CBSE EXAMINATION PAPER-2024

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 94

General Instructions :

Read the following instructions carefully and follow them :

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

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

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

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

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

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

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

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

ix. Use of calculator is NOT allowed.

Section A

Question 1.

Read the following text carefully :

India s industrial policy since independence has been shaped broadly in terms of the Industrial Policy Resolution of 1948. It emphasized on the sole responsibility of the government in the matter of promoting, assisting and regulating the development of industries in the national interest. It envisaged an active and dominant role of public sector.

The next Industrial Policy Resolution was placed before the Parliament by the Prime Minister on 30th April, 1956. It suggested that, There is a need for adoption of the socialist pattern of economy as the national objective, along with the need for planned and rapid development. It required that all industries of basic and strategic importance, or in public utility services, should be in the public sector.

Other industries which are essential and require investment on a massive scale (which only the State could provide) have also to be in the public sector. Thus, the State has to assume direct responsibility for the future development of industries.

This Resolution classifies industries into three categories :

• The first category given in Schedule A, consists of industries the future development of which will be the exclusive responsibility of the State.

• In the second category given in Schedule B, are industries which will be progressively State-owned. However, in them, private enterprise will also be expected to participate.

• The third category comprises all the remaining industries, the further development of which will be left to the initiative and enterprise of the private sector.

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

(1)

Outline and discuss the classification of industries into various categories as per Industrial Policy Resolution, 1956

[3 Marks]

Answer: The Industrial Policy Resolution of 1956 outlined a clear classification of industries into three categories aimed at facilitating systematic economic development. 1. **Schedule A**: This category comprises industries that are deemed to be of utmost importance, for which the future development will be the exclusive responsibility of the State. This is crucial for industries that play a foundational role in the national economy, ensuring they are controlled by the government to align with national interests. 2. **Schedule B**: Industries in this category will be progressively state-owned, yet they allow for the participation of private enterprises. This dual approach recognizes the importance of private investment while maintaining state oversight for industries that are critical but not purely essential for national security. 3. **Remaining Industries**: The last category encompasses all other industries whose future development will rely on the initiative and entrepreneurship of the private sector. This mechanism encourages private investment and innovation to fill gaps left by state involvement, aiming for a balanced approach in the industrial landscape. Overall, this classification exemplifies the commitment of the Indian government to a socialist pattern of economic development while still leveraging the strengths of the private sector where suitable.

Key Points: Schedule A: exclusive state responsibility; Schedule B: progressive state ownership with private participation; Remaining industries: private initiative encouraged

(2)

The Government of India, in the initial years of economic development, emphasized on a greater role of the public sector in the industrial development.

Justify the statement, giving reasons in support of your answer

[3 Marks]

Answer: In the initial years of economic development, the Government of India emphasized a greater role for the public sector in industrial development for several reasons. Firstly, the Industrial Policy Resolution of 1948 positioned the government as the primary promoter and regulator of industries, envisioning a dominant public sector to drive economic growth. Secondly, the 1956 Industrial Policy Resolution classified industries, placing those of strategic importance and requiring substantial investment exclusively in the public sector, thereby allowing the government to ensure equitable resource allocation. Lastly, with an economy still developing, the government aimed to mitigate the risks associated with private enterprise through direct control, ensuring industries aligned with national interests and welfare. Thus, the public sector's pivotal role was essential for India's planned and rapid industrial development during these formative years.

> **Key Points: Government's primary role in promoting industries-Industries of strategic importance assigned to public sector-Need for planned and rapid economic development**

Question 2.

Read the following text carefully :

Decisions taken by factors of production in the production process often may affect the stakeholders indirectly. Such impacts at times are huge but are not accounted for, while estimating national income. Economists call them as externalities and they can be positive or negative.

In this regard, many economists suggest carbon pricing as an important tool to ensure ecological balance.

Carbon pricing tries to control greenhouse gas emissions by either placing a fee on emitting or offering subsidies on lesser emission. Through instruments like carbon tax, green cess, eco tax, etc. economists suggest moving towards greener technology eliminating such negative externalities.

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

(1)

Define externalities.

[1 Marks]

Answer: Externalities are impacts of production or consumption that affect third parties, which can be either positive or negative, and are not reflected in the market prices.

Key Points: impact on third parties-positive and negative-not accounted in market prices

(2)

Differentiate between positive and negative externalities.

[2 Marks]

Answer: Positive externalities are benefits that occur when a decision by a producer or consumer leads to positive effects on other stakeholders that are not reflected in the market price. For example, a company planting trees can improve air quality for the community. Negative externalities, on the other hand, are adverse effects experienced by third parties that arise from production or consumption activities, such as pollution from a factory affecting the health of nearby residents. Hence, while positive externalities enhance societal welfare, negative externalities can cause harm and are often not accounted for in economic calculations.

Key Points: Positive externalities benefit third parties; Negative externalities harm third parties; Examples include community well-being versus pollution effects.

(3)

Elaborate how and why carbon pricing should be promoted.

