<u>Higher Order Thinking Questions</u>

MICRO ECONOMICS

1. Draw a production possibility (PP) curve when MRT is constant. Give reason.
When marginal rate of transformation remains constants, it means that for every additional unit increase in the production of one good, the sacrifice of the production of other goods remains the same. This happens when resources are equally efficient in the production of different goods in this case we get a downward sloping straight line production possibility curve

2. Is the study of cotton textile industry a macro economic study or a micro economic study?
The study of cotton textile industry is a micro economic study.

3. A doctor has a private clinic in New Delhi and his annual earnings are Rs10 lakhs. If he works in a Government Hospital in New Delhi, his annual earnings are Rs 8 lakhs. What is the opportunity cost of having a clinic in New Delhi?
The opportunity cost of opening a clinic in New Delhi is Rs8 lakhs that he could have earned in next best alternative use that is, working in Govt. hospital in New Delhi.

4. A raise in the income of the Consumer X leads to a fall in the demand for that good by that consumer. What is the good X called?
Inferior good.

5. What happens to the demand for a good when the price of Substitute goods falls?
When the price of substitute good falls, then the demand for the given good also falls.

6. Why is coefficient of price elasticity of demand negative?
The coefficient of price elasticity of demand is always negative because there is an inverse relationship between demand and price.

7. Which of the following commodities have inelastic demand:
1. Salt 2. A particular brand of lipstick 3. Medicines 4. Mobile phone and 5. School uniform
Salt, medicines and school uniform have inelastic demand. The reason being that a consumer has to buy these commodities even though price of these commodities changes. Even a substantial change in price leaves the demand unaffected.

8. When MPP is zero, what can you say about TPP?
TPP is at its maximum

9. When MPP equals APP, what will you say about APP?
APP is at its maximum and constant

10. When APP is at its maximum, what is the relationship between MPP and APP?
MPP=APP

11. What does the AFC curve look like? Why does it look so?
AFC curve is downward sloping to right. As the output increases, the fixed cost gets distributed, i.e., AFC falls.

12. What happens to ATC when MC < ATC?
ATC will fall.
13. Can there be some fixed cost in the long run? If not why?
No, there cannot be any fixed cost in the long run. The reason is that there is no fixed input in the long run.

14. Due to improvement of technology, the marginal costs of televisions have gone down. How will it affect the supply curve of television?
Supply curve will shift to the right due to improvement of technology.

15. If a farmer grows rice and wheat, how will an increase in the price of wheat affect the supply curve of rice?
Supply curve of rice will shift to the left

16. Because of cyclone in a coastal area, the sea water covers a lot of rice fields. This reduces the productivity of land. How will it affect the supply curve of that region?
Supply curve of rice of that region will shift to left due to reduce in productivity of land because of cyclone. Due to cyclone, production of rice will fall. Now, irrespective of increase in price of rice, production (or supply) cannot rise. In other words, supply of rice will fall at the same price.

17. In which market form are the average and marginal revenue of a firm always equal?
Average and marginal revenue of a firm are always equal under perfect competition

18. In which market form, there is a need for selling/advertising costs?
Under monopolistic competition, there is a need of selling costs because the firms produce different brands of the product

19. What is that market called wherein there are a only two sellers (firms)?
Duopoly refers to a market situation in which there are two sellers.

20. When do we say there is excess demand for a commodity in market?
When at a given price, the quantity demanded of a product exceeds its quantity supplied, there is excess demand for the product.
21. When do we say there is excess supply for the commodity in the market?
When at a given price the quantity supplied of a product exceeds its quantity demanded, there is excess supply for a product.
22. When will an increase in supply imply an increase in price but no change in quantity?
In case of perfectly inelastic demand, a decrease in supply leads to an increase in price but no change in quantity.
23. When will an increase in demand imply an increase in quantity demanded but no

change in price?
In case of perfectly elastic supply, an increase in demand causes no change in price but it will lead to an increase in quantity.
24. What is price floor? What may be the consequences of price floor?
Price floor refers to the minimum price fixed by the government above the market determined price so that the producers of the essential items like wheat, rice etc may not suffer losses. The consequences of price floor may be: 1. Surplus of the commodity 2. The government may resort to buffer stocks to absorb the surplus in the market at the support price and sells the products to consumers below its cost of production.

25. What is price ceiling? What may be the consequences of price ceiling?
Price ceiling refers to the maximum price fixed by the government below the market determined price (i.e., equilibrium price) so that necessities may be made available to the common people at an affordable price. In India the government has imposed price ceiling on necessary items like wheat, rice, sugar etc. The consequences of price ceiling may be: 1. shortage of the commodity 2. The government may impose rationing i.e., supply of goods in limited quantity at the ration shops. 3. Black market may emerge. A black market is a situation where by the goods are sold at a price above the legal ceiling price. 4. The consumers may get inferior quality goods.

26. Give the formula calculating slope of Budget Line?
Slope of Budget Line is equal to the prices of the two commodities, i.e., Px/Py.
27. What is the slope of indifference Curve?
Slope of indifference curve is equal to MRS, i.e., Marginal Rate of Substitution
28. Explain why is the budget line downward sloping?
Because with given money income if a consumer buys more of one good, he has to buy less of the other good.
29. Why is the indifference Curve convex to the origin?
Indifference curve is convex to the origin due to diminishing marginal rate of substitution.
30. Suppose your friend is indifferent to the bundles (5,6) and (6,6). Are the preferences of your friend monotonic?
No.

MACRO ECONOMICS

1. If the NDPFC is Rs. 1,000 crores, and NFA is Rs. (--) 5crores, how much will be national income (NNPFC)?
NNPFC = NDPFC+NFA = 1000+ (-5) = Rs. 995 crores.
2. What should be added to NNPMP to get net national disposable income?
Net current transfers from abroad should be **added** to NNPMP to obtain national disposable income.
3. The value of the nominal GNP of an economy was Rs. 2,500 crores. in a particular year. The value of GNP of that country during the same year, evaluated at the prices of some base year was Rs.3,000 crores. Calculate the value of the GNP deflator of the year in percentage terms. Has the price level risen between the base year and the year under consideration?

GNP deflator = Nominal GNP/Real GNP * 100
= 2500/3000 * 100 = 83.3%
No, the price level has not risen between the base year and the year under consideration. In fact, it has fallen.

4. Give the alternative name of value added method of estimating national income?

The alternative name of value added method of estimating national income is the production method.

5. State whether output produced for self consumption is included or not included in the value of output?

The output produced for self consumption is not included in the value of output.

6. State whether the sale of old scooter is included in national income?

The sale of old scooter is not included in national income because it is not produced in the current year. Its value has already been included in the year it was produced.

7. Which of the following is a bank?
i) Post office saving banks (ii) LIC (iii) UTI (iv) IDBI.

Post office saving banks are not banks in the sense that even though they accept deposits from the public but do not advance loans to others.
(ii),(iii) and (iv) LIC, UTI and IDBI are not banks in the sense that even though they do not accept chequeable deposits but advance loans to others.

8. State why businessmen mostly want to open current account in the bank?

The business men mostly want to open current account in the bank because the deposits in current accounts are payable on demand. They can be drawn upon by cheque without any restriction. The banks offer overdraft facility on these deposits to the business men.

9. Name the institution which acts as a custodian of nation's foreign exchange reserves?

Central Bank is an institution which acts as custodian of nation's foreign exchange reserves.

10. Why can the value of MPC be not greater than one?

The value of MPC will not be greater than one because increment in consumption (ΔC) cannot be more than the corresponding increment in income (ΔY), i.e., $\Delta C < \Delta Y$.

11. What is the value of MPC when MPS is zero?

When MPS = 0, MPC = 1- 0=1.

12. When disposable income rises from Rs. 1,000 to Rs. 1,100, savings rise by Rs. 30. Find out marginal propensity to save and marginal propensity to consume?

ΔY = 1,100 -1,000 = 100, ΔS = 30, MPS = $\Delta S/\Delta Y$ = 30/100 = 0.30
1- MPS =MPC
i.e., 1-0.30 = 0.70 = MPC.

13. Does full employment occur when AD = AS or S = I?

It is not necessary that full employment occur when AD = AS or S = I . It means that full employment may or may not occur at AD =AS or S = I.

14. If in an economy intended investment is greater than intended savings, what is the effect of it on national income?

If I>S, the level of national income expands.

15. Why is tax not a capital receipt?

Tax is not a capital receipt because it neither leads to creation of liability nor to reduction in assets. In fact, a tax is a revenue receipt.

16. Why are the borrowings by the Government as capital receipts?
Borrowings by the Government are capital receipts because they create liabilities or reduce assets. The Government is under obligation to return the amount along with interest.
17. Why is repayment of loan a capital expenditure?
Repayment of loan is treated as a capital expenditure because it reduces the liabilities of the Government.
18. Why is recovery of loans treated as a capital receipt?
Recovery of loans is treated as a capital receipt because it leads to decline in financial assets of the Government.
19. Why is interest received categorized as revenue receipt?
Interest received is a revenue receipt because it does not create any liability nor it leads to reduction in assets.
20. Why are receipts from taxes categorized as revenue receipts?
Receipts from taxes are categorized as revenue receipts because they do not create liabilities nor reduction in assets.
21. In a government budget, primary deficit is Rs. 10,000 crores and interest payment is Rs. 8,000 crores. How much is the fiscal deficit?
Primary deficit = Fiscal deficit – interest payments
=>Fiscal deficit = Primary deficit + Interest payments.
= 10,000 + 8,000
= 18,000 crores.
22. Ten US dollars are exchanged for five hundred Indian rupees. What is the exchange rate for Indian currency?
$1 = 500/10 = Rs.50, i.e., $1 = Rs. 50
23. If $9 is needed to buy £2, what is the exchange rate for USA dollar?
£1 = 9/2 = $4.5, i.e., £1 = $4.5.
24. If the value of exports of goods of a country is Rs. 1,000 crores and the value of imports of goods is Rs. 1,200 crores, how much will be the trade balance (or balance of trade)?
Balance of trade = value of exports – value of imports
= 1,000 – 1,200.
= Rs. – 200 crores
25. A country's balance of trade is Rs. 75 crores. Value of imports of goods is Rs. 100 crores. How much is the value of exports of goods?
Balance of trade = value of exports – value of imports
75 = value of exports – 100.
i.e., Value of exports = 100 + 75
= Rs. 175 crores.
26. A country's balance of trade is Rs.500 crores . Value of exports of goods is Rs. 650 crores. How much is the value of imports of goods?
Balance of trade = Value of exports – Value of imports
500 = 650 - value of imports
Value of imports = 650 - 500
= Rs. 150 crores.
27. Differentiate between devaluation and depreciation?

