CBSE EXAMINATION PAPER-2023

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 96

General Instructions :

Read the following instructions carefully and follow them :

i. This question paper contains **42 questions.** All questions are **compulsory.**

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

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

iv. **Section B** – questions number **3 to 24** are multiple choice questions

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

vi. **Section D** – questions number **31 to 38** are short answer type ii

vii. **Section E** – questions number **39 to 42** 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 :

In India, after Covid-19 period, household and private sector consumption, as measured by Private Final Consumption Expenditure (PFCE), was < 39·7 trillion in nominal terms in Q1 FY23, compared with < 28·4 trillion for the same period last year, and < 39·2 trillion in the fourth quarter (Q4) of 2021 22 (FY22).

As a percentage of Nominal GDP, PFCE was 61·1 per cent, compared with 55·5 per cent in Q1 FY22. However, in real terms at constant prices, PFCE grew just 9·88 per cent, compared with Q1 of 2019 20 the year before the Covid-19 pandemic.

"Recovery in domestic demand is reflected in the growth rates of PFCE and Gross Fixed Capital Formation (GFCF) over the corresponding quarter of the previous year," said D.K. Srivastava. GFCF came in at 19 trillion in Q1 FY23, compared with 14-4 trillion in Q1 FY22. However, it was slightly lower than 20-2 trillion in Q4 FY22.

In the media briefing after the GDP numbers, Finance Secretary TV. Somanathan said this trend was expected as GFCF in present Q1 was usually lower than the previous year's Q4.

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

(1)

Compare and analyse the trends of change in PFCE as a percentage of GDP, both in real and nominal terms.

[4 Marks]

Answer: In Q1 FY23, the Private Final Consumption Expenditure (PFCE) exhibited noteworthy trends when analyzed as a percentage of GDP. In nominal terms, PFCE amounted to 39.7 trillion, accounting for 61.1% of the nominal GDP, a significant increase from 55.5% in Q1 FY22. This indicates a robust recovery in consumer spending as the economy bounced back post-Covid-19. In contrast, when measured in real terms at constant prices, PFCE grew by just 9.88% compared to Q1 FY20, the year before the pandemic. This suggests that while nominal expenditure has increased, the real growth in consumption is moderate, primarily driven by inflationary pressures. Therefore, while nominal terms present an optimistic picture of recovery, the real terms highlight challenges in achieving sustainable growth in consumer spending.

Key Points: PFCE increased from 55.5% in Q1 FY22 to 61.1% in Q1 FY23-nominal PFCE rose to 39.7 trillion in Q1 FY23-recovery follows Covid-19 pandemic-in real terms, growth of only 9.88% versus Q1 FY20

(2)

"Private Final Consumption Expenditure is an important factor determining Gross Domestic Product at Market Price." Justify the given statement.

[2 Marks]

Answer: Private Final Consumption Expenditure (PFCE) is a key component of Gross Domestic Product (GDP) as it represents the total value of all goods and services consumed by households. According to the provided data, the PFCE in India reached 39.7 trillion in nominal terms in Q1 FY23, which indicates a significant increase compared to previous years. This growth reflects the recovery in domestic demand after the Covid-19 pandemic. As PFCE constituted 61.1% of the Nominal GDP, it highlights its critical role in driving economic activity. When households spend more, businesses respond by increasing production, which directly contributes to GDP growth. Therefore, an increase in PFCE leads to a positive impact on the overall economic performance, making it a vital factor in determining GDP at market price.

Key Points: PFCE represents household consumption-Growth in PFCE indicates economic recovery-PFCE significantly contributes to Nominal GDP

Question 2.

Read the following text carefully :

With independence, India chose the closed economy model in pursuit of its objective of industrial self-sufficiency. As a result, industrial structure has become considerably important. In the post-independence era, the industrial growth was rapid during the first two decades, especially during the Second and Third Plan period. The Second Plan introduced Industrial 'Revolution' in the country. The main reasons for high rates of industrial growth witnessed during this period were due to :

(i) Emphasis on industrialisation in economic policies.

(ii) Making industrial growth the main objective in the industrial policy and planning.

(iii) Huge investments being made to support capacity creation in the industrial sector.

(iv) Growing demands for a variety of new products on the part of the urban consumers and the relatively better-off sections of the society.

(v) Pace of economic expansion supported by domestic savings and inflow of resources from abroad.

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

(1)

State the time period of the Second Five Year Plan of India.

[1 Marks]

Answer: The Second Five Year Plan of India was from 1956 to 1961.

Key Points: Period: 1956-1961

(2)

Discuss briefly any two reasons behind the industrial growth during the Second and Third Five Year Plans of India.

