CBSE EXAMINATION PAPER-2023

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 99

General Instructions :

Read the following instructions carefully and follow them :

i. This question paper contains **49 questions.** All questions are **compulsory.**

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

iii. **Section A** – questions number **1 to 5** are case based questions

iv. **Section B** – questions number **6 to 32** are multiple choice questions

v. **Section C** – questions number **33 to 38** are short answer type i

vi. **Section D** – questions number **39 to 44** are short answer type ii

vii. **Section E** – questions number **45 to 49** 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 statements carefully : Statement 1 : Investment is defined as addition to the physical capital and changes in the inventory. Statement 2 : At equilibrium level of income, ex-post investments and ex-post savings are always equal.

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

[1 Marks]

Answer: Both statements elucidate key concepts of investment; however, we need to evaluate their truthfulness to arrive at the correct answer.

Key Points: "Investment definition, Equilibrium income"

Question 2. Read the following statements carefully : Statement 1 : Balance of Payment account is always balanced in accounting sense. Statement 2 : Autonomous transactions restore balance in Balance of Payment account.

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

[1 Marks]

Answer: It is crucial to analyze the facts surrounding the Balance of Payment to correctly determine the truth of each statement.

Key Points: "Balance of Payment, Autonomous transactions"

Question 3. Read the following statements carefully : Statement 1 : Depreciation of domestic currency may lead to a rise in exports. Statement 2 : Due to the depreciation of Indian National Rupee (₹), purchasing power of US Dollar ($) may increase.

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

[1 Marks]

Answer: Understanding the correlation between currency depreciation and its impact on exports is key to selecting the correct answer.

Key Points: "Depreciation effects, Export impact"

Question 4. Read the following text carefully : Bank Digital Currency (CBDC) in India in 2020, the RBI revealed a concept note on digital rupee (e-Rupee)...

(1) Identify and discuss the function of central bank indicated in the above text.

[3 Marks]

Answer: The central bank's functions range from controlling the money supply to maintaining currency stability which are also reflected in the context of the forthcoming digital currency.

Key Points: "Central bank functions, Digital currency role"

(2) State any two advantages of digital rupee.

[1 Marks]

Answer: The digital rupee promises enhanced efficiency in transactions and improved security measures compared to traditional forms of currency.

Key Points: "Efficiency, Security"

Question 5.

Read the following text carefully :

Adoption of Village by Parliamentarians

In October, 2014, the Government of India introduced a new scheme called Saansad Adarsh Gram Yojana (SAGY). Under this scheme, Members of India Parliament need to identify and develop one villagefrom their constituencies. To begin with, MPs can develop one village as a model village by 2016, and two more by 2019, covering over 2,500 villages in India. According to the scheme, the village can have a population of 3,000 5,000 in the plains and 1,000 3,000 in the hills and should not be the MP,s own or theie spouse,s village. MPs are expected to facilitate a village development plan, motivate villagers to take up activities and build infrastructure in the areas of health, nutrition and education.

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

(1)

State and discuss, any two objectives which the Government of India wanted to achieve through Saansad Adarsh Gram Yojana (SAGY),.

[4 Marks]

Answer: The Saansad Adarsh Gram Yojana (SAGY) was introduced by the Government of India with several key objectives aimed at rural development. Firstly, one of the main objectives is to transform identified villages into model villages by enhancing local infrastructure and amenities such as health, education, and nutrition, which directly improves the quality of life for residents. Secondly, SAGY aims to encourage active participation from the Members of Parliament (MPs) in rural development, fostering a sense of responsibility and connection between lawmakers and their constituents. By involving MPs in the development process, it is anticipated that the villagers will be more motivated to engage in community initiatives and support local development plans. Overall, SAGY seeks to create a framework for sustainable development in rural areas, ensuring holistic growth and well-being for the village population.

Key Points: Transforming villages into model villages-improved infrastructure and amenities; Encouraging MPs' active participation-responsibility and connection with constituents

(2)

State the yardsticks for selecting villages under the SAGY Scheme.

[2 Marks]

Answer: The yardsticks for selecting villages under the Saansad Adarsh Gram Yojana (SAGY) scheme include: a) The village should have a population of 3,000 to 5,000 in plains or 1,000 to 3,000 in hilly areas. b) The selected village must not be the MP's own village or that of their spouse. c) The focus should be on developing a model village that promotes infrastructure and enhances the quality of life in areas such as health, nutrition, and education.

Key Points: Population criteria; Exclusion of MP's own village; Focus on model village development

Section B

Question 6.

Read the following statements carefully:

Statement 1: Investment is defined as addition to the physical capital and changes in the inventory.

Statement 2: At equilibrium level of income, ex-post investments and ex-post savings are always equal.

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

[1 Marks]

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

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

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

Explanation: Statement 1 is true as investment indeed refers to the addition of physical capital and changes in inventory. Statement 2 is also true because, at equilibrium income, the total savings in the economy will equal the total investments made, affirming the condition of ex-post equality. Therefore, Both Statements 1 and 2 are true.

