

CBSE EXAMINATION PAPER-2025

ECONOMICS

(Solved)

Time allowed : 3 hours

General Instructions :

Read the following instructions carefully and follow them :

- i. This question paper contains **40 questions**. All questions are **compulsory**.
- ii. This question paper is divided into **5 sections**.
- iii. **Section A** – questions number **1 to 2** are case based questions
- iv. **Section B** – questions number **3 to 22** are multiple choice questions
- v. **Section C** – questions number **23 to 28** are short answer type i
- vi. **Section D** – questions number **29 to 36** are short answer type ii
- vii. **Section E** – questions number **37 to 40** are long answer
- viii. There is no overall choice given in the question paper. However, an internal choice has been provided in few questions.
- ix. Use of calculator is NOT allowed.

Section A

Question 1.

Read the following text carefully :

Climate change and sustainability of environment are two pressing issues that have captured global attention. In recent years, the world has witnessed extreme weather events including severe droughts, cloud bursts, floods, land slides, receding coastlines and the alarming melting of arctic ice glaciers. Wildfires have become more frequent and intense.

In this context, sustainable agriculture emerges as a crucial solution. This refers to those farming practices that meet today's requirements while conserving resources for the future generation. This means adopting methods that protect the environment, reduce dependence on chemical inputs, efficient use of water and land and ensuring socio-economic equity for farmers.

On one hand sustainable agricultural practices are necessary, on the other, they are often more expensive to implement compared to conventional practices. Sustainable practices like organic farming, climate-smart technologies, modern irrigation system may seem costly upfront, but they offer long-term benefits like improving productivity, and environmental stewardship. Without accessible and affordable financing options, the much needed shift to sustainable practices will remain a distant dream for many.

Therefore, sustainable finance should not only promote eco-friendly practices but also ensure that financial resources are available to the farmers.

Source : <https://website.vbi.org.in/web/rbi/-/speeches-interview/financing-for-sustainable-agriculture> (adopted and modified)

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

(1)

Define Sustainable Agriculture.

Answer: Sustainable agriculture refers to farming practices that meet the needs of the present without compromising the ability of future generations to meet their own needs. This includes methods that protect the environment, use resources efficiently, and promote socio-economic equity for farmers.

Key Points: farming practices that meet present needs–resource preservation for future generations–environmental protection and socio-economic equity

(2)

"Sustainable Agriculture practices, like organic farming may seem costly initially, but offer long term benefits."

Discuss the long term benefits these practices can offer.

Answer: Sustainable agriculture practices, particularly organic farming, while initially seeming costly, provide several long-term benefits. First, they help maintain ecological balance, leading to healthier soils and ecosystems, which enhances agricultural productivity over time. Secondly, they reduce dependency on chemical inputs, lowering environmental pollution and preserving biodiversity. This shift not only contributes to a sustainable environment but also meets the increasing global demand for organically grown food. Additionally, organic farming generates new income opportunities for farmers in countries that seek safer food options. Ultimately, the long-lasting benefits of increased soil fertility, reduced environmental degradation, and growth from exports make organic farming a sustainable choice for future generations.

Key Points: Restores ecological balance–Reduces dependency on chemicals–Generates income through exports

(3)

State any two strategies to promote sustainable development in a developing country like India.

Answer: Two strategies to promote sustainable development in a developing country like India are: first, promoting organic farming practices to enhance environmental sustainability and provide healthier food options; second, diversifying agricultural activities by incorporating non-agricultural sectors like livestock and fisheries, which can reduce dependency on traditional agriculture and improve rural livelihoods.

Key Points: promote organic farming - diversify agricultural activities - enhance rural livelihoods

Question 2.

Read the following text carefully :

Balance of Payments (BOP) systematically summarises the economic transactions of an economy with the rest of the world, over a given period and is broadly divided into two accounts namely :

- current account
- capital account

The current account measures the transfer of goods, services, income and transfers between an economy and rest of the world. The current account is divided into merchandise account and invisible account. Merchandise account consists of transactions related to export and import of goods.

In the invisible account, there are three broad categories :

Non-factor services such as travel, transportation, insurance etc.

Transfer which do not involve any value in exchange.