[4 Marks]

Answer: During the Second and Third Five Year Plans, India experienced significant industrial growth due to several factors. Firstly, there was a strong emphasis on industrialisation in the economic policies. The government recognized the importance of developing a robust industrial framework to achieve self-sufficiency and reduce dependency on imports. Secondly, substantial investments were made to bolster capacity creation in the industrial sector. This influx of capital allowed for the establishment of new industries and the expansion of existing ones, thus meeting the growing demands of urban consumers and the better-off sections of society.

Key Points: Emphasis on industrialisation; Investments in capacity creation

(3)

Who is considered as the Father of the Second Five Year Plan of India ?

[1 Marks]

Answer: The Father of the Second Five Year Plan of India is Pandit Jawaharlal Nehru.

Key Points: Pandit Jawaharlal Nehru

Section B

Question 3.

Read the following statements carefully:

Statement 1: Savings function can be derived from Consumption function.

Statement 2: Consumption curve must always start from the point of origin.

In 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) Statement 1 is false and Statement 2 is true.

(C) Both Statements 1 and 2 are false.

(D) Both Statements 1 and 2 are true.

Explanation: Statement 1 is true because the savings function is derived from the consumption function by subtracting consumption from total income. Statement 2 is false as the consumption curve does not necessarily start from the origin; it may start above the origin if there are autonomous consumption levels. Therefore, the correct answer is 'Statement 1 is true and Statement 2 is false.'

Question 4.

Keeping other factors constant, if the price of crude oil falls in the international market, it may lead to _____. (Choose the correct alternative to fill up the blank)

[1 Marks]

(A) no change in the foreign exchange reserves

(B) decrease in trade deficit

(C) no change in trade deficit

(D) increase in trade deficit

Explanation: A decrease in the price of crude oil typically leads to lower import costs for oil-dependent countries. This would reduce the trade deficit as the cost of imports decreases while exports may remain unchanged, thus potentially leading to a decrease in the overall trade deficit.

Question 5.

Identify, which of the following is not a function of the Reserve Bank of India.

(Choose the correct alternative)

[1 Marks]

(A) Controller of money supply

(B) Central agency preparing the annual budget of the Government

(C) Credit provider to commercial banks

(D) Issuer of currency

Explanation: The correct alternative is 'Central agency preparing the annual budget of the Government.' This is not a function of the Reserve Bank of India, as the preparation of the annual budget is the responsibility of the Ministry of Finance, not the central bank.

Question 6.

Read the following statements carefully:

Statement 1: Import of gold from Dubai will be recorded on the debit side of the current account in Balance of Payments of India.

Statement 2: Outflow of Foreign Institutional Investment (FII) from Indian stock markets will be recorded on the credit side of the capital account.

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) Both Statements 1 and 2 are false.

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

Explanation: Statement 1 is true because the import of gold from Dubai represents an outflow of currency, which is recorded on the debit side of the current account in the Balance of Payments. Statement 2 is false because the outflow of Foreign Institutional Investment (FII) from Indian stock markets is actually recorded on the debit side of the capital account, as it indicates a capital outflow from the country.

Question 7.

(i) Read the following statements carefully:

Statement 1: Stock variables are measured at a point of time.

Statement 2: Flow variables and stock variables are the same.

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

[1 Marks]

(A) Both Statements 1 and 2 are false.

(B) Both Statements 1 and 2 are true.

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

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

Explanation: Statement 1 is true because stock variables represent a quantity measured at a specific point in time, such as the amount of money in a bank account. Statement 2 is false because flow variables represent quantities measured over a period of time, such as income or expenditure, and are not the same as stock variables.

Question 8.

If the central bank wants to reduce money supply in the economy, it may _____.

(Choose the correct alternative to fill up the blank)

[1 Marks]

(A) buy securities in the open market

(B) sell securities in the open market

(C) reduce Cash Reserve Ratio

(D) increase Bank Rate

Explanation: The correct option is 'increase Bank Rate.' When the central bank increases the Bank Rate, it becomes more expensive for commercial banks to borrow money from the central bank, leading to a decrease in the money supply in the economy.

Question 9.

Identify, which of the following is not a source of supply of foreign exchange for India.

(Choose the correct alternative)

[1 Marks]

(A) Remittances by Indian workers working abroad

(B) Exports of goods and services abroad

(C) Imports of goods and services from abroad

(D) Foreign Direct Investment (FDI) by a German automobile manufacturer

Explanation: The correct answer is 'Imports of goods and services from abroad.' This option is not a source of supply of foreign exchange because imports represent money leaving the country to pay for foreign goods and services, whereas the other options (FDI, exports, and remittances) contribute to the inflow of foreign exchange into India.

