SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2017

MARKING SCHEME – ECONOMICS (DELHI)

Expected Answers / Value Points

(Set – 1)

GENERAL INSTRUCTIONS :

1 The Marking Scheme carries only suggested value points for the answers. These are only guidelines and do not constitute the complete answers. Students can have their own expression and if the expression is correct, mark should be awarded accordingly.

2 As per orders of the Hon'ble Supreme Court,a candidate would now be permitted to obtain a photocopy of his/her Answer Book on payment of the prescribed fee. Examiners/Head Examiners are, therefore, once again reminded that they must ensure that evaluation is carried out strictly as per value points for each answer as given in the Marking Scheme.

3 Head Examiners/Examiners are hereby instructed that while evaluating the answer books, if the answer is found to be totally incorrect, the (X) should be marked on the incorrect answer and awarded '0' mark.

4 Please examine each part of a question carefully and allocate the marks allotted for the part as given in the 'Marking Scheme' below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.

5 Expected/suggested answers have been given in the 'Marking Scheme'. To evaluate the answers, the value points indicated in the marking scheme should be followed.

6 For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.

7 For mere arithmetical errors, there should be minimal deduction. Only ½ mark should be deducted for such an error.

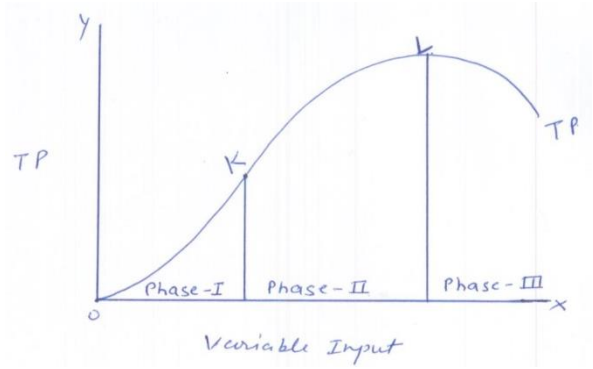
8 Where only two / three or a 'given' number of examples / factors / points are expected, only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.

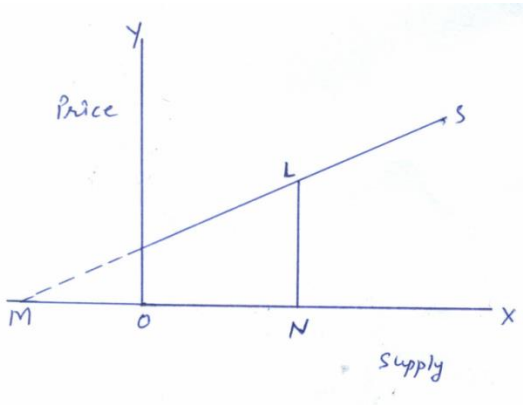
9 There should be no effort at 'moderation' of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.

10 Higher order thinking ability questions are for assessing a student's understanding / analytical ability.

General Note: In case of a numerical question, no marks should be awarded if only the final answer has been given, even if it is correct.

A1	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	(c) Decrease in expenditure on it.	**1**
2	(b) Goes on falling.	**1**
3	Sum of the quantities that all consumers of a commodity are willing to buy at a given price during a period of time.	**1**
4	(d) All market forms.	**1**
5	(i) There are only a few firms or a few large firms. (ii) There are barriers to the entry of firms. (iii) There is interdependence of firms. (iv) There is non-price competition. **(Any one)**	**1**
6	Study of the behaviour of individual economic agents is the subject matter of microeconomics.The study relating to the economy as a whole is the subject matter of macroeconomics. **(Any other relevant difference)**	**3**
7	PPF is the locus of different combinations of the two goods that can be produced with fixed resources, assuming full and efficient utilization of these resources. Properties: (1) Slopes downward from left to right. (2) Concave to the origin. **(Statements only)**	**1** **2**
8	A consumer buys a good upto the point at which MU=Price Suppose price falls, then MU>Price This induces consumer to buy more of the good. It shows inverse relation between price and demand of a good. **Alternative answer**: Suppose a consumer buys only two goods X and Y and is in equilibrium,then. $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ Suppose P_X falls,then $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ Since per rupee MU_x is more than per rupee MU_y, the consumer will buy more of X by diverting expenditure from good Y to good X .It shows inverse relation between price and demand for good X.	**3**

