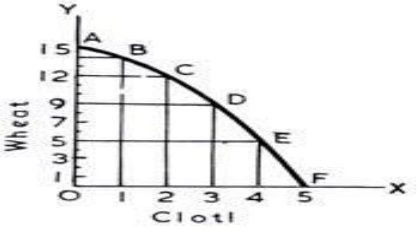
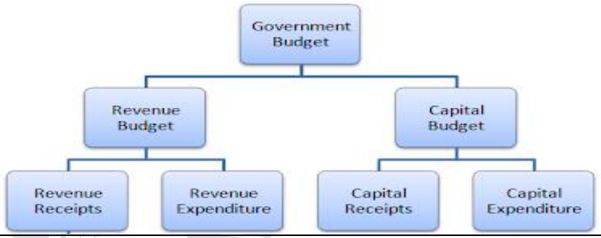
HIGHER SECONDARY MODEL EXAMINATION FEBRUARY -2020

Economics

Answer Key

(SECOND YEAR)

Qn. no	*Scoring indicators*	*Marks*	*Total Score*	
1	d) The General Theory of Employment Interest and Money	1	1	ANY 10 QUESTIONS
2	b) Government decisions	1	1	
3	c) Straight line parallel to `X' axis	1	1	
4	a) Increases	1	1	
5	c) $e_s=1$	1	1	
6	c) Private sector	1	1	
7	b) Law of variable proportion	1	1	
8	c) q_3	1	1	
9	Exchange Rate	1	1	
10	$GDP_{deflator}$	1	1	
11	Primary deficit	1	1	
12	Personal Disposable Income	1	1	
13	Classical ideas were proved wrong, Unemployment rate of USA increases, aggregate output fell down, Emergence of Macro Economics.	½ ×4	2	ANY 5 QUESTI
14	Income of the consumer may increases. Price of substitute may increases	1 1	2	
15	Price leadership Indeterminate demand curve	1 1	2	
16	Stock ------ wealth, capital formation Flow----- income, capital formation	1 1	2	

<table>
<tr><td>17</td><td>Planned values of aggregate demand in an economy is called ex-ante aggregate demand
Actual values of aggregate demand in an economy is called ex-ante aggregate demand</td><td>1
1</td><td>2</td><td></td></tr>
<tr><td>18</td><td>Public goods----- defence, roads
Private goods---- rice, wheat</td><td>2</td><td>2</td><td></td></tr>
<tr><td>19</td><td>
PPC is a graph shows different combinations of two goods produced with given technology and resources.</td><td>2
1</td><td>3</td><td rowspan="7">ANY 6 QUESTIONS</td></tr>
<tr><td>20</td><td>Equilibrium price = 100
Equilibrium quantity = 400</td><td>1 ½
1 ½</td><td>3</td></tr>
<tr><td>21</td><td>M_1= CU+DD
M_2= M_1+ saving bank deposits with post office
M_3= M_1+ Net time deposits with commercial banks
M_4 = M_3+other deposits with post office savings bank organisations</td><td>3</td><td>3</td></tr>
<tr><td>22</td><td>(a) and (c) ------ Factor Payments and Goods and Services
(d) and (b)------Factor services and Spending
Real flow--- Goods and Services, Factor services
Money flow ---- Factor Payments, Spending</td><td>1
1
½
½</td><td>3</td></tr>
<tr><td>23</td><td>Open economy multiplier = $\frac{1}{1-c+m} = \frac{1}{1-0.8+0.05} = 4$
Equilibrium income = $\frac{\hat{A}}{1-c+m} = \frac{230}{0.25} = 920$</td><td>1
2</td><td>3</td></tr>
<tr><td>24</td><td> </td><td>6 ×½=3</td><td>3</td></tr>
<tr><td>25</td><td><table><tr><td>Characteristics</td><td>Perfect Competition</td><td>Monopoly</td></tr><tr><td>No.of sellers</td><td>Many</td><td>One</td></tr><tr><td>Nature of product</td><td>Homogeneous</td><td>No close substitutes</td></tr><tr><td>Freedom of entry and exit</td><td>Yes</td><td>No</td></tr></table></td><td>6 ×½=3</td><td>3</td></tr>
<tr><td>26</td><td>Substitutes are the two kinds of goods can be consumed or used in place of one another. Example—tea and coffee, chappals and shoes
Complementary **is** a good which is consumed with another good. Example—bread and jam, pen and ink</td><td>1
1
1
1</td><td>4</td><td>ANY 4 QUESTIO</td></tr>
</table>

