CBSE EXAMINATION PAPER-2026

ECONOMICS

(Solved)

Time allowed : 3 hours | Maximum Marks : 111

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 **4 sections.**

iii. **Section A** – questions number **1 to 21** are multiple choice questions

iv. **Section B** – questions number **22 to 27** are short answer type i

v. **Section C** – questions number **28 to 36** are short answer type ii

vi. **Section D** – questions number **37 to 42** are long answer

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

viii. Use of calculator is NOT allowed.

Section A

Question 1.

The Ministry of Statistics and Programme Implementation (MoSPI) is underway to revise the base year of Gross Domestic Product (GDP). The base year is revised periodically to better capture the structural changes happening in the economy. The proposed new base year for the GDP is 2022 – 23.''

The step taken by the Government of India is for revision of _____ Gross Domestic Product (GDP), as it is measured at _____ prices.

(Choose the correct option to fill in the blanks)

[1 Marks]

(A) Real, constant

(B) Nominal, constant

(C) Real, current

(D) Nominal, current

Explanation:

The Government revises the base year for Real GDP, which is measured at constant prices. Real GDP is calculated using the prices of the base year to remove the effect of inflation, allowing a better comparison of economic output across years. Nominal GDP, on the other hand, is measured at current prices and is not adjusted for inflation. Therefore, revising the base year relates to Real GDP measured at constant prices.

Question 2.

_____ refers to that consumption, which is independent of the level of income.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Autonomous Consumption

(B) Autonomous Investment and Consumption

(C) Break-even level

(D) Induced Consumption

Explanation:

Autonomous consumption is the level of consumption that occurs even when income is zero, meaning it does not depend on the income level. This is because people need to consume certain basic goods and services regardless of their income. Therefore, it is called autonomous consumption, as opposed to induced consumption which varies with income.

Question 3.

Money supply is a _____ variable, as it refers to the total volume of money held by the _____ at a particular point of time.

(Choose the correct option to fill in the blanks)

[1 Marks]

(A) flow, public

(B) stock, banks

(C) stock, public

(D) flow, banks

Explanation:

Money supply is a stock variable because it measures the total stock of money in circulation at a specific point in time. It is held by the public, not just banks, as it refers to the total volume of money available to the public at that moment.

Question 4.

With reference to the given diagram, OL indicates _____ .

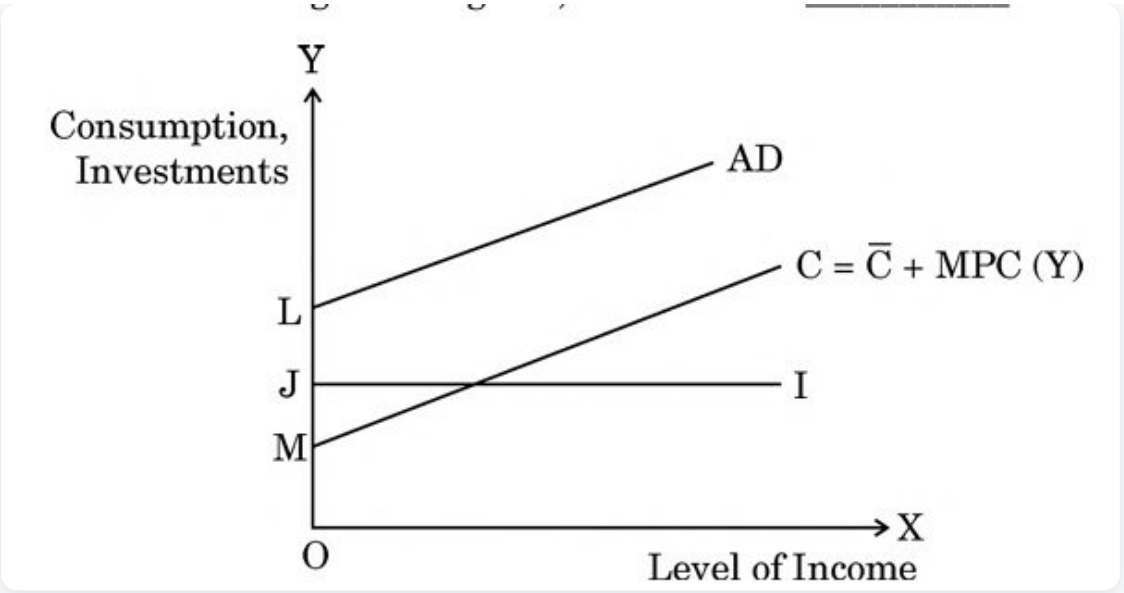
(i) Autonomous Consumption

(ii) Autonomous Investment

(iii) Induced Consumption

(iv) Induced Investment

[1 Marks]



(A) Only (ii)

(B) Only (i)

(C) Sum of (i) and (iii)

(D) Sum of (i) and (ii)

Explanation:

OL represents the sum of autonomous consumption and autonomous investment. Autonomous consumption is the consumption level that occurs even when income is zero, while autonomous investment is fixed and does not depend on income. Since OL indicates total autonomous expenditure (A = C + I), it is the sum of autonomous consumption (i) and autonomous investment (ii). Induced consumption and induced investment depend on income level, so options (iii) and (iv) are incorrect.

Question 5.

Under the flexible exchange rate system, the exchange rate is determined by the _____ .

(i) Government

(ii) Demand and supply

(iii) Intervention of the Central Bank

(Choose the correct option to fill in the blank)

[1 Marks]

(A) (ii) and (iii)

(B) Only (i)

(C) Only (iii)

(D) Only (ii)

Explanation:

Under the flexible exchange rate system, the exchange rate is determined solely by the forces of demand and supply in the foreign exchange market without central bank intervention. The government or central bank does not fix or intervene to influence the exchange rate in this system. Therefore, the correct answer is Only (ii).

Question 6.

Following are the steps to measure National Income (NNPFC) by Value Added method :

(i) Calculate Domestic Income (NDP_FC) by subtracting Depreciation and Net Indirect Taxes from GDPMP.

