

MARCH -2024 – ANSWER KEY
XII STANDARD – ECONOMICS – ENGLISH MEDIUM

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	B	1	1	C	Rate of Interest
2	B	Sales Tax	2	B	Noise
3	A	Dynamic Society	3	D	Atomic Energy
4	B	Capitalist Economy	4	D	Positive
5	D	Positive	5	D	J.M. Keynes
6	D	Atomic Energy	6	B	Prices are rising
7	B	Monetary	7	C	Income
8	B	Prices are rising	8	B	1950
9	B	C/Y	9	B	Monetary
10	C	North Korea	10	A	1911
11	B	1950	11	A	Dynamic Society
12	B	Noise	12	B	1
13	D	J.M. Keynes	13	B	Paper Gold
14	D	Foreign Exchange Market	14	B	C/Y
15	C	Income	15	D	Ragnar Frisch
16	D	Ragnar Frisch	16	C	North Korea
17	B	Paper Gold	17	B	Capitalist Economy
18	B	Controlling Plans	18	D	Foreign Exchange Market
19	C	Rate of Interest	19	B	Controlling Plans
20	A	1911	20	B	Sales Tax

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

21. Capitalism – Meaning:

- ✘ Adam Smith is the ‘Father of Capitalism.
- ✘ In capitalism, there is total freedom and private ownership of means of production.

33. Differences between direct tax and indirect tax

Basis For Comparison	Direct Tax	Indirect Tax
Meaning	Direct tax is referred to as the tax, levied on person's income and wealth.	Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services.
Nature	Progressive	Regressive
Impact	Falls on the same person.	Falls on different persons.

34. Objectives of Foreign Direct Investment

- * Sales Expansion
- * Diversification
- * Acquisition of resources
- * Minimization of competitive risk.

35. Meaning of E-waste:

- ✎ It can be defined as the result when consumer, business and household devices are disposed or re-cycled.
- ✎ Example : Television, Computers, Wireless devices, Xerox machines etc.

36. The main Functions of SAARC are as follows.

1. Maintenance of the cooperation in the region.
2. Prevention of common problems associated with the member nations.
3. Ensuring strong relationship among the member nations.
4. Removal of the poverty through various packages of programmes.
5. Prevention of terrorism in the region.

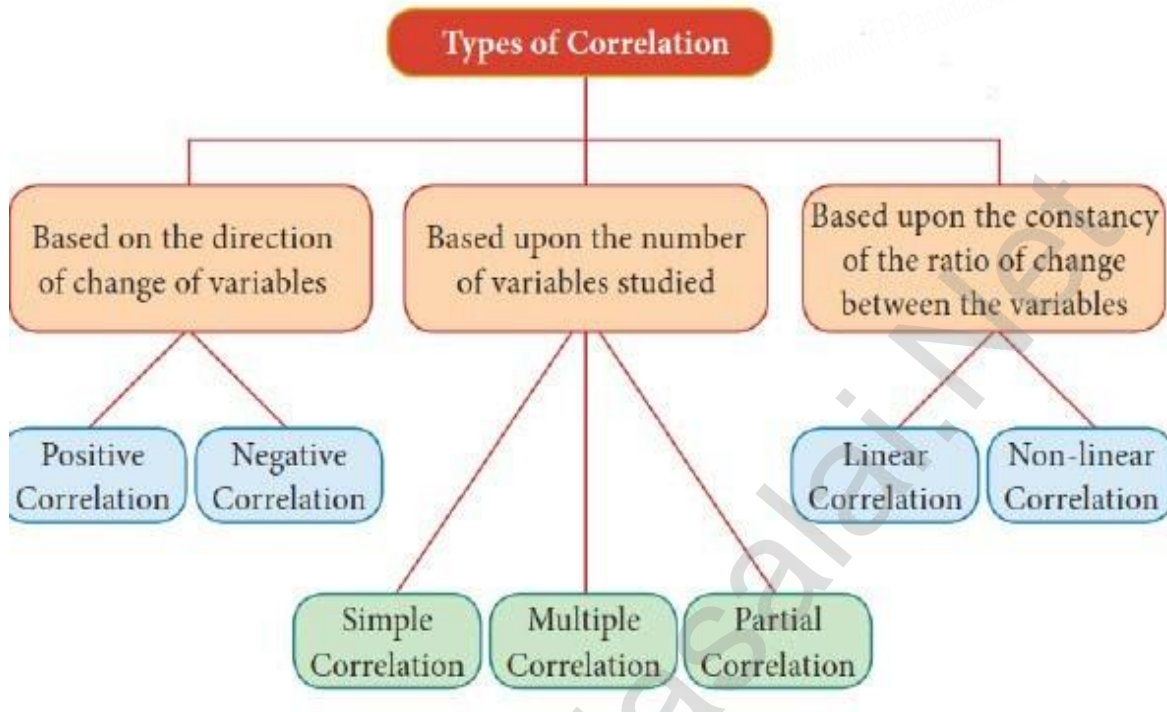
37. Functions of NITI Aayog:

