SOLVED PAPER with CBSE Marking Scheme	C.B.S.E. 2018 Class–XII Delhi & Outside Delhi	Economics

Time : 3 Hours **Max. Marks : 80**

General Instructions :

(i) All questions in both the sections are compulsory.
(ii) Marks for questions are indicated against each question.
(iii) Question Nos. 1-4 and 13-16 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.
(iv) Question Nos. 5-6 and 17-18 are short-answer questions carrying 3 marks each. Answers to them should normally not exceed 60 words each.
(v) Question Nos. 7-9 and 19-21 are also short-answer questions carrying 4 marks each. Answers to them should normally not exceed 70 words each.
(vi) Question Nos. 10-12 and 22-24 are long-answer questions carrying 6 marks each. Answer to them should normally not exceed 100 words each.
(vii) Answers should be brief and to the point and the above word limits should be adhered to as for as possible.

SECTION-A

1. State one example of positive economics. **1**

2. Define fixed cost. **1**

3. When the Average Product (AP) is maximum, the Marginal Product (MP) is : (Choose the correct alternative) **1**
(a) Equal to AP (b) Less than AP
(c) More than AP (d) Can be any one of the above

4. When the total fixed cost of producing 100 units is ₹ 30 and the average variable cost ₹ 3, total cost is : (Choose the correct alternative)
(a) ₹ 3 (b) ₹ 30
(c) ₹ 270 (a) ₹ 330 **1**

5. Explain the central problem of "for whom to produce". **3**

OR

Explain the central problem of "choice of technique".

6. What is meant by inelastic demand ? Compare it with perfectly inelastic demand. **3**

7. Given the price of a good, how will a consumer decide as to how much quantity to buy of that goods ? Explain. **4**

OR

What is Indifference Curve ? State three properties of indifference curves.

8. When the price of a commodity changes from ₹ 4 per units to ₹ 5 per unit, its market supply rises from 100 units to 120 units. Calculate the price elasticity of supply. Is supply elastic ? Give reason. **4**

9. What is meant by price ceiling ? Explain its implications. **4**

10. Explain the conditions of consumer's equilibrium using Indifference Curve Analysis. **6**

11. Explain the conditions of producer's equilibrium in terms of marginal revenue and marginal cost. **6**

12. State three characteristics of monopolistic competition. Which of the characteristics separates it from perfect competition and why ? **6**

OR

Explain the implications of the following :

(a) Freedom of entry and exit of firms under perfect competition.

(b) Non-price competition under oligopoly.

SECTION-B

13. Which of the following affects national income ? (Choose the correct alternative) **1**

(a) Goods and Services tax

(b) Corporation tax

(c) Subsidies

(d) None of the above

14. Define money supply. **1**

15. The central bank can increase availability of credit by : (Choose the correct alternative) **1**

(a) Raising repo rate

(b) Raising reverse repo rate

(c) Buying government securities

(d) Selling government securities

16. Why does consumption curve not start from the origin ? **1**

17. Which among the following are final goods and which are intermediate goods ? Give reasons. **3**

(a) Milk purchased by a tea stall

(b) Bus purchased by a school

(c) Juice purchased by a student from the school canteen.

OR

Give nominal income, how can we find real income ? Explain.

18. Define multiplier. What is the relation between marginal propensity to consume and multiplier ? Calculate the marginal propensity to consume if the value of multiplier is 4. **3**

19. Explain the role of the Reserve Bank of India as the "Lender of last resort". **4**

20. What is meant by inflationary gap ? State three measures to reduce this gap. **4**

OR

What is meant by aggregate demand ? State its components.

21. The value of marginal propensity to consume is 0·6 and initial income in the economy is ₹ 100 crores. Prepare a schedule showing Income, Consumption and Saving. Also show the equilibrium level of income by assuming autonomous investment of ₹ 80 crores. **4**

22. Explain the meaning of the following :

(a) Revenue deficit (b) Fiscal deficit **6**

(c) Primary deficit

OR

Explain the following objectives of government budget :

(a) Allocation of resources

(b) Reducing income inequalities

23. (a) Explain the impact of rise in exchange rate on national income.