	OR All points on an IC show the same level of utility from the consumption of the two goods, the consumer consumes.So,if the consumer consumes more of one good,he must reduce the consumption of the other good to keep total level of utility the same.This makes an IC negatively sloped.	**3**
9	Let the two goods consumed by the consumer be X and Y.The equilibrium conditions are: (1) $MRS_{xy} = {}^{Px}/_{Py}$ (2) MRS_{xy} declines as more of X is consumed. **<u>Explanation</u>** (1)Suppose $MRS_{xy} > {}^{Px}/_{Py}$.It means that the consumer is willing to pay more for X than market Price of X. It will induce the consumer to buy more of X. Buying more of X reduces MRS_{xy}.This process will continue till $MRS_{xy} = {}^{Px}/_{Py}$. **(Explanation with $MRS_{xy} < {}^{Px}/_{Py}$ is also correct)** (2)Unless MRS_{xy} declines,the consumer will never reach equilibrium again. **(Diagram not required)**	$\frac{1}{2}$ $\frac{1}{2}$ **2** **1**
10	 The three phases of the law of Variable Proportions are: Phase I: TP increases at increasing rate i.e. upto K on the TP curve Phase II: TP increases at decreasing rate i.e. from K upto L on the TP curve. Phase III: TP falls i.e. after L on the TP curve	**1** **1x3**

	OR  Given supply curve S,to find Es at L. The steps are: (1) Extend the supply curve till it intersects the extended X-axis at M. (2) Draw a perpendicular from L intersecting X-axis at N. (3) Take the ratio of intercepts on the X axis at M and N.as Es=$\frac{MN}{ON}$ **(Correct Explanation on the basis a diagram showing supply curve,passing through origin or OX-axis is also correct).** **For Blind Candidates Only** Statement of the phases Any relevant schedule **OR** 'Change in supply of a good is defined as that change in supply which is due to factors other than the own price of that good. "Change in Quantity supplied" of a good is defined as the change in supply which is due to the change in own price of that good.	**1** **3** **1X3** **1** **4**
11	Free entry and exit of firms means that there are no barriers before the firm for entering into the industry and leaving the industry. New firms enter when they find that the existing firms are earning super normal profits.With their entry, output of the industry increases,which leads to fall in the price of the product.This continues till each firm is earning only normal profit.The existing firms leave when they face losses.As they leave, output of the industry goes down, raises the price of the product till the losses are wiped out. **(To be marked as a whole)**	**4**

12	$e_d = \frac{\%\ change\ in\ quantity\ demanded}{\%\ change\ in\ price}$ $= \frac{\frac{30}{150} \text{ X } 100}{-10}$ = (-)2 $(-)2 = \frac{\frac{60}{150} X\ 100}{\%\ change\ in\ price}$ % change in price = $\frac{60}{150}$ x 100 x $\frac{1}{-2}$ = (-) 20% **(No marks if only the final answer is given)**	**1½** **1** **½** $\mathbf{1\frac{1}{2}}$ **1** **½**
13	**Output** **TC** **AVC** **MC** **AFC** 0 30 - - - 1 50 20 20 30 2 68 19 18 15 3 84 18 16 10 4 102 18 18 7.5 5 125 19 23 6	**½x12**
14	• Good Y is a substitute of good X. • Price of Y Falls. • Since X becomes relatively costlier, demand for X decreases. • This creates excess supply of X at its existing price. • Excess supply of X creates competition among sellers of X. This leads to fall in price of X. • Fall in price of X leads to increase in demand for X and decrease in supply. • The change continues till demand for X equals to supply of X at a lower price of X. **(To be marked as a whole)** **OR** • Excess supply of a good creates competition among the sellers of the good, because the sellers will not be able to sell all they want to sell at the existing price.This leads to fall in price of the good. • Fall in price leads to rise in demand and fall in supply of the good. • The change continues till demand for the good equals to its supply and the market is in equilibrium again. **(To be marked as a whole)**	**6** **6**

15	<u>Output</u> <u>AC</u> <u>TC</u> <u>MC</u> <u>MR=AR</u> 1 12 12 12 12 2 11 22 10 12 3 10 30 8 12 4 10 40 10 12 5 10.4 52 12 12 Equilibrium 6 11 66 14 12 The producer is in equilibrium at 5 units of output, because it fulfills the following two conditions of producer's equilibrium. 1. MC=MR 2. MC is greater than MR beyond equilibrium.	**2** **1** $\mathbf{1\frac{1}{2}}$ $\mathbf{1\frac{1}{2}}$
	SECTION-B	
16	(c) Cash reserve ratio.	**1**
17	(d) none of the above	**1**
18	When people who are able and willing to work at the prevailing wage rate, do not get employment, it is a situation of involuntary unemployment.	**1**
19	It is fiscal deficit net of interest payment.	**1**
20	BOP is a record of inflows and outflows of foreign exchange.	**1**
21	• Goods purchased for consumption and investment are final goods. • Example: Machinery purchased by a factory **(or any other relevant example.)** • Good purchased for resale or for using up completely during year are intermediate goods. • Example: Raw materials purchased by a factory **(or any other relevant example.)**	**1** **½** **1** **½**
22	Money acts as an asset which can be kept for future use and is available in convenient denominations. This is store of value function of money. **OR** It is the stock of money in the economy at a particular point of time. Components of money Supply = Currency with public + demand deposits with banks.	**3** **1** **2**

