SENIOR SCHOOL CERTIFICATE EXAMINATION
MARCH-2014

MARKING SCHEME – ECONOMICS (Outside)

(SET -1)

Expected Answers / Value Points

GENERAL INSTRUCTIONS :

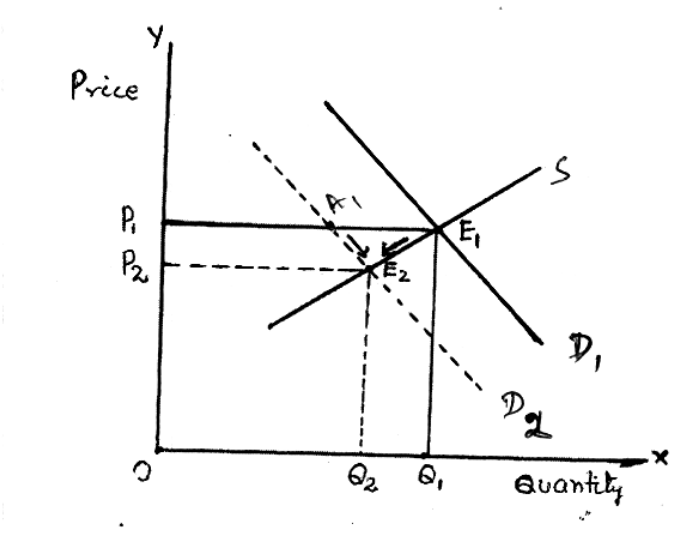
1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate 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 : <u>In case of numerical question no mark is to be given if only the final answer is given</u>.

B1	Expected Answer / Value Points	Distribution of Marks
☼ 1	It will increase inflow of foreign capital. Its economic value is the rise in production potential due to increase in resources.	1
2	It is the locus of points that represent different combination of two goods that give the same satisfaction to the consumer.	1
3	It is the addition to total product when one more unit of the variable input is increased.	1
4	Market supply of good is the sum total of quantities that all the producers of that good are willing to supply at a price during a period of time.	1

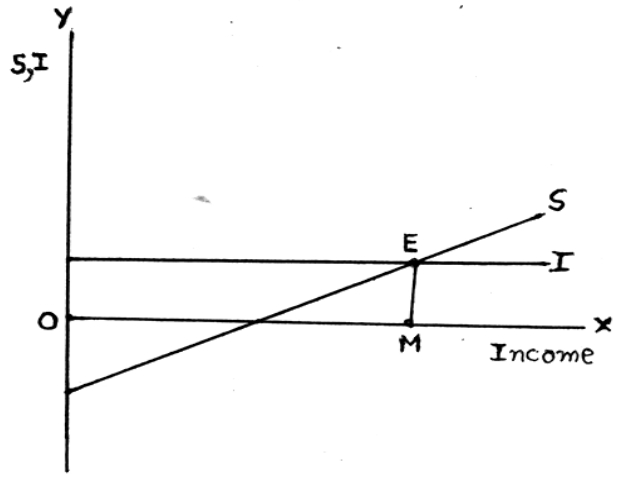
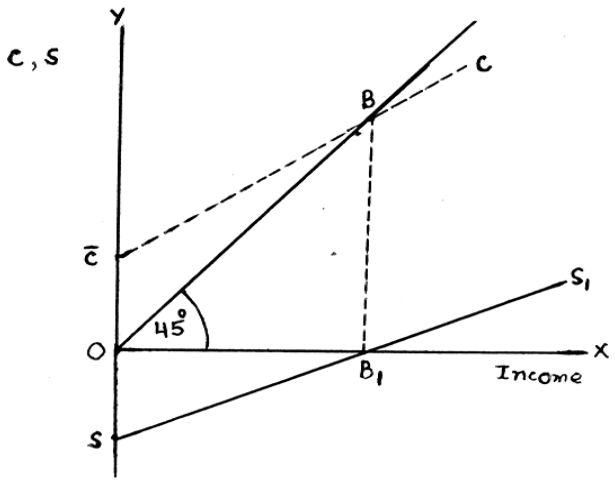
5	If in an oligopoly market the firms produce differentiated products, it is called imperfect oligopoly.	**1**
6	A typical PP curve is downward sloping and concave, i.e. its slope is increasing, because marginal Rate of Transformation (MRT) increases as we move downwards along the curve. MRT increases because no resource is equally efficient in production of all goods. As the resources are transferred from one good to another MRT increases because less and less efficient resources are to be transferred each time.	**3**
7	Price Demand Total Expenditure 10 20 200 8 24 192 As with fall in price, total expenditure also falls, price elasticity of demand is less than 1. Demand is inelastic. (No mark if the percentage method is used)	**1** **2**
8	Technological progress leads to reduction in cost of producing output. Price remaining unchanged, less cost means more profit. This increases supply of the good. **OR** Suppose input prices rise. This raises cost. Price of the good remaining unchanged, profits fall. This discourages the producer so supply will decrease. Opposite happens if the input prices fall.	**3** **3**
9	$Given\ AR = \frac{\mathrm{TR}}{\mathrm{Q}}$ $Since\ TR = P \times Q$ $AR = \frac{\mathrm{P} \times \mathrm{Q}}{\mathrm{Q}} = \mathrm{P}$	**3**
10	The main reason why the number of firms is small is that there are barriers which prevent entry of firms into industry. Patents, large capital requirement control over the crucial raw materials, etc. prevent new firms from entering the industry. Only those who are able to cross these barriers enter.	**3**
11	According to the utility analysis, the consumer is in equilibrium when $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ Now, given that Px rises, then $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ Since per rupee MU_x is lower than per rupee MU_y, the consumer will buy less of X and more of Y. It shows that when P_x rises, demand for X falls.	**4**

