SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2017

MARKING SCHEME – ECONOMICS (FOREIGN)

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.

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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.

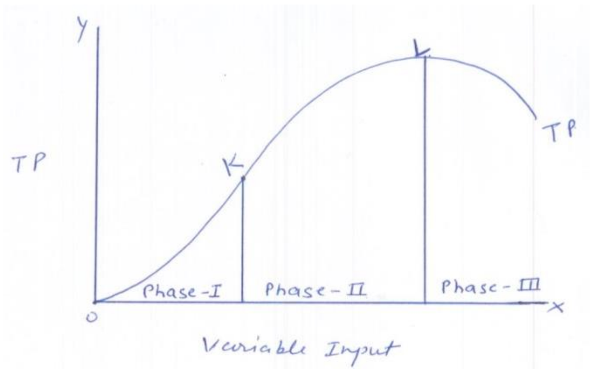
8 Where only two / three or a 'given' number of examples / factors / points are expected, only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.

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.

C1	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	Perfect competition	**1**
2	(d) Oligopoly	**1**
3	Other things remaining the same,there is an inverse relationship between price of a good and its quantity demanded.	**1**
4	(c)Maximum	**1**
5	(a) Elastic	**1**
6	Opportunity cost is defined as the value of the next best alternative foregone in availing the best.Suppose an individual is offered three jobs of Rs 10,000, Rs 8000 and Rs 6000 per month.He will avail Rs 10,000 a month job.In availing the best,he foregoes the next best job of Rs 8000 which is the opportunity cost of choosing the best.	**3**
7	It is concave to the origin because of increasing MOC (MRT) i.e. in producing an additional unit of a commodity more and more units of the other commodity are to be sacrified, as no resource is not equally efficient in production of both the goods. **OR** Economic problem arises because (a) wants are unlimited, (b) resources are limited and (c) resources have alternative uses.	**3** **3**
8	Rightwards shift of demand curve can be caused by: 1) Fall in price of complementary goods. 2) Rise in price of substitute good. 3) Change in preference in favour of the good. 4) **Any other** **(Any three)**	**1 X 3**
9	MRS is the rate at which units of one good are sacrificed by the consumer to consume one more unit of the other good.MRS diminishes because the utility of the good consumed more falls due to law of diminishing marginal utility.	**4**

	OR	
	A budget line is the locus of points that represent such combinations of two goods on which total expenditure equals total income.	**1**
	Causes of change in budget line are – 1) Change in income of the consumer. 2) Change in prices of one or both the commodities.	$\frac{1}{2}$ $\frac{1}{2}$
	<u>Explanation</u>	
	(1) Change in income shifts the budget line parallel because consumer can now buy more or less of either of the goods in the same proportion.	**1**
	(2) Change in price changes the maximum consumer can buy of one or both the goods,changing one or both the ends of budget line.	**1**
10		**1**
	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	**3**
	<u>For the Blind Candidates</u> Statements Explanation	**2** **2**
11	There are no obstacles in the way of new firms joining the industry and existing firms leaving the industry in the long run.This ensures that there are neither abnormal profits nor losses by any firm in the long run.In the short run,profits and losses are possible..If firms are making profits,new firms enter and raise the total supply of the industry.This reduces market price and wipes out profits.However, if the firms are incurring losses,the existing firms start leaving the industry and reduce the total supply.This raises the price till all the losses are wiped out.	**4**

12

$$e_d = \frac{\%\ change\ in\ Quantity\ demanded}{\%\ change\ in\ price}$$ **$1\frac{1}{2}$**

$$= \frac{100}{\frac{-5}{10}\times 100}$$ **1**

$$\left.\begin{array}{l} = \frac{100}{-50} \\ = -2 \end{array}\right\}$$ **$\frac{1}{2}$**

$$-2 = \frac{-50}{\%\ change\ in\ price}$$ **$1\frac{1}{2}$**

% change in price $= \frac{-50}{-2} = 25\%$ **1**

Price $= 10 + 10 \times \frac{25}{100} = 12.5$ **$\frac{1}{2}$**

13

Output	MR	MC	
1	10	12	
2	10	10	
3	10	8	
4	10	10	Equilibrium
5	10	12	

3

The conditions for the producer to be in equilibrium are

1) MR and MC must be equal. **1**
2) Beyond the level at which MC = MR, MC must be greater than MR. **1**

