

Senior School Certificate Examination
MARCH – 2008

MARKING SCHEME – ECONOMICS (FOREIGN)

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 : In case of numerical question no mark is to be given if only the final answer is given.

Q. No.			Expected Answer / Value Points	Distribution of Marks
<u>Section – A</u>				
1	5	4	Microeconomics is a study of individual economic agents.	1

2	1	5	Demand means the quantity of a commodity which a consumer is willing to buy at a given price during a period of time.	1	
3	2	1	A production function is an expression of quantitative relation between change in input and the resulting change in output.	1	
4	3	2	Addition to total revenue on producing / selling one more unit of output.	1	
5	4	3	The price at which market demand equals market supply.	1	
6	10	9	Marginal rate of transformation rises because the resources are not equally efficient in production of all products and as resources are transferred cost rises. Concavity means that marginal rate of transformation rises as resources are diverted from production of one good to another.	2 1	
※	7	-	-	$E = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$ $= \frac{30}{-50} \times 100$ $= \frac{120}{-50}$ $= \frac{25}{-50} = -0.5$	1½ 1 1½
※	-	6	-	$E = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$ $= \frac{40}{\frac{-2}{10} \times 100}$ $= \frac{40}{-20} = -2$	1½ 1 1½

✳	-	-	10	<table border="0"> <thead> <tr> <th><u>Price</u></th> <th><u>Demand</u></th> <th><u>Total expenditure</u></th> </tr> </thead> <tbody> <tr> <td>7</td> <td>8</td> <td>56</td> </tr> <tr> <td>8</td> <td>7</td> <td>56</td> </tr> </tbody> </table> <p>Since with change in price total expenditure remains unchanged, price elasticity is unity. (or -1)</p>	<u>Price</u>	<u>Demand</u>	<u>Total expenditure</u>	7	8	56	8	7	56	<p>1½</p> <p>1 ½</p>																														
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7	8	56																																										
8	7	56																																										
8	7	6	<p>Market demand is sum of individual demand of consumers.</p> <p>'Change in demand' is a change due to factors other than the own price. eg. income. etc.</p> <p>'Change in quantity demanded' is a change due to own price only.</p>	<p>1</p> <p>1</p> <p>1</p>																																								
9	8	7	<p>Tax on production raises cost. This in turn reduces profit. This results in less supply by producers.</p> <p style="text-align: center;"><u>OR</u></p> <p>Conditions (1) level of output at which TR-TC is maximum (or maximum profit.)]</p> <p>(2) Profits fall as more quantity is produced.</p>	<p>3</p> <p>2</p>																																								
10	-	-	Any three features of perfect competition.	3																																								
-	9	-	Any three features of monopolistic competition.	3																																								
-	-	8	Any three features of monopoly.	3																																								
11	12	13	<table border="0"> <thead> <tr> <th>Price (Rs)</th> <th>Output (Rs)</th> <th>TR (Rs)</th> <th>MR (Rs)</th> </tr> </thead> <tbody> <tr> <td>7</td> <td><u>1</u></td> <td>7</td> <td><u>7</u></td> </tr> <tr> <td><u>5</u></td> <td>2</td> <td><u>10</u></td> <td>3</td> </tr> <tr> <td>4</td> <td><u>3</u></td> <td>12</td> <td><u>2</u></td> </tr> <tr> <td><u>2</u></td> <td>4</td> <td><u>8</u></td> <td>(-)4</td> </tr> </tbody> </table> <p style="text-align: center;">OR</p> <table border="0"> <thead> <tr> <th>Price (Rs)</th> <th>Output (Rs)</th> <th>TR (Rs)</th> <th>MR (Rs)</th> </tr> </thead> <tbody> <tr> <td><u>5</u></td> <td>1</td> <td><u>5</u></td> <td>5</td> </tr> <tr> <td>4</td> <td><u>2</u></td> <td>8</td> <td><u>3</u></td> </tr> <tr> <td><u>3</u></td> <td>3</td> <td><u>9</u></td> <td>1</td> </tr> <tr> <td>2</td> <td><u>4</u></td> <td>8</td> <td><u>(-)1</u></td> </tr> </tbody> </table>	Price (Rs)	Output (Rs)	TR (Rs)	MR (Rs)	7	<u>1</u>	7	<u>7</u>	<u>5</u>	2	<u>10</u>	3	4	<u>3</u>	12	<u>2</u>	<u>2</u>	4	<u>8</u>	(-)4	Price (Rs)	Output (Rs)	TR (Rs)	MR (Rs)	<u>5</u>	1	<u>5</u>	5	4	<u>2</u>	8	<u>3</u>	<u>3</u>	3	<u>9</u>	1	2	<u>4</u>	8	<u>(-)1</u>	<p>½ × 8=4</p> <p>½ × 8=4</p>
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12	13	11	<p><u>TFC curve</u> is parallel to the x-axis because as output increases, (e.g. from OQ_1 to OQ_2), TFC remains unchanged</p> <p><u>AFC curve</u> is continuously downward sloping because as output increases, (e.g. from OQ_1 to OQ_2), AFC falls from OF_1 to OF_2 because of constant TFC.</p> <p><u>For blind candidate</u> Same as above but without reference to diagrams : TFC : AFC :</p>	<p>1, 1</p> <p>1</p> <p>1</p> <p>2</p> <p>2</p>
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13	11	12	<p>1. Given supply curve s, extend the curve to intersect at A on the X – axis.</p> <p>2. For finding E_p at point C draw perpendicular intersecting the X – axis at B.</p> <p>3. Take the ratio of the two intercepts on the X axis in the following way.</p> $E_s = \frac{AB}{OB}$ <p>(To be marked as a whole)</p>	
✳ 14	16	15	<p><u>Nature of the goods</u> Means how much necessary is the good. More necessary means less price elasticity of demand. (Explain by giving example)</p> <p><u>Availability of substitutes</u> Means that how many substitutes of a good are available in the market. More the substitutes more the price elasticity of demand. (Explain by giving example)</p>	<p>3</p> <p>3</p>