(b) Explain the concept of 'deficit' in balance of payments.

24. Calculate (a) Net National Product at market price, and (b) Gross Domestic Product at factor cost : **6**

		(₹ in crores)
(i)	Rent and interest	6,000
(ii)	Wages and salaries	1,800
(iii)	Undistributed profit	400

(iv)	Net indirect taxes	100	
(v)	Subsidies	20	
(vi)	Corporation tax	120	
(vii)	Net factor income to abroad	70	
(viii)	Dividends	80	
(ix)	Consumption of fixed capital	50	
(x)	Social security contribution by employers	200	
(xi)	Mixed income	1,000	**6**

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SECTION-A

1. Demand falls when price rises is an example of positive economics. **1**

[CBSE Marking Scheme 2018]

Detailed Answer :

Demand falls when price rises is an example of positive economics.

2. Fixed cost is the cost which does not change with the change in output of a good. **1**

3. **(a)** Equal to AP **1**

4. **(d)** ₹ 330 **1**

5. Goods and services are produced for those who have the purchasing power or income to buy them. Therefore, the problem of "for whom to produce" amounts to the problem of distribution of income in the society. **3**

OR

"Choice of technique" refers to the central problem of "HOW TO PRODUCE" that relates to the central issue of which technique of production should be employed to produce a good.

The problem is to use capital intensive technique or labour intensive technique for the production of goods in the economy. **3**

[CBSE Marking Scheme 2018]

Detailed Answer :

This problem is concerned with the distribution of income in an economy. It is concerned with either to produce goods for high income groups or low– income groups. The capacity of people to pay for goods depends upon their level of income. Thus, this problem is concerned with distribution of income among factors of production who contribute in the production process. It has two aspects :

(i) **Personal distribution :** It means how national income of an economy is distributed among different groups of people in the society.

(ii) **Factoral distribution :** It relates to income share of different factors of production such as wages for labour, interest for capital, rent for land etc.

OR

The problems of how to produce is a problem relating to **choice of technology.**

There are two techniques of production :

(i) Labour Intensive Technique in which labour is used more than capital.

(ii) Capital Intensive Technique in which capital is used more than labour.

An economy must decide as to which technique is to be used so that efficient production is obtained. It is the central problem in every economy, because it impacts production (or efficiency) on the one hand and the degree of employment on the other hand. Higher productivity often implies a lower degree of employment.

6. When percentage change in quantity demanded is less than percentage change in price, demand is said to be inelastic. **1½**

Whereas, when quantity demanded does not change at all, in response to a given change in price of the commodity, the demand is said to be perfectly inelastic. **1½**

[CBSE Marking Scheme 2018]

Detailed Answer :

Inelastic Demand ($Ed < 1$) : It is also called less than unitary elastic demand. When percentage change in quantity demanded is less than the percentage change in price the demand is said to be inelastic. The demand of goods is called perfectly inelastic. When with the change in the price there is no change in demand for the goods. Thus, when change in price produces no change in demand then such a demand is called perfectly inelastic demand. In this situation demand curve is a straight line parallel to the Y-axis.

7. The consumer decides how much quantity of the commodity is to be purchased by comparing its marginal utility (MU) with price to be paid (P). The consumer buys as long as MU is greater or at least equal to Price i.e. MU > P.

As the consumer consumes more units of the good, Marginal Utility declines due to the operation of the Law of Diminishing Marginal Utility.

If the consumer consumes even after, MU = P, Marginal Utility will become lesser than Price, i.e MU<P. **4**

(to be marked as a whole)

OR

Indifference Curve is locus of points representing different combinations of the only two goods the consumer consumes with each combination having same utility level. **1**

Properties of Indifference Curve are -

(i) Indifference Curve slopes downward from left to right.