Devaluation means reduction in the external value of a country's currency as a conscious policy measure adopted by the Government of a country. In other words, we make our currency cheaper in terms of foreign currency. This makes our goods cheaper to foreign buyers . It takes place in Fixed Exchange Rate System. Depreciation of a currency means fall in value of domestic currency in terms of foreign currency. Example: if value of rupee in terms of US dollars falls, say from Rs. 45 to Rs.50 per dollar, it will be a case of depreciation of Indian rupee because more rupees are required now to buy one US dollar. It occurs in Flexible Exchange Rate System.

Assignment for 01 day workshop on content enrichment in Economics

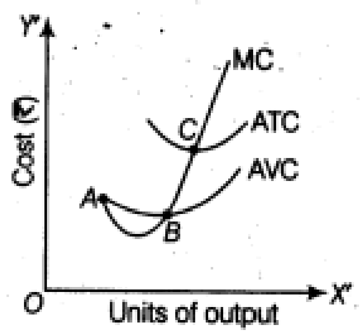
Lower order thinking skills questions Based on last 10 years question papers (CBSE) with model answers as per CBSE norms

Lower Order thinking skills

Questions from Unit I to IV:

1. What is the relation between Average Variable Cost and Average Total Cost, if Total Fixed Cost is zero?
   Ans.: A relation is defined as below:
   As we know,
   ATC = (TFC+ TVC)/Q
   AVC= TVC/Q
   If TFC = 0
   Then, ATC = (0+TVC)/Q = AVC
   Hence, ATC = AVC

2. Draw Average Variable Cost, Average Total Cost and Marginal Cost Curves in a single diagram.
   Ans.:



AVC and MC curve

3. Define 'Marginal Rate of Transformation'.
   Ans.: Marginal Rate of Transformation (MRT) is the ratio of number of units of a good sacrificed to produce one more unit of the other good.

4. What is a demand schedule?
   Ans.: Demand schedule express the relations between different quantities of the commodity demanded at different prices in form of a table.

5. Define 'production function'.
   Ans.: Production function shows the functional relationship between physical input and physical output.
   Ox = F (i., i2 ... in)
   Ox = Production of Good X
   f = function of
   i, i2 ,in = inputs

6. Define 'equilibrium price'.
   Ans.: The equilibrium price is the market price where the quantity of goods supplied is equal to the quantity of goods demanded. This is the point at which the demand and supply curves in the market intersect.

7. Explain what happens to the profits in the long run if the firms are free to enter the industry.

   Ans.: In the long run, firms respond to profits through a process of entry, where existing firms expand output and new firms enter the market. The long-run supply curve—or LRS curve—shows the long-run output supplied by firms in three different types of industries: constant cost, increasing cost, and decreasing cost.

8. Give the meaning of opportunity cost.

   Ans.: Opportunity cost is defined as the value of the benefit that is forgone by choosing one alternative rather than other.

9. What is meant by inferior goods in economics?
   Ans.: An inferior good is a product that’s demand is inversely related to consumer income. In other words, when consumer income increases, the demand for inferior goods decreases.

10. Define marginal cost.
    Ans.: Marginal cost is the net addition to total cost when one additional unit of output is produced.

11. Define a budget line.

    Ans.: Budget line is a line showing all different possible combinations of two goods which a consumer can buy in given his budget and the price of both goods.

12. Define monopoly.

    Ans.: Monopoly is that type of market where there is a single seller, selling a product which does not have close substitutes.

13. Explain the problem of ‘how to produce’.

    Ans.: An economic problem arises due to scarcity of resources having alternative uses in relation tounlimited wants.

14. What is a planned economy?

    Ans.: A planned economy is an economy in which the central problems are solved by Government through planning.

15. When is a firm called price maker?

Ans.: Under perfect competition price is determined by an industry (a group of producers and consumers) with the forces of demand and supply. No individual firm or buyer can influence the price or supply of the product.

16. Define microeconomics.

Ans.: Micro Economics is that branch of economics in which economic problems are studied at individual level. In microeconomics we study the behavior of consumer, firms, industries and markets etc.

17. A consumer consumes only two goods X and Y and is in equilibrium. price of X falls. Explain the reaction of the consumer through the utility Analysis.

Ans.: If the price of x falls, the consumer gets greater Marginal Utility than in case of good y. Accordingly, he will spend more on x than y. As consumption of x rises, Mux will fall. On the other hand, as consumption of y falls, MUy will rise. The consumer will stop buying more of x in place of y only when :

$$\frac{MU_x}{P_x} = \frac{MU_x}{P_y}$$

Hence, we can only say that price and demand are negatively related.

18. What does the Law of variable Proportions show? State the behavior marginal product according to this law.

Ans.: The law of variable proportion shows the impact on output when units of variable factors are increased, keeping fixed factor constant in the short-run.

The law states that if more and more units of a variable factors are employed with fixed factors, Total Physical Product (TPP) increases at a increasing rate in the beginning, then increases at a diminishing rate and finally starts falling.

19. The government has started promoting foreign capital. What is its economic value in the context of Production Possibilities Frontier?

Ans.: As the government has started promoting foreign capital, it will lead to an increase in the availability of resources, thereby shifting the Production Possibility Curve (PPC) parallelly to the right. Hence, an economic value is reflected in terms of increased output and resources.

20. Define indifference curve.

Ans.: An indifference curve is a curve that depicts various combinations of two goods that provide a consumer with the same level of satisfaction.

21. Define marginal product.

Ans.: Marginal product is addition to total product resulting from employing one additional unit of variable input.

22. What is market supply of a product?

Ans.: The market supply is the total amount of a good or service all producers are willing to provide at the prevailing set of relative prices during a defined period of time.

23. What is imperfect oligopoly?

Ans.: Imperfect Oligopoly is the form of market in which there are few sellers. All the firms produce a certain amount of output of total market supply.

24. When the price of a good falls from Rs10 to Rs8 per 20 units to 24 units. What can you say about price elasticity of demand of the good through the 'expenditure approach?

Ans.: Given, P = Rs.10,P2 = 8, Q= 20units, Qx= 24units.

Price (*P*) (₹)	Quantity demanded (*Q*) (units)	TE ($P \times Q$) (₹)
10	20	200
8	24	192

As per the expenditure approach, price and TE both decreases. It shows direct relationship between price and total expenditure. So, it shows demand is inelastic or less than unity, i.e. Ed < I.

25. A firm is able to sell any quantity of a good at a given price. The firm's marginal revenue will be: (Choose the correct alternative)

(a) Greater than Average Revenue
(b) Less than Average Revenue
(c) Equal to Average Revenue
(d) Zero

26. Differentiated products is a characteristic of: (Choose the correct alternative):

(a) Monopolistic competition only.
(b) Oligopoly only
(c) Both monopolistic competition and oligopoly
(d) Monopoly

27. Demand curve of a firm is perfectly elastic under: (choose the correct alternative)

(a) Perfect competition
(b) Monopoly
(c) Monopolistic competition
(d) Oligopoly

28. What will be the effect of 10 percent rise in price of a good on its demand if price elasticity of demand is

(a) Zero,
(b) -1,
(c) -2.

Ans.: (a) Zero elasticity or perfectly inelastic demand refers to a situation when change in price causes no change in quantity demanded. This means that a 10% rise in price of a good will have no effect on its quantity demanded.

(b) -1. In case of unitary elastic demand, the percentage change in quantity demanded is equal to percentage change in price. This means that a 10% rise in prise of a good will decrease the demand of a good by 10%.

(c) -2. Elasticity greater than 1 refers to highly elastic demand. This happens when the percentage change in quantity demanded is more than the percentage change in price. Therefore, a 10% rise in price will led to a decline in demand of the good by 20%.

$$E_d = \frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in price}}$$

$$-2 = \frac{\text{Percentage change in Quantity Demanded}}{10}$$

$$\therefore \ \% \text{ Change in Quantity Demanded} = \mathbf{-20.}$$

29. Define Market Economy.

Ans.: In a market economy resources are owned privately. The central problems in such an economy are solved by the price mechanism and the objective of production is to earn profit.

30. Define consumer's bundle.

Ans.: Combination of the amount of two goods will be called as consumption or consumer bundle.

31. What is budget set.

Ans.: The set of bundles available to the consumer with his given income at prevailing market price is called the budget set.

32. Define Indifference Curve Map.

Ans.: A family of indifference curve indicating different levels of satisfaction called indifference map.

33. What is meant by market demand?

Ans.: Market demand is the sum of total demand of all the consumers in the market at a particular time and at a given price.

34. What do you mean by fixed factors of production?

Ans.: A production input factor that cannot change quantities during a certain time period

35. Why does the difference between average total cost and average variable cost falls with increase in output?

Ans.: Initially, the variable cost per unit of output decreases as output increases. At one point, it reaches a low. After the low, the variable cost per unit of output starts to increase. The increase in AVC after a certain point is indirectly related to the law of diminishing marginal returns.

36. Define supply.

Ans.: Refers to the amount of the commodity that a firm or seller is willing to offer or to sell in a given period of time at various prices.

Lower Order Thinking Skill Questions

(Unit 5 to 9)

Ques. 1 Give two examples of macroeconomic studies.

Answer. Employment level, Price inflation

Ques. 2 Basic economic activities are:

a) Production
b) Consumption
c) Investment
d) All of the above

Answer. d) All of the above.

Ques. 3 What are flow variable?

Answer. Flow variables refer to those variables, which are measured at a period of time.

Ques. 4 What is transfer income?

Answer. It refers to the income received without rendering any productive service in exchange.

Ques.5 what are capital goods?

Answer. Capital goods are those final goods which help in further production of goods and services.

Ques. 6 Define nominal GNP.

Answer. GNP measured at current price is called nominal GNP.

Ques. 7 Write the formula of GNP Deflator.

Answer. GNP Deflator $=\frac{Nominal\ GNP}{Real\ GNP}\times 100$

Ques. 8 Name the three methods of National Income.

