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INTRODUCTION TO MACRO ECONOMICS

CHAPTER SNAPSHOT

(iii) The basic identities of the two sector economy are as under $\boxed{Y = C + I}$

Where :

Y is Income, C is Consumption, I is Investment.

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE

35. **Discuss the scope of Macro Economics.**

[PTA-1; QY-2019]

Ans. The study of macro economics has wide scope and it covers the major areas as follow.

(i) **National Income :** Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis.

(ii) The trends in National Income and its composition provide a long term understanding of the growth process of an economy.

Inflation :

(i) Inflation refers to steady increase in general price level.

(ii) Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

Business Cycle :

(i) Almost all economies face the problem of business fluctuations and business cycle.

(ii) The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.

Poverty and Unemployment :

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

(ii) A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

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

Economic Policies :

(i) Macro Economics is significant for evolving. Suitable economic policies.

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

36. **Illustrate the functioning of an economy based on its activities.** *[Govt. MQP-2019; PTA-2, 5]*

Ans. (i) The functioning of an economy by its activities is explained in the flow chart.

Functioning of an Economy Based on Activities
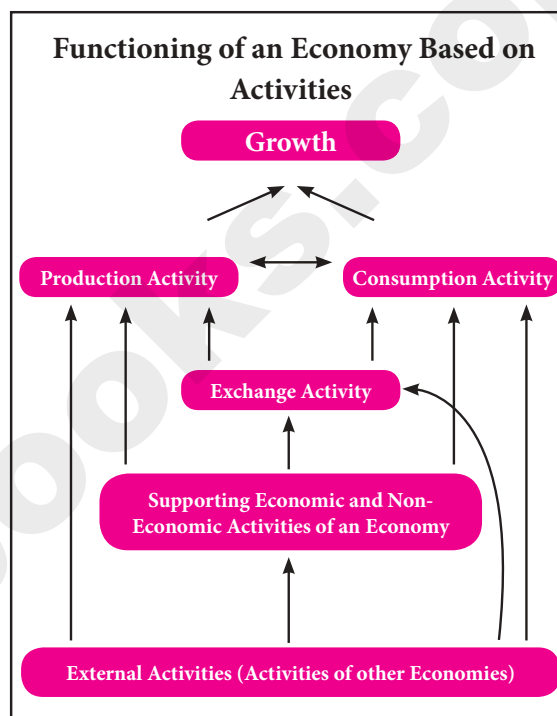
(ii) In an economy the fundamental economic activities are production and consumption.

(iii) These two activities are supported by several other activities.

(iv) The ultimate aim of these activities is to achieve growth.

(v) The exchange activity supports the production and consumption activities.

(vi) The major economic activities include transportation banking advertising planning, government policy and others.

(vii) The major non-economic activities are environment, health, education, entertainment, regulations etc.

(viii) In addition to these supporting activities, external activities from other economies such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc. also influence the entire functioning of the economy.

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CHAPTER 2

NATIONAL INCOME

Concept Map

NATIONAL INCOME

- Meaning of National Income
- Definitions
- Introduction
- National Income and Social Accounting
- Summary
- Income from Illegal Activities
- Transfer Payments
- Unpaid Services
- Statistical Problems
- Production for Self Consumption and Changing Price
- Difficulties in Assessing Depreciation
- Capital Gains
- Basic Concepts of National Income
- Difficulties in Measuring National Income
- Importance of National Income Analysis
- Net National Product (NNP)
- Personal Income
- Gross National Product (GNP)
- Gross Domestic Products (GDP)
- NNP of Factor Cost
- Per Capital Income
- Disposable Income
- Real Income
- Methods of Measuring National Income
- Product Method
- Income Method / Factor Earning Method
- The Expenditure Method

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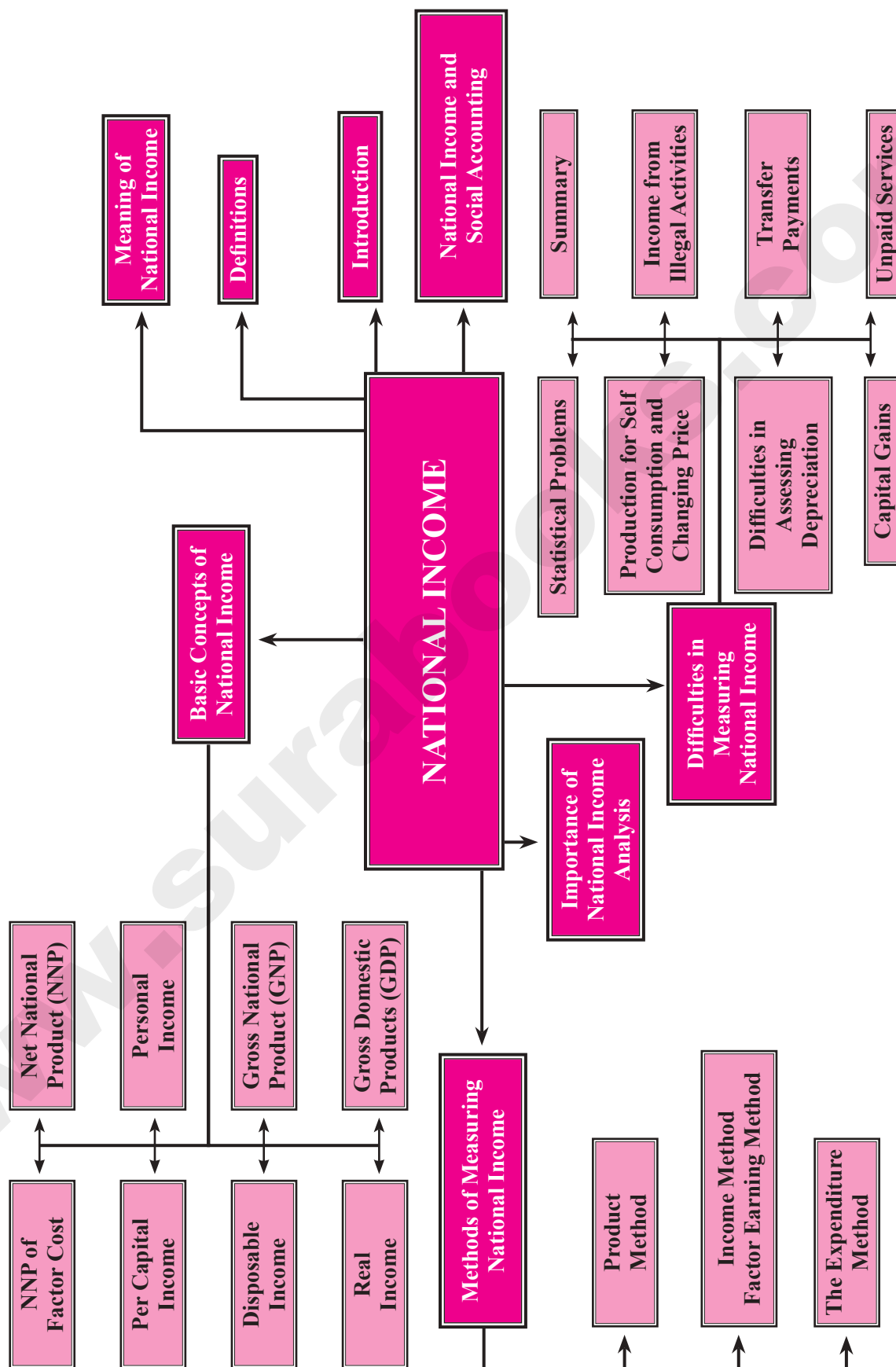
(2) The problem is whether that part of the produce which is not sold in the market can be included in national income or not.