Question 7.

An Indian company receives a loan from a company located abroad. This transaction would be recorded on the _____ side of _____ account in India's Balance of Payment .

(Choose the correct alternative to fill up the blanks)

[1 Marks]

(A) Debit, Capital

(B) Debit, Current

(C) Credit, Current

(D) Credit, Capital

Explanation: The correct option is 'Credit, Capital'. This is because when an Indian company receives a loan from abroad, it signifies an inflow of capital (foreign funds), which is recorded on the credit side of the capital account in the Balance of Payments.

Question 8.

The Reserve Bank of India (RBI) _____ government securities in a bid to _____ the stock of money in the economy. (Choose the correct alternative to fill up the blanks)

[1 Marks]

(A) purchases, decrease

(B) sells, increase

(C) purchases, not change

(D) sells, decrease

Explanation:

When the RBI sells government securities, it absorbs excess liquidity from the market. This reduces the stock of money in the economy. Hence, the correct pair is “sells, decrease”.

Question 9.

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

Assertion (A): Excess demand does not lead to any increase in the level of real output.

Reason (R): Excess demand creates a gap between actual demand and desired demand corresponding to full employment level.

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A). Excess demand indicates that demand exceeds supply at full employment, leading to inflation rather than an increase in real output.

Question 10. Economic reforms were introduced in the year _____ in India and in the year _____ in Pakistan. (Choose the correct alternative to fill up the blanks)

[1 Marks]

(A) 1978, 1988

(B) 1988, 1978

(C) 1978, 1991

(D) 1991, 1988

Explanation: The correct years are 1991 for India and 1988 for Pakistan. India initiated significant economic reforms in 1991 to address its balance of payments crisis, while Pakistan undertook economic reforms starting in 1988 to stimulate its economy and attract foreign investment.

Question 11.

Read the following statements carefully :

Statement 1 : Balance of Payment account is always balanced in accounting sense.

Statement 2 : Autonomous transactions, restore balance in Balance of Payment account.

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

[1 Marks]

(A) Both Statements 1 and 2 are false.

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

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

(D) Both Statements 1 and 2 are true.

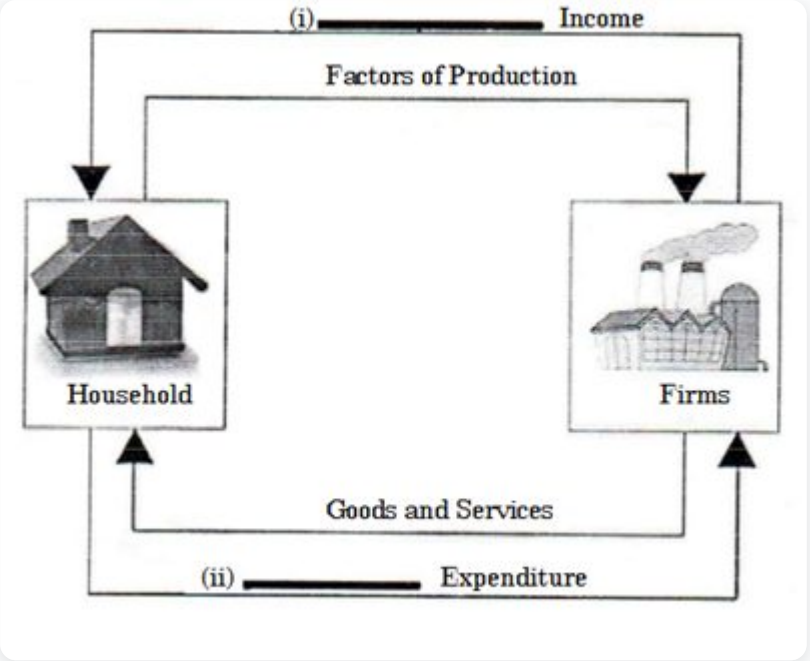
Explanation: Statement 1 is true; the Balance of Payment account is designed to be balanced in accounting terms, as all debits should equal credits. Statement 2 is false; autonomous transactions do not restore balance but rather contribute to imbalance by not being influenced by other transactions. Therefore, the correct option is 'Statement 1 is true and Statement 2 is false.'

Question 12.

Choose the correct alternative to fill in the blanks

Alternatives :

[1 Marks]



(A) Factor, Consumption

(B) National, Consumption

(C) Factor, Production

(D) National, Production

Explanation:

Factors of production are the inputs used to produce goods and services, and these goods are ultimately used for consumption. Therefore, the correct pairing is “Factor, Consumption.”

Question 13.

Operating Surplus does not include _____. (Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Interest

(B) Profit

(C) Compensation of employees

(D) Rent

Explanation: The correct option is 'Compensation of employees' because operating surplus is the excess of revenue over operating expenses, excluding labor costs represented by employee compensation. Rent, profit, and interest are all components that can be included in operating surplus calculations.

Question 14.