In the above example,the producer is in equilibrium when he produces 4 units. **1**

(Any other relevant schedule)

14

Quantity	MC	AVC	TC	AFC
1	60	60	120	60
2	54	57	174	30
3	48	54	222	20
4	54	54	276	15
5	69	57	345	12

$\frac{1}{2}$ X 12

15	When the government imposes upper limit on the price of a good it is called maximum price ceiling.It is fixed below the equilibrium price. Implication (maximum price ceiling) : It will lead to excess demand.This in turn may lead to black marketing of goods. When the government imposes lower limit on the price of a good,it is called minimum price ceiling. Implication (minimum price ceiling) : It leads to excess supply.This in turn may lead to illegal selling below the ceiling price as the producers are not able to sell what they desire to sell. **OR** (i)False,because since market price is lower than equilibrium price, market demand will be higher than market supply leading to excess demand. (ii)True.When price of Y falls,its demand rises.Since X is complementary of Y,and both must be used together,demand for X <u>increases</u>.Since the rise in demand for X is due to a factor other than own price of X,price of X increases.	**1** **2** **1** **2** **3** **3**
	SECTION-B	
16	(b) Commercial Banks can take loan from the central bank.	**1**
17	(a) Fall.	**1**
18	When aggregate demand and aggregate supply are equal at below full employment level, it is called under-employment equilibrium.	**1**
19	Government/Budgetary receipts that either create a liability or reduce assets are called capital receipts.	**1**
20	It is excess of imports of goods over exports of goods.	**1**
21	1. Medium of Exchange 2. Unit of account. 3. Store of value. 4. Standard of deferred payments. **(Any three)** **OR** Anything that serves as a medium of exchange is money. **(Definition of money treated as complete answer)**	**1X 3** **3**
22	Stocks are economic variables measured at a point of time. Flows are economic variable measured over a period of time. Example: Stock - Wealth, etc Flow - Income, etc **(Any other relevant example)**	**1** **1** $\frac{1}{2}$ $\frac{1}{2}$

23	i. It is capital receipt as it reduces assets. ii. It is revenue receipt as it neither reduces an asset nor creates a liability. iii. Borrowings is a capital receipt as it creates a liability.	**1** **1** **1**
24	Money creation refers to the deposit or credit creation by commercial banks as some multiple of initial deposit,depending upon the reserve requirements.Suppose initial deposit is Rs 1000 crore and legal reserve ratio(LRR) is 0.2 Banks keep Rs 200 crore as reserve and lend the remaining Rs 800 crore.Borrowers spend this money.Those who receive the money from borrowers redeposit into banks.This leads to a fresh deposit of Rs 800 crore.Banks again keep 20 percent as reserves and lend the rest Rs 640 crore which ultimately leads to a fresh deposit of Rs 640 crore.In this way new deposit go on being created round by round leading to total deposit creation of Rs 5000 crore which 1/LRR times i.e. 1/0.2 or 5 times. **OR** Commercial banks have the power to create credit on the basis of deposits they receive.The central bank exercises control over this power through changing legal reserve requirement from time to time.There are two components of such reserves: cash reserve ratio (CRR) and Statutory Liquidity Ratio(SLR).When the central bank raises CRR or SLR or both less money is left with commercial banks for lending.Opposite happens when CRR or SLR or both are reduced.	**4** **4**
25	There are many economic activities which are not undertaken by the private sector either due to lack of profits or due to huge investment expenditure involved. There are many other activities like, water supply, sanitation, etc., which are necessarily undertaken by government in public interest.Government can start these activities on its own.In addition, government can encourage the private sector through tax concessions, subsidies, etc., to undertake certain production in public interest. By doing so, government helps in influencing allocation of resources.	**4**
26	Y = C + I $= \bar{C}$ + mpc(Y) + I 10000 = 200 + $\frac{9}{10}$ (10000) + I I = 10000 – 200 - 9000 = 800	$\frac{1}{2}$ $1\frac{1}{2}$ $1\frac{1}{2}$ $\frac{1}{2}$
27	<u>Flexible exchange rate</u> is the rate which is determined by the supply and demand forces in foreign exchange market.It is free from intervention other than market forces.Whereas, <u>managed floating exchange rate</u> is the market rate which can be influenced by the intervention of the central bank in the foreign exchange market.It is a tool to control unfavourable impacts of flexible exchange rate.	**6**