(vi) Capital gains :

(1) The problem also arises with regard to capital gains.

(2) Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc. is sold at higher price than was paid for it at the time of purchase.

(3) Capital gains are excluded from national income.

(vii) Statistical problems :

(1) There are statistical problems, too. Great care is required to avoid double counting. Statistical data may not be perfectly reliable, when they are compiled from numerous sources.

(2) Skill and efficiency of the statistical staff and cooperation of people at large are also equally important in estimating national income.

38. Discuss the importance of social accounting in economic analysis. *[PTA-3, 4]*

Ans. (i) National Income is also being measured by the social accounting method.

(ii) Under this method, the transaction among various sectors such as firms, households, government etc., are recorded and their interrelationships traced.

(iii) The social accounting framework is useful for economists as well as policy makers, because it represents the major economic flows and statistical relationships among various sectors of the economic system.

(iv) It becomes possible to forecast the trends of economy more accurately.

Social Accounting and Sector :

(i) Under this method, the economy is divided into several sectors.

(ii) A sector is a group of individuals or institutions having common interrelated economic transactions.

(iii) The economy is divided into the following sectors :
(1) Firms
(2) Households
(3) Government
(4) Rest of the world and
(5) Capital sector.

(iv) "Firms" undertake productive activities. Thus, they are all organizations which employ the factors of production to produce goods and services.

(v) "Households" are consuming entities and represent the factors of production, who receive payment for services rendered by them to firms. Households consume the goods and services that are produced by the firm.

(vi) "The government sector" refers to the economic transactions of public bodies at all levels, centre, state and local.

(vii) The main function of the government is to provide social goods like defence, public health, education, etc.

(viii) "Rest of the world sector" relates to international economic transactions of the country.
It contains income, export and import transactions, external loan transaction, and allied overseas investment income and payments.

(ix) "Capital sector" refers to saving and investment activities. It includes the transactions of banks, insurance corporations, financial houses, and other agencies of the money market.

PTA ▷ QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS   1 MARK

1. **Match the following and choose that correct answer by using code given below.** *[PTA-4]*

A	Product method	(i)	Economic welfare
B	Expenditure method	(ii)	Outlay method
C	Income method	(iii)	Factor earning method
D	PQLI	(iv)	Inventory method

Codes :
(a) A - (ii), B - (i), C - (iv), D - (iii)
(b) A - (iv), B - (ii), C - (iii), D - (i)
(c) A - (iii), B - (iv), C - (ii), D - (i)
(d) A - (i), B - (ii), C - (iv), D - (iii)

[Ans. (b) A - (iv), B - (ii), C - (iii), D - (i)]

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CHAPTER 3

THEORIES OF EMPLOYMENT AND INCOME

PTA QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS 1 MARK

1. Effective demand equals to _____. *[PTA-4]*
(a) National income
(b) Gross income
(c) Total income
(d) Net income   **[Ans. (a) National income]**

2. ED = _____. *[PTA-2]*
(a) Y = C + I = output = Employment
(b) Y = C + I + S = output
(c) Y = I + S = output = employment
(d) Y. C + I = employment
   [Ans. (a) Y = C + I = output = Employment]

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES 2 MARKS

1. List out the components of Aggregate Demand. *[PTA-5]*
Ans. (i) Consumption Demand
   (ii) Investment Demand
   (iii) Government Expenditure and
   (iv) Net Export (Export - Import)

ANSWER THE FOLLOWING QUESTIONS IN ABOUT PAGE 5 MARKS

1. Explain 'Effective Demand' in detail. *[PTA-2]*
Ans. (i) The starting point of Keynes theory of employment and income is the principle of effective demand. Effective demand denotes money actually spent by the people on products of industry. The money which entrepreneurs receive is paid in the form of rent, wages, interest and profit. Therefore effective demand equals national income.

(ii) An increase in the aggregate effective demand would increase the level of employment. A decline in total effective demand would lead to unemployment. Therefore, total employment of a country can be determined with the help of total demand of a country.

(iii) The relationship between employment and output of an economy depends upon the level of effective demand which is determined by the forces of aggregate supply and aggregate demand.

ED = Y = C + I = Output = Employment

(iv) Effective demand determines the level of employment in the economy. When effective demand increases, employment will increase. When effective demand decreases, the level employment will decline. The effective demand will be determined by two determinants namely consumption and investment expenditures. The consumption function depends upon income of the people and marginal propensity to consume. According to Keynes, if income increases, consumption will also increase but by less than the increase in income.

(v) The rate of interest and marginal efficiency of capital determine the investment levels. Rate of interest depends on money supply and liquidity preference. Keynes has given importance to the concept of liquidity preference. Liquidity preference is based on three motives namely transaction motive, precautionary motive and speculative motive. MEC depends on two factors namely Prospective yield of capital asset and supply price of capital.

GOVERNMENT EXAM QUESTIONS AND ANSWERS

PART - A

MULTIPLE CHOICE QUESTIONS 1 MARK

Choose the Correct Option.