(ii) Indifference Curve is convex to the origin

(iii) Higher Indifference Curve represents higher utility. **1×3 = 3**

(Or any other relevant property)

8. $E_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ **1**

$= \frac{20}{1} \times \frac{4}{100} = 0{\cdot}8$ **2**

Supply is inelastic, as Es is less than one. **1**

[CBSE Marking Scheme 2018]

Detailed Answer :

$P = ₹\,4 \qquad Q_s = 100$

$P_1 = ₹\,5 \qquad Q_1 = 120$

$\Delta P = P_1 - P \qquad \Delta Q_s = Q_1 - Q_s$

$= 5 - 4 \qquad = 120 - 100$

$= 1 \qquad = 20$

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

$$= \frac{4}{100} \times \frac{20}{1}$$

$$= 0{\cdot}8$$

$$E_s = 0{\cdot}8 < 1$$

No, the supply is not elastic. It is inelastic because price elasticity of supply is less than one.

9. 'Price Ceiling' is **the maximum price that sellers can legally charge** for a product or a service fixed by the government. **1**

Since the price celling level is normally below equilibrium price, there would be **excess demand** for the good, in the market leading to shortage of good. Such shortages, could lead to **black marketing** of the good. **3**

(Diagram not required)

[CBSE Marking Scheme 2018]

Detailed Answer :

Price Ceiling : It refers to fixing of the maximum price of a commodity at a level lower than the equilibrium price. Government imposes price ceiling in case of essential commodities (Wheat, Sugar, Kerosene etc.) when the equilibrium price determined by free market forces of demand and supply is high.

Implications of price ceiling :

(i) Shortage (excess demand) : At this controlled price quantity demanded is more than quantity supplied. It creates a shortage and to overcome this shortage government may enforce the rationing system.

(ii) Black marketing : If rationing is not administered by the government effectively it results in black marketing. Due to excess demand buyers will compete and they would be willing to buy a commodity at a higher price than the price fixed by the government.

10. Let the two goods consumed be X and Y. A consumer attains equilibrium when :

(1) $MRS_{xy} = \frac{P_X}{P_y}$ **1**

(2) MRS_{xy} must be decreasing due to the assumption of diminishing marginal rate of substitution to ensure,

$MRS_{xy} = \frac{P_X}{P_y}$ **1**

Explanation to the conditions of consumer's equilibrium:

Condition 1: Suppose $\mathbf{MRS_{xy} > \frac{P_X}{P_y}}$

- It means that the consumer is willing to sacrifice more of Good Y than he needs to give up actually in the market for an extra unit of Good X.
- The consumer gains and increases consumption of good X. **3**
- As consumption of good X increases, satisfaction derived from Good X falls and satisfaction derived from Good Y rises. Thus, MRSxy falls till $MRS_{xy} = \frac{P_X}{P_y}$

Note:- Answer based on $\mathbf{MRS_{xy} < x < \frac{P_X}{P_y}}$ **is also acceptable.**

Condition 2:

Unless MRSxy is declining consumer may not be able to attain equilibrium. **1**

(Diagram not required)

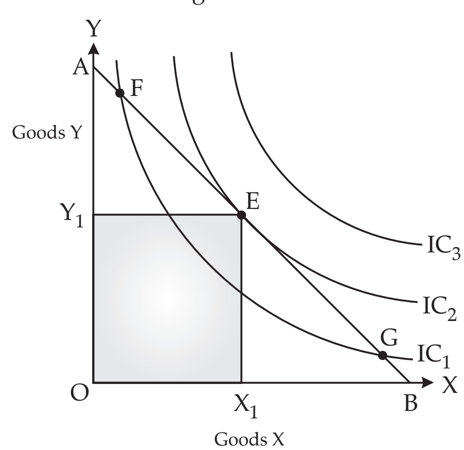
[CBSE Marking Scheme 2018]

Detailed Answer :

According to Indifference Curve approach, consumers equilibrium is determined if the following two conditions are satisfied :

(i) MRSxy = Px / P_y (ii) MRSxy is declining.