	OR Depreciation of domestic currency refers to fall in the value of domestic currency in terms of foreign currency caused by rise in foreign exchange rate in the foreign exchange market. Devaluation refers to fall in the value of domestic currency due to deliberate increase in foreign exchange rate by the government which follows fixed exchange rate system. Example: Suppose market rate of one US dollar rises from Rs 60 to Rs 65,the domestic buyers will now have to pay more for imports.It means one rupee can now buy less imports than before depreciation or devaluation.	**2** **2** **2**
28	i. Expenditure on purchase of second hand goods should not to be included because the value of goods was counted when they were new. ii. Imputed expenditure on own account output to be included because it results from production activity. iii. Expenditure on financial assets should not be included because it does not lead to creation of any good or service. iv. **Any other** **(Any three)** **Statements** **Reasons**	 **1X3** **1X3**
29	$\Delta Y = \Delta I \frac{1}{MPS}$ $5500 = \frac{1100}{MPS}$ $MPS = \frac{1100}{5500} = 0.20$ $\Delta Y = \frac{1100}{0.25} = 4400$ **(No marks if only the final answer is given)**	$1\frac{1}{2}$ **1** $\frac{1}{2}$ **3**
30	N.I. = (i) + (ii) + (iv) + (v) – (vi) + (xi) = 1000 + 15000 + 400 + 7000 – 100 + 500 = Rs 23800 Crore NNDI = NNP_{FC} + (ix) – (x) = 23800 + 800 – 40 = Rs 24560 Crore	$1\frac{1}{2}$ **1** $\frac{1}{2}$ $1\frac{1}{2}$ **1** $\frac{1}{2}$

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2017

MARKING SCHEME – ECONOMICS (FOREIGN)

Expected Answers / Value Points

(SET-2)

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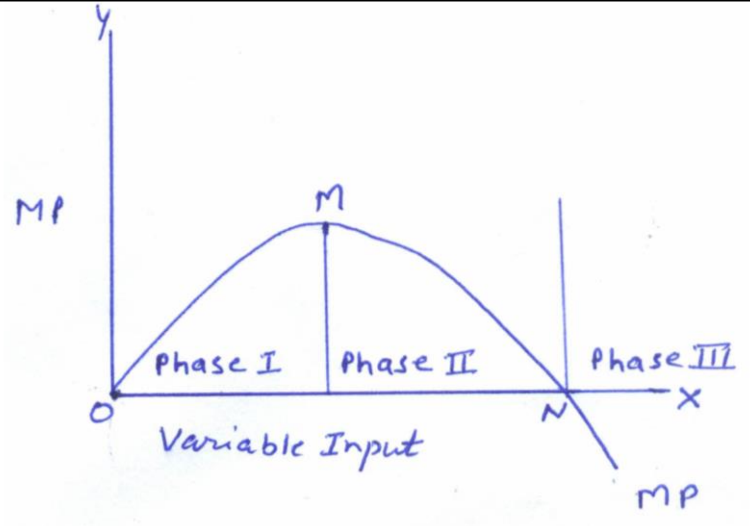
C2	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	(a) Perfect competition	**1**
2	(c)Maximum	**1**
3	(a) Elastic	**1**
4	(d) Oligopoly	**1**
5	Other things remaining the same,there is an inverse relationship between price of a good and its quantity demanded.	**1**
6	Rightwards shift of demand curve can be caused by: 1) Fall in price of complementary goods. 2) Rise in price of substitute good. 3) Change in preference in favour of the good. 4) **Any other** **(Any three)**	**1x3**
7	Opportunity cost is defined as the value of the next best alternative foregone in availing the best.Suppose an individual is offered three jobs of Rs 10,000, Rs 8000 and Rs 6000 per month.He will avail Rs 10,000 a month job.In availing the best,he foregoes the next best job of Rs 8000 which is the opportunity cost of choosing the best.	**3**
8	It is concave to the origin because of increasing MOC (MRT) i.e. in producing an additional unit of a commodity more and more units of the other commodity are to be sacrified, as no resource is not equally efficient in production of both the goods. **OR** Economic problem arise because of resources are limited with respect to their wants and they have alternative uses.	**3** **3**
9	MRS is the rate at which units of one good are sacrificed by the consumer to consume one more unit of the other good.MRS diminishes because the utility of the good consumed more falls due to law of diminishing marginal utility.	**4**