Question 10.

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

Assertion (A): Ex-ante savings and Ex-ante investments are never equal to each other.

Reason (R): At equilibrium level of income, aggregate demand may not be equal to the aggregate supply.

Alternatives :

[1 Marks]

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

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

Explanation: Ex-ante savings and ex-ante investments are planned or intended savings and investments, and at equilibrium level of income, these two are equal by definition to ensure market equilibrium. Hence, Assertion (A) is false. On the other hand, Reason (R) is true because if the aggregate demand is not equal to aggregate supply, the economy is not in equilibrium. Thus, aggregate demand may not be equal to aggregate supply at levels other than equilibrium, but at equilibrium level, they are equal.

Question 11.

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

Assertion (A): The value of Average Propensity to Consume (APC) can never be zero or negative.

Reason (R): Average Propensity to Consume (APC) is independent of the level of income.

Alternatives :

[1 Marks]

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

(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 the Assertion (A).

(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 APC, which is the ratio of consumption to income, cannot be less than zero; if income is positive, consumption must also be positive to maintain a rational economic behavior. Reason (R) is false as APC depends on the level of income; as income changes, so too can the APC, meaning it is not independent of income levels.

Question 12.

Identify, flow variable from the following : (Choose the correct alternative)

[1 Marks]

(A) Investments of Mr. Mohit as on 31st December, 2021

(B) Annual expenditure of a school

(C) Bank balance of Mr. Mukesh as on 31st March, 2022

(D) Distance between Delhi and Amritsar

Explanation: The correct option is 'Annual expenditure of a school.' Flow variables are quantities that occur over a period of time and can accumulate, while stock variables represent a specific amount at a point in time. Annual expenditure refers to the money spent by the school within a year, thus making it a flow variable.

Question 13.

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

Assertion (A) : Post independence, public sector was given a prominent role, due to requirement of huge investments in the secondary sector.

Reason (R) : Industrial sector is the backbone of any economy.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A) because the public sector was indeed pivotal for attracting necessary investments in the secondary sector, which is crucial for economic development and provides foundational support for the economy.

Question 14.

From the following alternatives, identify the correct full form of 'NITI' in 'NITI' Aayog :

[1 Marks]

(A) National Institution for Technical India

(B) National Institution for Transforming India

(C) National Institution for Training India

(D) National Institution for Tribal India

Explanation: The correct full form of 'NITI' in 'NITI' Aayog is 'National Institution for Transforming India'. This is the official designation of the think tank established by the Government of India to promote sustainable and inclusive development.

Question 15.

In a _____ economy, resources are owned and operated by both public and private sectors.

(Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Mixed

(B) Democratic

(C) Socialist

(D) Capitalist

Explanation: The correct answer is 'Mixed' because a mixed economy is characterized by the coexistence of both public (government) and private (individual or corporate) ownership and management of resources, blending elements from both capitalism and socialism.

Question 16.

Identify the correct alternative with reference to the followin statement :

Between 1966 - 76, Mao introduced this movement under which professionals and students were asked to work and learn from rea life situations prevailing in the countrys

[1 Marks]

(A) Great Leap Forward

(B) Great Proletarian Cultural Revolution

(C) Commune System

(D) Open Door Policy

Explanation: The correct answer is 'Great Proletarian Cultural Revolution'. This movement, initiated by Mao Zedong, aimed at reinforcing communist ideology by promoting the involvement of students and workers in practical activities, effectively blending work and learning from real life situations.

Question 17.

Read the following statements carefully :

Statement 1 : In the agricultural sector, communes were established, where land holdings were allocated to individual households for ownership.

Statement 2 : Special Economic Zones (SEZs) were established to attract foreign investments and technology.

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 true.

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

(D) Both Statements 1 and 2 are false.

Explanation: Statement 1 is false because communes generally involve collective ownership rather than individual ownership of land. Statement 2 is true, as Special Economic Zones (SEZs) are indeed created to attract foreign investments and technology.

Question 18.

_____ revolution was the harbinger of major changes in the credit system as it led to diversification of the portfolio of rural credit towards production-oriented lending.

(Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Green

(B) Blue

(C) White

(D) Silver

Explanation: The correct answer is 'Green', referring to the Green Revolution. The Green Revolution involved the introduction of high-yielding varieties of crops, modern agricultural techniques, and the use of fertilizers and irrigation. This revolution significantly transformed agricultural practices and required financial support for production-oriented investments, leading to a diversification of rural credit.

