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SOLVED PAPER 2018



CLASS 10

ECONOMIC APPLICATIONS



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LATEST SYLLABUS

Economic Applications

CLASS 10

There will be one theory paper of **two** hours duration of 100 marks and Internal Assessment of 100 marks.

The paper will consist of Part I and Part II.

Part I (compulsory) will contain short answer questions on the entire syllabus.

Part II will consist of questions that will require detailed answers. There will be a choice of questions.

THEORY – 100 Marks

1. Demand and Supply: Basic Concepts

Demand - Meaning and Types of Demand

Supply - Meaning

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.

Meaning of Demand and Supply. Types of Demand (Joint Demand, Derived Demand and Composite Demand).

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. Determinants of demand and supply are to be specified. Exceptions to the law of demand are to be discussed.

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 elasticity of supply.

The concept of price elasticity of demand and supply are to be explained with percentage method. The factors affecting the elasticity of demand and supply are to be specified. (Simple numericals should be taught)

2. Factors of Production : Basic Concepts

Factors of production - Land, Labour, Capital and Entrepreneur

Land- meaning and characteristics, functions and its importance, factors affecting productivity of land.

Destruction of ecosystem due to changing patterns of land use, migration, industrialization, shifting cultivation, dwelling units, mining, urbanization, construction of dams, etc.

Labour- meaning and characteristics. Division of labour - meaning, types, advantages and disadvantages. Efficiency of labour- meaning, reasons for low efficiency of Indian labour.

Capital - meaning, types and characteristics. Capital formation - meaning, factors affecting capital formation.

Entrepreneur - meaning, functions and role of entrepreneurs in economic development.

3. Alternative Market Structures: Basic Concepts

Nature and structure of markets - Perfectly competitive market, Monopoly market, monopolistically competitive market, concept of product differentiation, Monopsony market.

The main features of the following market structures are to be discussed in the context of present business scenario –

Perfectly competitive market, Monopoly market, monopolistically competitive market,

Monopsony market (meaning to be highlighted).

4. The State and Economic Development

The role of State in promoting development; the instruments of State intervention- fiscal policy and monetary policy; The Public sector enterprises - their role and problems; the issue of privatization of public enterprises.

A basic understanding of the role of the State in the economy needs to be highlighted in the context of Indian economy. The meaning of fiscal policy. Direct and Indirect Taxes (meaning, merits and demerits), Types of Taxes (progressive, regressive, proportional and degressive-meaning with examples). Monetary Policy – meaning only. Public sector - its role and problems. Reasons for Privatization.

5. Money and Banking: Basic Concepts

Money: meaning, functions of Money; Inflation - meaning, effects of inflation on the functioning of the economy (in brief). Banking: Commercial Banks - functions; Central Bank - functions; quantitative and qualitative credit control measures adopted by RBI.

A basic understanding of the concepts of money, its functions. Meaning and types of inflation to be discussed (Creeping, Walking, Running and Hyper-inflation). The impact of inflation on various economic entities such as debtors and creditors, fixed income groups and producers are to be explained very briefly. Functions of commercial banks and functions of RBI - qualitative and quantitative controls used by the RBI as part of its credit control measures should be explained.

NOTE : IT IS SUGGESTED THAT CASE STUDIES MAY BE DISCUSSED ON THE FOLLOWING TOPICS -



...contd.

- Factors of Production
- Banking
- Inflation

INTERNAL ASSESSMENT – 100 Marks

Candidates will be required to do a minimum of four assignments during the year, as assigned by the teacher.

Suggested list of assignments :

1. Take a fast moving consumer good (FMCG) like washing machine detergent. Analyze the factors that determine the demand of this product. Present your findings in form of a class presentation.
2. Develop a hypothetical table of information for coffee that shows quantity demanded at various prices and supply of coffee at these prices. Draw a demand curve and supply curve and show an equilibrium price at which market is cleared of its supplies.
3. Make a list of products for which you think demand is price inelastic and price elastic. Specify the reasons you may think relevant for your analysis.
4. Take a case of public enterprise which is about to be privatized or has been recently privatized. Analyze the pros and cons of such an exercise undertaken by the government. (The case of VSNL or BALCO can be taken up).
5. Take a case of a nationalized bank – visit any one of its branches in your city. Analyze the main functions of this bank's branch. Make a presentation to this effect.
6. Recently rates of interests have been reduced on all the saving instruments. Carry out a survey of 30

people in your area as to what is their reaction to this cut. The sample may consist of salaried people, business people and professionals.