	OR A budget line is the locus of points that represent such combinations of two goods on which total expenditure equals total income. Causes of change in budget line are – 1) Change in income of the consumer. 2) Change in prices of one or both the commodities. **<u>Explanation</u>** (1) Change in income shifts the budget line parallel because consumer can now buy more or less of either of the goods in the same proportion. (2) Change in price changes the maximum consumer can buy of one or both the goods,changing one or both the ends of budget line.	**1** $\frac{1}{2}$ $\frac{1}{2}$ **1** **1**
10	 Phase I : MP increases i.e. upto M. Phase II : MP falls, but positive i.e. after M upto N Phase III : MP falls, and becomes negative i.e. after N **<u>For Blind Candidates</u>** Statement of phases (as above) Explanation of phases	**1** **1X3** **2** **2**
11	It implies that buyers differentiate between the products of different firms.It may be on account of different brand names,packing,colour,shape,the friendly behavior of the seller or any other consideration.These differentiated products are close substitutes of each other.Since a group of buyers prefers the product of a particular producer,that producer enjoys some monopoly in its product and is in a position to influence the market for it.This makes monopolistic competition different from perfect competition.	**4**

12	$e_d = \frac{\%\ Change\ in\ Qty}{\%\ Change\ in\ price}$ $= \frac{\frac{20}{100}\times 100}{-10}$ $= \frac{20}{-10}$ = -2 -2 = $\frac{change\ in\ Q}{10}$ ΔQ = -20 Demand falls by 20%	**$1\frac{1}{2}$** **$1\frac{1}{2}$** **$\frac{1}{2}$** **$1\frac{1}{2}$** **1**
13	When the government imposes upper limit on the price of a good it is called maximum price ceiling.It is fixed below the equilibrium price. Implication (maximum price ceiling) : It will lead to excess demand.This in turn may lead to black marketing of goods. When the government imposes lower limit on the price of a good,it is called minimum price ceiling. Implication (minimum price ceiling) : It leads to excess supply.This in turn may lead to illegal selling below the ceiling price as the producers are not able to sell what they desire to sell. **OR** (i)False,because since market price is lower than equilibrium price, market demand will be higher than market supply leading to excess demand. (ii)True.When price of Y falls,its demand rises.Since X is complementary of Y,and both must be used together,demand for X <u>increases</u>.Since the rise in demand for X is due to a factor other than own price of X,price of X increases.	**1** **2** **1** **2** **3** **3**
14	Output MR MC 1 10 12 2 10 10 3 10 8 <u>4 10 10</u> Equilibrium 5 10 12 The conditions for the producer to be in equilibrium are 1) MR and MC must be equal. 2) Beyond the level at which MC = MR, MC must be greater than MR. In the above example,the producer is in equilibrium when he produces 4 units. **(Any other relevant schedule)**	**3** **1** **1** **1**

