Participation Rate (LFPR) during 2000-2019 are stark, particularly when comparing rural and urban areas in India. In rural areas, women had a participation rate of approximately 17.5%, yet in urban areas, this figure dropped to about 14.2%. This indicates that for every 100 rural women, around 18 engaged in the workforce, while only 14 urban women participated. Overall, men represent a significant majority in the workforce, accounting for around 77% of the total, with a worker-population ratio of 52.1% compared to women's 16.5%. The notable gap between men and women not only highlights the challenges women face in gaining employment but also indicates societal norms that limit women's economic contributions, especially in urban settings where opportunities may be more competitive and resources scarcer. Furthermore, these trends suggest that while rural women may find more engagement in farm labor and other economic activities during challenging times, urban women face greater barriers to entry into the workforce, resulting in a pronounced gender disparity in LFPR across both sectors.

Key Points: Significant gender disparity in LFPR, Rural women's participation higher than urban, Men's workforce ratio is dominant, Societal norms limit women's economic participation, Rural women engage more in farm and economic activities.

Question 2.

Section B

Question 3.

Identify which of the following does not represent a public good.

(Choose the correct option)

[1 Marks]

(A) Free vaccines provided by the government

(B) Defence services provided by the military

(C) Street light installed by a city municipality

(D) Purchase of railway ticket by an individual

Explanation:

The correct option is 'Purchase of railway ticket by an individual' because purchasing a railway ticket involves a transaction where the benefits are exclusive to the individual who buys the ticket. This makes it a private good since it is excludable and not free for all, unlike the other options which are public goods that are non-excludable.

Question 4.

Market forces of demand and supply, actively interact under _____ exchange rate system to determine the foreign exchange rate.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) flexible

(B) managed floating

(C) fixed floating

(D) fixed

Explanation: The correct option is 'flexible'. A flexible exchange rate system, also referred to as a floating exchange rate, is determined by the market forces of demand and supply in the foreign exchange market, with no intervention from central banks. This aligns with the context given, which describes how exchange rates can be influenced by market dynamics.

Question 5.

Read the following statements carefully :

Statement 1 : During deflationary gap, the Central Bank of a country may increase the repo rate.

Statement 2 : The government can reduce the deflationary gap by purchasing Government Securities (G-Sec) in the open market.

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

[1 Marks]

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

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

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

Explanation:

Statement 1 is false because during a deflationary gap, the Central Bank typically lowers the repo rate to encourage borrowing and spending, rather than increasing it. Statement 2 is true since purchasing Government Securities in the open market injects liquidity into the economy, which can help reduce a deflationary gap by stimulating demand.

Question 6.

Under the Keynesian framework, the line drawn through the origin is at an angle of _____.

[1 Marks]

(A) 25°

(B) 45°

(C) 55°

(D) 75°

Explanation:

The correct answer is 45°. In the Keynesian framework, a 45° line is used to illustrate the relationship where the total output (supply) matches the total expenditure (demand) at each point. At this angle, every point on the line has equal horizontal and vertical coordinates, meaning that the quantity supplied equals the quantity demanded.

Question 7.

According to the data presented in the Union Budget 2023 24, the total receipts of the government (other than borrowings), and the total expenditure are estimated as 20 lakh crore and 45 lakh crore respectively. Therefore, the value of _____ deficit would be 25 lakh crore. (Choose the correct option to fill in the blank)

[1 Marks]

(A) revenue

(B) fiscal

(C) primary

(D) trade

Explanation:

The correct answer is 'fiscal' because fiscal deficit is defined as the difference between the total expenditure of the government and its total receipts, excluding borrowings. In this case, total expenditure is 45 lakh crore and total receipts are 20 lakh crore, resulting in a fiscal deficit of 25 lakh crore.

Question 8.

Read the following statements carefully :

Statement 1 : Marginal Propensity to Consume (MPC) exhibits the consumption per unit of income.

Statement 2 : As the national income of a country rises, the proportionate increase in the consumption is always more than the increase in the income.

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) 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: Statement 1 is true because MPC is defined as the change in consumption (△C) per unit change in income (△Y). However, Statement 2 is false since as national income rises,

consumption does not necessarily increase proportionately more than income due to the nature of MPC. Therefore, the correct option is 'Statement 1 is true and Statement 2 is false.'

Question 9.

