

CBSE EXAMINATION PAPER-2024

ECONOMICS

(Solved)

Time allowed : 3 hours

Maximum Marks : 74

General Instructions :

Read the following instructions carefully and follow them :

- i. This question paper contains **29 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 14** are multiple choice questions
- v. **Section C** – questions number **15 to 20** are short answer type i
- vi. **Section D** – questions number **21 to 25** are short answer type ii
- vii. **Section E** – questions number **26 to 29** are long answer
- viii. There is no overall choice given in the question paper. However, an internal choice has been provided in few questions.
- ix. Use of calculator is NOT allowed.

Section A

Question 1.

Read the following text carefully :

In order to address two major environmental concerns in India, viz. water and air pollution, the government set up the Central Pollution Control Board (CPCB) in 1974. This was followed by states establishing their own state level boards to address all the environmental concerns. They investigate, collect and disseminate information relating to water, air and land pollution, lay down standards for sewage/trade effluent and emissions.

These boards provide technical assistance to governments in promoting cleanliness of streams and wells by prevention, control and abatement of water pollution, and improve the quality of air and to prevent, control or abate air pollution in the country.

These boards also carry out and sponsor investigation and research relating to problems of water and air pollution and for their prevention, control or abatement. They organize, through mass media, a comprehensive mass awareness programme for the same. The PCBs prepare manuals, codes and guidelines relating to treatment and disposal of sewage and trade effluents.

They assess the air quality through regulation of industries. In fact, state boards, through their district level officials, periodically inspect every industry under their jurisdiction to assess the adequacy of treatment measures provided to treat the effluent and gaseous emissions. It also provides background air quality data needed for industrial siting and town planning.

The pollution control boards collect, collate and disseminate technical and statistical data relating to water pollution. They monitor the quality of water in 125 rivers (including the tributaries), wells, lakes, creeks, ponds, tanks, drains and canals.

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

(1)

State any two concerns owing to which the Central Pollution Control Board (CPCB) was established.

[1 Marks]

Answer: The Central Pollution Control Board (CPCB) was established to address two major environmental concerns in India: water pollution and air pollution.

Key Points: water pollution - air pollution

(2)

Explain any two functions performed by the Central Pollution Control Board (CPCB).

[2 Marks]

Answer: The Central Pollution Control Board (CPCB) performs several important functions to address pollution in India. Firstly, it sets standards for sewage and trade effluent, ensuring that industries treat their waste before discharging it into the

environment. Secondly, the CPCB collects and disseminates data on water quality from various sources, monitoring pollution levels in rivers, lakes, and other bodies of water. These actions help to prevent, control, and abate water and air pollution across the country.

Key Points: Sets standards for sewage and trade effluent; Monitors water quality in rivers and other sources

(3)

Elaborate any two strategies to ensure sustainable development as adopted by India.

[3 Marks]

Answer: India has adopted several strategies to ensure sustainable development, particularly in the areas of water and air pollution management. One key strategy is the establishment of the Central Pollution Control Board (CPCB) and state-level pollution control boards. These bodies are responsible for setting standards and regulations for air and water quality, which helps in reducing pollution and promoting environmental health. They conduct regular inspections and monitoring to ensure industries comply with environmental regulations, thus protecting natural resources. Another significant strategy is the implementation of mass awareness programs aimed at educating the public about the importance of preventing pollution. These programs encourage the community to actively participate in cleanliness drives and contribute to reducing pollution levels. By raising awareness, the government fosters a sense of responsibility among citizens towards the environment, leading to more sustainable practices.

Key Points: Establishment of CPCB and state-level boards; Setting standards for air and water quality; Regular inspections and monitoring of industries; Mass awareness programs for public participation; Encouragement of community involvement in cleanliness efforts

Question 2.

Read the following text carefully from The Economic Times' dated 8th June, 2023:

"The Reserve Bank of India's (RBI's) rate setting panel unanimously decided to keep the benchmark lending rate unchanged at 6-5%. The committee voted to remain focused on the withdrawal of accommodating monetary policy."

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

(1)

Identify and discuss the economic issue indicated in the above text.

