

Time : 3 Hours
Maximum Marks : 80

ECONOMICS
CBSE
Sample Question Paper

Solutions of Question Paper (2020)

SECTION-A

1. (iii) Both (i) and (ii) [1]
- OR
- Subsidies [1]
2. (i) Recovery of Loan. [1]
3. **False:** Revenue deficit is met through (i) borrowings by the government, and (ii) disinvestment. [1]
4. (b) Open Market Operations- (ii) The sale and purchase of securities in the open market. [1]
5. demand deposits [1]
6. (i) AD and Y [1]
7. (iv) 0.6 [1]
8. **False:** An economy can attain the maximum equilibrium GDP level only when excess capacity is fully exhausted or the level when there is full employment of resources in the economy. [1]
9. (iv) Accommodating transactions [1]
10. Floating exchange rate [1]
11. (i) **Furniture purchased by school:** Final Product.
Reason: School buy furniture for long term use and it is considered as an investment. [1½]
- (ii) **Chalks, Dusters, etc., purchased by school:** Intermediate product.
Reason: These are taken up to be used up completely during the same year or for providing educational services. [1½]

Commonly Made Error

- Mostly candidates classify furniture purchased by a school under intermediate goods.

Answering Tip

- Candidates must be clear with concepts of intermediate and final goods and classify items accordingly.

OR

Non-Monetary Exchanges: These activities cannot be evaluated in an economy in terms of money due to non-availability of data, e.g. domestic services provided by family members at home, barter exchanges etc. Although these activities contribute to welfare, they are a major cause of underestimation of GDP in the economy. Therefore, GDP may not give the true picture of welfare of a country. [3]

Answering Tip

- Make sure to give example.

12. Investment Multiplier (K) = $\frac{1}{1-MPC} = \frac{1}{1-0.8}$ [1]

$= \frac{1}{0.2} = 5$ [½]

Also, $K = \frac{\Delta Y}{\Delta I}$ [½]

$5 = \frac{\Delta Y}{1,000}$ [½]

$\Delta Y = 5 \times 1000 = ₹ 5000$ crore [½]

Change in Final Income = ₹ 5000 crore

Commonly Made Error

- Students tend to make calculation error.

Answering Tip

- Use the proper formula and double check the calculations. Remember, for finding change in final income, we need to find the investment multiplier here.

13. Government Budget is an annual statement, showing item-wise estimates of receipts and expenditures during a fiscal year.

Reallocation of Resources:

- The government aims to reallocate resources according to economic and social priorities through its budgetary policy.
 - Government encourages the production of certain commodities by giving subsidies or tax reliefs, e.g., government encourages the use of 'khadi products' by providing subsidies.
 - Government can discourage the production of harmful goods like liquor or cigarettes, by imposing heavy excise duties or taxes. In India, we use progressive taxation, i.e., higher taxes from rich people and distribute these receipts through various welfare activities. [4]
14. Open market operations refer to sale and purchase of government securities in the open market by the Central Bank of the country. By selling the securities, the Central Bank withdraws cash balances from the system and by buying the securities, the Central Bank injects cash balances into the system. [2]
- To control credit creation by the Commercial Banks, cash reserves needs to be reduced. For reducing cash reserves, securities are sold off by the Central Bank. Sale of securities sucks purchasing power from the money market. When liquidity is sucked (as during inflation), cash reserves of the Commercial Banks are squeezed, implying a cut in their credit creation capacity because any change in cash reserves of the banks causes multiple changes in the supply of money in the economy. [2]

Answering Tip

- Explanation of how credit is controlled through the open market operation must be given with the definition of open market operations.

15. (i) This will reduce import of gold and thus will have a favourable effect on BOP situation, as demand for foreign exchange will fall.
- (ii) Rise in price of foreign currency will make imports costlier, so import will fall, and it will be favourable for BOP, as demand for foreign exchange will fall. [4]

Commonly Made Error

- Students tend to write the reasons than instead of the effect.

Answering Tip

- Read the question and think of the effects on the balance of payment.

OR

- Ans.(i) Foreign investments will be recorded in the Capital Account of the BOP Account because these give rise to foreign exchange liabilities.
- Foreign investment will be recorded on the credit side because these bring in foreign exchange to the economy. [2]

Solutions

- (ii) Foreign investment add to supply of foreign exchange. Demand remaining unchanged, it brings downward influence on exchange rate. [2]

$$16. \quad \Delta Y = \Delta I \times \frac{1}{MPS} \quad [1\frac{1}{2}]$$

$$5,500 = \frac{1,100}{MPS} \quad [1]$$

$$MPS = \frac{1,100}{5,500} = 0.20 \quad [1\frac{1}{2}]$$

$$\Delta Y = \frac{1,100}{0.25} = 4,400 \quad [3]$$

(No marks if only the final Answer is given)

Commonly Made Error

- Students tend to use 0.20 instead of 0.25 to find the change in the income.