Income which includes compensation of employees and investment income.

The capital account reflects the net changes in financial claims on rest of the world.

The capital account can be broadly broken up into two categories :

- Non-debt flows such as direct and portfolio investments.
- Debt flows such as external assistance, commercial borrowings, nonresident deposits etc.

The sum of the two accounts indicates the overall balance, which could be either be in surplus or deficit. The movement in overall balance is reflected in the international reserves of the country. Source : [https://mospi.gov.in/109-balance – payments](https://mospi.gov.in/109-balance-payments) (adopted and modified)

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

(1)

Define Balance of Payments.

Answer: The Balance of Payments (BoP) is a systematic summary of an economy's transactions in goods, services, and assets with the rest of the world for a specified period, typically one year.

Key Points: systematic summary–economy's transactions–goods, services, assets–with the rest of the world–time period

(2)

Differentiate between the two accounts of Balance of Payments.

Answer: The Balance of Payments (BoP) comprises two main accounts: the current account and the capital account. The current account records transactions related to goods, services, income, and transfers between a country and the rest of the world. It includes the merchandise account on exports and imports of goods, and the invisible account, which covers non-factor services, income, and transfers. In contrast, the capital account records net changes in financial claims on the rest of the world, categorizing transactions into non-debt flows (such as direct and portfolio investments) and debt flows (such as commercial borrowings and external assistance). Together, these accounts illustrate the overall trade and financial position of a country relative to the world.

Key Points: 1. Current account records transactions related to goods, services, and transfers; 2. Capital account reflects changes in financial claims. Current account includes merchandise and invisible accounts, while capital account is divided into non-debt and debt flows.

(3)

Give the meaning of Balance of Payments deficit with formula.

Answer: The Balance of Payments (BoP) deficit occurs when the overall balance is negative, indicating that a country is spending more on international transactions than it is earning. The formula to express a BoP deficit is: $\text{Overall Balance} < 0$, which signifies that receipts are less than payments.

Key Points: BoP deficit indicated by $\text{Overall Balance} < 0$; Reflects negative international transactions; Formula: $\text{Overall Balance} < 0$

Section B

Question 3.

The monetary policy is formulated by the ___ in the Indian economy.

(Choose the correct option to fill up the blank)

(A) Central Government.

(B) Reserve Bank of India.

(C) State Governments.

(D) World Bank.

Explanation:

The correct answer is 'Reserve Bank of India.' The context states that the Reserve Bank of India (RBI) acts as the monetary authority of the country, responsible for the supply of money and formulating monetary policy in India.

Question 4.

Identify which of the following is not to be considered while estimating Revenue Deficit of a country.

(Choose the correct option to fill up the blank)

(A) Expenditure incurred on construction of flyover.

(B) Direct Tax Collection.

(C) Interest payments made by the Central Government.

(D) Wages and salaries paid by the government.

Explanation: The correct option is 'Expenditure incurred on construction of flyover.' This is because the revenue deficit calculation focuses on and revenue receipts, while capital expenditures, such as those incurred for constructing infrastructure like flyovers, do not directly impact it

Question 5.

In the Keynesian Economics, ___ starts from the origin and is always drawn at an angle of 45°.

(Choose the correct option to fill up the blank)

(A) Aggregate demand curve

(B) Investment curve

(C) Reference line

(D) Consumption curve

Explanation:

The correct option is 'Reference line'. In Keynesian economics, the 45° line represents all points where income equals expenditure, thus indicating macroeconomic equilibrium. It starts from the origin (0,0) and bisects the first quadrant at a 45° angle, making it a reference line against which consumption and investment can be plotted.

Question 6.

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

Assertion (A): In case of public goods no one can be excluded from enjoying the benefits.

Reason (R): Public goods are non-rivalrous and non-excludable in nature.

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

Explanation: Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) because public goods are rivalrous and non-excludable, which supports the idea that no one can be excluded from enjoying the benefits of these goods.

Question 7.

Value Addition = ___ - Value of Intermediate Consumption. (Choose the correct option(s) to complete the stated formula.)

