

PADASALAI'S CENTUM TEAM
11TH ECONOMICS PUBLIC EXAM – ANSWER KEY MAY - 2022



I. Choose the most appropriate answer

20 x 1 = 20

1	B	More	11	D	General Theory
2	D	National GDP / Real GDP x 100	12	B	C / Y
3	A	Mumbai	13	D	J.M. Keynes
4	D	Both (a) and (b)	14	A	Welfare State
5	C	Both (a) and (b)	15	B	Full Employment
6	C	Micro and Macro	16	C	RBI
7	D	Population of a country	17	B	BRICS
8	A	Creeping Inflation	18	B	Prime Minister
9	D	Classical Economist	19	D	Water Pollution
10	C	External Trade	20	B	1950



1	B	1950	11	C	Both (a) and (b)
2	B	More	12	D	National GDP / Real GDP x 100
3	A	Creeping Inflation	13	D	Population of a country
4	A	Mumbai	14	B	Full Employment
5	D	General Theory	15	C	External Trade
6	B	C / Y	16	B	BRICS
7	D	Both (a) and (b)	17	C	Micro and Macro
8	D	Classical Economist	18	C	RBI
9	D	Water Pollution	19	A	Welfare State
10	D	J.M. Keynes	20	B	Prime Minister

II. Answer any 7 questions. Question No. 30 is Compulsory

7 x 2 = 14

21) Macro Economics – Definition:

- ✘ The word 'Macro' is derived from the Greek word 'Makros' meaning 'large'.
- ✘ Hence, Macro Economics is the study of the economy as a whole.

22) Formula for calculating GNP

- ✘ GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.
- ✘ GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad.
- ✘ $GNP = (C+I+G + (X-M) + (R-P))$

23) The major feature of rural unemployment is the existence of unemployment in the form of -

- * Disguised unemployment
- * Seasonal unemployment.

24) Meaning of propensity to consume:

- ✎ It is the relationship between income and consumption.
- ✎ When income increases consumption also increases.

25) Commercial Banks – Definition:

- ✎ Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/ middle-sized business.

26) FOREX – Meaning:

- ✎ FOREX refers to foreign currencies.
- ✎ The mechanism through which payments are effected between two countries having different currency systems is called FOREX system .
- ✎ It covers methods of payment, rules and regulations of payment and the institutions facilitating such payments.

27) Public Revenue – Meaning:

- ✎ Public revenue deals with the methods of raising public revenue.
- ✎ For (e.g.) Tax and Non Tax principles and rate of taxation.

28) Global warming – Definition:

- ✎ Global warming is the current increase in temperature of the earth's surface (both land and water) as well as its atmosphere.

29) Statistics – Meaning:

- ✎ Statistics as a science of estimates and probabilities.
- ✎ Statistics may be defined as the collection, organizations, presentation, analysis and interpretation of numerical data

30) Types of Local Bodies :

1. Village Panchayats
2. District Boards or ZilaParishads
3. Municipalities
4. Municipal Corporations

III. Answer any 7 questions. Question No. 40 is Compulsory 7 x 3 = 21**31) The different types of economic systems are****A. Capitalistic Economy:**

- ♣ It is the system where the means of production are privately owned and market determines the economic activities
- ♣ Ex. USA, West Germany, Australia etc.

B. Socialistic Economy :

- ♣ It is the system where the major economic activities are owned and controlled by the government, Social welfare is a main motive of it.
- ♣ Ex. Russia, China, Poland etc.

C. Mixed Economy:

- ♣ In a mixed economic system, both private and public sectors coexist and work together towards economic development.
- ♣ **Ex.:** India, England, France, etc.

32) Per Capital Income

- ♣ The average income of a person of a country in a particular year is called per capita income.
- ♣ Per capita income is obtained by dividing national income by Population.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

33) A. Seasonal unemployment B. Frictional unemployment C. Educated Unemployment**A. Seasonal unemployment:**

- ♣ In agriculture and agro-based industries like sugar production activities are carried out only in some seasons.
- ♣ People may remain unemployed during off seasons.

