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 **43 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 24** are multiple choice questions

v. **Section C** – questions number **25 to 30** are short answer type i

vi. **Section D** – questions number **31 to 39** are short answer type ii

vii. **Section E** – questions number **40 to 43** 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 :
Agro-startups and rural enterprises are becoming increasingly vital for rural development in India. They address the critical challenges faced by rural sector in India. These ventures bring in technological innovations such as precision farming, IT-based monitoring system and data-driven decision making tools that enhance productivity and resource efficiency. By streamlining supply chains and creating direct market linkages, they ensure better pricing for farmers and reduce dependency on traditional intermediaries. Such enterprises contribute actively to employment generation in the rural

areas. The government has demonstrated a continuous policy and financial support for agri-startups and entrepreneurs through various programs like RKVY-RAFTAAR, the Agriinfrastructure fund and Agri-SURE.

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

(1)

Explain, how agro-startups address the critical challenges faced by the agricultural sector.

[4 Marks]

Answer: Agro-startups play a pivotal role in mitigating the critical challenges faced by the agricultural sector in India. Firstly, they introduce technological innovations such as precision farming and IT-based monitoring systems, which enhance productivity and resource efficiency. This addresses the issues of low yield and inefficient resource usage typically encountered by farmers. Secondly, agro-startups create direct market linkages, streamlining supply chains that ensure better prices for farmers while reducing their dependency on traditional intermediaries. This helps in resolving marketing challenges and enhances farmers' income. Moreover, these enterprises actively contribute to job creation in rural areas, thereby improving the overall economic condition of the rural population. Lastly, the support from government programs like RKVY-RAFTAAR facilitates the growth of these startups, ensuring they can effectively tackle the underlying problems in the agricultural sector.

Key Points: Technological innovations-Direct market linkages-Job creation-Government support

(2)

Comment on the role of government in supporting agro-startups and entrepreneurs in India.

[2 Marks]

Answer: The government's role in supporting agro-startups and entrepreneurs in India is crucial for rural development. Through initiatives such as RKVY-RAFTAAR, the Agri-infrastructure fund, and Agri-SURE, the government provides financial assistance and policy support aimed at enhancing agricultural productivity and creating employment opportunities. These programs help in promoting technological innovations that streamline agricultural processes and improve market access for farmers. Overall, government support is vital for ensuring the success and sustainability of agro-startups in rural India.

Key Points: Government initiatives like RKVY-RAFTAAR provide financial assistance- Policy support encourages technological innovations- Programs aim to enhance agricultural productivity and create rural employment

Question 2.

Read the following text carefully :

Union Food and Consumer Affairs Minister said that the Central Government has taken many proactive steps in the past few years to control retail prices of food items. He said that the government aims to keep inflation under control without compromising the country's economic growth. Retail inflation inched up to a three-month high of 5.55% in November 2023 driven by higher food prices. Inflation has been declining since August 2023, when it touched 6.83%. 140 new price monitoring centres had been set up by the Central Government to keep a close watch on wholesale and retail prices of essential commodities.

The Government has banned the export of many food items like wheat, broken rice, non-basmati white rice, onions etc. It has also reduced import duties on edible oils and pulses to boost domestic supply and control price rise.

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

(1)

Mention the number of new price monitoring centres set up by government.

[1 Marks]

Answer: The government has set up 140 new price monitoring centres to keep a close watch on wholesale and retail prices of essential commodities.

Key Points: 140 new price monitoring centres established-government's initiative to monitor prices-essential commodities

(2)

State any two proactive measures taken by government to boost domestic supply and reduction in prices.

[2 Marks]

Answer: The government has implemented several proactive measures to boost domestic supply and reduce prices. Firstly, it has banned the export of essential food items like wheat and rice to ensure adequate supply within the country. Secondly, the government has reduced import duties on edible oils and pulses, which helps in increasing the domestic availability of these commodities and controlling their prices.

Key Points: Ban on export of essential food items; reduction of import duties on edible oils and pulses

(3)

Explain any one monetary measure used to control inflation.

[3 Marks]

Answer: One monetary measure used to control inflation is the adjustment of interest rates by the Central Bank. When inflation rates rise, the Central Bank may decide to increase interest rates, making borrowing more expensive. This discourages consumer spending and business investments, thereby reducing demand in the economy. As demand decreases, it can help stabilize or lower inflation rates. For example, if the inflation is driven by excessive demand, higher interest rates can help bring it under control by cooling off the economy.

Key Points: Adjustment of interest rates; Increases cost of borrowing; Reduces consumer spending and business investments.

Section B

Question 3.

In the context of Current Account transactions of Balance of Payment, identify the incorrect statement from the following. (Choose the correct option)

[1 Marks]

(A) Export of goods and services are recorded as credit items.

(B) All transfer receipts are recorded as debit items.

(C) Import of goods and services are recorded as debit items.

(D) All transfer payments are recorded as debit items.

Explanation: The incorrect statement is 'All transfer receipts are recorded as debit items.' This is incorrect because transfer receipts, which include payments like remittances and aid received from abroad, are actually recorded as credit items, not debit items. Debit items reflect payments made, while credit items reflect receipts.