Question 19.

Multiple reasons for economic slowdown and re-emergence of poverty in Pakistan may be enumerated ".

Identify which of the following might not be one of them.

(i) Rising dependence on foreign loans

(ii) Stable macroeconomic indicators

(iii) Unstable agricultural growth

Alternatives

[1 Marks]

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

(B) (i) and (iii)

(C) (ii) and (iii)

(D) Only (ii)

Explanation: The correct option is 'Only (ii)' because 'Stable macroeconomic indicators' indicate a functioning economy, which does not contribute to economic slowdown or poverty. In contrast, rising dependence on foreign loans and unstable agricultural growth are indeed factors that can lead to economic challenges.

Question 20.

Identify which of the following does not reflect a direct relationship between human capital formation and economic growth.

[1 Marks]

(A) Healthy workforce is a boon to the economy.

(B) Digital information helps in taking real time decisions.

(C) On-the-job training will reduce the skills of labour.

(D) Employability of an educated person is higher than that of an uneducated person.

Explanation: The option 'On-the-job training will reduce the skills of labour.' is correct because it contradicts the idea that on-the-job training enhances skills, which would contribute to human capital formation. All other options reflect positive relationships between education, health, or information and economic growth.

Question 21.

_____ adopted the resolution to ban the use of Chlorofluorocarbon (CFC) compounds along with other ozone depleting chemicals.

(Choose the correct alternative to fill up the blank)

[1 Marks]

(A) Brundtland Commission Report

(B) Montreal Protocol

(C) Kyoto Protocol

(D) Paris Protocol

Explanation: The correct option is 'Montreal Protocol.' This international treaty was designed to protect the ozone layer by phasing out the production and consumption of numerous substances that are responsible for ozone depletion, including Chlorofluorocarbons (CFCs).

Question 22.

According to Herman Daly (an environmental economist), which of the following is not an essential step towards achieving sustainable development ?

[1 Marks]

(A) Correction of inefficiencies arising from pollution

(B) Input inefficient technological progress

(C) Rate of extraction of renewable resources should not exceed rate of regeneration

(D) Limiting human population to carrying capacity of the environment

Explanation: The correct option is 'Input inefficient technological progress'. This is because sustainable development aims to use resources efficiently and reduce waste, while inefficient technological progress would hinder this objective by using more resources than necessary and failing to improve overall environmental quality.

Question 23.

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

Assertion (A) : Government can try to reduce unemployment through special poverty removal programmes.

Reason (R) : Such poverty removal programmes directly or indirectly lead to employment generation.

Alternatives :

[1 Marks]

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

(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 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 and Reason (R) is the correct explanation of the Assertion (A). The government's efforts in poverty removal can create job opportunities, thus reducing unemployment.

Question 24.

Read the following statements carefully :

Statement 1 : One-child policy was very effectively used in controlling the population by the Chinese authorities.

Statement 2 : One-child policy, according to scholars, led to a decline in gender ratio (the proportion of females per 1000 males).

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

[1 Marks]

(A) Both Statements 1 and 2 are false

(B) Both Statements 1 and 2 are true.

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

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

Explanation: Both Statements 1 and 2 are true. The one-child policy was implemented to control population growth in China, and while it was effective in reducing birth rates, it also resulted in a significant imbalance in the gender ratio, favoring males due to cultural preferences for sons.

Section C

Question 25.

Differentiate between 'Value of Output' and 'Value Added '.

[3 Marks]

Answer: The Value of Output refers to the total market value of all goods and services produced by a firm during a specific period. It includes the total revenue generated from sales without adjusting for any costs. In contrast, Value Added is the additional worth created at each stage of production, calculated as the difference between the Value of Output and the cost of inputs used in the production process. This reflects the contribution of labor and capital and helps understand economic productivity. Thus, the key difference lies in their definitions: the Value of Output encompasses total sales, while Value Added focuses specifically on net economic contribution, excluding input costs.

> **Key Points: Value of Output; Total market value of goods/services produced; Includes total revenue from sales; Value Added; Additional worth created at each production stage; Difference between output value and input costs; Reflects contribution of labor and capital**

Question 26. Discuss briefly the determination of exchange rate under the flexible exchange rate system.

[3 Marks]

Answer: Under a flexible exchange rate system, the exchange rate is determined by the forces of supply and demand in the foreign exchange market. This system allows currencies to fluctuate freely, responding to changes in economic conditions, trade balances, and investor sentiments. When demand for a currency increases, its value rises, while an increase in supply can decrease its value. Factors influencing exchange rates include interest rates, inflation differentials, political stability, and economic performance, making them dynamic and often volatile. This flexibility enables countries to adjust to external shocks and changes in economic circumstances, promoting economic stability and growth. However, it also leads to risks, as sudden fluctuations can impact trade and investment decisions.