(i) Domestic sales

(ii) Sales - change in stock

(iii) Value of output

(iv) (Number of units produced) x (Price per unit)

(A) (C) (ii), (iii) and (iv)

(B) (D) (iii) and (iv)

(C) (B) (ii) and (iii)

(D) (A) (i) and (ii)

Explanation: The correct answer is (C) (ii), (iii) and (iv). According to the provided context, value added is determined by subtracting the value of goods from the total sales or production output (value of output). Therefore, the options (ii), which represents sales adjusted for inventories, overall output value, and (iv), which calculates output as the product of units produced and price per unit, all correctly contribute to the form

Question 8.

Suppose for an economy, autonomous consumption stands at ₹100 crore and total consumption is ₹130 crores. The value of induced consumption is _____ crore.

(Choose the correct option to fill up the blank)

(A) 80

(B) 130

(C) 30

(D) 100

Explanation: The induced consumption can be calculated by subtracting autonomous consumption from total consumption. Here, total consumption and autonomous consumption is ₹100 crores. Thus, induced consumption = ₹130 crores - ₹100 crores = ₹30 crores. Therefore, the correct answer is (C).

Question 9.

As the Banker to the Bank, Reserve Bank of India performs all functions except _____. (Choose the correct option to fill up the blank)

(A) Maintaining current account for Commercial Banks.

(B) Clearing and settlement of Interbank transactions.

(C) Purchase and sale of securities on behalf of general public.

(D) Facilitating governmental transactions.

Explanation: The correct answer is 'Purchase and sale of securities on behalf of general public.' The Reserve Bank of India (RBI) functions as a banker to the government, manages currency issues, and facilitates clearing and settlement of interbank transactions. However, it does not conduct purchase and sale of securities on behalf of the general public, as this is typically the role of commercial banks and individual investors.

Question 10.

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

Assertion (A): If the value of Marginal Propensity to Save is 0.5, Marginal Propensity to Consume will be equal to Marginal Propensity to Save.

Reason (R): Sum of Marginal Propensity to Consume and Marginal Propensity to Save always equals to unity.

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

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

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

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

Explanation:

The correct option is: "Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)."

The Marginal Propensity to Consume (MPC) and the Marginal Propensity to Save (MPS) always add up to 1. If the MPS is 0.5, then MPC must be equal in value. This confirms the assertion. The reason given is a fundamental economic principle that justifies the assertion accurately, making it the correct explanation.

Question 11.

The budget under which the government may spend an amount equal to the revenue it collects is referred to as _____ Budget. (Choose the correct option to fill up the blank)

(A) Surplus

(B) Deficit

(C) Deflationary

(D) **Balanced**

Explanation: The correct answer is 'Balanced' Budget because a balanced budget occurs when the government's expenditures are equal to its revenues. In the provided context, a balanced budget is specifically defined as the situation where the government spends an amount equal to what it receives.

Question 12.

To arrive at the value of equilibrium level of income, there must exist an equality between ex-ante _____ and ex-ante _____. (Choose the correct option to fill the blank)

(i) Aggregate Demand, Aggregate Supply

(ii) Aggregate Demand, Savings

(iii) Aggregate Demand, Investment

(iv) Savings, Investment

(A) (A) (i) and (ii)

(B) **(B) (i) and (iv)**

(C) (C) (ii) and (iii)

(D) (D) (iii) and (iv)

Explanation: The correct answer is (B) (i) and (iv) because equilibrium in the context of income involves equating ex ante aggregate demand with aggregate supply. The relevant context emphasizes that the equilibrium level of income is determined when aggregate demand (which includes investment) equals aggregate supply.

Question 13.

_____ of agriculture refers to production of crops for sale in the open market rather than for self consumption purpose.

(A) **Commercialisation**

(B) Diversification

(C) Digitisation

(D) Modernisation

Explanation: The correct option is Commercialisation. Commercialisation of agriculture refers specifically to the production of crops intended for sale in the open market, in contrast to growing crops primarily for personal consumption. The context provided discusses various agricultural strategies, but none explicitly mention commercialisation; however, the understanding of agriculture's market-oriented production aligns with commercialisation.

Question 14.

Read the following statements carefully :

Statement 1 : In 1978, commune lands were divided into small plots to the individual households for cultivation.

Statement 2 : Under commune system, professionals were sent to work and learn from the country side.