(ii) Estimate GDP_MP by adding GVA of each firm.

(iii) Estimate and add Net Factor Income from Abroad to NDP_FC to arrive at NNP_FC.

(iv) Identify and classify the production units into primary, secondary and tertiary sector.

The correct order of arrangement of steps would be :

(Choose the correct option)

[1 Marks]

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

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

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

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

Explanation: The correct order to measure National Income (NNP at Factor Cost) by Value Added method is: first, identify and classify production units into primary, secondary, and tertiary sectors (step iv). Then, estimate GDP at market price by adding Gross Value Added (GVA) of each firm (step ii). After that, calculate Domestic Income (NDP at Factor Cost) by subtracting depreciation and net indirect taxes from GDP at market price (step i). Finally, add Net Factor Income from Abroad to NDP_FC to arrive at NNP_FC (step iii). This sequence aligns with the concept that GDP is first computed by summing value added by firms, adjusted for depreciation and taxes, and then net factor income is added to move from domestic to national income.

Question 7.

An economy may operate at a level below full employment due to a deficiency in Aggregate Demand (AD) leading to a/an _____ employment equilibrium.

(i) Full

(ii) Over

(iii) Under

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Only (i)

(B) Only (ii)

(C) Only (iii)

(D) (ii) and (iii)

Explanation:

When aggregate demand is deficient, the economy does not produce at full employment output. This means that not all factors of production are fully employed, leading to an equilibrium with unemployment. Therefore, the economy operates at an under employment equilibrium. This is because the equilibrium output is less than the full employment output level.

Question 8.

Read the following statements carefully :

Statement I : Positive externalities refer to the benefits a firm/an individual provides to another for which they are paid.

Statement II : In case of positive externalities, Gross Domestic Product (GDP) of an economy might lead to an overestimation of the actual welfare.

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

[1 Marks]

(A) Statement I is false and Statement II is true

(B) Statement I is true and Statement II is false.

(C) Both Statements I and II are true.

(D) Both Statements I and II are false.

Explanation: Statement I is false because positive externalities refer to benefits a firm or individual provides to another without receiving payment for them. Statement II is true because in case of positive externalities, GDP underestimates the actual welfare since it does not capture these unpaid benefits. Therefore, GDP might underestimate, not overestimate, actual welfare.

Question 9. Suppose, for a hypothetical economy, Reserve Ratio (RR) decreases from 25% to 20%, the total deposits would _____ to ₹ _____, if primary deposits are ₹ 1,000.

[1 Marks]

(A) increase, 5,000

(B) decrease, 5,000

(C) decrease, 4,000

(D) increase, 4,000

Explanation: The money multiplier is calculated as 1 divided by the reserve ratio. When the reserve ratio decreases from 25% to 20%, the money multiplier increases from 4 to 5. Given primary deposits of ₹ 1,000, total deposits will be primary deposits multiplied by the money multiplier. So, total deposits = 1,000 × 5 = ₹ 5,000. Therefore, total deposits increase to ₹ 5,000 when the reserve ratio decreases to 20%.

Question 10.

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

Assertion (A) : Transfers from Abroad (remittances) are to be recorded on the credit side of capital account of Balance of Payments (BoP).

Reason (R) : All the transactions that lead to inflow of foreign currency from the rest of the world are recorded on the credit side of Balance of Payments (BoP).

[1 Marks]

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

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

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

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

Explanation:

Transfers from abroad, such as remittances, are recorded in the current account of the Balance of Payments (BoP), not the capital account. The capital account mainly records capital inflows and outflows like loans, investments, and sales of assets. However, the Reason (R) is correct because all transactions that cause inflow of foreign currency are recorded on the credit side of the BoP. Thus, while the Reason is true, the Assertion is false.

Question 11.

Liabilities for any firm are its debt/what it owes to others. Contrary to that, for a bank _____ are the main liability.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) loans

(B) deposits

(C) reserves

(D) assets

Explanation:

For any firm, liabilities represent what it owes to others in general terms. Specifically for a bank, the main liability is the deposits made by customers. These deposits represent money that the bank owes back to the customers. Hence, deposits are the main liability of a bank as per the given context.

Question 12.

Working persons engaged in various industrial divisions can be classified into three major sectors — Primary sector, secondary sector and tertiary sector.

Identify, which of the following option demonstrates the primary sector.

[1 Marks]

(A) Agriculture

(B) Agriculture, electricity, gas and water supply

(C) Transport and storage

(D) Agriculture, mining and quarrying

Explanation:

The primary sector deals with natural resources and includes activities like agriculture, forestry, fishing, mining, and quarrying. According to the provided context, agriculture, mining and quarrying form part of the primary sector, whereas transport and storage, electricity, gas and water supply belong to other sectors. Therefore, 'Agriculture, mining and quarrying' is the correct representation of the primary sector.

Question 13.

Read the following statements carefully :

Statement I : The colonial government had dual objectives behind the systematic deindustrialization of India.

Statement II : The British reduced India to a mere importer of raw materials for the its modern industries. In the light of the given statements, choose the correct option from the following :

[1 Marks]

(A) Both Statements I and II are true.

(B) Both Statements I and II are false.

(C) Statement I is true and Statement II is false.

(D) Statement I is false and Statement II is true.

Explanation:

The colonial government aimed at two main objectives: first, to reduce India to a raw material supplier for British industries; and second, to make India a market for British finished goods. This systematically deindustrialized India by collapsing its handicraft industries and preventing the rise of a modern Indian industrial base. Consequently, India became a mere importer of finished goods and exporter of raw materials. Thus, both statements reflect the true intentions and outcomes of British colonial policies.

Question 14.

The following table shows the distribution of population and workers in a village :

[1 Marks]

Total population	Number of people who are willing and able to work	Number of people who are employed
2000	1200	800

The Worker – Population ratio for village would be _____%.

(A) 20

(B) 60

(C) 40

(D) 80

Explanation:

According to the given context, under the Rural location for males, the main workers are 17 crore and marginal workers are 3 crore, totaling 20 crore workers. Since villages are rural areas, the number of workers in the village corresponds to the total workers in rural areas, which is 20 crore. Therefore, option '20' is correct.