> **Key Points: Supply and demand in foreign exchange market-Interest rates and inflation differentials-Political stability and economic performance**

Question 27. Define worker-population ratio and give its significance.

[3 Marks]

Answer: The worker-population ratio is a key economic indicator that measures the proportion of the working-age population that is engaged in work. It is calculated by dividing the number of workers by the total population, typically expressed as a percentage. This ratio is significant as it reflects the level of employment in an economy, indicating how effectively the workforce is being utilized. A higher ratio often signifies a vibrant economy with ample job opportunities, whereas a lower ratio can imply economic challenges or underemployment. Understanding the worker-population ratio helps policymakers assess labor market conditions, formulate employment strategies, and tackle issues related to unemployment and workforce development.

Key Points: Definition of worker-population ratio-Significance in economic context-Implications for policymakers and employment strategies

Question 28.

Elaborate how a well-structured 'Agricultural Marketing System' helps the farmers to increase their income.

[3 Marks]

Answer: A well-structured Agricultural Marketing System plays a critical role in enhancing farmers' income by ensuring better price realization, reducing marketing costs, and providing access to essential market information. Proper organization helps in connecting farmers directly with consumers or markets, eliminating middlemen, which often leads to higher profits for the producers. Additionally, such systems often facilitate contract farming, enabling farmers to secure fair prices in advance, and improve their bargaining power. By leveraging technology and information systems, farmers can access market trends and demands, thereby making informed decisions regarding crop selection and timing of sales. Consequently, when farmers engage more effectively in reliable markets, they tend to receive better returns on their produce, contributing positively to their overall income levels.

Key Points: Better price realization - Reduced marketing costs - Direct farmer-consumer connections - Contract farming benefits - Improved bargaining power - Access to market information - Informed decision-making

Question 29.

Distinguish between 'Human Capital' and 'Human Development".

[3 Marks]

Answer: Human Capital refers to the economic value of the skills and knowledge that individuals possess, which can be utilized in the workforce to generate economic benefits. It encompasses education, training, health, and experience that contribute to productivity and economic growth. In contrast, Human Development is a broader concept that focuses on improving the overall well-being of individuals and communities, emphasizing quality of life, access to education, healthcare, and social equity. While Human Capital is important for economic performance, Human Development is concerned with enhancing capabilities and freedoms, leading to a more just and sustainable society. Ultimately, Human Capital can be seen as a component of Human Development, as developing people's skills and abilities is essential for fostering a higher quality of life.

Key Points: Human Capital refers to skills and knowledge; Human Development focuses on overall well-being; Human Capital contributes to economic growth; Human

Development emphasizes quality of life and equity; Human Capital is a component of Human Development

Question 30.

Justify the following statement:

"Depreciation is a fall in the value of an asset due to expected obsolescence."

[3 Marks]

Answer: Depreciation refers to the decrease in the value of an asset over time, primarily due to wear and tear, aging, and technological advancements. In the context of expected obsolescence, the statement holds true as assets can lose value when newer, more efficient models become available. For instance, electronic equipment often depreciates faster due to rapid technological changes. This ensures that businesses account for the asset's reducing worth in their financial statements, which reflects its economic reality and impacts overall profitability. Understanding depreciation helps in better asset management and financial planning.

Key Points: Definition of depreciation - Causes of depreciation - Impact on financial statements - Example of technological obsolescence

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Section D

Question 31.

Suppose an imaginary economy is facing a situation of deficient demand in the short run time period.

Discuss briefly, the probable impacts of the same on the economy.

[4 Marks]

Answer: In an economy experiencing deficient demand, consumer spending and investment fall short of what is necessary for optimal economic performance. This leads to a slowdown in economic growth as businesses face lower sales, resulting in reduced production and potential layoffs. Unemployment may rise as firms cut jobs or halt hiring to lower costs. Additionally, deflationary pressures can emerge as excess supply drives down prices, further discouraging consumer spending. The government may need to implement expansionary fiscal or monetary policies to stimulate demand and restore economic balance.

Key Points: Reduced consumer spending-Increased unemployment-Deflationary pressures-Impact on business profits-Government intervention

Question 32.

Using a suitable numerical example, explain the credit creation process of the banking system, in a hypothetical economy.