B. Frictional unemployment:

- ♣ It arises due to imbalance between supply of labour and demand for labour.
- ♣ This is because of immobility of labour lack of necessary skills, breakdown of machinery, etc.

C. Educated unemployment:

- ♣ Educated people are unemployed or underemployed when qualifications do not match the job.

34) Functions of Statistics:

1. Presents facts in a definite form
2. Simplifies mass of figures
3. facilitates Comparison
4. helps in formulating and testing
5. helps in prediction
6. It helps in the formulation of suitable policies.

35) Determinants of Money Supply**1) Current Deposit Ratio (CDR) :**

- ♣ It is the ratio of money held by the public in currency to that they hold in bank deposits.

2) Reserve Deposit Ratio (RDR) :

- ♣ Reserve money consists of two things
(a) vault cash in banks and (b) Deposits of commercial banks with RBI.

3) Cash Reserve Ratio (CRR) :

- ♣ It is the fraction of the deposits the banks must keep with RBI.

4) Statutory Liquidity Ratio (SLR) :

- ♣ It is the fraction of the total demand and time deposits of the commercial banks in the form of specified liquid assets.

36) Functions of IFCI:

- ✘ Long term loans, both in rupees and foreign currencies.
- ✘ Underwriting of equity, preference and debenture issue
- ✘ Subscribing to equity, preference and debenture issues.
- ✘ Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India.
- ✘ Guaranteeing of loans raised in foreign currency from foreign financial institutions.

37) Function of Modern state:

- (1) Creating economic and social overhead.
- (2) Ensuring stability in both internal and external.
- (3) Conserving resources for sustainable development.
- (4) Defense.
- (5) Judiciary.
- (6) Enterprises.
- (7) Social welfare.
- (8) Infrastructure.
- (9) Macro - economic policy
- (10) Social justice.
- (11) Control monopoly

38) Short note on (a) Climate change, (b) Acid rain**a) Climate Change:**

- ✘ It refers to any significant change in temperature, precipitation, or wind pattern that occurs over long period.

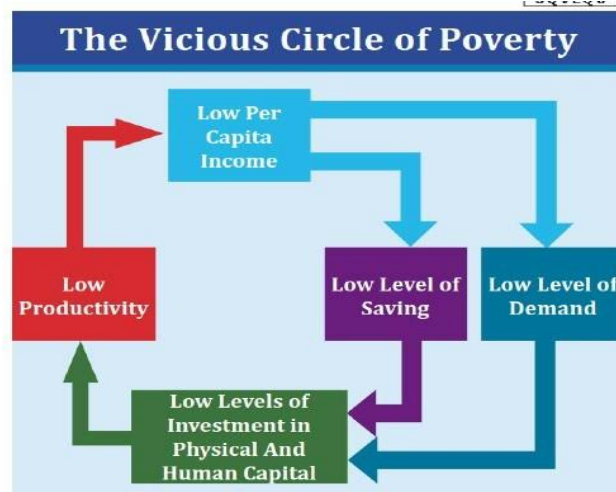
b) Acid rain:

- ✘ It is the resultant of sulphur di-oxide and nitrogen oxides reacting in the atmosphere with water and returning to earth as rain, or snow.

39) Major causes of vicious circle of poverty with diagram

1. There are circular relationships known as the '*Vicious Circles of Poverty*' that tend to perpetuate the low level of development in less developed countries (LDCs).
2. A country is poor because of low capital income.
3. The vicious circle of poverty operates both on the demand side and the supply side.
4. It is associated with low rate of saving and investment on the supply side and low level of income leads to low level of demand on the demand side.

5. For example A poor man may not have enough to eat, being underfed etc



40) Kinds of Multiplier:

1. Static Multiplier and
2. Dynamic Multiplier

Uses of Multiplier:

- a) The process throws light on the different stages of trade cycle.
- b) It helps in formulating Government policies.

IV. Answer all the questions

7 x 5 = 35

41) a). Circular Flow Model:

- There are only two sectors namely, **household sector** and **firm sector**.
- In a two-sector economy; production and sales are equal and there will be a circular flow of income and good.
- The **outer circle** represents real flow (factors and goods) and
- The **inner circle** represents the monetary flow (factor prices and commodity prices).
- **Real flow** indicates the factor services flow from household sector to the business sector, and goods and services flow from business sector to the household.