In a two-sector economy, Aggregate Supply can be determined by adding_____ and _____.(Choose the correct option to fill in the blanks)

[1 Marks]

(A) consumption, investments

(B) savings, exports

(C) consumption, savings

(D) investments, savings

Explanation: The correct option to fill in the blanks is 'consumption, investments'. This is because, in a two-sector economy, the Aggregate Supply (AS) is represented as the total output produced, which includes the total consumption (C) and total investment (I) expenditures. This follows from the relationship where Aggregate Demand is defined as AD = C + I, and thus, Aggregate Supply can similarly be derived from these components.

Question 10.

Read the following statements carefully :

Statement 1 : Foreign aids are the capital receipts for the government.

Statement 2 : Disinvestments may lead to a decrease in the assets of the government.

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) Statement 1 is false and Statement 2 is true.

(D) Both Statements 1 and 2 are true.

Explanation: Statement 1 is true because foreign aids create liabilities for the government, which are classified as capital receipts. Statement 2 is also true since disinvestments involve the sale of government assets, leading to a decrease in the total financial assets of the government.

Question 11.

From the following, identify the situation which indicates the Current Account Surplus (CAS) in Balance of Payments (BOP) account of a nation.

[1 Marks]

(A) Excess of receipts on current account over the payments on current account.

(B) Equality of receipts on current account and payments on current account.

(C) Excess of payments on current account over receipts on current account.

(D) Excess of payments on current account over receipts on capital account.

Explanation: The correct option is 'Excess of receipts on current account over the payments on current account.' This is because a Current Account Surplus occurs when a country's receipts from its current account transactions exceed its payments, as outlined in the context.

Question 12.

Production of diverse varieties of crops, rather than one specialised crop,b is known as diversification of _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Employment

(B) Sectoral Composition

(C) Agricultural Production

(D) Crops

Explanation: The question is about producing diverse varieties of crops instead of focusing on a single specialised crop. According to the context, diversification includes changing the cropping pattern, which means growing different types of crops. Therefore, the correct answer is 'Crops'. Diversification of agricultural production or sectoral composition refers to a broader inclusion of activities beyond crops, such as livestock and fisheries. Diversification of employment relates to work sectors, which is not the focus here.

Question 13.

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

Choose the correct option from the options given below :

Assertion (A) : People spend to acquire information related to labour and other markets (like, education and health).

Reason (R) : Expenditure on information is necessary for efficient utilisation of the human capital stock.

[1 Marks]

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

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

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

(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). The context states that people invest in acquiring information related to the labor market and education, which is essential for making informed decisions on human capital investments. This expenditure is indeed necessary for the efficient use of human capital.

Question 14.

Identify, which of the following statements is incorrect about the Rural Banking system in India. (Choose the correct option)

[1 Marks]

(A) In the post-independence period, a well-structured Rural Banking system was formulated in India.

(B) The Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.

(C) Regional Rural Banks, Cooperative and Land Development Banks are components of the Rural Banking system in India.

(D) The Rural Banking system in India consists of a set of multi-agency institutions.

Explanation:

The incorrect statement is: 'The Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.' This is inaccurate because the Rural Banking system in India operates under a multi-agency framework which includes various institutions like commercial banks, regional rural banks, and cooperatives, and is not solely guided by the State Bank of India.

Question 15.

Identify, which of the following statements is incorrect about the functions of environment. (Choose the correct option)

[1 Marks]

(A) Environment absorbs wastage.

(B) Environment deteriorates quality of life.

(C) Environment provides resources.

(D) Environment sustains life.

Explanation:

The incorrect statement is 'Environment deteriorates quality of life.' This is incorrect because the environment is essential for sustaining life and providing resources, and while it can be negatively impacted by human actions, its functions do not inherently cause a decline in quality of life. Instead, the environment supports life, provides resources, and helps assimilate waste.

Question 16.

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

Assertion (A) : Under the financial sector reforms introduced in 1991, foreign investment limit in banks was raised up to around 74%.

Reason (R) : Foreign Institutional Investors (FIIs) were allowed to invest in Indian financial markets, post-1991.

[1 Marks]

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

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

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

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

Explanation:

Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). Although the foreign investment limit in banks was indeed raised to 74% under the reforms, the allowance for Foreign Institutional Investors (FIIs) to invest in markets is a separate outcome of the reforms and does not directly explain the increase in the foreign investment limit in banks.

Question 17.

