Senior School Certificate Examination
MARCH – 2008

MARKING SCHEME – ECONOMICS (OUTSIDE)

Expected Answers / Value Points

Questions with ⁘ mark are higher order thinking questions.

GENERAL INSTRUCTIONS :

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. The answers given in the marking scheme below are suggested answers. The content is thus indicative. The candidates may express the content in various forms. But, for standardization of evaluation it is necessary to follow the marking scheme suggested here on the basis of expected content.
3. For mere arithmetical errors, there should be minimal deduction. Only ½ mark be deducted for such an error.
4. Wherever only two / three or a "given" number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
5. There should be no effort at "moderation" of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
6. Higher order thinking ability questions are assessing student's understanding / analytical ability.

General Note : <u>In case of numerical question no mark is to be given if only the final answer is given</u>.

Q. No. Set			Expected Answer / Value Points	Distribution of Marks
B1	B2	B3		
			<u>Section – A</u>	
1	5	4	MRT is the ratio of units of one good sacrificed to produce one more unit of the other good.	1
2	1	5	Demand schedule is a table showing prices and the quantities demanded at each price.	1
3	2	1	A production function is an expression of quantitative relation between change in inputs and the resulting change in output.	1

4	3	2	Market supply refers to the sum of outputs of all the producers of a good at a price during a given period of time.	1
5	4	3	Equilibrium price is the price at which market demand equals market supply.	1
6	10	9	Meaning of the problem Explanation of the problem	1 2
7	-	-	$E = \frac{\text{Percent change in demand}}{\text{Percent change in price}}$ $-1 = \frac{\text{Percent change in demand}}{-10\%}$ Percent change in demand = 10% New demand = Q + 10% of Q = 60 + 10% of 60 = 66	1 1 ½ ½
-	6	-	$E = \frac{\text{Percent change in demand}}{\text{Percent change in price}}$ $-2 = \frac{50\%}{\text{Percent change in price}}$ Percentage change in price = $\frac{50}{-2}$ = -25% New price = P + % change in P = 8 + (-25% of 8) = 8 - 2 = Rs 6	1 1 ½ ½
-	-	10	$E = \frac{\% \text{ Change in demand}}{\% \text{ Change in price}}$ Percentage change in price = $\frac{2}{10} \times 100 = 20\%$ $-3 = \frac{\% \text{ change in demand}}{20\%}$ % change in demand = -60% i.e. falls by 60%	1 ½ 1 ½

8	7	6	Consumer, compares price with marginal utility (MU). He continues to buy so long as MU is greater than price. As he buys more MU falls and becomes equal to price at a certain quantity. He stops buying when MU=P. This maximizes utility. Buying more will make MU less than price, and reduces utility. (To be marked as whole)	3
9	-	-	Fall in price of inputs reduces cost. This raises profits which induces the producers to supply more (Explanation)	3
-	8	-	Imposition of a unit tax raises cost. This reduces profit which results in producer supplying less (Explanation)	3
-	-	7	Technological progress raises productivity and thus reduces cost. This raises profits and induces the producers to supply more (Explanation)	3
※ 10	9	8	When existing firms are earning profit, freedom of entry induces new firms to enter the industry. This raises market supply which in turn leads to fall in market price. Profits fall and continue to fall till each firm is earning zero economic profit / normal profit / Zero profit. **OR** When existing firms are incurring losses, the firms start leaving the industry. This reduces the number of firms. The market supply is reduced which in turn leads to rise in market price. Losses fall and continue to fall till they are wiped out and each firm left in the industry is earning zero economic profit / normal profit / Zero profit.	3
11	12	13	Schedule Explanation in terms conditions of equilibrium based on TR/TC approach. **OR** (i) FC vs VC — Distinction Examples ½ × 2 (ii) AC vs MC — Distinction Numerical example ½ × 2	2 2 1 1 1 1

12	13	11	(No explanation required) For blind candidates (i) Distinction in terms of numerical value (ii) Distinction in terms of numerical value	1× 4 2 2
13	-	-	Price (Rs) / Output (unit) / TR (Rs) / MR (Rs) 6 / 1 / 6 / 6 4 / 2 / 8 / 2 2 / 3 / 6 / -2 1 / 4 / 4 / -2	½ × 8
-	11	-	Price (Rs) / Output (unit) / TR (Rs) / MR (Rs) 10 / 1 / 10 / 10 7 / 2 / 14 / 4 5 / 3 / 15 / 1 3 / 4 / 12 / (-) 3	½ × 8

-	-	12	Price (Rs) / Output (unit) / TR (Rs) / MR (Rs) 7 / 1 / 7 / 7 5 / 2 / 10 / 3 3 / 3 / 9 / (-) 1 1 / 4 / 4 / (-) 5	½ × 8
14	16	15	(i) Normal good case Inferior good case (ii) Substitute goods Complementary goods	1½ 1½ 1½ 1½
15	14	16	C. R. S. Meaning Numerical Example I. R. S. Meaning Numerical Example D. R. S. Meaning Numerical Example	1 1 1 1 1 1
※ 16	15	14	**3 possibilities :** Price may rise, remain same, may fall (with explanation) (Diagram not required) **OR** **(i) Meaning** **Implication :** in terms of power to influence price by a firm. **(ii) Meaning** **Implication :** in terms of on individual firm having no influence over the market price.	2 × 3=6 1 2 1 2
17	21	20	**Section – B** Aggregate supply refers to the value of final products planned to be produced in an economy during a given year.	1
18	17	21	Deficient demand refers to the aggregate demand falling short of aggregate supply at full employment level.	1
19	18	17	A commercial bank is a financial institution which accepts checkable deposits and lends money to public.	1
20	19	18	Government budget is a statement of expected receipts and expenditures during a given year.	1