7. Take a case of five FMCGs – fast moving consumer goods - bathing soaps, toothpastes, facial creams, shampoos, ball pens. Analyze as to how the market for these products is characterized by product differentiation.
8. Take the case of a company and analyze the production process in which all the factors that you studied in your class, are used by the company to produce a product.

EVALUATION

The project work is to be evaluated by the subject teacher and by an External Examiner. The External Examiner shall be nominated by the Head of the school and may be a teacher from the faculty, **but not teaching the subject in the relevant section/class**. For example, a teacher of Economics of Class XI may be deputed to be the External Examiner for Class X Economic Applications project work. The Internal Examiner and the External Examiner will assess the candidate's work independently.

Award of marks (100 marks)

Subject Teacher (Internal Examiner)	50 marks
External Examiner	50 marks

The total marks obtained out of 100 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.

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INTERNAL ASSESSMENT IN ECONOMIC APPLICATIONS - PROPOSED GUIDELINES FOR MARKING WITH GRADES

Criteria	Preparation	Procedure	Observation	Inference	Presentation	Marks
Grade I	Excellent choice of firm, appropriate to project; clear identification of aspect to study; good research.	Originality and relevance; creative, rational and structured thinking; effective model; good questionnaire.	Systematic record of data; good arrangement of data; independent market survey; creative representation.	Information fitted correctly to model; work indicates understanding, good comprehension of subject.	Methodical, precise and clear expression; neat and tidy presentation; optimum utilisation of skills.	4 marks for each criterion
Grade II	Relevant choice of firm; identified aspect to study; adequate research.	Originality and structured thinking; adequate framing of questions; good insight.	Able to record data, but not step-by-step; able to grasp information; independent market survey.	Can judge and grasp information correctly; conclusion quantitatively evaluated.	Work neat and tidy and clearly presented; methodical and appropriate techniques used.	3 marks for each criterion
Grade III	Adequate choice of firm; some idea of what to study; some information gathered.	Records information correctly but lacks originality; independent framing of questions.	Assistance required in presenting, recording and arranging data; can conduct market survey.	Requires some assistance to relate data to model; able to relate to economic scenario.	Reasonably clear but work disorganised in places; writing untidy in places.	2 marks for each criterion
Grade IV	Firm selected but continuous assistance required for collection of information.	Unable to form a correct model; requires assistance to prepare questionnaire.	Tends to make mistakes in organising data; some ability to conduct market survey.	Assistance required in order to grasp the relevant and validity of information; tends to make errors.	Sequence of work acceptable but not very neat; poor presentation.	1 mark for each criterion
Grade V	Lack of perception of the subject and objective; lack of effort.	Not able to comprehend concept of a model; unable to prepare questionnaire even with assistance.	Faulty survey and mistakes in data; not able to proceed even with assistance.	Cannot process results; faulty conclusions in spite of assistance provided.	Data presentation untidy and disorganised; effort and initiative lacking.	0 marks for each criterion

...contd.



ICSE Solved Paper, 2018

Class-X

Economic Applications

(Maximum Marks : 80)

(Time allowed : Two hours)

Answers 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 **Part I** and **any four** questions from **Part II**.