Answer. The three methods of National Income are:

Value added method

Income method

Expenditure method

Ques. 9 Which is base year for measure of National Income in present?

Answer. Base year for measure of National Income in present is 2011-12.

Ques. 10 What is called Green GNP?

Answer. Green GNP is defined as GNP which would help to attain a sustainable use of natural environment and equitable distribution of national income.

Ques.11 In which method of national income the problem of double counting can be occurred?

Answer. Value added method.

Ques. 12 Transfer payments are included in national income or not?

Answer. No, these payments are not included in national income.

Ques.13 GDP_{MP} +NFIA - NIT =?

Answer. GNP_{FC}

Ques.14 What is the maximum limit to accept payment in coins?

Answer. Upto Rupees 1000/-

Ques.15 Define barter exchange.

Answer. It refers to goods for goods.

Ques. 16 Write the components of M1.

Answer. Currency with public + demand deposits of commercial banks + other deposits with RBI

Ques. 17 What is meant by money?

Answer. Money is the commonly accepted medium of exchange.

Ques. 18 The rate at which the central bank lends money to commercial banks?

Answer. Bank rate.

Ques.19 Who regulates money supply?

Answer. Reserve Bank of India.

Ques.20 Define legal reserve ratio (LRR)?

Answer. It is the minimum ratio (fixed by RBI) of deposits of commercial banks which is legally compulsory for them to keep as reserves.

Ques. 21 Name the largest commercial bank in India.

Answer. State Bank of India.

Ques.22 MPC is the slope of …….

a) Saving function
b) Consumption function
c) Cost function
d) All of these

Answer. b) Consumption function.

Ques.23 Define investment.

Answer. Investment refers to the expenditure incurred on creation of new capital assets.

Ques.24 What is meant by voluntary employment?

Answer. A situation in which a person is not willing to work at the existing wage rate is called the voluntary employment.

Ques.25 When the value of APS can be negative?

Answer. When --- consumption > Income.

Ques.26 What is mean by MPC?

Answer. Marginal propensity to consume refers to the ratio of change in consumption expenditure (ΔC) to change in total income (ΔY).

$$MPC = \frac{\Delta C}{\Delta Y}$$

Ques.27 What is effective demand?

Answer. The level of aggregate demand where aggregate demand is equal to the aggregate supply is called effective demand.

Ques. 28 What are the four components of aggregate demand?

Answer. 1. Household consumption 2. Investment expenditure

3. Government expenditure 4. Export-import

Ques.29 "Supply creates its own demand" is said by which economist?

Answer. J.B. Say

Ques.30 Where the underemployment equilibrium exists?

Answer. When actual AD is less than required AD. In other words, the underemployment equilibrium is exists where AD is less than AS.

Ques.31 What is the impact of deficient demand?

Answer. Deficient demand causes fall in prices and fall in the output and employment level.

Ques.32 What are the quantitative instruments of monetary policy?

Answer. The quantitative instruments of monetary policy are:

1. Bank rate 2. Open market operation
3. CRR 4. SLR

Ques. 33 Taxation and budget are the part of which type of policy?

Answer. Fiscal policy

Ques.34 When great depression was came?

Answer. In 1929-30

Ques. 35 Difference of total revenue expenditure and total revenue receipts called the…………

Answer. Revenue Deficit.

Ques. 36 What is mean by deficit financing?

Answer. The government may borrow from the RBI against its securities to meet the fiscal deficit. RBI issues new currency for this purpose. This is known as deficit financing.

Ques.37 What is mean by disinvestment?

Answer. Selling of shares of public enterprises held by the government is called disinvestment.

Ques.38 What determines the rate of foreign exchange?

Answer. The rate of foreign exchange is determined by forces of demand and supply of foreign exchange.

Ques. 39 What are the types of foreign exchange rate system?

Answer. 1. Fixed exchange rate system

2. Flexible exchange rate system

3. Managed floating rate system

Ques.40 What are the types of markets for foreign exchange?

Answer. There are two types of markets for foreign exchange:

1. Spot market 2. forward market

Ques. 41 What is meant by balance of trade?

Answer. Balance of Trade (BOT) refers to the difference between value of exports and imports of visible items (goods) only.

Ques.42 What is deficit in balance of payments?

Answer. It refers to a situation when outflow of foreign exchange is more than inflow of foreign exchange.

Ques.43 what is the percentage of fiscal deficit of GDP in budget of 2017-18?

Answer. 3.2%

KENDRIYA VIDYALAYA SANGATHAN

CLASS-XII

TIME: 3 HOURS **SUB: ECONOMICS** **M.M. 80**

General Instructions:

(i) All questions in both the sections are compulsory.
(ii) Marks for questions are indicated against each.
(iii) Questions No.1-5 and 16-20 are very short- answer questions carrying 1 mark each. They are required to be answered in one sentence each.
(iv) Question No. 6-8 and 21-23 are short- answer questions carrying 3 marks each. Answers to them should normally not exceed 60 words each.
(v) Question No.9-11and 24-26 are also short- answer questions carrying 4 marks each. Answers to them should normally not exceed 70 words each.
(vi) Questions No.12-15 and 27-30 are long answer questions carrying 6 marks each. Answers to them should normally not exceed 100 words.
(vii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

SECTION-A

1. Economic problem arises because of : [1]
a) Unlimited wants b)Limited resources c) Both (a) & (b) d) Neither (a) nor (b)

2. Define Marginal Product. [1]

3. If it is given that the total variable cost for producing 15 units of output is ₹ 3000 and for 16 units is ₹ 3500, find the value of Marginal Cost. [1]

4. What is the relationship between price curve and MR curve, when price remains same at all levels of output. [1]

5. Distinguish between: [3]
(a) Positive and normative economics
(b) Microeconomics and Macroeconomics

OR

Why is production possibility curve concave to the origin?

6. Explain the effect of the following on the demand for a commodity: [3]
(i) A fall in the price of substitute good
(ii) A favourable change in the taste of the buyer

7. A consumer spends ₹ 400 on a good price at ₹ 8 per unit. When its price rises by 25%,the consumer spends ₹ 500 on the good. Calculate elasticity of demand by percentage method. [4]

8. “Price floor is a system to protect the interest of producer.” Defend or refute. [4]

OR

How will increase in the income of the buyers of an ‘inferior good’ affect the equilibrium price and equilibrium quantity? Explain with the help of a diagram.

9. Define market supply. What is the effect on the supply of a good when Govt. imposes a tax on the production of that good? Explain. [4]

10. A consumer consumes only two goods X and Y whose prices are ₹5 and ₹4 respectively.If the consumer chooses a combination of the two goods with marginal utility of X equal to 4 and that of Y equal to 5, is the consumer in equilibrium? Why or why not? What will a rational consumer do in this situation? Use utility analysis. [6]

OR

(a) What is a budget line? What is its slope?

(b) A consumer consumes X and Y.Her money income is ₹24 and the prices of X and Y are ₹4 and ₹2 respectively.Answer the following questions :

(i) Can the consumer afford a bundle 4X and 5Y ?

(ii) What will be MRS_{XY} , when the consumer is in equilibrium? Explain.

11. Giving reasons, state whether the following statements are true or false: [6]

(i) When there are diminishing returns to a factor, marginal product and total product both always diminish.

(ii) Average cost falls only when marginal cost falls.

(iii) As output is increased, the difference between average total cost and average variable cost falls and ultimately becomes zero.

12. Given market equilibrium of a good, what are the effects of simultaneous increase in both demand and supply of that good on its equilibrium price and quantity? [6]

SECTION-B

13. Which of the following agency is responsible for issuing ₹ 1 currency note in India ? [1]

a) Reserve Bank of India b) Ministry of Commerce c) Ministry of Finance d) Niti Aayog

14. Define money supply. [1]

15. If MPC = 1,the value of multiplier is : [1]

a) 0 b) 1 c) Between 0 and 1 d) Infinity

16. Cause of excess demand is [1]

a) increase in money supply b) increase in imports

c) decrease in deficit d) none of these.

17. Distinguish between:

(i) Capital Expenditure and Revenue Expenditure.

(ii) Fiscal deficit and primary deficit. [3]

18.Explain the allocation function of a government budget. [3]

OR

Explain economic growth as objective of government budget.

19.How does a commercial bank create money? [4]

OR

Explain the 'Bankers' Bank function' of the central bank.

.

20.If marginal propensity to save is 0.2, how much new investment is required to make the national income rise by Rs. 600 crores? Calculate. [4]

21. Distinguish between real GDP and Nominal GDP. Which of these is a better index of welfare of the people and why? [4]

22.Distinguish between Autonomous and Accomodating transactions of Balance of Payment Account. [6]

23. In an economy s=-50 + 0.5y is the saving function (where S=saving and Y=national income) and investment expenditure is 7000.Calculate [6]

(i) Equilibrium level of national income.

(ii) Consumption expenditure at equilibrium level of national income.

24. From the following data, calculate "national income" by (a) income method and (b) expenditure method : [3,3]

		(Rs. In crores)
(i)	Interest	150
(ii)	Rent	250
(iii)	Government final consumption expenditure	600
(iv)	Private final consumption expenditure	1200
(v)	Profits	640
(vi)	Compensation of employees	1000
(vii)	Net factor income to abroad	30
(viii)	Net indirect taxes	60
(ix)	Net exports	(-)40
(x)	Consumption of fixed capital	50
(xi)	Net domestic capital formation	340

OR

Will the following be included in domestic factor income of India ? Give reasons. [6]

(i) Profits earned by foreign bank from its branches in India.

(ii) Scholarships given by government of India.

(iii) Salaries received by Indians working in American Embassy in India.

(iv) Rent received by Indian resident from his property in Singapore.