[2 Marks]

Answer: The economic issue indicated in the text relates to the Reserve Bank of India's decision to maintain the benchmark lending rate at 6.5%. This suggests that the RBI is cautious about stimulating the economy further through lower interest rates, highlighting concerns over inflation and the need for a more balanced monetary policy. By focusing on the withdrawal of accommodating monetary policy, the RBI aims to restrain excessive borrowing and spending, which might lead to inflationary pressures.

Key Points: RBI's decision to keep rates unchanged—Concerns about inflation—Shift from accommodative monetary policy

(2)

Discuss the likely consequence on money supply if the rate setting panel would have decreased the said rate.

[2 Marks]

Answer: If the RBI had decreased the benchmark lending rate, it would have likely led to an increase in money supply in the economy. Lower interest rates make borrowing cheaper, encouraging individuals and businesses to take loans for consumption and investment. This increase in borrowing can stimulate economic activity and enhance liquidity in the financial system, resulting in higher spending and investment, thereby potentially boosting economic growth.

Key Points: Lower interest rates encourage borrowing—Increased borrowing leads to higher money supply—Stimulation of economic activity

Section B

Question 3.

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

Assertion (A): Full employment situation refers to absence of involuntary unemployment.

Reason (R): Under full employment situation, all the willing and able-bodied people get employment at the prevailing wage rate.

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). The assertion accurately describes full employment as a state where there is no involuntary unemployment, while the reason accurately explains that in such a situation, everyone capable and willing to work can find employment at the existing wage rates.

Question 4.

"As per the National Stock Exchange (NSE) data, dated 9th June, 2023, there was a net selling off worth ₹309 crore by Foreign Institutional Investors (FIIs) over the period of one month i.e., 9th May, 2023–9th June, 2023."

The above mentioned transactions will be recorded on _____ side of _____ account of Balance of Payments of India.

(Choose the correct alternative to fill in the blanks)

[1 Marks]

(A) Debit, Current

(B) Credit, Current

(C) Debit, Capital

(D) Credit, Capital

Explanation: The correct option is 'Debit, Capital'. When Foreign Institutional Investors (FIIs) sell their investments in India, it is recorded as a capital account transaction. Since this involves a net outflow of funds, it is represented on the debit side of the capital account in the Balance of Payments.

Question 5.

Suppose for a hypothetical economy :

$$C = 100 + 0.75Y \quad (\text{where } C = \text{Consumption and } Y = \text{Income})$$

$$I_0 = 400 \quad (I_0 = \text{Autonomous Investment})$$

Value of Investment Multiplier (K) would be _____.

Choose the correct alternative to fill in the blank)

[1 Marks]

(A) 4

(B) 5

(C) 6

(D) 3

Explanation: The investment multiplier (K) is calculated using the formula $K = 1/(1 - MPC)$, where MPC (Marginal Propensity to Consume) is the coefficient of Y in the consumption function. Here, $C = 100 + 0.75Y$, so $MPC = 0.75$. Thus, $K = 1/(1 - 0.75) = 1/0.25 = 4$. Therefore, the correct answer is 4.

Question 6.

Suppose, the Balance of Trade of an imaginary economy shows a favourable balance of ₹ 500 crore. The values of merchandise exports are ₹ 1200 crore and transfer payments are ₹ 400 crore.

The value of merchandise imports would be ₹ _____ crore.

(Choose the correct alternative to fill in the blank)

[1 Marks]

(A) 1700

(B) 900

(C) 700

(D) 750

Explanation: Balance of Trade = Exports - Imports. A favourable balance of trade of ₹500 crore means Exports exceed Imports by ₹500 crore. Given Exports = ₹1200 crore, Imports = Exports - Balance = 1200 - 500 = ₹700 crore. Transfer payments are not relevant to calculate merchandise imports in this context.

Question 7.

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

Assertion (A) : The excessive regulation of permit license raj prevented certain private firms from becoming fairly competitive.

Reason (R) : Private sector wasted huge amounts in obtaining licenses rather than on improving the product quality and international competitiveness.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). The excessive regulation under the permit license raj did hinder competitiveness, and the focus of private sector firms on securing licenses led to a diversion of resources, which negatively impacted product quality and competitiveness in the international market.

Question 8.

In the decade of the 1970s, Pakistan nationalized its _____ industries.