MRSxy is the rate at which the consumer is willing to sacrifice Y to obtain one more unit of X.



Thus, we can say that, "A consumer is in equilibrium at a point where budget line is tangent to Indifference Curve".

Slope of Indifference Curve = Slope of budget line i.e. MRSxy = Px/P_y.

In the diagram, equilibrium is at point E, where the budget line touches the highest attainable indifference curve IC_2 within consumer's budget.

Bundles on the Indifference Curve IC_3 are not affordable within budget.

Bundles on the Indifference Curve IC_1 (i.e., points F and G) are lying on a lower Indifference Curve i.e. will have lower utility levels as compared to the tangency point E. Therefore, the consumer will choose only the tangency point on the budget line.

Therefore, E is a point of consumer's equilibrium where he maximizes his satisfaction. Point E is also called the "Optimum Consumption Point" where he consumes OX_1 of X and OY_1 of Y.

If MRSxy > MRE, it implies that the consumer is willing to sacrifice more unit of Y than what market requires. This induces the consumer to buy more of X. When he buys more of X, utility derived from X falls and he is willing to sacrifice less of Y. Thus MRSxy starts declining. He continues to consume more of X, till MRSxy = MRE = P_x/P_y.

If MRSxy < MRE, it implies consumer is willing to sacrifice less units of Y than what the market requires. He decreases the consumption of X. Due to this MRSxy began to rise, he continues to decrease the consumption of X till MRSxy = MRE.

11. A producer is said to be in equilibrium when he produces that level of output at which :

(a) MC = MR **1**

(b) MC > MR after the MC = MR output level **1**

Explanation to the conditions:

Condition – 1 MC = MR

Suppose when a producer starts producing a good, with the given factors and finds MR > MC he goes on producing because every new unit produced adds to profits.

As he goes on producing he may face the output level when MC = MR and this output satisfies MC = MR condition of equilibrium.

Condition - 2 MC > MR after the MC=MR output level

After MC = MR level, if MC > MR, every new unit produced is sold at a loss. So, he would not like to produce more units.

Therefore, only that output level at which MC = MR, and beyond which MC > MR, is the producer's equilibrium.

(Diagram not required).

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Detailed answer :

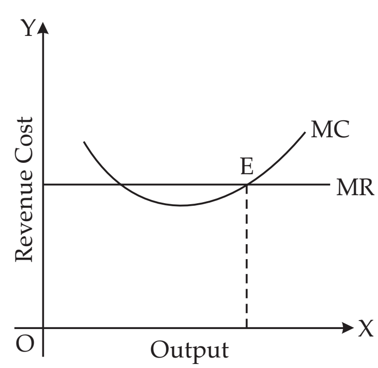
A producer is said to be in equilibrium when he maximises his profits or minimises his losses.

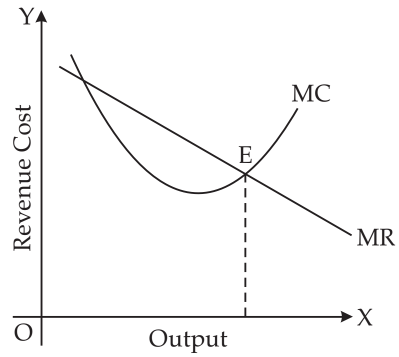
There are two conditions of producer's equilibrium :

(i) MC = MR

(ii) MC is greater than MR after equilibrium

The conditions are fulfilled at point E in the diagram





(Any one of these diagrams)

Explanation :

(i) So long as MC is less than MR, it is profitable for the producer to go on producing more because it adds to profits. He stops producing more when MC becomes equal to MR.

(ii) When MC is greater than MR after equilibrium it means producing more will lead to decline in profits.