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

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

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

(C) Both statements 1 and 2 are true.

(D) Both statements 1 and 2 are false.

Explanation:

The correct option is: Both Statement 1 and Statement 2 are true.

Statement 1 is true, as it refers to the 1978 agricultural reforms in China, where commune lands were distributed to individual households for the Household Responsibility System. This move significantly increased productivity and rural incomes.

Statement 2 is also true, as it reflects the policy during the Cultural Revolution in China, where intellectuals and professionals were sent to rural areas to learn from farmers as part of the "Down to the Countryside Movement." Both statements are accurate based on historical context.

Question 15.

Identify, the options that emphasize the role of information and technology.

(i) Achieving sustainable development

(ii) Attainment of food security

(iii) Disseminates information regarding emerging technologies.

(A) Only (ii)

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

(C) Only (i)

(D) (i) and (ii)

Explanation: The correct option is (i), (ii), and (iii). The context provided emphasizes that information technology plays a crucial role in both sustainable development and food security, as well as disseminating information about emerging technologies. All three options highlight the importance of information and technology.

Question 16.

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

Assertion (A) : Under the land reforms, Indian government fixed the minimum land size which could be owned by an individual.

Reason (R) : The purpose of land ceiling was to avoid the concentration of land ownership in a few hands.

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

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

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

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

Explanation: Assertion (A) is false because the land reforms fixed a maximum size of land that could be owned by an individual, not a minimum. Reason (R) is true as it correctly explains that the purpose of land ceiling legislation was to prevent concentration of land ownership. Therefore, the correct option is (B) Assertion (A) is false, but Reason (R) is true.

Question 17.

Self-employed are the people who operate their own farms / enterprises.

(Choose the correct option to fill up the blank)

(A) Self-Employed

(B) Hired Workers

(C) Casual Wage Workers

(D) Regular Salaried Employees

Explanation: The correct option is 'Self-Employed'. This is because self-employed individuals operate their own farms or enterprises, which are provided in the question. The context indicates that a significant portion of rural workers fall under this category, with 58% of rural workers identified as self-employed.

Question 18.

Agricultural marketing is a process that involves the _____ of agricultural commodities.

(Choose the correct option to fill up the blank)

(A) Economic Development

(B) Human Capital

(C) Human Resource

(D) Human Development

Explanation:

The correct option is 'Economic Development' because agricultural marketing encompasses a variety of activities such as assembling, storage, transportation, packaging, grading, and distribution of agricultural commodities, all of which contribute to the economic development of the country as a whole.

Question 19.

In recent years, all the adults are encouraged to open bank accounts as a part of a scheme known as _____.

(Choose the correct option to fill up the blank)

(A) Jan-Dhan Yojana

(B) Jan-Aushadhi Yojana

(C) Jan-Soochna Yojana

(D) Jan-Arogya Yojana

Explanation: The correct answer is 'Jan-Dhan Yojana' because the context explicitly mentions that this scheme was introduced to encourage bank accounts. It highlights the benefits such as insurance coverage and overdraft facilities, making it clear that Jan-Dhan Yojana is the relevant scheme.

Question 20.

The given chart indicates the problem of _____ in the Indian Economy, post 1990-92.

(Choose the correct option to fill up the blank)

(A) Informalisation of Workforce

(B) Jobless Growth

(C) Formalisation of Workforce

(D) Casualisation of Workforce

Explanation:

The correct option is 'Jobless Growth.' This is because the context highlights that despite economic growth, there has been a decline in employment, indicating a situation where the economy is growing without corresponding job creation, a phenomenon referred to as 'Jobless Growth.'

Question 21.

Read the following statements carefully :

Statement 1 : Environmental concerns of waste generation and pollution have become critical, due to reversal of demand and supply relationship.

Statement 2 : Environmental crisis happens, when the rate of resource extraction is less than that of regeneration of resource.

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

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

(B) Both statements 1 and 2 are true

(C) Both statements 1 and 2 are false.

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

Explanation: Statement 1 is true as the context explains that there is a reversal of the supply-demand relationship for environmental quality due to demand and limited supply caused by overuse. Statement 2 is false because it incorrectly describes the environmental crisis; the crisis occurs when resource extraction exceeds the rate of regeneration, not the other way around.