Marking Scheme

1. (c) Both (a) and (b)
2. Change in total product when an additional unit of a variable input is used.
3. MC = ₹ 500
4. Price curve and MR curve coincide each other.
5. (a) Distinction 1 ½

   (b) Distinction 1 ½

OR

Because MRT/MOC increases with explanation. 3

6.(i) Demand falls with explanation. 1½

(ii) Demand increases with explanation 1½

7.Formula 1

Calculation 1½

Percentage change in quantity demanded = 0 ½

Elasticity of demand=0 1

8.Explanation with proper reason 4

OR

Demand falls. Excess supply results in fall of equilibrium price and equilibrium quantity. 4

9. Definition of market supply 1

Tax will increase the cost of production. Price remaining constant, less profitability reduces supply of the commodity. 3

10. The consumer is not in equilibrium. 1

$MU_X/P_X = 4/5 < MU_Y/P_Y = 5/4$ So the consumer will decrease consumption of X and increase that of Y till both the ratios are equal. 5

OR

(a) Definition of budget line 1

Slope = P_X / P_Y 1

(b) (i) No,since expenditure is > income. 2

(ii) $MRS_{XY} = P_X / P_Y$ 2

11. (i) False,MP will diminish but TP will increase at a diminishing rate. 2

(ii) False,when MC starts rising AC still falls. 2

(iii) False,the difference between ATC and AVC is AFC,which is never equal to 0 since AFC = TFC/Q and TFC is never 0. 2

12. (i) Price increase,when increase in demand greater than increase in supply. 2

(ii) Price constant,when increase in demand equal to increase in supply. 2

(iii) Price falls,when increase in demand less than increase in supply. 2

13. (c) Ministry of Finance 1
14. Definition. 1
15. (d) Infinity 1
16. (a) increase in money supply 1
17. (i) Any three points of distinction 1½
(ii) Any three points of distinction 1½
18. Explanation 3

OR

Explanation
19. Money creation = 1/ LRR x initial deposit 1
Assuming the whole banking system as one unit,explanation with the help of a numerical example. 3

OR

Explanation 4
20. $K = \Delta Y/ \Delta I = 1/ MPS = 1/ 0.2 = 5$ 2
$\Delta I = \Delta Y/ 5 = 600/ 5 = 120$ 2
21. Distinction on the basis of meaning 2
Real GDP is a better index of welfare as it takes into account of actual production. Real GDP will increase only when production increases at constant price. Nominal GDP may increase even when production remains constant due to inflation. 2
22. Any four points of distinction. 1½ x 4 = 6
23. (i) At equilibrium S = I
Or, 50 + 0.5Y = 7000
Y = 13900 3
(ii) C = Y – S = 13900 -7000 (since S = I = 7000 at equilibrium)
Or,C = 6900 3
24. (a) Income Method :
National Income=Interest+Rent+Profit+Compensation of employees-Net factor income to abroad
=150+250+640+1000-30 = 2010 3
(b) Expenditure Method :
National Income =Government final consumption expenditure+Private final consumption expenditure + Net domestic capital formation + Net Exports –Net factor income to abroad – Net Indirect tax
=600+1200+300-40-30-60 =2010
3

KENDRIYA VIDYALAYA SANGATHAN

SESSION: 2017-18

CLASS- XII

ECONOMICS

TIME ALLOWED: 3 HOURS MAXIMUM MARKS: 80

1. All questions are compulsory. However, there is internal choice in some questions.

2. Marks for questions are indicated against each question.

3. Question No. 1-4 and 13-16 are very short questions carrying 1 mark each. They are required to be answered in one sentence.

4. Question No. 5-6 and 17-18 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60 words each.

5. Question NO. 7-9 and 19-21 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.

6. Question NO. 10-12 and 22-24 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100 words each.

7. Answers should be brief and to be the point and the above word limit be adhered to as far as possible.

Section A :Micro economics

1. How is total utility derived from marginal utilities? 1

2. Px/Py indicates the slope of:

(a) budget line (b) budget set

(c) price line (d) both (a) and (c) 1

3. Goods are demanded because these possess:

(a) utility (b) capacity

(c) needs (d) none of these 1

4. What is meant by non-price competition?

5. Explain how government policy are a determinant of supply of a good by a firm. 3

6. Write your opinion on the formation of cartels in an oligopolistic market structure. 3

7. Giving reason comment on the shape of production possibilities curve based on the following

Schedule

4

Good-X (units)	0	1	2	3	4
Good-Y (units)	30	27	21	12	0

8. What is market demand for a good? Name the factors determining market demand. 4

9. Explain the relation between AP and MP with the help of a diagram. 4

10. Explain the conditions of consumer's equilibrium using indifference curve analysis. 6

11. 'Supply curve is the rising portion of marginal cost curve over and above the minimum of average variable cost curve'. Do you agree? Support your answer with valid reason. 6

12. Market for a good is in equilibrium. There is simultaneous "increase", both in demand and supply of the good. Explain its effect on market price. 6

Section B: Macro economics

13. The ratio of total deposits that a commercial bank has to keep with R.B.I is called 1

(a)SLR

(b)Deposit Ratio

(c)C.R.R

(d)L.R.R

14. Which one of the following leads to excess demand? 1

(a) Increase in private Investment demand

(b) Increase in household Consumption demand

(c) Increase in govt. expenditure

(d) All of the above

15. What do you mean by accommodating items in BOP ? 1

16. What do mean by devaluation ? 1

17. The saving function of an economy is s= -200+0.25Y . The economy is in equilibrium when income Is 2000 Calculate. 3

(a) Investment Expenditure

(b) Autonomous consumption

18. Discuss the significanceof 45 degree line in Keynesian economics. 3

19. Explain the concept of full employment equilibrium and under employment equilibrium with the Help of diagram. 4

20 . Distinguish between factor income and transfer income. 4

21. What is the difference between Accommodating and autonomous account of BOP. 6

22. Explain deficient demand with diagram . Mention two measures to correct it. 6

23.Elaborate economic growth and reduction of inequality as objective of govt budget. 6

24. Calculate NDP at FC by expenditure method and GDP at MP by income method. 6

Particulars		Rs in crores
i)	Gross fixed capital formation	130
ii)	Private final consumption expenditure	510
iii)	Mixed income of the self employed	280
iv)	Net factor income from ROW	(-) 5
v)	Exports	50
vi)	Imports	60
vii)	Compensation of employees	240
viii)	Government final consumption expenditure	70
ix)	Consumption of fixed capital	40
x)	Indirect tax	90
xi)	Subsidies	10
xii)	Rent, Interest and profit	90
xiii)	Change in stock	30

xiv)	Interest on national debt	10

MARKING SCHEME

Class – 12

Subject – Economics

Maximum Marks – 80

Section A

Q. N.	Answer	Marks
1.	TU is sum Total of MU	1
2.	(d)	1
3.	(a)	1
4.	Policy to improve quality of goods or by attracting customer by advertisement.	1
5.	Explanation of effect of subsidy and taxation on production and supply.	3
6.	Explanation	3
7.	Explanation + drawing concave PPC	2+2=4
8.	Definition of Market demand + any 3 factors determining market demand.	1+3=4
9.	Diagram + any 3 relation	1+3=4
10.	MRS xy = Px/ Py . Explanation Diagram	1 4 1
11.	Diagram Explanation	1 5
12.	3 diagrams Explanation of all 3 diagrams	3 3
13.	Cash Reserve Ratio	1
14.	D	1
15.	Meaning	1
16.	Meaning	1
17.	a) 300 b) 200	1 ½ 1 ½
18.	45 degree line represents the Income line of economy. Explanation.	3
19.	Full employment equilibrium. Under employment equilibrium. Diagram	1 ½ 1 ½ 1
20.	Any 4 differences	1 ×4 =

		4
21.	4 differences 2 examples.	4 + 2=6
22.	Explanation of deficit demand Diagram 2 measures	3 1 2
23.	Explanation of the two with appropriate example.	3 +3 =6
24.	Expenditure method NDP fc = 610 Income method GDP mp = 730	3+3=6

KENDRIYA VIDYALAYA SANGATHAN ,

Kolkata REGION

Examination 2017-18

Model question paper

Class - XII Time- 3 hrs.

Subject – Economics F.M. – 80

Instructions:

1. All questions in both sections are compulsory. However, there is internal choice in some questions.
2. Marks for questions are indicated against each question.
3. Question No.1-4 and 13-16 are very short answer questions carrying 1 mark each. They are required to be answered in one sentence.
4. Question No.5-6 and 17-18 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60 words each.
5. Question No.7-9 and 19-21 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.
6. Question No.10-12 and 23-24 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100 words each
7. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

PART- A (Micro Economics)

Q 1. When is PPC a straight line? (1)

Q 2. What is meant by Fixed cost in economics? (1)

Q 3.When input price increases there is (1)

a. Increase in supply
b. Decrease in supply
c. Extension in supply
d. Contraction in supply

Q 4. What happens to TP when MP declines but positive? (1)

Q 5. Define Production Possibility Curve. Explain why it is downward sloping from left to right. (3)

Q 6. State the relationship between Slope of demand curve and price elasticity of demand. (3)

Or

State any three causes of shift of demand curve.

Q 7. Explain any two properties of Indifference curve. (4)

Q 8. (a)Define 'price ceiling'.

(b) Distinguish between Monopoly & Monopolistic competition. (1+3)

Q 9. Distinguish between 'Change in supply' and 'Change in quantity supplied' of a commodity. (4)

OR

Calculate MC and AC if total fixed cost is Rs 40.

Output	1	2	3	4	5	6
TVC	60	80	90	110	150	216

Q 10. Explain the effect of the following on the demand for a commodity, (6)

a) Change in price of substitute goods.

b) Change in income of the consumer.

c) Change in distribution of income.

OR

Explain the concept of marginal rate of substitution with the help of a numerical example. Also explain this concept with the help of indifference curve.

Q 11. Give the meaning of Producer equilibrium. Explain the conditions of Producer equilibrium in terms of marginal cost and marginal revenue. Use diagram (6)

Q 12. How is the equilibrium price of a commodity affected with simultaneous increase in demand and supply of the Commodity ? (6)

PART – B (Macro Economics)

Q 13. A government budget shows a primary deficit of Rs4200 crore, expenditure on interest payment is Rs 600 crore. How much is the fiscal deficit? (1)

Q 14. Give the meaning of inflationary gap. (1)

Q 15. Find the value of investment multiplier when MPC of the economy is 0.6? (1)

Q 16. Which of the followings is an example of a direct tax? (1)

a. Corporation Tax
b. Sales Tax
c. Custom Duty
d. Excise Duty

Q 17. Why does demand for foreign currency increase with the fall in foreign exchange rate?

OR

What are the sources of demand for foreign currency. (3)

Q 18. Distinguish between Balance of Trade (BOT) and Balance of Payments (BOP). (3)

Q 19. Classify the following as capital receipt or revenue receipt and give reason for your answer. (4)

A) Tax receipt b) Disinvestment

Q 20. Define problem of double counting. Explain how can it be avoided ? (4)

OR

State any four precautions that need to be kept in mind when using the value added method for calculating national income.

