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ICSE



SOLVED PAPER 2018



CLASS 10

ECONOMICS



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LATEST SYLLABUS

Economics CLASS 10

There will be one paper of two hours duration carrying 80 marks and Internal Assessment of 20 marks.

The paper will be divided into **two** sections A and B.

Section A will consist of questions requiring short answers and will cover the entire syllabus. There will be no choice of questions.

Section B will consist of questions which will require detailed answers. There will be a choice and candidates will be required to answer four questions from this section.

1. The Productive Mechanism

Factors of production—Land, labour, capital and entrepreneur: their impact on the production structure in an economy.

Factors of production

1. *Land: meaning and characteristics, functions and its importance; factors affecting productivity of land.*
2. *Labour: meaning and characteristics; division of labour: meaning, types, advantages and disadvantages; efficiency of labour; meaning, reasons for low efficiency of Indian labour.*
3. *Capital: meaning, types and characteristics; Capital Formation; meaning, factors affecting capital formation; reasons for slow growth rate of capital formation.*
4. *Entrepreneur: meaning, functions and role of entrepreneur in economic development.*

2. Theory of Demand and Supply

(i) Meaning of Demand and Supply

Law of demand and supply: demand and supply schedule and curve (both individual and market); movement and shift of the demand and supply curve; determinants of demand and supply; exceptions to the law of demand.

The concept of Demand, types of demand and concept of supply are to be explained (with examples).

A basic understanding of the law of demand and supply in which demand and supply schedules are to be used to explain the demand and supply curves. The individual demand and supply curves must be distinguished from market demand and supply curves. Concept of movement and shift of Demand and Supply curves are to be explained. Determinants of demand and supply are to be specified. Exceptions to the law of demand are to be discussed.

- #### (ii) Elasticity of demand and elasticity of supply: meaning, types, percentage method of

measuring elasticity of demand and elasticity of supply, factors affecting elasticity of demand and supply.

The concept of price elasticity of demand and elasticity of supply are to be explained with percentage method. Factors affecting the elasticity of demand and supply are to be specified. (Numerical problems are not for testing).

3. Public Finance

- #### (i) Meaning and scope of Public Finance; Public Revenue; Taxes, types: direct and indirect taxes with their merits and demerits; Progressive, Proportional, Regressive and Degressive taxes (only meaning).

Explanation of the concepts of direct and indirect taxes along with examples. Comparison of the direct and indirect taxes with reference to their respective merits and demerits. Only an introduction to the concepts of progressive, proportional, regressive and degressive taxes is to be given to the students.

- #### (ii) Public Expenditure :

Meaning, and reasons for growth of public expenditure in recent times.

- #### (iii) Public Debt :

Meaning and types of public debt.

4. Money and Banking

- #### (i) Money : Barter system. Evolution of Money, meaning and functions of Money; Inflation meaning, types: effects of inflation on the functioning of the economy (in brief).

A basic understanding of the inconvenience of Barter system and evolution of money. Meaning and Functions of money, Meaning of inflation and its variants - cost-push, demandpull, creeping, walking, running and hyperinflation are to be given (No graphs required). The impact of inflation on various economic entities such as producers creditors, debtors, fixed income groups are to be explained briefly.

- #### (ii) Banking: Commercial Banks: functions; credit creation (in brief); Nationalisation vs. Privatisation of Banks. Central Bank: functions; Quantitative and Qualitative credit control measures adopted by RBI.

An explanation of functions of a commercial bank and the meaning of credit creation is needed (process not required). Types of qualitative and quantitative controls used by the RBI as part of its credit control measures are to be explained.



5. **Consumer Awareness :**

Ways in which consumer is exploited. Reasons for exploitation of consumers. Growth of consumer awareness – consumer rights – Legal measures available to protect consumers from being exploited – (COPRA, RTI).

Understanding the importance of educating consumers of their rights - awareness of food adulteration and its harmful effects.

INTERNAL ASSESSMENT

The minimum number of assignments:

Three assignments as prescribed by the teacher from the syllabus.

