

## SOLUTION FOR SAMPLE PAPER -2

- 1.c)
- 2.d)
- 3.c)
- 4.false
- 5. money supply
- 6.c)
- 7.d)
- 8.false
- OR
- False
- 9.c)
- 10. demand

**11.** 'Redistribution of income' is other objective of Government Budget. Government aims to reduce inequalities of income and wealth through its budgetary policy. Government aims to influence redistribution of income and wealth by imposing taxes on rich and gives subsidies to the poor. It will reduce income of the rich and raise standard of living of the poor.

**12.** Fiscal deficit is a measure of total borrowing required by the government. Greater fiscal deficit implies, greater borrowings by the government. This creates a large burden of interest payments in the future that leads to increase in revenue expenditure , causing an increase in revenue deficit. Thus a vicious circles sets in . In the present, a large fiscal deficit may also lead to inflationary pressures.

**OR**

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

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

**13.**There are a number of commercial banks in a country. There should be some agency to regulate and supervise their proper functioning . Being the apex bank, the central bank (RBI) acts as the banker to other banks. In this sense, it bears the same relationship with commercial banks as the latter maintains with the general public.

**OR**

Statutory Liquidity Ratio refers to minimum percentage of net demand and time liabilities which commercial banks required to maintain with themselves. In order to increase money supply statutory liquidity ratio is decreased.

**14.** Aggregate demand refers to the total value of final goods and services which all the sectors of an economy are planning to buy at a given level of income during a period of one accounting year.

Components of aggregate demand:

1. Household consumption expenditure
2. Investment expenditure
3. Government consumption expenditure

**15.** Autonomous transactions in the balance of payments refer to international economic transactions that take place due to some economic motive such as profit maximization. These items are often called above the line items in the balance of payments.

Accommodating transactions in the balance of payments refer to international economic transactions that take place due to some other motive such as government financing. These items are often called below the line items in the balance of payments.

**16.** The equilibrium level of income in an economy is determined when aggregate demand is equal to the aggregate supply.

When aggregate demand is more than aggregate supply, it means that consumers and firms together would be buying more goods than firms are willing to produce. As a result, the planned inventory would fall below the desired level.

When aggregate demand is less than aggregate supply, it means that consumers and firms together would be buying less goods than firms are willing to produce. As a result, the planned inventory would rise above the desired level.

**OR**

(a) At equilibrium level,  $AD=AS$

So,  $AD=C+I$

Given:  $C=80+0.75Y$

$Y=80+0.75Y+120$  ;  $Y=Rs. 800$  crores

(b) Putting the value of  $Y=800$  in the consumption function ( $C=80+0.75Y$ )

$C=80+0.75(800)$ ;  $=Rs. 680$  crores

(c) Saving = Income - Consumption

Saving = Rs. 120 crores

**17. (a)** National income by expenditure method

$$\begin{aligned} &= i + v + vi + ii + (iv - viii) + iii - (x - vii) + (ix + xii) \\ &= 1000 + 1800 + 1600 + 700 + (400 - 700) - 100 - (400 - 100) + (-120 + (-)20) \\ &= \text{Rs. } 4260 \text{ crores} \end{aligned}$$

(b) National income by income method

$$\begin{aligned} &= xiv + xiii + xvi + (ix + xii) \\ &= 1600 + 1100 + 1700 + (-120 + (-)20) \\ &= \text{Rs. } 4260 \text{ crores} \end{aligned}$$

18.c)

19.b)

20.a)

21. disguised unemployment

22.true

**OR**

True

23.b)

24.c)

25.b)

26.c)

27.1958

**28.** The most important characteristics of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came at a huge cost to the country's economy. Several essential commodities-food grains, cloth, kerosene etc.-became conspicuous by their acute scarcity in the domestic market. Further more, this export surplus did not result in any flow of gold and silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war, again fought by the British government, and the import of invisible items, all of which led to the drain of Indian wealth.

**OR**

At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of Indian economy; nor was the incentive for big industrialist to set up industries as market was not big enough. The objective of equity and social welfare of the government could be achieved only through direct participation of state in the process of industrialization.

**29.** The contribution of an educated person to the output or production is more than that of an illiterate person. Similarly, a healthy person also contributes to economic growth by providing uninterrupted labour supply for a longer period.

The human capital formation not only increases the productivity of human resources but also stimulates innovations and creates ability to absorb new technologies. Education provides knowledge to understand changes in society and scientific advancements, thus facilitate inventions and innovations. Similarly, the availability of educated labour force facilitates adaptation to new technologies.

**30.** Four main steps taken by the government are as:

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

**OR**

Four pressing environmental concerns of India are as:

i)Water contamination ; ii)Air pollution ; iii)Soil erosion ; iv)Deforestation (Explanation)

**31.** Organic farming is the process of producing safe and healthy food, without leaving any adverse impact on the environment.

Merits:

i)Generate income through exports ; ii)Healthy foods ; iii)Generate employment

**32.** Measures taken by the Pakistan:

i)Mixed economy ; ii)Green revolution ; iii)Introduction of various policies ; iv) Importance of role of public sector (Explanation)

**33.**Positive contribution made by British in India:

i) Introduction of railway ; ii) Better administration; iii)Commercialization of agriculture  
iv) Postal services ; v) Introduction of monetary system ; vi) Infrastructural development(Explanation)

**34.** The expenditures on education and health assume great importance on the formation of human capital. To ensure favourable benefits of such expenditure, government intervention is important because the expenditure on health and education make substantial long-term impact and they cannot be easily revised. Individual consumers of these services do not have complete information about the quality of services and their costs. The providers of education and health services may acquire monopoly power and may get involved in exploitation.

**OR**

Environment is defined as the total planetary inheritance and totality of all resources. It includes all the biotic and abiotic factors that influence each other.

Functions of the Environment are as:

- i) Provides resources for production ; ii) Environment assimilates waste ; iii) It sustains life
- iv) It provides aesthetic services (Explanation)