12. Characteristics of monopolistic competition –

(i) A large number of sellers and buyers. **1**

(ii) Firms produce differentiated products. **1**

(iii) Freedom of entry and exit from the market. **1**

- **Differentiated Product :** Under monopolistic competition firms produce differentiated products, which are close substitutes of each other. If buyers prefer the product of a particular producer, that producer is in a position to influence the price. **3**

  Whereas, in a perfectly competitive market products are homogenous and firm is the price-taker. This makes monopolistic competition different from perfect competition.

OR

(a) Under perfect competition there are no barriers to entry and exit of firms into/from industry. When in short run there are abnormal profits, new firms enter. This will increase market supply and price will fall. This process continues till abnormal profits reduce to normal profits. **3**

Similarly if firms are incurring losses, firms will start leaving. This reduces market supply and price will rise till losses are wiped out.

(b) As there are few firms in oligopoly, firms try to avoid price competition for the fear of price war. They use non-price methods price like advertising, free gifts etc. to compete with others. **3**

[CBSE Marking Scheme 2018]

Detailed Answer :

Monopolistic Competition is a type of imperfect competition such that producers sell products that are differentiated from one another as goods but not perfect substitutes (such as from branding, quality, or location). Monopolistic Competition is found in the industry where there is a large number of sellers selling differentiated product to a large number of buyers. There is freedom of entry and exit for the firms.

Characteristics of Monopolistic Competition :

(1) Large number of buyers and sellers,

(2) Product differentiation,

(3) Free entry and exit of firms.

Product differentiation makes monopolistic competition different from perfect competition. All the firms in the perfect competitive market sell homogeneous (identical) products. The products are perfect substitutes to one another. Whereas product differentiation or differentiated product is a distinct feature of monopolistic competition. Though the number of firms is large but their product differs in colour, shape, brand, quality, durability, etc.

It has two important implications:

(i) It allows a firm a partial control over price of its product.

(ii) It causes high elasticity of demand for the firm's product owing to the availability of a large number of close substitutes.

OR

(a) **Freedom of entry and exit to firms under perfect competition:** The industry is characterised by freedom of entry and exit of firms. In a perfectly competitive market, there are no barriers to entry or exit of firms.

Implication : The implication of this assumption is that given sufficient time, all firms in the industry will be earning just normal profit.

Suppose the existing firms are earning super normal profits. Attracted by the positive profits, the new firms enter the industry. The industry's output, i.e., market supply goes up. The price comes down. New firms continue to enter till economic profits are reduced to zero.

Now suppose the existing firms are incurring losses. The firms start leaving the industry. The industry's output starts falling and price starts going up. All this continues till losses are wiped out. The remaining firms in the industry once again earn just the normal profits.

(b) **Non-price competition under oligopoly:** When there are only a few firms they are normally afraid of competing with each other by lowering the price. It may start a price war and firm who starts the price war may ultimately lose. Thus, firms indulge in non-price competition in order to increase their shares in sales and profit. Under non-price competition they mainly utilise publicity and selling techniques for increasing the sales of their product.

Firms under oligopoly follow the policy of rigidity. Price rigidity refers to a situation in which price tends to stay fixed irrespective of changes in demand and supply conditions.

SECTION-B

13. **(c)** Subsidies. **1**

[CBSE Marking Scheme 2018]

Detailed answer :

(b) Corporation Tax.

14. Money Supply constitutes money held by the public (or outside the banks) and demand deposits. **1**

15. **(c)** Buying government securities. **1**

16. Consumption curve does not start from origin because of the assumption that there is some minimum level of consumption even at zero level of income. **1**

17. **(a)** Milk purchased by a tea stall is intermediate good because it is purchased from another production unit for resale indirectly. **1**

(b) Bus purchased by a school is a final product because expenditure on school bus is investment expenditure. **1**

(c) Juice purchased by a student from the school canteen is a final good because purchased by consumer for own use and not for resale. **1**

(No marks to be awarded if the reason is not given or incorrect reason is given)

OR

Given nominal income other than base year we can find real income by eliminating changes in price index. The effect of change in prices on the nominal income of current year can be eliminated in the following way : **3**

$$\text{Real income} = \frac{\text{Nominal Income}}{\text{Price index}} \times 100$$

Price index plays the role of deflator deflating current price estimates into constant price estimate.