	OR While buying a unit of a good the consumer compares price with marginal utility (MU). So long as the price the consumer is willing to pay (i.e. MU) is higher than the market price, the consumer will go on buying. As the consumer buys more, MU falls due to the law of Diminishing Marginal Utility. The consumer stops buying when MU or Price he is willing to pay is equal to market price i.e. MU = P. If the consumer still buys more, MU will become lower than price; a position a rational consumer will not accept.	**4**
12	When with the rise in income of a consumer, the consumer buys less quantity of a good, then that good is an inferior good for that consumer. Suppose when the consumer's income rises, he buys less of coarse cloth and purchases fine cloth. Then for that consumer specifically coarse cloth is an inferior good. (Any other example may also be rewarded.)	**4**
13	The Law of Variable Proportions states that as only one input is increased, others remaining unchanged, Total Product (TP) changes in three phases. **Phase : I** TP rises at an increasing rate. **Phase : II** TP rises at decreasing rate **Phase : III** TP falls **Reason :** **Phase : I** TP rises at an increasing rate because in the beginning as the quantity of the variable input is increased efficient utilization of fixed input takes places due to specialization. This raises efficiency of the variable input. **Phase : II** TP now rises at a decreasing rate because as the variable input is increased, there is pressure on fixed inputs leading to decline in efficiency. **Phase : III** TP starts falling because the quantity of the variable input becomes too much in relation to the fixed input. **(Diagram not required. To be marked as a whole.)**	**4**
14	**(i) Indifference Curve Slopes Downwards:** because in order to consume More units of X good the consumer must give up some quantity of Y good, so that consumer remains on the same level of satisfaction at each point of Indifference Curve. **(ii) Indifference Curve is convex to the origin :** Because it is assumed that Marginal Rate of Substitution falls continuously as the consumer moves downwards along the curve. It is due to the Law of Diminishing Marginal Utility.	**3** **3**

	OR Marginal Rate of Substitution (MRS) means the rate at which a consumer is willing to sacrifice quantity of one good to obtain one more unit of the other good. Let the two goods consumed be A and B. Suppose the following combinations of these two goods have the same utility level for him : Good A Good B MRS 1 8 - 2 4 4B : 1A 3 1 3B : 1A The consumer is willing to sacrifice 4B to obtain second unit of A. For the third unit of A. he is willing to sacrifice less because marginal utility of A decreases as he consumes more of A.	**1** **3** **2**
15	Output TR TC MR MC 1 6 7 6 7 2 12 13 6 6 3 18 17 6 4 4 24 23 6 6 Equilibrium 5 30 31 6 8 The producers is in equilibrium at 4 units of output **Reason :** At this level of output the conditions of producers equilibrium given below are satisfied : (1) MC = MR (2) MC > MR after equilibrium **Profit** = TR – TC = 24- 23 = 1	**2** **1** **1** **1** **1**
16	 - OP_1 is the equilibrium price and OQ_1 is the equilibrium quantity. Demand decreases so that demand curve shifts to the left. The new demand curve is D_2	**2**

