

# SAMPLE PAPER [SOLVED] 4

Time Allowed: 3 Hours

Max. Marks: 80

General Instructions: Same as CBSE Sample Question Paper-2020 (Solved).

## SECTION-A (Macroeconomics)

Cheques are \_\_\_\_\_ (fiduciary/credit) money because these are accepted as a means of payment on the basis of trust. 1

*(Fill up the blank with correct alternative)*

When aggregate demand is greater than aggregate supply, inventories \_\_\_\_\_ 1

*(Choose the correct alternative)*

- (a) fall (b) rise
- (c) do not change (d) first fall, then rise

What is credit creation? 1

Or

Define barter system of exchange. 1

If saving increases from 100 to 220 and income increases from 800 to 2,000, the value of MPS will be \_\_\_\_\_. 1

*(Choose the correct alternative)*

- (a) 0.1 (b) 0.2
- (c) 0.3 (d) 0.4

Break-even point, ex-ante savings are \_\_\_\_\_. 1

*(Fill up the blank with correct answer)*

State whether the given statement is true or false: 1

Export and import of services is called invisible trade. 1

The formula to calculate Surplus budget is \_\_\_\_\_. 1

*(Fill up the blank with correct answer)*

9. From the set of statements given in Column I and Column II, choose the correct pair of statements: 1

Column I

Column II

- |                                     |   |
|-------------------------------------|---|
| (a) Payments of international loans | (i) A source of supply of foreign exchange              |
| (b) Par exchange rate               | (ii) Demand for foreign currency is equal to its supply |
| (c) Degree of speculation           | (iii) Very high in the fixed exchange rate system       |
| (d) Import of goods and services    | (iv) Inflow of foreign exchange to India                |
10. Budget shows \_\_\_\_\_ policy of the government for the year to come. 1

*(Fill up the blank with correct answer)*

11. During a given year nominal national income increased by 14 per cent while the real national income increased by only 6 per cent. Population increased by 2 per cent. What has caused the difference between nominal income and real income? What is real per capita income? 3

12. In an economy the autonomous investment is 100 and the consumption is  $C = 80 + 0.4Y$ . Is the economy in equilibrium at an income level 400? Justify your answer. 3

Or

In an economy the autonomous investment is 60 and the marginal propensity to consume is 0.8. If the equilibrium level of income is 400, then the autonomous consumption is 30. True or False? Justify your answer. 3

13. Explain how 'bank rate' is helpful in controlling credit creation. 4

14. Indian investors lend abroad. Answer the following questions: 4

- (a) In which sub-account and on which side of the balance of payments account such lending is recorded? Give reasons.
- (b) Explain the impact of this lending on market exchange rate. 4

Or

Indian investors borrow from abroad. Answer the following: 4

- (a) In which sub-account and on which side of the Balance of Payments Account will this borrowing be recorded? Give reason.
  - (b) Explain what is the impact of this borrowing on exchange rate. 4
15. Explain the role of government budget in fighting inflationary and deflationary tendencies. 4

16. (a) Social welfare may not increase even when real GDP increases. Explain. **4+2**  
 (b) Calculate 'Depreciation on Capital Asset' from the following data:

Items	
(i) Estimated life of the asset	5 years
(ii) Capital value of the asset	₹ 1,000 crore
(iii) Scrap value	0

Or

- (a) Define 'value of output'. How is it different from 'value addition'?  
 (b) Calculate value of 'Interest' from the following data: **3+3**

Items	(₹ in crore)
(i) Indirect tax	1,500
(ii) Subsidies	700
(iii) Profits	1,100
(iv) Consumption of fixed capital	700
(v) Gross domestic product at market price	17,500
(vi) Compensation of employees	9,300
(vii) Rent	800
(viii) Mixed income of self-employed	3,500

17. 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**

### SECTION-B (Indian Economic Development)

18. Name the industry of India which suffered the most under the colonial rule. **1**  
 19. State whether the following statement is true or false:  
 Growth and Development are identical concepts. **1**  
 20. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: **1**