✳	15	14	16	Variable inputs	TP	MP						
				(units)	(units)	(units)						
				1	10	10] TR increases at increasing rate <u>or</u> MP rises				
				2	22	12						
				3	32	10] TR increases at decreasing rate <u>or</u> MP falls but is positive				
				4	40	8						
				5	40	0] TR falls <u>or</u> MP falls and is negative				
				6	35	-5						
				(The answer without the use of MP column should be given full credit.)							3	
				Reasons : Initially as variable input is increased its efficiency increases due to division of labour, etc. After a certain level of employment of variable input, there is too much of variable input in relation to the fixed input. This reduces efficiency of the variable input and MP starts falling and ultimately becomes negative.							3	
<u>OR</u>												
Increasing returns to scale				Meaning		1						
				Example		1						
				cause (any one)		1						
Decreasing returns to scale				Meaning		1						
				Example		1						
				cause (one)		1						

16	15	14	<p>Fall in P_y decreases demand for X. Demand curve of X shifts from D_1 to D_2. This creates excess supply (AE_1). Producers unable to sell reduce price. As a result producers supply less and consumers demand more. The change continues till a new equilibrium (at E_2). Demand for X falls to OQ_2 and price to OP_2.</p> <p><u>For blind candidates</u> Explanation on the same lines as above but with the help of schedule.</p> <p style="text-align: right;">Schedule Explanation</p>	<p>2</p> <p>4</p> <p>2 4</p> <p>2 4</p>
<u>Section – B</u>				
17	21	20	When equilibrium level of income is less than full employment level of income.	1
18	-	-	The final expenditure on planned goods and services produced in an economy.	1
-	17	-	Value of final products planned to be produced in an economy.	
-	-	21	Consumption function refers to the relation between income and consumption.	

19	18	17	Central bank is the apex institution of a country's monetary system.	1
20	19	18	Capital expenditure is an expenditure that either creates assets or reduces liabilities.	1
21	20	19	The foreign exchange rate at which demand for foreign exchange equals supply of foreign exchange.	1
22	-	-	Value of output = $v_i + v - i + iv + ii$ $= 250 + 20 - 10 + 30 + 150$ $= \text{Rs. 440 lakh}$	1 1½ ½
-	-	25	NVA $fc = v - i - ii - iii - vi$ $= 500 - 300 - 20 - 30 - 10$ $= \text{Rs. 140 lakh}$	1 1½ ½
-	26	-	Sales = $i + iii - vi + iv + v - ii$ $= 300 + 30 - 5 + 10 + 100 - (-20)$ $= \text{Rs. 455 lakh}$	1 1½ ½
23	22	26	When exchange rate falls, exports become dearer. Demand for exports falls. Therefore, supply of foreign currency/exchange falls.	3
24	23	22	Exports and imports of goods Exports and imports of services Transfer receipts and payments Income receipts and payments (any three)	1× 3
25	24	23	Bankers' bank : holds a part of cash reserves of banks, lends to banks, provides clearing facilities. OR Store of value function (Explain)	3 3
26	25	24	Meaning of revenue deficit Implications revenue deficit	1 2