Question 4.

Read the following statements carefully:

Statement-1: Managed floating exchange rate system is an amalgamation of fixed and flexible exchange rate systems.

Statement-2: Managed floating exchange rate system is also known as 'hybrid system'.

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: Both Statements 1 and 2 are true. Statement 1 is correct as the managed floating exchange rate system indeed combines elements of both fixed and flexible exchange rate systems. Statement 2 is also correct as this system is commonly referred to as a 'hybrid system', reflecting its nature that integrates both fixed and flexible characteristics.

Question 5.

Irfaan (a student) borrows ₹80,000 to finance his college fee. He plans to begin repaying the loan six months after his graduation, making payments over a span of ten years.

Based on above text, identify the indicated function of money. (Choose the correct option)

[1 Marks]

(A) Unit of Account

(B) Medium of Exchange

(C) Standard of Deferred Payments

(D) Store of Value

Explanation: The correct answer is 'Standard of Deferred Payments' because Irfaan is borrowing money that he will repay in the future, indicating the function of money as a standard for settling future debts.

Question 6.

Suppose, the saving curve of an economy makes an intercept at a negative value of 50 crores. In the economy, 20% of an increase in income is saved.

In the light of above context, identify the value of investment multiplier (K).

[1 Marks]

(A) 2

(B) 5

(C) 10

(D) ∞ infinite

Explanation:

The saving curve intercepting at a negative value indicates that the economy has some autonomous consumption or saving, which is represented by 'S' in the investment multiplier formula K = 1/(1-c). Here, the marginal propensity to save (MPS) is 0.2 since 20% is saved, thus the marginal propensity to consume (MPC) is 0.8. Therefore, the investment multiplier is K = 1/(1-0.8) = 1/0.2 = 5. Hence, the correct answer is 5.

Question 7.

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

Assertion (A) : Public goods are those goods that are collectively consumed by the public.

Reason (R) : Public goods are excludable and rivalrous in nature.

[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) 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:

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

The assertion is true as public goods, such as street lighting, national defense, and clean air, are indeed consumed collectively by the public without reducing availability to others. However, the reason is false because public goods are **non-excludable** (no one can be prevented from using them) and **non-rivalrous** (one person's use does not reduce availability for others). The statement that public goods are "excludable and rivalrous" describes **private goods**, not public goods. Therefore, the reason is incorrect.

Question 8.

Suppose, the value of Average Propensity to Consume (APC) is 0.8 and National Income is 4,000 crores, the value of saving would be₹_____crores. (Choose the correct option to fill up the blank)

[1 Marks]

(A) 200

(B) 500

(C) 100

(D) 800

Explanation:

Given that Average Propensity to Consume (APC) is 0.8, we can calculate the Average Propensity to Save (APS) as 1 - APC = 1 - 0.8 = 0.2. Now, to find the total savings, we use the formula: Savings = National Income × APS. Therefore, Savings = 4000 × 0.2 = 800 crores. Hence, the correct answer is 800.

Question 9.

In the context of the Commercial Banks, which of the following statements are correct ? (Choose the correct option)

(I) Deposits received are liabilities for Commercial Banks.

(II) They are creator of credit in the economy.

(III) They accept deposits from general public.

(IV) They accept deposits on behalf of Reserve Bank of India.

[1 Marks]

(A) (B) (II) and (III)

(B) (A) (I), (II) and (III)

(C) (C) (I) and (II)

(D) (D) (I) and (IV)

Explanation: The correct option is (A) (I), (II) and (III). Statement (I) is correct because deposits are liabilities for banks as they owe this amount to depositors. Statement (II) is also correct because commercial banks create credit by lending out deposits. Statement (III) is correct as well, as banks accept deposits from the general public. Statement (IV) is incorrect because commercial banks do not primarily accept deposits on behalf of the Reserve Bank of India; they maintain reserves with RBI but do not accept deposits for it.

Question 10.

If a country exports goods worth of ₹ 600 crores and imports goods worth of ₹ 450 crores, the value of Balance of Trade of the country would be □□□□□□□of ₹ □□□□□□□ crores.

[1 Marks]

(A) surplus 1,050

(B) surplus, 150

(C) deficit, 150

(D) deficit1,050

Explanation: The Balance of Trade (BOT) is calculated as exports minus imports. In this case, 600 crores (exports) - 450 crores (imports) = 150 crores. Since exports are greater than imports, it results in a surplus. Therefore, the correct answers are 'surplus' and '150'.

Question 11.

□□□□□□ sector was the primary focus of the Great Leap Forward in China. 1 (Fill up the blank with correct option)

[1 Marks]

(A) Educational

(B) Financial

(C) Tax

(D) Industrial

Explanation:

The correct option is 'Industrial' because the Great Leap Forward was aimed at rapidly industrializing China. The initiative encouraged the establishment of backyard industries and aimed to boost industrial output significantly.

