

Solution of Practice Paper-I

- 1.c) remittances
- 2.d)
- 3.false
- 4.final good
- 5.d)
- 6.c)
- 7.b)
- 8.d)
- 9.c)
- 10.false

OR

True

11. Capital receipts : Those receipts which either create a liability or cause a reduction in assets of the government.

Revenue receipts: Those receipts which neither create a liability nor cause a reduction in assets of the government.

OR

Tax: Tax is a compulsory payment made by people and companies to the government without any direct benefit in return.

Direct tax: It refer to those taxes that are imposed on property and income of individuals and companies and are paid directly by them to the government and impact and incidence lies on same persons.

Indirect tax : It refer to those taxes which are levied on goods and services and impact and incidence lies on different persons.

12. Through the budgetary policy , government tries to reallocate resources in accordance with the economic and social priorities of the country. Government can influence allocation of resources through tax concessions or subsidies. Government discourages the production of harmful consumption goods like liquor, cigarettes etc. through the heavy taxes and encourages useful goods by using subsidies.

13.As a banker to the government central bank(RBI) carries out all banking business of the government and maintains a current account for keeping cash balances of the government. It accepts receipts and makes payments for the government .It also gives loans and advances to the government.

14. The working of multiplier is based on the fact that 'one person's expenditure is another person's income'. When an additional investment is made, then income increases many times more than the increase in investment.

Let us understand this with an example:

Suppose ,an additional investment of Rs. 100 crores is made to construc t metro. This extra investment will generate an extra income of Rs. 100 crores in the first round and $mpc=0.8$ then recipient of this additional income will spend 80% of Rs. 100 crores ,i.e. Rs.80 crores as consumption expenditure and remaining amount will be saved. This multiplier process will go on and the consumption expenditure in

every round will be 80% of the additional income received from the previous round. Thus , an additional investment of Rs. 100 crores leads to total increase of Rs.500 crores in the income.

OR

The value of multiplier depends upon the value of marginal propensity to consume. Multiplier (k) and MPC are directly related, i.e. when MPC is more, k is more and vice- versa. $K=1/1-mpc$

15. Flexible exchange rate is determined by the interaction of the market forces of demand and supply. The equilibrium exchange rate is determined at a level where demand for foreign exchange is equal to the supply of foreign exchange.

16. Inflationary gap is the gap by which actual aggregate demand exceeds the aggregates demand required to establish full employment equilibrium.

Bank rate is the rate at which the central bank lends money to the commercial banks for their long term needs. To correct inflationary gap, the central bank increase the bank rate in order to reduce credit. It leads to increase in the market rate of interest which discourages people to borrow less funds. It ultimately leads to fall in aggregate demand.

17. (a) National income by expenditure method

$$\begin{aligned} &= i+iv+v+vii+(ix-xi)-(viii-x)+(xii-xv) \\ &= 3500+2100+850+250+(300-400)-(150-50)+(xiii-xv) \\ &= \text{Rs}6550 \text{ crores} \end{aligned}$$

(b) National income by expenditure method

$$\begin{aligned} &= ii+iii+vi+(xiii-xv) \\ &= 4500+1500+500+(400-350) \\ &= \text{Rs}6550 \text{ crores} \end{aligned}$$

OR

Any six precautions

Section 'B'

18.c)

19.d)

20.c)

21. relative poverty

22. false

23.d)

24.d)

25.d)

26. saarc **OR** India

27.b)

28. British Government systematically destroyed Indian handicraft industries in order to serve their two fold motive-to get raw materials from India at cheap rates to be used by industries in Britain and to sell finished products of British industries in Indian market at higher prices. Colonial government enforced discriminatory tariff policy ,which allowed free export of raw materials from India and free import of final

goods of British industry to India but at the same time heavy duty was imposed on the export of Indian handicrafts, which led to decline of Indian handicrafts.

OR

Public investment in agriculture sector especially in infrastructure, which includes irrigation, power, roads, market linkages and research and extension(which played a crucial role in the Green Revolution), has been reduced in the reform period. Further , the removal of fertilizer subsidy has led to increase in the cost of production, reduction in import duties on agricultural products, removal of minimum support and lifting of quantitative restrictions on agricultural products adversely affected Indian farmers.

29. Absolute poverty: Absolute poverty means the total number of people living below poverty line. It is relevant for the less developed countries.

Relative poverty: Relative poverty means poverty of people , in relation to other country, state and people. It helps in understanding the relative position of different categories of people.

30. Sources of human capital are:

- i) Expenditure on education ; ii) Expenditure on health; iii) Expenditure on migration
- iv) Expenditure on information (Explanation)

OR

Four measures to improve agricultural marketing are:

- i) Regulated markets; ii) Infrastructural facilities; iii) Cooperative marketing ;iv) Different policy instruments (Explanation)

31. Four problems of power sector are:

- i) Inadequate electricity generation; ii) Under utilization of installed capacity; iii) Poor performance of State Electricity Boards ; iv) Shortages of inputs (Explanation)

32. Various factors responsible for rapid growth of China are:

- i) Special Economic Zones(SEZs); ii) Reforms introduced in China; iii) Dual pricing in Reform process (Explanation)

33. Six factors that led to land degradation are:

- i) Loss of vegetation due to deforestation; ii) Shifting cultivation; iii) Encroachment into forest land
- iv) Forest fires and over-grazing; v) Indiscriminate use of fertilizers and pesticides vi) Improper crop rotation (Explanation)

OR

Six problems of human capital formation are:

- i) Weak science and technology; ii) Brain Drain; iii) Serious inefficiencies; iv) High growth
- v) Insufficient resources; vi) Lack of proper manpower planning (Explanation)

34. Green Revolution refers to the bumper increase in production of food grains due to use of high yielding varieties seeds. It was implemented because the agricultural sector accounted for the largest share of workforce with approximately 70-75 percent. The productivity in the agricultural sector was very low due to the use of outdated technology and absence of required infrastructure.

Benefits to farmers-

- i) Benefit to low -income groups; ii) Buffer stock of food grains; iii) Attaining marketable surplus .