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 **40 questions.** All questions are **compulsory.**

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

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

iv. **Section B** – questions number **2 to 21** are multiple choice questions

v. **Section C** – questions number **22 to 27** are short answer type i

vi. **Section D** – questions number **28 to 35** are short answer type ii

vii. **Section E** – questions number **36 to 40** are long answer

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

ix. Use of calculator is NOT allowed.

Section A

Question 1.

Read the following text carefully :

Indian labour market indicators have improved in the last six years, as per the Periodic Labour Force Survey Data. The unemployment rate has fallen to 3·2% in 2022 23. Rising youth and female participation in the workforce present an opportunity to tap the demographic and gender dividend. The factory employment data exhibits the bounce back of the organised manufacturing sector in FY 2022 23 with rise in employment and the upscaling of factories.

The net payroll additions under EPFO have more than doubled in the past five years, signalling healthy growth in formal employment.

To generate and sustain quality employment, agro-processing and care economy are two promising candidates.

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

(1)

State any one significance of rising youth and female participation in the Indian workforce.

[1 Marks]

Answer: Rising youth and female participation in the Indian workforce enhances productivity and economic growth, as it allows for better utilization of the available talent pool, ultimately contributing to sustainable development.

Key Points: Increased productivity-increased economic growth-utilization of talent

(2)

Identify any two sectors which may be highlighted as promising for generating quality employment in India.

[2 Marks]

Answer: Two sectors that may be highlighted as promising for generating quality employment in India are agro-processing and the care economy. The agro-processing sector has the potential to add value to agricultural products while creating numerous job opportunities, especially in rural areas. Similarly, the care economy, which includes healthcare and personal care services, is rapidly growing and can significantly contribute to formal employment.

Key Points: agro-processing; care economy; generating quality employment

(3)

Elaborate the meaning of disguised unemployment with the help of a suitable example.

[3 Marks]

Answer: Disguised unemployment refers to a situation where more people are employed than are actually needed for the work being done. This means that even though individuals may appear to be employed, their contribution is not essential to the productivity of the work. A suitable example of disguised unemployment can be seen in agriculture. For instance, consider a farmer who owns four acres of land but only requires two workers in addition to himself to efficiently manage the farm. However, if this farmer employs five additional workers—including his family members—this excess workforce does not contribute meaningfully to the agricultural output. Thus, while these individuals are technically employed, they are not effectively utilized, illustrating the concept of disguised unemployment. This scenario is prevalent in rural India, particularly in farming, where many workers are not fully productive due to the surplus labor employed on small plots of land.

Key Points: Definition of disguised unemployment-Example involving a farmer with excess workers-Impact of disguised unemployment in rural agriculture

Section B

Question 2.

Read the following statements carefully:

Statement 1:The government may reduce the repo rate, to control deflationary gap prevailing in the economy.

Statement 2: The government may reduce the deflationary gap, by selling off 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) Both Statements 1 and 2 are true.

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

(C) Both Statements 1 and 2 are false.

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

Explanation: Statement 1 is true because reducing the repo rate can lower borrowing costs, thereby increasing aggregate demand to combat a deflationary gap. Statement 2 is false because selling government securities in the open market typically contracts the money supply, which would not help in reducing a deflationary gap. Therefore, the correct option is 'Statement 1 is true and Statement 2 is false.'

Question 3.

To arrive at the value of Gross Value Added at Factor Cost (GVA FC), _____ must be _____ to/from Gross Value Added at Market Price (GVA MP). (Choose the correct option to fill in the blanks)

[1 Marks]

(A) depreciation, subtracted

(B) depreciation, added

(C) Net Indirect Taxes, added

(D) Net Indirect Taxes, subtracted

Explanation: The correct option is 'Net Indirect Taxes, subtracted'. To obtain Gross Value Added at Factor Cost from Gross Value Added at Market Price, we must subtract net indirect taxes because GVA at MP includes these taxes, which are not part of the factor cost.

Question 4.

Read the following statements carefully:

Statement 1: Public goods are those goods for which the payments are made by all the entities in the country.

Statement 2: Private goods are those goods which are provided by the government of a country at subsidised rates.

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) Statement 1 is false and Statement 2 is true.

(C) Both Statements 1 and 2 are true.

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

Explanation:

Statement 1 is true because public goods are financed through taxes collected from all citizens, meaning their payment is made collectively by the public. Such goods are provided for the benefit of everyone.

Statement 2 is false because private goods are defined by their characteristics of rivalry and excludability, not by whether they are provided by the government at subsidised rates. A subsidy does not change the nature of a good from private to public.

Therefore, Statement 1 is true and Statement 2 is false.

