XII Economics -Model Examination March 2021-Answer Key

Questions from a to l carry 1 score each

1.

a. Adam Smith (Ref: Introductory Macro Economics, NCERT, September 2019, Page-4) 1
b. Scarcity of Resources 1
c. Utility 1
d. Net Investment 1
e. Average Revenue 1
f. Decreases 1
g. Reserve Bank of India (RBI) 1
h. C/Y 1
i. Firms and Households 1
j. Duopoly 1
k. Under Utilisation of Resources 1
l. Sale of Shares in Public Sector Undertakings 1

Questions from 2 to 13 carry 2 scores each

2. Land – **Rent** , Labour – **Wages**, Capital – **Interest** , Organisation – **Profit** ½ x 4 2

3.
a. All means of production are owned by government.
b. Main objectives of production is social welfare
c. Ownership of property is under government control Write Any Two
d. Economic problems are solved by Planning. 1 x 2 2
e. Planning Commission plays an important role

4.
a. Cardinal Utility Analysis **1 x 2** **2**
b. Ordinal Utility Analysis

5. ½ x 4 2

a. Food	:	Consumption Good
b. Implements	:	Capital Good
c. Machines	:	Capital Good
d. Clothing	:	Consumption Good

6. Long Run is defined as the period of time during which the output can be adjusted by changes the quantities of variable factor and fixed factor. In other words, the firm is able to change the scale of production. **2**

7. If more quantity of a commodity demanded at the same price, due to favourable change in factors other than price of the commodity in question ***(favourable change in income, change in the price of related commodity, taste habit preference etc.***). It is called increase in demand. The demand curve shift rightward –any two **1 x 2** **2**

8.
a. Households ½ x 4 **2**
b. Firm
c. Government sector
d. Foreign trade sector

9. All goods which are meant for final consumption (the direct use by end consumers) are called final goods. Examples: Food, kerosene, clothing, and televisions or any other two examples **1 x 2** **2**

10. **Marginal Propensity to Consume** is Increase in the consumption expenditure due to increase in income. MPC = $\Delta C/ \Delta Y$. **1 x 2** **2**
Marginal Propensity to Save is Increase in the savings due to increase in income. MPS = $\Delta S/\Delta Y$

11.
a. The nature of commodity
b. Availability of Substitutes **Write Any Two** **1 x 2** **2**
c. Level of income of the consumer
d. Postponement of Consumption
e. Number of uses
f. Time period
g. Habits

12. **Devaluation**: When government or monetary authority of a country officially lowers the external value of its domestic currency is called devaluation of a currency. **1 x 2** **2**
Revaluation: When government or monetary authority of a country officially raises the external value of its domestic currency is called revaluation devaluation of a currency.

13. **Break - Even Point:** The point where total cost of production equal to total revenue At this point, the **2**

producer will have neither profit nor loss.

Questions from 14 to23 carry 3 scores each

14. a. What to produce?
b. How to produce? — 1x3 — **3**
c. For whom to produce? — Any Three
d. How to achieve fuller and efficient use of resources?
e. The Problem of growth of resources.
f. The Problem of economic Growth

15. **Substitute Goods** are a pair of goods which can be used (substituted) in place of each other to satisfy a given want. That is they are also called competitive goods. Coffee and tea, pen and pencil, gur and sugar, ghee and oil are examples of substitute — **2+1** — **3**

16. a. Large Number of Buyers and Sellers
b. Homogenous Products — Any Three — 1x3 — **3**
c. Freedom of Entry and Exit
d. Perfect Knowledge about Market Conditions
e. Perfect Mobility of Factors of Production
f. No Transportation Cost
g. Uniform price

17. Ex-ante means Planned Ex-post means Realised — **1+1+1** — **3**
Examples: Ex-ate saving and Investment = planned savings and investment,
Ex-post saving and Investment = realised saving and investment

18.

a.	Revenue > Expenditure	=	Surplus Budget
b.	Revenue < Expenditure	=	Deficit Budget
c.	Revenue = Expenditure	=	Balanced Budget

1 x3 — **3**

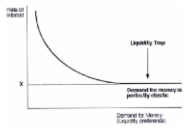
19. INTERMEDIATE GOODS: Goods which are used up during process of production of other goods are called intermediate goods. Such goods always move from one stage of production to another in the manufacture of a final product. Example: In manufacturing of biscuits. Biscuits are final goods but flour, milk, sugar, salt, fuel etc. used in making biscuits are intermediate goods — **2 +1** — **3**

