# MARCH -2023 – ANSWER KEY

## XII STANDARD – ECONOMICS – ENGLISH MEDIUM

Dr.A.VENNILA

PRINCIPAL

MYDEEN MATRIC. HR.SEC. SCHOOL

MELACAUVERY – KUMBAKONAM.

CELL NO.: 8220179521

8608481579

Time Allowed : 3 Hours

Maximum Marks : 90

**I. Choose the most suitable from the given four alternatives and write the option code and the corresponding answer**                                           20 x 1 = 20

| | A | | | B | |
|---|---|---|---|---|---|
| 1 | A | The resources transfer to the States | 1 | D | (a) and (b) |
| 2 | C | National Institution for Transforming India | 2 | B | Singular and Plural |
| 3 | C | Saving | 3 | D | All of the Above |
| 4 | A | The purchase of bonds or stock issued by a textile company overseas | 4 | A | 2030 |
| 5 | D | Economic Welfare | 5 | D | Income Theory |
| 6 | D | Income Theory | 6 | A | The resources transfer to the States |
| 7 | D | All of the Above | 7 | A | The purchase of bonds or stock issued by a textile company overseas |
| 8 | A | Law of Markets | 8 | B | Non-Market Goods |
| 9 | D | America | 9 | A | Law of Markets |
| 10 | C | Trade Cycle | 10 | C | Rs.500 and Rs.1000 |
| 11 | B | Singular and Plural | 11 | D | America |
| 12 | C | Rs.500 and Rs.1000 | 12 | C | National Institution for Transforming India |
| 13 | D | (b) and (b) | 13 | C | Customs Union |
| 14 | B | Non-Market Goods | 14 | D | Supply of Legal Tender Money |
| 15 | D | Supply of Legal Tender Money | 15 | C | Saving |
| 16 | C | Customs Union | 16 | C / A | Structural  (or) Industrial (Attempt Mark) |
| 17 | D | World Bank | 17 | D | Economic Welfare |
| 18 | C / A | Structural  (or) Industrial (Attempt Mark) | 18 | C | July1, 1963 |
| 19 | A | 2030 | 19 | D | World Bank |
| 20 | C | July1, 1963 | 20 | C | Trade Cycle |

**II. Answer any seven questions. Question No.30 is compulsory.**                    **7 x 2 = 14**

**21.  'Economic Model':**

  ❧ **A model is a simplified representation of real situation.**
  ❧ **Economists use models to describe economic activities, their relationships and their behaviour.**
  ❧ **A model is an explanation of how the economy, or part of the economy, works.**
  ❧ **Most economic models are built with mathematics, graphs and equations, and attempt to explain relationships between economic variables.**

**22.  GDP deflator – Definition:**

  ❧ **GDP deflator is an index of price changes of goods and services.**
  ❧ **GDP deflator = Nominal GDP x 100**
  ❧ **Real GDP**

**23.  Assumptions of Say's law**
  1. **Full employment.**
  2. **There will be a perfect competition in labour and product market.**
  3. **There is wage-price flexibility.**
  4. **Money acts only as a medium of exchange.**

**24.  Multiplier - Definition :**
  ◆ **The muliplier is defined as the ratio of the change in national income to change in Investment.**
  ◆ **Multiplier(K) = ΔY / ΔI**
  ◆ **Multiplier is also called as investment multiplier.**

**25.  Money – Definition:**
  ✓  **"Money is, what money does " – Walker.**
  ✓ **"Money can be anything that is generally acceptable as a means of exchange and at the same time acts as a measure and a store of value". – Crowther**

**26.**                    **Distinguish between CRR and SLR**

| BASIS FOR COMPARISON | CRR | SLR |
|---|---|---|
| 1.  Meaning | 1.  CRR is the percentage of money which the bank has to keep with  the Central Bank of India in the form of cash. | 1.  The bank has to keep a certain percentage of their Net Time and Demand Liabilities in the form of liquid assets as specified by RBI. |
| 2.  Form | 2.  Cash. | 2.  Cash and other assets like gold and government securities viz. |

## 27. Balance of Payments - Meaning:

✎ Balance of Payment is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.