Question 5. Under the _____ Exchange Rate System, the Central Bank can control the foreign exchange rate in a range bound manner. (Choose the correct option to fill in the blank)

[1 Marks]

(A) Fixed

(B) Flexible

(C) Managed floating

(D) Gold standard

Explanation: The correct answer is 'Managed Floating' because this exchange rate system allows central banks to intervene and maintain the exchange rate within a specific range, combining aspects of both fixed and flexible exchange rate systems. This is supported by the context that describes a managed floating exchange rate as a mixture that enables central bank control.

Question 6.

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

Assertion (A): Direct taxes are imposed on income/profits of individuals/companies.

Reason (R): The burden of payment of direct taxes cannot be shifted to any other entity.

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A) because direct taxes, such as income tax and corporate tax, are levied directly on individuals and businesses. Unlike indirect taxes, the burden of direct taxes falls on the individual or entity responsible for the tax, meaning they cannot pass this burden onto someone else.

Question 7.

Under the Keynesian theory,' Reference the Line' is a straight line passing through the origin drawn at an angle of _____ . (Choose the correct option to fill in the blank)

[1 Marks]

(A) 25°

(B) 70°

(C) 40°

(D) 45°

Explanation: The correct option is 45°. In Keynesian theory, the 45° line represents a scenario where the total supply equals total demand, indicating that every point on this line shows equal horizontal and vertical coordinates, such as when GDP equals the supply of goods.

Question 8.

Read the following statements carefully:

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

Statement 2: As the income increases, the proportionate increase in the level of consumption is always more than the increase in the level of 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) Both Statements 1 and 2 are true.

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

(D) Both Statements 1 and 2 are false.

Explanation: Statement 1 is true because it accurately defines the Marginal Propensity to Consume (MPC) as the change in consumption per unit change in income. Statement 2 is false, as it suggests that the increase in consumption is always proportionately more than the increase in income, which contradicts the principle that the change in consumption can never exceed the change in income (MPC ranges from 0 to 1). Therefore, the correct option is 'Statement 1 is true and Statement 2 is false.'

Question 9. The main objective of measuring the primary deficit is to highlight present _____. (Choose the correct option to fill in the blank)

[1 Marks]

(A) recovery of loans

(B) fiscal balances

(C) cash grant-in-aid

(D) fiscal imbalances

Explanation: The correct option is 'fiscal imbalances' because the primary deficit focuses specifically on the current fiscal state of a government, indicating when its expenditures exceed revenues, thus highlighting the existing fiscal imbalances.

Question 10.

Read the following statements carefully:

Statement 1: Import of heavy machinery from Japan is a source of demand for foreign exchange.

Statement 2: Financial aid by International Bank for Reconstruction and Development (IBRD) for landslide in Wayanad (Kerala) is a source of supply of foreign exchange.

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

[1 Marks]

(A) Both Statements 1 and 2 are true.

(B) Both Statements 1 and 2 are false.

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

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

Explanation: Statement 1 is true because importing heavy machinery requires payment in foreign currency, creating demand for foreign exchange. Statement 2 is true as financial aid from the IBRD represents an inflow of foreign currency, contributing to the supply of foreign exchange. Thus, Both Statements 1 and 2 are true.

Question 11. In a two-sector economy, the Aggregate Demand can be determined by adding _____ and _____. (Choose the correct option to fill in the blanks)

[1 Marks]

(A) investments, savings

(B) consumption, investments

(C) savings, exports

(D) consumption, savings

Explanation: The correct answer is 'consumption' and 'investments'. In a two-sector economy, Aggregate Demand (AD) is calculated as AD = C + I, where C represents consumption expenditure and I represents investment expenditure. The context provided indicates that the sum of consumption and investment determines the aggregate demand in such an economy.

Question 12.

Read the following statements carefully:

Statement 1: The British policies were accountable for commercialization of Indian agriculture.

Statement 2: In the larger interest of Indians, the British rulers focused on the infrastructural growth of India.

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 true and Statement 2 is false.

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

Explanation: Statement 1 is true because British policies did lead to the commercialization of Indian agriculture, adversely affecting self-sufficiency of village economies as mentioned in the context. Statement 2 is false; while the British did develop infrastructure, it primarily served colonial interests rather than the larger interest of Indians.

Question 13.

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

Assertion (A): Information plays a crucial role in judicious decision-making about investing in human capital.

Reason (R): Individuals invest to acquire information about the labour market and other areas such as education and healthcare.

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) because obtaining information about the labor market and related areas enables individuals to make informed decisions regarding their investments in education and health, which are essential aspects of human capital.

Question 14. Identify, which of the following does not indicate the similarities in the policies of India and Pakistan in the post 1947 period.

[1 Marks]

(A) Green revolution

(B) Dual pricing policy

(C) Import substitution

(D) Mixed economic system

Explanation: The correct answer is 'Dual pricing policy.' This choice does not reflect the similarities in the economic policies of India and Pakistan post-1947, as the context highlights that both countries adopted mixed economic systems, import substitution strategies, and the Green Revolution, but dual pricing policy is not mentioned as a common aspect in their economic frameworks.

Question 15.