[3 Marks]

Answer: Carbon pricing should be promoted as it serves to internalize the external costs associated with greenhouse gas emissions. By placing a fee on carbon emissions, it creates a financial incentive for producers and consumers to reduce their carbon footprint. This way, industries are encouraged to adopt greener technologies and practices, thus facilitating innovation and sustainability. Furthermore, the revenue generated through carbon pricing can be reinvested in renewable energy projects, public transport, and other ecological initiatives, ultimately contributing to the fight against climate change and promoting ecological balance. It is essential for governments and policymakers to actively support and implement carbon pricing mechanisms to mitigate environmental damage and foster a sustainable economy.

Key Points: Internalizes external costs-Financial incentive for reduction-Reinvestment into green projects

Section B

Question 3.

Read the following statements carefully:

Statement 1: A consumption function describes the relationship between consumption and savings.

Statement 2: Consumption function consists of two components autonomous consumption and induced consumption.

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

[1 Marks]

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

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

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

Explanation: A consumption function describes the relationship between consumption and income, not consumption and savings. It shows how consumption expenditure by households depends on income. The consumption function has two components: autonomous consumption (consumption that happens even when income is zero) and induced consumption (consumption dependent on income). Therefore, Statement 1 is false and Statement 2 is true.

Question 4. Identify which of the following is not one of the merits of fixed exchange rate system.

[1 Marks]

(A) Ensures stability in exchange rate

(B) Possibility of under or over valuation of foreign currency

(C) Prevents speculations in foreign exchange market

(D) Coordination of macroeconomic policies becomes convenient

Explanation: The correct answer is 'Possibility of under or over valuation of foreign currency.' This is not a merit of a fixed exchange rate system; rather, it is a disadvantage. A fixed exchange rate can lead to distortions in the economic equilibrium, causing currencies to be undervalued or overvalued, which can negatively impact trade and investment.

Question 5.

Identify which of the following will appear on the debit side in the Capital Account of India of Balance Payments.

[1 Marks]

(A) Investing in assets abroad by Indians

(B) An American company purchasing shares of an Indian company

(C) An Indian sending remittances from England

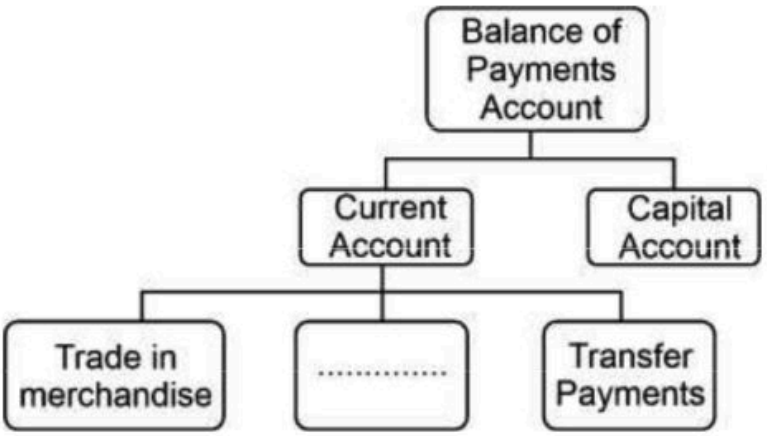
(D) Export of spices from India

Explanation: The correct option is 'Investing in assets abroad by Indians'. This is correct because investment in foreign assets by residents is recorded on the debit side of the Capital Account since it represents an outflow of capital from India.

Question 6.

Study the following figure carefully and choose the correct alternative to fill in the blank:

[1 Marks]



(A) Investments

(B) External Assistance

(C) External Borrowings

(D) Trade of Services

Explanation: According to the provided context, the capital account transactions include Foreign Direct Investments (FDIs), Foreign Institutional Investments (FIIs), external borrowings, and external assistance. Since the options are Investments, External Assistance, External Borrowings, and Trade of Services, the correct alternative to fill in the blank would be External Borrowings as it directly relates to the capital account items mentioned in the context.

Question 7.

Read the following statements carefully:

Statement 1: Economic territory and political frontier of a nation are one and the same thing.

Statement 2: American Embassy in India is a part of the economic territory of India.

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

[1 Marks]

(A) Both statements 1 and 2 are true.

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

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

(D) Both statements 1 and 2 are false.

Explanation:

Statement 1 is false because the economic territory of a country includes all areas where economic activities occur, while the political frontier refers to the geographical boundaries of a nation. They are not the same. Statement 2 is also false because the American Embassy in India is considered part of American territory for diplomatic purposes, not part of India's economic territory. Therefore, both statements are false.

Question 8.

Read the following statements carefully:

Statement 1: Money is a commodity which is generally accepted as a medium of exchange.

Statement 2: Money solved the problem of double coincidence of wants.

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

[1 Marks]

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

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

(C) Both statements 1 and 2 are false.

(D) Both statements 1 and 2 are true.

Explanation:

Both statements 1 and 2 are true. Statement 1 correctly describes money as a commodity accepted for transactions. Statement 2 reflects that money facilitates trade by eliminating the need for a double coincidence of wants, which is essential for barter systems.

Question 9.

