SECOND YEAR HIGHER SECONDARY EXAMINATION, MARCH 2021

ANSWER KEY
(ECONOMICS)

SY-235

Q.NO	VALUE POINTS	SCORE	SCORE
1 a.	The Government	1	1
b.	Individual Income	1	1
c.	Adam Smith	1	1
d.	1936	1	1
e.	Rises	1	1
f.	MR=AR	1	1
g.	NNP_{FC}	1	1
h.	Reserve Bank of India	1	1
i.	Equilibrium	1	1
j.	Downward sloping	1	1
k.	Deficit Budget	1	1
l.	$\bar{C}$	1	1
	2 MARKS QUESTIONS		
2.	Centralised Planning, Welfare Motive, Public sector (any two)	1+1	2
3.	Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country in a given period of time.	2	2
4.	AVERAGE PRODUCT (AP) OR AVERAGE PHYSICAL PRODUCT(APP) AP is the output per unit of Variable input. By dividing Total output with Variable factors, we get AP. MARGINAL PRODUCT (MP) OR MARGINAL PHYSICAL PRODUCT (MPP) It is the additional product produced with the employment of an additional unit of input.	1 1	2
5.	Cardinal utility analysis assumes that level of utility can be expressed in numbers. It can be measure with the unit Utile.	2	2
6.	Firms, House Holds, Government, External Sector	½ ×4	2
7.	MICRO ECONOMICS: It is the branch of Economics which deals with individual units. It is also called price theory, demand theory, cost theory etc. Example Salary of a person, demand for a pen. MACRO ECONOMICS: It is another branch of Economics which deals with aggregates. John Maynard Keynes is considered as the father of Macro Economics. Itis otherwise called income theory. Examples National income, aggregate demand, inflation, money supply.	1 1	2

8.	This is because of in a perfect competitive market exist with uniform price.	2	2
9.	The situation in which market Demand is higher than market Supply at a given price is called excess Demand	2	2
10.	If all the people of the economy increases the proportion of income they save (ie, if the MPS increases), the Aggregate Savings of the economy will not increase. It will either decline or remain unchanged. The reason for this is the relationship between MPC and MPS. When MPS rises, MPC will fall which causes a fall in C, AD, Income, Saving etc.	2	2
11.	The total quantity demanded from a market at a given price is called market demand. It is the horizontal summation of individual demand.	2	2
12.	GNP refers to all the economic output produced by a nation's normal residents, whether they are located within the national boundary or abroad.	2	2
13.	It is the part of National Income received by each household of a Country is called Personal Income. It can be written as follows. Personal Income (PI) ≡ NI – Undistributed profits – Net interest payments made by households –Corporate tax + Transfer payments to the households from the government and firms.	2	2
3 marks questions			
14.	1 WHAT TO PRODUCE AND IN WHAT QUANTITIES? Every society wants thousands of goods and services. Since resources are scarce, all these goods and services cannot be produced, so it has decided to what type goods are produced. 2. HOW TO PRODUCE: It is the problem related with the technique of production. There are two techniques of production ---Labour intensive and Capital intensive. Labour intensive is a production technique, which uses more amount of labour and less amount of capital. Capital intensive is a production technique, which uses more amount of capital and less amount of labour. 3. FOR WHOM TO PRODUCE: It is the problem related with distribution. It means distribution of output among the factors of production. This is called functional distribution.	1 1 1	3
15.	Great Depression of 1929-1930 period in USA. During this period unemployment rate rose from 3% to 25% and		

