## MARCH -2025 – 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 | 2 | 1 | D | All of the above |
| 2 | B | Primary Data | 2 | A | Gandhian Plan |
| 3 | A | Income Tax | 3 | B | Law of Market |
| 4 | C | Mild Inflation | 4 | C | Factor Endowment Theory |
| 5 | D | General Theory | 5 | D | Agriculture |
| 6 | B | 1997 | 6 | D | General Theory |
| 7 | C | National Institution for Transforming India | 7 | A | Income Tax |
| 8 | C | Factor Endowment Theory | 8 | D | Both (a) and (b) |
| 9 | D | Both (a) and (b) | 9 | B | Ragnar Frisch |
| 10 | D | All of the above | 10 | A | July 1982 |
| 11 | B | Ragnar Frisch | 11 | B | Primary Data |
| 12 | A | Gandhian Plan | 12 | D | All of the above |
| 13 | B | Fiscal Deficit – Interest Payment | 13 | B | 2 |
| 14 | A | Rs.500 and Rs.1,000 | 14 | C | National Institution for Transforming India |
| 15 | B | Law of Market | 15 | A | Rs.500 and Rs.1,000 |
| 16 | A | Bretton Woods Conference | 16 | B | Fiscal Deficit – Interest Payment |
| 17 | D | Agriculture | 17 | A | 2 |
| 18 | D | All of the above | 18 | A | Bretton Woods Conference |
| 19 | A | 2 | 19 | C | Mild Inflation |
| 20 | B | July 1982 | 20 | B | 1997 |

### 21.  Inflation - Definition:

➢ **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, are needed.**

### 22. National Income – Definition:

♣ **National Income means the total money value of all final goods and services produced in a country during a particular period of time (one year).**

### 23.  Reasons for labour retrenchment at present situation

✍ **Now a days, Invention and Innovations leads to the adoption of new techniques there by the existing workers are retrenched**
✍ **Labour saving devices are responsible for technological unemployment.**

### 24.  Meaning of propensity to consume:

✍ **It is the relationship between income and consumption.**
✍ **When income increases consumption also increases.**

### 25.  Marginal Propensity to Save (MPS) – Definition:

✍ **Marginal Propensity to Save is the ratio of change in saving to a change in income.**
✍ **MPS is obtained by dividing change in savings by change in income.**

### 26.   Deflation – Meaning:

✍ **The essential feature of deflation is falling prices, reduced money supply and unemployment.**
✍ **Though falling prices are desirable at the time of inflation, such a fall should not lead to the fall in the level of production and employment.**

### 27. Credit Creation – Meaning:

✳ **Credit Creation means the multiplication of loans and advances.**
✳ **Commercial banks receive deposits from the public and use these deposits to give loans.**

### 28.  Trade – Definition:

✍ **It is the rate at which the goods of one country are exchanged for goods of another country.**
✍ **It is expressed as the relation between export prices and import prices.**

### 29.  SAARC Secretariat Established:

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

### 30.  National Sample Survey Organisation (NSSO)

✍ **The National Sample Survey Organisation, now known as National Sample Survey Office, is an organization under the Ministry of Statistics of the Government of India.**
✍ **It is the largest organisation in India, conducting regular socio-economic surveys.**

**31. The different types of economic systems are**

    A. **Capitalstic 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 percapita income.**
- ♣ **Per capita income is obtained by diving 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) Differences between Accelerator and Multiplier Effect

| Sl.No. | Accelerator | Multiplier |
|--------|-------------|------------|
| 1 | It is the ratio of change in induced investment to change in consumption | It is the ratio of change in income to change in investment |
| 2 | Induced investment plays vital role in it | Autonomous investment plays vital role in it |

## 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) Non-Performing Asset (NPA):

✎ Once the borrower fails to make interest or principal payments for 90 days the loan is considered to be a nonperforming asset (NPA).

✎ NPAs are problematic for financial institutions since they depend on interest payments for income.

✎ As on now the size of NPAs is estimated to be around 10 lakh crores.