Suppose an imaginary economy is experiencing a situation of rise in Real Gross Domestic Product (GDP), without any corresponding adequate rise in the employment opportunities in the economy."

In economic parlance, such a situation is termed as growth.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Formal

(B) Informal

(C) Jobless

(D) Casual

Explanation:

The correct option is 'Jobless'. This term refers to a situation where GDP increases without a rise in employment opportunities, reflecting a disconnect between economic growth and job creation, as noted in the provided context.

Question 18.

Read the following statements carefully:

Statement 1: The British policies led to huge employment generation in the secondary and tertiary sectors of the Indian Economy.

Statement 2 The real motive of the colonial government's infrastructural development was to benefit interests of Indin.

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

[1 Marks]

(A) Both Statements 1 and 2 are true.

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

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

(D) Both Statements 1 and 2 are false.

Explanation:

Both Statements 1 and 2 are false. The British policies did not lead to employment generation in India's secondary and tertiary sectors; instead, they were focused on de-industrializing the economy and prioritizing British economic interests. The real motive behind infrastructural development was not to benefit India, but rather to serve colonial interests, as highlighted in the provided context.

Question 19.

Read the following statements carefully : 1

Statement 1 : The purchase of food grains, made by the government on the Minimum Support Price (MSP), is maintained as buffer stock.

Statement 2 : Minimum Support Price (MSP) safeguards the farmers against any sharp fall in farm product prices.

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

[1 Marks]

(A) Both Statements 1 and 2 are false.

(B) Both Statements 1 and 2 are true.

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

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

Explanation: Both Statement 1 and Statement 2 are true. The government purchases food grains at the Minimum Support Price to maintain buffer stocks, which serve as a safety net for food security. Additionally, the MSP is designed to protect farmers from drastic price declines, ensuring their income stability.

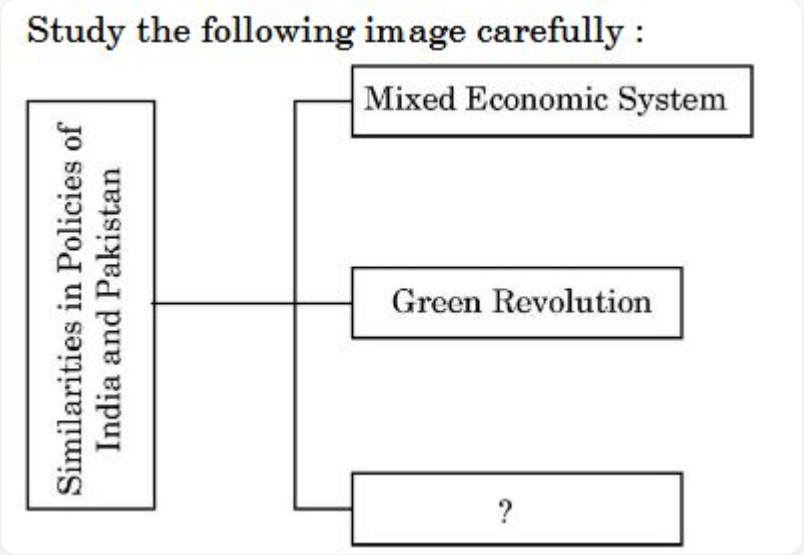
Question 20.

Study the following image carefully :

From the following, choose the correct option which indicates similarities in the policies of India and Pakistan, in the post-1947 period :

(Choose the correct option)

[1 Marks]



(A) Commune system

(B) Great Proletarian Cultural Revolution

(C) Import substitution

(D) Dual pricing policy

Explanation:

The correct option is 'Import substitution' as both India and Pakistan adopted this policy framework for industrialization after independence. This approach aimed to reduce dependency on foreign goods by promoting domestic production, which aligns with the mixed economy model both countries implemented.

Question 21.

To arrive at the value of Net Value Added at Market Price (NVA MP), _____ must be _____ to/from Gross Value Added at Market Price (GVA MP).

(Choose the correct option to fill in the blanks)

[1 Marks]

(A) net indirect taxes, added

(B) depreciation, added

(C) net indirect taxes, subtracted

(D) depreciation, subtracted

Explanation: The correct option is 'depreciation, subtracted'. This is because, according to the context, net value added is calculated by deducting depreciation from gross value added.

Depreciation represents the wear and tear on capital, which should not be included when determining net value added.

Question 22.