23	When the burden of a tax and the liability to pay it falls on the same person,then it is a direct tax.When burden of tax and liability to pay it fall on different persons,then it is indirect tax. Example: Direct tax-Income tax etc **(Any other example)** Indirect tax-Service tax,etc **(Any other example)**	**2** **½** **½**
24	Central bank provides the same banking service to the government as commercial banks provide to people.It accepts deposits of government departments and gives them loans in times of need. **OR** 'Reverse repo rate' is the rate of interest at which the commercial banks park their surplus funds with the central bank.The central bank can control money supply by changing the reverse repo rate(RRR).Rise in RRR encourages commercial banks to park more funds with the central bank.This reduces funds available for lending to general public by the commercial banks.	**4** **4**
25	Government can impose higher rate of tax on income of the rich and on the goods consumed by the rich.This will bring down disposable income of the rich.The amount so collected can be spent on providing free services,like education, subsidized food to the poor people.eg. This will raise disposable income of the poor reducing the gap between rich and poor.	**4**
26	Y = $\bar{C}$ + MPC(Y) + I 5000 = $\bar{C}$ + (1-0.2)(5000) + 800 $\bar{C}$ = 5000 - 4000 - 800 = 200 **(No marks if only the final answer is given)**	**2** **1** **½** **½**
27	When price of foreign exchange rises, import becomes costlier, demand for imports will fall.As a result demand for foreign currency falls. When price of foreign exchange rises,domestic goods become cheaper for foreign buyers, because they can now buy more from one unit of foreign currency.As a result demand for exports rise, leading to increase in supply of foreign exchange.	**3** **3**
28	Non monetary exchanges include activities like services of family members provided to each other etc.These activities may be left out from estimate of national income due to the non-availability of data.But these activities do contribute to welfare of the people.Since GDP may not account for such activities,it may be underestimated.As a result welfare of the people is also underestimated.This is thus a limitation of GDP as an index of welfare. **(To be marked as a whole)**	**6**

	OR • Not a part of domestic product as it is not generated in the domestic territory of the country. • Not a part of domestic product as it is a transfer payment. • Part of domestic product as these are exports produced in the domestic territory.	**2** **2** **2**
29	a) NDP_{fc} = i + ii + (vi+vii) + (iii - iv) – v – x + xi = 8000 +1000 + 500 + 100 +70 – 120 – 60 – 700 + 50 = Rs 8840 cr b) GNDI = NDP_{fc} + v + x – xi + ix – viii - xii = 8840 + 60 + 700 – 50 + 90 – 40 - (- 30) = Rs 9630 cr **(No marks if only the final answer is given)**	**1½** **1** **½** **1½** **1** **½**
30	Given that ΔI=1000 and MPC=0.9,increase in income is in the following sequence: • Increase in I raises income of those who supply investment goods by Rs 1000.This is <u>first round</u> increase. • Since MPC=0.9,income earners spend Rs.900 on consumption leading to <u>second round</u> increase of Rs 900 = 1000 X 0.9 • The <u>third round</u> increase in the similar way is Rs 900 x 0.9 = Rs810. • In this way income goes on increasing round by round, with each round increase in income equal to 90 percent of the previous round. • The total increase in income is: $\Delta Y = \Delta I \frac{1}{1 - MPC} = 1000 \times \frac{1}{1 - 0.9}$ = Rs 10,000 crore. **(Working explained on the basis of tabular presentation is also correct)** **(To be marked as a whole)**	**6**

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2017

MARKING SCHEME – ECONOMICS (DELHI)

Expected Answers / Value Points

(Set – 2)