1. **Co-operative and Competitive Federation:**
 - * Helps states to participate in the formulation of National policy.
2. **Shared National Agenda:**
 - * Welcomes states to share their vision for national development with priorities and strategies.
3. **Decentralised planning:**
 - * Bottom-up Planning process for easy and effective ad-ministration.
4. **Vision and Scenario planning:**
 - * To design medium and long term strategic plantowards India's future.
5. **Network of Expertise:**
 - * To implement External ideas and expertise into government policies and programmes.

38. Three characteristics of taxation:

- ✎ A tax is a compulsory payment made to the government.
- ✎ Every tax involves some sacrifice on part of the tax payer.
- ✎ A tax is not levied as a fine or penalty for breaking law.

39.



40. E-Bnking:

- ✎ Online banking, also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution’s website.
- ✎ The online banking system typically connects to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

PART - IV

IV. Answer all the questions.**7 x 5 = 35**41.a. **Solution:** Let us take Price as X and supply as Y

Computation of Pearson's Correlation Coefficient				
Price: X	Supply: Y	XY	X ²	Y ²
10	40	400	100	1600
12	41	492	144	1681
14	48	672	196	2304
15	60	900	225	3600
19	50	950	361	2500
$\Sigma x = 70$	$\Sigma y = 239$	$\Sigma xy = 3414$	$\Sigma x^2 = 1026$	$\Sigma y^2 = 11685$

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{N\Sigma X^2 - (\Sigma X)^2} \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}} \quad r = \frac{(5 \times 3414) - (70 \times 239)}{\sqrt{(5 \times 1026) - (70)^2} \sqrt{5 \times 11685 - (239)^2}}$$

$$r = \frac{17,070 - 16,730}{\sqrt{230 \times 1304}}$$

$$r = \frac{340}{547.65} = +0.621$$

Price of the product and supply for the product is positively correlated. When price of the product increases then the supply for the product also increases.

[OR]**41.b) Importance of national income:**

National income is of great importance for the economy of a country. Nowadays the national income is regarded as accounts of the economy, which are known as social accounts.

It enables us,

- ♣ To know the relative importance of the various sectors of the economy and their contribution towards national income; from the calculation of national income.
- ♣ To formulate the national policies such as monetary policy, fiscal policy and other policies; the proper measures can be adopted to bring the economy to the right path with the help of collecting national income data.
- ♣ To formulate planning and evaluate plan progress; it is essential that the data pertaining to a country's gross income, output, saving and consumption from different sources should be available for economic planning.
- ♣ To build economic models both in short - run and long - run.
- ♣ To know a country's per capita income which reflects the economic welfare of the country.
- ♣ To know the distribution of income for various factors of production in the country.

42.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.**

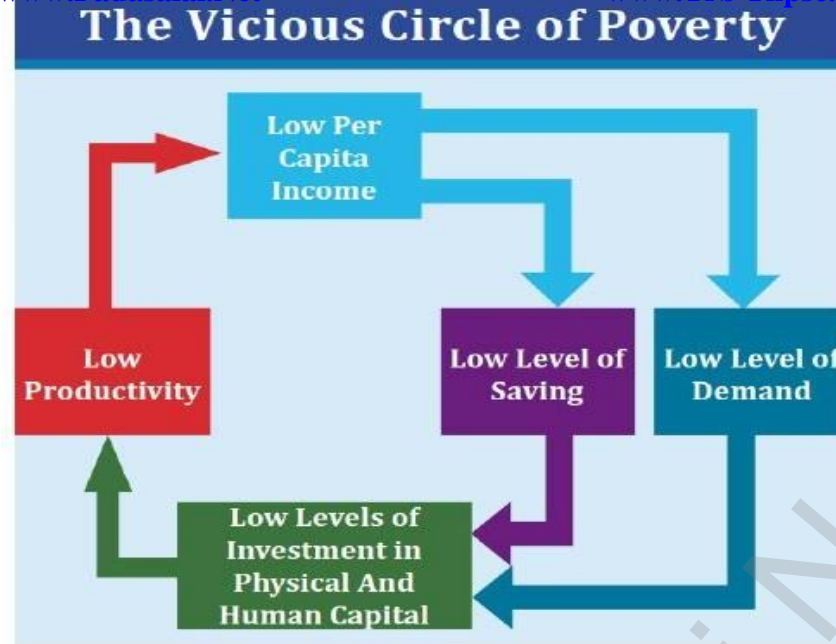
(15) **Banking Ombudsman Scheme.**

(16) **Banking Codes and Standards Boards of India.**

[OR]