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) Regional Rural Banks, Cooperative and Land Development Banks are few important components of Rural Banking system in India.

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

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

Explanation: The incorrect statement is: 'Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.' This is incorrect because the Rural Banking system in India consists of various multi-agency institutions including commercial banks, regional rural banks, cooperatives, and land development banks, and it does not operate solely under the directive of the State Bank of India.

Question 16.

In the post-independence era, the policy makers of India pushed for 'Self-reliance' for the first_____ Five Year Plans.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) 8

(B) 7

(C) 5

(D) 6

Explanation:

The correct answer is 7. According to the provided context, the first seven five year plans emphasized the importance of self-reliance, ensuring that India focused on avoiding imports of goods that could be produced domestically.

Question 17.

Production of diverse varieties of crops rather than one specialized crop is known as diversification of _____.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) crops

(B) sectoral composition

(C) agricultural production

(D) employment

Explanation: The correct answer is 'agricultural production' because the context discusses the need for agricultural diversification as a means to reduce risk and provide sustainable livelihood options, indicating that the diversity of crops directly relates to agricultural production practices.

Question 18.

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

[1 Marks]

(A) Sustains life

(B) Absorbs wastage

(C) Provides resources

(D) Deteriorates quality of life

Explanation: The incorrect statement is 'Deteriorates quality of life.' The functions of the environment include supplying resources, assimilating wastes, and sustaining life, which collectively contribute to enhancing the quality of life. The environment is not designed to deteriorate quality; instead, its functions aim to maintain and improve living conditions, as long as human demands do not exceed its carrying capacity.

Question 19.

Read the following statements carefully :

Statement 1 : The Food Corporation of India maintains buffer stocks of wheat and rice as a measure to improve market mechanism.

Statement 2 : Minimum Support Price (MSP) is imposed by the government to safeguard the interest of farmers.

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

[1 Marks]

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

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

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

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

Explanation:

Both Assertion (A) and Reason (R) are true. The Food Corporation of India maintains buffer stocks of wheat and rice to stabilize prices and ensure food security. Minimum Support Price (MSP) is a government policy to protect farmers by guaranteeing them a minimum price for their crops. However, MSP does not directly explain why buffer stocks are maintained. Therefore, Reason (R) is not the correct explanation of Assertion (A).

Question 20.

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

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

(Choose the correct option to fill in the blank)

[1 Marks]

(A) casual

(B) formal

(C) informal

(D) jobless

Explanation: The correct answer is 'jobless growth.' This term describes a scenario where an economy can experience an increase in GDP while failing to create new jobs or expand employment opportunities, reflecting a disconnect between economic growth and the labor market.

Question 21.

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

Assertion (A) : Excessive regulation of permit license raj prevented certain private firms from becoming more efficient.

Reason (R) : Private sector wasted a significant time in obtaining licenses rather than enhancing product quality and international competitiveness.

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). The context discusses how the permit license raj created barriers that hindered private firms from operating efficiently, and the reason highlights that time spent on obtaining licenses detracted from efforts to improve product quality and compete internationally.

Section C

Question 22.

Explain any two precautions pertaining to the Expenditure Method of estimation of National Income in a country.

[3 Marks]

Answer: When using the Expenditure Method to estimate National Income, two key precautions should be observed. First, it is essential to avoid double counting, which occurs if the same expenditure is counted more than once. For example, when calculating the value of goods produced, only the final sale should be accounted for, not the intermediate goods. Second, considerations must be made for the inclusion of correct data regarding exports and imports. Accurate figures for these components are crucial, as they directly affect the national income calculation and ensure a true representation of the economy's productivity and trade balance.

Key Points: Avoid double counting; Include accurate data on exports and imports; Focus on final expenditure value

Question 23.

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]

On the basis of the following hypothetical data :

(in ₹ crore)

Year	*Nominal GDP*	*Nominal GDP (adjusted to base year prices)*
2020 – 21	3,000	5,000
2022 – 23	4,000	6,000

Calculate the percentage change in Real Gross Domestic Product (GDP) in the year 2022 – 23 using 2020 – 21 as the base year.

Answer: To calculate the percentage change in Real GDP for the year 2022-23 using 2020-21 as the base year, we first need the Real GDP figures for both years. Suppose the Real GDP for 2022-23 is Rs 1,200 and for 2020-21 it is Rs 1,000. The formula for percentage change is: [(New Value - Old Value) / Old Value] x 100. Thus, the percentage change = [(1,200 - 1,000) / 1,000] x 100 = 20%. Therefore, the Real GDP increased by 20% from 2020-21 to 2022-23.

Key Points: Identify the Real GDP for both years; Use the percentage change formula; Calculate the difference; Substitute into the formula for determination.

Question 24.

Taxation is an effective tool to reduce the inequalities of income.

Justify the given statement with valid reasons.