Q 21. Complete the following table: (4)

Income	Saving	MPC	APS
0	-20	______	______
50	- 10	______	______
100	0	______	_______
150	30	______	_______
200	60	______	______

Q 22. Given below is the consumption function in an economy:

$$C = 100 + 0.5Y$$

With the help of a numerical example show that in this economy as income increases APC will decrease.

OR

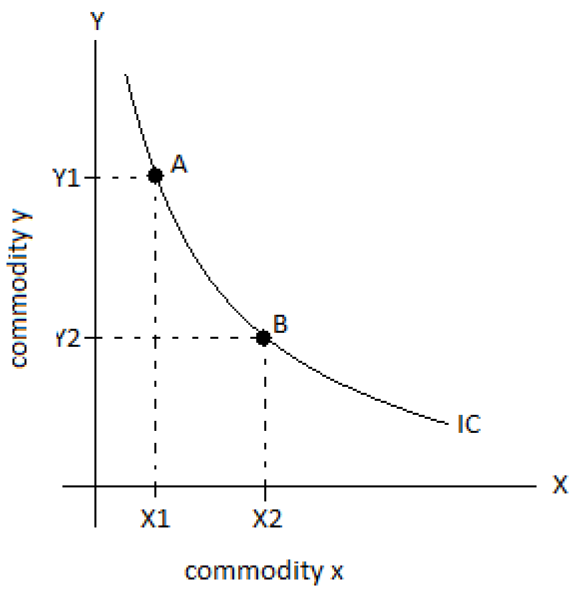
Explain how equilibrium level of income is determined through AD and AS. Also explain the changes that will take place in the economy when the economy is not in equilibrium. (6)

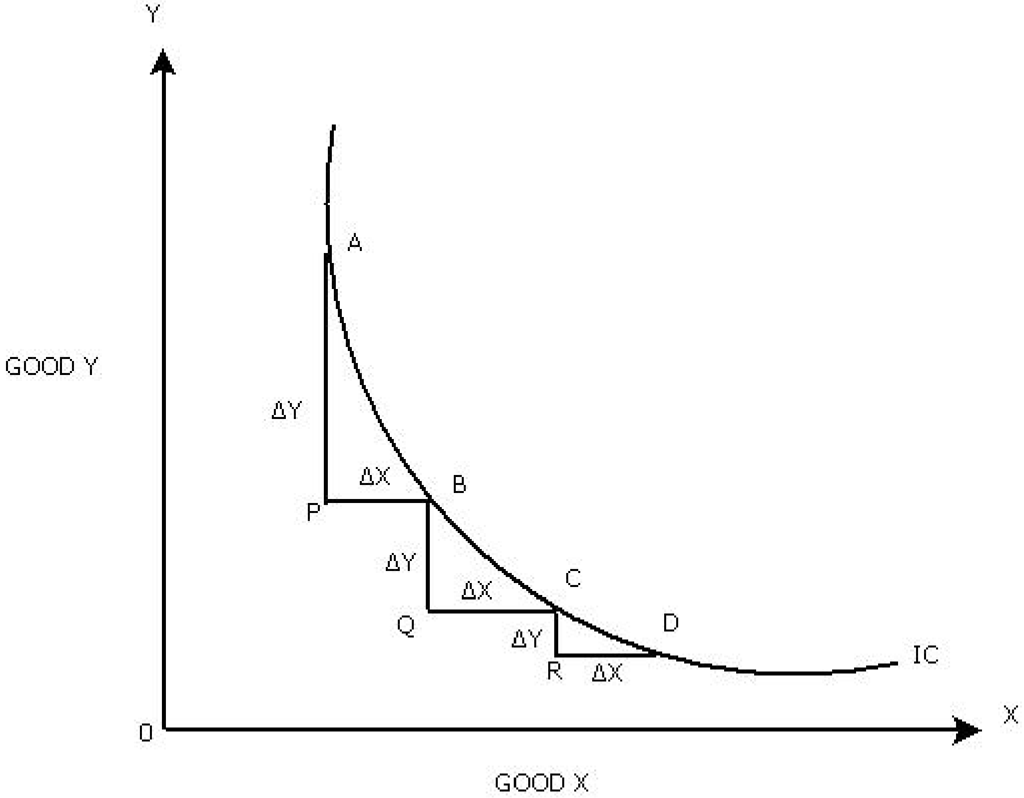
Q 23. Explain the process of money creation by commercial banks. (6)

Q 24.) From the following data calculate National Income by Income and Expenditure methods: (6)

	(Rs crores)
(i) Government final consumption expenditure	100
(ii) Subsidies	10
(iii) Rent	200
(iv) Wages and salaries	600
(v) Indirect taxes	60
(vi) Private final consumption expenditure	800
(vii) Gross domestic capital formation	120
(viii) Social security contributions by employers’	55
(ix) Royalty	25
(x) Net factor income paid to abroad	30
(xi) Interest	20
(xii) Consumption of fixed capital	10
(xiii) Profit	130
(xiv) Net exports	70
(xv) Change in stock	50

MARKING – SCHEME

Q. No.	Expected Answer	Marking
1	When marginal opportunity cost or MRT(marginal rate of transformation) is constant	1
2	Fixed costs or indirect costs or overheads are all such expenses incurred by producer that are independent on the level of goods or services produced	1
3	Decrease in supply	1
4	TP increases at a diminishing rate.	1
5	PPC is a curve showing different combination of two goods which can be produce with the full utilization of given resources and available technology. It is downward sloping because for production more of one commodity the economy has to sacrifice some units of other commodity as the resources are fully utilised	3
6	*The price elasticity of demand for a good and the slope of demand curve are inversely related to each other.* *Slope of Demand curve = Change in P / Change in Q* *Elasticity of Demand = (change in Q/Change in P) X (P/Q)* *= 1 / (Change in P / Change in Q) X (P/Q)* *= (1 / S**lope) X P/Q*** ***OR*** Increase in Income , Positive Preferences of the consumer, increase in price of substitute goods	3 1+1+1
7	The Two properties are (i) IC slopes downwards from left to right. (ii) IC is convex to the origin. Explanation : (1) IC slopes downwards from left to right –IC Slopes downward because to consume more of good X , the consumer must give up some quantity of good Y so that the consumer remains on the same level of satisfaction.  (2 IC is convex to the origin-It is because MRS continuously falls due to the law of diminishing marginal utility. That means consumer has to sacrifice less and less of commodity-Y for consuming every additional unit of commodity-X.	2+2



In the above diagram, as the consumer moves from A to B to C to D, the willingness to substitute good X for good Y diminishes. The slope of IC is negative in the above diagram, diminishing MRSxy is depicted as the consumer is giving AP>BQ>CR units of Y for PB=QC=RD units of X.. It is convex to the origin.

8 (a)'Price ceiling' is the maximum price that sellers can legally charge for a product or a service. (1+3)

(b) No of sellers , Nature of commodity, Nature of AR curve OR any other

9 1+1+1+1

Or,

2+2

<table>
<tr><td>Change in supply</td><td>Change in quantity supplied</td></tr>
<tr><td>Definition-It refers to the situation when quantity supply changes with the change in other factors other than price of the commodity.</td><td>Definition-It refers to the situation when quantity supply changes with the change in price of the commodity.</td></tr>
<tr><td>Types-Increase in Supply and Decrease in supply</td><td>Types-Extension in Supply and Contraction in supply</td></tr>
<tr><td>Graph-Supply curve will shift to right or left.</td><td>Graph-There will movement along the same supply curve</td></tr>
<tr><td>Schedule-<table><tr><td>Price</td><td>QS</td></tr><tr><td>5</td><td>10</td></tr><tr><td>5</td><td>20</td></tr></table></td><td>Schedule-<table><tr><td>Price</td><td>QS</td></tr><tr><td>5</td><td>10</td></tr><tr><td>6</td><td>20</td></tr></table></td></tr>
<tr><td>Causes-Due to change in other factors other than price.</td><td>Causes- Due to change in its own price.</td></tr>
</table>

Or,

Output	1	2	3	4	5	6
TVC	60	80	90	110	150	216
TFC	40	40	40	40	40	40
TC	100	120	130	150	190	256
AC	100	60	43.3	37.5	38	42.7
MC	60	20	10	20	40	66

10 a) Change in price of substitute goods. 6

When the price of a substitute for a good falls, the demand for that good will decline and

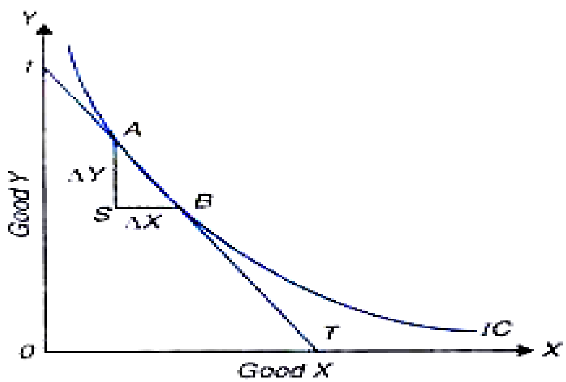
when the price of the substitute rises, the demand for that good will increase. For ex- when coffee becomes cheaper, the consumers substitute coffee for tea and as a result the demand for tea declines.
b) Change in income of the consumer.
The demand for goods also depends upon the incomes of the people. The greater the incomes of the people, the greater will be their demand for goods.
The greater income means the greater purchasing power. Therefore, when incomes of the people increase, they can afford to buy more. It is because of this reason that increase in income has a positive effect on the demand for a good. When the incomes of the people fall, they would demand less of a good
c) Change in distribution of income- Distribution of income in a society also affects the demand for goods. If distribution of income is more equal, then the propensity to consume of the society as a whole will be relatively high which means greater demand for goods. On the other hand, if distribution of income is more unequal, then propensity to consume of the society will be relatively less, for the propensity to consume of the rich people is less than that of the poor people. 6

OR

Marginal rate of substitution of X for Y is defined as the amount of Y the consumer is just willing to give up to get one more unit of X and maintains the same level of satisfaction.