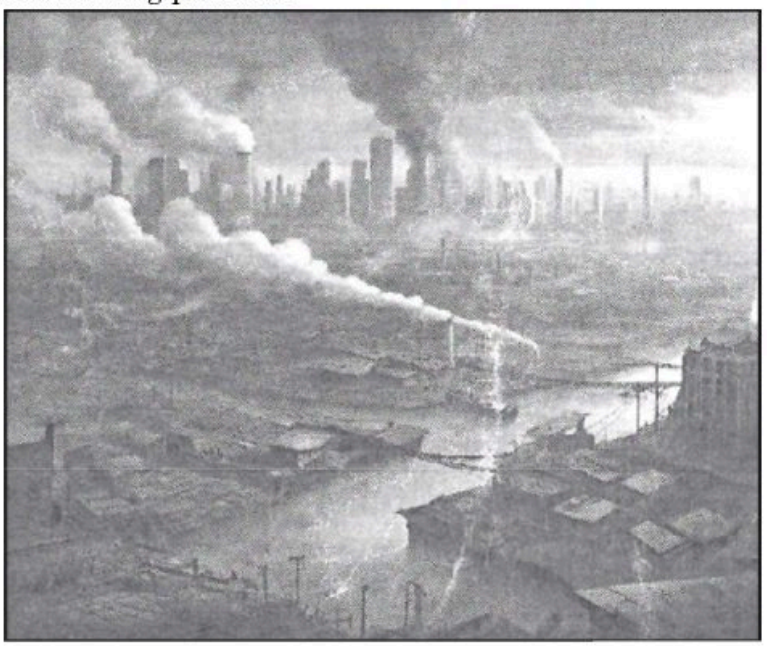
Question 12.

Study the following picture :

Identify and select, the recent phenomenon in which demand for resources surpasses their supply.

[1 Marks]

Study the following picture :



(A) Technological advancement

(B) Economic growth

(C) Environmental crisis

(D) Cultural evolution

Explanation: The correct option is 'Environmental crisis' because the provided context explains that due to population growth and industrialization, the demand for environmental resources has surpassed their supply. This situation has led to critical environmental issues such as resource depletion and pollution, highlighting the environmental crisis as a major phenomenon.

Question 13.

Identify, which of the following is NOT one of the strategies for Sustainable Development.

[1 Marks]

(A) Use of fossil fuel for transportation

(B) Use of non-conventional sources of energy

(C) Use of traditional knowledge

(D) Use of organic compost manure

Explanation: The option 'Use of fossil fuel for transportation' is NOT a strategy for Sustainable Development because fossil fuels contribute to environmental degradation and do not align with the principles of promoting eco-friendly technologies and avoiding environmental risks, as stated in the context.

Question 14.

Read statements carefully :

Statement-I : Hired workers may be regular salaried workers or casual workers.

Statement-2 : Regular salaried employment is a major source of employment in rural areas in India.

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 true and Statement 2 is false.

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

Explanation: Statement 1 is true because it aligns with the provided context that indicates hired workers can be categorized as either regular salaried or casual workers. Statement 2 is false, as the context highlights that regular salaried employees only account for a smaller portion (13%) of the rural workforce, indicating that it is not a major source of employment in rural areas.

Question 15.

From the terms given below in Column-I and Column-II, choose the correct pair of statements :

(i) Subsidies	(a) Maximum quantity of goods that can be imported

(ii) Land ceiling	(b) Element of IPR 1956
(iii)Small Scale Industries	(c) Land to the tiller
(iv) Modernisation as a goal of five year plan	(d) Change in social outlook

[1 Marks]

(A) (iv)- (d)

(B) (iii) - (c)

(C) (ii) - (b)

(D) (i) - (a)

Explanation:

The correct option is (iv) - (d) because the modernization goal of the five-year plans aimed at changing the social outlook by transforming agricultural practices and improving industrial efficiency. The other options do not correctly match the terms provided.

Question 16.

It is short-term unemployment occurring, as people transit between jobs." On the basis of given definition, identify the type of unemployment indicated.

(Choose the correct option)

[1 Marks]

(A) Disguised Unemployment

(B) Seasonal Unemployment

(C) Open Unemployment

(D) Frictional Unemployment

Explanation: The correct answer is Frictional Unemployment. It refers to the short-term unemployment that happens when individuals are transitioning between jobs or entering the workforce. This type of unemployment is a natural part of the job search process.

Question 17.

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

Assertion (A) : Prior to economic reforms, public investment in social infrastructure by China resulted in better Human Development Indicators (HDI).

Reason (R) : China is ahead of India and Pakistan on many Human Development Indicators (H DI).

[1 Marks]

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

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

(C) Both Assertion (A) and Reason (R) are true and Reason (R) is 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, but Reason (R) is not the correct explanation of Assertion (A). While it is accurate that China led India and Pakistan in HDI, the context states that these improvements stemmed from strategies in the pre-reform period rather than the economic reforms themselves.

Question 18.

India is NOT a member of which of the following regional/global economic grouping ?

[1 Marks]

(A) SAARC

(B) G-7

(C) BRICS

(D) G-20

Explanation: India is NOT a member of G-7. The G-7 is a group of major advanced economies, while India is part of other groupings like BRICS, G-20, and SAARC, which include developing countries and a broader representation of global economies.