Column I	Column II
(a) Zamindari system	(i) The entire village served as the single unit of revenue collection
(b) Ryotwari system	(ii) System of revenue collection through a chain of middlemen
(c) Mahalwari system	(iii) Collection of revenue directly from the cultivators
(d) System of cooperative farming	(iv) Farmers voluntarily pool their resources for cultivating the soil

21. International specialisation is largely based on the principle of \_\_\_\_\_.  
 (Choose the correct alternative) **1**

- (a) factor specialisation  
 (b) absolute cost advantage  
 (c) comparative cost advantage  
 (d) input-ratio specialisation
22. Under Mahatma Gandhi National Rural Employment Guarantee Act, work is offered for a minimum period of \_\_\_\_\_ days. **1**  
 (Fill up the blank with correct answer)

Or

- India is a country sustaining \_\_\_\_\_ unemployment. **1**  
 (Fill up the blank with correct answer)
23. \_\_\_\_\_ is the principle government agency storing foodgrains. **1**  
 (Fill up the blank with correct answer)
24. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: **1**

Column I	Column II
(a) NCERT	(i) Enforces rules & regulations pertaining to medical education in the country
(b) UGC	(ii) Develops content and textbooks up to the level of senior secondary
(c) ICMR	(iii) Formulates and enforces rules & regulations pertaining to technical (engineering) education in the country
(d) AICTE	(iv) Apex body for controlling the working of various universities

25. There is a complete eradication of \_\_\_\_\_ from India. **1**  
 (Smallpox/TB)  
 (Fill up the blank with correct alternative)
26. Name the geographical region which has its economic laws which are different from country's typical economic laws. **1**  
 (Choose the correct alternative)
- (a) NEP  
 (b) GLF  
 (c) SEZ  
 (d) EEZ
27. Human Development Index (HDI) measures the \_\_\_\_\_ in an economy. **1**  
 (Choose the correct alternative)
- (a) birth rate  
 (b) quality of life  
 (c) standard of living  
 (d) life expectancy

28. Does population growth always compound the problem of poverty?  
Or

Discuss the concept of jobless growth with reference to the Indian economy. Do you agree? Explain.

29. Migration leads to human capital formation. Do you agree? Explain.

30. MNCs (Multinational Corporations) are dominating the Indian industrial sector and are offering stiff competition to the small scale industry. How do you compare this situation with the one under the British rule when the Indian handicrafts were exposed to stiff competition from the machine-made products of Britain?

31. Define the following terms:  
(a) Import Substitution  
Or  
(b) Export Promotion

Define the following terms:  
(a) Tariff  
(b) Quota

32. How do you view the opposition to FDI in retail in India? Compare it with the situation of smooth operation of FDI in retail in China.

33. What is MGNREGA? Do you think it will finally address the problem of poverty in India?

34. Do you agree with a view that tourism in India is less developed owing to the lack of essential infrastructure?  
Or

Do you think that rising energy demand in the country can be overcome with the use of renewable sources of energy. Comment.

# Answers

## SECTION-A (Macroeconomics)

- fiduciary
- Final goods are those goods which are out of the boundary line of production and are ready for use by their final users.
- (a) fall
- Credit creation refers to creation of demand deposits of the commercial banks on the basis of their cash reserves.

Or

- Barter system of exchange is the system in which goods are exchanged for goods.
- (a) 0.1
  - zero
  - True
  - Surplus Budget = Government receipts – Government expenditure (It is the excess of government receipts over government expenditure)
  - (b) Par exchange rate—(ii) Demand for foreign currency is equal to its supply

11. Real GDP can increase only when there is an increase in the production of goods and services while nominal GDP can increase even when there is no increase in the production of goods and services but only prices happen to increase. Here, 14% increase in nominal national income is due to the 6% increase in the production of goods and services and the remaining, i.e., 8% (= 14% – 6%) must be due to increase in price level.