	the aggregate output in USA fell by about 33%, during this period in 1936 John Maynard Keynes published his book 'The General Theory of Employment Interest and Money'.	1+1+1	3
16.	It is a flow which shows how income of an economy circulate different sectors in an economy. The two sectors exist in an economy are Firms and Households. Firms are the Production units and they receive factors of production from the households and give rewards for the factors production. The households spent the entire income received from the forms and nothing to save.	3	3
17.	1. Singles seller for a product 2. Absence of close substitutes 3. Entry of new firms to market is denied 4. Monopolist has complete control over supply of the product 5. Firm and Industry are the same 6. Producer is the Price maker.	½ ×6	3
18	i ***Medium of exchange***: The most important function of money is that it serves as a medium of exchange. In the barter economy commodities were exchanged for commodities. But it had experienced many difficulties with regard to the exchange of goods and services. ii ***Measure of value***: Another important function of money is that the money serves as a common measure of value or a unit of account. Under barter system there was no common measure of value and the value of different goods were measured and compared with each other. ***iii. Standard of deferred payments*** Another important function of money is that it serves as a standard for deferred payments. Deferred payments are those payments which are to be made in future. If a loan is taken today, it would be paid back after a period of time.	1+1+1	3
19.	In an economy, income and employment are in equilibrium when Aggregate Demand for final goods and services (AD) and Aggregate Supply or Aggregate Output (AS) are equal. AD = AS. OR $\bar{A} + cy = Y$ $= \bar{A} = Y - cY$ $Y^* = \frac{\bar{A}}{1-c}$	3	3

20.	Total Revenue (TR): Income earned from selling of all the units of output in the market is called Total Revenue. Average Revenue (AR): Total Revenue per unit of output is called AR. Marginal Revenue (MR): MR is the additional Revenue by selling of an additional unit output in the market.	1+1+1	3
21	$ED = \left(\frac{\Delta Q}{Q}\right) \times \left(\frac{P}{\Delta p}\right) = \frac{5}{10} \times \frac{10}{10} = \frac{50}{100} = 0.5$	3	3
22.	1. TECHNOLOGICAL PROGRESS: The supply curve of a firm is a positive function of a state of technology. 2. UNIT TAX: unit tax is the tax imposed on per unit of the output sold. Due to the imposition of unit tax, the cost of production per unit of output increases, which ultimately increases the marginal cost. 3. THE PRICE OF AN INPUT: An increase in the price of an input increases the cost of production, which in turn increases the marginal cost of the firm.	1+1+1	3
23.	Revenue Deficit: The revenue deficit refers to the excess of government's revenue expenditure over revenue Receipts Revenue deficit = Revenue expenditure – Revenue receipts. Primary Deficit: It is the difference between fiscal deficit and the interest payments Primary deficit = Gross fiscal deficit – net interest liabilities	1 ½ 1 ½	3
	4 MARKS QUESTIONS		
24.	1. Indifference curve slopes downwards from left to right: An indifference curve slopes downwards from left to right, which means that in order to have more of good X, the consumer has to forego some good Y. This shape is because of DMRS. 2. Higher indifference curve gives greater level of utility: As long as marginal utility of a commodity is positive, an individual will always prefer more of that commodity, as more of the commodity will increase the level of satisfaction. A higher indifference curve consisting of combinations with more goods and utility.	2 2	4
25.	1. Large number of buyers and sellers.		

<table>
<tr><td></td><td>2. Homogeneous products.
3. Free mobility of factors of production.
4. Perfect knowledge about the market conditions.
5. Freedom of entry and exit.
6. Absence of transportation cost.
7. Uniform price.
8. Absence of selling cost.</td><td>½ ×8</td><td>4</td></tr>
<tr><td>26.</td><td><table><tr><td>STOCKS</td><td>FLOWS</td></tr><tr><td>A particular point of time</td><td>Over a period of time</td></tr><tr><td>Static concept</td><td>Dynamic concept</td></tr><tr><td>Eg. Wealth, Capital</td><td>Eg. Income, Consumption</td></tr></table></td><td>2+2</td><td>4</td></tr>
<tr><td>27.</td><td>The ratio between change in Consumption and change in Income is called Marginal Propensity to Consume (MPC).
The ratio between change in Savings and change in Income is called Marginal Propensity to Save (MPS).
$\boldsymbol{MPC = \Delta C : \Delta Y = \frac{\Delta C}{\Delta Y}}$ $\boldsymbol{MPS = \Delta S : \Delta Y = \frac{\Delta S}{\Delta Y}}$ $\boldsymbol{MPC + MPS = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y} = \frac{\Delta Y}{\Delta Y} = 1}$</td><td>2+2</td><td>4</td></tr>
<tr><td>28.</td><td>Budget is the annual financial statement of a government, over a financial year.
Objectives of Government Budget
A Government performs three distinct economic functions. They are the following.
1) Allocation Function. Allocation function refers to making available to all public goods to distributing effectively among all the people of the economy.
2) Redistribution function: Distribution function refers to the activities of government to reduce inequality in income and wealth in the economy.
3) Stabilization function: It refers to the activities of government to maintain price and economic stability in the economy.</td><td>1
1
1
1</td><td>4</td></tr>
<tr><td>29.</td><td>An open economy is one which interacts with other countries through various channels. There are three ways in which these linkages are established.
1. Output Market: An economy can trade in goods and services with other countries. This widens choice in the sense that consumers and producers can choose between domestic and foreign goods.</td><td>1
1</td><td>4</td></tr>
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<tr><td></td><td>2. Financial Market: Most often an economy can buy financial assets from other countries. This gives investors the opportunity to choose between domestic and foreign assets.
3. Labour Market: Firms can choose where to locate production and workers to choose where to work. There are various immigration laws which restrict the movement of labour between countries.</td><td>1