## 28. SAARC Secretariat Established:

➢ **The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.**

## 29. Social Indicators of development:

- **Health,**
- **Education,**
- **Food,**
- **Water,**
- **Sanitation and**
- **Housing facilities**

## 30. Major differences between Descriptive Statistics and Inferential Statistics

| S.No. | Descriptive statistics | Inferential statistics |
|-------|------------------------|------------------------|
| 1 | It describes the population under study. | It draws conclusion for the population based on the sample result. |
| 2 | It presents the data in a meaningful way through charts, diagrams, graphs, other than describing in words. | It uses hypotheses, testing and predicting on the basis of the outcome. |
| 3 | It gives the summary of data. | It tries to understand the population beyond the sample. |

## PART - III

**III. Answer any seven questions. Question No.40 is compulsory.**                    **7 x 3 = 21**

### 31. Demerits of Socialism

1. **Red-tapism and bureaucracy:**

   ♣ Work cannot be started easily for its lengthyprocess.

2. **Absence of Incentive:**

   ♣ This system does not provide any incentive for efficiency. So, productivity also suffers.

3. **Limited freedom of choice:**

   ♣ consumers do not enjoy freedom of choice overconsumption of goods and services

## 32. NNP at Factor Cost - Explanation

- ♣ NNP at factor cost is the total of income payment made to factors of production.
- ♣ Thus from the money value of NNP at market price, we **deduct** the amount of indirect taxes and **add** subsidies to arrive at the net national income at factor cost.
- ♣ *NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.*

## 33. Aggregate Demand – Meaning:

- • In the Keynesian model, output is determined mainly by **aggregate demand**.
- • The aggregate demand is *the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed*.

**Components of Aggregate Demand:**

- • Aggregate demand has the following *four components.*
  1. Consumption Demand
  2. Investment Demand
  3. Government Expenditure and
  4. Net Export (export - import)

$$AD = C + I + G + (X - M)$$
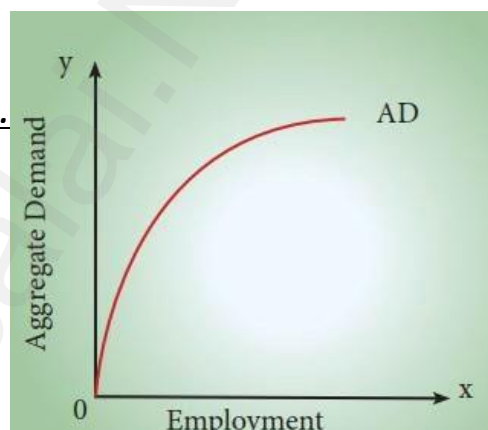
## 34.            Differences between autonomous and Induced Investment

| SI.No | Autonomous Investment | Induced investment |
|-------|----------------------|--------------------|
| 1 | Independent | Planned |
| 2 | Income inelastic | Income elastic |
| 3 | Welfare Motive | Profit motive |

## 35. (i) Demand-Pull Inflation

- ♣ Demand and supply a crucial role in deciding the inflation levels in the society at all the points of time.
- ♣ For instance, if the demand is high for a product and supply is low, the price of the products increases.

### (ii) Cost-Push Inflation

- ♣ When the cost of raw materials and other inputs rise inflation results.
- ♣ Increase in wages paid to labour also leads to inflation

### 36. Functions of NABARD:

- NABARD acts as a refinancing institution for all kinds of production and investment credit to *agriculture, small-scale industries, cottage and village industries, bhandicrafts and rural crafts*

- It provides short-term, medium term and long-term credit to *state cooperative Banks, RRB, LDBs and other financial institutions* approved by RBI.

- NABARD gives **long-term loans (upto 20 years)** to State government

- NABARD gives long-term loans to any institution approved by the CentralGovernment.

### 37. Subject matter of International Economics

## 1. Pure Theory of Trade

✎ This component explains the causes for foreign trade, composition, direction and volume of trade, determination of the terms of trade and exchange rate, issues related to balance of trade and balance of payments.

## 2. Policy Issues

✎ Policy issues such as free trade vs. protection, methods of regulating trade, capital and technology flows, use of taxation, subsidies and dumping, exchange control and convertibility, foreign aid, external borrowings and foreign direct investment.

## 3. International Financial and Trade Regulatory Institutions

✎ The financial institutions like International Monetary Fund IMF, IBRD, WTO etc., which influence international economic transactions and relations shall also be the part of international economics.