Real Per Capita Income = Rise in real national income – Rise in population  
= 6% – 2%  
= 4%

12. Given,  $C = 80 + 0.4Y$   
Autonomous investment ( $\bar{I}$ ) = 100  
At the equilibrium level,

$$Y = C + \bar{I}$$

$$Y = 80 + 0.4Y + 100$$

$$Y = 180 + 0.4Y$$

$$Y - 0.4Y = 180$$

$$0.6Y = 180$$

$$Y = \frac{180}{0.6} = 300$$

Thus, the economy is not in equilibrium. Because, here the equilibrium level of income is 300 which is less than the given income level 400.

Or

No, it is not true.

Given, Autonomous investment ( $\bar{I}$ ) = 60

Marginal propensity to consume (MPC) = 0.8

Equilibrium level of income (Y) = 400

At the equilibrium level,

$$Y = C + I$$

$$Y = \bar{C} + MPC(Y) + \bar{I}$$

$$400 = \bar{C} + 0.8(400) + 60$$

$$400 = \bar{C} + 320 + 60$$

$$400 = \bar{C} + 380$$

$$\bar{C} = 400 - 380$$

$$\bar{C} = 20$$

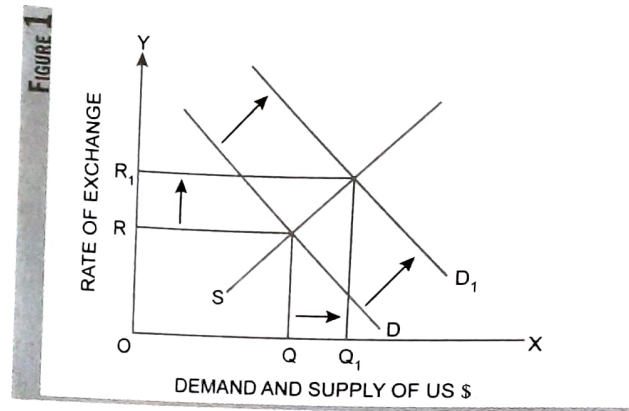
Thus, it is proved that the given statement is false. Because the correct value of autonomous consumption is 20.

Bank rate is the rate at which the central bank offers loans to the commercial banks. To control credit creation (or money supply) in the economy, central bank increases bank rate.

Increase in bank rate makes borrowings by commercial banks from the central bank costlier than before. Accordingly, their liquidity reduces. This reduces credit creation capacity of the commercial banks. Also, increase in bank rate causes increase in market interest rate (rate of interest charged by the commercial banks from the general public). Owing to increase in market rate of interest, borrowings from commercial banks tend to shrink. This further restricts credit creation capacity of the commercial banks. Thus, the overall supply of credit/money is reduced in the economy.

(a) 'Indians lending to abroad' is recorded in the capital account of the balance of payments account. It is reflected in the capital account, as it impacts change in the ownership of assets. It does not involve movement of goods and services across the borders. Also, lending abroad is recorded with a -sign (debit side) in the BoP account. This is because it leads to the payment of foreign exchange to rest of the world.

(b) As a result of lending to abroad, demand for foreign currency increases. Accordingly, demand curve shifts to the right from D to  $D_1$ , as in **Fig. 1**. This causes a rise in equilibrium exchange rate from OR to  $OR_1$ . Now, more Indian rupees are to be paid for one US dollar.

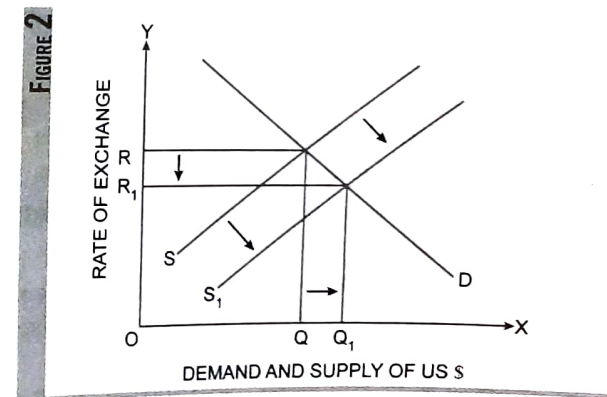


This is a situation of depreciation of the domestic currency.

