

SENIOR SCHOOL CERTIFICATE EXAM

MARCH 2018

MARKING SCHEME ECONOMICS – XII

SET (58/1/2/3)

Expected Answers / Value Points

GENERAL INSTRUCTIONS :

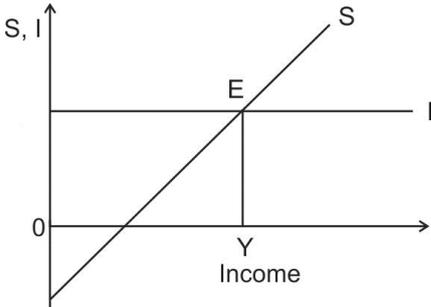
- 1 The Marking Scheme carries only suggested value points for the answers. These are only guidelines and do not constitute the complete answers. Students can have their own expression and if the expression is correct, marks should be awarded accordingly.
- 2 As per orders of the Hon'ble Supreme Court, a candidate would now be permitted to obtain a photocopy of his/her Answer Book on payment of the prescribed fee. Examiners/Head Examiners are, therefore, once again reminded that they must ensure that evaluation is carried out strictly as per value points for each answer as given in the Marking Scheme.
- 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.

			<p>axis and coincides with the AR curve.</p> <p style="text-align: center;">OR</p> <p>Supply refers to the quantity of a good which a producer is willing to supply at various possible prices during a given period of time.</p> <ul style="list-style-type: none"> - Increase in supply means supply rises due to favourable change in factors affecting supply other than own price of that good whereas - Extension in supply means increase in quantity supplied due to rise in price of that good, other factors remaining constant. 	<p style="text-align: right;">1</p> <p style="text-align: right;">1½</p> <p style="text-align: right;">1½</p>
9.	8.	7.	<p>‘Price Floor’ is the minimum price fixed by the government below which sellers cannot sell their product.</p> <p>Since this price is normally fixed above the equilibrium price, there is excess supply in the market. As the seller may not be able to sell all that he wants to sell, he may illegally attempt to sell the product at a price below the floor price fixed by the government.</p>	<p style="text-align: right;">1</p> <p style="text-align: right;">3</p>
10.	11.	12.	<p>The consumer is in equilibrium when</p> <p>a) $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$</p> <p>b) MU continuously falls.</p> <p>Explanation</p> <p>Condition 1 Suppose per rupee marginal utility by spending on good X is greater than on good Y. This induces the consumer to spend more on good X by reducing spending on Y. This leads to fall in MU_X and rise in MU_Y. This shift of spending from good Y to good X continues till $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$</p> <p style="text-align: center;">(Answer based on $\frac{MU_X}{P_X} < \frac{MU_Y}{P_Y}$ is also acceptable)</p> <p>Condition 2 Marginal utility falls as more units are consumed i.e. the law of diminishing marginal utility is operating. This ensures fulfilment of the first condition.</p> <p style="text-align: right;">(Diagram not required)</p> <p style="text-align: center;">OR</p> <p>The three properties of ICs are</p> <p>1) An IC slopes downwards from left to right. It is because to consume more quantity of one good, some quantity of the other good must be reduced for the consumer to remain on the same IC.</p>	<p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">3</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p>

