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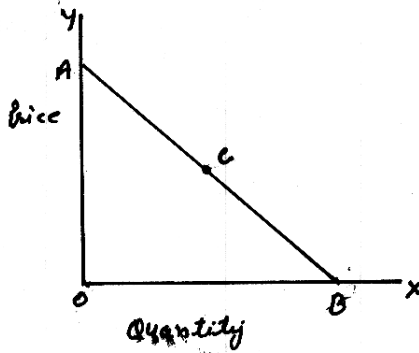## (SET-I)
Expected Answers / Value Points

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.
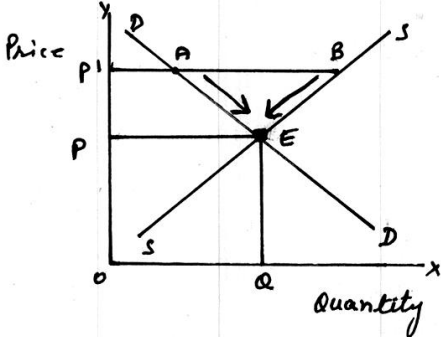
8. ☼ indicates value based questions.

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

A1	Expected Answer / Value Points	Distribution of Marks
	SECTION - A	
☼ 1	It will result in increase in efficiency leading to economic growth.	1
2	It is the want satisfying power of a commodity.	1
3	**(i)** Estimated wages of services of owners. **(ii)** Estimated rent of owner's factory building, etc. **(iii)** Any other (Any two)	½ x 2
4	When the percentage change in its price is greater than the percentage change in its supply.	1

5	As TFC is fixed, increase in output results in fall in AFC.	1
6	It arises because resources are scarce and have alternative uses. Since many goods and services can be produced from these resources, the problem is that which of these should be produced.	3
7	When price of A rises, B becomes relatively cheaper. So it is substituted for A. Thus demand for B will rise. **OR** Causes of increase in demand : **(i)** Rise in price of substitute good. **(ii)** Fall in price of complementary good. **(Brief explanation)** **(Any other relevant cause)**	3 1½ 1½

8	Output	AVC	TVC	MC		½ x 6
	1	13	13	**13**		
	2	11	22	**9**		
	3	10	30	**8**		
	4	10	40	**10**		
	5	11	55	**15**		
	6	12	72	**17**		

9	$E_s = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$	1
	$E_s = \frac{10}{80} \times \frac{16}{2}$	1 ½
	$= 1$	½
	Note : Alternative method can also be used	
	Percentage Change in supply = 20	
	Percentage change in Price = $\frac{2}{10} \times 100 = 20$	1
	$E_s = \frac{\% \text{ change in supply}}{\% \text{ change in price}}$	1 ½
	$E_s = \frac{20}{20} \qquad = 1$	½

10	**(i)** <u>**Use of improved technology**</u> leads to fall in cost and thus rise in profits. Price remaining unchanged, supply curve shifts to the right. **(ii)** <u>**Fall in prices of factor inputs**</u> reduces cost and thus raises profit. Price remaining unchanged, supply curve shifts to the right. (iii) Any other **(Any two)**	1½ 1½

11	For the consumer to be in equilibrium, equilibrium condition to be fulfilled is: $$\frac{MUx}{Px} = \frac{MUy}{Py}$$ Suppose the price of x falls , then $$\frac{MUx}{Px} > \frac{MUy}{Py}$$ Since per rupee MUx is higher, the consumer will buy more of X. Thus there is an inverse relationship between price and demand for a good.	4
12	$$e_d = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$ $$-1.5 = \frac{10}{1500} \times \frac{\Delta Q}{-2}$$ $\Delta Q = 450$ unit Quantity demanded at Rs. 8 is $Q + \Delta Q = 1500 + 450 = 1950$ units **OR** On a straight line downward sloping demand curve AB, price elasticity of demand at point C $$E_d = \frac{\text{Lower segment}}{\text{Upper segment}}$$ $$= \frac{CB}{AC}$$	1 1½ ½ 1 4
13	Main features of a perfectly competitive market : **(i)** There are very large number of buyers and sellers **(ii)** The products are homogenous. **(iii)** There is free entry and exit of firms. **(iv)** Buyers and sellers have perfect knowledge of the market.	1x4