(Choose the correct alternative to fill in the blank)

[1 Marks]

(A) Foreign trade

(B) Consumer goods

(C) Capital goods

(D) Medical infrastructure

Explanation: The correct option is 'Capital goods'. In the 1970s, Pakistan undertook significant nationalization policies, particularly focusing on capital goods industries which were essential for fostering economic growth and infrastructure development.

Question 9.

Read the following statements carefully :

Statement 1 : Under the colonial rule, basic infrastructure (like railways, post and telegraph etc.) was developed.

Statement 2 : The real motive behind the infrastructural development in India was to strengthen the British interests.

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

[1 Marks]

(A) Both Statements 1 and 2 are false.

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

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

(D) Both Statements 1 and 2 are true.

Explanation: Both Statements 1 and 2 are true. Under colonial rule, the British established infrastructure in India, such as railways and telegraph systems, primarily to serve their own economic and political interests, facilitating the extraction of resources and improving control over the territory.

Question 10.

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

Assertion (A) : World Trade Organization (WTO) is expected to establish the rule-based trading regime, to avoid unilaterally placed arbitrary restrictions by member nations.

Reason (R) : It is imperative to enlarge world production and ensure optimum utilization of world resources along with environmental protection.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). The WTO aims to create a fair trading system, which aligns with its assertion. However, while the reason discusses the importance of production and resource utilization, it does not directly explain why the WTO was established to prevent arbitrary restrictions.

Question II.

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

Assertion (A) : China has used the market mechanism to create additional social and economic opportunities for its citizens.

Reason (R) : Social infrastructure creation by the government has brought positive results in human development indicators in China.

Alternatives :

[1 Marks]

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

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

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

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

Explanation: The Assertion (A) is correct because China has indeed used the market mechanism to create additional social and economic opportunities for its citizens, by allowing market-based reforms while retaining collective land ownership and social

security in rural areas. The Reason (R) is also true as social infrastructure creation by the government has contributed positively to human development indicators in China. However, the improvement in human development indicators is attributed to pre-reform strategies and social infrastructure, not directly as an explanation for the market mechanism creating opportunities. Hence, both are true but Reason (R) is not the correct explanation of Assertion (A).

Question 12.

Identify from the following alternatives the incorrect objectives of regulated agriculture market :

- (i) To make the marketing system efficient and effective for farmers to get best price of their products.
- (ii) To discourage improvement of marketing infrastructure for farmers.
- (iii) To prevent exploitation of farmers.
- (iv) To discourage farmers from improving quality and quantity of their produce.

Alternatives :

[1 Marks]

- (A) (i) and (ii)
- (B) (i) and (iii)
- (C) (ii) and (iv)**
- (D) (iii) and (iv)

Explanation: The correct answer is (ii) and (iv) as they state objectives that are contrary to the purpose of regulated agriculture markets. These markets aim to improve infrastructure and encourage farmers to enhance both the quality and quantity of their produce, thus making options (ii) and (iv) incorrect.

Question 13.

Read the following statements carefully :

Statement 1 : As per the National Sample Survey Organization (NSSO), unemployment is a situation in which all those who, owing to lack of work, are not working, but are seeking work from prospective employers. They express their willingness/availability to work under the prevailing conditions of work and remuneration.

Statement 2 : Disguised Unemployment is generally a massive problem in a highly populated country like India. In the light of the given statements, choose the correct alternative from the following :

[1 Marks]

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

(B) Both Statements 1 and 2 are true.

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

(D) Both Statements 1 and 2 are false.

Explanation: Both Statements 1 and 2 are true. Statement 1 accurately describes unemployment according to NSSO, focusing on individuals actively seeking work. Statement 2 correctly identifies disguised unemployment as a significant issue in populous nations like India, where individuals may appear employed but are not fully utilized.

Question 14.

Identify which of the following is not a member nation of G20 :

[1 Marks]

(A) Bangladesh

(B) Australia

(C) Argentina

(D) Brazil

Explanation: The correct option is 'Bangladesh'. The G20, or Group of Twenty, includes major economies such as Brazil, Argentina, and Australia, but Bangladesh is not a member nation of this group.

Section C

Question 15.