Suppose in an imaginary economy, autonomous consumption = ₹ 500 crore and marginal propensity to consume = 0.8. The saving function for the economy would be _____.

(Choose the correct alternative to fill in the blank)

[1 Marks]

(A) 500 + 0.8Y

(B) 500 + 0.2Y

(C) (-) 500 + 0.8Y

(D) (-) 500 + 0.2Y

Explanation: The saving function is derived from the consumption function. The consumption function can be expressed as C = A + bY, where A is autonomous consumption (₹ 500 crore) and b is the marginal propensity to consume (0.8). The saving function is S = Y - C, which can be rearranged to S = Y - (500 + 0.8Y) = (-500 + 0.2Y). Thus, the correct saving function is (-) 500 + 0.2Y.

Question 10.

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

Assertion (A) : The maximum value of Marginal Propensity to Save (MPS) can be unity.

Reason (R) : At the break-even level of income, savings are zero.

Alternatives :

[1 Marks]

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

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

Explanation: The Marginal Propensity to Save (MPS) is the change in savings per unit change in income, and it can have a maximum value of 1 when all additional income is saved and none is consumed. This makes Assertion (A) true. The Reason (R) is also true because at the break-even level of income, total income equals total consumption, so savings are zero. However, Reason (R) does not explain why the maximum value of MPS is unity. Hence, both are true but Reason (R) is not the correct explanation of Assertion (A).

Question 11.

Identify the incorrect statement with reference to Cash Reserve Ratio (CRR):

[1 Marks]

(A) It is a certain percentage of demand and time deposit liabilities that every bank must keep as cash reserves with the Central Bank.

(B) It is not binding on the commercial banks.

(C) It is a tool used by the Central Bank to control the credit creation in the economy.

(D) It is fixed by the Central Bank.

Explanation:

The incorrect statement is 'It is not binding on the commercial banks.' This is false because the CRR is a mandatory requirement set by the Central Bank that all commercial banks must adhere to, ensuring they maintain a certain percentage of their demand and time deposits as cash reserves.

Question 12.

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

Assertion (A) : The equilibrium level of income is determined, when ex-ante spending and ex-ante output are equal.

Reason (R) : The equilibrium level of income may or may not be the same as the full employment level of output.

Alternatives :

[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 true, but Reason (R) is false.

(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). Assertion (A) correctly states that equilibrium income is reached when planned spending equals planned output, which is a fundamental concept in macroeconomics. Reason (R) is also true because the equilibrium level of income does not necessarily coincide with the full employment level of output, as there can be cases of underemployment or excess capacity. However, Reason (R) does not explain why Assertion (A) is true.

Question 13.

During the British rule, India's foreign trade had various features except _____. (Choose the correct alternative to fill in the blank)

[1 Marks]

(A) Free trade from India to the rest of the world

(B) Restrictive policies of commodity production, trade and tariff

(C) Large export surplus

(D) British monopoly Over India'sexports and imports

Explanation:

The correct answer is 'Free trade from India to the rest of the world'. During British rule, India's trade was characterized by restrictive policies set by the British, leading to controlled exports and imports to benefit British interests over Indian economy. There was no true free trade, as trade practices were heavily regulated.

Question 14.

China was able to control its rapid population growth rate owing to _____.

(Choose the correct alternative to fill in the blank)

[1 Marks]

(A) Economic reforms

(B) One-Child Policy

(C) Great Proletarian Cultural Revolution

(D) Special Economic Zones

Explanation: The correct option is 'One-Child Policy' as this was a government initiative implemented in China to curb the rapid population growth by limiting families to one child, which significantly impacted the demographic trends in the country.

Question 15.

Modernization is an important economic planning objective that focuseson _____.

(Choose the correct alternative to fill in the blank)

(i) Adoption of innovative technology

(ii) Equal distribution of income and wealth

(iii) Bringing positive changes in the social outlook

Alternatives :

[1 Marks]

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

(B) (i) and (iii)

(C) (i) and (ii)

(D) Only (i)

Explanation: Modernization involves the adoption of new or innovative technology to increase production and economic growth. Additionally, it includes changes in social outlook, such as recognizing equal rights for women and bringing positive social changes. While equal distribution of income and wealth is important for equity, it is not a direct focus of modernization according to the provided context.

Question 16.

The present day rapid industrial growth in China can be traced back to the economic reforms introduced in 1978, where _____.

(Choose the correct alternative to fill in the blank)

(i) initially reforms were initiated in agriculture, foreign trade and investment sectors

(ii) the policy of dual pricing was adopted

(iii) the Government revoked the policy of Special Economic Zones

Alternatives :

[1 Marks]

(A) Only (i)

(B) (i), (ii) and (iii)

(C) (i) and (ii)

(D) Only (ii)

Explanation: The economic reforms introduced in China in 1978 initially focused on agriculture, foreign trade, and investment sectors. In agriculture, commune lands were allocated to individual households who could keep the income after paying taxes. The policy of dual pricing was also adopted as part of these reforms. The government did not revoke the policy of Special Economic

Zones; instead, SEZs were an important part of China's reform strategy to encourage foreign investment.

Question 17.