### 38. Agenda of BRICS Summit, 2018

(i) South Africa hosted the 10th BRICS summit in July 2018.

(ii) The agenda for BRICS summit 2018 includes Inclusive Growth, Trade issue Global Governance, Shared prosperity, International peace and security.

### 39. 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.

**40. Taxes that are levied and collected by the Union but assigned to the State, according to Article-269:**

**1. Duties in respect of succession to property other than agricultural land.**

**2. Estate duty in respect of property other than agricultural land.**

**3. Taxes on railway fares and freights.**

## ART - IV

**IV. Answer all the questions.**                                          **7 x 5 = 35**

41.a. **a)** Comparition of the feature among Capitalism, Secularism and Mixedism

| S.No. | Features | Capitalism | Socialism | Mixedism |
|---|---|---|---|---|
| 1 | Ownership of Meansof Production | Private Ownership | Public Ownership | Private Ownershipand 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 |

**[OR]**

**41.b) Various methods of estimating the national income of a country.**

There are three methods that are used to measure national income.

1. Production or value added method
2. Income method or factor earning method
3. Expenditure method.

**1.** Production or value added method:

- Product method measures the output of the country. The gross value of out-put from different sectors like agriculture, industry, trade and commerce etcis obtained from the entire economy during a year.

**2. Income Method (Factor Earning Method):**

- Income method approaches national income from the distribution side.

- Under this method, national income is calculated by **adding up all the in- comes** generated in the course of producing national product.

- Factors incomes are grouped under *labour income, capital income and mixed income*.

- National income is calculated as domestic factor income plus net factor in-comes from abroad.

- In short, **Y = w + r + i + π + (R-P)**

  **w** = wages, **r** = rent, **i** = interest, **π** = profits, **R** = Exports and **P** = Imports

**3. The Expenditure Method (Outlay method)**

- Under this method, the **total expenditure incurred by the society** in a par-ticular year is added together.

- To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on con- sumption as well as capital goods and net exports.

- Symbolically, **GNP = C + I + G + (X-M)**

  **C** - Private consumption expenditure, **I -** Private Investment Expenditure

  **G** - Government expenditure, **X-M** = Net exports

**42.a) Types of Unemployment:**

**Unemployment is problem faced when there are people, who are willing to work and able to work but cannot find suitable jobs.**

**1. Cyclical Unemployment**

- **Unemployment exists during the downturn phase of trade cycle in the economy.**
- **In a business cycle during the period of recession and depression, income and output fall.**

**2. Seasonal Unemployment**

- **unemployment occurs during certain seasons of the year.**
- **In agriculture and agro based industries like sugar, production activities are only in some season.**

*3.* **Frictional Unemployment (Temporary Unemployment)**

- **Frictional unemployment arises due to imbalance between supply of labour and demand for labour.**
- **This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.**

### 4. Educated Unemployment
◇ **Sometimes educated people are underemployed or unemployed when qualification does not match the job.**

### 5. Technical Unemployment
◇ **Modern technology being capital intensive requires less labourers and contributes to technological unemployment.**

**[OR]**

**42.b)**                                    Differences between MEC and MEI

| No | Marginal Efficiency of Capital (MEC) | Marginal efficiency of investment (MEI) |
|---|---|---|
| 1 | Based on a given supply price of Capital | Based on the induced change in the price due to changes in demand for Capital |
| 2 | It represents the rate of return on the successive units of Capital without regard to existing Capital | It shows the rate of return on just those units of Capital over and above the existing Capital stock. |
| 3 | It is a stock concept | It is flow concept |
| 4 | It determines the optimum capital stock in an Economy at each level ofinterest rate | It determines the net investment of the economy at each interest rategiven the Capital Stock. |

**43.a)  Keynes psychological law of consumption function with diagram:**

**Meaning of Psychological law of consumption**

The law implies that there is a tendency on the part of the people to spend on consumption less than the full increment of income.