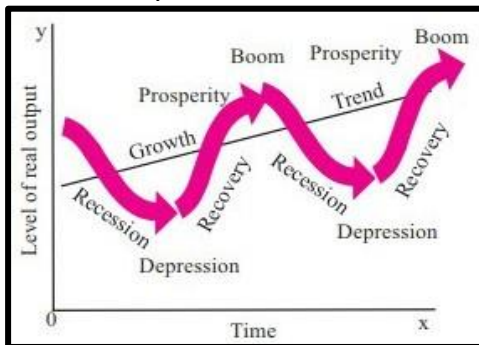
b) Phases of Trade cycle

- ✓ A Trade cycle refers to oscillations in aggregate economic activity particularly in employment, output, income, etc.

Phases of Trade Cycle:

The four different phases of trade cycle is referred to as

1. Boom
2. Recession
3. Depression
4. Recovery



(1) Boom (or) Prosperity Phase:

1. The full employment and the movement of the economy beyond full employment.
2. Money wages rise, profits increase and interest rates go up.
3. It is characterized as boom period.

(2) Recession:

1. The turning point from boom condition is called recession.
2. This happens at higher rate, than what was earlier.
3. Liquidity preference of the people rises and money market becomes tight.

(3) Depression:

1. During depression the level of economic activities becomes extremely low.
2. Firms incur losses and closure of business becomes a common feature and the ultimate result is unemployment.
3. Interest prices, profits and wages are low.
4. Depression is the worst phase of the business cycle.
5. Extreme point of depression is called as 'trough'

(4) Recovery:

1. After a period of depression, recovery sets in.
2. It begins with the revival of demand for capital goods.
3. Recovery may be initiated by innovation (or) investment (or) by government expenditure.

42) a). Operation of the Acceleration Principle

- Let us consider a simple example.
- Let us suppose that in order to produce 1000 consumer goods, 100 machines are required. Also suppose that working life of a machine is 10 years.
- This means that every year 10 machines have to be replaced in order to maintain the constant flow of 1000 consumer goods. This might be called replacement demand.
- Suppose that demand for consumer goods rises by 10 percent (ie from 1000 to 1100). This results in increase in demand for 10 more machines.
- So that total demand for machines is 20. (10 for replacement and 10 for meeting increased demand). It may be noted here a 10 percent increase in demand for consumer goods causes a 100 percent increase in demand for machines (from 10 to 20).
- So we can conclude even a mild change in demand for consumer goods will lead to wide change in investment.

b) Types of Planning**Totalitarian Planning:**

- Under totalitarian planning, there is central control and direction of all economic activities in accordance with a single plan.

Centralized Planning:

- Under centralized planning, the entire planning process in a country is under a central planning authority.

Decentralized Planning:

- Under decentralized planning local organizations and institutions formulate, adopt, execute and supervise the plan without interference by the central authorities.

Planning by Direction:

- Under planning by direction, there is a central authority which plans, directs and orders the execution of the plan in accordance with predetermined targets and priorities.

Planning by Inducement:

- Under planning by inducement, the people are induced to act in a certain way through various monetary and fiscal measures.

43) a) Role of Commercial Banks in economic development**(1) Capital Formation:**

- Banks play an important role in capital formation which is essential for the economic development of a country.
- It is utilized for productive purpose.

(2) Creation of Credit:

- Banks create credit for the purpose of providing more funds for development project.
- Credit Creation leads to increased production, employment, sales and prices.

(3) Channelizing the Funds towards Productive Investment:

- Pooled savings should be allocated to various sector of the economy with a view to increase the productivity.

(4) Finance to Government

- Banks provide long-term credit to Government by investing their funds in Government securities and short term finance by purchasing Treasury Bills.