Combination	X	Y	MRS of X for Y
1	1	18	—
2	2	13	5:1
3	3	9	4:1
4	4	6	3:1
5	5	4	2:1
6	6	3	1:1

To have the second unit of com-X and yet to be at the same level of satisfaction, the consumer is prepared to forgo 5 units of Y .The marginal rate of substitution of X for Y is 5:1. The rate of substitution will then be the number of units of Y for which one unit of X is a substitute. As the consumer proceeds to have additional units of X, he is willing to give away less and less units of Y so that the marginal rate of substitution falls from 5:1 to 1:1 in the sixth combination.
As per the diagram given below for consuming ΔX more unit of com-x, consumer has to sacrifice ΔY unit of com-y in order to remain in the same satisfaction level. Hence ,MRSxy = ΔY/ΔX



11 Producer equilibrium refers to that level of output where producer maximizes his profit. (1+5)
According to MR-MC approach, producer's equilibrium refers to that output level at which:
1. MC = MR:
2. MC is greater than MR after MC = MR output level:
1. MC = MR:
We know, MR is the addition to TR from sale of one more unit of output and MC is addition to TC

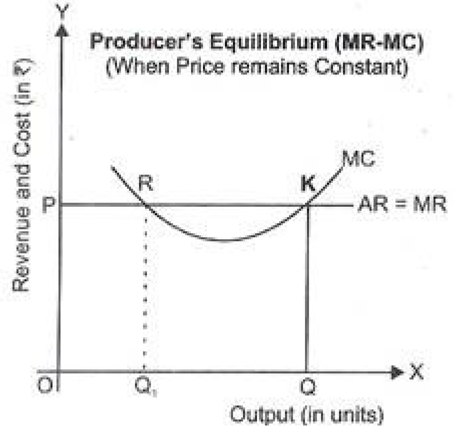
for increasing production by one unit. Every producer aims to maximize the total profits. For this, a firm compares it's MR with its MC. Profits will increase as long as MR exceeds MC and profits will fall if MR is less than MC.

So, equilibrium is not achieved when MC < MR as it is possible to add to profits by producing more. Producer is also not in equilibrium when MC > MR because benefit is less than the cost. It means, the firm will be at equilibrium when MC – MR.

2. MC is greater than MR after MC = MR output level:

MC = MR is a necessary condition, but not sufficient enough to ensure equilibrium. It is because MC = MR may occur at more than one level of output. However, out of these, only that output level is the equilibrium output when MC becomes greater than MR after the equilibrium.

It is because if MC is greater than MR, then producing beyond MC = MR output will reduce profits. On the other hand, if MC is less than MR beyond MC = MR output, it is possible to add to profits by producing more. So, first condition must be supplemented with the second condition to attain the producer's equilibrium.



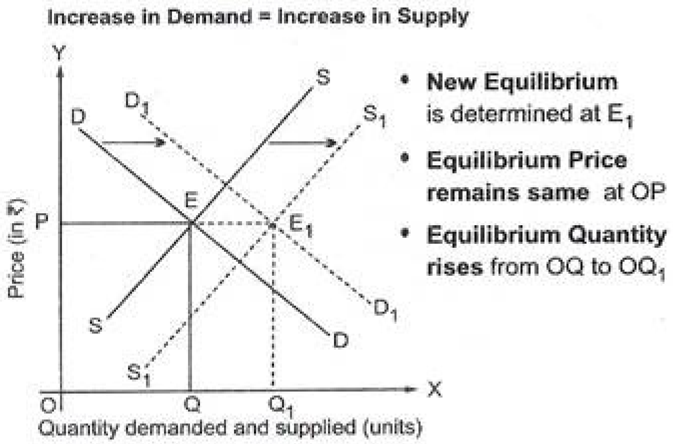
Producer's Equilibrium is determined at OQ level of output corresponding to point K as at this point: (i) MC = MR; and (ii) MC is greater than MR after MC = MR output level.

12 | 2+4

The equilibrium price is that price level where the quantity demand of a goods is equal to the quantity supply of the goods.

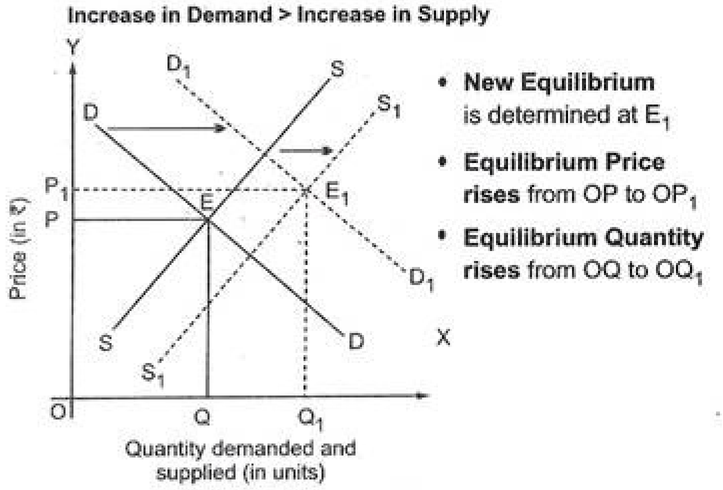
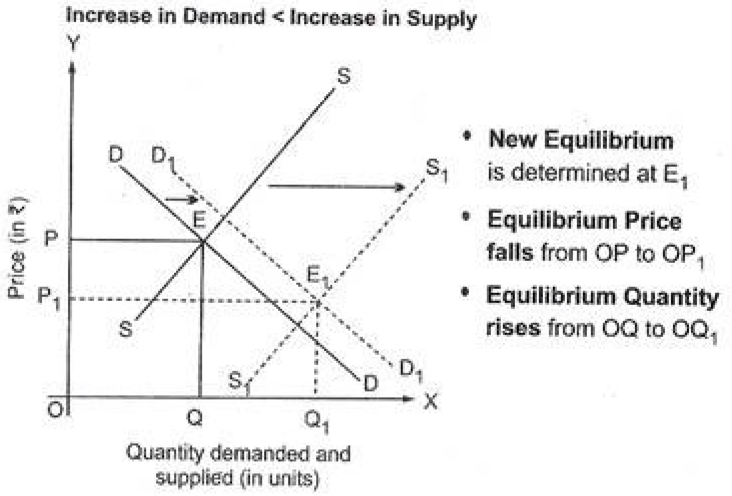
Case 1: Increase in Demand = Increase in Supply:

When increase in demand is proportionately equal to increase in supply, then rightward shift in demand curve from DD to D1D1 is proportionately equal to rightward shift in supply curve from SS to S1S1 . The new equilibrium is determined at E1. As both demand and supply increase in the same proportion, equilibrium price remains the same at OP, but equilibrium quantity rises from OQ to OQ1.



Case 2: Increase in Demand > Increase in Supply:

When increase in demand is proportionately more than increase in supply then rightward shift in demand curve from DD to D1D1 is proportionately more than rightward shift in supply curve from SS to S1S1. The new equilibrium is determined at E1 equilibrium price rises from OP to OP1 and equilibrium quantity rises from OQ to OQ1.

	 ***Case 3: Increase in Demand < Increase in Supply:*** When increase in demand is proportionately less than increase in supply, then rightward shift in demand curve from DD to D1D1 is proportionately less than rightward shift in supply curve from SS to S1S1 . The new equilibrium is determined at E1 equilibrium price falls from OP to OP1 whereas, equilibrium quantity rises from OQ to OQ1. 	
13	Fiscal deficit=Primary deficit + interest payment=Rs4200+Rs600=Rs4800 crore	1
14	The amount by which the actual aggregate demand exceeds the level of national income corresponding to full employment is known as inflationary gap	1
15	K=1/1-0.6=2.5	1
16	Corporation tax	1
17	When foreign exchange rate falls, imports from that foreign country become cheaper. So, imports increase and hence, the demand for foreign currency rises. For example, if price of 1 US dollar falls from Rs 50 to Rs 45, then imports from USA will increase as American goods will become relatively cheaper. It will raise the demand for US dollars. When a foreign currency becomes cheaper in terms of the domestic currency, it promotes tourism to that country. As a result, demand for foreign currency rises **OR** Following are sources of the demand for foreign exchange. 1. Imports of Goods and Services: Foreign Exchange is demanded to make the payment for imports of goods and services. 2. Tourism: Foreign exchange is needed to meet expenditure incurred in foreign tours. 3. Unilateral Transfers sent abroad: Foreign exchange is required for making unilateral transfers like sending gifts to other	3

	countries. 4. Purchase of Assets in Foreign Countries: It is demanded to make payment for purchase of assets, like land, shares, bonds, etc. in the foreign countries.(any three points)	
18	***Balance of Trade (BOT)*** i. It records only merchandise (i.e., goods) transactions. ii. It does not record transactions of capital nature. iii. It is a part of current account of BOP. iv. It may be favourable,unfavourable or in equilibrium. (any three points) ***Balance of Payment (BOP)*** (i) It records transactions relating to both goods and services. (ii) It records transactions of capital nature. (iii) It includes balance of trade, balance of services, balance of unilateral transfers and balance of capital transactions. (iv) It always remains in balance in the sense that receipt side is always made to be equal to payment side. (any three points)	3
19	**a)Tax Receipts** are revenue receipts because these receipt neither create any liability nor reduce asset of the government. **b) Disinvestments** are capital receipts because it reduces assets of the government.	2+2
20	The problem of double counting means counting value of the same commodity more than once while measuring NI It can be avoided by 1.Final product Method – In final product methods only value final product is considered for calculation of National Income. 2. Value added Method - In value added method value added at each stage of production is added to calculation of National Income **OR** The precautions that need to be kept in mind when using the value added method of calculating national income are: i) Avoid double counting of goods and services as these tend to inflate national income estimates. ii) Do not include the value of second hand goods being sold as their value was accounted for at the time of first production. iii) Include imputed value of own account production in total output as output has been produced. iv) Include the imputed value of owner occupied dwellings as houses provide housing services.	1+3 Or, 1+1+1+1
21	**Income** **ΔY** **Saving** **Consumption** **ΔC** **MPC** **APC** 0 -20 20 .... - - -- 50 50 -10 60 40 0.8 1.2 100 50 0 100 40 0.8 1 150 50 30 120 20 0.4 0.8 200 50 60 140 20 0.4 0.7	2+2
22	C = 100 + 0.5Y Let us take Y as 400, 500, 600 When Y = 400 C = 100 + 0.5 x 400 = 300 When Y = 500 C = 100 + 0.5 x 500 = 350 When Y = 600	2 3

C = 100 + 0.5 x 600 = 400

Income	consumption	APC
400	300	0.75
500	350	0.7
600	400	0.67

1

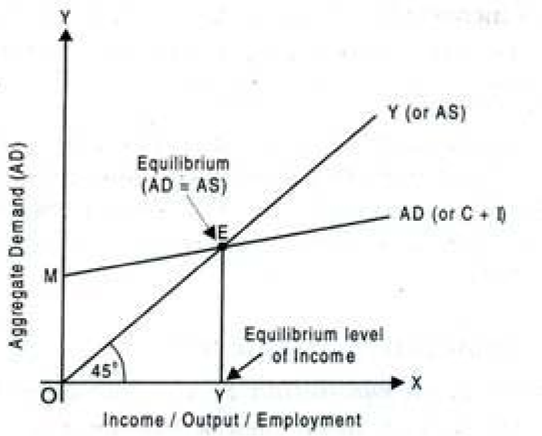
2+2+2

Thus as income increases APC falls

OR

The equilibrium level of income in an economy is determined when aggregate demand is equal to the Aggregate Supply.