In the post-independence era, the policy makers of India emphasised on' self-reliance ' for the first _____ Five Year Plans.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) 9

(B) 6

(C) 7

(D) 8

Explanation:

The correct answer is 7. The context states that the first seven five year plans focused on self-reliance, emphasizing the importance of producing goods domestically and avoiding imports when possible. Therefore, the blank should be filled with 'seven'.

Section C

Question 23. State the steps pertaining to the estimation of National Income, under the Income Method.

[3 Marks]

Answer: The Income Method of estimating National Income involves several key steps. First, it computes the total income earned by the factors of production, which include wages for labor, rent for land, interest on capital, and profits from entrepreneurship. Next, the method aggregates these factor payments to determine the total income generated in the economy. After that, adjustments may be made for elements such as taxes and subsidies to achieve accuracy. The final step entails calculating the Net National Product (NNP) by subtracting depreciation from the Gross National Product (GNP). This method effectively accounts for income distribution among various economic agents and provides insights into the economic health of the nation.

Key Points: Total income from factors of production; Aggregation of wages, rent, interest, and profits; Adjustment for taxes and subsidies; Calculation of NNP from GNP; Insights into income distribution.

Question 24.

On the basis of the following hypothetical data, calculate the percentage change in Real Gross Domestic Product (GDP) in the year 2022 23, using 2020 21 as the base year.

[3 Marks]

(All figures in ₹ crore)

Year	*Nominal GDP*	*Nominal GDP (Adjusted to Base Year Price)*
2020 – 21	3,000	5,000
2022 – 23	4,000	6,000

Answer:

Percentage Change in Real GDP=(Real GDP in 2020–21Real GDP in 2022–23−Real GDP in 2020–21/ Real GDP in 2020-21)×100
Real GDP in 2020–21 = ₹5,000 crore

Real GDP in 2022–23 = ₹6,000 crore
Percentage Change= (6000−5000/5000)×100=(1000 / 5000)×100=20% ,

20% increase in Real GDP from 2020–21 to 2022–23.

Key Points:

Real GDP increased from ₹5,000 crore (2020–21) to ₹6,000 crore (2022–23), so the percentage increase is 20%.

Question 25.

As per the Economic Survey of India 2022-23 due to the outbreak of geopolitical conflict, the result was higher international prices for fertilizer and fuel. Thus, there was a higher fuel and fertilizer subsidy requirement for supporting the people. .

On the basis of given text, identify and explain the indicated objective of the government budget.

[3 Marks]

Answer: The indicated objective of the government budget, as highlighted in the Economic Survey of India 2022-23, is to enhance welfare through increased subsidies on fuel and fertilizers. Geopolitical conflicts have led to inflated international prices, necessitating greater government intervention to shield the populace from economic strain. By providing these subsidies, the government aims to ensure that essential goods remain accessible to citizens, thereby supporting agricultural sectors and reducing overall cost burdens on families. This commitment is integral to maintaining social stability and economic resilience, essential objectives in fiscal planning.

Key Points: Increase welfare through subsidies-Address the impact of geopolitical conflicts-Control rising prices of essential goods

Question 26.

British colonial rule in India executed a systematic economic exploitation that involved the extraction of India's resources and wealth to benefit Britain.

Justify the given statement with valid explanation.

[3 Marks]

Answer: The statement regarding British colonial rule in India reflects the exploitative economic policies that prioritized Britain's interests over India's. British colonialism systematically dismantled India's self-sufficient economy by redirecting resources to Britain. Agricultural productivity declined due to forced cash cropping, leading to famine. Industries were underdeveloped, as India was turned into a supplier of raw materials and a market for British goods. By enhancing Britain’s industrial growth while stunting India's economic potential, colonial rule left lasting detrimental effects, impoverishing the nation.

Key Points: Exploitation for British benefit - Forced cash cropping leading to famine - Underdevelopment of Indian industries - Resource extraction - Economic policies prioritizing Britain over India - Lasting negative impacts on India's economy

Question 27.

The disinvestment policy of India under the 1991 reforms involved selling of part of the government's stakes in Public Sector Undertakings (PSUs).

Explain the rationale behind the decision undertaken by the government.