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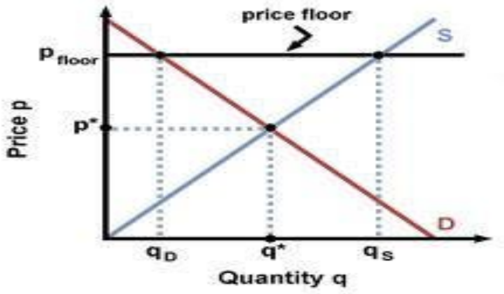
<tr><td>27</td><td>

When government imposes price floor, in the market faces excess supply. Then the government collects the excess commodities from the market.</td><td>2
2</td><td>4</td><td></td></tr>
<tr><td>28</td><td><table>
<tr><td>Quantity of output</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td></tr>
<tr><td>TR</td><td>0</td><td>50</td><td>90</td><td>120</td><td>140</td><td>150</td><td>150</td><td>140</td><td>120</td></tr>
<tr><td>TC</td><td>5</td><td>50</td><td>88</td><td>105</td><td>120</td><td>130</td><td>145</td><td>170</td><td>210</td></tr>
<tr><td>MR</td><td>0</td><td>50</td><td>40</td><td>30</td><td>20</td><td>10</td><td>0</td><td>-10</td><td>-20</td></tr>
<tr><td>MC</td><td>5</td><td>45</td><td>38</td><td>17</td><td>15</td><td>10</td><td>15</td><td>25</td><td>40</td></tr>
</table>
EQUILIBRIUM OUTPUT = 5
PROFIT AT EQUILIBRIUM =150-130=20</td><td>1
1
1
1</td><td>4</td><td></td></tr>
<tr><td>29</td><td>1) Reallocation of Resources – It helps to distribute resources keeping in view the social and economic advantages of the country.
2) Minimize inequalities in income and wealth – In an economic system, income and wealth inequality is an integral part. So, the government aims to bring equality by imposing a tax on the elite class and spending extra on the well-being of the poor.
3) Economic Stability – The budget is also utilized to avoid business fluctuations to accomplish the aim of financial stability. Policies such as deficit budget during deflation and excess budget during inflation assist in balancing the prices in the economy. (any two)</td><td>4</td><td>4</td><td></td></tr>
<tr><td>30</td><td><table>
<tr><td>BASIS FOR COMPARISON</td><td>FIXED EXCHANGE RATE</td><td>FLEXIBLE EXCHANGE RATE</td></tr>
<tr><td>Meaning</td><td>Fixed exchange rate refers to a rate which the government sets and maintains at the same level.</td><td>Flexible exchange rate is a rate that variate according to the market forces.</td></tr>
<tr><td>Determined by</td><td>Government or central bank</td><td>Demand and Supply forces</td></tr>
<tr><td>Changes in currency price</td><td>Devaluation and Revaluation</td><td>Depreciation and Appreciation</td></tr>
</table></td><td>1+1+1+1</td><td>4</td><td></td></tr>
<tr><td>31</td><td>National Income can be measured in three different methods. They are the following.
1. PRODUCT METHOD OR VALUE ADDED METHOD
2. INCOME METHOD
3. EXPENDITURE METHOD
PRODUCT METHOD OR VALUE ADDED METHOD Under this method National Income can be measured by adding all the final goods and services produced by each firms in the economy during a financial year. Then the problem of Double Counting arises.Double Counting means value of a good or service is added more than once in the</td><td>2 ½</td><td>5</td><td>ANY 2 QUESTIONS</td></tr>
</table>