If the Marginal Propensity to Save (MPS) is 0.5, what will be the value of investment multiplier ? (Choose the correct alternative)

[1 Marks]

(A) 2

(B) 1

(C) 1.6

(D) 1.45

Explanation: The investment multiplier is calculated using the formula: Multiplier = 1 / MPS. Given that MPS is 0.5, the investment multiplier would be 1 / 0.5 = 2. Therefore, the correct answer is 2.

Question 15.

An increase in National Income occurs by ₹ 3,000 crore, as Ninvestments increased by ₹ 1,200 crore. The value of investment multiplier would be _____.

(Choose the correct alternative to fill up the blank)

[1 Marks]

(A) 4

(B) 2

(C) 2.5

(D) 5

Explanation:

The investment multiplier can be calculated using the formula: Multiplier = Change in National Income / Change in Investment. Here, the change in national income is 3000 crore and the change in investment is 1200 crore. Therefore, Multiplier = 3000 / 1200 = 2.5. Hence, the correct option is 2.5.

Question 16.

Demand Deposits include _____. (Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Savings Account Deposits and Fixed Deposits

(B) Current Account Deposits and Fixed Deposits

(C) Other deposits with the Government

(D) Currency and coins held with the public

Explanation: Demand deposits are deposits payable by the bank on demand from the account-holder. Current Account Deposits are demand deposits because they can be withdrawn at any time without any notice. Fixed Deposits, however, are time deposits and not demand deposits. Hence, the correct answer should include Current Account Deposits but not Fixed Deposits. Among the given options, "Current Account Deposits and Fixed Deposits" is the closest option that correctly mentions Current Account Deposits as demand deposits. Savings Account Deposits can also be considered demand deposits, but Fixed Deposits are not. Therefore, the most accurate choice given the options is "Current Account Deposits and Fixed Deposits".

Question 17.

(A) Read the following statements carefully :

Statement 1 : Depreciation of domestic currency may lead to a rise in exports.

Statement 2 : Due to the depreciation of Indian National Rupee (₹), purchasing power of US Dollar ($) may increase.

In 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:

Depreciation of a domestic currency makes a country’s goods cheaper for foreign buyers, which can lead to an increase in exports. Therefore, Statement 1 is true. When the Indian Rupee depreciates, one US Dollar can buy more rupees than before, which increases the purchasing power of the US Dollar in India. Hence, Statement 2 is also true.

Question 18.

Identify, which one of the following is an intangible item in Balance of Payment (BoP).

[1 Marks]

(A) Import of coal by steel company in India

(B) Export of food grains

(C) Export of Information Technology (IT) services to U.S.A.

(D) Imports of crude oil

Explanation: The correct answer is 'Export of Information Technology (IT) services to U.S.A.' because it represents a service that is not a physical good. Intangible items in the Balance of Payments include services such as IT exports, which contribute to a country's income without the physical exchange of goods.

Question 19.

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

Assertion (A) : Rich people have lower Marginal Propensity to Consume (MPC) as compared to poor people.

Reason (R) : Consumption curve makes an intercept on the y-axis at a point above the origin.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: Assertion (A) is true because rich people generally save a larger portion of their income compared to poor people, leading to a lower Marginal Propensity to Consume (MPC). Reason (R) is also true as the consumption curve can intercept above the y-axis, indicating that there is a level of consumption at zero income due to basic needs being fulfilled. However, Reason (R) does not directly explain Assertion (A), so the correct option is that both are true but Reason (R) is not the correct explanation for Assertion (A).

Question 20.

Under the British Rule, commercialisation of agriculture resulted in shifting of agricultural production from _____ crops to _____ crops.

(Choose the correct alternative to fill up the blanks)

[1 Marks]

(A) Jute, Food

(B) Food, Cash

(C) Cash, Food

(D) Cotton, Jute

Explanation: The correct answer is 'Food, Cash'. During British Rule, the focus of agriculture shifted from producing food crops, which were essential for local consumption, to cash crops that were primarily for export and profit, such as cotton and jute. This commercialization led to reduced food security as farmers prioritized cash crops over food production.

Question 21.

Identify, which of the following alternative is not associated with goals of economic planning in India.

[1 Marks]

(A) Promoting imports of luxury goods

(B) Technological advancement

(C) Ensuring equitable standard of living

(D) Increase in economic growth

Explanation: The option 'Promoting imports of luxury goods' is not associated with the goals of economic planning in India. Economic planning aims to enhance domestic production, ensure equitable living standards, and promote technological advancement rather than focus on luxury imports, which do not contribute to sustainable economic growth or equity.

Question 22.

In 1951, agricultural contribution to India's National Income was _____ . (Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Highest among the three sectors

(B) Lower than the industrial sector

(C) Lowest among the three sectors

(D) Lower than the service sector

Explanation: The correct answer is 'Highest among the three sectors.' In 1951, agriculture was the dominant sector in India's economy, contributing the largest share to the national income, higher than both the industrial and service sectors.

