SENIOR SCHOOL CERTIFICATE EXAMINATION
MARCH-2015

MARKING SCHEME – ECONOMICS (FOREIGN)

(SET-I)

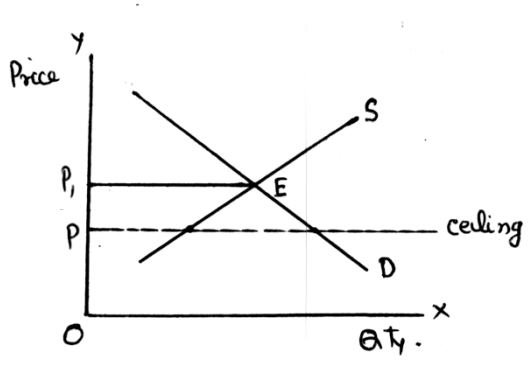
Expected Answers / Value Points

GENERAL INSTRUCTIONS :

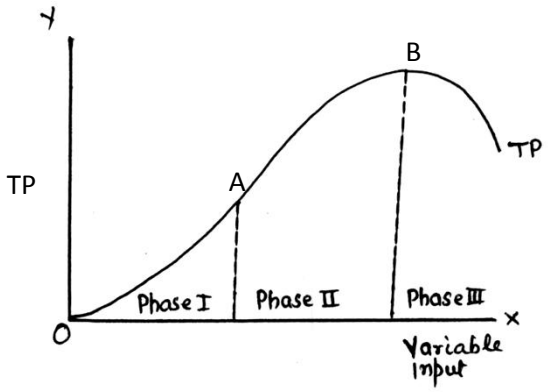
1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate 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.

General Note : In case of numerical question no mark is to be given if only the final answer is given.

C1	Expected Answer / Value Points	Distribution of Marks
1	Utility refers to satisfaction from the consumption of goods.	1
2	**(a)** Substitutes	1
3	**(b)** Does not shift	1

4	**Good X (Units)** / **Good Y (Units)** / **MRT** 0 / 4 / - 1 / 3 / 1Y:1X 2 / 2 / 1Y:1X 3 / 1 / 1Y:1X 4 / 0 / 1Y:1X Since MRT is constant, the PP curve will be downward sloping straight line. **(Diagram not required)**	**1½** **1½**
5	Education raises efficiency by making a worker a skilled worker. This will increase production potential shifting the PP curve upwards. **(Diagram not required)** **OR** Inflow of foreign capital into the country means increase in resources. This will raise production potential of the country leading to upward shift of PP curve. **(Diagram not required)**	**3** **3**
6	The measure of price elasticity of demand has a minus sign because there is inverse relation between price and demand, while the measure of price elasticity of supply has plus sign because there is direct relation between price and supply of a good.	**3**
7	This feature ensures that firms in a perfectly competitive market earn just the normal profit in the long run. New firms enter when the existing firms are earning above normal profit. This raises industry's output, brings down market price and brings profit back to the normal. Existing firms start leaving when facing loss. This lowers industry's output, raises market price, wipes out losses till firms are earning just the normal profit.	**3**
8	 Maximum price ceiling refers to imposition of upper limit on the price of a good by the government. For example OP is price ceiling while OP_1 is equilibrium price. Producers are not allowed to sell good at a price greater than OP. The ceiling is normally imposed on goods needed by masses, like wheat, rice, sugar etc.	**1** **2**

