SENIOR SCHOOL CERTIFICATE EXAMINATION
JULY-2014
MARKING SCHEME – ECONOMICS (Outside)
(SET-I)
Expected Answers / Value Points

GENERAL INSTRUCTIONS :

1. 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.

2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.

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

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

5. Wherever 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.

6. 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.

7. Higher order thinking ability questions are assessing student's understanding / analytical ability.

8. ☼ indicates value based questions.

   General Note : In case of numerical question no mark is to be given if only the final answer is given.
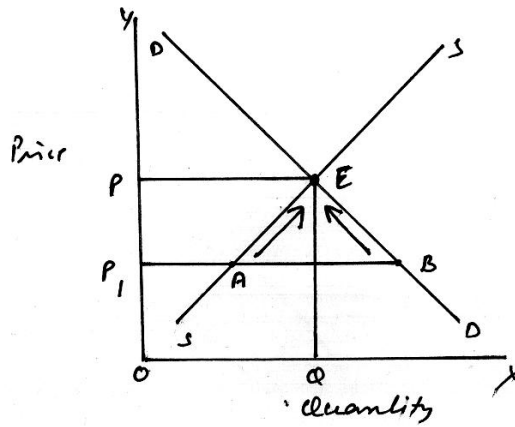
B1	Expected Answer / Value Points	Distribution of Marks
	SECTION - A	
☼ 1	Economic growth.	1
2	It is the quantity of a good that a consumer is willing to purchase at a given price, during a given period of time.	1
3	Rent of factory building, salary of permanent workers etc. **(any two relevant examples)**	½ x 2
4	It is the total output of a good all its producers are willing to supply at a given price, during a period of time.	1

5	When the supply of a good does not change despite of a change in its price.	1
6	It arises due to availability of alternative techniques of production. Broadly, the choice is between capital-intensive techniques and labour-intensive techniques. The problem is that which one to employ.	3
7	When price of A rises (falls) its demand will fall (rise) and the demand of complementary good B will also fall (rise) because both the goods must be used together	3

8	Output	AVC	TVC	MC	½ x 6
	1	12	12	**12**	
	2	11	22	**10**	
	3	10	30	**8**	
	4	9	36	**6**	
	5	9	45	**9**	
	6	10	60	**15**	

(No marks if only the final answer is given)

9	Price	TR	Supply	
	5	1000	200	1
	6	1200	200	1

$$E_s = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$

$$E_s = \frac{5}{200} \times \frac{0}{1}$$ ½

$$= 0$$ ½   **(No marks if only the final answer is given)**

10	(i) <u>Imposition of unit tax</u> raises cost. Price remaining unchanged, profits fall. This leads to 'decrease' in supply.	1½
	(ii) <u>Rise in prices of inputs</u> raises cost. Price remaining unchanged, profits fall. This leads to 'decrease' in supply.	1½
	(Any other relevant cause)	
	OR	
	(i) <u>Use of improved technology</u> reduces cost. Price remaining unchanged, Profits rise. This leads to shift of supply curve to the right.	1½
	(ii) <u>Fall in prices of inputs</u> reduces cost. Price remaining unchanged, profits rise. This leads to shift of supply curve to the right.	1½
	(Any other relevant cause)	

11	Let the two goods consumed by the consumer be X and Y. Let m be income	
	The <u>equation of budget line</u> is :	
	Px.X + Py.Y = m	1
	Which shows that the whole collection of the combinations of the two goods on the budget line costs the consumer exactly his income.	1
	The <u>equation of budget constraint</u> is :	
	$P_x.X + P_y.Y \leq m$	1
	which says that the money spent on the two goods must be equal to or less than the income.	1

12	$E_d \;=\; \dfrac{P}{Q} \times \dfrac{\Delta Q}{\Delta P}$	1
	$-0.5 \;=\; \dfrac{20}{300} \times \dfrac{30}{\Delta P}$	1 ½
	$= -4$	½
	Price will be $P + \Delta P$ = 20+ (-4) = Rs. 16	1
	(No marks if only the final answer is given)	

13	Market for a good in which there is only one producer.	1
	Features : (1) Single seller / Producer of the product. (2) No close substitutes of the product. (3) Restrictions on entry of new firms.	3

14						

Output	**TR**	**TC**	**MR**	**MC**
1	12	14	12	14
2	24	26	12	12
3	36	36	12	10
4	48	48	12	12
5	60	62	12	14

The equilibrium is at 4 units of output.

Reasons : **(1)** At this output MC= MR.

(2) MC > MR after equilibrium output.

(marks: 2, 2, 1, 1)

15	**(1) It is downward sloping :**	1
	<u>Because</u> if the consumer gets more of one good, the consumer must give up some quantity of the other good, to remain on the same level of utility.	1
	(2) It is convex towards the origin :	1
	<u>Because</u> MRS falls as consumer moves along the curve downwards. It is because of the law of diminishing marginal utility.	1
	(3) IC to the right denotes higher utility:	1
	<u>Because</u> IC to the right has higher quantity of the two goods. By assumption more goods means more utility.	1

OR

Conditions : (Assuming that the consumer consume only two goods X and Y)

(1) Ratio of marginal utility to price in case of each good must be the same.
OR $\dfrac{MUx}{Px} = \dfrac{MUy}{Py}$ — 1

<u>Because</u>. Suppose $\dfrac{MUx}{Px} > \dfrac{MUy}{Py}$ the consumer will buy more of X by diverting expenditure from Y. As a result , MUx will fall and MUy will rise till $\dfrac{MUx}{Px} = \dfrac{MUy}{Py}$ — 3

(2) Marginal utility falls as more of a good is consumed — 1

<u>because</u> unless it happens the consumer will not reach equilibrium. — 1

| 16 |

Given equilibrium price OP, suppose market price is OP_1, the changes that will take place are :

- There is excess demand equal to AB leading to competition among the buyers.
- This raises market price, as a result of which demand starts falling while supply starts rising.
- These changes stop when D= S at point E and the equilibrium price is reached at OP.

