

CBSE Class 12 Economics
Last Year Paper
Delhi compt. 2017 Set-A

General Instructions :

- All questions in both sections are compulsory.
- Marks for questions are indicated against each question.
- Questions number 1 – 5 and 16 – 20 are very short answer questions carrying 1 mark each. They are required to be answered in one sentence.
- Questions number 6 – 8 and 21 – 23 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60 words each.
- Questions number 9 – 11 and 24 – 26 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.
- Questions number 12 – 15 and 27 – 30 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100 words each.
- Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Section – A

1. When is a good considered an inferior good ?(1)

Ans. When with the rise/fall in income of the consumer its demand falls/rises.

2. Average revenue equals : (Choose the correct alternative)(1)

- A. Total revenue divided by the quantity produced.
- B. Price
- C. Both (A) and (B)
- D. None of the above

Ans. (C) Both (A) and (B)

3. Define production function.(1)

Ans. Production function is the relation between physical inputs used and the physical output produced.

4. A perfectly competitive firm faces : (Choose the correct alternative)(1)

- A. Constant price
- B. Constant average revenue
- C. Constant marginal revenue
- D. All the above

Ans. (D) All the above

5. Under which form of market a firm is called price taker ? (1)

Ans. A firm is called 'price - taker' under perfect competition.

6. Distinguish between positive economics and normative economics. Give an example of each.(3)

OR

Distinguish between micro-economics and macro-economics. Give an example of each.

Ans. Positive economics studies "what is". For example, statement that the man is consuming tobacco is a positive statement. whereas, normative economics studies " what should be ". For example consumption of tobacco is bad for health.

OR

In microeconomics we study the economic behaviour of an individual economic agent. For example, a consumer etc.

whereas, In macroeconomics we study the economic behaviour of the economy as a whole.

For example, aggregate demand,.....etc

7. Why does a production possibility curve slope downwards from left to right ?

Explain.(3)

Ans. PP curve slope downwards because to produce more of a good, the economy has to sacrifice some production of other good. It is because of the limited resources in the economy.

8. When price of a good rises by 20 percent its demand falls by 40 percent. Calculate its price elasticity of demand.(3)

$$E_p = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$
$$= \frac{-40}{20}$$

= -2

9. Explain any two causes of ‘increase in supply’ of a commodity.(4)

1. Improved technology
2. Fall in input prices
3. Fall in tax on the good.
4. Any other factor.

10. Identify the equilibrium level of output using “marginal cost and marginal revenue” approach. Give reasons for your answer. (4)

Price(Rs.)	Output(Units)	Total Cost(Rs)	Marginal Cost(Rs)
10	1	10	10
10	2	19	9
10	3	26	7
10	4	36	10
10	5	48	12

OR

Identify the three phases of the law of variable proportions. Give reasons.

Variable Input(Units)	Total Product(Units)
1	5
2	11
3	15
4	17
5	15

Ans.

Price(Rs.)	Output(Units)	Total Revenue(Rs)	Total Cost(Rs)	Marginal Revenue	Marginal Cost(Rs)

10	1	10	10	10	10
10	2	20	19	10	9
10	3	30	26	10	7
10	4	40	36	10	10
10	5	50	48	10	12

Equilibrium level of output is 4 units.

Because at this output

- i. $MC = MR$
- ii. $MC > MR$ after equilibrium.

OR

Variable Input(Units)	TP(Units)	MP(Units)
1	5	5 Phase I
2	11	6 Phase I
3	15	4 Phase II
4	17	2 Phase II
5	15	(-2) Phase III

- Phase I is upto 2 units of output because MP rises or TP rises at an increasing rate.
- Phase II is from 3 upto 4 units of output because MP falls but is positive or TP rises at a decreasing rate.
- Phase III is from 5th unit of output onwards because MP becomes negative or TP falls

11. What difference does it make to a perfectly competitive market when we say that there are large number of buyers in it ? Explain.(4)

Ans. The number of buyers is so large that no individual buyer can influence the market price on its own. The proportion of demand of an individual buyer in the total market demand of the good is insignificant. If the single buyer buys more or less, market price is not affected.