**Assumptions:**
- **The other variables such as income distribution, tastes, habits, social customs, price movements, population growth, etc. do not.**
- **Existence of Normal Conditions: The law holds good under normal conditions. People may spend the whole of increased income on consumption.**
- **Existence of a Laissez-faire Capitalist Economy: The law operates in a rich capitalist economy where there is no government intervention.**

**The three propositions of the law    Diagrammatically, the three propositions**

| Income Y | Consump-tion C | Savings S = Y = C |
|----------|----------------|-------------------|
| 120 | 120 | 0 |
| 180 | 170 | 10 |
| 240 | 220 | 20 |
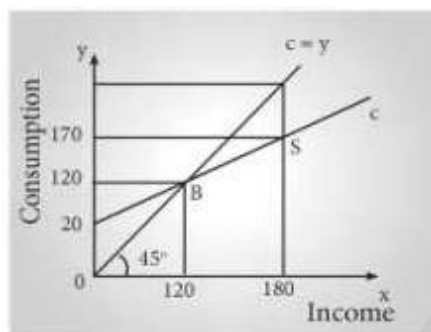


**Explanations**

**Proposition (1):** When income increases from 120 to 180 consumption also increases from 120 to 170 but the increase in consumption is less than the increase in income, 10 is saved.

**Proposition (2):** When income increases to 180 and 240, it is divided in some proportion between consumption by 170 and 220 and saving by 10 and 20 respectively.

**Proposition (3):** Increases in income to 180 and 240 lead to increased consumption 170 and 220 and increased saving 20 and 10 than before.

**[OR]**

**43.b)  Differences between Classical Theory and Keynes' Theory**

| Sl.No | Keynes' Theory | Classical Theory |
|-------|----------------|------------------|
| 1. | Short-run equilibrium | Long-run equilibrium |
| 2. | Saving is a vice | Saving is a social virtue. |
| 3. | Macro approach to national problems | Micro foundation to macro problems |
| 4. | State intervention is advocated. | Champions of Laissez-fair policy |
| 5. | Capitalism has inherent contradictions | Capitalism is well and good. |

**44.a) <u>Functions of money are in four forms</u>**

1) Primary functions

2) Secondary functions

3) Contingent functions

4) Other 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.

## *3. Contingent functions*

- Basis of the Credit system

- Money facilitates distribution of National income

- Money helps to equalize marginal utilities and marginal productivities

- Money increases productivity of Capital.

## *4. Other functions*

- Money helps to maintain repayment capacity

- Money represent General purchasing power money gives liquidity to Capital.

**[OR]**

**44.b)** **Differences between Internal Trade and International Trade.**

| S.No | Internal Trade | International Trade |
|------|----------------|---------------------|
| 1 | Trade takes place between different individuals and firm within the same | Trade takes place between different individuals and firms in different countries. |
| 2 | Labour and capital move freely from one region to another. | Labour and capital do no move easily from one nation to another. |
| 3 | There will be free flow of goods and services. | Goods and services do not easily move from one country to another. |
| 4 | There is only one common currency. | There are different currencies. |
| 5 | Trade and financial regulations are more or less the same | Trade and financial regulations such interest rate laws differ between countries. |

**45.a) Types of Planning:**

| 1. Democratic Vs Totalitarian: | |
|---|---|
| **Democratic Plan** | **Totalitarian Plan** |
| Democratic planning implies planning within democracy. | Under totalitarian planning, there is central control and direction of all economic activities in accordance with a single plan. |
| **2. Centralized Vs Decentralized** | |
| **Centralized Plan** | **Decentralized Plan** |
| Under centralized planning, the entire planning process in a country is under a central planning authority. | Under decentralized planning local organizations and institutions, execute and supervise the plan without interference by the central authorities. |
| **3. Planning by Direction Vs Inducement:** | |
| **Planning by Direction** | **Planning by Inducement** |
| There is a central authority which plans, directs and orders the execution of the plan in accordance with | The people are induced to act in a certain way through various monetary and fiscal measures. |

| pre-determined targets and priorities. | |
|---|---|

### 4. Indicative Vs Imperative Planning:

| Indicative Plan | Imperative Plan |
|---|---|
| Indicative planning is peculiar to the mixed economies. It has been in practice in France | The state is all powerful in preparation and implementation of the plan. |

### 5. Short, Medium and Long term Planning:

| Short Term Plan | Medium Term Plan | Long Term Plan |
|---|---|---|
| Short - term upto 1 year | Medium - term 3 - 7 years | Long - term over 10 year |

**[OR]**

**45.b)** *The objectives of monetary policy*

**1. Neutrality of Money**
* ✶ The monetary authority should aim at neutrality of money in the economy.
* ✶ Monetary changes could be the root cause of all economic fluctuations.