_____ farming is a system that is helpful in restoring, maintaining and enhancing the ecological balance.

(Choose the correct alternative to fill in the blank)

[1 Marks]

(A) Multi-layered

(B) Chemical

(C) Organic

(D) Conventional

Explanation: The correct option is 'Organic'. Organic farming focuses on sustainable practices that promote ecological balance by avoiding synthetic fertilizers and pesticides, thus enhancing soil health and biodiversity.

Question 18.

Read the following statements carefully :

Statement 1 : India, Pakistan and China have similar physical endowments, but totally different political systems.

Statement 2 : Both India and Pakistan laid great emphasis on creating a large private sector.

In the light of the given statements, choose the correct alternative 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.

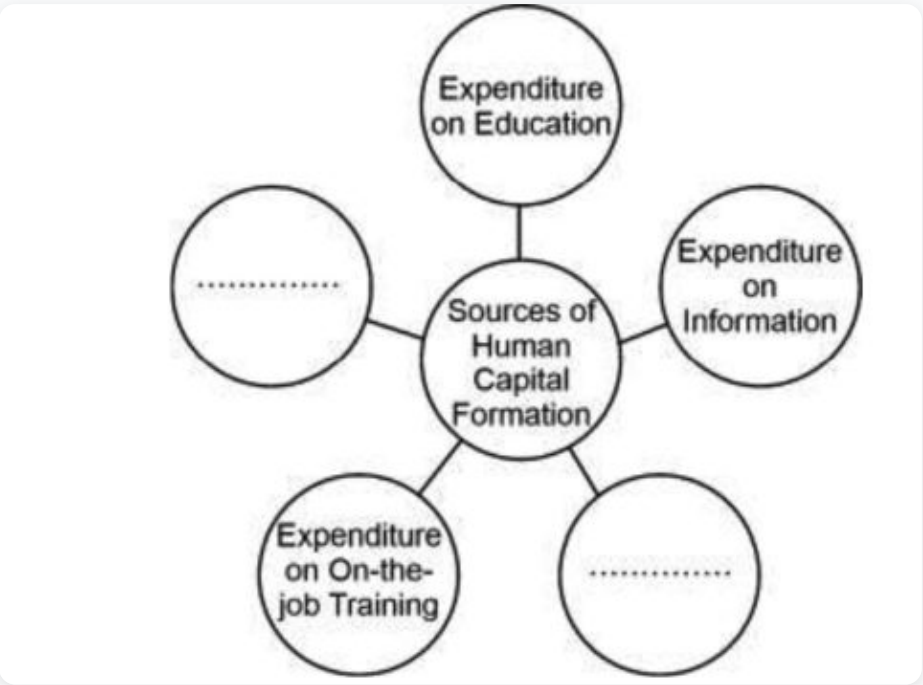
Explanation: Statement 1 is true because while India, Pakistan, and China share similar geographical features, their political systems are indeed quite different. Statement 2 is false as India focused more on a mixed economy with significant public sector involvement, whereas Pakistan initially emphasized private sector development; thus, both statements cannot be true simultaneously.

Question 19.

Identify the sources of Human Capital Formation and choose the correct alternative to fill in the blanks.

Alternatives :

[1 Marks]



(A) Expenditure on Migration and Expenditure on Knowledge

(B) Expenditure on Health and Expenditure on Schools

(C) Expenditure on Technology and Expenditure on Knowledge

(D) Expenditure on Health and Expenditure on Migration

Explanation: Human capital formation results from investments in education, health, on-the-job training, migration, and information. Among the given options, expenditure on health and expenditure on schools (education) are the most important and direct sources of human capital formation as clearly mentioned in the context.

Question 20.

From the type of workers given in Column I, identify the correct nature of work in Column II :

Alternatives :

[1 Marks]

work in Column II :

	Column I		*Column II*
1.	Cement shop owner	(i)	Regular salaried
2.	Construction worker	(ii)	Casual wage workers
3.	Civil engineer	(iii)	Self-employed

(A) 1 -(i); 2- (ii); 3- (iii)

(B) 1- (iii); 2 -(i); 3 -(ii)

(C) 1- (iii); 2- (ii); 3 -(i)

(D) 1- (ii); 2- (i); 3- (iii)

Explanation: According to the context, the working persons are divided into three major sectors: (i) Primary sector which includes divisions (i) and (ii), (ii) Secondary sector which includes (iii), (iv) and (v), and (iii) Service sector which includes divisions (vi), (vii) and (viii). Therefore, the correct nature of work corresponding to given types of workers would follow the order where 1 corresponds to (i), 2 to (ii), and 3 to (iii). This matches the option '1 -(i); 2- (ii); 3- (iii).'

Question 21.

After the implementation of economic reforms, Pakistan experienced slowdown of growth due to various reasons including _____.

(Choose the correct alternative to fill in the blank) 1

(i) Volatile performance of the agriculture sector

(ii) Over-dependence on remittances from abroad

(iii) Political instability

Alternatives :

[1 Marks]

(A) (i) and (ii)

(B) (ii) and (iii)

(C) (i) and (iii)

(D) (i), (ii) and (iii)

Explanation: The correct option is (i), (ii) and (iii). Pakistan's economic slowdown can be attributed to the volatile performance of the agriculture sector, over-dependence on remittances from abroad, and

political instability. Each of these factors has negatively impacted sustainable economic growth in the country.