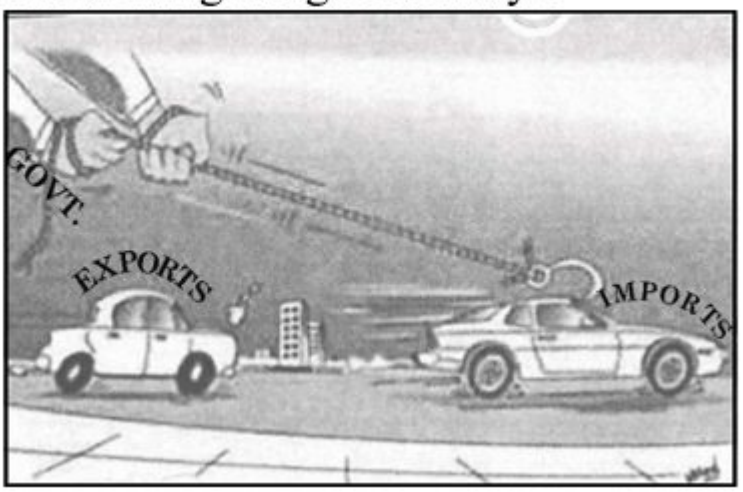
Question 19.

Study the following image carefully :

□□□□□□□ Identify, the trade practice that has successfully replaced foreign goods with domestic production .

[1 Marks]

Study the following image carefully :



(A) Export Promotion

(B) Export Substitution

(C) Import Substitution

(D) Import Proliferation

Explanation: The correct option is Import Substitution. This trade policy focuses on replacing imports with domestically produced goods, encouraging local industries to manufacture products instead of relying on foreign imports. The context provided indicates that Import Substitution aims to protect domestic industries from foreign competition through measures like tariffs and quotas.

Question 20.

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

Assertion (A) : Human capital formation increases the rate of participation of population to economic activities and leads to economic growth.

Reason (R) : Rate of participation of people refers to the percentage of people engaged in production process of a country.

[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).

Human capital formation improves the skills, knowledge, and productivity of people, which increases their participation in economic activities and promotes economic growth. The reason only defines the participation rate as the percentage of people engaged in production activities. While this definition is correct, it does not explain how human capital formation leads to increased participation. Therefore, Reason (R) does not correctly explain Assertion (A).

Question 21.

From the following terms given in Column-I, match the correct pair of meaning given in Column -II:

Column-I	Column -II
(a) Human Development Indicator	(i) Rule of Law
(b) Demographic Indicator	(ii) Constitutional Protection
(c) Special Economic Zone	(iii) Generation of additional economic activities
(d) Commune System	(iv) Collective industrialisation

[1 Marks]

(A) (a)- (i)

(B) (b) -(ii)

(C) (c) - (iii)

(D) (d) - (iv)

Explanation: The correct pair is (c) - (iii). A Special Economic Zone (SEZ) is intended for the generation of additional economic activities by attracting investments and encouraging trade, which aligns with option (iii). The other pairs do not accurately reflect the definitions of the terms.

Question 22.

□□□□□□□ refers to a trade policy aimed at reducing reliance on imported goods by encouraging domestic production.

[1 Marks]

(A) Export Substitution

(B) Import Proliferation

(C) Import Substitution

(D) Export Promotion

Explanation: The correct option is 'Import Substitution' as it directly relates to the trade policy that promotes domestic production to replace imports, aligning with the context that discusses replacing imports with domestic production and protecting local industries from foreign competition.

Question 23.

From the items given in Column-I and Column-II, choose the correct pair.

Column-I	Column-II
(a) Income from Property	(i) Old age pension
(b) Income from Entrepreneurship	(ii) Profit
(c) Mixed Income	(iii) Rent free accommodation from an employer
(d) Compensation of Employees	(iv) Interest from capital

[1 Marks]

(A) (a) (i)

(B) (d) (iv)

(C) (c) (iii)

(D) (b) (ii)

Explanation: (b) Income from Entrepreneurship - (ii) Profit is correct because entrepreneurship typically generates profit, which is the income derived from business activities. Options (c) Mixed Income - (iii) Rent free accommodation from an employer and (d) Compensation of Employees - (iv) Interest from capital do not correctly link the income types to their corresponding sources.

Question 24.

From the set of terms given in Column-I and Column-II, choose the correct pair :

Column-I	Column-II,
(a) Non-tax Revenue	(i) Goods and Services Tax
(b) Indirect Tax	(ii) Free-rider
(c) Capital expenditure	(iii) Borrowings
(d) Private goods	(iv) Rivalrous in nature

[1 Marks]

(A) (a)-(1)

(B) (c)-(iii)

(C) (b)(ii)

(D) (d)-(iv)

Explanation:

The correct option is (d)-(iv). Private goods are indeed rivalrous in nature, meaning that one person's consumption of the good reduces the availability of that good for others. This characteristic distinguishes private goods from public goods, which are non-rivalrous.

Section C

Question 25.