1. Aggregate demand equal to _____. *[QY-2019]*
(a) C+I+G
(b) C+I+G+X−M
(c) C+S+T+X−M
(d) C+S+T+Rf   **[Ans. (b) C+I+G+X−M]**

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CHAPTER

4

CONSUMPTION AND INVESTMENT FUNCTIONS

CHAPTER SNAPSHOT

[59]

Important Terms

Consumption Function	:	The term Consumption Function explains the relationship between income and consumption.
Propensity to Consume	:	Propensity to Consume is the ratio that measures the functional relationship between income and consumption the proportion of income spent on actual consumption at different levels of income.
The Average Propensity to Consume	:	The Average Propensity to Consume is the ratio of consumption expenditure to any particular level of income.
The Marginal Propensity to Consume (MPC)	:	The Marginal Propensity to Consume may be defined as the ratio of the change in the consumption to the change in income.
The Average Propensity to Save (APS)	:	The Average Propensity to Save is the ratio of saving to income.
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.
Investment function	:	The investment function refers to investment interest rate relationship.
Autonomous investment	:	Autonomous investment is the expenditure on capital formation which is independent of the change in income rate of interest or rate of profit.
Marginal efficiency of capital	:	It may be defined as the highest rate of return over cost expected from the additional unit of capital asset.
Marginal efficiency of investment (MEI)	:	MEI is the expected rate of return on investment as additional units of investment are made under specified conditions and over a period of time.
Multiplier	:	The multiplier is defined as the ratio of the change in national income to change in investment.
Accelerator	:	Accelerator is the numerical value of the relation between an increase in consumption and the resulting increase in investment.
Super multiplier K and β interaction	:	The super multiplier is greater than simple multiplier which includes only autonomous investment.
Leverage effect	:	The combined effect of the multiplier and the accelerator is also called the leverage effect.

(vi) This results in increase in demand for 10 more machines. So that total demand for machines is 20.

(vii) 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).

(viii) So we can conclude even a mild change in demand for consumer goods will lead to wide change in investment.

Diagrammatic illustration
Operation of Accelerator
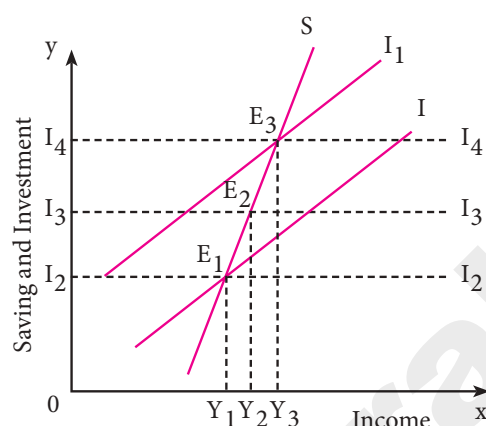
(i) SS is the saving curve.

(ii) II is the investment curve.

(iii) At point E_1, the economy is in equilibrium with OY_1 income. Saving and investment are equal at OI_2.

(iv) Investment is increased from OI_2 to OI_4. This increases income from OY_1 to OY_3 the equilibrium point being E_3.

(v) In this diagram, it is assumed that exogenous investment is only by I_2I_3 and induced investment is by I_3I_4.

(vi) Therefore, increase in income by Y_1Y_2 is due to the multiplier effect and the increase in income by Y_2Y_3 is due to the accelerator effects.

40. What are the differences between MEC and MEI. *[PTA-4]*

Ans.

Sl. No.	Marginal Efficiency of Capital (MEC)	Marginal Efficiency of Investment (MEI)
1.	It is based on given supply price for capital.	It is based on the induced change in the price due to change in the demand for capital.
2.	It represents the rate of return on all 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.	The capital stock is taken on the X axis of diagram.	The amount of investment is taken on the X axis of diagram.
4.	It is a "Stock" concept.	It is a "Flow" concept.
5.	It determines the optimum capital stock in an economy at each level of interest rate.	It determines the net investment of the economy at each interest rate given the capital stock.

<center>**PTA** QUESTIONS AND ANSWERS</center>

MULTIPLE CHOICE QUESTIONS

1 MARK

(i) State whether the Statements are true or false.

(i) APC – Ratio of their consumption expenditure to income *[PTA-1]*

(ii) APS – Ratio of the savings to income

(a) both (i) and (ii) are true

(b) both (i) and (ii) are false

(c) (i) is true but (ii) is false

(d) (i) is false but (ii) is true **[Ans. (a) both (i) and (ii) are true]**

<center>**69**</center>

CHAPTER 5

MONETARY ECONOMICS

CHAPTER SNAPSHOT

Definitions

Definition of Money : Many economists developed definition for money. Among these, definitions of Walker and Crowther are given below.

"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**

Definition of Inflation : "Too much of Money chasing too few goods" **- Coulbourn**

"A state of abnormal decrease in the quantity of purchasing power" **- Gregorye**

"Inflation is taxation without legislation" **- Milton Friedman**

Definition of Trade Cycle : According to J.M. Keynes, "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".

Definition of Marshall's value of money : According to Marshall's equation, the value of money is influenced not only by changes in M, but also by changes in K.

Formulae

1. **The general form of equation given by Fisher is**

$$MV = PT$$

$$\text{Supply of Money} = \text{Demand for Money}$$

2. **The Fisher revised equation was**

$$PT = MV + M_1 V_1$$

$$P = \frac{MV + M_1 V_1}{T}$$

3. **Under Cambridge Approach**

(i) Marshall's Equation

$$M = KPY$$

(ii) Keynes' Equation.

$n = pk$ or

$$p = \frac{n}{k}$$

(iii) Keynes extended his equation.

$n = p\,(k + rk')$ or

$p = n/(k + rk')$

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Monetary Economics — 🎗 **Sura's - XII Std - Economics**

i) Increase in Bankrate

ii) Sale of Government Securities in the Open Market

iii) Higher Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

iv) Consumer Credit Control and

v) Higher margin requirements

vi) Higher Repo Rate and Reverse Repo Rate.

2. **Fiscal Measures:** Fiscal policy is now recognized as an important instrument to tackle an inflationary situation. The major anti-inflationary fiscal measures are the following: Reduction of Government Expenditure, Public Borrowing and Enhancing taxation.

3. **Other Measures:** These measures can be divided broadly into short-term and long-term measures.

i) **Short-term measures** can be in regard to public distribution of scarce essential commodities through fair price shops (Rationing). In India whenever shortage of basic goods has been felt, the government has resorted to import so that inflation may not get triggered.

ii) **Long-term measures** will require accelerating economic growth especially of the wage goods which have a direct bearing on the general price and the cost of living. Some restrictions on present consumption may help in improving saving and investment which may be necessary for accelerating the rate of economic growth in the long run.

ADDITIONAL QUESTIONS AND ANSWERS

PART - A

MULTIPLE CHOICE QUESTIONS 1 MARK

(i) Choose the Correct Option.