20. Profit maximising conditions of a firm under perfect competition
a. The MC curve must equal the MR curve. ie.MC=MR,
b. The MC curve must cut the MR curve from below

21. a. **Collusion**: Sometimes in an oligopolistic market, firms enter in to collusion and make a group in the form of Trust, Cartel, Syndicate, etc. Through this agreement, these firms act as a single producer and determine price and output. — **1+1+1** — **3**
b. **Price Leadership:** Dominant firm will become leader other firms will become followers
c. Interdependent decision making of firms:

22. Impact of Great depression of 1929s
a. Excess Production
b. Fall in Industrial production — Any Three
c. Unemployment — **1+1+1** — **3**
d. Stock Market Crash
e. Bank failures
f. Reduction in purchasing Power
g. Fall in Standard of Living

23. **Liquidity Trap** is a situation where market rate of interest reaches r minimum ($r = r_{min}$).
Then the speculative demand curve will be parallel to x axis — **3**



Questions from 24 to31 carry 4 scores each

24. (a) A = Flow of Factors of production – Land, labour, capital,& organisation (Real Flow) — **2**
D = Expenditure on Goods and services (Money Flow)
(b) B = Product Method — **2** — **4**
C = Income Method

25. When there is Change in consumption (mpc) and investment, the aggregate demand changes, as a result, the level of income and employment changes. — **4**

26. An indifference curve is a curve that represents all those combinations of two goods which give equal satisfaction to the consumer. The consumer has no reason to prefer one particular combination to any other combination on the same curve. — **2+2** — **4**
Features of Indifference Curve **(Write Any Three Features)**
a. Indifference curves always slope down from left to the right.

b. Higher indifference curves represent higher level of satisfaction.
c. Indifference curves are always convex to the origin O.
d. Indifference curves cannot intersect each other.
e. Indifference curve touches neither X-axis nor Y-axis

27. (a) A: is Price Ceiling (MRP) **2** **4**
B: is Price floor (MRP)

(b) When the Government fixes price lower than the equilibrium price to protect the interest of consumer is called Price ceiling (MRP) and When the Government fixes price higher than the equilibrium price to protect the interest of producer is called Price floor (MSP). **2**

28. **4**
a. Reallocating the resources across the nation
b. Reduction of inequalities
c. Ensuring economic stability
d. Management of public sector enterprises
e. Boosting economic growth
f. Reducing the regional imbalances

Write any two objectives
And give explanation of one 2+2

29. **Balance of trade** is the difference between the money value of exports and imports of material goods (visible item) **4** 2+2
Balance of payments is a systematic record of all economic transactions between residents of a country and the residents of foreign countries during a given period of time. It includes both visible and invisible items. Balance of Payments gives a good picture of a country's economic transactions with the rest of the world than the balance of trade

30. Price Elasticity of Supply is the technical term used by the Economists to describe the degree of responsiveness of quantity supplied of a commodity in response to change in price of that commodity. In other words, Elasticity of Supply is the ratio between proportionate change in quantity supplied and proportionate change in price **1+3** **4**

$$= \frac{\frac{\delta Q_s}{Q}}{\frac{\delta P}{P}}$$

a. **Perfectly Elastic Supply** refers to that situation where a slight change in price of the commodity leads to infinite change in quantity supplied.
b. **Perfectly Inelastic Supply** refers to that situation where quantity supplied is independent of change in the price of the commodity.
c. **Elastic Supply** refers to that situation where proportionate change in quantity supplied is greater than proportionate change in its price.
d. **Inelastic Supply** refers to that situation where proportionate change in quantity supplied is less than proportionate change in its price.
e. **Unit Elastic Supply** refers to that situation where proportionate change in quantity supplied is equal to proportionate change in its price.