[3 Marks]

Answer: The rationale behind India's disinvestment policy in 1991 was primarily driven by a need to enhance the financial discipline of PSUs and facilitate their modernization. By selling stakes to the public, the government aimed to introduce private capital and managerial expertise, improving operational efficiency. Additionally, disinvestment was expected to attract Foreign Direct Investment (FDI), boost the economy, and increase revenue. The government also sought to reduce its own role in the economy, allowing enhanced private sector participation. This was aligned with broader liberalization and globalization policies, aiming to integrate India into the global economy.

Key Points: Enhanced financial discipline-Utilization of private capital-Attraction of FDI-Improved operational efficiency-Reliance on private sector participation-Liberalization and globalization effects

Question 28.

Using the following data, analyse the sectoral contribution of India and Pakistan towards Gross Value Added (GVA).

[3 Marks]

Sectoral Share of Employment and GVA (%) in 2018 – 19

Sector	*Contribution to GVA*			*Distribution of Workforce*		
	India	*China*	*Pakistan*	*India*	*China*	*Pakistan*
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	100	100	100	100	100	100

Answer: India and Pakistan have distinct contributions towards Gross Value Added (GVA), reflecting their economic structures. India's industry accounts for 30% of GVA, indicating a strong industrial base, whereas Pakistan's industry contributes only 19%. In agriculture, Pakistan leads with 24% contribution to GVA while India stands at 16%, despite India having a slightly higher workforce engaged in agriculture (43% compared to Pakistan's 41%). Both nations are experiencing a shift towards the service sector, which is becoming increasingly important for economic growth and employment, highlighting the emerging role of services in development.

Key Points: Industry contribution to GVA: India 30%, Pakistan 19% - Agriculture contribution: India 16%, Pakistan 24% - Workforce in agriculture: India 43%, Pakistan 41% - Service sector emerging as key player in development

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Section D

Question 29.

The Indian economy has witnessed a sharp turnaround during 2023 24 with Foreign Direct Investments (FDI) inflows of US $ 70·9 Bn and net Foreign Portfolio Investments (FPI) inflowsof US $ 32.4 Bn.

(i) Distinguish between the above mentioned economic variables.

(ii) In which account of Balance of Payments will the given variables be entered and why ?

[4 Marks]

Answer: Foreign Direct Investment (FDI) refers to investment made by a company or individual in one country in business interests in another country, usually in the form of establishing business

operations or acquiring assets. It tends to be long-term and results in direct management control. On the other hand, Foreign Portfolio Investment (FPI) involves investments in financial assets like stocks and bonds, typically shorter-term and does not convey control over the companies invested in. These inflows are recorded in the capital account of the Balance of Payments, as they reflect cross-border investment flows and affect a country's foreign exchange reserves. This is crucial for analyzing the economic stability and investor confidence in a country. The presence of FDI indicates long-term confidence from investors, while FPI showcases market sentiment and liquidity. Both inflows contribute significantly to the capital account and impact the overall economic health.

Key Points: Definition of FDI-Definition of FPI-Impact on Balance of Payments-Capital account classification-Long-term vs Short-term investments

Question 30.

Explain how Accommodating Transactions differ from Autonomous Transactions.

[4 Marks]

Answer: Accommodating transactions and autonomous transactions are two distinct types in the balance of payments (BoP). Autonomous transactions are independent economic activities aimed at earning profits, which do not rely on the state of the BoP; these are identified as 'above the line' items. In contrast, accommodating transactions serve the purpose of bridging the gap in the BoP, adjusting based on the presence of a surplus or deficit, and are classified as 'below the line' items. Therefore, while autonomous transactions drive economic activities, accommodating transactions respond to the BoP conditions.

Key Points: 1. Autonomous transactions are independent of BoP conditions; their purpose is to generate profit. 2. They are considered 'above the line' items. 3. Accommodating transactions are made to correct BoP discrepancies and are determined by surplus or deficit situations. 4. Accommodating transactions are classified as 'below the line' items.

Question 31.

Suppose for two imaginary economies A and B, the value of Marginal Propensity to Consume (MPC) stands at 0·8 and 0·6 respectively. For both the economies, Autonomous Consumption ($\bar{c}$) = 400 crore and Investment Expenditure (I) = 2,000 crore. Calculate the following :

(a) Break-even level of income for Economy A. 2

(b) Equilibrium level of income for Economy B.