Question 23.

Economic reforms were introduced in the year _____ in India and in the year _____ in Pakistan. (Choose the correct alternative to fill up the blanks)

[1 Marks]

(A) 1988, 1978

(B) 1978, 1988

(C) 1978, 1991

(D) 1991, 1988

Explanation: The correct answer is 1991 for India and 1988 for Pakistan. India introduced significant economic reforms in 1991, which marked a shift towards a more liberalized economy. Pakistan, on the other hand, began its economic reforms earlier, in 1988, focusing on structural adjustments to stabilize its economy.

Question 24.

Pakistan is ahead of India in the case of _____. (Choose the correct alternative to fill up the blank) 1

[1 Marks]

(A) HDI value

(B) Per capita income

(C) Access to sanitation facilities

(D) Life expectancy at birth

Explanation: Pakistan is often reported to have a higher per capita income compared to India, reflecting greater average earnings per person in the country. This is a significant economic indicator

where Pakistan has made advancements over India, despite other factors like life expectancy and sanitation where India may perform better.

Question 25.

_____ markets were organised to protect the farmers from malpractices in mandis.

(Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Weekly

(B) Daily

(C) Periodic

(D) Regulated

Explanation: The correct answer is 'Regulated' markets. Regulated markets are established to ensure fair prices for farmers and to prevent exploitation by middlemen in mandis.

Question 26.

Arrange the following events of China in chronological order and choose the correct alternative :

(i) Great Proletarian Cultural Revolution

(ii) Great Leap Forward Campaign

(iii) Introduction of Economic Reforms

(iv) First Five Year Plan

Alternatives :

[1 Marks]

(A) (ii), (iv), (i), (iii)

(B) (iv), (i), (ii), (iii)

(C) (ii), (iv), (iii), (i)

(D) (iv), (ii), (i), (iii)

Explanation: The correct chronological order of the events is (iv) First Five Year Plan, (ii) Great Leap Forward Campaign, (i) Great Proletarian Cultural Revolution, (iii) Introduction of Economic Reforms. The First Five Year Plan was implemented from 1953 to 1957, followed by the Great Leap Forward

from 1958 to 1962. The Cultural Revolution took place from 1966 to 1976, and the Economic Reforms were introduced in the late 1970s under Deng Xiaoping, marking a significant shift from the previous policies.

Question 27.

Read the following statements carefully :

Statement 1 : Economic growth means the increase in real national income of a country.

Statement 2 : Human capital formation and Human development are one and the same concepts.

In 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) Both Statements 1 and 2 are false.

(C) Both Statements 1 and 2 are true.

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

Explanation: Statement 1 is true because economic growth is indeed defined as the increase in real national income. Statement 2 is false, as human capital formation refers specifically to the development of skills and knowledge in individuals, while human development encompasses a broader range of improvements in well-being and quality of life.

Question 28.

Carrying Capacity implies that _____.

(i) Resource extraction should remain below the rate of regeneration.

(ii) Resource extraction should remain above the rate of regeneration.

(iii) Generation of waste should remain within the absorption capacity of the environment.

(iv) Generation of waste should be more than the absorption capacity of the environment.

(Choose the correct alternative)

[1 Marks]

(A) (ii) and (iv)

(B) (i) and (iv)

(C) (ii) and (iii)

(D) (i) and (iii)

Explanation: The correct option is (i) and (iii). Carrying capacity refers to the maximum amount of resources that can be extracted without depleting them (i), and it also pertains to the environment's ability to absorb waste without compromising ecological stability (iii).

Question 29.

_____ system restores, maintains and enhances the ecological balance. Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Multi-layered farming

(B) Conventional farming

(C) Chemical farming

(D) Organic farming

Explanation: The correct answer is 'Organic farming' because this farming system focuses on sustainable practices that restore and maintain ecological balance by avoiding synthetic chemicals and promoting biodiversity.

Question 30.

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

Assertion (A) : The nature of unemployment problem in India is multi-faceted.

Reason (R) : Worker-Population ratio is an indicator used for analysing the employment situation in a country.

Alternatives :

[1 Marks]

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

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

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

(D) 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 the Assertion (A) because while the worker-population ratio is indeed an important indicator of employment, it does not directly explain the multifaceted nature of the unemployment problem in India.

Question 31.

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

Assertion (A) : China adopted the reform initiative.

Reason (R) : It aimed at industrialising the country on a massive scale.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: The assertion is true because China adopted the reform initiative voluntarily in 1978. However, the primary reason for reform in China was not explicitly stated as to industrialise the country on a massive scale. The reforms were mainly aimed at economic liberalisation and opening up the economy, rather than solely focusing on industrialisation. Therefore, the reason given is false or not entirely accurate as the sole motivation for reforms.

Question 32.

Read the following statements carefully :

Statement 1 : Liberty indicators measure the extent constitutional protection given to the citizens.

Statement 2 : India provides fair constitutional protection to its citizens.