31. **Monopoly** refers to that market situation where only a single producer controls the entire supply of the Commodity, which has no substitutes. Absolute monopoly exists when there is only one seller or producer in the market. **1+3** **4**
FEATURES OF MONOPOLY
a. Single Producer
b. No Close Substitutes
c. No Freedom of Entry
d. Profit Motive
e. Price Maker
f. Price Discrimination

Questions from 32 to 37 carry 5 scores each

32. **1 x 5** **5**

A	B
Marginal Product	Change in output per unit of change in the input
Short Run	At least one factor remains fixed and cannot vary
Production function	Relationship between inputs used and output produced by a firm
Marginal Cost	change in total cost per unit of change in output
Average Product	output per unit of the variable inputs

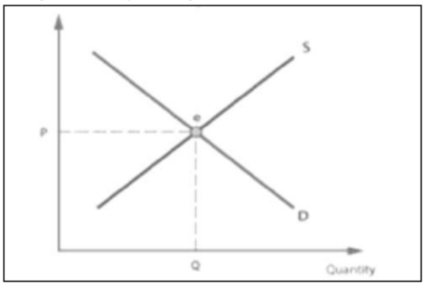
33. A= Total Product **3** **5**
B =Average Product
C = Marginal Product
The law of variable Proportion exhibits the short run Production Function in which one factor is variable and other factors are fixed. An extra unit of output can be obtained by applying a unit of variable factor, which can be greater than, equal to, or less than the output obtained by previous unit. The law of variable Proportion is also named as Laws of Return or Laws to Variable Factor or Law of Diminishing Return **2**

34. Components of Government Budget =**Revenue Budget and Capital Budget**
Revenue Budget =**Revenue Receipts and Revenue Expenditure**
Capital Budget =**Capital Receipts and Capital Expenditure**

Revenue Receipts =**Tax Revenue and Non-Tax Revenue** 5
Revenue Expenditure = **expenditure that does not result in creation of assets or reduction of liability is treated as revenue expenditure**.
Capital Receipts = Recoveries from Loans, Borrowing and Other Liability, Other Receipts
Capital Expenditure = **Plan Expenditure and Non Plan Expenditure (developmental and Non development Expenditure)**

35. Market Equilibrium is a situation where for a particular good supply = demand. When the market is in equilibrium, there is no tendency for prices to change. We say the market-clearing price has been achieved. A market occurs where buyers and sellers meet to exchange money for goods. 2+3 5

Unit Price ₹	Q. Demand	Q. Supply
90	20	8
108	18	10
126	16	12
144	14	14
162	12	16
180	10	18
198	8	20



36. 1. Public goods are non-excludable, non-rivalry. No need to pay for it, 2

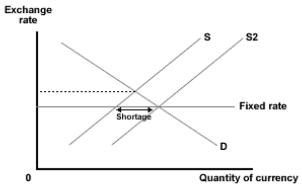
2. Private goods are Excludable and limited We have to pay for it

Public goods	Private goods
National Defence	Clothes
Government Administration	Car
Public transports.	Food items

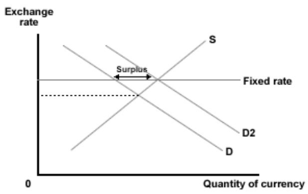
3 5

37. A fixed exchange rate, sometimes called a pegged exchange rate, is a type of exchange rate regime where a currency's value is fixed against either the value of another single currency, to a basket of other currencies, or to another measure of value, such as gold.

Under fixed exchange rate system exchange rate is determined by the government A fixed exchange rate system is one where the value of the exchange rate is fixed to another currency. This means that the government have to intervene in the foreign exchange market to maintain the fixed rate. The equilibrium exchange rate may be either above or below the fixed rate.



When the equilibrium is above the fixed rate, there will be a shortage of the national currency at the fixed rate. This would force the equilibrium exchange rate to move upward. To keep the exchange rate at the fixed rate the government will need to intervene. Government will sell their own currency from their foreign exchange reserves and buy overseas currencies instead. This buying will result in holding value of foreign currency fixed



When the equilibrium rate is below the fixed rate. There will be a surplus of the national currency. Then government will buy this surplus if they want to prevent the fall of value of Currency. When they buy the currency they will be selling from their foreign currency reserves leading to rise in the demand for domestic currency.

Questions from 38 to 41 carry 8 scores each

38. **Income Method** 8
Compensation of Employees + Operating surplus + Mixed income Employed + Net Indirect Taxes + Consumption of fixed capital (Depreciation) + Net Factor income from abroad = GNP at MARKET PRICES

Compensation of Employees

It refers to all payments and other measurable benefits which the employees receive directly and indirectly in return for rendering productive services. Example: Wages and salary in cash, Compensation in kind (like rent free quarter, free ration etc.) Employer's contribution to social security schemes (like provident fund maternity benefits, Life insurance etc.)