Question 22.

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

Assertion (A) : In the recent past, Indian economy has been facing the problem of jobless growth.

Reason (R) : Jobless growth refers to a situation where an economy is able to produce more goods and services without generating additional employment.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A). Assertion (A) accurately describes the current issue in the Indian economy, while Reason (R) correctly defines 'jobless growth' as a phenomenon where economic growth occurs without corresponding job creation.

Section C

Question 23.

"The Government of India has taken various measures to align the agricultural marketing system with the growing production activities in the rural areas".

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

[3 Marks]

Answer: Yes, I agree with the statement that the Government of India has taken various measures to align the agricultural marketing system with the growing production activities in rural areas. (a) One major measure is the regulation of markets to create orderly and transparent marketing conditions, which help farmers get fair prices. (b) Another measure is the development of physical infrastructure

like roads, warehouses, cold storages, and processing units that support farmers in storing and transporting their produce efficiently. These steps reduce price risks and expand market access for farmers, ultimately helping increase their incomes.

Key Points: Government regulates markets for transparency - Development of physical infrastructure like roads and cold storages - Measures help reduce price risks and expand market access for farmers

Question 24.

Self- Help Groups provide stimulus to socio-economic development in rural areas.

Justify the given statement with valid explanation.

[3 Marks]

Answer: Self-Help Groups (SHGs) play a vital role in promoting socio-economic development in rural areas.
Firstly, SHGs empower rural poor, especially women, by providing them access to credit at lower interest rates compared to informal lenders.
Secondly, SHGs encourage savings habits among members leading to financial security.
Thirdly, they promote skill development and generate supplementary employment opportunities which help raise income levels.
Moreover, SHGs create a platform for social awareness, cooperation and collective decision-making, improving the overall social fabric.
Thus, SHGs help overcome poverty and improve living standards, contributing significantly to rural development.

Key Points: Provision of affordable credit - Empowerment of women - Promotion of savings and financial security - Skill development and employment generation - Social cohesion and collective progress

Question 25.

Interpret the given picture and explain any one strategy to control it from becoming an ecological disaster.

[3 Marks]



Note : *The following question is for the* ***Visually Impaired Candidates*** *only, in lieu of Q. No.* ***29****.*

Answer: Interpretation: The picture shows pollution in the Damodar river, indicating that harmful pollutants are turning the river into an ecological disaster affecting plants, animals, and human health.
Strategy to Control: One effective strategy to control this pollution is to treat industrial and domestic wastewater before releasing it into the river. This can be done by setting up proper sewage treatment plants and enforcing strict regulations on factories to reduce harmful effluents. By doing so, we prevent harmful chemicals and waste from entering the river, protecting the aquatic ecosystem and the communities depending on it. Hence, treated water ensures cleaner rivers and prevents ecological disasters.

Key Points: Pollution in Damodar river - Ecological disaster impact - Treat wastewater before discharge

Question 26.

"Depreciation of currency may promote exports of a nation." Defend or refute the given statement with valid arguments.

[3 Marks]

Answer: Depreciation of Currency and Its Effect on Exports:
Depreciation means a fall in the value of the domestic currency relative to foreign currencies. When the domestic currency depreciates, Indian goods become cheaper for foreign buyers because they need to pay less foreign currency to buy the same amount of goods. This encourages foreign consumers to buy more Indian exports, increasing the demand for Indian goods abroad.
However, depreciation also increases the cost of imported goods, which may lead to higher production costs for exporters using imported inputs. Also, if foreign income is low or there are trade restrictions, depreciation may not significantly increase exports.
In general, depreciation tends to promote exports as Indian products become more competitive worldwide. But the actual impact depends on factors like demand abroad, cost of imports, and trade

policies. So, the statement is generally true but with conditions.

Conclusion: Depreciation of the domestic currency usually promotes exports by making goods cheaper internationally, helping the nation earn more foreign exchange and improve its trade balance.

Key Points: Depreciation lowers domestic currency value - Makes exports cheaper and competitive - Can lead to increase in export demand

Question 27.

On the basis of the data given below, estimate the value of Gross National Product at Factor Cost (GNPFC) :

[3 Marks]

S.No.	*Items*	*Amount (in ₹ crore)*
(i)	Wages and Salaries	2,000
(ii)	Rent and Interest	700
(iii)	Corporate Tax	500
(iv)	Undistributed Profit	300
(v)	Consumption of Fixed Capital	200
(vi)	Dividend	150
(vii)	Net factor income from abroad	(–) 50

Answer: Step 1: Understand the formula for Gross National Product at Factor Cost (GNPFC).

GNP at Market Price (GNPMP) = GDP at Market Price (GD PMP) + Net Factor Income from Abroad (NFIA).

Step 2: To get GNP at Factor Cost (GNPFC), subtract Net Indirect Taxes (NIT) from GNP at Market Price.