## 37) Function of Modern state: (Any 3)

(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) Solution:**

| 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 = 12 | 4 |
| 7 | 12 | 12 - 15 = -3 | 9 |
| 8 | 11 | 11 - 15 = -4 | 16 |
| N=8 | Ex= 120 | | $E(X-\bar{X})^2 = 140$ |

$$N = 8$$

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

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

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

$$= \sqrt{17.5}$$

$$\sigma = 4.18$$

## 39. Types of air pollution

- **Indoor Air pollution:**
  **It refer to the toxic contaminates we face in ourdaily lives at our homes, schools and work places.**

  **e.g. Cooking and heating with solid fuels on open fires, etc.**

- **Outdoor Air pollution:**
  **It refers to ambient air caused by combustion processes from motor vehicles, solid fuel burning and industry.**

## 40. Limitations of Statistics: (Any 3)

**1. Statistics is not suitable to the study of qualitative phenomenon:**

- ♣ **Since statistics is basically a science and deals with a set of numerical data.**
- ♣ **It is applicable to the study of quantitative measurements.**

## 2. Statistical laws are not exact:

♣ It is well known that mathematical and physical sciences are exact.

♣ But statistical laws are not exact and statistical laws are only approximations.

## 3. Statistics table may be misused:

♣ Statistics must be used only by experts; otherwise, statistical methods are the most dangerous tools in the hands of the inexpert persons.

♣ The use of statistical tools by the inexperienced and untrained persons might lead to wrong conclusions.

## 4. Statistics is only one of the methods of studying a problem:

♣ Statistical method does not provide complete solution of the problems because problems are to be studied taking the background of the countries' culture, philosophy, religion etc., into consideration.

♣ Thus the statistical study should be supplemented by other evidences.

## PART - IV

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

**41.a.   Functioning of an economy based on its activities.**

Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area.

- In an economy, the fundamental economic activities are production and consumption. These two activities are supported by several other activities.
- The ultimate aim of these activities is to achieve growth.
- The 'exchange activity' supports the production and consumption activities. These activities are influenced by several economic and non-economic activities.
- The major economic activities include transportation, banking, advertising, planning, government policy and others.
- The major non-economic activities are environment, health, education, entertainment, governance, regulations etc.
- In addition to these supporting activities, external activities from other economies such as import, export.

**[OR]**

**41.b)  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 pre-determined targets and priorities. | The people are induced to act in a certain way through various monetary and fiscal measures. |

| 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 |

## 42.a) Difficulties involved in the measurement of national income

### 1. Transfer payments

- Government makes payments in the form of pensions, unemployment allowance, subsidies, etc.
- These are government expenditure. But they are not included in the national income.

### 2. Difficulties in assessing depreciation allowance

- The deduction of depreciation allowances, accidental damages, repair and replacement charges from the national income is not an easy task.

### 3. Unpaid services

- **A housewife renders a number of useful services like preparation of meals, serving, tailoring, mending, washing, cleaning, bringing up children, etc.**

### 4. Income from illegal activities

- **Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor, etc., is not included in national income.**

### 5. Production for self-consumption and changing price

- **Farmers keep a large portion of food and other goods produced on the farm for self consumption.**

**[OR]**

**42.b)** **Difference between classical theory and Keynes theory.**

| Sl.No | Basis of Difference | Classical Theory | Keynes Theory |
|-------|---------------------|------------------|---------------|
| 1 | Equilibrium | Long-run equilibrium. | Short-run equilibrium. |
| 2 | Savings and Investment | Saving and investment equilibrium through interest rate. | Saving and investment equilibrium through income level. |
| 3 | Money | The function of money is to act as a medium of exchange. | The function of money is a medium of exchange on the one side and a store of value on the other side. |
| 4 | Approach | Micro foundation to macro problems | Macro approach to national problems |
| 5 | Intervention | No government intervention | Government intervention is necessary for stabilization of economy. |

**43.a) 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 theprice 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.b)  The general form of equation given by Fisher is MV = PT.**

   **Where,**

- **M = Money Supply/quantity of Money**

- **V = Velocity of Money**

- **P = Price level**

- **T = Volume of Transaction.**

✓ **Fisher points out that in a country during any given period of time, the total quantity of money (MV) will be equal to the total value of all goods and services bought and sold (PT).  MV = PT**

