

CBSE EXAMINATION PAPER-2025

ECONOMICS

(Solved)

Time allowed : 3 hours

Maximum Marks : 32

General Instructions :

Read the following instructions carefully and follow them :

- i. This question paper contains **9 questions**. All questions are **compulsory**.
- ii. This question paper is divided into **4 sections**.
- iii. **Section A** – questions number **1 to 1** are case based questions
- iv. **Section B** – questions number **2 to 3** are short answer type i
- v. **Section C** – questions number **4 to 8** are short answer type ii
- vi. **Section D** – questions number **9 to 9** 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.

Read the following text carefully :

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

Central Government to keep a close watch on wholesale and retail prices of essential commodities.

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

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

(1)

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

[1 Marks]

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

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

(2)

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

[2 Marks]

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

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

(3)

Explain any one monetary measure used to control inflation.

[3 Marks]

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

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

Section B

Question 2.

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

[3 Marks]

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

Question 3.

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

[3 Marks]

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

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

Section C

Question 4.

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

[4 Marks]

Answer: In an economy where primary deposits amount to ₹500 and the Reserve Ratio (CRR) is 25%, the total deposits that the banking system can create can be calculated using the money multiplier formula, which is 1 divided by the cash reserve ratio. Hence, the money multiplier is $1 / 0.25 = 4$. The total deposits created will then be $₹500 \times 4 = ₹2000$. The total amount that banks must keep as reserves is 25% of ₹2000, equaling ₹500. Therefore, the total lending by the banking system after satisfying the reserve requirement is $₹2000 - ₹500 = ₹1500$.

Question 5.

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

[4 Marks]

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

Question 6.

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

[4 Marks]

Answer: Self-reliance was chosen as a key planning objective for the Indian economy to foster sustainable economic growth and reduce dependency on foreign imports. After independence, India faced the challenge of building an independent and self-sufficient

economy. Emphasizing self-reliance allowed India to utilize its own resources, facilitating local production of goods that were previously imported. This approach aimed to modernize the industrial sector, promote equity by ensuring basic needs were met, and ultimately lead to growth in various sectors of the economy. The government's role was crucial in steering this focus towards self-sufficiency and reducing inequalities in wealth distribution.

Question 7.

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

[4 Marks]

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

Question 8.

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

[4 Marks]

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

Question 9.

- (i) Distinguish between Stock and flow variables, using suitable examples.
- (ii) Explain the components of 'Profit' as per Income Method of estimating National Income (NNPFC).

[6 Marks]

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