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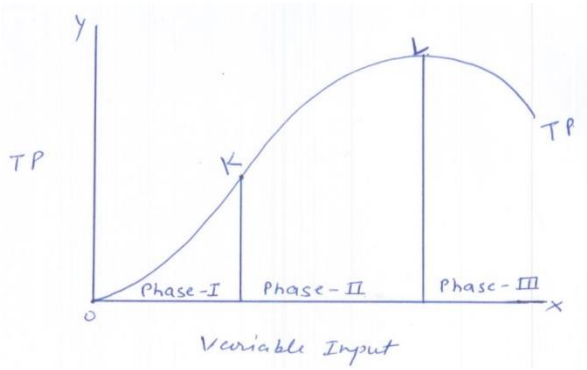
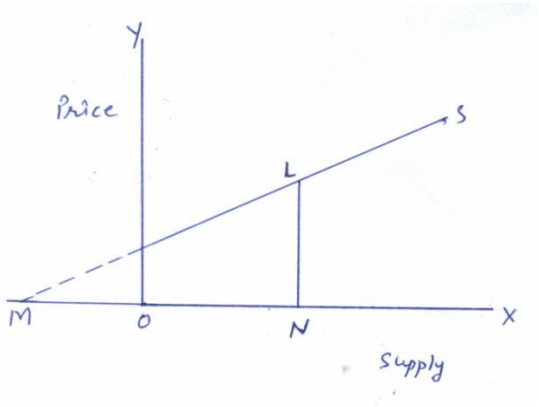
A2	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	Sum of the quantities that all consumers of a commodity are willing to buy at a given price during a period of time.	**1**
2	(d) All market forms.	**1**
3	(i) There are only a few firms or a few large firms. (ii) There are barriers to the entry of firms. (iii) There is interdependence of firms. (iv) There is non price competition **(Any One)**	**1**
4	(c) Decrease in expenditure on it.	**1**
5	(b) Goes on falling.	**1**
6	In an economy the resources are limited and these have alternate uses.So this gives rise to the problem of what should be produced with these limited resources.	**3**
7	A consumer buys a good upto the point at which MU=Price Suppose price falls, then MU>Price This induces consumer to buy more of the good. It shows inverse relation between price and demand of a good. **<u>Alternative answer</u>**: Suppose a consumer buys only two goods X and Y and is in equilibrium,then. $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ Suppose P_X falls,then $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ Since per rupee MU_x is more than per rupee MU_y, the consumer will buy more of X by diverting expenditure from good Y to good X .It shows inverse relation between price and demand for good X. **OR** All points on an IC show the same level of utility from the consumption of the two goods, the consumer consumes.So,if the consumer consumes more of one good,he must reduce the consumption of the other good to keep total level of utility the same.This makes an IC negatively sloped.	**3** **3** **3**

8	PPF is the locus of different combinations of the two goods that can be produced with fixed resources, assuming full and efficient utilization of these resources. Properties: (1) Slopes downward from left to right. (2) Concave to the origin. **(Statements only)**	**1** **1x2**
9	Let the two goods be X and Y.The equilibrium conditions are: (1) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ (2) MU of a good falls as more of it is consumed. Explanation (1) Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$.It makes per rupee MU_x more than per rupee MU_y.This induces the consumer to buy more of X and less of Y.As a result MU_x starts falling and MU_y starts rising.This process continues till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ again. **(Explanation with $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct)** (2) Unless the MU of a good falls as more of it is consumed,the consumer will never reach equilibrium again, if $\frac{MU_x}{P_x}$ is not equal to $\frac{MU_y}{P_y}$.	**½** **½** **2** **1**
10	Free entry and exit of firms means that there are no barriers before the firm for entering into the industry and leaving the industry. New firms enter when they find that the existing firms are earning super normal profits.With their entry output of the industry increases,which leads to fall in the price of the product.This continues till each firm is earning only normal profit.The existing firms leave when they face losses.As they leave output of the industry goes down, raises the price of the product till the losses are wiped out. **(To be marked as a whole)**	**4**
11	 The three phases of the law of Variable Proportions are: Phase I: TP increases at increasing rate i.e. upto K on the TP curve Phase II: TP increases at decreasing rate i.e. from K upto L on the TP curve. Phase III: TP falls i.e. after L on the TP curve	**1** **1x3**