   **This equation is referred to as "Cash Transaction Equation".**

✓ **But, in a modern economy, bank's demand deposits or credit money and itsvelocity play a vital part in business.**

✓ **Therefore, Fisher extended his original equation of exchange to include bankdeposits $M^1$ and its velocity $V^1$.**

✓ **The revised equation was: $PT = MV + M^1 V^1$**

$$P = \frac{MV + M^1 V^1}{T}$$

**From the revised equation, it is evident, that the price level is determined by**

- **The quantity of money in circulation 'M'**

- **The velocity of circulation of money 'V'**

- **The volume of bank credit money M1**

- **The velocity of circulation of credit money V1**

- **The volume of trade (T)**
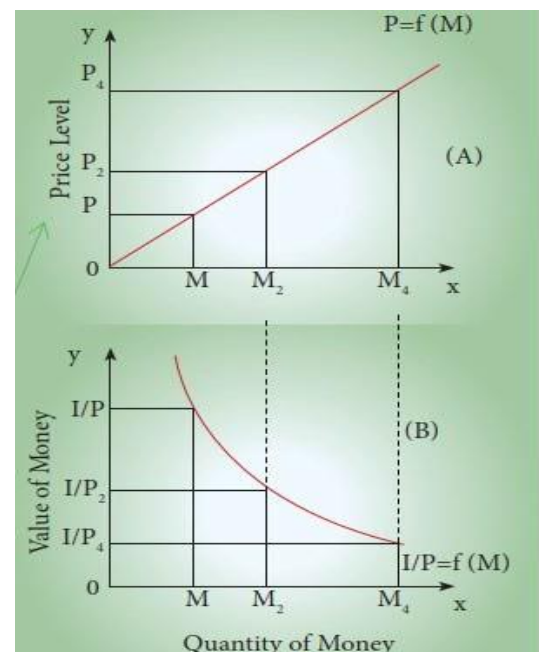
- **Figure (A) shows the effect of changes in the quantity of money on the price level.**
  1. **The quantity of money is OM, the price level is OP.**
  2. **When the quantity of money is doubled to OM2, the price level is also doubled to OP2. when the quantity of money is increased four fold to OM4, the price level also increases by four times to OP4.**
- **Figure (B), shows the inverse relation between the quantity of money and the volume of money, where the value of money is taken on the vertical axis.**
- **But, with the quantity of money increasing by four fold to OM4, the value of money is reduced by O I/P4**
- **This inverse relationship between the quantity of money and the value of money is shown by downward sloping curve I O/P = f(M).**

**44.a)** *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.**

**[OR]**

## 44.b)    Theory of International Trade.

### Modern Theory of International Trade - Introduction :

- **It was developed by Swedish economist <u>Eli Heckscher</u> and his student <u>Bertil Ohlin</u> in 1919.**

- **This theory says that the basis for international trade is the difference in fac-tor endowments.**

- **That is otherwise called as _Factor endowment theory._**

### The Theory :

1. **<u>The classical theory</u> argued that the basis for foreign trade was comparativecost difference and its labour factor.**

2. **But the <u>modern theory of international trade</u> explains the causes for such comparative cost difference.**

### Differences in comparative cost :

- **Difference in the endowments of factors of production between countries.**

- **Differences in the factor proportions required in production.**

### Assumptions :

1. **There are two countries ($2 \times 2$ model)**
2. **Differ in factor endowments.**
3. **Commodities are categorized in terms of factor intensity.**
4. **Same production technology.**
5. **There is perfect competition in both product and factor markets.**

### Explanation :

**According to Heckscher - Ohlin, a capital abundant country will export the capital intensive goods while the labour abundant country will export the labour intensive goods.**

### _Limitations_

1. **Factor endowment of a country may change over time.**
2. **The efficiency of the same factor (say labour) may differ in the two coun-tries.**
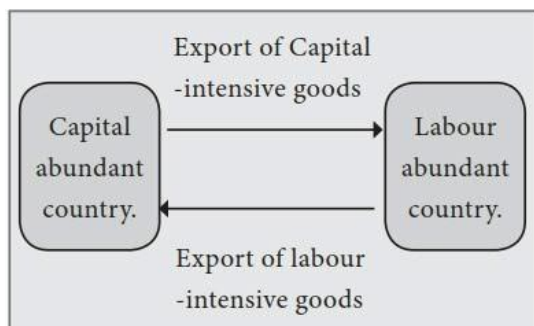
**45.a)  Note on a) SAARC b) BRICS**

**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 Bangaladesh, 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 16$^{th}$ January 1987.
- The first SAARC summit was held at Dhaka in the year 1985.
- SAARC meets once in two years. Recently, the 20th SAARC summit was hosted by Srilanka in 2018.