On the basis of the data given below for an imaginary economy, estimate the value of Net Domestic Product at Factor Cost (NDP-FC):

[3 Marks]

Answer: To estimate the Net Domestic Product at Factor Cost (NDP-FC), we start with the Gross Domestic Product (GDP) at market prices. From GDP, we subtract depreciation to find Net Domestic Product (NDP) at market prices. Finally, to convert NDP at market prices to NDP at factor cost, we deduct indirect taxes and add subsidies. For accurate calculations, one must refer to the specific values provided for GDP, depreciation, indirect taxes, and subsidies in the data. The final value reveals the economic well-being of an economy, adjusted for factors affecting production and consumption.

Question 16. Distinguish between fixed exchange rate system and flexible exchange rate system.

[3 Marks]

Answer: A fixed exchange rate system is where the value of a currency is pegged to another major currency or a basket of currencies, offering stability and predictability in international transactions. Governments or central banks intervene in the foreign exchange market to maintain this fixed rate. In contrast, a flexible exchange rate system allows currency values to fluctuate according to market forces such as supply and demand. This system can lead to increased volatility but allows for adjustments based on economic conditions. Additionally, while fixed rates can help prevent inflation, they may limit a country's ability to respond to economic shocks and require substantial foreign reserves. Flexible rates provide adaptability, enabling countries to respond to economic changes more effectively but may lead to uncertainty in international trade.

Question 17.

(i) Elaborate the concept of Externalities with the help of suitable example.

(ii) Define Operating Surplus.

[3 Marks]

Answer: Externalities refer to the positive or negative consequences of economic activities that affect third parties who did not choose to be involved in those activities. For example, pollution from a factory is a negative externality, as it affects the health of nearby residents who are not part of the production process. Conversely, a well-maintained garden can be a positive externality, enhancing the aesthetic value of the neighborhood and benefiting the community without direct compensation to the gardener. These externalities result in market failure because the full costs or benefits are not reflected in market prices. Thus, policy interventions may be necessary to address these issues and promote social welfare.

Question 18.

Elaborate the reasons owing to which the private sector was regulated under the Industrial Policy Resolution, 1956.

[3 Marks]

Answer: The Industrial Policy Resolution of 1956 was introduced against the backdrop of India's pursuit of economic sovereignty and social justice. One major reason for regulating the private sector was to ensure that private enterprises contributed to national goals of industrial development and economic growth. The government aimed to prevent monopolistic practices by creating a competitive environment. Additionally, regulation was necessary to align private sector investments with public interests, especially in strategic sectors like defense and infrastructure. Ensuring equitable distribution of wealth and promoting small-scale industries were also crucial, leading to controlled private sector operations within the broader socialist framework. Regulation helped ensure that the private sector supports national development rather than pursuing unchecked profit maximization.

Question 19.

In India, National Education Policy 2020 has stressed a lot on in-service training of the teachers

- (i) Identify the source of Human Capital Formation (HCF) indicated in the aforesaid statement.
- (ii) Elaborate the likely impacts of this source on the economic development of India.

[3 Marks]

Answer: The source of Human Capital Formation (HCF) indicated in the statement is the investment in the skill development and professional training of teachers through in-service training programs. This approach enhances the quality of education by equipping teachers with updated pedagogical techniques and knowledge, leading to improved student outcomes. The likely impacts on India's economic development include a more skilled workforce, increased productivity, and higher employment rates, ultimately contributing to sustained economic growth and development.

Question 20.

"During the colonial period, the occupational structure showed lopsided movements."

Do you agree with the given statement? Justify your answer with valid arguments.

[3 Marks]

Answer: I agree with the statement that the occupational structure during the colonial period exhibited lopsided movements. The British colonial policies primarily favored the extraction of raw materials for exporting to England, leading to a decline in traditional industries like textiles and handicrafts. This situation resulted in a shift towards agriculture, where farmers were coerced into cash crop production, disrupting local economies. The focus on export-oriented agriculture disadvantaged many sectors, exacerbating

unemployment and poverty among local craftsmen. Consequently, the colonial economy became disproportionately reliant on a few primary sectors, leading to significant imbalances and a lack of diversification in the occupational structure. Thus, the colonial legacy created an economy skewed towards the needs of the metropolis, ultimately stunting broader economic development.

Section D

Question 21.

State and elaborate whether the following statements are true or false, with valid arguments :

- (i) In the recent past, the Government of India has taken crucial steps, like Jan-Dhan Yojana, for efficient allocation of financial resources.
- (ii) Worker population ratio is an indicator, used for analyzing the employment situation in a nation.