[4 Marks]

Answer: To calculate the break-even level of income for Economy A, we set aggregate demand (AD) equal to income (Y). AD = Autonomous Consumption + MPC × Y = 400 + 0.8Y; setting AD = Y gives 400 + 0.8Y = Y, simplifying to 0.2Y = 400, therefore Y = 2000 crore. For Economy B, the equilibrium level is found similarly. AD = 400 + 0.6Y; setting AD = Y gives 400 + 0.6Y = Y. Thus, 0.4Y = 400, leading to Y = 1000 crore. Hence, Economy A's break-even income is 2000 crore, and Economy B's equilibrium income is 1000 crore.

Key Points: Break-even income calculation; Aggregate demand formula; Setting AD = Y; Simplification process; Economies A and B specifics

Question 32.

Read the following text carefully :

In an economy, a significant reduction in Aggregate demand raised concerns about future growth prospects of the country. This economic downturn underscores the urgent need for strategic measures to boost confidence of households and stimulate economic activities.

Based on the above text and common understanding, explain the measures which the government may take to stabilise the indicated situation.

[4 Marks]

Answer: To stabilize the economy amidst declining Aggregate demand, the government can implement various strategic measures. Firstly, increasing public spending on infrastructure projects can create jobs and enhance economic activity. Secondly, the government may provide tax incentives to households and businesses, encouraging consumer spending and investment. Additionally, interest rates could be lowered to promote borrowing and spending. Furthermore, enhancing social safety nets, such as unemployment benefits and food assistance, would support households during economic downturns. Lastly, addressing inflation through price controls on essential goods can help maintain purchasing power, boosting consumer confidence.

Key Points: Increase public spending on infrastructure-tax incentives for households and businesses-lower interest rates-enhance social safety nets-address inflation through price controls

Question 33.

Read the following text carefully :

China underwent substantial policy changes to stimulate their economy. China's economic growth was rapid in the late 1970s across various sectors. However, India had to wait much longer for its economic transformation. India's significant economic progresss was only realised after the economic reforms of 1991, which were implemented out of compulsion.

On the basis of given text and common understanding, compare the impact of subsequent reforms initiated by China and India.

[4 Marks]

Answer: The economic reforms in China and India had different catalysts and impacts. China's reforms began in 1978, initiated by a need for modernization and growth, leading to rapid economic expansion and substantial improvements in human development indicators before the reform era. In contrast, India's economic reforms were implemented in 1991, primarily due to external pressures. While both countries saw significant growth post-reforms, China's early shift resulted in more immediate gains, whereas India's reforms took longer to realize their potential, resulting in a slower but steady progress towards economic transformation.

Key Points: China's reforms began in 1978; India's in 1991-China's motivation was internal, driven by modernization needs; India faced external pressures-China experienced rapid growth and human development; India saw slower progress indicators

Question 34.

(i) Distinguish between human capital and physical capital.

(ii) Define Sustainable Development.

[4 Marks]

Answer: Human capital refers to the intangible skills, knowledge, and health of individuals, which enhance productivity and contribute to economic growth. It encompasses education, training, and overall well-being, focusing on developing people's potential within the workforce. In contrast, physical capital pertains to tangible assets like machinery, buildings, and equipment that are used in the production of goods and services. Sustainable development is a holistic approach that emphasizes meeting current needs without compromising the ability of future generations to fulfill their own. It involves responsible management of resources and ensuring that economic growth is inclusive and environmentally sustainable.

Key Points: Human capital is intangible; includes education, health, and skills. Physical capital is tangible; includes machinery and buildings. Sustainable development aims to balance current needs with future generations' needs, promoting environmental sustainability and inclusive growth.

Question 35.

(i) Describe briefly the importance of micro-credit programmes in Rural India.

(ii) State any one strategy involved in attaining sustainable development in India.

[4 Marks]

Answer: One effective strategy for attaining sustainable development in India is the promotion of organic farming. Organic farming not only helps in conserving biodiversity and enhancing soil fertility but also reduces dependence on chemical fertilizers and pesticides, which are harmful to both health and the environment. By adopting organic farming practices, farmers can achieve better yields while ensuring the long-term sustainability of natural resources. Additionally, organic farming can improve farmers' income as organic produce often fetches a higher market price. This strategy supports the goal of reducing the ecological footprint of agriculture while promoting economic growth and food security in rural areas. Therefore, by supporting organic farming, India can move closer to achieving sustainable development.

> **Key Points: Organic farming conserves biodiversity-reduces chemical dependency-improves soil fertility-higher market prices for produce-supports farmers' incomes-promotes economic growth**

Question 36.