Employment	Income (Y)	Consumption (C)	Saving (S)	Investment (I)	AD= C + I	AS= C + S
0	0	40	-40	40	80	0
10	100	120	-20	40	160	100
20	200	200	0	40	240	200
30	300	280	20	40	320	300
40	400	360	40	40	400	400
50	500	440	60	40	480	500
60	600	520	80	40	560	600



In Fig. the AD or (C +I) curve shows the desired level of expenditure by consumers and firms corresponding to each level of output. The economy is in equilibrium at point 'E' where (C + I) curve intersects the 45° line. 'E' is the equilibrium point because at this point, the level of desired spending on consumption and investment exactly equals the level of total output.OY is the equilibrium level of output corresponding to point E.

When AD is greater than AS:

When planned spending (AD) is more than planned output (AS), then (C + I) curve lies above the 45° line. It means that consumers and firms together would be buying more goods than firms are willing to produce. As a result, the planned inventory would fall below the desired level.

To bring the inventory back to the desired level, firms would resort to increase in employment and output until the economy is back at output level OY, where AD becomes equal to AS and there is no further tendency to change.

When AD is less than AS:
When AD < AS, then (C +I) curve lies below the 45° line. It means that consumers and firms together would be buying less goods than firms are willing to produce. As a result, the planned inventory would rise. To clear the unwanted increase in inventory, firms plan to decrease the employment and output until the economy is back at output level OY, where AD becomes equal to AS and there is no further tendency to change.

23

It is one of the most important activities of commercial banks. Through the process of money creation, commercial banks are able to create credit, which is in far excess of the initial deposits.

This process can be better understood by making two assumptions:

(i) The entire commercial banking system is one unit and is termed as 'Banks'.

(ii) All receipts and payments in the economy are routed through the Banks

It is legally compulsory for the banks to keep a certain minimum fraction of their deposits as reserves. The fraction is called the Legal Reserve Ratio (LRR) and is fixed by the central bank. Banks do not keep 100% reserves against the deposits. They keep reserves only to the extent indicated by the Central Bank.

Let us now understand the process of Money Creation through an example:

1. Suppose, initial deposits in banks is Rs 1,000 and LRR is 20%. It means, banks are required to keep only Rs 200 as cash reserve and are free to lend Rs 800. Suppose they lend Rs 800. Banks do not lend this money by giving amount in cash. Rather, they open the accounts in the names of borrowers, who are free to withdraw the amount whenever the like.

2. Suppose borrowers withdraw the entire amount of Rs 800 for making payments. As all the transactions are routed through the banks, the money spent by the borrowers comes back into the banks in the form of deposit accounts of those who have received this payment. It will increase the demand deposits of banks by Rs 800.

3. With new deposits of Rs 800, banks keep 20% as cash reserves and lend the balance Rs 640. Borrowers use these loans for making payments, which again comes back into the accounts of those who have received the payments. This time, banks deposits rise by Rs 640.

4. The deposits keep on increasing in each round by 80% of the last round deposits. Deposit creation comes to end when total cash reserves become equal to the initial deposit.

Round	Deposits	Loans	Cash Reserve
Initial Deposit	1000	800	200

	First Round	800	640	160	
	Second Round	640	512	128	
		-	-	-	
		-	-	-	
	Total	5000	4000	1000	

As seen in the table, banks are able to create total deposits of Rs 5,000 with the initial deposit of just X 1,000. It means, total deposits become 'five times' of the initial deposit. Five times is nothing but the value of 'Money Multiplier'.

24	National Income = iv + viii + (iii + ix) + xi +xiii – x = 600 + 55 + (200 +25) + 20 +130 -30 = Rs 1,000 crores **Expenditure Method** National Income = vi + i + vii + xiv – v + ii – xii – x = 800 + 100 + 120 + 70 – 60 + 10 – 10 – 30 = Rs 1,000 crores	3+3

Subject: Economics

Section – A

Q.1. What is positive economics? 1

Q. 2. The production function of Tata Motors is given as 1
Q_x = F(L, K) where, L = 50,000 labourers and K = D5,00,000 crore.iflabour increases to 60,000.
Identify whether the function relates to short-run or long-run

Q.3. Give two examples of implicit cost? 1

Q.4. When 5 units of a goods are sold, Total Revenue is D100. When a 6 units are sold, Marginal Revenue isD8. At what price are 6 units sold? (choose the correct alternative) 1

a) D28 per unit b) D 20 per unit
c) D18 per unit d) D 12 per unit

Q.5. Explain any two causes of increase in demand? 3

Or

What do you understand by price elasticity of demand? How does the level of price of a good affect its Elasticity of Demand (E_d)?

Q.6. Production in an economy is below its potential due to unemployment. What will be the effect of employment generation schemes on Production Curve (PPC)? 3

Q.7. Distinguish between contraction of demand and decrease in demand? 4

Q.8. Complete the following table: 4

Output (Units) Q	Total Revenue (TR) (D)	Marginal Revenue (MR) (D)	Average Revenue (AR) (D)
1	---	---	8
2	---	4	---
3	12	---	4
4	8	---	2

Or

A firm's Average Fixed Cost (AFC) of producing 2 units of a good is D9 and given below is its Total Cost (TC) schedule. Calculate its Average Variable Cost (AVC) and Marginal Cost (MC) for each of the given level of output.

Output (Units)	Total Cost (D)
1	23
2	27
3	30

Q.9. Why price remins unaffected when supply curve is perfectly elastic and demand curve shifts? 4

Q.10. Price of commodity 'sigma' remains same atD35 per unit,but its demand rises from 10,000 units to25,000 units? Discuss any three factors which are responsible for such a behavior. Use separate diagram. 6

Q. 11. Explain the concept of Average Cost and Marginal Cost and their relationship with diagram. 6
Can AC fall when MC rises ?

Q.12. Price of a commodity is in equilibrium. Now if Govt. increases GST, What will happen to equilibrium price and quantity ? Also explain the chain effects by which the equilibrium price may be again restored ? Use diagram. 6

Or

Explain the sequence of effects of a fall in the price of X on the equilibrium price and quantity of Y
(i) If X and Y are complementary goods (ii) If X and Y are substitute goods

Section – B

Q.13. What is reverse repo rate? 1

Q.14. What is capital budget? 1

Q.15. Fiscal deficit is equal to 1
a) revenue deficit b) primary deficit
c) revenue deficit plus primary deficit d) borrowings

Q.16. Who regulates money supply? (Choose the correct alternatives) 1
a) Government of India b) Reserve Bank of India
c) Commercial Bank d) Planning Commission

Q.17. Explain the distinction between MPC and MPS? 3

Or

Differentiate between Aggregate Demand and Aggregate Supply.

Q.18. What is excess Demand? How can increase in tax solved the problem of excess demand? 3

Q.19. Explain the following function of Central Bank
i) Banker to the Government and Supervisor to Government 4

Or

Explain the function of Central Bank as Controller of Money Supply by open market operation. 4

Q.20. Find out NVA at factor cost of a firm 4

S. No.	Items	(D) in lakhs
1.	Total Sales	8000
2.	Closing Stock	1400
3.	Opening Stock	1000
4.	Indirect Tax	400
5.	Subsidies	300
6.	Depreciation	600
7.	Purchase of Raw Material	2000

Q.21. Explain reallocation of resources as an objective of Budget. What is zero primary deficit and its implications? 4

Q.22. Consumption function of an economy 6
$C = 100 + 0.5Y$
Find the equilibrium level of income when investment expenditure is 400.
Fine the leven of Consumption expenditure and Savings at equilibrium level.

Q.23. Why does the demand for foreign currency fall and supply rises when its price rises? Explain 6

Q.24. Calculate 'Gross National Product at Factor Cost' from the following data by (i) Income Method and (ii) Expenditure Method. 6

Items	(D) In crores
Private Final Consumption Expenditure	1000
Net Domestic Capital Formation	200
Profits	400
Compensation of Employees	800
Rent	250
Government Final Consumption Expenditure	500
Consumption of Fixed Capital	60
Interest	150
Net Factor Income From Abroad	-10
Net Exports	-20
Net Indirect Tax	80
Excise duty	10
Gross Domestic Capital Formation	260

MARKING SCHEME

Q. 1. Concerned with the facts and figures as they exist 1

Q.2. Short run production function 1

Q.3. Imputed rent, imputed interest 1

Q.4. Rs. 18 per unit 1

Q.5. Change in income, favourable change in taste 1+1+1
Or
The degree of responsiveness in demand due to change in price
High price commodities have high elasticity and low price commodities have low elasticities

Q.6. The economy moves from a point below the PPC to any point on PPC due to employment generation scheme started by the government. 2+1

Q.7. Contraction of demand – due to rise in price in the commodity
Decrease in demand due to decrease in income of the consumer or unfavourable change in taste and preferences etc. 2+2
Diagram

Q.8. TR = 8, 12, 12, 8 2+2
MR = 8,4,0, -4
AR = 8, 6, 4, 2

Or

AVC = 5, 4.5, 4 MC = 5, 4, 3

Q.9. Perfectly elastic supply – infinite supply corresponding to a given price 2+2
Diagram

Q.10. i) Increase in income
ii) Rise in price of Substitute goods
iii) Fall in the price of complementary goods. 2+2+2

Q.11. Diagram and explanation 3+3

Q.12. Diagram and explanation 3+3

Q.13. the rate at which the Central Bank accepts deposit of commercial bank 1

Q.14. Capital budget – estimated capital receipts and capital expenditure of the Government during a financial year.1

Q.15. d) 1

Q.16. b) 1

Q.17. MPC = Change in consumption / change in income 1+1+1
MPS = Change in saving / Change in income

OR
AD – Total value of final goods and services that are demanded by all sectors of the economy during a period of time.
AS – Total flow goods ad services in the economy during a period of time
Components

Q.18. Excess demand – When AD greater than AS at full employment in the economy 1+1+1
Diagram
Increase in tax rate reduces the purchasing power of the people and level of AD

Q.19. Banker to Government – Carrying out all the banking business of the government 2+2
Supervisonr – Supervises the function of Commercial Bank
Or
Open Market Operation – Buying and selling of a securities by the central bank in the open market.