Question 15.

Identify, which of the following is not a strategy of sustainable development.

[1 Marks]

(A) Use of coal to produce electricity

(B) Use of Solar Panels

(C) Use of Bio-Pests

(D) Use of Mini-Hydel Plants

Explanation:

Use of coal to produce electricity is not a strategy of sustainable development because coal is a conventional, non-renewable source of energy that causes environmental pollution and degradation. Sustainable development focuses on the use of non-conventional, renewable, and environment-friendly energy sources such as solar panels, bio-pests, and mini-hydel plants, which minimize environmental harm and promote long-term ecological balance.

Question 16.

In the rural areas, diversification towards new areas such as livestock, fisheries and other non-agricultural activities is necessary to _____.

(i) Reduce the risk from agricultural sector

(ii) Provide unsustainable livelihood options

(iii) Provide supplementary employment

(Choose the correct option to fill in the blank)

[1 Marks]

(A) (i) and (iii)

(B) (i) and (ii)

(C) (i), (ii) and (iii)

(D) Only (i)

Explanation:

Diversification in rural areas towards livestock, fisheries, and non-agricultural activities is necessary to reduce the risk associated with depending exclusively on the agricultural sector (statement i). Additionally, it helps provide supplementary employment opportunities to rural people (statement iii). However, diversification aims to provide sustainable livelihood options, so statement (ii) about providing unsustainable livelihood options is incorrect. Therefore, the correct answers are (i) and (iii).

Question 17.

Self-Help Groups (SHGs) have emerged to fill the gap in the formal credit system as they _____. (Choose the correct option to fill in the blank)

[1 Marks]

(A) Lend at a high rate of interest

(B) Provide loan after obtaining suitable collateral

(C) Promote thrift in larger proportions

(D) Generally provide collateral-free credit to their members

Explanation: Self-Help Groups have emerged to fill the gap in the formal credit system because formal credit usually requires collateral, which poor rural households cannot provide. SHGs promote thrift through small contributions and provide credit to needy members without requiring collateral, at reasonable interest rates. This makes credit more accessible to those excluded from formal banking.

Question 18.

_____ was set up by the Government of India in 1950 to formulate plans for the most effective and balanced utilisation of resources.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) World Trade Organisation

(B) NITI Aayog

(C) Karve Committee

(D) Planning Commission

Explanation:

The Planning Commission was established by the Government of India in 1950 with the Prime Minister as its Chairperson. Its role was to formulate plans for the effective and balanced utilisation of the nation's resources, marking the beginning of the era of five year plans in India. This information aligns with the context provided, which mentions the Planning Commission's establishment and functions.

Question 19.

The export surplus during the colonial rule was used by the Britishers to _____.

(i) Bring gold and silver to India

(ii) Incur expenses on war

(iii) Import invisible items

[1 Marks]

(A) Only (i)

(B) (ii) and (iii)

(C) (i) and (ii)

(D) (i) and (iii)

Explanation:

The export surplus during the colonial period did not result in any flow of gold or silver into India. Instead, it was used by the British to pay for expenses incurred by the colonial government in Britain, including expenses on wars fought by the British government and the import of invisible items (such as services and administrative costs). Therefore, only statements (ii) and (iii) are correct.

Question 20.

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

Assertion (A) : India is a member of various regional and economic groupings such as BRICS, G20, etc. Reason (R) : Membership of economic and regional groupings helps a nation to understand their

strengths and weaknesses in comparison to other nations.

[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:

India is indeed a member of several regional and economic groupings like BRICS and G20. Such memberships allow India to collaborate with other nations and analyze economic trends, which helps in understanding its own strengths and weaknesses compared to other countries. This understanding supports economic planning and development. Therefore, both the assertion and reason are true, and the reason correctly explains the assertion.

Question 21.

. In 2009, the Government of India came up with the _____ to make free education, a fundamental right for all children in the age group of 6 – 14 years.

(Choose the correct option to fill in the blank)

[1 Marks]

(A) Jan Dhan Yojana

(B) Tapas Majumdar Committee

(C) Mid-Day Meal Scheme

(D) Right to Education Act

Explanation:

In 2009, the Government of India enacted the Right of Children to Free and Compulsory Education Act to make free education a fundamental right for all children aged 6-14 years. This is clearly stated in the context provided, which emphasizes the role of the Right to Education Act in ensuring free and compulsory education for children in this age group.

Section B

Question 22.

“Repo Rate and Bank Rate are two different measures, but a change in either of them may have the similar implication on the money supply in an economy.”

Defend or refute the given statement, giving valid explanation in support of your answer.

[3 Marks]

Answer: Answer: Repo rate and Bank rate are two different tools used by the Reserve Bank of India to control the money supply in the economy but a change in either rate can have a similar effect on money supply.

Bank rate is the rate at which the RBI lends funds to commercial banks without any security or collateral, usually for the long term. If the RBI increases the bank rate, borrowing from RBI becomes expensive for banks, leading them to increase lending rates to the public. This reduces borrowing and decreases the money supply.

Repo rate is the rate at which banks borrow short-term money from the RBI against government securities. An increase in repo rate makes borrowing costlier for banks, which reduces their lending, thus decreasing the money supply.

Therefore, although bank rate and repo rate differ in terms of duration and terms of lending, any increase in these rates makes borrowing costlier for banks, which reduces credit creation and thus decreases money supply. Similarly, a decrease in these rates increases money supply. Hence, the statement that a change in either rate leads to a similar implication on money supply is *correct*.

> **Key Points: Bank rate is long-term lending rate by RBI to banks - Repo rate is short-term lending rate by RBI against securities - Increase in either rate reduces money supply by making borrowing costlier**

Question 23.

“The Reserve Bank of India (RBI) is the sole authority for issuing currency notes in India, with an exception of ₹ 1 denomination that is issued by the Ministry of Finance.”