Question 22.

_____ is based on the idea that education and health are integral to human well-being. (Choose the correct option to fill up the blank)

(A) Human Development

(B) Human Resource,

(C) Economic Development

(D) Human Capital

Explanation:

The correct option is 'Human Development' because it emphasizes that education and health are essential for achieving human well-being, making valuable choices and leading fulfilling lives. This aligns with the provided context that highlights the importance of education and health in development.

Section C

Question 23. State the meaning and significance of Gross Domestic Product (GDP) deflator.

Answer: The GDP deflator is an important economic index that measures the level of prices for all goods and services included in GDP, reflecting the change from nominal GDP to real GDP. Unlike the Consumer Price Index (CPI), the GDP deflator encompasses all domestic production and excludes imported goods. It is a comprehensive tool for assessing inflation within an economy over time, as it indicates the price increase of goods produced domestically. The GDP deflator lies in its ability to provide a more accurate measure of inflation than CPI by focusing on overall economic production rather than just consumption.

Question 24.

"The government generally levies higher Goods and Services Tax (GST) on socially undesirable products like cigarettes, tobacco, liquor etc." This is an indicated government budget objective in the above statement.

Answer: The government aims to discourage the consumption of socially undesirable products like cigarettes, tobacco, and liquor by imposing a higher Goods and Services Tax (GST) on them. This is a significant budgetary objective known as 'sin tax', which seeks to reduce consumption through an increase in the price of these items. On the one hand, on these items, the government not only disincentivizes their use due to health concerns but also generates revenue that can be allocated to other public services. This strategy reflects a broader intent to align public behavior with social welfare goals, thereby promoting a healthier society while utilizing limited resources.

Question 25.

Two friends Ramesh (a software engineer) and Pihu (a bakery owner) are discussing their contribution to the nation's economy through tax. Ramesh earns ₹8,00,000 per year, which makes him liable to pay income tax. Pihu pays Goods and Service Tax (GST) on the sale of cakes and pastries.

On the basis of the given text, identify whether Ramesh is paying a direct tax or an indirect tax. Explain valid differences between two types of taxes.

Answer: Ramesh is paying a direct tax, specifically income tax, which is imposed directly on his earnings. In contrast, Pihu pays an indirect tax (GST), which is levied on the sale of goods and services. The primary difference between direct and indirect taxes is that direct taxes are paid directly to the government by the taxpayer based on their income or wealth, while indirect taxes are collected by intermediaries (like sellers) from consumers.

of goods and services. Additionally, direct taxes are progressive in nature, meaning they increase with income, whereas indirect taxes are regressive, meaning they are levied on lower-income households disproportionately. Another distinction is that direct taxes are generally more stable and predictable, while indirect taxes are based on consumption patterns.

Question 26.

- (a) Define liberty indicator.
- (b) State any two liberty indicators.

Answer: A liberty indicator refers to measures that assess the freedom and rights afforded to individuals within a political framework. These indicators measure the extent of democratic participation and the protection of citizen rights enshrined in the constitution. They provide insights into how effectively a government safeguards individual liberties and ensures fair socio-political engagement. For instance, indicators can include measures of constitutional rights and judicial independence, which are critical for evaluating the health of democracy.

Question 27.

Medhya and Danish both had their own farms. Medhya invested in a few agricultural courses, learnt modern farming techniques and trained her laborers in practices related to soil fertility, crop management, pest control etc.

Whereas, Danish invested heavily in, by purchasing advanced farming machinery, irrigation systems and high quality seeds. Do you agree that Danish's investment in human capital? Give valid reason in support of your answer.

Answer: While Danish made significant investments in physical capital by acquiring advanced machinery, irrigation systems, and high-quality seeds, these investments alone do not constitute an investment in human capital. Human capital refers to the skills, knowledge, and experience that individuals gain through education and training, which leads to increased productivity. In contrast to Medhya, who focused on education and training for her laborers, Danish's investments do not directly improve the expertise of the workers. Therefore, I do not agree that Danish made an investment in human capital.

Question 28.

'Expenditure on preventive medicine, curative medicine and social medicine helps in building human capital and economic development.'