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

PART - I

(40 Marks)

Attempt **all** questions from this Part

Question 1

- (a) List *any two* causes for the low efficiency of labour in India. [2]
- (b) Draw a neat labelled diagram of a demand curve. [2]
- (c) Give *any two* reasons as to why a country needs a Central Bank. [2]
- (d) Out of the following capital used in the cotton textile industry, classify the following as fixed or circulation capital : [2]
 - (i) Cotton yarns
 - (ii) Dyes
 - (iii) Power
 - (iv) Weaving machines
- (e) What are progressive taxes ? Give an example. [2]

Question 2

- (a) *Capital is a passive factor of production.* Justify the statement. [2]
- (b) Which bank is referred to as a *Banker's Bank* ? Why is it called so ? [2]
- (c) State *any two* differences between Monopolistic competition and Perfect competition. [2]
- (d) Which section of the society gains during inflation ? Why ? [2]
- (e) Explain two ways by which the government can reduce income inequalities in a developing economy. [2]

Question 3

- (a) Mention two ways in which an entrepreneur is different from labour. [2]
- (b) Differentiate between current and savings deposits. [2]
- (c) Briefly explain any two impacts of shifting cultivation on the ecosystem. [2]
- (d) Name a market where selling cost is not required. Give a reason for your answer. [2]
- (e) Given below is the market supply schedule of a commodity. The individual supply schedules of firms B and C are given, prepare the individual schedule for Firm A: [2]

Price in ₹	No. of units supplied by Firm A	No. of units supplied by Firm B	No. of units supplied by Firm C	Total Supply
10		25	10	60
20		30	20	100
30		35	30	140
40		40	40	180

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Question 4

Define the following terms :

- (a) Price elasticity of Demand [2]
 (b) Proportional taxation [2]
 (c) Capital formation [2]
 (d) Labour [2]
 (e) Inflation. [2]

PART - II**(60 Marks)**

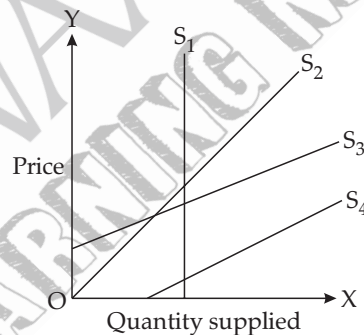
Attempt *any four* questions from this Part

Question 5

- (a) (i) What is considered as capital in economics ?
 (ii) Discuss *any three* characteristics of capital. [7]
 (b) Explain how the following factors affect the supply of a commodity : [8]
 (i) State of technology.
 (ii) Price of factors of production.
 (iii) Goals of the firm.
 (iv) Future price expectations.

Question 6

- (a) (i) Name any two industries where division of labour is possible.
 (ii) Explain any three demerits of division of labour. [7]
 (b) Identify and define the degree of price elasticity of supply from the diagram for the supply curves S_1, S_2, S_3, S_4 . [8]

**Question 7**

- (a) (i) What happens to the demand curve when there is an increase in demand ?
 (ii) Discuss three instances when demand will increase. [7]
 (b) Explain *any four* ways by which Public Sector Enterprises play a dominant role in an economy. [8]

Question 8

- (a) Who controls the credit supply in an economy ? What is this policy called ?
 Explain how the following can control inflation in an economy :
 (i) Cash Reserve Ratio
 (ii) Statutory Liquidity Ratio [7]
 (b) (i) Why can a monopolist charge different prices in different markets ?
 (ii) Explain *any three* features of monopoly. [8]

Question 9

- (a) What is privatization ? Explain the following arguments favouring privatization :
 (i) Greater flexibility in decision making.
 (ii) Better utilization of resources.
 (iii) Greater employment opportunities. [7]
 (b) Explain clearly four differences between a Central Bank and a Commercial Bank. [8]

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Question 10

Read the extract and answer the following :

Post : Gaurav Akrani

Indirect taxes have become an important source of development funds in developing countries. Many developing economies that have adopted economic planning use indirect taxes as important source of funds.

These taxes are found to be better suited in developing countries because they have much wider coverage as compared to direct taxes. Both rich and poor pay indirect taxes in the form of commodity price.