	OR  Given supply curve S,to find Es at L. The steps are: (1) Extend the supply curve till it intersects the extended X-axis at M. (2) Draw a perpendicular from L intersecting X-axis at N. (3) Take the ratio of intercepts on the X axis at M and N.as Es=$\frac{MN}{ON}$ **(Correct Explanation on the basis a diagram showing supply curve,passing through origin or OX-axis is also correct).** **For Blind Candidates Only** Statement of the phases Any relevant schedule **OR** 'Change in supply of a good is defined as that change in supply which is due to factors other than the own price of that good. "Change in Quantity supplied" of a good is defined as the change in supply which is due to the change in own price of that good.	**1** **3** **1X3** **1** **4**
12	<u>Output</u> <u>AC</u> <u>TC</u> <u>MC</u> <u>MR=AR</u> 1 12 12 12 12 2 11 22 10 12 3 10 30 8 12 4 10 40 10 12 5 10.4 52 12 12 Equilibrium 6 11 66 14 12 The producer is in equilibrium at 5 unit of output, because it fulfills the following two conditions of producer's equilibrium. 1. MC=MR 2. MC is greater than MR beyond equilibrium.	**2** **1** **$1\frac{1}{2}$** **$1\frac{1}{2}$**

13	$e_d = \frac{\%\ change\ in\ quantity\ demanded}{\%\ change\ in\ price}$ $= \frac{\frac{30}{150} \text{ X } 100}{-10}$ = (-)2 $(-)2 = \frac{\frac{60}{150} X\ 100}{\%\ change\ in\ price}$ % change in price = $\frac{60}{150}$ x 100 x $\frac{1}{-2}$ = (-) 20% **(No marks if only the final answer is given)**	**1½** **1** **½** $\mathbf{1\frac{1}{2}}$ **1** **½**
14	• Good X and Y are complementary goods. • Price of Y falls leading to rise in its demand. • Since X is Complementary of Y, demand for X also <u>increases</u>. • <u>Increase</u> in demand for X leads to excess demand for X at the existing price.This creates competition among buyers, because they will not be able to buy all they want to buy at the existing price.As a result price will rise. • Rise in price of X will lead to fall in demand for X and rise in its supply. • The change will continue till demand for X equals to supply of X at a higher price. **(To be marked as a whole)** **OR** • Excess demand for goods creates competition among the buyers because the buyers will not be able to buy all they want to buy at the existing price.This will lead to rise in price. • Rise in price will lead to fall in demand and rise in supply. • The change will continue till demand for the good equals to its supply and the market is in equilibrium again. **(To be marked as a whole)**	**6** **6**
15	**<u>Output</u>** **<u>TC</u>** **<u>AVC</u>** **<u>MC</u>** **<u>AFC</u>** 0 30 - - - 1 <u>50</u> <u>20</u> 20 <u>30</u> 2 68 <u>19</u> <u>18</u> <u>15</u> 3 84 18 <u>16</u> <u>10</u> 4 <u>102</u> <u>18</u> 18 <u>7.5</u> 5 125 19 <u>23</u> 6	**½x12**

	SECTION-B	
16	When people who are able and willing to work at the prevailing wage rate, do not get employment, it is a situation of involuntary unemployment	**1**
17	It is the excess of revenue expenditure over the revenue receipts, during a fiscal year.	**1**
18	(c) Cash reserve ratio.	**1**
19	BOP is a record of inflows and outflows of foreign exchange.	**1**
20	(d) none of the above	**1**
21	• Goods purchased for consumption and investment are final goods. • Example: Machinery purchased by a factory. **(or any other relevant example.)** • Good purchased for resale or for using up completely during year are intermediate goods. • Example: Raw materials purchased by a factory **(or any other relevant example.)**	**1** **½** **1** **½**
22	When the burden of a tax and the liability to pay it falls on the same person,then it is a direct tax.When burden of tax and liability to pay it fall on different persons,then it is indirect tax. Example: Direct tax-Income tax etc **(Any other example)** Indirect tax-Service tax,etc **(Any other example)**	**2** **½** **½**
23	Money acts as an asset which can be kept for future use and is available in convenient denominations. This is store of value function of money. **OR** It is the stock of money in the economy at a particular point of time. Components of money Supply = Currency with public + demand deposits with banks.	**3** **1** **2**
24	Central bank provides the same banking service to the government as commercial banks provide to people.It accepts deposits of government departments and gives them loans in times of need.	**4**