1. **Liquid form of assets**
   (a) Bills of payment
   (b) Gold
   (c) Money
   (d) Silver
   [Ans. (c) Money]

2. **Deflation means**
   (a) Prices are rising
   (b) Prices are falling
   (c) Value of money is increasing
   (d) Prices are remaining the same
   [Ans. (b) Prices are falling]

3. **During inflation, who are gainers?**
   (a) Creditors
   (b) Wage and salary earners
   (c) Government
   (d) Business men
   [Ans. (d) Business men]

4. **When prices are raised drastically(rapidly) we call it**
   (a) Galloping inflation
   (b) Mild inflation
   (c) Hyper Inflation
   (d) Deflation
   [Ans. (c) Hyper Inflation]

5. **'Inflation is taxation without legislation' was said by _____.**
   (a) Rudi Dorbush
   (b) Adam smith
   (c) Milton Friedman
   (d) Alfred Marshall
   [Ans. (c) Milton Friedman]

6. **Barter system was introduced by _____.**
   (a) Mesopetamia tribes
   (b) Babylonian's
   (c) Both 'a' and 'b'
   (d) None of the above
   [Ans. (a) Mesopetamia tribes]

7. **Money is the most liquid form of _____.**
   (a) revenue
   (b) capital
   (c) both 'a' and 'b'
   (d) none of the above
   [Ans. (b) capital]

8. **Money supply means the total amount of money in _____.**
   (a) world
   (b) state
   (c) country
   (d) economy
   [Ans. (d) economy]

9. **In India, currency notes are issued by the _____.**
   (a) State Bank
   (b) RBI
   (c) World Bank
   (d) SBI
   [Ans. (b) RBI]

10. **The symbol of India rupee came into use on _____.**
    (a) 15th July, 2010
    (b) 16th July, 2010
    (c) 15th June, 2010
    (d) 16th June, 2010
    [Ans. (a) 15th July, 2010]

11. **India is the _____ country to accept a unique currency symbol.**
    (a) 4th
    (b) 6th
    (c) 5th
    (d) 7th
    [Ans. (c) 5th]

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Banking

🛡 **Sura's - XII Std - Economics**

MODEL QUESTIONS

PART - A

MULTIPLE CHOICE QUESTIONS

1. A Bank is a *[PTA-5]*
(a) Financial institution
(b) Corporate
(c) An Industry
(d) Service institutions

[Ans. (a) Financial institution]

2. A Commercial Bank is an institutions that provides services
(a) Accepting deposits
(b) Providing loans
(c) Both a and b
(d) None of the above **[Ans. (c) Both a and b]**

3. The Functions of commercial banks are broadly classified into
(a) Primary Functions
(b) Secondary functions
(c) Other functions
(d) a, b, and c **[Ans. (d) a, b, and c]**

4. Bank credit refers to *[PTA-4]*
(a) Bank Loans
(b) Advances
(c) Bank loans and advances
(d) Borrowings

[Ans. (c) Bank loans and advances]

5. Credit creation means. *[PTA-2]*
(a) Multiplication of loans and advances
(b) Revenue
(c) Expenditure
(d) Debt

[Ans. (a) Multiplication of loans and advances]

6. NBFI does not have.
(a) Banking license
(b) government approval
(c) Money market approval
(d) Finance ministry approval

[Ans. (a) Banking license]

7. Central bank is _____ authority of any country. *[PTA-3]*
(a) Monetary
(b) Fiscal
(c) Wage
(d) National Income

[Ans. (a) Monetary]

8. Who will act as the banker to the Government of India? *[PTA-4; QY-2019; HY-2019]*
(a) SBI
(b) NABARD
(c) ICICI
(d) RBI

[Ans. (d) RBI]

9. Lender of the last resort is one of the functions of. *[PTA-6]*
(a) Central Bank
(b) Commercial banks
(c) Land Development Banks
(d) Co-operative banks

[Ans. (a) Central Bank]

10. Bank Rate means. *[PTA-2]*
(a) Re-discounting the first class securities
(b) Interest rate
(c) Exchange rate
(d) Growth rate

[Ans. (a) Re-discounting the first class securities]

11. Repo Rate means. *[Govt. MQP - 2019]*
(a) Rate at which the Commercial Banks are willing to lend to RBI
(b) Rate at which the RBI is willing to lend to commercial banks
(c) Exchange rate of the foreign bank
(d) Growth rate of the economy

[Ans. (b) Rate at which the RBI is willing to lend to commercial banks]

12. Moral suasion refers.
(a) Optimization
(b) Maximization
(c) Persuasion
(d) Minimization

[Ans. (c) Persuasion]

13. ARDC started functioning from
(a) June 3, 1963
(b) July 3, 1963
(c) June 1, 1963
(d) July 1, 1963

[Ans. (d) July 1, 1963]

14. NABARD was set up in. *[PTA-3; QY-2019]*
(a) July 1962
(b) July 1972
(c) July 1982
(d) July 1992

[Ans. (c) July 1982]

15. EXIM bank was established in. *[Govt. MQP - 2019]*
(a) June 1982
(b) April 1982
(c) May 1982
(d) March 1982

[Ans. (d) March 1982]

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CHAPTER 7

INTERNATIONAL ECONOMICS

[115]

(iii) In developing countries like India FDI in the natural resource sector, including plantation increases trade volumes.

(iv) FDI is also influenced by the income generated from the trade and regional integration schemes.

(v) FDI is helpful to accelerate the economic growth by facilitating essential imports needed for carrying out development programmes like capital goods, technical know-how, raw materials and other inputs and even scarce consumer goods.

(vi) FDI is encouraged by the factors such as foreign exchange shortage, desire to create employment and acceleration of the pace of economic development.

(vii) Many developing countries, strongly prefer foreign investment to imports.

(viii) The real impact of FDI on different sections of an economy (say India) may differ.

(ix) Large demand for USD, generaed by IMF and World Bank Policies help the USD to gain value continuously.

PTA ➤ QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS   1 MARK

(i)   Choose the Correct Option.

1.   Large _____ are driving out foreign investors.   *[PTA-3]*
(a) public debt   (b) private debt
(c) public revenue   (d) private revenue

[Ans. (a) public debt]

2.   "The subject matter of International Economics was shaped by classical economics".   *[PTA-4]*
(a) Adam Smith
(b) Heckscher–Ohlin
(c) J.S.Mill
(d) Taussing   **[Ans. (b) Heckscher–Ohlin]**

(ii)   State whether the statements are true or false.