[3 Marks]

Answer: Taxation serves as a fundamental mechanism for reducing income inequality through progressive tax systems, where higher earners pay a larger percentage of their income in taxes. This approach ensures that wealth is redistributed more equitably across society. Furthermore, proportional taxes on firms create a more balanced economic environment, allowing a more uniform distribution of resources. Since 1991, the trend has shifted toward moderate tax rates, promoting compliance and

encouraging income disclosure, ultimately fostering economic growth. A stable tax system can also contribute to capital formation, essential for long-term growth.

Key Points: Progressive taxation reduces inequality; firms taxed proportionally for fairness; moderate rates encourage compliance; tax rates influence economic growth; public debt impacts future growth.

Question 25.

Elaborate the economic reforms in agriculture sector undertaken by China.

[3 Marks]

Answer: The economic reforms in China's agriculture sector, initiated in 1978, marked a transformative phase for the nation. Initially, communal lands were divided into small plots allocated to individual households. This shift from collective farming to household-based production significantly enhanced agricultural productivity and efficiency. The new system encouraged families to cultivate their land independently, leading to increased yields and rural prosperity. These reforms not only alleviated poverty among many rural inhabitants but also laid the groundwork for the rapid growth of rural industries and further economic reforms. The success of these agricultural reforms highlighted the importance of market-oriented strategies in stimulating economic development, setting the stage for China's broader economic transformation.

Key Points: Introduction of reforms in 1978- Division of communal lands into individual plots- Enhancement of agricultural productivity- Alleviation of rural poverty- Stimulus for rural industries- Foundation for subsequent economic reforms

Question 26.

Appraise the Navratan policy adopted by the Government of India in the reforms of 1991.

[3 Marks]

Answer: The Navratan policy, part of India's 1991 economic reforms, aimed to enhance the efficiency and competitiveness of public sector enterprises (PSEs). By granting additional autonomy to certain PSEs, designated as 'Navratnas', the government encouraged them to invest, adopt modern technology, and expand their operations. This initiative was crucial for attracting foreign direct investment (FDI) and improving performance in key sectors. While it provided significant advantages, challenges remained, particularly in ensuring equitable growth across industries and addressing the inequalities exacerbated by earlier reforms. Overall, the Navratan policy was a strategic move to bolster India's industrial base and promote economic stability.

Key Points: 1. Navratan policy aimed to enhance efficiency of public sector enterprises. 2. Autonomy given to certain PSEs to foster growth and enhance competitiveness. 3.

Encouragement of foreign direct investment (FDI) through improved performance of Navratnas. 4. Aimed at addressing economic crises from 1991 reforms. 5. Faced challenges in combating inequalities and ensuring balanced growth across sectors.

Question 27.

Under the British rule, India underwent systematic economic exploitation with its resources and wealth being diverted to Britain .

Justify the given statement with valid explanation.

[3 Marks]

Answer: The statement about India's systematic economic exploitation under British rule is justified by examining the colonial policies that prioritized British economic interests. The British established India as a supplier of raw materials, leveraging its rich natural resources such as cotton, jute, and spices. These resources were extracted and exported to Britain, where they were processed into finished goods. In return, India became a market for these British products, undermining local industries and stifling economic growth. Consequently, this exploitation led to underdevelopment and poverty in India, with agriculture and industry facing stagnation. By independence, the damage included a shallow industrial base and an agrarian crisis, both direct repercussions of colonial exploitation.

Key Points: Economic policies favored British interests; India as a raw material supplier; Shift from local industries to British goods; Agricultural and industrial underdevelopment; Long-term impacts on India's economy

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Section D

Question 28.

Assuming for a hypothetical economy:

(i) Autonomous Consumption Expenditure ($\bar{c}$) = ₹250 crore,

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

(iii) Autonomous Investments (I_0)=₹ 200 crore.

Estimate the Break-even level of Income and Equilibrium level of Income, on the basis of information given above.

[4 Marks]

Answer: To calculate the Break-even level of Income (Y_be) and the Equilibrium level of Income (Y_eq), we first determine the Marginal Propensity to Consume (MPC), which is 1 - MPS = 0.8. The Consumption function is C = c̄ + MPC × Y, substituting the values gives us: C = 250 + 0.8Y. Break-even occurs where C = Y, so 250 + 0.8Y = Y. Solving yields Y_be = ₹1250 crore. For Equilibrium, we set AD = C + I. Thus, AD = 250 + 0.8Y + 200 = Y. Rearranging gives us Y_eq = ₹2750 crore.

Key Points: MPS calculation; MPC determination; Consumption function setup; Break-even income equation; Equilibrium income calculation

Question 29.

Elaborate any two components of the Capital Account under the Balance of Payments Account.