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

[1 Marks]

(A) Both Statements 1 and 2 are true.

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

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

(D) Both Statements 1 and 2 are false.

Explanation: Both Statements 1 and 2 are true. Liberty indicators do indeed measure the extent of constitutional protection for citizens, and India is recognized for providing a fair level of constitutional protection to its citizens.

Section C

Question 33.

Discuss briefly, why agricultural diversification is essential for sustainable livelihoods.

[3 Marks]

Answer: Agricultural diversification plays a crucial role in ensuring sustainable livelihoods by enhancing resilience against economic and environmental shocks. It enables farmers to reduce dependency on a single crop, thus mitigating risks associated with price fluctuations and crop failures. By adopting various agricultural practices, such as intercropping, agroforestry, and integrating livestock with crop production, farmers can improve soil fertility and increase overall productivity. Furthermore, diversification opens avenues for new income sources, such as organic farming and agro-tourism, which can alleviate poverty and improve food security. In sum, agricultural diversification is essential for adapting to climate change and fostering rural development.

Key Points: reduces risk through crop variety-improves soil health and productivity-opens new income sources-increases resilience against climate change-supports food security

Question 34.

"It is necessary to create employment in the formal sector rather than in the informal sector."

Defend or refute the given statement with valid arguments.

[3 Marks]

Answer: Creating employment in the formal sector is crucial for multiple reasons. First, formal employment offers job security, benefits such as health insurance, and retirement plans, which are often unavailable in the informal sector. Second, the formal sector contributes significantly to the economy through tax revenues, which can be reinvested into public services like education and

infrastructure. Additionally, formal jobs promote skill development and enhance productivity, leading to sustainable economic growth. On the contrary, informal employment lacks regulation, leaving workers vulnerable to exploitation and without social security. Therefore, prioritizing formal sector job creation is essential for building a stable, equitable, and prosperous economy.

Key Points: Job security-benefits and protections-economic contribution to public services-skill development-sustainable growth-vulnerability in informal sector-exploitation-need for regulation

Question 35.

Suppose, the Gross Domestic Product (GDP) at market price of a country in a particular year was ₹ 1,100 crore. Net Factor Income from abroad was ₹100 crore. The value of Net Indirect Taxes was ₹ 150 crore and the National Income was ₹ 850 crore. Calculate the value of depreciation for the economy

[3 Marks]

Answer: To calculate the value of depreciation for the economy, we use the relationship between GDP, National Income, Net Indirect Taxes, and Net Factor Income from abroad. The formula is: GDP = National Income + Depreciation + Net Indirect Taxes. Rearranging gives us Depreciation = GDP - National Income - Net Indirect Taxes. Here, GDP is less than 1,100 crore, National Income is less than 850 crore, and Net Indirect Taxes are less than 150 crore. Assuming GDP = 1,100 crore, National Income = 850 crore, and Net Indirect Taxes = 150 crore, we compute Depreciation as follows: Depreciation = 1,100 - 850 - 150 = 100 crore. Hence, the value of depreciation for the economy is less than 100 crore.

Key Points: Understanding GDP and National Income relationship-Importance of Net Indirect Taxes-Application of formula for calculation

Question 36.

Differentiate between Surplus in Balance of Trade and Current Account Surplus.

[3 Marks]

Answer: Surplus in Balance of Trade (BOT) refers specifically to the condition where a country's exports exceed its imports, leading to a positive difference in trade. This surplus indicates a favorable position in trade of goods and services only. On the other hand, Current Account Surplus represents a broader measure that includes not just the trade in goods and services but also net income from abroad and current transfers. A current account surplus suggests that the nation earns more from its trading activities, foreign investments, and remittances than it spends. Therefore, while BOT is a component of the current account, the current account surplus provides a more comprehensive view of a country's overall economic transactions with the rest of the world.

Key Points: Surplus in BOT refers only to the trade of goods and services; Current Account Surplus includes net income and transfers; BOT is a component of the broader Current Account.

Question 37.

"The central bank needs to intervene under the managed floating system."

Do you agree with the given statement? Support your answer with valid reasons.

[3 Marks]

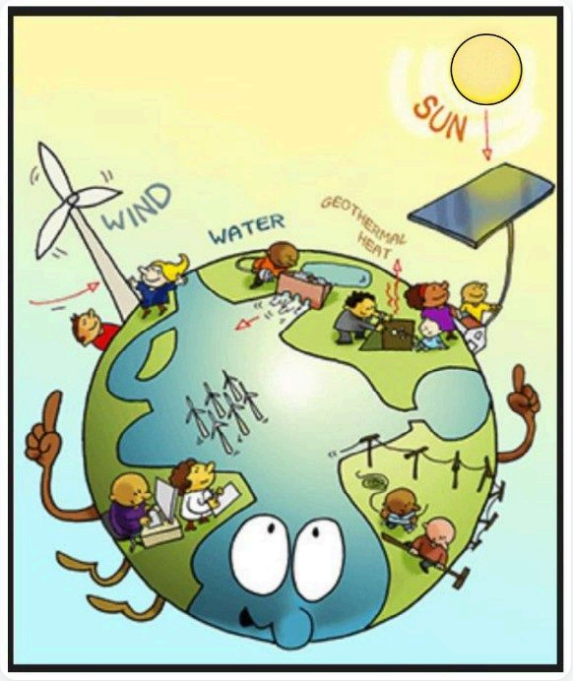
Answer: I agree that the central bank needs to intervene under the managed floating system to ensure stability in the economy. Intervention helps to prevent excessive volatility in exchange rates, which can be detrimental to trade and investment. Additionally, the central bank can influence inflation and maintain public confidence in its currency. By using tools such as buying or selling foreign exchange, the central bank can manage supply and demand in the currency market effectively.