	For blind Candidates Only : Maximum price ceiling refers to imposition of upper limit on the price of a good by the government while minimum price ceiling refers to imposition of a lower limit on the price of a good by government.	**3**
9	**Price** **Exp.** **Demand** 4 400 100 5 400 80 $E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= \frac{4}{100} \times \frac{-20}{1}$ $= -0.80$	**1½** **1** **1** **½**
10	Supply refers to the quantity of a good the producers are willing to produce at a price during a period of time. Technological progress, by raising productivity, brings down per unit cost. Price remaining unchanged, profit increases. This induces producers to supply more. **OR** "Change in supply" refers to increase / decrease in supply due to a change in any factor other than the own price of the good. Imposition of tax raises cost. Price remaining unchanged, profit falls. So producers supply less.	**1** **3** **1** **3**
11	Let the two goods be X and Y. Given Px =1 , Py = 1 and MRS = 2, the consumer is said to be in equilibrium when MRS = $\frac{P_x}{P_y}$ Substituting values we find that 2 > $\frac{1}{1}$ or MRS > $\frac{P_x}{P_y}$ MRS > $\frac{P_x}{P_y}$ means that consumer is willing to pay more for one more unit of X as compared to what the market demands. - The consumer will buy more and more of X. - As a result MRS will fall due to the Law of Diminishing Marginal Utility. - This will continue till MRS = $\frac{P_x}{P_y}$ and consumer is in equilibrium. **(Diagram not required)**	**3** **3**

	OR Given P_x = 2 , P_y = 1 and MU_x=4 , $MU_y = 4$, the consumer will be in equilibrium when $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ Substituting values, we find that consumer is not in equilibrium because : $\frac{4}{2} < \frac{4}{1}$ Or $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ Since per rupee MU_x is lower as compared to per rupee MU_y , the consumer will buy less of X and more of Y. As a result MU_x will rise and MU_y will fall till $\frac{MU_x}{P_x}$ and $\frac{MU_y}{P_y}$ are equal again and the consumer is in equilibrium. **(Diagram not required)**	**3** **3**
12	**The Phases are :** **Phase : I** TP rises at increasing rate i.e. upto A **Phase : II** TP rises at decreasing rate i.e. between A and B. **Phase : III** TP falls i.e. after B. **Reasons :** **Phase I :** Initially variable input is too small as compared to the fixed input, As production starts there is efficient use of the fixed input leading to rise in productivity of the variable input on account of division of labour. As a result TP rises at increasing rate. **Phase II :** After a level of output, pressure on fixed input leads to fall in productivity of the variable input. As a result TP continues to rise but at a decreasing rate. **Phase III :** The amount of variable input becomes too large in comparison to the fixed input causing decline in TP.  	**½x3** **1x3** **1½**

	For Blind Candidate Only **Variable input (Units) / TP (Unit) / MP (Unit)** 1 / 6 / 6 2 / 20 / 14 3 / 32 / 12 4 / 40 / 8 5 / 40 / 0 6 / 37 / -3 **Phases :** **(1)** TP increases at increasing rate upto 2 units. **(2)** TP increases at decreasing rate upto 5 units. **(3)** TP falls from 6 unit onwards. **Causes :** **Same as above**	**1½** **½x3** **3**
13	**The equilibrium conditions are :** **i)** MC = MR and **(ii)** MC > MR after equilibrium. Suppose MC > MR. In this situation it will be profitable for the firm to produce more or less depending upon relative changes in MC and MR till MC = MR. Suppose MC < MR. It will be profitable for the producer to produce more till MC = MR. MC = MR is a necessary condition but not sufficient to ensure equilibrium. If after MC= MR output, MC<MR if more is produced, it will be profitable for the firm to produce more. If after MC= MR output MC > MR, it will not be profitable to produce more and the firm will be in equilibrium. **(Diagram not required)**	**3** **3**
14	- Given equilibrium, demand 'decreases.' - Price remaining unchanged, excess supply emerges. - Excess supply leads to competition among sellers causing price to fall. - Fall in price causes rise (expansion) in demand and fall (contraction) in supply. - The price continues to fall till the market is in equilibrium again at a lower price. **(Diagram not required)**	**6**

