UNOFFICIAL ANSWER KEY

SECOND YEAR HIGHER SECONDARY MODEL EXAMINATION – FEBRUARY 2024

PART III SUBJECT: ECONOMICS

CODE : 235 MAXIMUM SCORE: 80 TIME: 2 ½ HOURS

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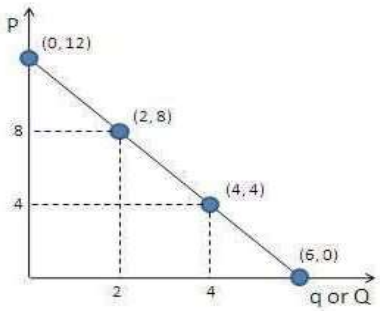
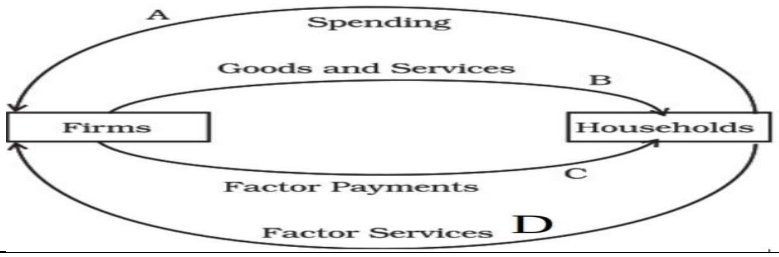
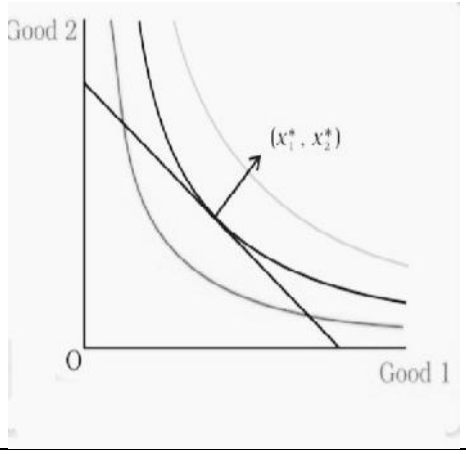
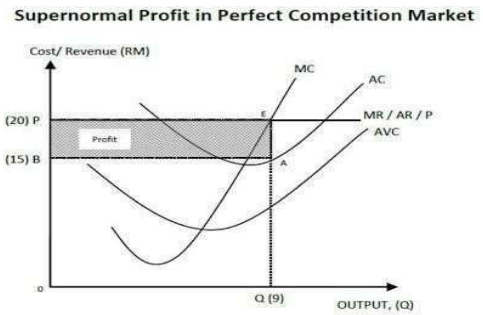
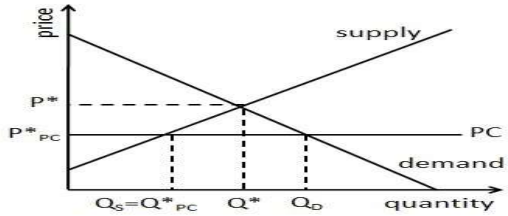
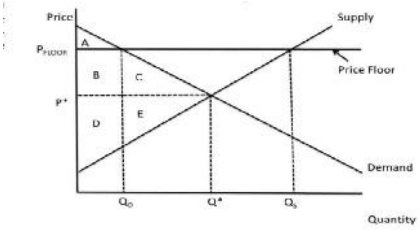
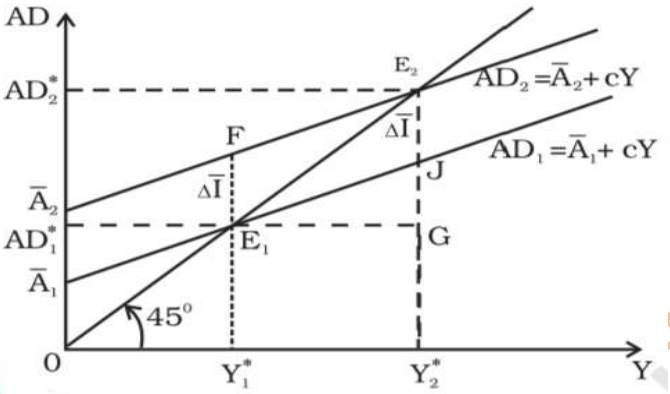
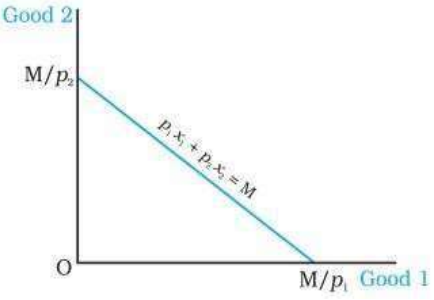
Qn. No	Sub. Qns	Answer Key / Value Point	Score	Total Score
ANSWER ANY 8 QUESTIONS FROM 1to10				
1		(c) Adam Smith.	1	1
2		(b) Pen and ink.	1	1
3		(b) factors of Production.	1	1
4		(c) left to right	1	1
5		(c) Reserve Bank of India.	1	1
6		(d) Current account	1	1
7		(b) Cash Reserve Ratio	1	1
8		(b) Price Support	1	1
9		(d) GNP = GDP + Net factor Income from Abroad	1	1
10		(b) Break even point	1	1
Answer any 4 questions from 11 to 15				
11		Micro------ Individual unit, Partial equilibrium Macro------Aggregates, general equilibrium	1+1	2
12		Large number of buyers and sellers Homogenous product	1 1	2
13		Firms, households, government, external sector	½×4	2
14		Goods used as an input for producing other goods are called Intermediate goods. Eg wood in a paper factory,	1+1	2
15		Fees, fines and penalities	1+1	2
Answer any 4 questions from 16 to 20				
16		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. . 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	1+1 +1	3