15	Quantity / MC / AVC / TC / AFC 1 / 60 / <u>60</u> / 120 / <u>60</u> 2 / <u>54</u> / <u>57</u> / 174 / <u>30</u> 3 / <u>48</u> / 54 / <u>222</u> / <u>20</u> 4 / 54 / <u>54</u> / <u>276</u> / 15 5 / <u>69</u> / 57 / 345 / <u>12</u>	**$\frac{1}{2}$ X 12**
	SECTION-B	
16	It is excess of imports of goods over exports of goods.	**1**
17	Government/Budgetary receipts that either create a liability or reduce assets are called capital receipts.	**1**
18	(b) Commercial banks can take loan from the central bank.	**1**
19	When aggregate demand and aggregate supply are equal at below full employment level, it is called under-employment equilibrium.	**1**
20	(a) Fall.	**1**
21	i. It is capital receipt as it reduces assets. ii. It is revenue receipt as it neither reduces an asset nor creates a liability. iii. Borrowings is a capital receipt as it creates a liability.	**1** **1** **1**
22	Sum of the value of final products that take place within the domestic territory of a country is called domestic product whereas the sum of contribution of residents of a country both within domestic territory or abroad is called national product.	**3**
23	1. Medium of Exchange 2. Unit of account. 3. Store of value. 4. Standard of deferred payments. **(Any three)** **<u>OR</u>** Anything that serves as a medium of exchange is money. **(Definition of money treated as complete answer)**	**1X 3** **3**
24	Y = C + I = $\bar{C}$ + mpc(Y) + I 10000 = 200 + $\frac{9}{10}$ (10000) + I I = 10000 – 200 - 9000 = 800	$\frac{1}{2}$ $1\frac{1}{2}$ $1\frac{1}{2}$ $\frac{1}{2}$

25	Money creation refers to the deposit or credit creation by commercial banks as some multiple of initial deposit,depending upon the reserve requirements.Suppose initial deposit is Rs 1000 crore and legal reserve ratio(LRR) is 0.2 Banks keep Rs 200 crore as reserve and lend the remaining Rs 800 crore.Borrowers spend this money.Those who receive the money from borrowers redeposit into banks.This leads to a fresh deposit of Rs 800 crore.Banks again keep 20 percent as reserves and lend the rest Rs 640 crore which ultimately leads to a fresh deposit of Rs 640 crore.In this way new deposit go on being created round by round leading to total deposit creation of Rs 5000 crore which 1/LRR times i.e. 1/0.2 or 5 times. **OR** Commercial banks have the power to create credit on the basis of deposits they receive.The central bank exercises control over this power through changing legal reserve requirement from time to time.There are two components of such reserves: cash reserve ratio (CRR) and Statutory Liquidity Ratio(SLR).When the central bank raises CRR or SLR or both less money is left with commercial banks for lending.Opposite happens when CRR or SLR or both are reduced.	**4** **4**
26	There are many economic activities which are not undertaken by the private sector either due to lack of profits or due to huge investment expenditure involved. There are many other activities like, water supply, sanitation, etc., which are necessarily undertaken by government in public interest.Government can start these activities on its own.In addition, government can encourage the private sector through tax concessions, subsidies, etc., to undertake certain production in public interest. By doing so, government helps in influencing allocation of resources.	**4**
27	$\Delta Y = \Delta I\frac{1}{MPS}$ $5500 = \frac{1100}{MPS}$ MPS = $\frac{1100}{5500}$ = 0.20 $\Delta Y = \frac{1100}{0.25}$ = 4400 **(No marks if only the final answer is given)**	**$1\frac{1}{2}$** **1** $\frac{1}{2}$ **3**
28	i. Transfer income should not be included because no good or service is provided in return. ii. Gain by selling old goods should not be included because it is not a gain from fresh production activity. iii. Receipts for sale of financial assets should not be included, because it is not from sale of any good or service. **iv. Any other** **(Any three)** **Statements** **Reasons**	 **1X3** **1X3**

