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Sample Question Paper -01 (2018-19)

Economics

Class- XII

Time:- 3hrs. **M.M.80**

General Instructions:

1. *All questions in both sections are compulsory. However, there is internal choice in some questions.*
2. *Marks for questions are indicated against each question.*
3. *Question No.1-4 and 13-16 are very short answer questions carrying 1 mark each. They are required to be answered in one sentence.*
4. *Question No.5-6 and 17-18 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60 words each.*
5. *Question No.7-9 and 19-21 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.*
6. *Question No.10-12 and 22-24 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100 words each*
7. *Answers should be brief and to the point and the above word limit be adhered to as far as possible.*

SECTION A: MICROECONOMICS

1. Which one of the following is a microeconomic study?

a. Price level

b. Money Supply

c. Cotton textile industry

d. Foreign Exchange Rate [1]

2. When Average Product is rising then:

a. MP > AP

b. MP = AP

c. MP < AP

d. None of above [1]

3. Which cost curve is parallel to x-axis:

a. AFC

b. TVC

c. TFC

d. TC [1]

4. What does cost mean in economics? [1]

5. The government has started promoting foreign capital. What is its economic value in the context of production possibility curve?

OR

Explain the effects of floods in Jammu and Kashmir on its production possibilities frontier. [3]

6. Explain any one factor that causes a rightward shift of the demand curve. [3]

7. Price elasticity of demand of a commodity is (-)1.5. When its price falls by ₹1 per unit, its quantity demanded rises by 3 units. If the quantity demanded before the price change was 30 units, what was the price at this demand? [4]

8. Why is the demand curve more elastic under monopolistic competition than under monopoly?

OR

Why is a firm under perfect competition a price taker while under monopoly a price maker? Explain in brief. [4]

9. Explain the effect of the following on the supply curve of a good. Give reasons.

a. Increase in own price of the good.
b. Subsidy on production of the good. [4]

10. A consumer consumes only two goods X and Y both priced at ₹4 per unit. If the consumer chooses a combination of these two goods with Marginal Rate of Substitution equal to 4, is the consumer in equilibrium? Give reason. What will a rational consumer do in this situation? Explain.

OR

A consumer consumes only two good x and y whose prices are ₹4 and ₹5 per unit respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 5 and that of Y equal to 4, is the consumer in equilibrium? Give reason. What will a rational consumer do in this situation? Use utility analysis. [6]

11. State whether following statements are true or false. Give reasons.

a. The difference between ATC and AVC is constant.
b. When MR is falling but positive, TR will also be falling and positive.
c. TFC is more than TVC at zero level of output. [6]

12. With the help of diagram, show the situation of excess demand. Explain how equilibrium is restored. [6]

SECTION B: MACROECONOMICS

13. Which of the following is not a function of a Central Bank?

a. Banker's supervisor
b. Lender of the last resort
c. Money creation
d. Controller of the credit [1]

14. Capital receipt may come from:

a. Market borrowing
b. Provident fund
c. Recoveries of loan
d. All the above. [1]

15. Define money supply? [1]

16. Why is entertainment tax an indirect tax? [1]

17. State whether the following statements are true or false

a. The Value of MPS can never be negative.

b. The value of APS can never be greater than one. [1]

OR

In an economy as a result of increase in investment by ₹100 crore, national income rises by ₹1000 crore. Find marginal propensity to consume. [3]

18. Give the meanings of (i) ex-ante savings, (ii) ex-ante consumption and (iii) ex-post savings. [3]

19. Explain the objectives of resource allocation and income distribution in a government budget. [4]

20. Giving reasons classify the following into intermediate products and final products.

a. Computer purchased by a school.

b. Cold drinks purchased by a school canteen. [4]

21. How does a central bank control excess demand in an economy by making changes in the legal reserve requirements? [4]

OR

What do you mean by open market operations? How does this reduce the excess money supply in the economy?

22. Will the following be included in National Income of India? Give reasons for your answer. [6]

a. Bus fare paid by a passenger.

b. Profits earned by an Indian bank from its branches abroad.

c. Gifts from abroad.

d. Interest received by an individual from banks

OR

From the following data, calculate Gross National Product at Market Price by:

(i) income method and (ii) expenditure method

	Items	*(₹ in crores)*
a.	Mixed income of self- employed	400
b.	Compensation of employees	500
c.	Private final consumption expenditure	900
d.	Net factor income from abroad	(-) 20
e.	Net indirect tax	100
f.	Consumption of fixed capital	120
g.	Net domestic capital formation	280

h.	Net exports	(-)30	
i.	Profits	350	
j.	Rent	100	
k.	Interest	150	
l.	Government final consumption expenditure	450	[6]

23. Why should planned savings and planned investment be equal at equilibrium level of income? Explain with the help of diagram. [6]

24. a) Give three sources each of demand and supply of foreign exchange.

b) Distinguish between autonomous and accommodating transactions of balance of payments account. [6]

Economics

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SECTION A : MICROECONOMICS

1. c. Cotton textile industry
2. b. MP > AP
3. c. TFC
4. In economics cost is the sum of explicit cost and implicit cost including normal profits.
5. More foreign capital means more resources, which means capacity to produce both the goods increases. Thus, PPC shifts rightward.