Do you agree with the given statement ? Explain the rationale behind the monopoly enjoyed by the Reserve Bank of India (RBI) on this front.

[3 Marks]

Answer: Yes, I agree with the statement. The Reserve Bank of India (RBI) is the sole authority to issue all currency notes in India except the ₹ 1 coin, which is issued by the Ministry of Finance. This

monopoly is important because it helps RBI control the money supply and maintain price stability. When a single authority issues currency, it prevents duplication and counterfeit currency. RBI, as the central bank, manages monetary policy, controls inflation, and ensures economic stability. Issuing currency also means RBI promises the bearer the value of the note, which creates trust in the currency system. This centralized control helps maintain the integrity of the currency and the overall financial system of the country.

Key Points: RBI issues all currency notes except ₹ 1 coin - Monopoly helps control money supply - Prevents counterfeit currency - Maintains price stability - Builds trust in currency - RBI manages monetary policy and economic stability

Question 24.

Estimate the value of 'Income from Property and Entrepreneurship' on the basis of the given data :

[3 Marks]

S. No.	*Items*	*Amount (in ₹ crore)*
(i)	Wages and salaries	1,300
(ii)	Rent	700
(iii)	Employer's contribution to social security schemes	300
(iv)	Royalty	200
(v)	Corporate tax	100
(vi)	Interest	350
(vii)	Consumption of fixed capital	50
(viii)	Dividends	150
(ix)	Savings of private corporate sector	200

Answer: To estimate the Income from Property and Entrepreneurship, first we summarise the frequency of incomes in the different income ranges given:

Income Range (000 Rs)	Frequency
0 - 15	4
15 - 20	8
20 - 25	18

Here frequencies are determined as: Income 20-25: 30 - 12 = 18; Income 15-20: 12 - 4 = 8; Income less than 15: 4.

To estimate, we calculate the modal income using the formula for mode in grouped data:

Mode = l + [(f1 - f0) / (2f1 - f0 - f2)] * h
Where:
l = lower limit of modal class = 20
f1 = frequency of modal class = 18
f0 = frequency of class before modal class = 8
f2 = frequency of class after modal class = 4
h = class width = 5

Substituting values:
Mode = 20 + [(18 - 8) / (2*18 - 8 - 4)] * 5 = 20 + (10 / (36 - 12)) * 5 = 20 + (10 / 24) * 5 = 20 + (0.4167)* 5 = 20 + 2.0835 = 22.08 thousand Rs.

Therefore, the estimated Income from Property and Entrepreneurship is approximately **22.08 thousand Rs**.

> **Key Points: Frequency distribution calculation - Use of modal class formula - Final estimation of modal income**

Question 25.

Explain the Planning objective of “Growth with Equity”.

[3 Marks]

Answer: Growth with Equity means increasing the country's capacity to produce goods and services while ensuring fairness in the distribution of the benefits among all people.
Growth refers to the expansion of the economy by producing more goods and services, providing more employment and increasing income.
Equity means fairness in the distribution of wealth and income so that all citizens can meet their basic needs like food, housing, education, and healthcare.
This objective aims to reduce economic inequalities through measures like taxation and government spending on social welfare programs.
Thus, growth without equity may increase wealth but also increase inequalities; growth with equity ensures balanced development benefiting all sections of society.

> **Key Points: Growth means increasing production capacity - Equity means fairness in wealth distribution - Growth with Equity ensures balanced economic development and reduces inequalities**

Question 26.

At the time of independence, both India and Pakistan inherited similar colonial economic structures. Both the nations adopted many similar economic planning strategies.’’

Explain any two such similarities in the developmental path of India and Pakistan.

[3 Marks]

Answer: At the time of independence, both India and Pakistan had similar colonial economic structures, and they adopted similar economic planning strategies to develop their economies.
(a) Large Public Sector Development: Both countries focused on expanding the public sector in their economies. They believed that government control and ownership of key industries would help in rapid industrialization and reduce dependence on private capital.
(b) Emphasis on Social Development Spending: India and Pakistan raised public expenditure on social sectors like health, education, and welfare to improve the living standards of their populations and create human capital needed for economic growth. This strategy aimed at equitable growth and poverty reduction.
Thus, both nations aimed to build strong state-led economies with focus on social development during their initial years of independence.

Key Points: Large public sector development - Emphasis on social development expenditure - State-led economic growth model

Question 27.

''In 1958, China launched the Great Leap Forward (GLF) campaign with a definite aim.''

(i) State the rationale behind the introduction of the Great Leap Forward (GLF) campaign.

(ii) State any two failures of the Great Leap Forward (GLF) campaign.

[3 Marks]

Answer: (i) The Great Leap Forward (GLF) campaign was launched in 1958 with the aim to rapidly industrialise China and transform it into a modern socialist society. The rationale behind GLF was to use China's large population to develop industries on a massive scale by encouraging people to set up small industries in their backyards and by collectivising agriculture under communes to increase production and support industrial growth.
(ii) Two failures of the Great Leap Forward campaign are:
- It led to a severe famine causing the death of about 30 million people due to poor planning, natural disasters like drought, and unrealistic production targets.
- The withdrawal of Soviet experts after conflicts with China caused lack of technical knowledge and slowed down industrial progress, resulting in many industries failing to meet their targets.

Key Points: Rapid industrialisation - Backyard industries and agriculture communes - Severe famine due to poor planning and drought - Withdrawal of Soviet experts leading to industrial setbacks

Section C

Question 28.

(a) Define Balance of Payments (BoP) Account.

(b) Differentiate between autonomous transactions and accommodating transactions in Balance of Payments (BoP).

[4 Marks]

Answer: (a) The Balance of Payments (BoP) Account is a record of all financial transactions made between residents of a country and the rest of the world during a specific time period, usually a year. It includes trade in goods and services, capital transfers, and financial flows.
(b) Autonomous transactions are independent transactions resulting from normal trade, investment, or loans which affect the current and capital accounts and occur due to economic motives.
Accommodating transactions are official reserve transactions by the government or central bank to balance any deficits or surpluses in autonomous transactions and keep the BoP equilibrium.