1.   (i) FDI is an important factor in a global economy.   *[PTA-6]*
(ii) FDI and foreign trade are closely related.
(a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES   2 MARKS

1.   State any two merits of international trade?   *[PTA-1]*
Ans. (i) Availability of variety of goods for consumption.
(ii) Generation of more employment opportunities.
(iii) Industrialization of backward nations.

(iv) Improvement in relationship among countries.
(v) Division of Labour and specialisation.
(vi) Expansion in transport facilities.

2.   List out the official reserve assets of a country.   *[PTA-3]*

Ans. The official reserve assets of a country include its gold stock, holdings of its convertible foreign currencies and Special Drawing Rights (SDRs) and its net position in the International Monetary Fund (IMF).

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH   3 MARKS

1.   List the sectors in which FDI is not permitted.   *[PTA-6]*

Ans. FDI is not permitted in the industrial sectors like
(i) Arms and ammunition
(ii) Atomic energy
(iii) Railways
(iv) Coal and lignite and
(v) Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper etc.,

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE   5 MARKS

1.   Explain the gains from international trade.   *[PTA-2]*

Ans. The gains from international trade may be categorized under four heads.

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CHAPTER 8
INTERNATIONAL ECONOMIC ORGANISATIONS

CHAPTER SNAPSHOT

(ii) The SAARC Group (SAARC) comparises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Srilanka.

(iii) In April 2007, Afghanistan became its eighth member.

(iv) 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.

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

b) BRICS

(i) BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

(ii) Originally the first four were grouped as "BRIC" before the induction of South Africa in 2010. The term 'BRIC' was coined in 2001.

(iii) 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.

(iv) The BRICS countries make up 21 percent of global GDP. They have increased their share of global GDP threefold in the past 15 years.

(v) The BRICS are home to 43 percent of the world's population.

(vi) The BRICS countries have combined foreign reserves of an estimated $4.4 trillion

⟨PTA⟩ QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS. 1 MARK

1. The _____ BRICS summit was held in July 2018 at Johannesburg.   *[PTA-6]*

(a) Tenth   (b) Fifth

(c) Sixth   (d) Third

[Ans. (a) Tenth]

2. The WTO was established in 1995 as a successor to the _____.   *[PTA-1]*

(a) BRICS   (b) GATT

(c) ASEAN   (d) SAARC

[Ans. (b) GATT]

3. Which of the following is not correctly matched.   *[PTA-3]*

(a) IMF   -   Washington D C

(b) WTO   -   Geneva

(c) SAARC -   Singapore

(d) BRICS -   Shangai

[Ans. (c) SAARC - Singapore]

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES.   2 MARKS

1. What is Buffer Stock Facility?   *[PTA-2]*

Ans. The buffer stock financing facility was started in 1969. The purpose of this scheme was to help the primary goods (food grains) producing countries to finance contributions to buffer stock arrangements for the stabilisation of primary product prices.

2. List the groups of World Bank.   *[PTA-4]*

Ans. World Bank Group :

(i) International Bank for Reconstruction and Development

(ii) International Development Association

(iii) International Finanace Corporation

(iv) Multilateral Investment Guarantee Agency

(v) International Centre for Settlement of Investment Disputes

ANSWER THE FOLLOWING QUESTIONS.   3 MARKS

1. Give a brief account on TRIMS.   *[PTA-3]*

Ans. (i) TRIMS (Trade Related Investment Measures) are related to conditions or restrictions in respect of foreign investment in the country

(ii) It calls for introducing equal treatment for foreign companies on par with national companies.

ANSWER THE FOLLOWING QUESTION IN ONE PAGE.   5 MARKS

1. Describe the achievements of SAARC. *[PTA-2]*

Ans. (i) The establishment of SAARC Preferential Trading Agreement (SAPTA) and reduction in tariff and non - tariff barriers on imports.

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Concept Map

9. FISCAL ECONOMICS

Introduction

Meaning of Public Finance

Definitions

Subject Matter of Public Finance

Public Finance and Private Finance
- Similarity
- Dissimilarity

Functions of Modern State

Public Expenditure
- Meaning
- Definition
- Classification of public expenditure
- Reasons for the Increase in Government Expenditure

Public Revenue
- Meaning
- Classification of public Revenue

Fiscal Policy
- Meaning of Fiscal Policy
- Definitions
- Fiscal Instruments
- Objectives of Fiscal Policy

Functions of Finance

History of Finance Commission

Tax Revenue
- Meaning
- Definitions
- Characteristics of Tax
- Non Tax Revenue
- Canons of Taxation
- Direct and Indirect Tax
- Merits of Direct Taxes
- Demerits of Direct Taxes
- Merits of Indirect Taxes
- Demerits of Indirect Taxes
- Comparison Charts
- GST Goods and Services

Budget
- Definition
- Union Budget and State Budget
- Types of Budget
- Budgetary Procedure

Local Finance

Public Debt
- Definition
- Types of Public Debt
- Causes for the Increase in Public Debt
- Methods of Redemption of Public Debt

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE

5 MARKS

1. What are the advantages of GST?

Ans. (i) GST will mainly remove the cascading effect on the sale of goods and services.

(ii) Removal of cascading effect will directly impact the cost of goods.

(iii) Tax is eliminated in this regime, the cost of goods decreases.

(iv) GST is also mainly technologically driven.

(v) 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.

2. What are the causes for the increase in public debt?

Ans. (i) **War and preparation for war :** Waging war has become one of the important causes for incurring debts by the governments.

(ii) **Social obligations :** Modern states are considered to be 'Welfare States' and they have to undertake many social obligations like public health, sanitation, education, insurance, transport and communications etc.

(iii) **Economic development and deficit :**

    (1) The government has to undertake many projects for economic development of the country.

    (2) Construction of railways, power projects, irrigation projects, heavy industries etc.

(iv) **Employment :** Most of the governments of modern days face the problem of unemployment and it has become the duty to solve this by making huge public expenditure.

(v) **Controlling inflation :** The Government can withdraw excess money from circulation, by raising public debt and thus prevent prices from rising.

(vi) **Fighting depression :** During the depression phase, private investment is lacking.

3. Explain the classification of public expenditure.

Ans. Classification of public expenditure are as follows :

1. **Classification on the Basis of Benefit :**

  (a) Public expenditure benefiting the entire society, e.g., the expenditure on general administration, defense, education, public health, transport.

  (b) Public expenditure conferring a special benefit on certain people and at the same time common benefit on the entire community, e.g. administration of justice etc.