   Alternate Question

   Floods cause damage and destroy resources. Since potential production declines, the production possibility frontier shifts to the left.
6. (Any one)

   Increases in the price of substitute goods

   Decrease in the price of complementary goods

   Increase in the income of consumer for a normal good

   Decrease in the income of the consumer for an inferior good

   Favourable change in taste of the consumer
7. Ed = (-)1.5, change in price = 1, change in quantity demanded=3, Original quantity = 30

   Ed = change in Q * P /change in P * Q

   (-)1.5 = 3*P/(-)1*30

   P = 15
8. The elasticity of demand is high when the product has close substitutes and elasticity of demand tends to be low when the products have no close substitutes. As we know in monopolistic competition large number of close substitutes are present and in monopoly there is no close substitutes. Hence the demand curve under monopolistic competition is more elastic than that under monopoly.

   Alternate Question

   A firm under perfect competition a price taker by the following reasons:

   - Number of Firms: The number of firms under perfect competition is so large that no individual firm by changing sale, can cause any meaningful change in the total market supply. Hence, market price remains unaffected.
   - Homogeneous Product: All firms in a perfectly competitive industry product homogeneous product. Hence, price remains same.
   - Perfect Knowledge: All the buyers and sellers have perfect knowledge about market price so no firm charge a different price than market price. Hence a uniform price prevails in the market.

A firm under monopoly a price maker by the following reasons:

- A monopolist is a single seller of the product in the market. Hence it has full control over supply.
- There are no close substitutes of the monopoly product hence the demand is less elastic or 'inelastic.'
- There are legal, technical and natural barriers to the entry of new firms so that there is no fear of increase in market supply.

9. A. Increase in price of own good – When the price of own good increases, quantity supply increases. It leads to upward movement along the same supply curve.

   B. Subsidy on production of the good – subsidy reduces the cost of production, increases the profit margin, increases the supply. Supply curve shifts rightward.

10. Given $P_x = 4$, $P_y = 4$ and MRS = 4.

    A consumer is said to be in equilibrium when P_x/P_Y = MRS

    Substituting values we find that: 4 > 4/4 i.e., MRS >P_x/P_y

    Therefore, consumer is not in equilibrium as MRS >P_x/P_y. This means that consumer is willing to pay more for one more unit of x as compared to what market demands.

    - The consumer will buy more and more of x.
    - As a result, MRS will fall due to the law of Diminishing Marginal Utility
    - This will continue till MRS = P_x /P_y= and consumer is in equilibrium again

    Alternate Question

    Given $P_x = 4$, $P_y = 5$ and $MU_x = 5$, MU_y= 4, and consumer will be in equilibrium when:

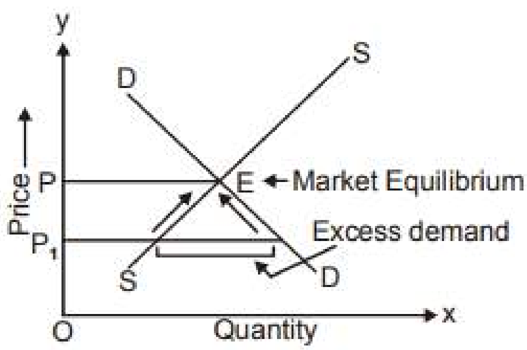
    $MU_x/P_x = MU_y/P_y$

    Substituting values, we find that since per rupee MU_x, is higher than per rupee MU_y, consumer is not in equilibrium. The consumer will buy more of X and less of Y. As a resultMU_x will fall and MU_y will rise. The process will continue till MU_x/P_x and MU_y/P_y are equal and consumer is in equilibrium again.

11.

    a. False. Difference between ATC and AVC is AFC , which keeps on decreasing.
    b. False. TR increases at decreasing rate when MR falls but remains positive.
    c. True. TVC is zero at zero level of output.

12. Excess demand is a situation when price of a good is less than the equilibrium price. It leads to competition among buyers which pushes the price upwards. This leads to a contraction in market demand and expansion in market supply. As a result price rises excess demand is wiped out.



SECTION B : MACROECONOMICS

13. c. Money creation

14. d. All the above.