EVALUATION

The assignments/project works are to be evaluated by the subject teacher and by an External Examiner.

(The External Examiner may be a teacher nominated by the Head of the school, who could be from the faculty, **but not teaching the subject in the section/**

class. For example, a teacher of Economics of Class XI may be deputed to be an External Examiner for Class X, Economics projects.)

The Internal Examiner and the External Examiner will assess the assignments independently.

Award of marks	20 Marks
Subject Teacher (Internal Examiner)	10 marks
External Examiner	10 marks

The total marks obtained out of 20 are to be sent to the Council by the Head of the school.

The Head of the school will be responsible for the entry of marks on the mark sheets provided by the Council.

Suggested Assignments

- Find out about various quality marks for various products to prevent adulteration e.g. ISI, AGMARK.

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INTERNAL ASSESSMENT IN ECONOMICS - GUIDELINES FOR MARKING WITH GRADES

Grade	Preparation/Research	Information	Observation	Inference	Presentation	Marks
I	Follows instructions with understanding. Masters research techniques easily. Reference work is orderly.	A good deal of relevant matter. Uses wide range of sources.	Systematic record of data; good arrangement of data; creative representation.	Work indicates understanding, good comprehension of subject.	Methodical, precise and clear expression; neat and tidy presentation; optimum utilisation of skills.	4
II	<ul style="list-style-type: none"> Follows instructions but needs a little help in research techniques. Reference notes quite orderly. 	<ul style="list-style-type: none"> Selects matter relevant to context. Limited use of references/sources. 	Able to record data correctly.	Can judge and grasp information correctly; conclusion quantitatively evaluated.	Work neat and tidy and clearly presented; methodical and appropriate techniques used.	3
III	<ul style="list-style-type: none"> Follows instructions but needs constant guidance. Reference notes at times disorderly. 	<ul style="list-style-type: none"> Relevant matter but limited reference work. Matter is sketchy. 	Assistance required in presenting, recording and arranging data.	Requires some assistance to grasp the relevance and validity of information; able to relate to economic scenario.	Reasonably clear but work disorganised in places; writing untidy in places.	2
IV	<ul style="list-style-type: none"> Struggles with research methods and needs constant guidance. Reference notes copied without reference to keywords. 	<ul style="list-style-type: none"> Hardly any reference material. Use of irrelevant matter. Matter is quite sketchy. 	Tends to make mistakes in organising data.	Assistance required in order to grasp the relevance and validity of information; tends to make errors.	Sequence of work acceptable but not very neat; poor presentation.	1
V	<ul style="list-style-type: none"> Cannot follow instructions. Works 'blindly' without reference to keywords. 	<ul style="list-style-type: none"> No reference work/copied from other textbooks/sketchy matter. 	Makes mistakes in organizing data; not able to proceed with assistance.	Cannot process results; faulty conclusions in spite of assistance provided.	Data presentation untidy and disorganised; effort and initiative lacking.	0



ICSE Solved Paper, 2018

Class-X

Economics

(Maximum Marks : 80)

(Time allowed : Two hours)

Answer to this Paper must be written on the paper provided separately.

You will **not** be allowed to write during the first 15 minutes.

This time is to be spent in reading the question paper.

The time given at the head of this Paper is the time allowed for writing the answers.

Attempt **all** questions from **Section A** and **any four** questions from **Section B**.

The intended marks for questions or parts of questions are given in brackets [].

SECTION - A

(40 Marks)