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

Answer: I strongly agree with the statement that expenditure on preventive, curative, and social medicine aids in building human capital and economic development. Investment in preventive medicine, such as vaccinations and health education, not only reduces disease burden but also enhances productivity. Curative medicine ensures timely medical intervention, leading to quicker recovery and reduced absenteeism at workplaces. Moreover, social medicine efforts, including sanitation and clean drinking water, contribute to overall public health, ensuring a healthier population capable of making economic contributions. The synergy of these health expenditures leads to a more skilled and capable labor force, which is a crucial element for economic growth and promoting equity in society.

Section D

Question 29. 'The British introduced many infrastructural development projects which were largely driven by its own self-serving interest'. Briefly state the main causes behind the infrastructural development undertaken by the colonial government.

Answer: The British colonial government initiated infrastructural development primarily to facilitate the extraction and transportation of raw materials to Britain. Firstly, the construction of railways was essential for transporting goods efficiently from inland areas to ports, supporting British industrial growth. Secondly, the improvement of communication systems such as telegraphs aimed to enhance control over the vast territories and ensure quick military movements. These projects demonstrated the colonial motive to secure their commercial and political interests rather than the welfare of the local population.

Question 30.

In the recent times through various schemes and policies, the Government of India has taken vital initiatives to generate employment directly. Justify the statement giving valid arguments.

Answer: The Government of India has actively worked to generate employment through various schemes and policies. Directly, it employs a large number of people in public sector departments, which provides stable jobs and income. Indirectly, it supports employment by fostering growth in the economy, particularly in the private sector. When public sector companies expand production, it creates direct jobs, which subsequently generates indirect jobs in allied sectors. Moreover, government programs aim to reduce disguised unemployment typically seen in rural settings, contributing to overall employment generation and economic development.

Question 31.

'Micro credit programmes have been very helpful in supporting rural development and improving livelihoods in India.'

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

Answer: I agree that micro-credit programmes have been instrumental in supporting rural development and enhancing livelihoods in India. These programmes provide access to financial services for the marginalized, empowering them to invest in income-generating activities. Self-Help Groups (SHGs) have particularly empowered women by enabling them to contribute to family income and participate in community development. Instead of funds being used primarily for consumption, micro-credit still facilitates small-scale entrepreneurship and promotes financial literacy. Additionally, these programmes often integrate services like education, health, and skills training, which further contribute to overall development. However, it's important to address the inadequacies in formal credit systems to maximize their potential.

Question 32.

On the basis of the given data, compare and analyse the Distribution of workforce and its contribution to Gross Value added in India and China.

Answer: The distribution of workforce and its contribution to Gross Value Added (GVA) in India and China reveals key differences. In India, the industry comprises 25% of the total workforce while contributing 30% to GVA. In contrast, China's industry employs 28% of its workforce but contributes 41% to GVA. This indicates greater productivity in Chinese industries. Furthermore, while both countries have strong service sectors leading to China's higher urbanization, at over 50%, enhances its economic efficiency. This contrast showcases India's potential for growth, particularly in terms of productivity and workforce distribution.

Question 33.

- (A) On the basis of the given image, explain the steps which may be taken by the Government of India to control the indicated macroeconomic issues.
(B) Define 'Open Market Operations'.

Answer:

To control macroeconomic issues, the Government of India can implement several strategies. Firstly, it can adjust monetary policies through the Reserve Bank of India (RBI), including modifying interest rates and reserve requirements to influence money supply. Secondly, fiscal policies can be adjusted through government spending and taxation to manage demand and stimulate economic activities. Thirdly, improving education and healthcare access can enhance productivity, which in the long-term alleviates unemployment. This multifaceted approach aims to achieve stable economic growth and control inflation. Open Market Operations (OMO) refer to the buying and selling of government bonds by the central bank, primarily the Reserve Bank of India (RBI), in the open market. This process serves as a vital monetary policy tool to regulate the money supply within the economy. OMOs can be classified into two categories: primary operations, which involve permanent transactions without obligations to reverse them, and repo operations, where bonds are sold with a commitment to buy them back later. When the RBI buys securities, it injects liquidity into the system, promoting economic growth. Conversely, selling securities withdraws liquidity, helping to control inflation and stabilize the economy. Thus, OMOs are crucial for maintaining monetary balance in an open economy.