Answering Tip

- Make sure that the correct MPS value is used.

OR

Given that $\Delta I = 1000$ and $MPC = 0.9$, increase in income is in the following sequence:

- (i) Increase in I raises income of those who supply investment goods by ₹ 1000. This is first round increase.
- (ii) Since $MPC = 0.9$, income earners spend ₹ 900 on consumption leading to second round increase of ₹ 900 = 1000×0.9 .
- (iii) The third round increase in the similar way is ₹ $900 \times 0.9 = ₹ 810$.
- (iv) In this way, income goes on increasing round by round, with each round increase in income equal to 90 percent of the previous round.
- (v) **The total increase in income is:**

$$\begin{aligned} \Delta Y &= \Delta I \times \frac{1}{1-MPC} = 1000 \times \frac{1}{1-0.9} = \frac{1000}{0.1} \\ &= ₹ 10,000 \text{ crore} \quad \text{(Working explained on the basis of tabular presentation is also correct)} \\ &\quad \text{(To be marked as a whole) [6]} \end{aligned}$$

Answering Tip

- Always give stepwise working explanation.

$$\begin{aligned} 17. \text{ (a) N. I.} &= (i) + (iii) + (v) - (viii) - (ix) - (iv) + (vii) \\ &= 900 + 400 + 250 - 20 - 30 - 100 + (-40) \\ &= ₹ 1,360 \text{ crore} \quad [3] \end{aligned}$$

Commonly Made Errors

- Several candidates make mistakes in calculation.
- Sometimes, candidates miss out the components which are to be added or subtracted to calculate the net value added.

Answering Tip

- The equations must be very clear for solving questions of National Income.

- (b) Exports form a part of National Income because exports are provided by the producers of the domestic territory of the country. Exports are as a matter of fact are a part of domestic production. Now Imports on the other hand are a burden on the domestic production. So, the net exports that is the difference between the two is included in the calculation of National Income. [3]

SECTION-B

18. working [1]

OR

A plan is how the nation's resources can be used having some general goals and achieving specific objectives within a specified period. [1]

19. Increase in production of food grains in short period [1]

20. (i) Atomic energy [1]

21. (ii) Less than 2100 [1]

22. **True:** Because organic farming involves a labour-intensive process and in India, there is abundance of labour. [1]

23. Human capital formation [1]

24. **True:** Women workers accord highest priority to self-employment because of less mobility of female labour work force in urban as well as in rural areas. [1]

25. (b) National Rural Health Mission (ii) 2005-2012 [1]

26. (i) Economic [1]

27. Carbon dioxide [1]

28. During the fiscal year 1990-91, foreign exchange reserves fell to a lower level of ₹ 2400 crores. Which was just enough for the payments of three weeks imports. The crisis was so serious that Chandra Shekhar government had to mortgage gold reserves with other countries to pay off interest and foreign debts. Therefore, it forced India to adopt a new set of measures to accumulate foreign exchanges reserve by way of liberalization, privatization and globalization. [3]

Answering Tip

- The question is mainly how it brought about new economic policy.

OR

Every plan should have specified goals which it seeks to pursue. Goals are the ultimate targets, the achievement of which ensures the success of plans. A plan specifies the means and ways to allocate scarce resources in an optimum manner so as to achieve these desired goals. Without specific goals, a plan would be directionless and resources would not be utilised in a proper manner without wastage.

Following goals are focused in every plan:

(i) Growth;

(ii) Modernisation;

(iii) Self-reliance;

(iv) Equity. [3]

29. Working population means able-bodied persons and adults. Children are unable to perform productive activities. Use of children in work is equivalent to denying them childhood. Children's right to playing and schooling should be respected. It is doubly criminal to turn them into dull adults and old persons. In every civilised society, children's rightful place is school and playground. Hence, children are not included in working population for the purpose of employment. [3]

30. Human development is a broader term as compared to human capital because human capital is a means to an end whereas human development is an end in itself. Human capital considers education and health as a means to make human being a good productive person. Human capital is a means to an end where means implies skills that are used in the process of production and end denotes the consequent increase in the productivity. The higher level of output can be achieved through extensive application of human capital.