Or

(a) 'Borrowing from abroad' will be recorded in the capital account of the balance of payments account. It is reflected in the capital account, as it impacts change in the ownership of assets. It does not involve movement of goods and services across the borders. Also, borrowing from abroad will be recorded with a + sign (credit side) in the BoP account. This is because it leads to the receipt of foreign exchange from rest of the world.

(b) As a result of borrowing from abroad, supply of foreign currency increases. Accordingly, supply curve shifts to the right from S to  $S_1$ , as in **Fig. 2**. This causes a fall in equilibrium exchange rate from OR to  $OR_1$ . Now one US dollar is available for less Indian rupees. This



is a situation of appreciation of domestic currency.

15. Government budget plays a significant role in fighting inflationary and deflationary tendencies in the country. To combat inflationary tendencies, fiscal deficit is reduced by lowering government expenditure and raising government receipts. Expenditure is lowered, particularly by cutting subsidies and receipts are raised particularly by increasing taxation. Likewise, deflationary tendencies are combated by increasing government expenditure (both investment expenditure as well as consumption expenditure) and by lowering receipts particularly by way of moderate tax structure.

Briefly, to combat inflation, AD is lowered by lowering government expenditure and raising government revenue. And, to combat deflation, AD is raised by increasing government expenditure and lowering government revenue.

16. (a) Increase in GDP may not cause increase in welfare in a situation when distribution of income becomes skewed (unequal). If, along with increase in GDP, the percentage of population below poverty line happens to increase, it implies a situation of deprivation on one hand, and concentration of economic power on the other. It is a situation when a rising percentage of GDP is pocketed by a smaller percentage of population. The bulk of population suffers poverty, while only a small segment of society enjoys prosperity owing to a rise in GDP. The rise in GDP is achieved at the cost of social justice.

$$\begin{aligned} \text{(b) Depreciation on Capital Asset} &= \frac{\text{Capital value of the asset} - \text{Scrap value}}{\text{Estimated life of the asset}} \\ &= \frac{\text{₹1,000 crore} - 0}{5 \text{ years}} \\ &= \frac{\text{₹1,000 crore}}{5 \text{ years}} = \text{₹ 200 crore} \end{aligned}$$

Depreciation on capital asset = ₹ 200 crore.

Or

(a) Value of output refers to market value of the goods (or services) produced by a firm during an accounting year.

$$\text{Value of Output} = \text{Sales} + \Delta \text{Stock}$$

While value added refers to the market value of the goods produced minus market value of the goods used as inputs/raw material in the process of production.

$$\text{Value Added} = \text{Value of output} - \text{Intermediate consumption}$$

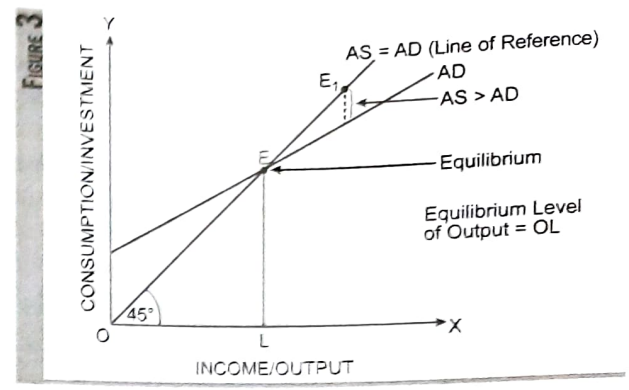
(b) Interest

$$\begin{aligned} &= \text{Gross domestic product at market price} - \text{Compensation of employees} \\ &\quad - \text{Rent} - \text{Profits} - \text{Mixed income of self-employed} - \text{Consumption of fixed capital} - \text{Indirect tax} + \text{Subsidies} \\ &= \text{₹ 17,500 crore} - \text{₹ 9,300 crore} - \text{₹ 800 crore} - \text{₹ 1,100 crore} - \text{₹ 3,500 crore} \\ &\quad - \text{₹ 700 crore} - \text{₹ 1,500 crore} + \text{₹ 700 crore} \\ &= \text{₹ 1,300 crore} \end{aligned}$$

Interest = ₹ 1,300 crore.