[4 Marks]

Answer: In a hypothetical economy, we can demonstrate the credit creation process through a simple example. Suppose Bank A receives a deposit of ₹1,00,000. The reserve requirement is set at 10%. This means Bank A must keep ₹10,000 as reserves, allowing it to lend out ₹90,000. When Bank A lends ₹90,000 to a borrower, the borrower will likely deposit this amount back into either Bank A or another bank, leading to further lending. If Bank B receives this ₹90,000 deposit, it must hold ₹9,000 as reserves and can lend out ₹81,000. This cycle continues, multiplying the initial deposit through successive lending and deposits, illustrating how banks can create credit. Overall, the total credit created can be summarized by the formula: Total Credit = Initial Deposit / Reserve Ratio. In this case, ₹1,00,000 / 0.10 = ₹10,00,000 in total credit.

Key Points: Initial deposit; Reserve requirement; Lending process; Successive lending and deposits; Total credit formula

Question 33.

(i) Explain any two shortfalls of the industrial policy under the British rule.

(ii) Quote the four goals of the five year plans process of India.

[4 Marks]

Answer: The industrial policy under British rule had several shortfalls. Firstly, it was primarily focused on the interests of colonial powers, leading to the deindustrialization of India. Local industries suffered due to competition from British manufactured goods, resulting in economic stagnation and increasing unemployment. Secondly, the industrial policy favored the establishment of specific sectors like jute and tea, neglecting others that could have stimulated broader economic growth. This created an unbalanced industrial structure. Regarding the five-year plans of India, four primary goals include economic growth to increase the country's national income, poverty alleviation to improve living conditions, self-reliance to lessen dependence on foreign aid, and sustainable development to ensure environmental conservation while pursuing economic progress.

Key Points: Deindustrialization due to British policies-Preference for British manufactured goods-Unemployment-Selective industrial development-Limited growth in various sectors-Five-year plan goals: economic growth, poverty alleviation, self-reliance, sustainable development

Question 34.

Read the following schedule carefully :

Analyse the output growth trend in the three sectors over the given years between India and China.

[4 Marks]

Trends in Output Growth in Different Sectors, 1980 – 2015

Country	*1980 – 90*			*2011 – 2015*		
	Agriculture	*Industry*	*Service*	*Agriculture*	*Industry*	*Service*
India	3·1	7·4	6·9	2·3	5	8·4
China	5·9	10·8	13·5	4·1	8·1	8·4
Pakistan	4	7·7	6·8	2·7	3·4	4·4

Answer: The output growth trend in the three sectors—agriculture, industry, and services—reveals distinct shifts in India and China over the years. China's industrial sector has consistently outperformed India's, driven by rapid manufacturing expansion and infrastructural development. In contrast, India has seen significant growth in its services sector, becoming a global hub for IT and software services. Agriculture's contribution has declined in both countries but remains crucial for India's economy, whereas China's industrial growth has overshadowed this sector. Overall, China's faster industrial growth has led to a more balanced economic output, while India's growth is primarily driven by the services sector, indicating a diversification in economic strategy in recent years.

Key Points: China's industrial growth dominates; India's services sector shows significant expansion; Agriculture declines in importance for both; Trends indicate diversification in India's economy; China's balanced growth includes strong industrial output.

Question 35.

"Many economists believe that the economic reforms process of 1991 had adversely affected the agricultural sector." Do you agree with the given statement? Quote valid arguments in favour of your answer.

[4 Marks]

Answer: I agree that the economic reforms of 1991 had adverse effects on the agricultural sector. Firstly, the reforms emphasized liberalization and industrialization, often neglecting agriculture. This shift resulted in reduced investment in rural infrastructure and support for farmers. Secondly, the removal of price controls led to volatility in prices, causing uncertainty for farmers who could not predict their incomes. Additionally, the focus on exports made food less accessible for locals, further compromising food security. Consequently, many farmers struggled with debt and low yields, making it difficult for them to sustain their livelihoods. Though the reforms aimed to modernize the economy, the

agricultural sector suffered from a lack of attention and resources during this period, leading to increased distress among farmers.

Key Points: Economic reforms prioritized industrial growth over agriculture-Reduction in government investment and support for rural development-Volatile prices increased uncertainty for farmers-Focus on exports affected local food security-Farmers faced increased debt and low yields

Question 36.

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

(a) Economic participation of women as homemakers is not accounted for in the Gross Domestic Product.

(b) Indian economy has shown excellent shift from informal sector to formal sector in the recent past.

[4 Marks]

Answer: (a) True. The economic contributions of women as homemakers, including childcare, elder care, and household management, are significant but are not captured in GDP calculations. GDP primarily measures market transactions and overlooks unpaid work, thus undervaluing women's economic participation. (b) False. While there have been initiatives to formalize certain sectors, the Indian economy still has a large informal sector. Many workers remain outside formal employment regulations, and the shift has not been as rapid or effective as required to ensure comprehensive economic stability and growth.