**2. Exchange Rate Stability**
* ✶ Exchange rate stability was the traditional objective of monetary authority.
* ✶ This was the main objective under Gold Standard among different countries.

**3. Price Stability**
* ✶ Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy.

**4. Full Employment**
* ✶ During world depression, the problem of unemployment had increased rapidly.
* ✶ It was regarded as socially dangerous, economically wasteful and morally deplorable.

**5. Economic Growth**
* ✶ Economic growth is the process whereby the real per capita income of a country increases over a long period of time.
* ✶ It implies an increase in the total physical or real output.

**46.a) GST Meaning:**

- GST is an Indirect Tax which has replaced many Indirect Taxes in India.
- The Goods and Service Tax Act was passed in the Parliament on 29th March 2017.
- The Act came into effect on 1st July 2017;
- Goods & Services Tax in India is a **comprehensive**, **multi-stage**, **destination-based tax** that is levied on every **value addition**.

## Advantages of GST

1. GST will mainly remove the cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. Since tax on tax is eliminated in this regime, the cost of goods decreases.

2. 2. GST is also mainly technologically driven. All activities like registration, return filing, application for refund and response to notice need to be done online on the GST Portal. This will speed up the processes.

**[OR]**

**46.b) Land Pollution:**

a. Unnecessary addition to the soil which threaten the public health and cause unpleasant conditions and nuisances.

### *Causes:*

a) **Deforestation and soil erosion**
b) **Agricultural activities**
c) **Mining**
d) **Landfills**
e) **Industrialization**
f) **Construction activities and**
g) **Nuclear Waste.**

## Remedial measures to control Land Pollution

1. Making people aware about the concept of a Reduce, Recycle and Reuse

2. Buying biodegradable products

3. Minimizing the usage of pesticides

4. Shifting cultivation

5. Disposing unwanted garbage properly either by burning or by burying under the soil.

6. Minimizing the usage of plastics.

**47.a)** Solution: Let A = 30 and B = 26 then dx = X- A dy= Y-B

| X | Y | $d_x$ | $d_y$ | $d^2_x$ | $d^2_y$ | $d_x d_y$ |
|---|---|---|---|---|---|---|
| 23 | 18 | -7 | -8 | 49 | 64 | 56 |
| 27 | 22 | -3 | -4 | 9 | 16 | 12 |
| 28 | 23 | -2 | -3 | 4 | 9 | 6 |
| 29 | 24 | -1 | -2 | 1 | 4 | 2 |
| 30 | 25 | 0 | -1 | 0 | 1 | 0 |
| 31 | 26 | 1 | 0 | 1 | 0 | 0 |
| 33 | 28 | 3 | 2 | 9 | 4 | 6 |
| 35 | 29 | 5 | 3 | 25 | 9 | 15 |
| 36 | 30 | 6 | 4 | 36 | 16 | 24 |
| 39 | 32 | 9 | 6 | 81 | 36 | 54 |
| | | 11 | -3 | 275 | 159 | 175 |

$$r(x,y) = \frac{N\Sigma dxdy - \Sigma dy}{\sqrt{N\Sigma d^2_x - (\Sigma dx)^2} \sqrt{n\Sigma d^2_y - (\Sigma dy)^2}}$$

$$= \frac{10(175) - (11)(-3)}{\sqrt{10(215) - (11)^2} \sqrt{10(159) - (-3)^2}}$$

$$= \frac{1750 + 33}{\sqrt{2150 - 121} \sqrt{1590 - 9}}$$

$$= \frac{1783}{\sqrt{(45.044)} \sqrt{(39.761)}}$$

$$= \frac{1783}{1790.94}$$

Ans: $r(x,y) = 0.9955$

**47.b) Scope of public finance:**

The subject 'Public Finance' includes five major sub-divisions, viz.,

1) Public Revenue,

2) Public Expenditure,

3) Public Debt,

4) Financial Administration and

5) Fiscal Policy.,

### 1. Public Revenue

- Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

### 2. Public Expenditure

- This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.

### 3. Public Debt

- Public debt deals with the methods of raising loans from internal and external sources.
- The burden, effects and redemption of public debt fall under this head.

### 4. Financial Administration

- This part deals with the study of the different aspects of public budget.
- The budget is the Annual master financial plan of the Government.

### 5. Fiscal Policy

- Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

*********** All The Best *************