1</td><td></td></tr>
<tr><td>30.</td><td>$equilibrium\ price = QD = QS = 500 - P = 100 + P = 500 - 100$
$= P + P = 400 = 2P \quad \boldsymbol{P = \frac{400}{2} = 200}$
Equilibrium quantity=500-200=300</td><td>2+2</td><td>4</td></tr>
<tr><td>31.</td><td>1.Large Number of Buyers and Sellers:
2. Free Entry and Exit of Firms:
3. Product Differentiation:
4. Selling Cost:
5. Lack of Perfect Knowledge:
6. Less Mobility:
7. More Elastic Demand Curve
Eg. Soap industry, tooth paste industry</td><td>½ ×8</td><td>4</td></tr>
<tr><td colspan="4">5 marks questions</td></tr>
<tr><td>32</td><td>PRICE CEILING
The government-imposed upper limit on the price of a good or service is called price ceiling. Price ceiling is generally imposed on necessary items like wheat, rice, kerosene, sugar and it is fixed below the market-determined price since at the market-determined price some section of the population will not be able to afford these goods. When the government imposed price ceiling the market faces excess demand. Then the government issues. ration coupons to the consumers so that no individual can buy more than a certain amount of goods and this stipulated amount of goods are sold through ration shops which are also called fair price shops. Price ceiling Causes the following problems.
1. Long queues in the ration shops.
2. Activities such as black markets</td><td>5</td><td>5</td></tr>
<tr><td>33.</td><td><table><tr><td>Revenue Expenditure</td><td>Capital Expenditure</td></tr><tr><td>Interest Payments</td><td>Investment in shares</td></tr><tr><td>Subsidies</td><td>Loans to state governments to central government</td></tr><tr><td>Salaries and pensions</td><td></td></tr></table></td><td>1 ×5</td><td>5</td></tr>
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<tr><td>34.</td><td>
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<tr><td>A</td><td>B</td></tr>
<tr><td>Short run</td><td>Some factors are fixed</td></tr>
<tr><td>Marginal product</td><td>$\frac{Change\ in\ output}{change\ in\ input}$</td></tr>
<tr><td>Total fixed cost</td><td>Horizontal Straight line Parallel to “X” axis.</td></tr>
<tr><td>Total fixed cost+ Total variable cost</td><td>Total Cost</td></tr>
<tr><td>Marginal cost</td><td>$\frac{\Delta TC}{\Delta Q}$</td></tr>
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</td><td>1 ×5</td><td>5</td></tr>
<tr><td>35</td><td>BALANCE OF PAYMENTS
The balance of payments (BoP) record the transactions in goods, services and assets between residents of a country with the rest of the world for a specified time period typically a year. There are two main accounts in the BoP — the current account and the capital account.
Current Account is the record of trade in goods and services and transfer payments. Trade in goods includes exports and imports of goods. Trade in services includes factor income and non-factor income transactions. Transfer payments are the receipts which the residents of a country get for ‘free’, without having to provide any goods or services in return. They consist of gifts, remittances and grants. They could be given by the government or by private citizens living abroad.</td><td>2