Calculate the value of Net Value Added at Factor Cost (NVAFD :

[3 Marks]

Calculate the value of Net Value Added at Factor Cost (NVA_{FC}) :

S. No.	Particulars	Amount (In ₹ crore)
(i)	Operating Surplus	3,740
(ii)	Increase in unsold stock	600
(iii)	Sales	10,625
(iv)	Purchase of raw materials	2,625
(v)	Consumption of fixed capital	500
(vi)	Subsidies	400
(vii)	Indirect taxes	1,200

Answer:

NVAFC
=Sales+Change in stock−Raw materials−Consumption of fixed capital+Subsidies−Indirect taxes

NVAFC=10,625+600−2,625−500+400−1,200

NVAFC=11,225−2,625−500+400−1,200 =8,600−500+400−1,200

=8,100+400−1,200 =8,500−1,200=₹7,300 crore

Answer: ₹7,300 crore

Key Points:

NVAFC=Sales+Change in Stock−Raw Materials−Depreciation+Subsidies−Indirect Taxes

Sales = Value of goods/services sold.

Change in stock = Increase in unsold goods (added).

Raw materials = Intermediate goods (subtracted).

Depreciation (Consumption of Fixed Capital) = Subtracted to get Net value.

Subsidies = Added (they reduce cost for producers).

Indirect Taxes = Subtracted (they increase market price over factor cost).
NVAFC = ₹7,300 crore

Question 26.

Distinguish between Net Factor Income from Abroad (NFIA) and Net Exports (X — M).

[3 Marks]

Answer: Net Factor Income from Abroad (NFIA) refers to the difference between the income earned by domestic factors of production abroad and the income earned by foreign factors of production within the domestic economy. It reflects the international earnings of residents and non-residents, contributing to GNP. In contrast, Net Exports (X - M) represent the difference between a country's total exports and total imports, indicating trade balance. While NFIA is focused on factor income, Net Exports highlight trade balance and economic activity.

Key Points: NFIA is income earned by domestic factors abroad - income earned by foreign factors domestically; NFIA contributes to GNP; Net Exports is the difference between exports and imports; NFIA relates to income, Net Exports to trade balance.

Question 27.

"The Government had launched Incredible India Campaign to promote tourism in various parts of the country." Elaborate the impact of this campaign on foreign exchange reserves and Balance of Payment of India.

[3 Marks]

Answer: The Incredible India Campaign has significantly bolstered tourism, resulting in a notable increase in foreign exchange reserves. With India witnessing a surge in the number of foreign tourists, foreign exchange earnings have amplified, contributing to the country's financial strength. The influx of foreign tourists enhances the Balance of Payments by improving the trade balance, as it increases net invisibles from tourism-related services. Consequently, the campaign fosters economic growth and stability, elevating India's position in the global market.

Key Points: Increased foreign tourist arrivals-Boosted foreign exchange earnings-Improved Balance of Payments-Strengthened economic stability

Question 28.

"Cooperatives have received a setback during the recent past". Justify the given statement with valid explanation.

[3 Marks]

Answer: Cooperatives have faced significant setbacks recently due to several interrelated factors. First, inadequate coverage of farmer members means that many farmers do not benefit from cooperative structures. Second, there is a lack of appropriate linkages between marketing and processing cooperatives, which hampers efficiency and profitability. Moreover, inefficient financial management exacerbates the issue. The decline in public investment since 1991, coupled with insufficient infrastructure, has further impeded cooperative growth, resulting in increased distress among farmers in rural India.

Key Points: Inadequate coverage of farmer members-Lack of link between marketing and processing cooperatives-Inefficient financial management-Decline in public investment since 1991-Inadequate infrastructure-Growing distress among farmers

Question 29.

Trace the relationship between Human capital and Economic growth.

[3 Marks]

Answer: The relationship between human capital and economic growth is multifaceted. Human capital, which encompasses education and health, is crucial for enhancing productivity and innovation. When a population is well-educated and healthy, it can contribute more effectively to the economy. In India, investments in education and healthcare have shown simultaneous growth, suggesting a mutual reinforcement between human capital formation and economic growth. Although establishing direct causation is challenging, improved human capital significantly contributes to labor efficiency and, ultimately, economic development. Thus, the government's role in enhancing education and health is vital for sustainable economic growth.

Key Points: Human capital encompasses education and health - education increases productivity - simultaneous growth in human capital and economic development - government’s investment in health and education critical - difficult to establish direct causation but correlation exists.

Question 30.

Explain the reasons behind less number of regular salaried employees in rural areas as compared to urban areas.

[3 Marks]

Answer: The disparity in the number of regular salaried employees between rural and urban areas can be attributed to several factors. Firstly, rural economies mainly rely on agriculture and informal sectors, limiting the availability of regular employment opportunities. Secondly, rural populations often lack access to quality education and skills training, essential for obtaining salaried jobs. This is exacerbated by social norms that discourage women from participating in the workforce.

Consequently, in rural areas, the workforce is comprised predominantly of self-employed individuals and casual laborers, resulting in a lower proportion of regular salaried employees compared to urban settings.