> **Key Points: BoP records all financial transactions between a country and the world - Autonomous transactions relate to normal international trade and investment - Accommodating transactions are official reserve operations to balance BoP**

Question 29.

A company named Tech Info Ltd. manufactures printers. The company purchases machinery from Germany to manufacture printers. These printers are sold in the domestic and foreign markets to households and dealers. The machinery purchased and printers manufactured, both can be classified as final goods. Do you agree with the given statement ? Give valid arguments in support of your answer.

[4 Marks]

Answer: Answer:
Yes, I agree with the given statement that both the machinery purchased and the printers manufactured are final goods.
1. **Machinery purchased as final goods:** The machinery bought from Germany is a capital good. It is not used up in the production process but helps in producing other goods, so it is classified as a final good because it is bought for investment purposes and adds to the future productive capacity of the company.
2. **Printers manufactured as final goods:** The printers made by Tech Info Ltd. are sold directly to households and dealers for use. These printers do not undergo any further processing or transformation, so they are final goods as they are meant for final consumption or resale.
Thus, both machinery (investment good) and printers (consumer goods or final products) are correctly

classified as final goods because they do not require any more processing and are ready for use or consumption.
This classification helps in measuring the economic activity and national income accurately, avoiding double counting of intermediate goods.

Key Points: Machinery is a capital good and final good - Printers are sold for final use so are final goods - Final goods do not undergo further processing

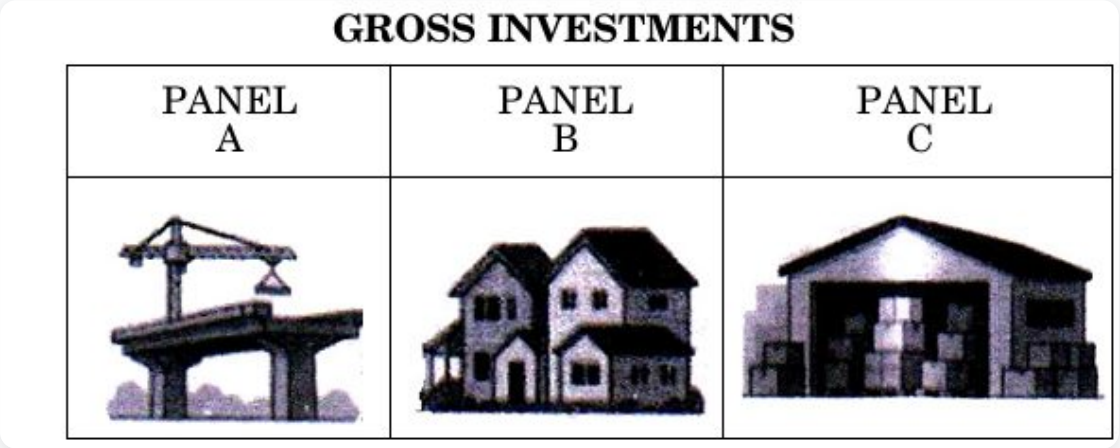
Question 30.

(i) Define Gross Investments.

(ii) Identify any two components of Gross Investments indicated in the given image.

(iii) Briefly explain any one component of Gross Investments.

[4 Marks]



Answer: (i) **Gross Investments** are the total addition to the capital stock in an economy, including both replacement of worn-out capital (depreciation) and new additions.
(ii) Two components of Gross Investments are: **Direct Investment** and **Foreign Institutional Investment (FII)**.
(iii) **Direct Investment** refers to foreign investors buying a significant stake or lasting interest in a business or property in another country. This kind of investment usually involves control or management influence in the business.

Key Points: Definition of Gross Investments - Components: Direct Investment and Foreign Institutional Investment - Explanation of Direct Investment including control and lasting interest

Question 31.

Read the following text carefully :

“With an objective to improve the growth momentum by stimulating domestic private consumption and investment, the Reserve Bank of India (RBI) announced a reduction in Cash Reserve Ratio (CRR) by 100 basis points (1%).”

Based on the above text and common understanding, answer the following questions :

(i) Explain the likely cause behind the step taken by the Reserve Bank of India (RBI).

(ii) Briefly explain the impact of the step taken by the Reserve Bank of India (RBI) on the Aggregate Demand (AD).

[4 Marks]

Answer: (i) The Reserve Bank of India reduced the Cash Reserve Ratio (CRR) to increase the liquidity in the banking system. By lowering the CRR, banks are required to keep less money as reserves and can lend more to businesses and individuals. This step is likely taken to stimulate domestic private consumption and investment, thereby boosting economic growth. It helps if the economy is slowing down or facing low demand.
(ii) As banks lend more, the money supply increases leading to higher spending by consumers and investment by firms. This rise in consumption and investment increases the Aggregate Demand (AD) in the economy. An increase in AD can help in economic growth by encouraging production and employment.

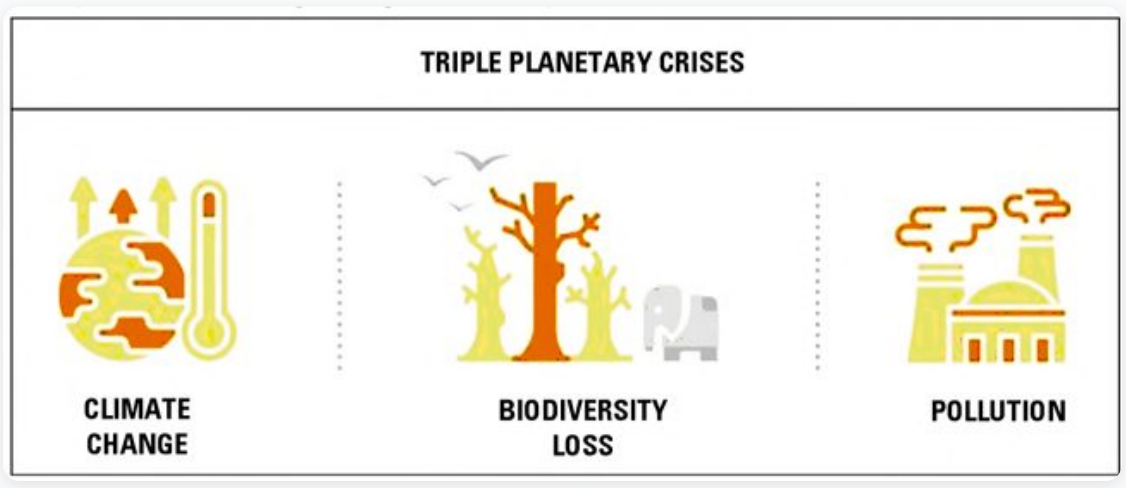
Key Points: CRR reduction increases liquidity - Banks can lend more - Rise in consumption and investment - Increase in Aggregate Demand (AD) - Boost to economic growth

Question 32.