12. A consumer consumes only two goods X and Y. Explain the conditions of consumer's equilibrium using Marginal Utility Analysis.(6)

There are two conditions of equilibrium

1. $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

2. MU falls as more is consumed of a good.

Explanation

1. Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$, it means that per rupee MU from consumption of X is higher than the price to be paid for it. This induces the consumer to buy more of X and less of Y. This reduces MU_x and raises MU_y till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$.

(Explanation based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct).

2. If MU does not fall as more is consumed, the consumer may not reach equilibrium again.

13. Define budget line and indifference curve. Also explain why the two are downward sloping from left to right ?(6)

OR

(a) Why is budget line a straight line ? Explain.

(b) Why is indifference curve convex ? Explain

Ans. Budget line consists of all the bundles of the two goods which costs exactly equal to the consumer's income.

Indifference curve is the locus of all the combinations of the two goods, each combination providing the same level of satisfaction.

The budget line is downward sloping because to buy more quantity of one good the consumer must give up some quantity of the other good. It is because the consumer's income is fixed.

The indifference curve is downward sloping because to consume more quantity of one good, the consumer must give up the consumption of the other good. It is necessary for

the consumer to remain on the same level of satisfaction.

OR

a) Budget line is a straight line because the price of the two goods are constant. It makes the market rate of exchange (or $\frac{P_x}{P_y}$) between the two goods constant. Market rate of exchange is the slope of budget line which is constant.

b) Indifference curve is convex because marginal rate of substitution (MRS) falls as consumer consumes more of the good on X-axis. MRS is nothing but slope of the indifference curve. Slope falls because of the law of diminishing marginal utility.

14. **A woman borrows money from a bank and starts a business in a building owned by her. She manages the business herself. What are the explicit costs and implicit costs in it directly identifiable ? Give reasons for your answer.(6)**

Ans. 1. Interest paid on borrowed money is explicit cost because it is recorded in accounts.

2. Imputed rent of the owner's building is implicit cost because it is not actually paid by the owner.

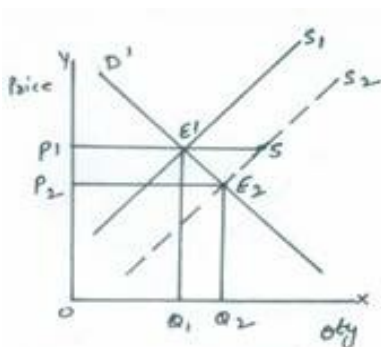
3. Imputed salary of the owner is implicit cost because the owner does not actually receive any salary.

15. **It is expected that replacement of all existing taxes on good X by the proposed single Goods and Services Tax (GST) will bring down overall tax on good X substantially. Explain its likely chain of effects on price and quantity of good X. Use diagram.**

(6) For the blind candidates in lieu of Q. No. 15

It is expected that replacement of all existing taxes on good X by the proposed single Goods and Services Tax (GST) will bring down overall tax on good X substantially. Explain its likely chain of effects on price and quantity of good X. Use a schedule.

Ans.



Lower tax shifts supply-curve S_1 to S_2 . This creates excess supply " E_1S " at Price P_1 . It leads to competition among producers. As a result price falls. Supply falls along the curve S_2 and demand rises along the curve D_1 . This continues till demand equals supply at E_2 . Price falls to OP_2 and quantity rises to OQ_2 .

For the Blind Candidates

Explanation on the same lines as above but without the use of diagram.

Section – B

16. **Foreign embassies in India are a part of India's : (Choose the correct alternative)(1)**

- A. Economic territory
- B. Geographical territory
- C. Both (A) and (B)
- D. None of the above

Ans. (B) Geographical territory.