(5) Employment Generation

- After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.

b) Standard Deviation of the following data: 14, 22, 9, 15, 20, 17, 12, 11

No	Values (X)	$X - \bar{X}$	$(X - \bar{X})^2$
1	14	14 - 15 = -1	1
2	22	22 - 15 = 7	49
3	9	9 - 15 = -6	36
4	15	15 - 15 = 0	0
5	20	20 - 15 = 5	25
6	17	17 - 15 = 2	4
7	12	12 - 15 = -3	9
8	11	11 - 15 = -4	16
N=8	$\Sigma X = 120$		$\Sigma (X - \bar{X})^2 = 140$

$$N = 8$$

$$\bar{x} = \frac{120}{8} = 15$$

$$\sigma = \sqrt{\frac{\Sigma(x - \bar{X})^2}{N}}$$

$$= \sqrt{\frac{140}{8}}$$

$$= \sqrt{17.5}$$

$$\sigma = 4.18$$

44) a). Relationship between Foreign Direct Investment and Economic development

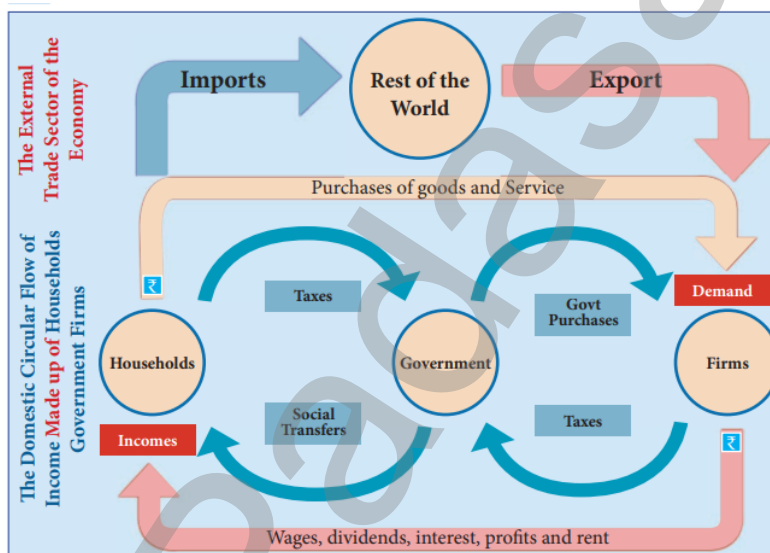
1. FDI is an important factor in the global economy.
2. Foreign trade and FDI are closely related.
3. In developing countries like India FDI in the natural resource sector, including plantation increases trade volumes.
4. FDI is also influenced by the income generated from the trade and regional integration schemes.
5. Many developing countries, strongly prefer foreign investment to imports.

b). (i) SAARC

- The South Asian Association for Regional Co-operation (SAARC) is an organisation of South Asian nations, which was established on 8 December 1985 for the promotion of economic and social progress, cultural development within the South Asia region and also for friendship and co-operation with other developing countries.
- The SAARC Group (SAARC) comprises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka.
- In April 2007, Afghanistan became its eighth member.
- The basic aim of the organisation is to accelerate the process of economic and social development of member states through joint action in the agreed areas of cooperation.
- The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.

BRICS

- BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.
- Originally the first four were grouped as "BRIC" before the induction of South Africa in 2010.
- The term 'BRIC' was coined in 2001.
- The BRICS members are known for their significant influence on regional affairs.
- Since 2009, the BRICS nations have met annually at formal summits.
- India had an opportunity of hosting fourth and Eighth summits in 2012 and 2016 respectively.

45) .a) Three-Sector flow model:**Circular Flow of Income in a Three-Sector Economy:**

- ✗ In addition to household and firms, inclusion of the government sector makes this model a three-sector model.
- ✗ The government levies taxes on households and firms, purchases goods and services from firms, and receive factors of production from household sector.
- ✗ Similarly, Government pays the firms for the purchases of goods and services.

- ✘ The Flow Chart illustrates three sector economy model: Under three sector model, national income (Y) is obtained by adding Consumption expenditure (C), Investment expenditure (I) and Government expenditure (G). Therefore:

$$Y = C + I + G$$

b) Causes of Water Pollution

Water pollution is caused due to several reasons. Here are the few major causes of water pollution:

1. Dumping of solid wastes:

- ✘ The dumping of solid wastes and litters in water bodies cause huge problems.