		is a production technique, which uses more amount of capital and less amount of labour. . 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.		
17		If other things remaining the same, price of a commodity increases its quantity demanded will be Decreases and vice versa. This inverse relationship between price and quantity is called Las of Demand.  	1½×2	3
18		The situation in which market demand is higher than market Supply at a given price is called excess demand. The situation in which market Supply is higher than market Demand at a given price is called excess Supply.	1½×2	3
19		 	3	3
20		Ex ante investment is what the investors plan or intends to invest at different levels of income in the economy. Ex Post investment is what the investors really invest at different levels of income in the economy.	1½×2	3
		Answer any 4 questions from 21 to 25		
21		A consumer is said to be in equilibrium when he attains maximum satisfaction from his limited income. At consumer's equilibrium Indifference curve should be tangent to the budget line and the slope of the indifference curve is equal  	2 2	4

		to the slope of the budget line.		
22		<table><tr><th>Labour</th><th>TOTAL PRODUCT</th><th>AVALUDE PRODUCT</th><th>MARGINAL PRODUCT</th></tr><tr><td>0</td><td>0</td><td>-</td><td>0</td></tr><tr><td>1</td><td>5</td><td>5</td><td>5</td></tr><tr><td>2</td><td>10</td><td>5</td><td>5</td></tr><tr><td>3</td><td>40</td><td>13.33</td><td>30</td></tr><tr><td>4</td><td>50</td><td>12.5</td><td>10</td></tr><tr><td>5</td><td>57</td><td>11.4</td><td>7</td></tr></table>	2 2	4
23		**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.** **4. Price of the commodity**	1 1 1 1	4
24		A --- REVENUE BUDGET B --- REVENUE RECEIPT C ----- CAPITAL EXPENDITURE D -----NON TAX REVENUE E ---- PLANNED REVENUE EXPENDITURE F ---- PLANNED CAPITAL EXPENDITURE G ----- NON PLANNED CAPITAL EXPENDITURE	4	4
25		Aggregate Demand is defined as the total demand for all final goods and services produced in the economy in an accounting year. It is the Aggregate Expenditure of the economy on goods and services. In a simple economy with	2 2	4

		two sectors, the aggregate demand is the sum of Consumption Expenditure and Investment Expenditure. **AD = C+I, AD = $\bar{C}$ +cy + $\bar{I}$, AD = $\bar{A}$ + cy**		
Answer any 4 questions from 26 to 30				
26		<table><tr><th>OUTPUT</th><th>TFC</th><th>TVC</th><th>TC</th><th>AFC</th><th>AVC</th><th>SMC</th></tr><tr><td>0</td><td>10</td><td>0</td><td>10</td><td>-</td><td>-</td><td>-</td></tr><tr><td>1</td><td>10</td><td>10</td><td>20</td><td>10</td><td>10</td><td>10</td></tr><tr><td>2</td><td>10</td><td>15</td><td>25</td><td>5</td><td>7.5</td><td>5</td></tr><tr><td>3</td><td>10</td><td>20</td><td>30</td><td>3.33</td><td>6.67</td><td>5</td></tr><tr><td>4</td><td>10</td><td>40</td><td>50</td><td>2.5</td><td>10</td><td>20</td></tr><tr><td>5</td><td>10</td><td>50</td><td>60</td><td>2</td><td>10</td><td>10</td></tr><tr><td>6</td><td>10</td><td>70</td><td>80</td><td>1.67</td><td>11.67</td><td>20</td></tr></table>	1×5	5
27		**Every producer produces goods and services for maximize profit. Profit is the difference between Total Revenue and Total Cost. It can be written as PROFIT (π)= TOTAL REVENUE (TR) – TOTAL COST (TC). A firm under perfect competition reaches** maximum profit (equilibrium) when the following conditions are satisfied. ➢ The price, P, must equal MC(P=MC) ➢ Marginal cost must be non-decreasing at equilibrium. ➢ For the firm to continue to produce, in the short run, price must be greater than the average variable cost (p > AVC); in the long run, price must be greater than the average cost (p > AC). Profit maximisation of a firm under perfect Competition in short run is illustrated with the following diagram.	5	5