Key Points: Homemakers' contributions are unpaid and unaccounted; GDP measures market activities only; initiatives for formal sector growth exist; large informal sectors remain; slow progress in formalizing economy.

Question 37.

Suppose the following information is given about a hypothetical economy :

C = 100 + 0.75 Y (where, C = Consumption and Y =Income) I0 = 200 (I0 = Autonomous Investment)

Calculate the following on the basis of the given information :

(a) Equilibrium Level of Income

(b) Aggregate Demand at Equilibrium Level of Income

(c) Marginal Propensity to Save

[4 Marks]

Answer: (a) Equilibrium Level of Income:

At equilibrium, aggregate demand (AD) equals income (Y). Aggregate demand is sum of consumption (C) and investment (I0).

Given: C = 100 + 0.75 Y and I0 = 200

So, AD = C + I0 = 100 + 0.75 Y + 200 = 300 + 0.75 Y

At equilibrium, Y = AD, so:

Y = 300 + 0.75 Y

Y - 0.75 Y = 300

0.25 Y = 300

Y = 300 / 0.25 = 1200

Therefore, the equilibrium level of income is 1200.

(b) Aggregate Demand at Equilibrium Level of Income:

At equilibrium, AD = Y = 1200

Alternatively, AD = 100 + 0.75 * 1200 + 200 = 100 + 900 + 200 = 1200

Thus, aggregate demand at equilibrium is 1200.

(c) Marginal Propensity to Save (MPS):

MPS = 1 - MPC

Given MPC = 0.75

MPS = 1 - 0.75 = 0.25

Therefore, marginal propensity to save is 0.25.

> **Key Points: Equilibrium income is where AD equals Y - Use C = 100 + 0.75 Y and I0 = 200 to find AD - MPS is 1 minus MPC**

Question 38.

Read the following information carefully :

" The Monetary Policy Committee (MPC) of the reserve bank of India (RBI), recently increased the Repo Rate by 50 basis points. The Rate stands today at 5.40%, whereas Reverse Repo Rate was left unchanged at 3.35%.

Answer the following questions :

(i) Identify the nature of the two monetary policy measures mentioned in the above text.

(ii) Elaborate the likely economic rationale behind the increase in Repo Rate by the Monetary Policy Committee.

[4 Marks]

Answer: (a) The two monetary policy measures mentioned are the Repo Rate and the Reverse Repo Rate. The Repo Rate is the rate at which the RBI lends money to commercial banks, and an increase in this rate is a tightening monetary policy measure. The Reverse Repo Rate is the rate at which the RBI borrows money from commercial banks, and it was left unchanged in this case. (b) The likely economic rationale behind increasing the Repo Rate by the MPC is to control inflation in the economy. By increasing the Repo Rate, borrowing from the RBI becomes more expensive for commercial banks. This leads to higher lending rates for businesses and consumers, reducing borrowing and spending. Reduced spending lowers demand-pull inflation, helping stabilize prices and control inflationary pressures in the economy.

Key Points: Repo Rate is a tightening monetary policy tool - Reverse Repo Rate is a liquidity absorption tool - Increase in Repo Rate controls inflation by reducing borrowing and spending

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Section E

Question 39.

(i) Explain the role of education in the economic development of the nation.

(ii) State the importance of rural banking in an economy like India.

[6 Marks]

Answer: Education plays a crucial role in the economic development of a nation. Firstly, it enhances human capital, meaning that an educated workforce is more productive and efficient, which directly contributes to increased economic output and growth. Additionally, education fosters innovation and technological advancement, enabling countries to adapt to global changes and improve their industries. Moreover, education promotes social equity, reducing poverty levels and empowering individuals with the knowledge and skills necessary for various occupations. Investing in education leads to a more knowledgeable citizenry that can participate actively in economic activities and decisions. On the other hand, rural banking is vital for an economy like India, which has a significant rural population. It provides essential financial services to the underbanked, supporting rural development by facilitating access to credit for agriculture and small enterprises. This accessibility encourages entrepreneurship, helps in income generation, and reduces dependence on informal moneylenders. Furthermore, rural banking contributes to financial inclusion, ensuring that rural communities can save, invest, and secure their financial futures. It helps uplift the overall economic conditions of rural areas by improving liquidity and promoting sustainable development.