2. Discharge of industrial wastes:

- ✘ Industrial waste contains pollutants like asbestos, lead, mercury, grease oil and petrochemicals, which are extremely harmful to both people and environment.

3. Oil Spill:

- ✘ Sea water gets polluted due to oil spilled from ships and tankers while travelling.
- ✘ The spilled oil does not dissolve in water and forms a thick sludge polluting the water.

4. Acid rain:

- ✘ Acid rain is pollution of water caused by air pollution.
- ✘ When the acidic particles caused by air pollution in the atmosphere mix with water vapor, it results in acid rain.

5. Global warming:

- ✘ Due to global warming, there is an increase in water temperature as a result aquatic plants and animals are affected.

46) a) Canons of Taxation:

According to Adam Smith, there are four canons or maxims of taxation. They are as follows:

1. Canon of Ability
2. Canon of Certainty
3. Canon of Convenience
4. Canon of Economy

1. Canon of Ability

- ✘ The Govt. should impose tax in such a way that the people have to pay taxes according to their ability.
- ✘ In such case a rich person should pay more tax compared to a middle class person or a poor person.

2. Canon of Certainty

- ✘ The Govt. must ensure that there is no uncertainty regarding the rate of tax or the time of payment.
- ✘ If the Govt. collects taxes arbitrarily, then these will adversely affect the efficiency of the people and their working ability too.

3. Canon of Convenience

- ✘ The method of tax collection and the timing of the tax payment should suit the convenience of the people.
- ✘ The Government should make convenient arrangement for all the tax payers to pay the taxes without difficulty.

4. Canon of Economy

- ✎ The Government has to spend money for collecting taxes, for example, salaries are given to the persons who are responsible for collecting taxes.
- ✎ The taxes, where collection costs are more are considered as bad taxes. Hence, according to Smith, the Government should impose only those taxes whose collection costs are very less and cheap .

b)**Comparison of the feature among Capitalism, Secularism and Mixedism**

S. No.	Features	Capitalism	Socialism	Mixedism
1	Ownership of Means of Production	Private Ownership	Public Ownership	Private Ownership and Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare and Profit Motive
3	Government Role	Internal Regulation only	Complete Involvement	Limited Role
4	Income Distribution	Unequal	Equal	Less unequal
5	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises

47.a) Functions of RBI :**(1) Monetary Authority :**

- It controls the supply of money.
- To stabilize exchange rate, maintain healthy balance of payment;

(2) The issue of currency:

- (i) To maintain the currency and credit.
- (ii) It is the sole authority to issue currency.
- (iii) To control the circulation of fake currency.

(3) The issuer of banking licence:

- As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

(4) Bankers to the Government:

- It acts as banker both to the Central and the State Government.

(5) Banker's Bank: RBI is the bank of all banks in India.**(6) Lender of last resort: The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.****(7) Act as clearing house : RBI manages 314 clearing houses.****(8) Custodian of foreign exchange reserves.****(9) Regulator of economy.****(10) Managing government securities.**

- (11) Regulator and supervisor of payment and settlement system.
- (12) Developmental Role.
- (13) Publisher of monetary data and other data.
- (14) Exchange manager and controller.
- (15) Banking Ombudsman Scheme.
- (16) Banking Codes and Standards Boards of India.

b) Functions of money :

- 1) Primary functions
- 2) Secondary functions

1. Primary functions

1. Medium of Exchange
2. Measure of Value

- **Money as a Medium of Exchange:** Money acts as the medium of Exchange (intermediary) in Sales and purchases.
- **Money as a measure of Value:** The value (price) of goods and services are in terms of money.

2. Secondary functions

1. Money as store of value
2. Standard of deferred payments.

- **Money as a Store of Value** - Value (or savings) can be stored in the form of money. The value of money is more or less stable.
- **Money acts as a standard of deferred payment** Future transaction can be carried on in terms of money. The loans which are taken at present can be repaid in money in future.

***** All the Best *****