Attempt **all** questions from this section

1. (a) Give two reasons as to why the *division of labour* is an advantage to the producer? [2]
(b) Define the term *consumer awareness*. [2]
(c) Why do *small farmers* suffer during inflation? [2]
(d) Which are the *two sources* of public revenue? [2]
(e) Define the term *labour* as a factor of production. [2]
2. (a) Explain *any one factor* that affects the supply of a commodity. [2]
(b) What do you understand by the term '*near money*'? [2]
(c) A list of goods are given below. [2]
State whether it is *fixed capital* or *circulating capital*.
(i) Machines
(ii) Raw material
(iii) Fuel
(iv) Office furniture
(d) With the help of an *example* explain the term *productive debt*. [2]
(e) Explain *any two* characteristics of capital. [2]
3. (a) How is land *different* from labour? [2]
(b) Draw a *diagram* showing a perfectly elastic demand curve. [2]
(c) With help of an *example* explain the term *complementary goods*. [2]
(d) Name *any two sources* of external debt for India [2]
(e) Differentiate between *creeping* and *running* inflation [2]
4. (a) Mention *two ways* by which *efficiency* of labour can be improved. [2]
(b) What does the term '*nationalisation of banks*' mean? [2]
(c) Why is India considered to be in a *virtual debt trap*? [2]
(d) Give *any two reasons* for giving the *monopoly right* of note issue to the Central Bank. [2]
(e) Mention *any two* duties of a consumer. [2]

SECTION - B

(40 Marks)

Attempt **any four** questions from this section

5. (a) Give any five differences between *product* and *process* based division of labour. [5]
(b) Explain any five rights of the consumers as accepted by Indian law. [5]
6. (a) How do the manufactures and traders *exploit* the consumers? [5]
(b) Explain the role of an *entrepreneur* in the *economic development* of the country. [5]
7. (a) How is a commercial bank *different* from a central bank? [5]
(b) What are the *merits* of an indirect tax? [5]
8. (a) With the *help of a graph* explain *relatively inelastic demand* for a commodity. [5]
(b) Discuss any five advantages of having a bank account. [5]
9. (a) Explain any five characteristics of tax [5]
(b) (i) What is meant by the term *demand pull inflation*? [5]
(ii) Discuss any three causes of *demand pull inflation*. [5]
10. (a) (i) Define the term *demand*. [5]
(ii) Explain any three factors that affect the demand for a commodity [5]
(iii) Why are articles of distinction or the Veblen effect an exception to the law of demand? [5]
(b) Discuss any five reasons for growth of public expenditure in India. [5]

□□□

ANSWERS

SECTION - A

(40 Marks)

1. (a) Advantages of division of labour to producer :

- (i) **Reduction in cost of production:** The cost per unit tends to fall down when commodity is produced on a large scale which ensures the production of cheaper goods due to the division of labour.
 - (ii) **Large scale production:** The greatest advantage of division of labour is that it increases immensely the productivity per worker.
 - (iii) **Efficiency of labour improves:** Division of labour helps to increase the efficiency of workers due to two reasons *i.e.*, every worker is assigned a job that suits his skills, experience and aptitude and another one is they become expert in performing the job due to repetition of the same work.
 - (iv) **Better quality of work:** Division of labour not only increases the quality of production but also improves quality of work. Better and modern machines and equipment increase quality of work hence, it helps to increase the goodwill and profits. (Any two) [1 × 2 = 2]
- (b) Consumer Awareness refers to the understanding by a consumer of their rights in regards to a product being marketed or sold, enabling buyers to get the most from what they purchase. [2]
- (c) Small farmers lack the resources to market the product or transport the produce to proper market. Many a times, they are not even aware of the inflation in the market and then they can not get more for their produce at the prevailing market prices. As a result, the middlemen earn the maximum profit by purchasing the produce from the small farmers at base prices and sell it at huge profits in the market. [2]
- (d) The two main sources of public revenue are tax sources (like income tax, wealth tax, GST, etc.) and non-tax sources (like fees, fine, penalties, etc.) [1+1=2]
- (e) The term labour refers to the aggregate of all human physical and mental effort used in creation of goods and services. [2]

2. (a) Factors that influence the Supply of Commodity (Any one) :