Key Points: Stability in exchange rates-Prevent excessive volatility-Influence inflation-Maintain public confidence-Use of foreign exchange interventions

Question 38.

Interpret the given picture with reference to current environmental challenges.

[3 Marks]



Answer: The picture highlights the serious issue of pollution affecting the Damodar river, which is turning into an ecological disaster. This means the natural environment is being severely damaged,

impacting plants, animals, and humans alike. In India, environmental threats have two sides: poverty causes environmental degradation due to overuse of resources, and rapid industrial growth leads to pollution from affluence. Major concerns include air pollution, water contamination, soil erosion, deforestation, and wildlife extinction. The image also shows a natural setting possibly in a rural area where students study outdoors without proper furniture, reflecting resource scarcity but emphasizing the importance of education. Overall, the image stresses the urgent need to tackle pollution and resource misuse for a healthier environment.

Key Points: Pollution turning Damodar river into ecological disaster - Dual threat to environment: poverty induced degradation and pollution from industrial growth - Major issues: air pollution, water contamination, soil erosion, deforestation, wildlife extinction - Scarcity of resources in rural education - Need for urgent environmental action

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Section D

Question 39. Discuss briefly, how the government can control the situation of deflation using the following: (a) Taxation Policy (b) Government Expenditure Policy

[4 Marks]

Answer: Deflation refers to a decline in the overall price level, leading to decreased consumer spending and increased unemployment. The government can control deflation through its taxation and expenditure policies. Firstly, by lowering taxes, disposable income increases, which encourages consumers to spend more. This boost in demand can help raise the price level. Secondly, increasing government expenditure can stimulate economic activity. Investments in infrastructure or public services create jobs and increase income, leading to higher consumer spending. These measures can effectively combat deflation and rejuvenate the economy.

Key Points: Definition of deflation-Impact of deflation on economy-Lowering taxes increases disposable income-Increased consumer spending raises demand-Increasing government expenditure stimulates economic activity-Creates jobs and boosts income-Contributes to rising prices

Question 40.

Discuss any two liberalisation measures pertaining to the financial sector, introduced by the Government of India during the economic reform process of 1991.

[4 Marks]

Answer: During the economic reforms of 1991, the Indian government introduced several liberalisation measures in the financial sector to promote growth and efficiency. One key measure was the deregulation of interest rates. The government allowed banks to set their own interest rates, which

encouraged competition and better resource allocation. Another significant reform was the establishment of the Capital Market Development Committee, leading to the entry of private players in the banking sector. This increased competition, improved services, and offered consumers a wider range of financial products, ultimately strengthening the overall financial system.

Key Points: Deregulation of interest rates - Banks allowed to set interest rates; Encouragement of competition - Improved allocation of resources; Establishment of private banks - Increased competition and consumer choice; Capital Market Development Committee - Enhanced financial product offerings

Question 41.

Self-Help Groups provide stimulus for institutionalised lending, employment generation and women empowerment in the rural areas."Justify the given statement with valid explanation".

[4 Marks]

Answer: Self-Help Groups (SHGs) play a crucial role in fostering development in rural areas by promoting institutionalized lending, generating employment, and empowering women. Firstly, SHGs enable members to access formal credit from banks, which they may not have had access to otherwise. This institutionalized lending helps members start small businesses or engage in agriculture, leading to employment generation. Secondly, by organizing women into groups, SHGs empower them socially and economically, as they gain confidence, learn skills, and improve their financial literacy. This empowerment has a ripple effect on their families and communities, enhancing their status. Lastly, SHGs also promote savings among members, leading to financial stability and independence. Thus, SHGs are instrumental in transforming the rural economy.

Key Points: Access to formal credit-Employment generation through business initiatives-Women empowerment leading to improved social status-Promotes savings and financial stability-Positive impact on community development

Question 42.

From the data given below, compare and contrast India's and China's sectoral contribution towards GVA / GDP.