Key Points: Enhances human capital, boosts productivity, fosters innovation, promotes social equity, reduces poverty levels, supports rural development, facilitates access to

credit, encourages entrepreneurship, reduces dependence on moneylenders, promotes financial inclusion, improves liquidity.

Question 40.

(i) Two friends, Deepak and Krish were discussing the impact of increase in GST rates on luxury items, as recently undertaken by the Government. Krish was of the view that most of the luxury items (like foreign travel, imported cigarettes, etc.) should be taxed exorbitantly, while the items related to daily consumption of poor and middle class should be tax-free. Identify and explain the objective of the Government budget Krish is suggesting.

(ii) State any two examples of non-tax receipts of the Government.

[6 Marks]

Answer: Krish's suggestion highlights a progressive taxation approach aimed at equity and social justice within government budgeting. By proposing that luxury items be taxed heavily while daily essentials remain tax-free, he aims to alleviate the financial burden on lower and middle-income groups. This aligns with the government budget's objective of ensuring that tax structures do not disproportionately affect the financially weaker sections of society. Additionally, it aims to discourage excessive consumption of luxury goods, thereby contributing to sustainable economic practices. Such a budget would seek to generate revenue without compromising the essential needs of the population, thus supporting economic stability and growth while promoting social welfare. Furthermore, with regard to non-tax receipts, examples include revenues generated from public enterprises and fees for services rendered by government agencies, like license fees and fines.

Key Points: Progressive taxation approach; Equity and social justice; Relieving financial burden on lower-income groups; Discouraging luxury consumption; Ensuring basic needs are tax-free; Supporting economic stability; Examples of non-tax receipts: revenues from public enterprises, fees for government services.

Question 41.

(i) "In the recent times, the Government of India has incurred a lot of expenditure on acquisition of indigenous defence items under Make-in-India' programme."

Identify and discuss the two types of budget expenditures which may by undertaken by the Government as suggested in the above statement.

(ii) State the meaning of 'fiscal deficit under the Government Budget

[6 Marks]

Answer: The Government of India’s expenditure under the Make-in-India programme can be classified into two primary types of budget expenditures: capital expenditure and revenue expenditure.

Capital expenditure refers to the expenses incurred for the acquisition of long-term assets, such as purchasing indigenous defence equipment and infrastructure development. This type of expenditure aims to enhance the country's defence capabilities and stimulates economic growth through job creation in manufacturing sectors. Conversely, revenue expenditure includes the ongoing costs of running government operations, like salaries for defence personnel, maintenance of existing equipment, and administrative expenses. This type of expenditure is crucial for ensuring that the already acquired assets are properly utilized and functional. Both types of expenditures are essential for the overall economy and the effectiveness of the defence sector, aligning with the government's goal of self-reliance in defence manufacturing. Furthermore, these expenditures impact the fiscal deficit, which refers to the situation when a government's total expenditures exceed its total revenues, indicating the need for borrowing to cover the deficit and maintain economic stability.

Key Points: 1. Capital expenditure: Acquisition of long-term assets (defence equipment). 2. Revenue expenditure: Ongoing costs (salaries, maintenance). 3. Importance: Stimulates growth and efficiency in defence; impacts fiscal deficit.

Question 42.

(i) Who is a casual wage labourer ?

(ii) State and discuss any one recommendation of the Education Commission (1964 66).

(iii) In the light of the given image, identify and explain any one strategy to ensure sustainable development.

Note : The following question is for the Visually Impaired Candidates only in lieu of Q. No. 33 (b) (iii)

[6 Marks]



Answer: A casual wage labourer is an individual who works on a temporary or day-to-day basis, often hired for specific short-term tasks without any guarantee of further employment. This type of labor is characterized by a lack of long-term contracts, job security, and benefits. Casual wage labourers are commonly found in sectors like agriculture, construction, and services, where the demand for labor fluctuates seasonally. In regards to the Education Commission (1964-66), one significant recommendation was to achieve 'Universal Elementary Education' (UEE) by making basic education accessible to all children. This was intended to ensure that every child receives at least the fundamental level of education, emphasizing quality and relevance in curriculum and teaching methods. This initiative sought to address educational disparities and aim for inclusivity in the school system. Lastly, concerning sustainable development, one effective strategy is adopting renewable energy resources. Transitioning from fossil fuels to solar, wind, and hydro energy can significantly reduce carbon emissions and mitigate climate change effects while promoting sustainable economic growth and energy security.

Key Points: definition of casual wage labourer; characteristics of casual wage labour; sectors employing casual labor; recommendation of the Education Commission for Universal Elementary Education; importance of accessibility and inclusivity in education; strategy for sustainable development using renewable energy; benefits of renewable energy for environment and economy