[4 Marks]

Answer: Both statements are true. First, the Jan-Dhan Yojana launched by the Government of India aims to provide universal access to banking facilities, promote financial inclusion, and enable effective allocation of financial resources by ensuring that economically weaker sections have access to necessary financial services. This has simplified fund distribution and improved transparency. Second, the worker population ratio (WPR) serves as a critical economic indicator, measuring the proportion of the population engaged in the workforce. A high WPR reflects better employment levels and economic productivity, providing insights into potential labor market issues and guiding policy decisions.

Question 22.

(a) "United Nations Department of Economic and Social Affairs indicated that India has overtaken China as the world's most populous country in the month of April 2023."

Explain the consequences of one-child policy adopted by China in the 1970s.

(b) Discuss the impacts of Special Economic Zones (SEZs) on the economic growth of China.

[4 Marks]

Answer: (a) The one-child policy adopted by China in the 1970s was aimed at controlling the rapid population growth. As a consequence, population growth slowed down significantly, making China the country with the slowest population increase among large nations. However, it also led to negative effects such as an aging population with more

elderly people compared to young people, creating a demographic imbalance. Another consequence was a decline in the sex ratio, as a cultural preference for sons led to more male children than females. These issues caused China to relax the policy later and allow couples to have two children.

(b) Special Economic Zones (SEZs) in China have played a vital role in the country's economic growth. SEZs attract foreign investment by offering tax incentives and better infrastructure. They promote industrial growth and export-oriented manufacturing, creating millions of jobs. SEZs helped China to modernize its economy by encouraging technology transfer and increasing exports, which boosted the GDP growth. Overall, SEZs contributed to transforming China into a global economic powerhouse.

Question 23.

Complete the following table. Construct/Express the Consumption function at ₹ 200 crore level of income.

[4 Marks]

Answer: To construct the consumption function at ₹ 200 crore level of income, we start by determining the components of consumption based on disposable income. The consumption function generally follows the formula: $C = a + bY$, where C is total consumption, a is autonomous consumption, b is the marginal propensity to consume, and Y is disposable income. At ₹ 200 crore level of income, if we assume autonomous consumption (a) is ₹ 50 crore and marginal propensity to consume (b) is 0.8, we can calculate the consumption as: $C = 50 + 0.8(200)$. Thus, $C = ₹ 50 \text{ crore} + ₹ 160 \text{ crore}$, totaling ₹ 210 crore. This indicates that as income increases, so does consumption, reflecting consumer behavior under increased income levels.

Question 24.

Justify the following statements with valid arguments :

(a) The Central Bank is the sole currency issuing authority of an economy.

(b) Money serves as a measure of standard of deferred payments.

[4 Marks]

Answer: The Central Bank is indeed the sole currency issuing authority of an economy because it is responsible for maintaining monetary stability and control over the money supply. By regulating how much currency is in circulation, it can influence inflation rates and economic growth. In terms of deferred payments, money acts as a standard measure since it provides a consistent unit of account. This allows for contracts and loans to be

denominated in a stable currency value, ensuring that debts can be settled in the future without disputes over value changes.

Question 25.

"In an economy, ex-ante Aggregate Supply is less than ex-ante Aggregate Demand."

Explain its impact on the level of output, income and employment.

[4 Marks]

Answer: When ex-ante Aggregate Supply is less than ex-ante Aggregate Demand, it indicates that the demand for goods and services exceeds their supply. This situation leads to increased production to match the demand, resulting in higher output levels. Businesses respond to increased demand by hiring more workers, which boosts employment and overall income in the economy. Higher income increases consumer spending, further driving demand. If this situation persists, it may also lead to inflation as prices rise due to demand pressures.

Section E

Question 26.

(i) "Under the liberalisation measures taken by the Government of India, regulation of industrial sector was extremely crucial."

Reject or support the given statement with valid arguments.

(ii) "Despite the implementation of Green Revolution, 65 per cent of India's population continued to be engaged in the agriculture sector till the 1990s."

Justify the given statement with valid explanation.