Key Points: Limited job opportunities in rural areas-Lack of education and skills training-Social norms affecting women's employment-Rural workforce primarily composed of self-employed individuals and casual laborers-Comparison of salaried employee ratios in urban and rural settings

---

Section D

Question 31.

Under the Ayushmaan Bharat Scheme, the government provides free medical treatment to the poorer section of the society.

Identify and explain the nature of budget expenditure and its objective, indicated in the given statement.

[4 Marks]

Answer: The Ayushmaan Bharat Scheme represents a key expenditure type in the government budget known as social welfare expenditure, aimed at improving public health. This form of budgetary allocation is seen as a transfer payment, where funds are allocated to provide services without expecting an equivalent return. The primary objective is to ensure that the economically disadvantaged receive access to essential healthcare services, thereby reducing health disparities and promoting social equity. This initiative aligns with the constitutional mandate to safeguard the right to health for all citizens, ensuring that basic health services are provided free of charge to the underprivileged, ultimately contributing to the overall welfare of society.

Key Points: Social welfare expenditure - transfer payment - access to healthcare - reduce health disparities - promote social equity - constitutional mandate - right to health - services provided free of charge

Question 32.

Suppose in an economy, primary deposits are ₹500, if the Reserve Ratio is 25%. Estimate the total deposits created and the total lending by the banking system.

[4 Marks]

Answer: In an economy where primary deposits amount to ₹500 and the Reserve Ratio (CRR) is 25%, the total deposits that the banking system can create can be calculated using the money

multiplier formula, which is 1 divided by the cash reserve ratio. Hence, the money multiplier is 1 / 0.25 = 4. The total deposits created will then be ₹500 x 4 = ₹2000. The total amount that banks must keep as reserves is 25% of ₹2000, equaling ₹500. Therefore, the total lending by the banking system after satisfying the reserve requirement is ₹2000 - ₹500 = ₹1500.

Key Points: Reserve Ratio = 25%- Money Multiplier = 1/0.25 = 4- Total Deposits = Primary Deposits x Money Multiplier = ₹500 x 4 = ₹2000- Total Reserves Required = 25% of ₹2000 = ₹500- Total Lending = Total Deposits - Total Reserves = ₹2000 - ₹500 = ₹1500

Question 33.

In an economy ; C = 200 + 0.75 Y (where C is consumption expenditure and Y is National Income). Investment expenditure is ₹4,000 Crore. 4 Calculate the following :

(i) Equilibrium level of income.

(ii) Total consumption expenditure at equilibrium income level.

[4 Marks]

Answer: To find the equilibrium level of income, we start with the formula for aggregate demand: AD = C + I. Given that C = 200 + 0.75Y and I = 4000, we equate AD to Y. \n\nThus, Y = 200 + 0.75Y + 4000. Solving this gives:\nY - 0.75Y = 4200, \n0.25Y = 4200, \nY = 16800 Crore. \n\nTo determine total consumption expenditure at equilibrium income level, we substitute Y back into the consumption function: C = 200 + 0.75 * 16800 = 12600 Crore.\n\nTherefore, the equilibrium level of income is ₹16,800 Crore and total consumption expenditure at this level is ₹12,600 Crore.

Key Points: 1. Use the aggregate demand formula AD = C + I; 2. Set Y equal to AD and solve for equilibrium income; 3. Substitute equilibrium Y back into the consumption function to find total consumption expenditure.

Question 34.

Explain the adjustment mechanism in case ex-ante savings are greater than ex-ante investments.

[4 Marks]

Answer: When ex-ante savings exceed ex-ante investments, this indicates a potential imbalance in the economy. In this scenario, planned consumption does not match planned investment levels. To adjust, firms may reduce production in response to lower demand for goods, leading them to cut back on their investment plans. This creates a cycle where lower investments further decrease aggregate demand, resulting in reduced income levels. The potential rise in inventories prompts businesses to reevaluate their production strategies, eventually leading to a stabilization of the economy as firms adjust their operations and expenditures to better align with the actual savings and investment levels.

Key Points: Ex-ante savings greater than investments; imbalance in planned consumption and investment; firms reduce production; cycle of lower income; increase in inventories prompts reevaluation; stabilization through operational adjustments.

Question 35.

Describe briefly a rationale behind choosing 'Self-reliance' as a planning objective for the Indian economy.

[4 Marks]

Answer: Self-reliance was chosen as a key planning objective for the Indian economy to foster sustainable economic growth and reduce dependency on foreign imports. After independence, India faced the challenge of building an independent and self-sufficient economy. Emphasizing self-reliance allowed India to utilize its own resources, facilitating local production of goods that were previously imported. This approach aimed to modernize the industrial sector, promote equity by ensuring basic needs were met, and ultimately lead to growth in various sectors of the economy. The government's role was crucial in steering this focus towards self-sufficiency and reducing inequalities in wealth distribution.

Key Points: Economic independence-Local production over imports-Utilization of domestic resources-Promotion of growth and modernization-Ensuring basic needs and equity-Government's role in industrial development

Question 36.

Explain how, Goods and Services Tax (GST) has simplified the multiplicity of taxes on goods and services.