Question 34.

Justify the following statements with valid arguments :

- (i) Money supply in an economy is an example of a stock variable.
(ii) The Central Bank provides several Banking services to the government.

Answer: Money supply is indeed a stock variable as it represents the total amount of money available at a specific point in time within the economy, including currency, demand deposits, and other liquid assets, reflecting the condition of liquidity in the economy at that moment. In contrast, flow variables change over time, such as GDP or national income. Similarly, the Central Bank provides essential banking services to the government, including managing foreign exchange reserves, and controlling the money supply. This includes issuing currency and implementing monetary policy to maintain economic stability.

Question 35.

Assuming for a hypothetical economy, Central Bank increases the Reserve Ratio from 20% to 25% and the total primary deposits stand at 1,000. Explain the effect of rise in Reserve Ratio on credit creation by commercial banks.

Answer: When the Central Bank increases the Reserve Ratio (RR) from 20% to 25%, it restricts the ability of commercial banks to create credit. For example, on total primary deposits of Rs 1,000, banks would be required to maintain Rs 250 as reserves, allowing them to lend Rs 750. However, with the

banks must now maintain Rs 250 in reserves, limiting their lending capacity to Rs 750. This reduction in the lending capacity impacts the money multiplier as banks will have less ability to create money through loans, thereby reducing the overall credit available in the economy. This is due to a multiplier effect; with a higher Reserve Ratio, the money multiplier decreases from 5 ($1/0.20$) to 4 ($1/0.25$). Consequently, the banking system must reconcile with the new reserve requirements, leading to further contraction of credit supply in the economy.

Question 36.

Suppose for an economy, government proposes project for construction of expressways with an incremental investment of 1200 crore. Assume that the entire income is spent on consumption. Estimate the following on the basis of above information :

- (a) Change in income (ΔY).
- (b) Change in consumption (ΔC).

Answer: To estimate the change in income (ΔY) and change in consumption (ΔC), we first calculate the multiplier effect. Given the marginal propensity to consume (MPC) is 0.8, we can use the multiplier formula, $\Delta Y = \Delta G / (1 - c)$, where ΔG is 1200 crore. Thus, $\Delta Y = 1200 / (1 - 0.8) = 6000$ crore. Next, we find the change in consumption (ΔC) as $\Delta C = MPC \times \Delta Y = 0.8 \times 6000 = 4800$ crore. Therefore, ΔY is 6000 crore, and ΔC is 4800 crore.

Section E

Question 37.

- (i) 'After 1991, reforms in external sector led to an increase in foreign exchange inflows'.

Justify the given statement with valid argument.

- (ii) During the planning period, public sector was given a dominant role in Indian Economy.

Justify the rationale behind this step taken by the Government of India.

Answer: The economic reforms initiated in India in 1991 were crucial in stabilizing the economy, especially in the external sector. The devaluation of the rupee was a primary step that made Indian goods cheaper for foreign buyers, thus promoting exports. The deregulation of the foreign exchange market led to a shift from a fixed exchange rate to a flexible one, leading to increased foreign investments. Additionally, liberalizing imports enhanced the availability of goods and technology, boosting the overall economic environment. As these reforms unfolded, India witnessed significant growth in foreign exchange reserves, improving the balance of payments situation. The rationale behind the dominant role of the public sector was multifaceted; it ensured that critical industries, such as infrastructure, were developed with government oversight. This was essential during the early stages post-independence, where private sector capital was scarce. The public sector leading investment, India could address basic needs and encourage industrial growth, fostering economic self-sufficiency. Moreover, the public sector created jobs and provided essential services that contributed to social welfare, providing a stable environment that encouraged broader economic growth.

Question 38.

- (i) To promote green revolution, the Indian government provided fertilizer subsidies to the farmers.

Briefly explain any two arguments in favour of subsidies.

- (ii) As per a news report dated, 8th Oct. 2021, the Government of India sold its entire 100% stake in Air India. Tata sons, the original founder of Air India, purchased the airline for 18,000 crore.