17. **What is meant by Nominal Gross Domestic Product ?(1)**

Ans. When GDP of an year X is calculated on the basis of prices of year X or at current prices, it is called nominal GDP.

18. **Fiscal deficit equals : (Choose the correct alternative)(1)**

- A. Primary deficit minus interest payments
- B. Primary deficit plus interest payments
- C. Total budget expenditure minus total budget receipts
- D. None of the above

Ans. (B) Primary deficit plus interest payments.

19. **What is meant by revenue receipt in a Government Budget ?(1)**

Ans. Receipt that neither creates any liability nor lead to any reduction in assets is revenue receipt.

20. **A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's balance of payments account ? (Choose the correct alternative)(1)**

- A. Credit side of current account
- B. Debit side of current account
- C. Credit side of capital account
- D. Debit side of capital account

Ans. (C) Credit side of capital account.

21. **Giving reason state how are the following treated in estimation of national income.**
(3)

- i. Payment of interest by an individual to a bank on a loan to buy a car.
- ii. Expenditure by government on providing free educational services.
- iii. Expenditure on purchasing a machine installed in a production unit.

Ans. (i) Payment of interest to a bank by an individual is not included because the individual is a consumer.

(ii) Expenditure by government on free education is included because it is a final expenditure.

(iii) Expenditure on machine installed in a production unit is included because it is an investment expenditure.

22. **Distinguish between ex-ante measure and ex-post measure of a variable. Which of the two forms the basis of the theory of national income determination ?**

OR

Distinguish between average propensity to consume and average propensity to save. What is the relation between the two ?(3)

Ans. Ex-ante variable is the planned or expected value of variable whereas, ex-post variable is the actual or realised value of the variable.

Ex-ante variables are the basis of theory of income determination.

OR

APC equals total consumption expenditure divided by the total income whereas, APS equal total savings divided by the total income.

$$APC + APS = 1$$

23. **If marginal propensity to consume is 0.5, calculate the value of investment Multiplier.(3)**

$$\begin{aligned}\text{Ans. Multiplier}(K) &= \frac{1}{1-MPC} \\ &= \frac{1}{1-0.5} \\ &= 2\end{aligned}$$

24. Suppose a ban is imposed on consumption of tobacco. Examine its likely effects on (a) gross domestic product and (b) welfare. (4)

OR

How does increase in inequalities in distribution of income affect welfare of the society? Explain.

Ans. a) Ban on consumption of tobacco will bring down production of tobacco. Since it is counted in GDP, GDP will fall.

b) The ban will improve the health in general. It will thus increase welfare.

OR

Increase in inequalities means that rich become richer and poor become poorer. Since utility of money is higher among poor and lower among the rich, any increase in inequalities may not lead to increase in welfare.

25. If Legal Reserve Ratio is 0.2 and new deposits are ` 1,000, explain the process of money creation by the commercial banks.(4)

	Deposits	Loan	Legal Reserves
New	1000	800	200
Next Round	800	640	160
Next Round	640	512	128
All rounds	5000	4000	1000

Since LRR is 20%, banks keep Rs.200 as reserves and give loans of Rs 800, which ultimately comes back to banks as deposits. Out of these Rs 800, banks keep 20% i.e. Rs 160 as reserves and give loans worth Rs 640. In this way in every round 80 percent of loans are converted into deposit. In this way total deposits of Rs 5000 are created. The rule for deposit creation is :

$$\begin{aligned}
 \text{Total deposit creation} &= \text{Initial deposits} \times \frac{1}{LRR} \\
 &= 1000 \times \frac{1}{0.2} \\
 &= 5000
 \end{aligned}$$

Since bank deposits are a part of money supply, it is also called money creation.