(To be marked as a whole)

[CBSE Marking Scheme 2018]

Detailed Answer :

(a) Milk purchased by a tea stall is an intermediate good, because it is purchased by a firm as a raw material for the process of production of other good.

(b) Bus purchased by a school is a final good as it is purchased for the consumption and not for reselling.

(c) Juice purchased by a student from the school canteen is a final good as it is purchased for the consumption and not for reselling.

OR

Nominal income is the income one gets in money terms and real income is the amount of goods and services a person can buy from the nominal income. Nominal income is calculated with current year price and real income is calculated with base year price. Real income is calculated by dividing nominal income by the price level. For example:

If Real income is ₹ 400 and Price Index is 105, Nominal Income will be

Real Income = (Nominal Income/Price Index of the Current Year) × 100

400 = (Nominal Income/105) × 100

Nominal Income = ₹ 420

18. Multiplier (investment multiplier) is a measure of the effect of change in initial investment on change in final income. **1**

There exist a direct relation between MPC and multiplier. Higher the value of MPC, the higher is the value of multiplier. ½

$$K = \frac{1}{1 - MPC} \qquad ½$$

$$4 = \frac{1}{1 - MPC} \qquad ½$$

$$MPC = 0.75 \qquad ½$$

[CBSE Marking Scheme 2018]

Detailed Answer :

Multiplier is a measure of effect of change in investment on national income. It establishes relation between investment and income. It measures the change in income due to change in investment.

The size of multiplier is determined by the Marginal Propensity to Consume. There is a direct relation between MPC and K. Higher the MPC, higher is value of K and vice-versa.

$$K = \frac{\Delta Y}{\Delta I} = \frac{\text{Change in Income}}{\text{Change in Investment}}$$

The relationship between the value multiplier and MPC is as follows :

$$K = \frac{1}{1 - MPC}$$

The equation shows that the higher the value of MPC, the higher is the value of multiplier. The reason is that higher the expenditure on consumption, higher the increase in income of the producers of consumption goods and services.

The marginal propensity to consume (MPC), if the value of multiplier (K) is 4 will be :

$$K = \frac{1}{1 - MPC}$$

$$\Rightarrow \quad 4 = \frac{1}{1 - MPC}$$

$$\Rightarrow \quad 1 - MPC = \frac{1}{4}$$

$$\Rightarrow \quad MPC = 1 - \frac{1}{4}$$

$$\Rightarrow \quad MPC = 0{\cdot}75.$$

19. Award four marks to all students. **1**

[CBSE Marking Scheme 2018]

Detailed Answer :

The Central Bank issues loans to a Commercial Bank against specified and approach securities of the bank. In this way, the Central Bank ensures the smooth functioning of Commercial Banks and appropriate flow of credit in the economy. By offering loans to the Commercial Banks in situation of emergency, the Central Bank ensures that the banking system of the country does not suffer any set back and that money market remains stable. Due to the above stated reasons, the Central Bank is termed as "Lender of Last Resort".

20. Inflationary gap is the situation when AD exceeds AS corresponding to the full employment income level of income/output. **1**

Measures to reduce the inflationary gap are :

(i) Decrease in government spending

(ii) Increase in the level of taxes. **1×3**

(iii) Increase in bank rate (or any other relevant measure)

OR

Aggregate Demand refers to the value of final goods and services which all sectors of an economy are planning to buy during a year. **2**

Components :

(a) Private consumption expenditure

(b) Government consumption expenditure

(c) Investment expenditure

(d) Net Exports **½×4 = 2**

[CBSE Marking Scheme 2018]

Detailed Answer :

The excess of aggregate demand over aggregate supply at full employment is called inflationary gap. Inflationary Gap is the measurement of excess demand and is equal to the difference between Aggregate Demand beyond full employment AD and Aggregate Demand at full employment (ADF).