17. In an economy, equilibrium level of income and employment is determined when AD (aggregate demand) is equal to AS (aggregate supply). According to Keynes, AS may be assumed to be perfectly elastic in an economy where full employment (of resources) is yet to be achieved. Accordingly, AD becomes the principal determinant of equilibrium level of income.

In Fig. 3, AD represents aggregate demand curve and 45° line is the line of reference where AS = AD. Equilibrium level of income is determined at point E, where AD = AS.



The equality between AS and AD implies that the desired level of output in the economy (as indicated by AS) is exactly equal

to the desired level of expenditure (indicated by AD) in the economy. So that, the entire output as planned by the producers (during an accounting year) is purchased by the buyers. There are no undesired or unwanted inventories (stock of goods) with the producers.

In diagram, at point E<sub>1</sub>, aggregate supply exceeds aggregate demand. It will cause following changes in the economy:

- (a) Stocks of the producers would be in excess of the desired limit.
- (b) Profits will start shrinking.
- (c) Desired level of output for the subsequent year will face a cut.
- (d) Levels of income and employment will tend to shrink to the point where AS = AD, corresponding to point E in the diagram.

Thus, the economy will come back to the state of equilibrium.

**SECTION-B (Indian Economic Development)**

- 18. Handicraft industry
- 19. False
- 20. (a)-(ii), (b)-(iii), (c)-(i), (d)-(iv)
- 21. (c) comparative cost advantage
- 22. 100
- Or
- chronic
- 23. Food Corporation of India (FCI)
- 24. (a)-(ii), (b)-(iv), (c)-(i), (d)-(iii)
- 25. smallpox
- 26. (c) SEZ

27. (b) quality of life
28. It is true in case of overpopulated countries like India. In these countries, unbridled growth of population hinders the process of growth. Because of overpopulation, India is already burdened with massive unemployment. In such a situation, growth of population would only compound the problem of unemployment further. We all know that unemployment is just another name of poverty: higher level of unemployment implies higher level of poverty.

Or

Jobless growth is a situation where the level of output in the economy tends to rise owing to innovative technology, without any perceptible rise in the level of employment. In labour surplus countries like India where there is a problem of staggering unemployment, economic growth becomes meaningful only when it is associated with greater opportunities of employment. Unfortunately, Indian economy is experiencing GDP growth more through technology than through the employment of labour. It is a situation of jobless growth.

29. It is true that migration leads to human capital formation. Migration refers to movement of people across different areas (like from rural to urban) of the country in search of job opportunities. Unemployed and underemployed people often migrate from rural to urban areas. This is because:
- those who are unemployed get opportunities of actualising their skill, and
  - those who are underemployed get opportunities of fuller utilisation of their skills. In a market economy, migration offers the best opportunities of higher supplies of skill corresponding to higher wages.
30. Competition prompts the adoption of innovative technology and is therefore, expected to open new vistas of growth for the small scale enterprises. But the adoption of new technology needs a level playing field. Do the small enterprises in India have it? 'No' is the answer. Small enterprises in India do not get enough funds at a low rate of interest as the MNCs can manage. Accordingly, they often fail to upgrade their technology to make it competitive. Also, they fail to spend as much on advertisement and publicity as the MNCs can do to capture the market. Thus, survival of small enterprises in the face of stiff competition from the MNCs seems to be doubtful. This situation is definitely comparable with the one when the Indian handicrafts were exposed to the stiff competition from machine-made products of Britain during the British rule in India. However, the difference is that whereas during the British rule, destruction of small enterprises could be taken as a consequence of the colonial exploitation by the foreign government in India, no such situation exists in India now. It is all a matter of competition in the wake of NEP (new economic policy) promoting liberalisation, privatisation and globalisation of the industrial sector.