14	Let the two goods the consumer consumes be X and Y. The two conditions of equilibrium are : **(1)** MRS $= \dfrac{P_x}{P_y}$ **(2)** MRS falls as more of X is consumed in place of Y. **Explanation :** **(1)** Suppose MRS $> \dfrac{P_x}{P_y}$ i.e. consumer is not in equilibrium. It means that to obtain one more unit of X consumer is willing to sacrifice more units of Y as compared to what is required in the market. The consumer buys more of X. MRS falls and continues to fall till it is equal to $\dfrac{P_x}{P_y}$ and the consumer is in equilibrium. **(2)** Unless MRS falls as consumer consumes more of X , the consumer will not reach equilibrium again. $\qquad$ (Explanation based on MRS $< \dfrac{P_x}{P_y}$ is also correct) $\qquad\qquad$ **OR** Assuming that the only two goods the consumer consumes are X and Y, the conditions of equilibrium are : **(1)** $\dfrac{MU_x}{P_x} = \dfrac{MU_y}{P_y}$ **(2)** MU falls as more is consumed **Explanation :** **(1)** Suppose $\dfrac{MU_x}{P_x} > \dfrac{MU_y}{P_y}$ .The consumer will not be in equilibrium because per rupee MU of X is greater than per rupee MU of Y. This will induce the consumer to buy more of X by reducing expenditure on Y. It will lead to fall in MUx and rise in MUy. This will continue till $\dfrac{MU_x}{P_x} = \dfrac{MU_y}{P_y}$. **(2)** Unless MU falls as more of a good is consumed the consumer will not reach equilibrium. (Explanation based on $\dfrac{MU_x}{P_x} < \dfrac{MU_y}{P_y}$ is also correct.)	1 1 3 1 1 1 3 1
15	Output $\quad$ MR $\qquad$ MC $\quad$ 1 $\qquad$ 10 $\qquad\;$ 12 $\quad$ 2 $\qquad$ 10 $\qquad\;$ 10 $\quad$ 3 $\qquad$ 10 $\qquad\;$ 9 $\;\boxed{\quad 4 \qquad 10 \qquad\; 10 \quad}$ $\quad$ 5 $\qquad$ 10 $\qquad\;$ 13 $\qquad\qquad\qquad\qquad\qquad$ **(Any other relevant numerical example)** The two conditions of producer's equilibrium are Are = **(i)** MC = MR $\qquad$ **(ii)** Beyond this level of output MC > MR. $\qquad\qquad$ **(Brief explanation required)** These conditions are satisfied when 4 units of output are produced in the given schedule.	2 3 1

16	When at the given price of a commodity its quantity supplied is greater than its quantity demanded then there is **"excess supply"** of this commodity.	1	

At price OP^1 there excess supply equals to AB. This result in competition among sellers. Price will falls as a result there will be expansion of demand and contraction of supply as shown by arrows in the diagram.

These changes continue till price falls to OP at which quantity demanded and supplied are equal to OQ.

For the blind Candidates

Price	Supply	Demand
10	40	30
9	35	35
8	25	40

(Or any other schedule)

At price 10/- there is excess supply equal to (40-30) = 10 units

Explanation (Same as given above)

(Marks in right column for above: 1, 2, 3, 2, 1, 3)

SECTION - B

17	It is the sum of the factor incomes of normal residents of a country.	1
18	Capital goods are the goods which are used for producing other goods.	1
19	Time deposits are deposits which can be withdrawn after a fixed period.	1
20	Interest receipts , dividend from public sector undertaking, external grants etc. (Any two)	½ x 2
21	It is a statement of expected receipts and expenditure of the government during a financial year.	1
22	**1.** Incomes are created in production units. **2.** Production units distribute this income to households in return for factor services provided. **3.** Households spend this income on goods and services produced by the production units, thus making the circular flow of income complete. **(Diagram Not necessary)**	3