- (1) Identify the step taken by the Government of India.
- (2) State any two ways in which identified step can be executed by the government.

Answer:

Subsidies play a crucial role in supporting farmers, especially smallholders, in India. Firstly, they incentivize the adoption of new High Yield Varieties (HYVs) which are crucial for enhancing agricultural productivity. Given the inherent risks associated with new technologies, subsidies reduce financial burdens on farmers, allowing them to experiment with these innovations without the fear of substantial losses. Secondly, agriculture in India remains a risky venture, particularly for small farmers who lack resources. Without subsidies, many would struggle to afford essential inputs like fertilizers, exacerbating income inequalities in farming. Continuing subsidies aims to promote equity and sustain livelihoods among vulnerable farming populations, ensuring that the benefits of agricultural advancements reach those who need them most.

The step taken by the Government of India involved the privatization of Air India, marking a significant shift in economic policy towards reducing the size of the public sector in traditionally dominated by the state. This decision was rooted in the idea that privatization could lead to improved operational efficiency and growth, coupled with an inflow of foreign direct investment (FDI). The government executed this step through two primary ways: firstly, by outright sale of the airline to Tata Sons, who initially founded the airline, thus establishing historical continuity. Secondly, it involved restructuring the overall management and operations of the airline to improve its financial health and competitiveness.

ownership structure of Air India, allowing the private sector to drive its operations and strategic direction, promoting competition in the aviation industry with broader economic reforms. These methods facilitate the reduction of government liabilities while enhancing service delivery through private sector participation.

Question 39.

- (i) On the basis of the data given below, estimate the value of National Income (NNPFC)
- (ii) Differentiate between Real flow and Money flow.

Answer:

$NNPFC = GDPMP + \text{Net Factor Income from Abroad} - \text{Depreciation (Consumption of Fixed Capital)} - \text{Net Indirect Taxes}$

Calculate GDP at Market Price

$GDPMP = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross Domestic Fixed Capital Formation} + \text{Additions to stocks}$
 $= 2000 + 1500 + 1000 + 400 + 700 = ₹5,600 \text{ crore.}$

Calculate NNP at Factor Cost, $NNPFC = 5600 + 100 - 50 - 200 = ₹5,450 \text{ crore}$ Answer = ₹5450

Real flow and money flow are fundamental concepts in economics that represent different types of interactions in an economy. Real flow represents the movement of goods and services in the economy. It represents the physical transactions between producers and consumers, where firms supply goods and services to households in exchange for factors of production. This flow can be measured through methods like the product or expenditure method, which focus on the tangible aspect of economic activity. On the other hand, money flow pertains to the circulation of currency or monetary value among various agents in the economy. It reflects how financial resources change hands as payments for goods and services, investment, and consumption. Money flow velocity of money, indicating how quickly money circulates within the economy. In essence, while real flow captures the actual flow of goods and services, money flow signifies economic activities, money flow highlights the financial transactions that accompany these activities. Both flows are interdependent and flow will generally lead to corresponding changes in money flow, demonstrating the dynamic nature of economic relationships. Thus, understanding these flows is crucial for analyzing economic stability and growth.

Question 40.

- (i) Gauhar, has recently completed her fashion designing studies and started a boutique. To produce dresses for sale, she purchased various items like a sewing machine, fabric, buttons and thread. These items are essential for producing the dresses.

Classify the material purchased by Gauhar as Final or Intermediate goods, giving valid reasons in support of the classifications.

- (ii) National Income is always equal to Domestic income in a two sector economy.

Defend or refute the given statement with valid reasons.

Answer: Gauhar's purchases can be classified as follows: The sewing machine is classified as an intermediate good since it is a capital item used to produce final goods (the dresses). Similarly, the fabric, buttons, and thread are also intermediate goods as they are raw materials that undergo a transformation process to create the final dresses for sale. Final goods are those that are ready for consumption and do not undergo any further processing with the items Gauhar has purchased. Lastly, regarding national income being equal to domestic income in a two-sector economy, this statement is true. In a two-sector economy, there are no foreign transactions and the total value of all final goods produced is completely accounted for as domestic income. Income equals domestic income without any leakage or injections from outside sources, solidifying the foundational principle of macroeconomics.