[4 Marks]

Answer: The Capital Account consists mainly of capital inflows and capital outflows. Capital inflows refer to the funds that come into a country, such as foreign investments, loans from abroad, or the sale of domestic assets to foreign investors. For instance, if a foreign investor purchases shares in an Indian company, it is recorded as a capital inflow. On the other hand, capital outflows involve funds exiting the country, like repayments of international loans or the purchase of foreign assets. An example of this is when an Indian company acquires a manufacturing plant abroad, registering it as a debit in the capital account. These transactions ensure that the capital account remains balanced when inflows equal outflows, crucial for maintaining international economic relations.

Key Points: 1. Capital inflows include foreign investments, loans, and asset sales. 2. Capital outflows encompass loan repayments and purchases of foreign assets. 3. Transactions need to balance for economic stability.

Question 30.

Distinguish between Autonomous transactions and Accommodating transactions.

[4 Marks]

Answer: Autonomous transactions refer to international economic transactions that occur independently of the balance of payments (BoP) and are motivated by reasons like profit maximization. These transactions are categorized as 'above the line' items in the BoP. In contrast, accommodating transactions are contingent upon the BoP situation, intended to rectify any deficit or surplus that may arise from autonomous transactions, and are labeled as 'below the line' items. In essence, while autonomous transactions are driven by market forces, accommodating transactions serve to stabilize the economy by addressing BoP imbalances.

Key Points: 1. Autonomous transactions are independent of BoP, while accommodating transactions are dependent on it. 2. Autonomous transactions are motivated by profit,

categorized as 'above the line'. 3. Accommodating transactions aim to address gaps in the BoP, categorized as 'below the line'.

Question 31.

Read the following text carefully :

According to a report issued by a research organisation, there is a sharp decline in the overall demand in the economy, particularly in the private consumption segment. This dip in the macro economic variables, highlights the urgent need for strategic actions to stimulate economic activities.

On the basis of the given text and common understanding, explain the measure which the government may take to solve the indicated problem.

[4 Marks]

Answer: To address the sharp decline in demand, the government could implement several measures to stimulate economic activity. Firstly, increasing public expenditure on infrastructure projects can generate employment and boost demand in related sectors. Furthermore, providing incentives such as tax cuts or subsidies for small industries can encourage production and consumption. Additionally, measures to improve access to credit for consumers and businesses can enhance spending capacity. Lastly, promoting exports through international trade agreements can help counterbalance domestic declines. Collectively, these strategies can reinvigorate the economy and restore consumer confidence.

Key Points: Increase public spending on infrastructure-Tax cuts and subsidies for small industries-Improve access to credit for consumers and businesses-Promote exports through trade agreements

Question 32.

(i) Distinguish between human capital and physical capital.

(ii) Describe ('LPG') and Gobar Gas' as strategies used to achieve sustainable development in rural areas.

[4 Marks]

Answer:

Human capital and physical capital are two essential forms of capital with distinct characteristics. Physical capital is tangible and can be bought or sold in the market, such as machinery or buildings. It exists independently of its owner and can be easily transferred. In contrast, human capital is intangible, encompassing the skills, knowledge, and health of individuals. This form of capital is developed through investments in education, training, and health care. Human capital is inseparable from its owner, as only the services produced by individuals can be traded, not the individuals

themselves. Furthermore, enhancing human capital significantly boosts productivity and economic growth, highlighting its importance compared to physical capital.

Liquefied Petroleum Gas (LPG) and Gobar Gas are significant strategies for achieving sustainable development in rural areas. LPG is a cleaner alternative to traditional fuels like wood and kerosene, reducing air pollution and dependency on non-renewable resources. Its use fosters efficient cooking and heating practices. Gobar Gas, or biogas, is produced from organic waste, providing a renewable energy source while managing waste effectively. It not only offers a sustainable energy solution but also contributes to improved sanitation and enhanced agricultural productivity through the use of bio-slurry as fertilizer. Together, these technologies promote energy independence, reduce environmental degradation, and improve the quality of life for rural communities.

Key Points:

Physical capital is tangible; human capital is intangible; physical capital can be sold; human capital is inseparable from its owner; sources of human capital investment include education and health; human capital enhances productivity and growth.

LPG as a cleaner energy alternative; reduction of air pollution; efficient cooking practices; Gobar Gas from organic waste; renewable energy source; waste management; improved sanitation; bio-slurry as fertilizer; energy independence; environmental sustainability; quality of life enhancement.

Question 33.

(i) Critically appraise the micro-credit programmes in rural India.

(ii) State the meaning of sustainable development.

[4 Marks]

Answer:

Micro-credit programmes in rural India, particularly through Self-Help Groups (SHGs), aim to empower marginalized sections, especially women, by providing them access to credit. Despite their potential, these programmes often fall short, as borrowings are frequently directed towards consumption rather than productive investments. This trend raises concerns about why borrowers prefer immediate needs over long-term growth. Additionally, while SHGs have enhanced some social capital, the challenge remains of integrating these groups into a broader rural development strategy, which includes better credit delivery mechanisms and support for agricultural diversification.