29	<u>Flexible exchange rate</u> is the rate which is determined by the supply and demand forces in foreign exchange market.It is free from intervention other than market forces.Whereas, <u>managed floating exchange rate</u> is the market rate which can be influenced by the intervention of the central bank in the foreign exchange market.It is a tool to control unfavourable impacts of flexible exchange rate. **OR** <u>Depreciation</u> of domestic currency refers to fall in the value of domestic currency in terms of foreign currency caused by rise in foreign exchange rate in the foreign exchange market. <u>Devaluation</u> refers to fall in the value of domestic currency due to deliberate increase in foreign exchange rate by the government which follows fixed exchange rate system. <u>Example</u>: Suppose market rate of one US dollar rises from Rs 60 to Rs 65,the domestic buyers will now have to pay more for imports.It means one rupee can now buy less imports than before depreciation or devaluation.	**6** **2** **2** **2**
30	NNP_{MP} = (i) + (ii) + (iii) + (iv) + (v) – (vi) + (ix) = 250 + 600 + 80 + 30 + 40 –(-10) + 10 = Rs 1020 ii) GNDI = NNP_{MP} + (viii) – (x) = 1020 + 20 – 8 = Rs 1032 **(No marks if only the final answer is given)**	$1\frac{1}{2}$ **1** $\frac{1}{2}$ $1\frac{1}{2}$ **1** $\frac{1}{2}$

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(SET-3)

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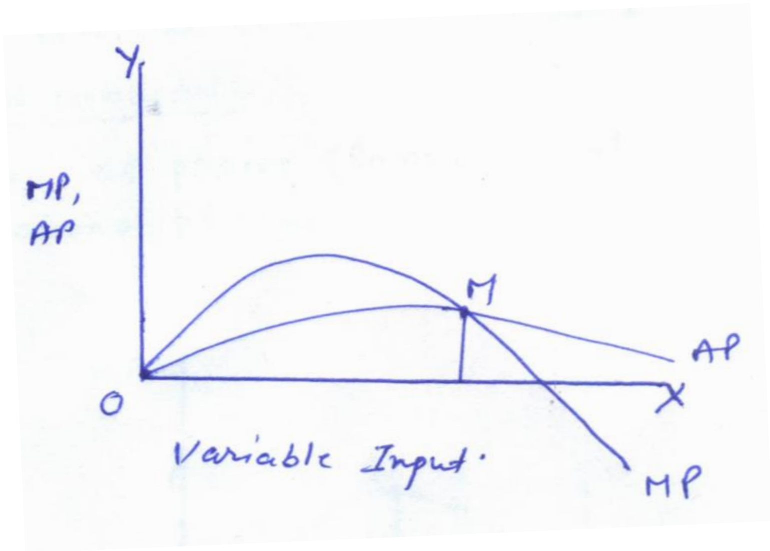
C3	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	(d) Perfect competition	**1**
2	(a) Elastic	**1**
3	(d) Oligopoly	**1**
4	Other things remaining the same,there is an inverse relationship between price of a good and its quantity demanded.	**1**
5	(c)Maximum	**1**
6	It is concave to the origin because of increasing MOC (MRT) i.e. in producing an additional unit of a commodity more and more units of the other commodity are to be sacrified, as no resource is not equally efficient in production of both the goods. **OR** Economic problem arises because (a) wants are unlimited, (b) resources are limited and (c) resources have alternative uses.	**3** **3**
7	Rightwards shift of demand curve can be caused by: 1) Fall in price of complementary goods. 2) Rise in price of substitute good. 3) Change in preference in favour of the good. 4) **Any other** **(Any three)**	**1x3**
8	Opportunity cost is defined as the value of the next best alternative foregone in availing the best.Suppose an individual is offered three jobs of Rs 10,000, Rs 8000 and Rs 6000 per month.He will avail Rs 10,000 a month job.In availing the best,he foregoes the next best job of Rs 8000 which is the opportunity cost of choosing the best.	**3**
9	MRS is the rate at which units of one good are sacrificed by the consumer to consume one more unit of the other good.MRS diminishes because the utility of the good consumed more falls due to law of diminishing marginal utility.	**4**