So, GNPFC = GNPMP - Net Indirect Taxes.

Step 3: Given the data, first calculate GNPMP by adding GDPMP and NFIA.

Step 4: Then subtract the given Net Indirect Taxes to get GNPFC.

Note: Net Indirect Taxes = Product Taxes - Subsidies.

Therefore, by applying these calculations on the given data, we estimate the value of GNPFC.

This value represents the total income earned by factors of production of a country including net income from abroad, adjusted for taxes and subsidies.

Key Points: GNP at Factor Cost derived by subtracting net indirect taxes from GNP at market price - GNP at market price equals GDP at market price plus net factor income from abroad - GNPFC represents income earned by all factors of production belonging to a country

Question 28.

Accommodating transactions are undertaken to maintain stability in the Balance of Payments Account".

Justify the given statement with valid explanation.

[3 Marks]

Answer: Accommodating transactions are undertaken to correct imbalances in the Balance of Payments (BoP). They are called 'below the line' items because they arise from the deficit or surplus in the BoP. When a country has a BoP deficit (more payments than receipts), accommodating transactions such as borrowing from abroad or using foreign exchange reserves are used to finance this deficit and maintain stability.
These transactions balance the accounts after the autonomous transactions (trade in goods, services, investment) have been accounted for.
In other words, accommodating transactions help to restore equilibrium by offsetting the deficit or surplus in the current and capital accounts.
Hence, they play a critical role in sustaining a country's economic stability and international financial credibility by ensuring the BoP does not collapse.
Therefore, the statement is justified as accommodating transactions act as a safety valve to keep the BoP account stable despite temporary imbalances.

> **Key Points: Accommodating transactions correct BoP imbalances - Called below the line items - Used to finance deficit or surplus - Maintain BoP stability - Ensure economic and financial equilibrium**

Section D

Question 29. For a hypothetical economy, assume the government increased an infrastructural investment by 10,000 crore. 80% of additional income is consumed in the economy. Estimate the increase in income and the corresponding increase in consumption expenditure in the economy.

[4 Marks]

Answer: Given that the government increased investment by 10,000 crore and the marginal propensity to consume (MPC) is 0.8, we use the government expenditure multiplier formula:
Multiplier = 1 / (1 - MPC) = 1 / (1 - 0.8) = 1 / 0.2 = 5
This means every 1 crore of government spending increases total income by 5 crore.
Therefore, the total increase in income = Multiplier * Increase in government spending = 5 * 10,000 crore = 50,000 crore.
Next, the increase in consumption expenditure is given by MPC times the increase in income:
Increase in consumption = MPC * Increase in income = 0.8 * 50,000 crore = 40,000 crore.

Conclusion:
The increase in income in the economy is 50,000 crore and the corresponding increase in consumption expenditure is 40,000 crore.

> **Key Points: Government expenditure multiplier calculation - Total increase in income calculation - Increase in consumption expenditure calculation**

Question 30.

If actual demand for final goods falls short of the actual output of final goods corresponding to full employment level, it may lead to an unintended accumulation of inventories.

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

[4 Marks]

Answer: Answer:
Yes, I agree with the given statement. When actual demand for final goods is less than the output produced at full employment, it creates a situation where goods remain unsold. Producers expect to sell all their output, but due to low demand, the unsold goods accumulate as inventories in warehouses. This accumulation is unintended because firms planned production based on higher demand. Such unplanned inventory buildup indicates that supply exceeds demand, often causing firms to reduce production in the future to restore equilibrium. For example, if a shirt manufacturing firm produces 1000 shirts assuming full demand, but only 800 are sold, 200 shirts will remain as unsold stock, leading to unintended inventory accumulation. Hence, a mismatch between output and demand leads to unplanned inventory increases.

> **Key Points: Actual demand less than output - Unintended inventory accumulation - Indicates excess supply leading to reduction in future production**

Question 31.

Discuss any two factors that lead to stagnating Indian agriculture sector during British rule.

[4 Marks]

Answer: Two factors that led to stagnation of Indian agriculture during British rule are:
1. **Land Revenue Systems:** The British introduced systems like Zamindari and Ryotwari where high taxes were imposed on farmers. This forced many farmers to remain in poverty and discouraged investment in land improvement. Many small farmers lost their land due to inability to pay taxes.
2. **Lack of Technological Progress:** During British rule, agriculture remained traditional with little or no mechanization. Farmers used animal power instead of machines, and there was no significant development in irrigation or modern tools. This limited productivity and kept agriculture stagnant.

Key Points: High land revenue taxes - Lack of technological advancement - Traditional farming methods

Question 32.

Discuss any two liberalization measures pertaining to the tax reforms, introduced by the government, during the economic reform process of 1991.

[4 Marks]

Answer: Two major liberalization measures in tax reforms during the 1991 economic reforms were:

(a) **Reduction in Tax Rates:** The government reduced the high rates of income tax and corporate tax to encourage more investment and economic activity. This helped in widening the tax base and improving compliance.