Q.20 NVA at factor cost = Rs. 5700/- 1+2+1

Q.21 The Government can reallocate the resources through budgetary policy 2+2

Q.22. Income = 1000 ,C=600,S=400 2+2+2

Q.23. Reasons and example 3+3

Q.24, GNPfc= COE+OS+NFIA+CFC=1650 (Income method)
GNPfc=PFCE+GFCE+GDCF+NE-NIT+NFIA= 1650 3+3

KENDRIYA VIDYALAYA SANGATHAN KOLKATA REGION

SUBJECT - ECONOMICS

CLASS XII

BLUE PRINT

Sl. No.	Content unit	Unit title	Forms of Questions				
			VSA / MCQ	SA - I	SA - II	LA	Total
			1 mark	3 marks	4 marks	6 marks	
1.	Unit 1	Introduction	-	-	1	-	4
2.	Unit 2	Consumer's Equilibrium and Demand	3	-	1	1	13
3.	Unit 3	Producer Behavior and Supply	-	1	1	1	13
4	Unit 4	Forms of market and price determination under perfect competition with simple application	1	1	-	1	10
5.	Unit 5	National income and related aggregates	-	-	1	1	10
6.	Unit 6	Money and banking	2	-	1	-	6
7.	Unit 7	Determination of Income and Employment	-	2	-	1	12
8,	Unit 8	Government Budget and the Economy	-	-	-	1	6
9.	Unit 9	Balance of Payments	2	-	1	-	6
		Sub-Total	8x1=8	4x3=12	6x4=24	6x6=36	80 (24)

KENDRIYA VIDYALAYA SANGATHAN KOLKATA REGION

SUBJECT - ECONOMICS

CLASS XII

SAMPLE QUESTION PAPER

Time- 3hrs **F.M- 80**

Instructions-

1) All questions are compulsory.
2) Very short answer questions carrying 1 mark each are required to be answered in one sentence.
3) Short answers question carrying 3 marks are required to be answered in 60 words each.
4) Short answers question carrying 4 marks each are required to be answered in 70 words each.
5) Long answer type question carrying 6 marks each are required to be answered in 100 words each.
6) Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Section - A

Q1. There are only few sellers under

(i) Perfect Competition
(ii) Monopolistic competition
(iii) Monopoly
(iv) Oligopoly (1)

Q2. State the law of demand. (1)

Q3. When the MU is zero, TU is

(i) Zero
(ii) Minimum
(iii) Maximum
(iv) Negative (1)

Q4. When income of the Consumer increases , the budget line

(i) Shifts to the right
(ii) Shifts to the left
(iii) Rotates to the right towards Y axis
(iv) Rotates to the left towards the Y axis (1)

Q5. Explain the unification of "interdependence between firms

Characteristics of oligopoly market. (3)

Or

Explain the implications of the "freedom of entry and exit" feature of

Perfect Competition.

Q6. Explain the behaviour of short run average Cost Curve. (3)

Q7. Production is an economy is below it's potential due to unemployment Government starts employment generation schemes. Explain it's effect Using PPC.

Or

Why does an economic problem arise? Explain the problem of 'whom to Produce' with example. (4)

Q8. "Higher indifference curve represents higher level of satisfaction to the Consumer". Explain the statement , also state the underlying assumption related to this property of Indifference Curve.

Q9. Explain the marginal cost and average variable cost. (4)

Q10. From the following data find out the level of output that will give the Producer maximum profit (use marginal cost and marginal revenue approach) Give reasons for your answer.

Output (units)	1	2	3	4	5
Total Cost	9	17	24	29	36
Total Revenue	11	20	27	32	35

(6)

Q11. Explain the meaning and implications of maximum price ceiling giving reasons explain the ' law of variable proportions'. (6)

Q12. A consumer consumes only two goods X and Y. The marginal rate of Substitution is 1. Prices of X and Y are Rs 3 and Rs 4 per unit respectively. Is the Consumer in equilibrium. What will be further reaction of consumer? Give reason. (6)

Section B

Q13. Repo rate is the rate at which

(a) Commercial banks purchase government securities from the central bank.
(b) Commercial banks can take loans from the Central bank.
(c) Commercial banks can keep their deposits with the Central bank.
(d) Short term loans are given by commercial bank. 1

Q14. Which of the following is not a component of M1 measurement of Money Supply? 1

(a) Demand deposits
(b) Currency
(c) Other deposits
(d) Term deposits

Q15. What is meant by devaluation of domestic currency. 1

Q16. Give two sources of supply of foreign exchange. 1

Q17. In an economy, the consumption function is C= 400+0.75 Where C is the consumption expenditure and Y is the income and Investment expenditure is 2000. Calculate the equilibrium level of National income and consumption expenditure.

or

Explain the working of investment and multiplier with the help of a Numerical example. 3

Q18. Out line the steps required to be taken in deriving saving curve from the given Consumption Curve. Use diagram. 3

Q19. Explain the credit creation role of Commercial banks with the help of a Numerical example.

Or

Explain the "bankers bank" function of the Central Bank. 4

Q20. Distinguish between stock and flow. 4

Q21. Distinguish between depreciation and appreciation of currency. How are exports and imports impacted in these situations. 4

Q22. How is the Budgetary policy used to promote GDP growth in the Economy? 6

Or

Define fiscal deficit and Primary deficit. Write implications of primary deficit.

Q23. Distinguish between inflationary and deflationary gap. Write two measures to correct inflationary gap. 6

Q24. From the following data, calculate (a) Gross Domestic Product at Factor Cost, and (b) Factor Income to Abroad:

	Items	(Rs in crore)
(i)	Compensation of employees	1,000
(ii)	Profits	200
(iii)	Dividends	80
(iv)	Gross national product at market price	1,800
(v)	Rent	250
(vi)	Interest	200
(vii)	Gross domestic capital formation	300
(viii)	Net fixed capital formation	200
(ix)	Change in stock	50
(x)	Factor income from abroad	80
(xi)	Net indirect taxes	120

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KENDRIYA VIDYALAYA SANGATHAN KOLKATA REGION

SUBJECT - ECONOMICS

CLASS XII

MARKING SCHEME

Q1.

(iv) 1

Q2. Inverse relation between price and quantity demanded. 1

Q3. (iii) 1

Q4. (i) 1

Q5.(i) cut throat price competition 3

(ii)Loss of revenue

(iii) price and output policy depends on the price and output policy of the rival firms in the market.

(iv) difficult to draw firm's demand curve. 3

Or

Firms in the long run earn normal profit.If in case extra normal profits are earned ,new firms will join industry,Market supply increases. Market price falls and extra normal profit will be wiped out. Vice versa in case of extra normal losses.

Q6. AC falling, AC constant and AC rising .Explain with diagram. 3

Q7.Since the resources and technology remain the same ,PPC would not shift.Explain with diagram. 3

Or

Resources are scarce and it has alternative uses.Unlimited want.
Related to distribution of income in the economy. (i) Factoral distribution(ii)Inter personal distribution of income.Explain. 1+2=3

Q8. In higher indifference curve consumption of one good is more than the other.Explain.
Assumption:-- Monotonic preferences of the consumer. 2+2=4

Q9. AVC falling AVC >MC
AVC rising AVC<MC
AVC constant AVC=MC
AVC can fall even when MC rising.

Both AVC and MC are U shaped 4

Q10. Producer is in equilibrium at 4th unit of out put .
Two conditions are (i) MR=MC (ii) MC is rising from the point of equilibrium.
Calculation of MR and MC from TR and TC. 2+2+2=6

Or

Definition of Law of variable proportion.
Reasons for three stages. 2+2+2=6

Q11. Maximum price ceiling :--Excess demand, Price rise, black marketing, hoarding.
Minimum price ceiling:---- excess supply, unsold stocks, losses, buffer stock.
3+3=6

Q12. Not in equilibrium, formula of equilibrium, calculation of the equilibrium with the given values.
Consumer would react to this situation by consuming more of good x in place of good y. 1+3+2=6

Section B

Q13. (b) 1

Q14. (d) 1

Q15. Devaluation is the fall in the value of domestic currency in relation to foreign currency as planned by the government. 1

Q16. (i) export (ii) foreign tourists (iii) any other sources 1

Q17. Formula
Y= 9600 C= 7600 1+2=3

Or

Explain through numerical example making a table.

Q18. Explanation with the diagram. 3

Q19. Let the cash reserve 1000 and CRR= 10 % then credit creation= 10000.
Explain the process of credit creation.

Or

(i) Central bank offers loan to the commercial banks. (ii) accepts surplus funds of the commercial banks deposits.
(iii) Repo rate
(iv) supervisory functions

Q20. (i)Definition of stock and flow 4
(ii) time dimension
(iii) static and dynamic concept
Example

Q21. Definition appreciation and depreciation of currency.
Depreciation of domestic currency, increases export and imports decline.
Appreciation of domestic currency, decline in export and increase in import.
4

Q22. Explanation from the objectives of government budget.

Or

Definition of fiscal and primary deficit.
Primary deficit indicates borrowing requirement of the government owing to fiscal deficit net of interest payment. 2+2+2=6

Q23. Definition of inflationary and deflationary gap with explanation
Increase in Repo rate and open market operation, increase in CRR.
Explanation. 4+2=6

Q24. (a) GDP at factor cost= 1700 crore
(b) factor income to abroad= 100 crore.