15. Money supply refers to currency notes and coins held by the public and demand deposits held by the commercial bank.

16. Entertainment tax is an indirect tax because its liability to pay and incidence lie on different persons.

17. a) Yes, it is true. MPS $=\Delta S / \Delta Y$, additional S and Y always in positive because of positive relationship between S and Y.MPS can never be negative.

    b) True, because even if all the income is saved and nothing is spent, S = Y then APS = 1 maximum value can possible up to 1 not greater than 1.

    Alternate Question

    1/1-MPC= Change in income / change in Investment

    1/1-MPC = 1000/100

    MPC = 1

18. (i) planned savings in an economy during in a year.

    (ii) planned consumption in an economy during an year.

    (iii) actual savings in an economy during a year.

19. a) Resource allocation – Government can directly participate in production of public goods and services like maintaining law and order, defense, etc... Any such expenditure raises the welfare of the people. It can also encourage or discourage production of selected goods through taxes and subsidies.

    b) Income distribution - Budgetary policies are useful medium to reduce inequalities of income or the fair distribution of income. Government can use tax policy and public expenditure as a tool. Government can reduce the disposable income and wealth of rich by imposing heavy tax and can spend more on providing free services to the poor. It raises the disposable income and welfare of the poor.

20.

    a. It is final product because it is purchased for final investment.

    b. These are intermediate products because these are taken for resale in the same year.

21. To control excess demand in an economy central bank raises the CRR and SLR. CRR refers to cash reserve ratio- a percentage of deposits which commercial banks have to keep with central bank. SLR refers to statutory liquidity ratio – a percentage of deposits which commercial banks

    have to keep with themselves. When central bank raises the CRR and SLR, credit lending capacity of commercial bank reduces which reduces the money supply in the economy.

    Alternate Question

    It refers to the sale and purchase of securities in the open market by the central bank. To reduce the money supply central bank sells the securities to the commercial banks. This results in the decrease in loaning capacity of commercial banks which means less availability of credit to the public.

22. a. Bus fare paid by a passenger – included in national income as private final consumption expenditure.

    b. Profit earned by an Indian bank from its branches abroad is factor income from abroad, and so it is included in national income.

    c. Gifts from abroad – not included in national income as it is transfer incomes.

    d. Interest received by an individual from banks is a factor payment by a productive enterprise. It is included in national income.

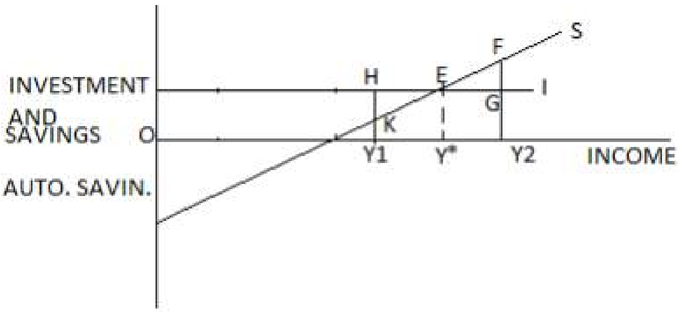
    Alternate Question

    (i) GNP_{MP} = Compensation of employees + Rent + Interest + Profit + Mixed Income + Net Factor Income from Abroad + Consumption of fixed capital + Net Indirect Tax = 500 + 100 + 150 + 350 + 400 + (-20) + 120 + 100 =Rs1700 crores.

    (ii) GNP_{MP} = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation + Net exports + Net Factor Income from Abroad = 900 + 450 + (280 + 120) + (-30) + (-20) =Rs1700 crores.

23. Equilibrium level of income is determined at a point where ex-ante or planned saving is equal to planned investment.

    AS = AD C + S = C + I S = I



Equilibrium of the economy is at point E. the level of income is OY*.

Here the planned saving and planned invest are equal. What if planned saving is more than planned investment? (FG at OY2 level of income)

Excess of planned savings over planned investment means that the expenditure in the economy is less than what the producers had expected. This would result in undesired or unplanned buildup of unsold stock. To correct this situation producer will produce less. This will reduce level of output and income. Fall in income will result in fall in savings. These changes will continue till income falls to a level at which savings equal investment.

Opposite will happen when planned investment is more than planned savings (Elaborate)

24. a) Sources of demand of foreign exchange – Import of goods and services, Investments abroad, tourist going abroad

    Sources of supply of foreign exchange – Exports of goods and services, Investments from abroad, foreign tourist coming to India.

b)

Autonomous transactions	Accommodating transactions
these refer to international economic transactions that take due to economic motives like profit maximisation.	These transactions take place because of other activity in BOP like government financing.
These items are called above the line items.	These items are called below the line items.
Deficit or surplus in BOP account occurs due to autonomous items.	The accommodating items are meant to restore the BOP identity.