Operating Surplus

Operating surplus is sum of rent, interest and profit. Alternatively, operating surplus is income from property (rent + interest) and income from entrepreneurship (profit). Royalty is also included in rent.

Mixed Income of Self-Employed

Income of self-employed person and unincorporated enterprises which use their own resources (land labour, capital etc.) is called mixed income of self-employed.

Expenditure Method

Private final consumption expenditure + Govt. final consumption Expenditure + Gross Capital formation+ Net Exports + Change in Stock + Net Factor income from abroad = GNP at MARKET PRICES

Items to be Included

1. Rent of Owner-occupied houses
2. Production for self-consumption

Items to be excluded

1. All transfer Payments & All expenditure on intermediate goods and services
2. Illegal Incomes – Smuggling, black Marketing etc.
3. Corporate taxes
4. Wind fall gains from lotteries
5. Income from the sale of second-hand goods.
6. Service of Housewives
7. Works done as a hobby
8. Interest on National Debt
9. Expenditure on old shares and bonds

39. **MONETARY POLICY (QUANTITATIVE INSTRUMENTS) (List all and Explain any two)** 8

BANK RATE: It refers to the rate at which the central bank lends money to commercial banks as a lender of the last resort. Central Bank increases the bank rate during inflation (excess demand) and reduces the same in times of deflation (deficient demand)

OPEN MARKET OPERATIONS: It refers to the buying and selling of securities by the Central Bank from/ to the public and commercial banks. It sells government securities during inflation/excess demand and buys the securities during deflation/deficient demand.

LEGAL RESERVE RATIO*:*Central bank can influence the credit creation power of commercial banks by making changes in CRR and SLR

CASH RESERVE RATIO (CRR): It refers to the minimum percentage of net demand and time liabilities to be kept by commercial banks with central bank. Central bank increases CRR during inflation and decreases the same during deflation.

STATUTORY LIQUIDITY RATIO (SLR): It refers to minimum percentage of net demand and time liabilities which commercial banks required to maintain with themselves. SLR is increased during inflation or excess demand and decreased during deflation or deficient demand.

MONETARY POLICY of RBI (QUALITATIVE INSTRUMENTS)

MARGIN REQUIREMENTS: It is the difference between the amount of loan and market value of the security offered by the borrower against the loan. Margin requirements are increased during inflation and decreased during deflation.

MORAL SUASION: It is a combination of persuasion and pressure that Central Bank applies on other banks in order to get them act in a manner in line with its policy.

SELECTIVE CREDIT CONTROLS: Central Bank gives direction to other banks to give or not to give credit for certain purposes to particular sectors.

40. 8

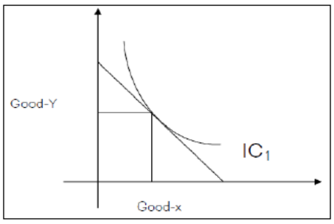
Output Q	TFC	TVC	TC	AVC	SMC
0	10	0	10	-	10
1	10	8	18	8	8
2	10	14	24	7	6
3	10	19	29	7.66	6
4	10	25	35	6.25	6
5	10	33	43	6.60	8
6	10	43	53	7.17	10

41. a) $P_1X_1 + P_2X_2 = M$ 8

b) The real purchasing power of the consumer from which he can purchase the certain quantities of bundles of two goods at a given prices. In other words the consumption bundle available to a consumer depends on two things - Prices of two goods and Income of the consumer. The budget line is downward sloping because, in order to increase the consumption of one good, the consumption of the other good must be reduced, with constant M.

The slope of the budget line shows the rate of sacrifice or the rate at which good 2 can be substituted for good 1.

c) The **Consumer is in Equilibrium** when he maximizes his satisfaction given his income and prices of goods. Here the most important point is the choice of that combination of two goods which gives the consumer maximum satisfaction. For this three points of information about the consumer are required:



1. Income of the consumer
2. Prices of goods (both items are represented by budget line),
3. Preference schedule which is represented by indifference map.

The consumer equilibrium is found at the point where budget line *is* tangent to the indifference curve. A consumer is in equilibrium at a point where budget line is tangent to indifference curve. At this point; slope of indifference curve (called MRS) is equal to slope of budget line

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