- (i) **Product Price:** The quantity supplied varies directly to price of the good, other factors held constant. Generally, producers tend to supply more at a higher price to earn greater profits. Higher revenues from sales are necessary to induce producers to increase supply of a good. [2]
 - (ii) **Objective of the firm:** Firms pursue different goals. The amount of a good or service supplied is influenced by the objectives of the firm. *e.g.*, a sales maximiser would supply more than the profit maximiser to gain greater market share.
 - (iii) **Taxation Policy:** Imposition of heavy taxes on a commodity discourages its production and as a result its supply diminishes, on the other hand tax concessions of various kinds induce producers.
 - (iv) **Weather Conditions:** Unfavourable weather like floods, drought, etc. decrease the supply of agricultural products, which means that at any given price, a lower quantity will be supplied. Conversely, especially good weather would increase the supply. (Any one) [2]
- (b) Near money or Quasi money refers to highly liquid assets that can be easily converted into cash. Some examples of assets that are counted as near money are deposit accounts, money funds, etc. [2]
- (c) (i) Machines – Fixed capital [½]
 (ii) Raw material – Circulating capital [½]
 (iii) Fuel – Circulating capital [½]
 (iv) Office furniture – Fixed capital [½]
- (d) Productive Debt is the public debt which is used by the Government for productive purpose *e.g.*, to build roads, bridges etc. [2]
- (e) **Characteristics of capital as a factor of production are :**
- (i) **Capital is a passive factor of production:** Capital cannot produce without the help of active services of labour. To produce with machine, labour is required. Thus, labour is an active, whereas capital is a passive factor of production.
 - (ii) **Capital depreciates:** As we go on using capital, the value of capital goes on depreciating. When machines are used continuously for some time, these depreciate and their value falls.

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- (iii) **Man produces capital:** Capital is that wealth which is used in the production of goods. Capital is the result of human labour. Thus, every type of capital such as road, machines, etc. is produced by man.
- (iv) **Capital is not an indispensable factor of production:** Production can be possible even without capital, whereas, land and labour are the original and indispensable factors of production.
- (v) **Capital is prospective:** Capital is considered much prospective, as the accumulation of capital yield an income.
- (vi) **Capital is productive:** Production can be increased to a large extent if workers work with adequate capital.

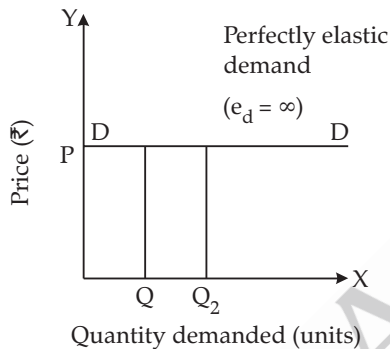
(Any two) [1 × 2 = 2]

3. (a) **Land differs from labour as :**

- (i) **Land has perfectly inelastic supply:** Supply of land is perfectly inelastic i.e., fixed in quantity. Neither it can be increased nor decreased as compared to labour. In simple, you cannot change size of the earth.
- (ii) **Land is perfectly immobile:** Mobility means ability to move. Movement of land from one place to another is not possible whereas labour is perfectly mobile.

[1 × 2 = 2]

(b)



[2]

- (c) Complementary Goods are those goods which are used together to satisfy a particular want. They complete the demand for each other. For example: Car and Petrol. There exists an inverse relationship between price and quantity demanded of complementary goods.
- (d) Sources of external debt are International Monetary Fund (IMF), International Finance Corporation (IFC), World Bank, Asian Development Bank, etc.
- (e) **Difference between Creeping inflation and Running inflation are :**

(Any two) [1 × 2 = 2]

S. No.	Creeping Inflation	Running Inflation
1.	When the rise in prices is very slow like a snail or creeper, it is called creeping inflation. The rate increases at a mild rate, say 0 to 2% per year.	When a price rises at a faster rate and is generally around 10 to 20% per annum, it is called running inflation.
2.	Such an increase in prices is regarded safe and essential for economic growth.	It is a warning signal indicating the need for controlling it.