- (i) What are indirect taxes ? [2]
- (ii) Mention three important differences between direct and indirect taxes. [3]
- (iii) Classify the following into direct and indirect taxes. [2]
 - (1) Custom duty
 - (2) Professional tax
 - (3) Income tax
 - (4) Entertainment tax
- (iv) Give two reasons why indirect taxes are important in developing countries. [4]
- (v) Explain clearly how indirect taxes can be both regressive and progressive. [4]

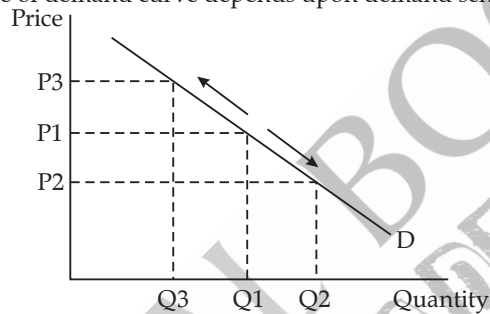
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ANSWERS

PART - I

Answer 1

- (a) The two causes of low efficiency of labour in India are :
- (i) Low wages
 - (ii) Inadequacy of Machinery.
 - (iii) Migratory Character
 - (iv) Hot and Enervating Climate
- (b) Labelled diagram of demand curve tells how much quantity of goods would be purchased by the consumer at different possible prices. Slope of demand curve depends upon demand schedule. (Any two) 2



D = Demand Curve ;
 Q_1, Q_2, Q_3 = Quantity at different prices.
 P_1, P_2, P_3 = Different prices of goods.

- (c) The main reasons for the need of central bank for country are (Any two)-
- (i) Central bank can regulate the whole financial sector and exercise control over the monetary and credit policies of the nation.
 - (ii) It plays an important role in stabilizing the economy of the country.
 - (iii) Central banks also act as a "lender of last resort" to the banking sector during times of financial crisis. 2
- (d) (i) Cotton Yarn : Circulating Capital
 (ii) Dyes : Circulating Capital
 (iii) Power : Circulation Capital
 (iv) Weaving Machines : Fixed Capital. $\frac{1}{2} \times 4 = 2$
- (e) A progressive tax is a tax where the tax rate increases as your income increases. It means that the more a person earns, the higher his average rate of tax will be. For example, Income tax that takes a larger percentage of tax on higher income group and smaller percentage of a smaller income group. 2

Answer 2

- (a) Capital is a passive factor of production because Capital on its own cannot produce anything until labour works on it. To produce with machines, labour is required. Capital cannot produce without the help of the active services of labour. Thus we can say that, labour is an active whereas capital is a passive factor of production. 2
- (b) Central Bank referred to as a Banker's Bank because Central Bank has almost the same relation with the other commercial banks of the country that the commercial banks have with the common public. Central Bank keeps the cash balances of commercial banks and issues loans to them on requirements, in the same manner as the commercial banks do for its customers. That's why, it is also called as bankers' bank. 2
- (c)

	Basis	Monopolistic Competition	Perfect Competition
(i)	Number of seller	The number of sellers is fairly large.	It is very large.
(ii)	Selling cost	In order to sell their brand, firms incur heavy selling and advertisement costs.	There are no selling costs.
(iii)	Product	Products are differentiated.	Products are homogeneous.

(Any two) $1 \times 2 = 2$

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- (d) Inflation means a state of general rise in prices. Inflation results in redistribution of income and wealth because the prices of all the factors of production do not increase in the same proportion. Generally, the flexible income groups, such as businessmen, traders, merchants, speculators gain during inflation due to wind-fall profits that arise because prices rise faster than the cost of production. 2
- (e) (i) Governments can intervene to promote equity, and reduce inequality and poverty, through the tax and benefits system which ensures that the burden of tax is not falling on the poor sections of the society.
- (ii) When government construct suitable expenditure policies it should leads to benefit lower income group of society to reduce poverty and narrow the income gap. 1 × 2 = 2

Answer 3

- (a) (i) Entrepreneur have a risk bearing and taking capacity in business compare to labour who are not involved in risk taking depends only on fixed wages or salary.
- (ii) Entrepreneur has limited mobility as the responsibility of the organization depends upon him where as labour is more mobile and can change is work place easily. 1 × 2 = 2

(b)

Basis	Saving Account	Current Account
Purpose	To promote saving among investors	To facilitate multiple regular transactions
Ideal for	It is mainly used by Salaried Person	It mainly used by Business firm.
Interest Rates	Generally, 4% to 6% interest paid by bank	Normally, no interest is paid