42.b) 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.,



43.a) Equilibrium between ADF and ASF:

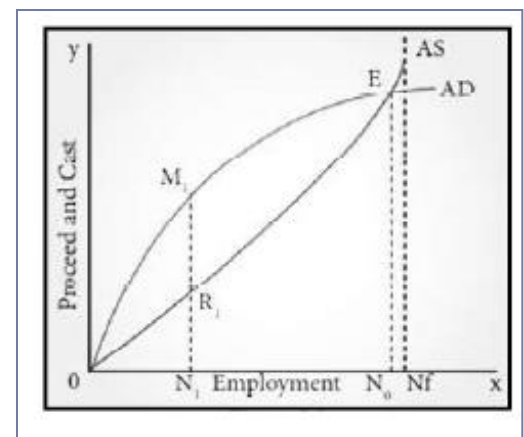
- i. Under the Keynes theory of employment, a simple two sector economy consisting of the households sector and the business sector is taken to understand the equilibrium between ADF and ASF.
- ii. All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment.
- iii. It is also assumed that consumption function is linear and planned investment is autonomous.

There are two approaches

1. Aggregate demand - Aggregate supply approach
2. Saving - Investment approach

Diagram explanation :

- i. In the figure, the aggregate demand and aggregate supply reach equilibrium at point - E.
- ii. The employment level is N_0 at that point.
- iii. At ON_1 employment, the aggregate supply is $N_1 R_1$
- iv. They are able to produce $M_1 N_1$
- v. The expected level of profit is $M_1 R_1$
- vi. To attain this level of profit, entrepreneurs will employ more labourers.



[OR]

43.b) Role of WTO in India's Socio Economic Development:

- ❖ India is the founding member of the WTO.
- ❖ India favours multilateral trade approach. India benefited from WTO on following grounds.
 - 1) By reducing tariff rates on raw materials, components and capital goods, it was able to import more for meeting her developmental requirements.
 - 2) India's imports go on increasing.
 - 3) India gets market access in several countries without any bilateral trade agreements.
 - 4) Advanced technology has been obtained at cheaper cost.
 - 5) India is in a better position to get quick redressal from the trade disputes.
 - 6) The Indian exporters benefited from wider market information.

44.a) The classical theory of employment is based on says law of market:

- He stated that supply creates its own demand
- It tells that supply is always equals to demand (S=D). A person receives his income from production which is spent in the purchase of goods and services produced by others for the economy as a whole total production equals total income.

Assumptions of the Say's law of market

The Say's Law of market is based on the following assumptions:

- 1) No single buyer or seller of commodity or an input can affect price.
- 2) Full employment.
- 3) People are motivated by self-interest and self-interest determines economic decisions.
- 4) The laissez faire policy
- 5) There will be a perfect competition in labour and product market.
- 6) There is wage-price flexibility.

Implications

There is no general over production or unemployment

- Automatic price mechanism
- Interest flexibility rate brings equality between savings and investment
- Money acts as only medium of exchange.

Criticisms

1. According to Keynes, supply does not create its demand.
2. Automatic adjustment process will not remove unemployment.
3. Money is not neutral.

Keynes said overproduction is possible the need for state intervention arises in case of general overproduction and Mass unemployment.

[OR]

44.b) Components of BOPs are divided into three categories. They are,

- (a) The Current Account
- (b) The Capital Account and
- (c) The Official Settlements Accounts or Official Reserve Assets Account.

(a) The Current Account:

- It includes all international trade transaction of goods and services.
- It is also includes international unilateral transfers.

(b) The Capital Account:

- Financial transactions consisting of direct investment and purchases of interest bearing financial instruments.
- They includes non interest bearing demand deposits and gold.

(c) The Official Reserve Assets Account:

- Official Reserve Transactions consist of movements of international re-serves by Government.
- Official agencies also accommodate in balance arising from the current and capital accounts.
- The official reserve assets of a country include its gold stock, SDRs & IMF etc.