[1]

[1]

4. (a) **Methods to improve the efficiency of Indian labour are :**

- (i) Productivity linked wages.
- (ii) Improved working conditions.
- (b) Nationalization of banks is a process whereby a national government or State takes over the bank into public ownership by an Act or ordinance or some other kind of orders.
- (c) India's public debt is too high. The interest obligation on this debt is much more than the national income of the country. As a result, India has to borrow money to meet its interest obligation. This gives rise to more debt and even a higher interest obligation for future. Therefore, India is considered to be in a virtual debt trap.
- (d) The monopoly right of note issue are given to the central bank because of the following reasons (Any two) :
- (i) It insures uniformity in the currency making it easy for people to identify it.
- (ii) It facilitates effective state supervision and therefore regulates the issue of the paper currency by the bank.
- (iii) It creates confidence among people.
- (iv) It enables the government to maintain control over undue credit expansion and avoids danger of over issue.

[2]

[2]

[2]

[2]

(e) **The consumer must perform the following duties :**

- (i) **Consumers must exercise his rights:** Consumers have many rights with regards to the goods and services. They must be aware of their rights while buying goods.

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- (ii) **Consumers should not buy blindly:** Consumers should ensure that they get a fair and honest deal. They should not take the seller's words as the final truth.
- (iii) **Consumers should not compromise on quality:** Consumers should never compromise on the quality of the goods. They should not buy inferior stuff out of greed for cheaper price.
- (iv) **Beware of false advertisement:** The sellers inform the consumers about their things through the medium of advertisement. The seller's exaggerate the quality of their goods through advertisement. Therefore, consumers should recognize the truth of the advertisement.
- (v) **Do not forget to get receipt and guarantee/warranty card:** One should always get a receipt or bill for the things purchased. (Any two)[1×2=2]

5.(a) **Difference between Product and Process based Division of Labour :**

[5×1=5]

S.No.	Product based division	Process based division
1.	When the production is split up into different parts and many workers come together to complete the work, but the contribution of each worker cannot be known, it is product based division of labour.	When production is split up into different parts and each part is performed by different workers who have specialized in it, it is called process based division of labour.
2.	The worker remains less skilled.	The worker becomes more skilled.
3.	More training period is required.	Less training period is required.
4.	The individual is responsible for whole job.	Job is divided among many persons.
5.	Worker requires more time to adhere daily activity.	Specialized worker requires less time to adhere daily activities.

(b) **Some consumer rights are :**(i) **Right to Safety :**

1. Right to be protected against goods and services which are hazardous to life and health.
2. Right to get protection against the risks caused due to the use of substandard products or products that do not conform to the safety norms.

(ii) **Right to Choose :**

1. The consumer has the freedom to choose from a variety of products at competitive prices.
2. Marketers should offer a wide variety of products in terms of quality, price, size etc. to enable the consumer to make the choice.

(iii) **Right to be Heard :**

1. The consumer has right to file a complaint and to be heard in case of dissatisfaction with a product or a service.
2. It is because of this reason many firms have set up their own consumer service and grievance cells.

(iv) **Right to Seek Redressal :**

1. The consumer has a right to get relief in case the product or service falls short of his expectations.
2. The Consumer Protection Act provides relief to customers such as replacement of product, removal of defect in the product, compensation for any loss or injury suffered by the consumer.

(v) **Right to be Informed :**

1. The consumer has a right to have complete information about the product he intends to buy such as ingredients, date of manufacturing, price, quantity, etc.
2. It is because of this reason that the legal framework in India requires the manufactures to provide such information on the package and label of the product.

(vi) **Right to Consumer Education :**

1. The consumer has the right to acquire knowledge and to be a well-informed consumer.
2. He should be aware about his rights and the reliefs available to him in case of a product or service falling short of his expectations.

(Any five) 1 × 5 = 5

6.(a) **Ways by which consumer are exploited :**

- (i) **Production of spurious goods :** Spurious goods means goods which are claimed to be genuine but they are actually not so. It may sometimes happen that traders sell fake or duplicate goods in the name of genuine goods.
- (ii) **Poor quality of products :** The traders may cheat the consumers by degrading the quality of the product and selling those in the market like expired products, defective items, etc.