**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.
- South Africa hosted the 10th BRICS summit in July 2018. The agenda for BRICS summit 2018 includes Inclusive growth, Trade issues, Global governance, Shared Prosperity, International peace and security.
- It's headquarters is at Shanghai, China. The New Development Bank (NDB) formerly referred to as the BRICS Development Bank was established by BRICS States.
- The first BRICS summit was held at Moscow and South Africa hosted the Tenth Conference at Johanesberg in July 2018.
- India had an opportunity of hosting fourth and Eighth summits in 2012 and 2016 respectively.


**[OR]**


**45.b)  Reasons for the recent growth in public expenditure**
1) *Defense Expenditure:*
   - There has been enormous increase in defense expenditure in India during planning period.
   - The defense expenditure has been increasing tremendously due to modernization of defense equipment.

2) *Debt Servicing:*
   - The government has been borrowing heavily both from the internal and external sources.
   - As a result the government has to a make huge amounts of repayment towards debts servicing.

3) *Development Projects:*
- **The government has been undertaking various development projects.**
- **The Development Projects involve huge investment.**

4) *Urbanization:*
- **There has been an increase in urbanization.**
- **The increase un urbanization requires heavy expenditure on law and order, education and civic amenities.**

5) *Increase in grants in aid to state and union territories:*
- ♣ **There has been tremendous increase in grant-in-aid to state and union territories to meet natural disasters.**

*46.a)  Types of deficit in budget:*
1) *Revenue Deficit:*
- **It refers to the excess of the government revenue expenditure over revenue receipts.**
- **It does not consider capital receipts and capital expenditure.**
- **Revenue deficit implies that the government is living beyond its means to conduct day-to-day operations.**

Revenue Deficit (RD) = Total Revenue Expenditure (RE) − Total Revenue Receipts (RR)

2) *Budget Deficit:*
- **Budget deficit is the difference between total receipts and total expenditure.**

Budget Deficit (BD) = Total Expenditure − Total Revenue

3) *Fiscal Deficit:*

Fiscal Deficit (FD) = Budget Deficit + Governments Market Borrowing and

4) *Primary Deficit:*
- **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 payment.**

Primary Deficit  = Fiscal Deficit (FD) − Interest Payment (IP)

**[OR]**

## 46.b) Concepts of externality and its classification

### Positive Consumption Externality

- When some residents of a locality hire a private security agency to patrol their area, the other residents of the area also benefit from better security without bearing cost.

### Negative Consumption Externality

- A person smoking cigarette gets maygives satisfaction to that person, but this act causes hardship (dissatisfaction) to the non-smokers who are driven to passive smoking.

### Positive Production Externality

- The ideal location for beehives is orchards (first growing fields).
- While bees make honey, they also help in the pollination of apple blossoms.
- The benefits accrue to both producers (honey as well as apple).

### Negative Production Externality

- Negative production externalities include pollution generated by a factory that imposes costs on others.
- The emissions and effluents of a factory cause air and water pollution.

## 47.a)  Objectives Of Econometrics

The general objective of Econometrics is to give empirical content to economic theory.

The specific objectives are as follows:

1) It helps to explain the behaviour of a forthcoming period that is forecasting economic phenomena.
2) It helps to prove the old and established relationships among the variables or between the variables
3) It helps to establish new theories and new relationships.

4) It helps to test the hypotheses and estimation of the parameter.

<p align="center">[OR]</p>

### 47.b)

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 |

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

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

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

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

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

Ans: $r(x,y) = \mathbf{0.9955}$

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

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