Sustainable development is a concept that aims to fulfill the needs of the current generation while ensuring that future generations can also meet their own needs. This includes ensuring basic necessities such as food, water, energy, and housing, particularly for the poorer segments of society. It emphasizes the balance between economic growth and environmental preservation, ensuring that

natural resources are used judiciously. The UN defined it as a development approach that minimizes environmental degradation and social inequality.

Key Points:

Empowerment of women through SHGs - Borrowings mainly for consumption - Lack of productive investment - Need for better integration into rural development - Improvements in rural banking since 1969 - Inadequacies in the formal credit system

Meets current and future needs-basic necessities for all-environmental preservation-economic growth

Question 34.

Read the given text carefully and answer the following questions :

In response to the problem of rapidly rising population, China introduced the ' One Child Policy.' The policy restricted couples to having only one child. This policy helped China to limit the population growth.

This policy led to significant consequences, such as an increase ageing population, gender imbalances due to male child preference and social challenges for single children, etc.

This policy was relaxed in 2015, allowing all couples to have two children and further relaxed to three children in 2021.

Overall, while the One Child Policy achieved its primary goal of controlling population growth, it also created a complex set of demographic and social challenges that China continues to address today.

(a) Explain the consequences of implementation of the One Child Policy in China.

(b) State any one reason for the implementation of the One Child Policy in China.

[4 Marks]

Answer:

(a) The One Child Policy in China, implemented to curb population growth, had significant consequences. Firstly, it resulted in an ageing population; as fewer children were born, the ratio of elderly people to young individuals increased, straining social services. Secondly, the policy led to gender imbalances, with a cultural preference for male children causing many families to favor sons over daughters. Additionally, single children faced social challenges, including increased pressure to succeed and care for aging parents. In 2015, the policy was relaxed to allow two children, and in

2021, further relaxed to three children, indicating recognition of these repercussions and a shift towards addressing demographic imbalances.

(b) The One Child Policy was implemented in China primarily to address the problem of rapidly rising population growth. With the country experiencing immense population pressure, the government aimed to control the skyrocketing fertility rates to ensure sustainable economic development and resource management. This measure was crucial for alleviating issues related to insufficient resources needed for an expanding population, which could lead to severe social and economic challenges. Ultimately, the policy was intended to balance population growth with economic stability.

Key Points:

Aging population - Gender imbalances - Social challenges for single children - Relaxation of policy in 2015 and 2021 - Recognition of demographic repercussions.

Control rapid population growth-Ensure sustainable economic development-Manage limited resources

Question 35.

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

(a) In the Indian rural landscape, agricultural diversification has emerged as a solution for a lot of farmer's problems.

(b) Informalisation of workforce in India, has increased various concerns on the front of employment generation among the youth of the country.

[4 Marks]

Answer:

(a) The statement is true. Agricultural diversification has emerged as a crucial solution for several problems faced by farmers in the Indian rural landscape. By shifting from traditional single-crop farming to a more varied cropping pattern, farmers can reduce their dependency on a single source of income, thereby minimizing risk. Diversification into livestock, fisheries, and non-agricultural activities also provides sustainable livelihood options. Furthermore, it enhances resilience against market fluctuations, climate change impact, and economic instability, addressing the growing distress in farming communities.

(b) The informalisation of the workforce in India has led to several challenges in youth employment generation. With a significant portion of job opportunities emerging in the informal sector, these roles tend to be characterized by casual employment, lack of job security, and minimal benefits. Many workers face disguised unemployment, particularly in rural areas. Moreover, the absence of regulations means that informal workers often do not receive fair wages or protections, making it

difficult for them to escape poverty. The government has initiated various schemes to create employment, but the rise of the service sector has often sidelined formal employment growth, leading to increasing concerns among the youth regarding stable job opportunities and financial security.

Key Points:

1. Agricultural diversification reduces dependency on single crops. 2. Shifts workforce to allied activities for sustainable income. 3. Enhances resilience against market fluctuations and climate change.

Informal sector job growth - Job insecurity and absence of benefits - Challenges for youth employment - Disguised unemployment in rural areas - Government initiatives for employment generation

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Section E

Question 36.

(i) Discuss briefly, causes and consequences of tax reforms taken by the Indian Government during economic reforms.

(ii) Distinguish between Multilateral Trade and Bilateral Trade.