	OR 'Reverse repo rate' is the rate of interest at which the commercial banks park their surplus funds with the central bank.The central bank can control money supply by changing the reverse repo rate(RRR).Rise in RRR encourages commercial banks to park more funds with the central bank.This reduce funds available for lending to general public by the commercial banks.	**4**
25	Government can impose higher rate of tax on income of the rich and on the goods consumed by the rich.This will bring down disposable income of the rich.The amount so collected can be spent on providing free services,like education, subsidized food to the poor people.eg. This will raise disposable income of the poor reducing the gap between rich and poor.	**4**
26	Y = $\bar{C}$ + MPC(Y) + I 10000 = 100 + .9(10000) + I I = 10000 – 100 - 9000 = 900 **(No marks if only the final answer is given)**	2 1 **½** **½**
27	Given that ΔI = 800 and MPC = 0.8,increase in income is in the following sequence: • Increase in I raises income of those who supply investment goods by Rs 800.This is first round increase. • Since MPC=0.8,income earners spent Rs640=800x0.8 on consumption.This is second round increase of income. • In the similar way third round increase is Rs 512=640 x 0.8 • In this way income goes on increasing round by round with each round increase in income equal to 80 percent of the previous round. • The total increase in income is $\Delta Y = \Delta I \frac{1}{1-MPC} = 800 \times \frac{1}{1-0.8}$ =Rs 4000 crore **(Working explained on the basis of tabular presentation is also correct)** **(To be marked as a whole)**	6
28	When price of foreign exchange rises, import becomes costlier, demand for imports will fall.As a result demand for foreign currency falls. When price of foreign exchange rises,domestic goods become cheaper for foreign buyers, because they can now buy more from one unit of foreign currency.As a result demand for exports rise, leading to increase in supply of foreign exchange.	**3** **3**

29	(a) N.I = v + vi + vii – iv – viii – ii - i = 5000 + 3000 + 1000 – 200 – 150 – 800 - (-50) = Rs 7900 cr (b) NNDI = NI + ii + iii = 7900 + 800 + 100 = Rs 8800 cr **(No marks if only the final answer is given)**	**1½** **1** **½** **1½** **1** **½**
30	Non monetary exchanges include activities like services of family members provided to each other etc.These activities may be left out from estimate of national income due to the non-availability of data.But these activities do contribute to welfare of the people.Since GDP may not account for such activities,it may be underestimated.As a result welfare of the people is also underestimated.This is thus a limitation of GDP as an index of welfare. **(To be marked as a whole)** **OR** • Not a part of domestic product as it is not generated in the domestic territory of the country. • Not a part of domestic product as it is a transfer payment. • Part of domestic product as these are exports produced in the domestic territory.	**6** **2** **2** **2**

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2017

MARKING SCHEME – ECONOMICS (DELHI)

Expected Answers / Value Points

(Set-3)

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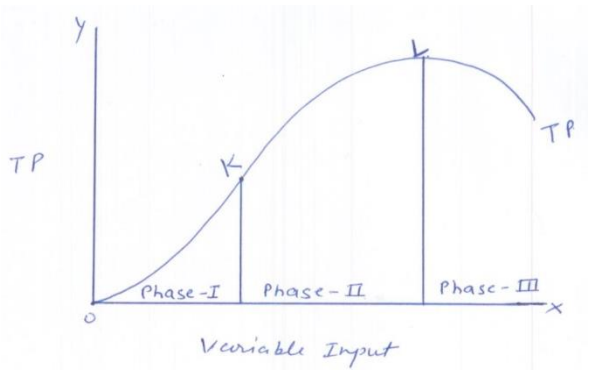
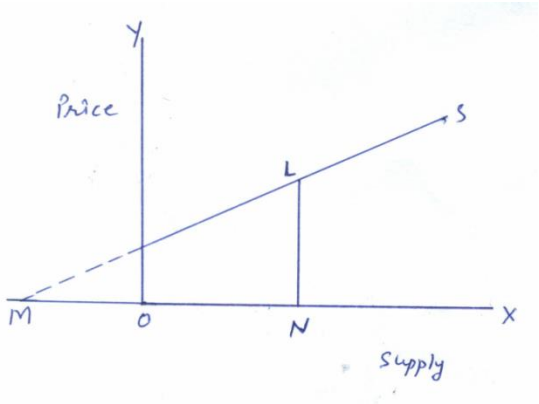
A3	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	(b) Goes on falling.	**1**
2	Sum of the quantities that all consumers of a commodity are willing to buy at a given price during a period of time.	**1**
3	(c) Decrease in expenditure on it.	**1**
4	(i) There are only a few firms or a few large firms. (ii) There are barriers to the entry of firms. (iii) There is interdependence of firms. (iv) There is non-price competition. **(Any one)**	**1**
5	(d) All market forms.	**1**
6	It is the problem relating to the choice of technique of production.Which technique should be used in production-whether labour intensive or capital intensive? Labour intensive technique uses more of labour as compared to capital while capital intensive technique uses more of capital as compared to labour.	**3**
7	PPF is the locus of different combinations of the two goods that can be produced with fixed resources, assuming full and efficient utilization of these resources. Properties: (1) Slopes downward from left to right. (2) Concave to the origin. **(Statements only)**	**1** **1x2**
8	A consumer buys a good upto the point at which MU=Price Suppose price falls, then MU>Price This induces consumer to buy more of the good. It shows inverse relation between price and demand of a good.	**3**