Inflationary Gap = AD – ADF

Measure to Correct the Gap :

1. **Statutory Liquidity Ratio :** SLR refers to a fixed percentage of the total assets of a bank in the form of cash or other liquid assets that is required to be maintained by the bank. During the situation of Inflationary Gap, SLR is increased. This reduces the credit creation capacity of Commercial Banks and reduces the flow of money in the economy. As a result of that, the aggregate demand comes down and ultimately the economy attains equilibrium.
2. **Repo rate :** is the rate at which the Central Bank lends money to the Commercial Banks. To correct the situation of Inflationary Gap, Repo Rate is increased. As a follow-up action, the Commercial banks raise the market rate of interest (the rate at which the Commercial Banks lends money to the consumers and the investors). This reduces demand for credit. Consequently, consumption expenditure and investment expenditure are reduced. Implying a reduction in Aggregate Demand, as required to correct Inflationary Gap.
3. **Legal reserves :** refer to that part of bank deposits which Commercial Banks are legally required to keep in the form of cash partly with them selves (Statutory Liquidity Ratio) and partly with the Central Bank (Cash Reserve Ratio). In case of Inflationary Gap, the Central Bank can increase the Legal Reserve Ratio (LRR) so that less money is available to the banks for lending. Borrowings are reduced. AD falls.

OR

Aggregate Demand implies the total demand of final goods and services by all the people in an economy. It expresses the total demand in terms of money. In this manner, it can be defined as the actual aggregate expenditure incurred by all the people in an economy on different goods and services.

The components of aggregate demand are enlisted below :

(i) **Private Consumption Expenditure (C) :** Private consumption expenditure refers to the total expenditure incurred by all the households in an economy on different types of final goods and services in order to satisfy their wants. Consumption depends on the level of the disposable income. There are two types of consumption expenditure : Autonomous Consumption Expenditure and Induced Consumption Expenditure.

(ii) **Private Investment Expenditure (I) :** Private investment expenditure refers to the planned (ex-ante) total expenditure incurred by all the private investors on creation of capital goods such as, expenditure incurred on new machinery, tools, buildings, raw materials, etc. Broadly, investment can be categorised in two types : Autonomous Investment Expenditure and Induced Investment Expenditure.

(iii) **Government Expenditure (G) :** Government expenditure refers to the total planned expenditure incurred by the government on consumption and investment purposes to enhance the welfare of the society and to achieve higher economic growth rates.

(iv) Net Exports (X – M) : Net exports refers to the difference between the demand for domestically produced goods and services by the rest of the world (exports) and the demand for goods and services produced abroad by the residents of a country. In other words, it is the difference between the exports and imports.

21. The answer based on any assumption about autonomous consumption should be awarded marks. **4**

[CBSE Marking Scheme 2018]

Detailed Answer :

Income ₹ (crores)	Consumption MPC = 0·60	Savings 1 – MPC = MPS MPS = 0·40	Investment ₹ (crores)
100	60	40	80
200	120	80	80
300	180	120	80
400	240	160	80

In the above table the equilibrium level of income at autonomous investment of ₹ 80 crores is at ₹ 200 crores.

22. (a) Revenue Deficit refers to the **excess of total revenue expenditure over total revenue receipts.** **2**

It means that govt. will not be able to meet its revenue expenditure from its revenue receipts

(b) Fiscal Deficit refers to the **excess of total expenditure over total receipts excluding borrowings.** **2**

It indicates borrowing requirements of the government.

(c) Primary Deficit is defined as **fiscal deficit less interest payments.** **2**

It indicates borrowing requirements of the govt. to meet fiscal deficit net of interest payments. **2**

OR

(a) Government can influence allocation of resources through budget in many ways. It can encourage or discourage production of selected goods through taxes and subsidies. For discouraging, it can impose taxes and for encouraging it can give subsidies. 3

Government can also directly participate in production of goods and services like water supply, sanitation etc.