[6 Marks]

Answer:

The tax reforms initiated by the Indian government in the early 1990s were primarily driven by the need to address the financial crisis and economic inefficiencies. The declining foreign exchange reserves and rising inflation necessitated a paradigm shift in fiscal policies. These reforms aimed to simplify the tax structure, reduce tax rates, and broaden the tax base. However, despite these intentions, the tax reductions did not lead to an increase in government revenue due to heightened tax evasion and reduced custom duties following tariff cuts. Consequently, these reforms hindered public expenditure in essential sectors like health and education, affecting overall developmental objectives. Furthermore, tax incentives for foreign investors have limited domestic revenue generation, impacting welfare programs significantly. Thus, while aimed at generating growth, tax reforms have unveiled challenges in sustaining adequate public funding. Multilateral trade refers to trade among multiple countries, often facilitated by international agreements like those from the World Trade Organization (WTO). These agreements aim to reduce tariffs and non-tariff barriers, providing broader market access and enhancing global trade cooperation. For instance, nations benefit from a collective framework that promotes trade relations and economic growth by creating a stable trading

environment. In contrast, bilateral trade occurs between two countries and is often governed by specific trade agreements that set conditions for trade, such as tariffs and quotas. This form of trade can be more focused and may allow countries to negotiate terms that reflect their unique economic interests. While bilateral trade can enhance relations between two nations, multilateral trade fosters a more extensive network of economic interdependencies that can lead to stronger global economies. Both forms of trade play crucial roles in a country's economic strategy, helping in diversifying markets and reducing dependence on a single trading partner.

Key Points:

Economic crisis and inflation in the 1990s; Tax structure simplification; Reduction in tax rates; Broader tax base; Failure to increase government revenue; Tax evasion; Reduced custom duties; Impact on public expenditure; Limited revenue generation from foreign investments; Negative effects on welfare programs.

Definition of multilateral and bilateral trade; Importance of WTO agreements; Differences in trade scope and agreements; Economic implications of both trade types; Examples of how these trades function in the global economy.

Question 37.

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

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

(ii) Distinguish between stabilising measures and structural measures, as taken up by the Government of India in 1991.

[6 Marks]

Answer:

I agree that the import substitution policy can be a double-edged sword. While it aims to bolster domestic industries by reducing import dependence, its implementation may lead to inefficiencies. The initial success of this policy raised the industrial sector's contribution to GDP, fostering domestic production. However, the inefficiencies in public sector enterprises resulted in losses that drained national resources. Moreover, protectionist measures, such as high tariffs and quotas, can stifle competition, slowing technological advancements and innovation. This creates a reliance on domestic production without improvements in quality or cost. As a result, while the policy can promote industrial growth, it can also hinder economic progress if not managed wisely. A balanced approach is essential to leverage its benefits while mitigating downsides. In 1991, under economic reforms, the Government of India adopted both stabilizing measures and structural measures to address the financial crisis. Stabilizing measures are primarily short-term strategies aimed at correcting immediate weaknesses in

the balance of payments and controlling inflation. These included policies like devaluation of the rupee, reducing fiscal deficits, and enhancing foreign exchange reserves. On the other hand, structural measures are long-term reforms designed to enhance the overall efficiency and competitiveness of the Indian economy. They involve removing rigidities in various sectors, liberalizing trade, and encouraging foreign investment. While stabilizing measures target quick fixes to restore economic stability, structural measures focus on achieving sustainable growth by transforming the economic framework. Together, they represent a comprehensive approach to revamping India's economy during a critical period.

Key Points:

Import substitution promotes local production; Inefficiencies in public sector can drain resources; High tariffs reduce competition and innovation; Risk of dependency on non-competitive domestic industries; Need for careful management to ensure economic growth. Stabilizing measures are short-term; Structural measures are long-term; Stabilizing measures correct balance of payments issues; Structural measures improve economic efficiency; Examples of stabilizing measures include fiscal adjustments and currency devaluation; Structural measures include trade liberalization and regulatory reforms.

Question 38.

(i) Suppose there are only three firms in an imaginary economy, viz. X, Y and Z. During a year, the following transactions took place in the economy :

(I) Firm X sold goods worth ₹ 20,000 to Firm Y and ₹ 12,000 to Firm Z.

(II) Firm Y sold goods worth ₹ 11,000 to Firm X and ₹ 35,000 to Firm Z.

(III) Firm Z sold goods worth ₹ 57,000 to households for final consumption.

On the basis of the given transactions, calculate the value of Gross Domestic Product at Market Price (GDPMP) in the economy.

(ii) Elaborate the likely impact of construction of two new Express Highways on the Gross Domestic Product (GDP) and Welfare in an economy.

[6 Marks]

Answer:

To calculate the Gross Domestic Product at Market Price (GDPMP) for the imaginary economy consisting of firms X, Y, and Z, we analyze the transactions. GDP is the sum of all final expenditures on goods and services. The final consumption expenditure is the most relevant. Firm Z sold goods worth ₹57,000 to households, which contributes directly to GDP. We should not double-count sales

made between firms, as those represent intermediate transactions. Thus, GDPMP is ₹57,000. The construction of two new Express Highways is likely to have a significant impact on the Gross Domestic Product (GDP) and overall welfare of the economy. Firstly, the GDP will directly increase due to the investment in infrastructure. This investment, classified as an 'I' in the GDP formula, adds to the total economic activity. The construction phase will create numerous jobs, thereby reducing unemployment and increasing household incomes, which in turn will increase consumption, a major component of GDP. Furthermore, once completed, the highways will facilitate faster and more efficient transportation of goods and services. This will enhance trade, reduce costs for businesses, and improve competitiveness. Additionally, improved connectivity can lead to regional development, boosting economic activities in previously isolated areas. As the highways enhance mobility, they contribute to welfare by reducing travel time and costs for individuals, leading to a better quality of life. Access to markets, healthcare, and education will also improve, promoting socio-economic development. In summary, the construction of the express highways is expected to result in a substantial increase in GDP while simultaneously fostering greater economic welfare for the population.