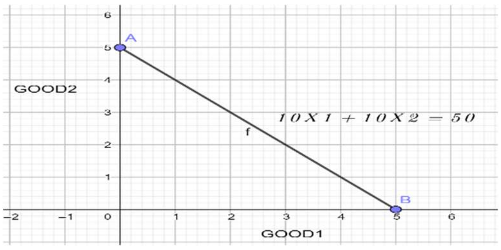
3</td><td>5</td></tr>
<tr><td>36.</td><td>The government generates its revenue from taxes and several other non-tax revenue sources. Tax is one of the major sources of revenue for the government to carry out its work. Tax revenue can be classified into a few major categories — corporation tax, tax on income, Customs, Union excise duties, service tax, and several others. There are several services provided by the government that creates the sources or components of non-tax revenue.eg; fines, dividend etc.</td><td>2 ½ +2½</td><td>5</td></tr>
<tr><td>37.</td><td>Returns to scale refers to change in output caused by proportionate change in all inputs.
When all inputs are changed in the same proportion, TP responds in three different ways. They are the following.
1. Increasing returns to scale (IRS)
When the proportionate change in all inputs leads more than proportionate change in output.
$f(tx1, tx2) < t.f(x1, x2)$</td><td>2

1</td><td>5</td></tr>
</table>

2. Constant returns to scale (CRS) 1
When the proportionate change in all inputs leads proportionate change in output.
f (tx1, tx2) = t.f (x1, x2)
3. Diminishing returns to scale (DRS) 1
When the proportionate change in all inputs leads less than proportionate change in output.
f (tx1, tx2) > t.f (x1, x2)

8 marks questions

38.a



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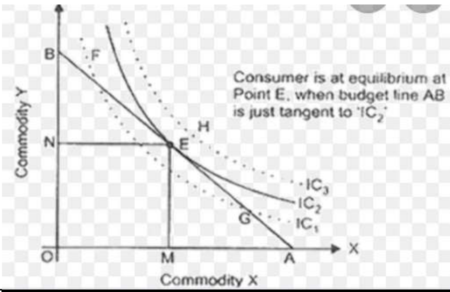
b. It is a point where a consumer can enjoy maximum satisfaction with his income. In other words, it is a point where budget line is tangent to the budget line. At this point MRS = Slope of the budget



6

Output	TFC	TVC	TC	AFC	AVC	SAC	SMC
0	100	0	100				
1	100	100	200	100	100	200	100
2	100	200	300	50	100	150	100
3	100	300	400	33.33	100	133.33	100
4	100	400	500	25	100	125	100

5

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TOTAL COST: Total Cost refers the sum total of all costs incurred by the producer to produce goods and services. If is the sum of Total Variable Cost and Total Fixed Cost.
$\boldsymbol{TC = TFC + TVC}$
TOTAL FIXED COST: The total cost incurred by the producer to buy fixed inputs is called Total Fixed cost.
TFC = TC - TVC
TOTAL VARIABLE COST: The total cost incurred by the producer on variable factors is called
Total Variable Cost. $\boldsymbol{TVC = TC - TFC}$

3

40	INCOME METHOD: Under this method NI is calculated by adding all the factor income received by owners of factors of production. Income received by land is called Rent (Ri), Income received by labour is called Wages and salaries (Wi), Income received by Capital is called Interest (Ini) And Income received by entrepreneurship is called Profit (Pi). Thus GDP can be written as follows. $$GDP \equiv R + W + In + P$$ EXPENDITURE METHOD Under this 4method of calculating NI on the final expenditure on domestic product. Final expenditure categorized under four heads. The Final Consumption expenditure (Ci), The Final Investment expenditure (Ii), The Government final Consumption expenditure (Gi) and the export revenue (Xi). Then we substract import expenditure from the sum of C+I+G+X. Then the GDP can be written as follows $$GDP \equiv C + I + G + X - M$$	4 4	8
41	Monetary policy is an important instrument of economic policy to achieve multiple objectives. Monetary policy is concerned with the measures taken to regulate the supply of money, the cost and availability of credit in the economy. It also deals with the distribution of credit between uses and users and also with both the lending and borrowing rates of interest of the banks. The RBI controls the money supply in the economy in various ways. The tools used by the Central bank to control money supply can be quantitative or qualitative. ***Quantitative tools, control the extent of money supply by changing the CRR, or bank rate or open market operations.*** ***Qualitative tools include persuasion by the Central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc***	8	8

PREPARED BY RAJESH.S