	OR A budget line is the locus of points that represent such combinations of two goods on which total expenditure equals total income. Causes of change in budget line are – 1) Change in income of the consumer. 2) Change in prices of one or both the commodities. **<u>Explanation</u>** (1) Change in income shifts the budget line parallel because consumer can now buy more or less of either of the goods in the same proportion. (2) Change in price changes the maximum consumer can buy of one or both the goods,changing one or both the ends of budget line.	**1** $\frac{1}{2}$ $\frac{1}{2}$ **1** **1**
10	 When MP > AP, AP rises i.e. between O and M When MP = AP, AP is constant i.e. at M When MP < AP,AP falls i.e. after M **<u>For Blind Candidates</u>** Relation between MP and AP (as above) Schedule	**1** **1X3** **3** **1**
11	Firms are mutually interdependent because only a few firms dominate the market.A change in price and output by any individual firm is likely to influence the profits and output of the rival firms.This may invite reactions from the rival firms.Therefore,an individual firm must take into account the probable reactions of its rivals before setting his price and output.This makes the firms mutually dependent on each other for taking price and output decisions.	**4**

12	Ed = $\frac{\%\ Change\ in\ Qty}{\%\ Change\ in\ price}$ = $\frac{-60\%}{.100}$ = - 0.6 -0.6 = $\frac{100\%}{\%\ change\ in\ P}$ % change in P = $\frac{100\%}{-0.6}$ = - 166.67	$\mathbf{1\frac{1}{2}}$ **1** $\mathbf{\frac{1}{2}}$ $\mathbf{1\frac{1}{2}}$ **1** $\mathbf{\frac{1}{2}}$
13	Quantity MC AVC TC AFC 1 60 <u>60</u> 120 <u>60</u> 2 <u>54</u> <u>57</u> 174 <u>30</u> 3 <u>48</u> 54 <u>222</u> <u>20</u> 4 54 <u>54</u> <u>276</u> 15 5 <u>69</u> 57 345 <u>12</u>	$\mathbf{\frac{1}{2}x12}$
14	When the government imposes upper limit on the price of a good it is called maximum price ceiling.It is fixed below the equilibrium price. Implication (maximum price ceiling) : It will lead to excess demand.This in turn may lead to black marketing of goods. When the government imposes lower limit on the price of a good,it is called minimum price ceiling. Implication (minimum price ceiling) : It leads to excess supply.This in turn may lead to illegal selling below the ceiling price as the producers are not able to sell what they desire to sell. **OR** (i)False,because since market price is lower than equilibrium price, market demand will be higher than market supply leading to excess demand. (ii)True.When price of Y falls,its demand rises.Since X is complementary of Y,and both must be used together,demand for X <u>increases</u>.Since the rise in demand for X is due to a factor other than own price of X,price of X increases.	**1** **2** **1** **2** **3** **3**

15	Output MR MC 1 10 12 2 10 10 3 10 8 4 10 10 Equilibrium 5 10 12 The conditions for the producer to be in equilibrium are 1) MR and MC must be equal. 2) Beyond the level at which MC = MR, MC must be greater than MR. In the above example,the producer is in equilibrium when he produces 4 units. **(Any other relevant schedule)**	**3** **3**
	SECTION-B	
16	When aggregate demand and aggregate supply are equal at below full employment level, it is called under-employment equilibrium.	**1**
17	It is excess of imports of goods over exports of goods.	**1**
18	Government/Budgetary receipts that either create a liability or reduce assets are called capital receipts.	**1**
19	(a) Fall.	**1**
20	(b) Commercial banks can take loan from the central bank.	**1**
21	1. Medium of Exchange 2. Unit of account. 3. Store of value. 4. Standard of deferred payments. **(Any three)** **OR** Anything that serves as a medium of exchange is money. **(Definition of money treated as complete answer)**	**1X 3** **3**
22	There are some incomes which cannot be conveniently divided into distinctive factor incomes.Such income arises to the self-employed like practicing lawyers,doctors,etc.Take for example a practicing lawyer.The fees charged by the lawyer is not only his wages but also interest of capital employed by him, rent of his office and profit of his entrepreneurship.Since no data is available to sub-divide the lawyer's fees into wages,rent,interest and profit,it is called mixed income.	**3**
23	i. It is capital receipt as it reduces assets. ii. It is revenue receipt as it neither reduces an asset nor creates a liability. iii. Borrowings is a capital receipt as it creates a liability.	**1** **1** **1**