Key Points:

GDP is the sum of final consumption; Only consider transactions with households; Firm Z's sales to households are final consumption; Avoid double counting inter-firm sales; The final calculated GDPMP is ₹57,000. 1. Direct contribution to GDP through infrastructure investment; 2. Job creation during and after construction; 3. Enhanced transportation efficiency leading to reduced costs; 4. Boost in regional development; 5. Improved individual mobility and quality of life; 6. Increased access to markets and essential services.

Question 39.

(i)On the basis of the following data, estimate the value of National Income (NNPFC) :

(ii) “All producer goods are essentially capital goods.”

Defend or refute the given statement, with the help of a suitable example.

[6 Marks]

On the basis of the following data, estimate the value of National Income (NNP_{FC}) :

S.No.	*Items*	*Amount (in ₹ crore)*
(i)	Household Consumption Expenditure	800
(ii)	Gross Business Fixed Capital Formation	150
(iii)	Gross Residential Construction Investment	120
(iv)	Government Final Consumption Expenditure	270
(v)	Excess of Imports over Exports	20
(vi)	Inventory Investments	50
(vii)	Gross Public Investments	130
(viii)	Net Indirect Taxes	20
(ix)	Net Factor Income from Abroad	(–) 25
(x)	Consumption of Fixed Capital	40

Answer: (i) National Income or Net National Product at Factor Cost (NNPFC) is calculated as NNP at Market Price minus Net Indirect Taxes (Indirect Taxes minus Subsidies). Formula: NNPFC = NNP(MP) - (Indirect Taxes - Subsidies). Given the data, subtract the net indirect taxes from NNP at market price to get NNPFC which represents the total income earned by factors of production.

(ii) The statement "All producer goods are essentially capital goods" can be defended. Producer goods are those goods which are used to produce other goods rather than being consumed directly. Capital goods, like machinery, tools, and factories, are producer goods as they help in production. For example, a machine used in a factory to make cars is a producer good and also a capital good. However, not all producer goods are fixed assets; some may be raw materials but since they help in production, they are producer goods but not capital goods strictly. Hence, the statement is mostly true but with some exceptions.

Key Points: NNPFC calculation involves subtracting net indirect taxes from NNP at market price - Producer goods are used to produce other goods - Capital goods are a type of producer goods used in production

Question 40.

(a) Elaborate the process of Credit Creation using a suitable numerical example.

(b) Read the following text carefully :

This function of provides different items to be evaluated against a common standard. It allows comparison of prices and keeping financial records .

(i) On the basis of the given text, identify the indicated function of money.

(ii) List any other two functions of money.

[6 Marks]

Answer:

Credit creation is a fundamental function of banks, allowing them to lend more than their actual deposits. To illustrate this concept, let's consider a numerical example involving a bank's balance sheet. Suppose Mr. Mathew approaches a bank for a loan of Rs 500. The bank, following the reserve requirement set by the RBI, maintains a reserve ratio of 20%. Therefore, it must keep Rs 100 (20% of Rs 500) as reserves. The remaining Rs 400 can be lent out. When Mr. Mathew receives this loan and deposits it back into the bank, the total deposits increase to Rs 600 (Rs 100 reserves + Rs 500 deposit). The bank can then lend 80% of Rs 600, which is Rs 480. This cycle continues, leading to an exponential increase in the money supply through successive rounds of lending, illustrating the money multiplier effect. The maximum credit creation also depends on the reserve ratio, which dictates how much banks can lend out versus keeping in reserve. Consequently, credit creation is both a leveraged financial tool and a regulated banking function. The function of money indicated in the text is the 'unit of account.' This function allows various items to be measured and compared against a common standard, making it easier to keep financial records and evaluate prices. Aside from being a unit of account, money serves as a medium of exchange, facilitating the buying and selling of goods and services without the complications of barter. Additionally, it acts as a store of value, enabling individuals to save and preserve purchasing power for future use. These functions reinforce the critical role money plays in a modern economy.

Key Points:

1. Definition of credit creation 2. Bank's reserve requirement as per RBI 3. Example: Loan to Mr. Mathew 4. Calculation of reserves and lendable amount 5. Impact of depositing the loan and increasing deposits 6. Explanation of money multiplier effect 7. Regulation of credit creation by reserve ratio Unit of account - comparison of prices and evaluation of items; Medium of exchange - facilitates buying/selling goods; Store of value - preserves purchasing power for future use.