  (c) Public expenditure directly benefiting particular group of persons and indirectly the entire society, e.g. social security, public welfare, pension, unemployment relief etc.

  (d) Public expenditure conferring a special benefit on some individuals, e.g., subsidy granted to a particular industry.

2. **Classification on the Basis of Function :**

  (a) **Protection Functions :** This group includes public expenditure incurred on the security of the citizens, to protect from external invasion and internal disorder, e.g., defence, police, courts etc.

  (b) **Commercial Functions :** This group includes public expenditure incurred on the development of trade and commerce, e.g., development of means of transport and communication etc.

  (c) **Development Functions :** This group includes public expenditure incurred for the development infrastructure and industry.

✩✩✩

CHAPTER

10

ENVIRONMENTAL ECONOMICS

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 may gives 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).

This is called 'reciprocal untraded interdependency.

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. Water becomes contaminated and unfit for drinking e.g. Tanneries.

37. **Explain the importance of sustainable development and its goals.** *[PTA-2, 4]*

***Ans.* Meaning**

(i) Sustaintable development is concerned with the welfare of not only present generation but also future generation.

(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 decent 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.

PTA > **QUESTIONS AND ANSWERS**

MULTIPLE CHOICE QUESTIONS 1 MARK

(i) **For the given assertion reason choose the correct answer.** *[PTA-1]*

1. **Assertion (A)** : **Polluted water is harmful for agriculture.**

Reason (R) : **It self affect the crops and the soil fertility.**

(a) Both A and R are correct

(b) Both A and R are not correct

(c) Both A and R are true R is the correct explanation of A

(d) A is correct but R is not suitable explanation of A **[Ans. (c) Both A and R are true R is the correct explanation of A]**

(ii) **Pick the Odd one Out.**

1. **Types of pollution** *[PTA-5]*

(a) Air pollution (b) Indoor pollution

(c) Water pollution (d) Noise pollution

[Ans. (b) Indoor Pollution]

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH 3 MARKS

1. **Write a note on** *[PTA-3]*

(i) Organic farming **(ii) Global warming**

***Ans.* (i)** **Organic farming :**

(a) Organic farming is a system of agricultural production which relies on animal manure, organic waste, crop rotation, legumes and biological pest control. It avoids use of synthetic fertilizer, pesticides and livestock additives.

(b) Organic inputs have certain benefits, such as enriching soil for microbes.

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CHAPTER 11

ECONOMICS OF DEVELOPMENT AND PLANNING

[190]

ADDITIONAL QUESTIONS AND ANSWERS

PART - A

MULTIPLE CHOICE QUESTIONS   1 MARK

(i)   Choose the Correct Option.

1. _____ measures the increase in output.
   (a) Economic development
   (b) Economic Growth
   (c) Both a and b   (d) None of these.
   [Ans. (b) Economic Growth]

2. The concept _____ refers to the structural changes towards betterment
   (a) Economic fluctuation
   (b) Economic growth
   (c) Economic development
   (d) None of these
   [Ans. (c) Economic development]

3. These are _____ main approaches to economic development.
   (a) Traditional approach
   (b) The New Welfare oriented approach
   (c) Both a and b
   (d) None of these   **[Ans. (c) Both a and b]**

4. Which is not the characteristics of UDCs?
   (a) Low per capita
   (b) Wide in equality
   (c) High rate of unemployment
   (d) Price mechanism.
   [Ans. (d) Price mechanism]

5. Economic development depends on
   (a) Social   (b) Political
   (c) Religious   (d) All the above
   [Ans. (d) All the above]

6. The first country to introduce Five Year Plan was
   (a) U.K.   (b) U.S.A.
   (c) Former Soviet Russia (d) France
   [Ans. (c) Former Soviet Russia]

7. Planning in India is
   (a) Centralized planning
   (b) Democratic planning
   (c) Partial Planning
   (d) Indicative planning
   [Ans. (b) Democratic planning]

8. Perspective Plan covers a period of
   (a) 5 years   (b) 10 years
   (c) 10 to 30 years   (d) 15 years
   [Ans. (c) 10 to 30 years]

9. The first Five Year Plan of India was launched in
   (a) 1947   (b) 1951   (c) 1956   (d) 1961
   [Ans. (b) 1951]

10. There was plan holiday in India from
    (a) 1966 – 69   (b) 1961 – 63
    (c) 1980 – 84   (d) 2002 – 2004
    [Ans. (a) 1966 – 69]

11. "Strictly speaking , all economic life involves planning" was said by
    (a) Alfred Marshall   (b) Lionel Robbins
    (c) J.M. Keynes   (d) Schumpeter
    [Ans. (b) Lionel Robbins]

12. In a socialist state most of the means of production are owned by the
    (a) Private individuals (b) State
    (c) Planning authority (d) None of the above
    [Ans. (b) State]

13. In a democracy, planning is done by
    (a) inducement   (b) index
    (c) discussion   (d) choice
    [Ans. (a) inducement]

14. The Great Depression occurred in
    (a) 1930   (b) 1950
    (c) 1980   (d) 2000
    [Ans. (a) 1930]

15. The Under developed nations, plan for economic   *[PTA-2]*
    (a) stability
    (b) equality
    (c) growth and development
    (d) progress
    [Ans. (c) growth and development]

16. The period of Eighth plan was
    (a) 1978-83   (b) 1985-90
    (c) 1992-97   (d) 1990-95
    [Ans. (c) 1992-97]

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13. What are the six basic characteristics of underdeveloped economy?

Ans. (1) Primary production
(2) Population Pressures
(3) Underemployment
(4) Economic backwardness
(5) Capital deficiency
(6) Foreign trade orientation

14. Distinguish between Economic Development and Growth. (Any Three Points)

	Economic Development	Economic Growth
(i)	Related to Underdeveloped Countries	Related to developed (or) advanced countries.
(ii)	Rising of income levels in poor countries.	Rising of income levels in rich countries.
(iii)	It is discontinuous and spontaneous changes in the station if any state.	It is gradual and steady changes in the long run.

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE   5 MARKS

1. Draw the 7 pillars of NITI Aayog.

Ans. 7 pillars of effective governance :

NITI AAYOG

Pro-People	fulfills aspirations of society as well as individuals
Pro-Activity	in anticipation of and response to citizen needs
Participation	involvement of citizenry
Empowering	women in all aspects
Inclusion of all	SC, ST, OBC, minorities, gareeb, gaon, kisaan
Equality	of opportunity for the youth
Transparency	making government visible and responsive

2. Explain non-economic factors determining development.

Ans. 1. **Human Resources :**

(i) Human resource is named as human capital because of its power to increase productivity and thereby national income. There is a circular relationship between human development and economic growth.