			<p>2) An IC is convex towards origin. It is because MRS declines as more is consumed of one good, because of operation of law of diminishing marginal utility.</p> <p>3) An IC to the right represents higher level of satisfaction. It is because an IC to the right shows more units of goods consumed and more units of goods consumed are assumed to have more satisfaction.</p> <p style="text-align: right;">(No diagram is required)</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>
11.	12.	10.	<p>According to the Law of Variable Proportions – as only one input is increased, others remaining unchanged, the total product increases at an increasing rate, then at a decreasing rate and ultimately falls.</p> <div style="text-align: center;"> </div> <p>Phase I In the first phase, TP increases at an increasing rate upto point A.</p> <p>Phase II In the second phase, TP increases at a diminishing rate between point A & B.</p> <p>Phase III In the third phase, TP starts falling beyond point B.</p> <p>FOR BLIND CANDIDATES – Any Valid Schedule</p>	<p>1</p> <p>2</p> <p>1</p> <p>1</p> <p>1</p> <p>2</p>
12.	10.	11.	<p>1) Large number of buyers and sellers – The number of buyers and sellers is so large that an individual seller or buyer has insignificant share of total output sold or purchased.</p> <p>2) Homogeneous products – The buyers treat the products of all the firms in the industry as identical/homogeneous.</p> <p>3) Perfect knowledge – All producers and consumers are fully informed about the market.</p> <p>4) Freedom of entry and exit – There are no barriers in the way of new firms joining the industry and existing firms leaving the industry.</p>	<p>1½x4=6</p>
13.	14.	16.	(a) Rises	1
14.	13.	15.	Money Multiplier = 5	1
15.	16.	14.	(b) Banking facilities to public	1
16.	15.	13.	APS = 0.25	1

17.	17.	18.	<p>(a) <u>A car used as a taxi</u> - It is a <u>capital good</u> because it is used for producing services for generating income. 1</p> <p>(b) <u>Refrigerator in a hotel</u> – It is a <u>capital good</u> because it is used for providing services over a period of time to the production unit. 1</p> <p>(c) <u>Air-conditioner in a house</u> – It is a consumer good because it is used for satisfaction of a want by a household. 1</p> <p style="text-align: center;">(No marks if reason is not given or is incorrect)</p> <p style="text-align: center;">OR</p> <p>Intermediate Consumption refers to the expenditure incurred by a production unit on purchasing those goods and services from other production units, which are meant for resale or for using up completely during the same year. 1½</p> <p>For example: Milk purchased by a hotel because it is purchased from another production unit for resale indirectly. (or any other relevant example) ½</p> <p>Whereas Final Consumption refers to the expenditure on goods and services meant for final consumption and investment. 1</p>	
18.	18.	17.	<p>i) $C = 100 + 0.6Y$ (given) So $MPC = 0.6$ $MPS = 1 - MPC$ $= 1 - 0.6$ $= 0.4$ 1</p> <p>ii) $S = -\bar{C} + (1 - b)Y.$ $S = -100 + 0.4 Y$ 1</p>	
19.	21.	20.	<p>a) <u>Bank Rate Policy</u> – It is the rate at which the central bank lends funds to the commercial banks. An increase in the bank rate increases the costs of borrowing from the central bank. This will then cause banks to increase the rate at which they lend. This will discourage people from taking loans, thus reducing the volume of credit in the economy and vice-versa. 2</p> <p>b) <u>Cash Reserve Ratio (CRR)</u> – It is the proportion of deposits that commercial banks have to keep as cash reserves with the central bank. An increase in CRR has the effect of reducing the bank's excess reserves and thus decrease their ability to give credit. 2</p> <p style="text-align: center;">(Any other relevant method is to be considered) (Any Two)</p> <p style="text-align: center;">OR</p> <p>It means that the Central bank has the sole authority to issue currency notes in the country. The monopoly of issuing notes by the central bank ensures uniformity in the notes issued. 4</p> <p style="text-align: center;">(To be marked as a whole)</p>	