Study the following image carefully :

Interpret the given image and comment upon the phenomenon of environmental crisis as a result of changed production and consumption patterns.

[4 Marks]



Answer: Interpretation of the Image and Environmental Crisis:

The image shows heavy industrial pollution affecting the Damodar river, turning it into an ecological disaster. This indicates that rapid industrial growth and increased production have led to the release of harmful pollutants into the environment including chemicals and gases which contaminate air and water.

Environmental Crisis due to Changed Production and Consumption Patterns:

Population explosion and increased affluence have caused a rise in demand for goods and services, leading to overproduction and overconsumption. This has put enormous pressure on natural resources beyond their regeneration capacity. As a result, waste generation and pollution levels have increased drastically.

This disruption has reversed the supply-demand balance of environmental resources: while demand for clean air, water, and land has increased, their supply has diminished due to overuse and misuse. Consequently, the natural environment suffers severe damage affecting plants, animals, and humans, manifesting as ecological disasters, loss of biodiversity, and health problems.

In conclusion, the changed production and consumption patterns have created environmental crises due to unsustainable use of resources and pollution thereby threatening ecological balance and human well-being.

> **Key Points: Industrial pollution causing ecological disaster - Overuse of natural resources beyond regeneration - Increased pollution and waste from production and consumption**

Question 33.

Environmental crisis is a recent phenomenon, which is a result of changing production and consumption patterns." Justify the statement giving valid arguments.

[4 Marks]

Answer: Environmental crisis is a recent phenomenon due to changing production and consumption patterns.

The increase in population and industrialisation has led to higher demand for environmental resources such as water, air, and land. Earlier, when population and industrial activities were low, the demand for these resources was less than their supply, and the environment could regenerate them naturally. However, due to rapid population growth and affluent consumption especially in developed countries, the demand has exceeded the environment's ability to replenish these resources. Production processes have become more wasteful and polluting, generating wastes beyond the environment's absorptive capacity.

This has resulted in depletion of natural resources, pollution of air, water and soil, and loss of biodiversity. Thus, changing production and consumption patterns cause overuse and misuse of resources, leading to the current environmental crisis.

Hence, the statement is justified as the environmental crisis is mainly caused by unsustainable growth in production and consumption that strains natural resources and environmental balance.

Key Points: Population growth leads to increased resource demand - Industrialisation and affluent consumption cause resource depletion - Waste generation and pollution exceed environment's absorptive capacity - Unsustainable production and consumption cause environmental crisis

Question 34.

On the basis of the given data, comment upon the annual growth of Gross Domestic Product (GDP) of India and China.

[4 Marks]

Annual Growth of Gross Domestic Product (%), 1980 – 2017			
Country	1980 – 90	2015 – 2017	2022
India	5·7	7·3	7·0
China	10·3	6·8	3·0
Pakistan	6·3	5·3	4·8

Answer: Comment on Annual GDP Growth of India and China:
From the data, India's annual GDP growth rate increased from 5.7% during 1980–1990 to 7.3% during 2015–2017. This indicates that India's economy has accelerated over time. In contrast, China's growth rate slowed down from a very high 10.3% in 1980–1990 to 6.8% in 2015–2017. Despite the slowdown, China's rate remains high compared to most countries. In the 1980s, China had double-digit growth which was much higher than India's, but India improved its growth rate over the years. Overall, China experienced very rapid growth initially, but India's growth rate improved and narrowed the gap in recent years.

Key Points: India's GDP growth rate increased from 5.7% to 7.3% - China's GDP growth rate decreased from 10.3% to 6.8% - China started with higher growth but India showed improvement over time

Question 35.

Rayansh works as a teacher in a school. He receives a fixed monthly salary, social security benefits, paid leave and medical allowances. His friend Mohan works at a small toy shop. He has very little income, he does not have access to provident fund, paid leave or health insurance.

Classify the types of sectors Rayansh and Mohan are working in and highlight the distinction between the two sectors.

[4 Marks]

Answer: (a) Sector Classification: Rayansh works in the **formal sector** because he receives fixed monthly salary, social security benefits like provident fund, paid leave and medical allowances. Mohan works in the **informal sector** as he has very little income and lacks benefits such as provident fund and health insurance.

(b) Distinction between Formal and Informal Sectors:
- Workers in the formal sector have fixed employment, regular income, job security, and social security benefits.
- Workers in the informal sector have low or irregular income, no job security, and no access to social security.
- Formal sector workers get paid leaves, health insurance, provident fund, and other benefits, which informal sector workers do not have.
- The formal sector is regulated by the government, while the informal sector is not well regulated.

This difference explains why Rayansh receives several benefits while Mohan does not.

Key Points: Rayansh works in formal sector - Mohan works in informal sector - Formal sector provides job security and benefits - Informal sector lacks social security and regular income

Question 36.

(i) Define 'Human Capital Formation'.

(ii) Explain 'Expenditure on migration' as a source of human capital formation

[4 Marks]

Answer: (i) **Human Capital Formation** is the process of acquiring and increasing the number of people who have the skills, education, health, and experience that are important for economic growth. It involves investments in education, health, training, migration, and information to enhance the productivity of individuals.
(ii) **Expenditure on migration** is a source of human capital formation because people invest money to move from one place to another seeking better opportunities. The costs of migration include expenses like travel, accommodation, and resettlement. However, the increase in earnings and improved life standards at the new place compensate for these costs. Hence, spending on migration helps in developing human capital by providing individuals with better jobs and skills.