	Alternative answer: Suppose a consumer buys only two goods X and Y and is in equilibrium,then. $$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$ Suppose P_X falls,then $$\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$$ Since per rupee MU_x is more than per rupee MU_y, the consumer will buy more of X by diverting expenditure from good Y to good X .It shows inverse relation between price and demand for good X. **OR** All points on an IC show the same level of utility from the consumption of the two goods, the consumer consumes.So,if the consumer consumes more of one good,he must reduce the consumption of the other good to keep total level of utility the same.This makes an IC negatively sloped.	**3**
9	As the consumer substitutes one good for a unit of other the rate at which this substitution takes place is called marginal rate of substitution.As the substitution goes on, this rate diminishes. **Example** **Combination of Good X &Good Y** / **Unit of X** / **Unit of Y** / **Marginal rate of substitution** A / 1 / 8 / - B / 2 / 4 / 4Y:1X C / 3 / 2 / 2Y:1X D / 4 / 1 / 1Y:1X	**1** **3**
10	 The three phases of the law of Variable Proportions are: Phase I: TP increases at increasing rate i.e. upto K on the TP curve Phase II: TP increases at decreasing rate i.e. from K upto L on the TP curve. Phase III: TP falls i.e. after L on the TP curve	**1** **1x3**

	OR  Given supply curve S,to find Es at L. The steps are: (1) Extend the supply curve till it intersects the extended X-axis at M. (2) Draw a perpendicular from L intersecting X-axis at N. (3) Take the ratio of intercepts on the X axis at M and N.as Es=$\frac{MN}{ON}$ **(Correct Explanation on the basis a diagram showing supply curve,passing through origin or OX-axis is also correct).** **For Blind Candidates Only** Statement of the phases Any relevant schedule **OR** 'Change in supply of a good is defined as that change in supply which is due to factors other than the own price of that good. "Change in Quantity supplied" of a good is defined as the change in supply which is due to the change in own price of that good.	**1** **3** **1x3** **1** **4**
11	Free entry and exit of firms means that there are no barriers before the firm for entering into the industry and leaving the industry. New firms enter when they find that the existing firms are earning super normal profits.With their entry, output of the industry increases,which leads to fall in the price of the product.This continues till each firm is earning only normal profit.The existing firms leave when they face losses.As they leave, output of the industry goes down, raises the price of the product till the losses are wiped out. **(To be marked as a whole)**	4

12	**Output** **TC** **AVC** **MC** **AFC** 0 30 - - - 1 50 20 20 30 2 68 19 18 15 3 84 18 16 10 4 102 18 18 7.5 5 125 19 23 6	**½x12**
13	• Good Y is a substitute of good X. • Price of Y Falls. • Since X becomes relatively costlier, demand for X decreases. • This creates excess supply of X at its existing price. • Excess supply of X creates competition among sellers of X. This leads to fall in price of X. • Fall in price of X leads to increase in demand for X and decrease in supply. • The change continues till demand for X equals to supply of X at a lower price of X. **(To be marked as a whole)** **OR** • Excess supply of a good creates competition among the sellers of the good, because the sellers will not be able to sell all they want to sell at the existing price.This leads to fall in price of the good. • Fall in price leads to rise in demand and fall in supply of the good. • The change continues till demand for the good equals to its supply and the market is in equilibrium again. **(To be marked as a whole)**	6 6
14	$e_d = \frac{\%\ change\ in\ quantity\ demanded}{\%\ change\ in\ price}$ $= \frac{\frac{30}{150} \text{ X } 100}{-10}$ = (-)2 $(-)2 = \frac{\frac{60}{150} X\ 100}{\%\ change\ in\ price}$ % change in price = $\frac{60}{150}$ x 100 x $\frac{1}{-2}$ = (-) 20% **(No marks if only the final answer is given)**	**1½** **1** **½** $\mathbf{1\frac{1}{2}}$ **1** **½**