[4 Marks]

Answer: The implementation of Goods and Services Tax (GST) has greatly simplified the tax framework in India by replacing multiple indirect taxes with a single comprehensive tax. Prior to GST, businesses faced a complex web of various taxes imposed by both the central and state governments. With GST, the laws, procedures, and tax rates have been standardized across the country, facilitating smoother interstate trade. This uniformity reduces compliance costs for businesses and aids in the creation of a common market. Additionally, by allowing input tax credits, GST effectively eliminates the cascading effect of taxes, wherein a tax is levied on a tax. Overall, GST has not only expanded the tax base but also enhanced transparency in the taxation system, which aids in easing the process of doing business.

Key Points: Simplifies tax structure; standardizes laws and rates; facilitates interstate trade; reduces compliance costs; eliminates cascading taxes; allows input tax credits;

enhances transparency; supports ease of doing business.

Question 37.

Describe the path of developmental initiatives taken by Pakistan for its economic development.

[4 Marks]

Answer: Pakistan's economic development trajectory has been influenced by various developmental initiatives and challenges. Political instability has hindered progress, while an over-reliance on remittances and foreign aid has stalled growth. Despite receiving significant financial support from Western nations and increased remittances from emigrants, the economy has struggled. In 1988, the government initiated reforms aimed at fostering private sector investment, creating a favorable climate for new investments. However, these reforms did not yield the desired outcomes, as shown by a decline in crucial economic indicators when compared to the 1980s. Ultimately, the country's GDP growth and sectoral developments have experienced stagnation, further exacerbated by a volatile agricultural sector.

Key Points: Political instability; Dependence on remittances and foreign aid; Financial support from Western nations; Government incentives for the private sector; Reforms initiated in 1988; Negative impact of reforms on economic indicators; Stagnation in GDP growth; Volatile agriculture sector.

Question 38.

(a) Bio-pesticides help to reduce the ill-impacts of green revolution on soil and water bodies while promoting sustainable development. Justify the given statement with valid explanation.

(b) Define Absorptive capacity.

[4 Marks]

Answer: Bio-pesticides are natural agents that help control pests without harming the environment, thus mitigating the negative effects of the green revolution, such as soil degradation and water pollution. They promote biodiversity and sustain the ecological balance, which is essential for sustainable development. Unlike synthetic pesticides, bio-pesticides are biodegradable, improving soil health and preserving the quality of water sources. This reduces the strain on the environment, thereby not exceeding its absorptive capacity and ensuring long-term agricultural productivity.

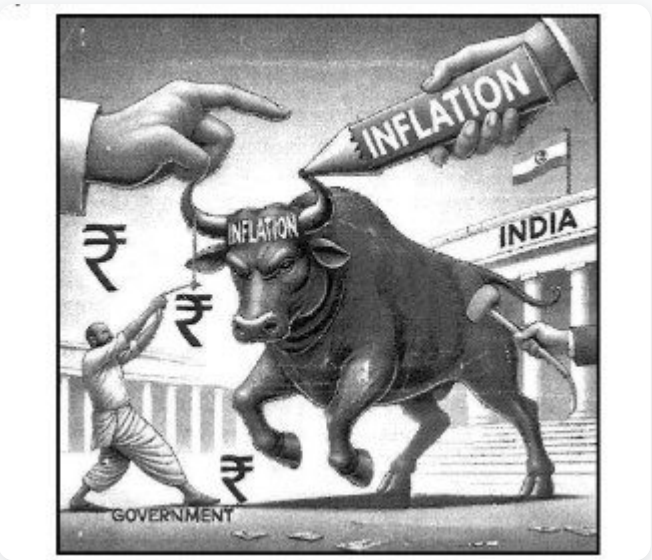
Key Points: Bio-pesticides reduce soil and water pollution-Biodegradable and environmentally friendly-Promote biodiversity and ecological balance-Help maintain sustainable agricultural practices-Prevent depletion of natural resources

Question 39.

(i)The macro-economic issue indicated in the image is **inflation**. Steps that the Government of India may take to control inflation are:

(ii) Define open market operation

[4 Marks]



Answer: (i) Inflation is the rise in the general price level of goods and services in an economy over a period of time.
Steps to control inflation by the Government of India include:
1. Monetary Policy: RBI can increase the repo rate to make borrowing expensive and reduce money supply in the economy.
2. Fiscal Policy: The Government can reduce its expenditure and increase taxes to reduce consumers' disposable income, controlling demand.
3. Open Market Operations: RBI can sell government securities to absorb excess money from the market.
4. Supply-side Measures: Improving production and supply of essential goods to reduce scarcity and price rise.

(ii) Open Market Operation refers to the buying and selling of government securities by the Reserve Bank of India in the open market to regulate the money supply and control inflation or liquidity in the economy.

Key Points: Inflation definition - Steps to control inflation: Monetary policy, Fiscal policy, Open market operations, Supply-side measures - Definition of open market operation

---

Section E

Question 40.

(i) Distinguish between :

(1) Tariff and non-tariff barriers

(2) Bilateral and multilateral trade
(ii) Small -Scale Industries required a shield against large scale industries.