27	-	-	$\Delta Y = \Delta I \frac{1}{1-MPS}$ $1000 = \Delta I \frac{1}{1-0.6}$ $1000 = \Delta I \frac{1}{0.4}$ $\Delta I = 1000 \times 0.4$ $\Delta I = 400 \text{ Rs. croes}$	<p>1½</p> <p>1½</p> <p>1</p>
-	28	-	$\Delta Y = \Delta I \frac{1}{MPS}$ $\Delta Y = 100 \times \frac{1}{0.4}$ $= \text{Rs. } 2500 \text{ croes}$	<p>1½</p> <p>1½</p> <p>1</p>
-	-	29	$\Delta Y = \Delta I \frac{1}{1-MPC}$ $1600 = 400 \frac{1}{1-MPC}$ $1600 - 1600 MPC = 400$ $1600 MPC = 1600 - 400 = 1200$ $MPC = \frac{1200}{1600} = 0.75$	<p>1½</p> <p>1½</p> <p>1</p>
28	29	27	<p>Explanation of unit of account function of money in terms of expressing values of goods and services.</p> <p style="text-align: center;">OR</p> <p>Currency authority function in terms of issue of currency, putting and withdrawing currency into circulation.</p>	<p>4</p> <p>4</p>
29	-	-	<ol style="list-style-type: none"> 1. Making provision of public goods 2. Reducing inequalities in distribution of income 3. Bringing economic stability 4. Any other <p style="text-align: right;">Any two with explanation</p>	<p>2 × 2=4</p>
-	27	-	<p>Plan expenditure</p> <p style="text-align: right;">Meaning Example</p> <p>Non-plan expenditure</p> <p style="text-align: right;">Meaning Example</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>

-	-	28	Developmental expenditure Non-developmental expenditure	meaning Example meaning Example	1 1 1 1
30	-	-	$\begin{aligned} \text{N.I} &= \text{vi} + \text{iv} + (\text{ii} + \text{vii}) - \text{iii} - \text{i} + \text{viii} \\ &= 600 + 200 + (100 + 10) - (-20) - 5 + 5 \\ &= 600 + 200 + 110 + 20 - 5 + 5 \\ &= \text{Rs. 930 crores} \end{aligned}$ $\begin{aligned} \text{GNDI} &= \text{N.I} + (\text{ix} - \text{ii}) + \text{i} + \text{v} \\ &= 930 + (125 - 100) + 5 + 15 \\ &= \text{Rs. 975 crores} \end{aligned}$		1 1½ ½ 1 1½ ½
-	31	-	$\begin{aligned} \text{NDP fc} &= (\text{ii} + \text{ix}) + (\text{iv} + \text{viii}) + \text{v} + \text{vi} \\ &= (600 + 100) + (50 + 40) + 200 + 150 \\ &= \text{Rs. 1140 crores} \end{aligned}$ $\begin{aligned} \text{NNDI} &= \text{NDP fc} + \text{i} + \text{vii} + \text{iii} \\ &= 1140 + 60 + (-20) + (-10) \\ &= 1140 + 60 - 20 - 10 \\ &= \text{Rs. 1170 crores} \end{aligned}$		1 1½ ½ 1 1½ ½
-	-	32	$\begin{aligned} \text{N.I} &= \text{ix} + \text{iii} + \text{vi} + \text{iv} - \text{viii} \\ &= 600 + 200 + 100 + (-50) - 40 - 20 \\ &= 600 + 200 + 100 - 50 - 40 - 20 \\ &= \text{Rs. 790 crores} \end{aligned}$ $\begin{aligned} \text{Pvt. Income} &= \text{N.I} - \text{ii} + \text{i} + \text{v} + \text{xi} \\ &= 790 - 90 + 25 + 60 + (-10) \\ &= 790 - 90 + 25 + 60 - 10 \\ &= \text{Rs. 775 crores} \end{aligned}$		1½ 1 ½ 1½ 1 ½

31	32	30	<p>Meaning : Excess of AD over AS at full employment income</p> <p>1</p> <p>2</p> <p><u>Fiscal measure</u> : Reduce government spending. This will in turn reduce AD. Go on reducing till AD = AS at full employment income</p> <p>OR</p> <p><u>Meaning</u> : Deficiency of AD over AS at full employment income</p> <p>1</p> <p>2</p> <p><u>Monetary measure</u> : Any one method of increasing credit availability like bank rate, open market operation etc, with explanation</p> <p>3</p> <p><u>For blind candidates</u> Inflationary gap : Same as above but with the help of example.</p> <p>OR</p> <p>Deflationary gap : Same as above but with the help of example.</p> <p>1+2</p> <p>1+2</p>	<p>1</p> <p>2</p> <p>3</p> <p>1</p> <p>2</p> <p>3</p> <p>1+2</p> <p>1+2</p>
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✳	32	30	31	(i) Included in estimation of national income as part of gross domestic capital formation through the expenditure method.	2
				(ii) Not included because it is a transfer payment to government.	2
				(iii) Should be included because it is production but in practical estimates it is not included because of lack of data. (No marks if reasons are not given)	2