45.a) Phases of Trade cycle:

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

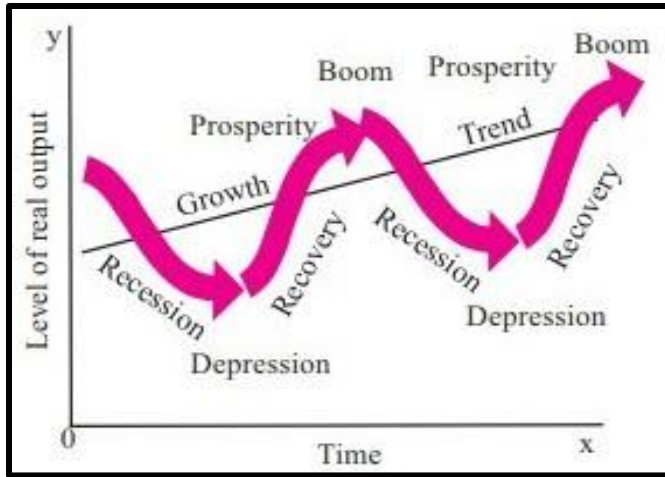
Definition:

- ✓ “A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentages altering with periods of bad trade characterised by falling prices and high unemployment percentages”:

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.

[OR]

45.b) (i) Public Debt:

- Large public debts are driving out foreign investors, because it leads to inflation.
- As a result, exchange rate will be lower.

(ii) Primary Deficit:

- Primary deficit is equal to fiscal deficit minus interest payments.
- It shows the real burden of the government and it does not include the interest burden on loans taken in the past.
- Thus, primary deficit reflects borrowing requirement of the government exclusive of interest payments.

46.a) Importance of sustainable development and its goals:

- (i) Sustainable development is concerned with the welfare of present and future generations.
- (ii) It aims at not only satisfying the luxury wants of rich but also basic necessities of the poor like food, sanitation, health care, education etc.

Important goals of sustainable development

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
3. Ensure healthy lives and promote well being for all at all ages.
4. Ensure inclusive and equality education for all and promote lifelong learning.
5. Achieve gender equality and empower women and girls.
6. Ensure access to water and sanitation for all.
7. Ensure access to affordable, reliable sustainable and modern energy for all.
8. Promote inclusive and sustainable, economic growth, employment and de-cent work for all.
9. Build resilient infrastructure, promote sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities inclusive, safe, resilient and sustainable.
12. Ensure sustainable consumption and production pattern.
13. Take urgent action to contact climate change and its impacts.
14. Conserve and sustainably use the Oceans, seas and marine resources.
15. Sustainably manage forests, compatible certification, halt and revers landdegradation, halt biodiversity loss.
16. Promote just, peaceful and inclusive societies.
17. Revitalize the global partnership for sustainable development.

[OR]

46.b) Objective factors of consumption function:

1) Income Distribution

- ✎ If there is large disparity between rich and poor, the consumption is low because the rich people have low propensity to consume and high propensity to save.

2) Price level

- ✎ Price level plays an important role in determining the consumption function.
- ✎ When the price falls, real income goes up.

3) Wage level

- Wage level plays an important role in determining the consumption function and there is positive relationship between wage and consumption.

4) Fiscal Policy

- When government reduces the tax the disposable income rises and the propensity to consume of community increases.

47.a) Scope of Macro Economics:

i. National Income:

- Measurement of national income and its composition by sectors are the basic aspects of macro-economic analysis.

ii. Inflation:

- Inflation refers to steady increase in general price level. Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc,

iii. Business Cycle:

- Almost all economies face the problem of business fluctuations and business cycle.
- The cyclical movements in the economy need to be carefully studied based on aggregate economic variables.

iv. Poverty and Unemployment:

- The major problems of most resource - rich nations are poverty and unemployment.
- This is one of the economic paradoxes.

v. Economic Growth:

- The growth and development of an economy and the factors determining them could be understood only through macro analysis.

vi. Economic Policies:

- Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

47.b) Arguments against planning:

- The failure of market mechanism invited state intervention in economic activities through planning. The arguments against planning are discussed below.

(I) Loss of Freedom:

1. The absence of freedom in decision making may act as an obstacle for economic growth.
2. Regulations and restrictions are the backbones of a planned economy.
3. The decision by the Government are not always rational.
4. Freedom to private producers will be misused.
5. Profit will be given top priority welfare will be relegated

(ii) Elimination of Initiative :

1. Under centralized planning, there will be no incentives and innovations.
2. The absence of private ownership and profit motive discourage entrepreneurs from taking bold decisions and risk taking.
3. As all enjoy equal reward under planned economy irrespective of their effort efficiency and productivity.
4. The bureaucracy and red-tapism which are the features of planned economy cripple the initiative as they cause procedural delay and time loss.

(iii) High cost of management:

1. No doubt the fruits of planning such as industrialization, social justice and regional balance are good.
2. The cost of management of the economic affairs outweighs the benefits of planning.
3. As Lewis remarks, “the better we try to plan, the more planners we need”:

(iv) Difficulty in advance calculations:

1. Price mechanism provides for the automatic adjustments among price demand and supply in Laissez Faire economy.
2. Excess supply and excess demand can also happen in the market oriented economy.
3. The arguments against planning are mostly concerned with centralized and totalitarian planning

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