	SECTION - B	
15	1. Private final consumption expenditure 3. Government final expenditure 2. Investment Expenditure 4. Net Exports **(Any Two)**	**½ x 2**
16	**(b)** 1	**1**
17	**(c)** Borrowings less Interest payment.	**1**
18	**(c)** Subsidies	**1**
19	**(b)** Negative	**1**
20	$Real\ GDP = \frac{Nominal\ GDP}{Price\ Index} \times 100$ $= \frac{4400}{110} \times 100$ $= 4000$ **(No marks if only the final answer is given)**	**1** **1½** **½**
21	A BOP transaction independent of the state of BOP, i.e. undertaken on its own, is autonomous transaction. A BOP transaction influenced by the state of BOP, i.e. by deficit or surplus is accommodating transaction. **OR** Balance of trade = Exports of goods less imports of goods. Balance on current account = Receipts of foreign exchange on account of current transactions – Payment of foreign exchange on account of current transaction.	**1½** **1½** **1½** **1½**
22	Charity to foreign countries is recorded in the current account of BOP a/c because it is a transfer payment. It is recorded on the debit side because it leads to outflow of foreign exchange. **(No marks if the reason are not given)**	**1½ + 1½**
23	The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. Firstly, because it leads to uniformity in the issue of currency, Secondly, because it gives Central Bank control over money supply. **OR** As the bankers to banks, the Central Bank holds a part of the cash reserves of commercial banks from these reserves. It lends to commercial banks when they are in need of funds. Central bank also provides cheque clearing and remittance facilities to the commercial banks. **(To be Marked as a whole)**	**4** **4**

24	Money supply has two components: Currency and demand deposits with commercial banks. Currency is issued by the central bank while deposits are created by commercial banks by lending money to the people. In this way commercial banks also create money. Commercial banks lend money mainly to investors. The rise in investment in the economy leads to rise in national income through the multiplier effect.	**2** **2**
25	$Y = \bar{C} + MPC(Y) + I$ $1000 = 100 + MPC(1000) + 200$ $MPC = \frac{1000 - 100 - 200}{1000} = 0.7$ $So\ MPS = 1 - MPC = 1 - 0.7 = 0.3$ **(No marks if only the final answer is given)**	**1½** **1** **1** **½**
26	**(i)** Payment of Corporate Tax is a transfer payment and therefore not included in national income. **(ii)** Purchase of machine for own use is investment expenditure by firm and thus included in national income. **(iii)** Purchase of uniforms for nurses by a hospital is intermediate cost for the hospital and thus not included in national income **(No marks if the reason is not given)**	**2** **2** **2**
27	**<u>The Inflationary Gap</u>** is the amount by which aggregated demand exceeds aggregate supply at the full employment level. It is called inflationary because it leads to rise in the price level. **<u>Cash Reserve Ratio:</u>** is that percentage of bank deposits which are held as reserves with the central bank. Central Bank has the right to fix CRR. The central bank can reduce inflationary gap by raising CRR. Raising CRR will reduce lending capacity of the commercial banks. Less lending will leads to fall in aggregate demand helpful in reducing inflation. **OR** **<u>Deficient Demand:</u>** is the amount by which the aggregated demand falls short of aggregate supply at full employment level. It causes fall in price level. **<u>A margin requirements:</u>** is the difference between the amount of the loan and market value of security offered by the borrower against the loan. If the margin imposed is 40%, then the bank is allowed to give loan only upto 60% of the value of security. By reducing margin the lending capacity of the banks can be raised. More lending will leads to more aggregate demand, that is helpful in reducing deficient demand.	**2** **4** **2** **4**
28	Government expenditure and taxes can help in fighting price fluctuations. Inflationary tendencies emerge due to aggregate demand being higher than aggregate supply. While reducing its own expenditure government, can bring down aggregate demand during inflation. During deflation government can increase its expenditure. To raise aggregate supply, tax concessions and subsidies can also be used.	**6**

29	$GNP_{MP} = (i + v) + iii + xi + x - vii + ix$	**1½**
	$= 800 + 100 + 200 + 500 + 30 - (-20) + 70$	**1**
	$= Rs. 1720$ Crore.	**½**
	$Personal\ Income = viii + ii$	**1½**
	$= 1200 + 150$	**1**
	$= Rs. 1350$ Crore	**½**
	(No marks if only the final answer is given)	