(ii) If labour is efficient and skilled, its capacity to contribute to growth will be high. For example Japan and China.

2. **Technical Know-how :** As the scientific and technological knowledge advances, more and more sophisticated techniques steadily raise the productivity levels in all sectors.

3. **Political freedom :** The process of development is linked with the political freedom.

4. **Social organization :** People show interest in the development activity only when they feel that the fruits of development will be fairly distributed. Mass participation in development programs is a pre-condition for accelerating the development process.

5. **Corruption free administration :** Corruption is a negative factor in the growth process. Unless the countries root-out corruption in their administrative system, the crony capitalists and traders will continue to exploit national resources. The tax evasion tends to breed corruption and hamper economic progress.

6. **Desire for development :** The pace of economic growth in any country depends to a great extent on people's desire for development.

7. **Moral, ethics and social values :**

(i) These determine the efficiency of the market.

(ii) If people are not honest, market cannot function.

☆☆☆

CHAPTER 12

INTRODUCTION TO STATISTICAL METHODS AND ECONOMETRICS

CHAPTER SNAPSHOT

(f)   Statistics and Education :
Statistics is necessary for the formulation of policies to start new course, according to the changing environment.

(g)   Statistics and Planning :

(1)   Statistics is indispensable in planning. In the modern world, which can be termed as the "world of planning", almost all the organisations in the government are seeking the help of planning for efficient working, for the formulation of policy decisions and execution of the same.

(2)   In order to achieve the above goals, various advanced statistical techniques are used for processing, analyzing and interpreting data.

(3)   In India, statistics play an important role in planning, both at the central and state government levels,

(h)   Statistics and Medicine :

(1)   In Medical sciences, statistical tools are widely used. In order to test the efficiency of a new drug or to compare the efficiency of two drugs or two medicines, t - test for the two samples is used.

(2)   More and more applications of statistics are at present used in clinical investigation.

(i)   Statistics and modern applications :
Recent development in the fields of computer and information technology have enable statistics to integrate their models and thus make statistics a part of decision making procedures of many organisations.

36.   **Calculate the Karl Pearson Correlation Co-efficient for the following data**   *[Govt. MQP-2019; PTA-6]*

Demand of Product X :	23	27	28	29	30	31	33	35	36	39
Sale of Product Y :	18	22	23	24	25	26	28	29	30	32

Ans.

S. No.	Demand of Product X	Sale of Product Y	dx (A = 31) X – A (X – 31)	dy (B = 26) Y – B (Y – 26)	dx^2	dy^2	$dxdy$
1	23	18	–8	–8	64	64	64
2	27	22	–4	–4	16	16	16
3	28	23	–3	–3	9	9	9
4	29	24	–2	–2	4	4	4
5	30	25	–1	–1	1	1	1
6	31	26	0	0	0	0	0
7	33	28	2	2	4	4	4
8	35	29	4	3	16	9	12
9	36	30	5	4	25	16	20
10	39	32	8	6	64	36	48
	$\sum$X= 311	$\sum$X= 257	$\sum$(X–A) = 1	$\sum$(Y–B) = –3	$\sum dx^2$ = 203	$\sum dy^2$ = 159	$\sum dxdy$ = 178

$$\overline{X} = \frac{\sum X}{N} = \frac{311}{10} = 31\frac{1}{10} \text{ - Take the assumed values}$$

$$\overline{Y} = \frac{\sum Y}{N} = \frac{257}{10} = 25\frac{7}{10}$$

A = 31,   B = 26

X – A ⇒ 31,   Y – B ⇒ 26

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PART - C

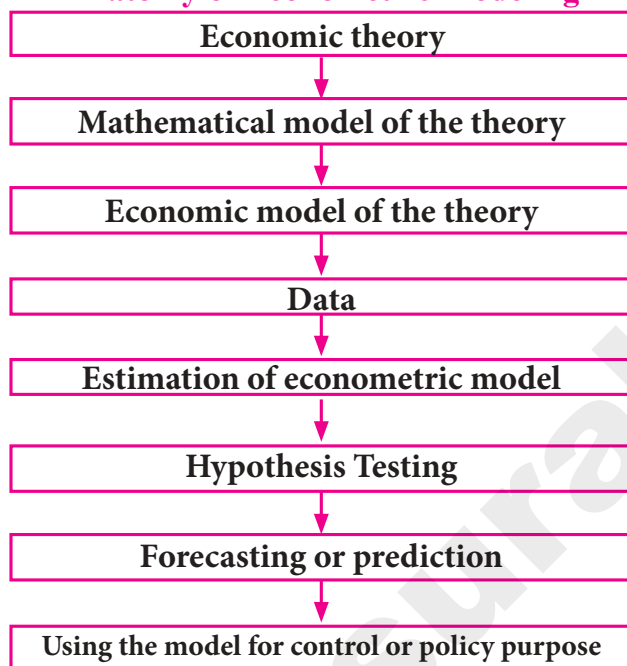### ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH   **3 MARKS**

1. **What are the limitation of statistics?**

Ans. **(i)** Statistics is not suitable to the study of qualitative phenomenon.

(ii) Statistical Laws are not exact

(iii) Statistics table may be misused

(iv) Statistics is only one of the methods of studying a problem.

2. **Draw the flow chart of Anatomy/methodology.**

Anatomy of Econometric Modeling

Economic theory

↓

Mathematical model of the theory

↓

Economic model of the theory

↓

Data

↓

Estimation of econometric model

↓

Hypothesis Testing

↓

Forecasting or prediction

↓

Using the model for control or policy purpose

3. **Draw a scatter diagram and indicate the nature of correlation.**

X	1	2	3	4	5	6	7	8
Y	5	10	15	20	25	30	35	40

Ans.

X - axis
1 cm = 1 unit
Y - axis
1 cm = 5 units
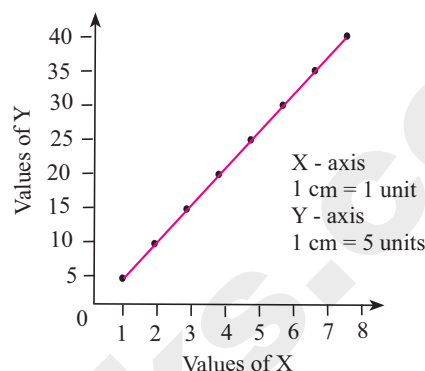
The above diagram indicates that there is perfect positive correlation between the values of two variables X and Y.