20.	19.	<p>21. National Income is determined in an economy at a point where planned saving equals planned investment.</p>  <p>In the above diagram E is the equilibrium point where savings equals investment at national income Y.</p> <p>At any output level less than equilibrium output, $S < I$ means there is unplanned decrease in inventories. To increase inventories to the planned level, producers increase output leading to increase in income. With such rise in income, saving rises again till $S = I$ at equilibrium E.</p> <p style="text-align: center;">(Note : Explanation with $S > I$, is also acceptable.)</p> <p>FOR BLIND CANDIDATES – Any Valid Schedule</p>	<p>1</p> <p>1½</p> <p>1½</p> <p>1½</p>																																
21.	20.	<p>19. Investment multiplier is a measure of the effect of change in the initial investment on change in final income.</p> <p>Numerical example Suppose $\Delta I = ₹ 100 \text{ cr.}$ $MPC = 0.8$</p> <p>Initial investment of ₹ 100 cr. raises the income by ₹ 100 cr. In the first round, this additional income causes an increase in consumption expenditure which in turn, generates more income (as one man's expenditure is another man's income). This process continues till the total income is equal to multiplier times the initial investment.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Round</th> <th>ΔY</th> <th>ΔC</th> <th>ΔS</th> </tr> </thead> <tbody> <tr> <td>I</td> <td>100</td> <td>80</td> <td>20</td> </tr> <tr> <td>II</td> <td>80</td> <td>64</td> <td>16</td> </tr> <tr> <td>III</td> <td>64</td> <td>51.2</td> <td>12.8</td> </tr> <tr> <td>–</td> <td>–</td> <td>–</td> <td>–</td> </tr> <tr> <td>–</td> <td>–</td> <td>–</td> <td>–</td> </tr> <tr> <td>–</td> <td>–</td> <td>–</td> <td>–</td> </tr> <tr> <td>Total</td> <td>500</td> <td>400</td> <td>100</td> </tr> </tbody> </table> <p style="text-align: right;">(or any other relevant example)</p> <p>$K = \frac{1}{1 - MPC}$</p> <p>$K = \frac{1}{1 - 0.8}$</p> <p>$K = 5$</p> <p>So $\Delta Y = K \cdot \Delta I$</p>	Round	ΔY	ΔC	ΔS	I	100	80	20	II	80	64	16	III	64	51.2	12.8	–	–	–	–	–	–	–	–	–	–	–	–	Total	500	400	100	<p>1</p> <p>3</p>
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			$= 5 \times 100$ $= ₹500$ <p align="center">(Explanation without schedule is also acceptable)</p>	
22.	23.	23.	<p>(a) <u>Revenue expenditure</u> – It is the expenditure made by the government that neither creates any assets nor reduces any liability. <u>Capital expenditure</u> – It is the expenditure incurred by the government that either creates assets or reduces liabilities.</p> <p>(b) Fiscal Deficit refers to the excess of ‘total expenditure’ over ‘total receipts excluding borrowings’.</p> <p>Whereas Primary deficit is defined as fiscal deficit less interest payments.</p> <p align="center">OR</p> <p>Revenue Receipts are receipts which neither create a liability nor lead to reduction in assets whereas Capital Receipts are the receipts which either create a liability or reduce assets of the govt.</p> <p>Components of Revenue Receipts are –</p> <ul style="list-style-type: none"> - Tax revenue receipts (direct and indirect taxes) - Non-tax revenue receipts. <p>Components of Capital Receipts are</p> <ul style="list-style-type: none"> - recovery of loans - borrowings and other liabilities - other capital receipts like disinvestment. 	<p>1½ x 2=3</p> <p>1½ x 2=3</p> <p>3</p> <p>1½</p> <p>1½</p>
23.	24.	22.	<p><u>Fixed exchange rate</u> is the rate which is decided by the government at which domestic currency can be exchanged with foreign currency.</p> <p><u>Flexible exchange rate</u> is the rate which is determined by the forces of demand and supply of foreign exchange in the foreign exchange market.</p> <p>The foreign exchange rate and demand for foreign exchange are inversely related. The supply of foreign exchange and rate of foreign exchange are directly related. The exchange rate at which demand and supply of foreign exchange are equal is the equilibrium exchange rate.</p> <p align="center">(Diagram is not required)</p>	<p>2</p> <p>4</p>
24.	22.	24.	<p>(a) $GDP_{MP} = (ii) + (i) + (iii) + (iv)$ $= 3,500 + 4,000 + 1,100 + 500$ $= ₹ 9,100 \text{ Crores}$</p> <p>(b) $NNP_{FC} = GDP_{MP} - (ix) + (v) - (vi)$ $= 9,100 - 120 + 100 - 300$ $= ₹ 8,780 \text{ Crores}$</p> <p align="center">(No marks to be awarded if only final answer is given)</p>	<p>1½</p> <p>1</p> <p>½</p> <p>1½</p> <p>1</p> <p>½</p>