(Any two) 1 × 2 = 2

- (c) **Impact of Shifting cultivation on ecosystem are :** 2
- (i) Shifting cultivators are blamed for the deforestation, land degradation, atmospheric pollution and global climatic change.
- (ii) It has brought lots of changes in the ecological settings of the surroundings environment. The loss of forest cover influences the climate that contributes to loss of biodiversity.
- (ii) Shifting cultivators affect the economic activity and threaten the livelihoods and cultural integrity of forest-dependent people. (Any two) 1 × 2 = 2
- (d) In Perfect competition market selling cost is not required because in this market situation there are large number of buyers and sellers selling of homogeneous good at a single uniform price. The price in this market is set by industry and the output sold by each firm is very small as compared to the total combined output of all firms. So, a seller cannot charge high price for a homogeneity product. Thus, uniform pricing is prevail for all firms. 2

(e) **Individual Schedule for Firm A :**

Price in ₹	No. of Units supplied by Firm A	No. of Units supplied by Firm B	No. of Units supplied by Firm C	Total Supply
10	25	25	10	60
20	50	30	20	100
30	75	35	30	140
40	100	40	40	180

Calculate individual schedule for Firm A :**(Total Supply of Unit) - (No. of Units Supplied by Firm B + No. of Units supplied by Firm C)**

At ₹ 10 — 60 - (25 + 10) = 25

At ₹ 20 — 100 - (30 + 20) = 50

At ₹ 30 — 140 - (35 + 30) = 75

At ₹ 40 — 180 - (40 + 40) = 100

½ × 4 = 2**Answer 4**

- (a) **Price elasticity of Demand :** According to Boulding, "Price elasticity of demand measures the responsiveness of the quantity of a good demanded to the change in its price." 2
- (b) **Proportional Taxation :** Proportional tax is the taxing mechanism in which the taxing authority charges the same rate of tax from each taxpayer, irrespective of income. This means that lower class, or middle class, or upper class people pay the same amount of tax. 2
- (c) **Capital Formation :** It means making and increasing of more capital goods, such as machines, tools, factories, buildings, raw materials, fuels, etc., which are to be further used in producing more goods.
- According to Benham, "The amount a country adds to its capital during a period, is known as the capital formation during that period." 2

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- (d) **Labour** : A Labour is always indicates some kind of 'mental' or 'physical' exertion undertaken with a motive to earn money.
According to Marshall, "Any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasure derived directly from the work is called Labour". 2
- (e) **Inflation** : Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. 2

PART - II

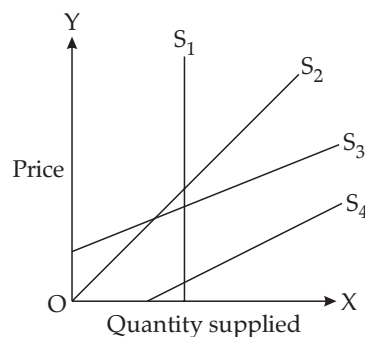
Answer 5

- (a) (i) Capital is defined as " All those man-made goods which are used in further production of wealth."
According to Bohm Bawerk, "Capital is the produced means of production."
Capital is one of the three factors of production. The others are land and labor. Goods with the following features are capital goods as opposed to consumer goods or durable goods :
- Goods that can be used in the production of other goods (this is what makes it a factor of production).
 - Goods made by humans, in contrast to "land," which refers to naturally occurring resources such as geographical locations and minerals.
 - Goods not used up immediately in the process of production, unlike raw materials or intermediate goods (e.g. machinery).
- (ii) **Characteristics of Capital are :**
- (1) Capital is man-made- It is created by man. Its supply is increased or decrease by the efforts of man.
 - (2) Capital is a passive factor- It is a passive factor of production because it becomes ineffective without co-operation of labour.
 - (3) Capital depreciates- If capital is used again and again it depreciates.
 - (4) Capital is prospective- Capital is considered much prospective, as the accumulation of capital yields an income. 7
- (b) (i) **State of Technology** : State of technology increases the supply of commodity because technology improvement reduces the cost and raises the profit of the producers.
- (ii) **Price of Factors of production** : increase or decrease of supply of commodity depends largely on increase or decrease of price of factors. if prices of factors increases the cost of product is increases leads to discourages the suppliers to increase the supply. And if prices of factors decrease, the finished product becomes cheaper and margin of profit increases results in increase of supply of commodity.
- (iii) **Goals of the firm** : it is often assumed that firms operate with a view to maximize their profits. But now days it is based on the principle that when the sales are increased, the ultimate profits also increase. Sometimes firms wish to capture extensive markets for their products so as to maximize their sales. Ultimately increases the supply of commodity.
- (iv) **Future Price Expectations** : Seller's expectations about the future price affect the supply. If a seller expects the price to rise in the future, he will withhold his stock at present and so there will be less supply now. Besides change in price, change in the supply may be in the form of increase or decrease in supply. $2 \times 4 = 8$