21	20	19	A system in which exchange rate is fixed by the government/ monetary authorities and not determined by the market.	1
22	-	-	NVA fc = iv + vi – ii – i + ii = 140 + (-10) -90-20 + 5 = 25 (Rs. lakhs)	1 1½ ½
-	26	-	GVA mp = ii + iii + vi – iv - v = 250 + 50 + 30 – 20 - 150 = Rs 160 lakhs.	1 1½ ½
-	-	25	GAV fc = ii + v – iii – i - iv = 400 + (-40) – 250 – 20 - 30 = Rs 60 lakhs	1 1½ ½
23	22	26	When exchange rate falls imports become cheaper. Demand for imports rises and so rises the demand for foreign exchange to purchase more imports.	3
24	23	22	**Balance of trade =** Exports of goods – Imports of goods **Balance on current account** is the difference between receipts and payments of foreign exchange on account of goods, services, incomes and transfers.	1 2
25	24	23	Medium of exchange function including how it solves the problem of double coincidence of wants. **OR** Evaluation of money in terms of commodity money, metallic money paper money, bank money.	3 3
26	25	24	**Capital expenditure** is the expenditure by government that either creates an asset or reduces a liability. **Example :** construction, repayment of loan, etc. any one **Revenue expenditure** is the expenditure by government that neither creates an asset nor reduces a liability **Example:** interest payment, subsidy, etc. any one	1 ½ 1 ½

27	-	-	Since increase in Y is 3 times more than increase in **I**, total increase in Y is 4 times. Therefore, the value of multiplier is 4. Multiplier $= \frac{1}{1 - MPC}$ $4 = \frac{1}{1 - MPC}$ $4 - 4\ MPC = 1$ $4\ MPC = 3$ $MPC = 0.75$	1 1 1 1
-	28	-	$\Delta Y = \Delta I \frac{1}{MPS}$ $600 = \Delta I \frac{1}{0.2}$ $\Delta I = 600 \times 0.2$ $= 1200$	2 1 1
-	-	29	$\Delta Y = \Delta I \frac{1}{MPS}$ $\Delta Y = 125 \frac{1}{0.25}$ $= 125 \times 4$ = Rs 500 crores	2 1 1
28	29	27	Explanation in terms of direct loans, cash credit, overdrafts, discounting bills of exchange. (Explanation of any two forms is sufficient to attract full credit). **OR** Explanation in terms of undertaking banking transactions of government, managing public debt, advising on financial matters.	2 × 2=4 4
29	-	-	Revenue deficit is the excess of government's total revenue expenditure over the total revenue receipts. The deficit is to be covered through borrowings, disinvestment, etc. The borrowing in turn leads to the payment of interest and repayment of loans in future which may mean more deficit in future.	1 3

-	27	-	Fiscal deficit is the excess of government's total expenditure (revenue and capital both) over the receipts excluding borrowing / borrowing requirements of the government. Borrowing requires interest payments and repayment of loans in future leading to more deficit.	1 3
-	-	28	(i) When revenue receipts equal revenue expenditure, it is called '<u>balanced budget</u>'. When revenue receipts exceed revenue expenditure, it called <u>surplus budget</u>. (Note: No mark be deducted if the word revenue is not mentioned) (ii) Expenditure on developmental activities by government on different sectors of the economy is called <u>developmental expenditure while</u> expenditure on the essential services of routine nature is called <u>non-developmental expenditure</u>.	2 2
30	-	-	N.I = ii + vii + ix + iv – viii + × = 600 + 100 + 70 + (-20) – 30 +10 = Rs 730 crores Pvt. Income = N.I – vi – i + iii + v = 730 – 25 – 10 + 15 + 5 = Rs 715 crores	1 1½ ½ 1 1½ ½
-	31	-	G. N. P_{mp} = (ii + viii) + iv + vii + ix + vi = 200 + 30 + 400 + 20 + 40 (-10) = Rs. 680 crores Personal Income = x + vi + iii + v + xi – i = 500 + (-10) + 25 +15 + 5 – 35 = Rs. 500 crores	1 1½ ½ 1 1½ ½
-	-	32	N N Pmp = ii + v + vii + ix – (iv – xi) + i = 10 +20 + 30 + (-10) – (170-145) + (-5) = 100 + 20 +30 – 10 – 25 – 5 = Rs. 110 crores Pvt. Income = viii + iii + vi + x = 70 + 20 + 15 + 5 = Rs. 110 crores	1 1½ ½ 1 1½ ½

31	32	30	Schedule Explanation based on schedule Diagram (need not necessarily be according to schedule) **OR**	2 2 2

			Schedule Explanation based on schedule	2 2
			Diagram (need not necessarily be according to schedule)	2
			<u>For blind candidate</u> Schedule Explanation based on schedule MPC in schedule	 2 2 2
			OR	2
			Schedule Explanation based on schedule MPS in schedule	2 2

32	30	31	(i) Self consumed output is a part of total output and therefore, accounted for through the production method. (ii) Earning from the sale and purchase of financial assets is not accounted in national income estimation because it is not production. (iii) It is a final consumption expenditure of the government and therefore, accounted in national income through the expenditure method. (No marks if reasons not given)	2 2 2