(To be marked as a whole)

(b) Government can influence inequalities of income through taxes and public expenditure. It can impose taxes on the rich reducing their disposable income. The amount so collected can be spent to provide free services like education, health etc. to the poor for raising their standard of living. 3

(To be marked as a whole)

[CBSE Marking Scheme 2018]

Detailed Answer :

(a) Revenue Deficit : When revenue receipts are less than the revenue expenditures in a government budget, this shortfall is termed as Revenue Deficit. It signifies that the government current expenses are greater than current income. The bulk of these expenses is interest payment, wages for government employees and defence.

Revenue Deficit = Revenue Expenditure – Revenue Receipts

(b) Fiscal Deficit : The excess of the total expenditure (revenue and capital expenditure) over the total receipts excluding borrowings (revenue and capital receipts) over a period of one accounting year, is termed as Fiscal Deficit.

Fiscal Deficit is met by the borrowings of the government. It increases the liability of the government in the form of repayment of loans with interest.

Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (Excluding Borrowing)

(c) Primary Deficit : The difference between the fiscal deficit and interest payment is termed as Primary Deficit. It indicates the borrowing requirements of the government to meet fiscal deficit excluding interest payments.

Primary Deficit = Fiscal Deficit – Interest Payments.

23. (a) Rise in foreign exchange rate means appreciation in the value of foreign currency in relation to the domestic currency, i.e. one unit of foreign currency can buy more goods and services from India.

It makes exports cheaper to foreign buyers and imports costlier to Indian buyers. As a result exports rise and imports fall leading to rise in net exports. A rise in net exports may lead to rise in national income. **3**

(to be marked as a whole)

(b) A deficit in Balance of Payment occurs when during the year autonomous inflows of foreign exchange fall short of autonomous outflows of foreign exchange. Autonomous transactions are the transactions which are independent of other transactions in the Balance of Payments. **3**

(to be marked as a whole)

[CBSE Marking Scheme 2018]

Detailed Answer :

(a) When foreign exchange rate rises, import become costly for the domestic customers. This reduces demand for imports using fall is demands for foreign exchange. When foreign exchange rate rises, domestic goods becomes cheaper for foreign buyers. This raises demand for export, causing rise in supply of foreign exchange.

(b) The transactions recorded in BOP account are classified as autonomous transactions and accommodating transactions. Autonomous Transactions refer to the international economic transactions taken with the motive of profit. Deficit in the BOP occurs when autonomous foreign exchange receipts fall short of autonomous foreign exchange payments. Autonomous transactions, the transaction not influenced by other transactions in the BOP.

24. (a)

NNPMP = [(ii) + (x)] + (i) + [(iii) + (vi) + (viii)] + (xi) + (iv) – (vii) **2**

= (1,800 + 200) + 6,000 + (400 + 120 +80) + 1000 + 100 – 70 **1½**

= ₹ 9,630 Crores **½**

(b)

GDPFC = (ii + x) +i+ (iii + vi + viii) + xi + ix **1**

= (1800 + 200) + 6000 + (400 + 120 + 80) + 1000+50 **½**

= ₹ 9,650 Crores **½**

(**Alternative solution of 24(b))**

GDPFC = NNPmp + vii – iv + ix **1**

= 9630 + 70 – 100 + 50 **½**

= ₹ 9,650 Crores **½**

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Detailed Answer :

Compensation of Employees ⇒ (ii) + (x)

= 1800 + 200

= 2,000

Operating Surplus = (i) + (iii) + (vi) + (viii)

⇒ 6,000 + 400 + 120 + 80 = 6,600

Mixed Income = (xi) = 1,000

Now, NDP_{FC} = Compensation of Employees + Operating surplus + Mixed Income

$NDP_{FC} = 2{,}000 + 6{,}600 + 1{,}000$

$= 9{,}600$

$NNP_{MP} = NDP_{FC} - (vii) + (iv)$

$= 9{,}600 - 70 + 100$

$= 9630$

$GDP_{FC} = NDP_{FC} + (ix)$

$= 9600 + 50$

$= 9{,}650$