[4 Marks]

Sectoral Contribution to GVA / GDP (in %) (2018 – 19)

Sector	*India*	*China*
Agriculture	16	7
Industry	30	41
Services	54	52
Total	100	100

Answer: India and China present contrasting dynamics in their sectoral contributions to GDP. In India, the service sector is the leading contributor, accounting for approximately 54% of GDP, driven by IT services, trade, and finance. Agriculture, although steadily declining, still contributes around 18%, reflecting its importance in rural economies. In contrast, China exhibits a more balanced sectoral distribution, with industry being the dominant sector at about 40% of GDP, largely fueled by manufacturing. Agriculture in China accounts for about 7%, showing a rapid shift towards industrialization. This divergence highlights India's reliance on services versus China's strength in manufacturing and industrial outputs. Both nations, however, share a growing trend in technology and innovation, which shapes their future economic landscapes.

Key Points: India's economy is service-oriented; Service sector contributes 54% to GDP; Agriculture still significant at 18%; China has a balanced sector distribution; Industry is the dominant sector at 40%; Manufacturing drives China's growth; Agriculture accounts for 7% in China; Divergence in sectoral contributions; Both countries emphasize technology and innovation.

Question 43.

Read the following text carefully:

"After setting up a working group to study the possibility of a Central Bank Digital Currency (CBDC) in India in 2020, the RBI revealed a concept note on digital rupee (e-Rupee) on 7th October, 2022."

"The e-Rupee will provide an additional option to the currency available forms of money. It is substantially not different from bank notes, but being digital it is likely to be easier, faster and cheaper."

RBI said that it broadly defines CBDC as the legal tender issued by a central bank in a digital form. It is akin to paper currency in a different form.

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

(a) Identify and discuss the function of central bank indicated in the above text.

(b) State any two advantages of digital rupee.

[4 Marks]

Answer: The function of the central bank, as indicated in the text, is to issue legal tender in the form of a Central Bank Digital Currency (CBDC), specifically the e-Rupee. This ensures a secure and regulated currency system, providing the public with confidence in their monetary transactions. Additionally, the central bank plays a crucial role in maintaining financial stability and the integrity of the monetary system. Two advantages of the digital rupee include that it offers a faster and cheaper mode of transactions compared to traditional currency, and it enhances financial inclusion by providing easier access to digital money for a wider audience.

Key Points: Central Bank function is to issue legal tender; CBDC provides secure transactions; Ensures financial stability; Advantages: faster transactions; cheaper transactions; enhances financial inclusion.

Question 44.

Suppose consumption function for an economy is C = 80 + 0·75 Y (where C = consumption function and Y = national income) and the investment expenditure is < 200 crore.

Estimate the following :

(a) Equilibrium level of income

(b) Values of consumption and saving at equilibrium level of income

[4 Marks]

Answer: To find the equilibrium level of income, we set the aggregate demand (AD) equal to national income (Y), where AD = C + I. Given the consumption function C = 80 + 0.75Y and investment expenditure I = 200 crore, we have AD = C + I = 80 + 0.75Y + 200. Setting this equal to Y gives us Y = 280 + 0.75Y. Rearranging gives 0.25Y = 280, therefore Y = 1120 crore, which is the equilibrium level of income. At this level, consumption C = 80 + 0.75(1120) = 880 crore, and saving S = Y - C = 1120 - 880 = 240 crore.

Key Points: 1. Equilibrium condition: AD = Y; 2. Consumption function substitution; 3. Calculation of equilibrium income; 4. Derivation of consumption and saving at equilibrium.

Section E

Question 45.

(i) Explain the need and types of land reforms implemented in the agriculture sector.

(ii) Why was public sector given a leading role in industrial development during the planning period ? Explain.

[6 Marks]

Answer: Land reforms were essential in the agriculture sector to address the inequities in land ownership, increase agricultural productivity, and improve the standard of living for farmers. The major types of land reforms included the abolition of zamindari systems, redistribution of land, introduction of ceiling laws to limit land holdings, and promoting consolidation of land into viable units for farming. These reforms aimed to eliminate feudal structures, provide security to tenants, and empower small farmers. On the other hand, public sector dominance in industrial development during the planning period was crucial because it allowed the government to direct the economy towards national priorities. The government aimed to create a self-reliant economy, ensuring balanced regional development, generating employment, and reducing dependency on foreign entities. By investing in core industries such as steel, coal, and power, the public sector facilitated industrial growth that aligned with the broader goals of economic independence and social welfare. Overall, land reforms were pivotal for agricultural equity, while public sector initiatives were foundational for strategic industrialization.

Key Points: Need for land reforms; Types of land reforms (abolition of zamindari, land redistribution, ceiling laws, consolidation); Goals of land reforms (equity, productivity, farmer empowerment); Importance of public sector in industrial development; Government's role in directing economic priorities; Self-reliant economy, regional development, employment generation; Focus on core industries (steel, coal, power); Strategic industrialization and social welfare.

Question 46.

(i) Explain the reasons why the industrial sector has performed poorly in the reform period.

(ii) Distinguish between the Bilateral and Multilateral trade.