24	There are many economic activities which are not undertaken by the private sector either due to lack of profits or due to huge investment expenditure involved. There are many other activities like, water supply, sanitation, etc., which are necessarily undertaken by government in public interest.Government can start these activities on its own.In addition, government can encourage the private sector through tax concessions, subsidies, etc., to undertake certain production in public interest. By doing so, government helps in influencing allocation of resources.	**4**
25	Y = C + I = $\bar{C}$ + mpc(Y) + I 10000 = 200 + $\frac{9}{10}$ (10000) + I I = 10000 – 200 - 9000 = 800	$\frac{1}{2}$ $\mathbf{1\frac{1}{2}}$ $\mathbf{1\frac{1}{2}}$ $\frac{1}{2}$
26	Money creation refers to the deposit or credit creation by commercial banks as some multiple of initial deposit,depending upon the reserve requirements.Suppose initial deposit is Rs 1000 crore and legal reserve ratio(LRR) is 0.2 Banks keep Rs 200 crore as reserve and lend the remaining Rs 800 crore.Borrowers spend this money.Those who receive the money from borrowers redeposit into banks.This leads to a fresh deposit of Rs 800 crore.Banks again keep 20 percent as reserves and lend the rest Rs 640 crore which ultimately leads to a fresh deposit of Rs 640 crore.In this way new deposit go on being created round by round leading to total deposit creation of Rs 5000 crore which 1/LRR times i.e. 1/0.2 or 5 times. **OR** Commercial banks have the power to create credit on the basis of deposits they receive.The central bank exercises control over this power through changing legal reserve requirement from time to time.There are two components of such reserves: cash reserve ratio (CRR) and Statutory Liquidity Ratio(SLR).When the central bank raises CRR or SLR or both less money is left with commercial banks for lending.Opposite happens when CRR or SLR or both are reduced.	**4** **4**
27	<u>Flexible exchange rate</u> is the rate which is determined by the supply and demand forces in foreign exchange market.It is free from intervention other than market forces.Whereas, <u>managed floating exchange rate</u> is the market rate which can be influenced by the intervention of the central bank in the foreign exchange market.It is a tool to control unfavourable impacts of flexible exchange rate.	**6**

	OR Depreciation of domestic currency refers to fall in the value of domestic currency in terms of foreign currency caused by rise in foreign exchange rate in the foreign exchange market. Devaluation refers to fall in the value of domestic currency due to deliberate increase in foreign exchange rate by the government which follows fixed exchange rate system. Example: Suppose market rate of one US dollar rises from Rs 60 to Rs 65,the domestic buyers will now have to pay more for imports.It means one rupee can now buy less imports than before depreciation or devaluation.	**2** **2** **2**
28	1) Production for self-consumption should be included because it is production activity. 2) Only final goods should be included to avoid double counting. 3) Sale of old goods should not be included because they were counted in production.When produced new. 4) **Any other** **Statements** **Reasons**	**1X3** **1X 3**
29	$\Delta Y = \Delta I\frac{1}{MPS}$ $5500 = \frac{1100}{MPS}$ $MPS = \frac{1100}{5500} = 0.20$ $\Delta Y = \frac{1100}{0.25} = 4400$ **(No marks if only the final answer is given)**	$1\frac{1}{2}$ **1** $\frac{1}{2}$ **3**
30	N.I. = (i) + (ii) + (iii) + (iv) + (v) – (ix) = 2000 + 800 + 300 + 250 + 7000 – 60 = Rs 10290 crore NNDI = NNP_{FC} + (viii) – (vi) = 10290 + 1500 – 200 = Rs 11590 crore **(No marks if only the final answer is given)**	$1\frac{1}{2}$ **1** $\frac{1}{2}$ $1\frac{1}{2}$ **1** $\frac{1}{2}$