Key Points: Definition of human capital formation - Investments in education, health, training, migration and information - Expenditure on migration as investment for better earnings and skills

Section D

Question 37.

(a) Assume, for a hypothetical economy, the following data is given :

(i) Calculate the missing values in the given schedule.

(ii) Define the term 'Effective Demand'.

(iii) On the basis of the given data, it can be said that the equilibrium level of income is 200.

Do you agree ? If not, explain the adjustment mechanism that may take place to attain equilibrium level of income.

[6 Marks]

Income (Y)	Consumption (C)	Investment (I)	Aggregate Demand (AD)
0	40	20	60
100	120	20	–
200	200	20	–
300	280	20	300

Answer: (a)(i) To calculate the missing values in the given schedule, we use the relationship that aggregate demand (AD) equals Consumption (C) plus Investment (I). Assuming investment is constant, we subtract consumption from aggregate demand to find missing values or use the formula $C = a + bY$ where a is autonomous consumption and b is marginal propensity to consume.
(ii) Effective Demand is the total demand for goods and services in the economy at a given level of income during a particular period. It is the point where aggregate demand equals aggregate supply, determining the equilibrium level of income.
(iii) The equilibrium level of income is where aggregate demand equals actual output. If at income 200, aggregate demand is not equal to 200, it is not the equilibrium. The economy will adjust through changes in income: if AD > Y, output and income will rise; if AD < Y, output and income will fall. This process continues until aggregate demand equals income, achieving equilibrium.

Key Points: Calculate missing values using aggregate demand formula - Definition of effective demand as aggregate demand equals supply at equilibrium - Explanation of adjustment mechanism through changes in income when AD does not equal output

Question 38.

Suppose, in an economy, every ₹ 1 increase in investment expenditure leads to an increase of ₹ 4 in the National Income.

Calculate the following :

(i) Value of Investment Multiplier (K).

(ii) Change in consumption expenditure, if the income changes from ₹ 400 to ₹ 500.

(iii) "Sum of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) is always equal to one."

Justify the given statement with the help of a suitable argument.

[6 Marks]

Answer: (a) Value of Investment Multiplier (K):
The investment multiplier (K) is defined as the ratio of change in National Income to the change in investment expenditure.
Given, change in income = ₹ 4 (for every ₹ 1 increase in investment)
Change in investment expenditure = ₹ 1
So, K = change in income / change in investment = 4 / 1 = 4

(b) Change in consumption expenditure:
Given, income changes from ₹ 400 to ₹ 500, so change in income (ΔY) = 500 - 400 = ₹ 100
Since K = 4, we can find MPC by formula: K = 1 / (1 - MPC)
=> 4 = 1 / (1 - MPC)
=> 1 - MPC = 1 / 4 = 0.25
=> MPC = 1 - 0.25 = 0.75

Change in consumption expenditure (ΔC) = MPC * ΔY = 0.75 * 100 = ₹ 75

(c) Justification of the statement "Sum of MPC and MPS is always equal to one":
Marginal Propensity to Consume (MPC) is the fraction of additional income that is spent on consumption.
Marginal Propensity to Save (MPS) is the fraction of additional income that is saved.
Since income is either used for consumption or saving, the total of these fractions must add up to the total additional income.
Therefore, MPC + MPS = 1
This means that whenever income increases by one unit, some part of that income is consumed (MPC) and the rest is saved (MPS), together adding up to the whole income increment.

Key Points: Investment multiplier formula - Calculation of MPC from multiplier - Relationship between MPC and MPS equals one

Question 39.

Read the following passage carefully :

According to the Economic Survey 2024 – 25, the government's budget projections for the fiscal year 2025 – 26 indicate that gross direct tax revenue will rise by 12.7%, while gross indirect tax collections are expected to grow by 8.3% relative to FY 2024 – 25.

Direct taxes include income tax and corporate tax, reflecting earnings and profits of households and firms. It plays a key role in revenue growth of the government. Indirect taxes encompass Goods and Service Tax (GST), custom duties and other transaction-based levies.

Higher growth rate projected for direct taxes suggests a push to enhance tax buoyancy through improved compliance and reforms. On the other hand, indirect taxes are expected to benefit from consumption trends and Goods and Services Tax (GST) administration improvements. The balance tax strategy aims to mobilise resources while supporting fiscal consolidation and sustainable economic growth.

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

(i) Differentiate between the two types of taxes indicated in the above text, with suitable examples.

(ii) Elaborate the likely consequences of the tax projections made by the government.

[6 Marks]

Answer: (i) Difference between direct and indirect taxes:
Direct taxes are taxes paid directly by individuals or firms to the government. Examples include income tax paid by individuals on their earnings and corporate tax paid by companies on their profits. Direct taxes are progressive in nature, meaning the tax rate increases with the income level. Indirect taxes are levied on goods and services and are collected by intermediaries from consumers. Examples include Goods and Services Tax (GST), custom duties, and other transaction-based taxes. Indirect taxes are regressive as they affect all consumers equally regardless of income.

(ii) Likely consequences of the tax projections:
The projected rise of 12.7% in direct tax revenue indicates the government's focus on improving tax compliance and implementing reforms to increase tax buoyancy. This could lead to higher government revenue from incomes and corporate profits, enabling better funding for development and welfare schemes. The 8.3% growth in indirect taxes suggests an expectation of increased consumption and better GST administration, which may also stabilize tax revenues. Together, these projections reflect a balanced tax strategy aimed at mobilising resources efficiently while supporting fiscal consolidation and sustainable economic growth. Increased direct tax collection might encourage more formal

economic activity and reduce tax evasion, whereas improved indirect tax revenues may encourage a more efficient tax system benefiting overall economic health.