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- (iii) **False weight and measures:** The goods being sold in the market are sometimes not measured or weighted correctly.
- (iv) **Selling goods at a higher price:** Very often traders charge high price from their consumers than the prescribed retail price.
- (v) **Selling second hand goods as brand new goods:** Many traders exploit the consumers by selling second hand goods as brand new goods. The quality of these goods is no longer in the same condition as it was when transferred to the current consumer.
- (vi) **Creating false impression on consumer through sales strategy:** Many times traders create false impression on consumers through sales strategies like after sales service. The suppliers do not provide after sale service which dissatisfies the consumers. (Any five) [1 × 5 = 5]
- (b) **Entrepreneur is the person who controls the policy of a firm. Different ways by which an entrepreneur promotes economics growth are :**
- (i) **Creates Large-Scale Employment Opportunities:** Entrepreneurs provide immediate large scale employment to the unemployed which is a chronic problem of underdeveloped nation. With setting up of more and more unit by entrepreneurs both small and large scale numerous job opportunities are created for others. [1]
- (ii) **Balanced Regional Development:** The growth of industry and business leads to a lot of public benefit like transport facilities, health, education, entertainment, etc. This helps in the development of backward regions. [1]
- (iii) **Increase in National Income:** National Income consists of the goods and services produced in the country and imported. The goods and services produced are for consumption within the country as well as to meet the demand of exports. The domestic demand increases with increase in population and increase in standard of living. The export demand also increased to meet the need of growing imports due to various reasons. An increasing number of entrepreneurs are required to meet this. Thus, it increases National Income. [1]
- (iv) **New Product, New Services and New Business:** An entrepreneur explores new ideas for business, production techniques and services for horizontal, i.e., varieties and vertical, i.e., increase in volume and money growth of business. [1]
- (v) **Creating Innovation:** An entrepreneur is a person who always looks for changes. Apart from combining the factor of production, they also introduce new ideas and new combination of factors. They always try to introduce newer and newer technique of production of goods and services. An entrepreneur brings economic development through innovation. [1]

7.(a) **Difference between Central Bank and Commercial Bank**

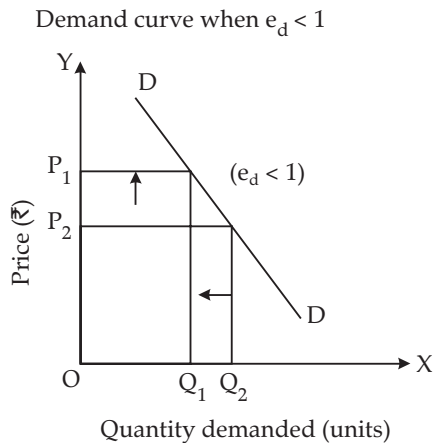
S.No.	Basis of difference	Central bank	Commercial Bank
1.	Principal Objective	The principal objective of the central bank is to maximise economic welfare of the Country.	The principal objective of commercial banks is to earn profit.
2.	Banker	The central bank acts as a banker to all commercial banks.	The commercial bank acts as banker to all his customers.
3.	Right to print currency	The central Bank has a right to print currency on behalf of the government.	The commercial banks do not process such right.
4.	Loan facilities	The Central bank gives loan facilities to the governments.	The commercial banks can also provide loan facilities to the government units.
5.	Credit facilities	The central bank does not provide loan facilities to the public.	The commercial banks' provide loan facilities to the public.
6.	Acceptance of public Deposit	The central bank does not accept public deposit.	The commercial banks accept public deposits.

(Any five) [1 × 5 = 5]

(b) **Merits of Indirect Taxes are:**

- (i) **Wide Coverage:** The main merits of an indirect tax are that it touches all incomes groups.
- (ii) **Consumption Control:** By imposing an indirect tax, the consumption of an undesirable thing can be discouraged.
- (iii) **Popularity:** People are not always conscious of indirect taxes because, in most cases, it is combined with the price. [5]

8. (a) **Relativity Inelastic Demand ($e_D < 1$):** When percentage change in price of a commodity causes relatively less than percentage change in quantity demanded, then the demand is said to be inelastic. [2]



[3]

- (b) **Some advantages of having a bank account are :**

- (i) Money is safer
- (ii) Money earns interest
- (iii) It inculcates the habit of savings/mobilizes savings
- (iv) It helps in safe transactions through cheques
- (v) It provides facilities of overdraft, discounting bills of exchange, ECS, etc.