(b) **Simplification of Tax Structure:** The tax system was simplified by reducing the number of tax slabs and exemptions. This made tax administration easier and minimized tax evasion, improving revenue collection and transparency in the economy.

Key Points: Reduction in tax rates - Simplification of tax structure - Encouragement of investment and better tax compliance

Question 33.

There exists a positive correlation between human capital formation and economic growth of nation .

Justify the given statement with valid explanation.

[4 Marks]

Answer: Human capital formation means investing in education, health, and skills of people. There is a positive correlation between human capital formation and economic growth because educated and healthy workers are more productive and innovative.

Firstly, an educated labour force can adopt new technologies easily, which increases efficiency and output.

Secondly, healthy people can work longer and contribute more to production.

Thirdly, human capital leads to better decision making and entrepreneurship, fostering economic development.

Though sometimes the exact measurement of its impact is difficult, in general, countries with higher human capital levels experience faster economic growth due to improved labour quality and innovation.

Thus, investing in human capital formation is essential for a nation to achieve sustained economic growth and development.

Key Points: Human capital formation improves education and health - Educated and healthy workers increase productivity - Positive impact on technological adaptation and innovation - Leads to sustained economic growth

Question 34.

On the basis of the data given below, discuss the shift in output and employment sector-wise, in India and China :

Source : Human Development Report 2019 : Key Indicators of Asia and Pacific, 2019

[4 Marks]

Sectoral share of Employment and GVA (%) in 2018 – 2019

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

Answer: Shift in Output Sector-wise:
In India and China, there has been a clear shift from agriculture to industry and service sectors in terms of output from 1980 to 2018. Agriculture's contribution to Gross Value Added (GVA) has decreased, while industry and especially the service sector have grown significantly. China showed a remarkable increase in industrial output, reflecting rapid industrialization, whereas India saw a strong growth in the service sector.

Shift in Employment Sector-wise:
Employment in agriculture has declined in both countries as people moved to other sectors. In India, a large portion of the workforce remains in agriculture but its share is decreasing slowly. In contrast, China shows a faster decline in agricultural employment and a growing workforce in industry and services. This indicates that China has industrialized and urbanized more rapidly than India.

The data indicates that both countries are transitioning from traditional agricultural economies towards modern industrial and service-oriented economies, but the pace and balance differ, with China ahead in industrial growth and employment shift and India excelling in services.

This structural change is important because it shows economic development and better job opportunities beyond farming, improving living standards in both nations.

Key Points: Decrease in agricultural output and employment - Increase in industrial output and employment especially in China - Growth of service sector output and employment particularly in India

Question 35.

Reserve Bank of India undertakes the important function of managing the government s banking transactions.

Discuss the above stated function performed by the Reserve Bank of India.

[4 Marks]

Answer: Function of RBI as Banker to the Government:
The Reserve Bank of India (RBI) acts as the banker to the government by managing its banking transactions. This includes receiving money on behalf of the government, making payments from the government account, and managing public debt. RBI also provides short-term and long-term loans to the government when needed by issuing government securities like bonds and treasury bills. It helps the government in managing its receipts and payments efficiently and maintains the government's accounts. Moreover, RBI facilitates smooth functioning of government's monetary operations and acts as an agent to collect taxes and other revenues on behalf of the government. This role helps the government in raising funds for development activities and financial stability of the economy.

Key Points: RBI manages government banking transactions - Issues government securities for funds - Maintains government accounts - Acts as agent for tax and revenue collection

Question 36.

Complete the following table. Construct the consumption function at ₹ 200 crore level of income.

[4 Marks]

Income (Y) (in ₹ crore)	*Savings (S) (in ₹ crore)*	*Average Propensity to Consume (APC)*	*Marginal Propensity to Save (MPS)*
0	(–) 50	–	–
100	.....	1	.....
200	.....	3/4	.....
300	.....	2/3	.....

Answer: The given consumption function is C = 100 + 0.8Y, where Y is the income in crore rupees.
At income level Y = 200 crore:
Consumption, C = 100 + 0.8 * 200 = 100 + 160 = ₹ 260 crore.

Below is the completed table:

Income (Y) crore	**Consumption (C) crore**
0	100
50	100 + 0.8*50 = 100 + 40 = 140
100	100 + 0.8*100 = 100 + 80 = 180
150	100 + 0.8*150 = 100 + 120 = 220
200	260

The consumption function shows that even if income is zero, there is an autonomous consumption of ₹ 100 crore. For every additional ₹ 1 crore increase in income, consumption increases by ₹ 0.8 crore, which is the marginal propensity to consume (MPC).

> **Key Points: Consumption function is C = 100 + 0.8Y - At Y = 200, consumption C = 260 crore - MPC is 0.8 indicating 80% of additional income is consumed**

Section E

Question 37.

(i) The participation rate of people in economic activities in rural areas is more than that in urban areas.

Justify the given statement.

(ii) Define disguised unemployment. State its implications on output and employment in a country.

[6 Marks]

Answer: (i) The participation rate in economic activities is higher in rural areas compared to urban areas because of limited sources of income in villages. Most rural families depend on agriculture and related activities for their livelihood. Due to lack of alternative employment opportunities, more people, including women and children, take part in economic activities to earn income, even if the work is less productive. In contrast, urban areas provide more diverse job options, so fewer people need to engage in economic activities to earn an income.