State and elaborate whether the following statements are true/false, with valid arguments:

(a) The Indian economy has shown satisfactory progress towards formalization of workforce in the recent years.

(b) In the Indian rural landscape, agricultural diversification has emerged as a reasonable alternative to fill up the gaps in income.

[4 Marks]

Answer: (a) The statement is **false**. Although India has made some efforts to formalize its workforce through various government schemes and policies, a large part of the workforce remains informal. More than half of the workforce is still dependent on farming and allied activities, and many jobs are informal, lacking social security and benefits. The growth of formal employment has not been satisfactory due to challenges like deceleration in employment growth and prevalence of informal sectors.

(b) The statement is **true**. Agricultural diversification in rural India has increasingly become an important strategy to reduce income risks and improve livelihoods. Farmers are shifting from dependence on traditional crop farming to growing horticulture, raising livestock, fisheries and other allied activities. This diversification helps fill income gaps and reduces dependence on a single source of income, contributing to rural income stability and growth.

Key Points: Indian workforce largely informal - More than half depend on agriculture - Agricultural diversification improves rural income stability

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Section E

Question 37.

(a) In a country, routine economic operation reply on a stable medium, to facilitate transactions for maintaining smooth economic activities. Discuss briefly the indicated function of money.

(b) State the meaning and components of M1 measure of money supply.

(c) State the formula to compute Credit Multiplier.

[6 Marks]

Answer: Money plays a crucial role in the economy as a medium of exchange, providing a stable method for facilitating transactions. This function eases trade by eliminating the inefficiencies associated with barter systems, such as the 'double coincidence of wants.' Money also serves as a unit of account and a store of value. Regarding the M1 measure of money supply, it comprises the most liquid forms of money available in an economy, which include currency notes, coins, and demand deposits held by the public in commercial banks. M1 is essential for understanding the immediate liquidity in the economy. The formula to compute the Credit Multiplier is 1 / Reserve Deposit Ratio. This indicates how much the money supply can increase based on additional reserves in the banking system.

Key Points: Function of money as a medium of exchange; M1 includes currency, coins, demand deposits; Credit Multiplier formula: 1/Reserve Deposit Ratio

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 undertaken 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 first determine the Gross Domestic Product (GDP) using the final consumption expenditure approach. Based on the transactions, Firm C sold ₹5,700 worth of goods to households, which is final consumption. Thus, GDP is ₹5,700. Next, we account for depreciation of ₹120. Therefore, NDPMP is calculated as NDPMP = GDP - Depreciation = ₹5,700 - ₹120 = ₹5,580. Hence, the NDPMP is ₹5,580.

The construction of 2000 new schools dedicated to providing high-quality education in a nation can significantly impact both Gross Domestic Product (GDP) and the overall welfare of society. Firstly, increased government expenditure on education directly contributes to GDP. Investment in education enhances human capital, which leads to a more skilled workforce capable of more productive work. This increases the output of various sectors, ultimately boosting GDP. Secondly, as education quality improves, literacy rates and employment opportunities rise, leading to better income levels. Higher incomes contribute to greater consumer spending, thereby driving economic growth. Moreover, in terms of welfare, better education results in improved health outcomes, lower crime rates, and enhanced social equity. Well-educated individuals are more likely to contribute positively to society, fostering a cycle of growth that benefits the economy as a whole. Overall, the creation of these schools is not just an investment in education but also a strategic move towards sustainable economic development and increased welfare for the nation.

Key Points:

NDPMP calculation; GDP from final consumption; accounting for depreciation; NDPMP = GDP - Depreciation. mpact on GDP; Increase in human capital; Higher productivity and output; Improvement in employment and income levels; Enhancement of social equity and health outcomes; Contribution to overall economic growth.

Question 39.

(i) All consumption goods are durable in nature.

Defend or refute the given statement with a valid argument.