23	Money as a store of value implies that it can be stored for use in future. One can use one's present income in the future because money comes in the convenient denominations and is easily portable.	3
	OR	
	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.	3
24	Average propensity to save is the ratio of saving and income i.e. S/Y. The sum of average propensity to save and average propensity consume is 1.	1 2
25	The ratio of increase in income to increase in investment $\left(\frac{\Delta Y}{\Delta I}\right)$ is called investment multiplier.	1
	Investment Multiplier K=$\frac{1}{MPS}$ OR K=$\frac{1}{1-MPC}$	
	The minimum value of MPS is zero (MPC=1), in this case value of Multiplier is infinity which is its maximum value.	1
	The maximum value of MPS is 1 (MPC=0). In this case K=1 which is its minimum value.	1
26	**The current account of BOP records :** Exports and imports of goods, Exports and imports of services, Income receipts and payments and Transfer receipts and payment. **Whereas the capital account records :** Borrowings from and to abroad , Investments from and to abroad and Decrease and increase in foreign exchange reserves.	3
27	Money creation (or deposit creation or credit creation) by the banks is determined by (i) the amount of the initial fresh deposits and (ii) the Legal Reserve Ratio (LRR) the minimum ratio of deposit legally required to be kept as liquid assets by the banks. It is assumed that all the money that goes out of banks is redeposited into the banks.	
	Let the LRR be 20% and there is a fresh deposits of Rs. 10,000. As required the banks keep 20% i.e. Rs. 2000 as reserves. Suppose the banks lend the remaining Rs. 8000. Those who borrow, use this money for making payments. As assumed those who receive payments, put the money back into the banks. In this way banks receive fresh deposits of Rs. 8000. The banks again keep 20% i.e. Rs. 1600 as reserves and lend Rs. 6400, which is also 80% of the last deposit. The money again comes back to the banks leading to a fresh deposit of Rs. 6400.The money goes on multiplying in this way , and ultimately total money creation is Rs. 50000.	4
	Given the amount of fresh deposit and the LRR, the total money creation is :	
	$$\text{Total money creation} = Initial\ deposit \times \frac{1}{LRR}$$	
	OR	
	Purchase or sale of government securities by central bank in the open market is called open market operations. When central bank wants to increase money supply, it buys Govt. securities and money supply increases. When it wants to decrease money supply it sells government securities and money supply decreases.	4

28	$NVA \, at \, F.C. = (iv) + (ii) - (i) - (iii) - (v)$	**2**
	$= 500 + 50 - 300 - 70 - 20$	**1½**
	$= Rs. \, 160 \, lakhs.$	**½**
☼ **29**	Controlling rise in price of foreign exchange makes imports cheaper. The economic value is that common man now has to pay less for goods and services imported.	**4**
30	$Personal \, Disposable \, Income \, =$ $\quad (i) + (iii) + (vi) + (vii) - (ix) - (ii) - (v) - (viii)$ $= 700 + (-20) + 80 + 60 - (-10) - 40 - 150 - 70$ $= Rs. \, 570 \, Crore$	**3** **2** **1**
	OR	
	$N.I. = (iv) + (ii) + (i) + (vi) + (iii) - (vii))$ $= 600 + 300 + 150 + 50 + (-20) - 90$ $= Rs. \, 990 \, Crore$	**3** **2** **1**
31	**(a)** Autonomous investment is given and not influenced by income. Induced investment is investment that is influenced by income.	**2**
	(b) $Y = C + I$ and $C = \bar{C} + MPC(Y)$ $\quad Y = \bar{C} + MPC(Y) + I$ $\quad\; = 100 + 0.75Y + 5000$ $\quad\quad 0.25Y = 5100$ $\quad Y = Rs. \, 20400$	**2** **1½** **½**
32	**(a)** A tax whose impact and incidence falls on the same person is called a **Direct Tax**. A tax whose impact and incidence fall on different persons is called an **Indirect Tax**.	**2**
	Examples: Direct Tax **(i)** Income Tax	**½**
	(ii) Wealth Tax etc. (any one)	
	Indirect Tax **(i)** Sales Tax	**½**
	(ii) Service Tax etc. (Any one)	
	(b) Revenue Expenditure is that expenditure which neither creates any asset nor reduces any liability whereas **capital expenditure** is that expenditure which either creates assets or reduces liability.	**2**
	Example : - Revenue Expenditure : Payment of salary, pension, subsidies etc.	**½**
	Capital Expenditure : Construction of Roads, expenditure on machinery etc.	**½**