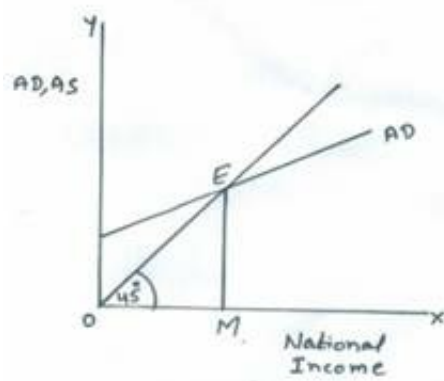
26. Explain the role of “open market operations” in reducing money supply.(4)

Ans. Open market operations refer to the sale and purchase of government securities by the central bank in the open market for these securities. When objective is to reduce money supply, the central bank sells securities. Those who buy securities make payment by cheques. The money flows out of commercial banks into the central bank. Any money that flows into the central bank reduces money supply because it is out of circulation.

27. Explain determination of equilibrium level of national income using aggregate demand and aggregate supply approach. Use diagram. Also explain the effect when aggregate demand is less than aggregate supply.(6) For blind candidates in lieu of Q. No. 27.

What is meant by aggregate demand and aggregate supply ? Given aggregate demand and aggregate supply behaviour, when is an economy in equilibrium ? What happens when aggregate demand is less than aggregate supply ? Explain.(6)

Ans.



The equilibrium is where $AD=AS$ i.e. at point E where AD curve intersects the 45 line. OM is the equilibrium income. When AD is less than AS, inventories accumulate. The producers produce less. This continues till AS falls enough to be equal to AD.

For the blind candidates

Meaning of AD

Meaning of AS

Equilibrium at $AD=AS$

What happens when $AD < AS$ (on the above line)

28. The Government, under Ujjwala Yojana, is providing free LPG kitchen gas connections to the families ‘below the poverty line’. What objective the government

is trying to fulfil through the government budget and how ? Explain.(6)

OR

Explain how the allocation of resources can be influenced in the government budget through taxes, expenditure and subsidies.

Ans. Through Ujjwala Yojana, government is trying to reduce gap between the rich and the poor. Government sells LPG gas at a higher rate to those who can afford it. Revenue so collected is used to provide LPG gas connection free of cost and also at subsidized rates to the families below the poverty line . This reduces disposable income of the rich and increases that of the poor, reducing the gap between the two.

OR

Government can influence allocation of resources through taxes, subsidies and expenditure .

- By imposing taxes at higher rates, it can discourage those occupations which are not beneficial to society .
- By giving Subsidies it can encourage certain industries which are beneficial to people.
- By opening public undertakings in fields where the private sector is shy of investing , it can promote public utility services.

29. Explain three sources of demand for foreign exchange and three sources of supply of foreign exchange.(6)

Ans. Sources of demand for foreign exchange

- (1) Imports
- (2) Interest payments on loans from abroad
- (3) Investment abroad
- (4) Any other **(Any three)**

Explanation: These are sources of demand because these lead to outflow of foreign exchange.

Sources of supply of foreign exchange

- (1) Exports

- (2) Interest received on loans to abroad
- (3) Investments from abroad
- (4) Any other **(Any three)**

Explanation: These are sources of supply because these lead to inflow of foreign exchange.

30. Calculate (a) Private Income and (b) National Income : (6)

Particulars	(Rs. Crore)
(i) Savings of non-departmental enterprises	30
(ii) Personal disposable income	900
(iii) Miscellaneous receipts of Government Administrative Departments	20
(iv) Corporate profit tax	100
(v) Personal tax	150
(vi) Property and entrepreneurial income accruing to the Government Administrative Departments.	50
(vii) Current transfers from Government	50
(viii) Net current transfers to abroad	(-)10
(ix) Undistributed profits of private corporate sector	10
(x) National debt interest	40

Ans. a) Private income = ii + v + iii + iv + ix

$$= 900 + 150 + 20 + 100 + 10$$

= Rs 1180 crore

b) National income = Private income – vii + viii – x + i + vi

$$= 1180 - 50 + (-10) - 40 + 30 + 50$$

= Rs 1160 crore