Answer 6

- (a) (i) The two industries are dairy and jute industry where division of labour is possible.
- (ii) (a) **Loss of creativity** : Since the worker is only expert in the part of whole job, his creative instinct remains unsatisfied and gradually he loses his creativity.
- (b) **Greater Risk of Unemployment** : When the worker removed from or leave the job on his own it become very difficult for him to find the same type of job again as he is unfamiliar with the other parts of the process.
- (c) **Monotony of Work** : Under division of labour, the job becomes monotonous and the worker gradually loses interest in it. 7

(b)



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The supply curve S_1, S_2, S_3, S_4 shows different kind of price of elasticity of supply which is as follows :

$S_1 - OS_1$ supply curve shows Unitary Elastic Supply because when the change in the amount supplied is exact proportion to the change in price. Symbolically it represented as, $E_s = 1$.

$S_2 - OS_2$ supply curve shows More Elastic Supply because when a small change in price brings about a large change in quantity supplied. Symbolically it represented as $E_s > 1$.

$S_3 - OS_3$ supply curve shows Perfectly Inelastic Supply because when a change in the price causes no change in supply. Symbolically it represented as, $E_s = 0$.

$S_4 - OS_4$ supply curve shows Less Elastic Supply because when a change in price brings about a small change in supply. Symbolically it represented as, $E_s < 1$.

8

Answer 7

(a) (i) When there is an increase in the demand then the demand curve shifts to right. This could be caused by a number of factors, including a rise in income, a rise in the price of a substitute or a fall in the price of a complement. For example, if drinking cola becomes more fashionable demand will increase at every price.

(ii) **Instances when demand will increase :**

- (1) Increase in the price of the goods increased the quantity demanded of the goods.
- (2) Increase in income will increased in demand of normal goods.
- (3) Change in tastes of liking goods increases the demand of that goods.
- (4) Expectations of buyers of increase in income or prices in the future will increase in demand. **(Any three) 7**

(b) **Role of Public Sector Enterprises in the development of economy are :**

- (i) By building economic overheads e.g. roads, railways, powers etc., it increased the productive capacity of an economy.
- (ii) Public sector is playing an important role in generating employment in the country by giving employment in government administration, defence and other government services.
- (iii) Public sector investment on infrastructure sector like power, transportation, communication, basic and heavy industries, irrigation, education and technical training etc. has paved the way for agricultural and industrial development of the country leading to the overall development of the economy as a whole.
- (iv) Public sector enterprises have been contributing a lot for the promotion of India's exports.
- (v) Another important role of the public sector is that it has successfully build the strong industrial base in the country. **(Any four) $2 \times 4 = 8$**

Answer 8

(a) Central Bank controls the credit supply in an economy and this policy is called Credit Control.

(i) **Cash Reserve Ratio :** To control inflation, the central bank raises the CRR which reduces the lending capacity of the commercial banks. Consequently, flow of money from commercial banks to public decreases. In the process, it halts the rise in prices to the extent it is caused by banks credits to the public.

(ii) **Statutory Reserve Ratio :** Statutory Liquidity Ratio (SLR) refers to the amount maintained by commercial banks with themselves in the form of gold and government securities before lending or before giving credit to any of their customers. As SLR effect the money supply situation in economy which inturn affect the inflation of the economy. Higher SLR , means bank can give less money as loan = Higher interest rate = it becomes expensive to start a new factory, buy a new house / car/bike. This can curb inflation but may also lead to slowdown in economy, because people wait for the interest rates to go down, before taking loans.