	- This creates an excess supply (A_1E_1) at the existing price OP_1. - The excess supply creates competition among sellers, resulting in fall in price. - Fall in price leads to rise in demand and fall in supply as indicated by the arrows. - These changes continue till the market reaches new equilibrium at E_2 with a lower price OP_2 and lower quantity OQ_2. **For the blind candidate :** • Decrease in demand results in excess supply. • Excess supply causes competition among sellers which reduces price • Fall in price results in rise in demand and fall in supply. • Excess supply is reducing. • These changes continue till demand and supply are equal at new price. • New equilibrium price is less	**4** **6**
	SECTION - B	
17	Time deposits are deposits which have fixed period of maturity **Or** which can be withdrawn only after a specified period of time.	**1**
18	When aggregate demand is higher than aggregate supply at full employment, the gap is called inflationary gap.	**1**
19	Full employment is a situation in which all those who are able and willing to work at given wage rate find work.	**1**
20	When total government expenditure exceeds total government receipts excluding borrowing, the difference is called fiscal deficit.	**1**
21	The price of one currency in terms of the other is called foreign exchange rate.	**1**
22	Externalities refer to the benefits (or harms) a firm or an individual causes to another for which it is not paid (or penalised) **Example :** Use of public parks by the people for pleasure for which no payments are made by the public (or any other example). It increases welfare through positive effect on health.	**1** **2**
23	The unit of account function means that monetary unit is treated as the standard unit for quoting prices or borrowing & lending activities etc. This function has made possible keeping of accounts and the emergence of the banking system. **OR** Deferred payments mean payment contracted to be made at some future date. Money serves as a standard of such deferred payments, like in borrowing and lending activities. It has made possible the creation of banking system.	**3** **3**

24	**(i) <u>Tax Receipts</u>** are revenue receipts because these neither create any liability nor reduce asset. **(ii) <u>Disinvestments</u>** are capital receipts because it reduces assets.	**1 ½** **1 ½**
25	Autonomous transactions are those which are not influenced by other transactions in Balance of Payment Account. Accommodating transactions are those which are undertaken to cover deficit / Surplus in BOP.	**3**
26	Rise in foreign exchange rate means that one unit of foreign currency is worth more rupees than earlier. So one unit of foreign currency can now buy more goods and services from India. It makes Indian exports cheaper to the foreign buyers. This is likely to increase exports.	**3**
27	Central bank is banker to the government like commercial banks are to the public. It accepts deposits from government and gives loans to the government in times of need. **OR** Commercial banks are required to keep a certain minimum percentage of deposits as cash reserve with the central bank. Central bank user these reserves to meet emergency requirements of the commercial banks. It is called bankers' bank functions of the central bank.	**4** **4**
28	$Y = \bar{C} + MPC(Y) + I$ $2000 = 200 + MPC(2000) + 100$ $2000MPC = 2000 - 200 - 100$ $MPC = \frac{1700}{2000}$ $MPC = .85$ (No marks if only the final answer is given)	**1½** **1½** **1**
29	This will reduce the inequalities of income as the difference between disposable incomes of higher income and lower income groups will fall. This will also provide more resource to the government for spending on welfare of the poor-	**4**
30	$NNP_{fc}. = (ii + vi) + iv + viii + vii - v$ $= 800 + 100 + 300 + 400 + 500 - 50$ $= Rs. 2050$ Arab. $GNDI = NNP_{fc} + ix + x - iii$ $= 2050 + 200 + 250 - (-30)$ $= Rs. 2530$ Arab (No marks if only the final answer is given)	**2** **1½** **½** **1** **½** **½**

31	**(i) <u>Taking care of aged parents</u>** Should be included because it is a productive service rendered to the parents. **(ii) <u>Payments of corporation tax</u>** should not be included because any tax payment is a transfer payment as no good or service is provided in return **(iii) <u>Expenditure on providing police services by government</u>** should be included because expenditure on any free service provided by government is government's final consumption expenditure. **(No marks if the reason is not given)**	**2** **2** **2**
32	 The economy is in equilibrium at that income level at which saving = investment. The equilibrium level of income is OM as at this level S=I When the economy is not in equilibrium saving is not equal to investment : Suppose S > I. It means AD < AS. This leads to piling up of inventories with the producers. In order to bring down inventories to the desired level , producers cut down production which brings down AS. The trend continues till AD = AS again and S = I where the economy is in equilibrium. Similarly if S < I, then AD > AS. There is decrease in inventories. Producers increase production, AS rises. This continues till AD = AS. **OR**  	**2** **1** **3** **3**

	Steps : **(i)** SS' is the given S- Curve. Draw a 45˚ line from origin **(ii)** Take $O\bar{C}$ equal to OS on the Y-axis. **(iii)** Draw a perpendicular (or line parallel to the y-axis) from B_1till if intersects the 45˚ line at B. **(iv)** Join $\bar{C}$ and B and extend the same to get C-curve	**3**
	For the Blind Candidates : • Definition of Investment. • Equilibrium on the same lines as above without diagram • When not in equilibrium on the same line as above **OR** • Definition of consumption function. • Derivation with explanation.	**1** **2** **3** **1** **5**