(ii) Disguised unemployment is a situation where more people are engaged in work than actually required for a particular job, but their contribution is not reflected in increasing output. For example, if a farm requires only two workers but five are working, the extra workers are considered disguised unemployed.
Implications: It leads to low productivity as workers share limited work among themselves, reducing

overall efficiency. It also means the country is not utilizing its human resources properly, resulting in lower output and hindering economic development.

Key Points: Higher rural participation due to limited income sources - Disguised unemployment means more workers than needed without output increase - Results in low productivity and inefficient use of labor

Question 38.

(i) "Amita is a regular worker in a private firm that employs twelve hired workers."

Is she working in the formal/informal sector? Give valid reasons in support of your answer.

(ii) State any two sources of data on unemployment in India.

(iii) Elaborate the need to promote women's education in India.

[6 Marks]

Answer: (i) Formal or Informal Sector Employment:
Amita is working in the informal sector because the private firm employs less than 10 workers, which usually indicates informal sector according to government classification. Informal sector workers typically lack job security, social security benefits, and regular wages even if they work regularly. Since Amita is working in a private firm with only twelve hired workers, it is likely a small enterprise and does not provide formal sector benefits.

(ii) Two Sources of Data on Unemployment in India:
1. Reports of Census of India
2. Annual Reports of Periodic Labour Force Survey published by the National Statistical Office

(iii) Need to Promote Women's Education in India:
Promoting women's education is crucial for empowering women to participate fully in social, economic, and political life. Educated women tend to have better employment opportunities and higher incomes, which help improve family welfare. Women's education leads to better health and nutrition for themselves and their children, reducing infant and maternal mortality rates. Educated women can contribute to the country's development by promoting gender equality and reducing poverty. Hence, promoting women's education can build a more inclusive and progressive society.

Key Points: Amita works in informal sector - Private firm with small number of workers - No formal benefits provided - Sources of unemployment data: Census of India, Periodic Labour Force Survey - Importance of women's education: empowerment, better job opportunities, improved health, reduced poverty, gender equality

Question 39.

(i) Distinguish between direct tax and indirect tax with the help of suitable examples.

(ii) Explain the redistribution of income objective of the Government Budget.

[6 Marks]

Answer: (i) **Difference between Direct Tax and Indirect Tax:**
Direct tax is a tax that is paid directly to the government by the person on whom it is imposed, like income tax paid by individuals or corporate tax by companies. Indirect tax is a tax levied on goods and services and is paid indirectly by the consumer when purchasing goods, such as GST or excise duty.
Example of direct tax: Income tax, property tax.
Example of indirect tax: GST, customs duty.

(ii) **Redistribution of Income Objective of Government Budget:**
The government budget aims to reduce economic inequality by redistributing income. This is done through progressive taxation where higher income individuals pay a higher rate of tax, and the collected revenue is used for welfare programs benefiting lower income groups. It helps in minimizing the gap between rich and poor by transferring resources from wealthy sections to the disadvantaged. This function ensures balanced economic growth and social justice.

> **Key Points: Direct tax paid by the individual directly - Indirect tax paid indirectly through goods and services - Progressive taxation redistributes income to reduce inequality**

Question 40.

(i) Suppose the following data is presented for an imaginary economy :
Calculate Revenue Deficit and Fiscal Deficit.

(ii) Differentiate between public provision and public production.

[6 Marks]

economy :

S.No.	Items	Amount (in ₹ Crore)
(i)	Tax Receipts	1,200
(ii)	Revenue Expenditure	3,700
(iii)	Non-Tax Receipts	2,000
(iv)	Recovery of Loans	145
(v)	Capital Expenditure	500
(vi)	Disinvestment	120
(vii)	Interest Payments	1,070

Answer: (i) Calculation of Revenue Deficit and Fiscal Deficit:

Revenue Deficit is the excess of government's revenue expenditure over its revenue receipts. It shows that the government is spending more than its income from revenue sources.

Formula: Revenue Deficit = Revenue Expenditure - Revenue Receipts.

Fiscal Deficit is the difference between total government expenditure and total receipts excluding borrowings. It shows the total borrowing requirements of the government.

Formula: Fiscal Deficit = Total Expenditure - (Revenue Receipts + Non-Debt Capital Receipts).

(ii) Difference between Public Provision and Public Production:

Public Provision refers to the government ensuring that goods and services are available to the public, either by producing them themselves or by facilitating their availability through subsidies, incentives, or regulation. For example, providing free education or healthcare services.

Public Production means when the government itself produces goods or services using government resources and labor. For example, production of military equipment by government factories or running public hospitals.

In summary, public provision is about making goods and services accessible to people, while public production is about the government directly creating those goods or services.

Key Points: Revenue Deficit defined as revenue expenditure minus revenue receipts - Fiscal Deficit is total expenditure minus total receipts excluding borrowings - Public Provision means ensuring availability of goods/services - Public Production means government directly creates goods/services