Key Points: Direct taxes paid directly by taxpayers - Indirect taxes levied on goods and services - Direct taxes include income and corporate tax - Indirect taxes include GST and customs duties - Direct taxes progressive, indirect taxes regressive - Projected increase in direct taxes shows improved compliance - Indirect tax growth linked to consumption and GST reforms - Balanced tax strategy supports fiscal consolidation and growth

Question 40.

(i) “The Industrial Policy Resolution (IPR), 1956 classified all the industries based on state ownership and control in various categories.”

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

(ii) “The economic reforms of 1991 adversely affected the Indian agriculture sector.”

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

[6 Marks]

Answer: (i) Yes, I agree with the statement that the Industrial Policy Resolution (IPR), 1956 classified industries into various categories based on state ownership and control. The IPR 1956 divided industries into three categories: The first category included industries exclusively owned and controlled by the state such as arms and ammunition, atomic energy, and railways. The second category consisted of industries where the state and private sector shared control such as heavy engineering, machine tools, and heavy chemicals. The third category was for industries left for the private sector like production of consumer goods. This classification aimed to ensure the state controlled the commanding heights of the economy to promote planned development while encouraging private sector participation.

(ii) No, I do not fully agree that the economic reforms of 1991 adversely affected the Indian agriculture sector. The reforms focused mainly on liberalizing the industry and finance sectors to encourage growth and attract foreign investment. However, agriculture was not the immediate focus of reforms and continued to receive government support in the form of subsidies, irrigation projects, and technology spread. Nevertheless, some farmers faced challenges due to reduced subsidies and exposure to global market competition without adequate protection. Overall, while some sections of agriculture saw difficulties, the reforms helped diversify the economy and increase overall productivity, indirectly benefiting agriculture in the long run.

Key Points: IPR 1956 classified industries into three categories - state ownership in key sectors - mixed ownership and private sector involvement - economic reforms 1991

mainly targeted industry and finance sectors - agriculture received support but faced some challenges - reforms led to diversification and long-term benefits

Question 41.

(i) "The Government of India may further divest its stake in Life Insurance Corporation (LIC) in the current financial year." In the light of economic reforms since 1991, identify the policy and define the step taken by the government

(ii) ''India adopted an inward-looking trade strategy during the planning period.''

(I) State any two reasons behind the adoption of this policy.

(II) Briefly describe any two ways in which the government implemented this policy.

[6 Marks]

Answer: (a) The policy referred to here is **Privatisation**, which is a part of the economic reforms initiated in India since 1991. Privatisation means reducing the role of the government in business by selling its stake in public sector enterprises to private players. The step taken by the government is divestment, which means the government is selling its ownership or shares in Life Insurance Corporation (LIC) to private investors, thereby reducing its control and increasing private participation.

(b)(i) Two reasons for adopting an inward-looking trade strategy during the planning period are: 1. To protect domestic industries from foreign competition and encourage local production. 2. To achieve self-reliance by limiting dependence on imports and controlling foreign trade tightly.

(b)(ii) Two ways the government implemented this policy are: 1. Imposing high import tariffs and quantitative restrictions on imports to reduce foreign goods entering the market. 2. Licensing system for imports and foreign investment, where imports and business operations required government approval, controlling the type and quantity of goods imported and investments coming into the country.

Key Points: Privatisation - Divestment of LIC stake - Inward-looking strategy reasons: protect local industries, self-reliance - Implementation: high import tariffs, licensing system

Question 42.

Read the following passage carefully :

Paramparagat Krishi Vikas Yojana (PKVY)

Paramparagat Krishi Vikas Yojana (PKVY) aims at promoting organic farming, in turn resulting in improvement of soil health. It promotes Participatory Guarantee System – India (PGS – India), a simple certification system, where farmers and consumers participate directly in the process.

The scheme proposes to cover additional 6,00,000 hectare area under organic farming till 2025 – 26. The objective is to produce agricultural products free from chemicals and pesticide residues by adopting eco-friendly, low-cost technologies.

Key focus areas of Paramparagat Krishi Vikas Yojana (PKVY) :

• Promote natural resource based integrated and climate resilient sustainable farming systems that ensure maintenance and increase of soil fertility, natural resource conservation, on farm nutrients recycling and minimising dependence on external inputs.

• Reduce farming costs and increase farmers' income through sustainable organic practices.

• Chemical-free and nutritious food for human consumption.

• Protect the environment by using low-cost, traditional and farmer-friendly technologies.

• Help farmers become entrepreneurs through direct market linkages with local and national markets.

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

(i) Define Organic Farming. Explain any two merits of organic farming.

(ii) Explain any two thrust areas of Paramparagat Krishi Vikas Yojana (PKVY) in organic farming.

[6 Marks]

Answer: (i) **Definition of Organic Farming:** Organic farming is an agricultural practice that involves growing and nurturing crops without the use of synthetic chemical fertilizers, pesticides, or genetically modified organisms. It uses natural methods like organic manure, crop rotation, and biological pest control to maintain soil fertility and ecological balance.

Two merits of Organic Farming:

1. **Environmental Friendly:** Organic farming helps in improving soil health by increasing soil fertility and maintaining biodiversity. It avoids harmful chemicals that pollute soil and water.
2. **Healthy Produce:** The crops produced are free from pesticide residues and are safer and healthier for human consumption.

(ii) **Two thrust areas of Paramparagat Krishi Vikas Yojana (PKVY):**

1. **Promotion of Climate Resilient Farming:** PKVY promotes natural resource based integrated and sustainable farming systems that improve soil fertility, conserve natural resources, recycle on-farm nutrients, and reduce dependence on external inputs.
2. **Enhancing Farmers' Income:** The scheme aims to reduce farming costs and increase farmers' income by encouraging sustainable organic practices and creating direct market linkages for better price realization.

These initiatives help in producing chemical-free food and protect the environment by using low-cost, traditional and farmer-friendly technologies.

Key Points: Definition of organic farming - Environment friendly benefits - Healthy produce - Promotion of climate resilient farming under PKVY - Enhancing farmers income through organic practices