For the blind Candidates
Schedule

Px	Dx	Sx
1	10	2
2	8	4
3	6	6
4	4	8

Or any other schedule

Explanation of the schedule | 2

4

2
4 |
|---|---|---|
| | **SECTION - B** | |
| 17 | Fall in the value of a capital good due to normal wear and tear and foreseen obsolescence, during its use in production. | **1** |
| 18 | Value of final goods and services produced within the domestic (economic) territory of a country. | **1** |
| 19 | Bank rate is the rate at which central bank gives loans to the commercial banks. | **1** |
| 20 | A tax is a legally compulsory payment made by the people to the government. | **1** |
| 21 | Salaries of Government employees, Interest payment etc. | **½ x2** |
| 22 | **Nominal GDP** is the GDP valued at current year prices thus including changes in both prices and volume of production. | **1½** |
| | **Real GDP** is valued at constant prices thus indicating change in volume of production only. | **1½** |

23	**Money as a unit of account** means a standard unit for quoting prices or borrowing and lending activities etc. This function makes possible keeping of business accounts thus facilitating trade. It has also led to the emergence of the banking system. **OR** Commercial banks are required to keep a certain minimum percentage of deposits as cash reserve with the central bank. Central bank uses these reserves to meet emergency requirements of the commercial banks. It is called **bankers' bank function** of the central bank.	**3** **3**
24	Ratio of MPC and MPS is 2 :1 So MPC is $\frac{2}{3}$ and MPS is $\frac{1}{3}$ Multiplier = $\frac{1}{MPS}$ = 3 Or = $\frac{1}{1-MPC}$ = $\frac{1}{1-\frac{2}{3}}$ =3 **(No marks if only the final answer is given)**	**3**
25	When planned spending > planned output there will depletion of stocks with the producers below the desired level. To bring it back to the desired level, the producers will produce more till it becomes equal to planned spending.	**3**
26	Difference between the value of exports of goods and imports of goods is **balance of trade**. Whereas the difference between receipts and payments on account of exports of goods and imports of goods, services and net transfer receipts, give us the **balance on current account**.	**3**
27	$NVA_{FC} = (i) + (ii) - (iii) - (iv) - (vi)$ $= 400 + (-20) - 200 - 40 - 30$ $= Rs. 110$ lakh **(No marks if only the final answer is given)** **OR** GDP is not necessarily the true index of economic welfare of the people. The main reasons are : (1) Many non-monetary exchanges left out of GDP do contribute to welfare like mother cooking food, etc but are not included. (2) GDP does not take into account changes in inequalities in the distribution of income. (3) GDP does not take into account externalities, positive or negative. (4) Any other **(Any Two)**	**2** **1 ½** **½** **2x2**
28	**Bank rate** is the rate of interest at which the central bank lends money to the commercial banks. Suppose the central bank raises bank rate, it makes borrowings by the commercial banks costly. This forces the commercial banks to raise their lending rates. It makes borrowings by the people costly. People borrow less and credit creation is adversely affected. **(Opposite happens when bank rate is reduced)**	**4**

29	Restricting **autonomous** imports of gold reduces foreign exchange demand. This in turn reduces foreign exchange payments. Since autonomous payments decline, BOP deficit decline. This decline reduces pressure of deficit and is thus the economic value realised.	**4**
30	$N.I. = (ii) + (vi) + (iii) + (vii) - (ix) - (viii)$ $= 400 + 200 + 100 + 40 - 10 - 80$ $= Rs.\,650\ crore$ **OR** $P.D.I. = (i) + (viii) + (iii) + (ii) - (ix) - (iv) - (v) - (vi)$ $= 800 + 20 + 70 + 50 - (-10) - 200 - 40 - 30$ $= Rs.\,680\ Crore$ **(No marks if only the final answer is given)**	**3** **2** **1** **3** **2** **1**
31	(a) Planned value of the variables are their **ex-ante** measures whereas realised value of the variables are their **ex-post** measures. (b) $Y = C + I$ $Y = \bar{C} + MPC(Y) + I$ Y = 200 + .9(Y) + 1000 0.1Y = 1200 Y = Rs. 12000 **(No marks if only the final answer is given)**	**2** **1** **1** **1** **1**
32	**(i) Direct tax** is one whose liability to pay and incidence lie on the same person. An **indirect tax** is one whose liability to pay and incidence lie on different persons. **(ii)** **Primary deficit** = Fiscal deficit – interest payments **Revenue deficit** = Revenue expenditure – revenue receipts	**1 ½** **1 ½** **1 ½** **1 ½**