31. (a) **Import Substitution:** It is a strategy to save foreign exchange by encouraging domestic production of such goods which the country has been importing from rest of the world. Domestic industry is offered protection from foreign competition through import restrictions and import duties.

- (b) **Export Promotion:** It is a strategy to earn foreign exchange by promoting domestic exports and making domestic industry competitive in the international market.

Or

- (a) **Tariff:** A tariff is a duty on the imported commodity. It directly increases the price of imported commodities thereby offering protection to the domestic producers from foreign competition.

- (b) **Quota:** Under it, the government fixes the quota of import of different goods from different countries. Thus, the quota is fixed keeping in view the needs of the country.

32. It is an undisputed fact that FDI is growth-friendly. After all, it is an investment and increases production capacity of the nation. The opposition to FDI in retail in India is not because it may be a roadblock in the process of growth. It is because it may generate unwarranted competition for the retail traders in India who may be marginalised and finally driven out of the market. Such a situation may erode the opportunities of self-employment in the country, and may also lead to concentration of economic power with the foreign investors. On account of the above factors, FDI in retail has elicited wide protests from the public in India.

On the other hand, China was liberal in allowing FDI in retail. As a result, China allowed foreign investors 100 per cent equity investment in FDI in retail in the country.

33. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is the largest social security scheme in the world that guarantees 100 days of unskilled manual work to all rural households in India. MGNREGA actually gives rural households the right to work. It makes obligatory for the state to give them work on demand. The work is usually on projects to build durable assets like roads, canals, ponds, wells, etc.

In its original form, this programme was more like a financial aid to the poor. It was a programme which was more like 'dig the ditches and fill them up'. It had not been linked to 'asset creation'.

In the present form, the programme has been revamped to link it to asset creation in the country. The assets may include rural roads, canals, dams, etc. It is important that MGNREGA workers are engaged in productive activities like construction of roads, dams and bridges. This is called 'asset creation' (or creation of income-earning assets). This will add to national wealth. Therefore, the focus has to be such that national wealth is increased and MGNREGA workers are

converted from an unproductive labour force to a productive labour force. Only when this happens that MGNREGA can emerge as a significant policy programme to eradicate poverty in India.

34. Yes, tourism in India is less developed owing to the lack of essential infrastructure in the country.

Transport and communication are the two important elements of infrastructure related to tourism industry. While communication has shown a big breakthrough over the last two decades, transport facilities continue to be highly deficient across the country. Of course, the transport facilities have improved over time. But the supply-demand gap continues to be as alarming as ever in the past. Indian railways continue to grapple with deficiency as well as inefficiency. Airways are expanding but the expansion is slow, besides lacking in quality. Likewise, road transport is expanding but poor quality and lack of timely maintenance continues to be distinct characteristics. Domestic water transport is yet to emerge as of any notable significance.

India must improve its transport infrastructure to promote its tourism industry. Because the promotion of tourism industry in the country will depend upon how easy it is to access varied tourist sites across the country. Foreign tourism can be a rich source of foreign exchange, but only when we have developed the required infrastructure in place.

### Or

Rising energy demand in the country is the result of our excessive dependence on conventional sources of energy, which includes fossil fuel-based sources, including petroleum, coal. They are not only a drain on the foreign exchange reserves of the country, but has negative environmental consequences as well.

Renewable sources of energy are wind energy, solar energy, tidal energy, hydro power and geothermal energy. The country can resort to these alternatives in quest for meeting the growing energy demand. Special mention has to be made of the potential of solar power in meeting our energy requirement because India is a tropical country with about 300 clear sunny days. It is comparatively easy to harness solar power as compared to other renewable sources of energy. While energy requires huge initial investments, which might not be a very lucrative option in a capital-scarce country like ours.

The point to be considered is that renewable sources of energy hold a huge potential, which can be instrumental in meeting our energy requirements. This will also help in saving our precious foreign exchange, which has to be drained out by our crude petroleum imports.

This renewable sources of energy present a very bright prospect for meeting our energy needs in the future.