4. **Calculate the co-efficient of correlation from the following data.**

Solution :

$\Sigma xy = 4880,$ $\sigma_x = 28.70,$

$\sigma_y = 18.02,$ $n = 20$

$r = \dfrac{\Sigma xy}{n\sigma_x \cdot \sigma_y} = \dfrac{4880}{20 \times 28 \cdot 70 \times 18 \cdot 02}$

$= \dfrac{4880}{1034 \cdot 48}$

$r = \boxed{0.471}$

5. **Calculate standard deviation and its co-efficient from the following data.**

Income (wages)	10	20	30	40	50	60
No. of workers	10	20	25	20	15	10

Solutions :

Income x (wages)	Frequency F	Fx	$\dfrac{X-\overline{X}}{d}, \overline{X}=34$	d^2	Fd^2
10	10	100	10 − 34 = −24	576	5760
20	20	400	20 − 34 = −14	196	3920
30	25	750	30 − 34 = −4	16	400
40	20	800	40 − 34 = 6	36	720
50	15	750	50 − 34 = 16	256	3840
60	10	600	60 − 34 = −24	676	6,760
$n = \Sigma f = 100$		$\Sigma fx = 3400$			$\Sigma Fd^2 = 21,400$

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12th STD. Common Quarterly Examination September- 2019

Economics

Time Allowed : 2.30 Hours]   [Maximum Marks : 90

Instructions :

1. Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.
2. Use **Blue** or **Black** ink to write and underline and pencil to draw diagrams

PART - I

Note : (i) Answer all the questions.   **[20 × 1 = 20]**

(ii) Choose the most appropriate answer from the given **four** alternatives and write the option code and the corresponding answer.

1. Who coined the word "Macro"?
   (a) Adam Smith   (b) J. M. Keynes
   (c) Ragnar Frisch   (d) Karl Marx

2. Identify the flow variable.
   (a) Money supply   (b) Assets
   (c) Income
   (d) Foreign Exchange reserves

3. National income is measured by using _____ methods.
   (a) Two   (b) Three
   (c) Five   (d) Four

4. The individuals income after the payment of income tax is known as _____
   (a) nominal income
   (b) disposable income
   (c) real income
   (d) per capita income

5. Income method means _____
   (a) $y = w + r + i + \pi + (R - P)$
   (b) $y = w + i + r + \pi + R - P$
   (c) $y = w + r + \pi + i + R / P$
   (d) $y = w + r + i + \pi + R \times P$

6. Aggregate demand equal to _____.
   (a) C+I+G   (b) C+I+G+X–M
   (c) C+S+T+X–M   (d) C+S+T+Rf

7. In disguised unemployment, the marginal productivity of labour is _____.
   (a) zero   (b) one
   (c) two   (d) positive

8. According to classical theory, rate of interest is a reward for _____.
   (a) Investment   (b) Demand
   (c) Capital   (d) Saving

9. As national income increases
   (a) The APC falls and gets nearer in value to the MPC.
   (b) The APC increases and the diverges in value from the MPC.
   (c) The APC stays constant
   (d) The APC always approaches infinity.

10. The sum of the MPC and MPS is _____.
    (a) 1   (b) 2
    (c) 0.1   (d) 1.1

11. **Match it:**
    (a) MPS   -   1. C+S
    (b) K   -   2. ΔI/ ΔC
    (c) Y   -   3. ΔS/ ΔY
    (d) β   -   4. $\dfrac{1}{1 - MPC}$

    (a) 1 2 3 4   (b) 2 1 4 3
    (c) 3 4 1 2   (d) 1 4 3 2

12. The RBI Headquarters is located at _____.
    (a) Delhi   (b) Chennai
    (c) Mumbai   (d) Bengaluru

13. Inflation means _____.
    (a) Prices are rising
    (b) Prices are falling
    (c) Value of money is increasing
    (d) Prices are remaining the same

14. Who will act as the banker to the Government of India?
    (a) SBI   (b) NABARD
    (c) ICICI   (d) RBI

15. NABARD was set up in_____.
    (a) July 1962   (b) July 1972
    (c) July 1982   (d) July 1992

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HALFYEARLY EXAMINATION 2019-20

12th **STD.**

Part III
Economics

Time Allowed : 3.00 Hours]   [Maximum Marks : 90

Instructions : (1) Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.

(2) Use Blue or Black ink to write and underline and pencil to draw diagrams.

PART - I

Note : (i) Answer all the questions.   **[20 × 1 = 20]**

(ii) Choose the most appropriate answer from the given four alternatives and write the option code and the corresponding answer.

---

1. An economy consists of :
   (a) Consumption sector
   (b) Production sector
   (c) Government sector
   (d) All the above

2. _____ is the Father of Socialism.
   (a) J.M. Keynes   (b) Karl Marx
   (c) Adam Smith   (d) Samuelson

3. Primary sector is _____.
   (a) Industry   (b) Trade
   (c) Agriculture   (d) Construction

4. The financial year in India is :
   (a) April 1st to March 31st
   (b) March 1st to February 28th
   (c) June 1st to May 31st
   (d) January 1st to December 31st

5. The core of the classical theory of employment is :
   (a) Ricordo's Law of Diminishing Returns
   (b) Marshall's Law of Demand
   (c) Say's Law of Markets
   (d) Keynes Law of Consumption

6. Aggregate Demand (AD) =
   (a) $I + G + (X-M)$
   (b) $S + G + I + (X-M)$
   (c) $C + I + G + (X-M)$
   (d) $C + S + T + (X-M)$

7. The sum of MPC and MPS is _____.
   (a) 1   (b) 2   (c) 0.1   (d) 1.1

8. An increase in consumption at any given level of income is likely to lead :
   (a) Higher aggregate demand
   (b) An increase in exports
   (c) A fall in taxation revenue
   (d) A decrease in import spending

9. Stagflation combines the rate of inflation with :
   (a) Stagnation   (b) Employment
   (c) Output   (d) Price

10. In equation MV = PT, V stands for :
   (a) Volume of trade
   (b) Velocity of money
   (c) Volume of transaction
   (d) Volume of bank and credit money

11. Who acts as the banker to the Government of India?
   (a) SBI   (b) NABARD
   (c) ICICI   (d) RBI

12. Net export equals to _____.
   (a) Export × Import
   (b) Export + Import
   (c) Export – Import
   (d) Exports of Services Only

13. Favourable trade means value of exports are _____ that of imports.
   (a) More than
   (b) Less than
   (c) More or Less equal to
   (d) Equal to

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