[6 Marks]

Answer: The statement regarding the regulation of the industrial sector under liberalization measures can be supported. Liberalization brought in significant changes in the regulatory framework which guided the industrial sector towards a more market-oriented approach. However, it also created challenges such as unregulated competition, monopolies, and market failures. Therefore, regulation was vital to maintain a balance between encouraging competition and protecting consumer interests. On the other hand, despite the Green Revolution's advances in agricultural productivity, agriculture remained the primary source of livelihood for a majority of the population due to socio-economic factors, including limited alternate employment opportunities, reliance on agriculture for food security, and cultural attitudes towards agrarian lifestyles. The need for structural

changes in India's economy to diversify employment opportunities was crucial, but it took time to materialize, maintaining high levels of engagement in agriculture.

Question 27.

(i) "Every coin has two sides debate over farm subsidies is one such classic example of the same."

Justify the given statement with two arguments each in favour of and against the continuation of the farm subsidies.

(ii) State the importance of "Growth with equity" as the objective of Indian economic planning.

[6 Marks]

Answer: Farm subsidies are a controversial topic, with arguments both for and against their continuation. On one hand, proponents argue that farm subsidies provide essential financial support to farmers, helping them stabilize their income and manage risks associated with unpredictable weather, fluctuating market prices, and pests. This security can encourage farmers to make investments in sustainable practices and improve overall agricultural productivity. On the other hand, critics argue that farm subsidies can lead to market distortions by artificially lowering prices, which may harm smaller farmers who cannot compete. Furthermore, subsidies can encourage overproduction and environmental degradation due to excessive agricultural practices. Additionally, the financial burden of such subsidies on government budgets can limit investment in other critical sectors like education and healthcare. Regarding the concept of 'Growth with equity,' it is crucial as it seeks inclusive development that ensures economic growth benefits all sections of society, especially the marginalized and disadvantaged. Indian economic planning aims to reduce inequality while promoting overall economic progress, ensuring that resources are distributed fairly and that every citizen has access to opportunities. This approach is vital for fostering social harmony and sustainable development in a diverse nation like India.

Question 28.

(a) Discuss briefly the concept of circular flow of income in a two-sector model.

(b)"Real Gross Domestic Product (GDP) is a better indicator economic growth of a nation as compared to the Nominal Gross Domestic (GDP).

Do you agree with the given statement ? Justify your answer with a valid hypothetical numerical example.

[6 Marks]

Answer: The circular flow of income in a two-sector model involves the interaction between households and firms. In this model, households provide factors of production such as labor to firms in exchange for wages, which constitute their income. Firms produce goods and services, which households purchase using the income they earn, thereby creating a continuous loop of economic activity. This flow illustrates that income generated by production is spent on consumption, sustaining the economy. As for the statement regarding Real GDP being a better indicator than Nominal GDP, I agree. Nominal GDP measures the value of all finished goods and services at current prices, while Real GDP adjusts for inflation, providing a clearer picture of economic growth. For instance, if a country's Nominal GDP grows from \$1 trillion to \$1.1 trillion while inflation is at 10%, the Real GDP would effectively remain the same, showing no actual growth. In contrast, if Real GDP increases from \$1 trillion to \$1.05 trillion, this indicates true growth adjusted for inflation, reflecting the economy's performance more accurately. Thus, understanding growth requires looking at Real GDP as it provides a more realistic view of economic health.

Question 29.

Classify the following as Revenue receipts or Capital receipts. Give valid arguments in support of your answer :

- (i) Interest received on loan.
- (ii) Disinvestment receipts from the sale of a government company.
- (iii) Financial assistance by the Government of USA for promoting girl education in India.

[6 Marks]

Answer: (i) Interest received on loan: This is a **Revenue Receipt** because it is a return on the amount lent, similar to an income earned regularly. It does not create any liability or reduce assets for the government; instead, it adds to the government's income.

(ii) Disinvestment receipts from the sale of a government company: This is a **Capital Receipt** because it involves the sale of an asset owned by the government. It reduces the government's assets and does not occur regularly.

(iii) Financial assistance by the Government of USA for promoting girl education in India: This is a **Capital Receipt** if it is treated as a loan or aid that creates an obligation or is used for specific projects involving capital creation. However, if it is a non-repayable grant used as support without liability, it can be treated as a revenue receipt. Generally, foreign aid or assistance is recorded as capital receipt because it often involves loans or special grants for development purposes.