On the other hand, human development is an end in itself which refers to the holistic development of the individuals. The development can be possible only by acquiring good education and attaining good health. Therefore, education and health are the two main features of human development. Human development occurs when majority of the people in the economy are educated and healthy. Thus, the end signifies the development of an individual via education and health. Therefore, we can conclude that human development is a broader term as compared to human capital. [4]

OR

Suggestions to remove rural poverty:

- (i) Gainful wages and self-employment opportunities for poor class.
- (ii) Minimum indirect tax on goods consumed by workers and progressive taxation on income and wealth.
- (iii) Ceiling on land holdings and surplus land for landless farmers with required amount of finance.
- (iv) Minimum wages should be guaranteed by Government to every worker.
- (v) Stringent measures against exploitation of child and women labour.
- (vi) Adequate expansion of free social service; health and education for poor people.

(Any four) [4]

31. It is true that sustainable development is a paradigm shift in development thinking as sustainable development implies meeting the basic needs of all and extending to all the opportunity their aspirations for a better life, without compromising on the needs of future. The strategies for sustainable development imply the use of non-conventional sources of energy to minimise the adverse environmental impacts. Promotion of natural resources, conservation, preserving regenerative capacity of ecological system and avoiding the imposition of environmental rules on future generations would lead to sustainable development. [4]

Commonly Made Error

- Students tend to write about the difference between sustainable development and economic development.

Answering Tip

- Just think about how sustainable development has affected the development process.

32. The reasons for the formation of regional and economic grouping are:

- (i) With the objective of understanding various means and strategies to strengthen the economies, different nations of the world are motivated to form regional and global economic groups like SAARC, European Union, ASEAN, etc.
- (ii) The formation of such regional and economic groups helps the member countries to know the development strategies and measures adopted by other member countries.
- (iii) This enables them to analyse their strength and weakness and thereby, formulate policies to accelerate social progress and cultural development among its member countries. Secondly, another important purpose behind setting up of these groups is maintenance of peace and stability among member countries.
- (iv) These groups provide a common platform to raise their voice in a unified manner on common issues to safeguard their common interest. [4]

33. Commercial energy consumption makes up about 74% of the total energy consumed in India. This includes coal with the largest share of 54%, followed by oil at 32%, natural gas at 10% and hydro energy at 2%. The transport sector was the largest consumer of commercial energy in 1953-54. However, there has been continuous fall in the share of the transport sector while the share of agriculture which was the lowest in 1953-54 at just 1% has risen continuously to become 18% in 2014-15 with progress in irrigation facilities and mechanisation of agriculture.

The share of household sector in energy consumption has more than doubled since, 1953-54 to 2014-15. Share of industrial sector, however, has not changed much since, 1953-54. After rising from 40% in 1953-54 to 50% in 1970-71, again came down to 45% by 1990-91 and has remained somewhere constant since, then. There has been an overall increase in the use of energy with the rapid rate of economic growth. [6]

Answering Tip

- Try to mention the correct data.

OR

The main causes are as under:

- (i) **Poverty:** In fact, annual income of the farmers is very low. So, they always live below poverty line. They have to borrow money for many purposes. [1]
- (ii) **Unproductive expenditure:** Most of the farmers borrow to celebrate social customs like marriages, religious festivals, etc. Births and deaths also lead to unproductive expenditure [1]
- (iii) **Litigation:** The farmers borrow for litigation also. Litigation is always very expensive which adds to the problem of indebtedness. [1]
- (iv) **To make improvement on land:** The farmers mostly borrow to make improvement on land. It is a positive thinking, but it needs to be done by saving and not by borrowing. [1]
- (v) **Inherited debt:** It is called ancestral debt also. A farmer also inherits the debts of his father along with the land. It contributes a lot in rural indebtedness. [1]
- (vi) **Illiteracy:** The farmers are illiterate. The moneylenders encourage the farmers to borrow. They make a plan to mortgage their land. They charge higher rate of interest. The farmers are unable to repay the debt. Ultimately, they take away the land of the farmers. [1]

Answering Tip

- Points, heading with a brief explanation is suggested.

34. Indian agriculture is backward, despite the fact that it is of significant importance in the Indian economy.

The main features of Indian agriculture are:

- (i) Agricultural output depends largely on rainfall and other natural factors like floods, droughts, storms, etc.
- (ii) The historical, social and cultural background of state affects agricultural output.
- (iii) Over three-fourth of land holdings are of small size. Thus, agriculture is the source of livelihood for poor farmers.
- (iv) Farming is a way of life rather than a commercial activity. Thus, production is mainly for self-consumption.
- (v) There is little use of modern machinery. [6]

Answering Tip

- State the main features of Indian Agriculture. Stress should be laid upon various terms like dependence on rainfall, self-consumption, lack of modern machinery, etc.

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