		In the diagram AVC, AC, MC represents Average Variable Cost Curve, Average cost curve, Marginal cost curve respectively. At the point A MC Curve interest price line (P=MC), After that Point MC Curve is rising. At the point A Price is greater than AC so the point A is considered as the equilibrium point. At the point A the firm enjoys maximum profit. Profit is the difference between TR and TC. At the point A TR = P×Q. Here P=OP× O Q = OPEQ. TC = AC×Q= OBAQ PROFIT = TR-TC= OPEQ - OBAQ= BPEA 		
28		*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.  PRICE FLOOR For certain goods and services, fall in price below a particular level is not desirable and hence the government sets floors or minimum prices for these goods and services. The government imposed lower limit on the price that may be charged for a particular good or service is called **price floor**. Most wellknown examples of imposition of price floor are agricultural price support	1 ½ 3 ½	5

		programmes and the minimum wage legislation. It causes excess Supply in the market. Such a situation is shown by the following diagram.  		
29		 	5	5
30		Flexible exchange rate Fixed exchange rate Managed floating Explanation with diagram	1 1 1 2	5
		Answer any 2 questions from 31 to 33		
31	(a)	(0,0),(1,0),(2,0),(3,0),(4,0),(5,0),(6,0),(0,1),(0,2),(0,3), (0,4),(0,5),(1,1),(1,2),(1,3),(1,4),(2,2),(2,3),(2,1),(3,2), (4,	4	8
	(b)	3*X*	1	
	(c)	 slope$=-\frac{p1}{p2}=-\frac{3}{4}=-0.75$	2 1	
32		$GDP \equiv \sum_{i=1}^{N} \text{GVAi}$	3	

		$GDP \equiv \sum_{i=1}^{N} Ri + \sum_{i=1}^{N} Wi + \sum_{i=1}^{N} Ini + \sum_{i=1}^{N} Pi \equiv R + W + In + P$ $GDP \equiv \sum_{i=1}^{N} Ci + \sum_{i=1}^{N} Ii + \sum_{i=1}^{N} Gi + \sum_{i=1}^{N} Xi - M \equiv C + I + G + X - M$ PRODUCT METHOD OR VALUEADDED METHOD Under this method National Income can be measured by adding all the final goods and services produced by each firm 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 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. GVAi ≡ Value of sales by the firm (Vi) + Value of change in inventories (Ai) – Value of intermediate goods used by the firm (Zi) Value of output = market price × quantity of output. GVAi ≡ Value of sales by the firm (Vi) + Value of change in inventories (Ai) – Value of intermediate goods used by the firm (Zi) change of inventories of a firm during a year = production of the firm during the year – sale of the firm during the year. Under value added method we calculate NI by adding GVA of all firms in the economy during a financial year. If there are N firms in the economy, each assigned with a serial number from 1 to N, then GDP ≡ Sum total of the gross value added of all the firms in the economy ≡ GVA_1 + GVA_2 + ... + GVA_N Therefore $GDP \equiv \sum_{i=1}^{N} \text{GVAi}$ 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. $GDP \equiv \sum_{i=1}^{N} Ri + \sum_{i=1}^{N} Wi + \sum_{i=1}^{N} Ini + \sum_{i=1}^{N} Pi \equiv R + W + In + P$ 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 $GDP \equiv \sum_{i=1}^{N} Ci + \sum_{i=1}^{N} Ii + \sum_{i=1}^{N} Gi + \sum_{i=1}^{N} Xi - M \equiv C + I + G + X - M$ GDP ≡ $RVi \equiv C + I + G + X - M$	5	8
33	(A) (B)	Issue of currency Banker's Bank Banker to the government Controller of money supply	1 1 1 1	

		Bank Rate Policy: Bank rate or rediscount rate is the rate fixed by the central bank at which it rediscounts the first class bills of exchange and government securities held by the commercial banks. Open Market Operation: Open market operations are another quantitative method of credit control. There are two types of open market operations: outright and repo. Outright open market operations are permanent in nature: when the central bank buys these securities (thus injecting money into the system), it is without any promise to sell them later. Similarly, when the central bank sells these securities (thus withdrawing money from the system), it is without any promise to buy them later. As a result, the injection/absorption of the money is of permanent nature. III. VARIYING RESERVE RATIO: Every commercial bank is required by law to maintain a minimum percentage of its deposits with the central bank. It may be either a percentage of its time and demand deposits separately or of total deposits. During the inflation time RBI increases Reserve Ratio and during deflation time RBI decreases reserve ratios. IV margin requirements	4	8