(ii) On the basis of the given data, estimate the value of National Income (NNPFC) :

[6 Marks]

S.No.	Items	Amount (in ₹ Crore)
(i)	Household Consumption Expenditure	1,800
(ii)	Gross Business Fixed Capital Formation	1,150
(iii)	Gross Residential Construction Expenditure	1,020
(iv)	Government Final Consumption Expenditure	2,170
(v)	Excess of Imports over Exports	720
(vi)	Inventory Investments	540
(vii)	Gross Public Investments	1,300
(viii)	Net Indirect Taxes	240
(ix)	Net Factor Income from Abroad	(–) 250
(x)	Consumption of Fixed Capital	440

Answer:

The statement 'All consumption goods are durable in nature' is inaccurate. While certain consumption goods, such as televisions, automobiles, and home computers, are indeed durable and can last for many years, not all consumption goods share this characteristic. Many consumption goods, particularly perishables like food items and clothing, are not durable; they have a short life span and are consumed quickly. The essential distinction lies in the nature of the goods: durable goods provide long-term utility and serve consumers over extended periods, while non-durable goods are designed for immediate use and typically do not last long. This classification further helps understand different consumer behavior and market dynamics. In summary, while some consumption goods are durable, it is incorrect to generalize that all consumption goods fall into this category.

GDP(MP)
= Private Final Consumption Expenditure (i)

Government Final Consumption Expenditure (iv)

Gross Domestic Capital Formation (ii + iii + vi + vii)

Net Exports (Exports - Imports → negative due to excess imports)

GDPMP=1800+2170+(1150+1020+540+1300)+(−720)

GDPMP=1800+2170+4010−720=7260

Convert GDP(MP) to NNP(FC) NNPFC=GDPMP −NetIndirectTaxes−ConsumptionofFixedCapital+NetFactorIncomefromAbroad

NNPFC =7260 -240-440-250 NNPFC =7260-930= ₹ 6,330 crore

Key Points:

Durable goods definition - Examples of durable and non-durable goods - Importance of distinguishing between different types of consumption goods - Consumer behavior towards durable vs. non-durable goods

NNP at FC = GDP at MP – Net Indirect Taxes – Depreciation + Net Factor Income from Abroad

= 7260 – 240 – 440 – 250 = ₹6330 crore

Question 40.

(i) Import substitution pilicy, if not applied carefully, can be a double- edged sword for any economy.

Do you agree with the given statement ? Justify your answer with valid arguments.

(ii) State how multilateral trade is different from bilateral trade.

[6 Marks]

Answer: Import substitution policy can indeed be a double-edged sword for economies. On one hand, it promotes domestic industries by reducing dependency on imports, which can lead to economic self-sufficiency and growth in GDP contributions from the industrial sector. However, if not applied carefully, it can also lead to inefficiencies, as seen in the public sector of India, where loss-making enterprises emerged, draining national resources. This inefficiency can stifle competition and innovation, making the economy less dynamic. Furthermore, if imports are restricted without developing competitive local industries, consumers may be faced with higher prices and limited choices, negatively affecting their welfare. Therefore, while the intent of the policy is beneficial, careful implementation and monitoring are crucial to avoid such pitfalls. Regarding trade, multilateral trade involves multiple countries engaging in trade agreements to promote free trade among them, while bilateral trade pertains to trade between two countries, focusing on specific agreements between them that may not involve other nations. Multilateral trade can create broader trade networks with diverse benefits, whereas bilateral trade can lead to more tailored agreements based on the specific needs and strengths of the two countries involved.

Key Points: Importance of domestic production-increased GDP contribution-drawbacks like inefficiency and resource drain-consumer impact-higher prices-limited choices-distinction between multilateral and bilateral trade-broad agreements vs. tailored agreements

Question 41.

(i) Discuss briefly, causes and consequences of the tax reforms initiated during economic reforms in India.

(ii) Give one example each of a Navratna and a Maharatna company in the public sector in India.

[6 Marks]

Answer: The economic reforms initiated in India in 1991 aimed to address the financial crisis, characterized by declining foreign exchange reserves, high inflation, and increased imports. The primary cause of tax reforms was the need for a more efficient tax system to increase government revenues without stifling economic growth. Consequences included a broadened tax base, improved compliance, and greater foreign investment due to enhanced investor confidence. Tax reforms also led to a shift towards direct taxes, improving equity. In the public sector, an example of a Maharatna company is Indian Oil Corporation Limited, while Hindustan Aeronautics Limited serves as a Navratna company. These classifications reflect their operational autonomy and significance in India's economy.

Key Points: Causes: financial crisis, need for efficient revenue system, boosting foreign investment; Consequences: broadened tax base, improved compliance, shift to direct taxes; Examples: Indian Oil Corporation Limited (Maharatna), Hindustan Aeronautics Limited (Navratna)