[1 × 5 = 5]

9. (a) **Characteristics of tax are :**

- (i) It is a compulsory contribution. No one can refuse to pay a tax, on the general ground that he doesn't derive any benefit from certain state services.
- (ii) The fact that tax is a contribution implies the notion of a sacrifice involved on the part of the contributor.
- (iii) Tax payment is a personal obligation.
- (iv) Taxes are actually based on a great variety of material things as well as non-material and intangible form of wealth.
- (v) A tax is levied according to certain legal requirements.
- (vi) The amount of tax is not fixed with reference to the exact benefit which a taxpayer receives from public service.
- (vii) A tax is paid out of the income of the taxpayer.
- (viii) The power of taxation is mainly to be used for collecting revenue to the state. (Any five) [1 × 5 = 5]

- (b) (i) Demand pull inflation refers to a situation in which prices rise because the demand for goods and services exceeds their total supply available at current prices. [2]

- (ii) **Three causes of demand pull inflation are :**

1. **Increase in Money supply:** The first major cause of demand pull inflation is increase in the supply of money which leads to increase in aggregate demand. Supply of money includes currency with the public and demand deposits at banks. This is money in spendable form. Demand deposits at banks can be withdrawn at any time and hence are in spendable form. Demand deposits, thus act as medium of exchange. [1]
2. **Increase in Disposable Income:** When the disposable income of the people increases it raises their demand for goods and services leading to demand pull inflation. [1]
3. **Increase in population:** Increase in population is another major cause responsible for rise in prices. Increase in population means increased demand for consumer goods. It increases the aggregate demand for goods. It increases the aggregate demand for goods and services and puts pressure on the existing supply of goods and services. [1]

- 10.(a) (i) Desire for a good or service backed by the ability and willingness to pay for the good is demand. Demand is related to time and price. [1]

- (ii) **Factors that affect the demand for a commodity are :**

1. Price of the good
2. Price of related goods
3. Income of the consumer

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4. Taste and preference of the consumer
5. Consumer credit.

(Any three) [$\frac{1}{2} \times 3 = 1 \frac{1}{2}$]

(iii) According to Economist Thorstein Veblen, some consumers measure the utility of a commodity entirely by its price, *i.e.*, for them, the greater the price of a commodity, the greater its utility. Diamonds are often given an example of this case. The diamonds are considered as prestige goods in the society and for the upper strata of the society the higher the price of diamonds, the higher the prestige value of them and, therefore, the greater utility or desirability of them. [2 ½]

(b) **Reasons for increase in Public Expenditure :**

- (i) **Defence expenditure:** There has been enormous increase in defence expenditure in India during planning period. India cannot postpone modernization in defence especially when its neighbouring countries are buying the latest defence equipment from developed countries of the world.
- (ii) **Expansion of Administrative Machinery:** There has been an increase in the administrative machinery in the country with the rapid growth of population and also economic development. Heavy expenditure is to be incurred on this in respect of police tax administration, administration of public sector enterprises, etc.
- (iii) **Building up Strong Economic Infrastructure:** Only by building up economic infrastructure, the structure of an economy can be made to improve.
- (iv) **Debt Servicing:** The internal as well as external debt is on the increase. The government has been borrowing heavily from both the markets *i.e.* domestic and foreign market sources, to meet its expenditure. As a result of which the government has to make huge amounts of money towards interest payments.
- (v) **Population Growth:** During the post 50 years of planning, the population of India has increased. The growth in population requires massive investment in health and education, law and social order etc.
- (vi) **Increase in National Income:** The increase in national income also resulted in more income to the government by way of tax revenue and other income. As a result of which the government expenditure also increased.
- (vii) **Urbanization:** There has been an increase in urbanization. There are more than 23 cities above one million populations which require heavy expenditure on law and order, education etc.
- (viii) **Industrialization:** Setting up key and basic industries requires a huge capital and profit may arise only in the long- run.

(Any five) [$1 \times 5 = 5$]

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