(b) (i) There is a single seller of a product called monopolist. The monopolist has control over pricing, demand, and supply decisions, thus, sets prices in a way, so that maximum profit can be earned.

The monopolist often charges different prices from different consumers for the same product. This practice of charging different prices for identical product is called price discrimination and this practice is to gain market advantage or to capture market position.

(ii) **Features of Monopoly are :**

- (1) **One Seller and Large Number of Buyers :** The monopolist's firm is the only firm; it is an industry. But the number of buyers is assumed to be large.
- (2) **No Close Substitutes :** There shall not be any close substitutes for the product sold by the monopolist. The cross elasticity of demand between the product of the monopolist and others must be negligible or zero.
- (3) **Difficulty of Entry of New Firms :** There are either natural or artificial restrictions on the entry of firms into the industry, even when the firm is making abnormal profits.
- (4) **Monopoly is also an Industry :** Under monopoly there is only one firm which constitutes the industry. Difference between firm and industry comes to an end. **(Any three) 8**

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Answer 9

- (a) **Privatisation** : Privatisation is the process of transferring an enterprise or industry from the public sector to the private sector. The public sector is the part of the economic system that is run by government agencies.
- (i) Privatization allows better flexibility in decision making as the owners are encouraged and are empowered to take their own decisions.
- (ii) Privatisation allows better utilisation of resources because competing private firms are able to perform better as they have larger resources to work upon.
- (iii) Privatization allows greater employment opportunities as people of different age, gender, nationality etc are able to perform their best as chances of getting a job would be higher. 7
- (b) **Difference between Central Bank and Commercial Bank :**

Basis for Comparison	Central Bank	Commercial Bank
Meaning	The bank which looks after the monetary system of the country is known as Central Bank.	The establishment, which provides banking services to the public is known as Commercial Bank.
Governing Statute	Reserve Bank of India Act, 1934.	Banking Regulation Act, 1949.
Ownership	Public	Public or Private
Deals with	General Public	Banks and Governments.

2 × 4 = 8

Answer 10

- (a) (i) An indirect tax is a tax that is paid to the government by one entity in the supply chain, but it is passed on to the consumer as part of the price of a good or service. The consumer is ultimately paying the tax by paying more for the product. An indirect tax is shifted from one taxpayer to another. 2
- (ii) **Three important differences between Direct and Indirect taxes :**

Difference Between direct and indirect taxes

Point difference	DIRECT TAX	INDIRECT TAX
Incidence and impact	A tax is said to be direct when incidence of a tax are on one and same person.	If impact of tax is on one person and incidence on the another, the tax is called 'indirect'
Burden	Direct tax is imposed on the individual organisation and burden of tax cannot be shifted to others	Indirect tax is imposed on commodities and allows the tax burden to shift.
Viability of payment	Direct taxes are lesser burden than indirect taxes to people as direct taxes are based on income earning ability of people.	Indirect taxes are borne by the consumers of commodities and services irrespective of financial ability as the MRP includes all taxes.

1 × 3 = 3

- (iii) (1) Custom duty — Indirect tax
 (2) Professional Tax — Indirect
 (3) Income Tax — Direct
 (4) Entertainment Tax — Direct

½ × 4 = 2

(iv) Indirect Taxes are important because of the following reasons :

- (a) Resource Mobilisation
 (b) Reduction in inequalities in income
 (c) Social welfare and regional development (Any two) 1 × 2 = 2
- (v) Indirect taxes are regressive because like sales tax, excise duty, customs duty, etc., they are levied on all products/services without any differentiation *i.e.* without considering the consumer group's income/fiscal status which consumes the product/service. So the poor or rich are equally impacted by this and hence considered regressive.

Progressive taxes refer to tax in which the rate of tax increases with the increase in tax payer income. Indirect taxes are also an example of progressive tax because the amount tax paid will increase at a higher rate than the increase in tax base for income.

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