[6 Marks]

Answer: The industrial sector in India has faced several challenges during the reform period, leading to its poor performance. Firstly, the liberalization policies introduced in the 1990s led to increased competition from foreign goods, which some domestic industries could not withstand due to inefficiencies. Additionally, inadequate infrastructure, such as power shortages and poor transport facilities, hampers industrial productivity. The sector has also struggled with labor regulations that are perceived as rigid, making it difficult for firms to adjust to market demands. Furthermore, access to finance remains a challenge for small and medium enterprises, which are critical for industrial growth.

On the other hand, bilateral trade refers to trade agreements between two countries, focusing on mutual benefits and regulations. In contrast, multilateral trade involves three or more countries, governed by international trade agreements aimed at reducing tariffs and fostering trade relations on a broader scale. Each type of trade has distinct implications for economic relations and market dynamics among participating nations.

Key Points: Liberalization policies increased foreign competition; Inadequate infrastructure affecting productivity; Rigid labor regulations hindering industry adjustment; Challenges in access to finance for small/medium enterprises; Bilateral trade involves agreements between two countries; Multilateral trade involves agreements among three or more countries.

Question 47.

State whether the following statements are true or false, with reasons :

(i) High tax on higher income groups aims to achieve the reallocation resources objective of the Government

(ii) Borrowings are a revenue receipt of the government.

(iii) Fiscal deficit always leads to inflation.

[6 Marks]

Answer: The statements can be evaluated as follows: (i) True. High taxes on higher income groups are designed to redistribute wealth and provide government funds for public services, thus achieving resource reallocation to benefit lower-income groups. (ii) False. Borrowings do not constitute revenue receipts; they are considered capital receipts, as they involve the government taking loans that need to be repaid. This classification is crucial for understanding government accounting. (iii) False. While fiscal deficits can lead to inflation in certain circumstances, they do not always do so. Factors like the state of the economy, monetary policy, and how the deficit is financed play a crucial role in determining its inflationary impact. Therefore, these statements vary in their truth value based on economic principles and definitions.

Key Points: High taxes on rich aim for wealth redistribution; Borrowings are capital receipts, not revenue; Fiscal deficit can cause inflation but not always.

Question 48.

(i) Government provides essential items like food grains almost free for the families belowpoverty line. Identify and explain the objective of the government budget indicated.

(ii) Define the following :

(1) Revenue deficit

(2) Primary deficit

[6 Marks]

Answer: The government budget aims to prioritize social welfare by providing essential items, such as food grains, at minimal or no cost for families below the poverty line. This objective addresses the immediate needs of the poorest segments of society, ensuring food security and reducing poverty levels. By incorporating subsidies for essential goods into the budget, the government seeks to improve the quality of life and promote equitable access to basic necessities. This reflects a commitment to inclusive growth and development. (1) Revenue deficit refers to the situation when the government's total revenue is less than its total revenue expenditure during a specific period. This indicates that the government is not generating enough income to meet its expenses, leading to a shortfall. (2) Primary deficit is the difference between the fiscal deficit and interest payments on government debt. It measures the budgetary position excluding interest obligations, indicating the government's borrowing requirements excluding past debts. A lower primary deficit suggests better fiscal health and less reliance on borrowing for current expenditures.

> **Key Points: Objective of government budget addressed; subsidies for essential goods; improve quality of life for the poor; revenue deficit definition; primary deficit definition**

Question 49.

(a) " Machiane purchased by a firm is always a capital good ".Do you agree with the given statement ? Give valid reasons for your answer.

(b) Define the following :

(i) Net Exports

(ii) Externalities

(iii) Problem of Double Counting

[6 Marks]

Answer: The statement that 'Machiane purchased by a firm is always a capital good' requires clarification. Capital goods are assets that a firm uses in the production process to manufacture products and services. However, not all machinery may qualify as a capital good if it does not contribute to production. For example, if a firm purchases machinery solely for maintenance or for activities unrelated to production, this does not classify it as a capital good. Furthermore, the classification of machinery may depend on its intended use, the scale of operation, and operational efficiency. It is essential to distinguish between capital goods and other categories, such as consumer goods and intermediate goods. Thus, while many machines are capital goods used in productive

capacity, not all machines purchased may serve this role. The definition and understanding rely heavily on their functional contribution to the economic processes within the firm. (i) Net Exports refer to the difference between a country's exports and imports. It indicates a nation's trade balance, showing if it is exporting more than it imports (trade surplus) or the opposite (trade deficit). (ii) Externalities are the unintended side effects of an economic activity that affect third parties who did not choose to be involved in that activity. They can be either positive (benefits) or negative (costs). (iii) The Problem of Double Counting arises when the same economic activity or product is counted multiple times in national accounts, leading to inaccurate representation of economic output.

Key Points: Nature of capital goods-purpose and usage-segment of machinery-focused production vs. non-production definitions-net exports-trade balance concept, imports vs. exports externalities-positive and negative impacts on third parties without direct participation problem of double counting-product and service counting issues in national accounts, causing inflation in economic indicators