In the light of given statement, elaborate the steps initiated by the government in this direction.

[6 Marks]

Answer: Tariff barriers are government-imposed taxes on imported goods, which increase the cost of these goods and protect domestic industries. They are relatively straightforward and often calculated as a percentage of the import value. Non-tariff barriers, on the other hand, encompass a range of regulatory measures, such as quotas, standards, and licenses that can restrict imports without direct taxation. They tend to be more complex and can include health standards and technical regulations. \n\nBilateral trade involves two countries engaging in trade agreements, promoting mutual benefits, and often tailored policies that suit both parties. In contrast, multilateral trade involves multiple countries and cooperative agreements, which can enhance overall trade liberalization and efficiency by reducing trade barriers collectively among many nations, as advocated by organizations like the WTO. This fosters a larger market access and benefits economies of scale. Hence, while tariffs and non-tariff barriers both affect international commerce, the dynamics of bilateral versus multilateral trade differ in scope and implementation.

Key Points: Definition of tariff and non-tariff barriers; examples of each; effects on trade; explanation of bilateral trade; understanding of multilateral trade; differences in scope and complexity between the two types of trade; role of WTO in facilitating trade agreements.

Question 41.

Giving valid reasons, state whether the following statements are true or false.

(i) India followed unbalanced growth during the colonial rule.

(ii) The economic policies implemented in India between 1950 -1990's sought to promote regional equality.

(iii) India has become a favourable destination of outsourcing, in post 1991 period.

[6 Marks]

Answer: The statements can be evaluated as follows:\n\n(i) True. During the colonial rule, India experienced unbalanced growth primarily due to the colonial economic policies that favored British interests. This led to the neglect of local industries and agriculture, resulting in significant regional

disparities in development.\n\n(ii) False. The economic policies implemented in India from 1950 to the early 1990s largely focused on industrialization and import substitution. Although they aimed at economic growth, they did not effectively address regional equality, leading to disparities between urban and rural areas and across different states.\n\n(iii) True. After 1991, India embraced liberalization and globalization, which made it a favorable destination for outsourcing. The new economic policies improved the business environment, attracted foreign investments, and promoted the growth of the IT sector, making India a global hub for outsourcing services.

Key Points: Unbalanced growth during colonial rule; neglect of local industries; economic policies focused on industrial growth; regional disparities; liberalization after 1991; outsourcing growth; IT sector development.

Question 42.

(i) Explain any two precautions to be adopted while estimating National Income by Expenditure method.

(ii) Higher Gross Domestic Product (GDP) always means higher per capita availability of goods in the economy.

Defend or refute the given statement as the index of welfare of the people of that country.

[6 Marks]

Answer: When estimating National Income by the expenditure method, it is essential to adopt certain precautions to ensure accuracy. Firstly, one must exclude items that do not contribute to production, such as transfer payments or second-hand sales, as these do not reflect current economic activity. Secondly, adjustments for inflation must be made using an appropriate price index, like the GDP deflator, to accurately assess the real value of goods and services produced. Furthermore, it's crucial to account for unreported income and shadow economy activities, as they distort actual economic output and welfare levels. Regarding GDP as an index of welfare, while higher GDP indicates increased economic activity, it does not necessarily equate to improved welfare. Factors such as income inequality, environmental degradation, and the presence of unaccounted negative externalities can result in high GDP without corresponding welfare improvements. Therefore, while GDP is a useful economic indicator, it should be supplemented with other measures, such as the Human Development Index (HDI), to better reflect the welfare of the population.

Key Points: Exclude non-productive transactions, Adjust for inflation using price indices, Consider shadow economy impacts, Higher GDP doesn't equal higher welfare, Factors like inequality and externalities matter, Use additional measures like HDI for welfare assessment

Question 43.

(i) Distinguish between Stock and flow variables, using suitable examples.

(ii) Explain the components of 'Profit' as per Income Method of estimating National Income (NNPFC).

[6 Marks]

Answer: Stock and flow variables are fundamental concepts in economics that differ in temporal measurement. A stock variable is a quantity measured at a single point in time, while a flow variable is measured over a period of time. For instance, consider a water tank: the amount of water in the tank at a specific moment is a stock variable, while the rate at which water flows into the tank (liters per minute) represents a flow variable. In national income accounting, the 'Profit' component is critical when estimating National Income via the Income Method. Profit refers to the revenue generated by businesses minus their costs over a specific time period. According to this method, profit includes components such as gross profit, which is the total sales revenue minus the cost of goods sold, and other income like dividends. Profit also subtracts explicit costs, such as wages and rent, as well as implicit costs like the opportunity cost of owner’s equity. Elements such as taxes, depreciation, and undistributed profits further clarify the calculation of profit within this framework, contributing to the overall measure of a nation’s economic performance (NNPFC). Thus, understanding these components is essential for accurate national income estimations.

Key Points: Distinction between stock and flow variables; Examples: water in a tank (stock) vs. rate of flow (flow); Components of profit: gross profit, explicit costs, implicit costs; Importance of taxes, depreciation, undistributed profits in National Income calculation.