	calculation of National Income. To avoid double counting we use Value Added Method. Value added or Gross Value Added is difference between value of output and intermediate Consumption. Value Added OR Gross value added = Value of output – Value of intermediate Consumption Value of output = market price × quantity of output Under value added method we calculate NI by adding GVA of all firms in the economy during a financial year.we assume that there are N firms in an economy. The NI can be written as follows. GDP ≡ GVA1 + GVA2 + · · · + GVAN Therefore N GDP ≡ ∑ GVAi i=1 . NVAi ≡ GVAi – Di here Di= depreciation. 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. N. N. N N GDP ≡ ∑ Wi +∑ Ri +∑ Ini +∑ Pi OR GDP ≡ W + R + In + P i=1 i=1 i=1 i=1 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 Government5 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. N. N. N. N GDP ≡ ∑ Ci + ∑ Ii +∑ Gi + ∑ Xi - ∑ M OR GDP ≡ C+I+G+X-M ***(ANY TWO METHODS)***	**2 ½**		
32	The monetary authority controls the money supply directly and/or indirectly by altering either the monetary base or the reserve-deposit ratio. To do this, the monetary authority has at its disposal three main instruments of monetary policy: ***open-market operations, reserve requirements and the bank rate***. Open-market Operations are the purchases or sales of government bonds by the Central Bank/monetary authority. When it buys bonds from the public, the money it pays for bonds increases the monetary base and thereby increases money supply. When it sells bonds to the public, the money it receives reduces the monetary base and thus decreases the money supply. Open-market operations are the most-often used policy instrument of the Central Bank. Reserve Requirements are Central Bank regulations that impose on banks a minimum reserve-deposit ratio. An increase in reserve requirement raises the reserve-deposit ratio and thus lowers the money multiplier and the money supply. This is the least-frequently used instrument. The bank rate is the interest rate that the Central Bank charges when it makes loans to banks. Banks borrow from the Central Bank (CB) when they find themselves with too few reserves to meet reserve requirements. The lower the discount rate, the cheaper are borrowed reserves and the more banks borrow at the CB's discount window. Hence, a reduction in the discount rate raises the monetary base and the money	**5**	**5**	
33	(a) $5X_1+10X_2=40$ (b) $\frac{M}{P1} = \frac{40}{5} = 8$ (c) $\frac{M}{P2} = \frac{40}{10} = 4$ (d)	**1** **1** **1**	**5**	

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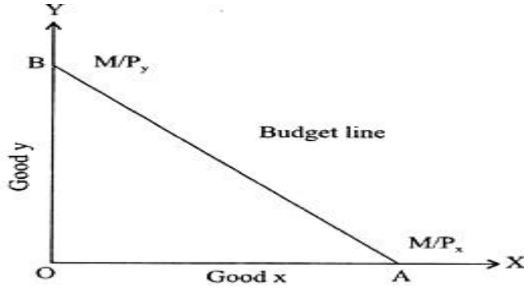
<td>
(e) Slope $=-\frac{p1}{p2} = -\frac{5}{10} = -0.5$</td>
<td>1
1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>(a) P=MC OR AR=MC OR MR=MC
MC is non decreasing
P≥ AVC in short run and P≥ AC in long run
(b) Correct graphs</td>
<td>1
1
1
5</td>
<td>8</td>
<td rowspan="3">ANY 2 QUESTIONS</td>
</tr>
<tr>
<td>35</td>
<td>(a) National income of two sector economy is determined by aggregate demand and aggregate supply. this is explained as follows
AS =Y
AD= C+I C= C+cy+I
$Y=\frac{C+I}{1-c}$
(b) Correct graph</td>
<td>6
2</td>
<td>8</td>
</tr>
<tr>
<td>36</td>
<td>
<table>
<tr><td>TFC</td><td>20</td><td>20</td><td>20</td><td>20</td><td>20</td><td>20</td><td>20</td></tr>
<tr><td>TVC</td><td>0</td><td>40</td><td>70</td><td>90</td><td>120</td><td>160</td><td>220</td></tr>
<tr><td>AVC</td><td>-</td><td>40</td><td>35</td><td>30</td><td>30</td><td>32</td><td>36.6</td></tr>
<tr><td>SAC</td><td>-</td><td>60</td><td>45</td><td>36.67</td><td>35</td><td>36</td><td>40</td></tr>
<tr><td>MC</td><td>20/-</td><td>40</td><td>30</td><td>20</td><td>30</td><td>40</td><td>60</td></tr>
</table>
BOTH are “U” shaped
MC cuts AC at the minimum point of AC
BOTH of them decreases AC is above of MC</td>
<td>5
3</td>
<td>8</td>
</tr>
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