15	<u>Output</u> <u>AR(=MR)</u> <u>TC</u> <u>MC</u> 1 20 22 22 2 20 42 20 3 20 60 18 4 20 76 16 5 20 96 20 Equilibrium 6 20 120 24 The producer is in equilibrium at 5 unit of output, because it fulfills the following two conditions of producer's equilibrium. 1. MC=MR 2. MC is greater than MR beyond equilibrium.	**2** **1** **$1\frac{1}{2}$** **$1\frac{1}{2}$**
	SECTION-B	
16	(d) none of the above	**1**
17	When people who are able and willing to work at the prevailing wage rate, do not get employment, it is a situation of involuntary unemployment.	**1**
18	BOP is a record of inflows and outflows of foreign exchange.	**1**
19	(c) Cash reserve ratio.	**1**
20	It is the excess of total expenditure over the sum of revenue receipts and non-debt capital receipts.	**1**
21	• Goods purchased for consumption and investment are final goods. • Example: Machinery purchased by a factory. **(or any other relevant example.)** • Good purchased for resale or for using up completely during year are intermediate goods. • Example: Raw materials purchased by a factory **(or any other relevant example.)**	**1** **½** **1** **½**
22	Money acts as an asset which can be kept for future use and is available in convenient denominations. This is store of value function of money. **OR** It is the stock of money in the economy at a particular point of time. Components of money Supply = Currency with public + demand deposits with banks.	**3** **1** **2**

23	When the burden of a tax and the liability to pay it falls on the same person,then it is a direct tax.When burden of tax and liability to pay it fall on different persons,then it is indirect tax. Example: Direct tax-Income tax etc **(Any other example)** Indirect tax-Service tax,etc **(Any other example)**	**2** **½** **½**
24	Central bank provides the same banking service to the government as commercial banks provide to people.It accepts deposits of government departments and gives them loans in times of need. **OR** 'Reverse repo rate' is the rate of interest at which the commercial banks park their surplus funds with the central bank.The central bank can control money supply by changing the reverse repo rate(RRR).Rise in RRR encourages commercial banks to park more funds with the central bank.This reduce funds available for lending to general public by the commercial banks.	**4** **4**
25	Government can impose higher rate of tax on income of the rich and on the goods consumed by the rich.This will bring down disposable income of the rich.The amount so collected can be spent on providing free services,like education, subsidized food to the poor people.eg. This will raise disposable income of the poor reducing the gap between rich and poor.	**4**
26	Y= $\bar{C}$ + MPC(Y) + I 10000 = $\bar{C}$ + (1-0.2)(10000) + 1500 $\bar{C}$ = 10000 – 8000 - 1500 = 500 **(No marks if only the final answer is given)**	**2** **1** **½** **½**
27	Non monetary exchanges include activities like services of family members provided to each other etc.These activities may be left out from estimate of national income due to the non-availability of data.But these activities do contribute to welfare of the people.Since GDP may not account for such activities,it may be underestimated.As a result welfare of the people is also underestimated.This is thus a limitation of GDP as an index of welfare. **(To be marked as a whole)** **OR** • Not a part of domestic product as it is not generated in the domestic territory of the country. • Not a part of domestic product as it is a transfer payment. • Part of domestic product as these are exports produced in the domestic territory.	**6** **2** **2** **2**

28	Given that $\Delta I = 900$ and MPC=0.6, increase in income is in the following sequence: • Increase in I raises income of those who supply investment good by Rs 900. in the <u>first round</u> • Since MPC= 0.6,income earners spent Rs 540 on consumption.This raises income by Rs 540 = 900 x 0.6. in the <u>second round</u>. • In the similar way <u>third round</u> increase in income is 324 = 540 x 0.6 • In this way income goes on increasing round by round with each round increase in income equal to 60 percent of the previous round increase. • The total increase in income is: $\Delta Y = \Delta I \frac{1}{1 - MPC} = 900 \times \frac{1}{1 - 0.6}$ =Rs 2250 crore (Working explained on the basis of tabular presentation is also correct) **(To be marked as a whole)**	**6**
29	NNP_{MP} = (ii) + (iii) + (i) + (iv) + ((vii) – (v) – (viii) = 8000 + 3000 + 400 + 50 – 60 - 40 – (-80) = Rs 11430 cr GNDI = NNP_{MP} + (v) + (ix) = 11430 + 40 + 100 = Rs 11570 cr	**1½** **1** **½** **1½** **1** **½**
30	When price of foreign exchange rises, import becomes costlier, demand for imports will fall.As a result demand for foreign currency falls. When price of foreign exchange rises,domestic goods become cheaper for foreign buyers, because they can now buy more from one unit of foreign currency.As a result demand for exports rise, leading to increase in supply of foreign exchange.	**3** **3**